

# Best Practice Considerations For Agency Networks

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# Agenda

1. Historical Context of Insurance Distribution by Independent Agents
2. Future of Insurance Distribution by Independent Agents
3. What Drives Best Practices for Networks Going Forward

**If you build your best practices for today, you will lose tomorrow. Best practices need to be built to tomorrow's network.**

# **1. Historical Context of Insurance Distribution by Independent Agents**

# Historical Duties, Services, and Compensation

- Data Gathering
- Upfront Underwriting
- Servicing
- Sales

# Historical Duties, Services, and Compensation

- Data Gathering

# The Future Agency

Going forward, if a company does not need agencies to acquire data, then does a company need to pay agencies to complete applications?

# The Technology Impact

What happens if companies do not need agents or customers to complete applications?

"We're going to go from asking hundreds of questions on insurance to asking none - zero. We're piloting it now. We're going to roll it out" - Aviva CEO




Mark Wilson says shoppers will soon be able to buy (home insurance) policies without filling out endless forms.

Speaking of zero.... "We have a business owners policy product and there are no underwriting questions. Zero." - Melissa Hill , Senior Vice President, Chief Resolution Officer at Hamilton Insurance Group. The Gist: Melissa describes a workflow where an agent submits a name and an address and the Hamilton System (Attune now) conducts various data calls - such as credit information and location details - to later (seven minutes later, to be exact) supply the agent with a quote. Big beautiful zero. 4-19-17

## Alexa, I'd like a quote for my Tesla

Alliance Insurance Services, a NC-based insurance agency founded in 2004, [announced](#) that customers can now use Alexa to obtain car insurance quotes. Here's how it works. An Amazon Echo user activates the 'Alliance Insurance North Carolina car insurance quoting skill' to later respond to a series of questions. The answers are sent to a third party rating engine, and at the end of the process, the user is presented with a quote. The data is stored in the Alexa phone app to allow the user to pick up the quote at any time. Recall insurers into conversational commerce below.

### INSURERS WITH VOICE COMPUTING SKILLS

		Alliance allows consumers to shop for auto insurance using Alexa.
		Allstate clients can ask Alexa for help finding the due date on their next bill and what's the minimum amount they have to pay.
		Aviva developed a skill for Alexa that helps demystify some 300 insurance terms.
		Grange developed a skill to allow Alexa to help consumers find an agent and learn general info on insurance products.
		Liberty Mutual allows consumers to better understand insurance terms related to home and auto insurance using Alexa.
		Progressive offers money-saving tips related to one's home & car on Google's voice-activated speaker.

coverager

[www.coverager.com](http://www.coverager.com)



# The Future Agency

Virtual insurance agent Insurify

- License plate quoting
- Making recommendations based on web-based risk profiles using natural language processing

Cover

INSURE ANYTHING IN A SNAP!

# INSTANTLY GET THE BEST PRICE FOR INSURANCE

TAKE A PICTURE OF YOUR  
CAR, HOME, PHONE OR PET

DOWNLOAD FREE

AUTO, HOME, TRAVEL

& EVERYTHING ELSE YOU NEED TO INSURE



CAR



PHONE



PET



JEWELRY

# Historical Duties, Services, and Compensation

## Data Gathering

- What then is your strategy relative to losing compensation for completing apps?
- How does your strategy on this point drive your Best Practices?
  - Cut costs?
  - Develop your own apps?
  - Create some other process by which to decrease data acquisition costs for your carriers?

# Historical Duties, Services, and Compensation

- Data Gathering
- Upfront Underwriting

# Historical Duties, Services, and Compensation

Quality was only really measured by the variables in a company's profit sharing contract which generally are:

- Loss Ratio
- Growth Rate
- Volume

# The Future Agency

## Effect of predictive modeling:

- If a company does not need agencies to underwrite successfully, do they need to pay agencies to upfront underwrite?
- Keep in mind, with approximately 98% of companies using predictive modeling/underwriting, and paying underwriters and agencies to underwrite, it is like paying three entities to do one job

# The Future Agency

If companies do not truly need agencies to provide application data and do not need agencies for upfront underwriting, what is left?

# Historical Duties, Services, and Compensation

- Data Gathering
- Upfront Underwriting
- Servicing



# Servicing

Companies need agents to service – for the time being:

- Provided agents don't give the servicing to them (i.e., service centers)
- Technology is coming quickly that will diminish and even eliminate much traditional servicing, especially for transactional agencies
- Servicing in the form of high quality counseling is all that won't eventually be replaced

# Historical Duties, Services, and Compensation

- Data Gathering
- Upfront Underwriting
- Servicing
- Sales

# **Companies Need Distributors to Increase Sales**

The world is becoming safer and the safer the environment, the less insurance will cost meaning premiums WILL decrease (in general).

# Companies Need Distributors To Increase Sales

The world is becoming so much safer that even after \$79 billion in insured cat losses in 2018 and \$150 billion in 2017, the worst two-year period on record according to SwissRe, reinsurance rates are not increasing much.

# Companies Need Distributors To Increase Sales

Technology will decrease losses and will, therefore, decrease premiums:

- Driving device monitors
- Driver cameras
- Driverless cars
- Cars talking with other cars and traffic lights
- AI programming that has and will cut miles driven by identifying more efficient routing (fewer miles means fewer trucks)
- Car sharing

1-9-18

"USAA [announced](#) a collaboration with Honda and ConnectedTravel, a connected vehicle platform and application services company, to develop a safety coaching application for the automaker's driver program - Honda Dream Drive. The USAA-branded driver coach feature will include a rewards platform to incentivize safe-driving behavior within the app, along with a dashboard view of the driver's scores across key safe-driving categories, which will allow the driver to drill down into specific areas to improve his/her driving score. Honda Dream Drive is the automotive industry's "first integrated driver and passenger infotainment, commerce, services and rewards dashboards" within the vehicle environment.

"USAA looks forward to assisting Honda in developing a safety coaching application for their Honda Dream Drive program. Our long history promoting driver safety and developing safe driving programs will enhance Honda's in-vehicle experience. USAA cares deeply about roadway safety and believes that collaborations of this type can greatly increase safe driving behaviors." - General Manager, USAA Auto Insurance, Randy Termeer. Bottom Line: [We said it before](#) - insurance is most convenient when integrated with other products or services."



# Protect Your Home From Water Leaks

Prevent catastrophic damage and high water bills

Buy Water Hero Now



Builder

AS FEATURED IN:



FASTCOMPANY

Very easy to set up and has performed perfectly from the first day. Overall, very pleased with the product.



Frank L – Los Gatos, CA





# TOP FIVE WAYS THINGS CAN GO WRONG



## MOST COMMON CAUSES OF DAMAGE

To help you better focus on what could go wrong, we analyzed eight years of claim data to discover the most common causes of property damage.\*



**WIND**  
**24%**

High velocity winds can uproot trees, damage roofs, collapse walls or worse.



**NON-WEATHER  
WATER**  
**20%**

Plumbing, sewer or appliance leaks and failures can create devastating losses.



**HAIL**  
**16%**

Hail typically damages roofs, but may also harm windows, siding and more.



**WEATHER-RELATED  
WATER**  
**11%**

Leaky roofs, frozen pipes that burst and ice dams can really take a toll.



**THEFT**  
**6%**

Break-ins may result in both personal property losses and property damage.



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\*Percentages displayed are based on total number of Travelers personal insurance property claims from 2009-2016.

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# Outside Predictive Modeling Will Decrease Losses

## Examples:

- Profiling decision making risk sensitivity

# Outside Predictive Modeling Will Decrease Losses

## Other Test Results - Factoid Results

### PLEASE READ BEFORE ORDERING OR VIEWING YOUR RESULTS:

When ordering or viewing your individual "Factoids", you acknowledge your understanding that these tests are based on studies - some of which may be controversial - and results are not intended to diagnose disease or medical conditions, therefore not serving the purpose of medical advice. They are offered exclusively for curiosity purposes, i.e. to see how your result compare with what the scientific papers say. Other genetic and environmental variables may also impact these same physiological characteristics. They are merely a conversational piece, or a "cocktail party" test, as we like to call it.

#### LIST OF "FACTOIDS"

##### Alcohol Flush Reaction



More Information and  
Ordering

[Order Now](#)

##### Avoidance of Errors



More Information and  
Ordering

[Order Now](#)

##### Back Pain



More Information and  
Ordering

[Order Now](#)

##### Bitter Taste perception



More Information and  
Ordering

[Order Now](#)

##### Caffeine metabolism



More Information and  
Ordering

[Order Now](#)

##### Earwax Type



More Information and  
Ordering

[Order Now](#)

##### Freckling



More Information and  
Ordering

[Order Now](#)

##### Longevity



More Information and  
Ordering

[Order Now](#)

##### Male Pattern Baldness



More Information and  
Ordering

[Order Now](#)

##### Monoamine Oxidase A (Warrior Gene)



More Information and  
Ordering

[Order Now](#)

##### Muscle Performance



More Information and  
Ordering

[Order Now](#)

##### Nicotine dependence



More Information and  
Ordering

[Order Now](#)

# Outside Predictive Modeling Will Decrease Workers' Comp Losses

## Examples:

- Exoskeletons
- Wearable sensors



# The Future Agency

## Expectations of Outside Technology Driven Losses:

- 40% decrease in non-cat property losses
- 10%-20% decrease in auto losses
- Too early for reasonable estimates of workers' comp decreases but almost certainly material
- Won't happen overnight

# The Future Agency

Technology driven underwriting commoditizes the agent from a company's perspective because:

- When this technology is fully adopted, losses are predicted to decrease 40%-60%
- Including better auto loss ratios, premiums will decrease as much as \$109,000,000,000!
- For perspective, that is more premiums than all the P&C carriers ranked 90-900 by NWP market share combined!

This is why companies need organic growth!

# The Future Agency

- Historically, independent agencies have been a hybrid of a professional and a peddler
- Agencies of tomorrow will be dichotomous
  - Pure order takers
  - True professionals

# Order Takers/Peddlers

## Two categories:

- Traditional agencies that will largely be members of aggregators/clusters that somehow decrease client acquisition costs to carriers
- Considerable InsureTech agencies that also decrease client acquisition costs

# The Future Agency

## Next Insurance:

- \$13 million invested in 2015 and didn't even launch a product until Spring 2017
- Announced that it would sell insurance via Facebook Messenger (March 2017)
- American Express invested in June 2017. Total Series A round = \$35 million. Other investors include:
  - Munich Re
  - Markel
  - Liberty Mutual
  - Nationwide
- \$83 million more invested in June 2018 and transitioning into a carrier (tbd)



# The Future Agency

## CoverWallet:

- \$30 million invested (\$2 million three years ago when I started following them)
- Concierge service for small businesses
- Market is 20 million small businesses
- Includes automatic risk analysis, document management, benchmarking analytics, data-driven risk and insurance assessments, coverage recommendations, and claims support
- Starr Insurance bought a stake in July 2017
- Any independent agent can use CoverWallet now if they are licensed, sign the agreement, and show they have \$1 million E&O  
In return they get:
  - The CoverWallet tools
  - Access to, “Chubb, Starr, CNA, Travelers, Liberty Mutual, Hiscox, among others.” Carrier Management 1-9-19

Carrier		Agribie	Alley	Allstate *	American Well	Amino	Agilent	Attune **	Automatic Labs	GeneStream	Bettenview	biBERK	BloomAPI	Boost	Buddy	Bunker	Deep Analytics	Capticity	Wave Health	Compare.com	CoverHound	CoverWallet	Cozy	Crop Pro	DataRobot	Related Health
ACE Group																			?	?						
Admiral Group																			?							
Aegon																										
Aflac																										
AIG							?																			
Archer Daniels Midland Co.	?																									
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Aviva																										
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Berkshire Hathaway (Guard)											?															
Blue Cross Blue Shield		?							?																	
C.N.A																										
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China Pacific Insurance																										
Chubb																										
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CSAA																?										
CSE Ins Grp																										
CUNA Mutual																										
Employers																										
Everest Re																										
Foremost Ins Grp																										
Greenlight Re																										
Guardian																										
GuideOne Ins																							?			
Hamilton																										
Hanover Ins Grp																										
Hartford															?											
Heffernan Insurance Brokers																										
Hiscox														?												
Houston International Ins Grp																										
Intact																										
Liberty Mutual																										
Maiden Re										?																
MAPFRE Ins																										
Markel																										
MassMutual						?																				
Mercury Ins Grp																										
MetLife														?												
Mitsui																										
MunichRe																										
National General																										
Nationwide										?																
New York Life Ins Co																							?			
Northwestern Mutual					?																					
Pacific Specialty																										
Progressive																										
QBE - Farmers																										

# The Future Agency

## InsureTech:

- Per A.M. Best, Dec. 30, 2018:
  - 1,500 InsureTech firms (this includes carriers, vendors, and agencies)
  - Approximately 750 were founded between 2012 and 2016
  - \$2 billion was invested in 2018

# The Future Agency

## InsureTech:

- Per A.M. Best, Dec. 30, 2018:
  - “We are very focused on the partnership angle.” Ted Stuckey, Managing Director of QBE Ventures.
  - “There is a demand for incumbents to meet the needs of their customers, whether through their digital experience or more customized products,” Jennifer Byrne, the Co-Founder and President of innovation consulting firm Quesnay. “Insuretechs have developed relevant solutions and can look at the problems in a way that incumbents haven’t been able to and at a faster pace. Incumbents have a lot of value to provide as well, their data and customer base, in particular, are why many insuretechs are looking to partner rather than to disrupt -- something that isn’t as common in other industries.”

# The Future Agency

## InsureTech:

- Per *Carrier Management*, January 23, 2019:
  - Chubb, in an investor presentation in December, projected sales through digital distributors would increase by \$500 million in 2019.
  - The focus is in small commercial.
  - The primary tool is Chubb Marketplace.
  - 900 to 1,000 agents use Marketplace daily.
  - Time and data acquisition:
    - 5 minutes for new business
    - 2 questions
    - 15 seconds for a proposal
    - 2 minutes for final policy documents
    - Automatic renewals using third-party data (i.e., no input from agents)

# Brick & Mortar Order Takers/Peddlers

Traditional brick & mortar agencies that are members of aggregators/clusters:

- A very few aggregators/clusters are truly good at motivating, finding and training agents that can sell
- These aggregators are excellent and have a huge competitive advantage over every other aggregator/cluster

# Traditional Professional Agents

- Reality is that independent agents cannot survive on the commissions companies might pay if compensation for data acquisition and upfront underwriting is eliminated
- According to the GPS study, the average agency profit margin is 9.6%, with contingencies
- If companies cut commissions from 13% to 10%, that is 23% of agencies' revenue and their profits go to less than zero

## **2. Future Of Insurance Distribution By Independent Agents**



# **Future Of Insurance Distribution By Independent Agents**

**Independent agencies only have value, going forward, if they achieve some combination of:**

- Lower cost of distribution
- Higher growth rate
- True value to clients beyond selling an insurance policy that the agency probably does not adequately understand themselves

# Future Of Insurance Distribution By Independent Agents

## Lower cost of distribution:

- Higher hit ratios:
  - Book consolidations (fewer carriers)
  - Higher sales hit ratios

# Future Of Insurance Distribution By Independent Agents

## Higher Growth:

- The industry is in decline because the world is becoming a safer place
- Carriers need true organic growth as an offset
- Growth costs a lot of money
- Networks that generate alpha growth are valuable to companies because they get the growth they need at a reasonable cost

### **3. What Drives Best Practices for Networks Going Forward**

# What Drives Best Practices For Networks Going Forward

**Best Practices for Networks has to focus on some combination of:**

- Lower acquisition cost to carriers
- Faster true organic growth
- And/or exceptional professional service to clients

# What Best Practices For Networks Means Going Forward

This means having a brand. What is your brand going to be?

- Carriers need to understand your brand
- The public needs to understand your brand
- It can't be a professional brand if only some members are professional
- A brand may affect E&O coverage too

# What Best Practices For Networks Means Going Forward

## Fast growth:

- Companies need real growth, not consolidations of volume, i.e. 50 agencies all consolidating their volume with ABC Insurance company
- Networks that are aggregators of aged agencies with limited futures is not a best practice
- Networks that generate organic sales is a best practice

# What Best Practices For Networks Means Going Forward

## Fast growth:

- Consolidation is only valuable if X number of carriers are eliminated in the process
- This means limiting the number of carriers the network represents
- In other words, best practices may mean forcing practices to keep its members from becoming their own worst enemies



# What Best Practices For Networks Means Going Forward

## Fast growth:

- Yet – representing every company is a selling point
- Agencies that need every company are almost universally lousy at sales and often lousy agents

# What Best Practices For Networks Means Going Forward

## Fast growth:

- One extremely important best practice is to restrict the number of companies represented
- 90 carriers represent around 89% of the market
- 900 companies exist (P&C)

# What Best Practices For Networks Means Going Forward

## Low acquisition cost:

- Networks have the ability to materially decrease acquisition costs for carriers
- To do so requires some uniformity among and between members – which is key to a brand anyway

# What Best Practices For Networks Means Going Forward

## Low acquisition cost:

- One system
- Some form of underwriting discipline so companies can deal with and service agencies more expeditiously
- Some form of processing discipline so companies get higher quality submissions with higher hit ratios

# What Best Practices For Networks Means Going Forward

## Low acquisition cost:

- Why am I not emphasizing retention?

# What Best Practices For Networks Means Going Forward

## Keeping members motivated:

- How do you motivate members that join a network because they are not motivated?
- What happens when motivated members are held back by non-motivated members?

# What Best Practices For Networks Means Going Forward

## Keeping members motivated:

- A decision has to be made regarding non-motivated members
- They affect other members, your carriers' perceptions of your network, and your brand
- This question is really at the heart of a network's reason for being

# What Best Practices For Networks Means Going Forward

## Keeping members motivated:

- Every network is a little, or a lot, different
- What motivates your specific members?
- A true study, not your gut feeling is what matters



# What Best Practices For Networks Means Going Forward

## Monitoring carrier relationships:

- I find many networks do a poor job of monitoring carrier relationships
- The network executives continue to treat carrier relationships as if they had a small agency
- This is a serious mistake and a cause of considerable friction with many carriers

# What Best Practices For Networks Means Going Forward

## Monitoring carrier relationships:

- It is about data
- Organizing your data in a manner whereby you can track your carrier results, in detail, by:
  - Member
  - State
  - LOB
  - What else?

# What Best Practices For Networks Means Going Forward

## Monitoring carrier relationships:

- I strongly recommend scheduled and constructive carrier meetings based on this data
- I strongly recommend you develop the ability to discuss your results by segment, in detail
- I strongly recommend you show real action plans and proof of execution

# What Best Practices For Networks Means Going Forward

If you have professional members and a professional brand:

- Create a strong education program
- Create true risk management education and then tools

# What Best Practices For Networks Means Going Forward

## One other point:

- Trust money management

# Future Agency Compensation

## My prediction:

- Some companies will distinguish and pay for quality (and they may define quality differently), but all will be based on cost and/or customer satisfaction
- Customers will pay for quality agency services, but they are not going to pay just for an insurance policy

# Future Agency Compensation

## My prediction:

- Quality as Cost Savings:
  - Insured acquisition cost
  - Hit ratios
  - At the Insurance Governance Leadership Network and at the Super Regional Conference, carrier acquisition costs was a huge topic

# Future Agency Compensation

## My prediction:

- All companies will pay for sales



# Strategy

It is time to build your strategy, in detail, of what your organization will transition to at all levels and locations.