Start-Up Agencies
By Chris Burand

A lot of guessing has been occurring lately regarding how many independent insurance agencies exist and how many have disappeared. I've seen estimates of existing agencies range from 25,000-70,000 and these are researched numbers, not just willy nilly guesses. I imagine one reason the variance is so high is because different researchers use different definitions of an independent agent, such as captives that are legally independent, the clusters, and the various brokerage arrangements.

One figure upon which the research tends to agree is the number of independent agents is not declining nearly as fast as many predicted a few years ago and it may be increasing slightly. Research suggests the decline, or even slight growth, is being buoyed by very small agencies, many of them new. This is exciting because it suggests the barriers to entry, the barriers to starting an agency from scratch, are decreasing. It is easier to start an agency today for many reasons, primarily technology, changing markets, and outsourcing.

Technology
Today's technology allows new agencies to bypass expensive agency automation systems, at least initially. Simple internet access to carriers', MGA's, and GA's Web sites enable small agencies to write a wide variety of accounts. Good off-the-shelf accounting software also enables new and small agencies to do just fine without industry standard automation systems. (A strong caveat that applies to all insurance agency accounting but particularly to those agencies using off-the-shelf general accounting packages is that users still need to know appropriate insurance agency accounting and its unique issues. I find a greater percentage of agencies using such software having serious accounting issues than those using industry standard systems, not because the software is bad but because the user is often not adequately educated on insurance agency accounting.)

I have seen a number of small agencies do just fine, sometimes even outperforming more established and slightly larger agencies, using web-based systems and off-the-shelf software. Agencies of that size do not always need as much industry specific infrastructure to thrive.

Markets
Technology has also enabled the expansion of market availability. A very long time ago (about 120 years ago) carrier volume requirements were not significant. As carrier clout increased, internal knowledge of their own cost structure improved, and perhaps even their dependence on investment income increased, they began instituting higher volume requirements. With improved technology and a revised distribution strategy, this trend is reversing. Carriers' cost of sales has decreased now so that by working with brokers, they can consolidate/aggregate lots of small books and even accounts at such a low cost that carriers can still make money. This is one reason why some brokers can pay 10% commission whereas agencies with direct contracts may only earn 2 or 3 percentage points more. The spread between brokered commissions and direct contract commissions has narrowed considerably. Some technology is so good today that carriers can write small books directly, without brokers (although that remains rare for the time being). Of

course, not all carriers use this technology and others use it but have not yet reduced their volume requirements as they try to get the best of both worlds.

Carrier service centers also facilitate new and small agencies. Not all companies' service centers work well and one or two are notoriously bad, which does the industry a great disservice. All service centers have some drawbacks and those negatives often outweigh the positives, especially for larger agencies and agencies use to providing high levels of very personal service to all accounts. But for new agencies, this is a very viable option. Carrier service centers enable a new agency to do more with less which is especially important because the new agencies do not often have the capital to hire staff and/or buy large automation systems.

Another example of expanded market availability are the Web-based markets whereby an agency can go to a web-site with a risk and determine if any of the markets on that site want to write the risk.

Contracted Services

Virtual offices are now available where office space, some staff, and office equipment can be shared. Sometimes these services are shared in a common location and other times the services are off-site.

Contracted loss control is another good example where an agency does not have to be huge to offer quality loss control. This enables even small agencies to write large accounts if they can access the required markets, which through the various avenues noted above, is more and more feasible.

The Reality

This is reality. These are not things that will happen in the future. I know small agencies successfully using each of these tools, but I also know another reality is that many agencies do not have adequate knowledge of these tools. I know too that other agencies resist using these tools. Traditionally, independent agents have hesitated moving away from having direct company contracts resulting in most agencies probably having too many company contracts. This new environment provides new opportunities to agents that can see the opportunity these new technologies and market availabilities provide. These are exciting opportunities. Are you prepared to take advantage of them?

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