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counterpoint

Issue 02|20

FEATURING

Moderation
After Constant Momentum

Firms are going strong into 2020 with the top 25% high-performing brokers focused on carving out their competitive advantages.

Page 4

HOW DO YOU STACK UP?

How can you use benchmarking to understand where you stack up against peers to unlock your decision-making abilities?

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INSIDE THIS EDITION

How do you **stack up?**

Benchmarking is a powerful tool that can transform the way you operate your business. Consider everyday questions you ask yourself such as *"Am I spending too much for advertising?"* to *"Is it time to let this producer go?"* Utilizing benchmarking mechanisms and understanding where you stack up against your peers can unlock your ability to make informed and insightful decisions.

At MarshBerry, we cannot emphasize enough the mantra of: **Knowledge is Power.**

Without the information that comes from truly understanding your strengths and weaknesses as a firm, it is next to impossible to make meaningful improvement. Benchmarking at its core gives firm owners the insight required to make decisions that will improve the efficiency of their organizations and drive profitable and sustainable growth.

We have spent 35 years helping firm leaders appreciate the areas where they shine and identify those areas where they are falling behind the curve. Through a subscription to our Perspective for High Performance ("PHP") database, involvement in our Connect Peer Exchange Network or participation in our annual surveys, we work with hundreds of firm owners each year to better understand and maximize the value of their business.

The power of benchmarking is in the numbers: For those top 25% companies in our PHP database, Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") margins have grown at a compound annual growth rate ("CAGR") of 42.1%[1] throughout their tenure as PHP subscribers. This is real, profitable growth that firms are realizing due to their willingness to identify their weak spots and take corrective action.

As you dive into this issue of *CounterPoint,* consider your firm's goals for the year. Are they realistic and achievable? Will they allow you to realize profitable growth? Upon achieving these goals, how will your firm stack up?

Chairman & Chief Executive Officer, MarshBerry

[1] *Compound annual growth rates are calculated as of 6/30/19 based on available historical data. Includes growth from all sources. The average tenure is 7.5 years. The Best 25% represents the performance of the top quartile of firms when stack ranked independently for each metric.*

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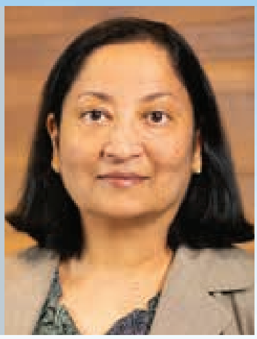
About counterpoint

CounterPoint is the proprietary publication of MarshBerry. The magazine offers 11 editions annually and is published for independent insurance agents and brokers, national brokers, private equity firms, banks, credit unions, insurance carriers and specialty distributors.



2019 Year in Review and **2020 Outlook**

By **Hamsi Shankar,** *Director of Research*
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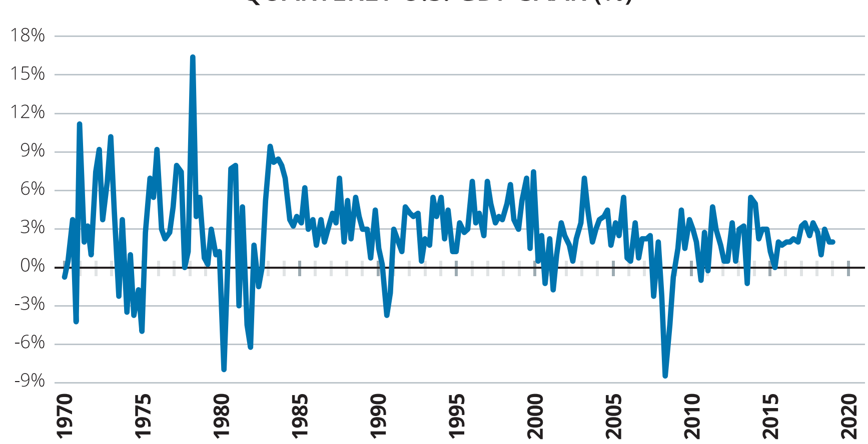
The year 2019 saw a Gross Domestic Product ("GDP") growth rate of 2.3%, a not insubstantial feat for an economy that was supposed to face insurmountable odds from trade uncertainty, aging recovery and rocky geopolitics.

2020 is likely to see some moderation in growth as both productivity growth and employment growth have hit a plateau — a phenomenon many have chosen to call a "soft landing."

If we go back to 1970, the average quarterly growth rate is closer to 3%; post 1990, this average rate falls to 2% pointing to the maturation of the U.S. economy. Emerging economies like China and India had until recently growth rates close to 8-10%. These economies are moderating as well with projected growth rates falling into the mid-single digits.

There are indications that consumers and producers have toned down their expectations for 2020 as well, but they are not overly anxious. The Institute of Supply Management's Purchasing Managers' Index, a key leading indicator of economic activity, came in at levels not supportive of expansion. However, The Conference Board's Consumer Confidence Index posted a reading of 131.6 in January, the highest level since August, when the announcement about consumer tariffs was made.



Source: U.S. Bureau of Economic Analysis, CEIC

Housing is another important barometer of economic activity, and here the lower interest rates are finally making their impact.

For all of 2019 an estimated 681,000 new homes were sold, 10.3% growth over 2018. Homebuilders gained as they focused on more affordable homes. This suggests that softening in some parts of the economy (like manufacturing) is being compensated for by other sectors to keep the moderate pace of growth going.

There are no indications that this kind of compensatory back and forth will not endure into 2020, especially since the December "truce" between China and the U.S. has tempered some of the disequilibrating effects of the trade war. This, however, has been supplanted by some heightened risks from geopolitics, not to mention the slowdown in global growth likely to result from the coronavirus outbreak in China. The looming question at this time is how long the outbreak will last and what impacts it will have on global production and supply chains.

FEBRUARY FEATURE

Moderation
After Constant Momentum

By **Megan Bosma,** *Senior Vice President*
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Cautious optimism and a hardening market are themes insurance firms expressed while ringing in 2020 with an economy that is resilient yet not as fast-moving as first quarter 2019. Now, there's moderation after last year's strong start — and vigilance following a year of bold confidence. Firms are going strong into 2020 with the top 25% high-performing brokers focused on organic growth, operational efficiency, staffing and technology to strategically carve out a competitive advantage in the market.

This year, MarshBerry's 34th Annual Market & Financial Outlook Study ("Study") offers Micro-Reports with in-depth analysis of organic growth, including marketing, client acquisition and producer management; operations and technology; and perpetuation, mergers and acquisitions. The Study consolidates retail and specialty/wholesale markets that were previously covered in separate reports.

The Study includes data from 360 insurance agents and brokers, along with subscribers to MarshBerry's proprietary financial benchmarking database, Perspectives for High Performance ("PHP").[1] Results are aggregated and analyzed from an even distribution of firms in terms of size, revenue and location.

Here are some key takeaways, which support the idea that firms must do more than just grow. Top performers continually improve profitability and find ways to create value. They have a vision for the future, and strategic plans and budgets to attain their goals. They're focused on talent acquisition, developing personnel and deploying technology that will help them work smarter and build better relationships with clients.

OPTIMIZING OPERATIONS & ADDING VALUE

What's the plan? The question is open-ended and one that too many firms do not dive into with the level of detail required to move the needle in their operations. More than one-fifth of respondents have no formal method for choosing an Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") goal, which indicates no solid path for growth and perpetuation. Setting specific EBITDA goals can force firms to face big-picture issues that could hinder value creation, such as how to invest in growth and how to build top-line results. Further, failure to set an EBIDTA target margin may indicate a firm is merely a lifestyle business.

Still, brokers are optimistic about increased profitability, with 62% of respondents expecting an uptick compared to 2018, when 58% figured on improved profitability. Healthy skepticism is consistent, with just shy of 20% of firms in 2018 and 2019 expecting less profitability compared to the previous year. About the same number of respondents who planned on flat or no growth last year feel the same about this year-end's fiscal results.

Efficiency drives profitability — and cost-cutting is essential for running a tight operation. Freeing up unnecessary or exorbitant expenses allows brokers to reinvest in technology, personnel and growth, in general.

According to the Study, outsourcing is the top cost-cutting desire among respondents, with 55% indicating they outsource IT network management; 32% outsourcing service functions; 17% subcontracting human resources and recruiting; and less than 10% of firms hiring out CFO/financial functions, virtual assistants and sales management.

However, competitive firms realize that offering value-added services gives them a leg-up in a cutthroat market. Clients appreciate "extras" like in-house risk management and loss prevention, client-facing human resources, regulatory compliance, attorney/legal, payroll/benefits administration, actuary, pharmacy director, wellness coordinators and medical directors. The key is to deliver this added value without driving up costs and risking profitability. Some solutions for firms include producers subsidizing services, clients paying for value-added offerings or the firm absorbing the cost.

The key is to strike a healthy balance of outsourcing to fill service gaps and deliver added value — without sacrificing profitability.

> The key is to hire right versus hire everywhere — and to develop staff by providing them resources so they can excel.

FUELING GROWTH & DEVELOPING TALENT

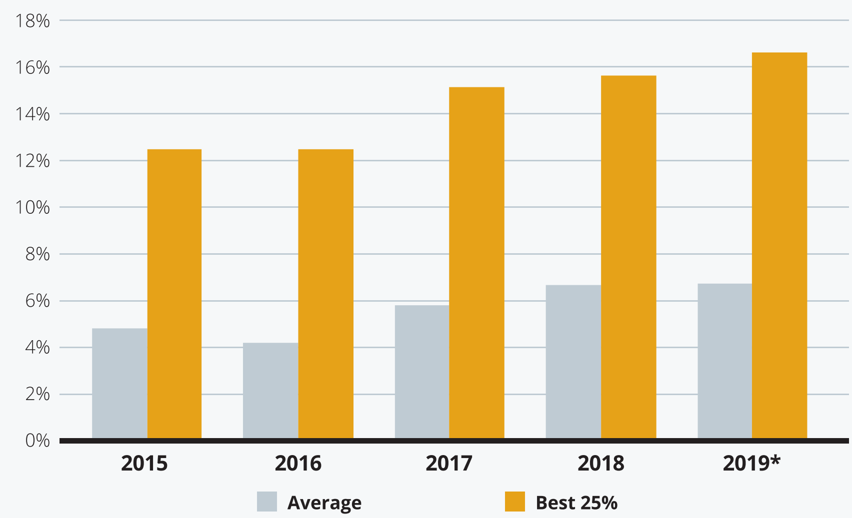
We know the Best 25% of firms grow employees' profitability faster than average firms, and we measure this by Employee Marginal Profitability ("EMP"). It is calculated as revenue per employee minus total payroll per employee. EMP is how firms can assess what each employee contributes toward overhead and profit. Firms can improve EMP and maximize productivity from employees through strategic outsourcing, investing in resources to elevate employees' potential, and identifying operational deficiencies and hiring talent to fill the gaps.

How can hiring more people actually reduce costs? For one, hiring for different roles can improve efficiency. Firms should take a good, hard look at their organizational charts to identify areas where operations are lagging — and a human resource boost is needed. By doing this, firms can maximize the capacity of existing staffers and focus on recruiting talent where needed. According to the Study, 57% said they are ramping up efforts to find more service employees. But, only 9% are focused on hiring executives.

The key is to hire right versus hire everywhere — and to develop staff by providing them resources so they can excel. According to the Study, firms

[1]MarshBerry proprietary financial and productivity management benchmarking system Perspectives for High Performance ("PHP"). The system calculates critical financial and productivity ratios and compares these ratios to the Average Performance and Best 25% of the group. Data from each subscriber is updated every quarter, but in total the database changes almost daily.

**HISTORIC ORGANIC GROWTH
ALL FIRM AVERAGE VS. BEST 25%**



**LTM 9/30/19*
Source: 2020 MarshBerry Market & Financial Outlook Study

are investing in technical skills, such as sending producers to CE events, industry seminars, classes and association meetings. Also, 53% of respondents have formal training processes in place to onboard producers. Nearly two-thirds of high growth firms report having such programs. To attract young talent, 35% of respondents offer internship programs.

The top firms are hiring sales talent with the intention of building new books of business, and they offer an innovative culture that is attractive to young people who might also be seeking jobs in marketing, technology and other industries that are considered more forward-thinking than insurance. Brokers that focus on branding and recognize that they compete with other industries for top talent are developing cultures that attract and retain top talent.

LEVERAGING TECHNOLOGY & PLANNING FOR PERPETUATION

When is the last time you updated your company website? Are you evaluating new software or applications that could improve efficiency or deliver a better customer experience? The top 25% of firms answer yes to these questions.

High growth firms increase their equipment and technology spend as a percentage of net revenue at a faster pace than average firms, according to MarshBerry's PHP. Based on the Annual Market & Financial Outlook Study, 77% of respondents identified themselves as Moderately Technologically Advanced" while 13% said they are "Very Technologically Advanced" and 9% admitted to being "Not Technologically Advanced."

The real question is, what is technologically advanced in the insurance industry? Does it mean updating their Agency Management System ("AMS") and Customer Relationship Management ("CRM") platforms? Or, is advanced having proprietary software and data-analysis applications?

MarshBerry's answer: Demonstrate an advanced understanding of your AMS; assure that your CRM platform is compatible with the AMS; and consider incorporating new technologies that can improve operational efficiency, client service and profitability. It's not enough to simply have an AMS. Top performing firms leverage technology as a competitive advantage. In fact, 17% of respondents feel threatened by technology-based competitors.

As for smaller firms, keeping pace with large players that are heavily invested in technology can feel daunting. Some firms are choosing to sell rather than invest in technology. That said, firms focused on organic growth recognize that CRM and specialized software to track leads can help them leverage opportunities in the sales pipeline. Technology is one component of an overall strategy to perpetuate.

The Study showed the insurance industry is on the right path when it comes to investing in skills, mentorship and measuring producer success. But we have some work to do in the areas of talent attraction and enforcing producer results.

Meanwhile, as we see 2020 unfold, economic growth is expected to continue at a slightly slower rate than last year. However there are several bright spots.

Decreased borrowing costs are expected to positively affect business valuations. And, we'll continue to see low unemployment, strong consumer confidence and investment in homebuilding.

As for the hardening market, the jury's out. Sixty-four percent of respondents did not attribute growth to a hard market, while 36% thought harder market conditions helped business. The majority of respondents believe the economy will continue strong and steady this year. There is plentiful opportunity for firms to focus on operational efficiency, talent management, technology and profitability.

Benchmarking the **Big Picture**

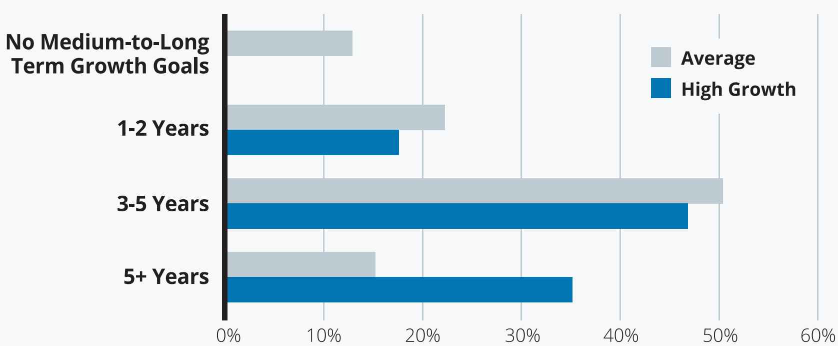
How benchmarking can help identify weaknesses in company leadership strategies

Benchmarking is intended to help company leaders make decisions to improve the efficiency of their organizations — it can help leaders find unnecessary expenses, overstaffing/understaffing and a litany of other resource misallocations that can hurt profits. However, benchmarking can prove equally adept when it comes to identifying weaknesses among the executive team's approach to business, as well.

These "big picture" benchmarks are highlighted in MarshBerry's 34th Annual Market & Financial Outlook Study ("Study").

In the Organic Growth chapter, specifically, we explore respondents' answers to questions that gauge how — or if — executive teams plan for growth. The results of the benchmarking exercise are telling — high growth firms (that is, the firms in the top 25% in organic growth metrics) tend to set longer-range growth goals than the average firm. The Study shows that approximately 36% of high growth firms set growth goals that account for the next five years or longer, compared to only 15% of average growth firms. In all, 82% of high growth firms set growth goals that account for at least the next three years, compared to 65% of average firms. What is more, none of the firms in the high growth category reported having no medium-to-long term growth goals, compared to 13% of average firms.

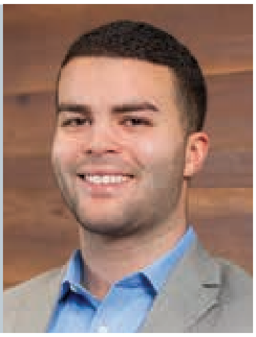
Does your firm have medium-to-long term growth goals (e.g. a "five-year plan")? If so, how far into the future does it take into consideration?



Source: 2020 MarshBerry Market & Financial Outlook Study

These results suggest that leadership teams that achieve high organic growth rates do so by crafting long-term business goals.

In this case, and many others identified in the Study, comparing the behavior of executive teams among high growth and average growth firms can help determine industry best practices. While benchmarking is commonly understood to be a useful tool for assessing the "books" of a company, it can also be just as useful in identifying big picture deficiencies in a firm.



What is Your Employment **Value Proposition?**

By **Luke Bliss,** *Consultant*
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MarshBerry's recent Market & Financial Outlook Study ("Study") results indicated that the two most commonly cited reasons for inhibiting commission growth were "Non-Performing Producers" (29% of respondents) and a "Lack of Producers" (20% of respondents). From MarshBerry's perspective, the Study results are not altogether surprising given how often we hear similar themes from our clients.

Hiring producers is hard, and finding the best talent is exceedingly difficult. Whether your firm is looking to find talent from within the industry or someone coming from outside of the industry, the fact remains the same: The best salespeople are in high demand and competition is fierce. Furthermore, the best salespeople tend to stay put within their organizations as they are most likely highly compensated for their time and results. Many brokers are not able to land their number one choice because they are not proficient in conveying to their candidates the big 'W': Why?

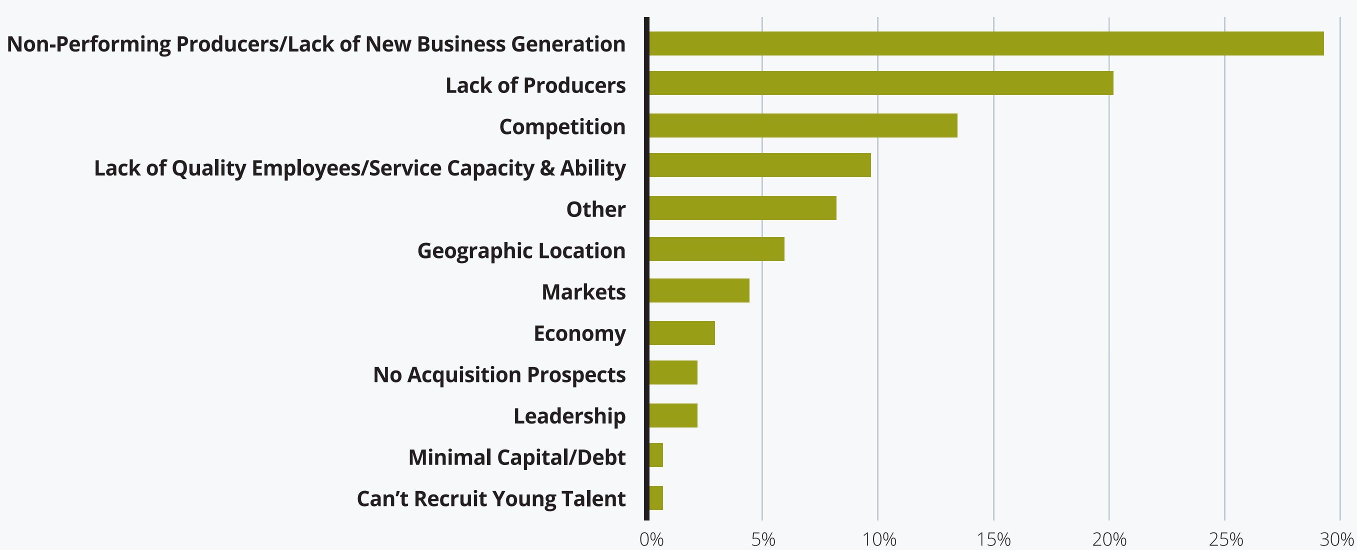
Just as your firm needs to be able to articulate its value proposition to your clients as to why they should do business with your firm, so should your hiring managers be able to communicate to producers why they should work for your firm. You could have the best firm in the country, but so what? What, exactly, is in it for them?

The MarshBerry Talent Acquisition team recommends the following when vetting any candidate — if they applied to a position at your company or not:

- Understand if your candidates are actively looking or just listening. What is their situation?
- What drives them and what their long-term objectives look like.
- Discover what is missing from their current role.
- How does the current opportunity meet their needs and goals both in the short term and long term.

If your firm can stop ***interviewing producers,*** and start building relationships with people, it might just make the difference between a salesperson staying put or coming aboard.

What is the number one challenge facing your firm regarding commission growth?



Source: 2020 MarshBerry Market & Financial Outlook Study

The Power of **Accountability**

By **Jim Wochele,** *Vice President*
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A true sales culture must have accountability.

Accountability starts with setting expectations, communicating those expectations, rewarding the team for achieving and/or exceeding those expectations and having pre-determined consequences if expectations are not met.

Why is accountability so important?

It strengthens your culture:

- Bad producers can get away with cutting corners, and they set the bar low for everyone.
- New producers see the bad producers that don't meet minimums and can start forming bad habits early on.
- Companies that create a culture of accountability recognize and reward hard work — they have more fun.
- Accountability boosts trust between team members.

It helps your company hit growth goals more consistently:

- Producers can't meet expectations if the expectations are nonexistent or unclear.
- Without accountability and producers meeting goals, your growth is left up to the external market conditions (good luck when the market softens...).
- You'll weed out underperformers quicker.

What are ways that some of the best firms are communicating new business expectations for their production team?

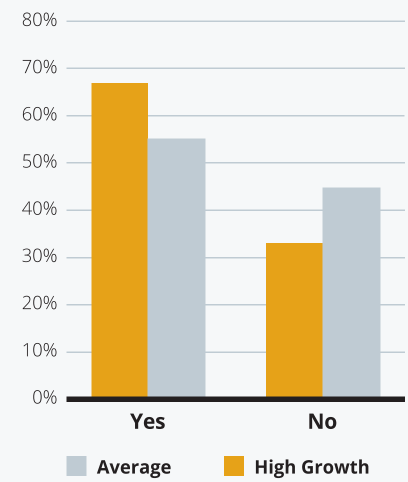
- **Minimum Requirement:** This is the lowest acceptable new business production at your firm for all producers. If not met, the negative consequence is applied.
- **Goal:** What the producer would like to achieve. The producer comes up with their own goal and your sales leader agrees that it is challenging yet attainable.
- **Stretch Goal:** This amount of new business is more than expected for a producer to "do their job." The stretch goal may be the same for all producers (e.g., ideally $150K+).

How do you hold producers accountable?

According to MarshBerry's 34th Annual Market & Financial Outlook Study, high growth firms (67%) address non-producing producers more than average growing firms (56%) by enforcing negative consequences, which vary across the board. Some consequences we've seen firms implement prior to termination:

- Reduce renewal commissions for the following year
- Reduce/ remove service support from their renewal book

Does your company enforce negative consequences for producers that do not meet targets?



Source: 2020 MarshBerry Market & Financial Outlook Study

- Move the producer out of their office into a cubicle
- Implement core office hours – no more flexible work hours
- Reduce the number of prospects tagged to this producer's name
- Change their title to account executive

If you want to have a culture that breeds organic growth, it's actually incredibly easy to maintain: Don't just talk about how important new business is then "look the other way" when a producer doesn't meet their new business minimum.

Benefitting from Benchmarking Tools

By **Brooke Lugonjic,** *Director of Organic Growth*
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MarshBerry's Connect Peer Exchange Network is in its 23rd year of semiannual summits, financial benchmark analysis, best practice sharing and all things related to improving insurance firm business. We're grateful our 146 Members frequently report finding great value in their relationship with MarshBerry and firm-owner peers. In 2019, MarshBerry Connect experienced the highest number of guests and net-new Members in over 13 years, which is a huge compliment as our consultants experienced an increase in prospective Member referrals and other interested parties.

MarshBerry Connect participants receive a multitude of benefits and resources as a part of their annual membership.

For education, clients access our monthly *CounterPoint* magazine, receive our Connections Newsletter and tune into our MarshBerry University webinars. For collaboration in 2020, members will pack their bags to attend our spring summit in Miami as well as a fall summit in Scottsdale. At these meetings, firm owners from across the country gather to learn about the state of the insurance industry, listen to keynote speakers and engage with other firm owners who act as an outside board of directors. They discuss current operational, perpetuation and sales challenges plus so much more. Perhaps the most powerful and differentiating part about our Member summits include the heavy utilization of MarshBerry's proprietary benchmarking tools: the Employee Engagement Survey ("EES") and Perspectives for High Performance ("PHP").

EMPLOYEE ENGAGEMENT SURVEY

The EES provides firms a holistic portrait of how well their organization is functioning internally. It gives employees a forum to voice their opinions honestly and confidentially to spark meaningful change. Results from the survey are benchmarked against MarshBerry's database of other insurance firm responses. We receive about 1,500 responses to the survey annually, which allows consultants to compare each firms' results to industry averages.

According to our database, the consistent items employees report a firm could improve upon include:

- Perceived low compensation competitiveness
- Reactive management problem solving
- Unintentional talent management efforts

Understanding the areas for firm improvement is the first step in selecting focus areas and developing action plans in hopes to see improvement in EES year over year.

PERSPECTIVE FOR HIGH PERFORMANCE

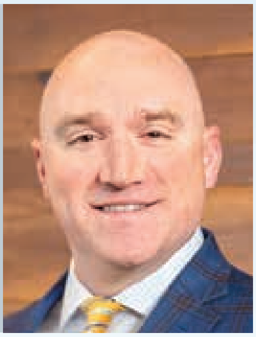
Many clients use PHP metrics like total commissions and fees per employee or total new business dollars per production person to not only understand the firm's current state, but also set realistic goals comparative to firm peers of similar size. Data from the PHP report is the source to MarshBerry knowing the top 25% of MarshBerry Connect Members tout an annual organic growth of 15.5% comparative to the much-lesser 6.5% organic growth from all firms not in the Connect network.[1]

Our MarshBerry consultants have frequent conversations about how our firms stack up to other peers in the insurance industry. Our benchmarking tools come complete with a debrief analysis and tactical conversation about how to deploy change to move the needle on the items that need improvement while encouraging our clients to celebrate what is best in class.

[1] MarshBerry proprietary financial and productivity management benchmarking system Perspectives for High Performance ("PHP"). The system calculates critical financial and productivity ratios and compares these ratios to the Average Performance and Best 25% of the group. Data from each subscriber is updated every quarter, but in total the database changes almost daily.

Not ready to commit to a comprehensive, MarshBerry Connect membership?

Email **Connect@MarshBerry.com** to understand how to access our benchmarking tools á la carte.



Benchmarking Your Commitment to Perpetuation

By **Tommy McDonald,** *Vice President*
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Keep your sights set on what matters most: Executing the urgent and important while planning for the non-urgent (but still important) decisions.

It's 2020. Last year provided another record in terms of total announced transactions. As we set our sights on planning for 2025, we would expect the industry will continue to experience consolidation as the average age of our clients grows. New capital partners and private equity ("PE") have created a meaningful presence within the industry, while predicable and profitable growth for the average firm continues to be a challenge.

	URGENT	NOT URGENT
IMPORTANT	*Urgent and important* **DO**	*Not urgent but important* **PLAN**
NOT AS IMPORTANT	*Urgent but not as important* **DELEGATE**	*Not urgent and not as important* **ELIMINATE**

Source: The Eisenhower Matrix

But, hidden underneath the publicly announced deal counts are a number of meaningful internal (employee) transactions occurring over the past few years. These firms are using the current valuation environment as a call to action, specifically as it relates to the commitment to growth and privately held succession.

Based on industry statistics, broadening ownership is a critical component to growth. We have often argued that a well designed, well communicated, high performing stock incentive program is a viable solution for the attraction and retention of high performing talent. It can be a game changer for an aligned focus on growth and profitability.

I don't know many firms that would argue with the level of importance around succession planning, but far too often, business owners get caught in addressing the urgent issues that arise. Critical, but non-urgent decisions, such as:

	DECISIONS	BENCHMARK
1	Long term hiring targets	Net unvalidated compensation as a percentage of total payroll
2	Plans to fund the exit of senior shareholders	Weighted average ownership age
3	Capital plan to support this strategy	Debt Service Coverage Ratios
4	Managing the average age of the shareholder group	Weighted average owners age
5	Managing the average age of the staff	Weighted average age of staff

As you set your sights toward 2025, dedicate the requisite time and energy to stress testing your succession plan and making the non-urgent, but critical decisions a priority.

A Record Setting 2019

2019 was another record-setting year with 642 announced transactions in the U.S.

A total of 2,678 deals were announced during the past five years (2015-2019) compared to 2,545 announced transactions between the prior 10 years (2005-2014). A total of 132 additional deals, or 5.2%, in half the amount of time.

Focusing in a little closer on 2019, 387 of the 642 (60.4%) announced transactions were completed by private equity ("PE") backed brokers. The percentage of PE-backed transactions is virtually equal with that of 2018 (59.1%). In 2019, independent agencies were responsible for 153 of all announced transactions in the US. This buyer segment has been more active in the market compared to last year, growing from 19.7% of all 2018 deals to 23.9% in 2019.

Acrisure, LLC, Hub International Limited ("HUB") and BroadStreet Partners, Inc. make up the top three most active domestic buyers in 2019, completing a combined 23.1% of the 642 deals announced so far this year. The top 10 most active buyers are responsible for 321 of the 642 total transactions (51.4%). This group includes eight PE-backed brokers and two public brokers — Arthur J. Gallagher & Co. and Brown & Brown, Inc. In total, we saw deals completed by 194 different buyers with 144 firms only completing one transaction.

NOTABLE Q4 ACTIVITY

On November 20, Aon plc (NYSE: AON) announced that it has entered into an agreement to acquire InsurTech startup CoverWallet. CoverWallet was formed in 2016 and has raised more than $40 million in venture capital by building a platform aimed toward streamlining how business owners manage their commercial insurance. This transaction has strong strategic synergies for both firms, as Aon plc intends to include CoverWallet in the portfolio of its New Ventures Group in order to leverage the expertise and capabilities of CoverWallet. Aon anticipates this will accelerate core business growth while improving effectiveness of its digital client experience. The deal is expected to close in Q1 of 2020.

HUB announced its acquisition of SilverStone Group on December 4. SilverStone is the largest insurance broker in Nebraska, and it will be the platform on which a new regional hub will be formed called Hub Great Plains. This acquisition was said to be an example of how bullish Hub is on the growth it has been experiencing.

Buyer	2019 YTD Ann.	2019 YTD Rank	2018 Ann.	2018 Rank
ACRISURE, LLC	68	**1**	65	**1**
HUB INTERNATIONAL LIMITED	45	**2**	28	**6**
BROADSTREET PARTNERS, INC.	35	**3**	37	**2**
ASSUREDPARTNERS, INC.	34	**4**	34	**T 3**
PATRIOT GROWTH INSURANCE SERVICES, LLC	27	**5**	0	**N/A**
ARTHUR J. GALLAGHER & CO.	27	**6**	30	**5**
THE HILB GROUP LLC	25	**7**	11	**11**
ALERA GROUP, INC.	24	**8**	34	**T 3**
RISK STRATEGIES COMPANY, LLC	19	**9**	9	**12**
WORLD INSURANCE ASSOCIATES, LLC	17	**10**	8	**T 13**
BROWN & BROWN, INC.	17	**T-9**	24	**7**

Who's Buying?

153 Broker: Independent
52 Broker: Public
387 Broker: Private Equity Backed
39 Insurance and Other
11 Bank & Thrift

What's Being Bought?

216 Full Service
295 Property & Casualty
131 Benefits

Retail vs. Wholesale

546 Retail
22 Wholesale
74 Managing General Agents

Source: S&P Global Market Intelligence, Insurance Journal and other publicly available sources

How Should We Think About **Specialty Distribution** in 2020?

By **Gerard Vecchio,** *Senior Vice President*
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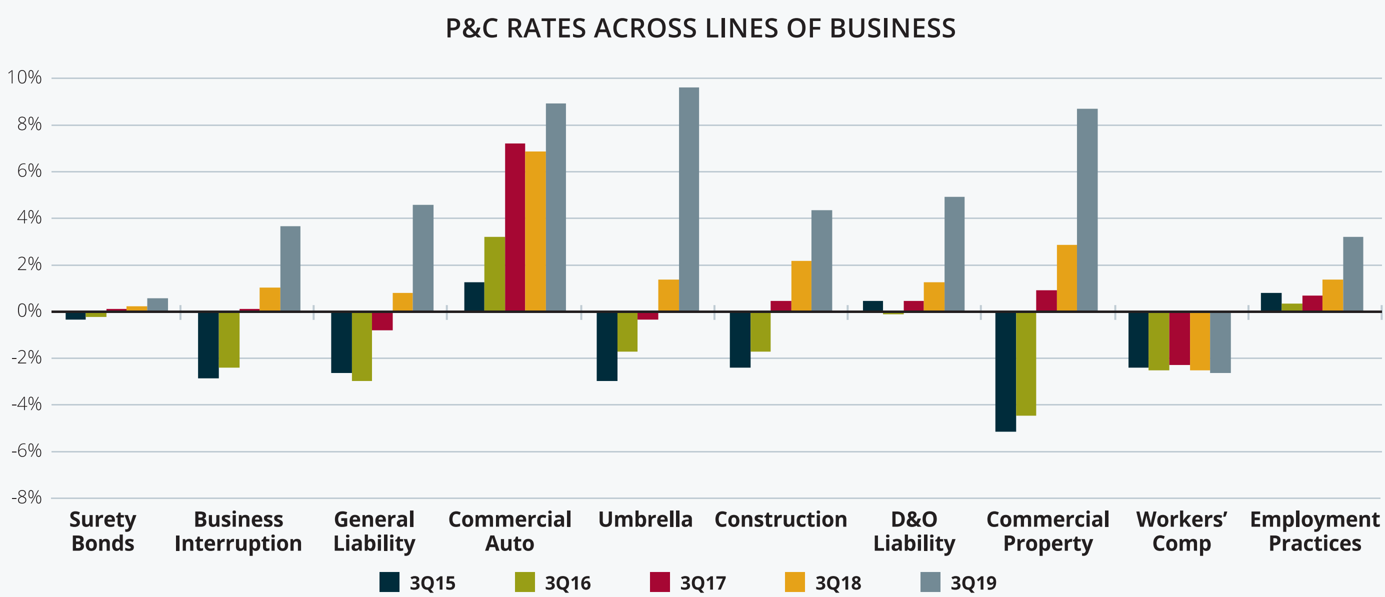
As we move into a new year, many of us in the wholesale, managing general agents ("MGA") and excess & surplus ("E&S) lines markets ask ourselves what good fortune, or calamity, should we expect from 2020?

We have all heard the stories: the Lloyd's market has been in turmoil for several quarters (and getting more difficult since the Lloyd's governing body began a formal review of syndicate performance in 2018). Some binding authority competitors have had trouble filling out their reinsurance towers, or retaining the same amount of underwriting capacity, as they had in 2019. The admitted markets have started to turn away harder-to-place business that they happily underwrote for several years (prior to "surprise" underwriting losses appearing). Even Travelers Insurance is not immune as they reported unfavorable reserve development in their Business Insurance division (during their third quarter 2019 earnings report) due to "a more aggressive tort environment."



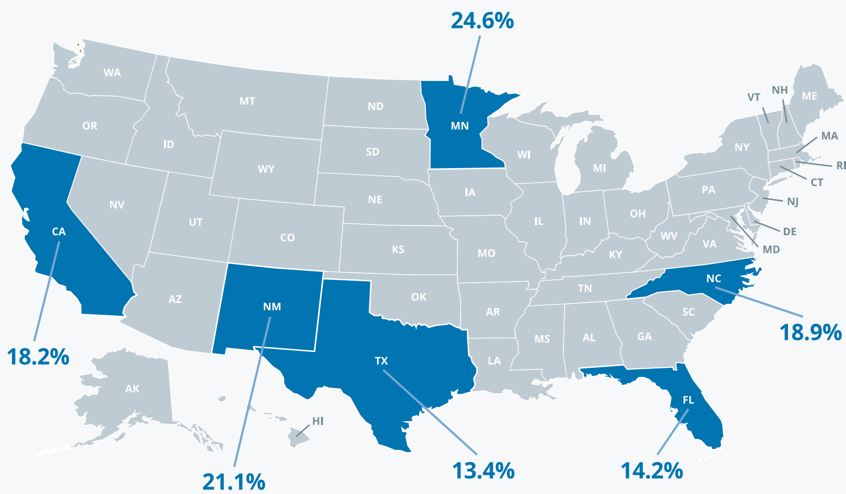
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute. P&C: Property & Casualty. D&O: Directors & Officers

A few telling statistics detail how we got here. According to Aon in its September 2019 Lloyd's Update, approximately 69% of Lloyd's syndicates in 2018 produced an underwriting loss (an improvement from 2017's 85% loss making syndicates). The resulting Lloyd's 2018 "Decile 10" review is designed to either (a) improve the bottom 10% of syndicates with the worse underwriting performance, or (b) shutter their underwriting plans entirely.

Closer to home, commercial property & casualty ("P&C") rates have begun to rise at an accelerating clip. For example, commercial property and commercial auto rates have increased 8.5% and 8.4%, respectively, in 3Q19. Umbrella, directors' & officers' liability, and business interruption are all up 3-5% in the same period. In fact, only workers' compensation rates decreased in 3Q19 (due to prior years' benefit changes that continue to work their way through the system).

Rates in the E&S marketplace are following suit. Across the U.S., E&S rates are up about 13% year to date ("YTD") 3Q19. In the large E&S states of California, Texas and Florida, rate increases are up even more (California +18%; Florida +14%; Texas +13.5%) in the same period.

SELECTED BY STATE GROWTH IN E&S* MARKET MAY SIGNAL PENDING RATE HARDENING



*E&S: Excess & Surplus

Back to our original question: *What should we expect for 2020?* In a nutshell, more of the same.

P&C rates are likely to increase further before they begin to decelerate. MarshBerry estimates that we are only about halfway through what we are referring to as a "Mini-Hard-Market," meaning that the current P&C rate hardening is not likely to produce the 20% rate increases of prior hard markets, but rates are more likely to be up 10-15% over a two to three year period (which began in earnest in early 2019).

How will this affect E&S distributors? Expect increased new business flow, not all of which you will want, as some risks may not be attractive, even at higher rates.

In other words, you will likely need to work harder, be more diligent in adhering to your underwriting criteria and protect your markets for the long term. Yes, you are likely to realize short-term increased commissions from your existing accounts. But be certain that near term gain does not inadvertently sacrifice long-term carrier sustainability. ■

Tick Marks On Your Business

By **Eric Kuhen,** *Strategy Consultant*
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Growing up, my parents had a doorway in the basement where they measured me and my siblings' height. They marked our age on the tick marks so we could see where we were in relation to each other at the same age.

It was a source of pride when I outgrew them, and being the youngest, I felt pretty comfortable that there was no way they would catch up.

If you're working with MarshBerry, and care enough about your business to share your financial data with us, you're realizing the benefit of "tick marking" your business against your peers utilizing our proprietary financial management benchmarking system, Perspectives for High Performance report ("PHP"). These reports help our clients better understand how they stack up against others in the insurance industry, as well as the highest performing firms in their peer group. This data is meaningful and can have a huge influence on the ability of your firm to grow and make sound business decisions.

MarshBerry's Connect Platform ("Platform") complements our PHP report and enables firms to take benchmarking to another level. The Platform is one of the many MarshBerry initiatives that helps us create value for clients. It creates a vehicle for firms to:

- Consolidate
- Collaborate
- Differentiate
- Change the way they operate

The Platform is our version of an aggregator, though we are doing more than just aggregating premium so firms can "win" on the back end. MarshBerry is helping our Platform partners to make more intelligent- and data-driven decisions about where they should be re-investing in their business. The Platform provides tools to help owners make informed decisions about enhancing technology, collaborating with peers, and ultimately, earn more commissions.

Our three pillars; Business Intelligence, Resource Optimization and Carrier Compensation, are the foundation for our approach to aggregation. The MarshBerry Platform empowers firms to pool their resources for:

- AMS and other technology spend
- Collaborative workgroups
- Amplified "vendor" purchasing power
- Optimizing revenue opportunities
- Increase upfront commissions
- Optimize market/carrier access

Our partners tell us that better understanding their business and how others are approaching similar issues they are facing is invaluable.

Doing a deep dive into their data, and then using that data to produce enhanced results is becoming the wave of the future.

How confident are you that you're doing everything you can for your business?

Interested in learning more about the Platform? Contact us today at **www.MarshBerry.com/Contact.**

#1 Sell Side Adviser.

OCTOBER 2019

Arthur J. Gallagher & Co.
has acquired
The Doyle Group, Inc. dba Direct To PolicyHolder

MarshBerry was financial adviser to the Seller

NOVEMBER 2019

Patriot Growth Insurance Services, LLC
has acquired
Landmark Insurance Associates

MarshBerry was financial adviser to the Buyer

NOVEMBER 2019

Acrisure, LLC
has acquired
a privately-held insurance agency in Vermont

MarshBerry was financial adviser to the Seller

NOVEMBER 2019

AssuredPartners, Inc.
has acquired
Mack, Mack & Waltz Insurance Group, Inc.

MarshBerry was financial adviser to the Seller

NOVEMBER 2019

USI Insurance Services, LLC
has acquired
Marcotte Insurance Agency, Inc.

MarshBerry was financial adviser to the Seller

NOVEMBER 2019

AssuredPartners, Inc.
has acquired
Star & Shield Insurance Services, LLC

MarshBerry was financial adviser to the Seller

NOVEMBER 2019

AmWINS Group, Inc.
has acquired
a book of business from Telamon Insurance & Financial Network

MarshBerry was financial adviser to the Seller

DECEMBER 2019

Hub International Limited
has acquired
SilverStone Group

MarshBerry was financial adviser to the Buyer

DECEMBER 2019

Alera Group, Inc.
has acquired
a privately-held insurance agency in Texas

MarshBerry was financial adviser to the Seller

DECEMBER 2019

Hub International Limited
has acquired
Blair Jarcik Insurance Agency, Inc.

MarshBerry was financial adviser to the Seller

DECEMBER 2019

Worldwide Facilities, LLC
has acquired
Risk Management Advisory Group

MarshBerry was financial adviser to the Buyer

JANUARY 2020

Baldwin Krystyn Sherman Partners, LLC
has acquired
Lanier Upshaw, Inc.

MarshBerry was financial adviser to the Seller

**Completed and announced sell side transactions in Insurance Brokerage (1999-2019) in which a financial adviser was used. Ranked by total number of deals and as tracked by S&P Global Market Intelligence.*

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MarshBerry is proud to be the #1 sell side adviser (1999-2019) as tracked by S&P Global Market Intelligence.*

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MARK YOUR CALENDARS

APRIL 2020

4.21-23 | **MarshBerry Connect Spring Summit,** Miami, FL

MAY 2020

5.6 | **MarshBerry 360,** New York, NY
5.12 | **MarshBerry 360,** Chicago, IL
5.14 | **MarshBerry 360,** Las Vegas, NV

SEPTEMBER 2020

9.22-24 | **MarshBerry Connect Fall Summit,** Scottsdale, AZ

NOVEMBER 2020

11.5 | **IMPACT Summit,** New York, NY

JANUARY 2021

1.27-29 | **Peak Performance Summit,** Park City, UT

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