Petersen International Underwriters

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2022 will be a year of some internal analysis within our companies as well as the industry as a whole.

To set the comments about 2022, I will digress to what the economic impact has been on our industry for the past couple of years.

The global insurance markets follow a series of hard and soft trends depending upon money capacity and world events. This is normally a five-year swing between the two but because of high interest rates, easy access to money (capacity) and various other factors, we have been (until 2019) in a 15-year soft market. Insurance companies could make money, even with losses equaling more than revenue, because interest income maintained profitability! The trick was needing cash flow! This created insurance markets that pushed premiums down, created very liberal underwriting practices and gave away higher commissions than what had previously been considered the standard.

The traditional insurance markets, those carriers that are "admitted," are not directly impacted by these changes because they have filed rates and forms. However, the reinsurance markets are affected and can, and will, ultimately impact what the traditional markets do.

As a Lloyd's Coverholder and a Lloyd's Broker, our programs are directly impacted by changes which affect the global insurance markets. In 2019 we watched interest rates drop and capacity dry up which has forced changes in the markets. Premiums needed to be adjusted (since interest income was no longer profitable), underwriting had to be profitable once again, so underwriting practices had to get more conservative and commissions had to start being cut back to "normal."

As 2020 began, these changes already started to impact how excess and special risk disability plans were underwritten and offered. Then the Pandemic began in early 2020 which forced people to stop seeing each other! Disability insurance is a product that has to be sold and is not a good "online" or mail-in product. This 2020 and well into 2021 really put the squeeze on the disability carriers.

Now we come into 2022 and what do we see?

First, the global market changes have somewhat stabilized finally. While premiums are up and we are still underwriting more conservatively, in 2022 we are not going to see the wild changes that we have seen for the past two years. Rates are more-steady

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and underwriting is more uniform.

Producers should beware of facilities that offer greatly lower prices than everyone else! Of course there are always higher and lower premiums, but they should be within a range similar to each other. Drastically different rates reflect cutting corners either with an inferior product (terms and provisions) or a market that is trying to skim the financial corners.

The good news is that, in general, personal and business disability plans in the excess and special risk markets have not gone away! The challenge to the producers is getting in front of clients to tell them the story of why they need disability insurance.

Currently, we are using a lot more technology such as Zoom to chat with people, but it is not the same as face to face. While Mask Mandates continue to go on and off, people are free to see others now. This impacts distribution. At the same time, people are becoming more and more accustomed to this as "the new norm."

2022 should be a good year for producers who work hard to reach out to their clients. People have seen how easy it is to lose a job from COVID, or from not protecting themselves with a vaccine. This means that the discussion on a loss of income, and how it would impact the family or business, is in front of everyone these days!

Our disability products are designed to layer over existing coverage or when no coverage is available at all. GSI and our automatic issue (simplified) have been helpful as there is less direct contact and interaction with people. I believe this will be a trend continuing into 2022 as there is still some reluctance, for many, to be around strangers.

Businesses are reevaluating their financial needs and the protection needed for business continuation. While there are many people working remotely, the business entity still has exposures that would require buy-sell funding, business overhead expense and/or key-person disability coverages. Just because they have fewer employees, or fewer employees based in one location, the business is still financially vulnerable.

2022 will still have a financial hit in sales. Interest rates are slowly starting to come up, but some of this is due to inflation. Rising costs of food and fuel will also make decisions about purchasing new, or more, insurance a tough choice. People **know** they need insurance but many will have to decide which is the best buy (food or insurance). Not a nice choice.

Producers are also going to be faced with (compared to 2020 and 2021) more premium increases and more conservative underwriting. The days of getting whatever you want is over (for now). The good news with this is that there are still many options, but producers will need to be less demanding and more understanding of what has been impacting the disability markets.

Communication is going to be key for 2022. A producer can do well if they break through and work well with their communications with the carriers as well as with their clients. [TP]