

AAI 83B

Agency Operations and Sales Management

Segment B

The Insurance Production Environment

COURSE LEADER HANDBOOK

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Appendix A

Learning Activities

Introduction

This section describes some case studies and exercises for each assignment. The material is specific to this course. Not all educational objectives will be covered, so you should supplement these exercises with your own material. Assignment 4 of this handbook provides some ideas on how you can create your own exercises.

The exercises can be worked on as a class, in small groups, or independently, with the class reporting back their solutions. To add variety in the classroom, include both group and individual work in each class.

In the segment format, you should not expect to be able to conduct more than one or two of these exercises in any single session. A tremendous amount of material is in this segment, and if you have only one day to present, you may be forced to mainly lecture.

Special Notes

Not all educational objectives are addressed in this handbook. The ones addressed were chosen randomly. They are not of any greater or lesser importance than any other educational objective.

Assignment 1—Producer-Insurer Relations

Role Play

Relates to Educational Objective 3

Given an insurance agency case, explain how an agency evaluates insurers to represent.

Relates to Educational Objective 4

Given an insurance agency case, explain how an insurer evaluates an agency for representation.

Using the following case, have the students work in groups of two. One person should be the agency owner and the other, the company marketing representative. The marketing representative is calling on the agency to attempt to convince the owner to become appointed with the insurer. The company's preliminary research indicates that the Mitchell Agency would be a good match. During the role play, the following items should be addressed:

- The insurer's financial rating
- The types of business in which the company specializes
- The claim service available from the company
- The marketing and underwriting philosophy of the company
- The underwriting practices and procedures used in the company
- The service standards employed by the company
- What type of automation support is offered by the company to its agents

Now, approach it from the opposite direction. The agent should be approaching the company marketing representative seeking an appointment. Have the marketing representative determine answers to the following questions:

- What is the geographic area in which the agency operates?
- What has been the historic profitability level of the agency with the carriers it already represents?
- What is the marketing plan for the coming year?
- What type and mix of business does the agency currently control?
- What other insurers are represented in the agency?
- How is the decision made to place a specific client's insurance with a particular insurer?
- What type of automation is used in the agency?
- Does the agency have a formal, written business plan?

You may wish to give the students time to prepare a list of questions they will use before their "meeting."

The Mitchell Agency was founded in 1937 by Arthur Mitchell. When Arthur retired from the insurance business, his son, Mark, bought the agency from him. The firm specializes in large commercial accounts. Seventy-two percent of the agency's revenue is from commercial lines, 21 percent is in personal lines, and the remaining 7 percent is in life, health, and employee benefits. Approximately 10 percent of the agency's total revenue is generated by one of Mark's large accounts. Mark's accounts also represent about 60 percent of the agency's accounts receivable that are over ninety days past due.

The agency employs twelve people, including Mark, the owner. In addition to Mark, there are two other producers. The office manager, Jim Clay, supervises the daily activities of the service department, and Mark is considering giving Jim equity in the firm. Mark serves as the firm's sales manager.

There are two commercial lines CSRs and three personal lines CSRs. The receptionist also assists in supporting commercial lines. There is a full-time claim person. Mark's son, Matt, has recently joined the firm. He handles accounting and IT issues.

The firm uses an agency management system that was purchased fifteen years ago when Mark bought the agency.

The agency targets contractors, auto dealers, retail, trucking, and public entities. It is considering expanding into wineries, fitness clubs, and nurseries. The average commission in commercial lines is \$4,500, and \$270 in personal lines. The agency's renewal retention rate is 85 percent. The office is located in a college town. Mark and his father, Arthur, own the building in which the agency is located.

Total agency revenue is \$1,020,000. The agency represents ten property-casualty insurers and five life/health/benefits organizations. It also uses excess and surplus lines brokers occasionally and has an arrangement with a managing general agent to broker business through them.

The agency has grown at a rate of about 12 percent per year in terms of revenue. It competes with other independent agents for commercial lines business. In personal lines, most competition comes from direct writers and the Internet. Service has been a problem in the recent past because of turnover in the CSR positions. Mark still writes the largest amount of new business each year.

Group Discussion

Relates to Educational Objective 5

Explain how an agency evaluates insurers for account placement.

Several factors must be evaluated when determining to which insurers a submission will be sent for new or renewal business.

Ask the group to make a list of the specific items that would be included in a "perfect" submission on a large commercial account.

Group Discussion

Relates to Educational Objective 5

Explain how an agency evaluates insurers for account placement.

Have the group discuss what the effect on each stakeholder is when an account is "shopped" to a number of insurers on every renewal. Students should identify the insured, agency, producer, CSR, and underwriter as potential stakeholders. They may have others as well.

Assignment 2—Public Image of the Insurance Agency

Case Study

Relates to Educational Objective 10

Given an insurance agency case, plan and implement an advertising campaign that improves the agency's marketing program.

Using the case study in Assignment 1, ask the students to help Mark develop an advertising and marketing campaign for the next year. In completing this exercise, the students should address the following specifics:

- What goals does the agency have for its advertising campaign?
- How can it develop an advertising strategy?
- What kind of budget is appropriate for Mitchell Agency?
- Where can Mark get professional advice?
- What types of media should be used, and what are the advantages and disadvantages of each? Are there any media the agency would not use? If so, why?
- What sources of free advertising are available to the agency?
- What is the difference between advertising and public relations?

Group Discussion

Relates to Educational Objective 12

Explain why producers should devote an appropriate amount of time to public relations efforts and trade association relationships.

Divide the class into three teams. Ask each team to brainstorm ideas for organizations or activities in which producers should participate to assist the agency in achieving its public relations goals.

Group 1: Activities

Group 2: Noninsurance organizations

Group 3: Insurance organizations

Assignment 3—Agency Growth and Customer Communications

Case Study

Relates to Educational Objective 1

Describe the five ways to promote internal agency growth.

Using the case study in Assignment 1, have the class develop a strategy for Mitchell Agency to increase the agency's commission revenue over the next twelve months using each of the five ways listed in the text. Students should include in their plan the various methods that can be used to achieve internal and external growth. Also ask them to include the eight accountabilities that are necessary to attract new clients and retain existing clients.

Group Exercise

Relates to Educational Objective 3

Describe the steps in prospecting.

One of the most important skills a producer and an agency can develop is the ability to qualify suspects into prospects. This small-group activity should help the students to understand this process. Encourage them to take the results back to their agency and share them with management, producers, and CSRs.

Have the group brainstorm specific open- and closed-ended questions that address the following areas:

- Does the suspect/prospect need the product?
EXAMPLE: "If you were to lose your business because of a fire or another catastrophe, how would you continue to meet your internal and external obligations, such as payroll and taxes?"
- Does the agency have a market interested in writing the account?
EXAMPLE: "What insurance company currently writes your property-casualty business? How would you characterize your loss experience with them?"
- Can the suspect/prospect afford the services and products offered by the agency?
EXAMPLE: "Assuming we can solve some of the problems we've discussed, what premium do we need to be at in order to stay within your budget for insurance?"
- Can the producer work directly with the decision-maker?
EXAMPLE: "Can you tell me how you make an insurance-buying decision? Who's involved?"

Case Study

Relates to Educational Objective 6

Given a prospect case, design a new business proposal for the prospect that includes the following: (a) the elements of the proposal and (b) how the proposal should be presented.

Using the following case, have the students work in small groups to design an outline for a proposal for the insured. Be sure it meets the criteria set forth in the textbook. Also have them determine how and to whom the presentation should be made.

Your insured is a large chain of department stores located in multiple states. The stores sell men's, women's, and children's clothing; linens; jewelry; cosmetics; luggage; furniture; household items such as china and silver; artwork; lamps; and the like. Rather than competing with other national retail chains, the firm has intentionally avoided large urban areas, favoring "second tier" cities. A large, highly automated warehouse is located in one of the states. The warehouse is approximately 500,000 square feet, and the building is equipped with an automatic sprinkler system. Inventory is received at the warehouse from manufacturers and vendors and is then distributed to the individual store locations. Distribution from the warehouse is handled using company-owned trucks. In some cases, product manufacturers ship their goods directly to the stores using their own trucks or a common carrier. Information about these direct shipments is sent electronically to the warehouse for tracking purposes. Large amounts of merchandise are purchased from overseas and are shipped via air or water. Most of these shipments are received in San Francisco or New York and must be sent to the warehouse via truck or rail. The warehouse is located near a railroad track, and there is a spur to the loading dock. Each store location uses a point-of-sale system to track inventory. Information is uploaded from the store to the warehouse every night. The firm employs a large IT staff.

In addition to selling through retail stores, the firm also uses e-commerce, and a large percentage of sales is derived from the online catalog. Paper catalogs are also mass mailed, and orders are received via fax and mail. A call center is located in the warehouse to process telephone orders. The call center uses sophisticated telephony equipment. Orders received electronically or by fax, mail, or phone are shipped using a common carrier, often within twenty-four hours of receipt.

The retail stores consist of a mixture of leased and owned buildings. Some are located in malls, while others are freestanding buildings. In mall locations, the stores are not the key tenant and depend on other, larger retailers to attract customers to the mall. Stores are open from 9 AM to 9 PM each day, except Sundays, when they close at 6 PM. The firm employs 100 people at the warehouse who handle inventory, loading and unloading, shipping, clerical work, and sales. A fully-staffed human resources department administers the various employee benefit plans, including group health insurance, life insurance, and disability. A 401(k) pension plan is in place for all full-time personnel. Each store has between twenty-five and fifty employees, most of whom are part-timers who are college students. The store manager and assistant manager are responsible for hiring decisions for their stores.

Customers typically pay with cash, checks, personal credit cards, or the store's own credit card that was developed years ago. The store credit card offers cash rebates to customers who spend a certain amount during any calendar year. Cash, checks, and charge receipts are picked up by an armored car service each day and taken to the bank. Each store has a surveillance camera system installed to detect shoplifting, which has been a problem. The store also uses off-duty undercover police officers who pose as shoppers.

The jewelry department, shoe department, restaurant, and hair salon located in the larger stores are not operated by the insured, but are leased to others. The insured is compensated by a percentage of the sales received by the lessee. The sporting goods department is one of the most profitable areas of the business. The insured repairs and maintains ski equipment, snowboards, tennis rackets, bowling balls, and similar types of sporting goods, even if the merchandise was purchased from a competitor. The store also fills scuba tanks. Because this repair work requires expensive, specialized equipment to perform, sometimes customers' items must be shipped to the four store locations that have the appropriate equipment.

The chain is publicly traded and has a board of directors comprising both insiders and outsiders. The officers of the corporation are selected by the board. A major accounting firm is used to perform routine audits and prepare necessary SEC and other financial filings. Employees are eligible to purchase stock at a discount as an additional employee benefit.

Assignment 4—Market Segmentation and Target Marketing

Case Study

Relates to Educational Objective 3

Explain how marketers use four bases for segmenting markets to target consumers.

Using the agency case in Assignment 1, have the class identify and give examples of specific prospects the Mitchell Agency could target in each of the four segmentation bases. Also ask them to design a process through which Mitchell could use retrospective segmentation.

Group Discussion

Relates to Educational Objective 4

Differentiate among undifferentiated, differentiated, and concentrated markets.

Relates to Educational Objective 5

Describe the advantages and disadvantages of market segmentation.

Divide the class into three groups. Have each group take one of the market types listed in Educational Objective 4, above. Using an insurance situation, have each group create a list of customers they would target in their market type. Also ask them to discuss market segmentation and how they would segment their market. Given their market type, what advantages does market segmentation create? What are the disadvantages?

Class Discussion

Relates to Educational Objective 8

Describe how producers target products and/or services to meet the special needs of a market segment.

Relates to Educational Objective 9

Explain how a producer targets and develops a niche marketing program.

Have the group brainstorm a brand new, innovative insurance product that does not currently exist in the marketplace. What special need is being met? How would a producer market such a product? Who would be the prospective customer? Ask the group to design a marketing plan for rolling out the new product.