It’s a New Year – Maybe Time for a Change?

By Justin Hobick

A new year is upon us and as we enjoy the hustle and bustle of the holidays, we often reflect over the past year. As an insurance agency owner, it is a good time to take inventory and review your plans, production, aspirations and ask yourself if you are on track with where you planned to be. How has 2014 been for you? Is your business growing, or has it leveled off but still requiring you to work ever so hard to just stay even? Still worse, is your business shrinking? Are you satisfied with your current carrier offerings and deliverables? If you conclude that things aren’t so rosy with your current situation, maybe it is time for a change in 2015.

Nowadays, buying insurance can be done in various mediums. No longer does one even have to speak to a human being! Buying online has become a popular choice, especially amongst the younger generations – industry data shows that. You can dial an 800 number to purchase coverage. There are direct mail offerings to buy through banks, credit unions, alumni associations, warehouse memberships, etc. And last but not least, the brick-and-mortar retail insurance agency still exists. Definitely not least, and let me tell you why.

Last year, McKinsey & Company published a white paper depicting the future of the distribution of property & casualty insurance. In a nutshell, the article implies that the life of a brick-and-mortar agency is changing with technology and consumer buying habits. Agencies must plan and act to keep up with these changes. If you don’t, you will fail over time, per McKinsey. And let me add, being an independent agent puts you a step ahead of the competition (more to come).

The article addresses the commoditization of insurance, in particular auto insurance. However, representing multiple carriers will often give an independent agent the advantage over direct carriers and exclusive agents. Certainly, there is the pricing aspect and the advantage of having multiple options, but there is also the true and factual value that one can build upon. For example, an independent agent can proudly say “I quoted your insurance with 8 companies, all of which are very financially sound. Based on my coverage analysis it appears that this company is the best fit for you and your family to give you protection for your unique needs.” Omit the cheapest price verbiage…you are a professional consultant. Exclusive agents do not have this advantage. The same applies to commercial lines coverage where the product breadth of independent carriers is an ocean as compared to a bubbling brook with most captive carriers.

So let’s talk about the process and analysis of going independent. The math is there – typically higher closing ratios, higher commissions per customer, and better agency retention. The latter is a result of having carriers that are competitive, even with the market cycles that eventually impact just about all carriers at some point in time. Beyond the math, you need to be careful of how you go to market. Generally, it is very difficult to obtain independent contracts on your own. As such, you need to search out groups. But making a quick decision and signing a contract with a group on a whim can come back to haunt you for years to come. Partnering with a group that provides guidance, training & support is critical. Yes, you know how to sell and run your business, but there is, indeed, a transition and learning curve to being independent. The support needed the first 12 months can make all the difference in the world in your success or failure. In addition, seek out a group that works with you to develop a business plan and align you with companies that suit the business plan and direction of the agency. And most importantly, partner with a group that offers a very strong contract.

Let’s look deeper at one of the most important considerations, the contract. Contracts run the gamut and you need to read and review them thoroughly. Look for a group that offers full transparency and is very open about its contract. It is recommended to seek an attorney’s advice so you understand fully what you are signing. Next up, make sure that you are going to get paid well. How is the commission split on new business and renewal, and by product lines? What about any extra commission the group is paid by companies in the form of commission overrides or growth bonuses? Will you participate in profit-sharing and if so, how much? Is there a cost in joining the group and any ongoing expenses? Be very careful in ruling out a group because there may be an initial joining fee. The old saying “you get what you pay for” can ring true when selecting a group. The very best groups will also provide guaranteed buy-back provisions for your book of business. This ownership-equity component is huge! Consider that 10,000 baby boomers are turning 65 every day for the next 15 years and likely retiring. Who will buy your agency is an important concern.

Independent agents belonging to such groups that provide these provisions sleep very well knowing they have a plan for this!

Another key consideration as you prepare to open your independent agency is the group’s experience in tandem with training & support. No matter where you are in your insurance career, there will definitely be a learning curve. It can be a silent killer for you to decide you will figure out everything on your own. You might be able to, but that takes time and why wouldn’t you partner with a group that provides training and prepares you to hit the ground running – a group that has a proven track record for many years versus a start-up? Time is money. The best groups can have you ready to write business on day one of opening your doors. You close your prior business (captive) doors on Friday and enter the independent world writing business the following Monday. Yes, it can be done!

Lastly, look for a group that can be your safety net, your consultant, one whose expertise you value as second to none in Property and Casualty. Your business will grow over time. Can they help you with that lifecycle, including location expansion versus centralization, cost-benefit analysis, acquisitions and due diligence, perpetuation options and how to stay on with your business but manage it with proper controls from afar (perhaps your condo at the ocean)? Most groups will have the carriers you need, but don’t get hung up on having every carrier in the world. You had only 1 primary offering in the past. Having 10 times more than that serves most independent agencies extremely well!

The insurance business is changing and it is time to adapt. Perhaps the best way to do so is to reposition yourself with another organization – open a new chapter in your professional life! At Premier, we give straight talk with unsurpassed deliverables and execution for your success. As you take inventory of 2014 and consider exploring the Independent Agency channel, please give us a call. You will be glad you did, guaranteed!

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