

The Challenge of Change: Disruptive Success

By: J. Bruce Cochrane

On the whole, it's a good time to be an independent insurance agent.

The "2015 Market Share Study" from the Independent Insurance Agents & Brokers of America earlier this year painted an optimistic picture, pointing to "many positive signs of strong overall health and considerable growth opportunities for independent agents and brokers." The industry grew by \$25 billion in 2013, the third year in a row that all property-casualty insurance premium lines expanded. Independent agents wield considerable clout, writing nearly 35% of all personal lines premiums and dominating commercial insurance, writing nearly 80% of a market that has grown by more than \$35 billion over the last three years.

Add the fact that agency market values are higher than ever. We've seen astonishing market prices being paid for independent agencies, indicating a major shift in the mindset of buyers, as if a sleeping giant awoke to the potential of a stable growth rate on investment in a stable industry. These positive trends belie the Greek chorus of doomsayers calling for the impending death of the independent agent.

But let's not let complacency lull us into

a false sense of security.

Threats and challenges abound. Markets are shifting at lightning speed. The technology-enabled customer is in the driver's seat. Rapidly changing lifestyles require rapid response and rapidly changing products. New and emerging technologies such as self-driving cars and the Internet of Things (IoT) reshape our industry. Market demographics shift as baby boomers retire and the millennial generation comes into its own. The workforce is being retooled by the gig economy. Even the very ground beneath our feet is buffeted as changing climates intensify weather extremes.

Fear of change can paralyze us. Never has the old proverb "he who hesitates is lost" been truer: The agent graveyard is littered with agencies that didn't see and act on market changes, preferring "tried and true" methodologies of yesteryear. The "safe" path is actually the riskiest path. The wise would take a lesson from Albert Einstein, who said the definition of insanity is doing something over and over again and expecting a different result.

We can't control change, but we can control the way we face and engage

those changes. Rather than waiting for disruptive market forces to engulf us and then reacting, we must become the disrupters ourselves in order to ensure our success. That comes with redefining our role with our customers, changing the way we approach marketing, selling and service, and giving customers what they want.

Big Data: The Game Changer

Two words to chart the path for future success: Big Data.

Who holds and understands the data wins; it's as simple as that. Any business that doesn't understand the implications of Big Data will be left behind. Big Data is not simply the business buzzword of the day: it's a transformative force, a game changer that will reshape the nature of our business.

So what exactly is Big Data, and how does it impact us as agents? While volumes have been written on the topic and definitions can vary, for our industry purposes, Big Data can be defined as vast, composite layers of data from multiple sources that can be analyzed to reveal patterns of activity, trends, and associations of human behavior and interactions.

Data analysis is hardly new to the insurance industry; it's at the very core of underwriting. What is new is the continual stream of new data sources and layers, and the sophisticated processing capabilities that will afford us access to actionable information. The inputs are vast and varied, gleaned from online purchases and search patterns, from social media, from telematics, and from sensors embedded in objects of daily living like our cars and our homes. Patterns will emerge that will allow a deeper, more precise understanding of customers, allowing us to better serve their unique needs.

Big Data will afford us increased precision in targeting prospects and unparalleled insights into understanding customer behavior and preferences. Insurance marketing via splatter techniques, or throwing everything against the wall to see what sticks, will no longer be effective: Insurance solutions will be highly customized to pinpoint the needs and preferences of the buyer with laser-like precision.

Ultimately, Big Data will afford:

- Greater efficiency
- Increased retention
- Dramatically increased hit ratios
- A thriving business

Big Data is often spoken of as if it is some future state, but it is upon us today, at least in its earliest manifestations. We are still in the nascent phases of harnessing its potential. Deloitte's "2015 Property & Casualty Insurance Industry Outlook" names one of the key industry challenges as "achieving information fluency," or harnessing that data and putting it to actionable use. Deloitte says that many insurers are not yet sufficiently "positioned to capitalize on the vast amount of data they already have, let alone from new sources such as auto

telematics and the Internet of Things." They further note the phenomena that many in the industry may be information rich, while remaining knowledge poor to a large extent.

The Key to Becoming the Agency of the Future

As we chart our course for the future, it's instructive to dig down to business fundamentals. When it comes to fundamentals, no one cuts to the chase like Peter Drucker, who reminds us of our essential purpose: "Because the purpose of business is to create a customer, the business enterprise has two — and only two — basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs. Marketing is the distinguishing, unique function of the business."

Innovation is a key word. The Deloitte report echoes the need for innovation, along with agility and collaboration. These three attributes are cited as critical for successful insurance enterprises of the future, which seek sustainable growth.

Here are a few fundamentals for the future that we've gleaned from our 150 member strong alliance of independent agents, insurance carriers and vendor partners over the last decade and a half.

The agency of the future will be:

- Committed to a continuous (perpetual) improvement process and continuous (r)evolution
- Virtual, nimble and dynamic, meeting customer needs when, where and how they want to be met, with a 24/7/365 service orientation
- Innovative in creating competitive advantages and specialty products

and services, including non-P&C services

- Cost efficient by leveraging economies of scale to drive down the cost of doing business and by outsourcing non-business critical functions
- Committed to effective and aggressive adoption of technology
- Focused on data management to continually drive agency metrics and to identify and understand prospect and customer needs and preferences
- An expert consultative partner
- Leveraging social media for prospecting and engaging with customers
- Continually evaluating the book of business to achieve balance, to grow revenue per account through rounding and to eliminate non-performing business

We are admittedly biased, but we also encourage agencies to consider membership in an aggregation for the benefits of scale. A serious aggregator should offer shared vision, professional management and deep access to technology, training, talent, specialized expertise, and administrative systems and tools. Good agency collaboration allows an agency to achieve what can't be accomplished alone, while maintaining independence. ■

J. Bruce Cochrane, CIC, is president of Renaissance Alliance, a Wellesley, Mass.-based insurance management organization that provides a network of services to New England-based independent insurance agencies focused on building the agency of the future. He can be reached at bruce@renaissanceins.com.