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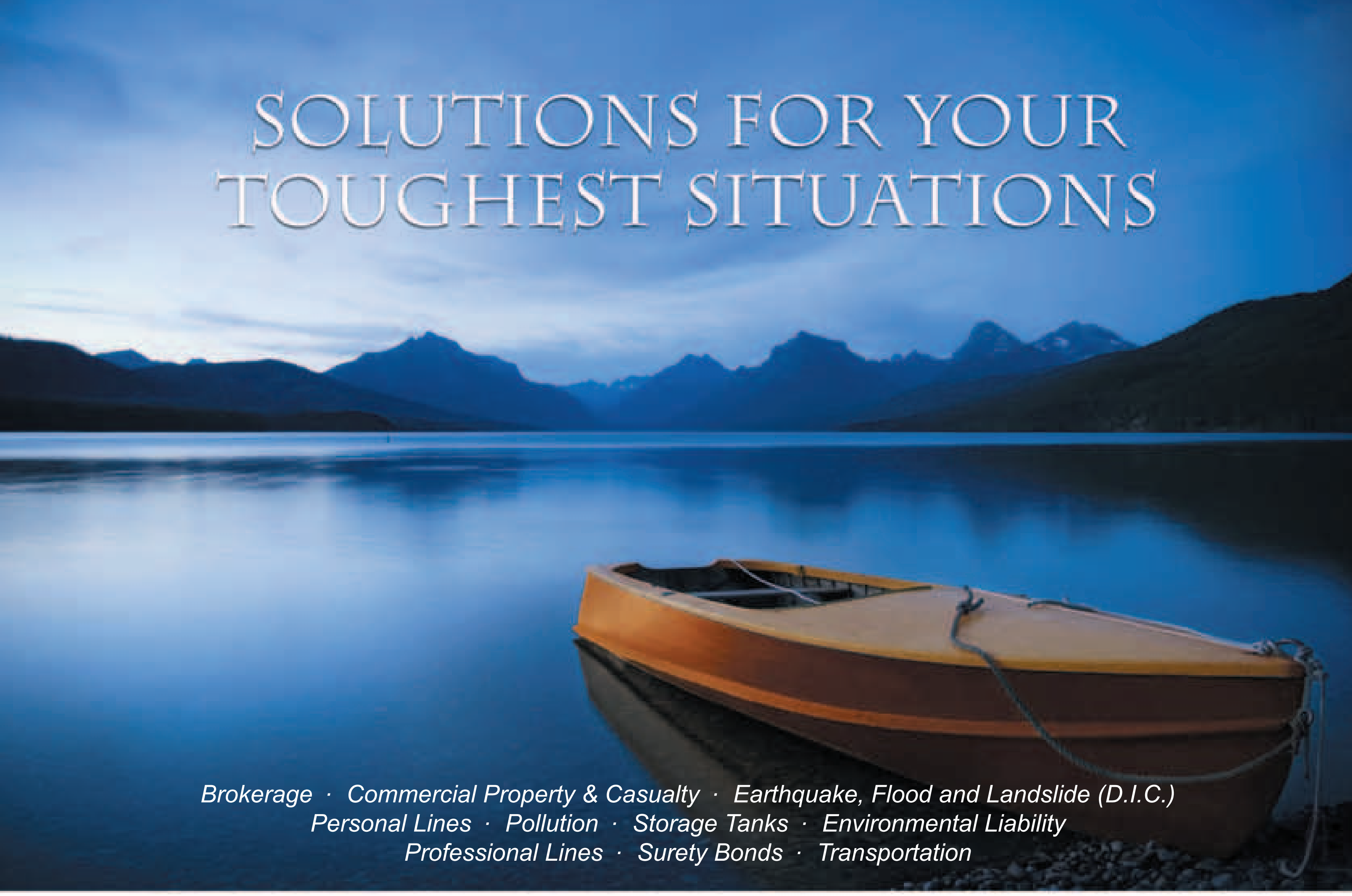

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**December 2010: GUS Customer Satisfaction Research Report*

IIABW President

DARREN McEUIN

I am honored to be the Big I's new President and look forward to an exciting and productive year. There are several priorities on which I will focus: collaboration, growing membership, and advocacy.

I am so excited about the success of the first-ever Joint IIABW/PIA Conference. The two organizations collectively worked on this event for the past 15 months and the outcome exceeded all of our expectations. It just shows what we can do together when we combine the strengths of the two fine organizations.

One of the highlights of the Conference was the presentation on the state of the insurance industry by Bob Hartwig of the Insurance Information Institute. He shared that the industry is incurring significant losses this year because of high CAT losses, low interest rates, and underperforming stock market. Washington's P & C insurers have been more profitable than the national average over the past decade in all lines (WA 10.3% vs. US 7%), private passenger auto (WA 8.1% vs. US 7.2%), commercial auto (WA 10.4% vs. US 8.5%), and homeowners (WA 13.9% vs. US 4.7%). Our state has only underperformed the national average in commercial multi-peril (WA 6.8% vs. US 8%).

The Big I has done much over the years to help members recruit and train new employees. Yet, when we do get high quality people in our industry, how do we help them be successful during those first few tough years as they build their books of business? IIABW has a strong tradition of supporting them through our Young Agents committee.

The Young Agents are a fun, energetic group of insurance professionals who support each other through networking and education. Agents, wholesalers, company reps and vendors find it a great way to develop contacts that can last throughout their careers. I challenge agency principals to get your young professionals involved with the Young Agent events because it will make them more knowledgeable, productive employees.

Political advocacy is one of the most important parts of IIABW's mission and one of our organization's strengths. One of the secrets of our success has been raising money from our members to give to elected officials who support our issues. Contributions give us access to very busy decision-makers so we have an opportunity to make our case. Without political contributions we would not be as effective in lobbying on your behalf.

The Big I has two political action committees (PACS). Our state PAC is one of the largest association PACs in Olympia. We typically contribute about $60,000 each election cycle. Last year we contributed almost $500,000 to candidates and initiatives.
On the federal side, we have InsurPac to support Congressional candidates. I encourage you to invest in the future of your industry and business by supporting InsurPac.

I encourage you to attend next year's conference which will be held at the Coeur d'Alene Resort on Sept. 20-21, 2012.

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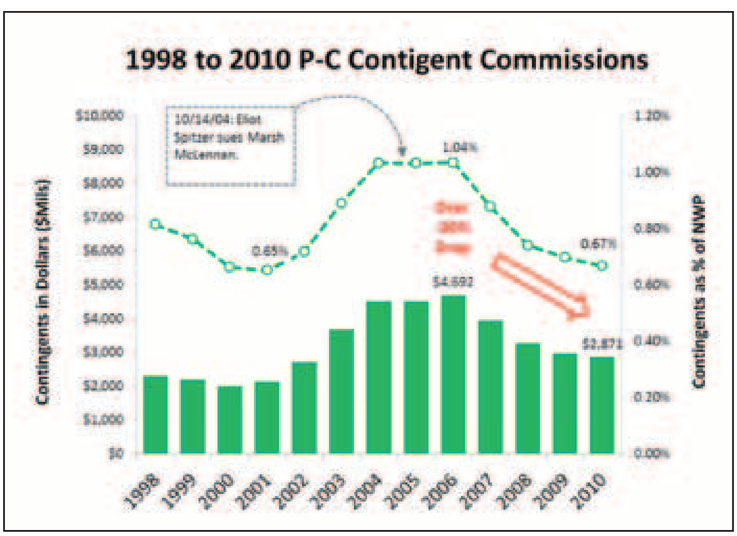
Contingent Commissions Fall Again

2010 percentage of premium at two-thirds of 1%.

By Paul Buse

Knowing that IIABA Best Practices Agencies rely heavily on contingent commissions, industry data on the subject is always of great interest to member agencies. When A.M. Best sends out their annual compilation of p-c insurer required financial statements, it is always interesting to see what total contingency payments were for the prior year. The 2011 Edition of Best's Aggregate & Averages Property/Casualty Edition shows that 2010 contingency payments totaled $2.8 billion and, on a percentage basis, are just shy where they were before the run-up leading to the Eliot Spitzer suit against Marsh McLennan in 2004.

As you can see in the below chart, contingent commissions increased from the level they have been for 2009 and 2010 to much higher levels in 2004 to 2006 before falling back again to two-thirds of one percent (1%) of net written premiums (that is, insurer premiums "net" of reinsurance). Total contingent payments are above where they were from 1998 to 2002, but on a percentage basis it is a dead heat with lowest level contingent commissions on a percentage basis from many years.



Contingent commissions are paid to many insurance agencies appointed with various insurance companies, and the dollars are disclosed by insurers when they file their required statutory financial statements each year. Typically, they are paid to appointed agents of insurance companies based on formulas that provide for incentives to reward frontline underwriting by agencies, proactive risk management and achieve volume and growth.

In 2010, the IIABA Best Practices Study Update shows that of the agencies that were nominated and selected for participation, the average was about 10% of revenues from contingents and 50% of profits from contingent commissions. Best Practices agencies under $1.25 million in revenue tend to take in less, but contingent commission income is very important to all size Best Practices agencies as shown in the table below.

Revenue Size	% Revenues	% of Pre-Tax Profits
$0-$1.25MM	8%	35%
$1.25-$2.5MM	10%	45%
$2.5-$5MM	10%	53%
$5-$10MM	11%	63%
$10-$25MM	11%	71%
$25MM+	8%	44%

Source: 2010 IIABA Best Practices Study

The Best Practices Study Update is a "must have" for those agencies that want to become the best they can be. It includes in-depth financial analysis of agencies nominated by insurers and Big "I" state associations that are then selected to participate. The 2010 Study can be purchased from the Big "I" Education Department. Order forms for the existing study and can be downloaded at www.independentagent.com under the education, Best Practices and Order Forms.

Paul Buse (paul.buse@iiaba.net) *is president of Big I Advantage® and a licensed p-c agent.*

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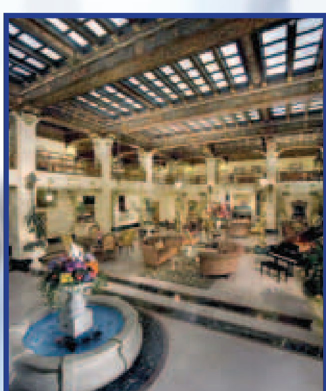

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Agent Liability for PROPERTY UNDERVALUATION

By Bill Wilson, CPCU, ARM, AIM, AAM

According to Marshall & Swift/Boeckh, over 60% of U.S. homes are undervalued by an average of 25%. In some cases, according to MS/B, as much as 73% of an agency's book of homeowners business may be undervalued by an average of 35%. The problem isn't just limited to homes...according to MS/B, 75% of commercial buildings could be undervalued by an average of 40%. If an insured suffers an underinsured loss, whose fault is it? According to one recent court decision, in some cases, it could be the agent's.

In Martinonis v. Utica National Insurance Group, the Massachusetts Court of Appeals held the agent might be held liable for failure to adequately insure a home based on the long-term relationship between the agency and client wherein regular reliance on the agent's advice and assurances regarding policy limits created a special relationship.

The agent obtained a homeowners policy for the plaintiffs whose home was subsequently destroyed by a fire. The policy liability limit of $469,000 was paid in full by the insurer. The plaintiffs contended that the actual damages were $1,164,012.43 and that the agent was negligent in failing to advise them to obtain higher limits. The trial court awarded summary judgment in the agent's favor.

The Court of Appeals reversed, stating: *"[T]here is no general duty of an insurance agent to ensure that insurance policies procured by him provide coverage that is adequate for the needs of the insured…[however] in an action against the agent for negligence, the insured may show that special circumstances prevailed that gave rise to a duty on the part of the agent to ensure that adequate insurance was obtained."*

The insureds presented facts demonstrating a long relationship with the agent (almost 10 years), including procurement and advice on insurance policies placed with him on a variety of other properties, that led them to rely on his expertise. The agent had previously advised the insured that their contents limit was inadequate and, following his advice, they increased that amount. However, they contended that, after expressing concerns about their dwelling limit, the agent assured them that the limits were proper.

They thought the $469,000 dwelling limit was too low. The assessed value of the house was around $400,000 and the insureds expressed concern that the assessing authorities were slow to catch up with market value. They also knew that houses in their area were selling for over one million dollars.

According to the Court of Appeals:

> *There is no general duty of an insurance agent to ensure that the insurance policies procured by him provide coverage that is adequate for the needs of the insured. See Baldwin Crane & Equip. Corp. v. Riley & Rielly Ins. Agency, Inc., 44 Mass. App. Ct. 29, 32 (1997), quoting from 16A Appleman, Insurance Law & Practice § 8836, at 64-66 (rev. ed. 1981) ("Ordinarily...an insurance agent assumes only those duties normally found in an agency relationship... and he assumes no duty to advise the insured merely by such relationship"). See also Construction Planners, Inc. v. Dobax Ins. Agency, Inc., 31 Mass. App. Ct. 672, 675 (1991) (broker generally has no duty to obtain insurance or renew expiring policy). The agent does not, in general, have a fiduciary duty to the insured in this regard. See Baldwin Crane & Equip. Corp. v. Riley & Rielly Ins. Agency, Inc., 44 Mass. App. Ct. at 31-32. Nevertheless, in an action against the agent for negligence, the insured may show that special circumstances prevailed that gave rise to a duty on the part of the agent to ensure that adequate insurance was obtained. Ibid. "[S]pecial circumstances of assertion, representation and reliance" may create a duty of due care. See, e.g., McCue v. Prudential Ins. Co., 371 Mass. 659, 661 (1976); Construction Planners, Inc. v. Dobax Ins. Agency, Inc., 31 Mass. App. Ct. at 675, and cases cited therein.*

In the court's opinion, the plaintiffs presented adequate evidence of such special circumstances, in opposition to the agent's motion for summary judgment, to create a genuine issue of material fact on that issue. Their testimony about the long relationship with the agent, the reliance placed on his review of the adequacy of their insurance, his specific assurance on past occasions in response to inquiries that the policies had adequate limits of liability, and the specific assurance in this case that the limits were proper, were sufficient to defeat a motion for summary judgment.

The agent's defense rested largely on the fact that no separate compensation in addition to normal commissions on premiums was requested by or paid to the plaintiffs to reflect

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CHARITY FIRST • 1 Market St., Spear Tower, Suite #200 • San Francisco, CA 94105 • Phone: 800-352-2761 the services he rendered in supplying counsel and advice. However, according to the court, the absence of separate compensation does not mean that special circumstances giving rise to a duty of care did not exist. The facts were enough to create a material issue of fact in the eyes of the court as to whether special circumstances exist on the issue of duty sufficient to survive summary judgment.

To demonstrate the divergence in E&O cases, here is a January 2006 decision from Florida:

AMH APPRAISAL CONSULTANTS, INC. and ANN MARIE MCCARTHY, Appellants, v. ARGOV GAVISH PARTNERSHIP, Appellee.

COURT OF APPEAL OF FLORIDA, FOURTH DISTRICT

January 11, 2006, Decided

"Appellee Argov, the owner of a building which was destroyed in a fire, sued appellants for negligently appraising the building too low for purposes of insurance and prevailed. One of the arguments raised by the appraiser is that the trial court erred in not allowing the jury to consider negligence of the insurance agent; however, we conclude that, in the absence of expert testimony, the agent could not be held responsible.

"Relying on the appraisal provided by the appraiser to the agent, the owner insured a commercial building for $ 1.6 million. The building was totally destroyed in a fire a month later. When the owner discovered that the cost of rebuilding would substantially exceed the coverage, it brought this suit against the appraiser, asserting a negligent appraisal. The appraiser, among other defenses, alleged the insurance agent's negligence contributed to the insufficient amount of insurance coverage. The trial court did not submit the agent's negligence to the jury because there was no expert testimony to the effect that the agent was negligent. A jury found the appraiser liable, and she appeals.

"In order to include a nonparty, such as this agent, on the verdict form under section 768.81(3), Florida Statutes (2002), and Fabre v. Marin, 623 So. 2d 1182 (Fla. 1993), the defendant has the burden of presenting sufficient evidence of the nonparty defendant's negligence. Nash v. Wells Fargo Guard Servs., 678 So. 2d 1262, 1264 (Fla. 1996); Lagueux v. Union Carbide Corp., 861 So. 2d 87, 88 (Fla. 4th DCA 2003) (holding that evidence was not specific or sufficient to include Fabre defendant on verdict form).

"There are no Florida cases determining when expert testimony is necessary to establish the standard of care of an insurance agent. Cases from other jurisdictions are collected at Necessity of Expert Testimony to Show Standard of Care in Negligence Action Against Insurance Agent or Broker, 52 A.L.R. 4th 1232 (2004). These cases indicate that expert testimony is required in some, but not all, cases. It has been held that a claim based on a failure to procure requested coverage did not require expert testimony. Fillinger v. Northwestern Agency, 283 Mont. 71, 938 P.2d 1347 (Mont. 1997). Nor was an expert necessary to establish negligence by an agent for failing to make premium payments on the client's behalf or warn that the client was not insured. Johnson & Higgins v. Blomfield, 907 P.2d 1371 (Alaska 1995). On the other hand it has been held that an expert would be necessary in order to find an insurance agent negligent for failing to interpret an insurance policy. Humiston Grain Co. v. Rowley Interstate Transp. Co., 512 N.W.2d 573 (Iowa 1994).

"Experts are 'possessed of special knowledge or skill.' Fla. R. Civ. P. 1.390 (defining expert witnesses). The opinions of experts are admissible when the subject matter is beyond the understanding of the average layperson. Ward v. State, 519 So. 2d 1082 (Fla. 1st DCA 1988). Real estate appraisers are experts. See Fla. Dep't of Transp. v. Armadillo Partners, Inc., 849 So. 2d 279 (Fla. 2003). Insurance agents are also experts. Seascape of Hickory Point Condo. Ass'n v. Associated Ins. Servs., Inc., 443 So. 2d 488 (Fla. 2d DCA 1984).

"It is the position of the appraiser in this case that the insurance agent should have scrutinized the appraisal and recognized that it was too low. Given that appraising requires expertise, and that the insurance agent did not have that expertise, a jury could not have determined that the agent was negligent in the absence of an opinion of an expert. This was simply too esoteric to be understood by the average layperson.

"We have considered the other issues raised by appellant and find them to be without merit. Affirmed."

William C. Wilson, Jr., CPCU, ARM, AIM, AAM is director of the Virtual University of the Independent Insurance Agents & Brokers of America (IIABA). He was the Director of Education & Technical Affairs for the Insurors of Tennessee from 1988-1999

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Over 600 Attend Joint Conference

The historic first ever IIABW/PIA conference exceeded everyone's expectations. During these tough economic times when most events are smaller than in year's past, the joint conference in Seattle last week was attended by over 630 people.

Collectively, the two associations have been in existence for over 180 years and held over 130 annual conferences separately. This joint event may very well be the largest insurance event in the history of our state.

The Trade Show provided attendees over 80 booths offering products and services for independent agents. The Trade Show sold out in a couple weeks and provided a great opportunity to talk to hundreds of companies, wholesalers, technology vendors, etc. in one place. The weather for the golf tournament at the Rainier Country Club was perfect and gave participants a great opportunity to network and have fun.

The speakers were very informative and well received. Despite the good weather and all the temptations the city of Seattle offered, the seminars were packed.

IIABW installed our new officers on Thursday afternoon. Darren McEuin, CIC, of Conover Insurance took over President. Darren has worked in the insurance industry for over 18 years. He serves as a member of his Chamber of Commerce, Rotary, the local Home Builders Association and teaches students in Junior Achievement. Mary Stien became President Elect. She is Parker Smith & Feek's Personal Insurance Manager and has been a partner with the firm since 1997. Pat Otter was elected Secretary/Treasurer. He is the owner of Otter Insurance in Lynnwood and has worked in the insurance industry over 17 years.


Darren McEuin; Mary Stien; and Pat Otter

IIABW Presents Awards

IIABW's top honor, the Don C. Burnam Lifetime Achievement award, was presented to Jerry Nies of Brown and Brown (formerly Nies Insurance) for contributions he has made to the industry in technology and his volunteer service to IIABW and IIABA as well as to his local community.

Dean Young of Lovsted Worthington was presented the Agent of the Year award for his leadership with the first joint IIABW/PIA conference.

Brian Carney of Cochrane & Company was given the Industry Person of the Year award for his support of the independent agency system as well as IIABW and our local associations.

Tracy Skinner of the Washington Surveying and Rating Bureau was presented the Max Walton Insurance Education award for his years of technical teaching independent agents and insurance companies.

The Young Agents of the Year Award was given to Melissa Power of Homestreet Insurance for her advancement of the Young Agent Committee as current chair.

Burnam Award, Jerry Nies

Agent of the Year, Dean Young

Industry Person of the Year, Brian Carney

Education Award, Tracy Skinner

Young Agent of the Year, Melissa Power















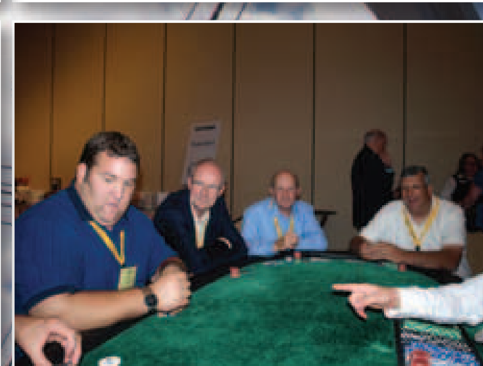








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Sales and Servicing Strategies to Grow Your Agency's Business

Recent research offers invaluable insights about what drives personal lines consumers to choose particular providers for insurance, what's important to them in making their decisions and how they want their insurance providers to interact with them. This article pulls relevant consumer data from five different studies and then outlines how independent agencies might use this data to enhance their personal lines operations and strategies to attract and retain today's changing consumer and compete effectively with the direct carriers and others.

By Jeff Yates

Recent consumer studies provide several insights that can be helpful to independent agencies to attract new personal lines business, as well as to retain current clients. In my article last month, I cited some of the findings in these studies to outline how independent agents can use the technology tools now available to them to attract online auto insurance shoppers and offer them a better value proposition than the direct carriers[1]. Below, I drill down further into the comScore and J.D. Power & Associates research[2] to ferret out additional trends in automobile and property insurance consumer preferences and behavior that independent agencies can use to gain competitive advantage.

Consumer Reasons for Buying Direct or Through an Agent

What struck me about the comScore research was that the reasons given by most consumers for buying from an online carrier rather than through an agent were not very compelling and could be effectively overcome by agencies if they were to use available online tools and were able to get across their "value add" message to consumers while they are in the shopping process[3]. The top five reasons given by consumers for not using a local agent were:

- I found it more convenient to use a website or 24 hour toll free number—29%
- It was faster to purchase online or via a toll free number—28%
- I got a quote online and decided to purchase online—26%
- I prefer to use a website or toll free number—20%
- It was cheaper to purchase online or via a toll free number—20%.[4]

In contrast, the top reason given by consumers who buy through an agent would be difficult for the direct carriers to match:

- I like having a real person who I can visit with or call—39%.

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Followed by:

- I have always used a local agent—31%
- The local agent quoted me the best price—28%
- I wanted a local agent from one company to help me with all my insurance needs—25%
- Recommended by a family/friend—23%.[5]

Based upon this research, as well as comScore's additional finding that 81% of the consumers who use an agent find their agent to be valuable,[6] it is no wonder consumers insuring through an agent are more loyal than consumers who use a direct carrier (70% of online purchasers are seriously considering changing their insurance company, compared to 50% of those with a local agent[7]).

While most agency clients value the relationship they have with their agent, their loyalty goes only so far. Client shopping has hit unprecedented levels, even for agency clients, as every independent agent knows. In addition, as consumers get more comfortable doing business online in other areas, they are increasingly willing to try new distribution methods for insurance as well. For example, in 2011, the percentage of agency clients "not likely" to consider using a distribution method other than a local agent (online, toll free number) was down to 25% (versus being "likely" or "neutral"); the "not likely" percentage having been 34% in 2009.[8]

Communicate Pro-actively & Regularly with Clients

A major way for agents to keep clients loyal to them is to communicate with them regularly. When agents interact with their clients often (monthly) or even rarely (a few times a year), the percentage of clients "not likely" to consider an alternate distribution method rises to 26-27%, whereas if the agent never contacts the client, the percentage "not likely" to consider another distribution method drops to 17%.[9]

Similarly, J.D. Power & Associates found in its research that day to day policy service interactions "most influence a customer's overall satisfaction with their insurer, and hence their likelihood to both renew their policy and recommend their insurer to others.[10] One would expect this finding to apply equally to the client's satisfaction with the agent.

Agencies should use each pro-active outreach to clients and each service interaction to communicate and live the agency's "brand" to reinforce it with their clients. Every agency employee should be trained to clearly articulate the agency's special "value add" succinctly and to understand what "living" the brand entails.

Agencies will strengthen their client relationships in this way, as well as counter the direct carriers' efforts to neutralize the agent's value proposition. The direct carriers understand that many consumers want to deal with a real person in certain situations. This is why GEICO has appointed employee agents in various areas and Esurance has introduced an advertising

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campaign touting the availability of a person when wanted to supplement the online options it offers.

Offer the Communications Options Clients Want

One of the major findings of the research is that clients are now in the driver's seat and they increasingly expect their agent and carrier to be able to interact with them via the channels they use in everyday life.[11] We have seen that this means that direct carriers offer some option for consumers to deal with a "real person." For agencies, it means supplementing their personal client interactions via phone and in person with increasingly robust online options including email, website portals and social media.

Most agency clients still want to talk with the agent when the issue involves counseling, such as policy coverage, obtaining a quote, adding or changing drivers or cars, price changes and billing inquiries. However, there are certain routine transactions where most agency customers' first preference would be do to do them online such as to make a payment (45% online vs. 31% talk with agency), update contact information (43% online vs. 36% talk with agency), order insurance cards (41% online vs. 37% talk with agency); and with verify payment receipt, agency customers' top two preferences do not even include talking with the agency (33% online vs. 30% by email). [12]

It is important for technology providers, carriers and agencies to work together to respond to these changing client preferences by developing agency website portals that provide customers with these online servicing capabilities. Enabling clients to make payments to the company through the agency portal should be the first priority, given that online payments constitute 44% of overall consumer online servicing visits.[13]

As agencies increasingly offer online quoting and make sales by phone, it is also time for them to begin to offer their clients the convenience of using e-signature tools for required applications and other signed documents. Currently, 87% of all online auto insurance purchasers using other distribution systems have been able to sign all required documents electronically.[14]

Growing Agency Client Interest in Other Online Communications

Email is second only to calling as agency clients' preferred method of contact to the agency, beating out visits to the office. 77% of agency customers send or receive emails with the agency. As might be expected, greater percentages of younger clients (18-34 years) use email as their first method of contact with the agency.[15]

While the trend to use social media for business purposes is still emerging, 20% of 18 to 24 year olds would have an interest in interacting with their agents via a social media outlet like Facebook or Twitter. This level of interest contrasts with that of agency clients overall, where 86% express not being interested

in interacting with their agents in a social media context.[16] One wonders, however, if this overall interest level will change when consumers start to use social media more regularly in their daily lives and begin to see how valuable consumer information can be conveyed to them by their providers.

Another emerging trend is for consumers to use their mobile devices to access business accounts. As of 2011, 12% of consumers with the mobile capability to do so have accessed an insurance site via their mobile browser, while 10% accessed an insurance site via an app. Only 9% of insurance consumers have used text messaging to communicate regarding their insurance.

With regard to those who have used a mobile device for their insurance, the top functions used in descending order have been to pay a bill, access the insurance policy, text or chat with an agent, find the nearest insurance agent or office, update personal information, find useful tips or tools, find the agent's contact info, receive an insurance quote, change coverage, limits or deductibles, receive policy alerts, track a current claim, and report an accident.[17]

Additional Strategies to Grow Personal Lines

The consumer research points to additional ways in which independent agents can attract online shoppers and take business from the direct carriers. Consider these possibilities:

1. Sell convenience as part of your agency's value proposition. As discussed above, most of the shoppers that buy from a direct carrier do so because they believe the online approach is more convenient, when in fact independent agents can shop multiple carriers and take care of servicing needs with a simple phone call or comparative rating portal, along with providing professional guidance at the same time.
2. Bundle auto insurance with a quality property insurance product and provide the discount. Many direct carriers cannot offer consumers comparable property products. Also, 25% of non-bundling consumers said they did not even think about using the same company for multiple policies. In addition, 52% of non-bundlers said they would consider switching to the same company if they received a bundling discount.[18]
3. Sell renters insurance. 27% of consumers rent rather than buy a home and that percentage is likely to rise in the aftermath of this tough economy. Many renters are currently uninsured, since they represent only 14% of those with property insurance.[19]
4. Understand that buying a new or used car triggers a lot of shopping by consumers. Next to looking for a lower price, buying a new or used vehicle is the most common reason for shopping and 33% of vehicle purchasers shopped their insurance and chose a new insurer. 53% of these shoppers who switched carriers were agency customers (and may or may not have stayed with the agent).[20]
5. Offer clients the option for pay as you drive insurance, if you have it available. Of the 25% of consumers who have heard of this type of insurance, 55% said they would "definitely" or "probably" be interested in purchasing it.[21]
6. Point out the coverage enhancements and optional coverages that your various carriers offer and ascertain which are most important to your clients. This reinforces the benefits of having a professional advisor in your client's mind and debunks the myth conveyed in most direct carrier advertising that personal lines policies are commodities, where only price and convenience matters.

Creating a Strong Online Presence

The consumer research discussed above provides valuable guidance on how independent agencies can reshape and refocus their personal lines operations to respond to changing customer expectations and preferences.

The challenge remains, of course, that the independent agency has to be able to get the attention of the increasingly online consumer as a first step, in order to convey its value proposition and the better experience it can provide. I believe independent agents finally have the technology tools available to them to create a strong online presence, particularly in their local communities, along with the needed tools to process personal lines business very efficiently.

As I discussed in last month's article, implementing Real Time, download and going "paperless" can greatly enhance the agency's efficiency and operations. These technology tools create

the time needed for agency employees to reach out to clients to bolster relationships, protect renewals, cross sell and attract new prospects. Finally, agencies now have the tools available to enhance online marketing and service—more effective websites, agent portals for consumers to obtain online comparative rates, free local search and social media sites.

Editor's Note: See "The Independent Agents' Opportunity to Take Back Personal Lines" on page 21. For numerous articles and recorded webinars on how agents can build effective websites, take advantage of local search tools and use social media, once again go to ACT's website and click on "Websites & Social Media" in the gray shaded area on the left of the page. See also www.getrealtime.org for resources on how Real Time & Download can help you write business more efficiently.

Jeff Yates is Executive Director of the Agents Council for Technology (ACT) which is part of the Independent Insurance Agents & Brokers of America. Jeff can be reached at jeff.yates@iiaba.net. ACT's website is www.iiaba.net/act. This article reflects the views of the author and should not be construed as an official statement by ACT.

[1] *"The Independent Agents' Opportunity to Take Back Personal Lines," www.iiaba.net/act . The article outlines how independent agents can give consumers a more efficient shopping experience than the direct carriers, where they can get quotes from multiple carriers in one stop. And independent agents can offer prospects the value add of personalized professional counsel and debunk the myth reinforced by massive advertising campaigns that auto insurance is a commodity and that the coverage and limits bought are not important.*

[2] *comScore 2011 Auto Insurance Shopping Report (May 2011) & 2011 Auto Insurance Servicing Report (May 2011); comScore 2010 Online Property Insurance Report (November 2010); J.D. Power & Associates 2011 U.S. Insurance Shopping Study (May 2011); J.D. Power & Associates 2011 National Auto Insurance Study, Management Discussion (June 2011).*

[3] *See "The independent Agents' Opportunity to Take Back Personal Lines" for more details on how agents might do this. www.iiaba.net/act*

[4] *comScore 2011 Auto Insurance Shopping Report, p. 46.*

[5] *Op. cit., p. 43.*

[6] *comScore 2011 Auto Insurance Servicing Report, p. 7.*

[7] *comScore 2011 Auto Insurance Shopping Report, p. 7-8.*

[8] *comScore 2011 Auto Insurance Shopping Report, pp. 44-45.*

[9] *comScore 2011 Auto Insurance Servicing Report, p. 12.*

[10] *J.D. Power & Associates 2011 National Auto Insurance Study, p. 1.*

[11] *J.D. Power & Associates 2011 National Auto Insurance Study, p. 4.*

[12] *Op. cit., p. 3.*

[13] *comScore 2011 Auto Insurance Servicing Report, p. 35.*

[14] *Op. cit., p. 13.*

[15] *Op. cit., pp. 8 & 35.*

[16] *Op. cit., p. 9.*

[17] *Op. cit., pp. 33-34.*

[18] *comScore 2010 Online Property Insurance Report, pp. 7 & 21.*

[19] *Op. cit., pp. 4 & 12.*

[20] *comScore 2011 Auto Insurance Shopping Report, p. 12.*

[21] *Op. cit., pp. 39-40.*

INDUSTRY MAY BE ON ROAD TO RECOVERY

The Independent Insurance Agents & Brokers of America's 2011 Best Practices Study found that organic growth improved, albeit modestly, and profitability held constant across most of the study's six revenue groups.

"The results of this year's Best Practices Study indicate good news after several years of negative growth, shrinking profit margins and declining agency values," says Madelyn Flannagan, Big "I" vice president of agent development, research and education. "Most study participants benefitted from the growth strategies deployed over the last couple of years when the recession suddenly amplified the pressure of a prolonged soft market."

Other findings from the 2011 Best Practices Study include:

- **Big Picture:** Most study participants benefitted from the growth strategies deployed over the last couple of years when the recession suddenly amplified the pressure of a prolonged soft market. A strong focus on total account development, increased advertising/marketing activities, and producer hiring/development/management strategies gave most agencies a competitive advantage when the economy began to rebound in 2010, and stopped or reversed the revenue decline that first became apparent in the 2006 study. Generally, the smaller revenue-sized agencies reported flat growth, while the larger commercial agencies reported improvement over the 2010 study results. Organic growth for the $10-25 million group increased from 0.7% to 2.4% and the more than $25 million group increased from 1.2% to 3.3%.

- **Cutting the fat:** As with revenue growth, the agencies benefitted from steps taken over the last couple of years to control and lower expenses. Profitability remained flat in all study groups with an average Pro Forma EBITDA margin of 26.2% for agencies with revenue less than $5 million and 20.0% for agencies with revenue above $5 million. Margins had decreased continuously since 2006 when they were at their highest in the study's then 13 year history.

- **Rule of 20:** In recent years, the Rule of 20 outcomes, a quick measure for determining whether an agency is creating value for its shareholders, have fallen significantly short of the desired score of 20 for most of the study groups. The 2011 results leveled off at an average score of 13.2 for the "Less than $5 million" agencies and increased to an average 11.7 for the "More than $5 million" agencies.

- **Revenue per Employee**, an industry standard productivity measure, also remained flat with the average for the "less than $5 million" agencies just over $150,000 and the "more than $5 million" at $172,000. These averages are down only slightly from the revenue per employee levels reached prior to the start of the soft market. The resulting drop in revenue forced agencies to concentrate on better utilizing new and existing technology to support sales and marketing efforts and to contain costs. As a result, productivity remained stable.

- **Personal lines,** once again, had positive growth rates (an average of 3.1% for the less than $5 million and 3.8% for the more than $5 million). However, group medical grew more last year with an average of 3.0% for the less than $5 million and a strong 4.2% for the more than $5 million, up more than 3% from last year.

- **Commercial lines** continued to see negative growth but far less negative than last year. Many agents said they are starting to see some commercial insurance rates hold at their current levels. This could indicate that the 2012 results are bound to improve providing the economy doesn't stall again.

"While the 2011 results are not stellar, they do indicate that Best Practices agencies are rebounding from the devastating effects of the recession and soft market, and are poised for new growth and stronger profitability, the key components of agency value," says Robert Rusbuldt, Big "I" president & CEO. "Overall, we are pleased, but not surprised, that the independent insurance agency system remains strong and stable."

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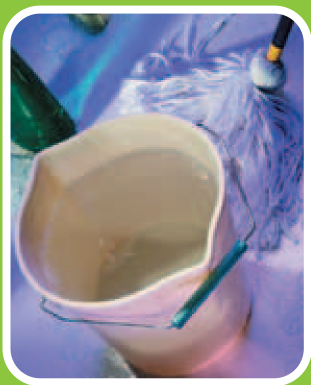

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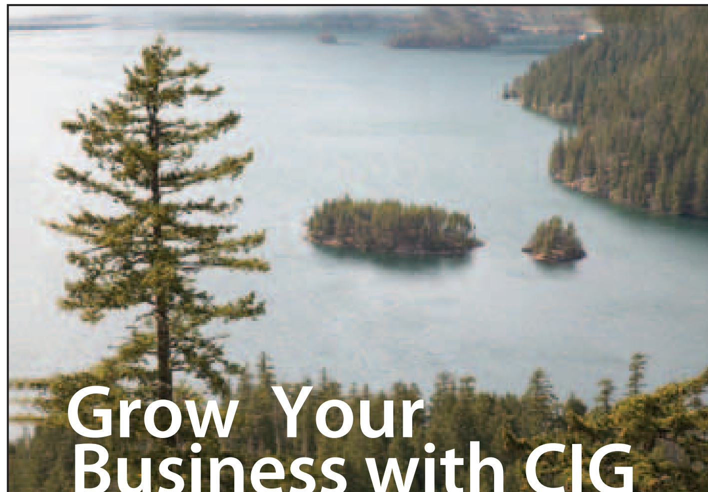

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The Best Practices Study was initiated by the Big "I" in 1993 as the foundation for efforts to improve agency performance and create higher valued agencies. The survey and study of leading independent insurance agencies documents the business practices of these "best" agencies and urges others to adopt similar practices.

Twelve insurance companies and four industry vendors provide financial support for the research and development of the Best Practices study – Applied Systems, Addis Intellectual Capital, Central Insurance Cos., Chubb, EMC Insurance Companies, Encompass Insurance, Erie Insurance, Great American Insurance Group, The Hanover Insurance Group, Harleysville Insurance, Imperial PFS, InsurBanc, Kemper Preferred, Liberty Mutual Agency Corporation, MetLife Auto & Home and Zurich North America.

IABW Wins Education Award

Susan Scott of IIABW accepted a Gold Excellence in Insurance Education award from the Independent Insurance Agents & Brokers of America in Minneapolis last month. EIE awards celebrate and recognize state associations and staff who have made significant contributions to education for their members and the industry in the key areas of class offerings, continuing education (CE), professionalism, designation offerings, industry collaboration, planning goals, and marketing.

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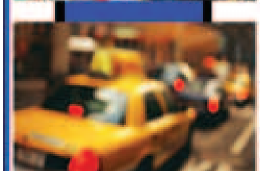

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