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What professional liability rate increases really say about a carrier

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By Sandip R. Chandarana, J.D., CPCU, RPLU | July 13, 2023 at 12:05 AM

Professional liability rate increases in a hardening market is one thing. In softer market conditions, it's a different ballgame altogether. Photo: lovelyday12/Adobe Stock

No one likes seeing **insurance premiums jump**, especially for a business necessity like professional liability **coverage**. Yet, we all know rate hikes are a reality in a hardening market, even if they're tough to swallow or sell to clients. That doesn't mean you should accept them blindly. It does mean you should look closer and think about what a carrier's approach to rate says about their business. (Hint: If a carrier is not raising rates right now, it's a red flag.)

While the majority of **carriers** have been raising rates over the past few years, we have seen a very competitive professional liability marketplace over the past several decades with declining rates across dozens of carriers. We have also seen a fair share of specialized and miscellaneous PL providers who are here today and gone tomorrow. Insight from this experience can help you read into the need for rate increases as you evaluate insurance partners for your clients and avoid missteps that may be more costly in the long run.

Consider this about professional liability carriers who are pushing rate in today's market.

They're committed to the market

If history tells us anything, it's that carriers who offer low rates won't be around for very long (or a disproportionately large increase is coming your way). It's a short-term play to attract accounts, but the quantity over quality approach is simply not sustainable. Caveat emptor! In other words, buyer beware.

If the coverage doesn't adequately cover all the nuances of your client's professional liability exposures and a claim is filed, your client could very well be left to foot a potentially crippling expense on their own. Plus, if or when the carrier exits the market, you will need to put in the extra legwork to remarket the risk.

Conversely, increases in line with market rates generally demonstrate a carrier's commitment to serving agents and insureds in the future. They need to keep their businesses sound despite rising costs to ensure they can continue providing essential coverage regardless of what lies ahead.

They're well-positioned to cover underwriting losses

Until the past couple of years, soft market conditions have prevailed where carriers beat each other up on pricing and coverage. Their profits were down but the claims were still there to pay out. Carriers often used to be able to rely on investment income to make up for underwriting losses. When the economy struggles, they have to rely on underwriting to ensure they have the financial strength to cover claims on behalf of their insureds.

A strong balance sheet is fundamental, but in reality, it's table stakes. When it comes to claims, also make sure to evaluate:

- If a carrier handles their own claims or outsources them
- How many adjusters they have on staff and their qualifications
- What their defense counsel panel looks like
- Which law firms they work with and their track record for getting the most favorable outcomes for insureds
- Their service and responsiveness

Claims place an emotional toll on insureds but the right support from a carrier partner can ease the burden and stress.

They're not immune to global economic pressures

Inflation is everywhere. Just like consumers who are seeing higher prices at the grocery store and the gas pump, businesses are feeling the rising cost of B2B goods and services. Insurance carriers are no exception. Their operating expenses are up and at the same time they're digging deeper to pay claims given the rise in costs across the board. As the threat of a recession continues to loom, carriers — like all businesses — are doing what they can to safeguard themselves from economic uncertainty.

They may be shouldering costs for resources that pay off for your clients

With a quality carrier, your clients are likely getting a lot more than just coverage. This might include complementary access to an in-house claims team that serves as an advocate if a claim is filed or a suite of risk management tools like training and education. The value of these resources easily outweighs the expense. Insureds who embrace a culture of risk management inevitably have better loss records than those who don't, which in turn results in lower premiums. It's a win-win and should be factored into your evaluation of carrier partners for your clients.

Professional liability rate increases in a hardening market is one thing. In softer market conditions, it's a different ballgame altogether. Either way, competing purely on price alone is a dangerous strategy. Look beyond the dollar signs and dig a little deeper to make sure you understand all the factors at play. Like they say, you get what you pay for.

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