

# THE TRUTH ABOUT INSURANCE AGENCY NETWORKS



*A look at characteristics and value of the groups—  
and some misconceptions about them*

By Steven Pearson, Rene Swan, and Michael Strakhov

**T**he Greek mathematician Euclid's first axiom, things equal to the same thing are equal to each other, applies only when things are actually equal to the same thing. In the insurance networks arena, this plays out in that the significant differences between specific types of aggregators proves that they are, in fact, not equal to each other.

As insurance networks have grown in popularity in the last several years, there is some confusion about how networks and aggregators interact with carriers. What are some of misconceptions? First, let's describe a network. A network is a separate business entity established to connect its independent insurance "members" or "affiliates" with a unique stable of insurance carriers. The network typically holds a master contract with its carriers and manages the overall company relationship directly with each of its carriers.

## Participation

One of the most widespread misconceptions about networks is that agents can join without qualification or participation requirements, and the only reason for the network's existence is to exert negotiating leverage with the carriers with whom their members place business. This misconception has prompted some to suggest that carriers would be better off appointing all agents to avoid paying higher standard and contingency commissions as a result of aggregation. To suggest that carriers appoint all agents without evaluation or vetting simply ignores the costs involved in serving every licensed agency.

Now, the truth about networks and aggregation: There are major differences between aggregation models, such as wholesalers and professionally managed clusters or networks. Professionally managed agency networks *do* qualify member agents who apply to join and they impose quality standards while influencing placements to their market partners. Agencies wishing to access certain markets face network performance standards on quality and quantity of business. Retaining network access to each carrier requires profitability and growth, which cannot be achieved without good individual member results.

By working with an agency network, carriers better understand the actual new business potential for each member. Agency data analytics combined with planning, training, and support provided to individual agencies is translated into an enterprise goal for the network. Is a carrier planning on a \$200,000 premium book with small agencies productive for either party? Wouldn't it make more sense to plan outcomes for a multi-million-dollar relationship and rely upon the network to work with its members to achieve the agreed-upon results? The best carrier-network relationships do both: They plan at the top level and they plan with those individual agencies most able to influence results.

## Contingencies

The issue of carrier contingency costs is another area worth addressing in this discussion. Every carrier's contingent payouts are based on three factors: quantity, profitability, and growth. The weighting of each factor varies by carrier, but appointments with low premium and/or shrinking premium that are also unprofitable are addressed by carrier contingency contracts.

Contingency calculations preclude paying for bad results. Carriers pay for

performance, not just aggregation of premium. If a carrier doesn't already have these criteria, they should add growth, profitability, and premium-size features for all agencies. Carriers budget for contingent payouts to coincide with their short-term and long-term objectives to incentivize their agency plant.

Professionally managed networks are consistent sources of growth with diverse books of business providing carriers with access to a wide range of customer types and product needs.

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## Efficiencies and more

In addition to the discussion on contingency costs, effective carrier-network relationships offer additional efficiencies to both parties. Insurers can get their messages out to a large group of agents in a more efficient manner, reducing travel and marketing expenses. Networks can also provide a platform for carrier information that is less dependent on frequent office visits, allowing member agents to focus more on serving their clients.

Professionally managed networks deliver the scale needed to implement data-sharing tools between their groups and carriers; this can facilitate planning, identify trends, and provide insight to niche opportunities that would benefit all sides. Finally, specialty insurers may find it hard to increase their distribution footprint beyond large established relationships. By partnering with networks, these carriers can bring unique coverage offerings to a wider array of clients at a lower cost.

As with all successful business relationships, a productive "give and take" while trying to achieve agreed-upon goals is valuable to all parties. Cooperative, transparent relationships powered by agency data analytics, which are provided by most networks, result in productive planning and results.

A few years back, a large national carrier found their personal lines department was struggling. The proposed solution: Improve processing

efficiencies, reduce carrier staffing, reduce commissions, and streamline the product to be more competitive in the marketplace. Agency networks embraced this strategy and counseled their members to support this carrier, which now enjoys double-digit annual premium growth. Customers enjoy a highly competitive product and agencies receive a slightly lower commission offset by robust growth while the carrier cuts costs, increasing top line revenue and profits. It's a win for all parties. This is just one example

of a unique relationship that can be developed between carrier and agency or carrier and network.

## Not equal

Self-managed aggregation models such as agency co-operatives (also known as "clusters") often provide little to their members beyond aggregation of premium for higher revenue. Typically, an agency principal interacts with carriers on behalf of its members, rotating the leadership role each year. There may be few demands placed upon individual agencies and little or no demand or control over any individual member's operations. If the group is not growing and/or not profitable with a given carrier, that relationship will not survive in the long-term.

Contrast this with professionally run agency networks, which have employees who are dedicated to interacting with individual agencies and are focused on maintaining a strong relationship with their carriers by delivering profitability and growth. Networks promote affiliated carriers' capabilities and can discipline or terminate non-performing agencies, while reducing carrier/agency interaction costs. Network compensation is typically performance based. When individual agencies contribute and are rewarded for carrier growth and profitability, there are multiple winners: Carriers experience robust growth, networks earn a share

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of performance compensation, and individual agencies increase their revenue via organic growth.

While reducing compensation to poor performers is an effective strategy, differentiating top performers with added benefits and compensation will improve long-term carrier viability. Performance compensation based upon achieving mutually agreed goals is the path to continued success. Here again, a professionally run network is clearly not equal to self-managed aggregators.

## **New driver**

A final point related to Euclid's axiom, and to further differentiate networks, is the recent development of the

Insurance Networks Alliance (INA). Critical to the continued success of insurance agency networks is the education of carriers, agents, and the larger industry that not all networks are equal to each other and that professionally managed networks bring enormous benefits to all their constituents.

The INA was organized to promote the critical role of professionally managed insurance networks to carriers and the independent agent distribution channel. The group's stated goal is to create important resources fostering best practice relationships with carriers, service providers, and peers to maximize the value of insurance networks. The group is currently planning its 4<sup>th</sup> Annual Meeting this coming August in Chicago. Professionally managed networks should

visit [www.networksalliance.com](http://www.networksalliance.com) and participate. ■



## **The authors**

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