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## **The AIG Effect: Farmers Views Three Platforms as a Single Path to Success**

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OLDWICK, N.J. (BestWire) - Calculating the gains on the largest acquisition in its history may have been the easy part for Farmers Insurance Group when compared with the balancing act it will take to remain the third-largest U.S. personal lines insurer.

Tucked within the merger is the challenge of fully capitalizing on the competing interests that now exist within its burgeoning distribution framework.

Farmers' move to acquire 21st Century Insurance from American International Group Inc. gave it more than just a chunk of the direct channel automobile market and cross-selling opportunities. It accelerated a push by the Los Angeles-based subsidiary of Zurich Financial Services Group to cover the table in terms of consumer preference.

Whether that involves the trusted adviser role that Farmers started shaping for captive agents 10 years ago, the independent agent network that has grown through acquisition or simply the ease of buying online, Farmers is well-positioned for a piece of the action.

Bill Martin, Farmers' senior vice president for personal lines/integration, said industry chatter about channel conflict between agents and direct-to-consumer isn't correct.

"At Farmers we're worried about what the customer is going to feel and they don't care about what the channel is," he said. "The agents are happy to be part of a new design that hopefully will address what the customer wants, rather than what the industry thinks of itself."

Shifting that theory into play had remained in the background amid more pressing issues.

Last month, Farmers announced it would eliminate up to nearly 1,200 positions at 21st Century Insurance Co., or about 20% of the work force.

But a looming challenge involves managing the working relationships between Farmers' 13,000 captive agents, its network of 38,000 independent agents and the potential generated from 21st Century's direct-

to-consumer channel.

There's also the issue of addressing the 21,700 agent location contracts in 21st Century's independent channel; nearly 80% have at least one active 21st Century auto policy in place. This distribution channel generated 25% of the company's \$3.6 billion in 2008 direct premium written.

When AIG off-loaded 21st Century, it had stated assets of \$5.7 billion and liabilities of \$3.4 billion, according to a June 30, 2009 filing with the U.S. Securities and Exchange Commission.

When Farmers closed on the \$1.9 billion deal, the Los Angeles-based company added \$3 billion in less volatile auto premiums to a book of business that was predominantly fire and property, according to A..M. Best Co. Senior Financial Analyst Frederick DeLeon.

DeLeon said Farmers gains geographic diversification through accelerated growth into the East, allowing it to build on its historical concentration in the West. But he said with any acquisition there are potential integration and execution risks.

"This includes challenges associated with integrating operations, systems and personnel," DeLeon said.

Farmers hasn't disclosed how its future business model will operate, but its chief integration officer, Keitha Schofield, said it could be in place by early 2010. "You have to move ahead in a way that you begin to get the value and leverage the assets that you have early on," Schofield said.

The acquisition of 21st Century's direct-to-consumer channel speeded up Farmers' arrival time in the market segment and has it well-positioned in what DeLeon said is the fastest-growing segment in terms of personal lines sales.

Farmers and 21st Century combined for 2008 net private passenger auto premium of \$12.54 billion, according to A.M. Best State/Line data. That would place Farmers just ahead of two chief competitors in the direct business for passenger auto: Geico and Progressive.

Still, while 73% of auto insurance customers shop online, 67% eventually buy from an agent, according to an April 2009 comScore Online Auto Insurance Report.

That shift has helped define Farmers' market strategy. The model of an insurer vying across multiple platforms for premium may become more common in the future, according to Brian Cohen, president and chief executive of Strategic Growth Advisors.

Cohen expects the company to maintain the Farmers brand for its captive channel, and 21st Century for the direct.

The independent channel will ultimately funnel through Farmers' Foremost Insurance Co.

In June, Farmers Chief Executive Officer Robert Woudstra announced the company would invest \$84.4 million to expand its operation in Caledonia Township, Mich., where Farmers has 2,014 employees.

Robert Klein, the director of the Center for Risk Management and Insurance Research at **Georgia State University**, said even a perception of being short-changed can complicate a carrier's relationship with its independent agent network. That potential will only increase as carriers tap into the cost-effectiveness offered by the direct channel.

"This is going to happen, and it's a question of how well companies manage the situation, and how well they maintain good relationships with their agents, while fully exploring the direct marketing channel for customers that prefer that," Klein said.

(By Al Slavin, senior associate editor, BestWeek)