What is a Soft Market?

*Soft insurance market* is a period of time during which insurance companies assess low premiums and therefore achieve relatively low profits. A soft insurance market occurs after companies begin to meet their profit goals and are able to loosen their underwriting standards, writing more policies on more clients; however, the possibility exists that insurers may write too many policies taking losses or at least reducing profits.

Soft Market Characteristics

- Lower insurance premiums
- Broader coverage
- Reduced underwriting criteria
- Increased capacity
- Increased competition among insurance carriers

What is a Hard Market?

Hard insurance market is a period of time during which insurance companies are able to assess high premiums and therefore achieve high profits. A hard insurance market may occur after a disaster, which enables insurers to tighten their underwriting standards and therefore write fewer policies on lower risk clients. This contributes to their profitability; however, it may be difficult to obtain insurance during a hard insurance market.

Hard Market Characteristics

- Higher insurance premiums
- Increased underwriting criteria
- Reduced capacity
- Less competition among insurance carriers

Historical Cycles

Source: https://en.wikipedia.org/wiki/Insurance_cycle
What Time is It?

Ingrey’s Underwriting Clock

Note: Paul Ingrey developed the "Underwriting clock" in 1985 to illustrate the cyclical nature of the (re)insurance industry. This is a useful tool for determining the cycle’s current stage.
Is a Hard Market Near?

• Hyperactive 2017 Atlantic hurricane season:
  • Harvey, category 4, August 2017, Texas and Louisiana
  • Irma, category 4, September 2017, Caribbean and Florida
  • Maria, category 5, September 2017, Caribbean and Puerto Rico

• Worst wildfires in California on record in 2017 and 2018

• Major earthquakes in the United States
  • Gulf of Alaska near Kodiak, 7.9 magnitude, 1/23/18 (moderate)
  • Alaska near Anchorage, 7.0 magnitude, 11/30/18 (severe)

But Not So Fast…

Many insurance analysts believe that because of increased capacity and the availability of alternative capital, the hard market cycle will not be traditional.
Succeeding in the Future

• During the 1970s and 1980s, self-insurance pools were a significant disruption within the market
• The growing influence of big data has become an advantage to commercial markets
• Artificial intelligence and predictive analytics will be transformative to the insurance space and disruptive to those not involved
• Innovations in other industries have caused disruptions; pools must look ahead

Example: Retail

Source: www.courier-journal.com
Example: Taxi/Limo Services

The Effect of Analytics and Data
Analytics Advantage

EARLY IDENTIFICATION + INTERVENTION = SUCCESSFUL CLAIM OUTCOME

WITHOUT XCEL ANALYTICS

ADJUSTER IDENTIFIES HIGH-RISK CLAIMS
ADJUSTER IDENTIFIES INTERVENTION
EXECUTE INTERVENTION
CLAIM OUTCOME

WITH XCEL ANALYTICS

CLAIM PREDICTIVE MODEL
ADJUSTER IDENTIFIES INTERVENTION
EXECUTE INTERVENTION
OPTIMIZED CLAIM OUTCOME

MINIMIZE TIME TO SUCCESSFUL OUTCOME

How Steep Will the Effect Be?
Claim Models - Process

- Train the model using historical claim data
- Show model “unseen” open claims
- Model identifies claims it is trained to find
- Identified claims sent to claim professional

Segmentation Analysis - Tests Model Accuracy

Divide all scored policies into segments

- **Lowest Risk**
  - Quintile 1: 20% of scored policies
  - Quintile 2: 20% of scored policies
  - Quintile 3: 20% of scored policies

- **Highest Risk**
  - Quintile 4: 20% of scored policies
  - Quintile 5: 20% of scored policies
Segmentation Analysis - Tests Model Accuracy

What Can Pools Do?

• Work with business partners to take advantage of artificial intelligence, predictive analytics, and other data management systems
• Aggregate data and use it to your advantage
• Invest in robust member services
• Practice disciplined underwriting