Erosion of the Wholesale Distribution Value Proposition

**Trend:**
Remaining relevant in the wholesale distribution value chain continues to be a challenge, as technology (comparative raters, behavioral pricing models, big data and advanced analytics), focusing on sales versus underwriting and efforts to reduce cost are eroding the traditional value proposition the wholesaler brings to the markets they represent.

**Implications:**
- Pressures on pricing
- Pressures on loss ratio – potential for adverse selection for markets that don’t align to your IT strategy (i.e. comparative raters)
- Potential loss of markets
- Higher cost of doing business
- Erosion of underwriting expertise
- Viability of the wholesaler – retailer may go direct – find someone else with higher commission
- Carriers in an effort to reduce cost may look at other distribution avenues
- Advanced analytics – improve hit and loss ratios, better risk selection
- Behavioral Pricing – puts wholesalers at a cost disadvantage
- Comparative Raters – potential to reduce underwriting acumen, commoditization
- Over-reliance on the comparative raters - brain drain of underwriting acumen – the high level of underwriting expertise at the wholesalers level is lost

**Opportunities:**
- Higher short term revenue – aggressive on sales, potential long term negative impacts
Erosion of the Wholesale Distribution Value Proposition

- Expertise to further enhance and take advantage of those not focusing on the relationship

- Flexible (Open) system with the wholesaler that can distribute the product much quicker to the market

- Facilitates quick growth – focused on increased selling more than underwriting

- Systems to create efficiencies to help offset the costs

- Building a stronger connection with the retailers – go to wholesalers that address their needs

- Implication of advanced analytics can really drive increased profitability

- Underwriting expertise still needed to ensure the information used for creating the automatic quote is accurate (check and balance) if they have access to this information – particularly for more complicated risks

- Underwriters can add a lot of value in helping to build the rules around the analytics for creating prices

- Wholesalers can increase their focus and training around sales and create their own sales force

- Continue or even build on the strong relationships that currently exist with both retailers and carriers

- Focus on more difficult/complicated risks

- Add additional services – Premium finance operation, direct bill the insured, risk management, in house financing

- Increasing geographic footprint, including international

**Threats:**

- Adverse selection
Erosion of the Wholesale Distribution Value Proposition

- Carriers going direct – The belief is that technology and regulation may be driving forces here
- Evolution of seamless integration may eliminate the need for a wholesaler
- Facilitates inferior quality of risk growth – focused on increased selling more than underwriting has long term negative implications
- Compromises agency compensation (contingent commissions) long term
- Remaining relevant, by shear volume
- Risk commoditization
- Exclusion of carriers who don’t have web-services for comparative raters, resulting in a reduction of markets they can access via their systems
- GA’s Underwriters pressured to focus on sales/marketing verses underwriting due to pressure to generate more revenue, predictive analytics and comparative raters.
  - Underwriters are not always the best sales people
- Potential for loss of Underwriting and regional expertise
- Some will assume that whatever the rating system says is correct without questioning it (no Underwriting on it).
- Some wholesalers may not be able to update their own systems fast enough and may not incorporate carrier changes causing incorrect rates, rules and forms. This also applies to vendors that don’t make use of carrier provided technology. This is as opposed to using carrier provided information via web services.
- Retailers are increasingly owning their own wholesalers reducing the volume for independent wholesalers. Aggregators and standard lines companies owning E&S companies also impact volume for independent wholesalers.
- The shift from Underwriting to data analytics will negatively impact the relationships that currently exist.
- A portion of the E&S light business may be at risk.
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Research Summary:
The value of the Wholesaler is facing drastic changes in this ever evolving industry. Being able to define the value they offer and relationships they have with their carriers and customers becomes more important than ever before.

There is no longer the distribution channel where a surplus lines company is represented by a wholesale broker or managing general agent. Companies are now going direct to retail agencies. The belief is technology and regulation may be the driving forces why carriers are going direct.

Our Blog (Toby Petit, Jan 21, 2014) noted 5 Customer Engagement Challenges Facing the MGA

1. Simplicity – Being able to provide customers with easy to access, easy to understand and easy to consume information and literature that explains the clear benefits and unique value proposition of your products and services.
2. Multi-Channel Engagement- moving into a multi-channel universe, the ability to attract the next generation of customers is crucial.
3. Monitoring Customer Engagement – Is the carrier providing the MGA the right information to provide to their customer. Knowing who the MGA’s network is and what they are sharing with them is crucial to the success of both the MGA and Carrier. Potential missed opportunities not monitoring how the MGA is engaging their customers.
4. Customer Education – Be as helpful and as informative as possible and ensure you educate them on the product offerings. Your customers do not understand Insurance!
5. Keeping up with Technology – Are MGA’s embracing and adopting new technology to provide that competitive advantage. Technology provides engagement, insight and intelligence about customer needs and wants.

Customers are now in the driver’s seat and loyalty is not how it used to be, it must be earned. Independent agents know that that consumers are getting restless. The gap between the industry and the millennials is wide and they won’t wait for the industry to figure it out, they will attempt to do it on their own. Many of the best carriers will become your competition, if not already.

Internationally is no different, Sarah Veysey’s article: London Insurance market aims to stay relevant to buyers as times change, mentioned reactions to a recent influx of capacity from pension funds and other third-party capital providers that has increased competition for all forms of reinsurance and insurance business, notably property catastrophe business, and may have reduced the London market’s share of the global insurance and reinsurance business. Having a better understanding into
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why certain business does not come to London is needed. For some brokers establishing a consortium for Lloyd’s Underwriters is becoming attractive as it removed brokers’ needs to visit numerous syndicates to secure sometimes small line sizes of cover and allows smaller players to remain relevant.

Canada is also feeling the same pressures on the relevancy to stay in the game. New entrants or existing forward thinking competitors will fill the space if you don’t compete. Insurer’s have just as much riding on their ability to adapt and change as the wholesalers. With the increased expectations coming from the customers it will force everyone to be better.

Technology is a large part of the distribution channel in why the lines have become blurred. Insurers are looking at the most efficient and profitable way to distribute their products leaving the wholesaler to justify their value and why they are there. Going forward we may see more hybrid type businesses tailored towards specific operations that may not look like a traditional retailer or wholesaler.

How Insurance Distribution Is Changing

By Andrew G. Simpson | January 26, 2012


Insurance distribution is changing and agents and brokers—retailers and wholesalers—have to define the value they offer and what type of relationships they will have with carriers and customers in the years ahead, according to a leading wholesaler.

“[O]ver the last several years, we’ve seen a drastic change in the distribution space, in that the traditional rules have sort of broken down, that the role of a retail agent, the role of a wholesaler, those have all changed,” Glenn Hargrove said in an interview with Insurance Journal at the recent Insurance Industry Roundtable run by the WIAA Education & Research Foundation in Irvine, Calif.

Hargrove is president of MarketScout Wholesale, which is headquartered in Dallas.

“There’s no longer circumstances where a surplus lines company is represented just by a wholesale broker or a surplus lines broker. They can go directly to retail agents,” he said. “You have direct line products that are happening within the space that circumvent retailers and wholesalers, in some cases. So it’s changed the value propositions of the firms in that space.”
Hargrove believes the changes are being driven in part by regulation and by technology, but another major driver is insurers looking to deliver their products and services in the most efficient manner possible.

“I think, consequently... what it leads to is that the companies that are within that space of distribution also have to justify their value and why they're there. If they're going to receive compensation or income out of that chain for being part of that distribution source, then they need to explain what value they're delivering and how they're facilitating and making that transaction better,” he said.

Hargrove said there are several areas where agents and brokers deliver value, starting with their expertise in products and the industry and the talent they bring to the process.

Agents and brokers also provide access.

“[T]here’s the aggregation effect of those people in the distribution chain being able to access a multitude of markets. Or if you look at it in the reverse sense, from the carrier, their ability to deliver to a carrier, a multitude of clients and customers that that carrier probably couldn’t efficiently reach on their own,” he told Insurance Journal.

Thus agents and brokers bring a combination of expertise, talent and access to the equation.

In addition, agents and brokers provide an opportunity for insurers to outsource services.

“Providing things, whether it’s underwriting services or policy issuance type work or a variety of things that those intermediaries can do that are services that facilitate, either the process of placing insurance for an insured, or the process of securing the coverages for a carrier,” Hargrove said.

He said he believes that going forward there will be distribution businesses that are hybrids and some that are much more tailored towards specific operations “but maybe don’t look, necessarily, like the traditional form of either a retailer or a wholesaler as we’ve known it.”

There are already wholesalers that distribute not only surplus lines products but also admitted market products and some that act as program managers, according to the MarketScout Wholesale executive. Also some retailers have their own wholesale-like operations.
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Going forward, distributors are going to have to explain more than that they are in the middle of the equation, but also “why they are there,” he said.

He advises agents and brokers to reshape their own box and own value proposition so that the market is convinced they are an important player in the distribution chain.

Our Blog

5 Customer Engagement Challenges facing Managing General Agencies

Posted by Toby Petit on Jan 21, 2014 10:19:00 AM

In 2014 MGA’s and their parent insurance and financial companies face 5 customer engagement challenges to create a competitive advantage in a highly competitive market.

Challenge #1 - Simplicity
Customer engagement is directly related to how simple things are to understand. Currently customers believe the current MGA product portfolios to be confusing and tough to navigate. For an MGA to be effective at it’s sales efforts they need to focus on educating their consumers on what choices exists, what options they have and why the MGA is the clear winner.

For an MGA to succeed and create the level of engagement required to hit their goals they must provide customers with easy to access, easy to understand and easy to consume information and literature that explains the clear benefits and unique value proposition of your products and services.

**Challenge #2 – Multi-Channel Engagement**

Customers are searching for information across a huge variety of channels, but most MGA’s are focused on just one or two.

To create a clear competitive advantage and engage your customers where they are looking for information, MGA’s must embrace a much broader set of channels for their communication and customer engagement. Channels such as social media have become an integral part of how customers search for information and must be a consistent part of the MGA portfolio.

Moving into a multi-channel universe ensures your MGA is delivering the right message to the right person, through the right channel at the right time. As organizations look to attract the next generation of customers, these “alternate” points of contact become crucial to success.

**Challenge #3 – Monitoring Customer Engagement**
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Knowing who your MGA network is talking to and what are they showing them is crucial for success, and not many firms are doing it well.

Engaging your MGA to ensure they have the right information to provide their customers is a critical step in customer engagement. So many firms rely on their MGA to showcase their products but it's amazing that so many insurance providers don't take an interest in what's being shown or conveyed. This leaves the door open for the MGA to potentially miss opportunities for engagement because they are not armed with the best information. The firms who take an active role in managing the content and message for their MGA have gained valuable leading indicators of success, better engagement rates and higher sale-through metrics. This allows the parent firms to adapt message to customer and customize offerings to create more value.

**Challenge #4 – Customer Education**

Your customers don't understand insurance!

If you want them to engage with and work with you and your MGA, you need to be sure you are being as helpful and informative as possible. By engaging your customers when they want to be engaged and educating them on products they are interested in, your going to give your products a competitive advantage over others.

**Challenge #5 – Keeping Up with Technology**

Rapid advances in technology can make for quick obsolescence.

Using technology to your advantage can pay off big time, but you have to use it in the right way. Just having an iPad or smartphone is no longer enough. For an MGA technology can provide engagement, insight and intelligence about customer needs and
wants, while improving their face-2-face interactions and multi-channel engagement abilities.

MGA’s who embrace and adopt Adaptive Sales Enablement technology will also ensure they are compliant with rapidly changing compliance and regulatory requirements.

Finally, Adaptive Sales Enablement technology helps MGA deliver engaging content, specifically tailored to their customers, helping drive increased sales.

The MGA landscape continues to develop and become more competitive. With more and more product being put into the market, MGA’s must ensure they are engaging with customers, helping them understand the value of their products and embracing technology to drive adoption and compliance. Those who lead will win.

Is your MGA engaging with customers like they could be?

Forecast 2016, Part 3: Gap In Customer Expectations Threatens Agents & Brokers
Posted by Michael Jans on 12/20/15 7:54 AM
http://blog.agencyrevolution.com/customer_gap_threatens_insurance_marketers
Ernst Young predicts a turbulent year for the industry in 2016. In this series, we've examined their forecasts and recommendations on technology, pricing and commissions. And we've shared the impact those issues will have on the retail agent and broker in 2016. Clearly, they represent very big issues. But everything pales in comparison to the growing gap the independent channel has in meeting customer expectations.

Even if we get our technology right, our pricing right, our commissions right, the system unravels at the point that customers aren't satisfied. As new choices arise - and they are at a record pace - the core question for the independent agent-broker system is, “Will they still choose us?”

EY Quote: Services in other digitally enabled industries are causing consumers to demand more personalized experiences from insurers. With the greater opportunity for comparison shopping on the web, the impact will likely be significant.

WHAT THIS MEANS FOR AGENTS AND BROKERS.
Consumers are being trained. Not by us. By other industries. They’re learning how to research, compare features and pricing…and they are learning new ways to buy. At their convenience. And armed with knowledge.
Consumers are sitting in the power seat now. Loyalty can't be taken for granted. It must be earned.
In their Global Outlook for 2016, Ernst Young mention the word, "customer" 34 times. Clearly, satisfying the customer is at the heart of a lot EY’s thinking. They rate "customer expectations" an 8 on their 1-10 scale. We rate "customer expectations" a 10. Here’s why:
1. Much of the gap between the customer and the industry is the agent’s responsibility, if not their fault.
In an incisive report by Deloitte Consulting they reported “that six in 10 of those we most recently surveyed say they receive no particular service from their agents beyond shopping for coverage.”
60%?! That's a dangerous sign. And a very dangerous signal to the marketplace. Our value proposition is on thin ice.

As much as advocates of our channel rail on GEICO, I've seen both their online and offline customer communications. While we're the ones heralding the value of relationship, (and it's very hard to have a relationship with a gecko OR with a cubicle worker you'll never talk to again), GEICO is putting serious effort into crafting carefully designed communications to their customer. They offer advice. They offer guidance. And, they do their best at creating a perceived sense of relationship.
(Whaddya wanna bet the average insurance consumer could more accurately describe the characteristics of the gecko than they could their own agent or broker? And whaddya wanna bet they have positive feelings towards that green little charmer? No personal service? Maybe it's light. But GEICO's resources attract talent, and they are very smart people in their marketing department.)
Shopping for coverage may be the bare minimum of what the consumer expects from their insurance experience. And, as the power balance shifts firmly in the direction of the consumer, the bare minimum will not be enough to earn their loyalty.

2. Independent carriers know that consumers are getting restless. They know that, in particular, the gap between the industry and the millennials is dangerously wide. They are not waiting for agents to close that gap. They’ll attempt to do it on their own. Many of your best carriers will also be your competitors, if they are not already. No sense wailing about that. They’re first obligation is to their shareholders and their customers.

The fact that many mega-carriers are pivoting faster than allegedly nimble small businesses - agencies and brokerages - demonstrates how desperate the situation has become.

(On a side note: many, a growing number of agencies have made the commitment to marketing in the modern age. My recommendation to carriers is that they should invest in the percentage of the agency force that is embracing the modern, connected era - the age of the consumer. Invest in the eagles, as they say. Eat the turkeys for Thanksgiving.)
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EY Quote: By providing services that build on the customer experience and changing expectations, insurers can foster stronger, more holistic relationships with clients and ultimately improve policy retention and generate higher margins.

WHAT THIS MEANS FOR AGENTS AND BROKERS.
Carriers, increasingly distressed with agents’ inability to out-market competitors, will establish more competitive, alternative channels of their own. They will increasingly see agency-broker clients as their own.

EY further states: “…customer expectations and behaviors are evolving at a rapid pace, often faster than traditional mechanisms can react. Driven by their interactions in other digitally enabled industries, such as retail and banking, property-casualty customers are increasingly demanding a more sophisticated and personalized experience.” (Italics mine.)

While the agent-broker channel has been steadily losing marketshare to rapidly growing direct competitors, they can expect their own carriers to continue to invest in customer satisfaction through their own, digitally-intensive offerings.
As Accenture recently pointed out in its report, Reimagining Insurance Distribution, “Leading insurers are taking customer intimacy to a whole new level. 63% prioritize the use of customer data for needs based selling.”
Erosion of the Wholesale Distribution Value Proposition

EY Quote: Customers are increasingly looking to their insurance partners for risk advice, not just insurance products...By providing services that build on the customer experience and changing expectations, insurers can foster stronger, more holistic relationships with clients and ultimately improve policy retention and generate higher margins.

WHAT THIS MEANS FOR AGENTS AND BROKERS.
Put simply, the time has come for the channel to fulfill it’s promise: to be in a relationship with the customer base. And that relationship must deliver both the protection they need and the confidence that they have the protection they need. Deloitte recently pointed out that “close to half indicated they are ready to eliminate the intermediary for a relatively small discount.” This demonstrates just how tenuous this relationship is.

ACTION PLAN FOR AGENTS AND BROKERS:
Agents and brokers must wake up to the widening gap between customer expectations and the ability of current practice to meet those expectations. They further must expect their own carriers to aggressively attempt to invest in alternative and competing channels to satisfy their own needs in the marketplace.

1.2.3.
Action Plan

Action item #1: Become irreplaceable. The agent-broker has one unique distinction that simply can’t be replicated elsewhere: relationship. Excellent product, and, even, advice and guidance, may be available in other channels. But mass distributors can never replace the confidence a customer earns from a “real person being there.”
Unfortunately, research shows that, while the agent relationship is “sticky,” it is dramatically underperforming, with six out of 10 of consumers reporting that the agent is not doing more than selling the policy and disappearing for a year. Agents and brokers must re-commit to the inherent strength in the channel by finding ways to be consistently and positively present in the lives of their customers and marketplace.
Insurance products are easily replaceable. Relationships are not.

Action item #2: Add value. Agents and brokers must deliver a consistent stream of value-rich communications to their customers, including advice on safety and protection. Agency culture must move from being reactionary to quote requests, to guiding customers to the best possible decisions.

Considerable research demonstrates that customers with better protection lean towards higher loyalty. Further, they express that loyalty with the bottom line decisions that matter to the firm’s financial health: more referrals, longer retention and more policies.

Loyal customers reward. With more referrals. Longer retention. More policies.

Action item #3: Invest in communication and marketing technology. Deloitte has pointed out that agents have “little economic incentives…to offer additional services” such as advocacy and advice. It is, at least, safe to say, that, for personal and small commercial lines, the personal delivery of advocacy and advice is expensive and that their economic payback is, at least, a “long game.”

However, the relative absence of differentiating guidance is threatening overall customer loyalty. But, modern technology permits agents to reach out with highly personalized, customized communications. While carriers are investing in data mining to achieve deeper customer intimacy, the agency or brokerage has immediate access to comprehensive customer information in their agency-broker management system. Modern communication platforms can tap that information and automatically reach out to customers, with meaningful advice and value.

What can’t be done manually, can be done with technology.

BROKERS & INSURERS

HTTP://WWW.BUSINESSINSURANCE.COM/ARTICLE/20140413/NEWS04/304139976

London insurance market aims to stay relevant to buyers as times change

Comments Email Print Reprints
Erosion of the Wholesale Distribution Value Proposition

By Sarah Veysey

4/13/2014 12:01 am

The London market must change, its leaders say, to ensure it remains competitive and relevant to insurance and reinsurance buyers at a time when capacity is readily available from new sources, such as pension funds.

But the market's syndicate structure and ability to innovate mean it should continue playing an important role amid the increased competition for premiums and certain types of business, say London market observers.

The London Market Group coordinates the vision for the way insurance is handled between members of the International Underwriting Association, which represents London market underwriters; the London & International Insurance Brokers' Association; and the Lloyd's Market Association, which represents managing agents at Lloyd's of London. Group members said it is refocusing its efforts to set, maintain and promote “the common vision of London as the market of choice for global insurance.”
Steve Hearn, the new chair of the London Market Group and deputy CEO of Willis Group Holdings P.L.C., said that while the London market can “provide solutions to clients’ problems in a way that no other market — and no other capital market — can,” it also is losing ground to other insurance centers.

In presenting his vision last month for the London Market Group, Mr. Hearn said while buyers may be “agnostic” about where the capacity that underwrites their risk originates, and while brokers and underwriters can do business outside of London, the market retains unique characteristics.

If it did not already exist, Mr. Hearn said, “it would have to invent itself” in order to handle the complex risks underwritten on a subscription basis.

Dave Matcham, CEO of the IUA, said the London market should not be complacent.

While some are concerned that smaller niche insurers and reinsurers are being “squeezed off” certain programs, this may actually be an opportunity for the market to “get better at what we do” rather than a threat, said Lloyd's finance director Luke Savage.

The comments came in part due to reaction to a recent influx of capacity from pension funds and other third-party capital providers that has increased competition for all forms of reinsurance and insurance business, notably property catastrophe business, and may have reduced the London market's share of the global insurance and reinsurance business.

While the subscription market, where multiple underwriters cover a single risk, has advantages, Mr. Hearn said that does not top buyers' priorities.

“Price is” at the top of buyer priorities, he said. “So if the subscription market adds costs, we may need to look at that.”

While there still is business that can be underwritten only in London because of its concentration of expertise in specialty business and the market's syndicated structure, “this is beginning to change,” Mr. Hearn said.

A collective effort is needed to ensure London retains its position, he said, adding that data is needed on the size of the Lloyd's and London markets to better understand its position globally.
While there is no single source of premiums underwritten by all insurers and reinsurers in London, Mr. Hearn cited Willis' business as an example of premiums shifting elsewhere: In 2007, Willis placed about 16% of its premiums in London; today, it's about 10% even though he said Willis' worldwide premiums have not decreased.

The London Market Group will focus on coordinating talent, diversity and training efforts; lobbying government and regulators to ensure rules do not unduly hamper the market; and conduct research to demonstrate its contribution to the U.K. economy as well as why London's position in the world of insurance may be dimming, he said.

Mr. Matcham said a better understanding is needed of why certain business does not come to London. While it's important for the market to be more efficient, he said its nature makes improving efficiency tricky.

Coverage via London tends to be big-ticket business that requires many underwriters, and such processes are not easy to reform, Mr. Matcham said, while still supporting the London Market Group's new focus.

In a speech to the Insurance Institute of London at Lloyd's Old Library last week, Aon P.L.C. CEO Greg Case said Lloyd's and the London market “are more important than ever.” He also said London has “no equal as a city” for its concentration of insurance market partners and expertise.

For some brokers, establishing a consortium of Lloyd's underwriters is becoming attractive, since it removes brokers' need to visit numerous syndicates to secure sometimes small line sizes of cover and allows smaller players to remain relevant, Mr. Savage said.

“Big is not always beautiful,” Mr. Savage said in saying the Lloyd's market always will need small, niche players.

Members of one such consortium said several syndicates have worked together to provide meaningful capacity and specialist expertise. Last May, four major Lloyd's construction underwriters — Beazley P.L.C., Canopius Group Ltd., Hardy Underwriting (Bermuda) Ltd. and Talbot Underwriting Ltd. — formed a consortium.
Colin Rose, head of construction and engineering at Beazley, said Beazley is a major construction underwriter at Lloyd's, but its capacity was limited and left it unable to compete against larger non-Lloyd's underwriters for certain risks, and fellow consortium members were in a similar position.

The consortium structure gives brokers access to capacity and expertise without having to deal directly with four different syndicates, said David Turner, construction global practice leader at Talbot. That leads to a “simpler negotiation process,” he said.

Canadian Underwriter

The Driver's Seat

Conditions are changing at breakneck speed for Canada's property and casualty insurance industry. With 2016 providing little promise things will slow down - allowing slow-adopters to catch up - primary insurers need to keep pace or be left in the dust. All that demands plotting the best route forward, knowing when to rev up or slow down, to reach the final destination.

Change is unfolding quickly for primary property and casualty insurers in Canada, much the same as for their counterparts around the world. While all manner of influences – the economy, low interest rates, mergers and acquisitions, focus on underwriting performance, climate change, community resilience, changing technology, new and innovative entrants, the sharing economy and pricing of existing and emerging risks – will be part of the ever-transforming mix in the coming year, one consideration has more clearly come to the fore: the customer.

The customer is demanding more, more quickly – and p&c insurers are not currently the measuring sticks for rapidly changing client expectations. Customer “service” is being measured against everything from search engine companies to online shopping providers and coffee retailers.
Erosion of the Wholesale Distribution Value Proposition

All that demands p&c insurers develop appropriate infrastructure, and adjust their approaches and attitudes accordingly, to foster greater flexibility, enhanced speed and improved understanding of the seemingly endless supply of data. Combined, the resulting systems and knowledge will advance customer service and promote ongoing and sustainable relationships.

Waiting for much longer, expecting to hitch a ride, will unlikely get insurers where they want to go. If insurers opt not to move forward and perform, new entrants or existing forward-thinking competitors will, no doubt, fill that space.

Canadian Underwriter asked senior executives for some of the country’s primary insurance companies the following question: What are the key trends affecting the Canadian p&c market and what sort of responses are needed to meet those challenges and opportunities in 2016?

Here is what executives had to say, presented in alphabetical order by last name.

1 Kathy Bardswick
President & Chief Executive Officer
The Co-operators Group Limited

These are certainly interesting times for the Canadian property and casualty industry. By its very nature, the industry is in a constant state of evolution as it adapts to all nature of change – environmental, social, technological, economic and political. Still, this is an exceptionally exciting time of profound change.

Not long ago, the standard industry position on overland flooding in this country was that it was an uninsurable risk, one to which private insurance just could not respond. Recently, that has changed dramatically.

There are now products in the market, and more are expected to be introduced soon. There are products currently available that show overland flood can be priced, even in the most at-risk areas.

As the industry steps up to fill this gap and make communities more resilient, it is critically important that insurers clearly and effectively price all risk, avoiding subsidization to ensure appropriate public policy associated with urban planning and investment.
There is a great deal of work to be done with a wide variety of stakeholders in order to make communities more resilient to flood, but recent developments are certainly encouraging.

A second area of change worth noting is the nature and pace of technological advancement. Omni, Uber, driverless vehicles and big data were not a part of p&c insurers’ vocabulary that long ago. Today, these developments are causing all insurers to rethink business models, innovation core competencies and overall approach to the market.

Insurers’ ability to adapt and willingness to value the future more than the past will dictate the winners.

2 Jean-François Blais
President
Intact Insurance

The insurance industry, like other industries, is quickly evolving, which will present a number of opportunities over the next 12 months. The industry needs to be agile and keep customers at the center of all it does if it wants to leverage these opportunities.

Atop the traditional risks associated with the physical environment and severe weather events, such as flooding, insurers have to be prepared to manage emerging risks and opportunities, and assess how technology, telematics and big data could revolutionize underwriting, pricing and claims. Insurers also need to be more customer-driven.

Technology will continue to drive the industry and how insurers connect with customers. Technology is at the heart of the customer experience, and is transforming insurance and broker channels. Improving customer connectivity and the customer experience will be integral to success.

As well, it is important that the industry develop simple, personalized and innovative products to meet customers’ changing needs.

A good example of this is the sharing economy. It is clear these services are growing in popularity, which will likely see insurance companies participating at an increasing rate. Partnering with companies like Uber is just a first step.

Insurers should also challenge themselves to design and develop new products that customers can easily understand and access. This demands transforming systems to
improve the customer experience, including streamlining the claims process to provide a more customer-focused claims experience.

Insurer and broker success will continue to depend on their strong fundamentals, which include acting as trusted advisors and advocates. It will also require the ability to innovate and deliver a simple and seamless experience based on the evolving needs and expectations of consumers.

3 Alister Campbell
Chief Executive Officer
The Guarantee Company of North America

Drones, driverless cars, 3D printers in homes, 4D printing in hospitals, hacktivism, social engineering, cyber risk and customers tweeting their claims.

It would appear that the evolution in technology is about to force Canada’s property and casualty industry to change at almost revolutionary speed.

Underwriters are in the middle of an “IT transformation.” As an industry generally content to manage COBOL-based legacy systems, these transformations are challenging insurers to upgrade IT management skills.

To execute well in these new areas of endeavour, however, is not easy. Big IT projects have a habit of taking longer and costing more than projected. And to fund the embedded costs of these IT investments within already-constrained expense ratios will be a real test for every insurer.

For brokers managing accelerating customer expectations for speed and accuracy of service interactions, the pace of their underwriting partners’ IT progress may prove frustrating. The good news is it is actually happening and will make things better.

Most significant is that the changing of systems will require a review of who does what. Insurance Brokers Association of Canada is doing important work on developing principles that should help guide Canada’s p&c industry thinking on this.

The best news in all this is increased customer expectations will force all insurers to become better. And the improvement in available tools will make it possible for some insurers to become a lot better!
Erosion of the Wholesale Distribution Value Proposition

With all these evolving risks – driven by new technology – will come new complexity in risk management and increased needs for advice on effective risk transfer. Lots of room for trusted advisors and specialized insurers to prosper.

Should be another fun year!

4 Karen Gavan
President & Chief Executive Officer
Economical Insurance

There are numerous key trends/developments expected to affect Canada’s property and casualty insurance industry in 2016.

Consumer education: As the industry is becoming more and more sophisticated in pricing and underwriting, insurers need to communicate better with consumers about the risks to which they are exposed, such as fire and theft, hail, flood and earthquake, and the actions they can take to reduce those risks.

This will give them a much better understanding of the risks they may want to insure against.

To do that, insurers need to be more transparent, like looking at a plain-language menu in a restaurant, so consumers can make educated decisions on the limits and deductibles they can factor into their insurance purchase decisions. This creates a customized insurance plan for each consumer that optimizes the spend.

Climate change: The p&c insurance industry must continue to forge ahead and make Canadian communities more resilient to the impact of climate change.

Collectively, the industry needs to support Insurance Bureau of Canada in its efforts to increase government understanding of the simple, low-cost solutions that would help prevent property losses in the first place, including making backflow valves part of national and provincial building codes for new builds and basement renovations, and preventing new construction on floodplains.

The industry also needs to keep pressing for infrastructure improvements to reduce the impact flooding has in communities.

Flood: Insurers need to have a unified approach to flood coverage. The recently announced initiatives on flood coverage are not good for the industry.
Charging for flood in areas without significant exposure beyond that covered by sewer back-up is gouging consumers. Ultra-high premiums for flood endorsement in flood-prone areas will deter purchase. Offering coverage no one can afford is not a solution.

A big marketing splash and subsequent industry failure in the next flood could push the industry towards regulation.

Working collaboratively in open dialogue in a committee of industry, regulatory and government stakeholders is the key to making the product sustainable, available and affordable.

5 John Hennessy  
President & Chief Operating Officer  
CNA Canada

In 2016, the pace of change across commercial insurance will continue to accelerate, given the pressure on profitable growth in a suppressed interest rate environment.

Competitive edges are sharpening as carriers and brokers jockey for position, focused on optimal financial performance and market expansion.

Carriers are seeking the right mix of business in their portfolios to ensure long-term value and sustainability throughout the market cycle.

Data, analytics and metrics have become increasingly important to effectively compete in today’s environment. These powerful tools help shape and direct underwriting strategy and execution.

In today’s dynamic business climate, preferred customers are better-informed and, rightly, demanding authentic industry expertise from their broker and carrier partners. As customer-driven requirements and insurance-based solutions evolve, the fundamental truth of deep understanding endures. Deep understanding of a customer’s needs and ambitions, across both underwriting and claim, and the capability to consistently deliver on them, has become the key differentiator required to win and retain customers.

The days of competing successfully as a generalist are long over.

Clearly, customer-level specialization is a skill-based game and the best talent usually wins. As a result, the race to attain and retain the right talent across all disciplines has become the hallmark of the competitive landscape for brokers and carriers alike.
Erosion of the Wholesale Distribution Value Proposition

While the changes within the property and casualty insurance industry are oftentimes astonishing, when it is all boiled down, a strong broker and carrier relationship resides at the core of every successful deal. This bond must be refreshed and renewed on a regular basis to ensure mutual strategic success.

As proven throughout many different cycles and territories, nothing can replace the value of a fully optimized broker/carrier offering.

6 Ulrich Kadow  
Chief Agent of Canada  
Allianz Global Corporate & Specialty Americas

There continues to be steady over-capacity in the market in most areas, putting pressure on rates. This is partly offset by consolidation in the insurance industry, as seen currently by mergers and acquisitions activity.

With pressure on rates, there is an increased need for more efficiency and brokers are seeking effective online and/or program solutions in response. Insurers are focusing on differentiating customer experiences. A fully customer-centric solution, providing an individualized experience, is a competitive advantage and hard to replicate by new entrants.

Cyber protection is top of mind for most Canadian companies. The need for cyber insurance coverage is increasing along with the frequency of cyber attacks, changing regulation and general awareness of risk.

With so many unknowns, this risk is underestimated in many cases, partly driven by a lack of understanding and knowledge around exposure.

Companies should be looking for policies that address many likely exposures, such as first- and third-party claims, crime losses and the cost of a PR consultant to manage reputational risk.

Globalization is another top industry trend. Managing the impacts of global change must include consideration of economic, social, geopolitical, legal, technology, environmental, market and customer needs issues.

Although companies are able to smooth out regional adverse impacts on their businesses, they are also affected by global trends and occurrences that have a negative effect on their bottom line. Political instability, terrorism, economic and trade sanctions can affect their flow of capital and operations.
In addition, Canadian companies are increasing cross-border sales to increase market share and require expertise in cross-border solutions to help cover their emerging insurance needs.

**Patrick Lundy**  
President & Chief Executive Officer  
Zurich Canada

Some of the issues highlighted in last year’s Primary Insurance Market Outlook have taken a more central place in discussions with customers this year.

A brave new world is coming into existence with some of these new and changing risks starting to compete with traditional perils, such as fire and flood, for the devastating impact they can have on a business.

The carriers that will win the battle for the customer in these changing times will be the ones that can capitalize on their longevity, show patience and take a long-term approach to the market, like any good investment strategy.

With so many high-profile hacks in the news, businesses of all sizes are beginning to fully grasp how serious a security or privacy breach can be for the viability of a company.

The 2015 Advisen Cyber Survey of risk managers shows that customers have moved past mere interest in cyber security products. Insurers are now seeing double-digit year-over-year growth in demand for cyber liability coverage and higher limits.

But dealing with cyber risk is a societal problem that goes far beyond the coverage choices and insurability of individual customers.

Insurers will need to collaborate, with government policymakers and with each other, sharing data to better understand how cyber losses develop and the totality of the exposures. Industry collaboration and analytics based on this shared data will be necessary to build the right predictive models and benchmark pricing and limits appropriately.

Just like these fast-evolving techno risks that begin changing just as insurers come to grips with the previous iteration, the Canadian insurance market continues to evolve, through perpetual mergers and acquisitions activity and changes to distributor models. Far less likely to change is the value of a steady approach to the market and the ability to add value beyond the insurance product.
The risk landscape is changing fast, with new and emerging risks impacting governments, businesses and individuals across the world with increasing severity and frequency.

Business activity is becoming more interconnected and global. More economic output is exposed to potential systemic shocks than ever before.

Now is the time to highlight this fact and stimulate a discussion on steps for governments, businesses and the insurance industry.

The recently released City Risk Index, research for which was completed by Cambridge University Centre for Risk Studies, measures the financial impact in dollars of 18 major threats on 301 of the world’s leading cities, including six Canadian cities.

Emerging economies, for example, will shoulder an increasing proportion of risk-related financial loss as a result of their accelerating economic growth. These cities, the study found, are often highly exposed to single natural catastrophes.

Here in Canada, and elsewhere in the world, man-made threats – market crash, cyber attack and power outage – are becoming increasingly significant. Likewise, emerging threats – human pandemic, plant epidemic and solar storm – are set to have greater impact in terms of their potential economic disruption.

Insurance is just one piece of the jigsaw, however. Governments and businesses must also play their parts in building resilience and robust infrastructure.

In an age when financial institutions are viewed with skepticism, it is time for the insurance sector to show leadership, explain its value and, by innovating, help build a global economy that, in spite of systemic catastrophic shocks, thrives rather than falters.

For the past few years, insurers have met market challenges while driving towards innovation. Insurers have capitalized on opportunities, but also need significant progress to ensure that they keep pace with customer expectations.
Erosion of the Wholesale Distribution Value Proposition

Customers’ experience with other industries has been notably enhanced by customization and technology enhancements, and they expect no less from their insurance providers.

In 2016, Canada’s p&c insurance industry must be able to make exponential leaps rather than small increments of change in strategy and execution. Insurers cannot do this alone.

User-based insurance is an example of effective partnership that has enabled innovative, competitive solutions for consumers, who are embracing this where it meets their needs. Customer expectations guarantee that the pace of change will accelerate.

Insurers continue to need their partners – distributors, technology suppliers and regulators – to embrace innovation and move quickly alongside insurers.

Going forward, insurers have the chance to get it right, working together on initiatives such as customized solutions, technology advances and activity focused on ensuring effective, but not prohibitive, oversight on solvency and market conduct. Customers benefit from people of vision, collaborating to drive innovation and change.

Dialogue among regulators, governments and industry is more critical than it has ever been. It means that all stakeholders will be prepared in true emergencies to respond with the timeliness and level of protection and service customers deserve.

For insurers who are involved in shaping reforms, products and services in Canada’s p&c marketplace, a great chance exists to truly invest in change that ensures companies can manage both capital and operations in the long-term interest of the rapidly evolving consumer marketplace.

10 Lynn Oldfield
President & Chief Executive Officer
AIG Canada

Hoping not to sound like a “broken record,” 2016, nonetheless, will likely feel much like 2015: a low interest rate environment; robust regulatory oversight; consolidations and new market entrants leading to downward pressure on commercial rates; and consumers driving Canada’s p&c industry to more online and hand-held technology solutions.
Erosion of the Wholesale Distribution Value Proposition

What is not so easy to predict is the severity and frequency of catastrophic events, the Canadian dollar, the cost of a barrel of oil and the performance of the Canadian economy.

Creating a talent pipeline to replace a generation poised to retire over the next five years will continue to be a high industry priority. Fundamental to this pursuit is appealing to graduates by effectively promoting the intellectual diversity the industry provides – and offering an engaging workplace and career path progression planning.

In mature, competitive markets like Canada’s, insurers are seeking ways to add value for clients. In an inter-connected world, where people are ordering their lattes on their mobile devices, clients are seeking the same kind of enhanced service, be it expedited claims and policy issuance or risk engineering on demand, to cite a few.

In the age of big data, it is anticipated there will be considerable disruption as new industries emerge and old models become obsolete. To mention a few examples, robotics performing end-to-end processes, drones conducting aerial loss control inspections and catastrophic claims data feeds, autonomous vehicles and the re-imagining of the transportation network when traffic signals are no longer needed.

Insurers who are best-positioned to analyze and extract meaning from the 205,000 new gigabytes of data created every second and provide actionable insights to help make clients’ operations safer and more productive will succeed. This demands harnessing data to also meet needs clients have not yet identified.

From cyber breaches to shifting questions of property and products liability, clients will be called upon to consider risks not yet contemplated, where machines replace humans as the decision-makers and sensors are capturing data creating questions about liability, resulting physical damage and privacy.

11 Sylvie Paquette
President & Chief Operating Officer
Desjardins General Insurance Group

There was no shortage of challenges facing Canada’s insurance industry over the past year.

One of the biggest concerns was, and is, the low-yield environment. Seven years and counting of rock-bottom interest rates are taking their toll on industry profitability. With investment income eroding, the only way to make up the lost income is to improve underwriting results by reducing expenses and adjusting premiums.
Erosion of the Wholesale Distribution Value Proposition

Efficiencies, improved segmentation and selection, and better claims management can all help strengthen bottom lines in the short term.

But with record-low interest rates, the “new normal” for the foreseeable future, it is also clear that expense reductions will not be sufficient on their own. Industry premiums will have to be adjusted to reflect the new reality, though this will not happen immediately.

In the meantime, much of the heavy lifting will fall on expense management. This is happening at the same time that many insurers are increasingly adopting multi-line distribution and facing big investments to update legacy systems to build their digital capabilities.

Telematics, mobile applications, self-service claims, advanced analytics, the shift to an omni-channel customer experience – these are all bringing radical change to the way property and casualty insurers do business.

At the same time, the “things” insurers insure – mostly vehicles and homes – are also changing with technology.

Obviously, safer, semi-autonomous vehicles and homes that are connected through the “Internet of things” will have very different insurance needs.

These technologies are not going to radically change the industry in the next 12 months. But despite the current pressure to reduce expenses, the smart companies have already started to prepare for the changes that will, no doubt, come surprisingly fast.

12 Rowan Saunders
President & Chief Executive Officer
RSA Canada

The property and casualty landscape is changing at a rapid pace. Catastrophic events are becoming the norm, digital capabilities are improving, and the regulatory environment is becoming more robust and complex.

Mergers and acquisitions activity is likely to continue over the next five to 10 years as brokers and insurance companies look to drive greater operational efficiencies to improve their returns. More consolidators are operating both nationally and regionally than ever before.

Broker consolidation is changing the relationship with insurers. It is important that brokers and insurers work together to maintain a cost-effective channel.
An important strategy in 2016 will be for insurers and brokers to choose the right partners who want to strategically invest in their businesses in order to evolve and stay relevant through an increasingly dynamic market.

The implications of new and disruptive technologies to the insurance industry are also significant. The p&c industry must be prepared for this reality within the next decade.

A risk facing the insurance industry is the potential for distribution by non-insurance companies such as Google and Amazon, which are fuelled by digital and technology. It is clear that a decision to distribute insurance this way is price-driven, not relationship-driven.

However, while the direct channel will continue to grow as some consumer preferences change, it is believed that the broker channel will continue to remain the largest and most dominate distribution channel in the next 10 years. Brokers must continue to focus on their trusted advisor role to customers by acting as independent insurance experts.

In order to stay relevant in the face of changing environmental, regulatory, technological and digital pressures, insurers’ and brokers’ entire proposition has to evolve.

It will be exceedingly important for both insurers and brokers to clearly define their market, and products and service delivery will need to become more innovative to anticipate customer needs and exceed their expectations.

13 Greg Somerville
Chief Executive Officer
Aviva Canada Inc.

Continued development of solutions to respond to customer needs remains the top priority for 2016.

Customers will continue to seek a solution aligned to their preferences around product distribution. While a simple digital experience is the top choice, some also rely on the Internet for research before making a non-digital purchase.

As the industry continues to evolve to meet these needs, brokers and insurers that increase their digital capabilities will lead the pack. Not only will the industry see more business purchased through digital means, but adopting new technologies will also position everyone in the industry to further adapt to evolving customer needs in the years ahead.
Working with all levels of government on flood mitigation and community resiliency is critical to protecting homes and businesses. Discussions need to continue to focus on improving residential developments and incentivizing residents to mitigate the risk of damage to their properties. Products must also evolve to become easier to understand so customers know what is covered.

The Ontario auto system, inclusive of both the regulatory environment and the product, must be overhauled as it simply does not work for customers. A new product, one that is more stable, affordable and offers consumers more choice, is required.

As well, Ontario drivers will be best-served by a regulator that is proactive and strongly committed to promoting innovation and competition in the marketplace. The expert panel reviewing the Financial Services Commission of Ontario’s mandate is carrying out thoughtful work and the industry will continue to work with the panel to advance customer interest and protection.

The shared economy will continue to grow in 2016. Everyone has seen the rise of Uber and AirBNB – and now the topic of insurance related to these ventures has come to light.

Product development needs to keep pace with a rapidly evolving economy that continues to create opportunities to develop exciting customer solutions.

Whether it is disruption from within the industry or created from the outside, engaging with customers on their needs and preferences is the best way for brokers and insurers to stay ahead as they move into 2016 and beyond.

14 John Taylor  
President & Chief Executive Officer  
Ontario Mutual Insurance Association

2015 was another year of “lightning round” developments and 2016 promises more of the same.

After years of grappling with what to do about overland water or flood insurance, the industry is seeing a rush of residential insurers making some form of additional water coverage available on most homeowners policies, with each insurer taking a somewhat unique approach.

The prediction is that by the end of 2016, virtually every insurer will be providing some form of enhanced water coverage.
Erosion of the Wholesale Distribution Value Proposition

As a caveat to that prediction, there will remain a portion of the residential market, including those most in need, whose exposure to flood or overland water damage is such that coverage will simply be unavailable. Insurers can expect further governmental activity on this gap and can hope for some type of viable public private solution.

In the longer term, with increasingly volatile and severe weather, the next few years could generate some interesting results and analytical approaches that will re-set the ultimate market price of water coverage for the consumer.

Technology continues to march on and the hunger for data on consumer habits and preferences grow. With what appears to be an infinite supply of data, the greatest constraint will be insurer’s ability to collect and analyze it in a meaningful way.

In 2016, the Ontario auto market will continue to provide affordability and profitability challenges. Some of the most important of the 2010 product reforms should be coming on line, and there appears to be a political commitment to align the Ontario product more closely with those in other provinces to get to the same affordability benchmarks.

Adding “excitement” is the prospect of autonomous car technology that is predicted in the next 10 to 15 years to drastically reduce exposures.

Finally, the state of the Canadian economy will continue to cast a shadow over the strategic plans and risk management of insurers. Operating decisions and investments in operations have a lot less room for error.

15 Silvy Wright
President & Chief Executive Officer
Northbridge Financial Corporation

The insurance industry is undergoing an intensive period of rebirth. A series of disruptive trends will have an unprecedented impact on what the industry will look like in the next five to 10 years. Insurers’ traditional way of doing business is changing, and it is changing fast.

Looking back, the industry has enjoyed a long history of stability when it comes to customer service models. With so few customer touchpoints, insurers have been somewhat sheltered from providing a great customer experience. That is no longer the case.
Erosion of the Wholesale Distribution Value Proposition

Insurers often like to do an apples-to-apples comparison and benchmark themselves against other insurance providers. But what insurers should be doing is comparing apples to oranges, because that is what customers are doing.

Their expectations of insurers are based on high-engagement industries like retail and even other financial service providers. Industries that have a much better understanding of what customers want, when they want it and how they want it, are setting the new standard.

Closing the gap between customer expectations of insurers and their current experience elsewhere is one of the industry’s biggest challenges. New entrants are coming in with big capital, big ideas and big data, and they know more about customers than insurers currently do.

So what needs to happen in order to survive and thrive as insurers enter this period of unprecedented change?

For starters, they need to do a better job of prioritizing the customer experience. Providing “good” customer service is no longer good enough. “Exceptional” is what insurers need to be aiming for.

This will require brokers and insurers to innovate and collaborate more effectively to create the best customer experience possible.

Disruption does not happen for the sake of disruption. It happens because customers are asking for it.

Bridge Strategy Group: Confronting Insurance Distribution Challenges and Opportunities

Case studies on how two insurance companies facing superficially similar situations, can and should reach very different conclusions regarding what constitutes the right distribution strategy.

There are few topics more top of mind for insurance executives these days than distribution, and with good reason. Insurance distribution is not simply about pushing product. An outsized share of the value across the entire insurance industry value chain is added in distribution. For customers, it is in distribution that needs are understood.
Erosion of the Wholesale Distribution Value Proposition

and assessed, options — from full risk transfer to self insurance and more exotic methods of managing risk — are identified, and counsel on which carrier(s) and other providers to select is given. For carriers, it is in distribution that relationships and trust are built with agents, brokers, and customers, opportunities identified and created, and products and services sold.

Distribution has also grown in prominence as its share of underwriting expenses has risen in the past decade. While distribution expenses may not be up in absolute terms, they are up as a share of the typical carrier’s expense base, having stubbornly resisted the downward trend evident in other expense categories. Some of this is commissions, as agents are understandably resistant to having their compensation reduced. Some of it is information technology, as companies pour investment dollars into building direct channels, improving agent efficiency, and becoming the favored carrier of independent agents. There are other reasons as well, all contributing to a sense that the time has come to take a hard look at what can be done to better manage distribution expenses.

Lastly, after decades of stability, even inflexibility, insurance distribution now seems to be in constant flux. Each year, owing to retirements, mergers, and acquisitions, there are fewer agencies and agents than the previous year. According to the Independent Insurance Agents and Brokers of America (IIABA), the number of independent agencies declined from 44,000 in 1996 to 37,500 in 2008, a drop of almost 15% with no end to this trend in sight. The remaining agencies are larger, more specialized, and wield greater influence with the carriers who depend on them. In addition, there is the much reported growth in direct methods of distribution, including but not limited to Internet distribution, and the attendant costs and complexities of managing multiple distribution channels.

Conventional wisdom has it that it is only a matter of time before the traditional agent is a thing of the past. Whatever analysis exists to support this belief masks important details. The perceived trend toward agent disintermediation is far truer for simpler products like private passenger auto and term life insurance than for more complex products and customers (e.g., commercial enterprises) with more complex needs. And industry-wide trends are more relevant for large players than small ones, for whom opportunities abound even in shrinking markets. One thing that is assuredly true is that carriers will be using a variety of different methods of distribution for the foreseeable future, and what will matter as much as or more than the specific methods employed is how well they align with a carrier’s own unique strategy and how good a job it does of execution.
The case studies below illustrate how two companies, facing superficially similar situations, can and should reach very different conclusions regarding what constitutes the right distribution strategy.

**CASE INTRODUCTION: PRIVATE PASSENGER AUTO AND HOMEOWNERS INSURANCE COMPANY**

Our first case example is an underwriter of private passenger automobile and homeowners insurance. Its share of the market in the region where it operated had for many years been stable at roughly 7-8 percent. The company had a great reputation with its customers for prompt, friendly claim service and rapid settlement. The vast majority of its policies were distributed through independent agents who functioned as little more than a conduit for the company's products, adding little value along the way, with the exception of agents serving non-English speaking customers who provided to both the company and its customers an essential service. The company had experimented with providing a limited set of agent and customer service transactions via the Internet but had not committed to it wholeheartedly. There was little product information provided online, and there were no sales concluded online.

The company became concerned when its market share began to drop following entry into its region by two prominent national direct writers. The new entrants were using both lower prices and an online product and price comparison service to attract customers. The company saw a need to act before the momentum its competitors were beginning to develop became unstoppable.

**CASE INTRODUCTION: COMMERCIAL LINES CARRIER**

Our second case example is a commercial lines carrier with a long history in the industry and a reputation for finding a way of underwriting, and eventually rehabilitating, some of the very toughest commercial risks, in doing so enabling them to continue doing business. The company distributed its product exclusively through wholesale agents who functioned as MGAs. After several years of booming revenue and profits, customers had begun deserting the company in droves. At first, executives attributed the plunge in revenue to a vicious soft market that had taken hold the previous year. After noting that competitors were faring significantly better, they began to consider other possibilities. Some wondered whether wholesale agents were being disintermediated by retail agents with the willingness and ability to deal directly with carriers, though they lacked the data to know for sure.

**PRINCIPLES**
In each of these cases, though there were other contributing factors, distribution proved central to any solution. In building an understanding of the problems faced and in formulating solutions, those companies we were guided by a few simple principles:

- **Stick as close to what you know as any reasonable solution will allow.** A company with a first rate information technology (IT) organization, for example, is better positioned to begin selling online than one for whom IT has been an organizational backwater. This principle is not meant as a prescription for change avoidance. It is a statement that leveraging existing strengths is a far easier and more profitable method of operating than building new ones, where the choice exists;

- **Avoid overreacting to industry trends.** Overreacting to trends, such as a move toward agent (retail or wholesale) disintermediation, can be as dangerous as ignoring them. Only in retrospect are the pace and significance of trends truly clear;

- **Challenge each party in the value chain to deliver value commensurate with its cost.** Whether we are talking about lead generation, underwriting and pricing, closing, renewal, or servicing, whichever value chain participant — carrier, broker, MGA, wholesale agent, etc. — is capable of producing the greatest value for the cost involved should bear responsibility for it. This implies, for example, that if a company currently distributing via independent agents has good reason to believe it can attract a similar or greater number of customers online at lower cost in IT resources, it should seriously consider such a move;

- **Manage independent agents/agencies as you would your own employees.** Companies that distribute through independent agents should treat them very much like employees. Seek to appoint the best, monitor performance rigorously, align agent incentives with those of the company, and recognize and reward top performers;

- **Maintain leverage over independent agents and brokers.** Maintaining good relationships is important, but maintaining leverage is even more important. Leverage can come in many forms - industry-leading products and services that are in demand with end-customers, attractive commission structures, technology and support that keeps agents highly productive, etc. Agents and brokers are a practical lot, and most will take their business to the carrier that maximizes their near-term profitability regardless of personal relationships;

- **Communicate clearly the division of labor among channels.** Agents, often with good reason, are very sensitive to signs that carriers may be experimenting with new channels, be they banks, call centers, or the Internet. To the extent that a division of labor exists among channels and can be demonstrated — e.g., banks
Erosion of the Wholesale Distribution Value Proposition

will only be selling life insurance products while P&C products will be distributed only through agents — open and precise communication can alleviate both real and perceived channel conflict; and

- Monitor channel performance and maintain flexibility in case industry dynamics change. No strategy is forever. In many cases, the better a strategy seems to work, the more imitators it will attract, and the quicker the supply/demand equation will shift against its adherents. Thinking ahead means seeing to it that if one channel begins to dry up, the company has sufficient time and capability to shift its emphasis to alternative channel(s). A company long reliant on independent agents can choose to remain so in the expectation that there will always be enough customers preferring this channel, but it had better have a Plan B if this expectation proves incorrect.

CASE OUTCOME: PRIVATE PASSENGER AUTO AND HOMEOWNERS INSURANCE COMPANY

Following evaluations of the marketplace, distribution methods, and internal competencies, the company pursued a major investment in building online distribution capability. The reasoning was as follows:

- The trend toward online sales of auto and homeowners policies was, if anything, even more rapid in this region due to its unique demographics;
- The company’s independent agents, even after a significant investment in training and technology to support them, were failing, with the exception of those serving non-English speaking populations, to add value perceived not just by the carrier but by its customers;
- The average age among independent agents was 55, and few had succession plans;
- The company was noteworthy for strong IT capability, and it was a reasonable bet that Internet distribution capability could be built and maintained over the long haul for less than the cost of commissions;
- The company’s reputation would prevent the trickle of desertions from turning into a stampede, even if agents did start trying to switch customers to a different carrier; and
- The company was financially strong and could weather a period of high investment during the transition from an independent agent to a (primarily) direct distribution model.

While this strategy has been in place for only a limited period of time, early signs are promising. The company’s website is receiving high marks from customers. The
company lowered its premiums in anticipation of lower costs, and this has helped stem the tide of defections. While the national direct writers are still growing market share, it is now at the expense of other carriers.

CASE OUTCOME: COMMERCIAL LINES CARRIER

In contrast with the distribution strategy for the private passenger auto and homeowners insurance carrier described above, the carrier chose to recommit to existing methods of distribution - the wholesale agent channel. The reasoning was as follows:

- Analysis demonstrated that the recent drop in revenue had little to do with the distribution methods employed and everything to do with deficiencies in product design, pricing, risk selection, and how agents were being managed;
- Competitors were moving toward distribution via retail agents faster than retail agents were developing the capabilities necessary for (and large enough books of business to warrant) working directly with carriers;
- The company lacked a viable alternative for the foreseeable future, given its near total reliance on wholesale agents to perform critical tasks on its behalf; and
- Based on interviews with a number of wholesale agents, demonstrating loyalty to the wholesale agent channel seemed likely to give the company a competitive advantage over carriers who had begun working directly with retail agents.

A recommitment to the wholesale agent channel was only one element in the company’s new strategy. Detailed plans were also developed for addressing the deficiencies in product design, pricing, risk selection, and agency management as well as for targeting sub-segments of the market that had until that point been largely ignored. One other key element of the strategy was to develop a set of services for wholesale agents that, should the wholesale channel ever dry up entirely, would leave the company far better positioned to explore distribution alternatives than at the time of this writing.

The new strategy has since been rolled out to the company’s wholesale agents, who received it with a great deal of enthusiasm. Renewal rates began rising almost immediately, and the company is projecting a snap-back in revenue based on plans and projections from its agents.
CONCLUSION

Developing a distribution strategy is far more complicated than simply deciding which channels to use. This is, however, a key decision, and the cases above illustrate that there is no single correct method of distribution for all carriers in a marketplace. Applying the right set of principles is key to arriving at the distribution strategy that best meets a given carrier’s needs.

How Retail, Wholesale Distribution Chains Are Changing to Justify Value, Purpose

January 23, 2012

Insurance distribution is changing and agents and brokers—retailers and wholesalers—have to define the value they offer and what type of relationships they will have with carriers and customers in the years ahead, according to a leading wholesaler.

Retail and wholesale brokers face the challenge — and opportunity — of redefining their relationships and value proposition in today’s changing insurance distribution world, according to Glenn Hargrove, president, MarketScout Wholesale, Dallas, Texas. In this interview with Insurance Journal’s Andy Simpson from the recent Western Insurance Agents Association Education & Research Foundation’s Industry Roundtable in California, Hargrove outlines the value proposition of agents and brokers and discusses the future of distribution.

Define the insurance distribution system today.

Glenn Hargrove: To me, distribution is everything in between the insured and the delivery of an insurance policy in our business. That can be companies and organizations that we traditionally know as retail brokers or wholesale brokers or program managers, but it also incorporates things like technology and anything … that delivers a policy to an insured.

What’s going on in the distribution space? Are relationships changing?

Hargrove: I think over the last several years we’ve seen a drastic change in the distribution space; traditional rules have sort of broken down. The role of a retail agent, the role of a wholesaler, those have all changed. There are no longer circumstances where a surplus lines company is represented just by a wholesale broker, or a surplus lines broker. They can go directly to retail agents. You have direct line products that are happening within the space that circumvent retailers and wholesalers, in some cases. And so, it has changed the value propositions of the firms in that space.
Is that different because of technology, largely?
Hargrove: There’s technology, and I think there’s regulation. ... I think people are looking for efficient distribution channels to ... most efficiently distribute their product. I think, consequently, what it leads to is the companies that are within that space of distribution also have to justify their value and why they're there. And if they're going to receive compensation or income out of that chain for being part of that distribution source, then they need to explain what value they’re delivering and how they’re facilitating and making that transaction better.

How do wholesale brokers and retail agents provide that value?
Hargrove: I think there are several different areas. One is in expertise — product expertise and/or industry expertise that agents can bring. Then there’s the aggregation of those people in the distribution chain; being able to access a multitude of markets. Or if you look at it in the reverse sense, from the carrier, their ability to deliver to a carrier, a multitude of clients and customers that that carrier probably couldn’t efficiently reach on their own. So, it’s a combination of the expertise and the talent and an access point. And, to a certain degree, there’s some benefit of outsourcing services. Providing things, whether it’s underwriting services or policy issuance type work, or a variety of things that those intermediaries can do ... services that facilitate, either the process of placing insurance for an insured, or the process of securing the coverages for a carrier.

The lines are gone. Yes, the lines are absolutely gone.

There is concern over technical knowledge and whether it’s being shortchanged if there’s not enough training, at the underwriter level or other levels. Is that a danger to the industry?
Hargrove: I think it certainly is a danger. I think training programs are expensive, difficult to maintain. So we see a shortage of those in the industry, and it’s harder for people to keep up with that. Another element is technology. To a certain degree, while it facilitates the speed of what we do, it can also replace some of the educational element that people (bring) in. When you’re forced to go through an underwriting manual that’s handwritten to try to calculate how you’re going to deliver a quote; there’s a certain educational process that goes along with that, as opposed to filling out criteria and having a computer spit out a quote.

Is that a gap that agents and brokers have to fill since it’s not being done elsewhere?
Hargrove: I think it's a burden for the entire industry. Companies need to look at training
and focus on that. There’s also a big role for industry groups, trade associations and carriers that are dealing with the distribution channel. I think the entire industry needs to focus on training, and make sure that our talent is as educated as they need to be.

**As baby boomers retire, they take with them a lot of that knowledge.**

*Hargrove:* True. As you go through a generational change, you lose a certain knowledge set. But perhaps we gain a certain knowledge set with some of the younger people coming into the business that are more technologically savvy, too. Then we’re gaining some knowledge in how to implement products and to work within a new technology age. We just need to make sure that we impart some of the technical insurance training that needs to go along with the equation.

**If you had to paint a picture of the insurance distribution system in five years, how do you think it might differ?**

*Hargrove:* It’s tough to say how things are going to end up changing. The biggest thing is that companies that are involved in distribution are really going to have to clearly establish what their value proposition is, and why they fit into the equation. Not just that they are in the middle of the equation, but why they’re really there. I think we’ll see hybrids of different kinds of companies. Clearly, you’ve already seen surplus lines companies, or wholesalers, that not only distribute surplus lines products, but distribute admitted market products and act as program managers. You see some retailers that have their own marketing and distribution source, which, if it’s not a true wholesaler, at least emulate what wholesalers do. … Going forward, you’ll see businesses that are much more tailored towards specific operations, but maybe don’t look, necessarily, like the traditional form of either a retailer or a wholesaler as we’ve known it.

**Sounds like some of the lines that we’re accustomed to now might be blurring.**

*Hargrove:* Yes, the lines are absolutely gone. It’s up to firms participating to try to define what that role is and reshape the box and value proposition; the market will determine whether we’re delivering value or not.