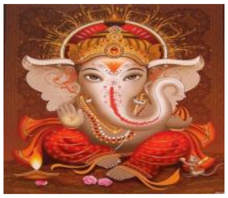


CONCEPT OF SOFT AND HARD MARKET CYCLES UNDER INSURANCE

Dear Friends,

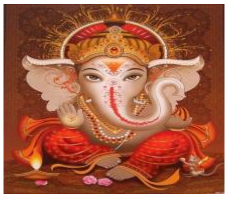
As you are aware of that Soft Market generally refer to that market in which there are many sellers or suppliers of goods and services and les buyers. In this market the buyers have more bargaining power and negotiation power. The competition is high and buyers will get standard of products or services. On the other hand when bargaining or negotiation power of buyers are less and they are not in position to quote their terms and conditions , this is called hard market. In this market the sellers have right to dictate their terms and conditions and buyers have to accept the same.

INVESTOPEDIA *defines as : A soft market is a market that has more potential sellers than buyers. A soft market can describe an entire industry, such as the retail market, or a specific asset, such as lumber. This is often referred to as a buyer's market, as the purchasers hold much of the power in negotiations. A soft market can lead to rapid drops in prices as sellers compete to find buyers. Prices will fall as the excess of supply over demand increases. For example, assume that 20 houses are put up for sale and 15 possible buyers enter the market. Five of these houses will not be sold, assuming each buyer purchases one house. This forces the 20 house sellers to compete on price to attract a buyer. As a result, this type of housing market is called soft.*

Hard Market — in the insurance industry, the upswing in a market cycle, when premiums increase and capacity for most types of insurance decreases. Can be caused by a number of factors, including falling investment returns for insurers, increases in frequency or severity of losses, and regulatory intervention deemed to be against the interests of insurers.

There are two "Insurance Market Cycles", Soft market and Hard market Cycles. In soft Market the premium rates are low and bargaining powers of buyers are high and in hard market, the premium rates are high and insurers are in commanding position.

FCS DEEPAK P. SINGH
Mobile No. +91 9920830041
Email ID: cs.deepakpsingh@gmail.com



Soft Market where the premium rates are low due to high competition among sellers or insurance companies ,a broader coverage and low underwriting criteria. The demand in Soft Market is always high as compared to supply. A Soft Market is followed by Hard Market, where premiums rates are high ,more difficult for underwriting and insurers may decline to take risks. The insurance market flactuates between these two markets.

<u>LET'S ANALYSE IN DETAIL</u>

I. <u>SOFT MARKET</u>

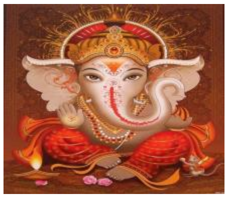
In a " Soft Market", insurance companies (the underwriters) are eager to write new business and to hold onto existing business and are likely to offer coverage improvements and /or reduced premiums.

Factors contributing to a soft market may include:

i) Active, growing economy;
ii) Positive interest rate environment;
iii) Low/favourable claims activity;
iv) Abundant capital to insure;
v) Strong policy holder surplus;
vi) When Capacity is available;
vii) Insurers' results have improved;
viii) Insurer's have achieved their profit goals.

The insurers know that if they can;
i) Write more volume ;and
ii) Maintain their expenses at lore or less constant levels ;and
iii) Anticipate cost increases(inflation, actual cost of claims and claims adjustment costs).

FCS DEEPAK P. SINGH
Mobile No. +91 9920830041
Email ID: cs.deepakpsingh@gmail.com



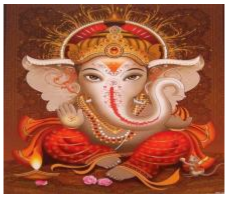
They should be able to make higher return, if they can " simply" add more written premium. The insurance companies in soft market condition achieve their profits target by cost management techniques, in this market they try to retain their existing customers as well as underwrite risks for more customers. Since competition is high in this market, insurance companies by lowering their premium rates attracts customers and underwrites more and more business. Their bargaining power is low and demand is also less in this market. They will lose market if they do not respond the market and hence they are forced to cut premium rates and underwrite more and more risks to increase their business and market share.

In soft market conditions, insurance organisations often try to expand their market share. They enter growth mode, targeting prospects with cheap rates, attractive policy terms, and, when allowed, discounted coverage. In the most extreme cases (seen more so in less regulated markets around the world), the soft market resembles a bidding war, with everyone chiming in last minute to offer the cheapest deal on a risk. With all this buzz, insureds and their supporting brokers are encouraged to shop around, and as more companies move their business to insurance carriers with lower rates, the profits for the entire industry start to reduce. On top of that, when focusing on growth and price-driven risk transfer, insurers sometimes let slip on stringent underwriting, meaning loss ratios also start to rise. At some point, a correction to this unsustainable situation (reduced profits and rising loss ratios) is necessary and the market starts to harden.

II. HARD MARKET

A Soft Market is followed by hard market cycle , in this cycle insurance companies will often increase premium rates and take some of the coverage enhancements, they provided during the soft market. In this cycle they are in dictating position of their terms and conditions and they can declaring to undertake or underwrite new business. The customers in this cycle will have less say and depends on decision of insurers.

FCS DEEPAK P. SINGH
Mobile No. +91 9920830041
Email ID: cs.deepakpsingh@gmail.com



Factors contributing to a hard market may include:

i) Economic downturn/uncertainty;
ii) Financial market volatility;
iii) Shrinking insurance capital/decreased competition;
iv) Catastrophic events / Increased claim activity;
v) Global events (e.g., pandemic, climate change, etc.

MAIN INGREDIENTS OF HARD MARKET;

i) ***A CAPACITY ISSUE;*** *results can be so bad that companies have to shed accounts, because they do not have the Policyholder' Surplus to support the underwriting of any more business. This can be a really bad situation for certain insureds, especially those with poor exposures, since these are the accounts that are cancelled fist. In this case the results of an insurance company is not up to as expected and insurance company is not able underwrite new business due to shortage of funds , the insurance company in this situation cancelled accounts of those insured or related to those risks in which they have incurred loss.*

ii) ***AN UNDERWRITING ISSUE;*** *There is significant portfolio review and accounts that do not have good loss ratios are cancelled or have significant price increases, while profitable accounts receive " healthy" price increases. There is likely to be no surplus problem, so that carriers can write as much business as they want but are extremely selective in what they write. The theory here is that the Hard Market will make the insurers profitable again. It then continues into a desire to write more premiums when insurers are profitable , before shifting to a " Soft Market Cycle".*

iii) ***CATASTROPHIC LOSSES*** *caused by natural disasters like hurricanes, earthquakes, and wild fires can generate huge property insurance claims. Other events may lead to increased claim trends impacting other lines of business such as Covid-19, large litigation payouts, or increase distracted driving incidents.*

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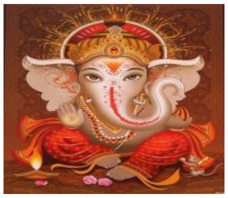

In a hard market, there's less desire for growth and more of a restriction in the marketplace as insurance companies re-evaluate their books of business, their risk appetites, and how much capacity they want to present in the marketplace. In hard market conditions, underwriters often adhere to stricter standards in an attempt to correct any adverse loss ratios developed during soft market conditions. As a result, insurance rates often go up, the amount of limit carriers are willing to provide decreases, and the number of players in the market restricts. This makes it harder for insureds and their agents to find coverage options, which means the carriers that are offering coverage can push up their rates.

Generally a Hard Market triggers after a catastrophic or triggered event.

<u>LET'S CONSIDER COVID-19 IMPACTS ON INSURANCE INDUSTRY;</u>

We have seen the most deadly pandemic called COVID-19 since November,2019 when a new came from China that a deadly virus named "COVID-19" had leaked from laboratory . This virus has in short span of time spread all over world and claimed lives of more than 5 Millions of people all over world. The business ,establishments ,shops, all means of transportation etc. ,are forced to close to save lives of people from this pandemic. The WHO and all countries have declared this pandemic as national disaster. And have taken various welfare steps to save life's of their people and economy of their countries.

This is also a hard time for insurance companies ,they have to design special type of insurance products and made available to people suffering from this pandemic. These COVID-19 based short term products become a loss making products fro insurance companies. Since claim are large as compared to premium specified by regulator on these policies.

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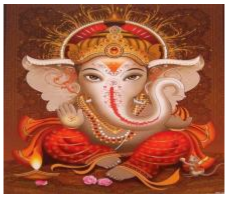

<u>CONCLUSION ;</u> *we know that no one can change market conditions, there are several steps we can take now to reinforce and prepare your business for a hard market:*

1. ***Budget for increases*** *– A hard market will likely drive up your premiums. Planning ahead for the possibility means your business won't be blindsided at renewal time.*

2. ***Proactively manage your risk*** *– Your insurance provider can help you identify ways to do this, which in turn, can help you secure more favorable quotes.*

3. ***Document your loss history*** *– Being able to readily explain losses to an underwriter can make the process smoother.*

4. ***Work with a trusted partner*** *– A solid relationship with your insurance agent or broker can help a lot in times like these. From reviewing your existing coverage, to taking extra time to manage the renewal process, to providing you with a variety of options to ensure you have the most competitive quote, you'll be in better shape with a trusted insurance adviser by your side.*

The good news is that hard markets don't last forever. With some extra planning and time, your business will be in better shape to enjoy the benefits of the next soft market. It might take some extra planning and time now, but the results will be worth it.

<u>Disclaimer:</u> *The entire contents of this document have been prepared on the basis of relevant provisions and as per the information existing at the time of the preparation. Although care has been taken to ensure the accuracy, completeness, and reliability of the information provided, author assume no responsibility, therefore. Users of this information are expected to refer to the relevant existing provisions of applicable Laws and take appropriate advice of consultants. The user of the information agrees that the information is not professional advice and is subject to change without notice. Author assume no responsibility for the consequences of the use of such information.*

FCS DEEPAK P. SINGH
Mobile No. +91 9920830041
Email ID: cs.deepakpsingh@gmail.com