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Why Independent Agencies Won't Lose Significant Market Share to Non-Agency Corporations

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Last month, the word was that two huge corporations, an online technology leader and a retail giant, are getting into the insurance business. Some people immediately concluded that this was a threat to their agency and their remaining days were numbered. Others feared that they will lose significant market share to these two giants. Let’s examine why these scenarios are very unlikely to happen or even affect your agency much at all.

The Internet has been used for business-to-consumer (B2C) activities for well over 20 years, yet even basic policies like auto insurance have not been a huge success like other simple transactions have. The reason is there are too many moving parts in insurance; it's not just a two-click transaction and when there is too much involved, people bail out and turn to the experts. This has been talked about since B2C business on the Internet began to flourish but it seems like very little progress has been made. In the meantime, the agency system continues to thrive; in addition, GIECO has created opportunities for locally owned exclusive agencies. If their advertising was all they needed to do to win market share, they would not need to have such a program.

One thing that many have not considered is the costs of advertising, underwriting, consultations, policy changes and servicing that add to the online cost and will probably not be a lot different than the commissions a carrier pays to an agency to perform these duties. The online companies must also staff employees and abide by state and federal regulations for larger employers. All of these costs can add a significant amount to their expense structure that many smaller local agencies perform at a lower cost, especially when they are not subject to large employer regulations. The agency system is fairly cheap for insurance companies since they don't have to pay for the benefits, worker's compensation, offices, computers and most of the marketing costs provided by agencies. The bottom line is that the new giant online insurance providers are unlikely to be able to offer a significantly lower their cost by eliminating the agent and furthermore provide any significant savings to buyers.

Another thing that some have overlooked is the loss ratio component. Agents provide good front line underwriting and loss control management, which is something Internet processing cannot do by itself. It’s been found that those who choose lower liability limits tend to have higher loss ratios and this is the type of business that these bargain-focused giants tend to attract. In addition, when you put someone in control of their own application, especially when it is done online, often these people will not be 100% forthcoming with important risk data. Finally, those who have homeowner and umbrella insurance needs seldom buy online and these policyholders tend to have the best loss ratios and usually go with a local or independent agency.

Do people really want to shop for insurance online? Ask yourself how many online quote requests do you get on your website and how often do you write them? Most people don't want to do this online just like most don't do their taxes online. It's well beyond a two click transaction, it has a lot of moving parts and because of this, they want someone to turn to for assistance. Online purchasing may work for ride share companies and buying goods but there is not a lot to processing those transactions; insurance is different.

Most people have no clue what type of coverages they should be selecting. They simply don’t have experience in doing this and they are not going to spend the better part of an hour trying to figure it out, let alone hope that they get it right.

With many attempts being made to bring insurance purchasing online, it’s still not happening in any big way. The worst thing an agency can do now is act like the internet and become an order taker. Agencies need to be advisers for the clients. Quoting should be "out" and proposals should be "in." When you quote, you are trying to win on price; with a proposal, you are suggesting an entire package and not just price. Savvy agencies should be offering a complete risk solution, like an auto/home/umbrella package, in their proposals. For business clients, they need to look at all the business risks and offer a complete insurance solution tailored to the business. This is something the Internet cannot do but for some reason, too many agencies are becoming quote generation machines, rather than being insurance professionals and trustworthy consultants to their clients. Even if an agency survives by quoting price all day long, they still have an edge over the internet because of the human factor that is involved. However, if the internet is going to bring competition to the agency system, it’s much more likely to impact agencies that a quote driven versus the agency that serve as advisors.