RECESSIONS, RISK, & THE OUTLOOK FOR INSURANCE

HOW AGENTS AND BROKERS CAN PREPARE

SOUTHEAST
PERSONNEL LEASING, INC.

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AN UNCERTAIN OUTLOOK...AND AN OPPORTUNITY.

The last few years sent the economy into a wild spin. After the disruptions of the COVID-19 pandemic, many businesses are eager to see things return to "normal." But here we are: TD Securities now predicts (as of July 2022) that there's a greater than 50% chance of a U.S. recession within the next 18 months.[1]

Are we headed for another recession? If so, what impact would it have on the insurance industry? Will existing business models and carriers best serve your agency in the result of a sharp downturn?

There are many reasons for a grim economic forecast. Continued supply chain disruptions, a war in Europe, record levels of inflation, and hiked interest rates are all concerning factors individually. Together, they have the potential to change the way insurance agents and brokers view their business risks and costs.

A Strong Labor & Insurance Market

On the other hand, the U.S. labor market remains hot and many businesses are doing well. The economy added 372,000 jobs in June (exceeding initial estimates of 250,000 jobs by almost 50%), growth that typically does not coincide with a recession. S&P 500 companies reported an encouraging 4.3% earnings growth and 10.1% revenue growth in Q2 of 2022. Not all experts believe a recession is inevitable.[2]

There could even be big opportunities buried in this unusual economic environment. Take a look back at the brief recession of 2020. Every broker in Business Insurance World's 10 Largest Brokers reported revenue growth that year, and of the 100 largest brokers of U.S. business, only 13 reported a drop in revenue.[3] An efficient model and an innovative approach can go a long way.

The bottom line is that a little flexibility and a reliable business foundation can empower insurance brokers to thrive even in these uncertain times.

Stay On Top of Predicted Risks With a PEO

Looking ahead, agents and brokers can continue to expect economic uncertainty — and should prepare for the risks. This is where standard carriers fall short. A Professional Employer Organization (PEO) model offers a viable insurance alternative that's perfectly designed for unstable market environments just like this one.

Let's take a closer look at the impact of a potential recession and how a partnership with a PEO like SouthEast Personnel Leasing can keep your agency agile and your coverage secure.

HOW DOES A RECESSION AFFECT YOUR INSURANCE MODEL?

Economic slowdowns present a predictable set of challenges for insurance brokers and agents. Whenever there is a recession, the insurance industry can generally expect to see a certain set of predictable impacts.

Shrinking Employment & Payroll For Client Businesses

Lower levels of revenue and growth often mean a smaller workforce. In a recession, businesses tend to hire fewer employees and try to run a tight payroll. Fewer employees overall will mean a reduced insurance budget for the workforce.

Lower Demand For Insurance

A slower economy strips away the wiggle room in the business budget. Despite the importance of insurance, many businesses see this as a potential area to cut costs. Demand goes down and the insurance market becomes more competitive.

Changing Mix Of Workers

Certain types of workers are disproportionately impacted by recessions. The National Council on Compensation Insurance identifies short-tenured employees and workers in sectors with high injury frequency (i.e. construction, manufacturing) as far more likely than others to be laid off first and rehired last.[4] These two groups are also the most likely to experience injuries, so the overall rate of injury frequency tends to drop in a recession. This will have a direct impact on workers' compensation premiums.

More Urgency In Settling Insurance Claims

Insurers tend to invest money from premiums in stocks, securities, real estate, and other investments that can generate strong returns. During a recession, returns from these sources will drop and insurance companies need to find ways to recover those losses. Increased scrutiny on claim payouts and a renewed focus on settling claims efficiently is one frequent approach. At the same time, businesses and workers will have less patience and a greater need for fast claim turnarounds — further justifying this focus.

Increased Fiscal Regulation

Stricter patrolling of financial institutions will often follow in the wake of a recession. Governments tend to enact more stringent consumer protections and regulations intended to protect workers or businesses from potential exploitation. Agents and brokers must be prepared for more complex compliance challenges — and the extra expenditures required to prepare for or implement new rules and procedures.

The Outlook With a Standard Carrier vs. PEO

All of these anticipated impacts can be a challenge for your agency — especially if you're working with a standard, inflexible insurance carrier. What happens when injury rates decline, demand for insurance dips, and you need to trim some fat to keep your business functional?

STANDARD CARRIER

RIGID POLICY PREMIUMS

Your relationship and agreements with a traditional carrier leave little wiggle room and can even result in problems due to this rigidity. For example, overpayments in cases where your payroll gets trimmed from the level at which your standard policy premium was set.

LOW APPETITE FOR RISK

Standard insurance carriers often decline certain types of risks and will not entertain coverage for businesses with high risk codes, small numbers of employees, limited loss history, or no prior coverage. This limits your options in the competitive landscape of a recession, where wider coverage options might help to stabilize your agency.

HURRY UP AND WAIT

At the same time, your need for extra urgency in claim turnarounds could be met with apathy or a business-as-usual approach. You're just another agency under the monolithic model of traditional carriers. This can also leave you on your own to navigate new rules and regulations that often accompany a recession.

SOUTHEAST PERSONNEL LEASING (PEO)

THE FLEXIBILITY YOU NEED

An unpredictable or shifting economic environment is where a PEO model truly shines. When you need to pare down, the flexibility of a PEO empowers you to adjust course and pay only for what you need, when you need it.

SAVINGS & NEW OPPORTUNITIES

Has payroll gone down? Your access to pay-as-you-go carrier coverage prevents overpayments and keeps your costs aligned with reality. You'll have options for increasing your portfolio of offerings, too. Connect into untapped revenue streams and potentially make up some lost ground.

URGENT CLAIMS MANAGEMENT

Our internal claims management department at SouthEast Personnel Leasing has earned a reputation for fast reporting and the compassionate but aggressive claims resolution demanded in a market recession. Your success is our success, and we're tireless in our pursuit of a comprehensive solution that lowers your costs.

TIMELINE: IMPACTS ON WORKERS' COMPENSATION & RISK

The landscape of workers' compensation has changed in more ways than one. A look back at the pandemic in 2020-2021 and the Great Recession of 2008-2009 and shows what insurance agencies can expect in future recessions, which could continue certain trends but also feature new wrinkles.

The Great Recession

In the Great Recession, injury frequency fell 3.1% faster than it had in previous years. An NCCI study of those years showed that short-tenured workers have about a 50% higher injury rate than other workers and were also much more likely to lose work during the recession.[5] It makes sense that high-risk workers losing work dropped the frequency of injury very quickly.

Drops in employment, payroll, and injury frequency all exert downward pressure on workers' comp premiums. However, the payroll share of short-tenured contracting positions has dropped a lot since those years. These days, Contracting has barely one-third the payroll share of Goods & Services — a sector that experiences much slower declines in payroll during a recession.

The Pandemic

When McKinsey looked at the insurance impacts of COVID-19, they found the pandemic worsened delays in policy administration and claims processing. Workers' comp claims also dropped amid the lockdowns, closures, and remote work of 2020, but rebounded again as businesses reopened in late 2021 and 2022.[6] Again, this makes sense, since injury frequency falls whenever employment falls. The rapid down-and-up swing meant that businesses with the flexibility to make adjustments fared best. Agencies using PEO models discovered its value in uncertain times.

The Present

Economic signposts are pointing up for insurance premiums as of July 2022. Executive VP Dave Bellusci of WCIRB projected an increase in written premium of 13% this year, based on first-quarter data. This would put premiums close to pre-pandemic levels.[7]

The average premium renewal rate for workers' compensation, meanwhile, went down by only 0.73% in Q2. This is an increase from the Q1 drop of 1.23% and continues a trend of recovery for workers' compensation renewals since the early pandemic. Most commercial lines of insurance are seeing rate increases accelerate this year as the labor market remains strong.[8]

The Future (Recession?)

The next recession is less likely to see the same level of downward pressure on workers' comp premiums that we saw in the Great Recession. This is because the payroll share and worker mix has changed.

The share of short-tenured workers is nearly the same today, but contractors, construction workers, and manufacturing employees have much lower employment shares in the present economy. Because of this, payroll losses and declines in injury frequency are likely to be milder overall than prior recessions. The slowdown to 1.2% premium growth in 2020 also looks to have rebounded quickly.[9]

PREPARING FOR THE NEXT RECESSION

The early signs for the future of insurance are encouraging...but workers' compensation is not recession-proof. While recession impacts are temporary, brokers and agents can and should anticipate obstacles and plan accordingly. A PEO model — with its flexibility, responsiveness, and expanded market potential — offers an attractive insurance alternative for agencies that place a high value on resilience.

You can also address the challenges of a future recession by capitalizing on the nine "value levers" first identified by McKinsey in their 2022 Global Insurance Report.[10] The below insights are meant to arm insurance leaders with answers to questions raised by economic disruptions (due to events like COVID-19).

Insurance firms are now asking themselves how they can create more value for shareholders, improve the customer experience, regain momentum in a slowing economy, or even reframe the role of insurance in society.

Here are the research firm's answers:

"Make environmental, social, and governance (ESG) considerations a core business concern."

The research calls out the importance of considering climate risks and impact as a feature of your business model (in the investment process). Product launches and underwriting would be unaffected.

"Regain relevance through product innovation and coverage of new risks."

Data, cybersecurity, and machine-learning liabilities are at the forefront of modern risks for innovative insurers to address. This is another area where SPLI Leasing has been able to shine. We're a PEO with comprehensive options from AM Best A-Rated insurers. Our affiliated carriers open up doors to new, high-risk revenue streams that would give standard carriers pause.

"Enhance and personalize customer engagement and experience."

Consumers have gone digital. The more you can do to ensure a smooth and delightful "multi-access" experience through every channel, the better. Your clients will certainly appreciate a no-nonsense approach and high sense of urgency in fighting fraudulent claims. At SPLI, we take pride in the proactive, assertive claims management approach that sets our model apart from typical carriers.

"Engage with ecosystems and insurtechs."

Traditional industry borders are disappearing. Research suggests that future ecosystems could encompass $60 trillion in revenue by 2030. Look at ways to engage with emerging ecosystems (e.g. in mobility, healthcare, and the connected home).

"Develop new businesses for the digital age."

There's latent potential for improved returns in insurance. Investors are eying the emergence of insurtech, with its attractive talent pools and scalability. Carriers are reinventing their business models to accommodate new digital consumer preferences and continue their growth.

“Scale impact from data and analytics.”

Data boasts enormous value across the value chain. Even leading insurers can see loss ratios improve 3-5 points, new business premiums leap 10-15%, and retention in profitable segments jump 5-10% with best-in-class data and analytics.

“Modernize core technology platforms.”

The digitalization of business over the last decade is remarkable. Front end technologies increasingly enhance the customer experience while back end technologies drive productivity and operational efficiency. Many insurers are considering replacing strained legacy systems with new core platforms that better integrate with the digital age.

“Address the productivity imperative.”

Piecemeal efforts have not been enough. A transformative approach to productivity gains is necessary for insurers to survive in a post-COVID-19 world. Begin by establishing the trajectory and full performance potential of the business across sales, product development, operations, tech, and corporate functions.

“Reimagine culture, diversity, and ways of working to attract and retain talent.”

The rise of remote work helped us realize new ways of doing business. Now, the return to the workplace is a chance to reimagine operating models in ways that will be more effective “for companies and people navigating a world of increasing uncertainty.” And navigating uncertainty is what insurance is all about. There’s never been a better moment to re-examine a stale, legacy business model and consider the adaptable, future-forward qualities of a PEO.

YOUR PATH TO REVENUE, COVERAGE & COMPLIANCE

The past several years have seen the most unusual recession (and recovery) in living memory. The makeup of worker injury risk is changing. Businesses are facing new risks. Insurers must innovate to stake their claims in a highly competitive market.

For agents and brokers who are tasked with solving this equation, lucrative new models are emerging. Pay-as-you-go platforms for workers' compensation are soaring in popularity among high-risk businesses — and can represent a financially-stable opportunity for new revenue.

A professional employer organization (PEO) like SouthEast Personnel Leasing is able to facilitate workers' compensation for your clients in a convenient model that suits their needs and risks. With our carefully selected stable of affiliated carriers, you can access competitive programs that many carriers typically decline. Some of the risks we can cover include:

- High risk codes
- High experience modifiers
- Small number of employees
- Startups - no prior coverage
- Less than three years of loss history

Enjoy cost savings from proven methods that stabilize your client's workers' compensation cost.

Gain confidence with coverage from insurers that are A-Rated by AM Best.

Make more money with commissions that are paid for the life of the client.

Scale more easily with no renewal exposure, a high retention rate, and access to new, untapped revenue streams.

A partnership with SPLI brings all of this to your portfolio. We empower you to care for your clients with the service and solutions they need to thrive — whatever the future brings for the economy.

Contact SPLI today to learn more about our comprehensive workers' compensation platform that also encompasses payroll and risk management. Keep your focus on your business priorities. We'll handle the rest.

REQUEST A QUOTE

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