

The Future of Specialty Insurance Distribution

by Tim Clegg and Steve Bowles

As automation begins to mature for insurance distribution, multi-carrier services will dominate in the commercial property and casualty market, including specialty products. Retail agents, wholesalers and underwriters will continue to provide critical services, but in a more efficient manner.

MULTI-CARRIER AUTOMATION (“MCA”) SYSTEMS

Economic forces make it inevitable that distribution in the future will be done through multi-carrier automation (“MCA”) services. Many carriers now offer their own platform that allows agents to complete and submit applications on the Internet. Carriers may find this to be beneficial automation in the short run. However, agents have found that this has increased their workload as they now have to complete a separate online application for each carrier. Additionally, they are challenged by the difficulty of becoming familiar with dozens of different online systems. In the past, agents have simply completed a paper application and then faxed it to several carriers.

The inefficiencies of the current structure will eventually give way to MCA services. Carriers that choose to participate in MCA services benefit because they will only compete against the few within the service. Carriers on the outside will find it increasingly difficult to attract agents that have already finished “shopping” in the multi-carrier service. MCA services will thrive because commercial policyholders expect more than one option and carriers participating in them will maintain a position of advantage as a result of more limited competition.

Commercial Policyholders Demand It

- People expect to review options before making a significant purchase.
- If retail agents don't show that they explored more than one option, policyholders may get another agent involved.

Single Carrier Systems Won't Endure

- *More work for agents* – Single carrier systems cost the agent time. Agents are accustomed to completing one paper application that they then fax or email to several carriers. Technological gains are negated if the agent has to complete a separate application for each submission.
- *Diminishing Returns* – After obtaining quotes from multiple leading carriers through an MCA service, agents won't derive enough additional benefit to justify the time to work through another system.
- *Too much IT risk* – Carriers have a limited time to recover their large IT investments in single carrier initiatives. At best they may have a temporary advantage over carriers that have no online system, but eventually they will lose market share to MCAs.

Controlled Competition Will Prevail

- *Controlled Competition* – Competition will always exist. It is better to compete against a few reputable carriers in a controlled environment where coverage differences are made apparent to agents.
- *Preferred Channel* – Agents will keep coming back when the MCA service meets their needs. A single carrier can't profitably be all things to all people. They need the other carriers in the service so that agents can deliver the price, product and service that is right for each client. When needs are consistently met in the MCA service, agents will keep coming back.
- *Differentiation* – Carriers will develop niches and differentiation strategies, and MCA services will ensure that agents delivering quotes to insureds are aware of product differences.

RETAILERS

Meeting the needs of retailers is the key to success for online services. They have the business relationships, understand and advise their clients, and make the sale. They determine whether to recommend new products to their clients, and they choose the distribution channel for accessing markets. Retail agents have long believed that their real needs have been overlooked. Significant growth opportunities exist in providing agents with helpful sales support services and in winning their loyalty.

Sales Support

- *Quick Pricing* – Agents need quick and easy ballpark pricing, and key coverage points from the leading carriers.
- *Sales Support* – Quick proposals, specimen forms, product brochures, points of differentiation, and agent sales tips are particularly helpful to the agent.

Winning Their Hearts

- *Meeting-the-Need* – Agents don't want single carrier automation; it costs them time.
- *Loyalty* – Easy, helpful MCA services that provide real time savings will have many avid users.

WHOLESALEERS

Wholesalers will continue to play important roles in marketing, quality control and as trusted advisors. Those that don't offer an MCA service will have a hard time attracting retailers. Eventually the industry will be comprised of a limited number of wholesalers with a broad range of automated programs. Productivity gains resulting from MCA services will allow wholesalers to maintain their profit levels, even if carriers eventually feel pressure to reduce commissions.

Trusted Advisor

- *Impartial Advice* – Viewed as more impartial than carrier underwriters and serve as a trustworthy advisor to the retail agent.
- *Surplus Lines* – MCA services will incorporate surplus lines requirements so that retail agents can purchase non-admitted coverage almost as easily as admitted. Wholesalers continue to manage the filing aspects of surplus lines, with support from the MCA service.

Marketing

- *Portals* – With wholesalers acting as impartial trusted advisors, they are the logical level to present multi-carrier information.
- *Relationships* – Retailers would rather access technology from people they have worked with and trusted for a long time. Wholesalers have many long-standing agent relationships from which to leverage distribution.

Quality Control

- *Submission Quality* – Wholesalers control the flow and quality of submissions, ensuring that all necessary documents are uploaded prior to engaging an underwriter.
- *Reputation* – Hit ratio will reflect the wholesaler's performance. Technology will allow carriers to better analyze the performance of the wholesalers from which they accept submissions. Wholesalers will work harder to ensure that agents don't needlessly engage underwriters.

CARRIERS

Carrier performance will benefit from pre-qualified submissions, improved hit ratios, increased levels of automation, and reduced IT costs. Revenue growth will be enhanced by greater opportunities for differentiation, economical methods for launching new programs, and controlled competition. Management reports will leverage the wealth of electronic data. These reports will provide information that help make business decisions that lead to product enhancements, improved underwriting, and development of new niches.

Underwriting

- *Quality Submissions* – Underwriters only work on submissions that have been pre-screened, pre-priced and contain all necessary underwriting documents.
- *Improved Hit Ratio* – Underwriter productivity increases as a result of the improved quality of submissions and by work prioritization rankings based on a *probability of binding* score generated through statistical analysis of historical data.
- *Automated Underwriting* – Underwriting of simple products or business classes will be fully automated. More difficult products or businesses classes will be semi-automated.

Marketing

- *Differentiation* – Product differences will become a more important part of the policyholder's buying decision. The automatic dissemination of product features reduces the carriers need to spend money trying to educate agents.
- *Growth Opportunities* – The large audience of agents reached by MCA online services provide high exposure for launching new programs. Agents can easily find specialty programs. Carriers incur minimal marketing costs in launching new programs. Revenue opportunities are greater working on growing the pie rather than battling for an increased market share of the current pie.

Management

- *Underwriting Performance* – Performance reports present underwriting measures, such as final price vs. management price, turnaround time, and hit ratio analysis that guide management decisions.
- *Product Enhancements* – Analysis of electronic data highlights consumer preferences that lead to attractive product enhancements.

Information Technology

- *Integration* – Carrier IT staff focus on integrating back end fulfillment systems with MCA distribution systems.
- *Distribution Systems* – Programming costs of distribution systems and associated risks are shifted from the carrier to the users.

Multi-carrier automation systems will eventually change the way specialty P&C insurance products are sold. Among carriers, wholesalers and retailers, those that embrace this technology early will gain market share and power while others struggle to compete.

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