

Executive Brief: Insurance Industry Productivity Series

Digital Enablement of the Agent Channel

The Opportunity to use Digital Tools to Increase Agent Productivity and Loyalty

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As if the current economy weren't challenging enough, Insurance Carriers are facing another looming threat to their businesses. The primary revenue producing channel for the fastest growing and most profitable part of the market is about to undergo a dramatic change.

The independent agent channel is responsible for nearly 95% of small and middle market insurance, which contributes 72% of revenues, according to the Independent Agents of America 2008 Agent Universe Study. The average age of an insurance professional is 54, and 60% of insurance professionals are older than 45, according to the same study. With 60% of the industry's professionals set to retire in the coming years, the profile of the insurance agent and his/her customer is about to change.

But will the industry and its traditional, stodgy image be able to attract the necessary talent it needs to replace its most productive agents? Unfortunately, as our research indicates, it typically takes 3 years for a new agent to become productive, and over 2/3 of new agents fail. To make matters worse, recent Marsh Berry research exploring agency value states that the bottom 20% of agents only contribute 1% of premiums and have loss ratios in excess of 125%, while in contrast the top 20% of agents control upwards of 70% of premium values and have loss ratios around 50%. This means that with roughly 160,000 independent agents in the market today, agencies would need to hire 30,000 new agents annually to account for the productivity lost by retiring agents. With such an influx of new, young talent, carriers must act now to evolve and the gain loyalty of this new class of agent.



*MarketBridge research on Agent Productivity in the Insurance Industry 2008

The New Reality

Will this younger tech savvy generation embrace the industry's antiquated techniques to acquire customers? MarketBridge research indicates that little has changed on the agent or carrier side in the past twenty years, despite technological advances greatly enhancing customer communication capabilities. Carriers still spend a majority (over 60%) of their advertising budgets on television to reach a mass audience with a broad brand message, but still spend less than 3% on new media.

Acquiring, building and nurturing relationships have long been the key to success for Agents. Yet, the majority still relies on cold calling to target new customers, many times using the local phone book as the database. With broad adoption of social networking and virtual relationship management tools such as LinkedIn, Facebook and PRM, the industry is still doing little to experiment on how these tools might help agents network and manage relationships.

Winning the Battle for Agency Loyalty

Over the next ten years, the majority of the productive agents currently in the market will retire. As a result, the number of productive agents will fall sharply, causing increased competition among carriers for mindshare and market share among independent agents. Agents typically represent upwards of 8 different carriers to be able to provide their customers with the best price, policy, and service to meet their needs. Recent research has shown that with AIG's troubles, agencies have added even more carriers, many now offering products from at least 10.

Carriers that are able to provide better support to these new, younger agents early in their career will have the opportunity to gain their loyalty. In fact, many carriers have developed the digital content and the necessary tools, the problem is that most have instituted a "build it and they will come" approach. The reality is that these assets need to be pushed to agencies and brokerages, along with education on their value and how to best use them. Not only will this shift attract and enable the next generation of agents, it will yield greater effectiveness in customer prospecting for agents currently relying on traditional methods.

Today, carriers find themselves confronted with two paths. They can choose to sit idly by and hope the agencies figure this out on their own, or they can drive innovative strategies down the channel to attract the next generation of agents, and enable them to be successful. Carriers investing now to provide agencies with this support as this transition occurs will win the loyalty battle.

About MarketBridge

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