

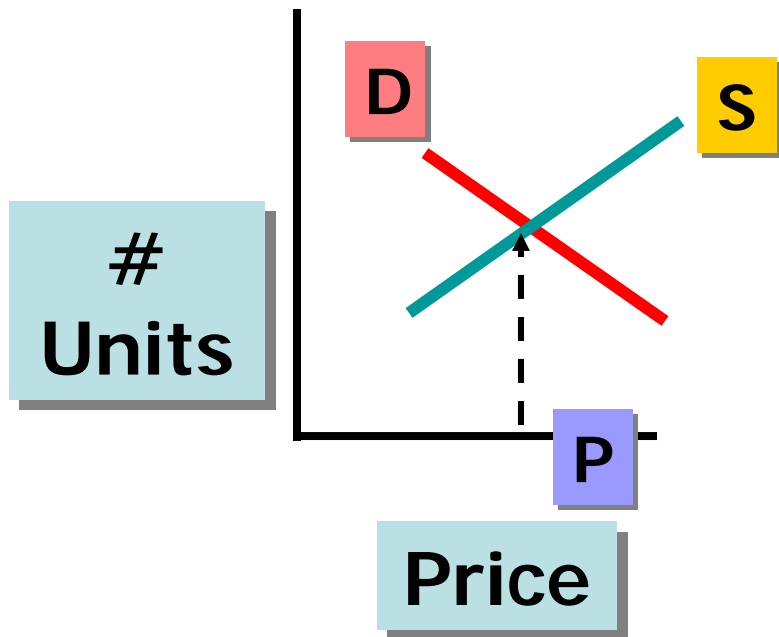


# **Underwriting Tools for Thriving in Tough Times**

**PCIAA Austin 2009**

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# Economics of Marketing

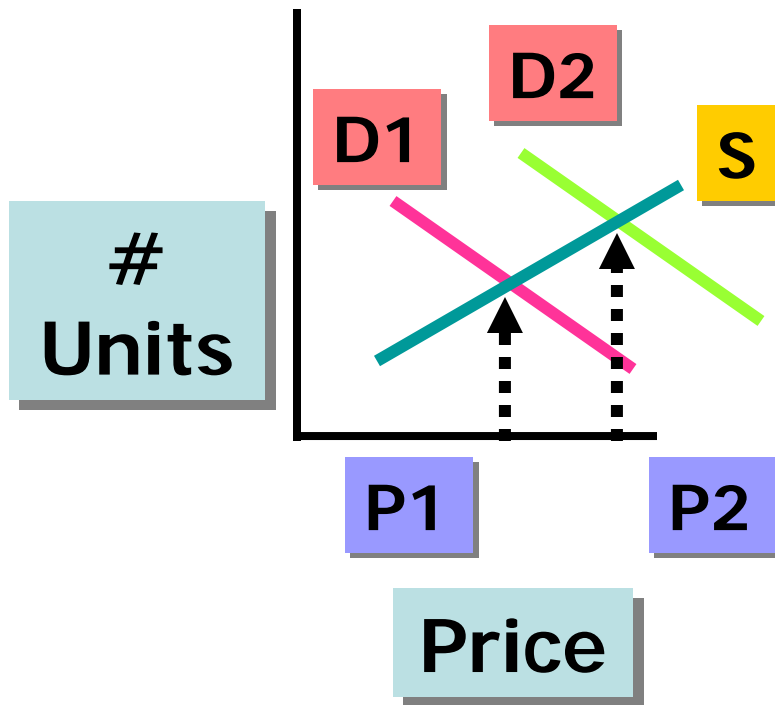


- Demand curve: willingness to buy at various price points
- Supply curve: willingness to produce at various prices

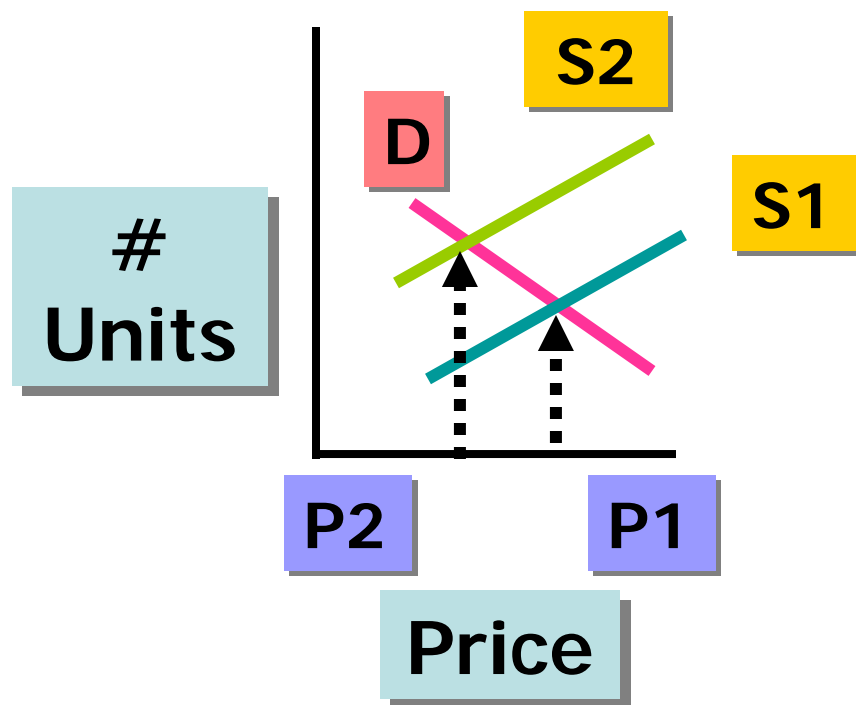
# Economics of Marketing

## CHANGES IN DEMAND

- What can cause this?
- What market cycle is this?
- What is the impact on Price?

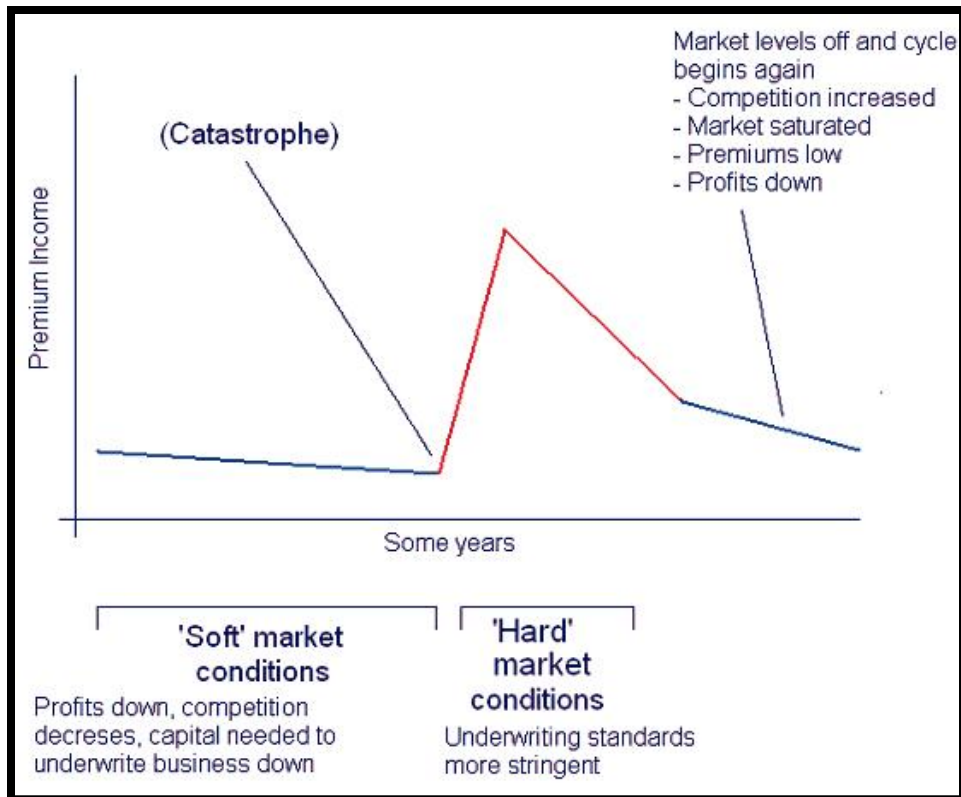


# Economics of Marketing



## CHANGES IN SUPPLY

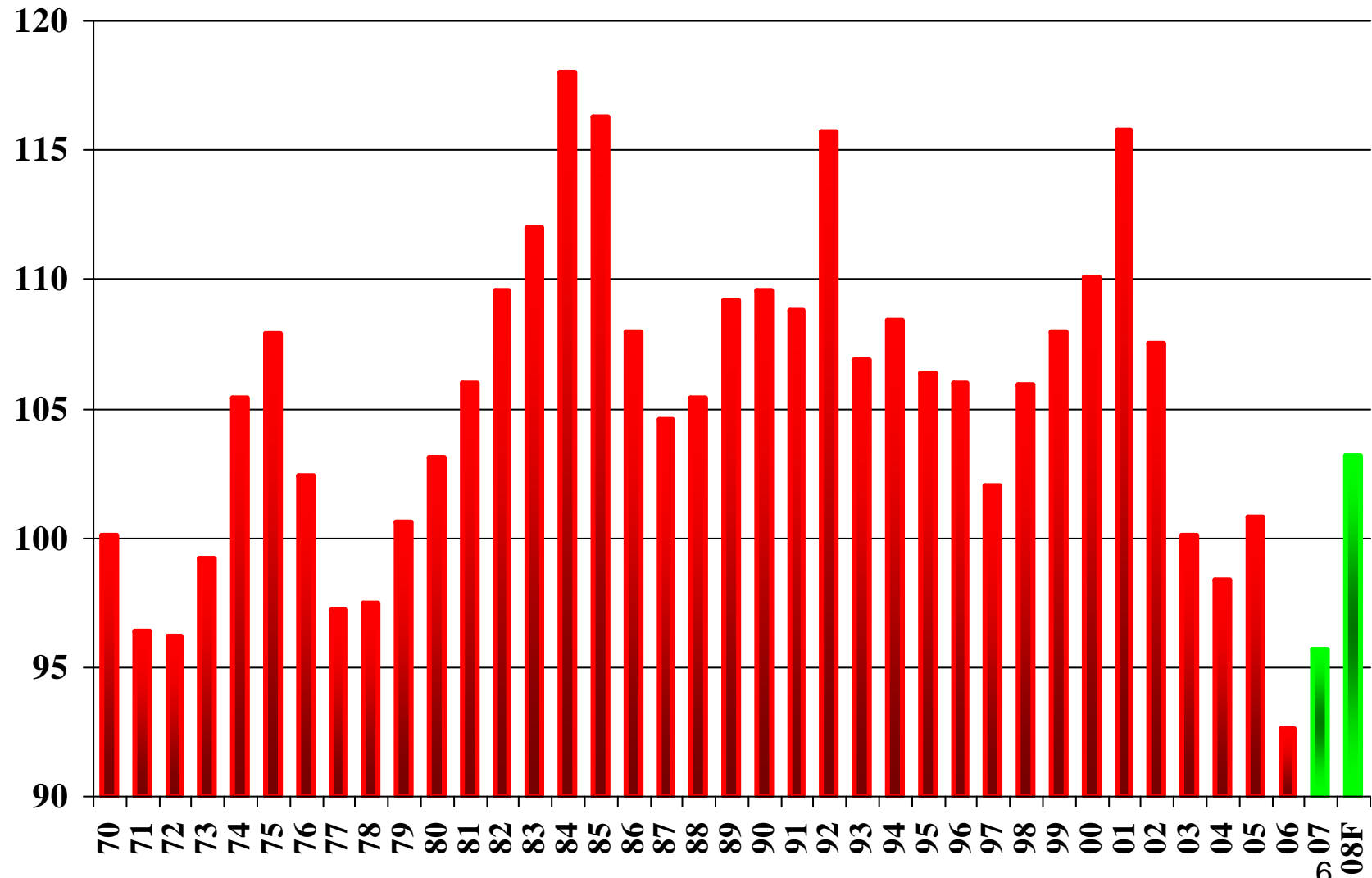
- What can cause this?
- What market cycle is this?
- What is the impact on Price?



Average Rate Declined 6% in 4Q08				
	Small	Mid	Large	Avg
4Q08	-4.2%	-7.1%	-8.0%	-6.4%
3Q08	-7.8%	-12.1%	-13.2%	-11.0%
2Q08	-9.7%	-14.1%	-14.8%	-12.9%
1Q08	-10.0%	-14.7%	-15.7%	-13.5%
4Q07	-8.4%	-13.8%	-13.8%	-12.0%
High (4Q01)	20.8%	31.7%	33.0%	28.5%
Low (3Q07)	-10.0%	-15.0%	-15.9%	-13.6%

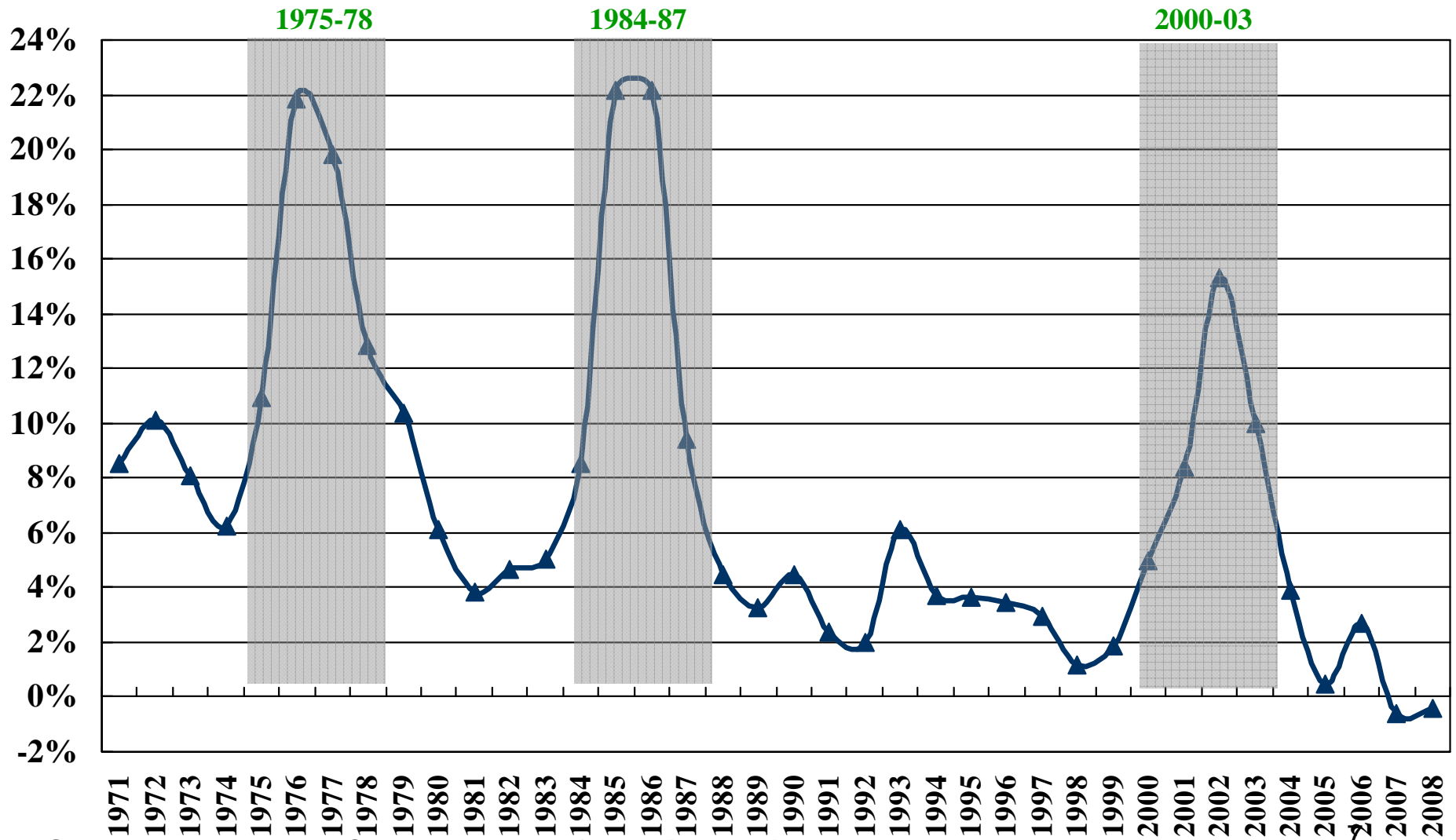
Source: Council of Insurance Agents & Brokers. Chart prepared by Barclays Capital Equity Research.

# P/C Combined Ratio, 1970-2008F\*



Sources: A.M. Best; ISO, III \*A.M. Best year end estimate of 103.2; Actual 9-mos. result was 105.6.

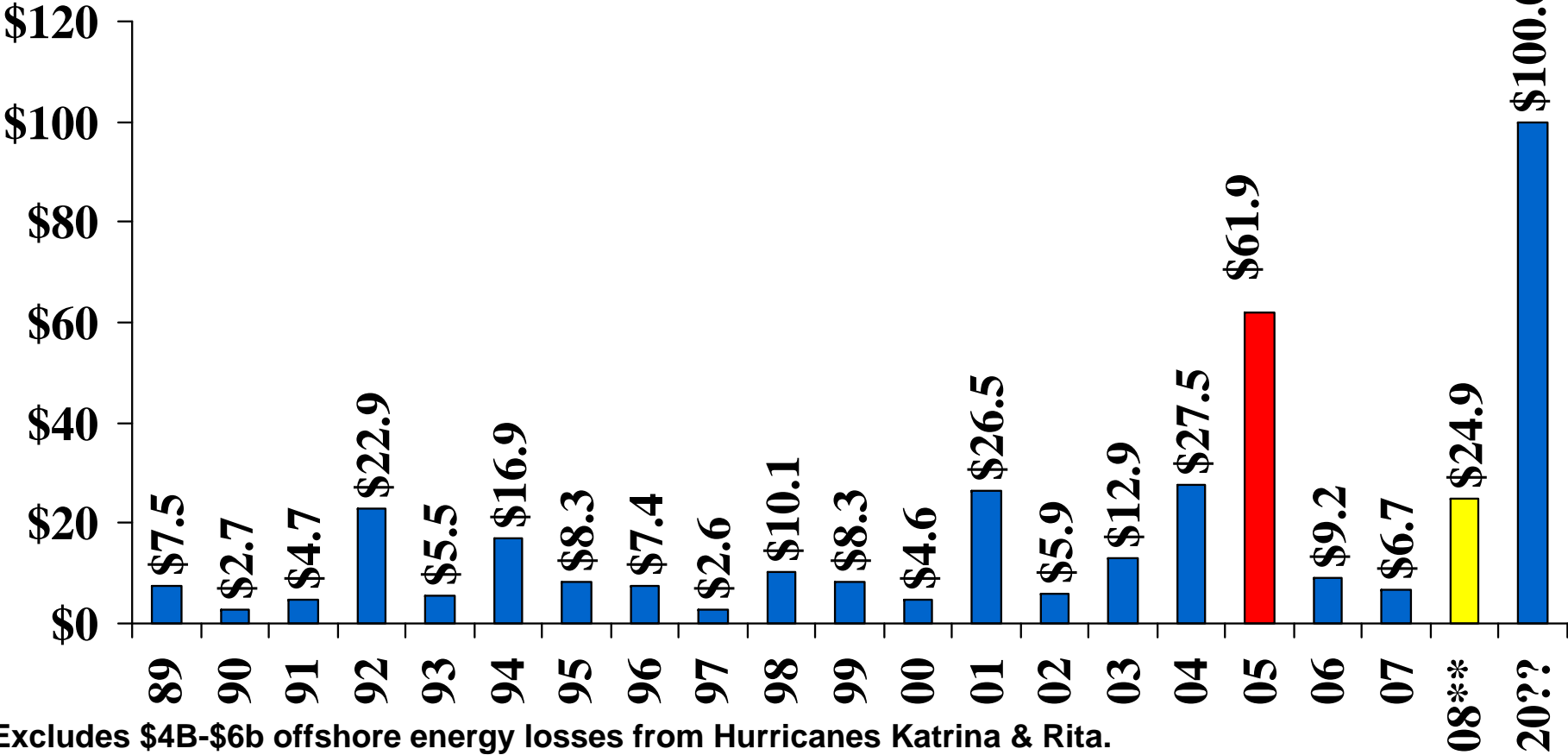
# Recent Hard Markets: by NWP Growth



Sources: A.M. Best, ISO, Insurance Information Institute

# U.S. Insured Catastrophe Losses\*

**\$ Billions**



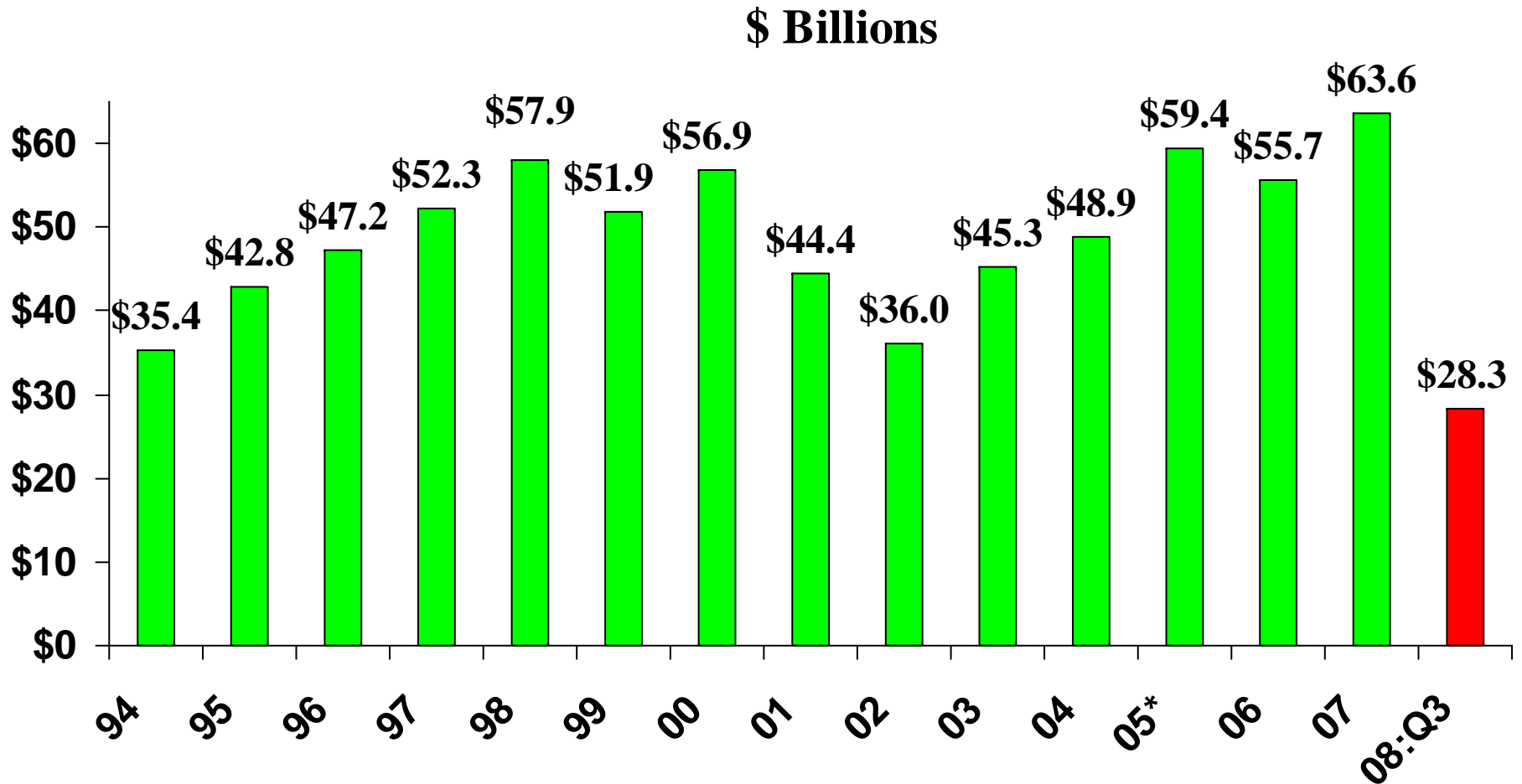
\*Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita.

\*\*Based on PCS data through Sept. 30. PCS \$2.1B loss of for Gustav. \$10.655B for Ike of 12/05/08.

**Note:** 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B. 8

Source: Property Claims Service/ISO; Insurance Information Institute

# Investment Gain: 1994- 2008:Q3 <sup>1</sup>



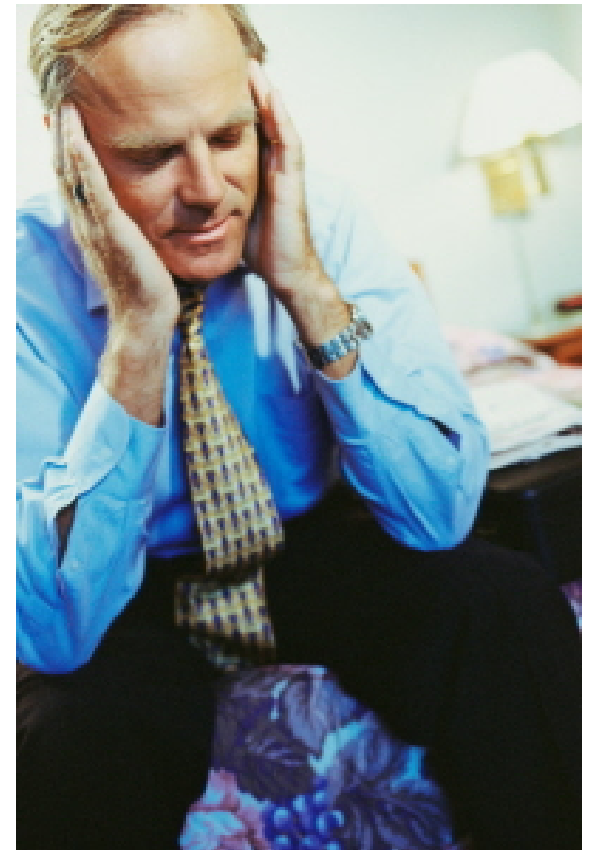
<sup>1</sup>Investment gains consist primarily of interest, stock dividends and realized capital gains and losses. 2006 figure consists of \$52.3B net investment income and \$3.4B realized investment gain.

\*2005 figure includes special one-time dividend of \$3.2B.

Sources: ISO; Insurance Information Institute.

# 2008 Industry Key Indicators

- Deteriorating Combined Ratio
- Inadequate Pricing
- Catastrophe Claims High
- Investment Income Off
- Decreased insured values



# New Business Issues

**Retention 85%**

**Retention 95%**

**Growth Goal 15%**

**Growth Goal 15%**

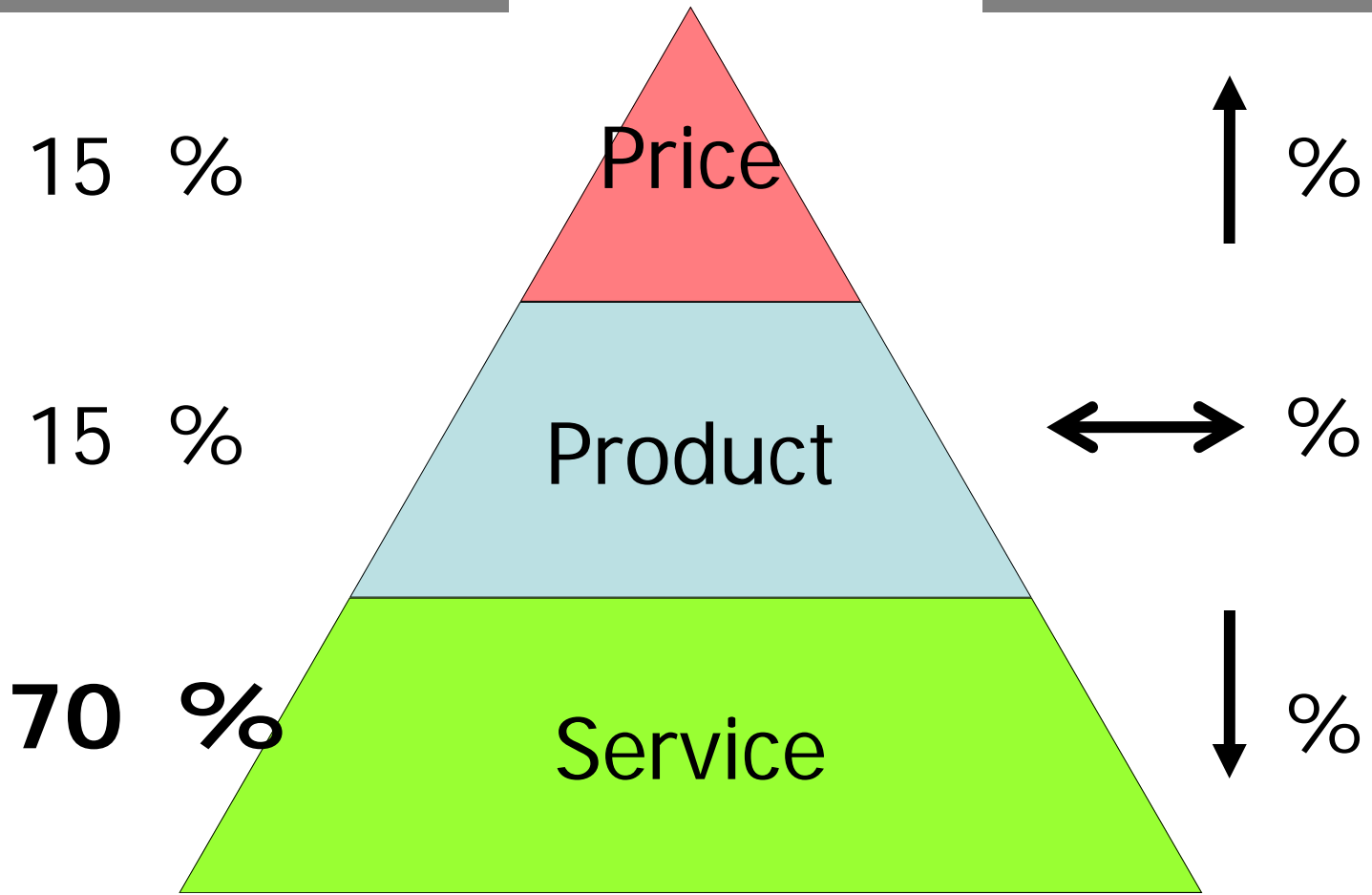
**Actual Sales ? %**

**Actual Sales ? %**

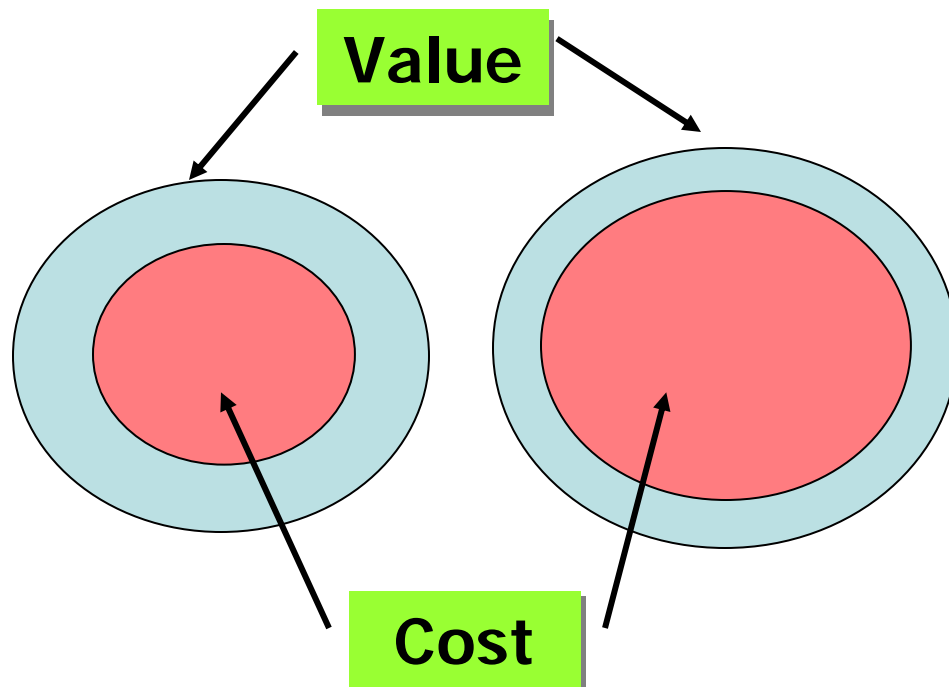
# What Motivates Buyers ?

**HARD MARKET**

**SOFT MARKET**



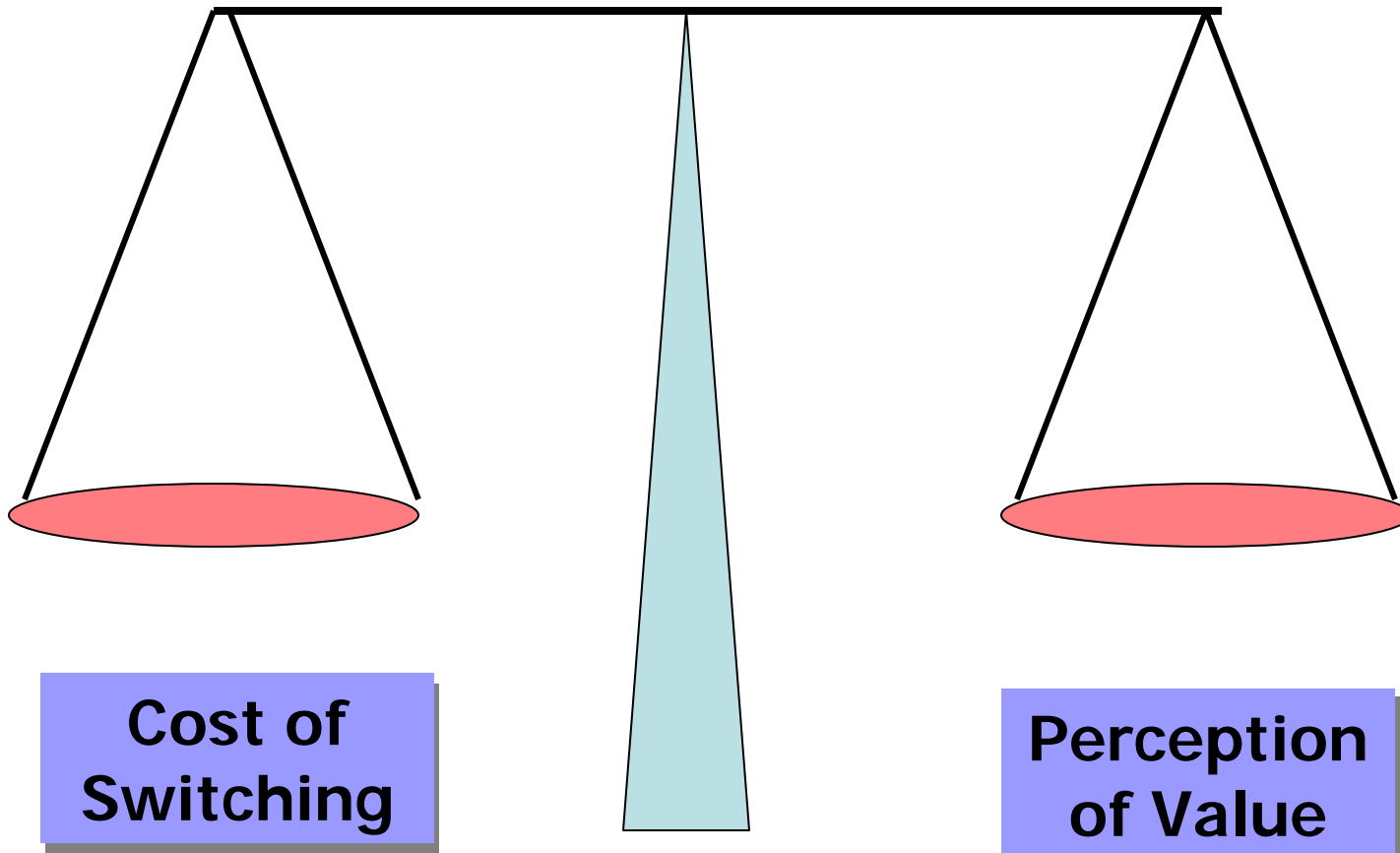
# Planning Strategies



- Broaden Competitive Advantages

- All other things (e.g. product) being equal, Enhance the Perception of Value vs the cost difference
- To the extent that is important to the customer it tips the balance

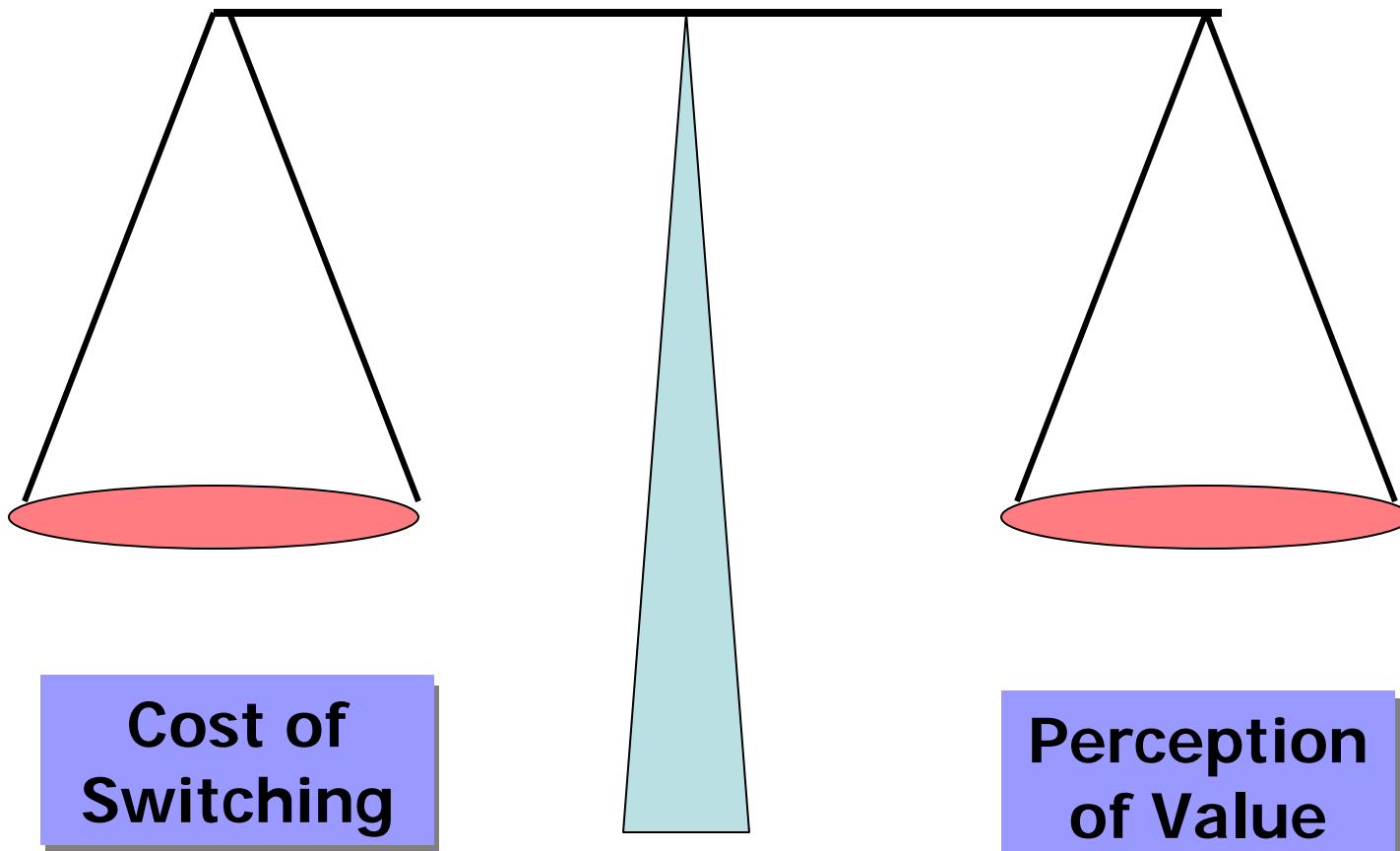
# Planning: Incumbent Strategies



**Cost of  
Switching**

**Perception  
of Value**

# Planning: Attack Strategies

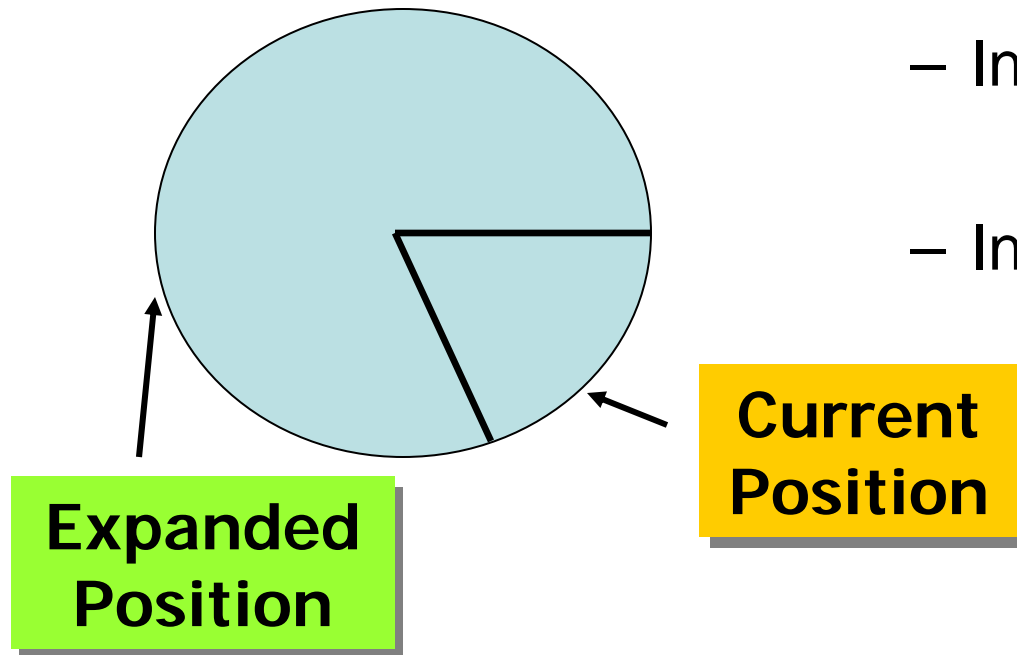


# Planning Strategies

- Leveraging Resources

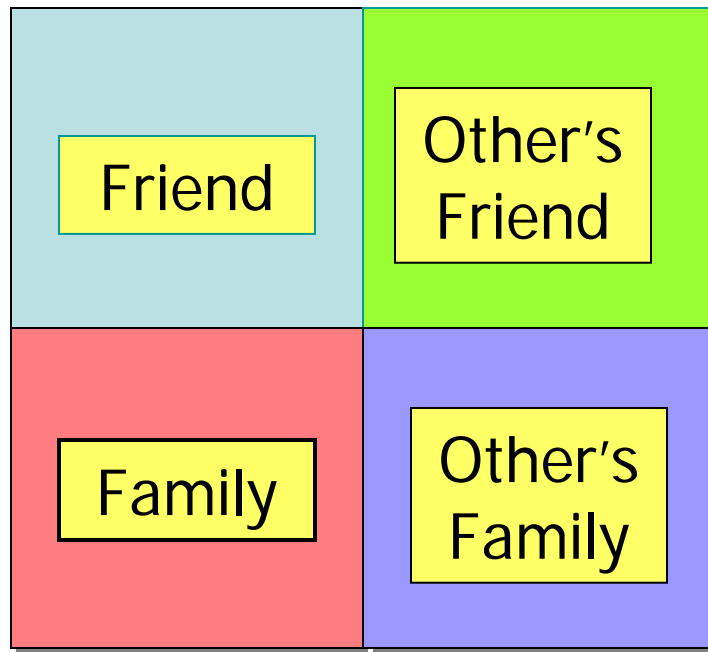
- Increase “Customer” Share

- Increase Market Scope



# Planning Sources of Revenue

Buying Patterns



**Relationships**

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# Why Would an Agency Want to Do Business with You?



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# Understanding the Agency

- Key Players and their Roles
- What Motivates them
- Their Growth Mode
- Relationships they have
- Their Book of Business



# Strategies to Help Agencies

- Controlling data
  - How their book is performing absolutely
  - Relative to others
  - What data to look at
- Controlling process
- Anticipating cycles

# Strategies to Help Agencies

- Controlling data
- Controlling process
  - How renewals are handled
  - How new business is submitted
  - How you communicate
  - How you service business
- Anticipating cycles

# Strategies to Help Agencies

- Controlling data
- Controlling process
- Anticipating cycles
  - Marketing strategies
  - Defensive positions
  - Communicating with clients

# Why Would a **Customer** Want to Do Business with You?



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# Understanding the Buyer

- Key Players and their Roles
- What Motivates them
- Their Growth Mode
- Relationships they have
- Experiences they have had
- Their Business

# Strategies to Help Buyers

- Understand Cycles
- Value of Program to their Business
- Improve Risk Characteristics



# Emphasize Your Value

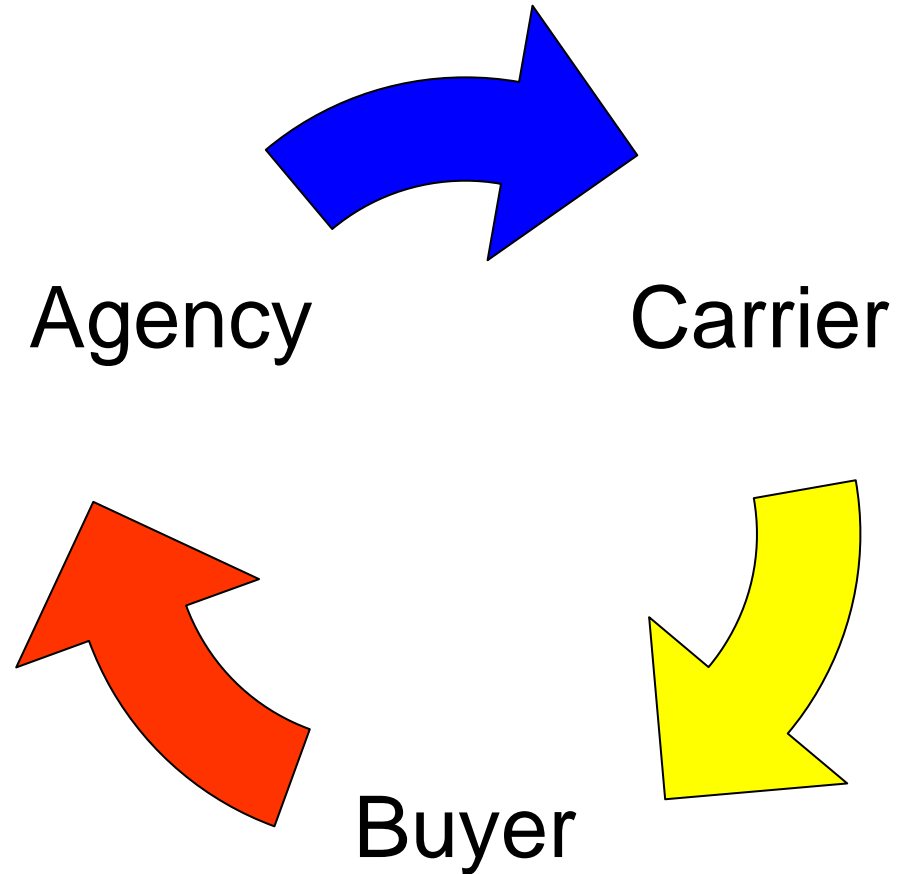
- Knowledge
- Resources
- Attention



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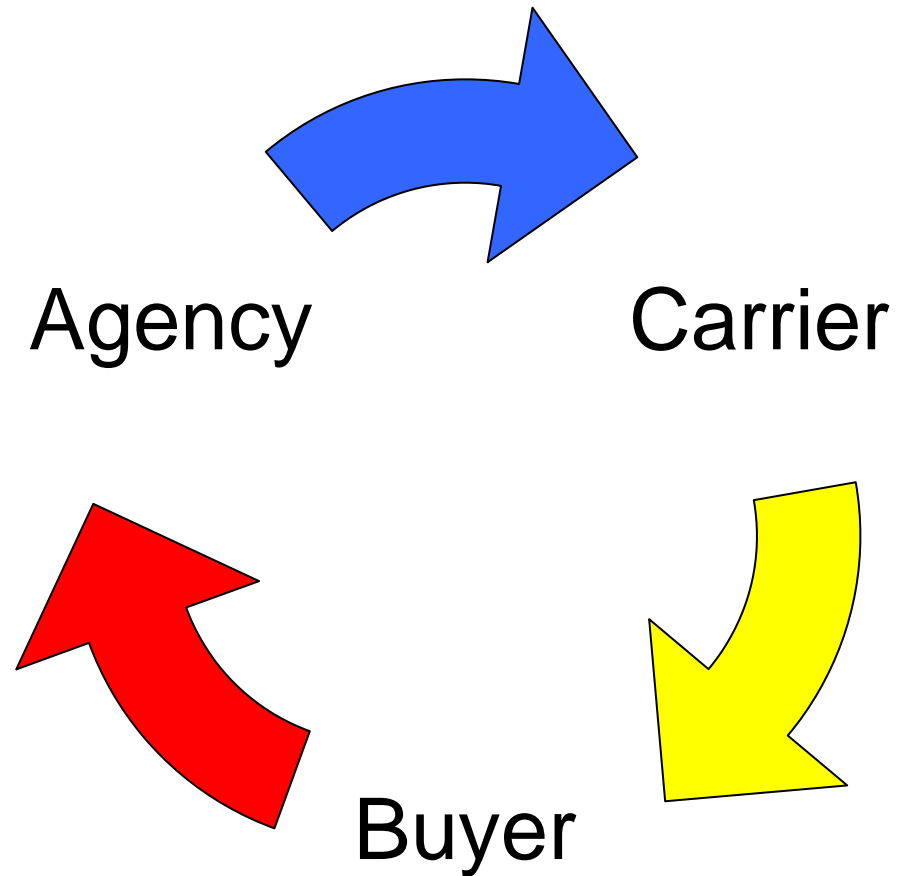
# Emphasize Your Value

- Knowledge
  - Insurance
  - Their business
- Resources
- Attention



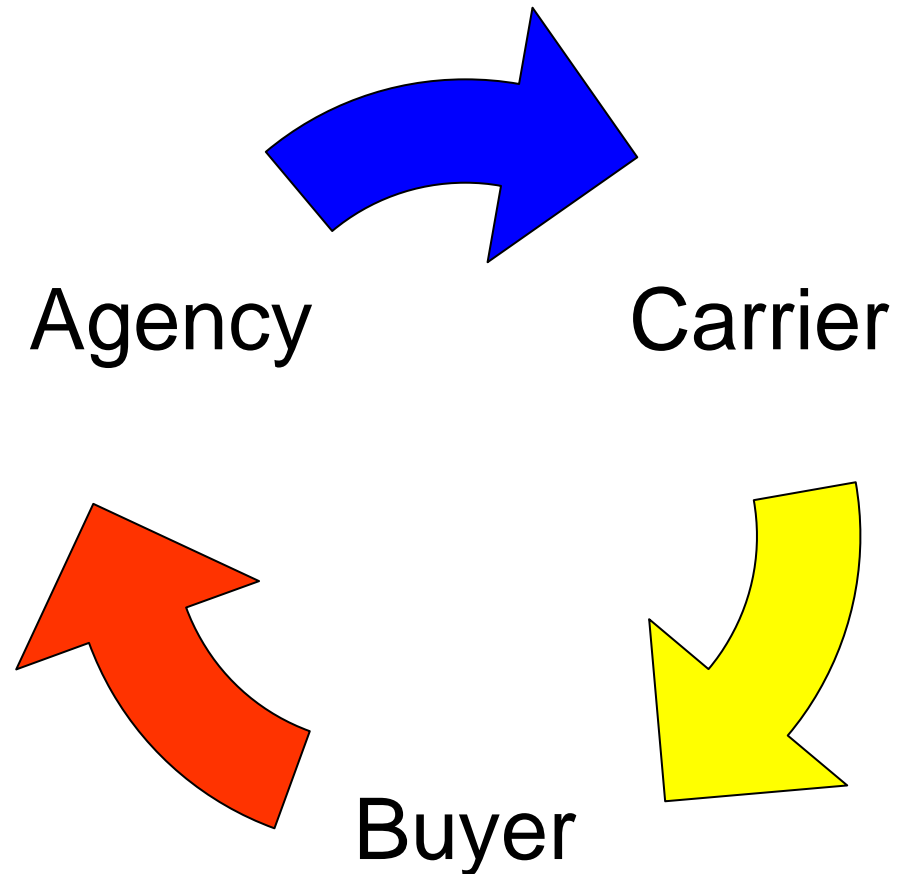
# Emphasize Your Value

- Knowledge
- Resources
  - Information
  - Loss control
- Attention



# Emphasize Your Value

- Knowledge
- Resources
- Attention
  - **Their program**
  - **Their service**



# Complimentary Information

- Newsletters
- White Papers
- Staff Development

**Your  
Business  
Card**