



Special Report from the WIAA Education & Research Foundation – 12/28/11

WIAA Insurance Industry Roundtable

The potential for a hard market in commercial lines, technological advances and how they can benefit independent producers, and changes to the dynamics of the distribution system were the most prominent topics addressed during the first annual Insurance Industry Roundtable, held Nov. 21 in Irvine. Sponsored by the WIAA Education & Research Foundation, MarketScout, *Insurance Journal* and the law firm Barger & Wolen, the daylong event drew 23 professionals from a variety of firms in or related to the insurance industry and included feature presentations followed by roundtable discussions. The WIAA Education & Research Foundation, a nonprofit corporation dedicated to advancing the knowledge of insurance professionals, plans to hold similar roundtable events annually.

“The first Insurance Industry Roundtable was outstanding, with great speakers and participants from a broad cross section of the industry,” Laura Autry Sawyer, chairwoman of the Foundation, said. “Executives from small, medium and large independent agencies, large and small insurers, and wholesale and surplus-line firms as well as a financial consultant and a regulatory attorney provided a variety of learned perspectives on our industry’s present and future.”

Part I: Feature Presentations

Alan Smith Jr., WIAA president and CEO, opened the conference with introductions and comments about the profound challenges facing the insurance industry because of “tremendous uncertainty in the economy today.” He then noted the most commonly asked question in the industry is, “Where’s the hard market?”

Nearly Six Years of Soft Market

Richard Kerr, founder and CEO of MarketScout and the event’s first featured speaker, explained that based on insurance data the online exchange has collected for several years, pricing has been soft in the U.S. commercial property/casualty segment since February 2005, becoming the most competitive in 2007 and 2008 before beginning to moderate at the end of 2009. The moderation continued, albeit slowly, until MarketScout reported in September and October that aggregate commercial rates were flat compared with the year-earlier months. (Subsequent to the Insurance Industry Roundtable, MarketScout found that aggregate commercial rates were 1% *higher* in November than in the same month in 2010. Kerr declared in a statement accompanying the rate finding that the soft market had ended.)

Kerr said at the Roundtable market hardening may not occur in every niche at the same time. “One thing, without a doubt, . . . there are micro-economies. What’s taking place with property in Florida is certainly different than property in Kansas City, or workers’ compensation in California is much different than it would be in Tennessee.”

Online Insurance Exchanges Open Doors for Agents

He then turned to technology and the need for insurance professionals to be aware of “what is cutting edge, what's that next, new, killer [application] that's going to enable” companies and agents to get ahead. One such technology, Kerr said, is online insurance exchanges such as MarketScout's, which he believes will provide opportunities for independent producers, particularly smaller firms, by enabling them to log on to a website that connects producers “with the world marketplace.”

Because of exchanges, Kerr said, “the smaller independent agent is going to have a better chance of surviving and a better chance of carving out market share.” Exchanges must offer producers avenues to admitted and wholesale marketplaces as well as solutions for services such as accounting, licensing, software and handling “all the headaches that you hear every retail agent dislikes dealing with,” thereby providing producers the option of just selling, he explained.

Two Waves of Technology Leave Yellow Pages Advertising in Their Wake

Michael Jans, president of Bend, Ore.-based Agency Revolution and another featured speaker, addressed at length the two waves of technology-driven consumer-behavior change in how potential customers shop for insurance, particularly personal lines. These waves have created a “growing distance between the consumer and the independent-agent/independent-agency-carrier part of the industry,” he said. Producers who advertise in the Yellow Pages are nearly 20 years and two technology waves behind the consumer.

The first wave, which began in the mid-1990s when consumers began shopping for insurance via the Internet, culminated in early 2011 with the release of a study by J.D. Power that found a majority (54%) of new buyers of private-passenger auto coverage initiated the policy purchase by applying for a rate quote online, according to Jans. In 2010, there were approximately 39 million online quote requests for auto insurance, of which Geico, Progressive and Esurance supplied 71% of the quotes, he said. To illustrate how technology has made Yellow Pages advertising for auto insurance obsolete, Jans pointed to a recent survey that found 72% of respondents do their research for auto coverage online compared with only 6% who said they use the Yellow Pages.

Jans also noted that while commercial-line quoting and selling online is minuscule compared with personal lines, businesses shopping for commercial coverages are actually more likely than personal-line customers to spend a greater amount of time doing research online. “So . . . the Internet really is the ultimate lead generator for commercial lines,” he said, adding face-to-face customer relations are still vital in selling commercial coverages.

Google Alters How Search Results Are Produced, Emphasizing Local

In the second wave, consumers are using mobile devices and more sophisticated search tools, according to Jans. In addition search engines such as Google have altered how information is produced to deliver fewer ad-driven results and more based on locality, which creates a potential advantage for smaller independent agencies over larger firms, he said. “Previously, if you typed in ‘insurance,’ pretty much all you were got was Geico, Progressive, etc.,” he said. “Now if you type in ‘insurance,’ ‘car insurance,’ ‘contractor's liability insurance,’ whatever, you're going to get local [results]. And the agent now has that to his advantage if he has the tools and training on how to take advantage of this.”

Jans noted that 85% of children and 90% of adults have cellphones. Further, Google predicts by in 2012 about 50% of all searches will be on smartphones. He said there's a profound difference in what personal-computer and smartphone users do online. “On a PC, people surf, spend time, do research, read content. They want articles. They want to be educated,” he explained. “Surfing is not something people do on their smartphones. They want a purpose filed, they want it to be easy to use and they want results.” Agents need to understand how to harness smartphone technology. It rewards marketers who get ratings and positive reviews, according to

Jans. "You know, those little starts that show up next to somebody's insurance agency or somebody's restaurant."

Changing Distribution Dynamics: Cutting Out the Middleman

Glenn Hargrove, president and co-founder of MarketScout Wholesale, another featured speaker, focused on changes in distribution systems and in particular attempts to cut the middleman out of transactions. He said wholesalers and surplus-line carriers are doing business directly with retailers. Mega-brokers such as Aon, Marsh and Willis no longer have their own wholesale units. "So all the rules and regulations that say you have to have a retail agent or, if you're doing surplus lines, you have to have a wholesaler, all that stuff's been erased," according to Hargrove.

He said insurers of all sizes, when developing products, try to determine how to distribute the new coverage and which pipeline will work best. This creates a major challenge for agents and brokers, who must not only determine where they fit within the new distribution dynamics, but how do retail producers justify their existence in the developing marketplace, Hargrove indicated. "Because others in the chain have figured out alternative methods to both deal with agents and brokers, and not deal with them," he said. Retail producers "have to be able to sit down with an insured and explain, 'This is the reason why I'm involved in the transaction. And it's not because there's some law that says I have to be involved, or because some carrier says I have to work through you as a channel, or because we hold a certain license.'"

Part II: Roundtable Discussions

After the presentations by the featured speakers Hargrove served as facilitator of the roundtable discussions. Here are some of the comments and observations by participants on the following subjects:

State of the Marketplace

- Demand is not going to be sufficient to bail out the economy.
- Insurance rates will not go up because customers can't afford to pay more and there is still too much capacity.
- Big rate increases are unlikely but even small, incremental increases can help a lot.
- Carriers will have to get more rate for exposure with higher deductibles, lower limits, restricted coverage, etc. They will look for ways to shift risk to customers.
- Agents and brokers will have to find ways to work with carriers to deliver more rate per exposure.
- Carriers are under pressure to improve underwriting.
- Carriers will be looking to cut expenses, including agency commissions.
- There will be more consolidation in the industry.
- Reinsurance pricing will squeeze P/C markets.

Technology

- The downsides of technology in the industry include the loss of professionalism and lack of technical insurance knowledge at the carrier level. Training at P/C carriers is lacking. Agencies need to have technical knowledge because today's underwriters will not have it.
- Agencies need to bring in people with tech and social-media expertise.

- Some agencies are using social media but they aren't yet convinced it is effective. It can be part of branding to be a "hip" agency.

Agency Management

- It is difficult to get capital to start a new agency.
- Managing money may well be more important for agencies than growth.
- Agencies need capital to diversify -- to fund entry into new markets and new ways to deliver products and to sell more products to one customer.
- Agencies that write mostly one class like contractors need to diversify.
- The challenge is to stay focused on what you do well and "not chase every rabbit."
- Agency size -- what's better, big or small? Large size helps but being entrepreneurial is more important. Being a big agency in a relatively small geographic space could be the ideal.
- Today is full of opportunities for agencies that have the tech expertise, relationships and markets. Agencies with these attributes can really add value for customers who don't have the time themselves to figure out insurance.
- "Winners" among agencies will figure out how to bring on young talent.

Regulation

- P/C industry should expect more regulation, including federal involvement.
- There is some concern that the U.S. may follow Solvency II type regulation in Europe, with government dictating insurers' capital requirements.
- California Insurance Commissioner Jones has lots of power and shows no interest in having any dialogue with the industry or letting the industry have input. In California, the industry may be better off going through the Legislature than the Department of Insurance if it needs something.
- Companies are deliberately deciding to commit capital in places other than California due to regulatory climate.

Roundtable Participants

Peter B. Brown, senior vice president, MOC Insurance Services, Farallon Division, San Francisco

Steven M. Brown, partner, Hoffman Brown Co., Sherman Oaks, CA

Jay Chase, executive vice president, MarketScout, Dallas

Martin Fox, CFO, Clovis Insurance Agency, Fresno

Jack Galloway, principal, Barney and Barney, San Diego

John Hagerott, vice president, CNA, Woodland Hills, CA

Phil Hakopian, CEO, Cornerstone Insurance, Rancho Cucamonga, CA

Glenn Hargrove, president, MarketScout Wholesale, Dallas

Robert W. Hogeboom, partner, Barger & Wolen, Los Angeles

Michael Jans, president, Agency Revolution, Bend, OR

Richard Kerr, founder and CEO, MarketScout, Dallas

Bill Kleinecke, vice president, Sutter Insurance Co., Petaluma, CA

Tom McCormack, regional president, Travelers Insurance, Orange, CA
John McGraw, chairman, Pacific Specialty Insurance Co., Menlo Park, CA
Mike Morey, COO, Bolton & Co., Pasadena, CA
Alan A. Smith Jr., president and CEO, WIAA Group
Neal Stanley, executive vice president, United Valley, Fresno
Jerry Sullivan, chairman, The Sullivan Group, Los Angeles
Douglas Tegen, managing director, StoneRidge Advisors, New York, NY

Other attendees

Laura Autry Sawyer, Chairman, WIAA Education and Research Foundation
Kenneth Sawyer, president, Kenneth Sawyer Insurance, San Diego
Jodi Wimmer, COO, WIAA Insurance Services
Andrew Simpson, vice president of content, *Insurance Journal*
Don Jergler, West editor, *Insurance Journal*

Dedication of Event to Memory of Former WIAA Leaders

Laura Autry Sawyer, chairwoman of the Education & Research Foundation, concluded the conference by dedicating the event to the memory of three gentlemen who contributed so much to the growth of WIAA and WIAA Insurance Services:

Bruno Menicucci

Former chairman of WIAA, WIAA Insurance Services and Management Resource Holding Co.
Former owner of Reno-headquartered Menicucci Insurance Services

Richard Beedle

Former chairman of WIAA and WIAA Insurance Services
Former principal of Arroyo Insurance, Nipomo, Calif.

H. William Bates

Former vice president of WIAA

For more information about the WIAA Education and Research Foundation, please visit www.wiaagroup.org . To make a tax-deductible donation to this charitable organization, please use this [contribution form](#). Thank you.

© 2011 This special report is published by the WIAA Education and Research Foundation, Inc. All rights reserved. Reproduction or quotation whole or in part without written permission is prohibited.