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Local Economy Is Doing Well, but Challenges Are Ahead, Says N&D's Murray

QUINCY, MASS. — With the March unemployment rate at 3.7% the Massachusetts economy is doing well, but inflation is affecting everyone and challenges lay ahead, according to Joel Murray, president and chief executive officer of The Norfolk and Dedham Group.

Murray recently spoke to members of the South Shore Independent Insurance Agents Association about the economy, the reinsurance market and the hunt for new talent.

Murray remains cautiously optimistic about the economy. The collapse of the Silicon Valley Bank appears to be an isolated incident and not an indication of weakness in the banking sector in general. Over time, Murray expects there to be pressure on credit with banks lending less, which would slow growth.

Looking ahead, the biggest unknown is the commercial real estate market.

"We don't write a lot of real estate. We write a lot of habitational business, and that market is fine. If anything, there needs to be more places to live. The question is, can you retrofit higher-end commercial properties to residential? That's a big challenge, just by the way it's structured. Absent that, I feel like locally, we're in really good shape," said Murray.

Joel Murray, president and CEO of the Norfolk and Dedham Group, with John Hegarty, president of the South Shore Independent Insurance Agents Association.

Difficult Policyholder Conversations

Murray expects the independent agency channel to continue to thrive, but acknowledged that the inflationary environment is making for some difficult conversations between agents and insureds. "This is where agents are really going to find the opportunity to shine and help their policyholders navigate these challenging times. So I think it's actually a good time to be an agent."

One positive about the current environment is that agent commissions are on the rise.

The Reinsurance Marketplace

Although inflation is expected to moderate over time, it will take longer for the reinsurance marketplace to do the same. Murray noted that some insurance experts have called it the worst reinsurance market for carriers and agents since Hurricane Andrew hit in 1992, while others think it is the worst ever seen. He

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thinks it may take 18 months before the reinsurance market levels off.

The challenging conditions that insurers faced at the Jan. 1 reinsurance renewals persist; however, Murray expects the July 1 renewals to go more smoothly than Jan. 1 as long as there is not a sizable Cat event like a hurricane in Miami or New York or a significant earthquake in California.

Some primary carriers in the property-casualty sector have not performed particularly well lately. The P-C industry had a 104% combined ratio overall last year. In the previous four years, the combined ratio hovered between 98% and 100%.

"From a return perspective, if you have investment income of five percent and had a combined ratio of 99%, which would give you one percent, making a six percent return is not all that great," said Murray. "The industry hasn't made a lot of money."

Added to the equation, reinsurers have lost money for six consecutive years, noted Murray. "Now, the reality is that your clients and our clients contributed very little if any to that loss, but with the whole concept of spreading risk, in theory, New England is going to have a tough stretch with bad events" at some point. The reality is that weather events, such as severe convective storms, are currently happening in the Southeast, the Midwest and Calif.

The biggest weather event New England has experienced recently was the freeze event in February 2023; however, it was not a Cat event for reinsurers. "So when you step back and think about the overall Massachusetts market, it's going to be very difficult for a consumer to understand," said Murray.

Of course, it has happened previously, including the spike in insurance costs that followed Hurricane Katrina in 2005. The difference here is that capital has left the market and inflationary pressures persist.

Carriers that have lost money and had poor results have been forced to take tough actions, rerating policies for higher expenses and claims costs. But, most carriers find themselves in a supply and demand imbalance of capital. Investors are not making money — and they do not want to lose money — so they pull away from the insurance market, leaving less capital available. Demand is up because of higher values.

"Insurance rates were actually very low for quite some time, and now they're moving up very quickly," said Murray.

Although the pricing for reinsurance at the July 1 renewals may not differ much from those on Jan. 1, carriers were much more uncertain about having access to capital this winter then they are now. "If you don't have access to capital, you can run into problems with AM Best, which increases the chance of risk and ruin."

AM Best has a complicated capital adequacy ratio that depicts the relationship between the balance sheet and operating risks and determines whether capitalization is appropriate. Carriers that are not well capitalized could run into difficulties with their rating.

"Normally, national companies take really dramatic action fast, and the regionals and the locals do it over two or three years. But we've seen more companies take dramatic action in a really short period of time," observed Murray.

While it is a great opportunity for companies to grow, the property capacity available is finite. "So, you're seeing companies maneuver a little bit to try to make their book the best possible book of business because they only have so much capital that they can allocate to the property business."

The situation can create a headache for agents who have to navigate the higher rates with clients.

"In the short-term, this is where agents are going to shine. This is where you're going to step up and show your value to your best clients. You're going to have to work deductibles, have different terms and conditions, depending on the size of the account, but I think it's a great opportunity because there's going to be a lot of business disrupted. The agents who have the best approach from a hands-on perspective are going to be able to capitalize on that."

The Hunt for Talent

Insurance executives have acknowledged for some time that they have to figure out ways to bring more talent into the business, particularly younger talent. While the industry is not completely recession proof, Murray noted that insurance is something that clients consistently budget for.

On the whole, the industry has hired more data and analytics professionals recently, taking the focus off those with traditional insurance knowledge. Murray cautioned that there could be a "huge void" in insurance knowledge in the near future, so he would encourage newcomers to concentrate on that. Murray also voiced support for the "tremendous educational resources" the Massachusetts Association of Insurance Agents offers.

"We need to get people in to get them exposed to the business. We need to get them to learn, and we've got to convince these younger folks that it's okay to take time to get to where they want to go. There's too much of, 'If I don't get it within a day and a half, then I'm not going to stay,' and that has to shift."

Despite it being a difficult time in the industry, Murray's attitude is that, "This too shall pass. I think capital will start to flow in the market. And I think it's a great opportunity for agents to step up and shine for your clients." ■