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News &amp; Commentary

12/13/2012  
10:30 AM



Stuart Rose, SAS  
Commentary

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**Distribution Insight – Analyzing Agency Performance and Profitability**

**Despite many experts predicting the death of the salesman, the agent/broker channel continues to play a prominent role in the insurance value chain.**

Agents are very influential in determining premium revenue, carrier brand and reputation, customer experience and retention rates. A J.D. Power and Associates survey from 2009 showed not only that policy retention rates are considerably higher for the agency distribution channel versus the direct channel, but that 60% of customers would switch carrier if advised by the agent to do so. Insurers that can better manage their agency distribution channel are better positioned to achieve competitive advantage.

It is generally accepted that it is more expensive to acquire a new customer than to retain an existing one. The same is typically true for agencies and brokers. New agents have high acquisition expenses, such as training costs and product licensing. Compared to serving and retaining existing agents, new agents pose a greater risk and can have inferior retention rates, resulting in lower profits. To combat these challenges innovative insurers are implementing analytics to recognize both existing profitable agents and prospective high-value agents. Through agency profitability measurements, the insurer can calculate an agency's probable lifetime value and then allocate resources to the most profitable agent rather than the noisiest. For example high-value agents are given preferential servicing capabilities that often results in higher premium revenue and increased retention rates.

Today, most insurance companies have at least one agency management system. Unfortunately most of these agency management software systems typically lack analytical capabilities defaulting to an emphasis on collecting data and displaying standard reports (e.g., sales pipeline). This information is reactive since insurance companies only respond when an agent persistency rate, or other Key Performance Indicators (KPIs), fall below an unacceptable level. After large investments in these systems, companies still cannot answer such questions as, "Which are our most and least valuable agencies?" In addition, what was once considered a good measure, such as premium revenue for a particular line of business, can soon become a bad measure if that particular line of business is unprofitable. If the insurance company is unable to modify and adapt its strategy to a changing economic or competitive environment, it might head in the wrong direction or pursue a flawed strategy for too long.

Predictive score-card capabilities help insurers tie traditional score-card features such as traffic lights and speedometers to powerful analytics. Dashboards visuals provide at a glance updates to the current status of KPIs with automatic alerts for underperforming objectives and strategies. A mind-shift is needed to move from measuring traditional sales performance metrics such as premium revenue to measuring the profitability of agents paired with "cost-to-serve" such as phone calls to customer service, e-mails with underwriters and communications with claims adjusters.

**[For more of Stuart Rose's industry insights, see [Reinsurers Must Optimize Data Utilization to Maximize Profitability.](#)]**

To achieve distribution insight, insurance companies must incorporate predictive activities into their day-to-day distribution management activities. Only then will they be able to unlock hidden patterns to explain and predict business outcomes and ensure that their products are being sold through the most appropriate and cost-effective distribution channels. Distribution insight can be broken down into two parts. The first step is to explore and analyze historical data and external data sources that help describe complex relationships around your customers and agents to determine the predictive features of take-up, conversion, and average premium and survival rates. The second step gives insurers the ability to perform what-if scenario analysis to implement actions to increase policy count and customer preference without increasing commissions, field marketing expenses or underwriting costs.

There is no doubt that the growth technology use by the insurance industry is gradually altering the relationship between customer, agent and insurer. Mobility and ease of doing business are often cited as competitive differentiators, but agency profitability is essential and can be achieved only through analytics and distribution insight.

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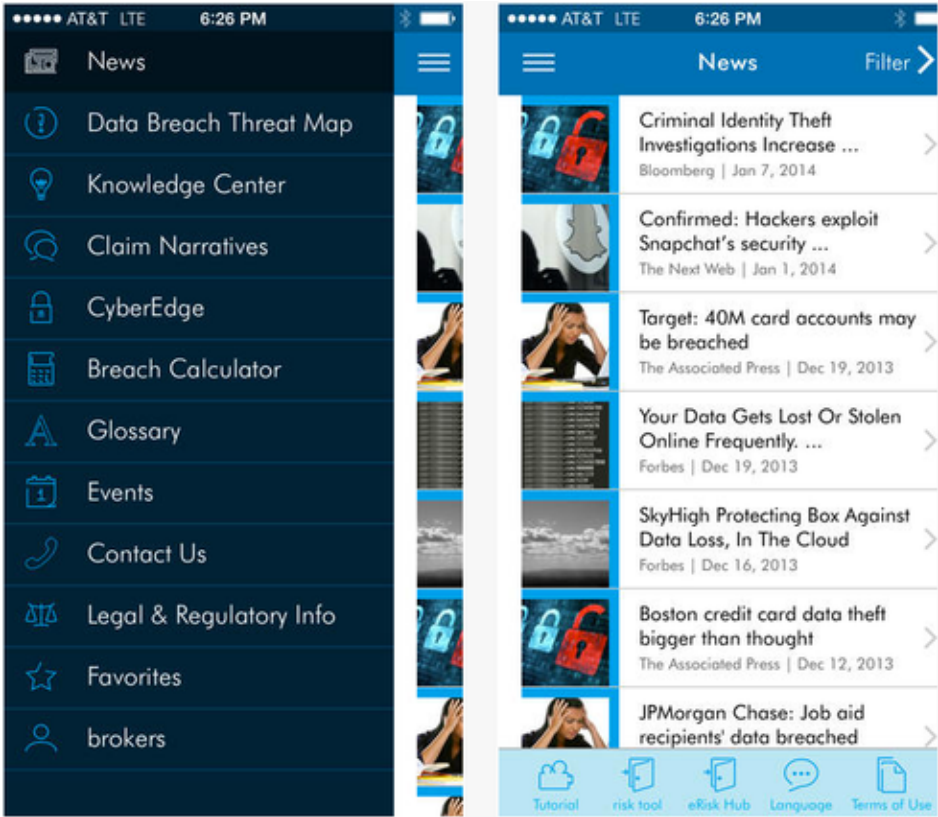
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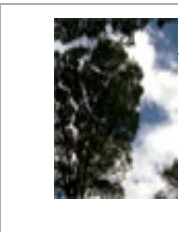
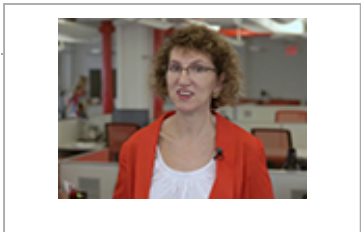
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