

MARKETING BROKERS IN THE FUTURE

The **BIG SELL**

In response to the aggressive marketing approaches of online and direct writers, the independent channel is planning to be more aggressive about promoting its advisory role to the public.

By David Gambrill

Decades ago, before the fax machine was even a science fiction fantasy, insurance brokers in Canada developed a community presence that has ultimately made the independent broker channel the distribution method of choice for most Canadian insurers today. Absent the Internet and even TV, brokers developed their contacts the “old-fashioned way” — shaking hands with a smile, hanging up a shingle in the local community and dispensing



advice to people who were neighbours in the community. A level of trust was established, because the people looking for advice about their insurance knew their broker. But soon the telephone and the television came along, and suddenly people were exposed to a whole new world outside their own corner block. Sales techniques rapidly adapted to the introduction of the new communications technology; suddenly the insurance community was following up on their business with existing customers with a phone call, finding some new clients through cold-calling and marketing their services through TV ads. Some financial institutions seized on the opportunity provided by the new communications technology to market and sell insurance products without going through an intermediary such as a broker. Thus evolved “direct writing,” in which agents market the products of a single insurance company to consumers. The Internet has evolved since then; increasing insurance market segmentation quickly followed. Now consumers can purchase their own insurance online, courtesy of a purely Web-based distribution system known as online writing. By opening up more choices for consumers, by multiplying the available methods for buying insurance, communications technology today is calling on the independent broker channel in Canada to adapt to its effects. Which raises the obvious question: What will the future independent broker channel look like in the Internet Age? How do brokers expect to be doing business in the cyberworld of today and tomorrow? How will they adapt to the emerging competition in an increasingly segmented market?

MARKET SEGMENTATION

During the past two or three years, independent brokers have observed the marketing campaigns of direct and online writers and their potential impact on the bottom line of the broker channel. Banks such as Royal Bank and TD-Meloche-Monnex, for example, have established their own networks for selling their insurance products to consumers. People may also have heard of such companies as JetCo and GreyPower marketing their insurance business. Brokers have been openly critical in the past of some insurers that employ both the independent broker channel to sell their insurance products in addition to a (competing) direct writing format, in which the insurance company’s agents sell only the insurer’s insurance product to consumers (known as a “multi-channel” distribution system). Lately, the direct writing channel has launched some aggressive marketing campaigns using print, radio, television and online advertising. Often these campaigns encourage consumers to call 1-800 numbers and/or call centers or go online to purchase their insurance products.

Direct writing has more of a presence in some parts of Canada than others. It has made significant inroads into the Quebec market, where direct writing is said to be the distribution method of choice for approximately half of the province’s insurance marketplace. Desjardins is often cited as a bank with a very substantial direct writing presence in Quebec. In Ontario, brokers – if not consumers – can rarely wake up in the morning recently without

hearing radio ads, receiving unsolicited mailings or reading in the paper ads for direct writers such as belairdirect.com, for example, which distributes ING Canada insurance products. And in New Brunswick, Caisse Populaire has an aggressive business plan to launch storefront operations to sell their insurance products to consumers directly. Even in B.C. — which has a government-owned and controlled auto market, and therefore no incentive for direct writers to compete for business — brokers felt the need to stay in the public eye and launch an insurance Web site for consumers about four years ago, in the wake of a prominent marketing campaign by Canadian Direct Insurance (CDI) in the Vancouver area.

One effect of the presence of direct and online writers is market segmentation. In a recent survey, the IBM Institute for Business Value Studies noted the way in which “shifting demo-



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graphics, evolving customer expectations and new distribution channels are dramatically impacting how policyholders think, interact and work with their insurance companies.” The study further observes how “the policyholder base is becoming increasingly segmented, with existing policyholders who are aging and comfortable with traditional insurance models. In contrast, younger, newer policyholders tend to be Internet savvy, and expect instantaneous interactions and tailored selections. Insurance providers continue to see changes to their distribution channels, with the consolidation of independent agencies and demands for quicker quotes and streamlined claims processing ... However, without a clear approach, many companies (both within insurance and across other industries) have responded in a narrow fashion addressing operational needs, often focusing on cost reduction and streamlining, rather than fully addressing their customers’ needs in a more integrated way.”

The question thus becomes, how will Canadian independent brokers capitalize on the new Internet Age in a way that will maintain — and even expand — their market share in an increasingly segmented insurance market?

DON'T PANIC!

Faced with a changing marketplace that offers space for a variety of different insurance distribution methods, the first thing brokers need to do is to recall the long roots of the broker distribution channel within their local communities, broker association representatives are telling their members.

“The broker’s propensity for success is the value-added,” says Harold Baker, CEO of the Insurance Brokers Association of Alberta. “The value-added is providing the information [to the

policyholder], getting the right coverage, making sure that [consumers] have the right coverage for all of their personal belongings or business belongings and assets.”

If brokers are cognizant of direct and online writers, Baker adds, it's because they are attempting to occupy the same space brokers have occupied for years. But just how long direct and online writers will be able to reside in that space is open for debate, says Dan Danyluk, the CEO of the Insurance Brokers Association of Canada (IBAC). Just as brokers flourish during soft markets, so, too, do direct writers.

“The first thing is for us to remind ourselves that we are indeed in a cyclical industry,” Danyluk says. “The fact is that over the last great many market cycles, the direct writers market like mad and acquire business when the business is profitable. And when it's not profitable, those direct response folks are not directly responding and their marketing presence is reduced. Those direct marketing pieces that you get in the mail now? How many did you get during the hard market? So the first rule for brokers [to consider is that] while we're looking at a change in the weather, I'm not so sure it's a change in the climate.”

Perhaps technology's most profound effect has been in the way it has opened doors for brokers, insurers, direct writers and online writers alike to market and advertise their services. Brokers have



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taken longer than their competitors to embrace the marketing strengths of the new communications technologies, says Randy Carroll, CEO of the Insurance Brokers Association of Ontario (IBAO). “Over the past five or six years, there's been a drastic shift in regard to the appetite of some insurers and their competition — be they direct writers or multi-channel insurers — to actually gain market share in that untapped market of advertising,” he says. “We [brokers] went from the reality of a safe, secure community — a community that knows who I am because I am part of the community and I am a Yellow Page advertiser — to one in which the consumer gets one, two, three or four different advertisements — with branded products from branded companies — on a weekly basis.”

“There was a shift, and we got caught in that shift. We weren't reactive enough. And we really have to just come to and face the reality that you just can't sit back and watch the shift, because the shift isn't going to stop.”

Baker notes technology can be an exceptionally good tool to promote the broker's value proposition. “Those who use technology to communicate and interact with [consumers] and to provide another access point [to consumers] are clearly going to cap-

tivate those people who have an interest in using the Internet,” he notes.

But as far as the power of the Internet goes, Danyluk, like Baker, sees the Internet as a communications tool to supplement — not replace — the broker's traditional, face-to-face method of doing business. “You know what the problem with the Internet is?” Danyluk asks. “Suppose you went into business for yourself. How much liability insurance should you have? Pick one: Should it be \$500,000? Should it be \$1 million? Should it be \$2 million? Or should it be \$5 million? If people are given options about their insurance contract, and they ought to be, how do they know what's best for them?”

“One would assume you could replace lawyers by having every legal document you need on the Internet. That hasn't happened. The fact is, an insurance contract is a legal contract and one that people want to understand. It is somewhat complex, so I do think there are some limitations to the Internet.”

Baker agrees that technology is not likely to negate the fundamental role of the broker in an insurance transaction. “As long as there are some complexities to the automobile product that allows the insurance community to add different kinds of coverages and different types of endorsements to the policy, then it becomes a little more difficult [to sell insurance online],” he says. “The

Internet is good for: ‘I want the blue-tone, extra-large shirt.’ The product of automobile insurance is just not an extra-large blue tone.”

In the end, Baker and Carroll both note, brokers may be well-placed to steal back any business they might initially lose to direct and online writers. Carroll suggests consumers may see direct and online writers as potential options for first-time, strictly risk-based insurance products. But as a person develops a wider base of assets over the course of their lifetime, they are more inclined to seek

advice-based insurance purchases that require a broker's knowledge base and expertise.

“Once you start to get to that point when you are concerned about assets, now you need to get back to making sure you've got somebody who can give you informed advice and guidance,” Carroll says. “It's a lot easier for a consumer to make that transition from a risk-based purchase to an advice-based purchase. If the brokerage can offer both, then they're going to do a better job of competing in today's market place.”

FACING THE FUTURE

Certainly brokers are not fiddling while technological advances and the marketing efforts of direct and online writers burn down their market share. Danny Harrigan, president of the Insurance Brokers Association of New Brunswick, for example, has in mind a very detailed three-point plan that he says will help the independent broker channel adapt to its changing environment. He says to compete with the onset of direct and online writers, independent brokers need to do much more work in the following three areas:

- succession planning

Cover Story

- marketing, and
- efficiency.

Robert Donne, president of the Insurance Brokers Association of Newfoundland and Labrador, notes there is a way in which succession plans will have a profound impact on how brokerages reach out to the younger segment of the insurance market — the segment most familiar and comfortable with the use of the Internet.

“The youth are more inclined to use online services than people of my vintage,” Donne observes. “I think we [brokers] have to find a way to go e-commerce. There are a lot of local brokers who are using it now to approach youth. As a local brokers association in the province, we’re certainly trying to look at ways to [facilitate] that. The Internet would be more a point of contact, to introduce the brand name or the branding, and let kids know there are local brokers available.”

Donne said most provincial associations are pushing youth to get into [the broker profession] right from college or high school. “This will give [independent brokers] more of an impact with the young people, because we will have peers talking to peers, rather than people in one generation trying to talk to the next. I think peer-to-peer would be more acceptable to the youth. When kids are talking to each other, they get along better than when they are talking to people of their parents’ age. They trust them [peers] more.” And, of course, younger consumers, like young brokers, are using the Internet as a means of doing business, he adds.

Brokers must not only market to youth more aggressively for recruitment purposes, but they must also be more aggressive in their marketing towards consumers. There are signs that brokers have finally got the message.

For example, Harrigan says his broker association is planning a public launch of a professional branding campaign at its October 2007 brokers’ convention in Moncton. The New Brunswick association has committed its own money to a five-year branding program, which will be twinned with the distribution of a broker kit. The initiative would allow each brokerage in the association to brand themselves within their own community.

Ontario is planning a similar venture. The IBAO, for example, is working with a media firm to prepare standard, branded advertisements that will supplement its current library. The idea is that individual broker members will be able to pick up the IBAO’s ads and use them at a low cost. “We’re trying to make that whole push towards the consumer, and trying to help our brokers the best we can on getting the consumer to better understand what the value proposition is between using a broker and using a direct response writer or a call centre,” Carroll says of the ad campaign.

The IBAO has also allocated an additional Cdn\$200,000 in its budget this year for “lead advertising.” In other words, IBAO will advertise the brokerage profession as a whole, as well as the association and the members it represents. Individual broker firms located throughout Ontario can then supplement the associa-

tion’s advertising with their own. IBAO’s marketing department would contact member brokers to let them know when and where the association’s ads are running; individual brokers are encouraged to then take it upon themselves to “piggy-back” on these ads, supplementing them with their own ads in the same or alternate media.

Harrigan said his association’s branding efforts drew some inspiration in part from a 2003 public relations campaign by the Insurance Brokers Association of B.C. At that time, the IBABC posted a Web site, *bestinsurance.ca*, which contains information for the consumer about brokers and insurance.

“We’re very proud of *bestinsurance.ca*,” says Ted Lewis, the president of the IBABC. “We’ve been doing that [public relations and advertising] for a couple of years, but there’s no question that [*bestinsurance.ca* was prompted by] CDI advertising all of the time.”

And it wasn’t just the fact that CDI was advertising, Lewis points out. It was sometimes crucial for the provincial association to present different information than what CDI was presenting to consumers. At one point, says Lewis, CDI ads called on con-

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sumers to avoid brokers so as to avoid paying brokers any commissions, demonstrating a fundamental misunderstanding of how contingent profit commissions work. “They’re not doing that any longer, they aren’t going to do it again,” says Lewis. “But on behalf of our members, we wanted to make sure we put the best image of the broker forward, provide as much consumer information as we can, and show that we are advocates for the consumer. You’re not going to get any advocacy from telephone solicitation or an ATM or anything like that. You’re going to need to talk to an advisor and that’s why we’re promoting the whole advisor-broker image.”

Saskatchewan brokers are now preparing for what may be the biggest shift in Canada towards online transactions. The province’s government auto insurer, SGI, has announced plans to move its whole process for obtaining vehicle licensing and insurance online starting in 2009. This will be done through the province’s broker distribution channel.

To implement this, Saskatchewan’s brokers will be able to connect with SGI’s servers through a Web link established by the provincial brokers association for all of its members. “What it’s going to do is it’s going to force the broker channel in Saskatchewan here to have a Web site,” says George Wright,

president of the Insurance Brokers Association of Saskatchewan. "IBAS is actually taking a lead in that role through our provider, offering a low-cost, hosted Web site 24/7."

The broker association's Web site will provide recommended text and four or five Web pages to each individual broker member. The association Web site will "allow an individual broker to change the text as [he or she] sees fit without going to the host," Wright notes. "There will be a link on there to get to the online licensing ... There won't be any insurance products we'll be doing online other than the licensing and the registration of vehicles." In addition, whenever a consumer conducts an online transaction, the system will generate an e-mail notifying the broker of the purchase and to finalize the terms of the sale.



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One likely outcome of SGI's plan is that it will force the province's small brokers to become accustomed to using Internet technology, Wright says. Either that, or they will risk losing lucrative auto insurance sales to the province's larger brokerage houses. "It would most likely be [that] the smaller player that chooses not to have a Web page would lose any of the Internet [auto] business that possibly could have gone through his office," he says. "That's why we felt that we [as an association] needed to have [a] low-cost [Web host] for our members."

BEHIND THE ADVERTISING CURTAIN

All of these marketing and online efforts may prove to be fruitless in the future if brokers aren't at the same time improving the services offered to their customers, brokers note. In fact, the weakness of direct and online writers in the service area point to one reason why consumers move away from direct writers and back into the broker fold, Baker notes.

"How many restaurants do you go back to when you say: 'The food was wonderful, but the service was [lousy]?' " Baker notes. "You don't. The food could have been absolutely fabulous, but if the service sucked in getting the food to the table, you won't go back."

Consumers have a propensity to shop, and they'll look at a number of things, Baker says, including the ease of access to service, how quick the service is and price. "In general terms, the banking community has relied on those things [in its advertising, as have], to a lesser degree, direct writers," Baker notes. "What my numbers are telling me, however, is that we're seeing a lot of those same customers who've left come back. Consumers are finding themselves in a void — an information void, an understanding void."

Well-educated brokers can help fill such a void, brokers note. "There's always a need for brokers to be looking for holes in current policies in terms of coverages," says Danyluk. "One of the functions for [associations and brokers] is to identify the needs of the clients that aren't there and that need to be addressed. Your basic insurance contract is constantly changing, so brokers have to be aware of that. Nobody worried much about environmental liability in the 1950s, for example, but it's an issue today and an ongoing issue. In the early '70s, I don't think there was as much discussion as there was 15 years later about employer liability, so I think that things develop that way and I think part of the need for brokers is to become better educated."

For brokers, because of the advice-based nature of their business, education plays a major in service quality. This is a big reason why IBAC and its provincial counterparts — the IBAO in particular — are starting to roll out IBAC's national, 'Best Practices,' program. Best Practices is basically a step-by-step, five-module program that educates the broker about the practices of a brokerage and how they relate to its overall profitability. Brokers are encouraged to benchmark themselves against "the best of the best," as Carroll puts it. "You can actually come back and see how you are performing against

others within your same classification. We don't compare brokerages worth \$10 million with broker firms that are worth \$100 million. We try to compare brokerages that are comparable in size and location."

IBAO is also promoting its En Visage program, in which brokers can actually benchmark against their own performance from one year to another, based on client survey feedback. "It's a tool we provide to the broker at a low cost, where the broker can go back and do an analysis of their own customer base and find what their strengths are, where the weaknesses are, and then, year over year, they are given the opportunity to go back and benchmark to see whether or not these things have changed because of what they have learned from past results," says Carroll. "It's actually pushed [brokers] in the direction of getting better scores from consumers."

And finally, in terms of understanding the mindset of consumers, the IBAO is following the age-old adage: 'Know Thine Enemy.' The organization has done a survey that collects information about consumer buying habits — including why they purchase insurance from online and direct writers. "We did our own survey of 15,000 consumers in Ontario," says Carroll. "The survey we put together was to give us a better understanding of the buying habits of consumers. We branched outside of the brokerage consumers and looked at the consumers that deal with agents and direct response companies and online companies, call centre companies, and we are trying to get a better understanding of why consumers are purchasing where they are purchasing, and then what can our brokers do to try and attract that business." ■