

2016

AGENCY UNIVERSE STUDY

Management Summary

BUSINESS STRATEGIES | EMERGING TRENDS | AGENCY PROFILES

A Collaborative Program of the Independent Insurance
Agents & Brokers of America & Member Carriers



Independent Insurance Agents
& Brokers of America, Inc.



ACKNOWLEDGEMENTS

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TOP 10 FINDINGS

1 In 2016, the estimated total number of independent property/casualty agents and brokers in the United States stands at 38,000.

This represents a small decrease relative to 2014 that presumably reflects the current M&A environment as well as the relatively stable rates of exclusive agency conversions and new agency formation. Since 2004, the estimate has fluctuated between 37,500 and 39,000. (All of these estimates are rounded to the nearest 500.)

2 Small agencies make up 21% of the population and Jumbo agencies almost 2%, and it seems Small agencies in particular are gravitating towards large metro areas and away from rural, small towns.



After a decrease in the proportion of Small agencies last wave (to 15% in 2014 from 28% in 2012), this year sees a reversal of that pattern to Small agency representation approaching (but still under) that seen in 2012. Since 2014, Small agencies have also become more concentrated in large metro areas (57% of Small agencies this year, compared to 50% in 2014). At the same time, the increase in Jumbo agencies reflects mainly M&A activity.

3 Business conditions remain favorable, as they have for the past several AUS waves.



In fact, the 74% of agencies that saw increases in revenues between 2014 and 2015 report higher percentage increases than those reported in 2014 (averaging a 23% increase, versus 19% in 2014).

5 A majority of agencies continue to use market access providers (72%), although use has declined this wave (from 80% in 2014).

The slightly lower use of market access providers may be due to a higher number of direct appointments with carriers reported in the 2016 survey. Agencies also seem to be spreading commercial lines business across a larger number of carriers, as evidenced by a decrease in percent of commercial lines premium placed with their top three carriers.

4 Aging of the independent agency universe may be slowing. At the same time, more than three-fourths of agencies have no plans for a significant change in agency ownership within the next three years.



2016 represents the first AUS wave since 2010 in which the average age of agency principals have not increased. This year, the average age of principals with 20% or more ownership is 55 years old, with 17% ages 66+. In 2014, 18% were 66+ with an average age of 56. In both 2014 and 2016, however, few agencies anticipate an imminent change in agency ownership.

TOP 10 FINDINGS



6 Although perceived challenges associated with retention of experienced producers and staff members has declined this wave relative to 2014, lack of available talent for succession is considered a key impediment to future agency ownership plans.

In most size categories, nearly two in ten agencies are concerned they do not have the necessary talent pool for future ownership. Questions around agency net worth are also a key impediment to future agency ownership plans for smaller agencies. (In most cases, of course, a reliable net worth figure is essential for succession planning.) Relatedly, roughly two in ten agencies would like more information and support for perpetuation tools associated with buying out principals' interest or having family take over.

7 Agencies (particularly smaller agencies) are more immediately concerned about the impact of emerging purchase channels than the impact of technological advancements or the sharing economy.

One-third believe direct purchase through carriers will significantly impact their agency. Concern is highest among Small agencies (43%), although even two in ten Jumbo agencies are concerned. One-fourth of Small agencies also believe non-insurance websites and retail stores will significantly impact their agency within the next two years. In contrast, less than two in ten agencies – regardless of agency size – feel the sharing economy, driverless cars, or drones will impact them in the next two years.

8 Non-white agency principals continue to be under-represented in the independent agency universe.

In comparing agencies with minority principals to those with only non-Hispanic white principals, agencies with one or more minority principals are younger – but not necessarily smaller – than agencies with only majority principals. Notably, they indicate lower membership in insurance/financial organizations and awareness of IIABA programs, suggesting additional outreach and programming may be necessary.



9 Social media use is on the rise, with less reliance on print marketing strategies.

56% of agencies included social media/digital marketing in their 2015 marketing activities, up from 48% in 2013. Facebook and LinkedIn are by far the social media channels used most frequently, although 9% of agencies use Google+ “often” and 6% use Twitter “often.” Digital strategies appear to be particularly prominent among newer agencies, including social media outreach, paperless communication efforts, and texting with clients.



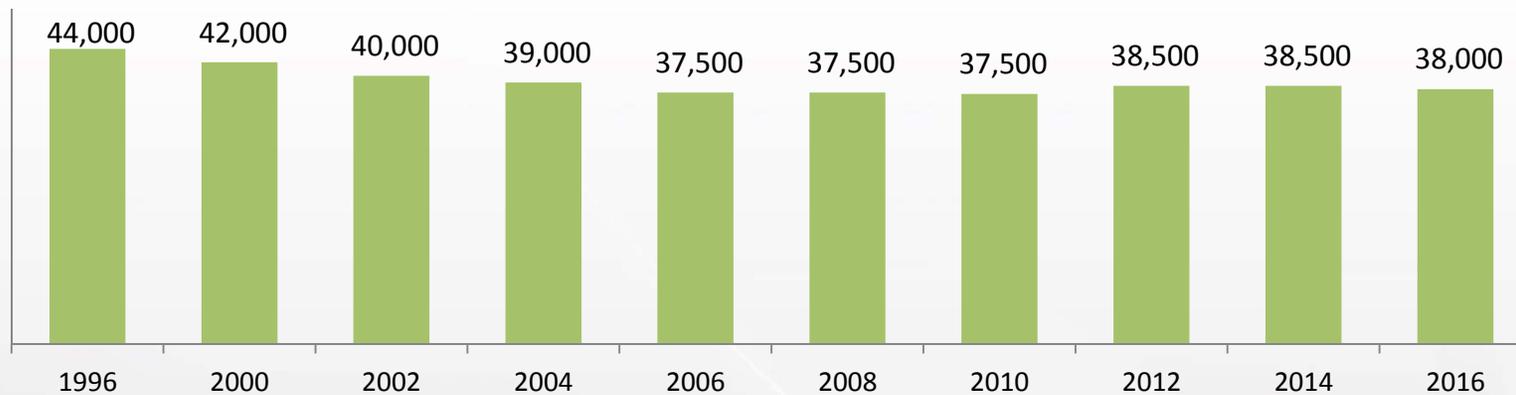
10 At the same time, agencies continue to face challenges in marketing themselves effectively on the internet.

57% of agencies report that marketing their agency effectively on the Internet is among their top three technological challenges, a significant increase over the to 46% of agencies citing the same challenge in 2014. Small agencies (63%) feel particularly challenged, perhaps because they have fewer resources and receive less carrier support than larger agencies.

38,000 INDEPENDENT AGENCIES

The total estimated number of independent agencies stands at 38,000. After a slow decline before 2000, in the seven survey waves since 2004, it has fluctuated between 37,500 and 39,000.

Total Number of Independent Agencies, 1996-2016



These estimates are rounded to the nearest 500 to avoid giving the impression of more precision than they actually have.

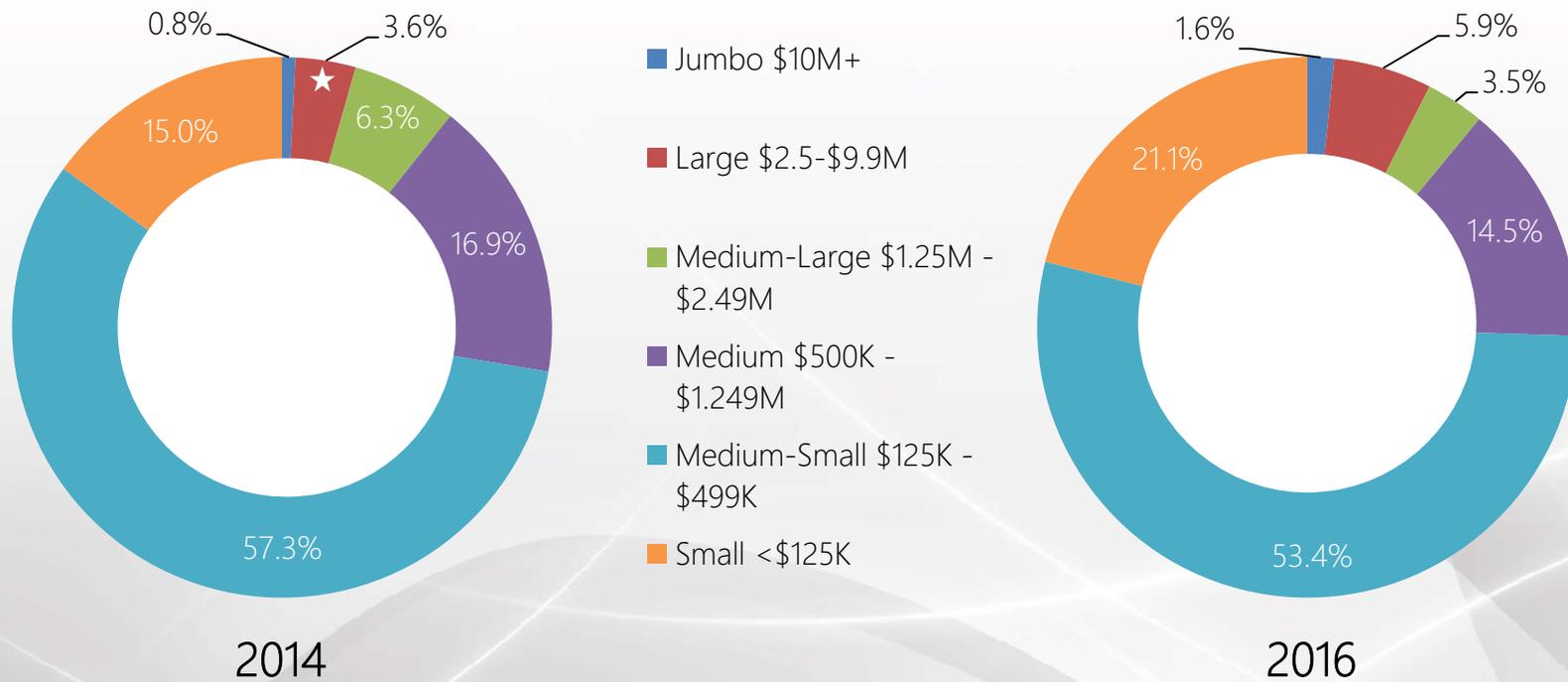
(Full details on how these estimates were made appear in Appendix A of the full report.)

AGENCY DISTRIBUTION BY REVENUE SIZE

In 2016, 21% of all independent agencies and brokerages are Small, and 53% are Medium-Small.

Between 2014 and 2016, the proportion of Small agencies grew from 15% to 21%, while the proportion of Medium-Small agencies decreased slightly. The proportion of Jumbo agencies doubled, from .8% to 1.6%.

Agency Distribution by Revenue Size



★ indicates significant difference 2014 – 2016
QA9, Weighted n=1972

CHANGES IN REVENUE

74% of agencies saw revenue increases between 2014 and 2015, compared to 70% between 2012 and 2013. 16% saw decreases in revenue between 2014 and 2015, similar to instances of declining revenues between 2012 and 2013.

The percentage of agencies reporting an increase in revenue between 2014 and 2015 varies by agency size category within a narrow range, with Small Agencies least likely to report an increase (70%) and Jumbo agencies most likely to report an increase (83%). For more detail see Appendix A of the full report.

Change in Total Revenue



★ indicates significant difference 2014 – 2016
QA9B/B2, Weighted n=1933

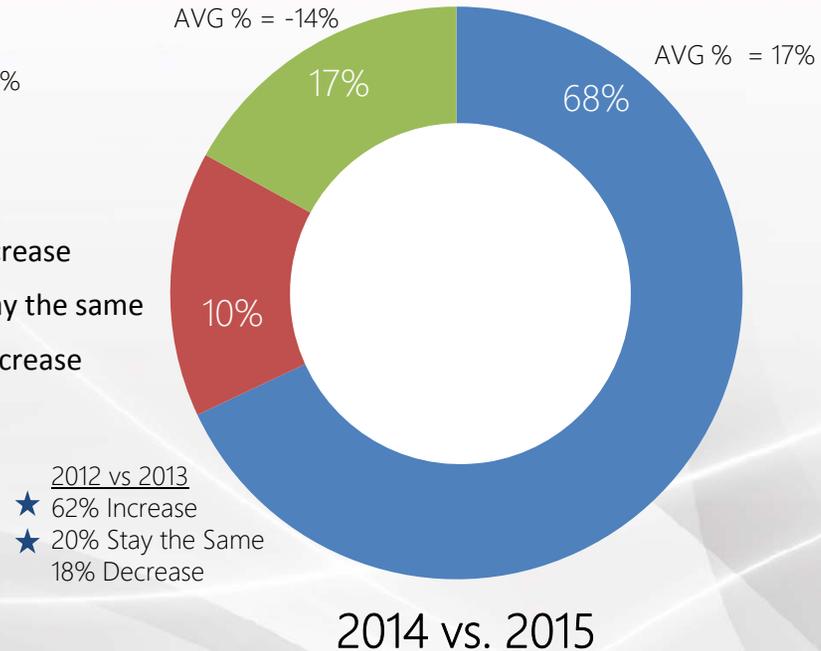
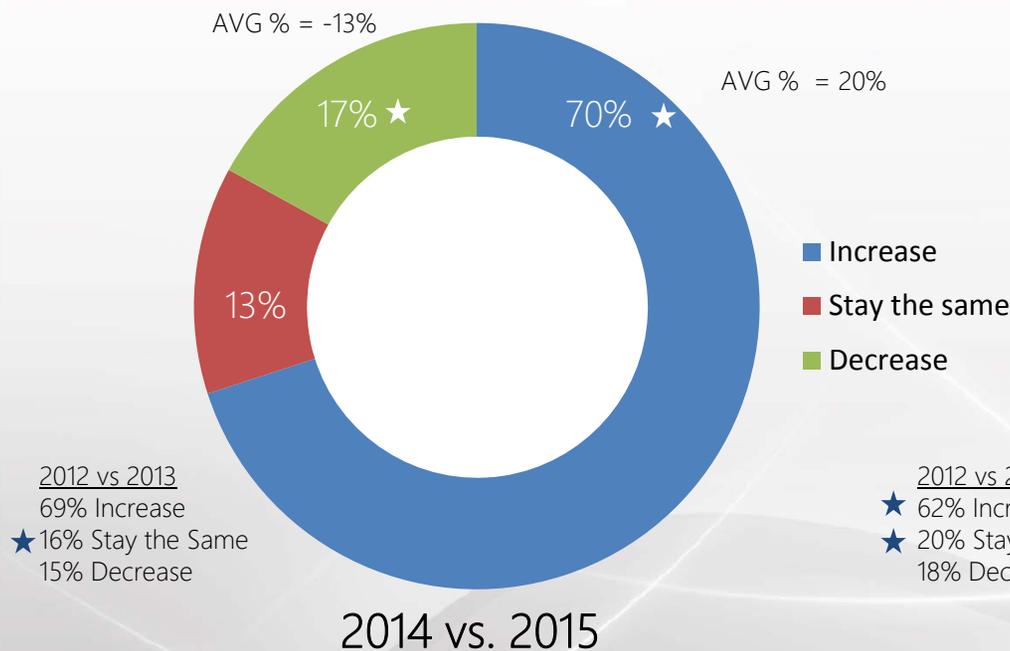
CHANGES IN REVENUE

About two-thirds of agencies report increases in personal and commercial lines revenue between 2014 and 2015.

- Nearly all agencies (98%) currently write both personal and commercial lines.
- As in past AUS studies, Small agencies that saw increased revenues experienced larger increases than others, in percentage terms.
- For more detail on revenue changes by agency size categories, see Appendix A of the full report.

Change in Personal Lines Revenue

Change in Commercial Lines Revenue



★ indicates significant difference 2014 - 2016

QA9B/B2, Personal Lines Weighted n=1914; Commercial Lines Weighted n=1907

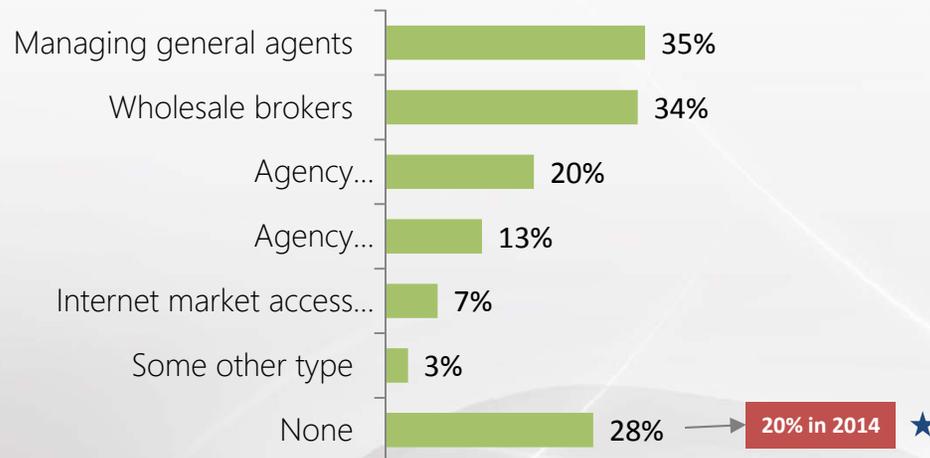
MARKET ACCESS PROVIDERS

72% of agencies use market access providers, although usage has declined somewhat from 80% in 2014. Among users, MGAs and wholesale brokers, while down from 2014 levels, continue to play major roles in placing independent agency business.

Small agencies are less likely to use wholesale brokers (21%), but are more likely to use an agency network/agency aggregator (25%). Jumbo agencies make very little use of Internet market access providers (2%).

Those who belong to an agency cluster/producer group have been members for an average of 9 years. Those belonging to an agency network/aggregator have been members for an average of 7 years.

Market Access Providers Used



% of 2015 Revenue (Among Market Access Provider Users)	
Personal Lines	Commercial Lines
9%	13%
4%	9%
15%	10%
12%	8%
1%	1%
3%	1%

★ indicates significant difference 2014 - 2016

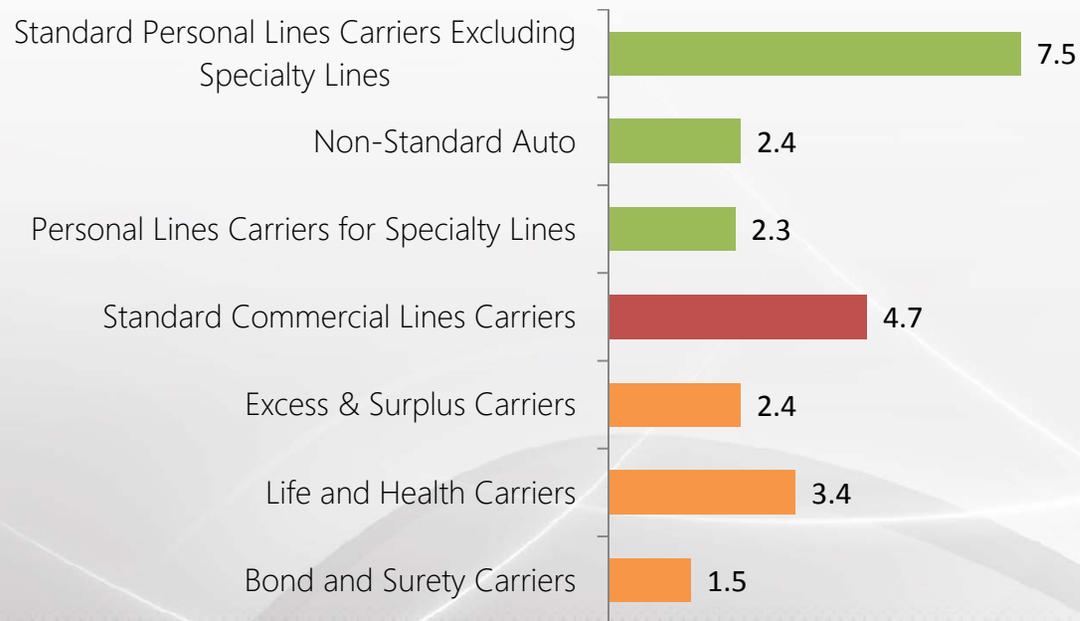
QA9B/B2, Personal Lines Weighted n=1914; Commercial Lines Weighted n=1907

NUMBERS OF CARRIERS

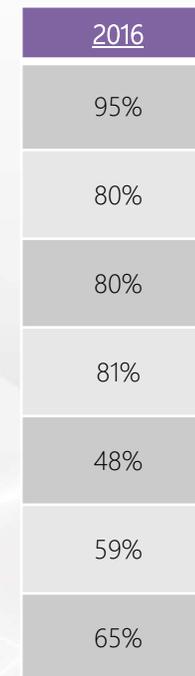
Agencies represent an average of seven standard personal lines carriers and five standard commercial lines carriers.

On average, Large and Jumbo agencies have 10+ carrier appointments for standard personal lines, and 15+ for standard commercial lines.

Average Number of Carriers



% of agencies with carriers for each insurance-type



QD1, Weighted n=1534. Question revised in 2016.

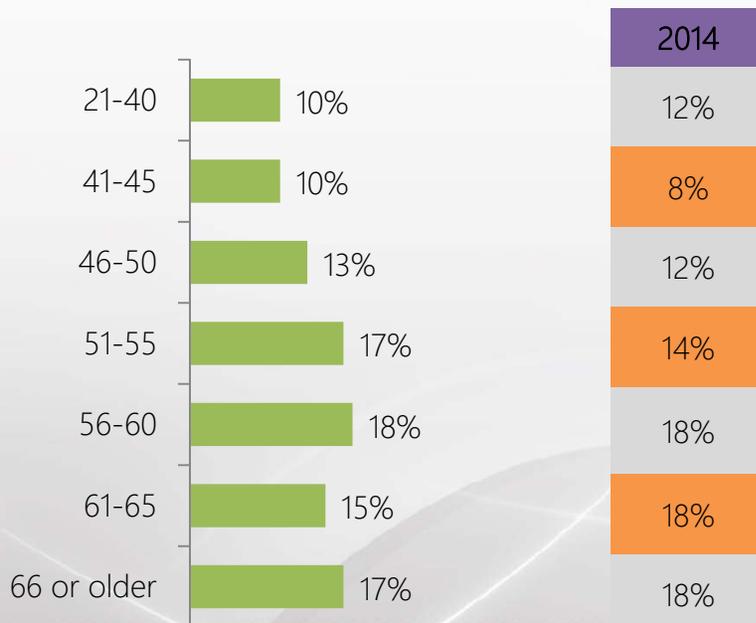
AGENCY OWNERSHIP

The average age of principals with 20% or more ownership in their agencies is 55 years old, with 17% of those principals age 66 or older.

Unlike 2014, the average age of principals did not significantly increase, although there are still a large proportion of principals age 66+. The vast majority (81%) of agencies do not anticipate a major ownership change for at least three years. Six in ten do not anticipate a change for more than five years.

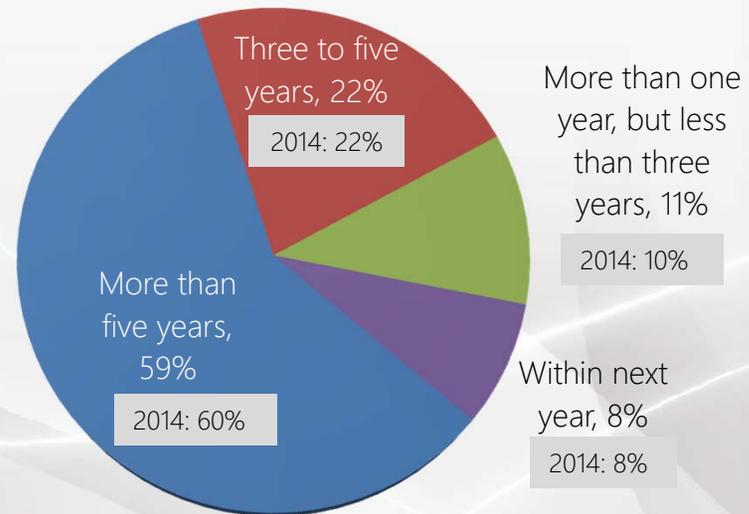
Age of Principals With 20+% Ownership

Mean = 55 (2014: 56)



When Agencies Anticipate Major Ownership Changes

(involving at least 20% of agency ownership)

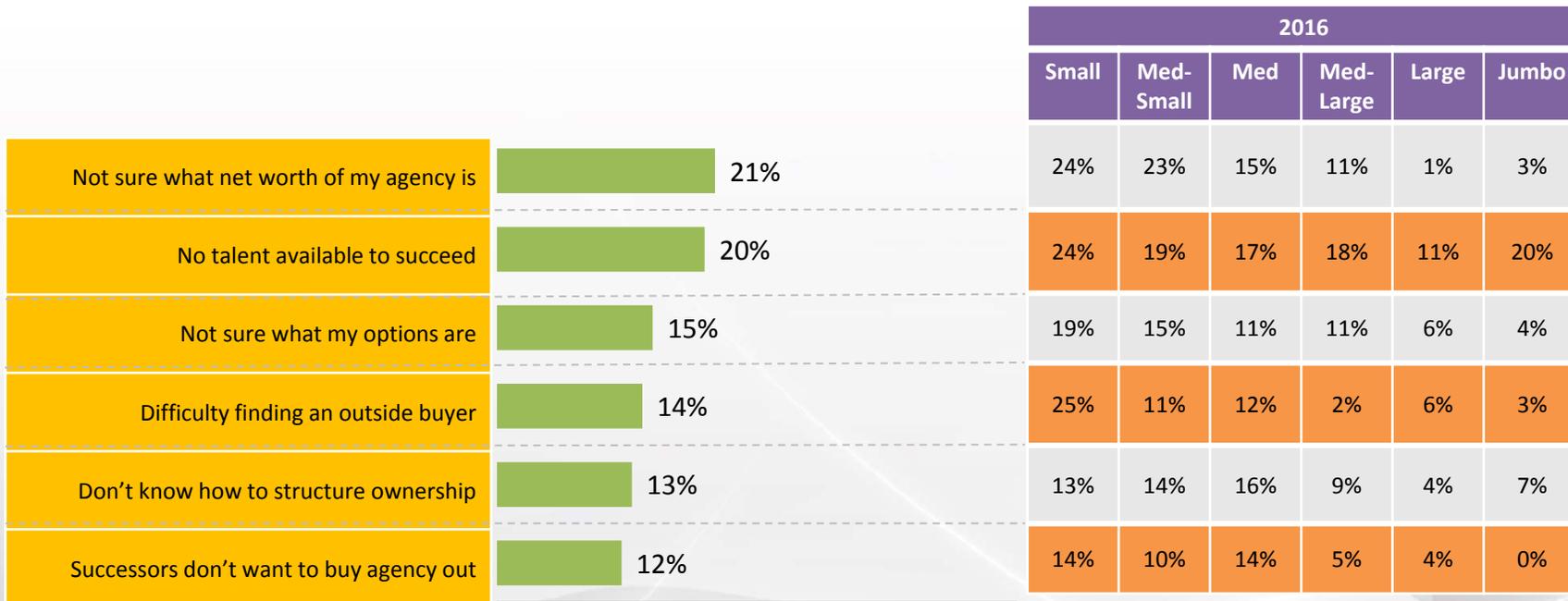


FUTURE OWNERSHIP BARRIERS

Questions around the net worth of agencies are a prominent impediment to future agency ownership plans for smaller agencies, while lack of talent is barrier for agencies of all sizes.

Obstacles to Future Ownership of Agency

6/7 on 7-point scale, 7=strongly agree

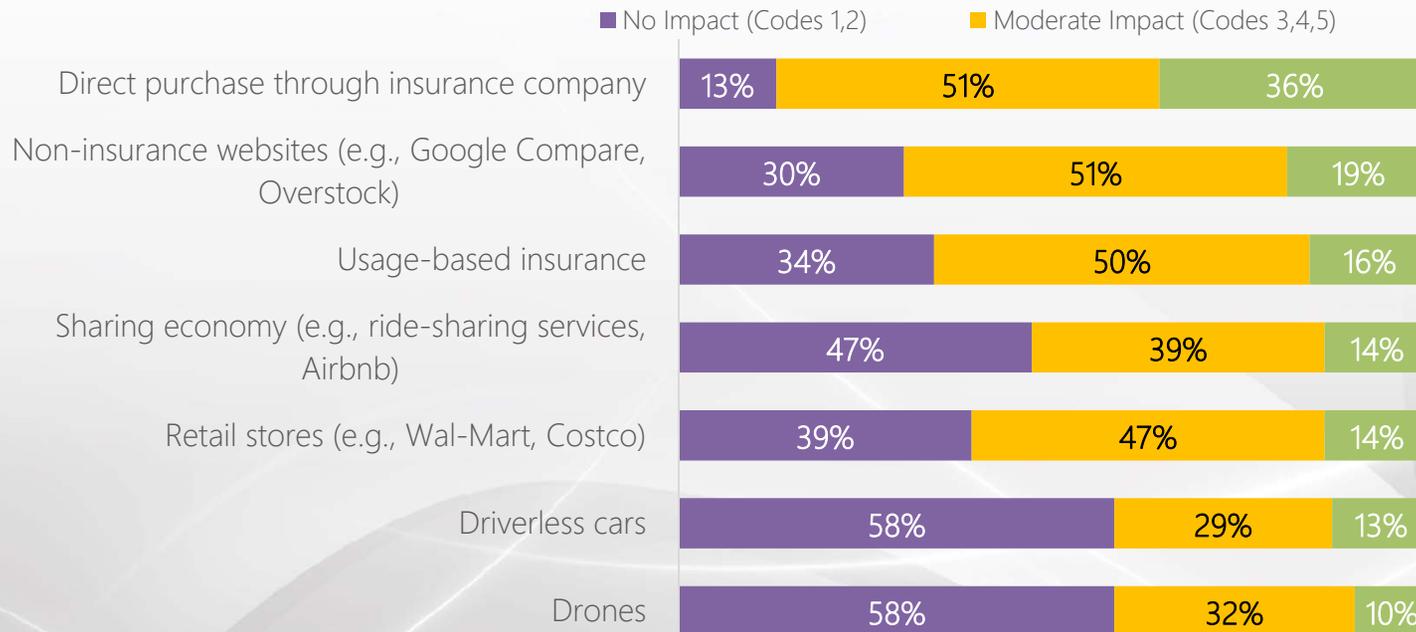


EMERGING PURCHASE CHANNELS

One-third of agencies believe direct purchase through insurance companies will have a significant impact on their agency within the next two years.

Compared to larger agencies, small agencies are particularly concerned about the impact of emerging purchase channels (direct, or via non-insurance website or retail stores). Agencies are less concerned about the immediate impact of the sharing economy, driverless cars, and drones on their agencies.

Anticipated Impact on Agency of Emerging Purchase Channels and Trends (Over Next Two Years)



QG5A, Weighted n=750. QG5B, Weighted n=750. Questions not asked in 2014 or earlier.

EMPLOYEE DIVERSITY

Agency staffing breakouts by gender and ethnicity are generally comparable to 2014.

Almost all (93%-98%) agencies in the Medium size category or larger have at least one male principal/senior manager, significantly more than the proportion of Small and Medium-Small agencies with male principals or senior managers (78%-81%). 11% of newer agencies (established within past five years) have at least one Hispanic/Latino principal, versus 4% of established agencies.

% of Agencies With Each Employee Type by Gender and Ethnicity # of Full-Time Equivalents For Each Employee Type

	Agency Principals/ Senior Mgrs	Non-Principal Agency Managers	Non-Principal Producers	CSRs	Other
Gender					
Men	84%	35%	63%	27%	33%
Women	35%	73%	64%	85%	81%
Ethnicity					
Caucasian/Non-Hispanic White	90%	85%	88%	85%	85%
Latino/Hispanic	5%	8%	10%	17%	11%
African-American/Black	3%	3%	5%	7%	6%
Asian Indian/Other South Asian American	2%	4%	3%	2%	1%
East Asian-American/Pacific-Islander	1%	1%	1%	2%	2%
Native American or Alaska Native	2%	2%	1%	2%	<1%
Full-time Employee Equivalents					
Average	1.3	1.2	2.1	2.5	1.9

There were no significant differences 2014 – 2016; QF1A/F2/F3, Weighted n= 751, 291, 461, 534, 190

To help assess where independent agencies stand with regard to minority representation, agencies with at least one principal from a minority group were compared to those with no minority principals.

- Some caution is warranted given small sample sizes, although differences noted reached statistical significance. The half of the sample asked about staffing included 64 agencies with any non-white ownership and 523 agencies with no non-white ownership. On a weighted basis, 11% of agencies have at least one minority principal while 89% have no minority principals.
- Agencies with minority ownership tend to be newer agencies that are more open to carrier requirements around use of customer service centers. They are also more likely to have focused mobile strategies – both for agency operations as well as capabilities for customers.
- Notably, agencies with minority ownership are less likely to indicate membership in any insurance/financial organization, or to have heard of IIABA programs (e.g., Best Practices, Young Agents, Virtual University), suggesting additional outreach and programming may be necessary.

Agencies with Minority Principal(s) vs. Other Agencies: Key Differences*

	Agencies with Non-White Principal(s)	Agencies with No Minority Principal(s)
Year of establishment (average)	1996	1978
% that hired new producer(s) in past two years	59%	36%
% agree agency would do more business with carriers requiring use of customer service centers for PL	20%	7%
% who agree agency would do more business with carriers requiring use of customer service centers for SC	26%	5%
% who agree that agency has a focused mobile strategy to extend mobile capabilities for customers	39%	17%
% who agree agency has a focused mobile strategy for mobile use among agency employees	36%	17%
% who are not a member of any insurance/financial organization(s)	43%	25%

"Agree" = Codes 6, 7 on a 7-point scale

*The ethnicity break-outs were defined by F3, a Version 1 question. As a result, only these agencies can be profiled against questions in one version of the questionnaire.

SOCIAL MEDIA

Just over half count social media among their 2015 marketing activities, up significantly from 2013. Facebook is the primary social media channel used, followed by LinkedIn.

Percent of Agencies Including Each Activity as Part of Marketing Program

(Mentions 25% or more)

	Total 2016	Total 2014
Creating/maintaining website	65%	71%
Social media presence	56%	48%*
Print advertising (exc. phone directory)	38%	44%
Search engine optimization	35%	30%
Yellow pages advertising	31%	42%*
Direct mail	30%	40%*
Creating/maintaining portal technology	30%	32%
Client industry associations	28%	23%
Agency sponsored events for clients	27%	20%*

*This data shows the percentage of agencies including each activity in their marketing program, rather than the proportion of marketing budget spent on each item.

* indicates significant difference 2014 – 2016

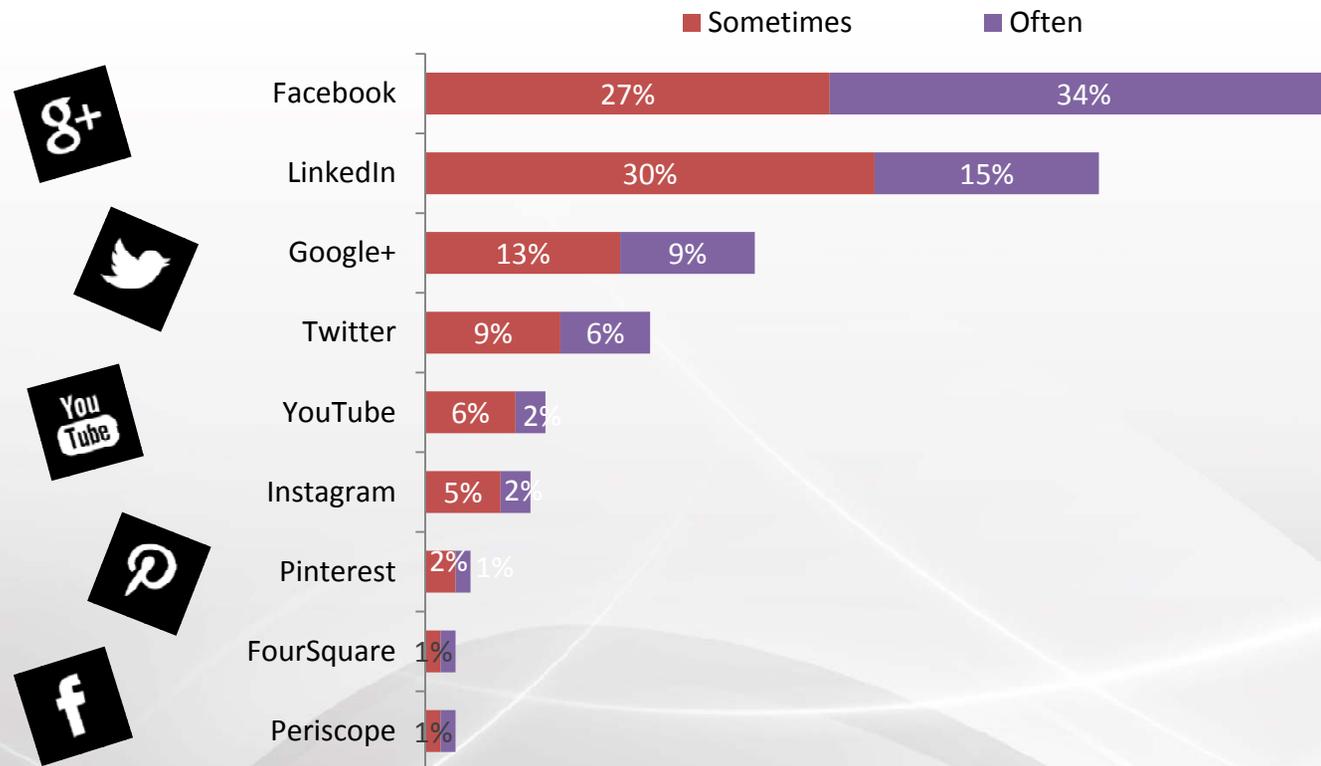
Q13, Weighted n=677; Q13FB, Weighted n= 639-671 (bases vary by row).

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2016 Social Media Channels Used

(Among Those That Include Social Media in Marketing Program)



* indicates significant difference 2014 – 2016

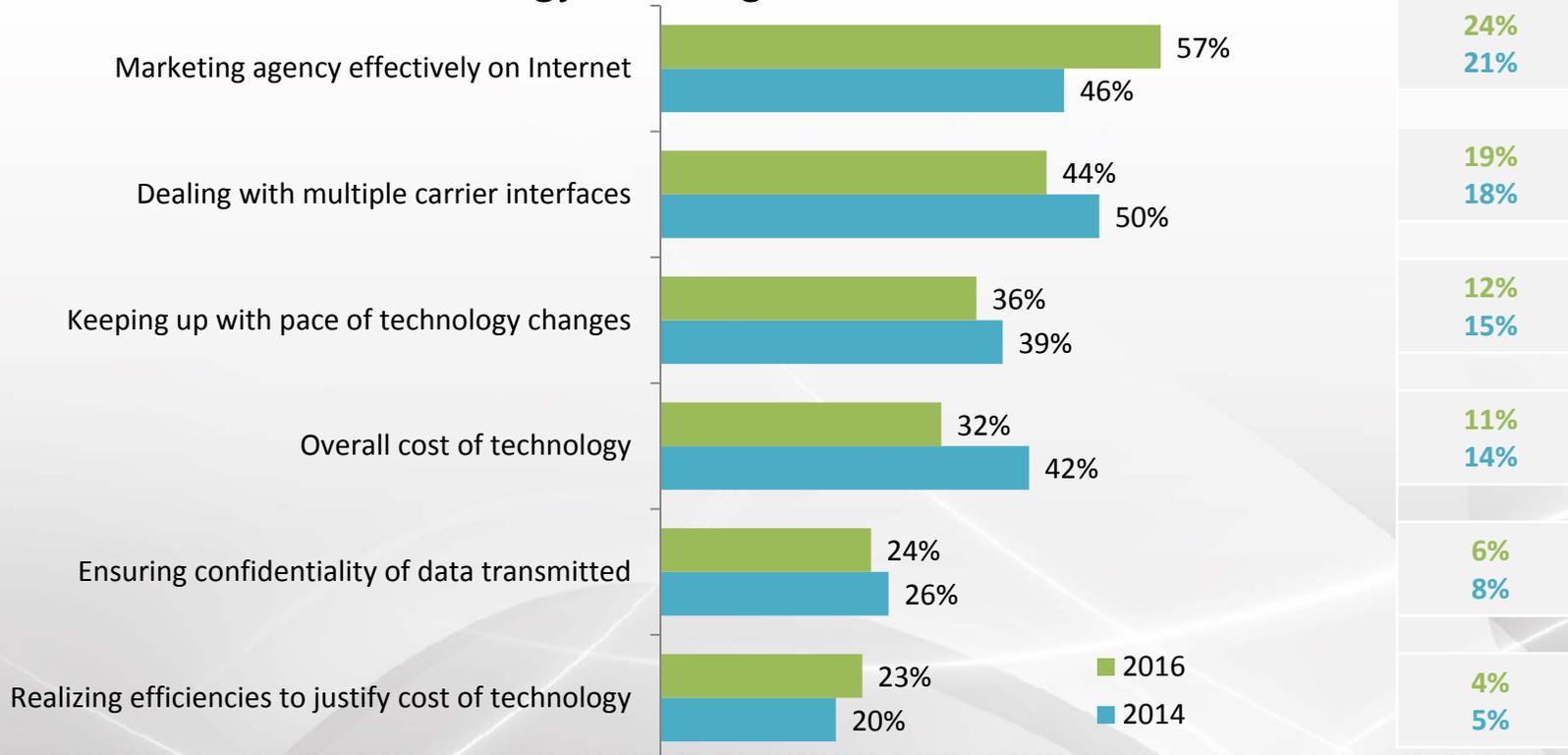
Q13, Weighted n=677; Q13FB, Weighted n= 639-671 (bases vary by row).

TECHNOLOGY CHALLENGES

Half of agencies feel that dealing with multiple carrier interfaces is a top technological challenge. Marketing the agency effectively on the Internet, overall cost of technology, and keeping pace with technology advances are also key challenges.

Small agencies feel particularly challenged to market their agency on the internet; Jumbo agencies are most likely to be challenged in staff adoption of new workflows/technologies.

Technology Challenges - % Ranked 1, 2 or 3



^ indicates significant difference 2014 - 2016
QL1, Weighted n=676.

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