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# Creating Value in the Independent Agency Channel

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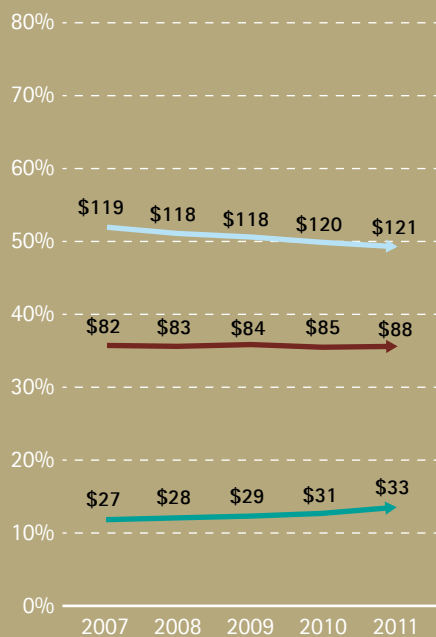consulting | technology | outsourcing

"Reports of my death are greatly exaggerated." Akin to Mark Twain's infamous quote, rumors of the agency distribution channel in personal and commercial insurance becoming extinct circulated for most of the past decade. However, a look at the shift in distribution channel share during this period shows that the independent agency (IA) channel remains the dominant distribution network for the property and casualty business in the United States (figure 1).

In this paper, Accenture affirms the independent agency channel as a viable source of short- and long-term benefit for the industry. It identifies two important approaches that carriers can take to maximize the value and growth potential of their agency network.
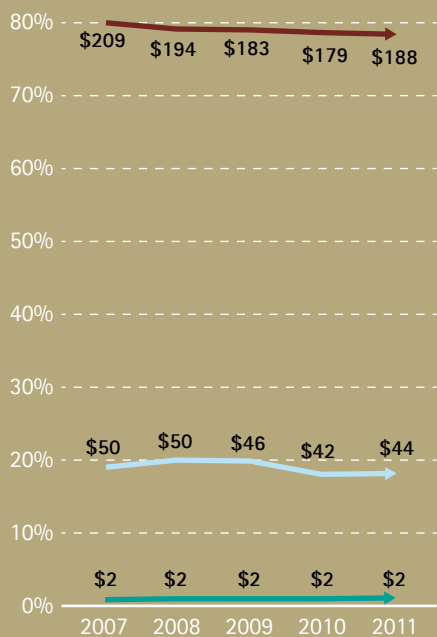
**FIGURE 1.** Market Share
% of direct premiums written, $ figures in billions

### Personal Lines

| Year | Exclusive agent | Independent agent | Direct |
|------|-----------------|-------------------|--------|
| 2007 | $119 | $82 | $27 |
| 2008 | $118 | $83 | $28 |
| 2009 | $118 | $84 | $29 |
| 2010 | $120 | $85 | $31 |
| 2011 | $121 | $88 | $33 |

### Commercial Lines

| Year | Independent agent | Exclusive agent | Direct |
|------|-------------------|-----------------|--------|
| 2007 | $209 | $50 | $2 |
| 2008 | $194 | $50 | $2 |
| 2009 | $183 | $46 | $2 |
| 2010 | $179 | $42 | $2 |
| 2011 | $188 | $44 | $2 |

### Total Property & Casualty

| Year | Independent agent | Exclusive agent | Direct |
|------|-------------------|-----------------|--------|
| 2007 | $291 | $169 | $29 |
| 2008 | $276 | $167 | $30 |
| 2009 | $266 | $164 | $31 |
| 2010 | $265 | $162 | $33 |
| 2011 | $275 | $165 | $35 |

Legend: —— Exclusive agent  —— Independent agent  —— Direct

Note: % totals may not add up exactly to 100 due to rounding
2007–2009 personal line percentages are based on 2005–2010 trend

Source: 2013 IIABA Market Share Report and Accenture analysis

# Customers appreciate the agent relationship

Accenture's recent survey of consumers in the United States underscores that despite growing interest in digital and other "direct" experiences available to the personal lines consumer, customers continue to overwhelmingly prefer to do business with an agent. Consumers express a preference for both receiving quotes on a policy (figure 2) and setting up and paying for their auto and home insurance policies in person with an agent (figure 3). The survey also shows that a substantial majority of customers prefer working with an independent agent because of the expertise they provide as well as the agent's ability to help them compare multiple brands and find the best value (figure 4).
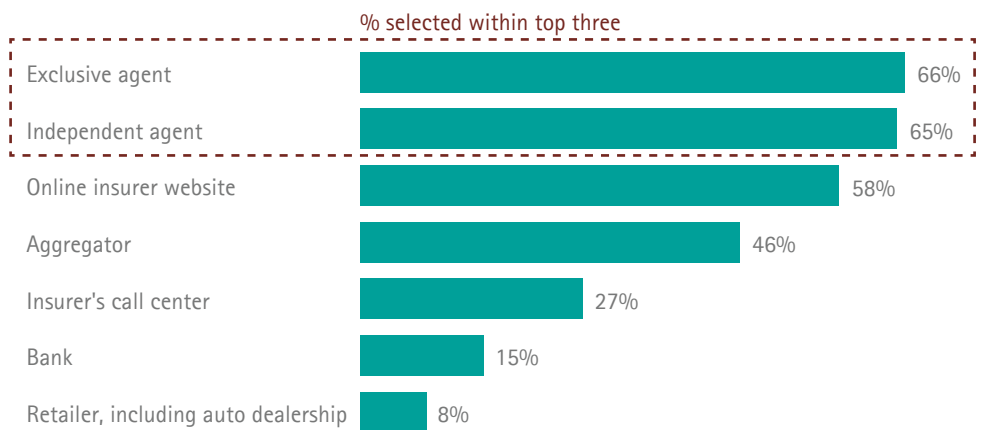
While it will continue to be important for insurers to obtain digital capabilities, such as online transaction fulfillment, social media engagement and mobile enablement, the independent agency channel is still the dominant distribution channel. Indeed, the direct channel has made some inroads in the personal auto insurance space; however, its market share gains made limited impact on the independent agency channel over the past ten years. The strong value proposition of the independent agent—access to advice, product breadth, carrier choice, and localized personal service—is still very compelling to customers. Yet, without substantial attention to improving the customer experience, independent agents are vulnerable to the distribution advances in the direct and exclusive agency channels.

Unlocking growth and more advantages in the agency channel requires insurers to address nuances of the channel. The agency market is highly fragmented, largely local, and consists of companies run by small business entrepreneurs. As a result, the industry generally suffers from a lack of skill, scale, scope, and access to capital (figure 5).

Carriers with a significant independent agency channel can enhance the effectiveness of their IA partners by making investments to help independent agents address these challenges. To do so, we propose two key strategies for insurers:
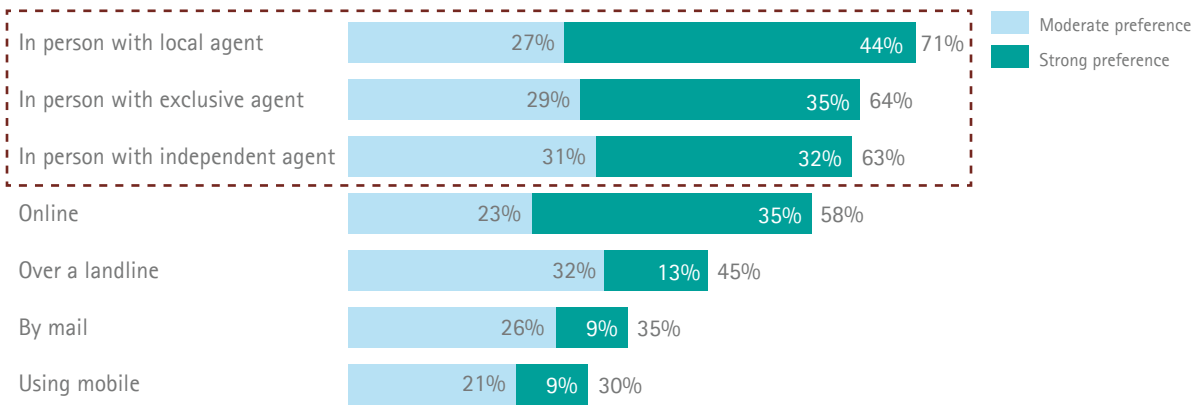
- Become a preferred carrier across a larger number of agencies, and
- Build a high-performance agency network that thrives on the carrier's strengths.

FIGURE 2. Who would you approach to get auto/home insurance quotes that address your specific needs?
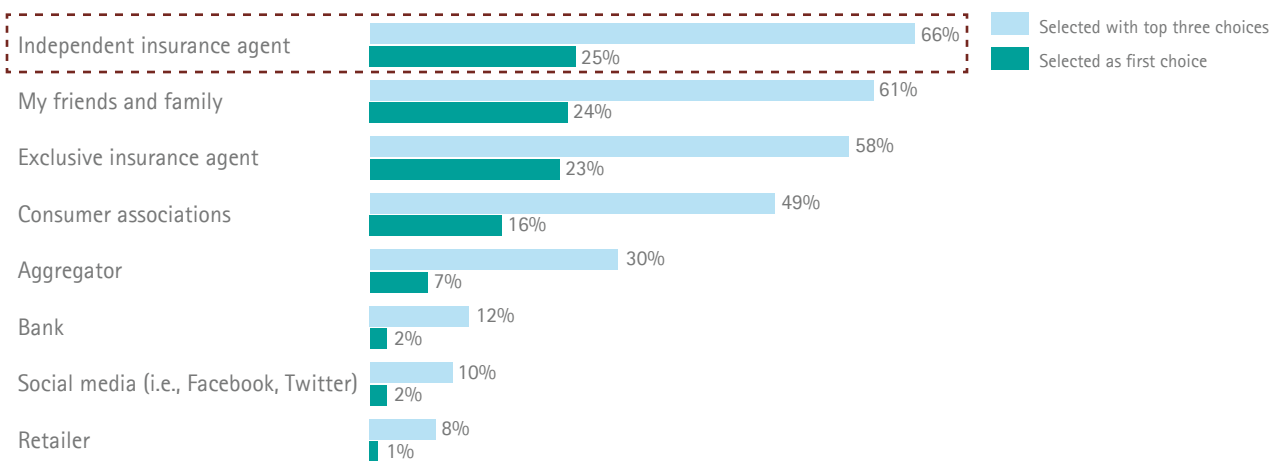
% selected within top three

| | % |
|---|---|
| Exclusive agent | 66% |
| Independent agent | 65% |
| Online insurer website | 58% |
| Aggregator | 46% |
| Insurer's call center | 27% |
| Bank | 15% |
| Retailer, including auto dealership | 8% |

Source: Accenture 2013 U.S. Personal Lines Consumer Survey

**FIGURE 3. How would you prefer to set up your policy and proceed with the payment?**

Legend: Moderate preference | Strong preference

| Method | Moderate preference | Strong preference | Total |
|---|---|---|---|
| In person with local agent | 27% | 44% | 71% |
| In person with exclusive agent | 29% | 35% | 64% |
| In person with independent agent | 31% | 32% | 63% |
| Online | 23% | 35% | 58% |
| Over a landline | 32% | 13% | 45% |
| By mail | 26% | 9% | 35% |
| Using mobile | 21% | 9% | 30% |

Source: Accenture 2013 U.S. Personal Lines Consumer Survey

**FIGURE 4. Who do you trust most to provide advice about the best insurance policy?**

Legend: Selected with top three choices | Selected as first choice

| Source | Selected with top three choices | Selected as first choice |
|---|---|---|
| Independent insurance agent | 66% | 25% |
| My friends and family | 61% | 24% |
| Exclusive insurance agent | 58% | 23% |
| Consumer associations | 49% | 16% |
| Aggregator | 30% | 7% |
| Bank | 12% | 2% |
| Social media (i.e., Facebook, Twitter) | 10% | 2% |
| Retailer | 8% | 1% |

Source: Accenture 2013 U.S. Personal Lines Consumer Survey

**FIGURE 5. Key independent agent challenges**

**SKILL**

Critical sales skills overwhelmed due to the need to manage the business

Lack of effective recruiting, interviewing, selection and training processes

Limited ability to afford staff with specialized skills

**SCALE**

Employees with multiple roles, owing that the average size of an agency is 7-12 people

Little leverage with carriers

Inability to optimize staffing levels, making it difficult to meet customer expectations

**SCOPE**

Breadth of product is key value proposition

Too limited understanding of products and brands

**CAPITAL**

Agents will need access to money for:

• Marketing programs
• Technology investments
• Initiatives to enhance the customer experience

# Become a preferred carrier

While most insurers recognize the importance of having a strong customer value proposition, many lack an emphasis on establishing a clear and robust agency value proposition. The aim of any agency value proposition is to increase loyalty among independent agents, enough to achieve a "preferred carrier" position with a larger number of agencies. Eight key elements can help carriers to do so:

### 1. Increase ease of doing business.

Enabling agencies to interact efficiently with carriers and create a satisfying customer experience are the keys to improving the ease of doing business. For example, a key benefit that independent agents bring to their customers is finding the best coverage for the right price. As a result, agents' access to competitive product structures and price is a standard feature in any successful carrier-independent agent relationship. Opportunities to augment the relationship come from accelerated transaction throughput. Developing efficient and effective application, quoting and binding processes offers agents, licensed sales professionals, and customer service representatives a strong incentive to "prefer" particular carriers. Agents understand the advantage of being able to close four transactions per hour rather than three, making throughput a direct correlation to commission revenue.

Capabilities that help increase policy quote and application throughput can be extended to improve customer experience. Additional features such as data pre-fill, real-time policy changes (from the customer's point of view), customer self-service, and electronic document management enable independent agents to better meet customer expectations—enhancing the way they sell and service customers, and manage day-to-day agency operations.

Examples include the ability to:

- Access policy applications securely at any time via mobile phones and tablets.
- Automatically check quality of application data.
- Easily generate required forms.
- Collect electronic signatures.
- Review policy information after the intake process is complete.
- Create leads and follow up actions on-the-go.
- Apply end-to-end advanced customer, channel and operational analytics.

### 2. Provide specialized knowledge and skills.

Insurers can create significant affinity with independent agents by offering them better product intelligence, transaction support, and collaboration options. This includes quick, efficient and straightforward ways to both educate agents on a range of products (beyond auto and home) and help them sell more sophisticated products to grow their customer base. For example, carriers can draw on advanced analytics to give agents more insight on customer preferences and propensities to buy and bundle, delivered through self-directed training or group workshops. Collaboration capabilities, such as online chat and video-conferencing, can provide agents with convenient, on-demand access to experts who can help broaden product knowledge or work directly with the agent and customer to initiate and close

a sale. Such benefits not only help agents capture hard-to-acquire customers, they uncover clear paths for cross-selling and up-selling existing customers to drive loyalty.

### 3. Support effective agency operations.

Carriers have long provided agencies with portals, interfaces, and business process support to help increase sales. Today, extending these offerings to help agencies run their own business, rather than just selling product, will tighten the carrier-agent relationship. For example, insurance agencies—like most businesses—spend significantly on technology infrastructure, IT help, office equipment, tax services, and employee benefits. Insurers have the means to provide economy of scale to agencies, using the power of their large agent network to efficiently meet common needs. Offerings and outcomes could be tier-based, reserving top-level advantages and discounts for high-performing agencies.

### 4. Clearly define customer ownership.

Customer ownership is a foundational issue in independent agent/carrier relationships. It can be a primary inhibitor of efficient, transparent and insightful agent–customer interactions. On one hand, carriers today are increasingly driving agents out of key customer interactions, such as first notice of loss. On the other hand, agents are growing weary of sharing customer data with carriers; many tightly guard data as a way to leave their options open in retaining an existing customer by moving that customer to a competing carrier. To repair the lack of trust that has troubled the industry in recent years, carriers can help agents engage customers with more insightful messaging, and support agents' efforts to remain accessible and relevant to customers at all times.

## 5. Enable key agent–customer interactions.

As monitoring and alert services become more prevalent across both commercial and personal lines, carriers have an opportunity to empower agents to more directly assist customers when issues arise. The increase in usage-based auto insurance in personal lines, for example, will create a market for additional services, such as vehicle theft tracking, automated emergency response, and vehicle wellness alerts.[1] Not only do services like these help to differentiate increasingly commoditized products, they create additional customer interactions for agents to help mitigate and respond to potential losses. These new interactions and services also create important customer data that carriers can further analyze to alert and engage independent agents in provisioning new and value-added customer services. This allows agents to help their customers navigate life's surprises, thus increasing loyalty and retention for carriers.

## 6. Provide unique customer service capabilities.

Agents are likely to place greater worth in after-hour and peak-hour service support if these services are provided on behalf of their agency, rather than the carrier. For example, contact centers that act as a true extension of high-performing or promising agencies will bolster agency loyalty, and provide a more coherent customer experience. Alternatively, providing a dedicated phone number or text messaging service for top agencies or top-agency customers can accomplish similar goals. Channel and performance analytics are playing a central role in helping carriers reliably and consistently identify top agencies and agency/customer relationships. Also, carriers can use emerging analytics to tap into the rich social media landscape to help gauge both customer and agent influence among peers, customers and prospects. Carefully sharing such insight between carrier and agents can create a strong "win-win" value proposition. Economic structures for these services can vary, but will likely include both pay-for-service and earned-service options. By supporting the brands of its highest performing agents, carriers can augment their operational relationship with select agents and, ultimately, create a more streamlined customer experience.

## 7. Embrace third-party distribution capabilities.

The independent agent market is filled with alliances, clusters, and commission clubs that primarily give agencies access to key insurance markets and additional services that support their operations. While these third parties offer some benefit to both agencies (in the form of increased commissions) and carriers (in the form of bundled distribution entities), they have not been successful in providing the vast majority of agencies with the scale, skill, scope, and capital that enable growth. This is largely because the benefit beyond increased commissions is limited, and existing players lack the technology or processes to deliver their offerings in an impactful way. Carriers can play a key role in creating an industry utility that both solves some of the operational inefficiencies inherent in the independent agent market and enables long-term growth beyond near-term commission boost. A core component of such an industry utility would be addressing the single-entity, multiple-company interface issues that limit the effectiveness of existing software products. An industry utility could also help address concerns about ownership of customer data.

## 8. Improve claims services coordination.

Engaging with a customer during a loss is the most compelling moment for agents to provide tangible support to their customers. Though carriers are increasingly taking more control over the claims process to ensure that specific first notice of loss rules of engagement are met, providing a mechanism for independent agents to play a role in the claims process is critical. It not only enhances the customer experience, it allows agents to engage with customers during a key moment of truth and act as an advocate for them. Playing an active role in facilitating the interaction between agent and insured during a claim will help agents clearly understand the carrier's desire to partner with them in the servicing process. Carriers can let agents select when they want to be involved, whether during total loss, injury, home, or auto claims events. Collaboration tools can enable insurers to give agents greater insights about claims outcomes, helping agents to mitigate any adverse reaction. This kind of partnership creates a differentiated customer experience, and gives agents stronger ownership of the customer relationship—both increasing the significance of the carrier to its agents and fostering greater agent loyalty.

[1] Insurance Journal, "How U.S. Consumers Feel About Usage-Based Auto Insurance," September 5, 2013, http://www.insurancejournal.com/news/national/2013/09/05/304105.htm.

# Establish a high-performance agency network

Carriers can take action to help their agents think and act strategically about people, processes, and technology, helping to place their independent agent network on the path to high performance. Four key areas stand out:

### 1. Optimize compensation and performance management.

The compensation approach should consider how each agent does business with the insurer. A one-size-fits-all approach will not incent the same or the preferred behaviors in all agencies. Carriers can create a unique economic value proposition for each growth lever—acquisition, cross-sell, and retention; all three require different skills, market conditions, and investments. Acquisition, growth, and retention analytics will continue to play a key role in extracting important insights for independent agencies; they should be used in tandem with deep agency and channel analytic insights to match the right products and services with the optimal agency performers. Also, insurers should consider commission structures that include performance-based thresholds. For example, insurers can pay eight percent for renewals to agents with less than a 90 percent retention rate; 10 percent to those with retention rates above 90 percent. While legacy contracts add complexity to a carrier's compensation process, employing a more nuanced approach to compensation and performance management can enable incentives that are more closely aligned with strategic objectives.

### 2. Provide data and analytics capabilities.

Simple, relevant, personalized, data-backed recommendations delivered regularly to agencies through multiple channels (including mobile) can give agents the predictive and actionable insight they need to better attract, serve, and retain customers. The level of insight provided can be more in depth or bundled for top producers (based on product, financial, and channel performance), and may include peer comparisons, risk-based pricing trends, and early customer churn warnings. Sales and operational analytics can help agencies better understand the capacity and velocity of their sales pipeline, and point to specific actions and resource commitments to correct pipeline deficiencies. As small businesses, agencies generally lack the power to take advantage of big data. Carriers and select data aggregators should bring analytics, insights, and actionable capabilities to agents. In return, agencies should consider sharing their data and insights with carriers to create a more trusting, mutually beneficial environment.

### 3. Expand agent segmentation.

Agency segmentation should move beyond a breakdown of metrics, such as agent tenure, market share, number of employees, policies in force, and profitability. "Soft" criteria for an agent segmentation analysis— for example,  an agent's ability to adapt to change, degree of technology savvy, prior business experience, management style, and local market characteristics—can provide deeper insight into the agent population and how best to create competitive advantage through the agent network. For example, when focusing on commercial lines, identifying and targeting agents who have access to the small- and mid-sized commercial market can help carriers pursue the massive growth opportunity of this attractive market.

Capturing the opportunity requires local knowledge of the market (which agents provide) and industry expertise to build credibility with prospective customers. Understanding such agents' carrier relationship preference (for example, a national versus a local relationship) and how best to interact with them will provide the insight required to take productive action. When focusing on personal lines, insurers will need to understand which agents are purely transactional (where ease-of-doing-business is the primary value driver) and which agents prefer a closer relationship with added support mechanisms in order to maximize return on agency workforce investments. Such understanding enables a carrier to interact with agents the way agents want to interact. It provides insight into where carriers should prioritize investments and where to focus change management efforts.

## 4. Leverage customer segmentation.

For agents, better understanding the needs and preferences of customers in their market is a critical component to meeting and exceeding customer expectations. Through more effective use of customer data and related information, carriers can help improve the way agents manage and prepare for each valuable prospect or customer interaction. Augmenting agents' local knowledge with a more detailed understanding of customers through advanced analytics allows agents to provide increasingly relevant, more compelling, and truly differentiated advice. Being able to adapt their market interactions, brand messages, and the customer experience to credible, real insights (such as preferences, patterns, propensities, and social network influence gathered directly or in partnership with carriers or their business partners) provides a much better way for independent agents to further differentiate themselves.

# Commit to the independent agent network

Despite significant investment and much progress over the past decade by carriers intent on establishing an alternative direct distribution channel, the agency distribution channel remains the dominant interface between consumers and insurance carriers. Within the agency distribution category, the independent agency network has provided the strongest consumer value proposition over time, and recent surveys indicate the majority of consumers continue to prefer that traditional value proposition—advice, breadth of product offering, and carrier choice.

Carriers hoping to maximize profitable growth should invest in creating preferred relationships with targeted agency partners, while providing those agencies that perform at high levels (strong retention, cross sales and new business production) the support necessary to overcome some of the skill, scale, scope and capital challenges facing the fragmented distribution channel. Enabling preferred IAs to provide an enhanced customer experience while empowering the agencies to become more effective sales and retention vehicles creates a "win-win" for all parties. Based on current market trends, winning the hearts of the independent agency network will produce the most significant returns for the investing carriers.

## About the authors

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## About Accenture

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