

The Importance of Writing Small-Business Coverages in Today's Environment

By: Matt Masiello

Is your office focused on selling personal lines? Have you started marketing commercial lines (CL) insurance? Are you only selling commercial lines insurance when you trip over it? Regardless of what you've done in the past, now is a great time to step outside the box and break into small commercial.

It seems the insurance environment and client profiles are changing daily. Your clients and prospects, whether individuals, families or small-business owners, need coverage for an expanding number of standard risks, as well as newer risk exposures stemming from technological advances. New and evolving markets can help independent agents diversify their portfolios. With the prevalence of mobile technology and the addition of the Internet of Things (IoT) — and soon artificial intelligence — there is a vast opportunity to provide insurance to meet the new demands of the marketplace, particularly in the small-commercial space.

Understanding trending innovations and paying close attention to those affecting small businesses can lead to

tremendous opportunities for your agency. Such expertise will enable you to uniquely position your agency in your local market and establish a sound business model for the future. As professional advisors, independent agents should have the knowledge to educate small-business owners and explain what they need to understand. "Staying in the know" will help independent agents tackle the small-business market, including the newer cyber coverage policies that should come with it.

Small commercial needs nurturing.

According to a U.S. Small Business 2018 profile report, there are 30.2 million small businesses in the U.S., with 58.9 million small-business employees. Small to mid-size companies all need standard insurance products such as property, auto, general liability, workers compensation, cyber, employment practices liability insurance, life, health and disability — and many are underinsured or not insured at all.

This year, J.D. Power & Associates shared a study that concluded the small-

commercial market is highly valued yet underserved. Based on responses from 2,734 small-commercial insurance customers, "despite small businesses comprising the vast majority of businesses operating in the U.S., insurers have room to nurture this profitable market."

In a 2016 report from McKinsey & Company, small-commercial insurance is named as a bright spot in the U.S. property-casualty market and is the focus of intense competition that is likely to ramp up over the next few years. In fact, many small businesses have never purchased insurance. Nearly 40% of small-business owners do not have small commercial coverage, according to McKinsey. Though some may cover their businesses under home-based business owner policies or endorsements, there is significant opportunity out there for independent agents to provide this coverage. Insurance agents need to help small-business owners understand why insurance is critical to their operations and on-going existence.

All of this research points to opportunity.

New hot markets present opportunity in small commercial and beyond.

Besides the small mom-and-pop shops that need standard and special business coverages, now every business connected to the internet needs coverage for cyber as well. According to a July 2018 report from the Ponemon Institute, sponsored by IBM, the average cost of a data breach rose to \$3.86 million in 2017 from \$3.62 million in 2016. Meanwhile, the average cost per compromised record rose to \$148 from \$141. Small businesses can't afford not to have cyber coverage.

Additionally, a 2018 data breach investigations report from Verizon found that the majority (58%) of victims in cyber attacks were small businesses. What's worse is that it took organizations 196 days on average to detect a breach. A quick look at the math shows if a small business has 2,000 records, the cost to recover from a data breach may close its doors as the price tag to fix the problem could amount to \$296,000 or more.

The good news is that cyber coverage can be affordable. According to a 2016 article in CIO Magazine, cyber "premiums may range from \$800 to \$1,200 for consultants, tax preparers and small organizations with revenues of \$100,000 to \$500,000 ..." Of course, the cost is significantly higher for large businesses with revenues in the millions. That said, a cyber policy is a wise investment to protect a small-business owner's livelihood.

Additionally, the IoT continues to alter the insurance world. According to a 2017 article by Alec Sears and published by OpenMind, the IoT will help small businesses reduce costs and increase profits in the coming years. Experts have predicted that by 2020, there will be somewhere between 20 billion and 30 billion devices connected to the internet.

As IoT software and gadgets are now providing everything from inventory tracking and management, data sharing, productivity and efficiency metrics to scheduling and more, they will become an integral part of the small-business sector and will need to be covered in commercial policies.

IoT gadgets are increasing convenience for many things, from locking doors and providing security to mobile card reading so business owners can collect payments on the go. As businesses become more dependent on this technology, independent insurance agents will need to know how to insure them as they align with business productivity.

Need more training in the commercial space?

Looking at the numbers and new trends in the sector, it's clear to see that small commercial presents a valuable proposition for the independent agent. Though it may be intimidating to expand your agency's service lines, with a little help, an agency can quickly learn to tackle small commercial and expand their business exponentially.

Here are four ways you can help your small-business insurance market grow today:

- 1. Schools of insurance:** Carriers offer courses for independent agents to further their understanding of commercial lines. Most carriers offer producer schools, including Travelers, Nationwide, State Auto, Merchants, Liberty Mutual and The Hartford. Classes generally run from two weeks to six months at a carrier's location or are available online. A course on the business owners policy may highlight key coverage, optional endorsements, target markets and how small-commercial accounts benefit from a BOP. In addition, the Hartford School of Insurance has classes for

CL producers, account managers, virtual commercial lines and small-business coverage specialists, among others.

- 2. Know cyber:** Although independent insurance agents are often helping commercial clients understand the cyber risks facing their businesses, they frequently neglect to make sure their own business is protected. If you haven't procured cyber liability insurance already for your agency, it is a wise investment that will help protect your livelihood. Additionally, by investing in a cyber policy, you will learn the details and be able to share its benefits thoroughly with your business clients and prospects.

- 3. Specialty lines commercial insurance:** Get to know the difference between standard and nonstandard coverage available through your carriers. Learn these lines, and research who the target market includes in your community. From cyber, farm and ranch, flood and bar and nightclub to business auto and landlord insurance, several risk classes are untapped by independent insurance agencies. Both standard and nonstandard coverages serve small-commercial clients, and you may find a niche for your business.

- 4. Join a network.** In general, if you are part of a good insurance network, you should have access to commercial lines education programs.

Entering or more aggressively growing the small-commercial space will not only help you diversify and protect your business for the future, it will boost your profits. It's time to embrace the small to mid-size business CL market. ■

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