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Inflation and Reinsurance Costs Driving Higher Rates, Says Carrier CEO Panel

The reinsurance market not expected to improve by the July renewals

FALL RIVER, MASS. — Insurance carriers were met with the most challenging Jan. 1 reinsurance renewals that they had seen in decades — if ever. Rising costs and inflation among other economic factors, pushed claims higher. As insurers absorb significantly higher reinsurance costs and grapple with inflation, they are placing a greater emphasis on insurance to value. While they need to get rate, executives who took part in the panel discussion at the SouthCoast Insurance Agents Association's annual meeting assured attendees that the marketplace in New England remains competitive and strong.

Insurers' reinsurance purchases are spread among multiple companies from around the world to mitigate the risk of catastrophic loss events. In the last several years, reinsurers have accumulated losses from primary carriers, and in turn, have increased prices, limited coverage and in some cases exited markets to improve returns.

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John Donohue of Arbella Insurance Group, Mary Boyd of Plymouth Rock Assurance Corporation, and Joel Murray of the Norfolk and Dedham Group took part in a panel discussion at the SouthCoast Insurance Agents Association's annual meeting.

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Inflation, Reinsurance Driving Higher Rates

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"I've been buying reinsurance for over 35 years, and I have never seen a market in more turmoil than I saw this year when we went through our January renewals," said John Donohue, chairman, president and CEO, Arbella Insurance Group.

Although inflation is expected to moderate over time, the reinsurance marketplace is not expected to improve by the next round of renewals in July.

Last year, traditional reinsurance capital decreased for the first time in years as interest rates rose and equity markets declined. At the same time, demand increased. Long-term, traditional reinsurance capital would ride out various insurance cycles; however, carriers are seeing more private-equity investors enter the market — much like in the merger and acquisition space — and rather than ride out insurance waves, they want to "put their money in, but they also want to get it out. That's disruptive. Although I do think it will improve over time, I think that's a new aspect of this marketplace, that it's going to be less stable, unfortunately, and less predictable," said Joel Murray, president and CEO, Norfolk and Dedham Group.

"The good news is that Massachusetts is a vibrant market. There are tremendous agents in this marketplace, and the economy is strong, but we do need more supply to come in to help reduce pricing," said Murray. "Inflation will moderate over time, but we need to draw in other capital globally. So in the interim, this market is going to be bumpy. It's going to be really hard for [agents] to communicate to policyholders who say, 'We haven't had any storms here.'"

Murray expects availability to become a problem and said more business may shift to the FAIR Plan over the course of the next year.

Nick Fyntrilakis, president and CEO, Massachusetts Association of Insurance Agents, who attended the meeting, noted that historically it has been difficult for the FAIR Plan to get rate. "If you're going to see rate increases on admitted markets, the FAIR Plan's inability to get rate is going to exacerbate the problem."

Mary Boyd, president and CEO, Plymouth Rock Assurance Corporation, thinks even more business will turn to the excess and surplus lines market. "They have freedom of rate and form, and you'll get more access to it," she told agents.

One piece of good news is that supply chain delays appear to be improving. Donohue noted that after the February freeze caused flood damage, material to replace wood floors and appliances was much more readily available. "We're not hearing about the delays that we were seeing a year ago," he said.

Broker Consolidation and Carrier Relationships

Mergers and acquisitions have been happening at a robust pace for the last several years. Tom Rogers, chief growth officer, FBinsure, who served as the panel moderator, asked how consolidation has affected agency partnerships.

In some instances, it has spurred new tools from carriers, such as offering operational analytical capabilities to agency partners, noted Boyd. “We’re looking not to just help you succeed, but as you’re seeing more of these opportunities, if we can also create something new together, come talk to us about it. We are always looking for ways to come up with a new solution to help the channel thrive.”

Although Murray was initially concerned that the private-equity firms entering the market had the potential to lead to a breakdown in carrier-agency relationships, he has not found that to be the case. “We’ve actually seen a lot of success with firms that have acquired local entities because for the most part, I think the entities are left to run their operation. I do think over time it will be interesting to see if that continues. But we’ve made an even more concerted effort to really work closely with agents each and every day.”

Donohue said that he, too, was concerned about venture capitalists from outside of the region acquiring local agencies and disrupting local ties and relationships. While he agreed that in the big picture, there has not been a lot of change, he is paying close attention to what is happening around the edges. He cautioned agents that some venture capitalist firms are more familiar with national carriers than regional ones, which could lead to problems.

> *Where [the IA] model really shines is when the customer values you because you can get them multiple quotes in one stop. You can tell them the pluses and minuses above and beyond the price. You can give them all of this professional information that they’re never going to get off of a website, and they come to appreciate that.*
> *— John Donohue, Chairman, President and CEO, Arbella Insurance Group*

“It’s very easy to say, ‘Well, I’m just going to do business with the big nationals.’ And I think that’s obviously bad for all of us. So, be vigilant,” said Donohue.

Personal Lines Competition With Direct Writers

Independent agents have fought hard to maintain market share against direct writers in the personal lines sector. Although independent agent market share in Mass., has slipped, it has not eroded nearly as much as direct writers had expected, noted Rogers.

Murray thinks that one of the issues that prevents more direct writers from entering the market here or being more aggressive in it is their concern over coastal risk. He said he remains fully 100% bullish on the prospects for agents in this market.

“The fact that Massachusetts in general is a more affluent area helps because I think people are willing to pay for expertise. People have assets. They want to protect those assets, and they’re willing to pay for that. So I do think there’s less of a transactional element to this business locally here than there might be across the country,” said Murray. “But I do think there’s going to be pressure on all of us to continue to get more efficient.”

Donohue places direct writers into two distinct categories — established direct writers that have a large TV presence and newer insurtech companies that burst onto the scene in recent years. He noted that some of the more established direct writers experienced loss ratios in 2022 that “were awful” and are filing for rate increases of 25% or more. “They want to make all their money back in six months or six-month policies. We tend not to overreact. We take the long approach, and I think that’s going to play to our advantage not only in the short term, but in the long term because customers are going to remember how they were treated,” said Donohue.

He pointed out that the predictions that insurtech companies would make the independent agency channel irrelevant have been proven to be inaccurate. “Not one of those companies has been profitable. Many of them are on their 10th year, and they’re in trouble. They’re laying people off; their investors are fleeing. They are figuring out what we all know: It’s very, very hard to run a good company and a profitable company at the same time in this business,” said Donohue. However, he noted that there are some positives independent carriers can take from the insurtech model, particularly in striving to improve technology and the ease of doing business with customers.

"Where our model really shines is when the customer values you because you can get them multiple quotes in one stop. You can tell them the pluses and minuses above and beyond the price. You can give them all of this professional information that they're never going to get off of a website, and they come to appreciate that," said Donohue.

The latest personal lines market share reports reveal that in Mass., independent agents hold nearly 60% of the market, and direct writers have about one-third of it. Elsewhere in the country, it is typically the other way around, noted Boyd. Exclusive writers have one product to sell. "It's the independent agent who is giving advice and choice. It's a wonderful combination," said Boyd.

She added that the biggest direct writer in the area is closing its sales centers, laying off employees and not offering quotes in dozens of states.

"[Mass.] is a hard market to do business in, and a lot of national carriers won't come in because of the reputation that the market has had for so many years. If you're going to come in on homeowners as a full package writer, [the state doesn't allow the use of] credit as a way of writing business. Most national writers rely upon credit score very heavily in their rating methodologies. Here, you have to understand how to rate without credit. Regional carriers are able to do that because of the depth of knowledge and the scale that we have. We can dive deep into our local markets. Those kinds of things help the regional carriers outperform our national peers," explained Boyd.

Technology: Where Are Headed?

Artificial intelligence (AI) is one technology trend that is predicted to reshape the insurance industry over the next decade. Technology trends will not be adopted overnight, according to panelists.

"AI is going to have an impact, but it's not going to take over the world. It's going to be long and slow. Hopefully we can use it to make us collectively more efficient, but I think it's way too soon to make much in the way of predictions," said Donohue.

Boyd noted that while applications for AI and ChatGPT exist, the human element to insurance remains paramount. "When it comes to real judgment and nuance, that takes the human touch, and I think it is also going to take more governance."

Murray agreed that AI will be closely monitored by insurance regulators. "Our pricing models today are looked at extremely closely. Bias is a real concern from a regulatory standpoint and rightfully so. Whether it's establishing rates or whatever AI is ultimately targeted to be used for, it's the regulator who is going to look very closely at it, and slow the process down." ■