Hard Market.
Do You Have a Proactive Plan to Navigate?

By: F. Scott Addis, CPCU, CRA, CBWA, TRA

In 1986, I was an account manager with Johnson & Higgins (now part of Marsh USA). Although I had eight years' experience in overseeing the insurance and risk management needs of hundreds of Philadelphia-area middle-market businesses, I was ill-equipped for the deep, dark, hard market that crushed our country in the mid-1980s. While I had my CPCU designation and was technically competent, I had not been schooled on how to deal with an industry tsunami -- the hardest market that the industry had ever seen. Psychologically, emotionally, and tactfully unprepared, I was a deer in headlights...scared to death as I did not know how to communicate with, nor tackle the issue for, the clients whom I loved.

How severe was this hard market? So severe that the cover of the March 24, 1986 issue of *Time Magazine* read "Sorry, America, Your Insurance Has Been Cancelled." Consider the following:

- In 1984 Brine -- the U.S. maker of lacrosse equipment -- was paying $8,000 annually for $25 million of products liability insurance. In December of that year, William Brine (President & CEO) received notice that his premium was going up to $200,000 for just $1 million of protection.
- Armada Corporation -- a Detroit automotive exhaust systems manufacturer -- had carried $10 million of liability coverage for its ten-member board and 28 corporate officers. In November 1985, Armada was advised that the rate would increase from

- $45,000 to $720,000. Armada refused to pay. Fearing exposure to litigation, eight board members, including its board chair, resigned.
- Red Blazer -- a Concord, NH restaurant -- saw its premiums hike from $1,000 to $12,000. To allow the general public to share its pain, Red Blazer and 400 other New Hampshire bars sponsored Unhappy Hour through which a Heineken beer cost $14.75 rather than $2.25 and a Beefeater's martini $40. Their customers got the message.

The *Time Magazine* article stated, "In the best of times, property and casualty insurance insurers rarely make money on underwriting. Most of their profits come from investing the premiums they collect. Five years ago, when the prime interest rate was hit an incredible high of 21-1/2 %, such investments paid off very, very well. Then the bottom fell out. Interest rates began tumbling in 1981 with the prime hitting an eight-year low of 9%. Underwriting losses have ballooned. Some 40 liability insurers have become insolvent in the past two years. "

I had learned my lesson. I had experienced the turbulence of the mid 1980s hard market and would be prepared the next time it came around.

The Early 2000s Hard Market

In preparing this article, I pulled my "historical hard market file." It led me to the plan that I put in place when the market hardened from 2002 to 2007. Although not as severe as the mid-1980s, rate increases created significant pain through all segments of the U.S. economy. On September 9, 2002, I sent a letter out to all clients of The Addis Group, educating them on the reasons behind the hardening market as well as the proactive stance that we were taking on their behalf. This included the research findings of the Insurance Service Office (ISO), National Council on Compensation (NCCI), A.M. Best, American Medical Association (AMA), and The Council of Agents and Brokers. The Council's Quarterly Market Index was sent out each and every quarter over the next five years with a cover note. We also prepared flip charts and PowerPoints to both educate and inform our clients on the actions that we were taking to mitigate price increases.

So, what additional actions did The Addis Group take to weather this hard market? Because I had seen the pain, fear, and uncertainty of my J&H clients 18 years before and had the scars to remind me, we designed a Hard Market Planning Guide. It contained the following:

- Historical information and the reasons behind market shifts
- Quarterly Market Index
- Data on each and every key client including loss ratios, response to risk control recommendations, historical pricing, and carrier loyalty
- Documented risk profile improvement initiatives for each client. We actually asked each client to provide them!
- Completed Service Plans and Stewardship Reviews so we could convey to the underwriting community why our book of business should be given special consideration
- Timing and frequency of meetings with key carriers to understand their underwriting positions on classes of business as well as risk verticals

- Inclusion of underwriting teams in service plans and stewardship reviews with mutual clients
- Pre-renewal strategy sessions at 120 rather than 90 days before the renewal supported by agendas and action plans
- Plans B and C if the incumbent carrier took a position that was not logical in the eyes of The Addis Group and our client

Our plan worked to perfection. During the early 2000s, The Addis Group had a 100% key client retention. We also picked up a significant number of new clients because the incumbent agent or broker did not have a results-oriented plan or the ability to settle their nerves. Of interest, in 2003, The Addis Group was recognized as the *National Underwriter Magazine's* "Agency of the Year." It is my belief that one of the primary reasons that the award was bestowed upon us was our client centric, pro-active stance to the hard market.

The 2020 Hardening Market

As market cycles differ, it is imperative that you understand the dynamics behind a firming market. Today's hardening market has occurred for differing reasons from the 1980s and early 2000s. According to Deloitte's 2020 Insurance Outlook, some of the rise in U.S. net written premiums can be attributed to changes in reinsurance purchasing strategy.

Commercial policy pricing soared 6% in the second quarter of 2019, according to Marsh's Global Insurance Market Index -- the seventh consecutive quarter of price hikes. While prices are increasing in the commercial property & casualty market, Fitch Ratings does not expect the trend to lead to a hard market. Fitch states the current U.S. P/C market will lead to "considerable profit challenges," nothing that the industry's combined ratio was 99 in 2018 after a 104 catastrophe loss-driven ratio the year before. Of interest, the property, automobile, and liability segments, in particular, will continue to be under scrutiny with upward pricing pressure. Increases in the financial and professional liability areas are being driven by escalating securities and derivatives suits. Property increases are a result of higher disaster losses over the past few years.

Suggested Strategies to Navigate a Hardening Market

As it has been nearly 15 years since we have experienced a hard market, you may have not weathered a hard market storm. I would like to recommend five strategies:

Strategy 1 -- Market Dynamics. Understand as much as you can about changing market conditions. Why, where, when, and how. Collaborate with underwriters, study market data and trends. Ask questions to comprehend why the marketplace is changing. Put together client communications so they may understand the market outlook and see you as a trusted risk advisor.

Strategy 2 -- Account Performance. Know the underwriting performance of your book, including each individual account. Tune up loss runs, scrub loss data, challenge reserves, study risk control reports. Determine a strategy to demonstrate risk profile improvement. Be prepared to tell a story of why each client is "best in class."

Strategy 3 – Pre-Renewal Strategy Sessions. Move these meetings up a month. Prepare like you have never before. When you arrive in your client's office, present an agenda that includes the account performance, underwriter's renewal position as well as strategies to achieve a positive outcome. Most importantly, understand you client's mindset.

Strategy 4 -- Treat Underwriters Like Gold. In a firming market, the underwriter has a difficult job. Take time to understand their world and see through their eyes. Where possible present your client's renewal information in person at their office. Show gratitude, compassion, and appreciation.

Strategy 5 -- Stewardship Reviews. While a stewardship review at the six-month point of the renewal process is a wonderful strategy in all market conditions, it takes on added significance in a changing market. The review demonstrates your dedication to your client, desire to deepen knowledge, interest in risk profile improvement, and gives you the ability to communicate industry trends. A well-done stewardship review will eliminate surprises, enhance relationships, and keep renewal competition out. It also serves as the first step of the renewal process.

Although you do not have magic wand to control market conditions, you do have the ability to build a proactive plan to navigate. Safe travels!

About the Author

Scott Addis, CPCU, CRA, CBWA, TRA is the CEO of Beyond Insurance and is recognized as an industry leader having been named a Philadelphia finalist for *Inc. Magazine*'s "Entrepreneur of the Year" award as well as one of the "25 Most Innovative Agents in America." Beyond Insurance is a consulting firm that offers leadership training, cultural transformation, and talent and tactical development for enlightened professionals who are looking to take their practice to the next level. Since 2007, the proven and repeatable processes of Beyond Insurance have transformed individuals and organizations as measured by enhanced organic growth, productivity, profitability, and value in the marketplace.