2018 AGENCY UNIVERSE STUDY

MANAGEMENT SUMMARY

BUSINESS STRATEGIES | EMERGING TRENDS | AGENCY PROFILES

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

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FUTURE ONE

ACKNOWLEDGEMENTS

The 2018 Agency Universe Study has been carried out, analyzed, and reported under the direction of the IIABA Future One Research Task Force. Zeldis Research and Maynard Robison wish to acknowledge the invaluable guidance and help provided by members of the task force.

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The 2018 Agency Universe Study was made possible by Future One and the participation of the coalition's member companies and organizations. Future One is made up of the IIABA and the following carriers.

- Allstate Independent Agents
- Allstate Insurance
- Central Insurance Companies
- Chubb
- CNA
- Encompass Insurance
- Foremost Insurance Group
- The Hanover Insurance Group
- The Hartford
- Hartford Steam Boiler Inspection and Insurance Company (HSB)
- Liberty Mutual Insurance
- Nationwide Insurance
- Progressive
- Safeco Insurance
- Selective Insurance Company of America
- Travelers
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ABOUT THE AGENCY UNIVERSE STUDY

On behalf of Future One, a cooperative effort of the Independent Insurance Agents & Brokers of America, Inc. (IIABA) and more than 15 leading independent insurance agency companies, we are pleased to present the 2018 Agency Universe Study Management Summary, highlighting some of the key findings of the Study.

The primary focus of the Agency Universe Study is to provide information on the size and characteristics of the independent agency system which is beneficial to developing more effective marketing and business practices. Over the years, information from the study has been useful to independent agency principals, independent agency carriers, and the IIABA in its public information and education efforts.

Specifically, since first being conducted in 1983, the study has had two primary goals: (a) to track changes in the independent agency system over time, and (b) to gauge agents' attitudes and opinions on issues pertinent to the independent agency community.

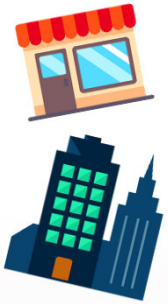
For 2018, the study continued to examine agency revenue trends, as well as agency technology use, marketing strategies, and carrier relationships. There was also a focus on areas of marketing emphasis, agency perpetuation challenges, and the impact of emerging purchase channels and trends.

As the study evolved, one of the findings of broad interest was the number of independent insurance agencies in the United States. During the past 20 years, these numbers have been estimated in a number of ways, including using a variety of insurance carrier listings, IIABA member listings, and publicly available information from a number of business data repositories. The current method is based on information obtained from a leading insurance industry-focused database provided by MarketStance. In 2017 MarketStance merged with the Insurance Service Office, a long-time supplier of underwriting guidance to property/casualty carriers. MarketStance maintains and continually updates a database of independent agencies and is regarded by the industry as the highest-quality source for this data.

TOP 10 FINDINGS

1 In 2018, the estimated total number of independent property/casualty agents and brokers in the United States stands at 36,500.
This may represent small decrease relative to 2016 that presumably reflects the current M&A environment, but also may reflect the newer, more accurate resource (MarketStance) used to calculate the agency universe size. Since 2004, the estimates have fluctuated between 36,500 and 39,000. (All of these estimates are rounded to the nearest 500.)

2 **Small agencies make up 35% of the population, Medium agencies 23%, and Jumbo agencies about 2%.**



While in the past, Small agencies seemed to be moving away from smaller towns and rural areas, this trend may be reversing; in 2018, nearly one in five Small agencies are in rural areas/small towns.
This may be partially due to changes in the way communities are classified by the federal government.

3 **Business conditions continue to improve, as they have for the past several waves.**

The majority of agencies (76%) report increases in total revenue between 2016 and 2017, with an average increase of 25%; this is slightly higher than in 2016 (74% reported an increase, with average increases of +23%.) Agencies are especially likely to report increases in personal lines revenue (74% report an increase, up from 70% in 2016).

4 **A majority of agencies continue to use market access providers (79%), comparable to 2016 (80%).**
Wholesale brokers and MGAs/program administrators are most commonly used, especially for commercial lines business. Large agencies make the most use of these market access providers. Agents cite access to specialty markets, limited/no carrier sales volume requirements, and ability to compete with other/larger agencies as the most common reasons for using MGAs.

5 **As noted in 2016, the aging of the independent agency universe may be slowing. The average age of agency principals has once again decreased, to 54 years old, with 15% age 66 or older**.
Agencies may be starting to consider perpetuation planning. Nine in 10 have a perpetuation plan (up from 79% in 2016), though it often centers around children/family. Four in ten anticipate some ownership change in the next five years, but only a few plan to make a change in the coming year. Nevertheless, Medium-Large, Large, and Jumbo agencies expect continued growth through M&A activity; at least four in ten plan to be involved in a merger/acquisition in the next two years.

TOP 10 FINDINGS

6 **Social media and digital marketing strategies continue to rise, but phone calls and client visits are still considered important.**
All of the top marketing strategies cited in 2018 are digital: creating/maintaining the agency website (58%), social media/digital marketing (49%), search engine optimization (31%), portal technology on the agency site (29%), and e-marketing activities (20%). The majority use Facebook and half leverage LinkedIn; Twitter and Instagram use has also increased.

However, agencies still cite referrals most often for prospecting, followed by visits (for commercial lines) and telephone calls. Annual reviews, calls, emails, and visits are used most frequently for clients.

7 **Agencies continue to leverage technology and "go paperless" in their operations as well.**
The use of paperless office has increased for both personal lines (from 45% to 58%) and commercial lines (from 38% to 46%), as have electronic communications including texting with clients (up from 43% to 50%), agency e-signature tools (from 33% to 42%), and carrier e-signature tools (from 29% to 39%). However, half of agencies cite dealing with multiple carrier interfaces as a challenge.

Agencies are more likely to agree that clients are just as likely to accept e-documents as paper (44%, vs. 35% in 2016) and that carriers' paperless communication options have resulted in cost savings (38% vs. 29% in 2016). Despite this, only slightly more than half (56%) see the need for their own cyber liability policy.

8 **The impact of emerging purchase channels remains a concern, particularly for personal lines.**
One-third of agencies believe personal lines direct purchase through the insurance company (32%) or through non-insurance websites (29%) will have a significant impact on their agency over the next two years. About one in four express similar concerns about small commercial direct purchase or purchase through emerging online providers (Insurtech). However, agents are still optimistic about the agency channel; six in ten say it is still on its way up, through 42% believe it is rising more slowly.

9 **Finding qualified staff and growing the business are key agency challenges.**
More than four in ten find it challenging to find and screen job candidates with strong potential. Other key concerns are growing commercial lines business, obtaining enough leads, marketing effectively through the internet, having sufficient budget for marketing, and meeting carrier production/growth goals. Agencies are most interested in carrier support in providing new products to sell, followed by addressing clients' cyber/data security risks, the sharing economy, and usage-based insurance.

10 **Non-white and female agency principals continue to be under-represented in the independent agency universe. Just 35% of agency principals are women, and 88% are Caucasian.**
Larger agencies are especially likely to have male principal/senior managers. Newer agencies are more likely to have at least one African-American principal (13% vs. 2% of established agencies).

36,500 INDEPENDENT AGENCIES

The estimated total number of independent agencies stands at 36,500. However, it should be noted that changes in the agency universe size from 2016 to 2018 are likely a function of a change in the resource used to obtain this information, and may not necessarily reflect a change in the universe itself.

Total Number of Independent Agencies, 1996-2018

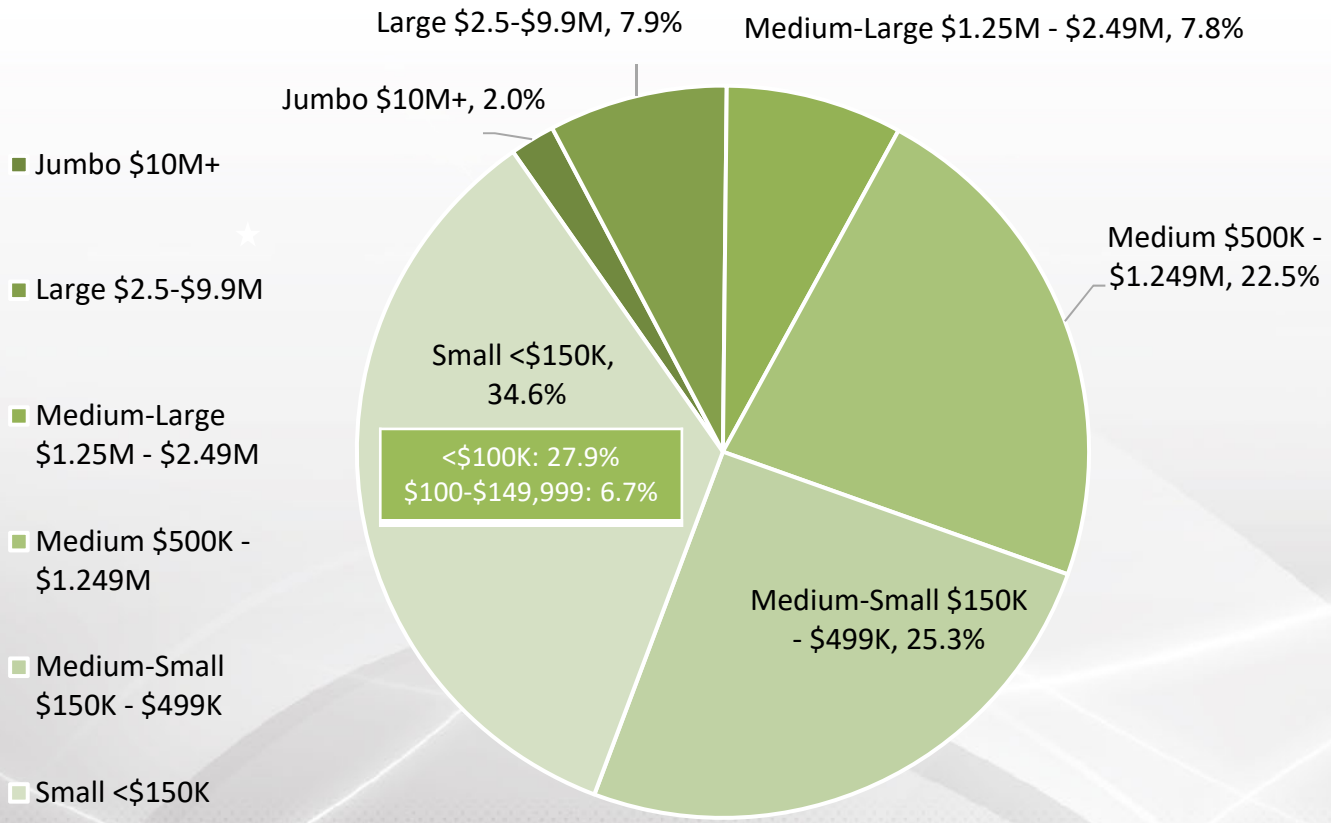
These estimates are rounded to the nearest 500 to avoid giving the impression of more precision than they actually have. (For details on how these estimates were made, see Appendix B.)

AGENCY DISTRIBUTION BY REVENUE SIZE - 2018

In 2018, 35% of all independent agencies and brokerages are Small, and 25% are Medium-Small.

- Note that in 2018, a new resource was used to estimate the universe size (the MarketStance database, widely considered more insurance industry-focused and reliable the data available from D&B).

Agency Distribution by Revenue Size



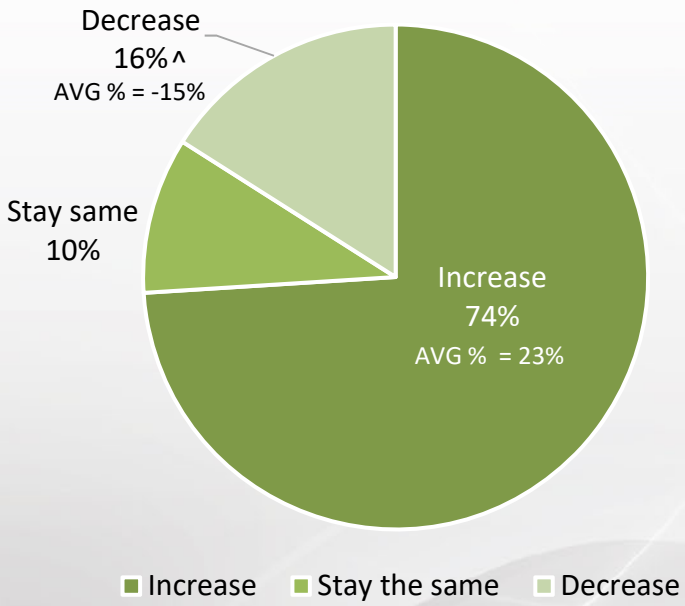
QA9, Shown unweighted, n=1465

TOTAL REVENUE

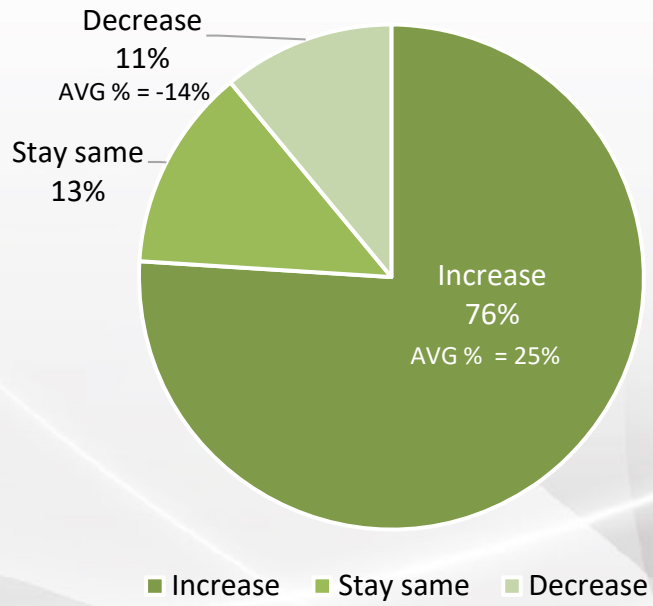
Three in four agencies saw revenue increases between 2016 and 2017, with an average increase of 25%. Slightly more than one in ten (11%) report decreased revenue.

- Jumbo agencies are significantly more likely to report an increase (88%) than are Small agencies (69%), Medium-Small (77%), or Medium agencies (79%).

Change in Total Revenue



2014 vs. 2015



2016 vs. 2017

^ indicates significant difference 2016 – 2018

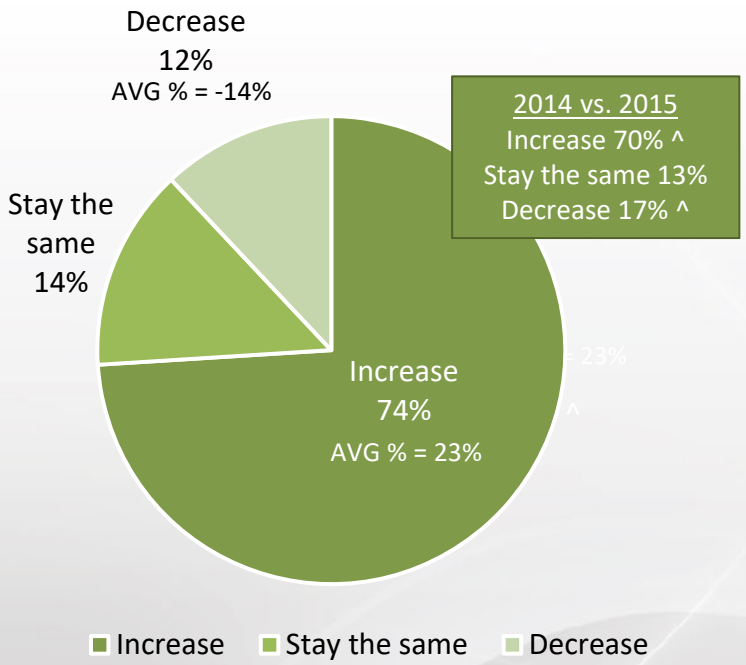
QA9B/B2, Weighted n=1461.

CHANGES IN REVENUE

Three in four agencies report increases in personal lines revenue, and seven in ten agencies report increases in commercial lines revenue from 2016 to 2017.

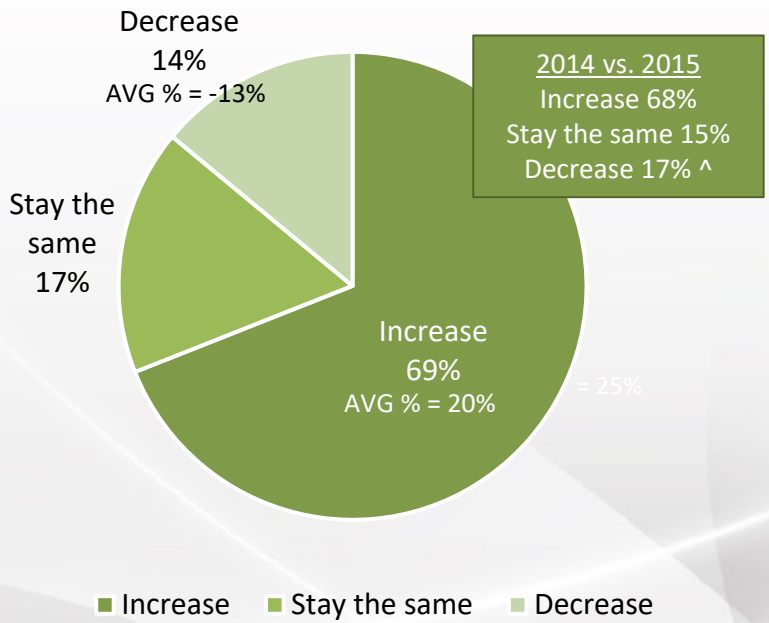
- As in past AUS studies, Small agencies that saw increased revenues experienced larger increases than others, in percentage terms.

Personal Lines Revenue



2016 vs. 2017

Commercial Lines Revenue



2016 vs. 2017

^ indicates significant difference 2016 - 2018

QA9B/B2, Personal Lines Weighted n=1460; Commercial Lines Weighted n=1459.

NUMBERS OF CARRIERS

Agencies have appointments/contracts with an average of almost nine standard personal lines carriers and seven standard commercial lines carriers.

- For all lines, the number of appointments/contracts increases with the size of the agency.

Average Number of Carrier Direct Appointment or Contracts

Personal Lines	Commercial lines	Bond and Surety	Life and Health
8.5	7.2	1.9	3.5
6.3	3.0	0.9	2.8
8.3	5.0	1.6	2.8
9.8	7.8	2.3	3.3
10.4	10.9	3.0	4.4
10.9	18.2	4.2	6.2
17.6	46.0	8.1	13.0

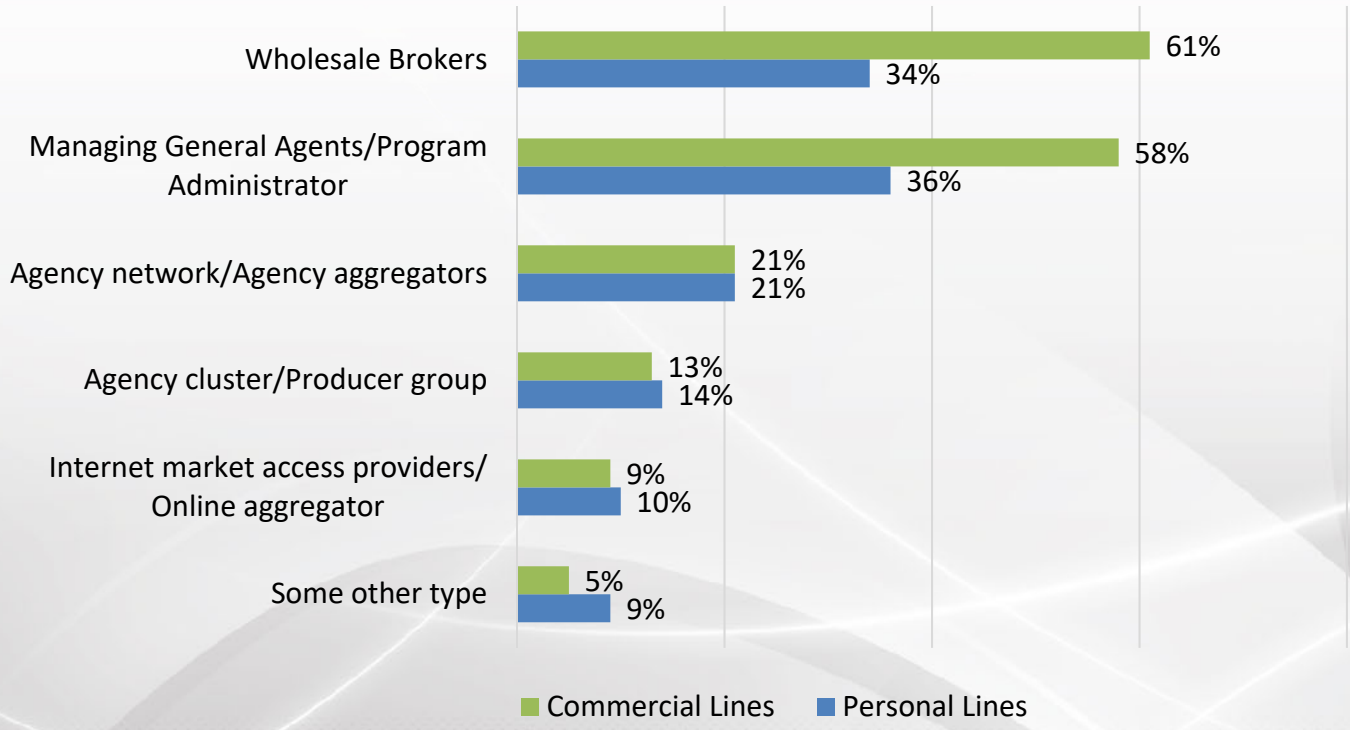
QD1, Weighted n=1241; QD2, Weighted n=1194 Questions revised in 2018; trending not shown.

MARKET ACCESS PROVIDERS

More than half of agencies use MGAs and wholesale brokers for commercial lines, and one in three for personal lines. Overall, 79% of agencies use market access providers.

- Smaller agencies are less likely to use wholesale brokers, while Large agencies are the heaviest users of wholesale brokers for both personal and commercial lines.
- Jumbo agencies make very little use of Internet market access providers or agency network/agency aggregators.

Market Access Providers Used



QC1, Weighted n=759 Question revised substantially for 2018; trending not shown.

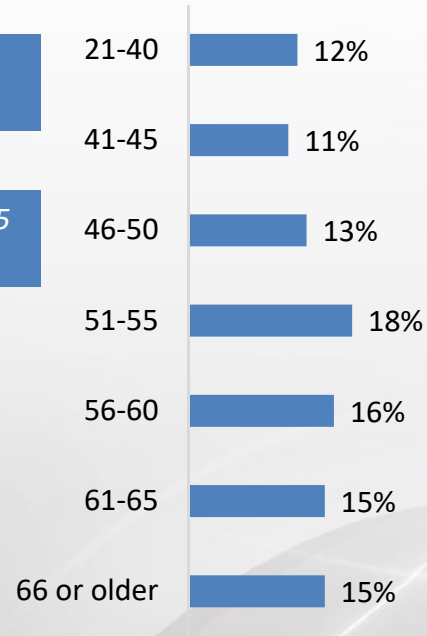
AGENCY OWNERSHIP

The average age of principals with 20% or more ownership in their agencies is 54 years old, with 15% of those principals age 66 or older.

Age of Principals With 20+% Ownership

Mean = 54
2016: 55

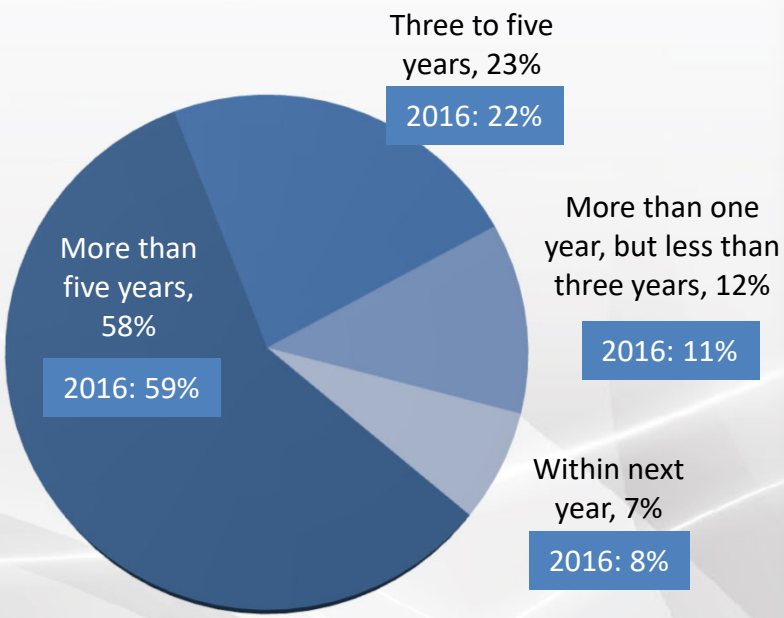
Median = 55
2016: 56



	2016
21-40	10%
41-45	10%
46-50	13%
51-55	17%
56-60	18%
61-65	15%
66 or older	17%

When Agencies Anticipate Major Ownership Changes

(involving at least 20% of agency ownership)



QH9, Weighted n=826. QH11, Weighted n=472.

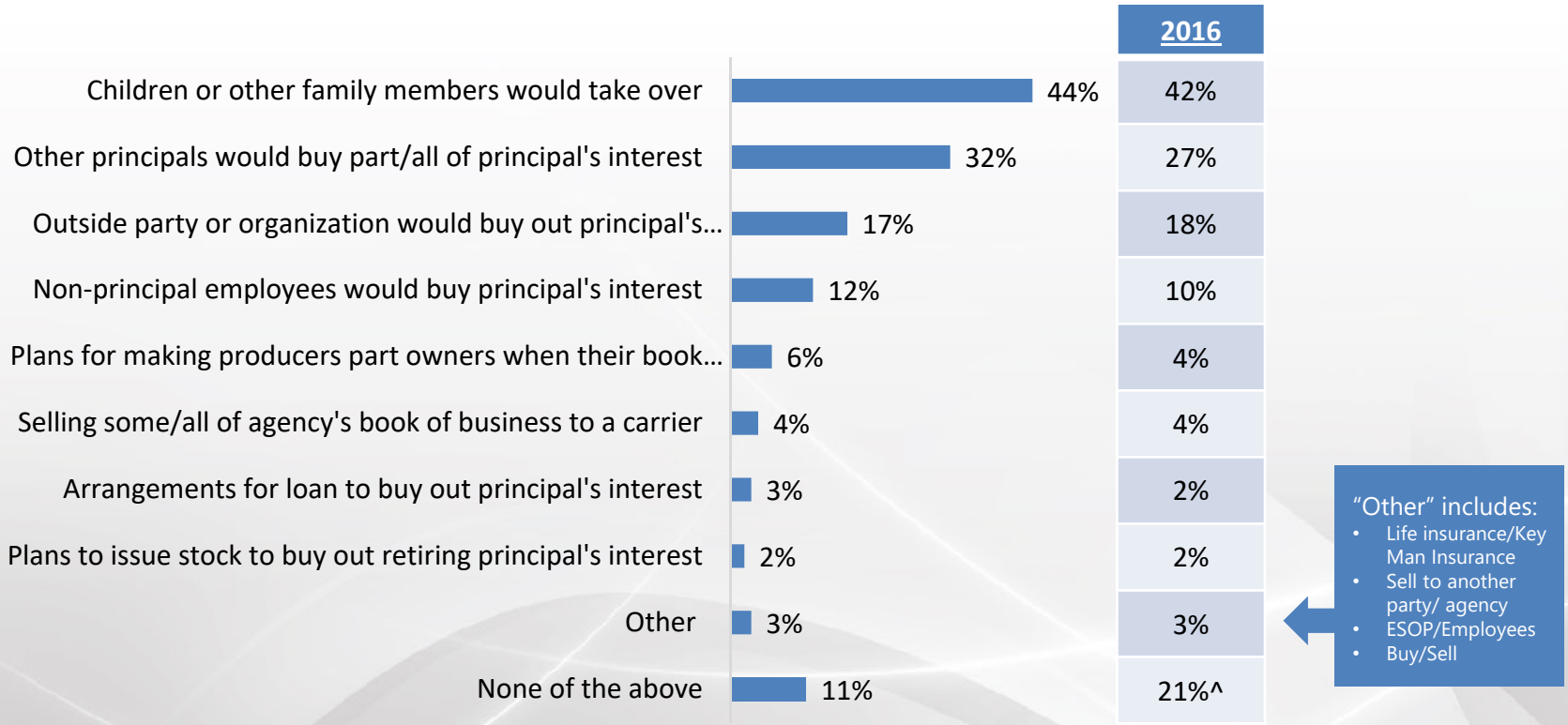
FUTURE OWNERSHIP

Nearly nine out of ten agencies have some type of agency perpetuation tool or plan in place, a significant increase from 2016 (79%).

- From a list of eight tools/plans evaluated, only four are currently in place at 10% or more of independent agencies.

Agency Perpetuation Tools In Place

(Mentions of 2% or more)



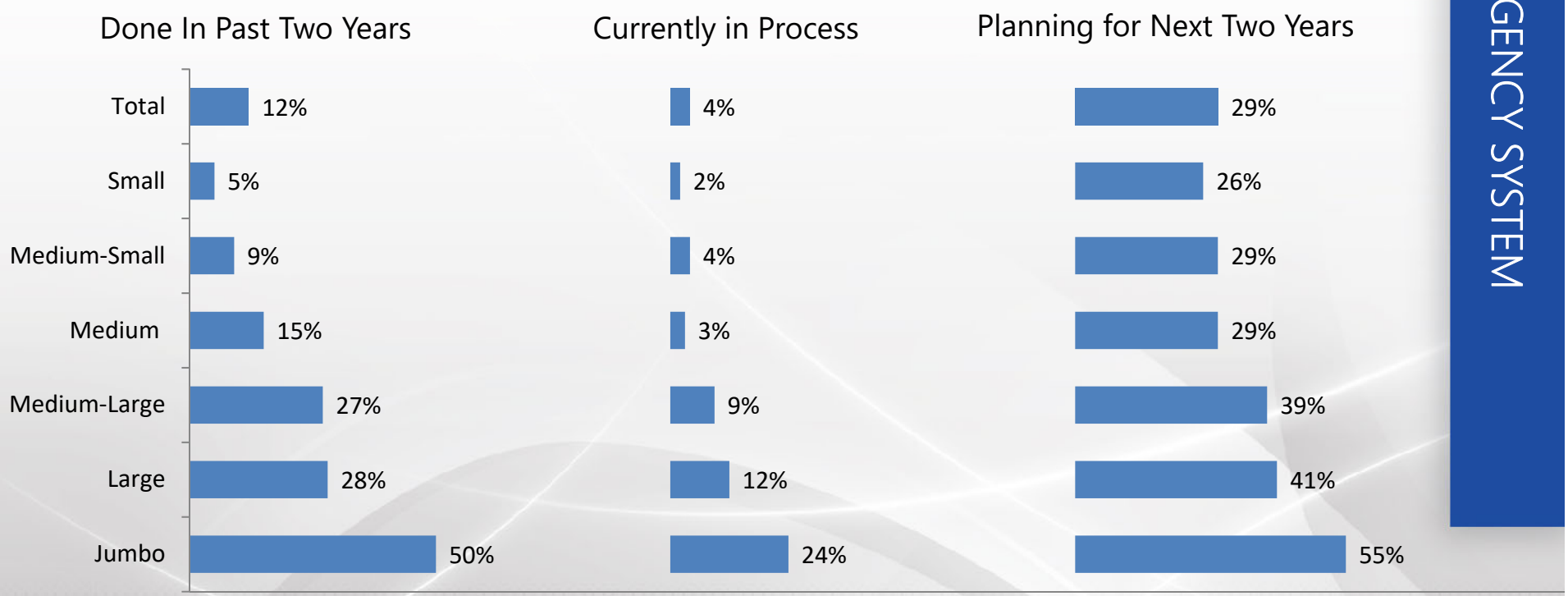
^ indicates significant difference 2016 – 2018 QH10, Weighted n=528.

ACQUISITIONS AND MERGERS

Just over one in ten agencies have been involved in acquisitions or mergers within the past two years. Overall acquisition/merger activity is widespread among Medium Large, Large and Jumbo Agencies.

- Overall, 12% have been involved with acquisitions (7% have acquired another agency's book and 6% have acquired another agency's book and operations), 1% have merged with another agency, and another 3% have converted from exclusive/captive to independent agencies.
- Nearly one-third of agencies have plans for merger/acquisition activity in the next two years; 19% plan to acquire another agency's book and operation, 16% plan to acquire another agency's book. Just 5% anticipate being acquired by another agency.

% Involved in Acquisitions and/or Mergers



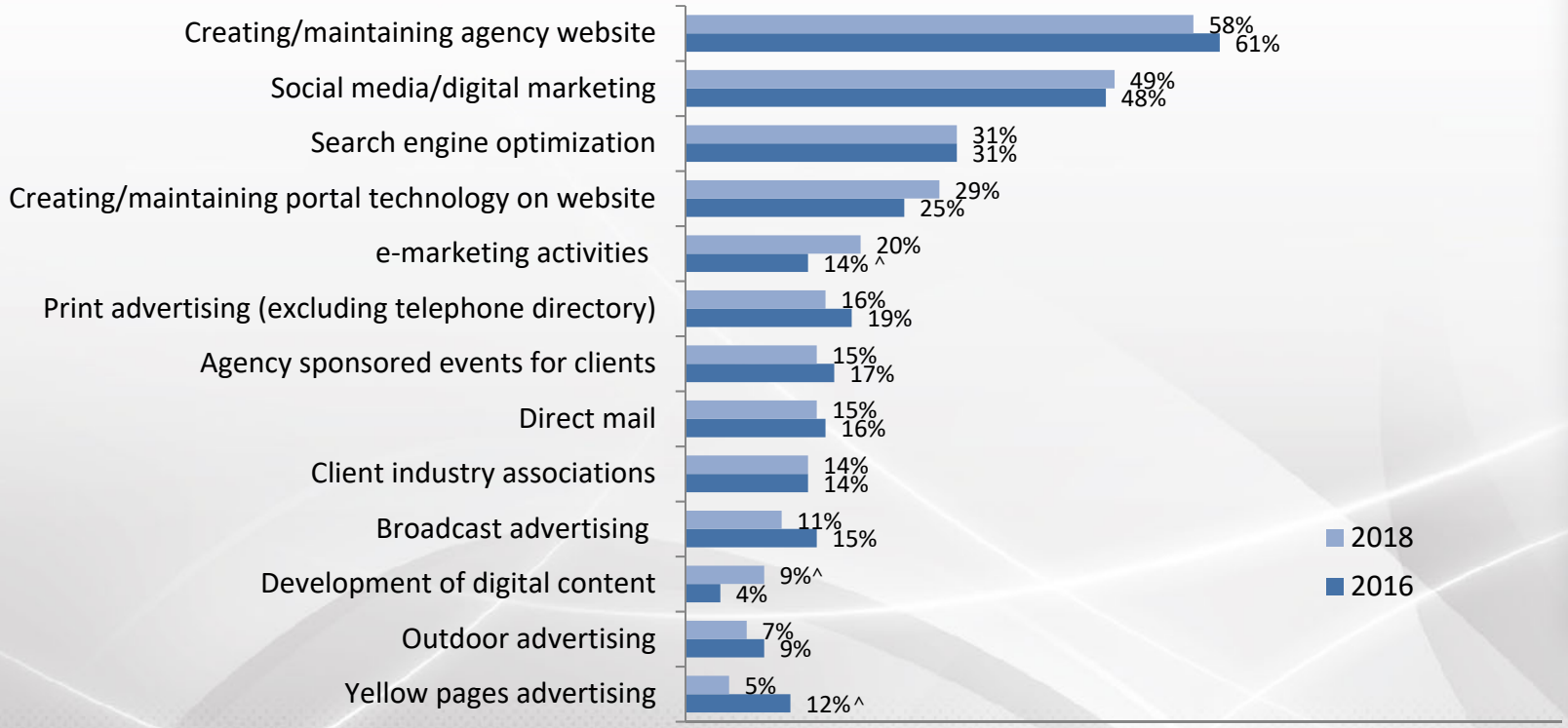
*Among sole/headquarters locations. QA6, Weighted n=1403-1404 Questions revised in 2018; therefore, trending not shown.

TOP MARKETING ACTIVITIES

About half of agencies cite agency website maintenance and social media activities among their top three marketing activities, followed by search engine optimization and portal technology.

- Nearly all (93%) engage in at least one marketing activity.
- Large and Jumbo agencies tend to place more importance on agency-sponsored events and client industry associations, and, to a lesser extent, development of digital content and e-marketing. Small agencies tend to place higher importance on direct mail and print advertising. Medium Large agencies are highly focused on social media marketing; newer agencies focus more on social media and events than older agencies do.

Selected as One of Top Marketing Activities



^ indicates significant difference 2016 – 2018. QI3B, Weighted n=566. QI3B not asked in 2014 or earlier.

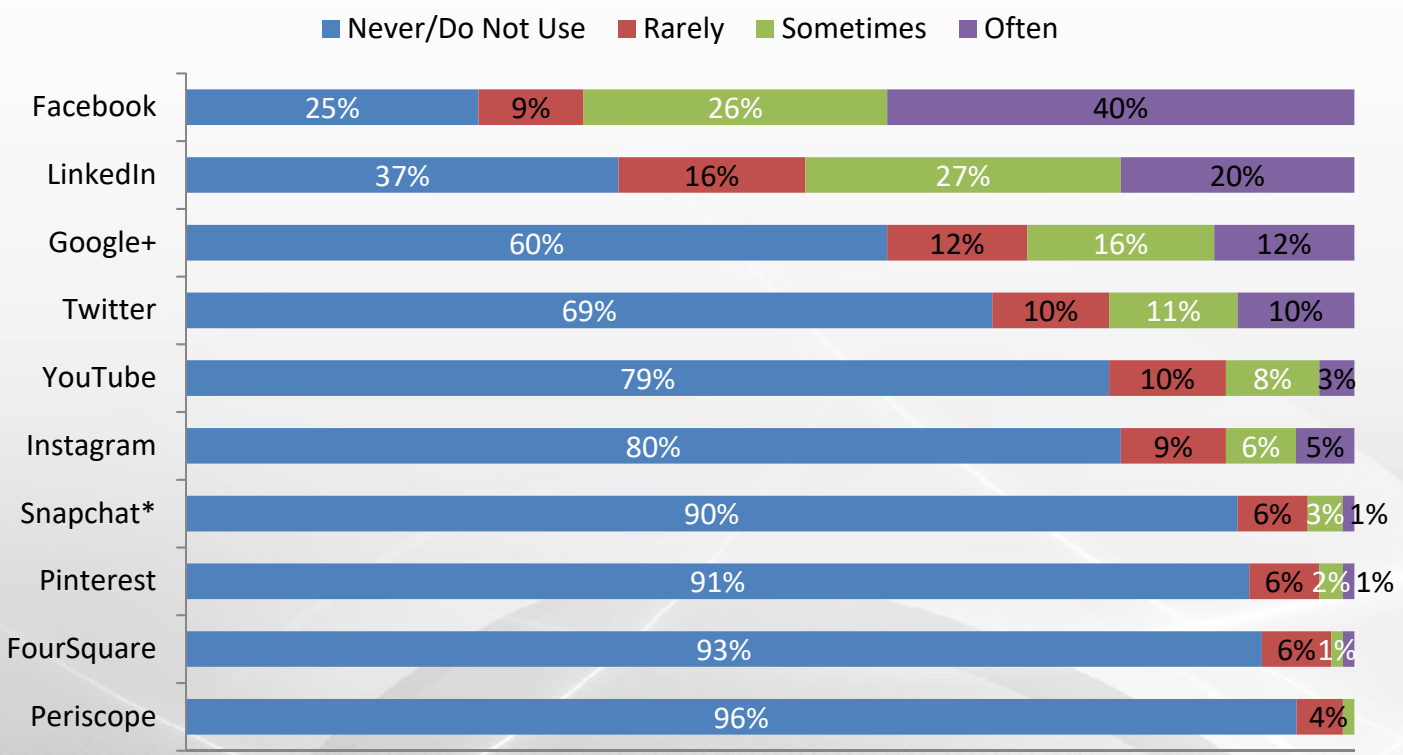
SOCIAL MEDIA

Facebook is the primary social media channel used, followed by LinkedIn. The proportion of agencies using Twitter and Instagram "sometimes" or "often" increased from 2016 to 2018.

- Large and Jumbo agencies are more likely than Small and Medium-Small agencies to use LinkedIn (85% of Jumbo, and 64% of Large agencies use LinkedIn "sometimes + often"), Twitter (31% of Large and Jumbo agencies use Twitter "sometimes + often"), and YouTube (22% of Jumbo, and 21% of Large agencies use YouTube "sometimes + often") .

2018 Social Media Channels Used

(Among Those That Include Social Media in Marketing Program)



% Often + Sometimes	
2018	2016
66%	61%
47%	46%
28%	22%
21%	15%^
11%	7%
11%	7%^
4%	N/A
3%	3%
1%	1%
<1%	1%^

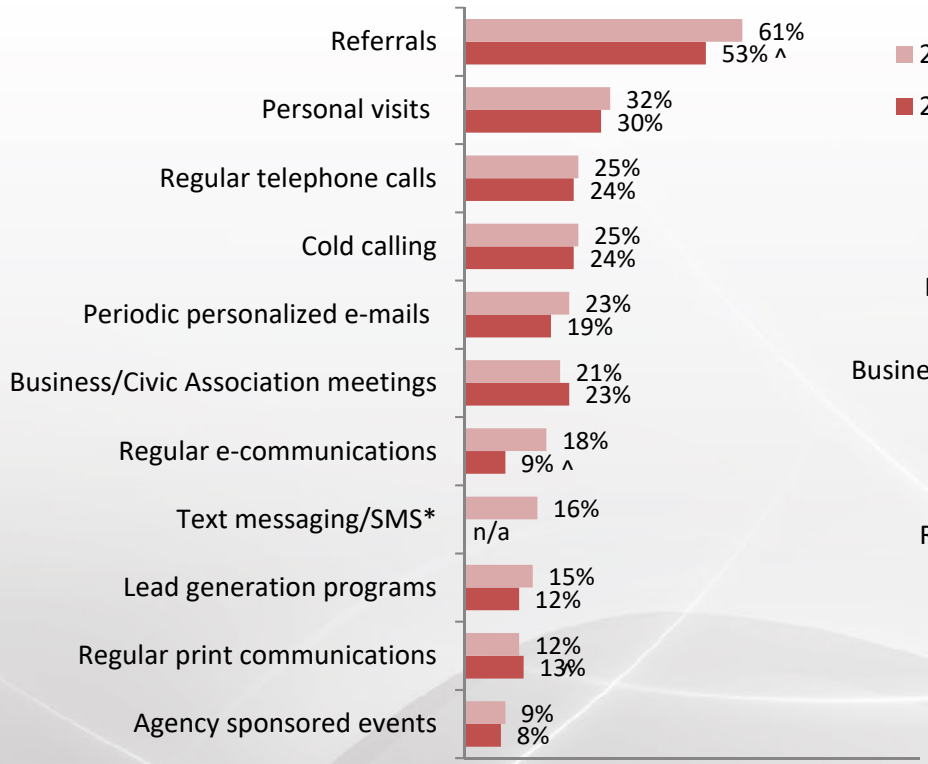
^ indicates significant difference 2016 – 2018. QI3FB, Weighted n= 565-575 (bases vary by row). *Item added in 2018

COMMERCIAL LINES

Referrals remain key in commercial lines prospecting, while annual reviews, personal visits and telephone calls are the primary means of keeping in touch with customers.

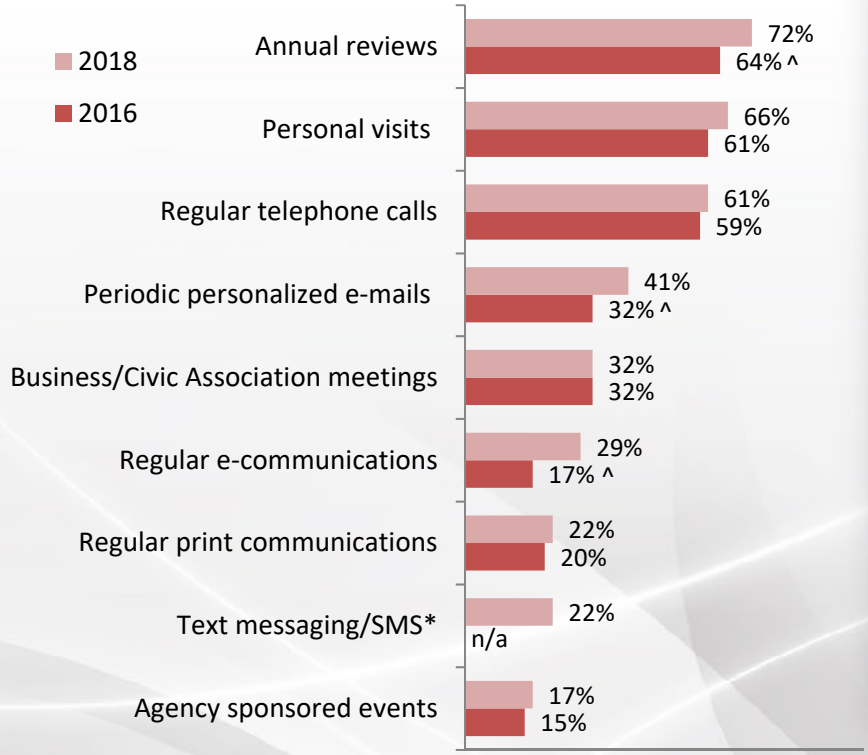
- Compared to 2016, more agencies are using referrals and e-communications for commercial lines prospecting. Annual reviews, personalized emails and regular e-communications are used more frequently for keeping in touch with customers. One in five are texting with customers.

Commercial Lines: How to Keep in Touch with Prospects



2018
2016

Commercial Lines: How to Keep in Touch with Clients



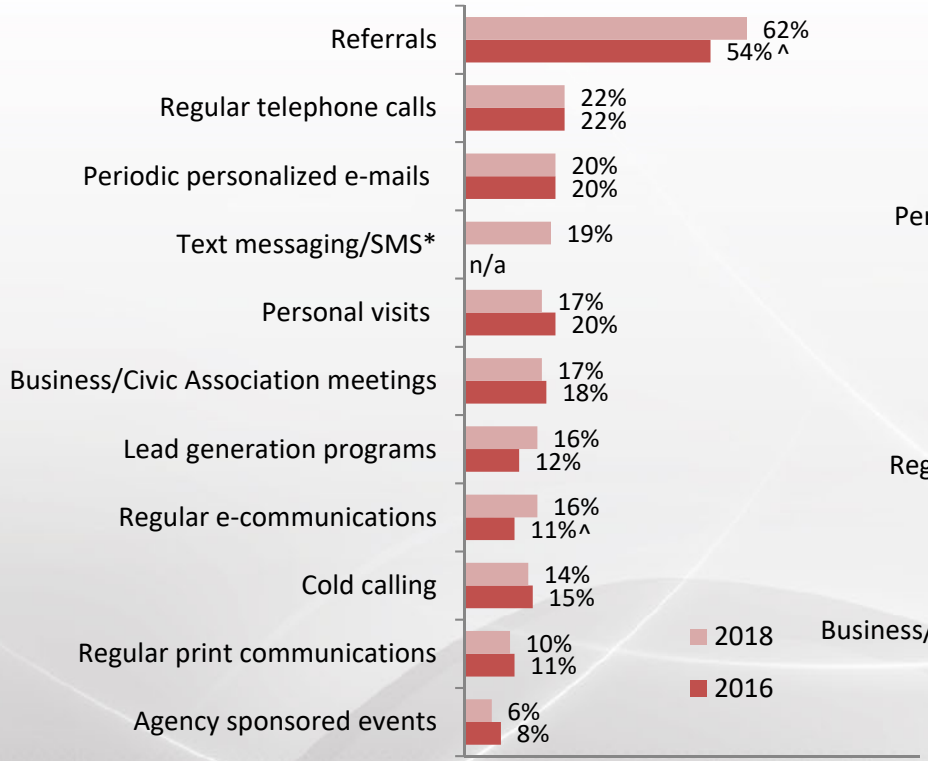
^ indicates significant difference 2016 – 2018. QI5, Weighted n= 531, 547. *Item added in 2018

PERSONAL LINES

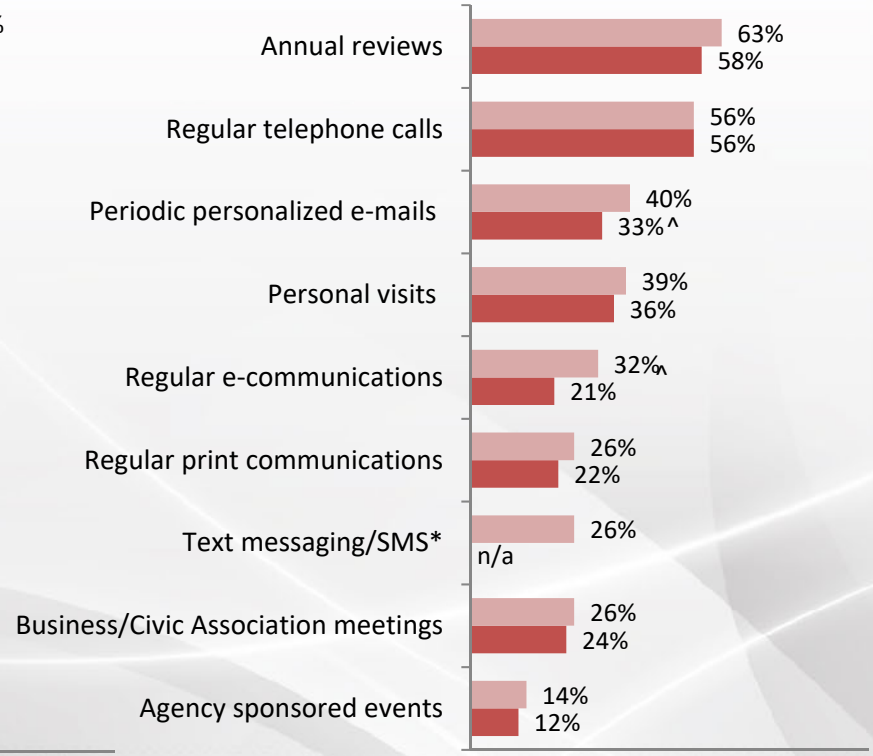
Referrals are also most important in personal lines prospecting, while annual reviews and telephone calls continue to be the primary means of keeping in touch with personal lines customers.

- The use of regular e-communications is significantly higher compared to 2016 for both prospecting and customer contact, whereas the use of referrals for keeping in touch with prospects and personalized emails for keeping in touch with customers has increased from 2016. One-fourth are using text to communicate with personal lines customers.

Personal Lines: How to Keep in Touch with Prospects



Personal Lines: How to Keep in Touch with Clients



^ indicates significant difference 2016 – 2018. QI5, Weighted n= 528, 546. *Item added in 2018

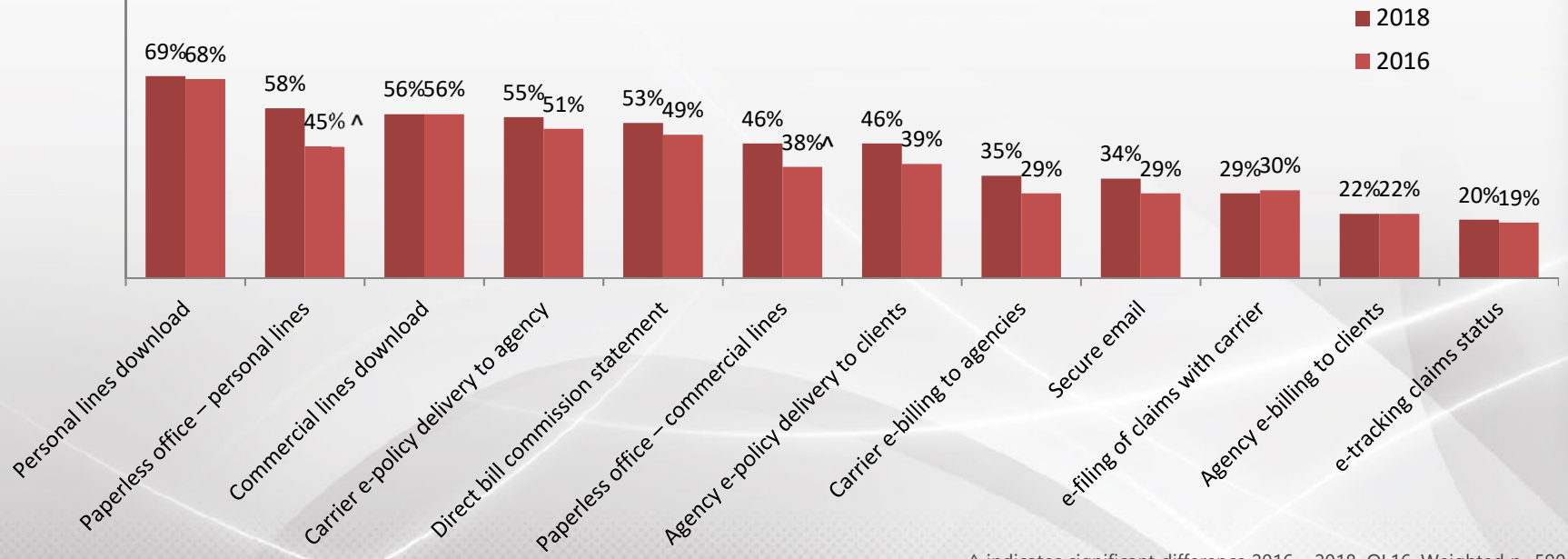
PROCESSING TECHNOLOGY

Nearly seven in ten agencies use personal lines download tools and more than half use commercial lines download tools. Use of paperless office for both personal and commercial lines increased from 2016.

- E-policy delivery is more common than e-billing.
- For all processing technologies, usage increases with agency size, with Jumbo agencies particularly likely to use the technologies. For example, about eight in ten Large and Jumbo agencies use personal line downloads, e-policy delivery to the agency, and paperless office for personal lines, while seven in ten use agency e-policy delivery to clients, paperless office for commercial lines and commercial lines downloads.

Processing Technology Used

Use at least one type of processing technology: 2018=91%; 2016=90%



^ indicates significant difference 2016 – 2018. QL16, Weighted n=590.

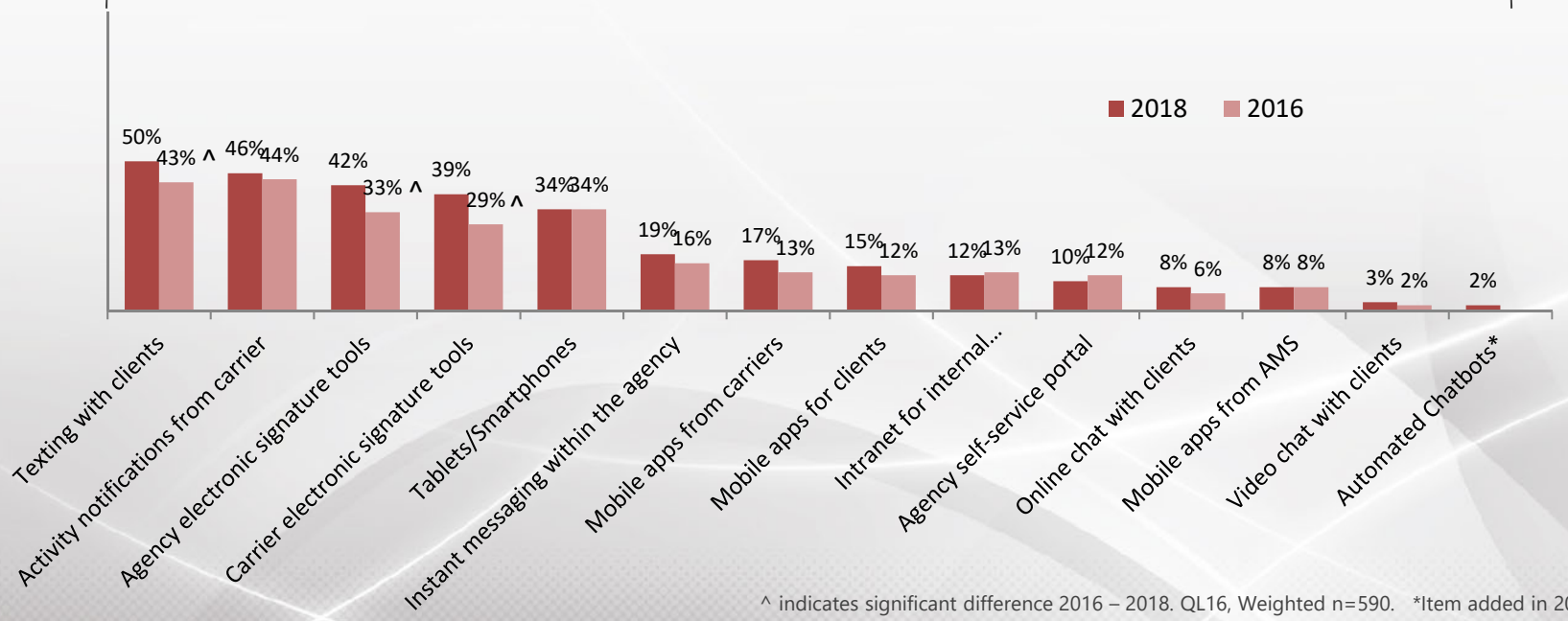
ELECTRONIC COMMUNICATION TECHNOLOGY

Texting with clients and activity notifications from carriers are the most common form of communication technology used while chats are least common.

- Texting with clients, and use of electronic signature tools for the agency and carrier have increased since 2016.
- Use of technology varies with agency size. For example, Jumbo agencies are particularly likely to use tablets/smartphones (63%), an intranet (49%) and an agency self-service portal (37%).
- One in five Small agencies say they use none of these technologies compared to 2-3% of Jumbo, Large and Medium Large agencies.

Electronic and Communication Technologies Used

Use of at least one type of electronic and communication technology: 2018=84%; 2016=82%



^ indicates significant difference 2016 – 2018. QL16, Weighted n=590. *Item added in 2018.

TECHNOLOGY

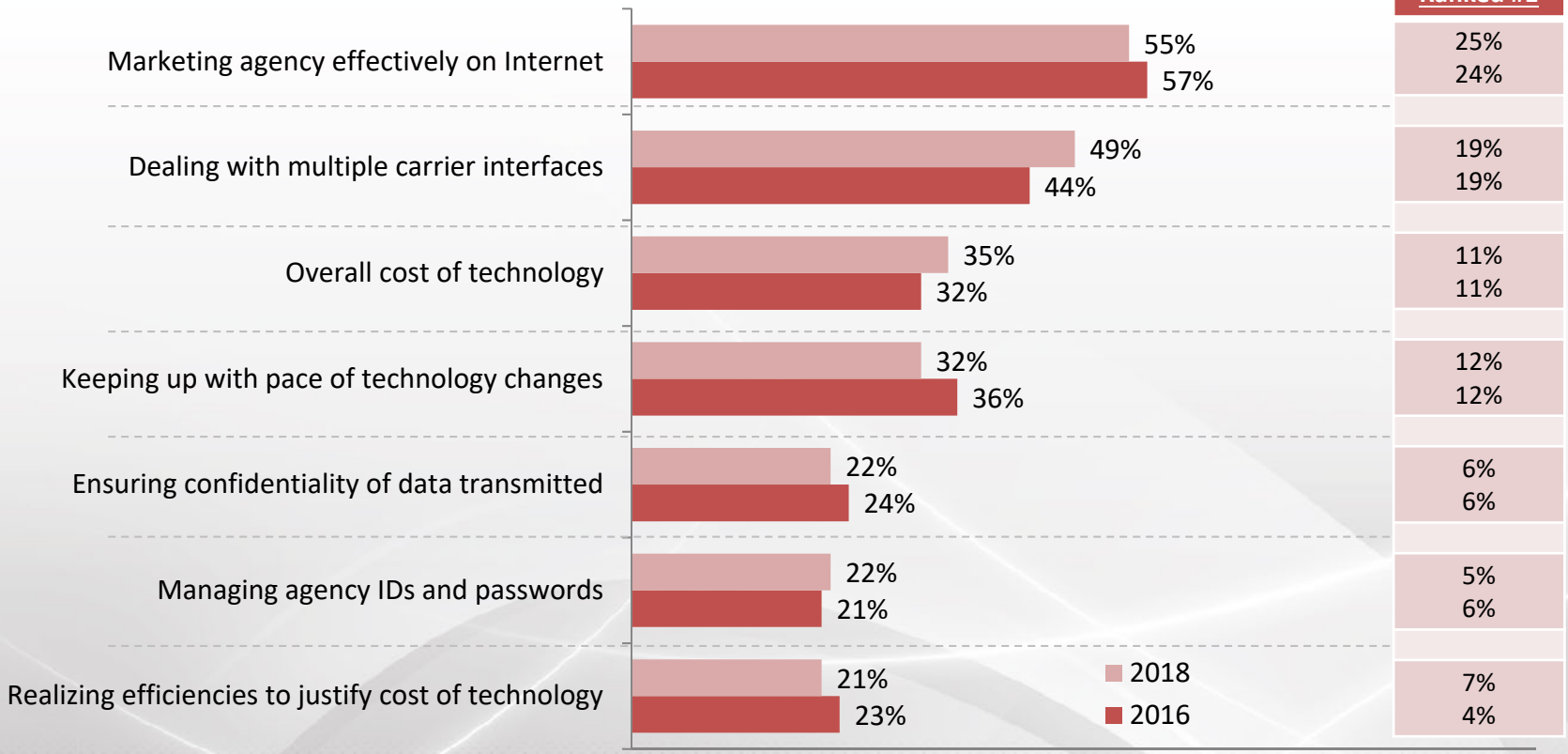
n/a

TOP TECHNOLOGY CHALLENGES

More than half of agencies see dealing with multiple carrier interfaces as 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 and managing IDs and passwords; Larger agencies are most likely to be challenged in staff adoption of new workflows/technologies.

Top Technology Challenges - % Ranked 1, 2 or 3



^ indicates significant difference 2016 – 2018. QL1, Weighted n=593.

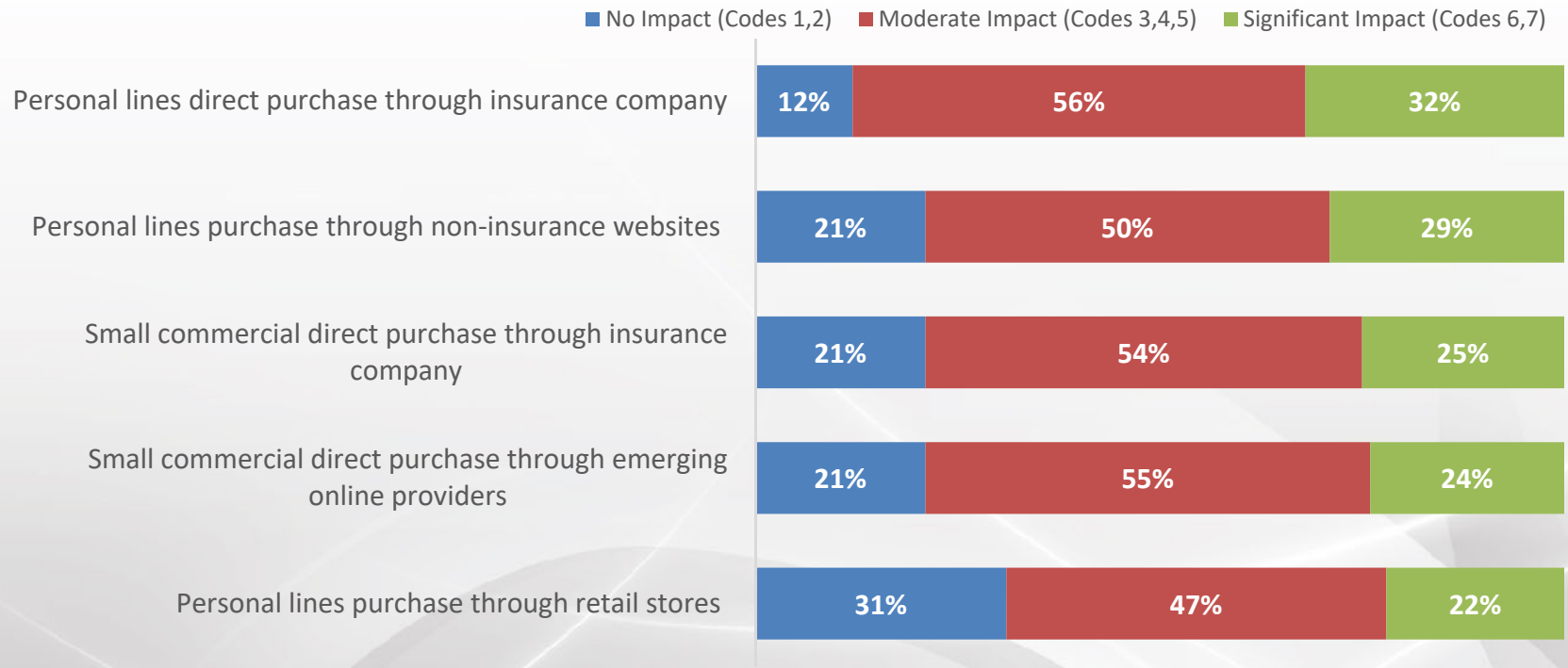
TECHNOLOGY

EMERGING PURCHASE CHANNELS AND TRENDS

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, smaller agencies are more concerned about the impact of all emerging purchase channels.

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



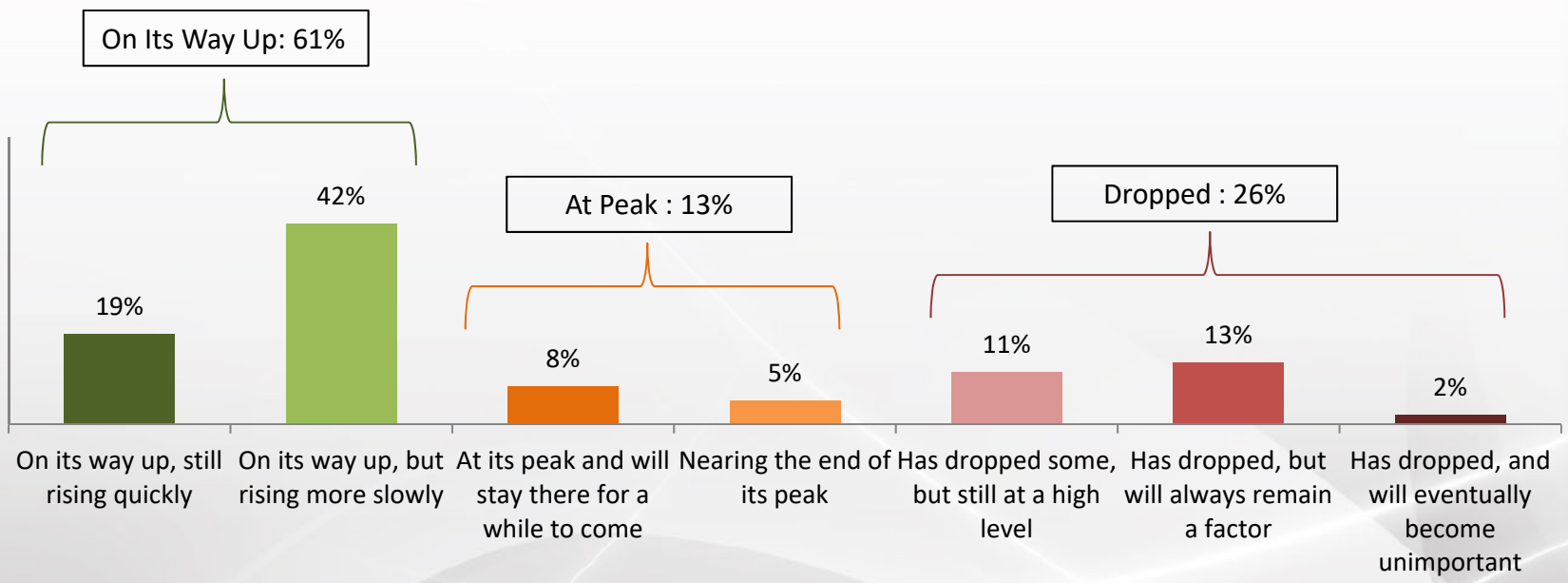
QG5A, Weighted n=574-590. Questions changed substantially from 2018; trending not shown.

INDEPENDENT AGENCY CHANNEL

Agencies have confidence in the Independent Agency channel, with a majority believing it is still on its way up.

- One in four believe the Independent Agency channel is dropping in influence, although almost none expect it to become unimportant.
- Small agencies are most likely to believe that the IA Channel is on the way up (71%), while just over half of all other agencies agree.

Status of Independent Agency Channel



QG4A, Weighted n=564. New question in 2018.

CHALLENGING ITEMS

Finding qualified job candidates is a key challenge for agencies; while growing commercial lines business continues to be a concern, it is less important than in 2016

- Large and Jumbo agencies are most concerned about finding and screening candidates (53%-58%); small agencies are more concerned about getting enough leads (43%) and finding carriers who will maintain their commitment to the market (33%).

Extent to Which Agencies Find Each Item Challenging

6/7 on 7-point scale, 7=extremely challenging

	2016
Finding and screening job candidates with strong potential***	n/a
Growing commercial lines business**	45%^
Getting enough leads***	n/a
Having sufficient advertising/marketing budget to promote agency	43%^
Meeting carriers' production/growth goals	34%
Making personnel, technology, and other expenditures to grow	33%
Growing personal lines business*	37%
Building strong internet presence to attract prospects and clients	36%^
Retaining experienced producers	31%
Finding carriers to maintain commitment to your market	34%^
Identifying new ways to add value to agent/client relationship***	n/a
Having carriers address new commercial lines risks with new products,...	29%
Retaining experienced staff (other than producers)	26%
Building your brand with customers	28%
Handling the leads I receive***	n/a
Motivating staff to use new technology	16%
Using internet to access agency management information	15%

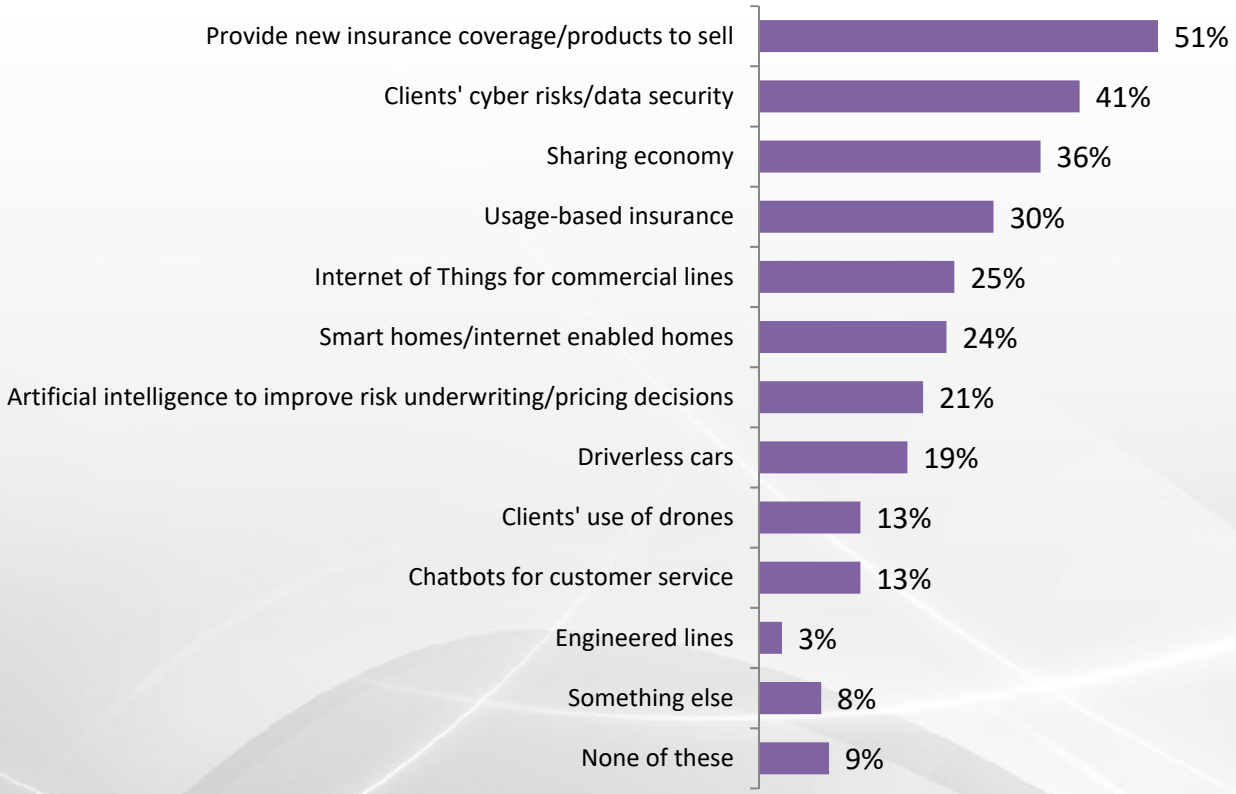
*/** Asked only for respondents who write personal lines/commercial lines, respectively. QG4, Weighted n=559-618. *** New item for 2018

ISSUES FACING CARRIERS

Half of agencies would like carriers to provide new coverages/products, and more than one in three would like carriers to address client cyber risks and the sharing economy.

- Interest in having carriers address client cyber risks increases with size of the agency.
- Small agencies are most interested in having carriers address smart homes (31%); Jumbo agencies are most interested in having carriers address the internet of things for commercial lines (36%) and AI to improve risk underwriting (36%).

Most Important Issues for Carriers to Address



QG5B, Weighted n=533. New question in 2018.

AGENCY STAFFING

Agency staffing breakouts by gender and ethnicity are generally comparable to 2016. However, the average number of CSR's increased significantly from 2.5 to 3.4.

- Almost all (92%-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 (72%-79%).
- 13% of newer agencies (established within past five years) have at least one African American principal, versus 2% of established agencies.
- Newer agencies are also more likely to have at least one non-principal producer who is female (86% vs. 64%) or African American (16% vs. 3%). Other than age of agency, no meaningful differences are noted among agencies with minority principals.

% 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	83%	43%	68%	25%	33%
Women	35%	72%	67%	87%	81%
Ethnicity					
Caucasian/Non-Hispanic White	88%	84%	89%	86%	89%
Latino/Hispanic	6%	12%	16%	20%	13%
African-American/Black	4%	5%	4%	9%	6%
Asian Indian/Other South Asian American	2%	1%	2%	3%	4%
East Asian-American/Pacific-Islander	1%	1%	3%	3%	2%
Native American or Alaska Native	1%	1%	2%	1%	0%
Full-time Employee Equivalents					
Average	1.4	1.3	2.5	3.4	1.8

QF1A/F2/F3, Weighted n= 650, 201, 352, 417, 162.

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