

AAI 83C

Agency Operations and Sales Management

Segment C

Agency Management Tools and Processes

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 its solutions. To add variety, 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—Managing Agency Information Technology

Group Exercise

Relates to Educational Objective 7

Explain how an agency's information needs may be categorized based on how the information is being used, with respect to the following: (a) strategic planning, (b) management information, and (c) operational information.

Using the following case study, divide the class into three groups. Ask each group to develop a list of the types of information that would be required to analyze the agency:

Group 1: Operational information

Group 2: Managerial information

Group 3: Strategic information

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.

Case Study

Relates to Educational Objective 10

Describe the ways an agency workplace of tomorrow would implement its IT solutions in the course of its daily insurance transactions.

Although the case study in the text is hypothetical, many of the practices discussed are already being used in the insurance industry. Have the group identify and give real-world examples of each of the processes described in the text.

Word Mix-Up

Relates to Educational Objective 11

Define or describe each of the Key Words and Phrases for this assignment.

Put the definition for each of the key terms on a flipchart, overhead, or PowerPoint slide. Have the group match the definition or description with the correct word.

Assignment 2—Management of Customer Services

Group Discussion

Relates to Educational Objective 1

Describe three tasks agencies should complete to create a customer services organizational structure.

There are many ways to organize the sales and service functions in an insurance agency. Each of your students will have a specific example of how those functions are performed within their organization. Ask them to draw an organizational chart on a flipchart and describe for the class how the service function is performed in their own organization. Also have them propose changes to the current organizational structure if they feel any are needed.

Group Discussion

Relates to Educational Objective 7

Explain how agencies measure productivity and solve productivity problems.

Divide the class into smaller groups. For each of the productivity problems listed in the text, have each group develop a specific action plan to eliminate the problem.

Case Study

Relates to Educational Objective 8

Given an insurance agency case, explain the reasons why the agency might exhibit low productivity and poor service and recommend solutions to these problems.

Using the agency case study in Assignment 1, help Mark determine what is causing his service issues. Be sure the group discusses employee turnover and how to prevent it, the measurement of productivity (revenue per employee), and the ways in which they think Mitchell Agency can improve its service to clients and its renewal retention rate.

Assignment 3—Agency Financial Management

Unless you have a group of agency owners or senior managers, this assignment may be difficult for your students because they are probably not involved in the financial management of their agency. They should, however, be able to understand the basics of sound agency financial management.

Case Study

Relates to Educational Objective 2

Describe the steps in the financial management process.

Using the agency case study in Assignment 1, ask the class to identify the steps in the financial management process and what information they need to analyze the finances of the Mitchell Agency. Have them discuss why it's important for Mitchell to employ financial standards and where they can get standards against which to measure the agency's performance.

Group Discussion

Relates to Educational Objective 7

Explain how various tests of agency profitability, liquidity, and efficiency are used to evaluate an agency's financial performance, and be able to calculate them.

Using the agency case study in Assignment 1, or one you have created, have the class calculate the various financial ratios. They should first become familiar with the formulas and then make the necessary calculations. This may be difficult for some students, but you should focus the discussion on what these ratios tell someone who is analyzing the agency and why it is important to improve the ratios over time. You will be able to calculate some of the ratios from the information given in the case. You may make assumptions of other numbers that are necessary to make the calculations.

Class Activity

Using the information in the text as a foundation, prepare a quiz for the class to take that involves making the calculations in this assignment. It will be easy to vary the information shown in the text. The purpose of this activity is to have the students make the calculations and check their answers since they will be expected to do so when taking the exam. You will want to work out the answers yourself before meeting with the students.

Case Study

Relates to Educational Objective 8

Describe the methods used to determine an agency's value, including the factors that affect valuation.

Using the agency case study in Assignment 1, have the class evaluate the positive and negative factors that would affect the value of the Mitchell Agency. What would Mark need to do to increase the value if he decided to sell, rather than perpetuate, the agency?

Assignment 4—The Producer’s Legal and Ethical Responsibilities

This assignment includes a review of laws and regulations that affect insurance agency operations as well as a consideration of a producer’s ethical responsibilities to his or her clients, insurers, the community, and other stakeholders. Given recent news events involving the behavior of insurance agents, brokers, and carriers, this assignment will allow you to conduct a meaningful class that deals with issues of great importance to all agency personnel.

Although students are not tested on state-specific information, you may wish to include this in your discussion of the assignment to enhance the learning process.

Case Studies

Relates to Educational Objective 5

Describe the measures used to control E&O loss exposures.

Have the group consider the following short cases and determine specific loss control techniques that could have prevented these losses.

Scenario 1

The client requested a workers compensation policy. The agent applied for coverage, and the insurer acknowledged coverage was bound but indicated that continuance was dependent on receipt of a completed form required by the state. The agent waited two weeks after receiving the letter from the insurer to request the completed form from the client and did not indicate that the form was required to keep coverage in force. Meanwhile, an employee of the client was injured, and the insurer denied the claim because coverage had terminated due to non-receipt of the required form. The client filed suit against the agent for payment of the workers compensation claim.

Scenario 2

The agent provided a summary of coverage to the insured at renewal. On the summary, the agent indicated that pollution coverage was available but did not specifically offer the coverage to the insured. The renewal policy limited pollution cleanup coverage to \$10,000. The insured suffered a loss, and the pollution cleanup costs amounted to \$100,000.

Scenario 3

The agent sent out notice to the insured that his homeowners policy was canceled flat because of failure to pay the renewal premium. The policy had been issued on an agency bill basis. At a later date, the agency accepted the insured’s payment but did not forward it to the insurer. Because no coverage was in force, the insurer was not obligated to pay a subsequent fire loss, but did so to avoid a bad faith action. The insurer, in turn, sued the agent to recover the amounts paid for the fire loss.

Scenario 4

An agent was asked to add a new vehicle to the insured’s policy but failed to do so. Meanwhile, in an attempt to save the insured money, the agent replaced the auto coverage with another insurer but failed to include the additional vehicle on the new policy. The agent believed she had binding authority with the new insurer, but she did not. A loss occurred involving the new vehicle, and the insurer denied coverage.

Group Exercise

Relates to Educational Objective 8

Describe the nature of ethics, ethical decision making, and codes of ethics.

In ethical situations, there are no “right” and “wrong” answers. It would be useful to have the group discuss some of the ethical scenarios that follow. You might also ask them to create a code of ethics that is based on those shown in the textbook or one that their organization uses.

Scenario 1

One of the Mitchell Agency’s producers is new to the firm. He was previously with a firm that competes with Mitchell. He believes in offering the least expensive coverage to new clients and that the best price is usually found in the excess and surplus lines market. Although the producer understands that the process for placing business in the surplus lines market requires him to find three standard insurers that will decline the account, he decides to shortcut the process and simply proceed with a surplus lines placement. The producer does this to remain competitive and offer clients low rates. He believes the accounts would, in fact, be declined if he sent a submission to his standard insurers.

Scenario 2

Sharon is an insurance agent who is working diligently to write new business and reach her production goals. She realizes that she is in a competitive situation with a new prospect. She has determined the price she needs to be at in order to write the account. When she receives her best quote from one of her standard insurers, it is well below the “target” premium that the prospect gave her. Rather than present the quote to the insured, Sharon increases it to just below her target premium. She does not believe in “leaving money on the table” and makes her presentation to the prospect based on the higher number.

Scenario 3

A managing general agency (MGA) represents several different insurers. It has recently been acquired by a holding company that also owns and controls a regional insurance company. A member of the new management team approaches an employee of the MGA, Terry, and asks for her access codes to one of the insurer’s internal systems. Because the MGA has rating and policy issuance authority, it is typical that it would have access to the insurer’s computer system. Terry gives the codes to the manager. The manager accesses the insurer’s system to determine the rating structure for a product that would compete with one the regional insurer is interested in pursuing.

