

The Perpetuation of the Independent Insurance Agency

A White Paper on the future of the independent agency system by Al Diamond, President, Agency Consulting Group, Inc.

For the past several years we have been asked to address both major insurance agency associations at the national and state levels, a growing number of concerned insurance companies and hundreds of individual insurance agencies on the topic of the Perpetuation and Succession of the Independent Insurance Agency.

It is not surprising that each of these three audiences is seriously concerned about this subject. It is also not surprising that each of these audiences are concerned with substantially different aspects of perpetuation and have much different motivations for their concern.

The associations are actually concerned over the future of the independent agency system because their reason for being is in support of this system. If the system decreases sufficiently, there is no need for two competing associations on a local level (as reflected in the mergers of the associations in many states) and the importance and work needed at the national level also diminishes as the numbers of agencies decrease.

The insurance companies who remain dedicated to the independent agency as their primary distribution force are scratching their heads and asking themselves how they can maintain their support in light of the merging out of existence of so many agency entities. The coldest reality that the carriers are experiencing is the movement of business on a wholesale level to other companies as agencies are consolidated through merger and acquisition. The fact that relatively few agencies are being started while so many are being melded into other entities gives rise to feelings within the companies that they should be seeking other distribution methods as a self-defense mechanism, not to abate their support of their loyal agents.

The insurance agency owners, themselves, are the least concerned with the perpetuation of either their own agencies or with the agency system as a whole. The common goal of every agent is the attainment of the value for their asset when the time comes that they either retire or fall over. They are, correctly, concerned with their own well-being as well as the well-being of their families. Secondarily, but not minimized, is their concern over the well-being of their staff and of their clients. They assume (rightly in most cases) that the employees will find other jobs and the clients have many other options for representation for their insurance programs.

**So does this imply the death knell for the insurance agency system??
Absolutely not!!**

All that these three groups must do is coincide in their goals toward the perpetuation of insurance agencies and in the growth of new agencies.

State and national associations must take the lead by adding a high degree of training for future insurance agency owners. They are WONDERFUL in training and supporting the technical knowledge of insurance agents. Because of the specter of licensing and continuing education requirements, the associations have minimal number and quality of management training. Better management training would make agency staff members better insurance agency owners and would bring new blood into the agency force (from inside the industry and from outside). This action would add both agencies and owners to the currently incestuous mix. The associations must concentrate on working with carriers to grant appointments to young agents who represent the industry's best chance of growth of clients (and premiums for the carriers) and working with the agencies, themselves on marketing and planning training for growth for those agencies interested in that subject.

The insurance companies must again begin training agents to become agency owners, in their company philosophies and products and in management and relationship selling techniques that would overcome the billion dollar advertising budgets of our friends at the direct writers. The direct writers have found the formula for eliciting positive images and over-simplifying the insurance products (to price issues only) through cute images and sound-bites in the major media. They can't fight (and some are now beginning to tout) the need for insurance counselors and local professionals to help the end customer with the more intricate and difficult decisions about protecting themselves and their assets.

The companies can also participate in the internal perpetuation of agencies (through financial guarantees) and in the creation of new agencies whose primary goals would be in growth of clients (and premiums to those companies). There was a time (I was one of them) that carriers had a position of Agency Managers in their marketing departments whose participants were mostly concerned with generating growth. Now, most companies try to incent agents to grow (with contingency, with trips and with contests) the way they always have, but their incentives are reactive only and have no teeth. Imagine the concept of paying growing producers a higher general commission rate than what is being paid to stagnant or declining agencies. This would be a pro-active measure to support new and growing agencies. It would not diminish loss-ratio sensitive contingency contracts as an incentive to remain the company's front-line underwriter for all agents. A "staged" compensation program would permit new agents time to grow with a definitive "bite" on their earnings potential if no growth occurred (pretty much a self-terminating contract).

COMPANIES MUST GROW TO SURVIVE. MANY WILL NOT. THOSE THAT SURVIVE AND THRIVE USING THE AGENCY SYSTEM WILL DO SO BY CHANGING THEIR INCENTIVES TO DIRECT THEIR DISTRIBUTION FORCE TO DO WHAT IS MOST CRITICAL TO THE CARRIERS, GROWING PREMIUM THROUGH NEW CLIENT PRODUCTION (WITH ACCEPTABLE UNDERWRITING, OF COURSE).

The agency owners, themselves, will always maintain the ability to prepare and sell their agencies for their appropriate value. The question is whether they will choose to

internally perpetuate their businesses or be forced to sell to competitors to gain that value. The financial support of the carriers does not come without “strings” for new agency owners, regardless of whether they are internal perpetuators or new agencies. Those “strings” involve a) maintaining the financial stability to continue paying the selling owners (or the carriers, if they finance internal purchases), and b) the continued growth of the agency for the responsive carriers. Both of these issues bode well for the retiring owners. They no longer need be worried about how their staff members can get sufficient dollars to pay for the agency. The agency perpetuation would be similar to the friendly perpetuation of parent to children in the past. The old owners would be “guaranteed” payment. The incoming owners would not have to go to bankers who don’t understand the value of renewal customers. They would only have to “do the right thing” in the maintenance of sufficient liquidity to pay their debt and actually market insurance to the buying public as the local professionals they purport themselves to be in order to grow the agency.

This White Paper has been sent to the key management of insurance companies and associations throughout the U.S. as well as being published in the insurance trade press as they desire publication permission. Agency Consulting Group, Inc. stands ready to support any and all actions by agents, by associations and by carriers to perpetuate the insurance agency business. You see, we, too, have an inherent interest in the perpetuation of the insurance agency industry. David Diamond, our rising star in the consulting field and 20 year veteran of marketing and mass media is prepared to be the next generation of owner of Agency Consulting Group, Inc. (if and when AI decides to step aside) and our future is tied directly to the perpetuation and growth of the agency system.