



National News

Independent Agents Have Beaten the Internet; Now Face Opportunities in Exchanges

By Andrew G. Simpson, Jr.
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Independent insurance agents have outplayed and outscored the Web-based insurance distribution systems that tried to eliminate them and are on the verge of even greater victories, one of the industry's technology pioneers has proclaimed.

In addition, the industry is poised for a dramatic redesign of its distribution model under which independent agents will gain access to most of the markets they need, according to Richard Kerr, president and chief executive officer of online wholesale broker Market Scout.

Kerr said the next wave in distribution will revolve around what are called insurance exchanges, or groups of standard, surplus and specialty carriers of all shapes and sizes whose offerings and appetites complement one another to give agents a complete menu of options for their clients.

Kerr discussed this vision in an interview with *Insurance Journal* and in remarks before a recent meeting of the Independent Insurance Agents of Texas in San Antonio. A full report can be found in the Sept. 5, 2005 edition of *Insurance Journal* (2010: A Surplus Odyssey and After the Internet, Comes the Invasion of the Insurance Exchanges).

E-commerce attempts failed

In 1999, there were about 127 e-commerce models whose purpose was to sell insurance, according to Kerr. Eighty-four of these online services were "specifically designed to cut out the retail independent insurance agent" by giving buyers direct access to insurers, according to Kerr. Insurers doing business through independent agents supported a number of them, he claimed.

Insurance agents were very concerned they would lose market share to the Internet invaders but time has shown that, with the exception of commodity like products, insureds do not buy insurance online.

"Of those 84 models, there was over \$1 billion in venture capital spent with 84 smart people to put you, the independent agent, out of business. Well, it didn't work," Kerr said.

Instead, the Internet "made everyone realize how valuable you are," Kerr told agents.

Middle America access

He maintained that insurance companies know how to get into the Marsh and Aon type firms but what they want is to get into the other agencies that have the "quality middle America book of business" that many independent agents control.

That's where the insurance exchange concept comes in. It is a way for carriers to partner with agents who write these desirable "Main Street" and "Middle America" accounts.

Under the insurance exchange model, a group of carriers unites under a common exchange name. Each exchange signs up a few large flagship carriers (for example, AIG, The Hartford, St. Paul). In addition it includes complementary regional and middle market insurers plus specialty boutiques, managing general agents, surplus lines brokers and maybe a Lloyd's syndicate under its umbrella.

Each exchange offers contracts to selected independent agents. These contracts provide the agents access to all of the markets of all of the companies belonging to that particular exchange.

"One of biggest problems for retail agents is getting market appointments and then being able to feed the beast," he said. "This is the companies trying to solve that."

The exchange could be good for agents because it provides them with a comprehensive rather than piecemeal portfolio and guaranteed access to markets they might otherwise not be able to reach, according to Kerr.

The one downside for retail agents could be that insurers in an exchange might press to pay more commission on new business and less on renewals, he said.

Kerr said details of exchanges, including potential anti-trust concerns, must be worked out. But, he maintained, "efforts are underway right now" among insurers to make exchanges a reality.

Editor's Note: This is a shortened version of the complete story appearing in the Sept. 5 edition of Insurance Journal.

Find this article at:

<http://www.insurancejournal.com/news/national/2005/09/19/59736.htm>

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