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The New Normal for Agents: Riding the Wave

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A combination of the raging economic recession and a soft insurance market have conspired to drive commissions for insurance agents to alarmingly low levels. Looming on the horizon is the soon-to-be-realized reality of an exceptionally weak year for profit sharing resulting from a confluence of 2010 weather anomalies, which will exacerbate the commission drain on insurance agencies in the coming year. Insurance agents face the prospects for a very lean 2012, but the enterprising agency will adjust by recognizing the opportunities that exist amid the chaos and acting upon them.

There is no end in sight for the longstanding recession and fears of the dreaded "double dip" abound. Unemployment is unabated and the global economic situation is tense and on the verge of implosion. Trusted economists differ markedly in recovery prescriptions and timelines, but agree that near term relief is unlikely. It's impossible for the average business owner to predict when the economic difficulties will ease.

For insurance agents, challenges are rife. We see no end to the raging soft market. We're faced with severe reductions in payroll and sales exposure bases; likewise, the soft insurance marketplace has driven premium to record lows: we're faced with the onslaught of national direct writers with multimillion dollar budgets courting our clients in our own backyards; and, now, we're running a gauntlet of all sorts of service providers and web-based sales organizations cross-selling insurance. Tough times appear to be the new normal.

Uncertainty reigns and the hard market remains elusive. The requisite conditions and parameters are not solidly in place for the market to make the transition from soft to hard. According to the Insurance Information Institute, certain market conditions typically exist before the market can transition from soft to hard:

- Sustained large underwriting losses and a deterioration of the combined ratio. Currently, the overall industry combined ratio continues below 1.00.
- Decline in surplus capacity. We now have record high surplus. Surplus continues to grow faster than demand.
- Tightening of reinsurance. While there is some slight constriction, broad availability is still essentially the norm.
- Renewal underwriting and pricing discipline. Not quite there yet.

In addition, even if reinsurers seek increases and underwriters seek higher rates, it is hard to imagine these can be sustained, given the glut of surplus and an economy that has no ability to absorb premium increases.

Follow the Pacesetter

Workers' compensation tends to be the first line to move from soft to hard. It is arguably the most self correcting line of insurance and is already showing signs of being the pacesetter in price hardening. Employers are currently enjoying remarkably low prices – in many jurisdictions, today's base rates are lower than they were in 1986. Declining frequency over the past twenty years has also

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contributed to the employer's false sense of security.

But several converging trends portend a looming perfect storm, one that will likely take many by surprise. Complacent employers have largely fallen out of the risk management habit and gotten lax on controls. With so little pain, the basics of loss prevention have fallen by the wayside. In many states, where rates have been artificially suppressed, the imbalance between expected and actual losses will cause experience mods to rise.

Meanwhile, on the insurer front, combined ratios will continue to deteriorate and steps will be taken to right the ship. There will be a loss of deviations and a tightening of underwriting criteria. Standard market availability will decline, as the poor performers will be jettisoned into the residual market. The result of all these trends will be significant pain felt by employers.

Those afflicted with pain tend to listen to those who offer relief. Enterprising agents will see this as opportunity to provide value-added antidotes. Agents can help insureds by stressing the fundamentals of loss prevention and mitigation, combined with a thorough understanding of the experience modification process and its direct impact on employer costs.

Workers' compensation market cycles come and go as inevitably as the tides. With each market shift, opportunities emerge. You never know what the tide will bring.

Navigating Bumpy Waters

With the end of the recession and the coming of a hard insurance market nowhere in sight, a few words of advice: It is what it is, at least for the foreseeable future. Those who are looking back fondly on an ideal yesterday or waiting for perfect market conditions will be trampled by savvy marketers who recognize that opportunities lie in chaos. And many opportunities lie in being an early adopter and leader rather than being a follower and the rear guard. In this vein, we point to three opportunities that have moved out of the "nice to have" wish-list realm and are now galloping into "must have" territory for agencies.

PayGo Workers' Comp

If the past is any predictor of the future, there will be no shortage of people lined up and ready to eat your lunch. Competition keeps heating for agents. First it was the bankers; then the threat of disintermediation with online quotes; then a wave of direct writers. Don't relax, here come the payroll vendors.

If you aren't aware of the potential threat that payroll firms pose to your agency, you need to get educated quickly. One payroll giant has climbed to the nation's 30th largest insurance brokerage slot. For many large payroll vendors, insurance operations are growing faster than their core business. And if you think your book of personal lines will protect you, think again. While workers' compensation pay-as-you-go programs have been the gateway for payroll vendors, many are extending options to include worksite-based auto and home programs.

Agents need to be in the PAYGO market. For an agent, just a few of the many advantages that the right PAYGO program can offer include administrative automation, a value-added service that bolsters client retention, and elimination of the friction that often accompanies year-end audits. For the commercial customer, PAYGO matches cash flow with revenue, smoothes out lump payments at the start and end of the policy year and affords efficiencies.

It's not a question of whether but when an agency should be offering PAYGO – but the challenge is in finding agent-friendly partners. The good news in the ongoing encroachment by the payroll vendors is that they are treating workers' compensation as a commodity. It's a complex risk management discipline that requires depth and breadth of knowledge and risk management expertise of a trusted intermediary. This sounds like a great gateway for the independent agent to take the offensive. If you don't offer PayGo, someone else certainly will.

Social and Mobile Media

Social networking and mobile media are having a seismic impact on the public's buying behavior, and this isn't kid stuff. According to recent reports by Pew Research Center, fully 65% of all adult internet users now say they use social networking sites such as Facebook and LinkedIn, up from 8% in 2005. While usage among the under age 30 cohort was stable, with 61% using social networking sites on a typical day, the fastest growth was in the Boomer-aged segment of users aged 50 to 64, growing from 20% to 32%.

Social media usage is also being bolstered by the ubiquitous adoption of mobile devices. Almost a third of all mobile device users are engaging in social media. And among all the top social media services, Twitter experienced the fastest growth with mobile users.

What are social networking users doing? They are blogging, following friends, posting status updates, passing on links, reading messages from advertisers, and shopping for goods and services. Pew data indicates that 73% of American cell phone owners are texting and nearly a third prefer texting to talking.

It's imperative for agencies to establish, cultivate, and maintain a broad footprint and presence on the web, and to engage their prospects through social media. Traditional marketing alone – brochures, mailers, and print ads – simply won't cut it.

Cyber Risk And Liability

With the rapid onset of new media and means to communicate, there are also new and very real risks that aren't being covered by the traditional property or liability policies – either for your own agency or for your clients' businesses. Nearly every state has adopted stringent consumer protections around privacy, security, and data handling and retention. These laws include notification standards for any potential breach of data and remedies for any actual breach. Many businesses also store valuable company data and proprietary information in digital form. Your agency or your client is a lost or stolen laptop or a mistyped email away from a potential world of pain.

In addition, the very act of having a website and the use of social media for communicating with your current and prospective clients opens another can of worms. These online communications open a business to exposures that are in the same vein as a publisher: copyright infringement, violation of privacy, slander, defamation, and the like. These exposures include both first- and third-party risks. There is far less to worry about from a hacker than a rogue or careless employee.

If you don't have coverage against cyber risks, you need to run not walk to remedy that situation. You also need to be offering this type of insurance to your commercial clients. If you don't, someone else will.

The Future is Bright

A deer-in-the headlights, wait-and-see approach bodes poorly for the future, but we remain optimistic about the role and importance of the proactive agent's future. We see a need for agents to embrace the change, to deepen their role as trusted local business advisors, and to lead their clients into the future. Successful agencies will use all the tools at their disposal and will grow stronger for the challenge, while those agencies that do not adapt will face increasing difficulty surviving. ■