
The middle market squeeze play

Client retention for middle market agencies in the years ahead

By Frank Pennachio

Mid-sized insurance agencies face significant challenges with their middle market clients—they get squeezed from multiple fronts. The national brokers have committed their resources to growing in the middle-market space. Payroll companies have planted insurance agencies around the country and have leveraged their existing client relationships. Employee leasing continues to chip away at market share. This is all happening even before the next hard market hits and another slice of the voluntary market exits into alternative risk financing arrangements. Professional independent agencies need a new strategy to fend off this burgeoning onslaught on their business.

If we define the middle market as accounts with \$100,000 to \$2,500,000 in premium, then the significant share of this market currently is controlled by smaller, local agencies with long-standing relationships with the owners and decision makers. National brokers see tremendous growth potential in the middle market as their current market share is minimal. As Willie Sutton said, “that’s where the money is.”

The wheels already are in motion. National brokers are attracting and hiring new talent and investing in technology to support their middle-market initiatives. Buying into the middle market by acquiring strong, local firms also is a part of their plan. In fact, a few acquisitions already have been announced. One might expect acquisition activity to increase as agency valuations improve with recovery of the overall economy.

The national brokers will leverage their broad range of resources and brand recognition, historically only available to the large market, to grow their middle-market business. You will see a value proposition presented to middle-market accounts that includes their ability to gain access to the same resources as Fortune 500 companies.

Agencies also have experienced relatively recent competition from payroll companies. Payroll companies, especially the big-name, national firms see opportunities to capture insurance premiums from their payroll clients. They already have established business relationships, so it is not a huge step to add insurance to their product mix.

Payroll companies have recognized that employers like the concept of bundling. They have become especially aggressive with workers’ compensation insurance by offering a “pay-as-you-go” program. Employers see the appeal in paying their workers’ compensation premiums based on actual payroll by pay period. This reduces their risk of large audit premiums due at the end of the policy period or immediately improves their cash flow when payrolls decline.

Agents also will find some payroll companies offer a full array of employee benefits including group health insurance, 401K products, human resource consulting services, and compliance administration, such as COBRA and FMLA. Again, all of these services and products are bundled, which employers may view as reducing their workload and administrative hassles.

Controlling the payroll does offer some distinct advantages to the payroll company with employee benefit administration. For example, an employer may forget to take a terminated employee off the group health plan, but the employer does not forget to take the employee off the payroll. The payroll company can do both at the same time. In addition, it would not be a surprise to see payroll companies offer personal auto and homeowners insurance via payroll deduction. When a company controls the payroll, it is in position to manage and control many of the employer’s and employees’ needs.

Some payroll companies also offer employee leasing arrangements which further enhances their product offerings. Again, bundling and ease of use as well as purported cost reductions are presented to employers who are interested in all of the above. Payroll companies and employee leasing arrangements will very likely continue to siphon off market share from traditional middle market insurance agencies especially if agencies do not respond to these challenges and implement strategies to deter them.

Middle market insurance agency owners need to acknowledge these marketplace transformations and address the risks and threats they pose to their agencies. Putting your head in the sand or pulling the covers up over your head are not viable options. As the saying goes, “hope is not a strategy.”

These challenges are not insurmountable, but will require change for many agencies. The first step is awareness and acceptance that the

threats are real. Then, it is critical to take the time to explore effective strategies that will not only help you survive the onslaught of new competition, but to thrive as a better agency.

So, what can you do?

The first step is to commit to differentiate your agency through the enhancement or development of distinctive capabilities that will help to improve the employer's business and reduce its risks. The operative word is distinctive. Access to great insurance markets is not distinctive, especially when the national broker is in the game. Loss-control services and safety support generally are not viewed as distinctive since employers have the same offers from many agencies. Providing access to Web-based risk management tools is a low barrier that any agency can clear.

Agencies can choose to develop distinctive capabilities from a wide array of services that will assist the employer. One area that emotionally engages the

employer and gives agencies a chance to deliver measurable outcomes is the management of injured employees and workers' compensation insurance.

Few agencies adequately can explain the experience modification factor, let alone deliver proven methods to reduce it. Not many agents are aware of how premium audit errors and overcharges occur or how to prevent or fix them. Few know how to teach their clients the steps to take to prevent the cost and duration of injuries from spiraling out of control.

Many agents and most employers think, "workers' compensation is workers' compensation, and there is little you can do about it." Nothing could be further from the truth. Yet, few agents know how to do much more than get a good quote and advise their clients to turn over the claims to the insurance company.

An employee injury presents many risks for the employer that the insurance policy does not cover. Placing a policy with lower premiums will not address the loss of a key employee and other excessive indirect costs due to the injury. Employers also may lose the ability to bid on certain jobs if their experience modification factor exceeds 1.00. How many employers are stuck in the bid-and-quote game and are not aware of the unaddressed or unmanaged risks?

Since workplace injuries are widespread, an agent has the opportunity to measure improvements through his or her initiatives. You can measure improvements in lag-time reporting, the number of lost work days, average cost per claim, the reduction of the experience modification factor and many other benchmarks. With few exceptions, a knowledgeable agent will drive improvements in any company since there usually are so many processes that need attention.

Even though workers' compensation and injured employees offers a powerful way to differentiate, it is not the only way. Agents can develop other distinctive capabilities in areas, including: construction contract review, alternative risk financing and niche marketing (i.e., marine insurance). The critical component is to be a *specialist* and better

than your competition at something unique that is important to the success and viability of your client.

To compete with national brokers and payroll companies it is critical to move from a transactional approach of placing insurance policies to a consultative approach of helping the employer get better. The "we have great markets and great service and have been in business for a long time" approach will not fend off this new competition. The deployment of distinctive capabilities will level the playing field or even tilt it in your favor.

There is still time to act, but no time to waste. The path to continued success in the middle market is changing. It may take some time for the market changes discussed in this article to gain traction. However, you could see the national brokers approaching one of your top five clients at any time. They tend to start at the top of the food chain and work their way down. We live in a world of accelerated change, so it may not take long.

Payroll companies already have a flag in the sand with many of your clients. You share the clients with them. It is a small move for them to take the next step into your sandbox. Plus, payroll companies are known for their disciplined sales culture. They make appointments and get in front of people, perhaps better than most insurance agents.

Getting better through differentiation and distinctive capabilities will serve you well even if the national brokers and payroll companies don't knock on the door of your five largest accounts. But, if they do you will have the ability to defend yourself. ■

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