

## Panelists Debate the Pros and Cons of Industry M&A and Comparative Raters

*IIAC Panel Discussed Emerging Issues*

PLANTSVILLE, CONN. — The frenzied pace of merger and acquisition activity on both the carrier and agency sides and the pros, cons and unintended consequences of comparative rating systems were among the topics discussed during an executive panel at the mid-year convention of the Independent Insurance Agents of Connecticut (IIAC).

Jared Carillo, chairman of the IIAC, who served as moderator, asked panelists how the large number of mergers and acquisitions (M&A) at both the agency and company levels have affected their strategies for business delivery. Panelists Greg Toczydlowski, executive vice president, president of business insurance for Travelers, and Mary Boyd, president of Plymouth Rock and CEO of its independent agency group, have been closely monitoring the insurance industry's consolidation efforts. On the agency side, M&A has largely been driven by perpetuation challenges. Toczydlowski said carriers want to support their distribution partners, and he is curious about what the industry will look like when it is time for the "transient capital" from private equity (PE) firms to exit the scene. However, he noted that among the many positive aspects PE capital has ushered into the industry is a great sophistication of lead

generation, marketing and leadership development that came with the aggregation of capabilities.

"If we do the best thing for the customer, have consistently great experiences for them and give them choices, quality and local customization, the financing will work itself out," said Toczydlowski.

At the company level, Boyd anticipates more carrier acquisitions in the future as recent tax law changes may allow some of the domestic carriers to vie for acquisitions.

The majority of independent agencies have less than \$250,000 with any individual carrier, according to Boyd. As those agencies are acquired or consolidated, carriers will be interacting with them as much larger entities. She said that is fine because "we will get used to building relationships and relevancy in the same way that we would if someone had not been acquired. It's about being adaptable, working together and helping to provide solutions."

Joe Leahy, chairman of the Independent Insurance Agents & Brokers of America Inc. (the Big "I"), urged attendees to learn from history. He explained that returning World War II veterans, commonly referred to as GIs, started

countless insurance agencies in their own neighborhoods. "At the Big "I," the majority of our members have less than five employees. You'll see some growth, but you won't see that disappearing. You have to look at history: We will regrow ourselves," he said.

### Pros and Cons of Comparative Raters

When comparative raters were introduced to the insurance industry, the general consensus was that they were a great way for carriers to gain instant relevancy across all opportunities. However, Carillo noted that there has been some lamenting on the part of carriers that wonder where the value proposition has been rather than just in the lowest price of the model. He asked panelists what their experience has been in this shifting landscape.

For Leahy, the answer was easy: Agents welcome tools that help them do their jobs better and quicker. While comparative raters are helpful, they are no substitute for relationship building, he noted. Comparative raters are a tool that help independent agents improve efficiency by eliminating the need to enter the same risk information into multiple insurance carriers' systems. The less time they spend on data entry

tasks, the more time they have to focus on what matters — selling the value of their advice, expertise and counsel.

For the carrier representatives, the issue can be more complicated. They acknowledged that the technology of comparative raters has allowed distribution to be much more efficient than in the past. Yet, the focus on pricing has a downside for them.

“If there is a risk to the benefit that efficiency got us from comparative raters, the risk is that if it dilutes the value that independent agents bring to that experience, that’s a shame. The internet can always quote faster than any of us can, but if all we’re doing is translating that into the lowest price, then we’ll get beaten by the direct carriers,” said Boyd. It is essential for independent agents to be seen as more than just order takers.

Toczydlowski agreed, saying, “while comparative raters bring more efficiencies to distribution, the unintended consequences were that it is very difficult not to sell on price when the lead carriers are in front of you.” Travelers conducted elasticity studies and saw since comparative raters have been introduced, pricing has become 3.5 times more elastic. “We clearly saw a shift that selection was based on the cheapest price — 94% of our new business had to be the lowest price or the second lowest price. That’s the challenge for our industry.”

Toczydlowski expects comparative raters to evolve with commercial lines. “We can’t create a commodity based on technology that had more of an intent around driving efficiencies. It’s a risk that we all face, but we recognize that we have a consumer that is incredibly empowered. They want great value and great quality. Years ago, you either bought quality or you bought price. We should all embrace comparative raters for efficiency, but we shouldn’t lose sight of a local, customized solution for the individual customer.”

That was a key point for Boyd as well, who said the next step for carrier-agency partnerships is to create solutions that are fast and efficient but that highlight the value proposition as well.



*Jared Carillo, Joe Leahy, Mary Boyd, Greg Toczydlowski and Warren Ruppert at the mid-year convention of the Independent Insurance Agents of Connecticut.*

## Training the Workforce of Today for Tomorrow

Local agents say to grow their businesses, they need help attracting, retaining and educating employees. Developing talent is top of mind for agents, carriers and industry associations year in and year out. The Big “I” has developed a program called “Big ‘I’ Hires” to help agencies advertise open positions and evaluate candidates. Plymouth Rock offers its independent agents programs to help them learn everything from social media to sales training. Travelers has an agent university that offers training in product knowledge, the sales process and lead generation methodologies.

All of the panelists are focused on attracting younger talent into the industry. With the U.S. Department of Labor estimating that 75% of the American workforce will be made up of millennials in 2025, there is a sense of urgency in introducing them to the idea of making their careers in the insurance industry. For Toczydlowski, the key is to change the conversation from attracting young people to a job to a meaningful, fulfilling profession.

“Millennials are very purposeful and engaged in the community. We need to describe our industry as it truly is — an industry that rebuilds lives. I can’t think of a more righteous industry than what we do every day. We have to change the conversation around the purpose of our

industry. It starts with the message for millennials that this is an industry that has great purpose to it, and then the training follows,” he said.

What personal attributes or skill sets will the industry need to ensure the workforce remains relevant given how fast technologies are being developed? The answer may lie in flexibility and adapting to how millennials think.

Everyone needs to become more comfortable interacting with each other in different formats, such as over video or via text, according to Boyd. “Think about how we can show up for our customers, get comfortable with our processes in a way that meets our customers where they are and how they want to be communicated with.”

Millennials want a conversation, but they want it on their terms, noted Leahy. If agents can handle that, millennials can be really good customers. “They are engaged. They want questions answered. They do their research. They want a conversation — maybe not in the office — maybe over the internet or by texting back and forth. Those are things we have to do to change, but we’re still going to need our carriers to help us keep up with that technology,” said Leahy.

Carillo noted that at Smith Brothers, they spend a lot of time on soft-skill

training because as technology continues to transform the insurance industry, “relevancy is not going to be whether or not people can add or quote really fast — computers are already doing that.”

Soft skills are going to be increasingly important in a world of cognitive computing and artificial intelligence. “There is going to be a lot of machinery doing the algorithms, so what’s left is influencing and having compassion with humans. People who can take the output of that data, do something special with it and make sure people’s balance sheets are covered have important skills that are needed,” said Toczydlowski.

### Competing With Direct Writers

All three panelists were in agreement that independent agents are holding

their own against national direct writers. Leahy noted that independent agents’ market share is nearly 35%, up from a low of 32% in 2009. He expects market share to continue to grow. “The alternative methods of distribution like captive agents are a dying industry. Companies can’t compete trying to sell everything to everybody. They’ll become independent agents. We have to be in a position to seize on that,” he said. “Our carrier-partners are smiling a lot more than they were nine years ago. We just have to keep that momentum going forward.”

Although Boyd said she is heavily invested in helping make independent agencies thrive, she cautioned against thinking that direct writers are “always the enemy, but they are competition.” She said where independent agents can win is in recognizing that custom-

ers are going to want choice. When we can work together to compete to have solutions that help attract customers, acquire them and retain them for life, we’ll all succeed.”

Toczydlowski balked at the idea that independent agents can’t compete with the advertising dollars GEICO spends on its advertising campaigns. “We’re spending double GEICO’s advertising campaign. Go to our P&L [profit and loss] statement and look at acquisition costs, it’s over \$3 billion — it’s called commission. That’s what we pay. GEICO is \$1.4 billion. Our advertising is you, so it is absolutely being deployed locally. I couldn’t be more pleased coming into a room to see 200 agents who are here to continue their education and make sure that they are advancing our industry. My hat’s off to all of you,” he said. ■