CELENT

THE AGENT OF THE FUTURE

AND HOW INSURERS CAN HELP THEM GET THERE

Karlyn Carnahan
03 July 2019

This report was commissioned by IVANS, a division of Applied Systems, which asked Celent to design and execute a Celent study on its behalf. The analysis and conclusions are Celent's alone, and IVANS had no editorial control over report contents.

OLIVER WYMAN

CONTENTS

Executive Summary 1
Key Research Questions 1
Introduction 2
The Changing World of the Independent Agency 4
The Agent of the Future 8
Agency Models 8
New Focus on Marketing 9
Innovative Delivery of Service 9
Increasing Use of Technology 10
Organizational Change 11
Staffing 11
What Can Insurers Do Today to Help the Agent of Tomorrow? 13
Use Data More Effectively 14
Assess Your Compensation Dollar 15
Provide Digital Marketing Support 15
Invest in Tech 15
Improve Communications 16
Deliver Policyholder Services 17
Conclusion 18
If You're an Agent 18
If You're an Insurer 18
Leveraging Celent's Expertise 20
Support for Financial Institutions 20
Support for Vendors 20
Related Celent Research 21

EXECUTIVE SUMMARY

Key Research Questions

1	*What's changing in the world of the agent?*	**2**	*What will the agent of the future look like?*	**3**	*What will agents need from insurers to help with the transition and to conduct business efficiently and effectively?*

Most insurers use agents as their primary distribution channel. And for good reasons. Agents play a key role — acquisition, information gathering, providing customers with advice, and providing ongoing customer service.

But the world of the independent agency is changing rapidly and dramatically. Shifting customer expectations are creating a need for new business models. An aging workforce signals a potentially abrupt change in the availability and skill set of staff to do the work. And the looming impact of potential disintermediation from direct-to-consumer and digital distribution drives a need to recognize the role of technology.

What will the agent of the future look like? How will they conduct business? What skill sets might be needed? How will their use of technology need to change?

There are a number of issues for agents to consider along their transition path to the future. Most expect and want help from their insurer partners to help them get there. Agents need help from insurers both today to help them with the transition and tomorrow to conduct business efficiently and effectively.

For most insurers, the real questions are: Who is the agent of the future? How can you identify them today? And what kinds of practices and services can be applied to help them successfully get there? While there are a million things insurers could do, the question lingers — what SHOULD they do, and for whom? Insurers can look at investing in a number of areas to drive growth while helping their agents make the digital transformation needed for future success.

INTRODUCTION

Most insurers use agents as their primary distribution channel. And for good reasons. Agents play a key role — acquisition, information gathering, providing customers with advice, and providing ongoing customer service.

However, the independent agency distribution system is an expensive one. AM Best shows that on average in 2018, 7 points of the industry's combined ratio was spent on insurer salaries, and 11 points was spent on commission. This means insurers often pay the agent more than they pay their own staff. That made sense when agents were responsible for new customer acquisition, data gathering, payment processing, claims services, policy maintenance, and ongoing policyholder services.

Today things are changing rapidly and dramatically in the world of the independent agent. Services that agents used to provide are increasingly being handled by the insurer. Third party data accessibility reduces the need for data gathering by an agent. Advice engines hold the promise of being able to give appropriate advice for the most homogenous risks. Direct bill is common, and insurer service centers are available to allow an agent to outsource the servicing of the business to the insurer.

Many insurers look at this equation and say that the cost of distribution has to come down; agents should only be paid for the specific and irreplaceable value they offer. This is increasingly a high priority target area for cost rationalization efforts.

Agents face looming issues as well. An aging workforce, changing customer needs, the growing impact of technology, and the increasing threat of digital disintermediation all threaten the traditional agency model. At the same time, their costs continue to rise.

The cost issue is particularly challenging with small premium policies. For example, a $2,500 policy, paying 15% commission earns an agency $375; 30% to 40% of that will go to the producer, leaving less than $250 for the agency to cover the cost of the work to write that account — prospecting, data entry, and quality assurance. If a single endorsement is issued on that policy, the agency has lost money.

The economics, especially for personal lines and small business, don't favor an agent.

These economics are driving larger agencies to avoid writing small policies — regardless of the line of business. Some will write them in specialized units that have processes designed to minimize touch. Others simply refuse to write them. One principal of a large agency we spoke with recently said that if a policy generates less than $50,000 of annual premium, they give it to the State Farm agent down the street. Another said that producers don't get paid commission on policies under $40,000.

If large agents are writing small business and personal lines less frequently, that leaves that business for small agents who, without scale, have worse margins. The most expensive business to handle is being written by the agents with the worst margins, and this is the most commoditized business that generally places high value on a low price. This is not a good recipe for long-term viability for small agents.

Continued pressure on margins combined with continued mergers and acquisitions makes it easy to conclude that the number of agencies is going to shrink. But IIABA studies[1] show the independent agency force is actually relatively stable. The number of agencies in the US has hovered between 37,500 and 38,500 since 2006 without significant variation. Nearly one-third have revenue of less than $150,000. Such agents are reported to handle around 35% of personal lines business and just over 80% of commercial business. Increasing acquisitions reduce the number of agencies, while new agencies continue to emerge, especially in urban areas.

One insurer we spoke with said they believe that while the absolute number of agencies probably won't change much, they expect there will only be 8,000 to 9,000 relevant agencies in 10 years. The trick for carriers is to figure out who those agents will be and to secure shelf space with them today.

For most insurers, the real questions are: Who is the agent of the future? How can you identify them today? And what kinds of practices and services can be applied to help them successfully get there?

This report was commissioned by IVANS, a division of Applied Systems, which asked Celent to design and execute a Celent study on its behalf. The analysis and conclusions are Celent's alone, and IVANS had no editorial control over report contents.

[1] IIABA Agency of the Future.

THE CHANGING WORLD OF THE INDEPENDENT AGENCY

Many forces are impacting the independent agency channel, causing agents to step back and reassess their business models and investments. Just as insurers continue to invest in innovation and digital transformation to deal with the changing external forces, agents are impacted by these very same forces.

Figure 1: Forces Impacting the Independent Agency Channel

Source: Celent

Shifting Customer Expectations

Buyers are changing. They are being conditioned by the internet to expect that they can interact with agents and insurers in any manner they choose. They expect to be able to buy direct online, to call the insurer directly, to work with agents, and to access insurance at the same time that they purchase non-insurance products. They have more insurance literacy than ever before, and they expect transparency and control over the buying process. Many buyers desire a faster, easier digital process.

To keep up with these changing expectations as consumers become more digital, agents have to find new ways to work with and engage with their customers. Today, when you ask an agent what makes them different from any other agent out there, they will often say “our service.” But they generally deliver that service with human beings, which means that their service isn’t available after hours.

Digital Disintermediation and New Entrants

A wide variety of new channels are emerging, and insurers are experimenting with all of them. Insurers continue to expand distribution channels to attract the online market. Consumers are already voting with their wallet and moving online in droves, and insurtech firms are taking advantage of that. These entrants are also focusing on disrupting the distribution channels of insurance by exploiting the economies of the online marketplace and providing a more appealing experience. The growing use of online not only in personal auto, but increasingly in small commercial and workers compensation, is creating competitive pressures for the agents.

Figure 2: Shifting Distribution Channels in Insurance

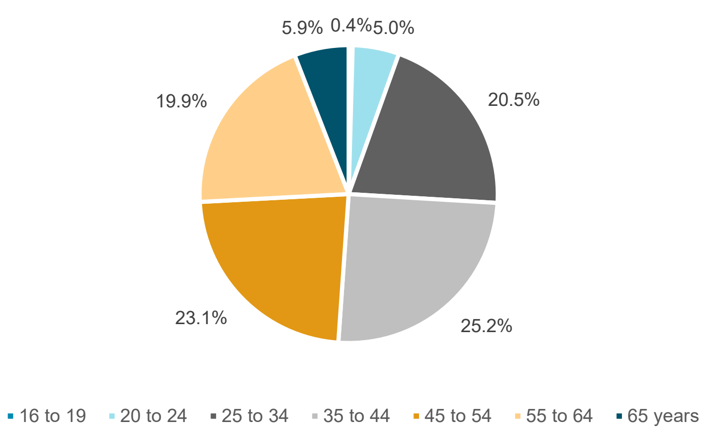
Source: Celent

Agents understand the value of the direct-to-consumer channel but continue to believe they add value. They want to be actively engaged with the policyholders and believe that engagement adds value to the relationship. But that active engagement comes with a high price tag.

Aging Workforce

According to the US Department of Labor, more than 25% of employees in the insurance industry are over the age of 55 and poised to retire in the next 10 years. This is percentage is even higher for agents.

Figure 3: Distribution of Insurance Industry Employees



Source: Department of Labor

Multiple studies show the percentage of agency employees over the age of 55 ranging from 35% to almost 50%. Faced with the prospect of losing half their employees in the next 10n years, and the deep knowledge these employees hold, agents are focusing on Gen X and the millennial generations as the primary workforce available to fill their growing need for workers. But with a tight labor market, there is high competition for this talent. These generations arrive with no relevant experience in the industry and little patience for formal training. They have very different expectations for workplace satisfaction and different working styles. The insurance industry overall has had difficulty attracting new employees because its reputation is one of a stodgy industry.

Training is difficult for agents. Many are small, can't afford the overhead of dedicated training departments, and don't have formal training programs in place. While external educational programs are available, they generally don't prepare an employee for the day-to-day work. Most rely on on-the-job training, which takes time from the experienced staff.

Agents need to manage the younger generation differently than the baby boomers. The new workforce demands increased engagement and cutting-edge technology, and doesn't see the job as a career. Turnover rates are high among the young; they often choose to leave before the agency has reaped the benefit of their training. Baby boomer principals feel perplexed at how to manage a very different generation.

M&A/Consolidation

The agency market is becoming more bifurcated with a small number of very large agencies with lots of resources, and a large number of very small agencies without the resources to build scale. Merger and acquisition activity has been at a very high level with almost 700 transactions in 2017. Some of this is due to principals reaching retirement age and looking for their exit. Fewer than half of all agencies have a perpetuation plan in place and may be forced to sell their business in order to monetize their years of investment.

Much of the activity reflects acquisitions of midsize agencies by large agencies. This kind of consolidation results in larger and stronger agencies with more scale because they are able to combine back office services and expand geographically.

Smaller agencies have to become even more innovative and nimble in order to remain competitive or risk losing market share. These small agents typically don't have the skills or funds to invest heavily in technology, digital marketing, or unique services and rely on help from their insurer partners.

Declining Margins

Increased competition, sluggish premium growth, and rising costs are putting pressure on margins for insurance agencies and brokers. Large agencies can afford to invest in technologies to build efficiencies and typically have much higher revenues per employee. Smaller agencies may have to pay more to attract the right staff and often don't have the means to invest in processes and technologies that could level the playing field.

Agents continue to look for services from insurers to help them manage costs. There is an increasing desire for simple portals and connectivity with the agency management system, customer service centers (at an affordable price),and self-service tools for the agent. But many agents dislike the idea of offering too many self-service tools to the customers amid concerns of disintermediation.

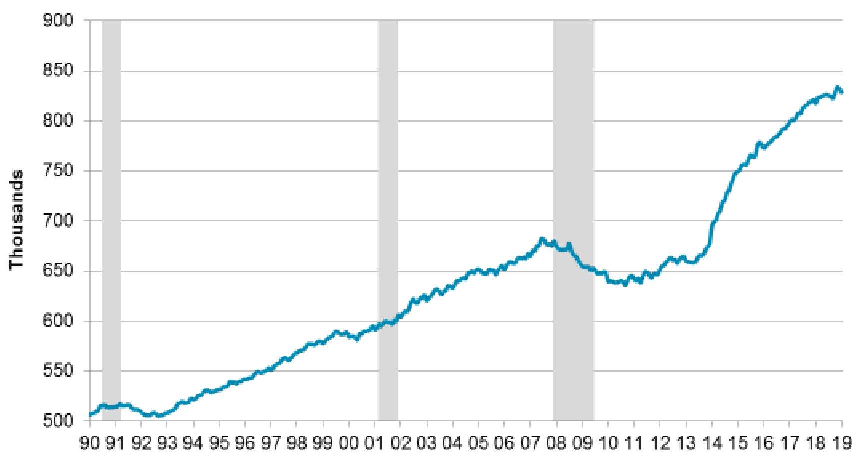
Growing Impact of Technology

The threat of direct-to-consumer models is driving agents to place higher value on technology than ever before. Technology levels the playing field. It supports lower operating costs because work can be automated. It supports higher growth through digital marketing. It may play a key role in attracting new staff who want an intuitive modern work environment. And it may allow the agents to play in the direct-to-consumer market more effectively, appealing to the new generation of buyer. But technology doesn't come cheap. Becoming digital requires expanded technology capabilities. And many agencies don't have the skills or budgets to build needed technology or to invest in digital marketing.

Agents are looking for modern agency management systems that include connectivity tools and market finders. They're looking for data prefill from agent portals to minimize data entry work on their end. They want paperless both from insurers and internally. Many would like to provide some minimum level of self-service tools to the policyholder — but want those tools to come from the agent and to provide the policyholder with access to all their policies across multiple insurers. They're interested in digital marketing, social media, and website optimization, but often don't have either the skills or the funds to invest.

However, although carriers are seeing the benefits of automation through lower staff, agents don't appear to be gaining the same benefits and are increasing staff. They have not invested in workflow automation to the same level that insurers have.

Figure 4: US Employment in Insurance — Agencies and Brokerages: 1990–2019



*As of January 2019; not seasonally adjusted. Includes all types of insurance.
Note: Recessions indicated by gray shaded columns.

Source: Bureau of Labor Statistics

Key Research Question 1

What's changing in the world of the agent?

A number of disruptive forces are changing the world of the independent agency. Shifting customer expectations, concern over fear of digital disintermediation, a growing need for technology, and an aging workforce are some of the major factors driving change.

THE AGENT OF THE FUTURE

Is the independent agency channel doomed? Not at all. There is a clear need for a professional advisor who can help policyholders understand their exposures, help them choose the appropriate products, and provide service to reduce risk and manage claims. But the role they play will continue to evolve, and many are not equipped to manage the inevitable transition to a digital world. Agents will need a clearer view of their target markets; their risk needs; and the appropriate product and service offerings.

So, what does the agent of the future look like?

Agency Models

Today, we tend to differentiate agencies based on their size and their ownership structure — independent agents, captive agents, and direct agents. In the future, we believe there will be much more variance in the types of agents, the way they go to market, and the kind of support they'll need from insurers. We expect to see blended models: independent agencies placing business with direct writers; an increase in online channels; and more cooperation across channels with agencies partnering to find markets and provide tailored services.

Large multi-line agencies. Clearly, the larger the agent and the more scale they have, the better the margins. The consolidation that has happened over the last few years has led to some mega-agents; the top fifteen would be considered tier one or two insurers and are larger than all but the top 40 insurers. This places more power in the hands of these large agencies because they control more of an insurer's book of business. These agencies are also the best positioned to use technology to create operating efficiencies and have more resources available to differentiate themselves with value-added services, especially to the larger accounts. This positions them to have better margins than other agents. **We expect to continue to see the existing trend of mergers and acquisitions in the mid and large agency market.**

Digital agents. As consumers are increasingly comfortable purchasing insurance online, aggregators and digital agents continue to proliferate. Use of these channels allows insurers to access the online buyer market without having to invest in a direct channel themselves. Digital agents aren't just for personal auto. We see activity in small commercial, workers compensation, and some specialty lines. **We expect to see continued growth in this area as online agents continue to learn how to effectively convert buyers.**

Niche-driven agents. Niche marketing, focusing a specific set of products and services on a specific type of customer, can deliver better margins than those of a generalist. **We'll expect to see a greater emphasis on agent specialization by industry, customer size, or other dimensions in order to focus their efforts.** For example, we will see agents that specialize in construction, or high net worth, or safety groups, or pay as you go WC. Midsize and large agents will create internal units focused on these segments with specialized processes to improve the efficiencies of servicing this business. Smaller agents will focus on concentrating their marketing efforts on these niches and will rely on insurers to help with the day-to-day transactional servicing, leaving the relationship management to the agents.

MGAs. MGAs are typically used by insurers that want to insure a specific risk or entity but don't have the expertise to appropriately underwrite and service the account. MGAs increasingly are bypassing insurers and using new partnerships with reinsurers or other sources of capital to move close to the customer. **We expect the use of MGAs to increase as insurers look to enter niche markets and as MGAs improve their own technologies supporting their own direct sales.**

Small generalists. Smaller agents will begin to focus their book of business on specific segments, although many will continue to be generalists with suboptimal margins. It will become increasingly important to have a local brand, including a digital presence in a community in order to stay relevant. **We expect small generalists to always be there.** This is the entry point for new players. But this segment will face increasing pressures on their own margins and increasingly will be at a disadvantage unless they are able to harness technology effectively. We believe that small generalists can succeed by focusing on knowing their community better than anyone else and serving as the center of the ecosystem. When an agent acts as a centralized source of information for their clientele — connecting customers with contractors, attorneys, tax accountants, and other local service providers — they can leverage their relationships and community knowledge to build a loyal following and differentiate from those who have other areas of focus.

Clusters. Agent clusters, groups of small agents who band together in order to cooperatively share markets, marketing, and other benefits, have been active in the past. What's changing is the role of technology to provide electronic wholesale exchanges. We also see a shift from small clusters of local agents banding together to achieve scale to large, industrial-scale clusters that may include thousands of agencies. These large-scale clusters provide a significant level of benefits, but also demand minimum results in exchange for participation. **We expect clusters to continue to grow in sophistication and expect platforms and exchanges to play a larger role.**

New Focus on Marketing

The focus on growth through cross-sell will continue. It's always easier to upsell an existing customer than to take a customer away from a competitor. We expect insurers to use technology and automation to provide additional products and strategic advice across a customer's life events. **We expect agents to begin offering other kinds of products —** life insurance, group benefits, tax advice, and other financial service and risk management products.

New business growth will require additional focus on digital marketing. Traditional local marketing, one prospect at a time, will no longer be an affordable way of adding customers. Agents will continue to invest in search engine optimization; social media (Twitter, Facebook, LinkedIn, Nextdoor); direct-to-consumer digital advertising; and other techniques designed to attract an increasingly online market.

Innovative Delivery of Service

Agents will continue to look to differentiate themselves based on service. However, delivering service primarily through human beings is not only inefficient, but limits the service hours available.

Transactional Services

Service centers. Although agents worry about potential disintermediation from their customers, they realize that service centers not only provide ongoing account servicing at a better margin but also lift the E&O exposure from the agents. **Increasingly, agents will use the service centers provided by**

insurers for personal lines and small commercial business and will find other ways to deliver value-added services in order to stay relevant.

Consumer self-service. Agents also recognize they need to appeal to the online consumer and will continue to invest in direct-to-consumer self-service capabilities. **Rather than extend the insurer tools to their customers, we expect agents to extend their own tools — often provided by their agency management system vendor.** This allows the agent to provide services across all the insurers that may be involved in the insurance program and has the added benefit of limiting the disintermediation of the agent.

Agency-delivered services. Speaking face-to-face or over the phone is still a differentiator for agents. Managing that personal relationship effectively will rely more heavily on technology. For example, customer relationship management systems are more likely to include artificial intelligence to help with "next-best-action," and integration with social media provides personalized insights for leads and clients. **We expect agents to use more data and electronic tools to provide better service.**

Value-Added Services

Generic advice is relatively easy to find online. Advice engines continue to improve, and consumers are quite capable of seeking information from free sources on the internet. To stand out, an agent will need to find ways of offering unique advice for tougher situations and delivering that at scale.

New types of services. Agents will look for other kinds of services they can offer — to differentiate themselves in order to attract and retain customers — but also as additional sources of income. **To maintain the policyholder relationship, agents will focus on providing other kinds of services and content.** Large agencies already have in-house risk management and claims units. We expect smaller agencies to begin to look for ways to provide these kinds of services for their larger accounts.

Digital delivery of services. While small agents can't afford to have a full-time risk management team in place, they will begin to look for other kinds of tools that can be offered — such as mobile self-inspection apps, online content, and other third party services that can be white-labelled or cobranded. **We expect agents of all sizes to use these kinds of tools.** We also expect large agencies to begin building collaborative communities that allow their customer to connect with each other and provide user-generated content to enrich the communities. User content is difficult to compete against and can add to the overall value of the agency.

Increasing Use of Technology

Technology will play a growing role in the way agents conduct their business. Agents will continue to invest in automation of their own internal work. Data prefill will help reduce keystrokes. Market finders will streamline the process of finding insurers. Document imaging will reduce paper. Insurer portals will continue to be an important tool for agents, and the connectivity between portals and agency management systems will continue to evolve.

Technology will also be utilized to interact more effectively with customers. Consumer self-service tools, collaboration tools, new ways of delivering value-added services — these are all new technologies for a new generation. We expect to see growing use of live chat and chatbots; social communities, and new ways of integrating data from a variety of sources to provide consumers with a broader picture of their risk profile and the products and services they are using.

This means that the application architecture of an agent's technology footprint will grow more complex as they look to automate and to extend digital capabilities to their own customers. Certainly, agents will continue to use agency management systems and customer relationship management systems to manage their own book of business. Those who haven't yet gone paperless will. Data and analytics will play a greater role and will require new tools to utilize. A mobile-friendly website with content management and distribution functionality, combined with consumer self-service tools, will become more important. Digital marketing tools will be used.

Digital players compete on speed and agility; consumers expect personalized experience; and a new reliance on external data drives both of these. Delivering a superior customer experience requires assembling a broad set of digital capabilities and utilizing the resulting data. Agents are looking for ways to rapidly integrate with partners and new insurers while leveraging data in a secure manner.

Digital transformation demands a new architecture.

This increasing use of technology raises the need for an increasing focus on security. It also means that agents need to become more strategic about their digital architecture, integration strategies, and data strategies, Disconnected systems slow down the process and increase the potential for errors from rekeying data.

Organizational Change

Digital transformation will affect all dimensions of the organization but none more than the technology aspects of an agency. While many agencies have already started digital initiatives, a large number of agencies today don't have anyone responsible full-time for managing technology. Of course, large agencies generally have full IT organizations. But small agencies are at a disadvantage if they're not able to take advantage of the efficiencies that technology can deliver.

We expect to see agencies of all sizes investing in full-time technology staff as they recognize the reality that technology has become as core to an agent's strategy as insurer management, sales, or marketing. However, making the transition from "IT as an expense" to "IT as a strategic pillar" requires new skills.

Many agents have made some real strides forward in shifting the model to meet their digital ambitions, creating a more differentiated proposition with sharper tech-focused innovative capabilities, and improving their delivery capabilities. Others are just beginning and looking for a roadmap to help them prioritize.

Staffing

As agents face the shrinking available workforce, **we expect them to become more creative at how they obtain resources.** They'll face a growing need for IT skills and digital marketing skills. We expect to see an increased use of outsourcing for things like quality assurance and data entry. Job specialization will also take on new meaning — with some creating highly specialized job definitions in order to build efficiencies, and others building a broader set of skills to build flexibility and to create more interesting jobs.

Agents will shift from the traditional 8 to 5 jobs to more flexible working arrangements in order to attract and retain the millennial and GenX staff. Flexible work hours, broad benefits, part-time roles, remote work, and use of "gig economy" workers will become more common. Of course this has an impact on how these workers are managed. Principals and executives will need to learn new skills and new ways of engaging and managing the workforce of the future.

***Key Research Question* 2**

What will the agent of the future look like? How will they conduct business? What skill sets might be needed? How will their use of technology need to change?

New models will emerge that have different levels of reliance on technology, different levels of market sophistication, and different levels of reliance on insurer services.

WHAT CAN INSURERS DO TODAY TO HELP THE AGENT OF TOMORROW?

Improving the effectiveness of the independent agent channel is top of mind for most insurers today. Although many are making a long-term shift to embrace more digital channels — whether going direct-to-consumer themselves or increasing relations with digital distributors and platforms — there is a clear recognition that the independent agent continues to play a critical role in the value chain of insurance.

But insurers continue to expand channels. Partnerships; platforms; direct-to-consumer; aggregators; and other types of distribution are becoming more common. While the independent agent has been the dominant channel for many insurers, some insurers may look at shifting their mix of channels. As insurers look at how much to invest in the IA channel, they would be well served to clarify the role of the independent agent in their distribution mix with an understanding of which of their current and future target markets value agents and why. This will provide guidance into how much to invest in improving capabilities.

At the same time, agents have choice over which insurers to work with and will place more business with those that provide a great customer experience — for both the policyholder and the agent. The customer journey for an agent needs to look at turning the traditional value chain inside out to a more customer-centric approach. We believe the customer experience framework for an agent involves a number of steps that cross multiple functional areas. For more information on this framework as well as the corresponding policyholder framework, you can refer to our report *Digitizing the Customer Experience: A New Framework*.

Figure 5: A New Framework for the Agent Experience

Source: Celent

As agents wrestle with the burning strategic issues looming over them, insurers can help them with this transition. Top areas of focus include the following:

USE DATA MORE EFFECTIVELY

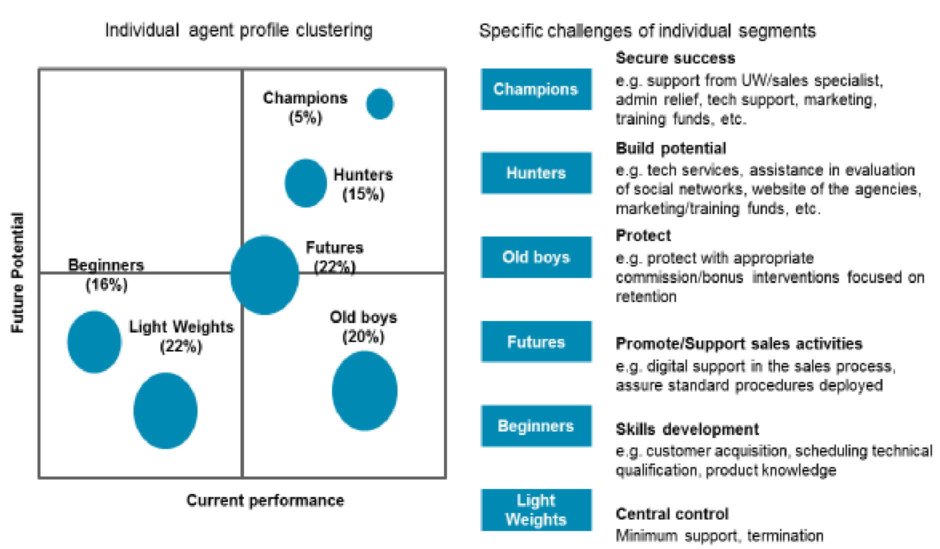
Insurers are increasingly using analytics in the agency management realm. Some focus the analytics on the transactional aspects of working with the agent, mathematically modeling goals, quotas, activities, and staffing levels to answer complex questions around resource and service deployment.

But increasingly, insurers are using data to better know and understand their agent in order to better allocate services and optimize the returns on those services. Insurers are beginning to use predictive modeling and advanced analytics to more precisely segment their agents in order to provide more effective services. Data-driven segmentation is becoming more granular and more focused on future potential.

Traditional segmentation is usually based on volume and profitability. Most insurers have some sort of segmentation program which classifies distributors in terms of their importance to the insurer. Often the criteria are some measure of premium production level and profitability. A distributor that is large and profitable will often be considered a top tier agent, and as such may be eligible for special services such as improved servicing, enhanced compensation, or access to special programs. A distributor that is small and unprofitable may be a candidate for intervention or even termination.

We recommend that insurers shift their segmentation efforts to a two-dimensional approach. One dimension should still focus on today's level of production importance. But the second dimension should look at an objective measure of future potential. Criteria could include factors such as investments in technology; staffing; digital marketing capabilities; SEO of their website; or other objective measurements that demonstrate an agent's likelihood of being relevant in a digital world.

Figure 6: Illustration of Potential Segmentation Scheme



Source: Celent

Assess Your Compensation Dollar

Managing the combined ratio includes an unblinded look at agent commission. How much should be cash compensation? How much should be spent on services? Does that change by agent segment? **We recommend providing targeted services to agents based on their future potential.**

Traditionally, preferred producer programs are predefined and include enhanced compensation and preferred services. Generally, an agent has to be big and profitable before they get any of the good stuff. But increasingly, insurers are creating specialized programs for individual agents based on their more future-looking segmentation. Agents that are segmented as Hunters, for example, may receive support in driving social media, improving their website, or joint marketing programs and may be compensated primarily on new business growth. Those that are segmented as Beginners may receive more digital support in the sales process or more training on products and sales and may be required to utilize a service center.

Provide Digital Marketing Support

For agents to succeed in the future, they have to become very knowledgeable about digital marketing. Insurers can leverage the digital marketing skills they have in-house and offer additional marketing services and support to help agents write business. This support can include social media tools, content and training, direct marketing support, lead generation with access to CRM solutions to help manage those leads, training, and marketing support. It can include consulting and advice on how to manage and optimize their website and search engine optimization. Advice engines can provide cross-sell tips creating offers for additional products that the agent may have not remembered to ask for. **We recommend that insurers add digital marketing support to their portfolio of services and make some services available to all agents regardless of segment.**

Invest in Tech

Enabling channels to place business more easily is a technique that a large number of insurers are utilizing. It's very clear that the easier it is to work with an insurer, the more business a distributor places with the insurer. As one broker put it, "*Make it 25% easier for me to place business, and I'll place 25% more business."*

Agent Portals

As competitive pressures continue to increase, many insurers are investing in agent portal projects as one of their top priorities. More than 70% of insurers surveyed for our 2019 report on Budgets and Priorities[2] say they are replacing their current portal or making significant enhancements. The primary driver for these changes is to improve the ease of doing business for an agent. That typically means a streamlined user interface with significant data prefill to reduce data entry requirements. It also means expanding connectivity with the agency management systems. Insurers are focused on expanding the lines of business supported in the portal and expanding the transactions available on the portal. **We recommend that insurers invest in expanding their portals while improving the ease of use. And we recommend that vendors serving this space continue to invest in simplification as well.** Don't forget documentation. Agents are consumed with Errors & Omissions and want confirmation of any transaction so they can attach it to their own notes in the agency management system and demonstrate proof of the actions they took.

[2] *Property/Casualty Insurance CIO Pressures and Priorities 2016: North America Edition*, January 2016

Connectivity

In the property & casualty world, insurers also invest in connectivity to comparative raters or integration with the agency management system — enabling direct upload from the system to the insurer's systems and downloading from the insurer's systems to the agency management system. Connectivity continues to be highly valued by agents because it reduces keystrokes and can reduce the number of portals an agent must work with. Increasingly, direct integration through APIs is being required by large brokers or digital agencies who both want real-time connectivity rather than asynchronous connectivity. Regardless of the integration strategy**, we recommend that insurers continue to improve their level of integration** with the agency management systems in order to improve information sharing, improve the ease of doing business, and reduce errors.

Platforms

A new area of connectivity is in supporting the newer insurtech platforms that are emerging. These platforms focus on connecting agents and brokers with each other and with insurers but do not bear risk and do not engage in sales. **We recommend that insurers explore the platforms that can improve the ease of doing business for the agents.**

Improve Communications

Answer the Phone.

Yep that's it. When you ask an agent what's the best way to improve communications, they're pretty clear. Just **answer the phone** when they call. And if you can answer in two rings? That's even better. Remember the generational differences. Older agents prefer to talk to an underwriter. Younger agents prefer to use technology when possible.

Live Chat

Okay, if you can't answer the phone**, instant chat with an underwriter is gold.** The agent is often on the phone with a customer. They want to provide great service. If they have a question, they don't want to hang up and hope you answer the phone. (See step one above). They don't want to send an email and hope you respond while they're on the phone. They just want a quick answer. Live chat with their own underwriter of course is great, but any underwriter will do. But make sure they get a copy of the chat log. As mentioned above, agents are consumed with E&O and want documentation of the conversation.

Chatbots

Chatbots aren't as well received by agents. If they need help, it's usually something pretty unique, or they would already know the answer. **Chatbots can work for technical support and training but may not be the place to invest today.**

Push Communications

Automated messaging letting an agent know that a claim has been opened or settled, or that a bill is due, or that an endorsement has been processed allows the agent to be on top of the events on their customer policies.

Social Tools

Creating collaboration tools that simplify the process of working between an agency and an insurer are helpful. For example, a tool for loss control that allows a risk manager for each policyholder location, an agent, the loss control engineer, claims, and underwriting collaborate, see recommendations, and all see the service plans can help all parties stay aligned.

Deliver Policyholder Services

Transactional Services

Service Centers

As the margins for servicing small policies continue to erode, insurers continue to increase their provision of service centers. These not only reduce the cost of handling for an agent, but some insurers have found that the retention ratios are improved and net promoter scores are higher when service centers are utilized by policyholders. The trick to a successful service center is to price it low and keep the agent front and center. Your goal is to help **replicate the feel of the agent's office, not to disintermediate the agent.** Be sure to keep the agent informed of each transaction that occurs so that if they do get a call from the policyholder, the agent can easily tell what's going on.

Policyholder Self-Service

Provide automated services to make it easier for agents to service their clients. There has also been an increasing focus on providing online portals, mobile tools, social networks, and online collaboration tools to help agents engage with clients. Smartphone apps have enabled agents to create alerts, monitor portfolios and news, and contact clients from anywhere. Tablet apps have given agents the ability to obtain research, account information, quotes, market data, and CRM system access, as well as present information to clients on the fly, with the ability to work on a financial plan, and ultimately complete the onboarding process. Insurers can also extend policyholder services through the agency management connectivity solutions they already have in place. This allows the agents to provide services through their own portal and maintain their own brand value. As these services are extended to the policyholders, be sure to notify your agents when these services have been used. And consider allowing the agent to determine which services can be used by which policyholders.

Value Added Services

As agents look to differentiate themselves through value-added services, consider **helping them with new tools.** Their customers may appreciate services such as advice on selecting and managing contractors, discounts for value-added services, or self-inspection applications to name a few. These can all be co-branded and extended to the policyholders without disintermediating the agent.

Key Research Question 3

What will agents need from insurers both today to help them with the transition and tomorrow to conduct business efficiently and effectively?

Agents need additional support with technology, digital marketing, communications, and efficiently servicing their customers.

CONCLUSION

Independent agents face a wide variety of strategic issues that place existential pressures on them. The impact of digital and the potential for disintermediation; the generational shift that is occurring; and continued pressure on margins at the same time as the need for ongoing technology investments; each of these issues create challenges for agents. Some agents are already investing for the future, but others feel ill prepared for the challenges ahead.

If You're an Agent

Invest in technology. If you don't have a full-time employee managing your technology, get one. If you haven't upgraded your agency management system, do it. Take advantage of the services available from your agency management system provider.

Hire for the future. With the looming generational shift, begin looking now at your succession plan. Hire in advance of need so that you can begin training. Or find opportunities to automate work or outsource work to others so you don't need as many staff. Look for ways to create alternative career routes for older workers that feature more flexible assignments and schedules, creating opportunities for them to mentor younger workers and offering phased retirement to mitigate the looming staff loss.

Implement digital marketing techniques. As tomorrow's consumers are more digitally accessible, agents are investing in digital marketing strategies to find more leads and convert more prospects. Agents are using social media marketing to support their digital marketing campaigns and drive more traffic to their website, which of course means that the website needs to be high quality. Invest in high quality content, easy navigation, and search engine optimization.

Expand your management style There are four very different generations in the typical agency from the Silent Generation and Baby Boomers, to GenX and Millennials — each of which have different work expectations. Leaders need to understand each group in order to create maximum productivity and job satisfaction from each employee. Command and control is not productive with millennials. And laissez faire "do whatever" doesn't work well for Baby Boomers. Look for programs to help younger employees with their work skills. Look for programs to help older employees work with and manage younger employees.

If You're an Insurer

Know your agent and understand their effectiveness. Utilize data to more effectively segment agents and create specific programs for them. These programs may include unique compensation programs or specialized processes designed to build a stronger relationship while helping the agents prepare for the future.

Shift focus to help them grow their business. Shift your compensation programs to have a heavier emphasis on services. Expand the services offered to include digital marketing, social media support, or web marketing support.

Invest in enabling the agent to easily place and service business. Invest in automating processes, data prefill, connectivity, and other ways to simplify the process of placing and servicing business. Not only will margins be better for both sides, the customer experience will also improve.

Help the agent manage the generational shift. Provide training programs — both in person and online. Include technical training as well as marketing training. You may even want to include courses for the managers on how to manage a new generation. Consider adding services to help them acquire new staff.

Help the agent prepare for their digital transformation. Put together programs that allow your agents to tap into your own IT staff for technical questions. Include technology consulting or services as part of the agency compensation program.

Insurers who use independent agents today and/or expect to continue to use independent agents as a future distribution channel have an opportunity today to help their agents prepare for the digital transformation, and in so doing, to secure their relations for the future while improving the overall efficiency and effectiveness of the channel.

Was this report useful to you? Please send any comments, questions, or suggestions for upcoming research topics to info@celent.com.

LEVERAGING CELENT'S EXPERTISE

If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

SUPPORT FOR FINANCIAL INSTITUTIONS

Typical projects we support related to distribution management include:

Vendor short listing and selection. We perform discovery specific to you and your business to better understand your unique needs. We then create and administer a custom RFI to selected vendors to assist you in making rapid and accurate vendor choices.

Business practice evaluations. We spend time evaluating your business processes, particularly in channel management. Based on our knowledge of the market, we identify potential process or technology constraints and provide clear insights that will help you implement industry best practices.

Benchmarking and strategy creation. We collect perspectives from agents, your front-line business and IT staff, and your competitors. We then analyze your current strategy, capabilities, and technology against your goals. If necessary, we help you reformulate your technology and business plans to address short-term and long-term needs.

SUPPORT FOR VENDORS

We provide services that help you refine your product and service offerings.
Examples include:

Product and service strategy evaluation. We help you assess your market position in terms of functionality, technology, and services. Our strategy workshops will help you target the right customers and map your offerings to their needs.

Market messaging and collateral review. Based on our extensive experience with your potential clients, we assess your marketing and sales materials — including your website and any collateral.

RELATED CELENT RESEARCH

Distribution Management System Vendors — North America
May 2019

Digitizing the Customer Experience: A New Framework
May 2018

The Rise of Aggregators in Insurance: Ready or Not, Here They Come
August 2017

Reinventing Distribution Management: Enabling Channels
October 2017

Reinventing Distribution: Managing Channels Effectively
July 2017

Reinventing Distribution: Shifting Channels
July 2017

Global Life & Health Portal Solutions: 2016 Vendor Spectrum
December 2016

Global P&C Portal Solutions: 2016 Vendor Spectrum
December 2016

North America P&C Portal Solutions: 2016 Vendor Spectrum
December 2016

The Best Advice Is Personal: Robo Advisors Vs. Agents
November 2016

Driving Growth by Optimizing the Property Casualty Agent Experience
July 2015

Driving Growth by Optimizing the Health Agent Experience
February 2017

Strategic Issues in Insurance Distribution Management
May 2015

Copyright Notice

Prepared by

Celent, a division of Oliver Wyman, Inc.

For more information please contact info@celent.com or:

Karlyn Carnahan kcarnahan@celent.com

AMERICAS

USA

99 High Street, 32nd Floor
Boston, MA 02110-2320

Tel.: +1.617.262.3120
Fax: +1.617.262.3121

USA

1166 Avenue of the Americas
New York, NY 10036

Tel.: +1.212.541.8100
Fax: +1.212.541.8957

USA

Four Embarcadero Center, Suite 1100
San Francisco, CA 94111

Tel.: +1.415.743.7900
Fax: +1.415.743.7950

Brazil

Rua Arquiteto Olavo Redig
de Campos, 105
Edifício EZ Tower – Torre B –
26° Andar
São Paulo SP 04711-904

Tel.: +55 11 3878 2000

EUROPE

France

1 Rue Euler
Paris
75008

Tel.: +33.1.45.02.30.00
Fax: +33.1.45.02.30.01

United Kingdom

55 Baker Street
London W1U 8EW

Tel.: +44.20.7333.8333
Fax: +44.20.7333.8334

Italy

Galleria San Babila 4B
Milan 20122

Tel.: +39.02.305.771
Fax: +39.02.303.040.44

Switzerland

Tessinerplatz 5
Zurich 8027

Tel.: +41.44.5533.333

ASIA

Japan

The Imperial Hotel Tower, 13th Floor
1-1-1 Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011

Tel: +81.3.3500.3023
Fax: +81.3.3500.3059

Hong Kong

Unit 04, 9th Floor
Central Plaza
19 Harbour Road, Wanchai

Tel.: +852 2301 7500