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# ERRORS & OMISSIONS

## RISK MANAGEMENT ALERT

### **Were you prepared for the hard market?**

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Without question, agencies around the country are all reporting a wide variety of issues that are symbolic of a hard market. These include increased premiums, reduced capacity, restrictive policy terms, and stricter underwriting from the carriers, to name a few. While the impact of the current market will vary based on the location of the agency and its customers, it is fair to say all agents are dealing with a different market today as compared to 5 years ago.

How agencies deal with the hard market will certainly impact to what degree the market affects their bottom line. There are a number of “best practices” that agencies should note.

**Start with the agency staff.** Since it has been a while since the industry has experienced a tightening, there is a good chance the agency has employees that have never been through a hard market and may not understand how to deal with it. Because there is a possibility that this market will cause some “emotion” from policyholders, counsel the agency staff on how to deal with customers that have just been advised their premiums are going up anywhere from 10% - 50% or higher based on the specific type of customer and the line of business affected. It is suggested to meet with the staff, discuss the issues, and train the employees accordingly.

**Communication with your customers is key.** There is a good chance that you have customers who have been negatively affected by the COVID-19 pandemic. As a result, communicate with them on what their upcoming renewals will look like and what they can expect in the way of pricing and coverage terms. Many customers have never experienced a hard market before and may not understand the issues that result from one.

**Reduction of limits.** It is certainly possible that a customer may desire to modify their coverage through options such as reducing their limits or increasing deductibles, especially in various lines – such as umbrella, professional liability, and directors and officers – that have been hit harder by the current market. When this happens, **have these discussions well documented and memorialized**, not only in your agency file, but with communication back to the customer.

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**More restrictive policy terms.** With the COVID-19 pandemic, carriers are likely including various communicable disease exclusions to clarify the lack of coverage. There may be additional restrictions agents need to be on the lookout for. While admitted carriers are generally required to notify customers when they are reducing coverage, surplus lines carriers are not required to do so. There is a chance that you will find a new exclusion or coverage change when you receive the renewal proposal from the wholesaler. This could be literally days before the account renews, so agents should try to be proactive in asking their wholesalers what type of policy coverages they can expect. In addition, with the chance the surplus lines industry will see an increase in application activity, agents should look to get their applications to their wholesalers as early as possible. Periodic follow-up is suggested to make sure the account is being worked on.

**Moving coverage to a new carrier.** If the marketplace prompts a need to remarket the account, agents should be especially sensitive to doing a comparison between the expiring coverage and the proposed replacement coverage with reductions brought, in writing, to the customer's attention. Encouraging the customer to read their policy is also strongly suggested.

This marketplace will affect virtually every agency. The better prepared an agency is for all of the issues they will face will determine to what degree the agency is affected.

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