



**Independent  
Insurance  
Agents of Texas**

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**Release**

## **Challenges and Strategies for the 21<sup>st</sup> Century Independent Agency**

By Rick Bondurant

The letter from the Palatine Insurance Company to the independent insurance agency, written in the morning of a new century began: "The insurance business is experiencing perilous and unprecedented challenges ..." The date: 1921. As the saying goes, everything old is new again. And so it is with the insurance business. Pundits have been predicting the demise of the independent agency system over the entire course of my 25 years in the business. While it is true that the number of independent agencies have fallen 15 % over the past 10 years, one wonders, given the many challenges agents face, how many other industries could boast a decline of only 15 % in 10 years. Some of those challenges include:

- **A highly fragmented industry.** Almost 75% of independent agencies have less than \$2,500,000 in revenues. This makes it difficult for the average agency to exercise power in the supply chain.
- **Plentiful and well-branded direct channel competitors.** In addition to the lizard, State Farm, Farmers and All State, even independent agency carriers continue to experiment with direct channel distribution. Think Progressive, Safeco with Costco or The Hartford with AARP.
- **Complicated, labor intensive operational platform.** 50 to 60 % of agency revenues are spent on compensation and benefits. While direct channel competitors only have to worry about one way of doing business, independent agencies operate different workflows for different carriers.
- **Talent shortage.** Average age of agency principal is mid fifties and the agency workforce in general is aging. A great number will be retiring in the next 10 years. As the US population ages, competition for capable people is going to get tougher.
- **Slow organic growth.** Increased competition, soft market conditions and a slowing economy have reduced average growth rates to 5% or less.

Considering these challenges, I would argue that independent agents have proven to be among the most resilient of all small businesses. In my role as director of agency management resources at IIA of Texas, I am privileged to engage with these resourceful business people on a daily basis. The variety of working business models reflected in agencies across Texas amazes me. Our members range from rural, one person shops with less than \$100,000 in revenues to publicly-held metropolitan shops with state-wide footprints. To me, the common denominator explaining their success is adaptability. For every challenge listed above, independent agencies are responding with new, best practice strategies. Some of those strategies include:

- **Consolidating books of business and markets.** Independent agencies are merging and acquiring books of business or affiliating through clusters, alliances and aggregators to gain economies of scale and strengthen influence with carriers.
- **Leveraging the Trusted Choice® Brand.** Independent agencies are using the Trusted Choice® branding initiative to promote their competitive advantages of choice, advocacy, customization and physical proximity.
- **Allocating production and service resources more effectively.** Independent agencies are identifying their higher margin, relationship-oriented prospects and customers and allocating the highest and best use of staff for those segments. Low margin clients are being consolidated into business units where service can be standardized. Transaction or negative margin clients are being left to the direct channel distributors.
- **Extending relationships across the supply chain and beyond policy periods.** Independent agencies are including the carrier in the relationship mix with clients, leveraging the carrier brand

and focusing on the reduction of long-term cost of risk which discourages costly annual shopping and internal carrier switching.

- **Becoming employers of choice.** Recognizing that employees are customers too, independent agencies are managing the employment experience and aligning agency strategy with employee aspirations. Because it is easier to train than convert, they are recruiting capable, sales or service-minded people from outside the industry and providing the necessary insurance training.
- **Exploiting Technology.** Independent agencies are digitizing their workflows and taking advantage of imaging, dual monitors, real-time transactions and 24/7 accessibility in order to increase productivity and counter direct channel convenience advantages.
- **Finding new sources of organic growth.** Independent agencies are investing in new producers, cross selling into non-P&C lines and adding non-core services such as loss control and HR consulting. They are also investing in more sophisticated marketing, sales training and sales management.

To paraphrase Mark Twain, reports of the demise of the independent insurance agency system are greatly exaggerated, It was so in the early 20<sup>th</sup> Century and it is so now. While the dynamic nature of the insurance business continues to create turmoil, independent insurance agencies are responding with adaptive strategies and demonstrating their continued resiliency.

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