

Best Practices *for*
**PERSONAL
LINES**

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A publication of
Independent Insurance Agents of Texas

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Executive Summary

Introduction

Personal lines has long had the reputation of being a difficult line of business. In addition to coping with strong competition from captive agents and direct writers, independent agents have experienced fluctuating appetites of their carriers for personal insurance. In the 1990s pundits were predicting that all personal insurance would be sold on the internet within a few years. Every major catastrophe, like the mold crisis in Texas, seems to result in underwriting restrictions and pricing increases that shake up the market. Yet, year after year the personal lines market grows and today represents some of the most stable income on the agency profit and loss statement.

It is also true that over the last 10 years, personal lines market share for independent agencies has increased from 30 to 37 percent. Clearly, certain independent agents must be driving this growth in market share and finding much to like about the personal lines property and casualty business. According to 2004 figures quoted by Dr. Robert Hartwig, CPCU, president and chief economist of the Insurance Information Institute, homeowners premiums represented 11.7 percent of all property and casualty premiums while personal auto represented a whopping 34.7 percent. Also according to Dr. Hartwig, the outlook for personal lines is strong: "Exposure growth forecast for homeowners insurers is excellent."

In recognition of the opportunity for personal lines growth for IIAT members, the purpose of this publication is to tap the wisdom of agencies that have prospered in personal lines insurance for many years and are committed to growth in the future.

Methodology

Agencies recruited to participate in a focus group study were selected for their size (premium volume), geographic location and market population. The smallest agency had two personal lines employees while the largest had 20 personal lines employees. The largest market was Houston and the smallest was a rural town of 7,000. Each member initially completed a detailed survey covering a wide variety of personal lines topics. Then the group met and refined the topics, elaborating on each of the practice areas outlined in this guide.

Key Findings and Study Limitations

As might be expected, there is no single best way to operate and grow personal lines in Texas. In fact, the diversity of successful models is as vast as Texas itself. For example, there is an agency in the Valley that specializes in mobile homes and travel trailers. There is another agency in Central Texas that only writes personal lines for commercial clients but nonetheless writes a large volume. There are many agencies that only market auto insurance. The agencies featured in this guide are primarily general lines agencies that handle all lines of personal insurance, which is more reflective of the average IIAT member. Even within the group of agencies participating in this focus study, there are many different philosophies for doing business. There are a few common characteristics, or success factors, that could be billed as non-optional for making the most out of any personal lines opportunities. They are:

- * Ownership and management are convinced that personal lines is profitable and are committed to exploiting its potential.
- * The latest technology is eagerly embraced and implemented regardless of the obstacles.
- * Carrier selection and account placement is based on ease of doing business, especially with respect to the availability of real-time, upload or download; and real-time, single entry, multi-company comparative rating.
- * Personal lines staff is provided incentives for growth over and above base pay.
- * Principal source of growth is through referral activity, including from centers of influence outside the agency.

Because this study only had the benefit of a small number of volunteer agencies, care must be taken in applying any single best practice recommendation to your agency. The opportunities and obstacles facing your agency or the lack of resources may make some of these practices difficult to implement, at least in the short term. Hopefully, some of what is included in this guide will provide a beginning framework for improvement or at the least, serve as a starting point for new dialogue about the potential for personal lines within your agency.

Personal Lines Productivity Benchmarks

In the spring of 2006, the Independent Insurance Agents of Texas partnered with the national consulting firm of Marsh, Berry & Co. Inc. to conduct an IIAT member benchmark study. The full report covered all aspects of agency operations and can be viewed in its entirety at iiat.org. For the purposes of this guide, we have excerpted the personal lines productivity benchmarks as shown below:

| | IIAT Average | IIAT Best 25% | Industry Average | Industry Best 25% |
|---|--------------|---------------|------------------|-------------------|
| PL commission per PL Service Person* | \$149,372 | \$235,400 | \$125,400 | \$195,800 |
| PL customers per PL Service Person | 626 | 1,206 | 580 | 996 |
| Average PL account Size | \$312 | \$594 | \$245 | \$440 |

* PL Service person is defined as all personnel directly engaged in the servicing of personal lines customers: claims personnel, marketers, placers, and customer service representatives. Count part-timers and employees who split their time among different functions as fractions of employees. Include strictly inside producers but not outside producers.

While the members of the focus group generally validated the accuracy of these benchmarks, commission numbers for the group are not reported out of respect for confidentiality. We can supplement the information reported with some focus group statistics not addressed in the MarshBerry study:

| Agency Stat | High | Low | Average | Comments |
|---|-------|------|---------|---|
| PL P&C revenue as % of total | 100% | 4.2% | 59.31% | The lowest percentage agency is a large commercial agency where the total PL volume is sizeable nonetheless. |
| Personal life, health, disability as % of total | 29.1% | 0% | 4.638% | Consensus in group that this represents significant untapped revenue potential, but most have not established a process to tap it. |
| PL contingencies as % of PL revenues | 28.3% | 9% | 17.6% | Group guardedly optimistic that overall compensation value would be maintained through contingency crisis remedies. |
| Average annual PL growth % in number of policies | 23% | -3% | 10.76% | Policy growth is best measure of real growth. Commission growth is too impacted by pricing cycles. |
| PL retention % | 95% | 88% | 91% | Measured in policy count. |
| Number of PL customers per PL service person | 1358 | 359 | 855 | This number impacted considerably by nature of customer (high service/high complexity) and average account size. High wealth customers and those with many policies result in lower ratio. |
| Number of policies per PL service person | 1879 | 778 | 1396 | This was considered best measure of work-load productivity after also adjusting for account size. Agencies that target high wealth clients can afford a lower ratio and do so to protect high revenue accounts. |
| Number of personal lines policies per customer | 3.1 | 1.69 | 2.15 | High number here correlated with targeting high wealth clients. Inference was that they have more toys and are less price sensitive, valuing convenience of one agent. |

Organizing for Personal Lines

All agencies, regardless of size, geography or client segments need to address the same basic components of being in business. For the purposes of this guide, we have segmented those components into the following resource areas: Staffing, Markets, Facilities and Technology.

Staffing

PL Positions and Allocation of Workload

While the size of the personal lines book of business plays a significant role in the alternatives available for allocating workload, all members of the focus group agree that the most important consideration is the personal attributes of the staff. Some employees like the service role, some the challenge of closing new business. Some employees like a fast pace and multi-tasking while others prefer routine and predictability. The larger the book an agency has, the more accommodating they can afford to be in allocating work according to the strengths of their staffs. Smaller agencies naturally need personnel to serve a broad array of functions.

The following description of various positions and work allocation among focus group members illustrates the approaches that can be taken for staffing personal lines:

- Three CSRs; two do servicing and one primarily conducts new business sales and marketing. One processor supports the three CSRs. Accounts are allocated by alphabet.
- Four account managers perform routing service functions: general inquiries, policy changes, etc. New business is handled until booked by a dedicated inside new business producer aided by a part-time assistant. Accounts are allocated by alphabet.
- Three CSRs with work allocated as follows: one new business CSR, one service CSR who handles endorsements, remarkets, billing issues, etc.; and one CSR who handles claim input, cancellations and marketing software.
- Four CSRs take service calls, wait on walk-in customers, quote and sell new business. Accounts are allocated by alphabet. One personal lines life and health person. One lead CSR handles downloads, newly purchased home closings, remarketing and integration of book acquisitions.
- Eight account managers, three account manager assistants, two new client inside sales representatives. Account managers are divided into teams, one team handling high valued clients, the other standard accounts. After segmenting accounts by size and complexity, accounts are allocated by alphabet.
- Three CSRs with accounts allocated by alphabet but service on rotational basis. Two multi-lines producers handle new business, including personal lines.

The predilection to specialization was so strong, however, that even the smallest agencies gravitated to some degree of specialization. For one agency with only two CSRs, one CSR focuses on claims, invoicing, download and serving back-up for service calls while the other serves as first response to service calls and handles re-markets when necessary. Once an agency is able to justify a third CSR, it is typical to segment responsibilities more between service and new business. The new business CSR would handle all new business from start to finish and then, ideally, execute a handoff to the service CSR. The handoff should involve some formal introduction to the service CSR or the service team.

“The predilection to specialization was so strong, even the smallest agencies gravitated to some degree of specialization... new business or service function... size and complexity of accounts...”

After allocating responsibilities by new business or service function, most agencies further segmented functions by alphabet. A couple of agencies employed the rotational service model where service is not allocated by alphabet and each call is handled by the next available CSR. While all in the group agreed that technology and transactional filing made this model very attractive, most see personal relationships as a necessary anecdote to the commoditization of personal lines in the face of advancing technology. Thus, account assignment and CSR “ownership” is a source of competitive advantage to the kind of rotational service employed by the likes of GEICO.

Just as many agencies have begun segmenting between large and small commercial, a couple of the focus group agencies segment personal lines accounts based on size and complexity of accounts. However, for these agencies, it is also not unusual to have personal lines accounts with six policies and a premium in excess of \$20,000. The focus group discussed other ways to allocate workload, such as by carrier or by product line, but all agreed that allocation by size or complexity of account and/or strengths of staff is preferable. One agency did make an exception to these preferences by creating a position for handling all surplus lines auto, which is a way of segmenting by product line.

While not specified as a personal lines position, many of these agencies reported taking advantage of slack time at the receptionist position for a variety of personal lines functions including claim follow-up, data entry, upload/download, scanning, invoicing and some processing. Quoting one agency manger: “We were amazed at what a difference a good receptionist makes.” In addition to direct support in certain areas, a capable receptionist can help CSRs be more effective by how calls are taken, screened and distributed.

BEST PRACTICE RECOMMENDATIONS:

- Where possible, given staff size and preference, divide responsibilities between new business and service, then segment accounts by size and complexity.
- Allocate accounts to a specific CSR as account lead, but build relationship between clients and service team as a whole to create rotational flexibility.
- Hire quality at the receptionist position, not only to create a good first impression but also for administrative support to other agency functions.

Nature and Degree of Supervision or Management

Increasingly, best practice agencies are adopting flatter, more participative management styles. Of course with smaller agencies, this isn't as big an issue. But for larger agencies, this means supervisory functions are being integrated into the personal lines units themselves via self managing teams. Management provides strategic direction, but the personal lines units are given wide latitude to accomplish goals, subject to procedures and guidelines that are often developed, at least in part, by the service staff themselves. The team, department or unit meets regularly, usually weekly or bi-weekly, to disseminate agency and carrier information, review new and lost business and learn new coverage or best practice processes. In some agencies, a lead or senior CSR facilitates team functioning. Several focus group participants noted that the personal lines units within their agencies are run like an agency within the agency even to the extent that all other units of the agency are viewed as customers and prospect sources.

BEST PRACTICE RECOMMENDATIONS:

- Operate the PL department like an agency within an agency targeting other units as customers or centers of influence.
- Establish a self-directed work team, rotating team leadership and making staff accountable to each other.

Resource:

- Book: "Leading Self-directed Work Teams," by Kimball Fisher

Recruiting and Training

Although turnover is reported to be low for the best practice focus group members, hiring for growth is a big challenge. Most group members report hiring new employees as entry level, without experience. When possible, internal employee is moved up. When that's not possible, hiring is conducted by word of mouth and referrals from existing employees. Hiring for attitude rather than industry knowledge is becoming more prominent with some members making it a preference. Training is conducted using new on-line IIAT training tools along with ACSR, CISR and company specific training classes. Training in most of these agencies is directed by a senior CSR.

“Hiring for attitude rather than industry knowledge is becoming more prominent with some members making it a preference.”

BEST PRACTICE RECOMMENDATIONS:

- Hire for the right personal attributes and basic skills, train for technical expertise.
- Cue staff to be on watch for excellent service received elsewhere and encourage them to recruit for the agency. This will serve two purposes: identify a ready supply of good recruiting prospects and reinforce the service mentality among existing staff.

Resources:

- IIAT Hiring Tool Kit and New Employee Orientation & Training Guide at iiat.org > Hiring Help > Hiring Tool Kit
- IIAT education classes and ACSR designation

Compensation

Virtually all focus group members use a combination of fixed pay and incentive compensation with most offering all of the following elements:

- Fixed base, usually benchmarked to some degree against competitor pay.
- Commission for business originated by CSR. Typically 20 percent to 25 percent, new and renewal.
- Agency-wide bonus plan based on varying goals such as new business and account rounding or agency profit.
- 100 percent of employee medical and group disability.
- Contribution to 401k or SEP IRA plans and disability coverage.
- Periodic contests and social events.
- Extra personal time off.

Base pay as reported by various members of the focus group ranges from \$18,720 on the low side to \$43,200 on the high; however, when incentives and bonuses are added, pay ranges from \$22,818 on the low to \$48,200 on the high. While these statistics are anecdotal, they do serve to emphasize a couple of points. First, pay varies from agency to agency depending on many factors, not the least of which are location, work allocation, benefits, personal time off, etc. Second, pay allocation between fixed base and incentives also varies among agencies considerably. Last, these numbers may or may not include overtime. Most, but not all, agencies classify service staff as non-exempt.

Pay information reported by focus group agencies does seem consistent with national surveys. According to the 2007 nationwide bi-annual survey conducted by MarshBerry of subscribers to the MarshBerry Letter, the following average personal lines service representative salary ranges were reported:

| Average Personal Lines Service Representative salary ranges | | |
|--|---------------------|-----------------------|
| Position | Rural | Suburban/Urban |
| Personal CSR – 2+ years | \$26,939 - \$32,475 | \$30,539 - \$40,941 |
| Personal CSR – Under 2 | \$20,125 - \$23,634 | \$25,193 - \$28,295 |

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Incentive compensation is becoming a larger part of pay as these agencies try to moderate salary creep. Six of the agencies pay new and renewal to originators of business, whether CSR or producer. They assert that without both new and renewal commission, production from those sources are insignificant. Commission percentages usually range from 20 to 25 percent of agency commission; however, one agency pays 50 percent on new business with 30 percent on renewals to commercial producers for business referred into the personal lines unit.

Incentive compensation is by no means limited to monetary rewards. On the contrary, for most of these agencies, celebration of goal success with social events and prizes are typical and frequent. Furthermore, these agencies don't rely on compensation, fixed or incentive, alone to attract, retain and motivate qualified employees. One particularly unique non-compensation perk afforded by a member of the group is the availability of working from home. Virtually all of this agency's personal lines CSRs work from home, coming in only for weekly team meetings. This has afforded the agency a sustainable source of competitive advantage when competing for talent.

BEST PRACTICE RECOMMENDATIONS:

- Create a formal wage plan and make the process (not individual pay amounts) transparent, taking the mystery out of pay decisions.
- Exercise due diligence in determining appropriate base pay. Survey, formally or informally, comparative pay in the local job market, including similar work in other industries like banking, etc.
- Target base pay to meet minimum expectations, supplement with substantive monetary and non-monetary incentives, tied to performance goals.
- Communicate pay in the context of total long-term value of working for the agency.

Resources:

- Incentive and compensation guides at iiat.org > InfoCentral > Agency Management > Finance
- iiaba.net > Best Practices > 2006 Owner, Executive & Producer Compensation Survey
- iiaba.net > Best Practices > 2005 - 2006 Non Producer Compensation and Benefits Survey
- www.MarshBerry.com, IIAT Advantage business partner, which has among other tools, a salary calculator with salary figures by state and agency positions.

Markets

Number, Type (standard, non-standard), Selection Criteria

Perhaps because of the concentration in personal lines or amount of volume, these focus group agencies have plenty of direct standard markets. Each member of the focus group represents at least four standard companies with one representing 10 standard companies; however, in many cases, concentration of business is with three or fewer lead carriers. One agency has 60 percent of its business with one carrier. Criteria for selecting carriers is overwhelmingly based on ease of doing business. For the most part, ease of doing business is defined as availability of upload, download and participation with real-time, multi-company rating vendors. Consensus among this group is that they will not plant with a new carrier that does not have these technology tools available.

Use of non-standard or surplus lines markets varies with these agencies mostly according to their strategic focus or marketing territory demographics. For instance, those agencies that target-high end only clients, tend to have very few non-standard sources, while those with many non-standard sources, operate in very diverse markets with respect to economic conditions.

BEST PRACTICE RECOMMENDATIONS:

- Have an adequate number of carriers to address customer circumstances and swings in market pricing and underwriting cycles, but...
- Consolidate volume to exploit ease of doing business efficiencies and agency compensation.

Resources:

- IIAT Best Practices for Managing Markets at iiat.org > Agency Management > Resources > IIAT Best Practices Study Series
- IIABA Best Practice Tool for Joint Agency & Company Planning

Company Service Centers

Focus group members are evenly split and equally passionate about the use or avoidance of company service centers. The positions regarding service centers are best reflected in the following arguments for and against:

Arguments for:

- Savings in staff and operating costs exceed cost of service center
- Service center provides reactive service freeing agency staff to provide proactive service
- Service center provides extended service hours
- Service center clients are less likely to want agent to shop account

Arguments against:

- Service center compromises relationship opportunities with agency staff
- No control over quality of service encounter provided by carrier
- Direct carrier-customer relationship compromises ability of agency to control accounts and effect book roll when necessary

From a 2005 survey of IIAT members, the following are questions concerning the use of service centers along with a statistical breakdown of replies segmented by premium size:

| Do any of your companies offer service centers for personal lines accounts? | | | | | |
|--|---------------|----------------------------|-----------------------------|------------------------------|------------------------|
| | < \$1,000,000 | \$1,000,000 to \$5,000,000 | \$5,000,000 to \$10,000,000 | \$10,000,000 to \$20,000,000 | More than \$20,000,000 |
| Yes | 63% | 68% | 90% | 75% | 87% |

| Do you use the service center? | | | | | |
|---------------------------------------|---------------|----------------------------|-----------------------------|------------------------------|------------------------|
| | < \$1,000,000 | \$1,000,000 to \$5,000,000 | \$5,000,000 to \$10,000,000 | \$10,000,000 to \$20,000,000 | More than \$20,000,000 |
| Yes | 85% | 40% | 33% | 44% | 54% |

What is the average commission reduction for personal lines accounts placed in the service centers?

| | < \$1,000,000 | \$1,000,000 to \$5,000,000 | \$5,000,000 to \$10,000,000 | \$10,000,000 to \$20,000,000 | More than \$20,000,000 |
|------------|---------------|----------------------------|-----------------------------|------------------------------|------------------------|
| None | 63% | 24% | | | |
| < 2 points | 32% | 51% | 100% | 100% | 80% |
| 3-5 points | 5% | 24% | | | |

Regardless of where one stands on company service centers, one thing is made clear by the focus group agencies using them. It is imperative that customers be “trained” as to the proper role of the carrier versus the agency. The agency shops the account, recommends coverage, solves problems and can move the account when necessary to maximize value to the insured. The carrier provides routine service through multiple channels and at flexible hours.

BEST PRACTICE RECOMMENDATIONS:

- Upon transitioning to a service center, carefully articulate advantages to client and delineate role of agency staff versus carrier service center personnel.
- Conduct “warm” transfers to service center in the beginning. If agency takes the call, connect and introduce service center via conference call before agency disconnects.
- Initiate frequent and regular contact with customers – account rounding, referral solicitation, account check ups.

Facilities

Location

Of the 11 focus group members, five described their location as suburban, two as urban, one as midsize town and two as small town. Location had a considerable implication for how the agency marketed itself and to whom. Those in larger, more heavily populated communities were more targeted in their marketing efforts. Those in smaller communities tended to attract a larger cross section of clients and conducted more mass marketing. Without exception, all agencies had offices that were reasonably visible and had easy access from the street. Most agencies made efforts to maximize their visibility to drive-by traffic.

The most notable deviation from the norm in terms of facilities is the agency that operates strictly with home-based employees. Other than the hosting of a weekly team meeting, there is little need for anything other than limited office space, which clearly has a big impact on occupancy costs.

Technology

Agency Management Systems

Across the board, every agency in the focus group demonstrated a strong commitment to technology. The most common agency management system used by focus group members is from AMS, counting MARS which was recently purchased by AMS. The other system represented in the group is Applied Systems. Virtually all agencies are implementing upload, download and real-time with every carrier that has it available. Several said they would not do business with a carrier unless they at least have upload and download capabilities.

“Virtually all agencies are implementing upload, download and realtime...several said they would not do business with a carrier unless they at least have upload and download capabilities.”

In addition to adopting new transaction capabilities, it is notable that many of these agencies have invested in the use of a more advanced prospect database for personal lines. Leads and prospects are logged into the system for drip marketing, quoting and follow-up. Software being used includes Excel, specific marketing software from the agency management vendor and advance marketing software such as Goldmine (www.frontrange.com) and ACT! (www.act.com).

Rating Software

Interestingly, every agency in the group is contracted with EzLynx (www.ezlynx.com) for real-time multi-company rating. Some indicated that access through EzLynx was a key carrier placement criteria. In addition to EZLynx, ITC Turbo Rater (www.turborater.com) was mentioned for rating in non-standard companies.

Imaging

As one might expect from a group that has indicated such a strong commitment to technology, most have embraced imaging, which is fundamentally the conversion of information into digital storage for ease of handling. For focus group members imaging is a natural outgrowth of a dedication to document everything using the agency management system. Opinions among the group are mixed, however, as to whether documents need to be attached within the agency management software or reside in a separate electronic filing system. Storing methods tend to be a function of how long ago the agency adopted imaging. Early adopters had to use third party imaging systems or develop their own software because the agency management systems vendors had not efficiently integrated imaging. More recent adopters are taking advantage of imaging progress made by the agency management vendors. The trend seems to be, when competently addressed by the vendor, to attach documents to client file within the agency management systems.

Also varying among the group members is how imaging is conducted. There are basically three general approaches available for imaging. Some agencies use front-end imaging where a receptionist or other administrative staffer receives and scans all incoming paper and then distributes it to CSRs electronically. Some agencies distribute incoming paperwork in the traditional way and the CSR scans after processing. This is often referred to as just-in-time imaging. Last, other agencies distribute paperwork to CSRs traditionally, then have an administrative staffer receive and scan all processed work. This is referred to as back-end scanning. All of the agencies that are scanning use dual monitors and report major productivity gains.

Web Site Purpose and Capabilities

All members of the focus group have at the very least, an agency web site that serves as an internet “brochure” presence with carrier links for claim reporting when available. Many have also moved to the additional level of providing a means of submitting an application for quote; however, these agents report little of this activity from site visitors. The exception is one agency that has an ongoing web site refinement and search engine placement effort. This agency reports an average of 100 hits per day. The agency can measure both hits and time spent on the site. Current activity is down since the peak average of 350 hits per day a year ago but the current visitors are staying longer. In the most recent 90-day period, the agency has acquired nine new clients as a result of the web site.

Remote or Home-based Capabilities

Use of remote or home-based capabilities is limited across the group as a whole, but interest is growing with some agencies embracing it. All members of the focus group have the ability to let certain people access the agency management system from home, but in most cases, this access is limited to owners and managers. As mentioned previously, the CSRs of one agency work exclusively from home except for a once-per-week staff meeting. Another agency has two CSRs work from home. One has regular hours and is monitored by tracking log-on and another has flexible hours and is managed with objectives and deadlines.

BEST PRACTICE RECOMMENDATIONS:

- Aggressively pursue and adopt “paperless” transaction capabilities such as upload, down-load and real-time.
- Maintain an internet presence and leverage carrier links.
- Become familiar with the IIABA’s Agents Council for Technology at www.iiaba.net/act, as well as the newly created web site dedicated to real-time implementation at www.getrealtime.org. These sites include implementation recommendations and detail, whitepapers, vendor and carrier capability inventories, and case studies.

Resources:

- Agents Council for Technology at www.iiaba.net/act
- “Imaging at a Glance” written by IIAT member Robbie Dunn and available from the National Alliance at www.thenationalalliance.com.

Growing Personal Lines

Given the average annual growth rate for the focus group members of over 10 percent, these agencies must be doing something besides waiting for the phone to ring. Indeed, the members of the group demonstrated considerable understanding of the types of customers most likely to buy from them and allocated efforts and resources accordingly. This section addresses some of the ways these agencies are growing their personal lines book of business.

Target Marketing

Most of the focus group agencies explained they are attempting to target and cater to customers who are relationship oriented rather than transaction oriented. The premise being that transaction-oriented clients view personal lines insurance as a commodity and are looking for convenience and price. Transaction clients are the ones who are going to be more vulnerable to competitors like GEICO and Progressive Direct. The best practice agencies feel it is an ineffective use of resources to acquire these customers as it will be less likely to keep them for the long-term. One IIAT member agency has begun to segment clients into two groups: relationship clients and transaction clients, promoting different services to each group.

The following is an overview of various target marketing among agencies participating in the focus group:

- Middle- and upper-income families and professionals in the local community
- Upper-middle class to high net-worth with no territorial limitations
- Mid to large accounts, only prospects interested in multiple lines
- Professionals and business owners
- Military families within a 30-mile radius of base and those employed in military support

It should be noted that although the majority of focus group members seek to target relationship customers, other agencies are being successful with other target groups. As an example of such a contrasting strategy, one IIAT member agency targets car buyers through auto dealership referral partners. Retention is lower than average, but the transactions are made profitable through agency fees on all applications.

“...the majority of focus group members seek to target relationship customers...”

BEST PRACTICE RECOMMENDATIONS:

- Understand the type of client you are best suited to serve, both in terms of your resources and in consideration of opportunities presented by your marketing territory.
- Screen for clients that are relationship oriented rather than transaction oriented. If you target transaction-based clients, make sure you have a clear competitive advantage such as price and make the account profitable from the start.

Resource:

- [iiat.org](#) > InfoCentral > Agency Management > Strategic Planning > Business Planning Basics

Source of Prospects

Understanding who their customers are determines prospecting strategy for the focus group agencies. Naturally, because most of these agencies are looking for relationship clients, the overwhelming preferred source of prospects is referrals, both from existing customers and centers of influence. These agencies work referral sources hard. In addition to customers, the sources of referrals identified most often are commercial producers, mortgage companies, real estate agents and homebuilders. Interestingly, these agencies are not necessarily paying a lot in terms of money or rewards to their referral sources. Rather, they invest time in building credibility. These agencies may initially use some sort of promotional technique to get on the radar, their primary influence on the referral source is through excellent service and follow-up communication. The following is a list of promotional activities being implemented by the best practice focus group agencies:

- Sponsoring of REALTOR or builder association events
- Sponsoring awards for referral source organizations
- Volunteer activity in local chambers of commerce
- Sponsorship of drug- and alcohol- free programs
- Advertisements in church bulletins
- Theater advertising
- Billboards
- Radio and newspaper advertising
- Spanish language newspaper advertising
- Web site search engine placement service
- E-newsletter
- Thank you notes
- Telephone directory advertising

A couple of issues to note with respect to promotional venues—the agencies that are investing the most hard dollars in marketing and advertising are in smaller communities where there is less advertising saturation, especially by competitors. These agencies are investing some significant dollars, between 5 and 8 percent of revenues. Second, the focus group agencies are careful to shape promotion to appeal to the type of buyer they are looking for. As an example, most agencies have abandoned telephone directory advertising, finding it generates price shoppers and the write-to-quote ratio is low. It was also noted that buyers are switching from telephone directory advertising to the web to locate and research product and service providers.

BEST PRACTICE RECOMMENDATIONS:

- Identify centers of influence and conduct promotional activities to get on their radar.
- Once a flow of referrals begins, use excellent service and prompt feedback to maintain and encourage more business and loyalty from source.
- Select advertising venues that appeal to your target but are not saturated by competitors.

Resources:

- [iiat.org](#) > Agency Management > Resources > Promoting Your Agency
- [iiat.org](#) > Party 101 Consequences Campaign
- [iiat.org](#) > Trusted Choice

Account Rounding

Another significant source of growth for these agencies is from aggressive account-rounding activities, demonstrated by an average of more than two policies per client for the group. These results are accomplished through a combination of non-optional expectations, accountability and rewards. The characteristics of successful account rounding gleaned from the focus group agencies include:

- Part of job description and training
- Incentive compensation or rewards, sometimes higher for account rounding
- Documentation, tracking and follow-up using agency management system
- Regular reviews for accountability – daily or monthly
- Emphasis on writing all lines with first policy
- Frequent contests

BEST PRACTICE RECOMMENDATIONS:

- Make account rounding non-optional behavior.
- Provide training.
- Communicate to clients the expectation to eventually provide all the coverage they buy.
- Write clients not policies.
- Regularly and frequently monitor rounding activity.
- Reward and celebrate success.

Processes and Quality Control

Personal lines products tend to be high-volume, low-margin, even given the efforts of some agencies to target high net-worth customers. As a result, agencies must seek a balance between building consultative relationships and efficient processing. One way is by embracing the latest technology and using it to keep in touch. This section addresses major areas of processing along with additional issues expected to have an important impact on agency operations: agency fees, after-hours service and customer privacy.

New Business

Texas A&M University researchers in 2005 studied customers of IIAT members to discover reasons for changing a previous insurance provider. Some 44 percent said service was the reason while only 19 percent reported price. On the other hand, when choosing a new provider, price will certainly be part of the decision criteria; therefore, agencies must capture new clients with price, then communicate long-term value at the time of purchase. The members of the best practices group recognize this by combining comparative rating with a strong orientation of new clients to the agency. As noted previously, the majority of the focus group agencies have an inside producer or CSR dedicated to new business. New business activities noted include:

- After thorough face-to-face consultation with client – identifying issues, concerns and needs – determination is made as to best fit with carriers on a value and needs basis. Signed applications and review of presentation with sign-off is required.
- Proposals provided to all new business prospects in person or via e-mail. Signed applications required of all new business. Carrier selection usually based on EzLynx results.
- Once generic information is taken, detailed quote sheets are completed and rated via EzLynx. Proposal provided to client and suspended until closed or placed elsewhere. If placed elsewhere, prospect is entered in Goldmine for continued marketing. If written, application is signed and policy uploaded to carrier.
- We're in a very competitive market. Carrier selection is usually based on best coverage and price.
- Account pre-qualification and carrier selection determined after in-person interview with inside producer.
- Customers must come into office to receive formal proposal and sign off on form explaining coverage options and exclusions.

BEST PRACTICE RECOMMENDATIONS:

- Pre-qualify prospects as to fit for agency target market before allocating agency resources to try to write.
- Demonstrate shopping due diligence for client with comparative rate.
- Make sure customer expectations are understood and documented, including expectations for future contact and renewal process.

Proactive Touches During Policy Period

For most agencies, especially these focus group agencies that put so much time and money into new business, accounts only become profitable through subsequent renewals. With average retention rates among the group at 91 percent compared to industry averages of about 85 percent, these agencies make an effort to create a consultative relationship throughout the policy period, rather than waiting until renewal. These are pro-active contacts other than account rounding sales contact, though the group indicated that such efforts enhance account rounding success. The following is a sampling from the group:

- Regularly scheduled calls to clients as well as a newsletter.
- A mid-year “how are we doing” survey. Two carriers provide the service.
- Monthly e-mail. Have e-mail addresses for 91 percent of clients.
- Every January, check-up letter is mailed to all clients. Every April, flood letter is mailed to all clients.
- Implementing six touch-per-year program.

BEST PRACTICE RECOMMENDATIONS:

- Use agency management system to generate automatic communications via mail or e-mail to all clients
- Conduct periodic calls from CSRs, managers or owners to smaller sample of clients. Make these contacts in addition to and separate from any proactive account rounding program.

“With average retention rates among the group at 91 percent compared to industry averages of about 85 percent, these agencies make an effort to create a consultative relationship throughout the policy period, rather than waiting until renewal.”

Renewals

One of the benefits of regular contact with customers over the course of the policy period is that the renewal process becomes automatic for the most part. At least that is true for the focus group agencies, as evident in the following selected comments by group members regarding the renewal process:

- Renewals are automatic unless something triggers a review, customer request or complaint, coverage reduction, or price increase.
- Though most policies are renewed automatically, an annual renewal letter is sent to all clients each January.
- VIPs are reviewed annually. In the event of premium increase, account is shopped.
- Each year, 50 percent of accounts are automatic, 50 percent reviewed. In other words, each account is reviewed at least every other year.
- Renewals are automatic unless premium increase 10 percent or more, then account is shopped.
- Policies are briefly checked by CSR for notable increase in premiums.
- As a team, CSRs determine if a carrier is uncompetitive relative to other markets. If so, accounts are shopped through EzLynx and moved if necessary.

With respect to renewals, a developing concern is the adoption of new forms by carriers under a more flexible regulatory environment for personal lines. For the most part, agencies are relying on carriers to communicate reductions in coverage as required by TDI regulations.

BEST PRACTICE RECOMMENDATIONS:

- Renew automatically with same carrier unless change is triggered by significant price increase, coverage reduction or customer dissatisfaction.
- Renewal must be monitored by someone within the agency in order to recognize trigger for remarketing.
- A mechanism for giving clients an opportunity to review coverage and communicate needs should be implemented annually.

Claims

With 24-hour claims reporting and service available from most carriers these days, agencies have largely been removed from the claims process; however, some of the focus group members feel strongly that the claim experience for clients must be monitored and satisfaction ensured. Here are some of the ways these agencies are addressing the claims issue:

- Though most claims are reported directly to carrier, our commercial in-house claims department is available to personal lines clients when help is needed.
- 85 percent of claims are reported directly to carrier by clients; however, when reported to agency, claims are logged into agency management system and a follow-up call or letter is sent in 10 days to determine degree of customer satisfaction.
- Carrier downloads claim information into agency management system and open claim report is run monthly. CSR follows up if claim has not been closed after 30 days following report of loss.
- About 40 percent of claims are reported direct to carrier, 60 percent taken by our agency claims manager. Agency reported claims are logged into our system and a follow-up call made to client after three days.
- Claim calls to agency are transferred to carrier for handling.
- About 95 percent of claims are reported directly to carrier. The 5 percent taken by the agency are followed up on after 10 days to gauge customer satisfaction.

BEST PRACTICE RECOMMENDATIONS:

- If possible, have claim activity downloaded into agency management system for tracking.
- Implement some method of follow-up with customers to gauge carrier claim service, even if it is just a sample from agency reported claims.

Amount and Nature of Service Fees

Very few focus group agencies charge any kind of service fee, although all are keeping an open mind as the contingency issue evolves. In addition to the agency that charges application fees as noted previously, a couple of agencies have begun charging a rewrite fee for cancelled policies. One agency charges a \$25 fee for first rewrite, \$50 for second and \$100 for any subsequent. In all cases, these agencies have client sign a fee disclosure form as required by TDI.

BEST PRACTICE RECOMMENDATIONS:

- When necessary to make personal lines accounts profitable, explore opportunities to charge fees, perhaps starting with certain high cost transactions such as cancellation rewrites.
- Implement training and procedures that ensure proper disclosure and protection from allegations of discrimination against any protected class.

Resource:

- iiat.org > InfoCentral > Agency Management > Legal Compliance > Fees Charges by Agents

After Hours Access

This is one area where direct writer and internet providers have traditionally offered an advantage; however, that advantage has been somewhat eroded by carrier toll-free numbers. This is especially true for agencies that have embraced service centers that can offer after-hour service other than just claim reporting. For other agencies, most rely on the 24-hour carrier claims reporting services, through both company toll-free numbers and carrier links from the agency web site. A couple of agencies list owner's home number on after-hour voice mail and web site for emergencies and one agency uses an answering service that will contact an agency manager on call. These members get very few calls but generate considerable goodwill just by the offer. Agencies that have web-enabled quote capabilities are able to offer that as an after-hour service as well.

Competition from alternative distribution systems make some form of after-hour contact imperative. For Trusted Choice agencies, 24-hour access is pledged.

BEST PRACTICE RECOMMENDATIONS:

- Communicate and tout carrier toll-free and web contact availability to all clients.
- Establish some mechanism for agency after-hour emergency contact as a meaningful gesture of customer service commitment.

Notable Quality and E&O Control Measures

Members of the best practices focus group equate E&O loss control with quality control, relying heavily on an overall culture of do-it-right the first time. With personal lines, where typically a large number of accounts are being serviced per CSR, E&O loss control must be institutionalized across all processes. The agencies in the group use a combination of frequent, ongoing loss control training with accountability for adhering to written procedures. The following are some of the measures being conducted by these agencies:

- E&O subject of every meeting and an outside E&O audit is conducted every couple of years.
- Agency procedures reviewed and updated on a regular basis.
- All communications, oral or otherwise are documented in agency management system.
- At least two employees attend IIAT E&O course annually.
- All policy changes and coverage rejections confirmed in writing.
- All CSRs are audited regularly and activities are checked against agency procedure standards.
- All staff must view IIAT E&O video annually.
- Completed checklist is attached to all new business policies.

BEST PRACTICE RECOMMENDATIONS:

- Adopt the practices identified above.
- Establish a “Near Miss” review form for close calls and implementing process improvements. See sample form in appendix.

Resources:

- InfoCentral Section on E&O Control at iiat.org
- Recently updated E&O Loss Control Video available at iiat.org > Store
- Procedures Manual available from E&O Consultant Eric Moberg at www.moberggroup.com

Customer Privacy and Security Measures

Following enactment of the Federal Accurate Credit Transaction Act (FACTA), customer privacy and security is expected to become a significant source of regulatory and tort liability for agencies. Most focus group members have recognized the exposure and adopted measures to minimize their risks. Some of the more aggressive measures that have been adopted include:

- Specific privacy and security training provided to personnel.
- Only authorized personnel have access to personal customer information.
- All discarded paperwork is shredded.
- All employees sign a confidentiality agreement.
- No third-party disclosure of customer information without customer consent.

“Most focus group members have recognized the exposure [privacy and security] and adopted measures to minimize their risks.”

BEST PRACTICE RECOMMENDATIONS:

- No more passwords on sticky notes. Passwords should be kept hidden and private. Agents should note that their carrier agreements are likely to make them responsible if an unauthorized party gains access to the carrier's systems using an agency password.
- Escort your visitors throughout the office. Know your night-time cleaning crew.
- Desktops should be password-protected, and employees should log off or lock their system when they go to lunch, attend a meeting, or leave in the evening.
- Secure your physical office in the evening.
- Keep non-public customer and policy information off portable devices and removable media. Encrypt any of this non-public electronic information that leaves the agency office whenever possible.
- Encrypt backups and keep them in a secure place.
- Question the need to keep particular types of sensitive personal information in your system if it is available from a third-party source when needed.
- Consider housing systems and/or backups via a hosted data center employing 24-hour security, the latest security technologies, procedures, and data traffic monitoring.
- Have all personnel sign a confidentiality agreement. See appendix for a sample

Resources:

- Agents Council For Technology at [iiaba/act](#) > Monthly Technology Articles > Protecting Agency Customer Information from Identity Theft
- Trade Secret Theft: Protecting Your Competitive Advantage at [iiat.org](#) > Education/Training > Webcast Update > Archives

Appendix

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Best Practices for Personal Lines Focus Group Acknowledgement

The Independent Insurance Agents of Texas expresses its appreciation to the following individuals who contributed their time and thinking to this project.

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Near Miss Incident Report

TEAM:

DATE OF THIS REPORT:

ISSUE: QUALITY CONTROL OR EMPLOYEE SAFETY

WHAT HAPPENED? Describe in detail the near miss. Include dates, persons involved and persons who may have information about the situation:

ESTIMATE THE NATURE & SCOPE OF DAMAGES THAT COULD HAVE RESULTED:

HOW COULD THE NEAR MISS HAVE BEEN PREVENTED?

WHAT ACTION CAN BE TAKEN TO PREVENT A NEAR MISS IN THE FUTURE?

RECOMMENDATION FOR FOLLOW-UP:

PERSON(S) RESPONSIBLE FOR FOLLOW-UP:

| PERSON(S) RESPONSIBLE | FOLLOW-UP DATE |
|-----------------------|----------------|
| | |

REPORTED BY

SIGNED BY

Confidentiality Agreement

XYZ Agency

I understand that, as a condition of my employment, and in order to fulfill job duties, I will necessarily receive access to trade secrets and confidential information belonging to XYZ Agency, Address, City, State, ZIP. This information may include but is not limited to customer lists, pricing information, methods of doing business, sales volume figures, and other similar information. I agree that I will not use any trade secrets or confidential information for my own benefit, that I will not disclose any of the secrets or information to third parties, including other employees who do not have a need to know the information, and that I will take care to guard the security of the information at all times.

I understand that all files, documents, equipment, software and similar items, whether existing physically or in electronic format, that contain or pertain to XYZ Agency's confidential information or trade secrets are and will remain the property of XYZ Agency. I agree that I will not remove such items from my work area without the permission of my supervisor, and that I will return all such items to XYZ Agency upon termination of my employment by XYZ Agency. I understand that I may not transfer information maintained on-line to my personal computer system or any other system not controlled by XYZ Agency. I agree not to make and keep copies of any confidential or trade secret information for my personal use, and I agree to return any copies made for backup purposes during the course of employment upon termination of my employment by XYZ Agency.

Employee Name (Please print)

Employee Signature

Date

Name of Management Witness (Please print)

Signature of Witness

Date

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