Advanced distribution management

Four steps to increased agent effectiveness
Increased agent effectiveness: from art to science

The effectiveness of agency partners and distribution networks is an increasingly important item on the strategic agendas of insurance industry executives. As the long-term shift to digital distribution continues, more insurers – including life, property and casualty (P&C), and commercial carriers – are moving from traditional, cost-focused and rules-driven distribution management strategies to a more enabling approach centered on overall effectiveness and value creation.

The shift from qualitative to quantitative management styles that occurred in many other industries and reached some insurance functions finally is coming to distribution management. Carriers once mainly wanted to keep agents in line by controlling costs and tracking sales volume; now they want to empower their distributors to reach higher levels of performance using more sophisticated, value-based measures of effectiveness. Similarly, whereas insurers once were measured by sales volume and premiums written, leading carriers now apply robust analytics across the entire agent value chain to gain visibility into the drivers of agent performance and generate actionable insights for improvements in that performance. Ultimately, the goal is to generate more value for the agent and carrier alike.
What is driving this shift?

- **Increased competition:** Competition for top producers is intensifying.
- **Pressure on margins:** The high costs of distribution expenses makes them a high-priority target for cost rationalization initiatives.
- **Desire for growth:** Distribution effectiveness speaks to the core business goals of increased growth, expanded market share and stronger customer relationships.

Further, new and expanding data sets and more advanced analytics capabilities give insurers powerful tools to:

1. **Understand and quantify effectiveness**
2. **Develop tools and analytical models to enhance effectiveness**
3. **Create transparency to enhance distribution management, performance management and reporting**
4. **Identify and engage the most effective agents**

The insurers that are most successful in revamping their distribution management strategies will be those that develop the analytics capabilities and algorithms to operationalize what works – at scale in a standardized fashion across the entire organization and for all distribution channels and product types. That’s the future vision for distribution management and agent effectiveness as the science of analytics begins to replace the art of storytelling and management using just instinct.

What agents want: key insights from EY’s Agent of the Future Survey

In 2016, EY surveyed 530 commercial, life and P&C insurance agents. Among the most salient findings are:

- **Growth:** Agents are split on their preference for more customers or more share of wallet. Life agents generally want more customers, which is understandable given the difficulty selling ancillary products.
- **Appreciation:** Despite the rise of alternative distribution channels, the majority of agents believe they are valued, with 81% for commercial, 77% for P&C and 68% for life.
- **Better service and communication and less paperwork:** These were the top actions carriers could take to ease the operational burden on agents.
- **Better tools and systems:**
  - Only one-third of respondents interact with carriers via a web portal, but 20% prefer smartphone apps.
  - Customer relationship management (CRM) and claims systems are most important to commercial and P&C agents, while life agents want systems for new leads and better underwriting.
  - Thirty percent of respondents rate agent tools as merely adequate.
Understand and quantify effectiveness

The first step for insurers is to understand the dimensions or drivers of agent effectiveness based on their unique business objectives, product portfolios, target customers and culture. Only then can they identify the metrics associated with top-level performance.

Understand effectiveness

Consider agents who sell a large number of policies, but with costly exceptions and riders or bad classifications. These missteps, which can lead to lower rates and higher servicing costs, can be very expensive and may not be discovered until an audit is conducted. At a minimum, these actions should not be rewarded, but current distribution management models and incentive compensation schemes may do just that. Measuring agents according to how business performs once it is on the books provides a more balanced view and may produce dramatic shifts in distributor rankings.

Relative views of performance based on sales opportunities and market potential also provide valuable insight. Consider a life insurance or annuity salesperson operating in an affluent neighborhood of a large city with many high-net-worth individuals, versus one who covers a relatively middle class, suburban or rural community. Effectiveness baselines for agents in target-rich environments will be higher than those for agents in more challenging, lead-poor markets.

Carriers with captive salesforces may benefit from having a clearer sense of the factors correlated with agent effectiveness. This knowledge has been hard won through years of training, communication and engagement, but it’s critical because the success of the agents’ individual businesses is synonymous with the carrier’s overall success.

Quantify effectiveness

The good news is that insurers now have more data to gain these insights. Just as they have increased their knowledge of who customers are, how they behave and what they want, they can use CRM tools, agency portals and other tracking systems to provide richer insights into how agents, wholesalers and regional management spend their time.

When incorporated into analytical models, such data can provide deeper and richer insights about performance and how distribution networks and individuals perform relative to:

- **Selling:** by product type, customer segment and other metrics
- **Servicing:** both transactional efficiency and relationship quality
- **Engagement:** volume, efficiency and effectiveness of ongoing touch points with customers and prospects

Regardless of the specific metrics selected, it is critical that management achieves a consensus. Otherwise, it is difficult to improve distribution performance in a meaningful way, largely because uncertainty remains about what should be improved. Indeed, the most effective distribution improvement initiatives start with the careful building of a fact base on which all stakeholders can agree.
The identification of metrics is only one step toward increased distribution effectiveness. Insurers also need tools and models to generate insights to define leading practices and apply them to standardize processes in areas from product education to renewal communications to upselling. Creating standard approaches across regions and lines of business is another objective, with metrics and models adjusted appropriately based on factors such as product types and local market conditions.

Analytical models

By analyzing underwriting models and risk opportunities and leveraging external data sets, insurers will be able proactively to support agents through specific customer profiles and targets and providing recommendations for specific products and channels.

The specific models that can help improve agent productivity and effectiveness include:

- **Lead qualification**: based on an analysis of market conditions, product performance and other factors that can help agents prioritize new business opportunities
- **Cross-selling and upselling opportunity**: developed via an analysis of the current policyholder base
- **Renewal and retention**: can identify high-risk customers based on a lapse analysis and provide agents with treatments and tools to prevent churn

One priority surely will be to direct the right volume and types of leads to the right agents. With better data and more precise insights, insurers will know which agents are most adept at selling and servicing high-net-worth individuals. Customer typologies also factor in here. Insurers will be able to identify those prospects who are most likely to go through underwriting processes easily and efficiently. Independent agents are likely to find such offerings compelling and, thus, can be enticed to use agency portals or otherwise share more information in return for them.

As they mature their capabilities, insurers may look to bring in external data sets, such as census information about wealth levels, to make certain that all performance numbers are valid and appropriate for comparison. Insurers may also ask agents to share data in return for such high-value insights. Obviously, data sets will vary based on the nature of the distribution models.

Another way to boost productivity is to direct wholesalers toward the highest-value activities and behaviors, such as increasing “shelf space” with agencies. By analyzing their servicing of agencies and mapping it to sales data, insurers will be able to identify those wholesalers and managers who need to focus more on product education, agent training or other areas.

Agent tools

Beyond analytics and data-driven insights, there are other tools that insurers can provide that can improve agent productivity, such as prefilled forms, workflow automation and agent portals. Insurers that succeed in boosting their own “ease of doing business” can strengthen their bonds with agents by saving them time.

In EY’s Agent of the Future Survey, respondents overwhelmingly cited fewer forms and less paper as ways in which carriers can be more responsive in meeting servicing needs. Simpler processes and improved call centers were also mentioned.
The accuracy of sales forecasting and viability of sales targets can be greatly enriched with more data aligned with updated definitions of agent effectiveness. Senior leadership can establish these with much greater confidence using models based on past performance data to determine how many products specific types of agents in specific geographies should sell to certain types of customers. Today, these targets are determined with limited data inputs. In some cases, targets increase annually by a predetermined percentage, a quite rudimentary approach that can, and should, be updated.

**Predictive analytics**

Predictive analytics will allow sales and other business leaders precisely to model the impact of product or pricing changes, adjustments to compensation models and incentives, mergers and acquisitions, or competitive developments. Ultimately, prescriptive analytics can help agents effectively navigate market shifts.

**Compensation models**

Distributor and agency scorecards can be derived based on new data and insight-driven models. These can serve as the basis for refining incentive programs — a proven way to change agent behavior. For instance, better data and testing schemes can be used to increase the understanding of how compensation structure influences behaviors. Insurers may experiment with multiple compensation levers, such as commission amounts and payout timelines, to find the optimal balance.

EY’s Agent of the Future Survey revealed that while commissions are important, better tools and support (both for products and sales) are powerful incentives carriers can use.

Given the sensitive nature of agency relationships and compensation models, senior management likely will need to be involved in the design and distribution of such scorecards, as well as the determination of the overall organizational appetite for change.

Organizations that decide not to adjust compensation for agents based on new insights still have other options for improving agent effectiveness, such as opening digital channels or offering more training or marketing support. In fact, by more closely tracking agent behaviors, insurers will learn just how much they can influence agent behavior in pursuit of their core business objectives.

**Performance management and reporting**

The same metrics and analytical models that are used to enhance agent effectiveness must also be the basis for performance management and reporting. Corporate leadership and sales management groups should monitor performance and track numbers based on the behaviors and actions they are recommending and incenting agents to perform. Raw volume and cost measures should be replaced with more value-based and profitability-driven metrics for both setting performance targets and ongoing monitoring.
A number of market drivers are focusing insurers on the need to optimize their agent recruitment and engagement programs. There is, of course, the relatively high cost and long cycle of onboarding and training agents, and the high turnover rates and brief “life-spans” of many types of agents. The pending “talent gap” is another concern, with a large number of older agents set to retire in the coming years. A different approach likely will be required to attract, hire and train the incoming generation of millennial agents.

When it comes to agent recruitment and engagement, the essential issues are how to:

- Identify and attract the right agents
- Get agents trained and working sooner
- Keep agents more engaged over time

In non-captive channels, the primary challenge is engagement. Insurers must improve their ability to identify their best agents and develop tactics to strengthen relationships as a means of boosting product sales.

Agent recruitment

Increased intelligence about agent effectiveness should inform the answers. For instance, the well-defined predictors of success should lead to the development of persona-based hiring profiles. They can also be used to customize onboarding and training processes.

- Is it better to hire experienced agents already set in their habits or inexperienced agents who can be trained in line with industry leading practices and company norms?
- When hiring veteran agents, is wire house experience or broker-dealer experience more likely to predict their future success? What is the right level of product training?

Analytics can help insurers find answers to key questions, such as the impact of experience on effectiveness.

Key questions to ask:

- Who works best in a team-based environment?
- Which product specialties can be paired?
- Which types of agents are likely to need more extensive underwriting support?
- How do book-of-business structures align with interaction and channel preferences?

With answers to these questions, insurers will be able to determine the success profiles of their best producers and recruit agents who share the same attributes and therefore are more likely to do well.

Agent engagement

By analyzing performance and behavioral trends, insurers will be able proactively to identify agents most likely to drop out of the force or go inactive. More importantly, they will be able to determine which agents are worth keeping and which can be let go without a major impact on their results. For non-captive models, investments in engagement or agent relationship management can be prioritized and adjusted based on more refined effectiveness models.

Similarly, insurers can also learn what levels of continuing education, management oversight and marketing support are necessary to drive long-term agent success. Given the high cost of operating agency-driven distribution models and the long-standing problem of high turnover among agents, better retention is a big part of the business case for agent effectiveness.

Quality performance data can complement the experience and perspective of senior sales leaders to instill confidence that insurers have the right approach and are able to identify, retain and engage their best agents. Theoretically, this job becomes easier since recruiting processes will also be smarter and focused on finding those individuals most likely to succeed.
Agents must establish integrated frameworks where effectiveness and performance can be analyzed consistently across multiple dimensions.

The most advanced organizations will marry or synchronize agent effectiveness programs with those that are seeking to change customer behavior. Further, they will integrate new data sets and apply insights to their marketing campaigns, underwriting operations, product development teams and claims groups. The merging of customer and agent analytics offers truly transformative potential across the enterprise.

The ideal goal is to establish integrated frameworks where effectiveness and performance can be analyzed consistently across multiple dimensions. Again, the right strategy will vary based on product types, growth objectives, current practices and organizational cultures. But the ability to layer in product and customer insights is a clear advancement from today’s geography- or territory-driven models for lead flow management. Plus, it is a powerful tool for boosting both topline revenue and bottom-line profitability.

Like all matters related to agency relationships and distribution networks, insurers will want to proceed thoughtfully and strategically. There is some risk in trying to do too much too fast, in deploying too many new metrics or changing incentives all at once. Insurers should seek to collaborate with their agents in defining new metrics and sharing insights that come from richer data sets and more advanced analytics. This is something insurers should do with their agents, not to their agents, because agent effectiveness speaks directly to the drivers of overall company success.

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