

XIV GENERAL INSURANCE SEMINAR

Third Party Distribution Delivery and Service Strategies

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Survey findings


- Variety of third party channels
- Range of service levels and models
- Commissions vary by service levels
- Other incentives are used
- A number of commission rate drivers



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Services and sub-services framework

Product Development	Marketing	Sales	Acceptance	Policy Processing	Policyholder Service	Claims
Market Feedback & Research	Market Tracking & Approach	Sales Tracking & Approach	Risk Acceptance	Issuing Policy Records	Customer Service	Claims Management
Competitor Monitoring	Product Campaign Development	Sales Enquires & Advice	Underwriting Compliance	Printing Documents	Customer Retention	
Product Concept Development	Product Campaign Materials	Premium Quote		Customer Liaison		
Product Feasibility	Product Campaign Delivery	Renewal Sales		Policy Maintenance		
Product Design	Product Campaign Delivery	Instigation		Policy Cancellation		
Product Pricing	Distributor Brand Strength	Competitive Pricing		Premium Payment Processing		
Product Management						




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There is a variety of third party channels available

SURVEY RESPONSES

(% of total)

CHANNEL TYPE	Industry Group	Health Fund	Motor Club	Financial Institution	Financial Planners	Small Business	Independent of manufacturer	Total	Personal	Commercial
Alliance	5	-	1	5	-	2	-	12	8	18
Tied Agents	1	2	5	12	5	1	1	26	36	14
Multi Agents	1	-	-	4	2	9	-	15	20	9
Brokers	-	-	-	-	-	-	24	24	16	33
Cluster Groups	-	-	-	-	-	-	15	15	13	17
UW Agencies	-	-	-	-	-	-	8	8	7	10
Total	6	2	6	21	6	11	48	100	100	100



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Delivery services models

DELIVERY MODEL	Product Development	Marketing	Sales	Acceptance	Policy Processing	Policyholder Service	Claims	Commercial %		
								Personal %	Commercial %	Total %
Spot & refer		✓	✓					8	21	14
Attract & sell		✓	✓	✓	✓			13	-	7
Attract, sell & serve		✓	✓	✓	✓	✓		57	49	53
Develop plus	✓	✓	✓	✓	✓	✓		19	27	23
Full service	✓	✓	✓	✓	✓	✓	✓	3	3	3
								100	100	100

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Commissions vary by product and service level

COMMISSION RATES

(% of net premium)

DELIVERY MODEL	Personal		Commercial		
	Motor	Home	Motor	Rural	SME
Spot & refer	7.3	11.6	7.6	12.4	12.6
Attract & sell	8.7	15.7	-	-	-
Attract, sell & serve	9.8	17.6	11.0	18.3	19.2
Develop plus	12.9	22.1	12.1	22.6	22.2
Full service	25.3	36.3	25.0	37.5	37.5

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Override commissions form part of the rate

SERVICES PROVIDED	Overrides (% net premium)
• UW agency services	6% - 20%
• Channel management & training	5%
• Motor premium funding	2% - 5%
• Brand use	1% - 2%
• Product development / sourcing	0.5% - 2%
• Independent agent	1%
• Electronic data interchange (EDI)	1% - 3%

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Commissions are supplemented by other incentives

PROFIT SHARING <ul style="list-style-type: none"> • 25% - 50% UW profit share under target composite loss ratio • "Significant" UW profit share by line of business • Varies by loss ratio of the business • Annual 0% - 4% more total commission depending on loss ratio 	VOLUME <ul style="list-style-type: none"> • Premium plus policy count hurdles • Premium based volume hurdles
EQUITY <ul style="list-style-type: none"> • Distributor gets a 50% dividend • Distributor charges manufacturer shared services overhead fee • Equity share in the Manufacturer. Get 50% of the marketing budget from manufacturer 	MARKETING OR SPONSORSHIP <ul style="list-style-type: none"> • 1% - 2% of premium sponsorship to local branches • 1% - 3% of premium marketing allowance

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Drivers of commission rates

- A. Line of Business Drivers
- B. Industry Wide Factors
 - Market Standards
 - Reinsurance Costs
 - Financial Services Reform Act
- C. Arrangement Specific Factors
 - Business Arrangements
 - Length of relationship
 - Performance (profitability, retention, service)
 - Responsibility
 - Competition for risks
 - Access to customer groups

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In conclusion

We found:

- a variety of third party channels providing differing service levels,
- a range of different reward and incentive strategies.

Cost-to-serve was a strong driver of commission rates, as well as the effects of:

- line of business drivers,
- industry wide factors,
- and arrangement specific factors.

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