Agent Hierarchy

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Section 1: Introduction and Terminology

Purpose of this document

The term "agent hierarchy" is often used at [client][*], but not so often defined. This document tries to define and describe the agent hierarchy used at [client], first from a business point of view, then from a computer systems point of view. It also attempts to describe how agent hierarchy information is currently used, and identify resources and references for further research.

"Agent Hierarchy" is not really a hierarchy

Writing agents, general agents, and other entities such as branch offices, and broker/dealers relate to each other in various ways. That set of relationships is typically called the "agent hierarchy". But it isn't really a hierarchy.

You can imagine agents and others organized into a true hierarchy, and sketch it, like this:

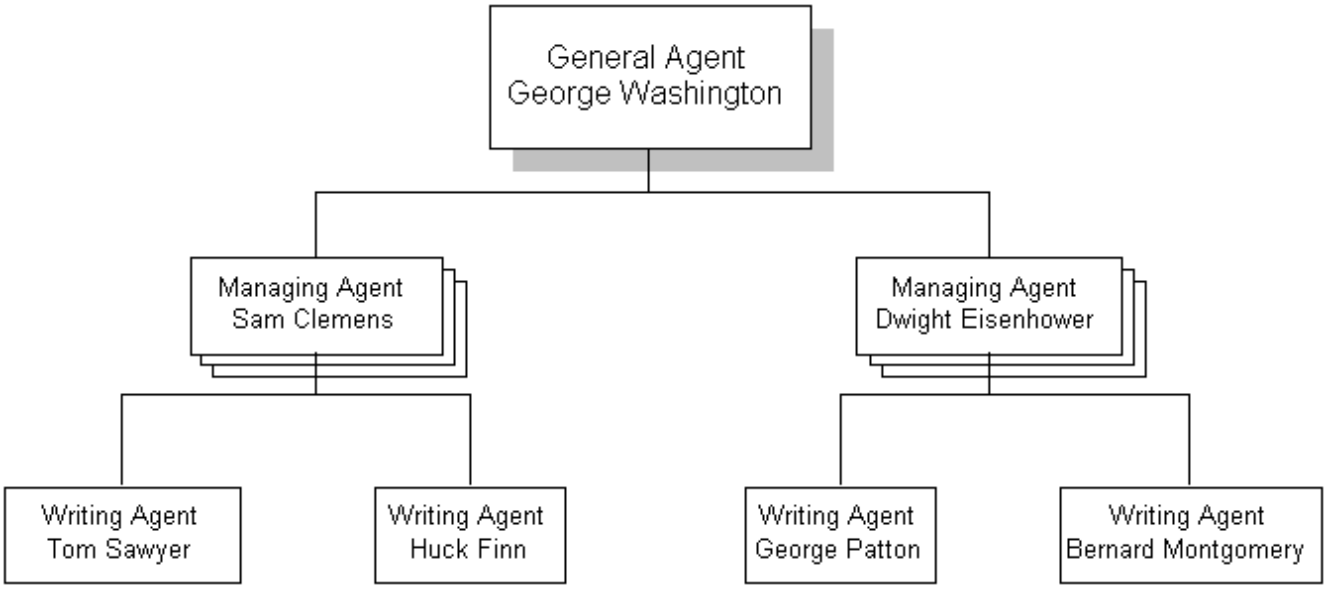

Figure 1 - A classic hierarchy with agents in it

[*] and at other insurance companies

For a very simple agency and product, such a diagram could actually show how agents and others relate to one another. But usually, things get more complicated, like this:

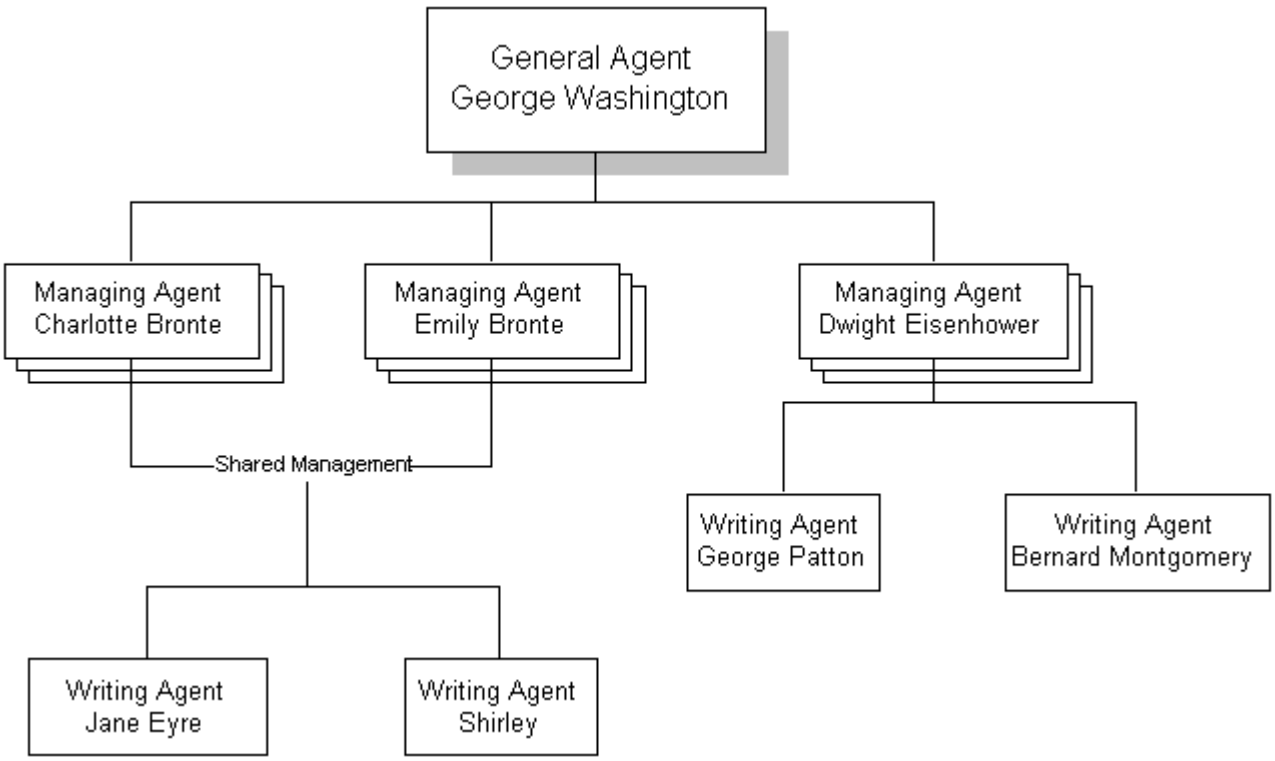

Figure 2 - a more complicated hierarchy

Here, two writing agents are both simultaneously reporting to two managing agents. The diagram doesn't look as neat. More importantly, if your computer system assumes a true hierarchy like Figure 1, but your business looks like Figure 2, you will need to resort to clever tricks to store your business information, if you can store it at all.

Figure 2 is still oversimplified. Figure 3 starts to get closer to real business relationships:

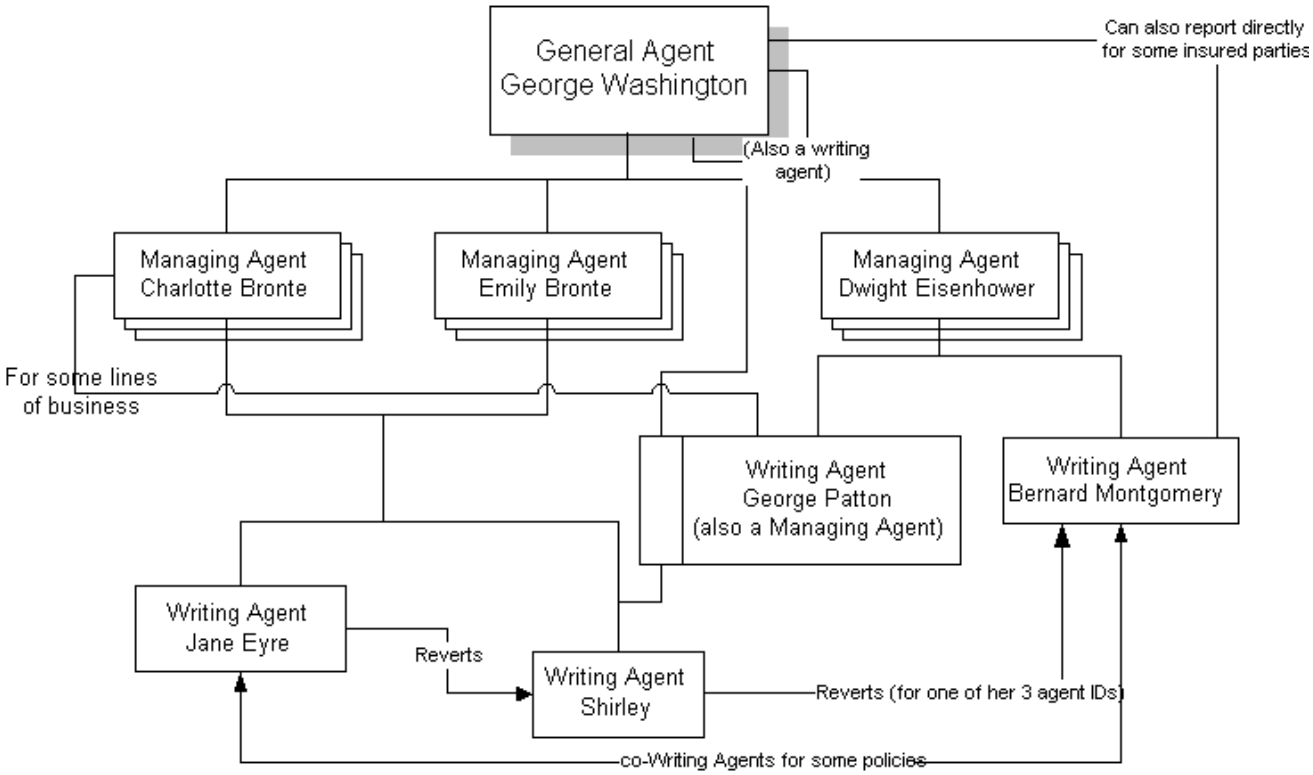

Figure 3 - closer to a real-world agent "hierarchy"

Though Figure 3 is a mess, it's still oversimplified. At [client], we find many kinds of relationships between writing agents, broker/dealers, general agents, branch offices, and others. For each agent, there can be many of these relationships in effect at the same time. They vary depending on line of business, reporting information vs. paying commissions, how general agents run their business, custom agreements, and other factors. Add in different rules for different states, more levels than just three, exceptions, and special conditions - the true picture is far more complicated than Figure 3.

If you're new to this topic, just learning about agents and how they relate to others, and puzzled because you can't seem to fit all the relationships into a neat diagram like Figure 1, stop worrying. It's impossible - the picture is much more complicated. The "Agent Hierarchy" is not really a hierarchy at all, in the "true" or "dictionary" sense of the word.

If "Agent Hierarchy" is not really a hierarchy, then what is it?

The term "Agent Hierarchy" is generally used in the insurance industry to refer to reporting and commissioning relationships. But there are other important relationships, too (see Section 2: How agents and others relate). It makes sense to talk about them together.

This document, when referring to "agent hierarchy", is referring to the set of all possible affiliations or relationships between agents and other entities. It would probably be less

confusing to use a different term than "agent hierarchy". But, the phrase "the complete set of all possible relationships between agents and other entities" is too cumbersome. The term "agent/entity relationship space" is short and accurate, but sounds strange. Since the term "agent hierarchy" is fairly widely used in the insurance industry, and at [client], this document uses it throughout.

Don't let it confuse you. Just remember that generally, when people say "agent hierarchy", they're not really talking about a classic hierarchy at all. The definition of the term as used in this document:

> **"Agent Hierarchy" means the set of all possible ways that agents, and others involved in writing and managing the products we sell, relate to or affiliate with one another.**

It's a pretty complex set.

As for an agent hierarchy for a specific agent:

> **An agent's hierarchy means the set of all relationships or affiliations that agent has with others involved in writing and managing the products we sell.**

Kinds of relationships

Here are some of the relationships between agents and others involved in our business:

- Information about Writing Agents' business can be reported directly to General Agents.
- Writing Agents can incorporate themselves as a corporation under state law, and be General Agents, and get their own business reports.
- Even without incorporating themselves under state law, a Writing Agent can be a General Agent, and get their own business reports.
- Information about a Writing Agent's business can be reported to multiple General Agents.
- Information about Writing Agents' business can be reported to Managing Agents.
- Information about Writing Agents' business can be reported to multiple Managing Agents, whether or not they in turn report to multiple General Agents.
- Writing Agents' commissions can be paid directly to themselves.
- Writing Agents' commissions can be paid to Broker/Dealers.
- Writing Agents' commissions can be paid to General Agents.
- Writing Agents can "revert" their commissions to other Writing Agents; while the revert relationship is in effect, all the first agents' commissions get paid to the second agent.
- Besides the regular commissions, an additional commission percentage, over and above the Writing Agents' commission, can be paid to a third party.
- Writing Agents' commissions can be paid to Pay Offices. This is done in cases where the commission can't be paid directly to the General Agent because they aren't licensed in the

state. The commission is then instead paid to a different entity, the Pay Office, which is somehow affiliated with the General Agent.
- Commission relationships can be "chained" together. A Writing Agent's commission can be paid to another agent, whose commission in turn gets paid to another agent or other entity; there can be many links in this reporting chain before finally getting to the General Agent or Broker/Dealer.

There are rules governing who can report to whom, and who can get percentages of whose commissions. These rules vary depending on the laws of the state the product is sold in, the product itself, the particular terms of the agreement with a General Agency or a Broker/Dealer, and other factors.

To really understand how the agents and the other parties involved all relate to one another (in other words, to really understand the "agent hierarchy"), it's necessary to get into the details of the business rules, practices, and conditions which apply to each line of business. Section 2 of this document attempts to do just that.

Section 3 describes how these relationships are stored in computer systems used by [client]. And Section 4 contains training materials, and references to other training materials and resources, describing how to actually use those computer systems in accessing, using, and manipulating agent hierarchy-related information.

Section 2: How agents and others relate

[client] and its predecessor companies have been doing insurance business for many years. Information about the products [client] sells is stored in various computer systems; some old, some newer. The computer systems were designed to (among other things) store agent hierarchy information according to the business needs at the time.

In some cases, there is a pretty good match between how agent and other relationships are stored in the computer, and how agents actually relate to others in the real world. In these cases, if you understand the business, it's not too hard to understand how the computer stores the agent hierarchy information. Information is stored in a reasonably "logical" way.

In other cases, as new products and procedures were invented that didn't quite fit existing computer systems, compromises were made, "clever tricks" invented, data stored in odd places, data stored more than once, and/or special procedures created, just to accomplish the business requirement of computerizing information about these products. To use the computer to find and/or manipulate agent hierarchy information in these systems, you need to learn the tricks, special schemes, and procedures people have come up with over the years.

Here are some examples of using computer systems in "odd" ways, because the job needed to be done and the system didn't support the functionality in an "elegant" way:

- Creating multiple entries in a computer system, all referring to the same individual, just because the computer system doesn't (or didn't) allow one individual to:
  - report to two general agents,
  - function both as a writing agent and a managing agent, or
  - function both as a writing agent and a general agent,

  even though the person does function in these multiple roles.
- Creating two entries in a computer system, both referring to the same business entity (the same company or corporation), because the computer system doesn't (or didn't) allow one company to function both as a general agent and a broker/dealer, even though the company does in fact do both kinds of business.
- Calling an individual person a "Distribution Organization", even though they're not an organization and don't distribute anything, as a way to pay them commissions.
- Physically/manually intercepting printed reports in the mail room, sorting them, discarding some, and combining others with separately printed labels, because the computer system's "reporting hierarchy" cannot store the fact that certain parties need certain business reports.

Some effects of all this:

- It can be difficult to separate the real-world business needs, business rules, and business processes from the needs and restrictions of the computer systems. Another way of saying this is that it's hard to separate the business processes from the computer-specific processes.
- Learning to use the computer systems is more difficult than it should be.

- It can sometimes be impossible or very difficult to use the existing computer systems to carry out new business processes, or to support new products.

This section attempts to describe how the different parties involved in managing the products [client] sells relate to one another in the "real" or business world. Though this section attempts to describe business relationships independent of the computer systems in use to record those relationships, it refers to particular computer systems as appropriate.

Agents and other entities in the agent hierarchy

The "entities" involved in agent hierarchy include:

Writing Agent (WA)

This is the individual who "writes" (signs the buyer up for) the insurance policy, annuity contract, or other [client] product. A WA is a human being, not a "corporate person" or other legal or organizational entity. A WA must be licensed by the state where the transaction takes place, to write the type of business product they want to write.

General Agent or General Agency (GA)

A general agency is a generally a business and/or corporation. A writing agent submits their business to the general agent. The general agent sends the business to [client]. [client] often sends reports to general agents about business; these reports may be broken down by writing agent. [client] often pays a writing agent's commission to a general agent, which then pays part, all, or none of it to the writing agent.

When we talk about general agents, we're often talking about non-variable (fixed) business.

General agencies are sometimes called "brokerage agencies".

Sometimes, in the data warehouse, we find GAs identified by Social Security Numbers, not Federal Employer Identification Numbers, which would tend to indicate that they are not a corporation. We haven't analyzed the significance of this.

Broker/Dealer (BD)

A broker/dealer is much like a general agent. In fact, sometimes a corporation often acts as both GA and a BD are in fact the very same corporation, but our computer systems must track them separately for non-business reasons.

The difference between a broker/dealer and a general agent is that the broker/dealer handles "variable" business; that is, products which involve investing in the stock market. All dealers selling such products must be registered with the Securities and Exchange Commission. This means that the business process for dealing with broker/dealers is different. In particular, the reporting and commission procedures can differ between broker/dealers and general agents.

Pay Office (PO)

This entity is used in [SYSTEM 1]. The pay office is a payment device [client] and a GA or BD use to comply with the law. A general agent may be allowed to do business in a state, even though they are incorporated in a different state. A PO is a corporation set up in the first state, which [client] pays. The PO is affiliated with the GA or BD, and (presumably) forwards the funds to them.

Distribution Organization or Distribution Office (DO)

A better name might be "percentage getter". [client] occasionally decides to reward a person or other entity who brings new agents, or whole agencies, or large amount of business to us. This reward is something like the commission the writing agent gets; it's a percentage of the commissionable premium. It is not subtracted from the writing agent's commission; it's paid to the DO over and above whatever the WA gets.

The [SYSTEM 1] system places a DO in the commissioning hierarchy as a way of making sure that the DO gets their percentage.

Managing Agent (MA)

This entity is sometimes used in [SYSTEM 2]. It's used in the reporting hierarchy to summarize and report on writing agents' business. If several WAs report to an MA, the MA may periodically get reports about all those WAs' business.

Branch (BR)

This entity is used for reporting only. WAs may report to a branch; if so, reports about the WAs' business may be sent to that branch.

Relationships in the agent hierarchy

The two major relationships in agent hierarchy are "reporting" and "commissioning". These are so important and so frequently used that people often use the terms "the reporting hierarchy" and "the commissions hierarchy".

Reporting

The term "reporting" can be a little deceptive. Remember Figure 1, the oversimplified diagram? That diagram can give you the idea that the reporting relationship means that one agent "reports to" another. An example, WAs work "under" GAs, with the GAs being the bosses and the WAs being the subordinates. This can in fact happen, and when it does, very often the reporting relationship ties together the WA and the GA in question.

However, the reporting relationship is not about bosses and subordinates; it is simply a statement of who gets reports. GAs can get reports about a WA's business if a computer system specifies that that WA "reports to" that GA. But this is unrelated to any "boss-

subordinate" relationship. WAs can have simultaneous multiple "reports to" relationships with different GAs, while not actually employed by all (or any) of them.

Also, the reporting relationship does not have to be between a WA and a GA. The reporting relationship can be between a WA and a BR (branch), between a WA and a BD, between a BR and a BD, and/or between a BD and a GA.

Sometimes, a person who owns an agency will write a policy. In their capacity as WA, they have a reporting relationship with themselves in their capacity as GA.

Commissioning

The Commissioning relationship can be used for two things:

1) Defining who actually gets the commission payment for the product the writing agent writes. Eventually, it is up to that recipient to return all or a portion of the commission to the writing agent. A simple WA-to-GA or WA-to-BD commission relationship represents this usage. The actual percentage and payment schedule defined as part of the Commissioning relationship may vary based on product, the writing agent's choice, and other factors.

2) Defining who gets percentages of the commission. An example is a commissioning relationship in which the WA relates to a DO, which relates to another DO, which relates to a GA. At each step, the DO gets a commission. The value of the commission varies depending on the agreement [client] has with the DO.

Reverts

The "reverts" relationship is a way of making an exception. To redirect an agent's commission(s) to another agent, rather than to the entity they're related to by the "commissions" relationship, a "reverts" relationship is set up. A computer system calculating commissions pays attention to the existence of the "reverts" relationships, and directs the commission(s) to the "revert-to" agent.

It is actually commissions which revert, so it's correct to say that "the commissions revert to another agent". But the terminology can get a little sloppy. When talking about the agents and agencies, we often use terms like "reverting agent", "revert-to agent", "reverted-to agent", and

"revert-to agency". If you get confused about what's going on, just ask or try to find out from whom and to whom the commissions are reverting.

The effect of a "reverts" relationship can be complicated. See "How agent hierarchy information is, and may be, used on page 16 for more information.

Diagrams of Relationships

The following diagrams are drawn mostly from existing systems ([SYSTEM 2] and [SYSTEM 1]).

Figure 4 shows that one agent can simultaneously have/participate in one of up to five (5) relationship categories. That is, a WA can simultaneously have one reporting relationship for variable annuities, another reporting relationship for fixed annuities, a commission relationship for variable annuities, and a commission relationship for fixed annuities. Figure 4 also includes the "revert" relationship discussed immediately above.

Figure 4 does not include other relationships or affiliations which do exist as part of the business process; for example, licensing and appointment relationships. So, the combination of Figure 4 through Figure 7 shows only part of the "agent hierarchy", as that term is used in this document.

Within each relationship category in Figure 4, there can be variations of the relationship. Figures 5, 6, and 7 show detailed relationships for the reporting and commission categories.

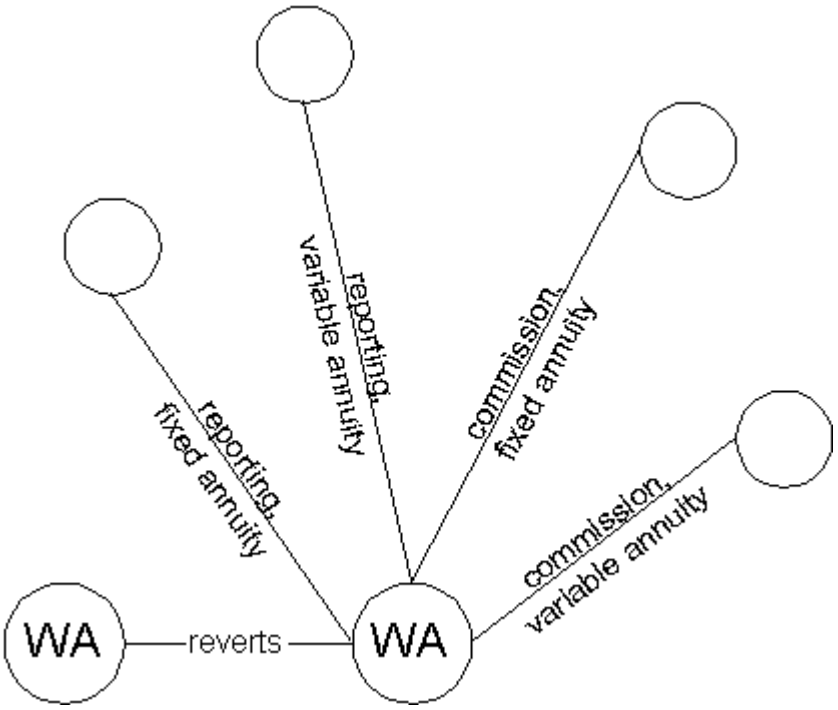

Figure 4 - Categories of relationships

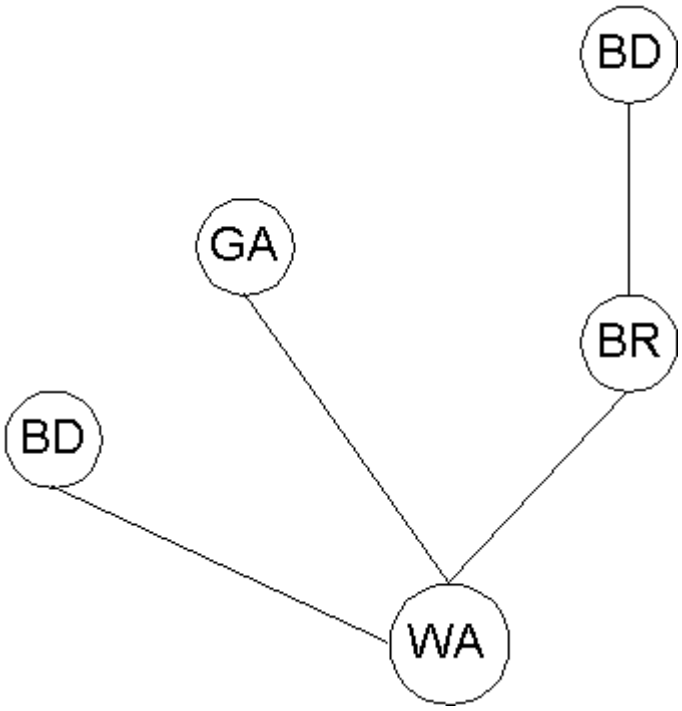

Figure 5 - Reporting relationships for fixed and variable business

Figure 5 shows that there are a number of ways a reporting relationship can be set up between a writing agent (WA) and other entities. The WA can report directly to a General Agent (GA), directly to a Broker/Dealer (BD), or, indirectly to a BD via a Branch office (BR).

Figure 5 also shows that reporting relationships are much the same for both fixed and variable business.

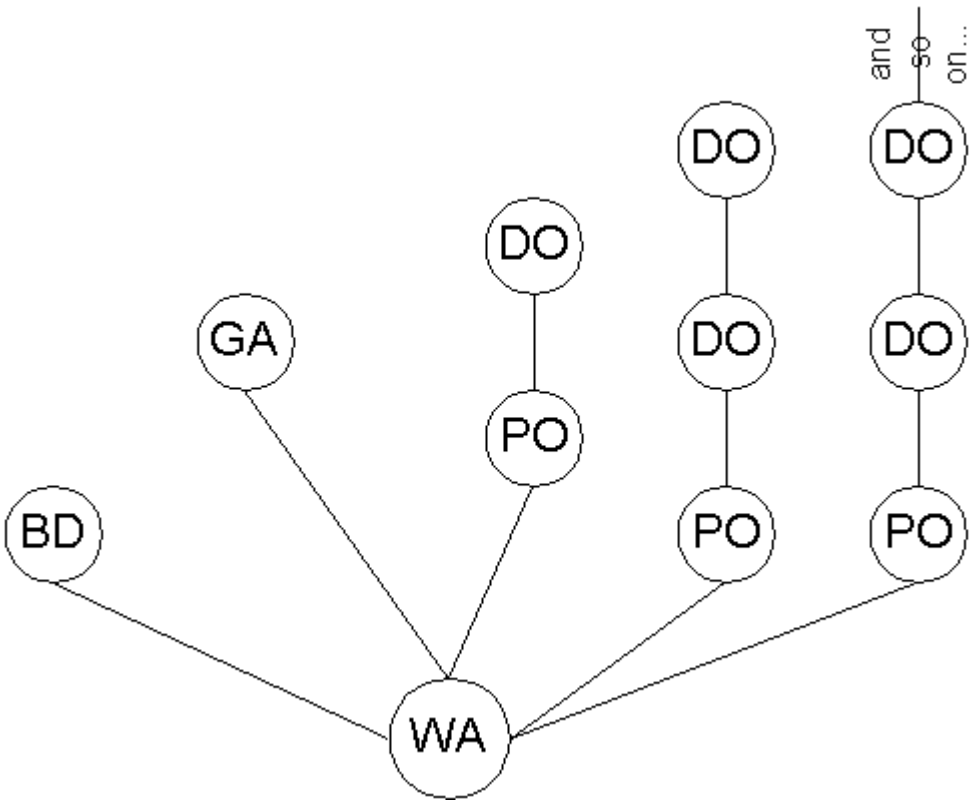

Figure 6 - Commission relationships for fixed business

Figure 6 shows that for fixed business, a Writing Agent's (WA's) commission can be paid to a variety of different entities. The commission may be paid directly to a Broker/Dealer (BD). Commissions may also be paid to Pay Offices and Distribution Organizations. And commissions may be paid directly to a General Agent (GA). In some cases, the GA may

actually be the same person as the WA, in which case the WA is simply getting paid their own commission.

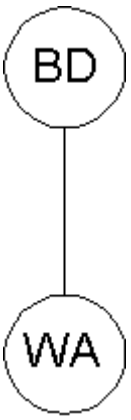

Figure 7 - Commission relationship for variable business

Figure 7 shows that commissions for variable business must be paid only to the one Broker/Dealer (BD) with whom the WA is affiliated.

How agent hierarchy information is, and may be, used

Computer systems can use agent hierarchy information in a number of ways.

Reporting

The primary use of the reporting hierarchy is to generate and distribute reports. Reporting programs follow the agent hierarchy "down" in order to compile information about "lower" entities, and combine it into a report which is then distributed to the "higher" entity. For example, a report program might find all the agents who report to a GA, summarize all their activity for a month, and print that report out for delivery to the GA.

Computer systems can also use the reporting hierarchy to display or otherwise provide real-time information to requestors.

Confusingly, it's also possible to follow/use the commission hierarchy to do reporting. Some systems such as [SYSTEM 2], which doesn't really have a distinct commission vs. reporting hierarchy, do this by default. If you're working with (or designing) a reporting system that

uses/follows the commission hierarchy, it's important to pay attention to the "reverts" relationship and handle reverted agents correctly.

Commission Paying

Typically, computer systems follow the commission hierarchy to figure out where to send money. They pay special attention to the "reverts" relationship, if it is supported in the computer system in question.

Authorization

When deciding whether to allow a particular agent or agency access to information, it's possible to follow/use either the reporting hierarchy or commission hierarchy.

The [system 9] system, which allows agents to view their commission statements on line, does this. It uses the commission hierarchy to decide which entities may view commission information about which other entities.

When authorizing based on the commission hierarchy, it's important to pay special attention to the "reverts" relationship, to avoid an error like one discovered in [system 9] testing. If a system follows the commission hierarchy for authorization, but does not pay attention to the "reverts" relationship, the effect can be that agents are allowed to view/get information about other agents' commissions.

Reverts

Not all computer systems which store and/or use agent hierarchy information behave/operate the same when a WA reverts their commissions to another WA or to an agency. Some systems (like [SYSTEM 1]) don't support or check for a "reverts" relationship at all; others (like [SYSTEM 2]) carry out alternate functionality when a "reverts" relationship exists. There is no uniform, general, cross-system effect of a "reverts" relationship.

Systems which do support the "reverts" relationship must be able to handle the following:

> Correctly remember/identify the original writing agent. For information, business, historical, and compliance reasons, we must store the information "who wrote the

policy/contract". Certain kinds of reporting based on "who wrote the policy/contract" must find and include this writing agent as the writer of this policy/contract.

Correctly preserve/maintain the "original", non-reverted commissions hierarchy. Again, we must store the information "who normally gets the commission(s)?".

Correctly remember/identify the "reverted to" agent or entity. Send commissions to this agent/entity, not to the entity which'd normally get them if we just followed the commissions hierarchy.

Don't confuse the original writing agent, the original entity that got the commissions, and/or the "reverted to" agent or agency!

Section 3: Agent Hierarchy as stored and used by computer systems

This section of the document describes computer systems used by [client], and the data stores they use. In some cases, such as [SYSTEM 3], the computer system completely contains its own data store, uses no other/"outside" information or data, and allows no outside access to its data store.

In other cases, computer systems contain both their own internal data stores, and interact with other data stores. For example, the [SYSTEM 2] system has its own internal data store. But as used here at [client], our information processing methods use [SYSTEM 2] in conjunction with a Btrieve database.

And in yet other cases, such as the IVR system, the computer system doesn't have its own internal data store at all; relying instead on other systems and/or data stores to manage agent hierarchy information.

3a): Systems which use agent hierarchy data

The following computer systems used by [client] use agent hierarchy information:

- [SYSTEM 2]
- [SYSTEM 3]
- [SYSTEM 1]
- [system 4]
- E-[system 4]
- IVR
- [SYSTEM 5]
- [SYSTEM 6]
- [system 7]
- PeopleSoft
- [system 8]

This section describes, for each system, the following:

- Lines of business each computer system supports
- Who uses the system (both human users, and other computer systems)
- What agent hierarchy data the system uses
- How it uses these data
- Where the agent hierarchy data are located
- How the agent hierarchy data are stored

Some of the information in the last two bulleted items overlaps information in section 3b). I have tried to keep such overlapping to a minimum, but in some cases, it is appropriate.

[SYSTEM 2]

[SYSTEM 2] is also called [PSEUDONYM 1] in some documents, such as Amethyst data warehouse documentation.

[SYSTEM 2] uses a Btrieve database running on USSYS9.

In [SYSTEM 2], a writing agent who writes both fixed and variable business has a separate agent ID for each.

Lines of business

[redacted]

Who uses the system (both human users, and other computer systems)

[redacted]

What agent hierarchy data the system uses

[redacted]

How it uses these data

[redacted]

Where the agent hierarchy data are located

[redacted]

How the agent hierarchy data are stored

[redacted]

[SYSTEM 3]

[SYSTEM 3] Is the issues system for the old [PSEUDONYM 2] life products.

It interfaces with/uses [SYSTEM 1] to pay agents.

[SYSTEM 1] also interfaces back with [SYSTEM 3] to get "agent add" information.

[redacted]

Lines of business

Fixed annuities - some group and some individual
Variable annuities - more group, but some individual
Some very old life

Here* is the detailed list of products whose information is stored in [SYSTEM 1]:

Product name	Product type
[Redacted 1]	Fixed Annuity
[Redacted 2]	Fixed Annuity
[Redacted 3]	Fixed Annuity
[Redacted 4]	Fixed Annuity
[Redacted 5]	Living Life
[Redacted 6]	Variable Annuity
[Redacted 7]	Living Life
[Redacted 8]	Fixed Annuity
[Redacted 9]	Variable Annuity
[Redacted 10]	Fixed Annuity
[Redacted 11]	Fixed Annuity
[Redacted 12]	Variable Life
[Redacted 13]	Fixed Annuity
[Redacted 14]	Variable Annuity

[SYSTEM 1] does not use, store, or support the "reverts" relationship.

3b) Systems which store agent hierarchy data

The following computer systems used by [client] store agent hierarchy information:

- Amethyst (Data Warehouse)
- Btrieve/USSYS9

* courtesy of SVZ

This section describes, for each system, the following:

- What data are stored
- Technical information about the data store, including:
- The kind of machine storing the data (example: UNIX server, Storage Area Network (SAN), IBM 3084 mainframe)
- The software product, if any, used (Btrieve database, flat file, NDS directory)
- Where the data store physically resides
- Where the data store is from a network point of view (IP address, machine ID)
- Who supports the data store
- How the agent hierarchy information is represented in the data store (records which refer to each other, pointers, b-trees, linked lists)
- Where the agent hierarchy data comes from
- Which systems use the agent hierarchy data.

Some of the information in these last two bulleted items overlaps the information in section 3a). I have tried to keep such overlapping to a minimum, but in some cases, it is appropriate.

Amethyst (Data Warehouse)

Some preliminary numbers and information from the data warehouse:

X level 1 agents (typically WAs)
X level 5 agents (typically GAs)
X level 6 agents (typically Gas but not always)
X level 1 agents who report directly to level 5 or 6 agents
X reporting relationships, including both directly and via intermediaries, between level 1 agents and level 5 or 6 agents
All information seems to come from [SYSTEM 1] and [SYSTEM 2] ([PSEUDONYM 1])

> [It was while attempting to fill this out that I ran statistics against DW. The last word was that my numbers appeared correct, but that XXX wanted me not to present them "without having a full understanding of the information". We have now been waiting for one month for XXX to answer questions I formalized and sent to her. This section is stalled until this issue gets resolved.]

An important topic in understanding the data in the data warehouse (DW) is the set of transformations which happen to data from source systems, like [SYSTEM 2] and [SYSTEM 1], as those data are moved into the data warehouse.

> [And this is entirely unknown at this point…]

Btrieve/USSYS9

Used by [SYSTEM 2], AppEntry?, AppImport?, EZApp?

Section 4: Training resources and detailed operational instructions

Section 3 described the various computer systems in use at [client]. If you read that section, you should have a fairly good overall knowledge of what kinds of information they systems store, how they store it, what lines of business each system supports, where the information comes from, who uses it (both people and other computer systems), and what kinds of reports are available.

However, Section 3 doesn't answer one important question: "How do I actually use the computer system?". For example, knowing that the [SYSTEM 1] system stores information about Writing Agents, Pay Offices, General Agents, and Distribution Organizations is fine. But how do you actually use the [SYSTEM 1] system to put information in, get it out, and change it?

The purpose of this section is to answer those questions, either by explaining how the system works, or, if other documentation or training materials exist, by referring to them. This is not intended to be a complete document of how to use every feature of all these systems.

[SYSTEM 2]

[SYSTEM 2] users have said that if there is no training manual, and if there were a training manual, it would probably be useless because [SYSTEM 2] has changed so much. Leo has a 2-page list of important [SYSTEM 2] screens, usable to learn by trial and error.

[SYSTEM 3]

[SYSTEM 1]

Leo has a copy of the user manual, and it is reasonably correct.

[system 4]

Refer to the "[system 4] Guide"; Leo has a copy but doesn't know author, contact, or location of electronic version.

E-[system 4]

IVR

[SYSTEM 5]

[SYSTEM 6]

PeopleSoft

[redacted]