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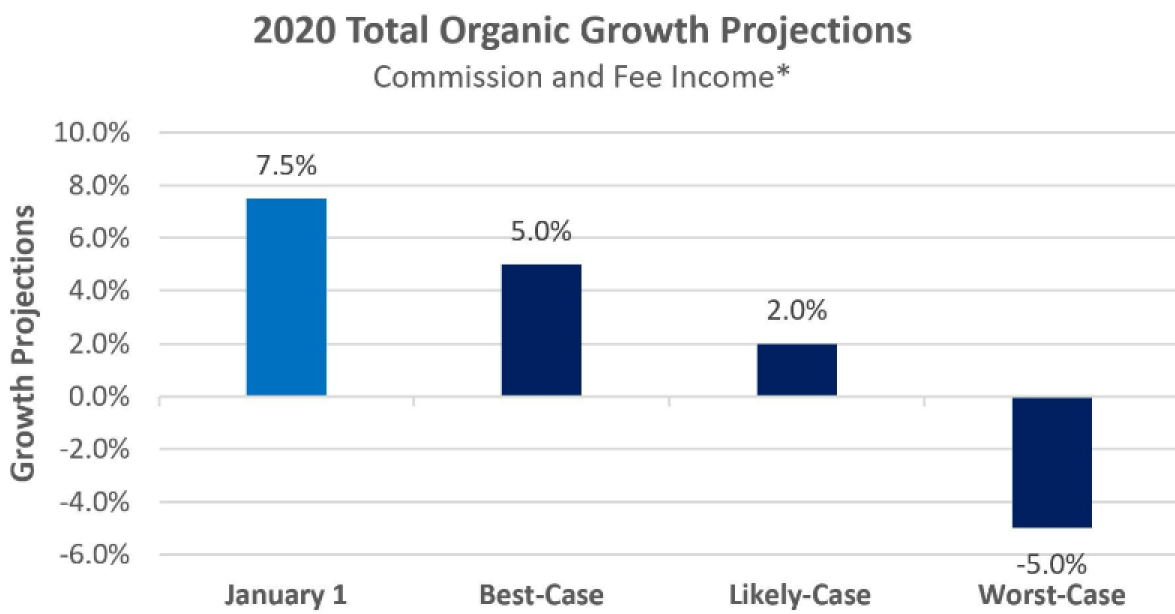
Coronavirus Impact: Some Good News on Growth

To our friends and clients,

Last week, Reagan Consulting surveyed 182 insurance agents and brokers about their 2020 growth expectations, and the responses shed light on how agents and brokers expect to perform following the unprecedented onset of Coronavirus. While growth expectations are down considerably from early 2020 forecasts, agents and brokers still estimate that 2020 will produce revenue growth, not revenue decline, for the typical firm.

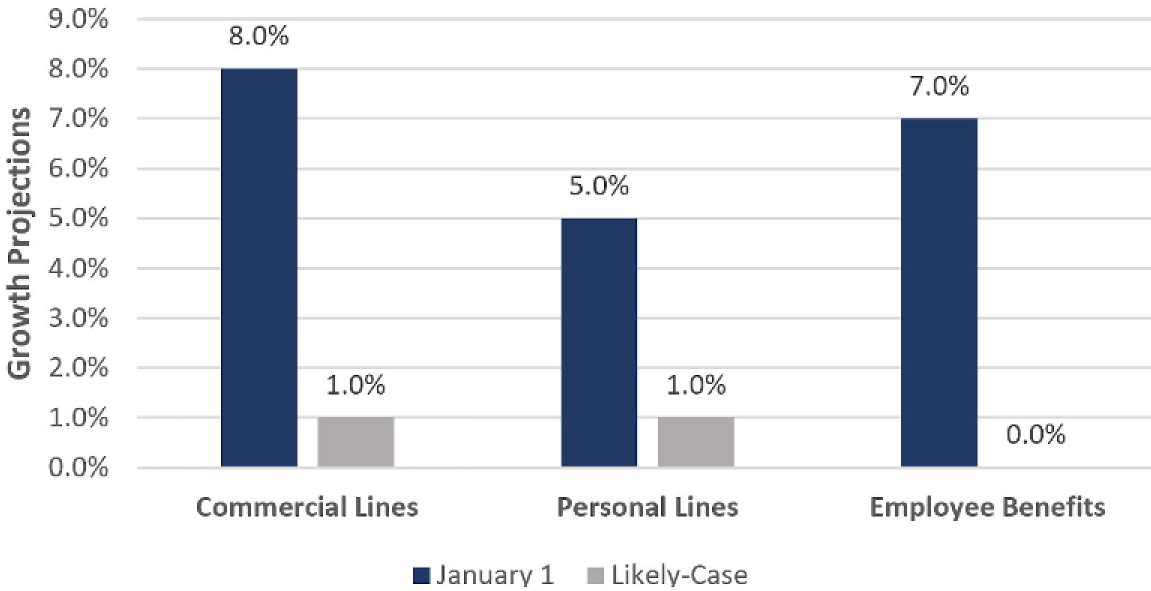
According to survey results, the median total organic growth expectations for 2020 now stand at 2%. As of January 1, the median growth projection for the year was 7.5%. If these updated 2020 growth projections prove to be accurate, this would be positive news for the industry at an otherwise dismal time. To put this estimate in perspective, in 2009, at the lowest point of the Great Recession, total annual organic growth for the industry measured negative 1.9%. As of early April, agents and brokers estimate that the Coronavirus-



**Excludes contingents, bonuses, and overrides*

In acknowledgement that the effects of the Coronavirus are difficult to estimate, the survey also asked agents and brokers for their best-case and worst-case growth estimates in addition to their most likely outcome. In terms of best-case and worst-case scenarios, the survey responses indicate median growth could be as high as 5% or as low as -5%, with the aforementioned 2% the most likely estimate.

We view a nominally positive total growth projection for the industry in 2020 as further confirmation of the value and stability of the independent insurance distribution system. Undoubtedly, a strong first quarter helped and we'll address this in an upcoming review of Reagan's 2020 Q1 Organic Growth & Profitability survey results. Without the strong first quarter, overall growth projections for 2020 would likely be considerably lower.



The survey, as detailed in the chart above, also noted growth projections by line of business. Decreases in 2020 growth projections for commercial lines P&C and employee benefits were about the same (down approximately 7 points each), while personal lines P&C is projected to be 4 points lower. The similar decline of commercial lines and employee benefits growth may allay initial concerns that the current massive disruption of the labor force would more severely impact employee benefits growth.

An observant reader likely noted that the median most-likely growth projection of 2% is higher than the median most-likely growth projection for each line-of-business. Such is the nature of median data, which measures the mid-point of a dataset with an equal number of higher and lower results. Median results are often more representative of a dataset than average results, as they eliminate high and low outlier data that tend to skew average results.

The median total organic growth results above include responses from 182 survey participants. However, the line of business results reflect a smaller set of respondents, as each participant does not necessarily write and / or report each line of business (CL, PL and EB). The 0% median most-likely growth projection for EB, for example, was based on the survey results from 124 respondents. Therefore, the reader should view each median result individually rather than trying to compare and correlate the results.

For reference, the average likely-case growth projections for overall, CL, PL and EB growth for 2020 now total 0.4%, -0.2%, 1.3% and 0.4%, respectively.

median results analysis may not capture the magnitude of the underlying highs and lows. Like the warning you get with any good infomercial: results may vary. Many agencies with significant business concentrations in the retail or hospitality sectors, for example, are likely to fall below the median numbers referenced above. In fact, the worst-case scenario data includes a bottom quartile of respondents that are bracing themselves for the possibility of an average decline in commission and fee income of 24%. On the other hand, some agencies will outperform the median result. The outlook will continue to change as the crisis evolves, but we're encouraged by the initial growth expectations.

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