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# What Insurance Industry Cycles Mean for You

BY **GEORGIANA EISENHARDT**

Like the broader business market, the insurance industry goes through cycles. It slowly swings back and forth between hard markets and soft markets. These trends can occur for the entire property casualty insurance industry, but different insured industries or areas can experience these market fluctuations.

A soft insurance market indicates a time of increased competition among insurers, which can have a temporary benefit for insurance customers. This competition drives down insurance rates. It can also encourage insurers to offer high limits on insurance policies or flexible contract terms. However, a soft market will inevitably harden.

During a hard market, insurance rates firm up. That is, prices increase and underwriting standards — the guidelines insurers use to assess and assign value to a risk — become stricter. This can be due to the under-

valuing of risk and underpricing of insurance for an industry over a long period of time. It can also occur in a particular type of insurance in response to an increase in severe claims.

Over the past several years, claims severity has been increasing for private investigators and professionals in adjacent specialties and professions, like security contractors and fire/arson investigators. We are beginning to see a harder market. Though the private investigation industry sees some frequent claims — such as invasion of privacy and trespassing — some claims issues are due to severity rather than frequency.

A severe claim is one that is expensive and time-consuming to settle. Several factors contribute to this. Claims involving bodily harm are expensive, as you might expect. One source of severe claims is process serving, with claims upward of \$100,000, because the risk to PIs involved in this work is high. As you know, it's dangerous work, and incurs claims of assault and battery. As a case history has accumulated

for claims related to GPS tracking, the severity of these claims has also increased. They often involve invasion of privacy, property damage, and violations of state laws.

All in all, these market trends can mean rate increases are on the way for many PIs. However, individual firms can take steps to improve risk management and loss control, which can mitigate the hardening market's impact on them.

As I have discussed in past articles, PI firms can consider whether a client or account is asking them to take on a high-profile risk when accepting new work. As mentioned above, process serving can be high profile because the risk of physical altercations is high. In addition, work involving repossessions often leads to claims. This doesn't necessarily mean never taking on this work, but it may be worth considering how much of your business involves a high risk of severe claims.

**“A severe claim is one that is expensive and time-consuming to settle. Several factors contribute to this. Claims involving bodily harm are expensive, as you might expect.”**

This goes hand in hand with contract liability. Before signing a contract, be clear about how much risk it asks your firm to assume. Are you indemnified against any losses, or will the cost of a claim fall on you entirely? Is there a hold harmless agreement in the contract, and does it exclude you from liability or does it exclude the client from liability? In contracts and in any communications with clients, it is important to be clear about what work you will perform, how you will perform it, and what results are realistic for the client to expect.

Finally, stay up-to-date on state and federal laws governing private investigation and the tools of the trade. GPS tracking is a good example of this, as different states have different laws governing its use. Engaging in acts that are illegal will affect how your claim is handled and your liability, and not knowing the law is not considered a valid excuse.

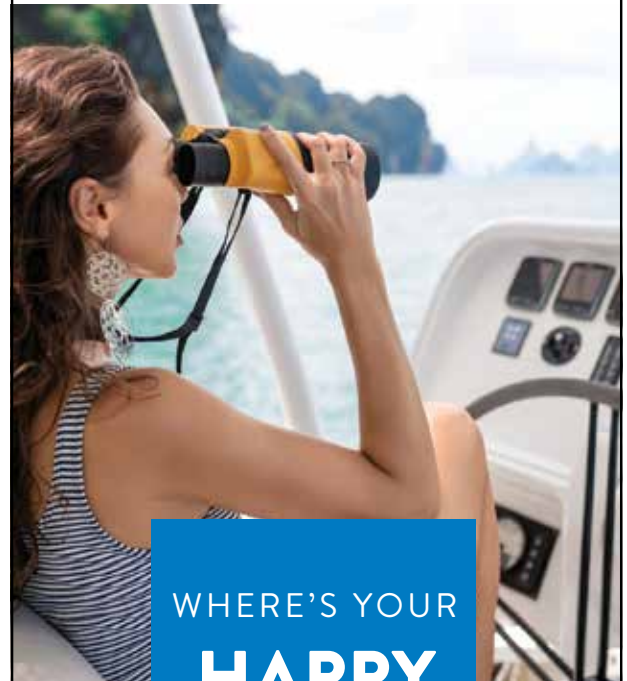
The hardening insurance market and how it will affect you is an issue you can discuss with your insurance agent or broker or your business's insurer. In fact, you may already be having these conversations as you renew your policies. However, you can also discuss the risk management and loss control tools you need in place to help control your rates. As the insurance market hardens, these practices will be more important than ever. **PI**



*Georgiana Eisenhardt is program manager for PI Protect from the Brownyard Group, where she works closely with private investigators, security consultants and professionals in related fields. She has 30 years experience as an insurance underwriter. PI Protect is a leading provider of specialized insurance coverage for investigators. Learn more at [www.brownyard.com](http://www.brownyard.com).*

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