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SPECIAL FOCUS ON PERSONAL LINES PAGE 8

Mutual Execs Work to Balance Long-Term Objectives with Competitive Pressures

Agency Consolidations, Market Shifts and Technology on the Minds of Leadership Teams

MONTPELIER, Vt. — As independent insurance agency and broker mergers, acquisitions and consolidations have hit record highs in recent years, they have ushered in changes and additional complexities for carriers to navigate. The M&A landscape is just one challenge facing mutual and cooperative insurers that are aiming to balance long-term objectives with immediate competitive pressures and trying to differentiate between the hype of digital tools and real use cases. A panel of executives discussed the current marketplace with members of the Vermont CPCU Society Chapter.

All of the panelists are dedicated to the independent insurance agency distribution channel, but they acknowledged that acquisitions can make relationships trickier to manage.

(Left to right) Mark McDonnell of Vermont Mutual Insurance Group, Molly Kerr, president of the Vermont CPCU Society Chapter, Lisa Keysar of Union Mutual, Lee Dowgiewicz of Co-operative Insurance Companies, and Michael Percy of Concord Group Insurance.

"No one up here is second guessing whether you distribute your products through independent agents. We all exclusively do that, but it is a very different proposition than what it was even three years ago," said Mark McDonnell, president and chief operating officer, of Vermont Mutual Insurance Group.

"Historically, we've been able to deal straight up with an independent agent. Now, that independent agent may have a local presence, but ownership is in New Jersey or out west," said Michael Percy, senior vice president and chief operating officer, Concord Group Insurance.

"The truly independent agent is sort of dwindling; many are members of either aggregations or cluster groups. It's not changing our distribution strategy, but managing those groups has become much more difficult at the agency level."

Lisa Keysar, president and chief executive officer, Union Mutual, noted that M&A transactions often include an agency principal earn out within one to three years, which can make it difficult to know who is actually running the agency. “The relationship is still a strong part of the independent system — it’s what we’ve built our business on. So, we’re still trying to do that at the local level, but trying to manage it at the top level is difficult because it’s not about the relationship,” said Keysar.

McDonnell added that working more closely with private-equity groups is neither good or bad — just different. “The discussions with [a private-equity group’s] executive leadership are very different than with the agency principals of Vermont agencies. They face different pressures and are more sensitive to financial downturns because of how they finance these deals, so we find ourselves having very different conversations.”

Co-operative Insurance Companies is slightly different in that it has a relatively small number of agents across two states. However, some of those agents have been acquired by larger entities. Lee Dowgiewicz, president and chief executive officer, Co-operative Insurance Companies, has made a concerted effort to meet with the regional leaders of those organizations. He has found the biggest change to be having high-level decisions being made outside of Vermont and New Hampshire.

“Generally, it’s not a family person who we would have worked with in the past. It is somebody who has interest in the form of stock or in the grander scheme of things that they’re participating in. We’re trying to reinforce the message that we’re a mutual company. We’re regional, and the agency they bought saw huge value in doing business with us.”

Balancing Objectives with Pressures

One of the keys to effectively managing mutual company objectives with the pressures of the marketplace is to remain as disciplined and consistent as possible.

Regardless of whether it is a hard or soft market cycle, taking a long-term view, having underwriting discipline, getting adequate rate and providing strong service to agents as well as policyholders is crucial, according to Keysar. “It gets back to the principles of what we’re trying to do and maintaining that throughout these market swings.”

Most insureds decide to use a mutual carrier on the advice of their agent, noted McDonnell, who thanked agents for their recommendations. “I think [insureds] look for coverage and for service, and that has to align with price. In a hard or soft market, I don’t think those expectations change. It’s how we meet those expectations that might change,” said McDonnell. “It’s a constant everyday challenge of making sure those are aligned. When they’re not is when you get into a problem.”

When inflation hit a 40-year high and reinsurance costs skyrocketed 40%, carriers felt the burden. “We had to figure out a way to remain solvent in those conditions, and we did that through tightening our belt as well as having to pass some of that cost on,” said McDonnell.

Consistency is the key to balancing goals with market pressures. Carriers and agencies will be affected by national carriers coming after independent insurer’s business. “Our objective needs to be to stay consistent and be able to have conversations to balance expectations. We’re going to go through good and bad times, tough and easy times. To stay the course through both will help that balance in the long-term,” said Percy.

Dowgiewicz said his company tries not to “cause too much disruption to our agency plan and our policyholders when things are good.” However, sometimes change is unavoidable. “Are market cycles an effective way to go about how we do business? It creates a lot of churn and disruption. I can’t say it’s effective in my definition, but it’s what we’ve got.”

ROI for New Digital Tools

There has been a lot of discussion centered on how to drive real return on investment (ROI) on digital tools designed for agents and carrier marketing representatives. The first step is to make sure the tools are something that agents and carrier employees actually want to use.

Vermont Mutual is in the midst of a legacy system replacement project. McDonnell said they sent teams out to agencies to understand how account managers move from quoting a policy to issuing it to make sure any new system would pair well with the way they do business. “Independent agents are the most aptly named group: They each have a different way of doing things, but you still need to build something that most of them will use. What we’re doing with AI [artificial intelligence] has largely been in house. So the return is, how do we align that with our staff? That’s a little easier,” said McDonnell.

Union Mutual also works with key agents when they make significant changes. “We focus on the ease of doing business with us and having fewer clicks because that’s important to them,” said Keysar.

It is a continual process of refinement because sometimes even good ideas don’t end up working.

“The key is to make sure you’re involving the right stakeholders who are going to be using the technology,” said Keysar.

It is especially important that carriers align their business model with their strategic vision. Concord Group is constantly approached by vendors with products they say can save the company money or make underwriting and claims handling more efficient.

“The independent agency channel is where we’re at. We don’t want to eliminate the human element of that. Streamlining processes is one thing; eliminating the communication part of it is another, so there’s more to it than dollars and cents. You have to make sure that any solutions that you put in place align with what you’re trying to accomplish,” said Percy.

When a vendor approaches Dowgiewicz, trying to sell a new tool, he essentially asks them to make a case for ROI. If there is no measurable ROI, the vendor most likely won’t pursue the sale very hard. “We’ve become more effective at using vendors who are soliciting us to basically build the ROI argument with us.”

Clearing Up Mutual Misconceptions

When asked what the biggest misconceptions external parties have about leading a mutual insurance company, Percy said it is that they are pokey, old and slow moving. “Don’t confuse consistency with those three things,” he said. “We’re smaller companies than national carriers, and we need to be conscious of everything around us — our agents, our policies, our systems. Just because we may not act the way a national carrier does, doesn’t mean that we’re out of touch.”

“I don’t think people understand mutual companies,” said Keysar. Consumers often lump mutuals in with stock companies. “It’s a different environment. Stock companies issue stockholder quarterly reports and can generate revenue in a different way than mutual companies can. We live in the stock company world and compete against them, but we’re very different types of companies.”

Percy added that all of the executive panelists know most of the people who work for their companies, which is something large national carriers cannot say. “There’s a big difference between an executive at a mutual company versus a large stock company. It should matter to you that your leadership team and your executives know who you are and the towns and territory you are in. That’s a relationship.” ■