P&C Service Center

Competitive Lever for the Regional Carrier

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Salmon Upstream: Regional Carriers & Their Agent Partners

Indeed Yogi; the future ain't what it used to be. Of the approximately 2,700 P&C carriers actively writing today, almost half of the personal & commercial lines premium is written by the 10 largest companies (SNL Financial). As a result, the large national writers continue to pour millions into their digital experience & related marketing. GEICO & State Farm alone spent $2 billion on advertising in 2013. Perhaps even more challenging for regional carriers is the remarkable ease at which consumers now price-shop… not just between carriers online, but also through virtual agencies and comparative raters (primarily auto, so far…) – resulting in unrelenting margin pressures. Most troubling, however, is the advancing threat of commoditization and ensuing race-to-the-bottom for all players in the supply chain.

Meanwhile…

McKinsey's 2013 (in)famous prognosis notwithstanding, today's P&C independent agent is alive and well. **BUT** – few would argue that the role is *changing*. As the online acquisition experience evolves beyond auto into small business commercial and potentially other lines – accompanied by the growing prevalence of online agencies, comparative raters, and more seamless online/offline purchase workflows from direct writers – independent agents are forced to sharpen their value proposition:

1.) Independence
2.) Expertise & consultative services
3.) Local market knowledge

Moreover, the abundance of education online is causing today's consumer to expect more than generalist advice from agents. They demand specialized, robust counsel on insurance packages to meet personalized needs, or industry-tailored advice on commercial policies. Make their job even harder? Sure: By some estimates, agents today spend 60 – 90% of their time on non-revenue related tasks. Whether it's policy verification, download processing, tracking down payments, etc. – they're forced to allocate far too much of their time on back office churn and not nearly enough time on growing their books.

In brighter news, however - a hybrid operational & distribution strategy is gaining momentum amongst some regional carriers (and their agent partners) that is allowing them to fortify competitive positioning vs. both national writers and other regional competitors…

P&C Service Center Model: What is it?

A Service Center model entails a carrier providing post-bind policy support for agencies so **producers can focus on sales**. So, once a policy is sold – for all matters post-bind – instead of calling their agent, policyholders call into the carrier's Service Center. This approach drives mutual success for carriers & agents:

1) Producers can focus on growing their books instead of administrative work
2) Carriers offer a differentiated service to their agency partners
3) Carriers free up agents to capitalize on a core competency in which national direct writers don't excel: advisory & consultative support

This approach is a blend of service & sales functions, as it encompasses both back-office services such as answering policy questions & accepting payments, along with producer responsibilities such as advising on coverage post-sale. Therefore there are particular licensing requirements to consider, which we'll address a bit later. As a competitive maneuver however, the Service Center model is already helping regional carriers & their agent partners drive material growth.

The Best of Both Worlds

The Service Center model effectively enables regional carriers & agents to achieve the "best of both worlds": top line lift through the efficiencies of a highly streamlined sales model, while still capitalizing on independent agent strengths: expertise, consultative services, & local market knowledge.

Sales Efficiency

P&C companies including Safeco, National General, and multiple carriers in the Northeast each have attributed significant growth to the operational alignment of freeing up agents to focus on sales. Brightway Insurance, a large & rapidly growing regional agency with shared operational characteristics of a carrier, attributes their expansion primarily to the Service Center model. Founded in 2007, Brightway now operates 115 regional offices and has made Inc. magazine's list of the 5,000 fastest growing companies 5 consecutive years. Per David Miller, CEO – "We provide all back office support to the independent agent. Our service center provides our clients with a better overall customer experience. The scalability of our call center allows us to service customers more effectively and accurately, with a better overall quality than what either a captive or independent agent could provide on his or her own. (Independent agents) can focus on selling and growing their books of business."

Unencumbering agents from post-bind administrivia allows them to spend more time on:

1) Calling clients proactively to discuss increased rates, or to explore potential life event changes
2) Keeping current with the onslaught of re-quotes resulting from increased competition & direct writer penetration
3) Proactively working cross-sell & expiration lists

Competitive Positioning

Independent agents maintain intrinsic advantages – they're local and are best positioned to build personal relationships with customers. Doubling down on individual familiarity along with advisory "care & feeding" not only combats commoditization, but is a meaningful lever the carrier-agent model can pull in mitigating national direct penetration. Competitive positioning extends even further amongst peers: those regional carriers with a service center model are offering a differentiated service of mutual benefit to agents, leaving some carriers at a material disadvantage. Even at the agent level: for those shops resisting the temptation of cashing in on the rising wave of agency M&A, differentiating through a streamlined sales model unlocks organic growth.

Irresistible editorial note: *If Howard Schultz from Starbucks can almost singlehandedly save the coffee bean from commoditization by convincing people to pay 3-5x for a cup of joe, shouldn't roughly 37,000 licensed agencies be able to convince the same people that protecting the things they value most – homes, cars, etc. – isn't a commodity either?*

Customer Engagement & Talent

Engineered properly, the Service Center model affords opportunities to enhance the policyholder experience while mitigating our industry's broadening talent gap. A few examples:

1) **Extended Hours – Beyond Claims**: While the ability to report a claim 24x7 has found ubiquity, far less common is full policy servicing post 5 PM – when many insureds today perform their online errands. A properly staffed Service Center offering extended hours affords an agent's customers access to a live person when they need one. Perhaps of equal value, however, is a broader net capturing inputs to additional sales leads when people are most likely to think about insurance.

2) **Extension of the Agency**: Beyond post-bind policyholder support, agents at their discretion can benefit from operational assistance in reviewing policyholder needs for total account selling, assisting with quotes, personalized outbound calls, and other services to round out the overall policyholder experience.

3) **Talent Efficiency:** No stakeholder in the P&C business is feeling the talent gap more than the agency office. And the issue isn't going away soon, as the average age in the P&C industry today is 56 years old. The ability to deploy a scarce commodity, talent, with laser focus on revenue-related activities will become table-stakes as distribution models continue to evolve. Agency staffing needs to become more surgical, particularly as agents wrestle with the costs of hiring, training, and re-training when some don't work out.

Pitfalls & Considerations

#1: Seasonality & Unpredictable Volumes → Variable Scale

Whereas call splits are typically 75% agent / 25% policyholder for carriers that write through independent agents, a Service Center predominantly entails policyholder calls. There are seasonality & cyclicality variables associated with policyholder-only servicing: new home sales cycles, refinancing waves (mortgage changes), regional storm seasons (evaluating coverages), etc. Moreover, policyholder call volumes & types of transaction activity are more difficult to project than for agents. These factors and others lend themselves more effectively to a variable cost structure vs. fixed cost structure (i.e. ramping resources up & down).

#2: The Talent Curve Steepens

Service Center functions include advising on coverage post-sale. As such, the model requires **licensed producers** with experience counseling insureds on coverage decisions. So unfortunately, the approach of hiring non-insurance people and training them for entry-level customer service roles is problematic.

#3: Licensing Complexity

Big surprise, there is regulatory complexity to maneuver. As a result of point #2, if a carrier attempts to launch a Service Center without partner help the below must be administered internally:

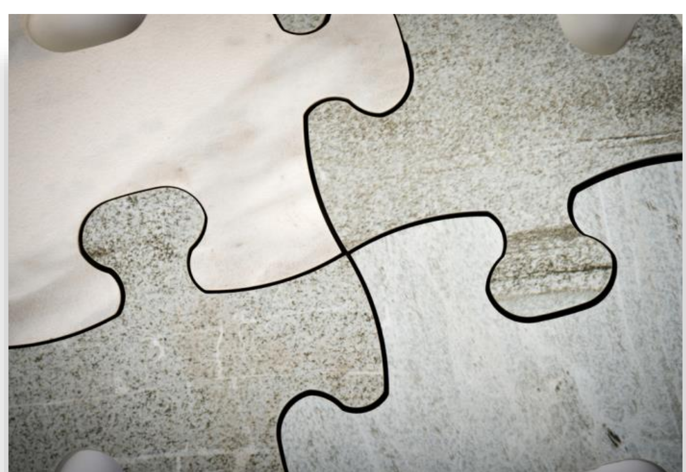
1) Producer licensing requirements for resident & non-resident states
2) Licensing fees (one-time & renewal), along with separate appointment fees that vary by state
3) Continuing education requirements to keep licenses active each year
4) E&O coverage requirements

#4: High-touch; Longer Calls

As mentioned previously, a Service Center model predominantly entails policyholder calls. Policyholders can be high-touch, particularly in certain lines of business. These conditions are heightened by the lack of agent involvement. Policyholder calls also tend to be longer and more detailed discussions than typical agent service interactions. These kinds of fluctuations tie into point #1 regarding variable cost structures.

Looking Ahead

Some P&C carriers are already driving mutual success through the Service Center model. Positioning agents for success ultimately means positioning themselves for success: **write more business**, capitalize on a point of **competitive differentiation**, and mobilize for the future of P&C distribution. If seeking help, the right servicing partner can assist carriers in implementing customer experience best practices to safeguard seamless service.



To be fair, he likely had much cooler people in mind than insurance executives when he said it. But nonetheless, Wayne Gretzky had it dead-on: “The great ones play where the puck is going to be.” The puck is already moving.