Basis for Independent Agencies' Demise & Ascendancy

by Chris Burand

The study by McKinsey & Company, "Agents of the Future" (June 2013), has certainly stirred up a hornet's nest. I am not sure I agree with all their points. However, too many industry defenders clearly have their heads in the sand based on some retorts I have read. Too many of their responses simply show they have completely missed the study's point. Their conclusions are driven by wishful thinking and fear rather than careful and unbiased consideration of the facts. An absolutely fantastic book summed up their conclusions with the first law of denialism: "The truth is NOT going to get in the way of people who are moved by faith, greed, fear, or desire to deny what they see." (*Denialism*, by Michael Specter)

I do not suggest anyone is motivated by greed, but motivation by faith and fear and desire for an alternative reality are definitely factors. Here are some <u>facts</u> that denialists might consider <u>opinions</u> that will cause significant pain to agents.

1. Predictive Modeling. An article in the Nov. 7, 2013 *Carrier Managemen*t showed that 82% of carriers are now using predictive modeling. Predictive modeling if it works reduces the need for agents to underwrite upfront. To some extent, it reduces the need for quality underwriting agents. In turn this means agents will be less responsible for loss ratios and therefore, contingencies are likely to decrease. Contingencies are likely to decrease too because predictive modeling is not just a profitability tool but more important, it is a market share tool.

   Predictive modeling then, at least during the first two iterations, will almost certainly reduce agency compensation. Since a high proportion, maybe a majority, of agencies are dependent on contingencies for profit, this transition will be painful. Without profit, reinvestment in marketing, sales, new people, and IT systems will become difficult, maybe impossible, for some to make. If agents do not invest in the future, their futures are poor.

2. Independent agents do not have a widely recognized brand. Those arguing otherwise are wishfully thinking. The industry by and large does not remember that agents do not have a brand by design. Independent agencies were created to sell insurance, <u>not market insurance</u>. To sell insurance on an individual basis is an entirely different business model than to sell insurance through multi-million dollar marketing programs. The selling insurance model is much cheaper for insurance companies. This is why those firms advertising so heavily often pay much lower commissions or no commissions.

   Even if a brand is established, establishing and sustaining a brand on a broad scale is awfully expensive. I understand that $6 billion will likely be spent on insurance advertising and branding in 2014. To put this into scale, $6 billion is more than all but approximately 30 insurance companies' annual total Net Written Premium. Keep in mind, the industry has approximately 800 insurance companies. However, $6 billion is only approximately 3% of the Net Written

Premium of the ten or so companies spending most of this money, so it's not going to break the bank and 3% is less than 12% of commissions. (The fact that approximately 10 carriers can spend more on advertising than the amount of NWP generated by 95% of carriers goes to show market concentration. 50% of all NWP is written by only 11 companies. This concentration should be, but typically is not, considered in these discussion.) Whoever is paying for that brand, whether it is agents or companies, has to cut costs elsewhere because profit margins are too marginal for agents have it both ways. (This expense is why firms are either selling-firms or marketing-firms but few can afford to be both.) Pick your poison.

Another way of looking at this is to be careful what you wish for. If a lot of money is spent establishing a brand but the users of that brand are not of consistent quality, what happens to the brand? For example, if some McDonalds were good and some were awful, would the McDonalds' brand still have the same value? In fact, would the brand even stand for what McDonalds wanted it to represent?

3. Many agents do not and have not delivered relevant value to insureds on a consistent basis. This is a powerful statement likely to be met with considerable anger and denial. However, the facts support my statement and in fact, one fact supports this statement. At least 90% of agencies do not consistently use coverage checklists to thoroughly offer clients the coverages they need. A large proportion of agencies quote insureds the coverages requested. Here's one of many problems with quoting requested coverages: A computer can do that job for a whole lot less money. The agency is not providing ANY value by simply quoting requested coverages.

The opportunities technology presents, the opportunities created by complacent agencies, and the opportunities created by educating clients on the coverages they truly need are infinite. Two keys exist to taking advantage of these opportunities. The first is to go back to the agencies' roots and sell again. Truly get out the door and sell insurance, sell solutions, sell relationships, but SELL.

The second is less obvious and that is consistency. Consistency is boring. How many seminars have you seen titled, "Come to our great seminar on being consistent!"?

Yet consistency ties these three points together as tightly as the best woven tapestry. Predictive modeling may not be as good as many companies, actuaries, and software developers proselytize, but it will be consistent. A huge frustration for companies is agency inconsistency. Obviously different agencies will act differently but even the inconsistency from one submission to another from the same agency is often enormous. The lack of consistency costs companies too much money. Furthermore, they cannot judge with required accuracy the effects of their prices and products. The margin of error used to be much larger than today and companies need this accuracy to day.

Even within a single agency workflow, and therefore customer experience, is rarely consistent. The quality of one producer to another is not consistent. How can one have a quality brand when one producer is excellent and another from the same agency cannot spell insurance? What is quality without consistency?

Consistency decreases costs and lower costs increase profits. Consistency increases quality and increased quality increases value and the value of the brand. Agents that focus on every aspect of consistency within their agencies have tremendous opportunities to increase sales and profits. While it is bold and self-serving to write that I have developed incredibly good tools for measuring and improving consistency and quality, my tools provide agents an unmatched opportunity in these areas.

The winners will be those leaders who build an agency who has consistency in its processes and procedures and quality producers. Their quality will speak for itself building the best of all worlds: a brand built on delivery and sold by people who know what they are doing. The only question is whether your agency will be one of the winners.

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