

An Open Letter to Independent Insurance and Benefits Agencies

June 2013

There comes a time for every business when it must make adjustments, embrace change, and reinvent itself. Occasionally, circumstances arise that bring an entire industry to just such a transformational moment. For the insurance industry, and our individual businesses, that time is now.

Some may not want to believe it and others may choose to ignore it, but for all those who are in denial, they may be doing so at their own peril.

An industry in crisis

We are at a defining moment for the independent agency system. Profits are being attacked, growth is a struggle, future revenue streams are uncertain and the result is a level of panic not seen before. The most concerning thing of all is that most agencies don't seem to have a plan for to how to deal with the lack of control they have over their businesses. As a result, there is an almost vulture-like strategy driving agency acquisitions, a development that seems to be gaining momentum and threatening the very survival of the independent agency system.

This isn't just a personal opinion or observation. This is the collective opinion and observation of a group of 11 industry/agency consultants who recently came together for a somewhat unprecedented meeting. On most days, this is a group of competitors; either competing directly for the same clients or, at the very least, competing for the discretionary time and money of the same agencies. However, it was out of mutual concern for the future of the industry that this group came together in the spirit of "coopetition." Rather than retreating into separate corners and competing more fiercely for the shrinking ranks of agencies, this group has made the decision to work together to help keep the ranks of independent agencies as large and successful as possible.

An industry worth saving

This is an unbelievable industry that has been rich with personal and financial rewards for those willing to make the investment. We are provided with great income opportunities, have more work/life balance than most other professions, work with diverse and interesting business owners, and, perhaps best of all, we have the potential to make a significant impact on the businesses of those clients.

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Agency Growth Mastermind Network • The Anderson Agency Report | The Anderson Network • Benefits Growth Network • The Brokers Broker • **Daymark Advisors** • HR Technology Advisors • iC3 | The Intellectual Capital Coaching Corporation • Marsh, Berry & Company • Q4 Intelligence • The Wedge: Insurance Agency Sales and Management Training

In fact, this industry has been so generous to independent agencies that it could be argued that the generosity itself has helped create many of the problems we now face.

We do not see the demise of this industry as inevitable. In fact, this group believes the best days of independent agencies still lie ahead. We know the independent agency system can survive; however, the surviving businesses will look different than they do today. What we don't know is how large those ranks are going to be because the change is starting with a needed cleansing of the industry, something which is already happening.

We have put ourselves in this precarious position

As we just said, many of our problems as independent agencies are self-created (or, at the very least, have been tolerated). All businesses must control two critical elements:

1. what it is they sell to their clients
2. how they get paid for what they sell

Because the industry has been so financially generous, most agencies have allowed those critical parts of their business to be controlled by a third party, the insurance carriers.

Also, because of the generous financial rewards provided by the industry, it has allowed agencies that deliver marginal client value to find disproportionate levels of success. We know this is a bit harsh, but if you are being honest with yourself you will agree that if all an agency does is place an insurance policy and then fix the resulting problems, they have been way overpaid. It is these agencies that have helped fuel an unfavorable stereotype for our industry and gained us little support in the court of public opinion.

It is not this part of our industry we are looking to protect and save. That would be a fool's effort. Instead, we are looking to save those agencies who are able and willing to take control of their businesses and whose mission is to truly improve the business of their clients. That is an industry worth saving.

Now is the time to act

While we believe there is a great future ahead for these agencies, the future glory days are not guaranteed, not by a long shot. Each of us in this group has varied ideas as to how agencies will take part in that glory, but we are unified in our belief that it will require something drastically different than what has been done in the past.

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And, as we all know, change is never easy and the right kind of change is rarely quick. While we also have differing opinions as to how much time agencies really have to save themselves, we are all in agreement that now is the time to get started and significant progress needs to be made within the next 12-24 months.

Focusing on the wrong target

Most would agree that this is a time of unprecedented challenges for independent agencies. Sure, some of the challenges are obvious: health care reform, exchanges, and a slow recovery from the recession, to name a few. As we talk to agency owners, it is these challenges that are getting the most attention.

However, as real as those challenges are, we don't see those as the most critical challenges: these issues are merely exposing the underlying frailty of the independent system, a frailty that has been a ticking time bomb and whose clock is winding down.

A failure to address and correct the real issues will bring an end to the independent agency system, at least as we know it today.

Common agency challenges

Identifying those foundational issues was a primary focus of our recent meeting. The consensus of our group is that the following issues are leaving agencies vulnerable and exposed to the impact of the current (and emerging) market and industry conditions.

Too many agencies do not have an answer for these industry trends:

- Carriers are starting to limit the number of agency contracts
- Carriers are writing policies net of commission, leaving the agency to negotiate their own fee
- Where commissions remain built in, they are being slashed
- After the cleansing of the industry removes the mediocre performers, the remaining competition will be potent and fierce
- PPACA and the resulting Exchanges will drive many smaller businesses out of the medical insurance business
- While the commission slashing is currently focused in the health side of the business, it could be a false sense of security to think other lines of insurance are immune to reduced commission schedules

Too many agencies (both benefits and P&C) have left themselves vulnerable in the following ways:

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- There is no unique sales process. Most are still competing with a spreadsheet and look just like every other agency to the prospect/client.
- Growth is overly dependent on the owners to produce.
- With the owner focusing on growth, there is not enough work being done “on” and leading of the business.
- There is too much dependency on the placement of an insurance product as the only value delivered to clients, and therefore, the only opportunity to get paid by those clients.
- Most agencies lack a vision as to what the agency needs to become in order to survive.
- As businesses, agencies are largely controlled by the insurance carriers. It is the carrier who controls the product being sold and determines the compensation for the sale.
- Agencies are having difficulty creating non-insurance solution revenue streams.
- We’re seeing industry shifts in buying behavior: consumer-centric at the individual level and single-source (benefits, HR, payroll) at the employer level.
- There is little relevant differentiation between agencies (better service and a list of value-added services are not differentiators).
- There is a lack of effective recruiting, interviewing, selection and training processes leading to too many poor hiring decisions.
- The stereotype of the industry (not trusted and seen as delivering marginal value at best) is difficult to overcome.
- Most agencies have little to no effective sales management.
- There is a disproportionate dependency on the smaller groups most threatened by the above listed industry trends.
- Compensation programs are misaligned with the behaviors needed to drive new revenue, often rewarding a “protect what I have” mentality over a “go get more” mentality.
- There are too many silos within the typical agency – Sales vs. Service, Producer vs. Producer, Department vs. Department, Leadership vs. Everyone else, etc.
- All too often, there is a lack of accountability to results, especially for producers. Agencies have to be willing to fire poor performers, including producers.
- Agencies create a service culture instead of a sales culture with their compensation programs and their accountability structures (or lack thereof).
- **In all areas, the constant among the problems seems to be a lack of systems and processes.**

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The cost of doing nothing

We know we aren't the only ones who recognize the existence of these challenges. Unfortunately, many agencies who see the direness of their circumstances are still not taking appropriate action. The reason for lack of action usually comes down to the difficulty of change but also the cost of addressing the problem in terms of both a financial and time investment. However, the cost of doing nothing and trying to stay the course would be the costliest decision of all.

Agencies who don't change their course will watch their financials and their structure deteriorate before their eyes and are likely to be out of business in short order. The current path will lead to:

- Little, if any, top line growth
- Eroded profit margins at the bottom line
- Disintermediation, either because of carrier selectivity, exchanges, technology, or new and unexpected competitors
- Talented staff leaving and difficulty attracting new/replacement talent
- Competitive acquisitions at distressed prices

There isn't one solution for everyone, but everyone needs to find a solution

Being honest, there are self-interests in this group for issuing this letter. After all, our own success is dependent on this industry remaining strong and viable. However, we got into this side of the business because we like to help others succeed and success now includes a fierce belief that now is the time to fight for our survival. This is an industry worth saving and fighting for, but it is a fight in which we must all engage together.

If in reading through the list of challenges, you feel you are one of the vulnerable and exposed, we encourage you take control and start addressing your situation now.

There are basically two courses of action:

1. tackle this problem on your own, or
2. seek out help.

For most, and especially for those who haven't yet started making changes, we believe the limited time frame to put answers in place makes tackling this on your own the wrong approach.

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We suggest you align yourself with someone who can help you put the answers in place. Of course, as a group of consultants, we would love the opportunity to discuss with you how one of us might help. But we also freely admit there are plenty of other consultants and resources out there to whom you may turn, and we will even suggest some places for you to look.

Another option may be to align yourself with a peer group of agencies who are committed to fixing the same challenges and are working together towards common answers. We see successful agencies every day, agencies who are more optimistic about their future than ever before. Find one of these agencies as an example; there's no need to reinvent the wheel.

The unacceptable response is to stick your head in the sand and pretend everything is going to be okay. Most of us don't like the current course of the industry, so we need to be the ones who start steering the ship.

This is our defining moment; now is the time to take action.

The following are the consultants who met in Atlanta and who have committed to doing their small part in helping protect the independent agency system.

Agency Growth Mastermind Network – Nelson Griswold

The Anderson Agency Report | The Anderson Network – Steve Anderson
Leading Authority on Insurance Agency Technology Productivity and Profits

The Brokers Broker – Kyle Hodges
Helping brokers deliver unique wellness and marketing strategies for the 100+ market

Daymark Advisors – Jack Kwicien email: jkwicien@daymarkadvisors.com
Trusted advisors to the insurance industry - Consulting, mergers & acquisitions, and charting the course for the future for brokers, carriers, and enabling technology firms

HR Technology Advisors – Joe Markland
HR Technology Advisors is a leading provider of HR and Benefits Technologies for benefits brokers and their customers

iC3/The Intellectual Capital Coaching Corporation – Rick Bauman
Helping Brokers succeed by building A Passionate Enterprise

Marsh, Berry & Company – Rob Lieblein
Your Partner for Financial Consulting and Mergers & Acquisitions

Q4Intelligence (Formerly Benefits Growth Network) – Kevin Trokey & Wendy Keneipp
An agency transformation network

The Wedge: Insurance Agency Sales & Management Training – Randy Schwantz
Revolutionary Technology for Sales Team Development - Grow Your Agency Value, Grow Your Wealth

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