

Compensation Management – Aligning Carriers and Managing General Agents

Introduction

Though the existence of Managing General Agents (MGA) simplifies and increases market reach for various insurance carriers, these large agencies find themselves handling a complex internal ecosystem. They are plagued by unique administrative challenges that can eventually lead to poor agent retention rates, escalated administrative costs, and a low success rate in ensuring the accuracy and recuperation of commissions paid from the carriers.

Business Challenges

MGAs sell products from multiple carriers, in many cases across state lines or nationwide, paying commissions to multiple business channels according to a hierarchy. Each carrier has a unique compensation model for each product, causing the MGAs to manage a high multitude of commission schedules. Additionally, payment reconciliation (calculating expected commissions from the carriers, comparing the expected amounts to commissions received, and recovering the difference) further complicates the administration process.

In light of these administrative issues, if MGAs miss payments or pay incorrect amounts, their agent retention rates may take a beating. For MGAs, it is common to spend around \$2000 to train each agent on the various carriers' products and policies. When retention rates decrease, investment costs increase insurmountably, since the amount invested in a lost agent can never be retrieved through business written by that agent.

Another challenge is to stay abreast of the trends among carriers. Tech-savvy carriers submit data in electronic formats, and if MGAs use outdated systems that cannot interface with the data format, the MGA's staff is required to manually input the data. This tedious work decreases employee motivation and wastes time that could be applied to more productive activities.



The Solution

It is critical for MGAs to find options that give them the dual capabilities of cutting costs and improving operational efficiency. MGAs need to identify a single technology solution that can provide the capability to support multiple channels, pay agents efficiently and reconcile outstanding receivables to ensure the sustainability of their business. An insurance industry-specific incentive compensation management (ICM) solution provides the technology needed to support compensation plans, multiple distribution channels, complex hierarchies and payment reconciliation and accounting, in addition to providing MGAs with metrics useful for effective revenue and sales forecasting.

Some of the key areas for improvement are:

Policy management and revenue forecasting

Typically, MGAs learn of sold policies when they receive their commission checks from the carriers. But from that point forward, the MGA has no way of tracking changes to the policy, such as a cancellation, that may impact their commission revenue. MGAs need an automated way to receive updates from the carrier on the status of sold policies and quickly make adjustments. Automation increases accuracy and ease of managing policies, calculating commissions and forecasting revenue.

Advancing and charge-backs

It is common for MGAs to issue their agents advances upon submission or issuance of a policy, sometimes up to a year in advance. If the carrier changes the commission plan or cancels a policy, the MGA needs to charge the agent back for the outstanding amount advanced to the agent. This is a difficult task to accomplish without an automated system to track and calculate advances and charge-backs.

When the MGA integrates with the carriers' system, however, any changes in commission or policy status are captured and any necessary charge-backs are calculated. Detailed and timely commission statements inform agents immediately of the charged-back amounts.

Payment reconciliation

With carrier compensation plans becoming increasingly sophisticated MGAs have no reliable measure in place to assure that payments received from the carrier are accurate. They need an automated way to model the carrier's compensation plans, calculate expected commissions, and compare expected to actual amounts received.

Agent Management

Streamlining the agent management process increases flexibility, reduces costs and delivers greater value to customers, agents and employees. The right system captures information on agents, agencies, and affiliates' roles, addresses, licenses, appointments, certificates and contracts. It also captures information related to policy transfers among agents, termination and reinstatement of agents.

ROI

With these increases in capability and automation companies experience an overall improvement in productivity. The impact of the right solution goes a long way towards achieving business objectives, as summed up here by one representative from a large MGA.

“United Insurance Group (UIG) began seeing ROI within the first year due to cost savings in the form of greater producer retention and performance, increased commission transaction accuracy, and greater productivity for staff. VUE Compensation Management paid for itself within 24 months.”

– Director of Sales and Service at UIG.