WHITE PAPER

DIFFERENTIATION IN THE AGE OF CONSOLIDATION

CARRIERS' ORGANIC GROWTH STRATEGIES

EXECUTIVE SUMMARY

Many carriers face a pincer attack on their book of business from large carriers and brokers consolidating through acquisitions and gaining market power. To survive and thrive independently, carriers in the middle must re-examine their positioning, fine-tune their value proposition, and then execute flawlessly.

CONSOLIDATION AMONG CARRIERS

Larger national and global carriers see consolidation as a way to increase their product density per customer. This can squeeze regionals, super-regionals, and specialty carriers as their territories are encroached upon.

CONSOLIDATION AMONG BROKERS AND AGENTS

Inorganic growth among brokers and agents continues to be a dominant theme in insurance and, though it may slow down in the short-term due to the economic effects of COVID-19, it will likely accelerate with the next market cycle. A trend among consolidated distributors is to reduce their carrier partners in favor of a select number of strategic carrier partners. They do this to secure preferred terms, pricing, and commissions. Once again, the effect is smaller and middle carriers feel squeezed and may find their products marginalized.

HOW TO DIFFERENTIATE

Carriers seeking to maintain their relevance and fuel growth must re-evaluate their positioning and differentiation in the market. This requires the development internally of an organizational innovation engine that comprises three elements or steps:

1. Listening to market needs and wants;
2. Adapting offerings based on the findings;
3. Promoting the value proposition back to the market.

This process of innovation enables carriers to respond dynamically to the changing needs of the market. Once a path or strategy has been selected with a set of offerings or products, an additional critical step is to execute better than competitors around those offerings. This includes understanding the importance of operational efficiencies, specializing talent, and providing the time and tools to succeed. This approach leads to a more resilient and agile organization, better core metrics, and the ability to outperform competitors in the face of consolidation.

1 - MARKET MOVEMENTS

The last decade has seen unprecedented M&A activity within the insurance space. In a lot of ways, it has been a perfect storm of acquisition opportunities and selling pressures: zero interest rates, continued single-digit GDP growth, climate change, social inflation on claims, an aging population, an unprecedented influx of capital in the U.S. marketplace, and, most recently, the economic impact of COVID-19.

From a distribution perspective, the sell-side drivers have been largely attributed to the challenge of perpetuation, an aging workforce, and historically high multiples being paid for businesses.

On the buy side, larger brokerage houses and financial investors are implementing a roll-up strategy to achieve economies of scale. The largest P&C deal in the cards is between brokerage behemoths Aon and Willis Towers Watson, not carriers.

Increasingly, intermediaries are preferring to do business with a select number of larger strategic carriers that provide a complete suite of products.

INTERMEDIARIES WANT TO DO MORE BUSINESS WITH A SELECT NUMBER OF LARGE CARRIERS.

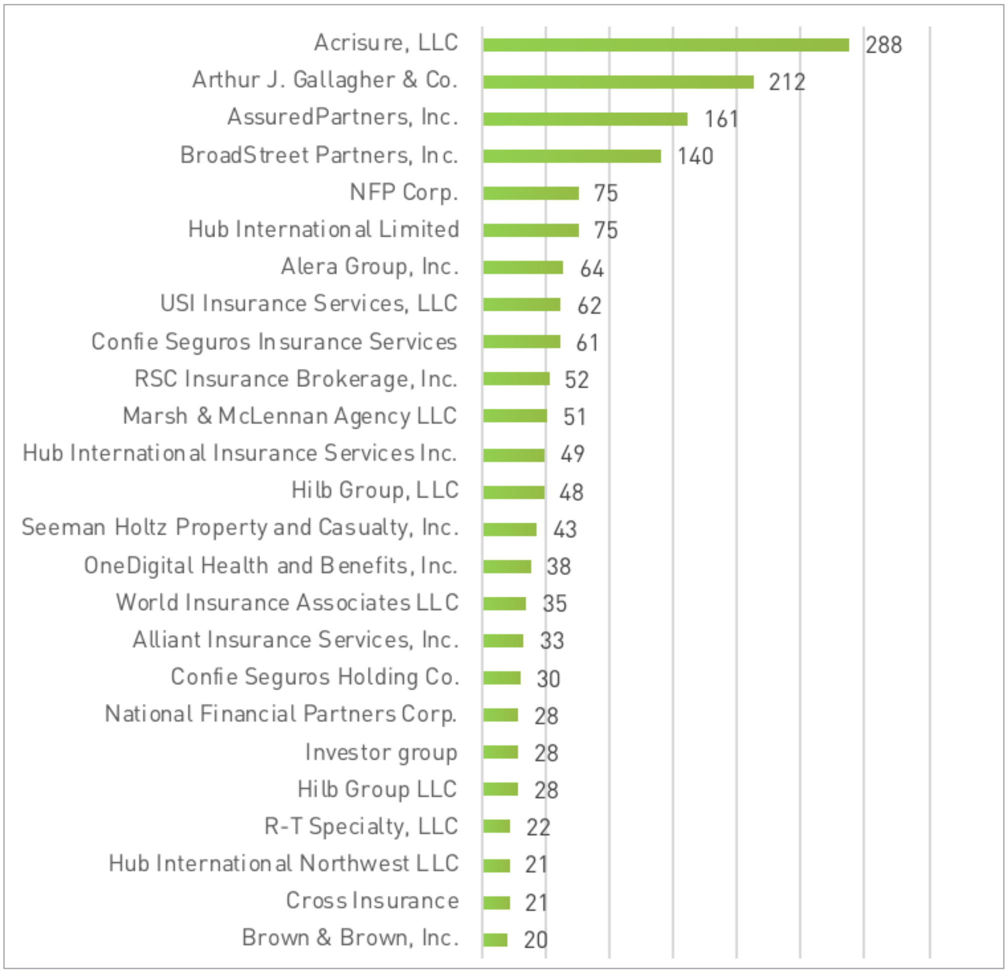

Table 1: U.S. Top-25 Insurance Distributor Acquirers by Deal Count, 2009-2019
S&P Global Market Intelligence

From an insurer's perspective, the low interest environment and lack of organic growth in a mature economy has reduced the cost of capital and provided a strategic rationale to invest in inorganic growth. The playbook has been to merge or acquire carriers with a different product mix and cross-sell offerings to the mutual clientele to increase wallet share per insured. However, few have been able to successfully integrate post-acquisition and realize any noticeable revenue synergies thus far.

THE BIG HAVE BECOME BIGGER AND WILL CONTINUE DOWN THIS PATH.

The big have become bigger and they will continue down this path, although at the moment, they are likely taking rates and focusing on organizational efficiencies. The next wave of consolidation should begin post-COVID-19 and accelerate with the next market cycle.

TARGET	BUYER	DEAL VALUE ($M)	STRATEGIC RATIONALE
Chubb Corporation	ACE Limited	$29,444	Line of Business Expansion
XL	AXA	$15,388	P&C Entry
HCC	Tokio Marine	$7,500	U.S. Geographic Expansion
Endurance	Sompo Japan Nipponkoa	$6,304	U.S. Geographic Expansion
Catlin	XL	$3,911	Line of Business Expansion
Privilege Underwriters (Pure)	HCC	$3,100	Line of Business Expansion
Ironshore	Liberty Mutual	$2,935	Line of Business Expansion
Delphi Financial Group	Tokio Marine	$2,891	U.S. Geographic Expansion
Aspen	Apollo Global Management	$2,603	Financial
Medical Liability Mutual Insurance Company	National Indemnity Company	$2,502	Line of Business Expansion
Navigators	Hartford	$2,151	Line of Business Expansion
OneBeacon	Intact	$1,732	U.S. Geographic Expansion

Table 2: U.S. P&C Insures M&A, 2009-2019
S&P Global Market Intelligence

Another interesting phenomenon to note is the entry of capital into the U.S. primary retail commercial market due to a lack of growth in other existing segments. Some of the noticeable capital infusions in the U.S. retail commercial insurance market include Everest Re, Munich Re, Berkshire Hathaway Specialty Insurance, Ascot, SCOR, Beazley, Markel, James River, Sompo, and Tokio Marine. Reinsurers and Europeans are largely looking to grow organically while Canadians and Japanese are buying books.

2 - CHALLENGES FOR CARRIERS

As the market consolidates, insurers in segments of P&C—such as regionals, monolines, selected distribution channels (e.g. wholesale only, brokers only)—will continue to face disproportionate competition with larger national and global carriers aggressively looking to maximize the number of products per customer as well as brokers pursuing strategic carrier panels in order to get preferred terms, pricing, and commissions.

Nimble carriers should build their strategy on two essential components: a continuous quest for differentiation and a laser focus on execution.

Market conditions are not static; the expense ratio should not be, either. Expense allocations should be consistently challenged based on market conditions. Typically, an organization develops enhancements to its core offerings—e.g. services, claims experience, product innovation, distribution channels—and takes them to market. But more important than adding to an existing framework is investing in an innovation culture that can constantly adapt to market conditions. This innovation culture points the way to market-leading solutions that will expose flaws in slower, less nimble organizations with lesser abilities to innovate and scale.

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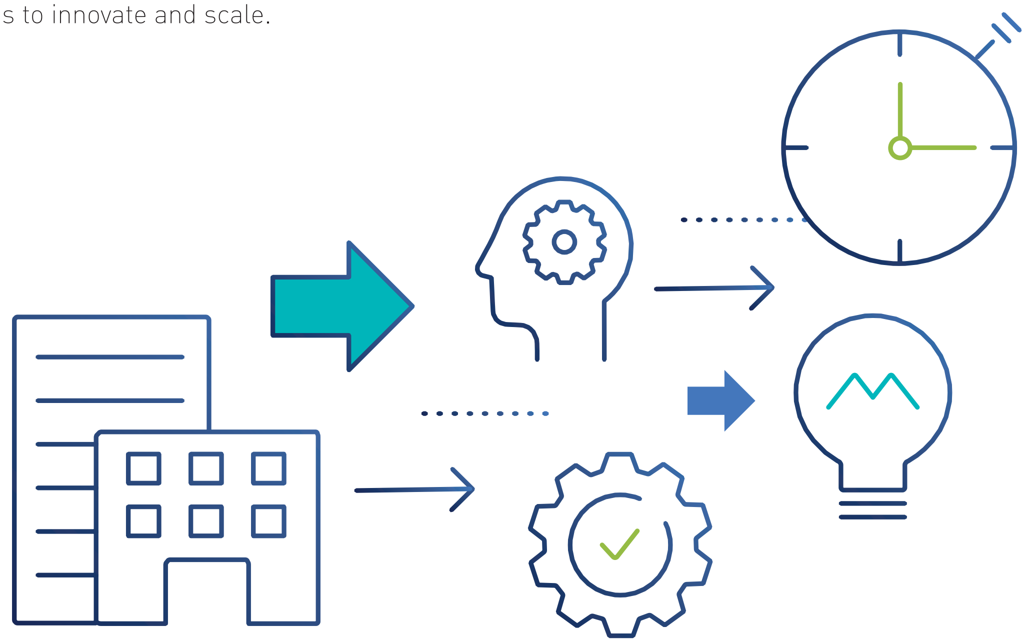
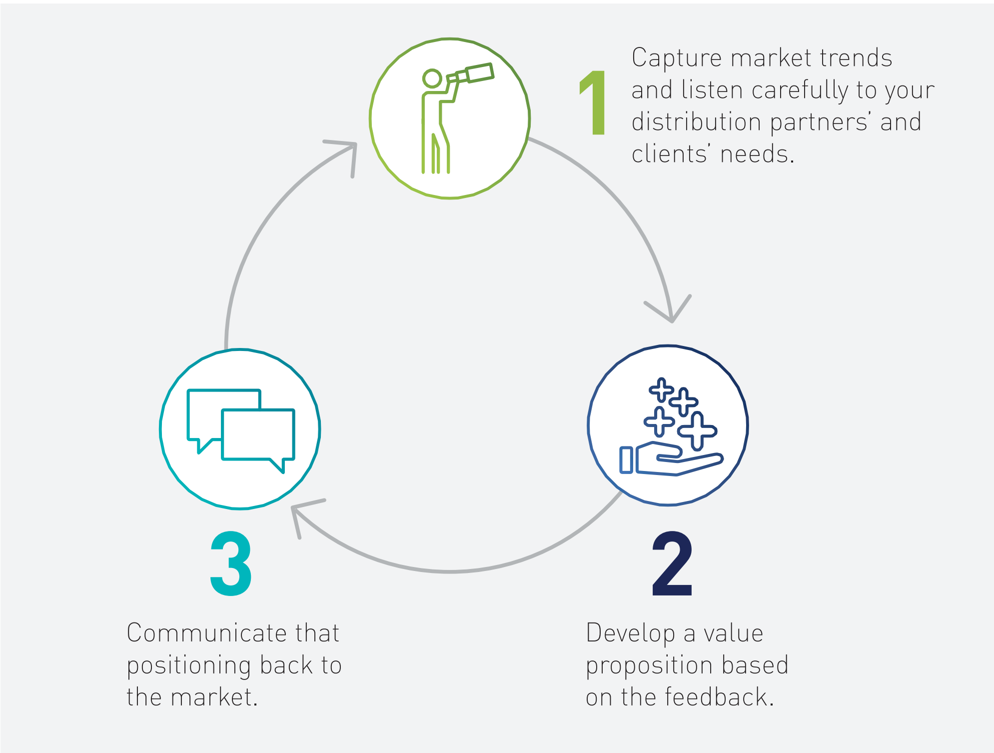


3 - QUEST FOR CONTINUOUS IMPROVEMENT

When developing a culture of continuous improvement, there are three essential steps to consider:



Repeat annually at a minimum, as well as after any significant event, such as the September 11th terrorist attacks, the coronavirus outbreak or any major CAT losses.

HOW TO LEAD AN INNOVATION PROCESS

When reflecting on your own strategy, consider these questions:

1. **Do we have an effective mechanism to listen to the voice of the broker and insured?**
    - Does our market intelligence go beyond gathering Net Promoter Scores (NPS)?
    - Are we effectively gathering and consolidating all written and verbal communication?
    - Do we have the analytics and insights necessary to have data-driven conversations with each distribution partner?
    - Are we effectively able to capture trends and insights?

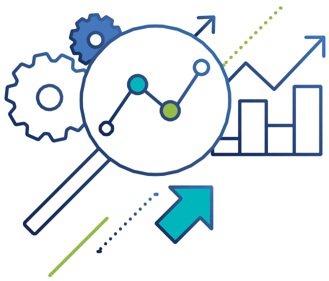
2. **Have we clarified our market positioning and established a thoughtful process to develop our value proposition?**
    - Does the value proposition we develop emerge out of the needs of the broker/insured?
    - Does the process focus on our capabilities and capability gaps as they relate to value for the broker and/or the insured?
    - Brokers:
        - What do we know that brokers may not?
        - What can we do that would help brokers/producers with their strategic objectives (e.g. growth, client retention, claims conversations)?
        - What is our agency segmentation strategy? Are we developing value propositions that are aligned to those strategies?
    - Insureds:
        - Are we taking a client-centric view and thinking through services that go beyond insurance sales?
        - What can we do that would help insureds with their strategic objectives (e.g. growth)?
3. **Do we communicate our value proposition effectively to the brokers and policy holders?**
    - Does the market know about our capabilities and product differentiations?
    - How are we communicating to the market?
        - What messaging mechanisms are we using?
        - How effective are they?
    - Do we really know what services beyond risk transfer insureds value?

Most carriers develop strategies that focus on one of these three steps in isolation of the others. When examining how your organization develops strategy, it should be an all or nothing scenario. Having a partial view to the questions above means that other key questions are being neglected. This dramatically diminishes an organization's ability to compete in today's unprecedented environment of consolidation and available capital.

4 - EXPECTED OUTCOMES

Strategy development is not a fixed process. In the first few implementations of this process, carriers may identify more obvious requests from the market, such as unbundled claims, lower deductibles, underwriting flexibility, faster quotes, and adjusted pricing. While these initial ideas may seem like low-hanging fruit, they should be seriously considered and implemented to allow for more unique, market-leading ideas to come forth in subsequent innovation cycles.

With a continuous improvement approach, carrier leaders will be able to realize and follow through on new ways to differentiate, such as:



1. **Have we aligned ourselves to our intermediary partners' strategic goals, e.g. agency growth?**

   EXAMPLES

   - Invest in supporting production through trainings, tools, and analytics
   - Co-create programs and appetite that are aligned with niche areas of opportunity in marketplace to go after new business

2. **How can our unique value proposition save time and money for intermediaries and reduce risk?**

   EXAMPLE

   - Save brokers time and money with accurate policies and E&O indemnification. ReSource Pro data suggests each policy has an average of 9 discrepancies, many of which are material in nature, including the top error, location.

3. **What value can risk managers bring to their firms beyond just insurance program management?**

   EXAMPLES

   - SOX compliance support for the IT team of a client
   - Accounting strategies learning for life sciences clients

5 - FOCUS ON EXECUTION

Once carriers have listened, developed, and communicated a unified strategy, the focus shifts to whether the distribution and underwriting teams are able to manage relationships and execute effectively. Do they have the bandwidth to focus on value-added tasks?

Plenty of well-intentioned consulting studies done by ace advisory firms sit on shelves, collecting dust. To avoid this, create clarity around your strategic objectives, execution, and the journey in between.

As a provider of risk mitigation, ensure that your entire organization is aligned to the strategy you have developed. Consider the following:

- Define the underwriter role as limited to risk selection, production support, and the much-needed mentoring of junior talent.
- Ensure the distribution role goes beyond relationship management and includes collecting and sharing market intelligence effectively.
- Focus product and service teams on providing the best customer and distributor experience based on the knowledge gathered.

From an execution perspective, the goal should be to specialize the talent in the function they perform and provide them with the tools and time to execute. While market-facing teams specialize in market-facing activities, all the critical processing tasks should be moved to specialized service centers or to a quality vendor that specializes in such tasks and can derive economies of scale to reduce costs while delivering value.

6 - LOOKING AHEAD

Barring the unforeseen impacts of COVID-19, the current market cycle is expected to last at least until mid-2021 for most lines, with exceptions in reasonably profitable ones such as workers compensation and surety. This means significant submission flow for carriers as brokers try to shop for the best deal. While submissions may not always translate into bind, they do momentarily ease some operational pressure on market-facing roles, allowing them to take a pause and thoughtfully invest for the next market cycle. This means focusing on increasing the breadth and depth of the relationships.

To effectively compete, carriers with smaller target addressable markets need to realign the workforce toward more value-added tasks and develop a culture of innovation. Success will come to those who can create unique products and services, while also executing better than competitors. This way, they will create a distinguished customer experience and build greater loyalty as they prepare for the next market cycle.

ReSourcePro
RETHINK OPERATIONS

ABOUT RESOURCE PRO

Founded in 2003, ReSource Pro partners with carriers to provide the people, process, technology, and data they need to focus on winning profitable business. With an eye toward managing expense ratio, ReSource Pro's solutions are designed to align your whole organization to your strategic priorities. Gain insights, clear submissions, enhance relationships, and leverage analytics all with one trusted partner.

Headquartered in New York, ReSource Pro's global service centers address client operational needs around the clock. The company has been ranked as one of Inc. 500/5000 Fastest Growing Private Companies annually since 2009. Over 4,500 ReSource Pro employees provide dedicated support to hundreds of insurance organizations, consistently achieving a 97% client retention rate for over a decade.

ABOUT THE AUTHOR

Anuj Jain is the Carriers Practice Leader at ReSource Pro. He is an experienced engagement lead with a demonstrated history of success in the financial services and technology industries. With consulting experience at Accenture and Aon Inpoint, plus insurance experience with AIG and Liberty Mutual, Anuj brings a depth of knowledge in the carrier space to the ReSource Pro team. His areas of expertise include data analytics, mergers and acquisitions, leadership, management, strategy development, and execution.

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