
The industry is changing: Plan now to succeed

It's time for agents to hedge their bets

By Dan Sheridan

You or your financial adviser may have used the term “hedge your bets” when investing in stocks and bonds. After all, a hedge is a common tool used to protect the risk of an existing investment. You've also invested a tremendous amount in building your insurance agency or brokerage, so it may be a good idea to apply that same thinking to your agency's strategic planning.

Why do you need hedges for your insurance business? Whether you are a property/casualty agent or a benefits broker, there are sweeping changes in the legislative arena, your competition and online technology that threaten your existing books of business. And without hedges against these risks, you could lose a significant amount of revenue—or your whole agency nest egg.

A changing industry

The biggest industry change, especially for those agents and brokers who derive income from business related to health care, is the 2,500-page Patient Protection and Affordable Care Act. Since this bill initially was passed, two courts have upheld the law, another has struck down its individual coverage purchase mandate, and a fourth has ruled that the entire law is unconstitutional. No matter the result, employers don't understand their compliance requirements, and meeting these requirements will be a daunting task, particularly for small businesses.

The bill's online insurance “exchanges” also point to a wider issue that all agents and brokers should watch for—the impact of direct, online quoting and buying that eliminates the insurance

intermediary. With easy online tools and a younger generation that wants to point and click their way to an insurance policy, some believe agents and brokers stand to lose a significant part of their business.

Finally, as I wrote in *PIA magazine* in September, professional agents and brokers that serve small business should keep an eye on large payroll companies, which are increasingly offering bundled payroll and human resource outsourced services—and the direct writing of both benefits and property/casualty insurance. In this process, they are cutting out the traditional role of the insurance agent and broker.

These are some of the trends that could promise big change for agents and brokers. While I believe agents and brokers are undoubtedly here to stay, those who will survive and thrive will need strategic thinking and planning—and perhaps hedges against current and future market changes. In this way, they can not only weather current market changes, but also come through stronger and better prepared for the next one.

A strategic review

To understand what issues will affect your professional insurance agency and how you can find a hedge against them, it's important to undertake a strategic review. Instead of only reacting, proactively take the time to review your agency's general position in the market; your sales and marketing techniques; and your strategies and competitiveness in defined market segments. Your goals should be to understand where your business is threatened, where there are opportunities, and how you can compete.

Looking at your agency's overall positioning and market competitiveness means asking a few tough questions, such as:

- What industry trends will have an impact on your business? Clearly, three trends you should include are health-care reform, competition from large payroll companies and direct online buying. Are there others?

- Realistically, what are your capabilities and capacity? In other words, do you have the resources to compete? This includes the capital to make investments in technology and human resources that will be needed to compete effectively. For example, some agencies have concluded they did not have the resources to invest in an upgraded infrastructure and have sought mergers as a solution.

- What value do you bring to your customers? Can you continue to offer that value in the future? This includes looking at your role as an agent. Do your revenues rely primarily on renewals or are you an adviser to whom your customers look to explain the complexities of health-care reform? Do you actively look for new products that are of value to your clients?

- What makes you stand out from the competition? How can you better differentiate yourself? Is there a reason for your customers to choose you over another agent? What are you providing that is new or cutting edge?

- Are you reaching your market segments effectively? Is your marketing effective and what can you do to improve your reach? Are there new forces, such as social media, that you can use to reach your markets effectively?

When you complete a thorough review, it will likely show some areas needing improvement if you are to compete effectively. Then it's time to put together a strategic plan with short- and long-term sections. That's where your hedges come in.

Find strategic partners

If you are a benefits broker, an excellent hedge is to partner with a Professional Employer Organization. These organizations are contracted by businesses to handle employee payroll, benefits, taxes, claims, regulatory compliance, unemployment and recruiting, while employers retain day-to-day control of its employees, including hiring and firing decisions. The result is a lower total labor cost, lower risk and more focus on growing and managing the core business. In short, working with a PEO who wants to be your partner can be a powerful ally in protecting your business and an excellent hedge against competitive threats. PEOs traditionally have a client retention rate of greater than 85 percent, with some even higher.

How can a PEO help you? For one, your business clients, especially small businesses that don't have large human resources departments, need help understanding and implementing changes to comply with the complexities of health-care reform. If you can't walk a client through these issues, not only are you at risk of losing them, but also of facing professional liability claims for providing inadequate or erroneous guidance. A PEO (one that values the role of the agent and broker) can partner with you to explain these complexities.

PEOs also can be an excellent hedge against the threat of large payroll companies. If these payroll giants handle payroll for your clients, then they have a foot in the door to take over more. In many cases, they offer to take over all of their benefits and human resources operations and eliminate the role of the insurance agent and broker. Why not partner with a PEO that can handle the benefits and human resources, while maintaining your role? You will deliver value to your clients.

Payroll giants also pose a threat to your property/casualty book of business.

They are set up as licensed agencies for "pay-as-you-go" workers' compensation products through nationally recognized insurance companies, writing small business workers' compensation directly and displacing agents and brokers. Workers' compensation may be a small part of your business, but do you really want to open the door for your clients to buy insurance somewhere else?

Become a reliable consultant

A second way you can hedge your bets is to expand your role. In today's business climate, if you see your role as that of just offering rates and quotes and access to markets, then you are not taking into account the changes in the insurance industry. Here's why.

First, as I described above, businesses looking for health-care coverage need more than just rates and quotes from their benefits broker. They need expert assistance with the complexities of health-care reform. Whether you have the resources to do this on your own or you need a PEO partner, you need this knowledge if you are to provide a solution that has the features, benefits and price your clients want.

Second, it is likely that small businesses and consumers will increasingly have new online buying options to access markets for their insurance needs—a role traditionally filled by the insurance broker. You need to redefine your role, becoming more of a consultant whose value will be measured by fees that clients are willing to pay, rather than commissions from insurers.

Clients prefer and value the individualized attention, insight and service that a personal relationship with an agent can provide throughout the insurance purchasing process. The agent who offers sound advice for clients to address their range of insurance needs will add more value, more influence, and have a greater opportunity for cross selling than an agent with limited products.

Diversify product offerings

When you consider the growing ways to circumvent independent agents and brokers in the insurance purchasing process, it also makes sense to hedge your bets by diversifying your product offerings. Diversification fits perfectly with your

new role as an adviser, finding the best benefits, human resources and risk-management solutions for your clients.

When you undergo your strategic planning process, you should be able to determine the products that are most vulnerable to online direct selling and the lines are most likely to require the assistance of a valued agent or broker. Where does health-care reform threaten your revenue stream and where are you seeing new competition that can erode your book of business?

For example, personal-lines agents who have relied on health-care insurance products are likely to see a dramatic reduction in revenue as a result of health-care reform. These agents should begin to offer other types of insurance such as supplemental products, life insurance, long-term care insurance, annuities and Medicare supplements. They can create new revenue streams by affiliating with an investment broker/dealer and moving into investment products.

On the property/casualty side, professional agents and brokers also should look at diversification. For example, do you know all the products available from your carrier partners? There may be products that complement your current book of business, providing you with cross-selling opportunities.

Hedge now, benefit later

With so many changes in the insurance industry today, it is more important than ever to undergo a strategic review and plan for the future. Agents who are able to hedge their bets by diversifying their product portfolio and client base, supporting their offerings with strategic partners like PEOs, and transforming themselves from a transaction-based focus to a dependable adviser who deliver solutions to clients, will continue to thrive in this business and find great personal success and satisfaction. ■

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