



# Agencies in the Digital Age

Custom Research Report for IVANS



**An SMA Research Report**

**Authors: Mark Breeding, Partner**

**Karen Pauli, Principal**

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In this report, agencies have been classified by different tiers according to revenue. Where the differences are significant, the analysis is shown for different tiers as follows:

Small Agencies: Under \$1.25M revenue

Medium Agencies: \$1.25 - \$5M revenue

Medium to Large Agencies: \$5-\$10M revenue

Largest Agencies: Over \$10M revenue

# Executive Summary



SMA conducted a comprehensive custom research study for IVANS to understand 3 key questions:

- How do agencies think the distribution landscape will change over the next 5 years?
- What are agencies doing to become more digital?
- What are insurers thinking and planning regarding digital enablement and collaboration with agencies?

This report is based on survey responses from 126 agencies, along with interviews of agency owners and principals, and insurance executives responsible for distribution. Analysis is included for different agency tiers (where relevant) based on revenue.



**"The scope of digital is broad – it is everything. It is any way the computer system and automation can assist in efficiencies. This includes everything from marketing, communicating with prospects through social media, and processes of every sort, including communications with insurers, the transferring of data, and making producers efficient in the field."**

Agency Owner

The insurance industry is in the midst of a massive transformation, and digital strategies are at the heart of the change. The agent community is faced with new demands from prospects and customers for mobile/digital capabilities, new opportunities to improve agency-insurer connectivity via digital solutions, and new competition from InsurTechs. This research report discusses these topics. Key themes identified in the research include:

- Agencies believe personal lines will experience significant change in the next 5 years. The top 3 factors cited are M&A/consolidation, entry by Google/Amazon and other big tech, and increased comparative rating). Almost half expect significant increases in direct models and a third see disruption from InsurTech.
- For commercial lines, agencies see consolidation and increase in the trusted advisor role as the top 2 change factors, while factors such as InsurTech, Google, and Direct have less impact.
- The majority (82%) of all agencies are working on digital; 16% have a comprehensive strategy, while 66% have a number of digital projects underway.
- Almost half of all agencies define digital strategy as incorporating all areas: 1) prospects/customers, 2) back office ops, and 3) agency-insurer connectivity. The rest focus on one or two areas.
- Smaller agencies (esp. under \$1.25M revenue) are very focused on web, social media, and marketing. Larger agencies (over \$10M revenue) are more focused on business intelligence and predictive analytics.
- Insurer interviews indicate the digital status of an agency is an important criterion when evaluating how they interact with agencies.

The value and the future of the agency distribution system has been questioned for decades, yet agencies are still going strong and are responsible for the majority of insurance premiums in North America. Yet, there is now a great impetus to change and adapt to the digital age for success in the future.

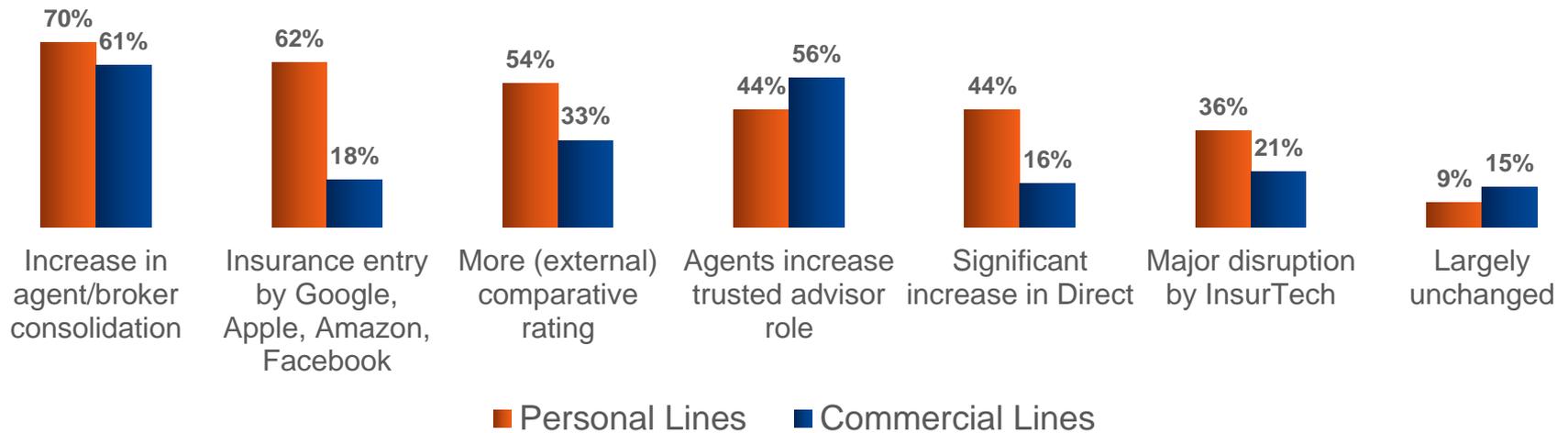
# External Change Factors for Agencies

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# Agencies Will Be Under Increasing Pressure to Adapt in the Digital Age

**Figure 1. How Do You Expect Insurance Distribution to Change Over the Next 5 Years?**

Percent of Agents Citing



Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- As might be expected, agencies anticipate more change over the next 5 years for personal lines than commercial lines.
- Personal lines agencies see competition and disruption coming from many fronts. Challenges from direct distribution already exist and are likely to increase, especially as more insurers leverage digital capabilities and InsurTech partnerships to reach customers directly. Consolidation will continue and more comparative raters will complicate matters.
- The much-talked-about threat from the global tech titans like Google and Amazon may materialize, especially for personal lines. However, the role that those firms will play and their impact is still very uncertain.
- The main themes for commercial lines agencies are consolidation – a move to fewer agencies, but with an increase in the trusted advisor role. Small commercial may come under pressure from some of the same forces as personal lines (InsurTech, direct), but mid-market, large, and specialty lines are unlikely to experience the same level of pressure.

# Mid-Tier Agencies (\$5-10M) Expect the Most Change for Personal Lines

Figure 2. Changes in Distribution – Personal Lines

Percent of Agents Citing

	Under \$1.25M	\$1.25M - \$5M	\$5M - \$10M	Over \$10M
Increase in agent/broker consolidation	80%	67%	73%	53%
Significant increase in Direct	37%	42%	55%	59%
Major disruption by InsurTech	34%	35%	50%	29%
Insurance entry by Google, Apple, Amazon, Facebook	61%	55%	77%	71%
More (external) comparative rating	46%	57%	68%	47%
Agents increase trusted advisor role	46%	45%	41%	41%
Largely unchanged	0%	12%	5%	29%

## Key Differences by Tier

Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- In this report, agencies have been classified by different tiers according to revenue. As indicated by the light blue highlighting, there are significant differences in the expectations for how the landscape will change for personal lines.
- The most stark differences are for those agencies in the middle – pressured by agencies under \$5M and larger agencies over \$10M to stay competitive. Generally these agencies in the \$5M to \$10M range expect the most change and even disruption from the external forces on the industry.
- The largest agencies (over \$10M) expect the most pressure from direct but the least disruption from InsurTech.

# Agencies Expect Less Change In Commercial Lines Than Personal, But There Are Still Significant Differences By Tier

Figure 3. Changes in Distribution – Commercial Lines

Percent of Agents Citing

	Under \$1.25M	\$1.25M - \$5M	\$5M - \$10M	Over \$10M
Increase in agent/broker consolidation	71%	57%	68%	47%
Significant increase in Direct	15%	20%	5%	24%
Major disruption by InsurTech	27%	12%	23%	35%
Insurance entry by Google, Apple, Amazon, Facebook	24%	13%	18%	18%
More (external) comparative rating	24%	40%	27%	35%
Agents increase trusted advisor role	56%	50%	64%	71%
Largely unchanged	17%	15%	5%	24%

## Key Differences by Tier

Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- In this report, agencies have been classified by different tiers according to revenue. As indicated by the light blue highlighting, there are significant differences in the expectations for how the landscape will change for commercial lines.
- Overall, there is significantly less change expected in commercial lines as compared to personal lines. The larger agencies expect an increase in the trusted advisory role, while the smallest agencies see the most potential for consolidation.
- InsurTech and entry by the global tech titans is viewed as less of a threat to commercial lines than personal.

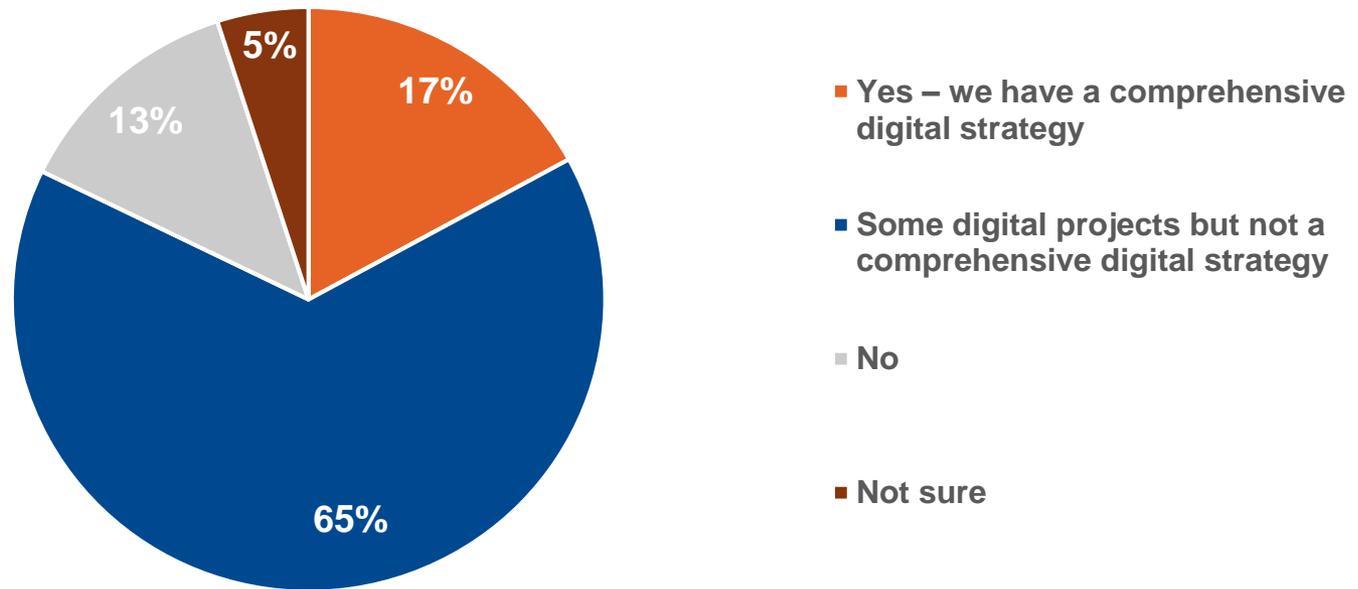
# Agency Digital Strategies and Plans

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# Most Agencies Have Digital Projects Underway, But Only a Subset Have a Comprehensive Strategy

Figure 4. Does Your Agency Have a Digital Strategy?

Percent of Agents Citing



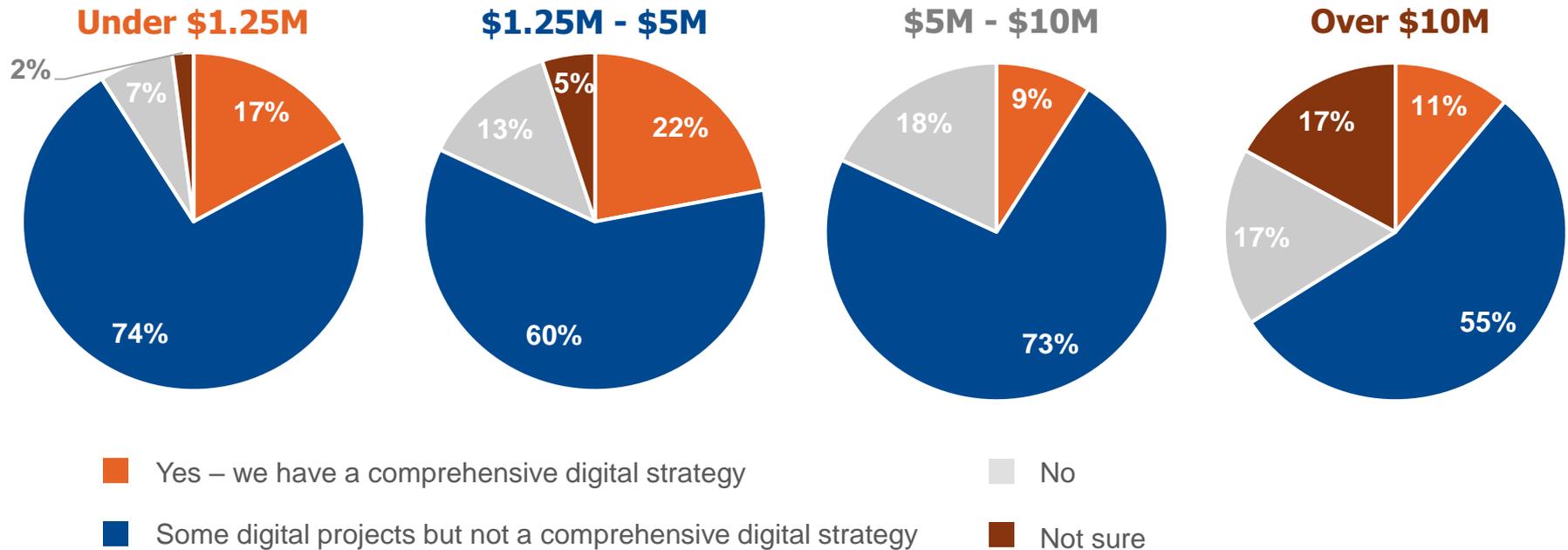
Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- Digital can mean many things to different people. The way digital is defined by agencies – its scope – affects their approach to investing in digital capabilities.
- Most agencies are underway with digital strategies, although only a small portion (17%) consider their strategies to be comprehensive.
- In SMA's view, the 13% of agencies that do not have any digital projects or initiatives underway will find it increasingly difficult to compete in the future.

# As Agencies Become Larger, It Becomes More Difficult to Have a Comprehensive Digital Strategy

Figure 5. Does Your Agency Have a Digital Strategy? – By Tier

Percent of Agents Citing



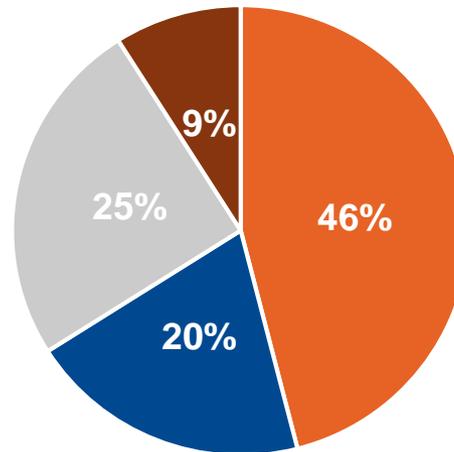
Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- Developing and implementing a comprehensive digital strategy is not easy. It requires a thoughtful approach, allocation of precious resources and dollars, and a sustained commitment.
- The larger agencies find it most challenging to create a comprehensive digital strategy. By virtue of their size and scope, they are more complex businesses and have more individuals to bring on board to the strategy.

# Many Agencies Limit Their View of Digital Strategy to Specific Parts of Their Operations

Figure 6. How Does Your Agency Define a Digital Strategy?

Percent of Agents Citing



- All three areas
- Two of three areas
- One of three areas
- Not sure

## Three Areas of Digital Strategy

1. Everything related to prospects and customers
2. Digitizing agency back office operations
3. Everything related to agency-insurer connectivity

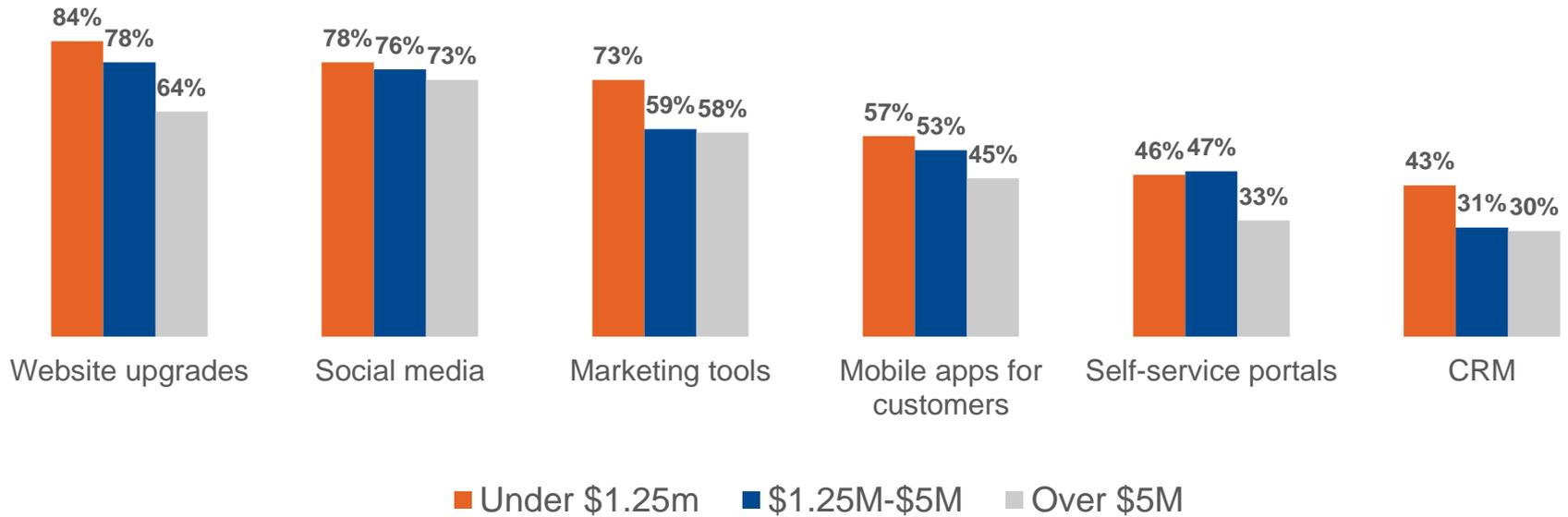
Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- A truly comprehensive digital strategy for an agency should incorporate 3 major domains: customer-facing (everything related to prospects and customers), back office operations, and agent-insurer connectivity and interactions.
- Generally, the higher the agency revenue, the less likely they are to include all three areas in their digital strategy.
- The good news is that most agencies of all tiers are focused on at least one or two of the key areas for their digital strategy.

# Agencies Are Making Investments in Customer-Facing Digital Technologies

**Figure 7. Customer-Oriented Technology Capabilities**

Percent of Agents Citing



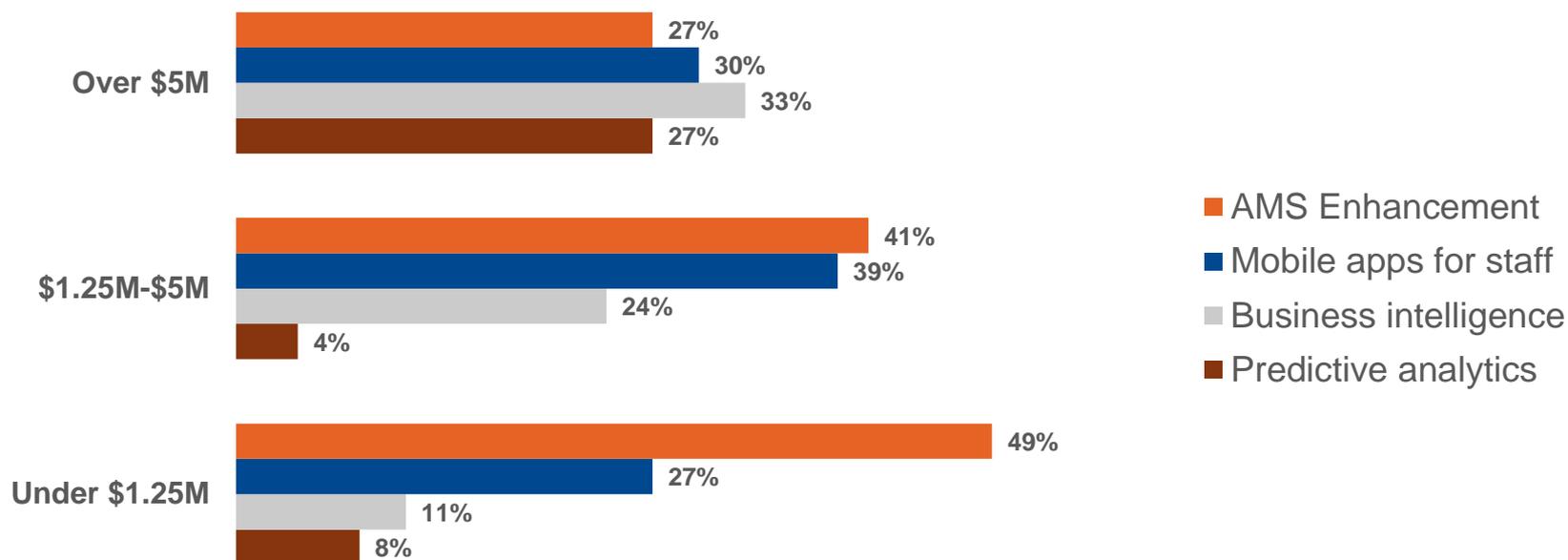
Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- Agencies have identified specific project areas for investment that support their customer-facing business. All 6 of the areas identified in Figure 7 show a significant percentage of agencies investing in these tech areas.
- Overall, the highest percentages of agencies making investments are agencies under \$1.25M. This is likely because they are in catch-up mode, as agencies with higher revenues started these types of investments earlier.
- Web, social media, and marketing tools are the 3 top areas for agencies in all tiers.

# Fewer Agencies Are Investing in Digital Projects for Operations, With the Exception of Agency Mgmt. Systems

Figure 8. Operations-Oriented Technology Capabilities

Percent of Agents Citing



Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- Over 40% of the agencies under \$5M plan to increase investment in their agency management systems. The larger agencies (over \$5M) tend to be farther along in their journey regarding agency management systems, although 27% still plan enhancements.
- Larger agencies (especially those with revenues over \$5M) are developing more capabilities to leverage their data via business intelligence and predictive analytics capabilities. Mobile capabilities are also an important focus area since they are the number two area for agencies in all tiers.

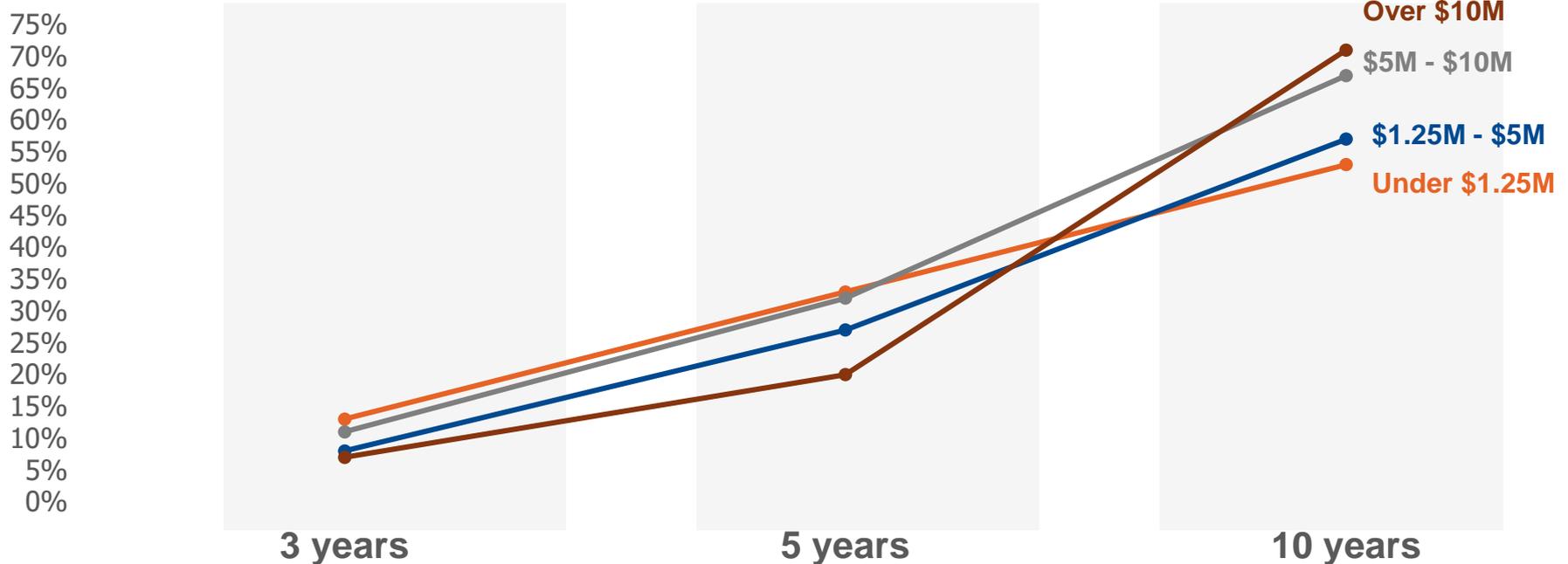
# Agency Perspectives on InsurTech

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# Agencies Expect InsurTech to Have a Big Impact on Personal Lines, Although Few See That Occurring in the Next 3 Years

Figure 9. Big Impact for Personal Lines

Percent of Agents Citing



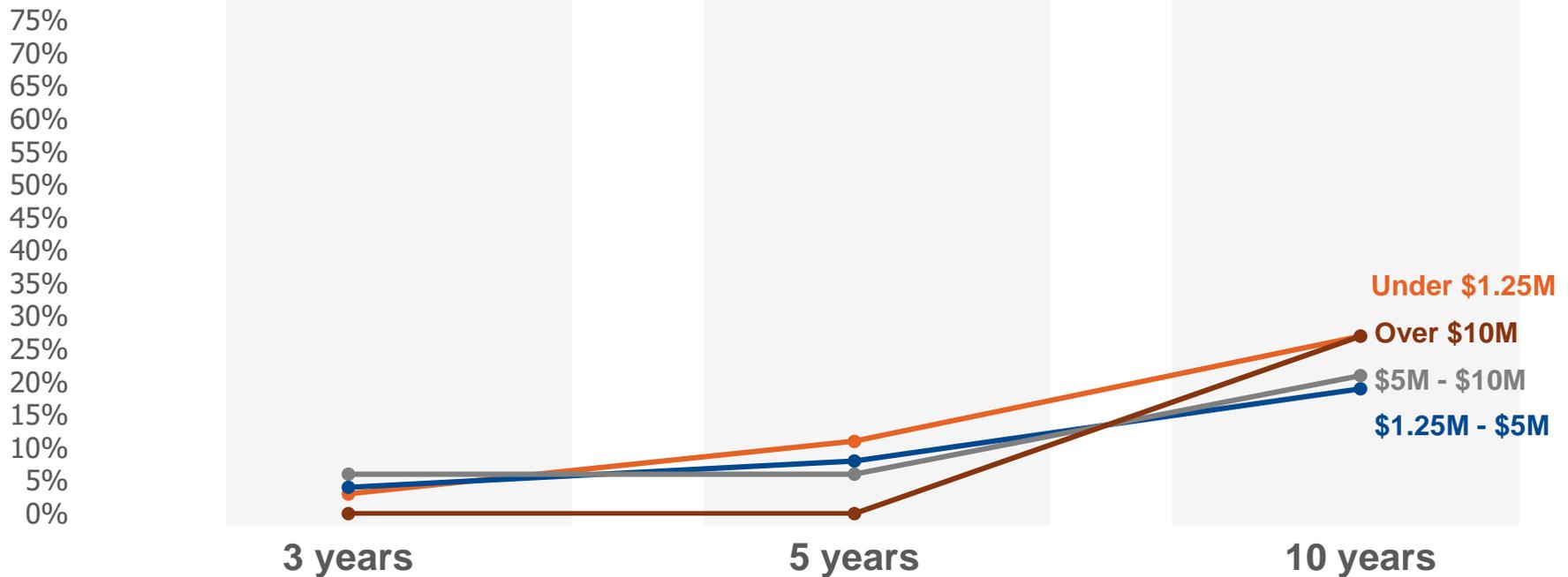
Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- Over 100 InsurTechs startups are focused on the personal lines distribution space. Agencies across all tiers believe that these startups have implications for the personal lines business, especially 5-10 years out.
- The InsurTech world is moving fast and insurers are partnering with startups in the distribution space at an increasing rate. Given this, it is vital that agencies understand this space today and begin to prepare for new competitors and new partner opportunities. **The time to position is now!**
- Some of the InsurTechs offer new tech solutions for agencies that can assist in the digital journey.

# Agencies Do Not Expect InsurTech to Have a Big Impact on Commercial Lines in the Next Decade

Figure 10. InsurTech Impact for Commercial Lines

Percent of Agents Citing

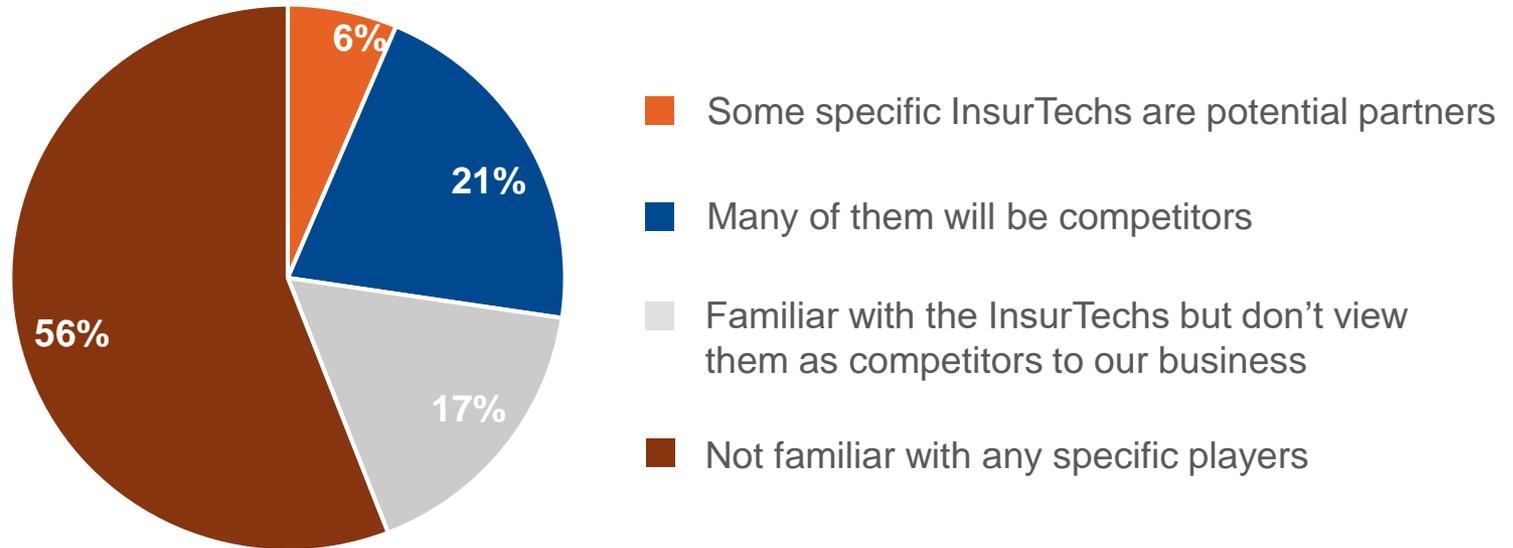


Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- The prevailing sentiment among agencies is that InsurTech is not a threat to commercial lines in the next decade. This is naïve, if not dangerous. SMA believes that commercial agencies and brokers operate from a position of strength and will be a force for the foreseeable future. However, InsurTechs are emerging that are relevant for commercial lines and should be monitored.
- InsurTech startups are especially focused on small commercial and workers' comp in the distribution space, and many pilots and partnerships are already underway with insurers. **Agencies must be proactive in these areas.**

Figure 11. View of Specific Insurtech Distribution Players

Percent of Agents Citing



Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- About a quarter of all agencies believe that InsurTech startups will be either competitors or potential partners. SMA believes that these startups will have implications for virtually all agencies, either because they offer digital solutions for agencies, become direct competitors, or change the expectations of insurers dealing with distribution partners.
- The largest percentage of agencies are not familiar with any specific InsurTech players. However, a time consuming analysis is not required. There are many industry news sources and feeds that cover developments in InsurTech. Every agency should at least subscribe to sources to begin to understand the new entrants and their value propositions.

# New Data Sources, Solutions, and Technologies

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# Agencies Expect to Aggressively Use New Data Sources for Many Purposes

Figure 12. Purposes for Using New Data Sources in the Next 3 Years



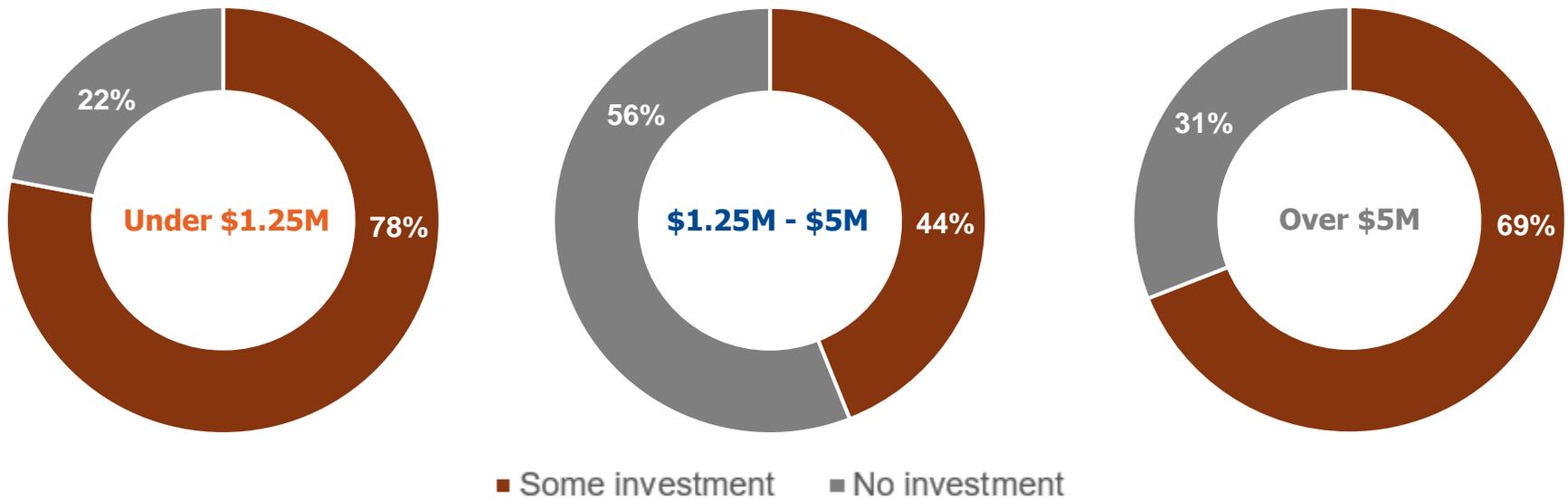
Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- Leveraging existing and new data sources is an essential component of a digital strategy for agencies. It is encouraging that so many agencies recognize the value of new data sources and plan to incorporate them into digital strategies.
- Agencies under \$1.25M are more aggressive than those over \$1.25M, again because those over \$1.25M have already started down that path.
- New data sources support all 3 areas of a digital strategy (customer-facing, operations, agency/insurer connectivity).

# Mid-Tier Agencies Are Least Likely to Invest in Emerging Technologies

Figure 13. Emerging Technologies Investment Plans Over the Next 3 Years (Through 2020)

Percent of Agents Citing



- The top emerging tech investment area planned by agencies of this tier is mobile/digital payments (37%).
- Telematics and chatbots are two additional emerging techs with an important subset of agencies planning investments (20% and 16% respectively).

- 3 emerging techs stand out for agencies of this tier: mobile/digital payments (34%), chatbots (20%), and telematics (20%).
- 10% of the agencies expect investments in AI and/or blockchain.

- Over 40% of the agencies over \$5M plan investments in mobile/digital payments, the top area by far.
- 13% plan AI investments in the next 3 years.
- Slightly under 10% plan investments in chatbots, drones, and blockchain.

Source: SMA Research, 2018 Agencies in the Digital Age, n=126

# E-Signature and Imaging Solutions Are the Top Technologies Used for Unstructured Data



Figure 14. Technology Used for Unstructured Data

Percent of Agents Citing

	Under \$1.25M	\$1.25M - \$5M	Over \$5M
None	11%	18%	16%
Imaging software	47%	52%	44%
Optical character recognition (OCR)	18%	9%	9%
e-signature	87%	82%	69%
Intelligent document analysis (extract and analyze data from forms, etc.)	18%	14%	9%
Other (e.g. SMS/messenger platforms, turbo scan)	5%	5%	0%

Source: SMA Research, 2018 Agencies in the Digital Age, n=126

# Agency and Insurer Interactions and Expectations

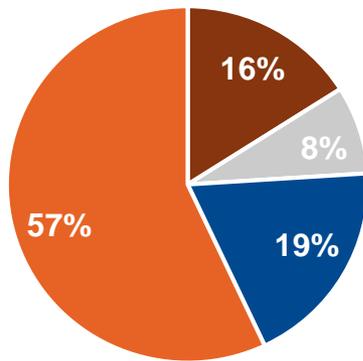
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# Agencies Expect Insurers to Be Enablers of Their Digital Strategy

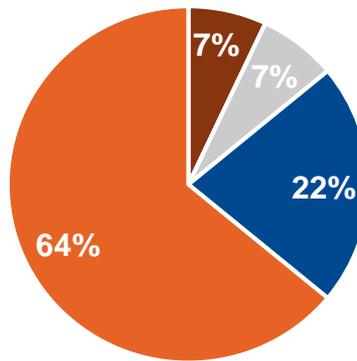
Figure 15. Top Expectation of Insurers for Enabling Digital Interactions

Percent of Agents Citing

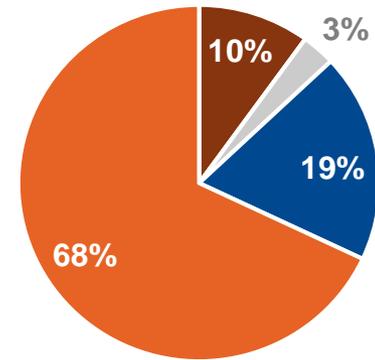
Under \$1.25M



\$1.25M - \$5M



Over \$5M



- Establish partnerships with tech providers that facilitate digital communications between insurer and agency
- Provide knowledge and education

- Provide financial support
- No expectations

Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- The two primary roles that agencies see for the insurer partners in the digital realm are to help establish tech partnerships (like IVANS) that facilitate digital communications and to provide knowledge and education to agencies.
- Generally, the expectations by tier are not significantly different.
- Few agencies of any tier are looking to their insurer partners for financial support to assist them in their digital journeys.

# Agencies Have a Variety of Opinions About the Implications of Digital for Insurer Interactions

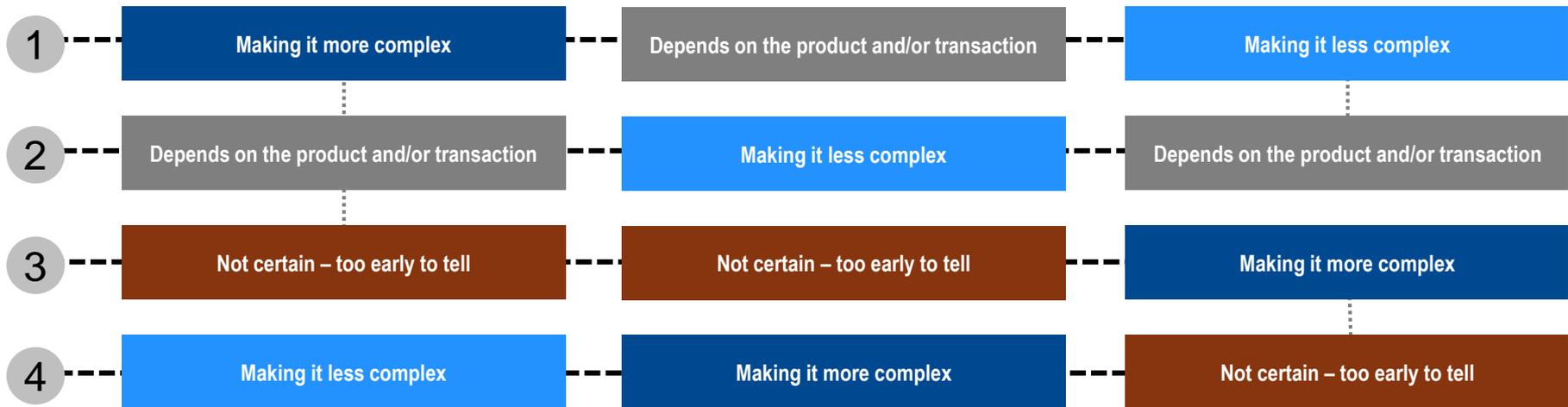
Figure 16. How Is Digital Changing the Nature of Agent-Insurer Interactions?

Top Priorities for Agencies

Under \$1.25M

\$1.25M - \$5M

Over \$5M



Source: SMA Research, 2018 Agencies in the Digital Age, n=126

- Another common response among agencies of all sizes is that the implications of digital depend on the product or the transaction in question. For example, the implications might be different for personal lines and commercial lines products, and may be quite different for transactions like submissions, commissions, claims, etc.
- The smallest agencies (under \$1.25M) worry that digital interactions with insurers will make their business more complex, while the larger agencies see an opportunity for digital to reduce complexity.

# Agency Owners Have Strong Views On Digital and How Insurers Can Help



“The #1 biggest thing that insurers need to do to help us with digital is to address the challenges with download. The differences by insurer and the problems with ACORD forms make it complicated and time consuming for agencies.”

*Director of Development  
Large Regional Agency (over \$5M revenue)*

“Insurers need to do 2 main things to support agents from a digital perspective:  
1) provide download for everything – commissions, claims, non-renewals, etc.  
2) build a stronger relationship with the rating programs to make rates as accurate as possible.”

*Agency Owner  
Small Agency (under \$1.25M revenue)*

“Digital applies to both inside and outside the agency. Inside the agency, it means being able to manage a larger BOB with less people. For example, we are considering eliminating insurers that don’t provide download.”

*Agency Owner  
Small Agency (under \$1.25M revenue)*

“Going digital is not a function of agency size. The biggest determinant is whether the insurer services all the policy changes. If the insurer services all the changes then the agency is less likely to be on a digital path.”

*Co-Owner  
Large Agency (over \$5M revenue)*

# Insurance Distribution Executives Understand That It Is Vital That They Support Agency Digital Initiatives



“Insurers should be heavily investing in digital, really focusing on download for agencies, doubling down on omni-channel, and making sure a digital agent is included.”

*VP, Distribution Technology Strategy  
National Insurer*

“InsurTech startups that have tech solutions for agents could be partners... And the ones with new coverages/products/programs could also be good partners.”

*Distribution Executive  
National Insurer*

“The independent agents that survive in the future will be those that really embrace digital. Their strength will still be around building relationships, but more and more, that will be done digitally.”

*Customer Experience Officer  
Regional Insurer*

“We know that more agencies want to create portals. We, as the insurer, need to determine how to best integrate our technology into those portals.”

*Head of Distribution  
Regional Insurer*

# SMA Call to Action



While some distributors may see rapidly growing digital demands as threatening, the winners in the race to provide value to new individual consumers and business owners recognize that digital execution has value internally for their own organization as well. Agency-insurer connectivity has long been an important industry initiative, and digital solutions take this to a new level, which no one can ignore. For many organizations, digital strategies are in a formative stage, yet others are executing. Because of the criticality of digital capabilities, the following recommendations are important to consider.

## **Call to Action for Insurers**

Based on their size, distributors are in different places on their digital journeys and are impacted by external forces in different ways. Insurers must be aware of this and assure that their own digital initiatives do not add complexity. Agencies are going more digital, and if insurers don't facilitate this engagement, then they are at risk of losing distribution opportunities.

Insurers can best support agency and brokerage digital initiatives by establishing partnerships with technology providers that facilitate digital communications between insurers and distributors. Distributors see new data sources as having multiple purposes: enabling better work with insurers and improving agency efficiency. Insurers would be wise to keep this in mind as they develop their own data strategies so that data can be shared.

The insurance industry will certainly look different in 5 years, and in 10 years from now, it may have elements that have not even been contemplated today. However, agencies, brokerages, and insurers that transform their organizations via digital strategies now will be positioned to adapt and flourish.

## **Call to Action for Agents and Brokers**

All agents, regardless of size, should have a comprehensive digital strategy so that investments can be leveraged for both internal constituents and external constituents, including agency and insurer connectivity.

Agencies with significant personal lines recognize that external forces will pressure their operations – particularly agency/brokerage consolidation, global tech giants, and more external comparative raters – which will necessitate strong digital capabilities to be relevant and stay in the game.

InsurTechs represent an opportunity for all distributors to partner for greater digital capabilities, and agencies and brokerages need to become familiar with startups that have digital solutions and plan for alliances.

# About the Research and Strategy Meets Action

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Figure 17. Agency Tier

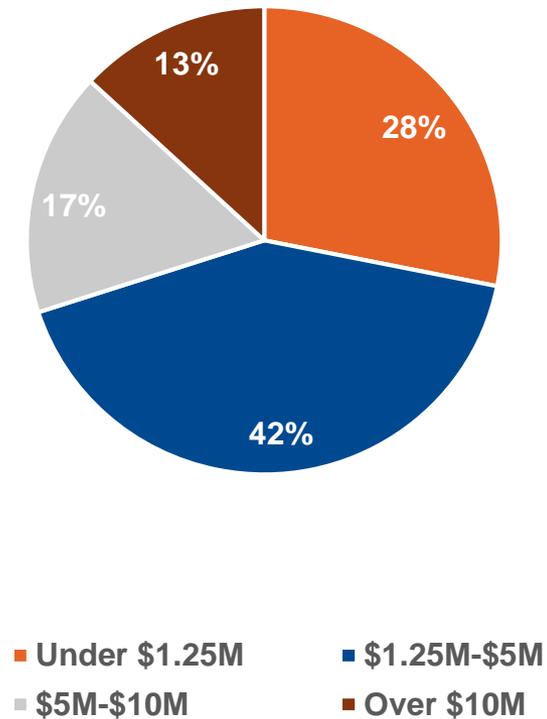
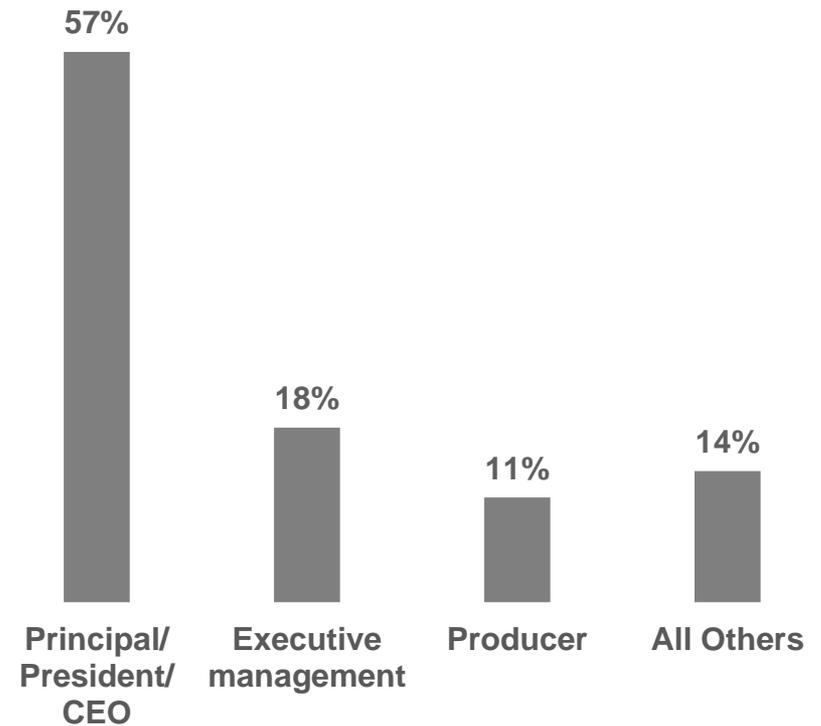


Figure 18. Role



Source: SMA Research, 2018 Agencies in the Digital Age, n=126

## SMA Research Methodology

The findings and analyses in SMA's Agencies in the Digital Age report reflects our analysts' considerations, opinions, and insights, which are based on their experience and research. SMA analysts use a basic research model:

**Data gathering:** A combination of primary and secondary research data is collected through surveys, interviews, demos, publicly available materials, and onsite advisory work.

**SMA analysis:** The market trends, data, and the information gathered in the research are analyzed, vetted, and validated.

**The report:** Findings and insights are documented. Source information for all data from third parties or opinions is attributed. When formal survey results are cited, as much information as possible about survey methodology and participants is provided, within the limits of confidentiality. All other material appearing in this report is created by the analysts and is derived from the sources listed above and SMA's experience. Figures and charts based on this analysis are labeled either "Source: SMA Research, 2018 Agencies in the Digital Age, n=126" or "Source: Strategy Meets Action 2018."



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## About SMA



**Mark Breeding, Partner**, is well known for his perspectives on innovative uses of technology in insurance and the future of the insurance industry. His specialty areas include the customer experience, InsurTech, emerging technologies, and digital strategies. Mark assists both insurers and tech companies with forward thinking strategies and plans for success in the digital age. Mark can be reached at 1.614.562.8310 or via e-mail at [mbreeding@strategymeetsaction.com](mailto:mbreeding@strategymeetsaction.com). Follow Mark at [markbreeding](#) on LinkedIn and [@BreedingSMA](#) on Twitter.



**Karen Pauli, Principal**, has comprehensive, real-world knowledge and experience about how technology can drive improved results, innovation, and, particularly, digital transformation within insurance business operations. Her areas of focus include claims, underwriting, business intelligence and analytics, distribution, and customer management. Karen can be reached at 1.774.462.7820 or via e-mail at [kpauli@strategymeetsaction.com](mailto:kpauli@strategymeetsaction.com). Follow Karen at [karen-pauli](#) on LinkedIn and [@kpauliSMA](#) on Twitter.

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