Allstate to Agents: Bulk Up

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Allstate Corp. is setting ambitious new revenue standards for its massive sales force, sparking agent fears that a large-scale culling of their ranks is beginning.

The Northbrook-based insurance giant, addressing market share losses to online insurers such as Geico Corp. as well as lagging customer satisfaction, in recent months has set a new expectation that Allstate agencies have at least $4 million in annual premiums and 4,000 policies within the next three to five years, according to internal company communications obtained by Crain's.

With more than 14,000 agents in the U.S. who generated $27 billion in 2008 premiums and deposits, that $4-million standard is more than double Allstate's current average premium per agency of $1.9 million. It's also 60% higher than the $2.5-million average per agent at the country's largest auto and home insurer, Bloomington-based State Farm Insurance Cos., which has more than 17,000 agents.

No one forecasts that Allstate, whose premiums have been essentially flat in recent years, will double them in the next five years. So the agent initiative - dubbed the "ideal agency model" by the company - is likely to slash the number of agents.

"The agents are fearful their jobs are at stake," says Jim Fish, a former Allstate agent and executive director of the National Assn. of Professional Allstate Agents Inc. in Gulfport, Miss., a group representing more than 1,000 agents that has criticized the company over its treatment of its sales force. "From the numbers, it appears as though the company wants to reduce the size of the agency force substantially."

Some agents privately say they think this will be Allstate's biggest agent initiative since the late 1990s, when former CEO Edward Liddy forced employee reps to become independent contractors, a move that provoked a flurry of lawsuits. An Allstate spokeswoman declines to comment other than to provide a statement: "Our goal is to help Allstate agencies grow and succeed by giving them the incentives and tools to provide superior customer service."

Allstate appears to be betting that larger, better-staffed agencies - albeit fewer of them - will provide better service to customers and keep them from straying to competitors despite rates that generally are higher than its rivals'. Larger agencies also could be better able to provide service to the growing number of U.S. consumers who prefer to buy insurance directly from insurer Web sites rather than agents, a trend analysts expect will persist.

"It is strikingly impressive that the company has so many feet in the street selling the Allstate brand," says Gregory Peters, an analyst at Raymond James & Associates Inc. in Chicago who has a strong "buy" rating on Allstate stock. "But the reality is some of those people are coasting...They're just drawing a renewal check."

"(Allstate) is trying to consolidate them," Mr. Peters says. Allstate has suffered as the economy has tanked, spurring more consumers to shop for cheaper policies. Its number of auto policies has declined for six straight quarters, while those of Maryland-based Geico, Ohio-based Progressive Corp. and even State Farm, which pursue the same agent-led sales model as Allstate, have risen.

In Illinois, Allstate's auto-liability insurance revenue fell last year for the first time this decade, dropping 3.6% to $338 million, according to data filed with the Illinois Department of Insurance. Geico's, by contrast, rose by 15%, and State Farm's increased 2%.

"We cannot make just incremental progress, we need dramatic change," wrote Joe Richardson, Allstate's senior vice-president for sales and customer service, in an August note to agents. "Regardless of how we measure it, our customer loyalty is below average."

Allstate is betting improved customer service, and better integration of its Web site and call-center operations with its agents, will lure more customers despite its higher prices. Its refusal to match rivals' past rate cuts has made its auto insurance business the most profitable of the four biggest players in the business.

But some analysts believe Allstate will find it tough to reverse its marketshare slide in auto, by far its biggest business, accounting for nearly 60% of revenue last year.

Sales of auto insurance online or over the phone accounted for 24% of total sales in 2007 vs. 17% a decade earlier, New York-based Goldman Sachs Group Inc. analyst Christopher Neczypor noted in a Sept. 11 report. "Captive agents appear to be at the biggest disadvantage. Allstate is thus losing share in personal auto, a trend that may accelerate as consumer shopping remains elevated," he wrote.

He slapped a "sell" rating on Allstate stock, which has more than doubled since March - it closed at $29.23 on Friday - on improved investment results.