

White Paper

Increasing Profit and Reducing Risk in Florida Homeowners Insurance

Opportunities and risks abound in the Florida homeowners insurance market. But many companies fail to take full advantage of the opportunities. Instead they take on more risk than they have to because they lack a systematic approach to evaluating the marketplace. By embracing a market intelligence system, they can increase their profitability and make their results more predictable.

The Challenge of Understanding the Market

Market intelligence is a key to achieving a company's objectives

The Florida homeowners insurance market is one of the most dynamic insurance markets in the country. Companies are continually entering and leaving the marketplace, making it difficult for a company to plan for the future, or even to know what their competitive position is today. But it is critical that companies understand their competitive position in order to achieve their objectives.

Capital Utilization

Market surprises can lower ROE

Return on Equity (ROE) is a primary consideration for investors. ROE depends on profit margins and capital utilization. Higher capital utilization means that investors make more money on their investment. But the competitive environment can limit the number of policies that an insurer can write. That drives down premiums, which reduces capital utilization, ultimately lowering ROE and disappointing investors. Or, if the product is priced too aggressively, the company may have missed an opportunity for increased profits.

Reinsurance Costs

Inaccurate projections increase reinsurance costs

All but the largest Florida homeowners companies rely on reinsurance to reduce their exposure to catastrophic events. In fact, reinsurance is the single biggest expense for most companies. Companies spend a lot of time determining their reinsurance needs and building the cost of reinsurance into their plans. Before most companies write a single policy, they enter into reinsurance contracts that are priced based on modeled catastrophe exposure. But the models are only as good as the data that a company can provide. In order to get a true estimate of reinsurance costs, a company needs to be able to project not only how much business they will write, but also the mix of business, including location, age, construction, value, and other attributes. Failure to accurately predict these exposures results in inaccurate reinsurance estimates, which can greatly impact profitability.

Getting the Right Mix of Business

Failure to understand the market reduces profitability

Every company entering the market has a business plan that includes the mix of business that the company thinks it can write profitably, but when it comes time to design a product that will get that mix, most are handicapped because they don't have enough information about the market. It is often difficult for a company to even know the mix of business in the marketplace. Then they are faced with the challenge of analyzing the competition to see what they have to do to get the mix they want. Most companies fail in at least one of these steps, causing them to either compromise their standards or write less than they had planned. Either way, the result is lower profitability.

Monitoring and Responding to Changes

Changes in the market can ruin a company's plans

In a market as fluid as the one for Florida homeowners insurance, it's not enough to just put together the right business plan and then execute it. The changing competitive and political environment means that a company has to continually be on the lookout for emerging threats and opportunities, and react to them quickly. Changes in the market can have huge impacts on a company's performance. Unfortunately, most companies don't even recognize changes in the market until they show up in the company's financial results. This results in missed profits as the company chases a market that has already passed it by.

The Solution: A Market Intelligence System

A market intelligence system increases profit and reduces risk

A well designed and implemented market intelligence system can overcome the challenges of understanding the market, and position a company to quickly increase profitability while lowering the risks associated with market uncertainty. A market intelligence system is a formalized process for collecting data about the marketplace, turning that data into actionable information, and using that information to support the company's strategies. For new companies, a market intelligence system can allow them to quickly climb the learning curve, giving them an immediate advantage over their less aware competitors. An effective market intelligence system can provide the information needed to:

- Develop and test strategies
- Design a product that achieves the company's profit and volume goals
- Accurately forecast premium and costs
- Monitor and adapt to changes in the marketplace

A systematic approach to understanding the market results in a management team that is better informed about what is going on outside of the company and has more time available to run the company.

Strategy Development

A market intelligence system should be used from the very beginning of strategy development

Having the right strategy is essential to any company's success. A market intelligence system helps to guide strategy development by identifying opportunities and potential pitfalls. It can also be used to stress test strategies to see how well they will work under different marketplace conditions. That's why it is important to employ a market intelligence system at the very beginning of the strategy development process. Including market intelligence in a company's due diligence gives company managers and investors confidence in the company's strategy.

Product Design

Profits are increased by getting it right the first time

A systematic approach to evaluating the market is critical to the product development process. And in the challenging political and regulatory environment in Florida, getting it right the first time can make the difference between success and failure. Implementation of a market intelligence system ensures that products are designed with a focus on the competitive environment, incorporating all of the information available. Companies that use such a market oriented approach can introduce their product with certainty that the product design supports the company's strategy and will achieve the company's profit goals.

Forecasting Premium and Costs

Costs can be reduced by accurately predicting exposure and staffing needs

Effective planning requires accurate forecasts of revenues, costs, and staffing requirements. A market intelligence system can be used to increase a company's confidence in all of its forecasts. Reinsurance costs are more predictable, because the company knows not only how much business it will write, but also exactly what type of business in which areas it will write. Written premium estimates are more accurate, resulting in consistent staffing. Most importantly for investors, profit targets can be easily attained because they were developed with an understanding of the market and the competitive environment.

Changes in the Market

Profits are increased when a company can respond quickly to changes in the market

Any business plan is only as good as its execution, and an important part of execution is being prepared to respond to changes by your competitors. With a market intelligence system in place, companies can get an early warning of changes that will affect them, determine precisely what the affect will be, develop and test possible responses, and implement the one that best supports the company's strategy and goals. And they can do all of this even before the change in the market has affected their results.

Building an Effective Market Intelligence System

The scope of a market intelligence system depends upon the specific abilities, resources, and objectives of the company. A good market intelligence system includes at least the following elements:

- Intelligence about competitors and their products
- Information about the marketplace as a whole
- Timely tracking of changes in the market
- Procedures for analyzing and acting on the information collected

Competitor Information

Data must be stored in a way that supports analysis

The constantly changing nature of the Florida marketplace makes it a challenge to keep up with the competition. At a minimum, a company should track the five to ten competitors who will most affect how much the company will write. Examples of some of the information that should be collected are:

- Rates
- Underwriting Rules
- Marketing Strategies
- Financial Data
- Policy Forms

It is important to store all of this data in a way that supports further analysis. Generally, relational databases are preferred to spreadsheets, as they allow more flexibility.

The Marketplace

A good profile of the market is needed in order to project premium, exposure, and reinsurance costs

One of the challenges facing a company that is new to the market is determining just what the market looks like. A market intelligence system should include a breakdown of the marketplace by policy form, location, age, insured value, construction, and other rating factors. It is also possible to generate a profile that is representative of the marketplace as a whole.

Tracking Changes

Tracking changes in the marketplace allows companies to react quickly

An effective market intelligence system includes processes for tracking changes in the competitive environment. These processes should include:

- Tracking filed and approved changes
- Periodically updating agent appointment information
- Generating market intelligence from the sales force
- Monitoring financial filings and published information

Companies that employ good tracking practices are able to quickly respond to changes in the marketplace.

Analysis

Effective analysis requires a sample that is representative of the market, and the ability to quickly underwrite and rate that sample for each competitor

While companies vary in their ability to analyze market data, most companies routinely perform at least the following analyses.

- Factor curve comparisons: Comparing various rating factors between companies
- Sample rate comparisons: Comparing rates between companies for a limited number of risks
- Competitor matrices: Comparing underwriting rules, forms, and other competitive considerations

But this is not enough to get the full benefit from a good market intelligence system. To truly understand their position in the marketplace, a company must also perform market basket analysis. A market basket is a sample of risks that is representative of the marketplace as a whole. The market basket is underwritten and rated for each competitor. The market basket approach results in a much better understanding of the market. It not only allows a company to see how competitive they will be, it also generates a complete profile of the business that the company will write. This is information that company management can use for strategy formulation, product design, forecasting, and responding to changes in the market.

The Best Way: Dynamic Market Modeling

Executive Insurance Partners offers the only complete market intelligence solution for the Florida homeowners insurance industry. Dynamic Market Modeling provides market data and market analysis that is far beyond what any individual company can achieve.

Market Data

Executive Insurance Partners uses a database of over 500,000 risks, weighted to be representative of the marketplace

Executive Insurance Partners has a database of over 500,000 actual Florida risks. This sample is weighted with census and other data, using proven statistical techniques, to create a representative model of the Florida marketplace. Each risk is underwritten and rated using the most current rates and underwriting criteria for at least 10 competitors. Those results are then adjusted to allow for other competitive differences between companies. The result is a profile of the marketplace that can show a company exactly what their position is in the market.

Market Analysis

Dynamic Market Modeling includes the most sophisticated analysis available

Having the most advanced market model in the industry is only half of the story. Executive Insurance Partners also provides the most sophisticated analysis available. Dynamic Market Modeling includes projections of win rates, market elasticity, portfolio profile, and profit maximizing pricing. This analysis not only tells a company where they fit into the market, it also suggests opportunities for additional profits and additional premium.

Partnership

Executive Insurance Partners provide continuous support and analysis

Executive Insurance Partners also provides the expertise that companies need in order to use the information provided by Dynamic Market Modeling. Changes in the market are automatically tracked, and monthly reports detail exactly the impact that those changes will have on the company's business. Specific opportunities and threats are identified, and responses are recommended.

The Results

All companies can increase their profitability and reduce their risk with Dynamic Market Modeling

Dynamic Market Modeling can increase a company's profitability, while reducing risk associated with market uncertainty. The chart below shows the advantages of Dynamic Market Modeling.

	Without Dynamic Market Modeling	With Dynamic Market Modeling
Market basket analysis	✗	✓
Size of market sample	<1,000	>500,000
Demographic adjustments	✗	✓
Uses all information available	✗	✓
Competitors tracked	5	> 10
Precise results	✗	✓
Accurate win rates	✗	✓
Sensitivity analysis	✗	✓
Calculates price elasticity	✗	✓
Accurate portfolio profile	✗	✓
Automatically updated	✗	✓

Dynamic Market Modeling from Executive Insurance Partners provides the market intelligence that companies need in order to increase their profitability and lower their risk.

To learn more about Dynamic Market Modeling from Executive Insurance Partners, visit www.ei-partners.com.