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Future of Agent Distribution

A funny thing is happening on the way to the future.

As consumers' and carriers' behaviors, attitudes and expectations have been changing, independent agents are evolving to better serve both customers and carriers.

In terms of customers, agents who have been lectured for years about adding value, are positioning themselves to offer products and services their customers want when and how they want them. In terms of carrier-agency relations, agents are maneuvering to where they may now have the upper hand and some carriers need them more than they perhaps ever have.

Heading further into the future, experts say the lines between agency types will continue to blur and brick-and-mortar agency operations may become less important. At the same time having a local brand, including a digital presence in a community and in targeted markets, is so important and will perhaps become even more so in the years ahead.

As they head into the future, agents are positioned to become even stronger as they continue to evolve to meet the needs of customers and carriers.

Power Shift

The main point about the future is that the power balance in the industry has shifted, with insurance carriers now relying much more heavily on distribution than in years past when underwriting was king.

Dennis Chookaszian, University of Chicago professor and the former CEO of CNA, analyzed the carrier-agent shift at an Insurance Journal sponsored conference in July 2018. "If you look at the profitability of an insurance transaction today, maybe 40 percent or close to 50 percent goes to distribution, [while] the underwriter gets 30 to 40 percent and service has come up to maybe 5 percent to 10 to 15 percent," Chookaszian said.

That's a big shift from 40 to 50 years ago when carriers derived most of their profitability through positive underwriting results. "Today, the core competency has shifted primarily to distribution and control of the customer," he said.

He believes large commercial brokers in particular command the power in today's industry quite simply because they control the customers.

"What's happened is that the carrier has been unable to sustain the margins that they once were able to achieve, and those margins have gone to both distribution and service," he said. "In the end, the profitability of an insurance transaction is controlled by core competencies."

Today, brokers are valued more highly, according to Chookaszian, because they are able to achieve a higher return on equity.

“While distribution in the past was kind of sleepy and the insurance agents would make a little bit of money,” industry competition for customers has fueled a “fundamental shift toward distribution,” he told Carrier Management in a 2018 interview. “It’s become so competitive that the carriers basically are always out looking for new accounts,” and in their efforts to capture new business, “they’ve got to pay more in commissions.”

Old Lines Blurring

Old definitions of agency types — captive, independent and direct channels — are less useful than they used to be.

“The three major forms of traditional distribution — captive, independent agency and the direct channel — as we know it, that’s all kind of gone out the door,” said Matt Masiello, CEO of SIAA. In his view, the industry has experienced a “merger” of distribution channels. “Now we’ve got all these other things — online aggregators claiming that they’re independent agencies and box stores doing [selling] insurance and claiming that they’re independent.”

On top of that, carriers are themselves experimenting with multiple forms of distribution. Masiello sees the changing focus on distribution as a huge opportunity for all independent agencies, not just for the large brokers.

“Consumers are looking for choice” and that’s going to benefit the independent agency channel, he said.

Not only are traditional captive carriers reducing their captive agent pool, but they are also opening their doors to independent agents, Masiello added. “In many instances we’re now representing those same brands … independent agencies now represent Liberty, Nationwide and Allstate, all these brands. Where there’s a captive vacuum created in some of these communities, independent agencies not only have the ability to fill the gap, but also have the ability to fill it with the same brands that the consumers had before,” he said. Consumers don’t know whether their insurance is represented by a captive agent or an independent agent. “That’s a huge opportunity for independent agencies to get out in their marketplace, raise their hand and say, ‘Hey, we’re here, and we have choice.'”

Consumers do not delineate among distribution channels, according to Mark A. Ribisi, president and CEO of AIS Management. The process by which consumers now purchase insurance can be a circuitous route similar to purchasing cars where consumers bounce between online and in person purchases, he said.

“Research is performed online and execution occurs direct, through an independent agent or captive,” Ribisi said.

“I believe that the lines between channels will blur,” he predicts. “Independent agents will be important, but they will need to be more comfortable with consumers that come to them online.”

Human touch will remain important to many. Even today, all direct funnels have a call center, he noted. Ribisi predicts on-demand buying and consumer choice will affect other lines the way they have personal lines. “Certainly, in the personal lines space, insurance shopping has become an on-demand product,” he said. “Consumers want the flexibility to purchase it and use it when, where and how they want.”

Staying Local

Building and maintaining a local identity in a tech-focused global age will be a challenge.

SIAA's Masiello believes the local brand will become even more important than it has been in the past. He admits he's bullish on the local brand as SIAA's membership encompasses many smaller, family-owned agencies, but he's a believer that most people still want to buy locally.

"The challenge for local independent agencies will be how to remain relevant," he said. "They can't be the independent agency of the past. They're going to have to evolve. They're going to have to have a digital footprint in their community."

Ribisi believes that the internet has changed the definition of local brand. The traditional agency brick-and-mortar brand is not as important because more consumers wish to transact and interact via mobile devices and online.

"Typically, it has been brick-and-mortar with a sign," he said. "The reality is that 20 years ago, part of the agent's value proposition was access to products. Now, there is unlimited access to product 24/7 online so the agent value proposition has to evolve."

One way to evolve might be to pay attention to demographics. Ribisi cited the insurtech insurer Lemonade's ties to altruism as an example. "Profits are passed to charities," he said. "That may have value in certain demographics."

He also thinks independent agencies will have to offer more advisory services and be able to target niche markets to succeed in the future.

For AIS, losing some of its brick-and-mortar brand has been a good thing. "Over 40 percent of our staff is home-based and reside in eight states." That has allowed AIS to have expanded hours of operation while lowering the attrition rate. Plus, Ribisi says the firm doesn't risk losing good employees because they decide to relocate.

Brightway Insurance, a national property/casualty insurance retailer selling through franchised independent shops nationwide, is banking on the local brick-and-mortar still being somewhat relevant.

"We believe a local presence is important to consumers; it gives them the peace of mind that there is someone in their community with whom they can speak/ask questions if they want to," said Leslie Kolleda, vice president, agency growth and development, at Brightway Insurance.

However, whether the interaction happens in a brick-and-mortar location, by phone, or video chat, is not important. "What's important is that the consumer has the choices in how, when and where to interact with their agents available to them," she says.

Brightway began franchising operations in 2008 and is now in 21 states but serving customers in all 50 states. Brightway agency owners receive customer service, carrier relationships, marketing, accounting and technology tools.

"So, while we believe a local presence is important and a well-known brand is important, what's really important is that, as an insurance distribution company, we are committed to helping consumers do business with us in a way they want, when they want," Kolleda said. "The onus is on us — as agents — to be there in ways that are meaningful to consumers and that fulfill their needs at the time."

Technology Levels the Playing Field

Technology is creating new opportunities in agency distribution by changing the user experience.

Sean Conrad, principal at EPIC Insurance Brokers & Consultants in Irvine, Calif., likens the insurance industry to the transportation industry where tech-enabled firms such as Uber have been able to disrupt a very established industry by changing the user experience.

“People decided, ‘I liked this experience better and I’m going to use this instead of calling a number for a taxi.’ The company grew enormously and I think that surprised everyone in that industry,” he said.

He sees similar trends happening in insurance as technology continues to level the playing field.

“When you have an absence of customer choice, and you have very solidified giants in a space like the insurance brokerage space, it can feel like buyers have limited selection,” he said. But technology changes all of that as the user experience becomes more and more important, he says.

“I’ve met people in my local market that are starting new agencies that are leveraging technology and a user interface and pitching this to middle market companies,” he said. Years ago, those middle market firms would never have given a new, start-up agency the time of day. “Now they’re taking a look at those agencies and saying, ‘Hmm, interesting. It gives me a different user experience. Something I’m more accustomed to, or that I as a consumer just like better.'”

Technology allows new players with good ideas to push those out into the world in a cost-effective way, Conrad said.

“If buyers like what they see, they’re prone to give those new companies or people that are doing new things that feel a little bit more like an Amazon, Uber-type experiences, I think they’re going to get an opportunity to pitch that to buyers that maybe a couple of years ago would never consider it,” he says.

It’s not only customers who will enjoy a better user experience. Agents themselves should enjoy better working conditions and tools.

“I think more is going to be expected out of agency management systems,” Conrad said. The overall customer experience depends on that — from agent customers to consumers. “There’s going to be a continual push to develop those systems and I think there are possibly changes on the horizon with better versions from an agency operator side.”

How agencies prospect for business has already changed, with a focus on data.

“The expectation today and in the future will be that if you’re going to prospect and call on a middle market company, that you have a very full picture around that business and how they fit into their industry,” Conrad said. That means having data.

“Using data from a variety of sources is going to be more and more important when insurance professionals walk into a prospect meeting,” Conrad said. That means agents must understand on a real functional level what’s happening with that business. “What that business is all about, what they do, their unique signature in terms of their loss profile, what’s happening with claims, what’s happening on the employee benefits side,” he said.

Agents must be equipped with knowledge on the business’ competition, too. “Are they an outlier in the sense that they’re performing better than their peers and, if so, what’s the strategy to help them continue to stay out in front? Are they having some challenges in areas like claims that are causing them to be less than competitive and then as an agent or as an advisor, how can you fix that?”

Consolidation and Partners

Professor Chookaszian thinks agents are in a strong position.

In fact, they may be so strong that they are scaring some property/casualty insurance companies, according to Chris Burand, CEO of Burand & Associates and columnist for Insurance Journal's The Competitive Advantage.

The ones that are scared are scared because of scale, Burand says. The consolidation of agencies, especially the very large brokerage houses, is a real concern. "Consolidation that is happening today has led to 15 distributors of insurance that are bigger than all but say 40 insurance companies out of 900 insurance companies in total," Burand said. "And the insurance companies are pretty nervous about this."

Some carriers are smart and they don't care. "They know they're smart enough to make it work anyway, and that's valid,"

Burand said. "But a whole lot of companies out there are pretty scared, because they've never run their company in a fashion that wasn't dependent on being able to tell their agents exactly what to do." And now agents, the top agents, whether it's an aggregator [group] or whether it's a consolidator … they're in the position to absolutely tell those companies what to do."

Agents now have the power to tell their carriers to invest in technology, to invest in interface and automation.

"Some of these consolidators and aggregators are going to force this issue; they're already starting," he said.

To counter, carriers are creating partnerships of their own. "They have invested collectively billions of dollars in about 100 new insurtech independent insurance agencies," he said. "So their idea I think, I can't speak for all of them, is to invest and partially own these new independent insurance agencies. It's their counterweight to the consolidation that's occurring. And if the consolidators, aggregators are too big, then they can maybe place more emphasis back on these insurtech insurance agencies they own."

It's an arms race, Burand says. "The battle from the agents' perspective is to get big enough to thwart the carriers' growth," he said. "So, they sell or join clusters."

Burand predicts the battle between agencies and companies will continue to go back and forth as they fight for control over customer relationships in the future. "It's about control of that customer relationship," he says.

Obtaining and maintaining that control in a competitive environment will take work, as always. "Agents have to decrease their cost and/or increase the quality of their service," Burand said. "They don't really have a choice because in a perpetual soft market with all this competition companies are going to be pressed to find less expensive ways to distribute insurance."

SIAA's Masiello sees more evolution ahead in terms of agency relationships with customers and carriers. "Independent agencies that are just sitting there servicing their books of business, that's not a value proposition to either the companies or consumers," he said of relationships with customers.

"They've got to start to evolve into a sales-distribution, community-based, brand-based, both digital and out in the community doing things [organization]."

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