Qcommission Sample Plans
Industry – Insurance Broker Agency

Introduction

The Insurance Industry is one of the oldest industries in the world. Insurance is a product that transfers risk from an individual or business to an insurance company. Insurance is different from most products in that insurers must price and sell their policies before the full cost of what they contract to pay for is known.

The industry is highly regulated, with each State/Province having its own laws. Not only does each state have its own rules and regulations, producers (agents, brokers, and employees) must be licensed in every state they wish to do business in, for the Insurance Product Group they wish to sell. The two main product groups are property/casualty and life/health, each requiring a separate license. Sales of financial investment products such as Annuities and Mutual Funds also require a separate license and sometimes Agency Certification. Agents must complete continuing education courses every year or two, depending upon the license type, or the license is revoked. Companies are liable for the policies sold by these producers and there are many laws regarding commission payments to agents whose licenses are not valid during the period a policy is written.

This document covers the commission related requirements of the typical Insurance Broker Agency.

Size

The Insurance industry is characterized by thousands of small agencies and single agents that sell products for mid-market Companies to very large Companies. The three broad categories of companies are Insurance Carriers, Broker Agencies and Agents. Insurance company size is usually measured by net premiums written, that is, premium revenues less amounts paid for reinsurance. By that measure and others, the life insurance segment is larger than the property/casualty segment.

There has been more and more overlap between the Insurance and Banking industries as Government de-regulation has occurred over the past twenty years. Banks are now selling insurance and Insurance Companies have been selling more and more Investment products, such as annuities, mutual funds, 401Ks, IRAs etc. Data compiled by the U.S. Bureau of Labor Statistics show the insurance industry provided 2.3 million jobs in 2000, which represents approximately two percent of the US Labor force.

Other Areas

Although most insurance agents specialize in life and health or property and casualty insurance, a growing number of "multiline" agents sell all lines of insurance. Approximately 1 out of 3 insurance sales agents are self-employed

Payout periods are often bi-monthly, as many agents do not receive a base salary they must depend upon commission earnings. Periods can be as infrequent as quarterly and as frequent as daily for brokers who do business via the Internet.

Compliance and Licensing

Compliance with regulations and Agent Licensing are important aspects of concern for this industry. Employers are expected to comply and enforce various regulations that change from state to state. They must also monitor agent licensing and continuing education for each agent and employee for separate groups of product lines across multiple states at times. These are more True/False sorts of objectives to be achieved and also date dependent issues to monitor.

Concepts

Policy:

A Policy is the contract underpinning an insurance carrier's relationship with a customer. A policy specifies terms such as type of insurance coverage, beneficiary, duration, insured amount, premiums and premium frequency. The policy would also lay out all terms related to the use and termination of the policy. A Customer can have many policies of different product types with a firm.

Premium

Premium is the agreed up amount paid by the policy holder for the coverage offered by a policy. This is typically paid monthly or yearly to the carrier. Premium payment is required for continued coverage. Premiums are the key transaction by which commissions are paid to the producer.

Book of Business

Book of business is generally defined as all the active policies managed by a particular producer. This book of business can be bought sold among producers.

Products

Product Lines

Products are broken down into two basic categories, Life/Health and property/casualty. Both groups require separate licensing. Financial Investments requires its own licensing with the NASD, and sometimes agency certification is required of the agent as well. Many products fall under these categories and within these groups, products are further delineated by individual and group sales as well as product type e.g. Life (term, whole, universal, accidental death):

–Personal Lines	Commercial Lines (Groups)	Specialty Lines
–Auto	-Auto (Fleet)	-Mail Insurance
–Home	-Group Health	-Crime
-Renters	-Corporate Liability	-Executive Protection
–Umbrella	-Multi-Peril	-Exporters
–Earth Quake -	-Boiler & Machinery	-Kidnap/Ransom
–Short Term Disability	-Short Term Disability	
-Long Term Disability	-Long Term Disability	
-Fire	-Fire	
–Health -	-Health	
–Life	-Life	
-Dental	-Dental	
-Boat owners	-Workers Comp	
-Mobil home	-Marine	
-Credit	-Inland Marine	
-Professional Liability	-Asset Management	

-Annuities	-Annuities
-Mutual Funds	-Mutual Funds
-401K	-401K
-IRA	-Malpractice

Product Attributes

Commissions calculations are highly dependent on various attributes of the policies. These are some of the attributes that are meaningful:

Product Line:	General Categories of the product such as Personal, Commercial and Specialty.
Product Category:	Broad categories such as Life/Health and Property/Casualty.
Product Type:	Actual product such as Life, Dental, Auto, etc.
Product Sub type:	Additional sub classifications such as Whole Life, Term, etc.
State:	State policy is written in.
Agent Level:	Level and type of agent such as agency/employee/agent/trainee, etc. Carriers use this to categorize agents.
Policy Count:	Number of polices written by a producer totally or in certain groups.
Year:	Year, policy was written.
New Policy:	Brand new policy.
Renewal Policy:	Renewed Policy.
Age of insured:	Age of the insured, is used in certain categories such as Life and Auto.
Insured Amount:	Amount of Insurance Coverage.
Premium Amount:	Amount of Premium

Combinations of these various attributes are used to derive a commission rate schedule. Each carrier publishes its own rate schedules and changes it at least on an annual basis.

Figure 1: Example of Multi-Attribute Commission Rate Schedule

COMMERCIAL CASUALTY								
		CA	OR	WA	UT	NV	AZ	CO
LEVEL	Net Premium	New/Renewal	New/Renewal	New/Renewal	New/Renewal	New/Renewal	New/Renewal	New/Renewal
1C60	First $1,000	15.0/8.0	17.5/12.50	15.0/8.0	18.0/13.5	14.0/7.5	16.0/9.0	17.5/12.0
	Over $3,000	12.5/6.5	15.0/10.0	12.5/6.5	15.0/10	12.0/6.5	14.0/7.0	14.0/8.0
	Over $5,000	10.0/5.0	10.0/10.0	10.0/5.0	12.0/8.5	10.0/5.0	10.0/6.5	11.0/6.0
1C88	First $1,000	14.0/7.0	16.5/10.50	14.0/7.0	16.0/10.0	12.0/7.5	14.0/7.0	15.5/9.0
	Over $3,000	11.0/6.0	13.0/9.0	12.0/6.0	13.0/8.5	10.0/6.5	12.0/6.0	13.0/8.0
	Over $5,000	10.0/5.0	10.0/7.5	10.0/5.0	10.0/6.5	8.5/4.0	10.0/5.5	11.0/6.0
1C95	First $1,000	15.0/7.0	18.0/10.0	15.0/8.0	17.5/9.0	14.0/7.5	15.0/8.0	18.0/10.0
	Over $3,000	12.0/6.0	14.0/9.0	12.0/7.0	15.0/8.0	12.0/6.0	12.5/7.0	14.0/8.0
	Over $5,000	10.0/5.0	12.0/7.0	10.5/5.5	12.5/6.5	10.0/5.0	10.0/6.0	12.0/6.0
*2B60	First $1,000	17.0/10.0	19.5/13.50	17.0/10.0	20.0/14.0	16.0/9.0	18.0/11.5	18.5/13.0
	Over $3,000	15.0/8.0	17.0/11.0	15.0/8.0	18.0/11.5	14.0/7.5	15.5/8.5	15.5/9.0
	Over $5,000	12.0/7.0	14.0/9.0	13.0/6.5	14.0/9.5	12.5/6.0	13.0/7.5	12.0/7.0
*2B88	First $1,000	16.0/9.0	18.5/12.50	16.0/9.5	18.0/11.5	14.0/8.5	16.0/8.5	17.5/10.5
	Over $3,000	13.0/7.0	16.0/11.0	14.0/8.0	16.0/10.0	12.0/7.5	14.5/7.5	15.5/9.0
	Over $5,000	12.0/6.0	14.0/8.5	12.0/6.5	12.0/8.0	11.0/6.0	12.5/6.5	13.0/7.5
*2B95	First $1,000	17.5/9.5	19.5/11.50	17.0/9.5	19.0/12.0	16.0/8.5	17.0/10.5	19.5/11.5

Staff

Most insurance sales agents employed in wage and salary positions work for insurance agencies. Although most insurance agents specialize in life and health or property and casualty insurance, a growing number of "multi-line" agents sell all lines of insurance. Approximately 1 out of 3 insurance sales agents are self-employed.

The industry has employees, agents, agencies and brokers who sell its products. Employees are often new agents in training and telemarketers. Independent agents and brokers are also compensated but are considered non-employees or 1099 contractors. Often employees and agents have different contracts within their company, while selling the same products. These participants are paid using different rate schedules per their contracts. Companies need to track this attribute or 'Agent Level' and will need to use it during calculation. Many other attributes will be needed for these participants as well, such as Agent ID, W2/1099 information, Licensing data, Salary, Agent Status (select, New), and Manager data for a start. See the below functional section for these attributes.

–Employee Agent
-Telemarketer
-Alliance Partner
-General Managers (Agency Broker Companies/Networks)
-Managers (possibly management team)

–Independent Agent
- Broker
-VP

Captive Agencies (agencies who sell a single company's products only) quite often have employees who are licensed, selling that company's products. These employees are paid directly by the agency, not by the parent company of the agency. Sales and services are recorded in the name of the agent who owns the office. The agent is the only person incented by the parent company though most often the agent's employee's license and continuing education classes are tracked by the parent company.

Transactions

The transactions and data driving commissions are the following
- New Policies
- Policy Renewals
- Premium Payments

Sales Commission and Incentives

New policies for customers are signed up by producers and passed on to the carriers with the first premium. Carrier firms then calculate commissions on the premium, due to the producing agency based on the published schedule and provide it back with a report giving the detail of the payments. Subsequent premiums tend to be directly paid to the carriers and the carriers calculate any commission due on these premiums and pass it on to the producing agency. These calculated commissions can be only for the first premium, for the first year's worth of premiums, life time premiums or some other period.

The producing agency then splits the calculated commission with the actual agent who wrote the policy based on prior agreement.

In addition agencies may have internal support staff that manage a set of brokers, and they may get overrides on the commissions paid to agents.

Commissions can be calculated weekly, bi-weekly, twice-monthly, monthly or quarterly.

Challenges

Calculating commissions in a broker agency can be quite challenging. There are some major areas of concern:

Data input

The broker agency tends to work with anywhere from a couple of carriers to up to 30 or so. All these carriers, provide a periodic check of commissions due. With the commissions check they provide a report that gives the detail of premiums and commission payments that make up the overall check.
These reports tend to come in all different shapes and forms; everything from mailed hard copy reports, faxed documents, fixed length text files, spreadsheets, downloadable files, XML files, etc. And each carrier has their own different format and method.
It is quite a challenge to re-enter all this data into the agencies computers before commissions to the agents can be calculated.

Reconciliation

Carrier commission calculations can be wrong sometimes. The agency has the responsibility of recalculating the due commissions and reconciling the results with commission payments received from the carriers. This requires the agency to do the same complex commissions calculations using the multi-attribute commission rate schedules as the carriers, but they have to maintain the schedules for all the carriers they do business with.

Splits

Commission payments have to be primarily split between the agency and the writing agent. Many times commission payments have to be split between multiple agents. In addition support staff for external agents may also get a split. Overrides may have to be paid for sales managers. The broker agency has to calculate these splits accurately and pay them for each policy premium.

Plans

These plans demonstrate various features of the QCommission product used in the Insurance Broker Agency firms. These plans are not intended to be comprehensive; they demonstrate the suitability of QCommission for similar plans.

Internal Agent Commission Plan

This plan is applicable to employee agents writing policies.

Policy Premium Commission

This incentive is paid every month. Agents get credit for any premiums paid against polices they have written. The multi-attribute rate schedule is used to calculate the appropriate commission amount against each premium.

A key attribute used in the calculation, is the agent level. Every agent has a specific agent level which provides a certain commission rate based on the other attributes. The agency calculates commissions based on all the attributes of the policy and the agency level and pays the commission to the agent.

For example:
Agent Level for the agent is R1. The agent is eligible for a rate of 8% at this level. Commission is calculated against the premium at this rate and the amount provided to the agent.

Another key attribute tends to be New/Renewal policy. For New polices a particular commission rate for the 12 months from the writing of the policy. Renewal policies are paid to be paid at a lower rate, as long as the premiums are collected.

Referral Commission Split

This incentive is paid every month. Employees can get a referral commissions for policies they refer to other agents.

This commission is typically simple. For example, the referring agent is paid 1% on a New policy. But if the referred policy is written up, then the writing agent has to give up the commission necessary to pay this referral commission. So the commission in essence is split up between two agents.

External Agent Commission Plan

This plan is applicable to external agents writing policies.

Policy Premium Commission

This incentive is paid every month. Agents get credit for any premiums paid against polices they have written. The multi-attribute rate schedule is used to calculate the appropriate commission amount against each premium.

A key attribute used in the calculation, is the agent level. Every agent has a specific agent level which provides a certain commission rate based on the other attributes. But this commission has been directly paid to the agent by the carrier.

The agency itself has a different agent level and the carrier pays the difference in commission between the agent and the agency, to the agency. Since the agency wants to reward the agent for doing their business through the agency, they want to split the commission they have received. To do this, they assign a higher agent level to the agent and calculate commissions at that level. They also calculate commissions at the correct agent level. Then they pay the difference in the commissions to the agent.

For example:
Agent Level for the agent is   R1. The agent is eligible for a rate of 8% at this level.
Agent Level for the agency is R4. The agency is eligible for a rate of 14% at this level.
The agency assigns the level of R2 to the agent, which turns out to provide a commission rate of 10%.

The split commission rate then is (R2 – R1) or (10% - 8%) = 2%. Commission is calculated against the premium at this rate and the amount provided to the agent.

Another key attribute tends to be New/Renewal policy. For New polices a particular commission rate for the 12 months from the writing of the policy. Renewal policies are paid to be paid at a lower rate, as long as the premiums are collected.

Business Development Manager Plan

Business development managers manage a set of agents and provide them marketing and operations support.

Business Development Manager Override

The business development manager gets credit for all commissions paid to the agent. The commission is an override typically of a small percentage on those commissions. E.g. BDM gets an override of 5% on all agent commissions.

Resources

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