

Focus

FINANCE

Managing risk management

Premiums are down, competition is up and clients are nervous, but some insurance agencies are doing quite well



Insurance mergers likely to continue

Mergers and consolidations within the insurance industry in Detroit have been fairly steady the past 10 years, said Nick Valenti, CEO of Southfield-based Michigan Financial Cos. Inc.



“Because today’s margins are not as big as they were, it requires size and economies of scale to compete,” Valenti said. “I expect the trend will continue to bigger and more efficient organizations. More independent organizations are under pressure to join larger organizations, and that won’t stop.” Valenti said Michigan Financial isn’t currently looking at acquiring other agencies. “We have a plan to recruit experienced financial reps, and we are also looking to expand into some other smaller towns,” he said.

Aon Group in Michigan, meanwhile, sold a 25-member group in an effort to streamline last year.

In July, Meadowbrook Insurance Group Inc., a Southfield-based risk-management and specialty insurer, completed its acquisition of Columbus, Ohio-based ProCentury Corp., a combination that nearly doubled the size of Meadowbrook.

ProCentury is a specialty property and casualty insurance holding company.

— Jay Greene

BY JAY GREENE
CRAIN'S DETROIT BUSINESS

It's not an easy time to work in the insurance and asset-management business. Premiums are down. Competition is fierce. Clients are nervous about the financial markets.

But it's also proven to be a prime time for firms to grow their business through mergers and acquisitions or expanded product lines. Several Detroit-area firms report dramatic jumps in revenue and expansion of staff and geographic reach. Some are positioning themselves as a value-priced option; others are pushing a heavy emphasis on customer service.

“The main challenge in our business right now is to grow at all, because most of the industry has seen reductions in revenue because it is a more competitive pricing environment,” said Robert Cubbin, CEO of Meadowbrook Insurance Group Inc., a Southfield-based risk management and specialty insurer.

Ranked No. 1 in 2008 on the Crain's Detroit Business list of Largest Business-Insurance Agencies with \$104.9 million in insurance agency revenue in 2007, up 5 percent from \$99.8 million in 2006, Meadowbrook has found a way to increase its business through a combination of acquisitions and internal growth. Total company revenue for 2007 was \$340.7 million.

In July, Meadowbrook completed its acquisition of Columbus, Ohio-based ProCentury Corp., a combination that nearly doubled the size of Meadowbrook to about \$800 million of gross premiums written.

“We have grown our business by creating long-term relationships with our customers,” Cubbin said. “If you aren't losing your customers, you can add profitable business to your company. We make sure we retain our customers, and we have grown 10 percent to 15 percent a year.”

Nick Valenti, CEO of Southfield-based Michigan Financial Cos. Inc., said the key to success in a soft market is having experienced insurance representatives who provide top-notch customer service.

“We provide good support here to our reps along with training and education to help them grow their practices,” Valenti said.

Ranked No. 12 with \$7.7 million in annual revenue, an increase of 33 percent from \$5.1 million in 2006, Michigan Financial has grown steadily for three re-

asons, Valenti said: efforts to market to small-business owners life insurance policies; increases in employee benefit and 401(k) plans; and hiring 20 percent more representatives and expanding geographically.

In September, a Troy based insurance office merged into Michigan Financial, adding 24 employees and \$1 million in sales.

“We have a lot of good financial advisers in that group,” Valenti said. “We will be able to expand into Lansing, Williamston and Ann Arbor, where we weren't represented that well.”

Besides insurance, Michigan Financial offers other services, including employee benefit design, asset management, individual money management and estate planning.

About one-third of the company's revenue comes from insurance and the remainder from asset-management services.

LeAnne McCorry, Southfield-based Aon Group's resident managing director, said the company had its best year in Detroit in 2007 as it focused on offering innovative solutions and delivering client value.

Aon is ranked No. 2 by Crain's, with revenue of \$53.4 million in 2007, a 14 percent increase from \$46.8 million in 2006. With its headquarters in Chicago, Aon has 125 people in Michigan and 11,600 nationally.

“We had a very good year in adding clients,” McCorry said. “In a soft market, our focus is on providing the best value for the price to our customers.”

Aon primarily focuses on reinsurance, property and casualty insurance and risk management, and human capital management consulting, she said.

“We saw growth in all lines, especially in property-casualty and directors and officers insurance,” she said.

One of Aon's new capital solutions offers clients several levels of insurance protection if a carrier becomes insolvent, McCorry said.

“Some clients are comfortable with their insurance carrier for insurance like directors and officers insurance, but some want that extra protection,” she said.

“If they are concerned about that product line, we could offer them a solution to wrap around their policy.”

While Aon is spending up to \$300 million annually on expanding globally, McCorry said the company in Michigan has become leaner. In 2007, Aon in Michigan sold a 25-member group to

another agency.

“We reduced overall staff (to 125), but we increased our overall book of business by talent management,” McCorry said. “We look at our mix of business when deciding when to grow or divest.”

Dan Deighton, managing director and Detroit office head of Marsh, said the economy has created challenges for insurance companies that rely on industry growth. Ranked No. 4, Marsh reported 2007 revenue of \$49.7 million, a 4 percent increase from \$47.6 million in 2006.

“Marsh specializes in risk, and we live in a world that is full of it. That is abundantly clear in today's economic environment,” said Deighton.

In Southeast Michigan, Marsh has large numbers of clients in the automotive industry, health care, construction and higher education, he said.

Clients have been challenged by lack of access to credit, affordability of capital and concerns over supply chains and increasing costs of raw materials, he said.

“Premiums continue to fall, but we see a shift a little bit as we close out 2008 because the property insurance market shows signs of tightening with a number of losses from hurricanes like Ike and Gustav,” Deighton said.

Hurricane Ike was the third most costly in U.S. history with \$12 billion in onshore losses, and Gustav exceeded \$4 billion in claims.

Marsh also reduced staff by about six employees to 199 in 2008 in an effort to improve efficiencies, Deighton said.

Meadowbrook's Cubbin said even with today's challenges, during the first six months of the year, premium revenues for the company have increased about 20 percent.

“Despite the soft market with competitive pricing, we are having a very good year so far,” he said.

Deighton said the level of competition for high-end clients in Detroit is very high. “There is a lot of loyalty between clients and client teams and not a lot of turnover,” he said. “Detroit is a town that maintains relationships, but with today's economy, everyone needs to be flexible and look for opportunities.”

Valenti said “The times require our representatives to have better and more frequent communications with clients,” he said. “We have seen the volume of calls in the last month go up. There is no question about that. People are nervous.”

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