After the Internet, Comes The Invasion of the Insurance Exchanges

Independent Agents May Soon Have a New Opportunity, Says MarketScout's Kerr

By Andrew G. Simpson

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 wholesaler MarketScout.

Richard Kerr, president and CEO, MarketScout

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.

E-commerce attempts failed

First, Kerr offered a little history. In 1999, there were about 127 e-commerce models whose purpose was to sell insurance. 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.

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Five years ago, 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.

Rather than displacing independent agents as predicted, the Internet has helped prove their value, he contends. "The industry has awakened to the reality that the independent agent serves an important role. They tried to cut you out and it didn't work. So

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now they've got to get to know you and cozy up to you," Kerr offered.

Today, according to the Market Scout executive, there are only four viable e-commerce models remaining, none of which aims to displace the independent agent. Instead, the active systems help insurance companies align with agencies and give agents, not their customers, direct access to commercial lines markets, which is what Market Scout does. Aggregators like Market Scout operate in many respects like the exchanges Kerr sees becoming a popular distribution model.

He maintained that insurance companies

Under the insurance exchange model, a group of different carriers unites under a common banner to provide agents with access to all the markets they need.

know how to get into the big 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. He said insurers realize that this book of business is healthier, more diversified and more profitable than a handful of high profile, behemoth accounts.

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, each 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.

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.

Independent insurance agents are flourishing for a number of "very sound" reasons, Kerr maintained. The fact that they provide a real service that both buyers and insurers need is becoming even more recognized than before.

"Independent agents are in a great spot right now. Who wants to work for a national broker? They are great and we need them but it's hard to get rich working for a national broker today."

He said the public and even the tax code like independent businesses. "Where else can you go to work and walk out with an asset that will be worth millions of dollars?"

Kerr said he does not know how all of the details of exchanges, including potential antitrust concerns, might be worked out. But, he maintained, "efforts are underway right now" among insurers to make exchanges a reality. IJ