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Perspectives

Hard market created stronger risk managers

Approaches adopted in difficult times should be maintained as conditions improve

By Gregory Belton

Hard market risk managers have proven their mettle as never before. Coming off the unprecedented soft market of 1985-2001, they've adapted remarkably to an abrupt and brutal market correction, satisfying the draconian demands of underwriters who've sharpened their pencils to the finest point they've wielded in a generation.

The big question now is whether the experience and lessons of the past few years and the enhanced role of risk management that ensued will prevail.

The answer isn't far off, because we're now in the nascent stages of a softening market. The early signs are here, across the board.

Suddenly, more than one underwriter is interested in renewals, not just in big increases on existing accounts. Suddenly, we see intense and precipitous competition on a number of accounts and, in some cases, significant price decreases. It's happening very quickly.

Of late, risk managers have certainly proved their value to their employers. They've gotten back to basics, and they've shown there's no fancy or easy way to navigate a hard market. No longer the "unappreciated asset," they've significantly enhanced their roles in these tough times through their ability to engineer and manage costs.

But precisely what did risk managers do so well in the hard market that should continue into the future? Some suggestions:

- Provide comprehensive and complete information to the underwriter. Engage in full disclosure and full transparency, done in timely fashion.
- Meet with the underwriter. Don't just provide information to the broker to be conveyed to the underwriter. Meet at the client's workplace to develop a comfort level, to ensure that nothing gets lost in translation and to give the underwriter the opportunity to see the facilities. It has more impact.
- Get to what I call "the top of the pile." During the hard market, underwriters saw huge numbers of submissions from various brokers. The key was to get the attention of the underwriter, preferably by sitting down face to face, so that it was hard for him or her to avoid paying full attention. Such a meeting also allows the underwriter to see firsthand whether the client has a healthy attitude toward loss avoidance and the responsible use of insurance.
- Analyze past claims and put them in the context of various deductible scenarios. Instead of just saying, "Here's our claims history," sit down and analyze the claims and the causes of loss. Determine what loss control measures are in place to avoid those losses in the future and how you'd deal with some of the frequency losses through deductibles and so on.
- Pick the right broker. Find one that provides services that add value, which really translates to insurers as well. If the broker has a reputation for working effectively with clients to manage and improve loss experience, the underwriter is more likely to respond. In a soft market, you could dispense with a lot of that, but not now.
- Differentiate your company and your risk portfolio. Provide complete longtime data of your loss experience. Exhibit an aggressive attitude toward loss control and safety and toward claims management, as well as a desire to work closely with underwriters.
- Adopt a holistic approach. There's a lot of talk about segmenting risk: credit risk, market risk, operational risk, currency risk and reputational risk, for example, in addition to hazard or insurable risk. And they're not mutually exclusive. There's a lot more sophistication in the risk management community today, a broader domain of risk.

Risk managers have adapted remarkably to an abrupt and brutal market correction, satisfying the draconian demands of underwriters who've sharpened their pencils to the finest point they've wielded in a generation.

I started by saying that the role of the risk manager has been enhanced in the hard market. One way it has been enhanced is that the cost of insurance is on everyone's radar screen. That and the inability, in some cases, to procure adequate insurance. Consequently, risk managers have become more integral to their operations. They no longer work in isolation, and they don't deal strictly with hazard risk. They're now co-dependent with others in their organizations.

Unlike in the past, when the risk manager was viewed as a necessary evil who didn't generate revenue and who was always delivering bad news, now they're beginning to be accepted as an integral part of their companies.

This is no short-term thing. It's an important part of a company's culture to have a solid and enduring risk management philosophy.

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