

## Agency Management Best Practices

As a very unpredictable year draws to a close, and carriers look ahead to an uncertain 2010, the time is ripe for a review of core agency management practices to ensure they position both carriers and agents to capitalize on the new opportunities that will inevitably arise as we emerge from the current recession. In this View from the Bridge, we describe agency management best practices, with a focus on the independent agent. We also outline the key elements of an effective joint business planning process - a process we believe is essential to ensuring aggressive, yet achievable, goals for agents are established and met.

An essential goal of independent agents is to maintain positive relationships with multiple markets, never developing an over-reliance on any one. There is a natural tension between this goal and a carrier's desire to maximize its share of each agent's book of business. The common element in effective agency management programs, therefore, must be the identification, enlargement, and exploitation of areas of common interest between carrier and agent. Given this, what are the elements of the carrier-agent relationship that a carrier should focus on to get the most out of its independent agents?

**Appointing the Right Agents** - What exactly constitutes a good agent? Loyalty and positive personal relationships between carrier and agent are certainly important, but the best agent is one that is superb at running their own business. Attracting and retaining customers is a tough business, and agents can't afford - and shouldn't be asked - to sacrifice a customer's interests for those of the carrier. The best agents for a carrier are those that are: 1) pursuing the same types of customers; 2) capable of growing their own businesses profitably; and 3) good field underwriters who understand it is not in their own interests to burn markets. Regular review of an agent's track record in each of these areas is essential. New appointments should be made on the same basis.

**Equipping Them with Competitive Products and Pricing** - Agents are not miracle workers. The value to the end customer of a good agent is worth some modest difference in coverage, and perhaps as much as 5-15% in pricing, but certainly no more. It is up to the carrier to maintain product and price competitiveness. Doing so in volatile markets requires real-time market intelligence, dynamic decision making, and flexible systems. Agent feedback can be useful, but obviously needs to be taken with a grain of salt, since this is one area where carrier and agent objectives are not always in perfect alignment.

**Developing and Executing on Business Plans Built around Common Interests** - One of the keys to a successful carrier-agent relationship is establishing and committing to a set of common goals. We've found that the typical account management process becomes so focused on daily operational issues that planning often devolves into an exercise in updating previous year's plans based on negotiated assumptions about premium trend. Joint business planning is essential to identifying shared opportunities and pursuing common goals. It should result in actionable plans with specific timelines and performance targets for both carrier and agent, and serve as a reality-check for the effectiveness of other agency management activities. Below are some general guidelines for structuring an effective joint planning process:

*Exhibit: Key Elements of a Formal Joint Business Planning Process*

Structural Element	Guidelines
<b>Timing &amp; Frequency</b>	<ul style="list-style-type: none"> <li>• Annual (in concert with broader company planning cycle), with quarterly reviews and updates</li> </ul>
<b>Focus</b>	<ul style="list-style-type: none"> <li>• Highest potential agents (a streamlined process should be developed for other agents)</li> <li>• Longer-term view</li> <li>• Very specific in nature – specific markets, geographies, customer segments</li> <li>• Includes discussion of goals (and challenges), strategies for achieving goals, and investments on both sides to support these strategies</li> </ul>
<b>Participation</b>	<ul style="list-style-type: none"> <li>• Those with real decision making authority and with direct responsibility for delivering on the carrier's/agency's strategy, e.g.               <ul style="list-style-type: none"> <li>- Carrier underwriting and agency management leads, with executive participation as well where the relationship is sizable and strategic enough to warrant it</li> <li>- Agency principal/owner and lead underwriter or program manager</li> </ul> </li> </ul>



Structural Element	Guidelines
<b>Process</b>	<ul style="list-style-type: none"> <li>• Articulate long-term goals for target market share, premium and loss ratios by geography and segment</li> <li>• Identify highest potential (based on growth and profitability) agents for inclusion in joint planning process</li> <li>• Assess current and past performance of high-potential agents against targets set forth above</li> <li>• Agenda for discussions               <ul style="list-style-type: none"> <li>- Carrier inputs:                   <ul style="list-style-type: none"> <li>▪ Key elements of the carrier's long-term plan/strategy</li> <li>▪ Joint business opportunities identified by carrier's marketing and product development staff</li> <li>▪ Incentives that can be used to encourage achievement of specific goals</li> <li>▪ Investment plans of relevance to agencies</li> </ul> </li> <li>- Agency inputs:                   <ul style="list-style-type: none"> <li>▪ Updates to agency's business plans and strategy</li> <li>▪ Business opportunities in agency's areas of operation</li> <li>▪ Commitments needed from carrier to achieve goals</li> <li>▪ Commitments agency can make to carrier in areas of greatest common interest</li> </ul> </li> </ul> </li> <li>• Ensure aggressive goals are set and formal plans are in place to execute               <ul style="list-style-type: none"> <li>- Joint business plan with specific performance targets</li> <li>- Commitments on both sides that maximize likelihood of achieving longer-term goals of the relationship</li> <li>- with an investment timeline as appropriate</li> <li>- Process to track performance over time and to support subsequent joint business planning sessions</li> </ul> </li> </ul>

**Aligning Agent Incentives with Company Goals** - Carriers are reluctant to tamper with their incentive systems, and for good reason. The backlash from missteps can set premium and market share goals back by years. Complacency and inaction, on the other hand, can have equally dramatic effects. Key questions to ask in this area include the following:

- Are incentive structures designed solely to achieve competitive parity, or do they truly align agent and carrier objectives?
- Do they reward the right behaviors?
- Are they simple enough that it is clear which behaviors they are intended to reward and which to discourage?
- Are they based on a common understanding of longer-term goals that will drive carrier as well as agency success?

To paraphrase Charlie Munger, Warren Buffet's right-hand man at Berkshire Hathaway, if you don't get the incentives right, nothing else you do will matter.

**Using Agent Time Efficiently** - Reducing friction and cycle times in carrier-agent interactions is among the strongest levers a carrier has in attracting and retaining top agents and enabling them to be productive on both the carrier's and the agent's own behalf. Agency managers should know how much effort is involved in getting a quote out the door. How much back and forth does an agent need to go through before getting a competitive and bindable quote? Do trusted agents have the authority necessary to produce timely quotes without the need for an extended back and forth with the carrier's underwriting staff? Have technology investments reduced quote/issue/bind cycles for agents? Engaging in detailed discussions with agents specifically focused on eliminating any friction in carrier-agent interactions and then developing plans to effectively address the highest priority items can establish goodwill in the near-term and drive improved performance - and retention - in the longer-term.

**Making the Most of Agent Feedback** -Independent agents are a carrier's eyes and ears in the marketplace. Most agency management programs have established processes for gathering agent feedback on a periodic basis, either through Agent Councils or other structured interactions. However, critical and timely feedback on changes in the marketplace, in general, and the carrier's performance, in particular, can be surfaced more quickly if the lines of communication are continuously open and the contact between carrier and agent is not limited to formal meetings. Agency managers should ask themselves whether processes are in place to stimulate, capture, process, and react to feedback from real-time interactions as well as periodic formal meetings.

While the list above is not comprehensive it captures the elements of an agency management program that are most critical to overall performance. The review guidelines described as part of each element can help ensure an assessment of agency management processes that is both productive and impactful.

## Conclusion

While agency management processes are usually conceived and built around sound principles, they often stagnate and lose some of their effectiveness over time. As with all critical business processes, agency management needs constant management attention and continuous renewal. In today's uncertain economic environment, carriers need their agency management processes to be an asset. A review of core processes and an effective joint business planning program will contribute to this end and to achievement of superior outcomes both near and long-term.