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AGENTS AND CARRIERS: FIGHT COMMODITIZATION TOGETHER

Reduce the frustration in the agency-company relationship

By Frank Pennachio & Susan Toussaint

Behind closed doors and in quiet places, insurance companies' personnel and independent insurance agents frequently grouse about each other. Ironically, both usually align around common objectives. However, in the course of conducting business, conflicts emerge that damage the relationship and create barriers, which prevent both sides from delivering their greatest value and impact to the business community.

NOT JUST A SPREADSHEET

So, what factors contribute to this mutual frustration? We begin with a paradox. Agents despise the practice of being "spread sheeted" by their prospects and clients, but they in turn "spread sheet" their insurance companies. The "cycle of commoditization" starts when an insurance buyer perceives insurance as a product and service with price as the primary differentiator. Agents, especially those with an inadequate pipeline of prospects, follow the buyer's lead and ask their insurance company partners for the lowest price—so they can make the sale.

In this all too common scenario, insurance companies do not get the opportunity to compete on their capabilities to reduce risks and improve outcomes for employers. Instead, all of their resources are reduced to one number on a spreadsheet: the price. Naturally, insurance companies that have invested significant resources to develop enhanced products and services bristle at agencies that fall into the "price as the primary" driver trap. They disdain being compared to other insurers that have fewer capabilities and resources.

In addition, most agents would prefer to avoid competing primarily on price as they typically believe they bring more to the table. To add to the absurdity, the price-only model not only damages the relationship between agencies and their companies, but the insurance buyer also suffers. Insurance buyers may say that all they want is the lowest price, but they really want much more.

CHANGING DISTRIBUTION CHANNELS

Adding more stress to the relationship, national consulting firms are advising insurance companies to assess and consider changes to their distribution channels. These firms are building and deploying data analysis models to examine insurance agency relationships and conducting focus groups with insurance buyers to evaluate their insurance purchasing preferences. Insurance companies are becoming increasingly aware of agents who only sell their products when they are the lowest price.

Another source of friction is an increasing number of insurance buyers feel they can address their business insurance needs through online and callcenter solutions direct from the insurance company. Now, it is unlikely the larger, more complex accounts will seek this alternative anytime soon, but smaller, less complex accounts already are going direct. Some insurance companies already offer the choice: work with us through an agent or contact us directly.

This appears to be reminiscent of the travel agency industry when online travel sites hit the market and many traditional travel agencies disappeared. However, those that remained re-created themselves with a specialized focus on complex travel arrangements and are thriving today.

Employers' dissatisfaction with their brokers is another area of concern. Surveys have found that employers are less satisfied with their current broker on the same services that they cited as more important than ever. Dissatisfied employers may not simply seek another agent to address their concerns, but instead may seek a direct alternative. This may be true especially for the Millennials whose buying preferences are much different from their predecessors.

While these challenges threaten independent agencies, to paraphrase Mark Twain, the death of the independent agency system is exaggerated greatly. In fact, insurance companies and insurance agencies have an opportunity to take on these and other challenges and develop more powerful and effective relationships with improved outcomes for all stakeholders, including business owners. However, this won't happen unless both parties take new steps forward together.

VALUE PROPOSITIONS

Agents often complain that they don't know what the insurance company wants or values. Insurance companies are frustrated when treated as a commodity or not receiving accurate and critical information about risks submitted by the agency. There is a better way.

If insurance agencies have not already done so, they should develop a value proposition for their insurance companies. Many agencies have developed value propositions for their prospects and clients, but few have engaged in a similar process with their insurance companies.

This value proposition should include, but is not limited to: geographic footprint; specialized expertise in niche industries; sales process and differentiation in the marketplace; processes for risk selection; processes to improve a client's risk profile; client attraction and growth strategies; technology and efficiency capabilities; and succession plans.

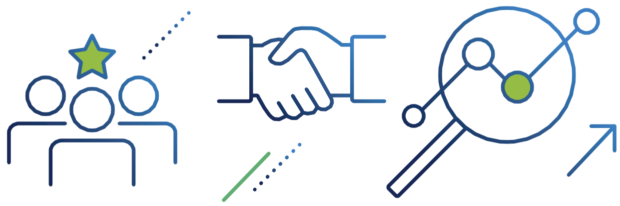
Agencies must articulate that it would be too costly or inefficient for the insurance company to try to replicate the value the agency delivers. The primary purpose of an intermediary is to deliver more for less than the direct source can accomplish on its own. If an agency cannot demonstrate greater efficiencies and profitability for the insurance company, then the partnership will begin to show signs of stress and perhaps ultimately break.

BETTER, NOT MORE RELATIONSHIPS

Agencies also need to reassess the number of insurance company relationships they try to maintain and serve. Agencies often tout on their websites and marketing literature that they represent a significant number of insurance companies. The reasoning has been that the more insurance companies an agency represents, the greater its clout with clients and prospects.

However, in this changing marketplace, having a larger number of insurance company relationships actually may reduce the agency's effect. Insurance companies realize they cannot all be rewarded with the best business and attention. Insurers are asking, "How do we fit, and why should we have a relationship with you?"

Often, you will hear agency principals say, "We need to feed our carriers." This is true, but fewer mouths to feed creates opportunities for deeper, more powerful relationships. Agencies must keep in mind that insurance companies are now collecting and analyzing data to determine if the agency is a good fit for them and if the relationship should continue.



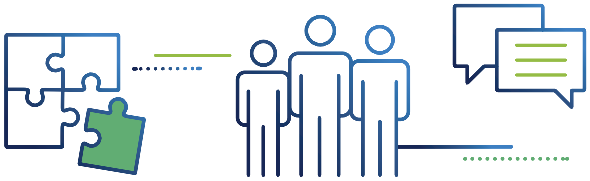
REDUCE FRUSTRATIONS

It would be helpful for insurance companies to step up to the plate and convey in which market segments they find the most value in their interactions with agents. Frequently, insurance companies are either not transparent with their agencies or not completely clear themselves as to what they value and want, or they prefer to remain "flexible." It is frustrating for agencies to hear, "Just send the account to us, and we will take a look." Greater clarity from insurance companies will reduce frustrations and inefficiencies in their relationships with agencies.

In addition, insurance companies can foster stronger relationships with agencies by helping them transition in the tumultuous and rapidly changing marketplace. They can assist them with the development of their people, processes and technology. Insurance companies will create greater reciprocity and loyalty from agencies who have realized their growth and profits were influenced by an insurance company that provided more than just an insurance market and policy.

Economic pressures, changing buying preferences and technological changes are creating stress with the agency model. However, agencies and insurance companies have the opportunity to create stronger and better aligned relationships that will create greater sway for their mutual clients.

It all starts with a conversation and an exploration of how both parties will best fit together moving forward. The relationship is in transition and changing. Both agencies and companies have a responsibility to reassess and adapt, so both parties and the insurance buying public realize greater benefits.



ABOUT THE AUTHORS

For over a decade, Susan Toussaint has been training, coaching, and developing programs to help insurance professionals overcome barriers to organic growth. She enjoys developing confidence in new producers and creating content that inspires others to think differently.

Frank Pennachio has spent more than 30 years in the insurance industry as an agent and producer. He now serves as Practice Leader, Growth Solutions at ReSource Pro, helping independent insurance agents and insurance carriers develop risk management expertise and drive new business.

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