

# NMG Consulting's US Commercial Lines Study says servicing capability is key if insurers want to capture higher margins

*In NMG's 2021 US Commercial Lines Study, we take a look at which insurers are best placed to benefit from the attractive margins in US Commercial Lines.*



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recently completed its 2021 Study of the US Commercial Lines market, which canvasses more than 1,500 independent producers responsible for more than US\$1bn in gross written premium. It analyzes the competitive performance of insurance carriers.

The repricing of the US commercial lines segment, particularly Liability lines, has global significance with 13 back-to-back quarters of rate increases since Q4 2017 (Marsh Global Insurance Market Index). Most market players expect prices will continue to rise into 2022 - combined with further tightening in coverage definitions and terms.

### Rise faster than the tide

What does this mean for insurance carriers? "That margin expansion is a big opportunity," says Mark Prichard, CEO of NMG Consulting. "With Covid-19 forcing insurers to adopt new servicing models, the rewards for the right decisions have rarely been so appealing – and the opportunity costs of the wrong decisions so stark."

According to Karen Lau, a consultant with NMG in Toronto, the fruits of this margin expansion are likely to fall to those who outperform their peers on 'servicing capability'. "Our analysis of Covid-19 performance highlighted that many insurers had done a good job with their support strategies – particularly premium leniency. But leniency was too widespread to be a competitive differentiator. What really matters is the ability to service – and engage – via virtual and digital channels."

According to NMG's research, independent producers are voting with their feet when choosing lead carriers – preferencing those offering higher servicing quality.

Service capability – capturing margins and protecting profitability.

NMG's 2021 Study shows service capability is now increasingly separating the major players. "There are now five insurers who have a significant – and long-standing – 'service advantage'," says NMG's Karen Lau. "By contrast, there are eight insurers we've identified who operate with a sustained gap to the servicing capability average. That puts pressure on underwriting quality and may steer these companies towards price-led strategies – with implication for margins and long-term profitability."

### Opportunities and implications

The recent hardening of prices is good news for the industry but doesn't protect market players from the need to make big decisions. From a strategic point of view, Mark Prichard believes widening competitive gaps in this environment 'raise the stakes' and, crucially, increase the investment required to remain competitive.

"Carriers with an existing competitive advantage need to balance investments in future capability with the need to capture margin now. They need to win without getting complacent – because this market moves swiftly."

Industry participants who are one capability lift away from the top table need to invest accordingly. For the laggards, the choices are harder. "They need a step-change in performance across multiple capability areas," says Karan Sabharwal (Partner, Toronto). "And they need to start that change now."

To access the full article, please visit: <https://www.nmg-consulting.com/perspectives/increased-opportunity-meets-rising-opportunity-cost/>

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