TURNING COMMISSIONS INTO A COMPETITIVE WEAPON TO ACCELERATE GROWTH:

ATTRACT, RETAIN, AND MOTIVATE THE BEST AGENTS AS A STRATEGIC ASSET



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Introduction

Strategically focusing on profitable growth through targeted markets and independent distribution is key to maximizing valuation in the individual health insurance industry.

Insurance carriers who generate the highest valuation increases are the ones who grow profitably (source: Boston Consulting Group, The 2022 Insurance Value Creators Report - Profitable Growth is King, September 2022). A key to profitable growth is to focus on the markets where you have the potential to establish or build upon a strong leadership position (weighted Local Relative Market Share or wLRMS). This means you would prefer to have a million lives in one market over 10,000 lives in 100 different markets. You would also prefer to have a million lives in a market that has a population of 2 million, instead of a market with a population of 10 million. One of the fastest ways to focus your growth efforts is through independent distribution. First, designate your target markets, then recruit and motivate your agent footprint to drive volume increases in those markets.

If it were so easy to grow by adding independent distribution, why doesn't every carrier maximize their independent distribution footprint? The quick answer is that most carriers find recruiting and managing independent distribution both challenging and time-consuming, and distributors find most carriers difficult to do business with (see e123 research results below). One major impediment to increasing distribution in target markets is the complexity that comes with negotiating, contracting, and implementing distribution agreements, then calculating, communicating, and paying commissions correctly and in a timely manner (it turns out the faster, the better).

As a distribution management technology company with a focus on commissions functionality, e123 has spent over two decades working with health insurance distributors and the insurance carriers that contract with them, to make the process of distributing through third parties as efficient and seamless as possible. Over this time, we have learned quite a bit about agents, distributors, and carriers' perspectives regarding the challenges involved with bringing products to market, and have summarized that experience into a few key lessons that we hope will help carriers and their business partners gain a competitive advantage to accelerate their growth in a strategically-targeted manner.

What carriers say about independent distribution

In a survey of carriers regarding independent distribution and commissions, the most common priorities and pain points we have heard (in order of importance) include:

- The ability to offer flexible commission structures and automatically manage commissions for agents moving from one downline to another.
- Difficulties managing a complex hierarchy of downlines.
- A desire to deploy flexible commissions by product, geography, agency, agent, date range, campaign, etc.
- The option to freeze commissions for problem agents.
- A desire to require signoff from compliance prior to payment.

Source: e123 Research

We also regularly hear frustration from our sales operations liaisons at carriers about how difficult it is to set up new distributors, sometimes with thousands of agents, and get all of those producers ready to sell with the correct commission schedule by product and state. Interestingly, the feedback we hear from agents and distributors is related, but actually quite different.

What agents and distributors say about carriers

In a survey of independent agents, the following priorities were emphasized when we explored what they value in deciding which carriers' products to sell:

- Commissions received on a timely basis.
- Receiving commissions on their preferred schedule - weekly, bi-weekly or monthly - ideally through digital payment.
- Receiving accurate, detailed commission statements that make it clear how their commissions relate to their enrollment history.

Source: e123 Research

So, in sum, carriers want flexibility to deploy appropriate commission plans through a complex hierarchy of distribution partners to motivate agents to sell priority products in target geographies at critical times of year (e.g. Annual Enrollment Period - AEP or Open Enrollment Period - OEP). Agents, on the other hand, want to be able to trust that their commissions are correct and get paid in a timely fashion.

The importance of commissions in motivating producer behavior

To state the obvious, people who do work care about getting paid for that work. Any confusion or mistrust regarding commissions earned, how they relate back to sales production, and delays or errors in paying producers, can have a very rapid de-motivational effect on an agent. Further, carriers that are "easy to do business with" have a substantial advantage over those who are not.

Karlyn Carnahan, Head of Insurance – North America at Celent shares: *"All agents seem to have similar levels of digital interactions when it comes to managing licenses, compensation, and reporting. But they also expect to significantly increase their digital interactions in the overall agency/insurer relationship. In the future, agents expect digital commissions management, self-service onboarding, and electronic licensing."*

Opportunities to build competitive advantage

Few carriers have made it a priority to facilitate their independent distribution process with technology. The key value added by most carrier organizations focuses around underwriting, actuarial capabilities, network management, and claims processing, so those areas are naturally what command the attention of internal technology organizations. Carriers that have prioritized distribution are often focused on large group business and managing career agents. Independent distribution of individual health insurance products often falls through the cracks, which is a mistake, because it can be a powerful revenue growth engine. Careers can be made by getting it right.

Implementing a digital commissions solution will empower you to test commission plans and fine tune them down to the product, geography, or even individual agent level. The feedback loop of tech-empowered commissions will allow you to make adjustments to commissions plans, incentives, and target marketing funds towards higher-ROI activities during AEP/OEP, driving focus and resources toward the most productive agencies, products, and markets. This in turn will fuel incremental growth in the same time period without spending more. In fact, you will spend less because manual processes, time spent reconciling data, and arguing with business partners about who owes what to whom will be minimized.



Conclusion

In our experience, there is a largely untapped opportunity to tech-enable the end to-end distribution hierarchy, making it easier for carriers to manage and invest, and for agents and distributors to get paid correctly and on time, with full book of business transparency. Those who get this right will generate substantial financial returns. Individuals and organizations with the leadership instincts to innovate will create a better experience for distributors and producers, establishing a competitive advantage in pointing the most talented sales resources at the markets necessary to win. These innovators will:

- Attract *and* retain the best performing agents and motivate them to work even harder to sell their products.
- Empower their downlines to focus on growth and maximize returns.
- Get *and stay* ahead of the competition by becoming the carrier everyone is motivated to work and sell for.

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Prior to investing in and running e123, Fred was a partner at Bain & Company in their healthcare and private equity practices, where he spent 15 years working with payors and a wide range of other senior executive clients on developing and implementing strategies to make their businesses more valuable.

Since 2003 Fred has been a private company CEO, first at FEI Women's Health, the leading manufacturer of intra-uterine devices, then for Learner's Digest International, the leader in mobile e-learning in the Continuing Medical Education space. He has a passion for using technology to solve complex business problems to make the world a better place, in partnership with other owners and executives who aspire to innovate

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