# Weathering a Hard Personal Lines Market Through Insurance Diversification

A BTIS Special Report for our Retail Partners

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**Last year's persistent high-loss ratios, low profitability, and elevated labor and material costs have forced many personal lines carriers to take aggressive action in appropriately pricing risks.** Not only has this resulted in elevated premiums, but it also has caused many carriers to not renew a large portion of their auto and home policies, while others are exiting the personal lines market altogether.

Moving into 2024, a report by Willis Towers Watson shows that market conditions for personal lines insurance will continue to face challenges presented by today's hard insurance market. If you're a personal lines insurance professional, now's the ideal time to adapt to the changing operating environment and grow your book by diversifying your business model and products with commercial insurance.

## Understanding the Need for Insurance Diversification

A hard insurance market is characterized by a time period when there is a high demand for insurance products but a low supply of available coverage. When this occurs, premiums typically increase, coverage terms become more restricted and the capacity for many types of insurance decreases.

Experts indicate that carriers will continue to struggle to offset the negative pressures associated with today's hard personal lines insurance market. Key contributing factors impacting new business and renewals include:

- Supply chain and labor issues.
- A high rate of losses and low profitability in auto and homeowners lines.
- Significant inflationary pressures.
- Growing cybercrime challenges.
- An increase in the severity of weather-related losses due to climate change.
- Ongoing regulatory issues and changes being enforced by certain states.
- Increased repair costs for newer vehicles and higher used car prices.

According to AM Best, the capital cushion that many personal lines insurers have relied on to weather this hard market has slowly eroded, giving way to persistently high loss costs and increased levels of net retention for carriers. As a result, experts believe it is very unlikely that underwriting for the segment will once again become profitable in the near future.

### The Case for Insurance Diversification

- Creates a more sustainable business model.
- Can expand the pool of potential insurance buyers.
- Helps insurance professionals better weather market fluctuations and volatility.
- Provides opportunities for growth and continued success.

"Many [personal lines] carriers continue to pursue rate adequacy in response to rising loss cost severity, but their ability to stay ahead of current trends has been challenged," said Chris Draghi, associate director of AM Best, as reported in Best's Market Segment Report.

Agents selling only personal lines products are putting all their eggs in one basket. When the industry experiences a hard market, this can create consequences as policyholders search for the coverage they need at prices they can afford. Some of the risks of relying exclusively on one segment of the market are:

- **A loss of customers.** Selling only personal lines insurance means being limited to a small number of available carriers and products for placing new business. This can be challenging when serving policyholders who require more affordable options and flexible terms, resulting in a loss of business that can also negatively affect retention numbers.

- **A loss of income.** Without the ability to tap into products and services offered by other lines of insurance when business is down — such as commercial insurance — you are essentially limiting your earning potential. For example, if you are priced out of homeowners and auto insurance, having more industry sectors can open up a whole new stream of revenue.

- **Emerging business sectors.** Businesses that have unconventional models and offer new and unique products and services are considered emerging business sectors in the commercial insurance market. Due to their unique risks and challenges, these businesses have specific insurance needs that must be met. Being a resource where emerging industries can secure the coverage they need can position you as an expert and go-to insurer. Types of emerging industries to consider include cannabis, technology/software, cybersecurity and renewables/climate change mitigation companies.

> If you're a personal lines agent or broker, expanding into a commercial insurance can be a great way to tap into a very lucrative emerging market.

## The Benefits of Insurance Diversification

Whether an insurance professional should consider diversification depends on the goals and vision they have for their business. For example, some may feel that specializing in one particular segment of the market, such as personal lines, positions them as an expert. However, as mentioned previously, this can be problematic in a hard insurance environment.

In addition to increasing customer retention and loyalty by offering more value, flexible terms and convenience to customers, insurance professionals who diversify into commercial lines can also experience benefits such as:

- **Increased customer satisfaction.** Diversification provides a solution for customers who require a variety of coverages and prefer a one-stop shop for their insurance needs.

- **Weathering market fluctuations and volatility.** Diversification provides insurance professionals with a more sustainable business model by offering wider market access to better hedge against changes in the market. When shifts in the market occur, diversification offers a balance of products and services that can help their business to flourish.

- **Increased income and growth potential.** Having a wider array of product mixes expands the pool of potential buyers, providing greater opportunities to offer more insurance to more prospects. It also provides the potential for upselling and cross-selling additional lines of insurance.

## Commercial Insurance as Part of a Diversification Strategy

The process of insurance diversification can be daunting if you don't know where to start. The good news? With the right approach and resources, insurance professionals can effectively develop a strategy for diversifying their products and services.

"Personal lines insurance professionals with goals of expanding their portfolio to reach new markets and develop new streams of revenue will find diversifying into commercial lines a veritable treasure trove of product, service and earning possibilities — especially in today's hard market," said Philip Massaro, VP, General Liability at BTIS.

**Key areas of commercial insurance include:**

- **Small-business owners.** There are approximately 33.2 million small-business owners in the U.S. In order to operate, most businesses require core insurance products such as general liability, property, business auto and workers' compensation. Depending on the business's needs, additional coverage — such as crime, forgery, mechanical breakdown, spoilage of merchandise and computer equipment — can also be added to a standard business policy.

- **Large commercial risks.** Certain types of business operations are considered large commercial insurance risks due to specific circumstances such as the type of industry, size of the business and complexity of operations. While these types of accounts can be more complex, they provide many opportunities for growth. Some examples of large commercial insurance risks include manufacturing, farm/ranch operations, restaurants/bars and commercial auto fleets.


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"Specializing in certain business sectors is a great way to build brand equity over time. The more you work with people in an industry, the more you and your agency will become synonymous with a specific sector. This positions you as an expert and can open up opportunities to grow," said Edmund Dabrowski, Senior VP, Workers' Comp at BTIS.

## Getting Started with a Specialized Commercial Lines Managing General Agency

One way insurance professionals can begin to diversify their books of business is through collaboration with a managing general agency (MGA). Working with an MGA offers unique opportunities for agents to diversify their product offerings and reach new customer segments with specialized underwriting expertise and expanded market access — including emerging and niche business sectors.

For example, at BTIS, we offer our retail partners comprehensive insurance programs for more than 25 industries — including specialty risks. We work closely with our agents, helping them deepen their level of expertise in particular industries, including associated challenges, exposures and solutions.

"Partnering with an MGA is an effective strategy that insurance professionals can use to accelerate growth by way of diversification. It also gives them the ability to develop a reputation as a sector expert, which can help distinguish their business from the competition," said Dabrowski.

Initiating a collaborative partnership with a specialized MGA isn't complex. However, when you are ready to get started, there are some considerations:

- Make sure the MGA has programs that specialize in the industry sectors you are interested in pursuing. Review their website or speak directly to a representative.

- Select a few MGAs that appear promising and do some research into their business philosophy and customer service before deciding.

- Reach out to a potential MGA prospect and ask about their process of formalizing the relationship. In many cases, you'll be required to enter into a contract — also known as a binding authority agreement — that lists the responsibilities of the MGA. Be sure to review before signing.

"Proper due diligence is critical when deciding on an MGA. Do your homework and make sure you understand and feel comfortable with the MGA's business model, the types of insurance programs they offer and the terms of the agreement before initiating the partnership," said Massaro.

## Conclusion

In today's challenging and ever-evolving insurance environment, insurance diversification isn't just a strategy but a necessity for personal lines agents. Insurance diversification not only provides a pathway to resilience but also enables agents to better navigate market fluctuations, meet the diverse needs of clients and unlock new growth opportunities.

As the insurance landscape continues to shift, MGAs have become a lifeline for success, creating opportunities for agents to adapt and diversify. By embracing the process of insurance diversification, agents have within their grasp the ability to transform challenges into opportunities, ensuring their success and sustainability for the future.