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Softening Insurance Market Brings Extra Challenges

Property and casualty insurers generally had a profitable 2004. They reported profits of \$28.1 billion in the first nine months of last year, which represented a 22.4 percent increase over \$22.9 billion earned during the same period in 2003, according to Weiss Ratings, Inc., an independent provider of company ratings. Through the first three quarters of 2004, property and casualty insurers reported a \$3.7 billion underwriting gain, representing a 190.3 percent increase over the \$4.0 billion underwriting loss reported during the same period in 2003. This performance is all the more remarkable since it includes the impact of four major hurricanes.

Bob Stallings, Managing Partner of Iroquois Southwest, is seeing some companies with combined loss ratios in the low to mid-90s. Bob says, "While some aspects of the commercial insurance market are still tight, we are starting to experience a soft market, which began last year and will only pick up momentum in 2005. More companies are talking about, and many are already lowering, overall new business premium rates and renewal rates as well. They've had pretty good experience in the last two years as a result of the hard market. Those results have made them more confident and interested in growing their markets."

This softening market creates a new set of challenges for community bank agencies. During the hard market, the biggest concern tended to be "Can we even find a market?" It became more difficult to place business as underwriting standards were tightened and premiums increased. In that environment, some agencies may not have actually grown much, although their commission revenue may have risen because it was tied to the increasing premiums of a

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hard market. Now, with a softening of the market due to increased insurer profitability and reserves, there is increasing competition among insurers. As the insurers lower their premium rates to attract more business, agencies will be challenged to grow organically, to write extra business and win new clients.

To grow their business and improve profitability, community bank agencies are going to have to keep in touch with their cus-

tomers, monitor expiry dates and renewals, and provide welcomed service. Increased investment in marketing will be important, as well as cross-referral efforts at the bank, and consultative efforts to uncover new needs of existing customers and obtain referrals from them to new prospects. For those that have them, contingency commissions will be important, but cannot be relied upon to make the difference between agency profitability and loss. As rates decline, it will be important to properly classify and rate business, so as to not put more pressure on underwriting losses ... and contingency commissions.

In a soft market, some insurers give extra bonus points for productivity. But, insurers typically give those bonus points to larger agencies, not smaller agencies like many community bank agencies. To win bonus points, an agency needs critical mass, and that is what the ICBA Insurance Services' program with Iroquois Group provides by aggregating the premiums of many smaller community bank agencies.

To learn how MWA can help your bank increase profits through insurance sales, call toll free (866) DIAL-MWA.