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Out with the many: Redesigning distributor compensation as a shared service

Insurers are rethinking their legacy operating platforms as distributors seek smoother moves. Consolidation can help.

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The heart of the matter

Insurance carriers are looking afresh at how to address their fragmented legacy operating platforms to lower their fixed costs, while distributors are calling for greater transparency and ease of doing business from carriers.

Prior to the advent of direct deposit, there was an adage amongst insurance agents: "when you get a letter with a window on it, open it up and cash it. When you get your compensation statement, throw it in the round filing cabinet!" While direct deposit has retired the windowed envelopes, the systems that calculated distributor compensation over 30 years ago are still around, and the statements they produce are just as limited for distributors trying to understand their compensation.

Complicating the situation is the fact that carriers often maintain compensation operations separately for each business unit. As a result, when distributors deal with multiple business units across the company, their experience is inconsistent and disjointed. They expect more, and they're starting to get vocal about it. These distributors are now demanding an improved experience, and arguably the most important touchpoint between a carrier and its distributors is compensation.

Moreover, the retirement of key employees who support legacy technology leaves carriers with limited options for supporting them going forward. For vendors, those platforms have been deemed end-of-life.

There's a straightforward solution: consolidating systems, both from an operating model and a platform perspective. By taking a unified approach, carriers will likely improve the distribution partner experience and address legacy modernization concerns.

Some companies have hesitated to move ahead with consolidation, out of concern about the effort involved. But this downplays the very real costs of inaction.

If carriers fail to unify their compensation operations, they'll continue to maintain separate silos for each line of business, requiring a separate set of specialized employees to maintain, operate, and manage the full range of compensation functions.

Similarly, carriers that fail to address legacy platforms in a unified manner will continue to grapple with systems that no longer can be supported, or address it piecemeal, by business unit, leading to inefficiencies and continued complexity.

Establishing a shared service for delivering compensation can address multiple concerns at once—replacing a disjointed and opaque distributor experience with a single point of contact and transparency; reducing fixed costs through consolidation; and reducing operational risk through legacy technology modernization.

An in-depth discussion

A multi-line insurance carrier maintains a separate department for managing compensation in each of its five divisions. Distributors must call into multiple departments when they do business with multiple divisions. Similarly, producers receive multiple statements from multiple divisions, and therefore can't see all of their production in one place.

The statements themselves are static and are made available on multiple portals in PDF format, but there is no drill down or query capability. Debt is not consolidated across business units, so one could be paying compensation to a producer that owes another business unit a negative balance.

Most insurance carriers continue to run compensation operations separately for each line of business. Each division has its own rules for compensation and distribution partner maintenance, some of which are shared with other divisions and some of which are unique to those divisions. Not only does this result in inconsistent service experiences for partners, but it also translates into multiple pockets of fixed operational cost, as each business unit maintains its own systems and personnel. Meanwhile, distributors want to see greater transparency regarding their individual sales results on a real-time basis, an objective that's not easily satisfied given constraints presented by legacy technology.

We've observed that many distributors, lacking insight into operations, engage in shadow accounting, manually recalculating what they think they should be paid against what they actually receive, to make sure they're being paid correctly—taking valuable time away from pursuing sales. Further, partners are distracted by the need to manage different code identifiers assigned by carriers to submit, categorize, and split business, sometimes more than 20 codes for a given partner.

These alphanumeric codes are assigned to partners when they begin selling one line of business and proliferate as they diversify to sell additional products or change firms, requiring the creation of new codes. Modern compensation systems can provide partners with a single identifier across lines of business, simplifying and streamlining their experience with carriers. Legacy codes can be provided if downstream clients need them to continue to support operations, but they have no impact on the consolidated portals and statements a partner uses.

As we noted in "No agent left behind: How insurers can rally support for tech upgrades," carriers often look inward when thinking about how they use technology. In doing so, they run the risk of alienating the same distribution partners who have made them successful over the years.[1]

Drive business—not process

In discussing these challenges with PwC clients, we've found that many firms are interested in shaking things up and revitalizing their processes. But they find themselves hampered by limitations imposed by their legacy platforms, some of which have been in service for 30 years or more.

In essence, technology is driving process rather than enabling business objectives. Basic administrative interactions, for example, often turn out to be cumbersome, manual processes that can't be executed without phone calls to the home office. In the future, these routine interactions can use partner self-service through digital channels to free up time for partners to focus on driving new business.

[1] PwC, "No agent left behind: How insurers can rally support for tech upgrades," May 2015, www.pwc.com/fsi.

How you can implement a shared service operating model

Figure 1: Steps for implementing a shared service operating model

We believe that carriers can address both customer experience and legacy system modernization by establishing a shared service operating model for compensation on a single platform serving each individual line of business. Here's how:

We recommend that you start by performing a strategic assessment of your company's current state, including the compensation management organization, processes, and technology. This can let you identify opportunities to simplify and consolidate processes. Companies should strive to consolidate and standardize compensation processes within a shared service organization that administers compensation for partners across lines of business.

You should use the insights generated from this strategic assessment to understand and document the critical compensation capabilities that each line of business needs to manage compensation today and to remain competitive in the future state.

First, you'll need to assess the variations in compensation needs across your company by examining the differences between product lines (e.g., life, annuity, retirement). Next, identify the compensation activities that are complex or highly specialized by line of business, as these may require the alignment of resources on specialist teams within the greater shared service organization. Finally, choose a compensation software solution that can support the entire enterprise. To do so, you should conduct an enterprise-wide, capability-driven proof of concept to engage lines of business in the vendor selection process to confirm that the solution can meet the critical needs of compensation stakeholders.

By creating a robust change management structure, you can confirm that internal and external stakeholders are aware of the proposed change, its impact, and the anticipated timeline. Because compensation is supported by numerous internal systems (e.g., accounting, licensing, policy administration), the subject matter specialists who support these systems should be involved in planning and design.

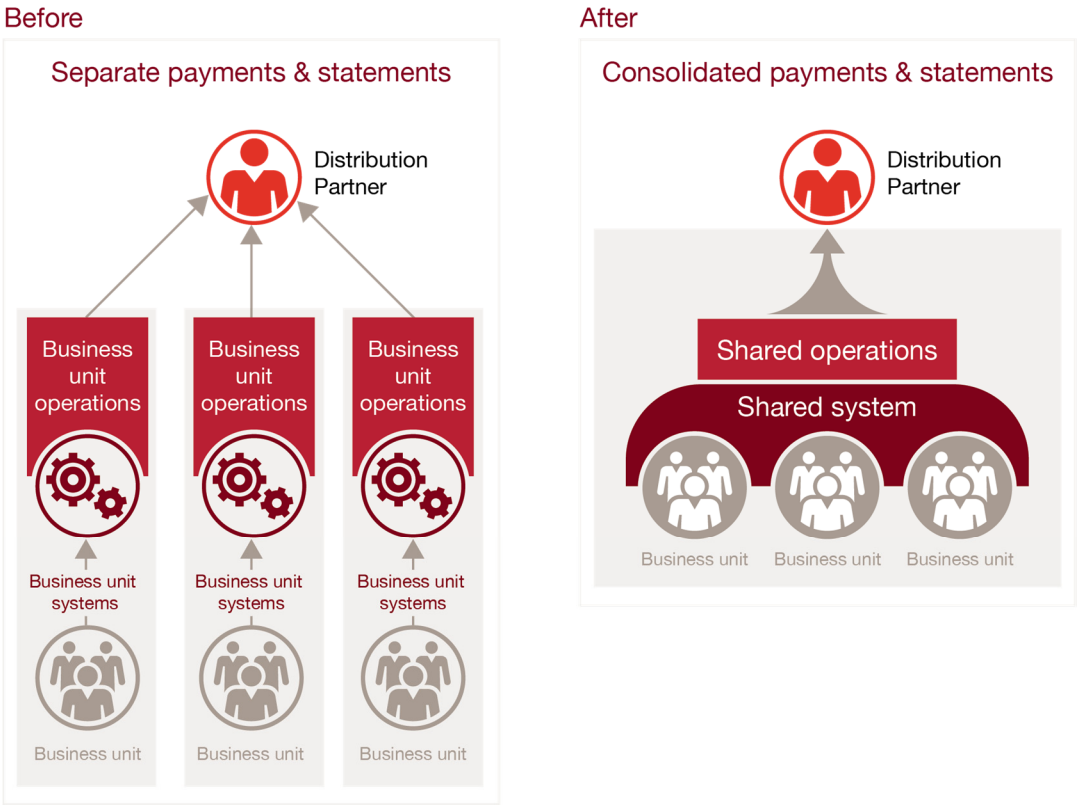
Distribution partners will need training and onboarding to learn how to use the new system correctly and also to be able to take full advantage of its reporting and self-service capabilities. Partners should be engaged to understand where the most value can be created by building consolidated compensation statements: Lines of business such as life and annuity, in which partners are more likely to sell both products, are often the leading candidates for compensation statement consolidation.

Internal staff also will need training as they prepare for the transition from business line-specific compensation teams on legacy platforms to a shared service organization on a single modern system. Compensation staff should be co-located, sitting and working together on a daily basis, to promote cross-business line interactions, knowledge sharing, and cross-training. Note that staff with compensation experience in a given business unit may be needed to serve as specialists, solving complex compensation problems for their original business unit while providing cross-training for other team members.

Prior to implementation, compensation logic that exists within legacy systems may need to be reverse engineered to document existing calculation logic, as legacy system rules often lack adequate documentation. Some companies may also include compensation functions as part of their policy administration platforms because the legacy compensation systems may not have been able to handle that work. These functions should be decoupled from the policy systems before the new compensation platform goes online.

As you implement the new system, use a staggered implementation timeline to focus first on the business units with the most pressing modernization needs. This can reduce implementation risk while providing an opportunity to onboard internal resources and familiarize them with the system. Further, early project wins as the first business units “go live” can provide the program with the momentum necessary to continue with the multi-year implementation roadmap.

Figure 2: Current state vs. future state



The consolidation edge

We see significant benefits in the consolidation of operations and platforms.

First, you can improve the partner experience by delivering clear, consolidated statements and digital portals that enable them to drill down into earnings from business lines. At the same time, you'll gain administrative efficiencies by consolidating partner compensation operational support in one team, on one platform. And, by using more reliable and effective access methods, you'll enable partners to boost efficiency and effectiveness in their sales efforts.

Moreover, by addressing aging technology platforms you'll enhance your capabilities and mitigate the risk posed by retiring legacy system specialists. Simultaneously, you can sidestep business disruption by capturing highly valuable tribal knowledge via a compensation transformation before those key resources retire. Modernization also enhances flexibility as new platforms are nimble enough to handle a wide variety of compensation structures while delivering speed-to-market and high-volume processing.

Building a shared view of a shared service approach

We see several key challenges for companies striving for a shared service approach. We'll identify these potential obstacles and offer some suggestions for how they can be overcome.

Because legacy technology is often perceived as highly functional and cheap to keep, its modernization can be perceived as a lower priority than other challenges carriers face. As such, it may take time to get business units to agree on a modernization timeframe. While there may be consensus that an upgrade is needed, gaining accord on the appropriate timing may be a challenge. Therefore, it's important to communicate across business functions that the cost of moving forward together should be less than it would be to wait for business units to go off in separate directions on their own.

Notably, many companies seeking to upgrade their legacy technology should focus on policy administration capabilities first. As a result, compensation technology modernization needs to be sequenced accordingly, taking into account key dependencies on policy administration. In our experience, we find that where policy administration is already in flight, a good sequencing is to consider consolidating compensation at the same time as billing, after the main policy capabilities have been upgraded.

Leadership should stress the importance and high priority of pursuing shared services to manage enterprise-wide costs, particularly when challenges crop up—for example, when the need arises to slow down one business unit's project to take a step back, assess the problem, and design the right solution that works at the enterprise level.

At the same time, business unit leaders may view their own compensation structures and processes as unique, and as such, they may be reluctant to cede responsibility to a shared service organization—especially if resources will, at least initially, be less familiar with their products and compensation approaches. Here, cross-training becomes key, with compensation staff within business units redeployed to shared services teams.

Business units also may face challenges in aligning on a single platform that meets their diverse needs. As noted earlier, by conducting an enterprise-wide joint proof of concept, you'll be able to identify a vendor that can provide the capabilities needed to support each business unit.

What this means for your business

When carriers think about updating legacy technology, they often begin with policy administration. It's a good place to start, but it shouldn't be the end.

By addressing their core policy systems through modernization, companies have found that they are freeing up capacity to address a serious problem that has been a pain point for years. Distribution is the key to growth. And by offering a better user experience for their distribution partners, companies have a chance to set themselves apart from their competition by now focusing on compensation.

Shared services is a catalyst for addressing compensation concerns more effectively—with a promise of better partner experience, new cost efficiencies, and lowered operational risk posed by aging legacy technology.

For multi-line carriers looking to curb fixed costs while attracting (and keeping) the most desirable distributors, it's time to move ahead with shared services for partner compensation.

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