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Recession keeping insurance firms busy

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The recession has slowed business, but not the activity surrounding the insurance industry.

The industry has been scrambling to maintain itself amid the recession as giants such as American International Group Inc. rely on federal bailouts, consolidation activity slows and profits decline, particularly in property and casualty. Prospective customers are being more selective about premiums and carriers, lowering profit margins, industry observers said.

In addition to lower-priced plans, insurance carriers are losing business customers to bankruptcy filings. And the life insurance industry, which depends so much on investments, is in a especially vulnerable position until the economy and stock markets rebound, experts said.

The U.S. property and casualty insurance industry generated \$4.1 billion in net income during the first nine months of 2008 compared with \$49.6 billion during the same period in 2007, according to a report by Marsh Mercer and Kroll.

Agencies are offsetting the decline by freezing spending levels and nonessential travel, financial services research firm Celent reported.

Nevertheless, property and casualty insurance carriers are chugging through this recession the same as they have through others, said David VanDelinder, executive director of the Independent Insurance Agents of Texas.

“Generally, [the industry] is reasonably positive going forward,” he said. “It’s such a conservative industry it doesn’t go up and down as much with the economy. People got to have insurance.”

But they’re more discerning and less trusting now. The change, prompted by the AIG (NYSE: AIG) collapse before it was taken over by the federal government, is in stark contrast to years ago when buyers always assumed that such firms were on solid

financial ground, said Patrick Watkins, president of the Austin-based Watkins Insurance Group.

Potential customers are more frequently enlisting brokers and third-party rating services such as Amerivest before signing with insurance companies, he said.

“In the past, we had financial companies offering lower prices, and consumers would trade lower prices for greater risk,” he said. “Now there’s been a flight to quality.”

Buyers are also shopping more for insurance as a way to cut costs, industry experts said.

The recession, along with its layoffs and cutbacks, is prompting consumers to look closer at their policies and premiums, said Erik Josowitz, spokesman for All Web Leads Inc., an Austin-based company that connects insurance companies with potential customers via the Internet.

During the first quarter, customer requests increased 62 percent versus the same quarter last year, he said.

Josowitz attributed the rise to the economy and cost cutting combined with the laid-off workers losing company-provided health insurance benefits. Since the average household spends 8 percent of its income on insurance, he said, it becomes a legitimate place to look to cut costs.

“Across the board, there’s a lot more people looking to save money on insurance.”

Meanwhile, experts said the fast pace of mergers and acquisitions has slowed dramatically. Nationwide, the number of agencies has remained the same since 2006, according to a December study by the Independent Insurance Agents & Brokers of America. The change indicates a decline in acquisitions combined with an increase in the number of startup agencies, officials said.

Still, experts expect M&A activity to resume when the economy rebounds from the global recession.

Watkins Insurance is mirroring the national stalled consolidation trend during the recession. Having bought 14 other firms during the last 10 years, the agency hasn’t made an acquisition since 2006, Watkins said.

Watkins, with 102 employees, is one of the largest independent insurance companies in the region. Local competitors include Frost Bank, Texas Associates Insurors and Capital City Insurance Agency Inc., VanDelinder said.

The number of firms in Texas has declined from 3,000 to 1,800 during the last 15 years, VanDelinder said, because insurance firms want to deal with fewer agents.

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