



How Retail Brokers and Businesses Can Survive in the Perfect Insurance Storm of 2021

By: Patrick Hanley - President

In 2020, we saw an increasingly firm insurance market. Rates rose, capacity shrunk, and, in some cases, there was even a reduction in gross commissions paid by insurance companies. Now, the perfect storm is raging. Here's more on the forecast and how brokers and businesses can survive ...

A Cumulative Effect

While it might be tempting to pin everything on COVID-19, the truth is far more complicated. In addition to the pandemic, we had severe storms and wildfires, social unrest, and political uncertainty. What we're now seeing in underwriting is a cumulative effect.

Nevertheless, we can look at specific events and trends that have impacted the market. For example, property losses have been mounting in recent years, and this has been a big driver of the current capacity crunch. The impact isn't limited to hard-hit areas like Florida, either. When one segment of property suffers, everyone suffers. Even if we get a year of calm weather, it will take a while for the market to recover and for underwriters to change course.

Social inflation, which has caused jury verdicts and settlements to get larger and larger, has been another issue impacting loss ratios and pricing.

Coronavirus-related business interruption, on the other hand, has had less of an impact than one might think. Coverage for this risk may not exist in many policies, although some litigation has occurred.

Going forward, the election could result in legal and tax changes. There hasn't been much of an impact yet, but this could change.

The Carrier Response

Put everything together, and you have a perfect storm. Carriers are exiting entire classes of business, becoming more focused and selective within their niches, and making other significant changes. Even the workers' compensation market is starting to firm. Right now, specialty lines are feeling most of the impact first, but this is an issue for everyone.

Large accounts may be disproportionately impacted. They are big litigation targets and more likely to get their "clocks cleaned." As a result, some carriers are shifting their focus to small to mid-size businesses. They are establishing ceilings – and choosing to non-renew accounts with revenues in excess of \$100M or \$250M, for example.

Carriers are also doing a better job of analyzing loss data, and they're realizing that writing everyone is not good for their profitability. This trend isn't limited to any particular industry – it seems to be more closely tied to the size of the company.

Insurance Lines to Watch

While all lines of business are trending higher, these three will likely have the greatest increases:

- **Cyber liability:** Cyber risks are growing, and it doesn't matter which industry you're in. Hackers are going after everyone.
- **Directors & Officers:** D&O exposures are also a serious issue, especially for public companies. This often has more to do with the stock market than the industry. If the stocks perform poorly, problems can follow.
- **EPLI:** Industries that are being heavily impacted by COVID-19 are also seeing an increase in employment practice risks. These industries – including hospitality, healthcare, and entertainment – have experienced significant layoffs, and this has led to lawsuits. As a whole, the industry is also still reeling from the EPLI claim spikes caused by the #MeToo movement.

Advice for Retail Brokers

Retail brokers - you've got your work cut out for you. Renewals won't take care of themselves while you focus on new business. You can't count on the incumbent carrier to come through with a competitive renewal. Expect every account to be a battle.

You may also have to deliver some bad news to your clients. You need to make sure your clients are aware of what's happening and that they're constantly receiving updates throughout the year – and definitely well ahead of their X-dates.

Don't delay. Renewals may take much longer than usual, so get them started as early as possible – at least 90 days out. Let your clients know what's coming and how much the increase might be so they can start preparing.

Although this sounds dire, there is an upside. If you're truly talented and hardworking, this is a great time to prove yourself and to stand out from the pack. The deck will be reshuffled, and lazy brokers will be exposed. Make sure your clients know what you're doing for them and what negotiations are going on behind the scenes.

Advice for Businesses

Business owners must be proactive. Your insurance premiums represent one of the largest items on your balance sheet. A 10-20% increase is going to have an impact.

You can't just assume your brokers are securing the best coverage – you need to ask questions to verify that they are working for you, such as:

- What is your strategy for our renewal?
- How are you making sure that we get the best option available?
- Do you plan to market our renewal?
- How many carriers can you access for us?

You also need to work with your brokers. If you're not giving them the information they need, they won't be in a good position to help you. Communication is important, as is loss control. This is a good time to review your employee handbook, policies, practices, and open claim reserves. Make sure your broker has a good story to tell about your business. Take steps to ensure your business is an attractive risk.

New Strategies Are Needed

In a softening market, underwriters and carriers do a lot of the work for brokers by lowering prices, expanding coverage and maybe even paying better commissions.

That's not what's happening now. I've been doing this for 33 years, and this is the firmest market I've seen in my career. This means that brokers and businesses need to work harder to find the best options available. Working with a wholesaler is a smart way to do this.

As a commercial insurance wholesaler, Socius works with a vast number of specialty carriers. Our highly experienced team helps agents source the most robust coverage available, at the best price rates. Get acquainted now, before you are in crisis-mode.

Check out these [testimonials](#) and [contact a broker](#) to learn more.



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