Market Opportunity

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Family Offices and P&C Insurance Investing

Dive into the details!

Insights from Cameron Parker, CEO of OneShield Software, a seasoned leader in core systems for insurance carriers and MGAs.

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Family Office Challenges, Now and Then

Family offices face an unusually challenging environment heading into 2025:

- Public markets are already trading at or near record highs.
- Allocations to private asset classes, particularly venture capital, may experience extended time horizons.
- Interest rates remain elevated compared to recent norms, raising the bar for new investments.
- Inflation continues to be stickier than hoped, making the Fed's easing pace more challenging to forecast.
- Meanwhile, the incoming US administration appears poised to pursue substantive changes across several major policy domains, including public spending, taxation, regulation, immigration, and trade.

Against this dynamic and uncertain backdrop, family office managers face the same imperative they have always faced: to generate strong risk-adjusted returns while at the same time minimizing taxes and management fees.

The good news is that the family office industry – which measures its history in centuries rather than fiscal quarters – has proven to be creative and resilient against all kinds of macro environments. From the oikonomos or "household managers" of the ancient Greeks to the "stewards" of Medieval Europe's landed nobility, family offices have found creative ways to deploy capital and continue growing their respective legacies.

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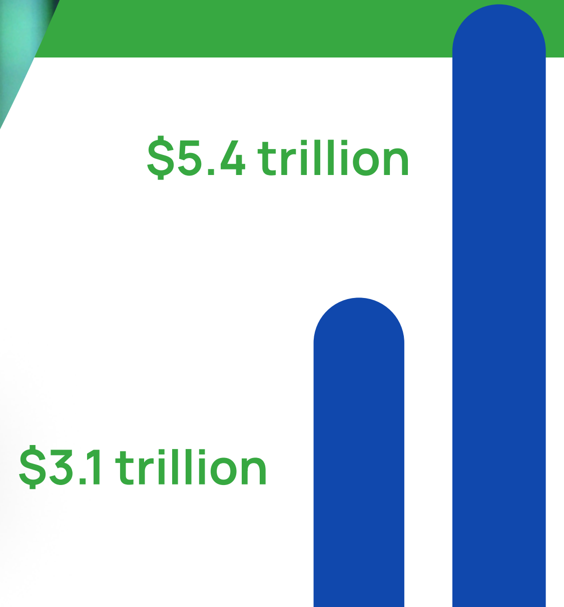

In recent decades, the family office industry has flourished, driven by global economic growth and the deepening of capital markets, resulting in a growing pool of ultra-high-net-worth families. This is undoubtedly true in the US, but also increasingly abroad. Globally, family offices now account for $3.1 trillion in total AUM, estimated to reach $5.4 trillion by the end of the decade. [1] Thus, finding attractive places to deploy capital remains urgent (and competitive) for family office managers.

[1] Deloitte Private: "Defining the Family Office Landscape." September 4, 2024.

P&C Insurance – A Growing Industry with a Potential Funding Gap

The property & casualty (P&C) insurance market has many attractive characteristics from an investment standpoint, including a massive market size (measured globally in the mid-single-digit trillions of USD), persistent growth tailwinds, and resilience to macroeconomic conditions. P&C relationships – whether between carriers and their insureds or between carriers and their reinsurance and distribution partners – often span generations. In the US, a growing number of insurers now boast 100+ year lifespans.

The Philadelphia Contributorship, for example, was writing homeowners' policies before the signing of the Declaration of Independence and, therefore, denominated its first policies in British pounds. Even after a Revolution, a Civil War, two World Wars, and all of the lyrics of Billy Joel's "We Didn't Start the Fire," the Philadelphia Contributorship is still in business, writing policies (denominated in dollars, of course) for twenty-first-century homeowners, renters, and landlords.

Ironically, P&C's long horizon often limits its access to private capital. Private equity and venture capital investors typically evaluate prospective investments regarding their IRR (internal rate of return). Fund managers' carry formulas often explicitly incentivize them to do so. Since the IRR formula rewards shorter hold periods and penalizes longer ones, buyout funds typically orient their plans around 3-6-year hold periods. If an opportunity presents itself for a "quick flip" in 1-2 years, all the better to lock in the higher IRR, but hold periods of 7-10 years are the exceptions and rarely "the plan."

This structural bias creates a potential funding gap for insurance entrepreneurs with otherwise viable business plans. To quote one highly credentialed, multi-time insurance leader who is currently raising capital for a de novo specialist insurer, "We have not yet been able to line up the right capital provider. What we are doing will take some time, which doesn't necessarily align with a standard 5-year time horizon and IRR calculation."

As the saying goes, "You can't eat IRR."[2] Given their unique objectives and time horizons, family offices tend to emphasize MOIC (multiple on invested capital) more than IRR.

For example, an investment which yields a 14% IRR might be viewed as an "average" outcome in a private equity setting – good enough to ~double the limited partners' money, send it back to them, and raise the next fund. However, if the investment is allowed to compound at 14% over a 30-year period – which is only about one generation of "turnover" for a family office – the investment returns a MOIC of ~50x, potentially enough to meet (and expand) the family office's goals for the next generation all on its own.

[2] Howard Marks. "Memo to Oaktree Clients." July 12, 2006.

Family Offices and P&C Insurance – A Natural Fit at an Opportune Time

Family offices are uniquely well-positioned to fill the funding gap for insurers and insurance entrepreneurs for numerous reasons. Like insurers, family offices tend to have longer (or at least more flexible) time horizons and generally place a high value on building trust and long-term relationships. Family office principals themselves often made their fortunes as entrepreneurs over an extended time horizon. They may place greater value on building strong, durable businesses for the long term versus managing shorter-duration financial metrics.

P&C insurance also has unique characteristics in terms of "investability." Given family offices' focus on capital preservation, many may be wary of investing in "startup" companies due to their initial lack of revenue, higher uncertainty, and potential loss of capital.

Startup insurers, however, are different from most startups in three critical ways:

1. They benefit from a positive cash cycle since they receive premiums upfront and don't have to pay claims until later.
2. Insurance startups are generally predicated on preexisting relationships with other ecosystem partners such as fronting carriers, reinsurers, and brokers; in other words, many P&C startup executives bring significant pieces of the necessary "piping" with them from prior executive roles in the industry (team "lift and shifts," for example, are quite common).
3. Startup insurers can scale (and do so profitably) faster than is common in other verticals. It is not uncommon, for example, to see insurance startups reach $100M+ in premium within just a few years.

Opportunity Abounds

Family offices are always hungry for direct investment opportunities (in which they forgo paying fees to third-party managers). Startup insurers can be launched – directly and without going through a traditional deal process – with anywhere from $5M to $1B in capital, depending on the family office's appetite as well as the insurer's business model, strategy, and aspirations.

The next few years may present an especially attractive time for family offices to deploy capital behind P&C companies, including startups. The basis of competition has evolved from scale (in which the largest insurers used their scale advantage to drive better pricing) to speed, creativity, and technological enablement. This is particularly true in commercial and specialty lines of business, which are highly fragmented and, therefore, conducive to new product innovation.

Family offices – given their varied "origin stories" tied to the specific industries in which the principals first found success – often have differentiated expertise in particular domains and so are especially well-positioned to help entrepreneurs identify the specific underwriting criteria, data sources, and distribution channels to underwrite profitably within their target niche.

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Technology as an Enabler and OneShield as a Partner

Given the complexity of insurance businesses – including the variety of products, distribution models, regulatory requirements, and so on – tight alignment between business and IT strategy is an imperative, and successful IT system design is consistently a top-3 priority for insurance CEOs.

As a provider of modern "core" software systems for the broader P&C insurance market – including policy administration, billing, rating, claims management, and reinsurance capabilities – we (OneShield) are well-positioned to help insurers succeed. OneShield has been serving the P&C industry for over 25 years, and so our software solutions are battle-tested across the variety of use cases that are specific to P&C (out-of-sequence endorsements, large schedule processing, in-house agency capabilities, etc.).

We also have pre-built integrations with numerous other data providers, payment processors, and other point-solution providers, as well as APIs, to support the continued growth of our partner ecosystem.

OneShield serves many of the largest and most recognizable insurers in the world.

Approximately one-third of our customers were startups when we began working with them. Some of those are now mature insurers that write over $1 billion in premiums per year, while others were launched more recently and are well on their way.

Our platforms, implementation model, pricing, and leadership team are all calibrated to help our customers get out of the gate and up and running quickly, whether they are de novo startups or established insurers replacing decades' worth of legacy code. We also maintain a network of insurance executives who will likely drive the next wave of success in P&C.

The explosion of data sources and the emergence of artificial intelligence are creating a new frontier for insurers to differentiate themselves and drive improved growth and operating performance across distribution, underwriting, and claims processing. OneShield is investing heavily in these capabilities and will be at the forefront of driving innovation in the industry for years to come.

If you are a family office interested in discussing opportunities within P&C (including some opportunities currently in incubation), I would love to meet you.

Please e-mail me at cparker@oneshield.com.