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SPECIAL FOCUS ON PERSONAL LINES PAGE 8

Exposure and Rate Increases Offer Growth Opportunities in Hard Market

Talking to Clients About Current Conditions Is a Value Add for Agents

EVERETT, MASS. — The property-casualty (P-C) insurance market has been firming for several years, but unlike traditional hard markets of the past, insurers have not pulled back capacity significantly, according to a panel of industry experts who spoke at the SAN Group annual business meeting and conference.

Panelists discussed the characteristics of hard markets and how independent agents can bring greater value, manage risk and retain accounts in today's market. Generally, the insurance industry defines a hard market as an upswing in the market cycle that is characterized by premiums increasing and capacity for most lines of business tightening. Hard markets are driven by several factors, including a decrease in insurer investment income, increases in the frequency and severity of losses and a generally unfavorable regulatory environment.

Apart from significant capacity limitations, the current market meets most of those requirements, including increased regulatory scrutiny on carriers' rating models, according to Carl Canales, senior vice president and field executive, Northeast region, Liberty Mutual and Safeco Insurance. "Here in the Northeast region, I'm not sure that you're seeing a significant pullback in capacity from your carriers. I think that's primarily because the industry went into the pandemic in a position of strength [and] emerged from it in a position of strength. At the end of 2021, the industry held nearly $1 trillion of capital in just the United States P-C [market]. That shows you this isn't a firming of the market based on a lack of capacity — it really is driven by an unprecedented increase in loss cost and trends."

One exception is that capacity for writing coastal property has tightened, according to Michael Grove, senior vice president and senior product manager, Liberty Mutual and Safeco Insurance. He explained that decreased capacity is being seen in the Northeast, Southeast, Texas, Louisiana and California. The property insurance market in Florida has been in trouble for some time. Multiple insurers have become insolvent due to a high rate of fraudulent insurance claims.[1] However, Grove does not anticipate major changes for carriers in the Northeast.

Julio Martinez, regional vice president, New England region, Travelers, added that the severity and frequency of hail events and tornadoes are increasing in the Midwest but not enough to suppress the carrier's appetite.

Loss Costs Trends

In personal lines, auto insurance is especially affected by increases in loss costs. Multiple factors are driving auto loss cost trends, including inflationary pressures and supply chain disruption which depleted inventory of new cars and led to an increase in used cars sales. Grove explained that if a customer totals or badly damages a vehicle, the replacement cost is 15% higher than it was a year ago, and it is taking much longer to find replacement parts. "Now, it is even more of a concern because a lot of parts are petroleum based, and oil has obviously been going up," explained Grove. In addition auto body shops are raising prices anywhere between 10% and 20% because they are paying their employees more.

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On the liability side of auto insurance, the industry is seeing much more advertising spend by accident attorneys, which is leading to higher litigation rates on claims.

Homeowners insurance has been affected by skyrocketing lumber prices, the difficulty of filling construction jobs, which is leading to increased pay for workers, and putting continued pressure on costs, noted Grove. “There’s been a lot of doom and gloom, but [much] of it goes back to inflation and a lack of supply.”

The tight labor market and supply chain issues have plagued commercial lines as well, extending the time it takes to repair buildings. It drives up business interruption costs and ultimately leads to higher claims costs, according to Mark Perry, claim center assistant vice president, Travelers. “I’ve never seen in my 35 years [of experience], how long it’s taking for our customers to locate a qualified contractor who actually stays on the job to finish it. [If there] is a change in the middle, the suspension period extends, and then you’re paying more,” said Perry.

One of the biggest trends throughout the COVID-19 pandemic has been changes in customer’s driving habits. At the beginning and height of the pandemic, there were dramatic drops in how many miles were being driven. Mileage is creeping back up, particularly in the Southern states, which remained more “open” during the pandemic. While driving may still be depressed during rush hour as a significant percentage of people work from home at least part time, driving on weekends, for vacation or for routine shopping trips is up, noted Grove.

Traffic deaths are up as well as a result of speeding and an increase in distracted driving. “Less congestion allows for higher speeds,” said Martinez.

(From left to right) Liberty Mutual/Safeco’s Michael Grove and Carl Canales, and Travelers’ Mark Perry and Julio Martinez took part in a panel on insurance industry cycles at the SAN Group annual business meeting and conference.

Educating Clients on Current Conditions

Insureds are experiencing price increases in nearly everything they buy from groceries to electricity to fuel. Their home and auto insurance is no exception. Jeff Holmes, chief operating officer, SIAA, asked panelists how they are educating clients on the current environment. They said their companies have created a lot of consumer-facing materials to help agents explain to customers why rates are rising.

“We’re really in a value environment right now. Value is really where the time is being spent,” said Holmes.

Canales agreed, explaining that the agents “who are most prepared for this moment” are being sensitive to balance the conversation with clients between value, pricing and coverage. “Take the opportunity, whether it is new business or at renewal, to go over exposures and uncover the full risk profile of a customer to find opportunities to increase coverages and close gaps in exposures.”

Many agents are focusing on cross-selling opportunities to bring more policies into the agency. “We’re seeing a lot of agents spend time trying to manage the risk of an individual household, making sure all the exposures are captured at an adequate price and with discounts that maybe otherwise weren’t discoverable if there wasn’t a really deep renewal conversation,” said Canales.

Risk Management and Agency Growth

Last year, Liberty Mutual/Safeco polled insurance agents across the country on what they would like to do more of this year. The overwhelming answer was to focus on growth — hiring new producers, finding new business prospects and investing in marketing.

“In this environment, there’s a risk that that balance of trying to invest in growth becomes challenging to do. So, there are agents who not only see this market as an opportunity to grow based on exposures increasing, rate increasing, but also true organic growth and not punting on the investments that they had planned to make in 2022,” said Canales.

Martinez agreed, adding, “This is an opportunity for [independent agents] to shine because people are looking for value now more than ever.”

In addition to it being an opportunity to stand out, Grove thinks that carriers’ products can help agents answer questions about why client’s rates are going up, particularly if they have not had a

[1] Florida accounts for nine percent of U.S. homeowner insurance claims while accounting for 79% of the nation’s homeowners insurance lawsuits over claims filed, according to the Florida Office of Insurance Regulation.

recent claim. Agents can take advantage of products that give cash back to the customer or offer forgiveness programs and telematics products to find the best fit. "Once they get that 25% discount at renewal, they earned it. Why would they ever want to lose it?," asked Grove.

Traditional hard markets are often categorized by carriers not wanting to focus on growth, but this market is different, according to Canales. "Most carriers are trying to balance ourselves with disciplined underwriting and pricing to get ahead of where we know we need to be, but also find opportunities to grow." He explained that with pressures on underwriting and expense loss ratio, carriers need profitable growth.

"For every line of business and segment that we need to get a little more aggressive on rate or underwriting, we're identifying other lines of business and segments that we feel very bullish on that we want to double down on to grow in value during this hard market. We're all trying to be very proactive in communicating that to our agency partners," said Canales.

Carriers are investing in new and already existing technology to help them better assess risk as well. Telematics is one example. Many carriers offer a telematics program, although adoption rates are lower than most would like, and they think there is opportunity for growth there.

"I think a lot of carriers are getting better data to help with upfront underwriting that also makes [agents'] lives easier — better prefill, prior carrier information, using aerial imagery. It's expanding to where carriers can see trees overhanging the house, what the roof condition looks like. Doing better and more efficient underwriting helps you," said Canales.

In addition to using geospatial tools, technology aided claims departments immensely during the pandemic in the form of home and auto virtual inspections. Insureds used smart phones to conduct home and auto inspections after a claim. The process has been well received by insureds.

"When you have an innovation that for the most part consumers want and it saves [carriers] money, we'll all run to that solution," said Perry. ■