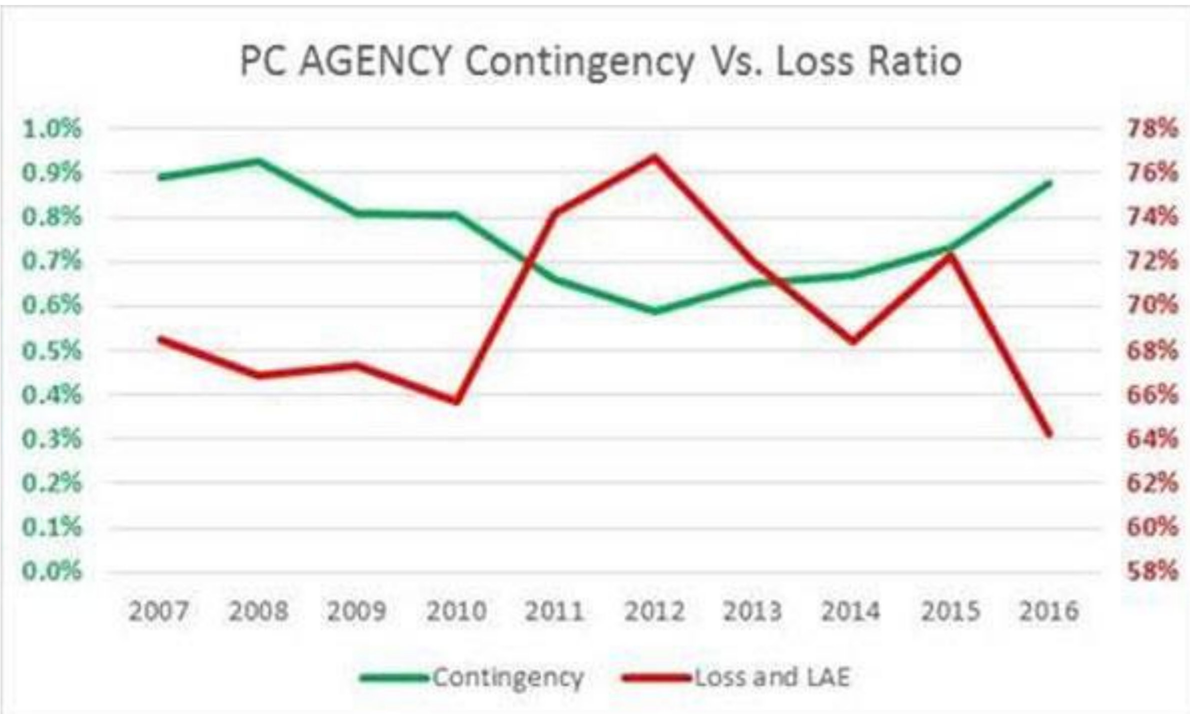
STUDENT OF THE INDUSTRY PARTING SHOT

2017 PC Agency Contingency Income

By Paul Buse, President of Big I Advantage®

2017 is "on the books" but what will that mean for agency contingency income that comes in a few months? Indications at 9 months are 2017 could be a rough loss ratio year for the P&C industry. Of course, contingencies are agency-specific, but what, on average, should we expect in the way of contingency payments for independent agents as a whole? Below is data from A.M. Best as taken from their publication Aggregates & Averages for the last 10 years.



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Source: 2008 to 2017 A.M. Best Aggregates and Averages, the "Summary of Operations" for US PC AGENCY exhibits and the Insurance Expense Exhibit for the same group of PC AGENCY insurers (Part I - Allocation To Expense Groups, Part 2. "Commission and Brokerage" and line 2.4-Contingent - Direct).

I came across this data while I was looking for average P&C agency commissions in the Insurance Expense Exhibit that each insurer files as a supplement to their annual statutory annual statement (12.7% is the 10 year average). While I was at it, I grabbed the data necessary to calculate the industry loss ratio on a calendar year basis for the the A.M. Best's "PC AGENCY" grouping. The contingency data is over 80% correlated, albeit negatively, to calendar year loss ratios. That is, about 80% of the variance in the ratio of Losses and Loss Adjustment Expenses (LAE) divided by Earned Premiums is reflected in a change in the opposite direction in contingency income paid.