



WHITE PAPER

Embracing the agent advantage:

Independent Agents as front-line underwriters

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This is the fifth article in the P&C Underwriting Excellence series, featuring BCG perspectives on topic areas impacting Property & Casualty (P&C) insurers' ability to select accurately and efficiently, price, and tailor risk. This series seeks to offer guidance on business, financial, technology, and organizational strategies for today and the years to come.

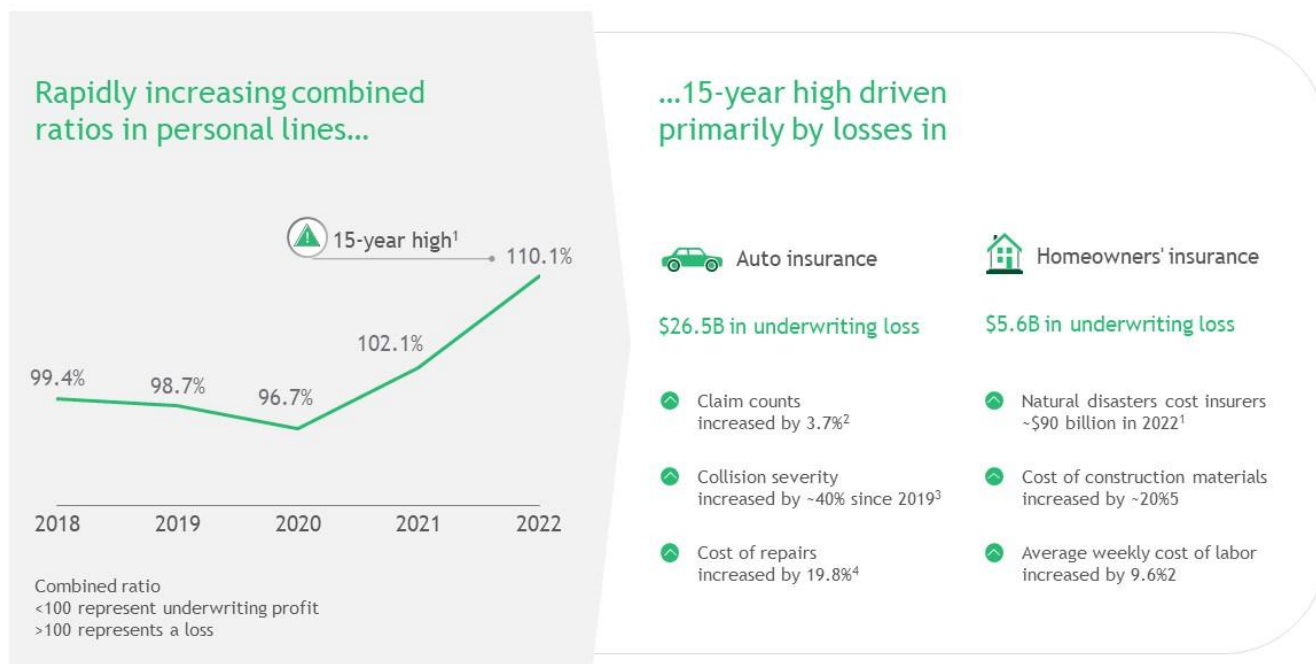
Introduction

As the fifth installment in our series, this article builds upon the preceding discussions, especially the previous piece on [Becoming the Underwriter of Choice for Brokers](#) focused on commercial insurance distribution. There, we focused on the intricate dynamics between underwriters and brokers, underlining the critical factors that make an underwriter a preferred choice: transparent communication, tailored products, risk appetite clarity, and reliable broker support.

The independent agent's role in personal lines draws parallels to the role of a broker in commercial lines, yet the dynamics and context are distinct. While commercial insurance involves placing large, diverse risks that call for tailored coverage and unique solutions, personal lines, which cover more homogenous risk compared to commercial lines, skew towards commoditization. Moreover, the role of underwriting is fundamentally different in personal lines insurance. Underwriting has evolved into a primarily algorithmic, rules-based function that leverages accessible, third-party data points (e.g., driving records, vin numbers, replacement cost estimates) to guide risk selection and pricing, with relatively minimal risk tailoring. While independent agents (IAs) do have the ability to personalize coverage to an extent - such as adjusting limits and setting deductibles - the level of customization does not compare to the intricate negotiations commercial brokers often engage in with underwriters to tailor terms and conditions to fit complex, large-scale risks. That said, certain personal lines products, notably homeowners' insurance, remain multifaceted, diverse, and geographically dependent. Success for many carriers is intrinsically tied to their standing as the agent's 'carrier of choice.'

Achieving personal lines profitability has proven challenging, even amidst rapid technological advancements and a shift towards automated underwriting. However, in this wave of digital enhancements and online quoting capabilities, the role of agent remains persistent. Their localized knowledge and unique expertise continue to underpin IA's importance as a distribution channel. All else equal, an agents' product endorsement is often what drives a sale. As such, becoming the 'carrier of choice' for agents means the difference between merely surviving in the competitive landscape and driving profitable growth. In this article, we aim to underscore the importance of these IAs, illuminating how their unique skills and knowledge can help insurers traverse the myriad of challenges they face, thereby charting a course towards more sustainable growth and profitability.

Exhibit 1 – Personal lines profitability has proven challenging



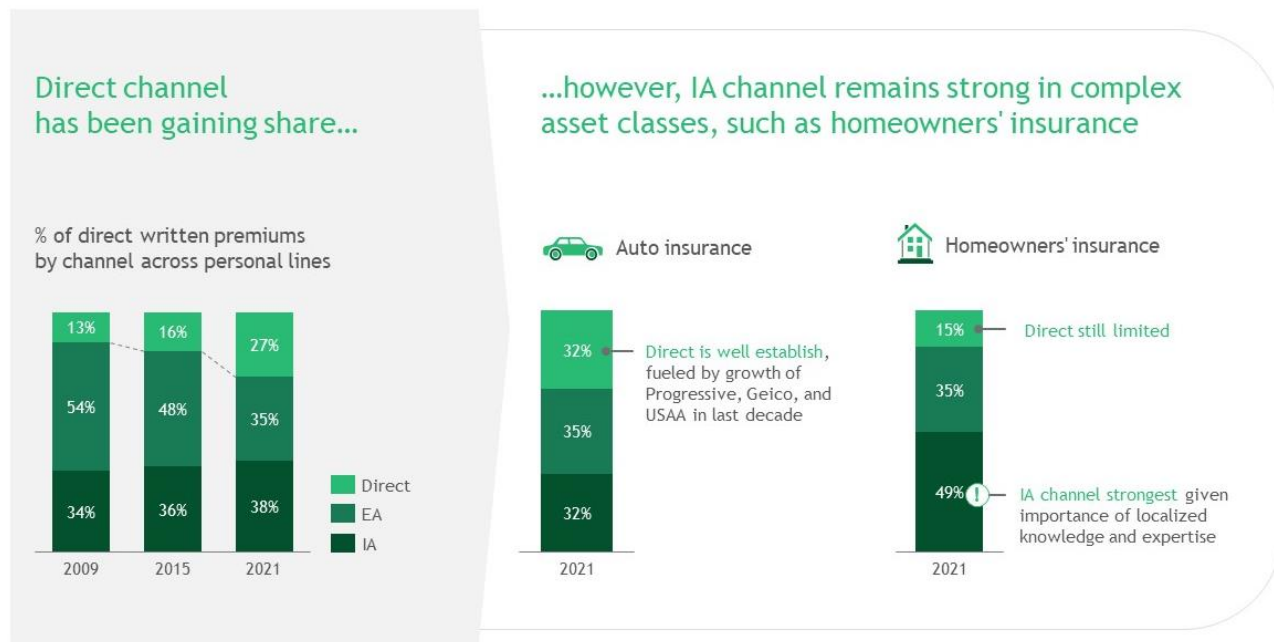
1. National Association of Insurance Commissioners 2021 and 2022 Annual Property & Casualty & Title Insurance Industries

2. CCC Intelligent Solutions Crash Course Report 2023; increase between 2021 and 2022 for claim counts and between Q2 2021 and Q2 2022 for average weekly cost of labor 3. LexisNexis 2023 U.S. Auto Insurance Trends Report 4. June 2023 Consumer Price Index; increase between June 2022 and June 2023 5. Associated General Contractors of America Construction Association; increase between 2021 and 2022

The rise of direct and enduring role of legacy channels

The advent of direct-to-consumer models in the insurance industry has brought a significant shift in the landscape, as direct channel has gained share from agency over the last decade in personal lines. Digitalization and online quoting have simplified the process, enabling potential policyholders to get quotes and buy policies at their convenience. However, despite this surge in digital capabilities, IAs have managed to sustain their relevance, especially in dealing with more complex asset classes. In fact, certain digital disruptors have encountered roadblocks in their growth trajectories, finding themselves needing to rebuild relationships with IAs they previously treated as competitors. Moreover, as IA satisfaction with carriers has improved over recent years, digital disruptors have faced an even greater need to strengthen relations with IAs. Additionally, some carriers who have enjoyed success in one product line (e.g., auto) are finding that the same strategies don't necessarily translate to other products (e.g., homeowners) when dealing with IAs, who wield significant influence in customer acquisition and retention.

Exhibit 2 – Personal lines direct distribution increases, but IA remains strong in complex asset classes



Source: Independent Insurance Agents & Brokers of America (The Big "I") 2010, 2017, and 2022 Market Share Report

IAs' expertise comes into particularly sharp focus when it comes to unique products and geographies. While online quoting works well for relatively homogeneous products like auto or renters' insurance, homeowners' insurance presents a fundamentally different challenge. Homes, in their inherent heterogeneity, require a deeper understanding of their unique attributes, something that's more challenging to capture through online quote flows. IAs, with their local knowledge, not only understand the unique characteristics of individual homes but also have a keen grasp of regional competitive dynamics. They are often better positioned to promote regional carriers for certain products, making them invaluable assets in these complex and nuanced insurance landscapes. This underscores the continuing importance of the IA in an industry increasingly influenced by digital capabilities.

Striking a balance: universal standards vs. localization

Insurance built for mass production, with its universal underwriting rules, standardized rates, and broad applicability, caters well to a world of rapid online quoting, streamlining the process for both insurers and the majority of policyholders. This model, adopted and enhanced by national players, has led to significant strides towards standardization, offering a host of advantages including efficiency, simplicity, and broad demographic coverage. However, this standardized approach often overlooks the nuances of unique, localized risks and the need for personalization, which may leave certain policyholders inadequately protected or overcharged.

In contrast, IAs provide a complementary approach, bringing local nuances to the forefront. Their deep understanding of local intricacies, coupled with strong institutional knowledge of their territories, allows them to offer personalized insurance solutions. This could range from recognizing trends in local construction, such as knowing that homes built in a certain year all used a specific type of copper pipe prone to bursting, to understanding local climate risks. These granular details, often overlooked, can significantly impact the suitability and pricing of a policy. In this regard, the role of an IA often mirrors that of a front-line underwriter, particularly for risks that sit on the edge of a carrier's appetite. In many cases, carriers have fully come to expect that the role of an IA should mirror that of a front-line underwriter, where IAs interpret and apply the standardized rules in a specific context, resulting in a more accurate assessment of risks and more tailored coverage, thereby better

serving the policyholder's needs. This blend of global standards with local personalization makes IAs an invaluable part of the insurance ecosystem.

Regional carriers' stronghold on the agent channel

Many national carriers, despite their broad reach and massive marketing budgets, struggle to effectively capture and maintain a strong presence in the IA channel. Their one-size-fits-all strategy, while it appeals to a vast demographic, often fails to recognize and account for unique local risks and variations. On the other hand, IAs, deeply ingrained in their communities, understand these localized dynamics and hold a strong affinity for their regional carriers. A 2022 study by J.D. Power provides compelling evidence of this affinity. According to their findings, Erie Insurance ranks highest among insurers of personal lines, with a score of 838, followed by Auto-Owners Insurance second and The Hanover third. These carriers exemplify an approach that embraces local conditions, builds strong relationships, and provides responsive support.

The larger carriers, despite their vast resources, often find it challenging to match this level of personalization and support, primarily due to the constraints of scale and a structure that favors universal applicability over local customization. IAs typically find that personalized, flexible underwriting, and superior service lead to higher customer satisfaction and retention rates. Thus, the agility, flexibility, and personalized approach (e.g., policy design, product bundling, support for IA's targeted industries) of regional carriers emerge as a strategic advantage in the personal lines market, where agent relationships and local knowledge are paramount. In particular, IAs enjoy a distinct advantage in segments such as high value personal lines insurance, where their ability to personalize insurance offerings (varying levels and types of coverage, endorsements, etc.) meets the complex needs of high-net-worth customers. IAs function as a valuable conduit between policyholders and carriers, helping to deliver a more customized and service-oriented experience for the customers.

IAs as part of the climate strategy

As climate change increasingly reshapes our world, it's also transforming the landscape of insurance. Particularly in areas heavily impacted by shifting weather dynamics, the role of the agent has become increasingly important. Consider states like California or Florida, where geographic exposures to wildfires or hurricanes can vary dramatically within short distances. The task of accurately assessing these localized risks, and subsequently pricing them, is not easily accomplished through blanket underwriting rules and online quoting. Instead, it requires a more surgical approach that takes into consideration the micro-geographies and their unique vulnerabilities.

In these complex environments, IAs offer a wealth of local knowledge and nuanced understanding of the area's climate-related exposures. Their firsthand insights into the regional variations in risk and their potential impact on properties are invaluable in ensuring fair and accurate pricing and coverage. By offering personalized service and tailored advice, they can help policyholders navigate the labyrinth of climate risk, advocating for coverage that accurately reflects their individual exposure to different perils. At the same time, their expertise aids carriers in developing more accurate risk models and pricing strategies.

Simply pulling out of high-risk geographies may not be the best long-term solution and will certainly leave many uninsured. By appropriately leveraging a network of trustworthy IAs, carriers can continue to operate in more challenging geographies. IAs play a vital role in discerning marginally insurable risks and ensuring policyholders have appropriate coverage. Additionally, IAs help homeowners mitigate risks by offering guidance on home hardening measures such as construction materials, renovations, and creating defensible spaces. Their proactive approach fosters resilience, benefiting individual homeowners and contributing to overall risk reduction. This approach positions IAs as critical players in the insurance ecosystem and a big contributor towards more resilient communities and a more sustainable insurance sector.

The evolving role of IAs

The personal lines landscape has undergone significant transformation, driven by advances in technology and automated underwriting, as well as consolidation among large carriers and agencies. Nearly one-third of agencies report having plans for merger/acquisition activity in the next two years, likely driven in part by the fact that the average age of principals who own 20% or more of their agency is nearing retirement at age 54. Moreover, the infusion of private equity over the last decade continues to be a major driver of consolidation for IAs. In the future, this wave of consolidation may shift power dynamics between IAs and carriers, giving IAs greater flexibility to determine rates and terms. Amidst this digital revolution and consolidation, IAs have remained crucial players, adapting and evolving their role to remain essential in the industry. While digital capabilities have replaced many aspects of traditional underwriting, the critical role of risk selection has shifted in part to IAs, who now act as the first line of defense in assessing and understanding the complexities of personal lines risks.

While the role of IAs varies by market, in many markets, such as those facing capacity constraints, the role of IAs extends beyond sales, encompassing the critical task of risk selection. With the reduction of post-bind human oversight in automated underwriting, IAs step in to ensure thorough evaluation of risk and appropriately tailored coverage. Their in-depth understanding of risks, combined with their ability to navigate local complexities, positions them as indispensable partners in the underwriting process. While data, AI capabilities, and automated underwriting enhance risk selection and pricing, there are still segments that require the expertise and personal touch that only IAs can provide. By aligning incentives to reward IAs for their extra efforts in selecting better risks, insurers can foster an environment that values their contributions and encourages continued excellence in risk assessment. This becomes increasingly important as the cost of insurance premiums continues to rise and IAs are faced with greater competition to deliver competitive rates to their customers. Additionally, as insurers tighten underwriting guidelines, in some cases requiring pre-quote documentation for personal lines, IAs' customer acquisition timelines and costs are likely to increase, reinforcing the need for carriers to revamp incentives.

In this dynamic landscape, the evolving role of IAs remains vital to the success and profitability of personal lines insurance. Recognizing their expertise, not only in sales but also in risk selection, and ensuring proper incentivization can further strengthen their position as invaluable underwriting partners. By embracing their unique contributions, insurers can capitalize on the deep industry knowledge and customer-centric approach of IAs, driving improved risk management outcomes and sustainable growth in the ever-changing personal lines insurance market.

The “so what?”

The evolving role of IAs in the personal lines insurance industry carries significant implications for carriers. Recognizing the enduring value of IAs, becoming the carrier of choice for agents is paramount in driving both growth and profitability. While digital capabilities have revolutionized the industry, the expertise and localized knowledge of IAs remain essential in navigating complex risks and tailoring coverage to meet policyholders' needs.

Exhibit 3 – Independent agent value chain



Source: J.D. Power 2020 U.S. Independent Agent Performance & Satisfaction Study; BCG Analysis

Carriers should consider several key aspects to strengthen their agent strategy:

- **Robust Needs-Based Agent Segmentation** - Implement a comprehensive agent segmentation that delves into the drivers of choice, identifying key factors that influence agents' preferences in selecting carriers. This understanding will enable carriers to determine where to focus their efforts, which segments to prioritize, and how to effectively compete and win in each agent segment.
- **Integration into Broader Distribution Strategy** - Embrace a hybrid distribution model that combines digital capabilities with the value-add of IAs. This approach allows carriers to simultaneously invest in digital advancements while maintaining strong agency relationships. Ensure that marketing and branding efforts align with this hybrid model, creating a cohesive customer experience across all channels.
- **Revamp Incentive Structure** - Rethink the incentive structure for IAs, moving beyond simple growth-based compensation structures, to also reward lower loss ratio, lower claims frequency and severity, and higher retention. Design incentive programs that align with these factors, incentivizing behaviors that drive long-term profitability and sustainable growth.
- **Establish Feedback Loop for Product and Claims Innovation** - Foster a collaborative relationship with IAs, creating a feedback loop to capture their insights and expertise. Leverage their wisdom to drive product differentiation and claims innovation, as IAs possess frontline knowledge of customers' evolving needs and can offer valuable suggestions for improving products and claims processes.
- **Harness the Power of Generative AI to Enhance Agent Relations** - Explore the use of generative AI (GenAI) technologies to enhance agent relations, particularly for small IAs who may lack resources and technology infrastructure. In a previous BCG piece on [Generative AI: Shaping the Future of Insurance Distribution](#), we highlighted how IAs equipped with AI-driven insights can improve the customer experience, offer more personalized solutions, and increase their customer base. By leveraging these technological advancements, carriers can strengthen their relationships with IAs, especially in cases where price competitiveness alone may not be sufficient.

Incorporating these into the agent strategy will help carriers build stronger partnerships with IAs, enhance operational efficiency, drive innovation, and differentiate themselves in a competitive marketplace. By understanding the needs and preferences of IAs, aligning incentives, fostering collaboration, and leveraging technology, carriers can optimize their agent channel, driving growth, profitability, and customer satisfaction.

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