coverlink INSURANCE

THE INSURANCE HARD MARKET 101:

What it is, how to navigate it

HARD MARKET INSURANCE

CONTENTS

WHAT IS A HARD MARKET?

What is a Hard Market?

Anyone who has ever stood in line for a coveted item, only to find out it's been sold out while you waited, already understands the concept of an insurance hard market. It's supply and demand – the amount of a product or service that's available is lower than the demand from buyers.

Simply put, a hard market in the insurance world is a time when demand for insurance coverage is high, but the supply is low.

Medical malpractice insurance, cyber liability, property insurance and nearly every type of insurance for business or personal use can experience the ups and downs of the insurance market. When supply is low, prices go up.

But how does an insurance company run out of supply for something that isn't tangible?

The Insurance Market in a Nutshell

When you buy insurance, you're buying protection from a risk of loss. The policy acts as a way for you to transfer your risk of loss to the insurance company, for which you're charged a premium.

In order to afford to take on your risk, the company must do a few things to ensure your risk is what they consider a safe bet. First, they ask questions and evaluate your risk. Second, the company will take on enough customers in that particular line of insurance to spread the risks out over a bigger pool of customers. As long as the claims in that pool of buyers stay within the insurance company's expected losses, they can sell policies with the same premium cost and coverage terms.

Insurance companies also rely on investment income to pay claims. They invest part of their revenue in order to maintain adequate reserves. Insurance companies (also called carriers) are required to put back money – reserves – adequate to cover any potential claims. The total amount of reserves an insurance company has accumulated is often referred to its surplus.

In the same way, claims can impact pricing. The number of claims and how expensive the payouts are also determines the availability and price of your insurance coverage. When there are fewer claims, carriers have ample reserves and can afford to sell more policies. This is known as a soft market – when carriers have plenty of money, when claims are low, and when carriers are financially secure enough to take on new business.

Enter the Hard Market

When there are more claims, or when claims costs go up over a sustained period of time, the money companies set aside for them gets spent quickly. This is a hard market – when pricing goes up and supply goes down. The causes could be any number of factors: low investment returns for carriers (investments are part of how they can pay claims), increase in claims frequency and/or severity, flawed underwriting of risks, and catastrophic losses that impact a large number of policyholders. For instance, Hurricane Sandy in 2012 caused $70 billion in losses across eight countries[1].

That kind of large loss has an impact on how much insurance risk a carrier can take on. Because large events can often deplete a carrier's reserves as well as result in reduced investment income, carriers must make adjustments to how much insurance they can offer, how much a policy premium will cost, and what business they're willing to renew.

In most cases, carriers will increase the amount you pay for your insurance. That change is made so that carriers can recoup the reserves they've spent. They might also change the policy terms, such as exclude certain events from coverage. Carriers might also offer less coverage for the same or increased price. For example, if you filed a large claim, or had more than one claim in a specified period of time (3 to 5 years is a common length of time that most carriers evaluate), your carrier could decide you're too big of a risk to continue to insure. In that case, they might choose to non-renew your policy.

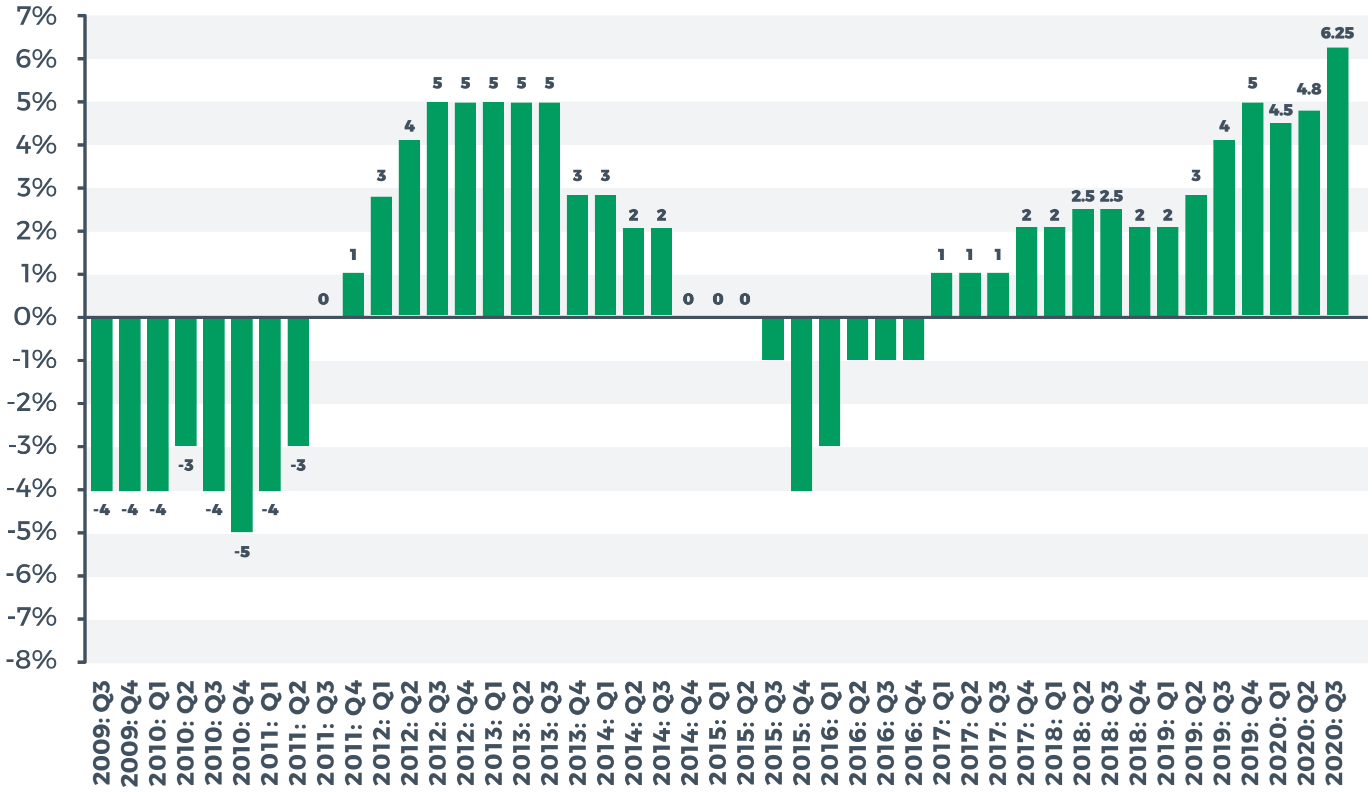
How Long Will It Last?

When a hard market emerges, it's difficult to determine when it will end. Typically, that depends on a few factors: the carrier's ability to replenish reserves, the state of the investment market, and a change in circumstance that may have caused a large loss event – for example, new regulations, better technology, stricter safety regulations, more restrictive building codes, etc.

When carriers can improve both their financial portfolio and the conditions that had caused the financial headaches, they will be able to offer one or more of the following: more insurance, higher amounts of coverage, and reduced rates. Hard markets are not permanent. Insurance carriers are skilled at balancing the needs of their customers along with the financial ability to cover claims. Talk with your insurance advisor to understand more about hard markets, and what you can do to reduce your premiums and still get adequate coverage.

Insurance Rates change for reasons beyond your control; with expertise & knowledge you can manage the impact to your business.

Commerical Lines Rate Change (vs. Year Earlier) Since 09.09



WHY DOES IT GO UP AND DOWN AT ALL?

Why does it go up and down at all?

When the insurance markets are soft, you have ample access to insurance coverage options, and rates are generally more affordable. Yet in a hard market, the opposite is true.

That begs the question: Why do we have market swings at all?

As mentioned before, numerous factors contribute to a market swing. They include:

- **Overall economy**
- **Low investment returns**
- **Claim activity**
- **Weak underwriting results**
- **Reinsurance market pricing**
- **Climate change**

Overall Economy

The insurance markets, generally, tend to reflect the ups and downs of the economy. When stock markets are in good shape, when investors are doing well and expanding their investments, when retail is booming, the insurance market tends to do well.

While that is not a hard-and-fast rule – catastrophic losses could still cause a hardening of a market during a period of strong economic growth – the fact that insurance carriers invest in stocks as a means of building their reserves means their own business is impacted by stock market activity.

When the economy is going through periods of inflation or recession, however, carriers can see their own investments impacted negatively. For that reason, they may not have adequate reserves set aside to pay claims on anything other than the policies they've already issued. As a result, they will pull back on offering more policies to new customers. If the economic impact is sizable, existing customers could see price increases or policies not renewed.

Low Investment Returns

The same thing can happen when carriers' investments don't deliver the returns they were expecting. When a carrier invests your premium payments, they are attempting to grow that money so that they can afford to cover losses and make a profit.

Those investments are also influenced by how much in premium dollars they have to invest. At times when the insurance market is soft, the premiums are generally lower. That means your carrier has less money to invest, and their own profitability takes a hit. That in itself can cause a hardening of the insurance market in certain coverage areas. When carriers see an imbalance between money earmarked for claims and their profitability, they make corrections to restore balance to their bottom line.

Claim Activity

Large losses, losses over a sustained period of time, more frequent and more severe losses all contribute to the state of the insurance market. When claims payouts are low, either from fewer events or from fewer large-scale disasters, the cost the carriers pay to cover those events is lower. Yet an active hurricane season or a drought-stricken area being inundated with wildfires can drive the cost up, which in turn increases the cost of covering these types of events in the future. Even one event can be costly, which was the case with Hurricane Katrina, which cost an estimated $125 billion in losses .

Also, the price of medical care, or of replacing damaged or destroyed property increases over time. Those costs increase further when class action lawsuits or expensive legal judgments are handed down. The more an insurance carrier has to pay for a claim, the less they have in reserves to pay the next claim. And if claims are trending upward in terms of expense, that means the price of the policy must increase to offset that additional cost.

Weak Underwriting Results

That price adjustment is the job of the underwriter. An underwriter evaluates the carrier's risk in insuring businesses, autos, homes, drivers, life, and health. The underwriter examines the risks involved in covering each area, then comes up with a price for that policy.

However, even underwriters can miscalculate. A risk that may not have existed before can emerge. An example: terrorism risk prior to 9/11 was very low. So underwriters set the price low. In some cases, terrorism coverage was a free addition to a policy. Post 9/11, terrorism coverage was temporarily unavailable. Currently, terrorism coverage is available, but at a significant price.

Reinsurance Pricing

Your insurance carrier may transfer the entirety of your risk (which is what a policy does – transfers your risk of loss to the insurance carrier), but they may also transfer a portion of that risk to make sure they're not taking on too much. This reinsurance market assumes that portion of the risk your insurance company is comfortable taking on. Carriers pay reinsurance companies, in a similar way to you paying your carrier for that coverage.

However, like insurance carriers, reinsurance companies also raise and lower their pricing. If they take on a lot of carrier risks, they must offset that additional risk with higher pricing. What that means to you: Your carrier now has additional money going out, which impacts their profitability and their reserves.

Climate Change

Insurance fact: Natural disasters are happening more frequently, and storms and other events are causing more damage.

When storms are more severe, losses mount. Insurance carriers have to pay more for claims. In 2020, there were 980 natural disasters globally, causing $210 billion in damages . In 2019, there were 860 natural disasters, and losses in US dollars came in at $166 billion. The impact of increased losses and rising claims costs means that nearly every property insurance policy has seen increased rates, lower limits, or changes to what the carriers will cover.

Fluctuations in every market are expected. They serve as corrections when conditions are such that a loss could devastate not just one carrier, but the entire industry. When claims frequency and/or severity become too much to bear, carriers and their underwriting teams will do their best to correct their pricing and the amount of business they accept so that your claim, should it happen, will be paid.

HOW DOES IT IMPACT ME?

The Hard Market: How does it impact me?

The question every insurance agent gets asked when a hard market hits is “Why are my rates going up?” There could be more than one reason. Car accidents, hail or wind damage, or anything that results in you filing a claim impacts the entire pool of policyholders.

Carriers are required to have money set aside in reserve accounts to cover claims. This surplus requirement is determined by the state in which the company is conducting business. It is meant to ensure that if a large event that impacted a large percentage of policyholders occurred, the carrier would have enough money to meet the claims .

When there are large losses, obviously that reserve shrinks. Most times, carriers are able to replenish their reserves by increasing the rates of the people filing claims, by investing more, or by canceling coverage for people who experience repeated claims.

However, if your carrier has experienced too many large losses, they can no longer cover adequately all the potential claims for everyone who has purchased that kind of insurance. That means that rates go up for everyone in that pool. For example, if wildfires destroy thousands of homes, those homeowners who have lost their homes will file claims.

The same goes for businesses damaged by hailstorms or hurricanes. Carriers can cover the losses, but any further losses are going to drain their reserves. So they need to build the cash up in those reserves as quickly as possible. They will also try to insulate those reserves from future claims.

That means that even policyholders who have filed no claims can see their coverage change or their rates go up – or both – thanks to the number of claims, the frequency of the losses, even the cost of those claims.

In fact, there doesn't need to be a claim for your rates to go up. The price of replacing lost or damaged items continues to increase. Thanks to the pandemic, the price of lumber skyrocketed to 232% more than it cost just prior to March 2020.

Your rates can also be impacted by changes to products, such as advancements in technology. For example, cars now come with plenty of technology and computerized systems. That technology is more expensive to fix. As car manufacturers continue to add more technology, the price of replacing that technology will only go up. For that reason, auto insurance rates will most likely continue to get more expensive, with or without claims.

Current & Recent Insurance Outlook Reports

Mid Year 2021: Deloitte Insurance Insights

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September 2020: Federal Insurance Office reportApril 2020:

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2019 Insurance Market Report – Natl. Assoc. of Insurance Commissioners

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2019 – Insurance Information Institute: Facts & Stats

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APPROACHING
THE HARD MARKET:

HOW DO I GO ABOUT BUYING INSURANCE NOW?

In a soft market, insurance is plentiful. Pricing too is attractive. As a result, few insurance buyers look deeply into how to improve their rates or coverage.
Then the hard market hits. As prices go up, insurance buyers look for ways to afford insurance coverage. Some make the mistake of opting out of coverage – a decision that could lead to expensive, financially difficult consequences.
Yet there is hope. Even if the market is hard and your insurance rates have gone up, fear not. There is still plenty you can do to be able to afford good coverage at a price you can live with. Start here:

Renew Early

Anywhere from three to six months before your policy is set to renew (preferably at the six-month mark), talk with your insurance agent. Your agent can tell you what to expect when it comes to pricing and coverage changes, but they can also help you find ways in which you can keep your premiums reasonable and your coverage adequate.

Businesses can really benefit from talking with their agent. Your agent has resources available that can help you assess your risks, identify areas of improvement, and build a better risk management plan. By starting your renewal process early, you are able to take the time needed to review your operations.

Improve Your Odds

Another benefit your agent can provide for you is a comprehensive review of your insurance as well as your risk portfolio. Your past claims, your deductibles, your limits, even the car you drive or the location of your supply chain can influence carrier decisions.

One way to get carriers to look favorably on your application is to reduce your loss potential. Do you have a car that has a low crash test rating? Trading it for a car with better safety features can bring down your rates. Is your property in a wildfire danger area? Consider investing in help to manage the area around your home so that there is more protection. Fire resistant barriers, brush removal, and creating a defensible space around your home can help reduce your chance of loss, and will help your carrier feel more comfortable in taking on your insurance business.

Next, review your policy. What deductible do you have? What is the policy limit? Then ask yourself if you can afford a higher deductible, or if you could reduce the policy amount without taking on too much of the financial burden should you have a loss. For example, you may decide to take on a $2,500 deductible on your homeowners policy, which could reduce your premium noticeably.

For businesses, review your insurance policy against your operations. Employ the help of your agent or risk management team. What are your company's greatest exposures? Those are the ones that need to be insured.

Look also for areas that need improvement. Where are the most costly, most frequent, most concerning areas of exposure? What controls or measures can you implement that can help you reduce those risks? For example, you might be able to reduce injury potential through additional training or through reassigning workers regularly to avoid burnout or repetitive stress. Or you might improve cyber security by establishing a process to help screen out phishing attempts or network breaches.

The goal is to make your business more attractive to your carrier. The more loss control you can put in place, the more likely your carrier is to offer you coverage. Your agent can connect you with professionals who can assess your business operations.

Look for Discounts

Have you installed new security systems? Has your teenage driver gone off to college and is no longer using the car? Did you take a driver improvement course recently? All of these improvements matter. Talk with your agent. Alert him or her to any change in your household. Then ask what discounts may be available and how you might qualify.

Business owners, have you purchased a new piece of manufacturing equipment with better safety ratings? Has your company improved site safety? Have your employees gone 12 months accident-free? Have you installed roofing that is better rated for hail? Did you deploy a telematics device on your company-owned vehicles? Look at the improvements in your operations, and make sure to convey these to your agent. Your agent can help you locate more savings, but only if he or she knows about the changes.

Understand Past Losses

Claims happen. The more claims you have, the less attractive your business looks to your carrier. They are in the business of insuring, but they too have to be sure that your risks will not put undue burden on their ability to pay all claims.
For your home or auto, look at the claims you've filed in the last five years. How much did those claims total? Were there any contributing factors that caused the loss or losses? If so, have you taken action to eliminate those factors (if possible)?

For example, if you had a fire in your home due to a faulty furnace, did you make sure the furnace was repaired or replaced and inspected regularly? Any action you took that you can show to your agent helps them work with the carrier to get you the coverage you need.

Companies, have you made sure to implement mitigation strategies that have reduced instances of loss or injury in your operations? Any ongoing effort you can demonstrate will go far with carriers. Your agent can help you identify some of the key criteria underwriters look for when determining the insurability of your company.

Be Open to Change

It could be that last year's insurance coverage is no longer a good fit for you. Your agent can give you guidance on what else is available in the market, and help you find a product that fits your needs and your budget. It could be that your next insurance policy costs more and comes with higher deductibles, but the coverage could be more suitable to your needs.

Your company also needs to be flexible when it comes to your insurance program. Especially during a hard market where higher deductibles and lower limits might be the best option available for the budget your company has set aside. It could be that your best option is not within the traditional insurance market, but in alternative markets (more about alternative markets in the next chapter). Your agent can explain your options and help you choose one that fits.

Talk with your Agent. Often.

Your life, your business, your risks change daily. People get married, have children, retire, buy second homes, buy artwork, remodel a home. Every one of these events and more change what level of insurance you need.
Your agent needs to be aware of what changes have occurred so that he or she can best advise you on your insurance options, and make sure you have the right amount of coverage in place. With every change, contact your agent. Your agent can talk over how that change impacts your current coverage, and can help you put additional coverage in place where needed.

The same goes for companies. Your agent can be a great resource for understanding the hard market, but also for understanding how changes to your own business – reduced staffing, new product offerings, increased production output – can impact your current insurance program.

Every business, every policyholder should be working toward a more collaborative relationship with their insurance agent. That relationship creates a bridge between the changes in the market and your circumstances, and the protection you need.

A Consumer Advisory from the Insurance Information Institute: Background on Buying Insurance – June 2021

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NONRENEWAL/ CONDITIONAL NONRENEWAL/ CANCELLATION:

WHAT DOES IT MEAN?

Nonrenewal/Conditional Nonrenewal/ Cancellation: What does it mean?

Every year, you receive a notice of renewal from your insurance provider. That notice is most often in the form of a bill attached to your policy. The policy is dated for the next six to twelve months, depending on the policy type and the insurance carrier. Business policies are often in the same form, though in most cases, your agent or broker would have been in touch in advance to ensure that nothing in your business has changed.

However, that insurance policy renewal is not guaranteed to happen. Each year, carriers review the policies they've sold to determine if the policy still makes sense for them from a risk perspective. For example, if a retail store has had a higher-than-usual number of claims due to theft, the carrier may decide that from a financial standpoint, insuring that store is now more expensive than in the past.

In a hard insurance market, carriers look more closely at the policies they have taken on. They're looking for significant changes, outdated materials or equipment, or losses that continue to happen in the same areas, such as more than one accident within a year or repeated speeding tickets.

If your insurance carrier sees something in your background that could increase their liability under your policy, they will send a notice of nonrenewal.

But why do carriers decide not to renew, especially since you've been a loyal customer? The answer is in the numbers. Carriers and their underwriters have done the math before ever taking on insuring your risks, be they business risks or personal risks. In order for them to afford to continue offering protection, they have to watch carefully what is happening with the policies they have promised to pay on should claims occur. If they see anything troubling or expensive going on, they are more likely to make the decision not to renew your policy.

Nonrenewal

Nonrenewal notices mean that upon expiration, your insurance policy will not renew. The insurance carrier has determined your risks are too great or your habits are too risky for them to continue to offer protection. Most carriers will send you an explanation along with the nonrenewal notice, detailing in brief why they won't offer you renewal coverage.

It could also be that your carrier has decided not to offer insurance in your state any longer. Especially in a hard market, carriers can determine that certain state insurance regulations create too many barriers for the carrier to continue to do business in that state with that particular type of insurance. For example, your carrier may decide to stop offering homeowners coverage on second homes because of the heightened risk of earthquakes or wildfires.

Conditional Nonrenewal

A conditional nonrenewal differs slightly. The insurance carrier is sending you notice of nonrenewal, an explanation of how they came to that decision, and what you need to do in order to keep that from happening.

For example, your carrier sent a conditional nonrenewal of your homeowners policy based on the age of your furnace. That's because the carrier and underwriters have determined that furnaces within that age range lack today's safety features that can help prevent fires. For them to decide to renew, you must replace the furnace within the timeframe given. Or you can opt to shop for other insurance through another carrier.

Cancellation

However, sometimes your carrier, for various reasons, decides they no longer want your business. A cancellation of your coverage is exactly that – they cancel your coverage during the policy's life. For example, your annual policy may renew in May, but your carrier sent a notice to you in November that your policy would be canceled within the next 10 to 30 days.

There are any number of reasons why a carrier would cancel your policy, including:

- **Nonpayment of premiums**
- **Lack of complete information on insurance application/false information**
- **Nonfulfillment of insurance policy agreement terms, such as moving out of a home that is insured for you to occupy it**
- **Fraud**

When the insurance carrier cancels your policy, they are required by law to give you notice, and to return any unused premiums.

Fortunately, conditional nonrenewal and nonrenewal notices are sent early enough that you can either take the recommended corrective action, or shop for a different insurance policy offered by another carrier.

In most cases of nonrenewal, you have other options. Even in a hard market, there are likely still carriers that are willing to take your business. When you receive such a notice, contact your agent. Your agent can help you locate new coverage, compare quotes, and select a reasonable alternative to your current policy.

Your agent can also discuss ways for you to avoid a nonrenewal notice. Paying for small accidents out of pocket, replacing outdated mechanicals, replacing roofs before there are leaks can keep your claims low and allow your insurance carrier to continue doing business with you.

PAYING PREMIUMS:

WHAT IF I CAN'T AFFORD THEM?

Paying Premiums: What if I can't afford them?

Thanks to the hard market, everything is more expensive, it seems. For individuals and business alike, affording premiums, especially when the prices have increased, can be difficult.

Fortunately, there are a few things you can do that can help you afford your insurance. In fact, one of those things is already in use today and has been for quite some time.

Premium Financing

Sometimes premiums can be costly, especially in a hard market. Premium financing is a loan provided to the insured so they can pay the annual premium in installment payments over the year the policy is in effect.

During a hard insurance market, premium prices are higher. If a business has had some claims in the past, that could increase premiums even further. However, they still need the insurance coverage at their current amounts.

Premium financing allows the business to pay in installments, which allows them to keep the business' revenue intact. That's important for companies looking to acquire other entities, compete on contracts, or take out other loans to improve operations.

In fact, many consumers right now pay their auto, life, or homeowners insurance premiums monthly. That is also considered a form of premium financing – the insurance carrier has agreed to provide coverage now in exchange for the monthly premiums the consumer will pay.

For individuals who need substantial amounts of life insurance, premium financing could be a great option. Wealthy individuals in particular could use premium financing to purchase life insurance that will act as a tax-free way to invest.

Coverage Changes

When you can't afford your current insurance coverage, you have another option: make changes to the policy.

Life insurance:

DECREASE THE DEATH BENEFIT. As time goes by, your need for the life insurance policy amounts you bought years ago may not be as great. This is a simple way to reduce your payment. However, make sure before doing so it's a change you really want to make.

APPLY TO GET YOUR RATING OR EXCLUSION CHANGED. You used to race motorcycles, so your risks of death are higher than someone who doesn't. You're rated at a greater risk than the average individual, so your insurance premiums are going to be higher to compensate for that risk. Also, your insurance policy may exclude any death resulting from racing motorcycles. If you're no longer engaged in the activity, you can apply to your insurance carrier to have those things removed. Your insurance agent can help you determine if your rating or exclusions can be dropped.

All Policies

INCREASE YOUR DEDUCTIBLE. Often, individuals and businesses will have a small deductible on their policies, such as a $250 deductible for auto insurance. If you can afford to pay more out of pocket should an accident occur, consider increasing the deductible to $500, $1,000 or whatever deductible makes sense for you.

REMOVE ADDITIONAL COVERAGE. Perhaps you have full coverage on your vehicle, which covers your expenses plus the expenses of any third party. Removing full coverage on an older car, which may be cheaper to replace than when it was newer, and going with liability-only coverage can reduce premiums noticeably. (Caution: Make sure you have enough savings to cover a total loss of your vehicle, or expensive repairs.) For businesses, if your operations are now mostly virtual, consider how much property insurance you really need.

LOOK FOR OVERLAPPING COVERAGE. For example, before renting a car, check with your agent to see if your current policy covers rental cars.

REMOVE UNNECESSARY COVERAGE TERMS. You may live in an area that has never experienced an earthquake, or you may have a property that has no history of water backup. Or your risk of wildfire may have been lowered thanks to the improvements you've made to your property. Work with your insurance advisor to see where you might be able to remove items that no longer apply to your situation.

LOOK FOR DISCOUNT OPPORTUNITIES. Fire safety systems, automatic water shut-off systems, upgraded water detection systems, new equipment that replaces old machinery can all be opportunities for individuals and businesses to lower their premiums.

There are a number of ways for individuals and companies to lower their premiums. For more ways to save, contact your insurance agent. They know the questions to ask that can help determine where your savings may be.

ALTERNATIVE MARKETS IN A HARD MARKET:

WILL THEY FIT MY NEEDS?

“When the going gets tough, the tough get going.”

– JOHN THOMAS

GREEN HORNETS FOOTBALL TEAM COACH, 1953.

Alternative Markets in a Hard Market: Will they fit my needs?

When times are tough, people tend to make the most of their situation. However, when it comes to financial markets, toughing it out may not be the best idea. That’s why a number of companies and individuals look to alternative sources for relief from high prices or unavailable service. In insurance, those options are part of the alternative insurance market.

The alternative market is a method of funding one’s risks through other methods beyond the traditional insurance policy route. Some of those methods include:

- **Self insurance**
- **Captive pools and Risk retention pools**

Self Insurance

Self insurance is exactly that: the company or individual puts their own money aside to pay for any future claims. But why would anyone do that rather than buy insurance? There would be a number of reasons why this option works, including:

- Limited or no coverage available in the traditional insurance market
- High risks that cannot be alleviated (such as medical malpractice claims)
- The inability to afford the premiums on a policy that covers high-risk activities
- Wanting to fund benefits, such as healthcare and disability, without the high premium costs

For example, a company with a few hundred employees may find it cheaper to put their money in a self insurance pool so that all their money is going toward claims payment and not toward premiums. Or a hospital chain could find it easier to fund their own losses rather than piece together an insurance program that includes six or more insurance carriers.

Captive Pools/Risk Retention Pools

For companies and groups of individuals that have high loss exposure, such as doctors or governments, a pool can help. The members of a pool – people or organizations that share the same risks – pay their premiums into the pool. The pool often covers high-risk losses, such as sexual harassment or abuse claims that nursing homes or drug/alcohol rehabilitation facilities may face. Risk retention pools are often exempt from insurance regulation.

Is the Alternative Market Right for You?

Even though alternative markets can be a good option for some does not mean they are right for you. In most cases, your insurance needs can be met within the traditional insurance market.

Still, for those whose needs cannot be met through traditional means, alternative markets can offer more stability, broader coverage, better collaboration among members (who can then share that information with each other), and the sharing of any profits.

However, alternative markets come with disadvantages. The most obvious is what happens when a member or members file claims. Depending on the severity of the claims, other members may be hit with higher premiums. Since alternative markets rely on members funding their own insurance, they are also funding losses. Also, if you decide to leave the alternative market behind, the traditional insurance market may limit your coverage, which could come at a higher price.

Also, your loss history – the number and dollar amount of claims you've made – may not be high enough to justify the money you'd put into an alternative insurance solution. Because an alternative product is there to fund losses, they might cost a company more in the long run if losses don't occur as predicted.

To determine if the alternative market is right for you, ask yourself these questions:

- Is there coverage available for my risk? Or are carriers charging more than I can afford for it?
- Have I tried obtaining multiple policies for smaller limits from various carriers?
- Is my company financially stable?
- Am I comfortable/able to manage risks internally?
- Can I afford it? (Even alternative markets come with substantial cost)
- Can I afford to retain more of my risk?
- Do I have enough claims that an alternative product might be more cost-effective?

While the alternative insurance marketplace can be a good option for companies and organizations that have hard-to-place risks such as medical malpractice or sexual abuse, most insurance buyers can find the coverage they need in the traditional insurance market.

Your agent can help you understand how your risks fit within traditional markets, and if it is viable for you to consider an alternative insurance solution. Also, your agent can help you identify areas of improvement within your own practices that could help reduce your risk of loss. Sometimes, the best path to better insurance options is through reducing losses and improving the safety procedures around your operations or practices.

The Insurance Information Institute on “Captives & other risk-financing options”

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WHAT CAN I ASK MY AGENT?

What can I ask my agent?

Insurance coverage can be confusing. Coverage terms, exclusions, deductibles – you may think you understand what you just bought, but do you? Is that coverage enough? Are there exclusions that you don't know about or understand? What exactly will that policy protect you from?

Fortunately, businesses and individuals have a handy resource for those questions and more – the insurance agent. Here are some of the more common questions agents get:

What are the different market conditions & how to they affect me?
You may never have heard the term "hard market" but your agent has. In fact, your agent knows what markets going up and down can mean to your coverage, your insurance bill, and your ability to buy insurance. Let your agent teach you what the various market conditions are, and what you can expect from each one.

Do I have enough coverage?
Agents can walk through your business or your personal insurance needs and help you decide what you need to insure, and what you don't. For example, have you added more retail locations that may not be on your latest policy, or have you improved your home and increased its value beyond the current insured value?

Agents can also help you determine if you have too much coverage. For instance, your business may have closed locations or improved properties. Or you could have purchased life insurance that is no longer needed. Your agent can help you understand if there are changes you can make to save premium costs.

How are my premium costs determined?
This question helps you in a few ways: it gives you insight into your insurance costs, and it helps you see areas in which you may be able to reduce your insurance bill. Your agent can explain how the insurance carrier's underwriters have decided what the cost of covering your risk potential will be.

For individuals, everything from the age of your home to your neighborhood to improvements you have or have not made influence the cost of homeowners insurance. Businesses have their premium costs decided by many factors, too – property condition, foot traffic, onsite hazards, location, and more.

Agents will explain how your insurance carrier came to the price you pay. They can also help you improve some of the criteria that go into that price.

What exclusions are on my policy, and how does that impact me?
For individuals and businesses alike, knowing what's not covered is just as important as knowing what is. For example, many businesses buy a business owners policy (BOP) thinking they're covered for every possible event. However, most BOP policies do not cover product recall or inaccurate advice given to customers.

Likewise, homeowners often look to their homeowners policy when heavy rain floods their homes. However, homeowners policies exclude flood damage. In order to be covered, a homeowner must buy a separate flood policy.

Your agent can review your policy with you and explain what the exclusions mean. They can also help you locate any additional coverage to protect those things that are not covered.

What can I expect when I file a claim?
Every insurance agent understands what the claims process is like. But business owners and individuals often don't know until they file their first claim. Ask your agent what the carrier's claims process is like. When should you file a claim, and how? How long does it take to have an adjustor look over the damage? What information does the insurance carrier typically need from you to speed up the claims process? How long does it take to get reimbursement?

Knowing in advance what to expect, you can better respond to any claim you may have. Your agent can help you with those preparations.

Are there insurance policies I should be considering?
Not all policies cover all things. There are always gaps in what any insurance policy will cover. Businesses such as lawyers or wedding planners, for instance, may be missing errors & omissions coverage, which covers inadequate work results or negligent acts. Renters could be inadvertently going without protection for personal possessions or a parked vehicle. Homeowners could be missing coverage for jewelry, classic cars, or other collectibles.

Work with your agent. Go over your situation in detail. Your agent can then recommend products that can protect your valuables or property.

How do I find answers after hours?
Most agents have or work with insurance carriers with an online presence. Your agent can tell you how to access the agency or insurance carrier after their offices close for the day. Are there 24-hour claims services available? How do you get in touch with your agent? When can you expect an answer typically? What if a claim occurs over the weekend?

Your agent can tell you what to expect when you need to talk with someone after hours.

How can I save money on my premiums?
One of the most valuable services your agent can provide is to help you save money, especially during a hard market. Agents know what discounts are available, where you might be able to get cheaper coverage, where you can afford to lower coverage or amend current policies, and how you might be able to save money in other ways.

Your Agent as a Resource
These are just a few of the questions your agent can answer for you. Because your agent is licensed to provide advice on insurance matters, they understand the product. They also understand the intricacies of that coverage, the claims process, and how you can use insurance to your best advantage.

WHAT CAN I EXPECT FROM MY AGENT?

What Can I Expect from My Agent?

Insurance agents sell insurance policies. But they do quite a bit more, too. They negotiate insurance coverage for their clients, help clients make coverage changes, evaluate the client's needs and make recommendations, and can help you find additional answers and resources.

Yet not every agent is right for you. Some specialize in a particular business segment, such as the travel industry, while others may sell personal insurance (homeowners, life, and auto) exclusively.

Also, not every agent is a good one. By understanding what to expect – and what to avoid – you can select an agent that will work hard for you.

What Your Agent Can Do for You

EXPLAIN MARKET CONDITIONS. Your agent is well-versed in what the insurance market is doing, and they understand what that means to you. Agents can explain the hard market, how to navigate it, what to do, and where to turn for additional information.

UNDERSTAND YOUR NEEDS. Not every agent can sell you the insurance you need. This is often the case with business insurance. Your insurance agent should understand and have some experience in selling or servicing insurance in your business segment. The more complex your business needs, the more value a specialized agent can add.

STAY IN TOUCH. Most agents reach out to their clients once a year. However, the good agents stay in touch, even if it's email or mailed communications. A good agent will send regular information on events or changes that may need to be addressed from an insurance standpoint, such as a marriage, a new baby, a change in business suppliers, or a change in operating hours.

PROVIDE ADDED SERVICES. A good agent has a wide network of service providers they can rely on for answers, and for additional resources, such as risk management firms that can help companies lower risks or offer free video cataloging of your home's possessions.

ASSIST WITH APPLICATIONS & CLAIMS QUESTIONS. Your agent is there to walk you through the insurance application, and they know the questions to ask that will uncover any potential savings or areas that need coverage. They can also help you understand how to file a claim and what to expect should you have a claim.

PUT TOGETHER CUSTOMIZED INSURANCE PROGRAMS. Especially with businesses, traditional policies often do not cover every major risk that a company may face. Agents are skilled at analyzing the market options and suggesting the right products for your situation.

What Your Agent Can't Do

Assist with claims. Unfortunately, answering claims questions is all an agent is allowed to do by law. Because of state insurance regulations, your insurance agent is typically not licensed to work on your claim. They can connect you to the claims professionals who are handling your claim, but they themselves cannot take on the task.

LIE TO THE INSURANCE CARRIER FOR YOU. No agent should ever be asked, nor take part in any attempt to misrepresent a claim, an application, or any part of a client's background to the insurance carrier. Agents are obligated to report such insurance fraud to the state insurance commission.

Add coverage without your consent. Because agents earn commissions from each policy they sell, they are prohibited from taking out a policy in your name without you knowing about it. Even if they tell you after the fact, it's unethical and illegal.

Expect a Partner

Insurance agents work hard to make sure you are able to protect your property, yourself, and your business. There are any number of services they can provide to you, and what they have to offer depends on the type of insurance they sell and their particular partnerships and affiliations within your community.

Your insurance agent should be your partner in protecting what you are insuring. The advice they offer can help you make sound decisions, and they are there to answer questions and advise you on policy terms and conditions. A good insurance agent will be active in looking for ways to make sure you're protected and that your premiums are being spent wisely.

CONCLUSION

Market fluctuations happen. Todays' hard market may mean you're paying more for coverage or are having a tougher time finding it, but the good news is conditions change.

Insurance is a supply-and-demand industry. As demand goes up, supply dwindles. Prices go up, and insurance carriers scale back on what they will offer in the insurance policy. They are simply limiting their own exposures to loss so that they will be able to afford to pay your claim.

When will the hard market go away? That's always a tough thing to predict. The answer depends on a number of factors – how many insurance carriers are writing policies for that particular coverage, what the overall economy is like, if claims are increasing or decreasing or getting more costly, even how profitable the business is for the carriers.

When conditions appeal to carriers, they will accept new business. The more carriers there are taking on insurance contracts, the more abundant the supply of insurance is for consumers.

An insurance hard market does not last forever. However, individuals and businesses do need to know what to do in order to get coverage and, importantly, afford it.

That's where your insurance agent comes in. Your agent can guide you through the market conditions, explain the impact on your policies, walk you through your policy language, and help you understand what it is you're purchasing. A good agent will think beyond what you're buying and help you discover those insurance gaps that could become costly insurance claims. They can help you cover those gaps by suggesting products that fit your specific situation.

Most of all, your agent can be a valuable partner in helping you navigate the insurance market conditions. As your agent gets to know you and your insurance needs, they can anticipate your needs in advance. By establishing a relationship with your insurance agent, you have one more resource for helping you stay protected now and well into the future.

HELLO FROM MATT

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QUESTIONS?
Matt is here to help, reach out for a free 30 minute consultation.

Prior to joining the team at CoverLink in 2006, Matt worked as an Underwriter with a multi-state insurance company located in Columbus, Ohio. Matt is a Certified Insurance Counselor (CIC) and Chartered Property and Casualty Underwriter (CPCU), having successfully completed the rigorous coursework and exams to earn these designations. He also serves on the Board of Directors for the Ohio Insurance Agents Association and the Associated Risk Managers of Ohio, in addition to volunteering his time to multiple other community and industry organizations. In 2013, Matt was awarded and recognized as the National Young Insurance Agent of the Year, and in 2019 he was recognized as the Insurance Advisor of the year by Finance Monthly.

CoverLink Insurance is an industry leading, independent insurance agency, that has been obsessively protecting and caring for its clients since 1920.

It begins with a simple question: why? Why do we do what we do? What do we believe? At CoverLink, we care deeply about our clients. We want to be there to pick up the pieces when tragedy strikes their lives. We exist because of our unwavering commitment to, and compassion for, our clients. To us, it's about people, not policies. People have assets to protect. People have loved ones they care for and employees who depend on them. People have dreams to pursue. We believe it's our responsibility to safeguard the people we care about.

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