

2023 Q1

Allstate Agency Value Index- 2023 Q1

California Drives Agency Values Down

Allstate Agency Price to 12MM Earned Premium Ratio (National Average)						
	2019	2020	2021	2022	2022 4th QTR	2023 1st QTR
\$0 to \$2,000,000	0.216	0.168	0.145	.192	.181	.180
\$2,000,001 to \$4,000,000	0.252	0.226	0.220	.213	.208	.182
\$4,000,001 and up	0.274	0.249	0.236	.228	.229	.214
Simple Average	0.253	0.233	0.223	.210	.203	.190
Low	0.140	0.100	0.100	.130	.132	.134
High	0.358	0.322	0.322	.293	.276	.261
Average Earned Premium	\$3,638,959	\$4,102,072	\$4,264,462	\$3,331,831	\$3,956,488	\$3,750,894

Mergers

In the 2022 year-ending edition of the Allstate Agency Value Index, it was noted that the percentage of sales transactions that were an existing agent, purchasing and merging another book, represented 48.9% of all sales transactions for the year. This was of substantial importance as mergers were only 3.35% of acquisition transactions in 2021.

This upward trend in merger activity has continued into 2023 with 54% of agency sales this quarter being part of a merger transaction.

Sales Factor Compression

It was also noted in the previous edition of the AAVI, that although the smallest sized agencies benefited from the increased merger activity, larger sized agencies saw a compression of their average price or sales factor. As mentioned, this compression was likely due to unknowns surrounding a new compensation plan, Allstate experiencing an uncharacteristically high combined ratio, and dramatic changes in customer premium/product competitiveness.

California

California agencies on average sold for 20% less than those outside of the state, regardless of size. The biggest culprit seems to be California Insurance Commissioner Richard Lara, who has refused to review rate increase requests for more than 2 ½ years. As a result, carriers are currently operating at a loss and looking for ways to cut new business production.

Geico has decided to close all its brick-and-mortar locations in California to avoid selling a product they know will not be profitable. Progressive, Allstate, and other carriers have implemented measures to ensure new business is reduced in the state.

There is a current power struggle between those in government, who think they have unlimited power over a private businesses pricing model, and the largest carriers in the state. These carriers are moving toward reshaping the supply side of insurance, which will ultimately be bad for consumers; this is unwanted news for those small business owners that sell insurance for a living. Hopefully, this will be a short-term issue, but buyers of Allstate agencies in California have decided that the market value of these businesses should be reduced as long as no carrier in California is interested in allowing their agency force to grow their business.