ZYWAVE

INSURING THE ROAD LESS TRAVELED

Unlocking Your Specialty Lines Growth Potential

As technology continues to quickly advance and new industries emerge, the world is becoming a riskier place. Insurers are facing new challenges in their efforts to provide coverage for these new risk categories, while still maintaining profitability. In the face of these challenges, more insurers are investing in specialty lines insurance, offering tailored coverage for unique risks that traditional policies do not cover.

Many factors play into the dynamics of the specialty insurance market and its market cycles. Emerging technology, changes in the way we conduct business, tightening capacity and evolving risk appetites all impact pricing and allow for new products and capacity providers to enter the market. And as more and more businesses continue to require specialty coverage, the market has grown significantly - and it shows no signs of slowing down.

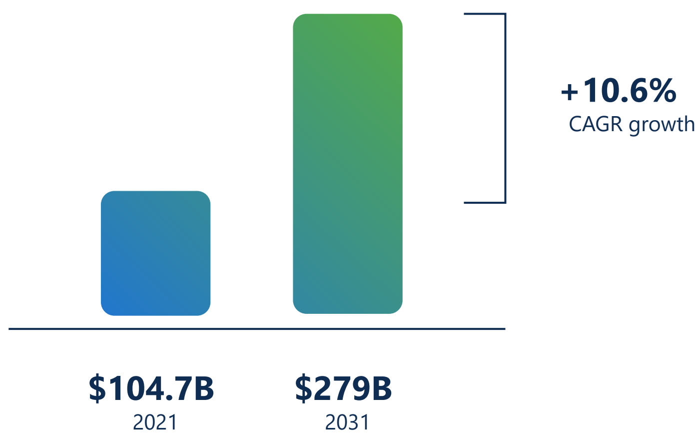
As an industry expert, you know the value that specialty lines provide to your organization. But now it's time to think beyond what you're already doing. Instead, let's think how you can get ahead of the competition by heading down the road less traveled. Where does that start? By evaluating your investment in specialty lines coverage and finding new ways to drive profitable specialty lines premium growth

So, where do you turn to unlock the potential of specialty lines coverage? Let's take a drive and find out.

There's profit at the end of the road less traveled

Choosing to invest in specialty lines insurance is taking the road less traveled – after all, many insurers are more comfortable with the risk potential of traditional insurance coverage than with emerging needs. The specialty lines market offers unique growth opportunities that benefit all players in the insurance industry, from traditional insurers, to brokers, agents, MGAs and MGUs. By providing tailored coverage for niche industries and organizations, specialty lines insurers can solve specific challenges that traditional policies cannot address.

According to recent studies, the growth expectations for the entire specialty lines market are significant. The global market was valued at $104.7 billion in 2021. Expectations are that the market will climb to $279 billion by 2031, growing at a CAGR of 10.6% throughout the decade.[1]



As the market continues its expansion, the insurers who specialize in tailored coverage for unique risks have the opportunity to boost their competitive advantage. Plus, by tapping into the growing demand for niche coverage, insurers who carve out a successful niche (or niches!) in the industry will also be able to maximize profitable premium growth.

Where does the road lead?

Branching into new lines of specialty coverage is an immense and complex task. As industry experts explain, "designed to be nimble and forward-thinking, specialty companies aren't looking at 50 industries and trying to understand the impact of an event. They're often laser-focused in one area, and that enables faster evolution and innovation."[2] Let's focus on what you know – and look for ways that you can leverage the coverage you already offer to build a lower risk profile and increased profitable premium.

So, where do you start? Think about the lines of coverage you offer, and ask yourself a few questions:

- What are the most pressing needs within the markets we insure?
- Do we meet those needs adequately?
- Do our premiums cover the losses we've experienced?
- Are our premiums priced competitively within the market?
- How do we ensure that our policyholders are obtaining the coverage they need to protect themselves?
- How can we better engage with our policyholders & broker partners?
- How can we better educate our policyholders and broker partners to prevent losses?
- Are our broker partners educated on the types of specialty coverage we can offer to their clients?

You've got a good handle on the coverage you provide, and the industries you specialize in. But does that coverage provide profitable premium at the rate you expect? If the answer is no – you need to dive deeper into your first party data to figure out why.

Stakeholder Research

The first place to start is with your most important stakeholder – your policyholders. If the overall risk profile of your stakeholders is too high, you need to figure out why. Dig into your claims data. Are you repeatedly seeing the same losses coming from a variety of clients? If you are, you need to figure out a better way to educate your policyholders and broker partners on risk management solutions.

At the same time, your policyholders may already be leaning on you for risk management solutions. But are they getting what they need? Your marketing department can help you figure that out. By delving into your website data, you can figure out what your policyholders are searching for on your website. The same goes for content downloads and usage trends from your third-party service providers. How well these tools and resources are being leveraged will help you determine what your policyholders are looking for – and if they're getting what they need to build an effective risk management program.

Let's also think beyond just losses and risk management – are the premiums you collect adequately covering the losses you've experienced? If your loss ratio is in the negative, you need to re-evaluate the way you're pricing your coverage. That could mean increasing your premiums – but no policyholder gets excited when they hear about higher costs. It could also mean requiring increased policy limits to adequately protect against the increasing cost of losses.

And when we're talking about broker partners, it's important to leverage these relationships as your most effective distribution channel. After all, brokers are the highest contributors to the growing specialty lines market, and their contribution is expected to grow at almost 10% CAGR within the next decade[3].

We have already talked about digging into your first-party data to learn about what your policyholders are searching for, and the same thing should be done with your broker partners. Are they regularly leveraging specific pieces of content from your website to educate their clients? Are they regularly coming to you for the specialty lines that you offer, or are they taking some of their clients to your competition because they aren't adequately educated about the coverage you provide? Are there additional solutions you can provide to tighten the relationship and strengthen the approach to risk between you, the broker and the client?

Your first party data is a great place to start. But you can also go beyond your data and reach out to your broker partners directly. Have a conversation about the services that you provide and get a better understanding of where you're succeeding as a partner and where there is room for improvement. The information you can get by combining your data and the insights you gain from these conversations will give you the perspective you need to start evaluating the roads you can take, and which will be most effective for you.

Market Research

While it's important to start with your own stakeholders, it's also essential that you understand what's happening in the market outside of your organization. There are other insurers covering the same losses and fighting the same battles. While your first party data will give you a handle on what's happening with your policyholders, what about what's happening in the macro environment?

That's where data partners come into play – but not just any data partner. You're going to want to identify a partner that provides a large, well-researched dataset that will help you make intelligent decisions about risk potential. The data you receive should help you analyze market size, better understand the risk potential, investigate additional losses, and evaluate your premium against the market in order to remain competitive.

Picking the Right Route

Once you've done your market and stakeholder research, it's time to tie it all together. Map out the route you want to travel. Are you going to invest in risk management solutions? Do you need to build stronger relationships with your broker partners? What about re-evaluating your premium strategy for a specific line of coverage or two?

*Whether you choose one or more of the options to boost your specialty lines profitability, **having the right strategies and technology partners is key.***

Adjusting Your Product Strategy

The most complex, and technologically advanced option is to adjust your premium strategy. If that's where you want to start, there are a lot of decisions that you must make. As Strait describes, "the [specialty lines premiums] are calculated depending on the specific industry, risk factors, and the amount of coverage for specified needs. Specialty insurance can cover both admitted and non-admitted products and insure against various business lines' specific risks. With a great deal of flexibility concerning coverage, policy term, and policy duration, it offers a variety of coverage possibilities. Additionally, the industry is driven by increased demand for specialist knowledge and technological improvements."[4] With all those factors, where do you even start?

You need a solution in place that will help you efficiently build and revise rating algorithms and get your updated products to market faster. One that's more advanced than an Excel spreadsheet. Traditional RQBI systems are bulky, complicated, and inflexible, taking months – or even years – to launch updated products to market. With specialty lines quickly evolving and risks constantly changing, you can't afford to wait that long. That's why you need to invest in more advanced technology, designed to fit your specific areas of expertise. After all, the specialty lines market is driven by speed and technological advancement. And that advancement isn't going to wait for you to slowly update your existing product to meet changing market needs.

Investing in Data

If you're going to adjust your product pricing strategy, you also need to have the right data to make educated decisions for your rating algorithm. By harnessing the power of data, you can gain valuable insights into market trends and customer behavior. Advanced analytics tools can help you analyze large volumes of data, identify patterns and correlations, and generate actionable intelligence to inform decision-making. This can help you refine underwriting strategies and optimize pricing models. In addition, data-driven insights can help you identify potential risks, mitigate loss exposures, and enhance risk management practices, ultimately leading to improved loss ratios.

Picking the Right Policyholders

If you're happy with the coverage that you provide, and the pricing model that you offer, but your loss ratios aren't where you want them to be – it probably has something to do with your policyholders. Take a look at your underwriting standards. Are they high enough to guarantee that you're only covering policyholders who have the right risk profile?

If your answer is no, it's time to make some adjustments. Educate your underwriters, and work with them to ensure that they are correctly selecting the policyholders you need to boost your loss ratios.

Partnering with Your Policyholders

We just talked about picking the right policyholders. If you're happy with the mix of policyholders that you cover, that doesn't mean your partnership should stop with just the coverage you provide. As we all know, uninformed policyholders are risky policyholders. The more you commit to helping your policyholders build strong risk management programs, the more likely they are to avoid costly losses. That requires an investment in risk management solutions, marketing automation capabilities and a commitment to policyholder education from your broker partners. When all these systems are working together, your policyholders will have the opportunity to protect not only their own bottom line – but yours as well.

But your commitment to your policyholders needs to go beyond helping manage their risk profile. Losses are still going to occur, and you need to ensure that your claims services are effectively meeting their needs at every step of the claims process. One of the quickest ways that you can lose a policyholder to your competition is by unsatisfactorily handling an insurance claim. And once you lose a policyholder, and the premium they provide, they're probably never coming back.

Managing Expenses

Your policyholders aren't the only ones who should be looking internally to find process improvements – you can too! Dig into how your team is managing both your expenses and your capitalization utilization. By optimizing these areas, you can enhance overall financial performance and increase your competitive advantage in the market. This can include evaluating your current tech investment, determining where you can streamline workflows, and eliminating unnecessary costs. You can also ensure that the capital you are investing is strategically allocated to optimize both risk and return. The key is ensuring that you are operating efficiently and able to quickly adapt to evolving market dynamics, while still being able to deliver the value your policyholders and broker partners expect.

You've found the key to specialty lines growth

No matter which road you choose to take, the end result is the same – profitable premium growth. The rapidly changing business and technology landscape will continue to require insurers to invest in their own success when it comes to specialty lines of insurance. Those that choose to venture down the road less traveled, and double down on their investment in themselves will be able to unlock new opportunities for profitable growth. You have the key to unlocking the potential of specialty lines – now it's time to start your travels and discover how specialty coverage can help you strengthen your relationship with your current customers and reach higher levels of growth.

[1] Allied Market Research. (2023, March) Specialty Insurance Market by Type (Marine, Aviation and Transport (MAT) Insurance, Political Risk and Credit Insurance, Entertainment Insurance, Art Insurance, Livestock and Aquaculture Insurance, Others), by Distribution Channel (Brokers, Non- brokers), by End User (Business, Individuals): Global Opportunity Analysis and Industry Forecast, 2021-2031. https://www.alliedmarketresearch.com/specialty-insurance-market.

[2] Insurance Thought Leadership. (2021, October 17) What's Driving the Boom in Specialty Insurance. https://www.insurancethoughtleadership.com/going-digital/whats-driving-boom-specialty insurance

[3,4] Straits Research. (2023). Specialty Insurance Market: Information by Type (Marine, Aviation and Transport), Distribution Channel (Brokers, Non-Brokers), End-User (Business), and Region – Forecast till 2030. https://straitsresearch.com/report/specialty-insurance-market.

For more information about Zywave's solutions, reach out to marketing@zywave.com.