

JUNE 2016

## **The Future of Insurance's Agency Distribution Model:**

# **3 QUESTIONS EVERY INSURANCE AGENT OR BROKER SHOULD ASK**

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# The insurance industry is often referred to as one the world's oldest professions.

In fact the earliest resemblance of insurance can be found in written records dating back to 1700 B.C., in the famous Babylonian Code of Hammurabi. This Code documents the first method for transferring risk by the early Mediterranean sailing merchants.

Much has changed in insurance in almost 4,000 years, yet at its core, the concept of insurance remains unchanged—a means by which risk can be mitigated and spread across a large number of people (policyholders) to effectively, and financially, absorb a loss when it occurs. One thing we know about the insurance industry is that risk is never completely eliminated. The industry works to avoid, prevent, and reduce losses where possible, but it also quite realistically plans for losses to develop over time.

In the United States, it was one of the country's Founding Fathers, Benjamin Franklin, who was credited with developing the **MUTUAL PRINCIPLE OF**

**INSURANCE** “whereby every man might help another without any disservice to himself.” Franklin’s creation was designed to protect homes specifically from the peril of fire. It wasn’t until the early 1800’s when Providence Mutual introduced the concept of “gentlemen” being appointed as agents to transact business on behalf of Providence Mutual. And so it began...the agency distribution model.



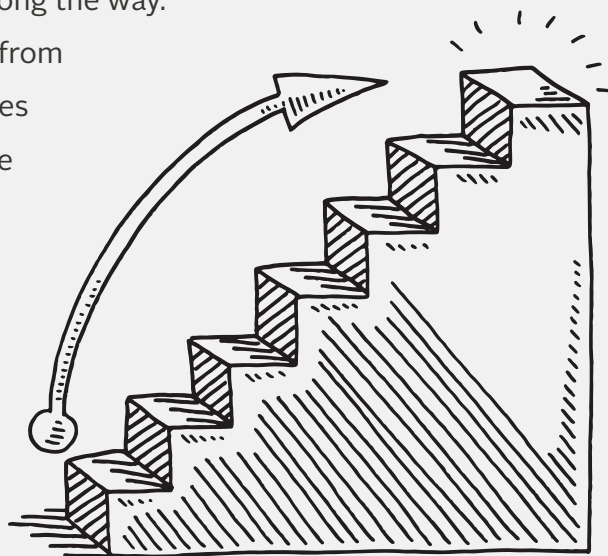
## Over the past 200 years the insurance industry has seen a number of advancements.

The industry has created financial giants, while providing insurance, also involved in broader, and far-reaching financial services.

AIG, Berkshire Hathaway, Hartford, Principal, Travelers, and Zurich are just a few companies that offer services far beyond the standard issuance of an insurance policy. And while some of these companies provide consumers with the ability to conduct some business online, most still rely heavily on either appointed agents or independent brokers to distribute their products and services.

Companies like Progressive, Geico, and Hiscox are growing concerns that have begun to change how insurance is sold, purchased, and serviced. These innovators have studied the buyer, identifying the journey a buyer takes to purchase insurance and other financial services. In doing so, these innovators have created a new way to buy that provides a clear path for the buyer offering assistance along the way.

This approach is radically different from the insurance of yesterday that relies on the agent selling, and leading the way, rather than recognizing the buyer as the one in control and the sales person simply guiding them through their journey.



**ONE THING IS FOR SURE, CHANGE WILL CONTINUE.** Technology will advance, buyers will continue elevating their level of sophistication based upon the availability of information, and expectations surrounding every buying process regardless of product or service will change. **By holding those key beliefs there are 3 questions to ask if you're an insurance agency or brokers:**

01

Will all insurance carriers go the route of self-serve?

02

What will become of the 200 year old agency distribution model?

03

What value will an insurance agent need to provide to a customer to remain relevant and in business?

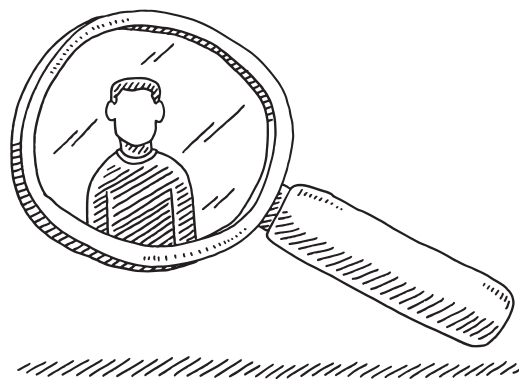
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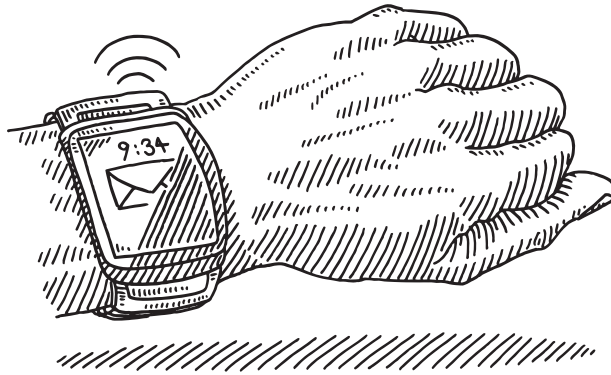
## Will all insurance carriers go the route of self-serve?

During the 2015 Insurance Industry Summit, more than 100 insurance executives gathered for two days to discuss the agency distribution model. It is clear that carriers and agencies, both large and small, recognize the current model is not sustainable. Why? The deal economics are no longer aligned. Carriers are doing more of the work via call centers and systems — work the agents were previously doing yet in most cases commission rates haven't been adjusted to accommodate for the carriers increased operating expense. Or said more bluntly, insurance carriers have yet to decrease commission rates to their agency plant as an offset for their rising costs. Each carrier appears to be waiting for one its competitors to take that first leap.

In a published report by McKinsey & Co., in 2015, it sites the average age of an insurance agent in the U.S. is 59. And while the number of new insurance agents increased in 2014 by 9% from the previous year, the industry as a whole has done a poor job of marketing itself to younger workers as a viable career option.

The millennial generation is often called the “generation of purpose.” They are driven by purpose. The desire to fulfill a purpose over all things including money is at the core of this new age of workers. Yet the insurance industry has yet to develop a message that resonates with this audience.





Instead the industry is focused on playing catch up with technology. Online applications, portals, e-quotes, and self-service capabilities all seem to squash the need to create messaging that speaks to Millennials at a time when baby boomers are retiring at record levels.

How will agencies back-fill this incoming tsunami of retirements? According to a related study MarshBerry conducted, agencies will need to hire 3 producers to every one retiring. Doing the math suggests that by 2018 more than 25% of all insurance agents will be out of the workforce. To get to even, would require hiring 3 times as many that will retire given turnover and fallout. Insurance agencies alone will struggle recruiting and finding this talent without the assistance of carriers willing to invest in creating an “insurance branding” campaign to attract our younger, purpose driven, workers of tomorrow. The fact is that this upcoming generation’s comfort and familiarity with technology is exactly what this industry is in such dire need of, and could create a strong win-win if only done now, and done right.

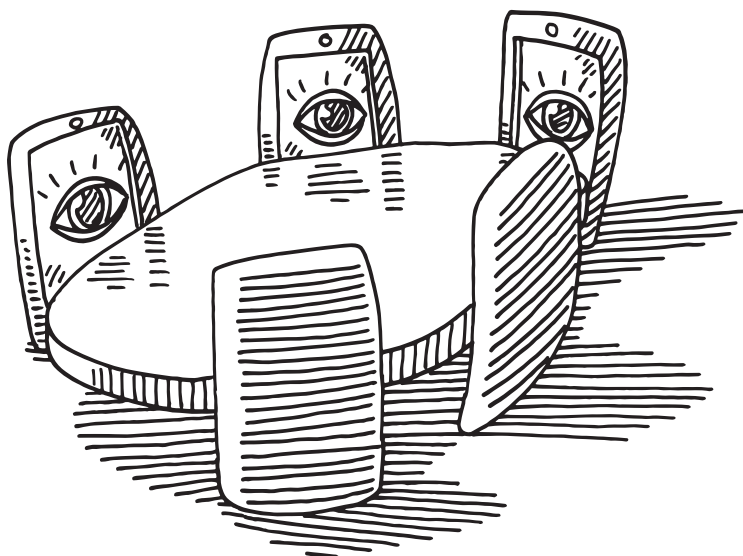
# 02

## What will become of the 200 year old agency model?

If the likes of Amazon, Google, Progressive and Geico have taught us anything, it's that consumers want the choice and control over what they buy, when they buy it, and how they buy it...and that goes for everything from shoes to insurance. According to the Insurance Information Institute, more than 3 million auto insurance policies were purchased online in 2012. In the year following, 2013, direct writers accounted for more than 70% of all auto and homeowners insurance sales, while independent agents and brokers accounted for 67% of commercial insurance sales.



Pandora's box has been opened with personal lines. Direct writers have created a buying process that takes the complexity out of what was previously thought to be a much too complex product that required human interaction to sell. Taking the complex and making it simple lies at the heart of an innovators passion. Here the words "never", "won't happen", or "not in my lifetime" just don't exist. Carriers, along with agents and brokers, should be summing together. Their interdependence with one another is where the value lies. Agent Advisory Councils are part of many insurance carriers strategies. Agents should seek opportunities to participate on councils to hear first hand the developments in the marketplace, and to have a front row seat to share their ideas and perspectives.



Taking an active role with carrier partners will provide line-of-sight between the opportunities and challenges the carrier faces and the role its agents and brokers can play in partnership in addressing each.

We are at a point in history where even the most complex services can be obtained online. Imagine, you can now be seen by a virtual Doctor, online, who will “examine”, diagnose, and provide treatment without ever having to step foot in a Doctors office. You can purchase an \$80,000 electric vehicle from Tesla completely online without ever visiting a dealer. Sure, Telsa doesn’t operate a dealer network so there’s not really a choice, yet tens of thousands of people will purchase a Tesla “virtually” rather than via a showroom. Those who have the foresight and ability to adapt will survive and thrive. Accepting and embracing the belief that anything is possible to change, even when it comes to something that’s 200 years old, is the first step to becoming an early mover.

# 03

## What value will an insurance agent need to provide to remain relevant and in business?

If someone said you'd have to learn one new skill every month in order to stay in business could you do it? Would you do it?



Your customers are doing this times 10 without even knowing it. Our dependency on the constant availability of seemingly endless information only continues to grow each day. In fact, the more access we have the more we want. It's not enough to be able to find out who invented plastic as you're sitting at home at 7 o'clock at night. No. You need to be able to find this out at 10 am while you're riding the train, toweling off at the gym, or getting your hair done. (By the way, Leo Hendrik Baekeland invented the first plastic based on a synthetic polymer in 1907 in New York) Our appetites for information and knowledge has become insatiable.

A study released in 2015 indicated that the average American checks social media 17 times a day. And if that doesn't seem high already, other countries such as Mexico, Qatar, South Africa, and Thailand check social media more than 40 times each day! Including talk time, American's spend nearly 5 hours every day on their smart phones. These are your buyers. These are the same folks who need insurance, will buy insurance, and will change from carrier to carrier.

In its Mobile Path to Purchase study conducted by Nielsen, xAd and Telmetrics, it found that 50% of insurance seekers start their buying journey on a mobile device. That means if you're hit ratio (submit to bind) is 30% you have 3 prospects shopping you and one selecting you. Of the 3 potential insured's shopping you, 1.5 are checking you out online. Are you there? Do you have a presence? Is it that presence aligned with what your buyers are interested in and looking for? Are you talking their lingo or are you forcing them to understand yours?



Remaining relevant with today's insurance buyers takes time and consideration. Agents need to consider their buyers journey and embrace it by creating content that resonates and is produced in a format they will happily engage with. Knowing what's important to your buyer, demonstrating you care, and providing value that addresses their pain is best way to remain relevant in a changing world.

#### ABOUT THE AUTHOR

Joe DeRosa has held various senior leadership positions over the past twenty years, many of which have been with Fortune 500 companies and venture-backed firms. A respected marketing and sales executive, DeRosa has been responsible for record-setting revenue streams for companies involved in financial, business, professional, and insurance services. He also earned a BA in business management from St. John Fisher College.

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