

fs viewpoint

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02

Point of view

11

Competitive
intelligence

13

A framework
for response

20

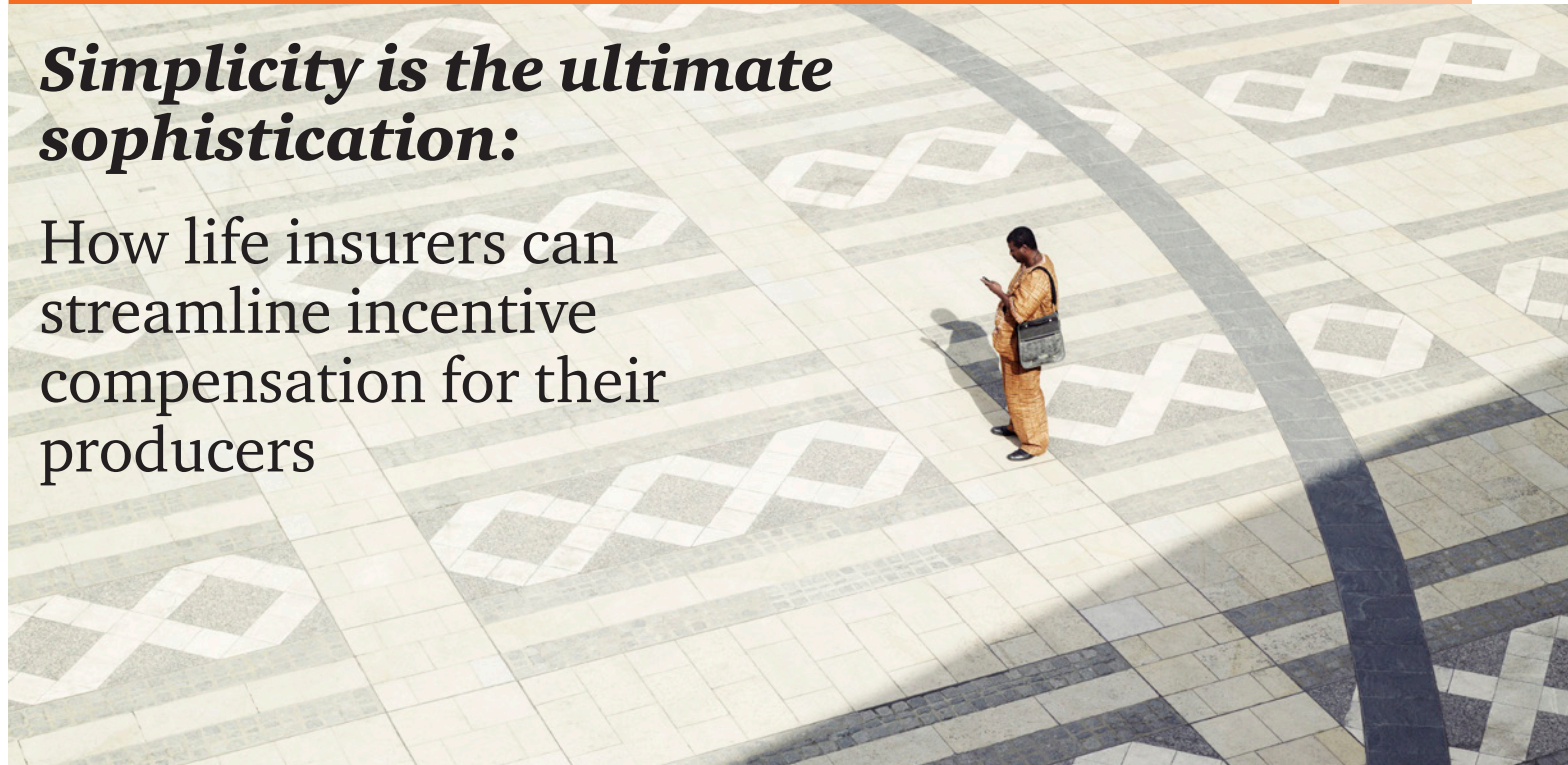
How PwC
can help

24

Appendix

Simplicity is the ultimate sophistication:

How life insurers can
streamline incentive
compensation for their
producers



pwc

Point of view



Insurance carriers that proceed with a technology-driven compensation transformation without first considering simplicity run the risk of creating another legacy platform in a shiny new wrapper.

While many are afraid to address simplicity out of fear that they will lose top producers, opportunity exists for carriers to clear away complexity that isn't yielding premium—without jeopardizing key relationships.

“Simplicity is the ultimate sophistication.”

~Leonardo da Vinci

The complex web of compensation schedules that has evolved over time is reaching a critical mass.

In some insurance companies, the distinct number of compensation schedules currently runs into the tens of thousands.

The sheer volume and intricacy of the compensation plans are severely hampering carriers' ability to provide the compensation transparency that sales agents and regulators are demanding. Specifically, complexity is hindering the ability of insurance companies to:

- Support their distribution channels cost-effectively while competing with carriers who aren't saddled with complexity.
- Provide transparency to producers, brokers, agents, and regulators because of the enormous variance and volume.
- Provide speed to market for new products and rate changes because variations are accomplished through new schedules and IT efforts instead of through business configuration of rules.
- Promote new compensation plans that incentivize carrier objectives like persistency and penetration because they are lost amid the sea of compensation plans that already exist.
- Explain to producers how they are being paid when they call in with questions for prospective business.

In addition, carriers saddled with complexity have higher operational costs. In our experience, carriers who have not addressed their legacy complexity have up to four times the number of operational staff supporting producer compensation than those who have addressed complexity.

Insurance companies have often tried to solve these issues with technology alone because they are reluctant to remove schedules from top producers.

As a result, they end up failing to eliminate any schedules or adding even more. However, we have seen a great reliance on a small number of schedules—sometimes as much as 80% of all policies were written using less than 1% of all available schedules.

In our view, even if a carrier were to leave its most profitable producers untouched, large cost savings could result from cleaning up schedules that are largely unused.

Attempting a replacement of producer administration and compensation solutions without first addressing and implementing simplicity in available schedules has the effect of embedding old business problems in new technology solutions.

The demand for simplicity and transparency in producer compensation is arising from demographic, industry, and regulatory factors.

“They [Gen Y] demand that an organization’s internal social reality mirrors that of the Web. So companies today are essentially competing on transparency.”²

A new generation of more tech-savvy workers is assuming the majority position, demanding more compensation transparency and greater access to this information through technology.

According to a 2011 survey by LIMRA, a competitive product line and technology support were the top two carrier capabilities valued by producers. Technology support includes things like online access to client records, access to new business application status, consolidated client statement reporting, online commission reporting, and electronic submission of new applications.¹

Brokers and large agents are controlling a larger portion of sales, and there are fewer touch points to impress them, aside from compensation. They have none of the loyalty associated with either captive or career agents.

Career and captive agents are traditionally motivated by benefits and the notion that success is inherently tied to just one carrier.

With independent agents, carriers are left with fewer touch points to distinguish themselves and earn their producers’ loyalty. For these agents, broker general agents (BGAs) and independent marketing organizations (IMOs) among them, commission statements, reporting and data feeds, and alternative compensation such as bonuses and stock options are the primary means of influence.

Flexibility with commissions and other incentives can become differentiated selling points as more brokers and independent agents offer products from multiple insurers, and as younger, more tech-savvy producers establish their books.

M&A activity has consolidated the number of producers working within brokers and large independent agencies. Incentive compensation is the key means of attracting and retaining these producers.

In a soft market, brokers and large agents are seeking economies of scale through acquisition. Brokers and large agents want to operate within their own systems regardless of who they are working with, which requires certain capabilities on the part of the carrier to clearly explain compensation schedules and provide automated data feeds for commission reporting. They want to sell for carriers who offer ease of doing business.

State regulators are becoming more discerning about the ability to verify the accuracy of agent compensation.

Due to the increasing sophistication of state regulatory agencies, when carriers cannot demonstrate the ability to audit commissions and control fraud, fines are the usual result.

¹ “Producers Pay More Attention to Insurers’ Financial Strength since Economic Crisis,” LIMRA, 2012, <http://www.limra.com>, accessed Feb. 27, 2013.

² Jacqueline Murphy, “Transparency and Employee Engagement at Unstructure 2010,” Harvard Business Review Blog Network, April 12, 2010, <http://blogs.hbr.org>, accessed Feb. 27, 2013.

We have observed carriers struggling with a proliferation of schedules and incentives that are not aligned with strategy.

Many carriers today do not know how they wound up with so many schedules. Their producers requested them; operations and IT implemented them; and there never was a dialogue as to why they were created.

Proliferation of schedules

In many insurance companies, system constraints have led to a significant proliferation of schedules, resulting in large operational strain and complexity for producers. In these cases, businesses require significant IT efforts to manage and change compensation programs. In some cases, new product configurations and incentive programs take nine months to implement, inhibiting more customized incentives. We have observed a few carriers begin to significantly shed their complexity in favor of a clearly defined set of strategic schedules, and some never allowed complexity to arise in the first place.

We have further observed some carriers using homegrown systems and manual processes to support compensation. In these cases, significant IT resources are often needed to decipher code to confirm the business rules behind commissions calculations. This leads to both high costs and long turnaround times on producers' queries. As a result, we have observed carriers, saddled with complexity, that carry up to four times the number of operational staff supporting compensation than those carriers that have addressed complexity.

Even in cases with a proliferation of schedules, we have seen a large concentration within a small number of schedules. Sometimes as much as 80% of all policies were written utilizing less than 1% of all available schedules.

Clearly, an opportunity exists to clear away a lot of complexity that isn't yielding premium.

Aligned incentives

Traditionally, many insurers have held commission rates to some static percentage that is prorated by product. Commissions are essentially priced by policy sold. Traditional incentives were utilized to drive volume, but no consideration was given to persistency, penetration, or tiered servicing.

Today, we have observed carriers beginning to consider their entire book of business when considering commissions. They are proactively attempting to drive the behavior of their producers by providing incentives for persistency, penetration, and service—rather than incentivizing gross sales volume alone.

By breaking away from being locked into a per-policy commission rate, they can pay more for increased persistency of policies, better penetration into group accounts, and by emphasizing service.

However, when carriers attempt to overlay these new incentives on top of existing schedules, they are typically unsuccessful because the strategic schedules aren't noticed amid a sea of legacy schedules.

Only carriers who maintain a limited and strategic set of schedules can make their voices heard in the field.

We have observed leading carriers establishing the flexibility to craft compensation that aligns with corporate goals. Once this flexibility is established, carriers are better able to distinguish themselves from competitors in agents' eyes.

Area of incentive	Leading practices	Impact
Base commissions	<ul style="list-style-type: none"> • Tiered base commissions for lines of coverage and case size (penetration). • Increasing base commissions for production with higher persistency (e.g., greater than 80%). • Full transparency into how and why commissions are paid by providing a rationalized set of compensation plans and online tools for audit and drill down. 	<ul style="list-style-type: none"> • Ability to drive penetration and customer retention.
Bonus incentives	<ul style="list-style-type: none"> • Running promotions to grow specific lines. • Bonuses based on number of new accounts opened. • Bonuses based on overall growth of book. • Bonuses based on persistence, penetration, or customer satisfaction. 	<ul style="list-style-type: none"> • Able to support bonus promotions to incentivize producers to pursue company goals such as penetration, persistence, or customer satisfaction.
Rewards and recognition	<ul style="list-style-type: none"> • Agent portal tailored for each producer's progress in line with the rewards programs. • Agent portal offers agents current production view applied to leaders' club and bonus qualification. • Publishing performance results online for all agents to view. 	<ul style="list-style-type: none"> • Ability to incentivize producers through clarity (how close agent is to next reward) and competition (how each is performing in relation to peers).
Service and support for producers	<ul style="list-style-type: none"> • Offers dedicated case managers and rapid service request response to its top producers. • Rewards top agents with desirable leads through priority placement on agency locator. 	<ul style="list-style-type: none"> • Offering tiered services, differentiated marketing, and support services, sometimes at higher cost, to grow top producers' books, allowing them to earn greater share of the business.

In our view, carriers should reduce the overall number of plans offered before replacing the underlying systems supporting incentive compensation.

“Things should be as simple as possible, but no simpler.”
~Albert Einstein

Examine compensation strategy with the following in mind:

It’s critical to streamline existing compensation schedules to a manageable number. Schedules for top producers can be preserved while clearing away unused schedules that aren’t yielding premium.

Examine whether compensation schedules are strategically aligned and are encouraging the right sales goals.

Compensation management should be centralized in house by removing the authority of sales staff to create compensation schedules.

While simplification may be the ultimate goal for many carriers, situations may exist in which a position elsewhere on the compensation transparency continuum is more appropriate.

← Compensation transparency continuum →		
Focus areas	Low transparency	High transparency
Visibility into commissions	<ul style="list-style-type: none">Commissions are defined top-down by hierarchy level.Each producer only sees own commission and those below. Commissions above individual in the hierarchy are not visible.	<ul style="list-style-type: none">Commissions are pay-for-performance (value-based costing).Producers see what everyone in the value chain is being paid.
Flat fees	<ul style="list-style-type: none">No flat-fee commission rates.	<ul style="list-style-type: none">Allows for flat fees such as enroller commissions and insurance exchange commissions (direct to consumer).
Expensing of commissions	<ul style="list-style-type: none">Expensed on a per-policy basis.	<ul style="list-style-type: none">Expensed by line of business—not simply on a per-policy basis.
Compensation schedules	<ul style="list-style-type: none">Company sets a top-line commission figure and the sales hierarchy creates new compensation schedules around them.	<ul style="list-style-type: none">Schedules are highly rationalized and easy to explain.Centralized operations control over creation of new schedules.

With compensation schedules streamlined, companies can leverage a modern technology platform outfitted with configurable rules that flex to meet the day-to-day needs of agents in the field. Schedules bend instead of proliferating.

Without simplification before system transformation, carriers will re-platform legacy problems and miss out on many possible benefits.

By adopting simplification, market leaders achieve benefits that could result in competitive advantages, including:

- **Ability to emphasize strategic objectives such as persistency and penetration of service.**
- **Lower operating cost for supporting distribution channels.**
- **Improved producer experience leading to greater loyalty and higher sales.**
- **Improved ability to communicate with regulators regarding compensation transparency.**
- **Ability to avoid regulatory fines.**

	Transformation without simplicity	Simplification strategy before transformation
Benefits	<ul style="list-style-type: none"> • Improved ability to offer producers self-service reporting on compensation. • Accuracy of compensation improved. • Compensation rules can be configured by power business users, thus enabling faster speed to market. 	<ul style="list-style-type: none"> • Improved ability to offer producers self-service reporting on compensation. • Accuracy of compensation improved. • Compensation rules can be configured by power business users, thus enabling faster speed to market. • Greater agent productivity because they aren't spending time devising new compensation schedules or figuring out whether their commissions are correct. • Operations staff can readily answer questions about strategic set of compensation plans. • Legacy compensation plans are retired for new business and put into run-off for trailing commissions. • Corporate objectives can be readily flexed with introduction of rules on strategic plans. • Company aligns with a small number of strategic compensation plans that have configurable rules to handle different business situations. • Compensation plans are managed centrally so fewer staff are required.
Limitations	<ul style="list-style-type: none"> • High operational cost compared with competitors not burdened by complexity. • Company continues to maintain hundreds if not thousands of compensation plan variations. • Operations staff continue to struggle to advise producers on how compensation plans work. • Corporate objectives are lost in a sea of legacy compensation plans available to producers. • Producers largely determine their own compensation plans—more staff required to keep up and create new plans. 	<ul style="list-style-type: none"> • Strong change management required to explain to producers the trade offs between transparent strategic plans compared with legacy plan proliferation.

The following barriers limit a carrier's ability to change.

Obstacle	Potential solutions
Sales force objecting to compensation redesign.	<ol style="list-style-type: none"> 1. Test before implementing. Experiment with a strategic straw man set of schedules first to determine the right rules to address sales situations. Apply the strategic schedules to real life situations to help ensure that producers have suitable flexibility to address different sales situations. 2. Make the case for simplification and explain the tradeoffs and benefits. Benefits include more targeted, meaningful rewards that are easier to understand and track. Home office will be able to easily explain how commissions work on a particular account, new bonuses will be possible based on persistency, penetration, and service. 3. Honor existing trailing commissions through run off. Consider preserving some non-strategic plans because top producers use them. 4. Set up dedicated change management focused on compensation transformation. Based on PwC's experience with core transformations, projects that effectively manage the people elements of change are far more likely to deliver on objectives and business results.
Up-front cost of a compensation transformation.	<ol style="list-style-type: none"> 1. Use a staged approach in order to see returns on investment throughout the process. 2. Examine the cost of a new system relative to the ongoing operational costs of existing processes and systems with manual touches. For example, the full-time-equivalent (FTE) count supporting legacy producer administration and compensation systems can be up to 10 times higher than leading carriers leveraging modern incentive compensation management (ICM) systems. 3. Examine the benefits of a new system relative to the time it currently takes to make changes to commissions or bonuses. These changes often take months to implement and regression test.
Interdependencies on legacy policy administration systems seem a barrier to introducing change to commissions.	<ol style="list-style-type: none"> 1. Plan a phased roadmap for retiring parts of the policy administration landscape that address producer administration and compensation. 2. Map out how key downstream dependencies will continue to be satisfied after commissions carve-out from legacy policy administration.
Reviewing the sheer volume of compensation plans that exist today and determining the plans that should be used going forward.	<ol style="list-style-type: none"> 1. Conduct experiments with the sales force to determine how a smaller set of plans need to flex in order to handle different business situations. This experimentation lays the groundwork to move toward configuration of explainable, flexible rules. 2. Perform data analysis on premium generated by each compensation schedule, broken out by product. Target unused plans for retirement.

An assessment that includes the following five strategic steps will yield a prioritized set of business and technology capabilities, a phased roadmap and identification of dependencies, and the business case for realizing simplicity and operational efficiency.













	Align incentives with growth strategy	Rationalize compensation schedules	Evaluate operational efficiency	Align architecture with business needs	Make business case for change
Sample of problems addressed	<ul style="list-style-type: none"> Do I have a coherent distribution channel strategy that avoids conflicts between channels and is well communicated? Are my incentives aligned with my targets for growth? Are my targeted incentives lost in an ocean of competing compensation plans? 	<ul style="list-style-type: none"> How is my current collection of compensation schedules constructed? How much redundancy is there within the current set of schedules (variance analysis)? How can my current set of compensation schedules be changed to align with my growth strategy? 	<ul style="list-style-type: none"> What pain points exist today within my support of producer administration and compensation? What administration and compensation capabilities do my competitors have (or are developing)? How can I right size my operations staffing? How much manual work could be cut out from my processes? 	<ul style="list-style-type: none"> How many systems do I have supporting producer administration and compensation today and how are they wired together? How do I carve out producer administration and compensation from my existing policy administration system(s)? How many systems can I retire if I re-platform agent administration and compensation? Will it make policy administration system (PAS) replacement easier later? 	<ul style="list-style-type: none"> How do I convince the business to commit to a multi-year transformational roadmap? What are the all-in costs and benefits to implement? What barriers to change exist within the organization and what partners do I need to assure delivery?
Key outcomes	<ul style="list-style-type: none"> Validation of distribution strategy or highlighted need for clarification. Identification of strategic objectives to target using a future-state, strategic set of incentives (e.g., account penetration, persistency, service). 	<ul style="list-style-type: none"> Determination of target for future state of compensation schedules (e.g., put existing set into run off and introduce rationalized, strategic set of plans). Determine whether to control selection of compensation plan through rules versus choice of producer (with tie back to point-of-sale system). 	<ul style="list-style-type: none"> Definition of future-state business and technical capabilities to address current-state pain points brings the organization up to par with competitors, or creates a strategic advantage. High-level estimate of benefits attainable by turning on future-state business and technical capabilities. 	<ul style="list-style-type: none"> Current-state blueprint of all systems supporting producer administration and compensation. Future-state blueprint of rationalized systems. Architectural roadmap to achieving the future-state blueprint. High-level estimate of cost to implement roadmap. 	<ul style="list-style-type: none"> Comprehensive business case for change. High-level staffing strategy for execution. Approval to fund and move forward with mobilization and vendor selection.

Competitive intelligence



*Our observations of
industry practices.*

What we observe in the industry.

Case studies of compensation strategies across insurance carriers	Company A	Company B	Company C
	<p> Aligned incentives: Focused on delivering customized producer incentives. The insurer is able to quickly deploy variable compensation, bonus, and promotional programs to drive targeted behaviors and execute targeted sales campaigns.</p> <p> Rationalized schedules: Significantly pared down a comprehensive set of schedules to an offering of clearly defined strategic schedules</p> <p> Efficient operations: Set up an agent portal to present and socialize sales performance and increase the effectiveness of its rewards programs. The platform motivates producers by publishing their production and relative performance.</p> <p> Business-aligned architecture: Implemented incentive compensation management (ICM) with common integration schema, facilitating the inclusion of additional data into variable components of producer compensation plans (e.g., portfolio growth or household penetration).</p>	<p> Aligned incentives: Utilizes traditional incentives to drive volume, but no consideration is given to persistency, penetration, or tiered servicing.</p> <p> Rationalized schedules: System constraints led to a significant proliferation of schedules, resulting in large operational strain and complexity for producers.</p> <p> Efficient operations: Provides producers access to websites to determine if they qualify for reward programs. PDF reports are published online for each contest; results are static and manually updated.</p> <p> Business-aligned architecture: Uses a data model that can be extended to support carrier needs, but requires vendor assistance.</p>	<p> Aligned incentives: Compensation schedules inherited through inorganic growth left the incentive landscape with no clear strategy or direction.</p> <p> Rationalized schedules: Business requires significant support from IT to manage and change compensation programs. New product configurations and incentive programs take nine months to implement, inhibiting more customized incentives.</p> <p> Efficient operations: Uses homegrown systems and manual processes to support compensation. Significant IT resources are needed to decipher batch job logs and logic to confirm calculations. Disputes cost US\$2 million annually.</p> <p> Business-aligned architecture: Rigid data model is tightly coupled to application code and cannot be extended with customization. The result is that new countries take 12 to 18 months to bring online.</p>

 Leading

 On par

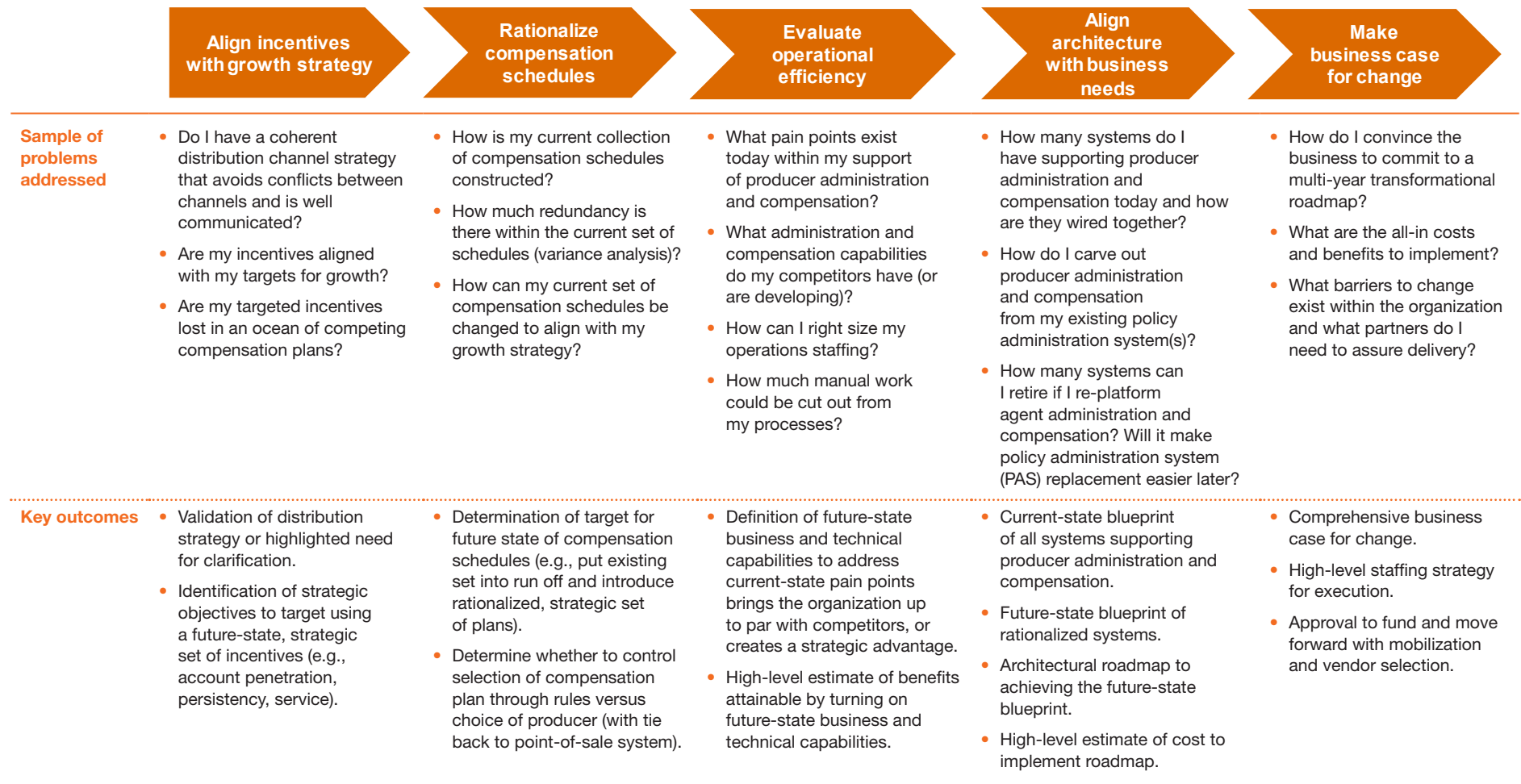
 Lagging

A framework for response



*Our recommended approach
to the issue.*

We recommend the following five-step approach to transform incentive compensation.



Step 1—Align incentives with growth strategy.

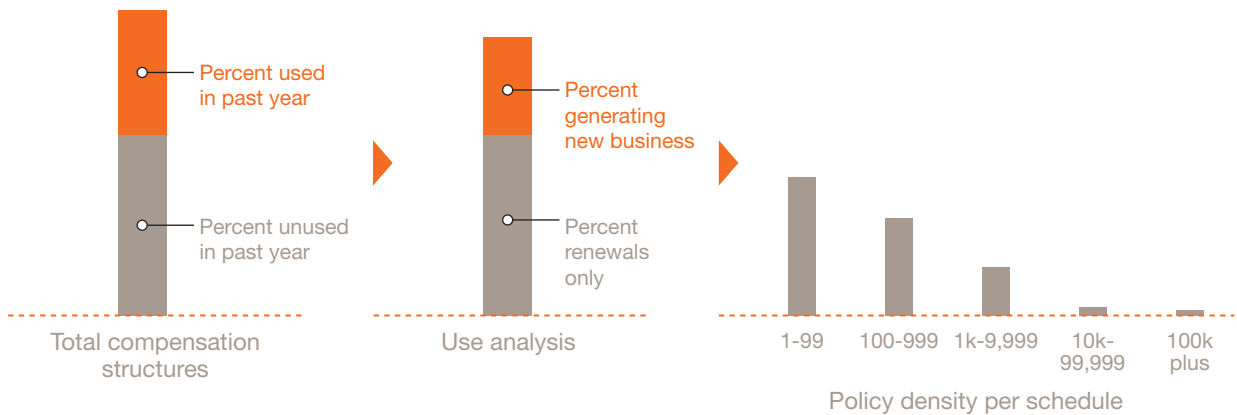
The strategy for distribution, how distribution channels potentially interact, and what measures are being used to gauge profitable growth should be identified upfront, before considering the commission schedules.



Strategic concern	Questions to answer
Channel strategy	<ul style="list-style-type: none"> • Is there a clear distribution channel strategy? • Have acquisitions left the lines between the channels unclear? • Do conflicts between channels occur today and what effect is that having upon the customer experience? • What is the appetite for producer debt? Are there sufficient rules to avoid egregious cases?
Industry, segment, or product alignment	<ul style="list-style-type: none"> • Are incentives aligned with industry, segment, or product factors that drive the growth strategy? • Are incentives based on market opportunity and/or profitability?
Measures of success	<ul style="list-style-type: none"> • How are producers incentivized today—by commission schedules, bonuses? And by what measures—customer satisfaction, persistency, penetration?
Clarity of message	<ul style="list-style-type: none"> • If there are incentives that hinge on more than total production, are they lost in a sea of other incentives? • Is there positive movement along the success measures?
Point-of-sale tie in	<ul style="list-style-type: none"> • How are commission schedules currently tied to new business? Do producers choose or is the selection of plan automated by line of business, geography, or client?

Step 2—Rationalize compensation schedules.

Analyze the current set of compensation schedules to separate the ones used to generate new business today from dormant ones that obscure the overall strategic intent.

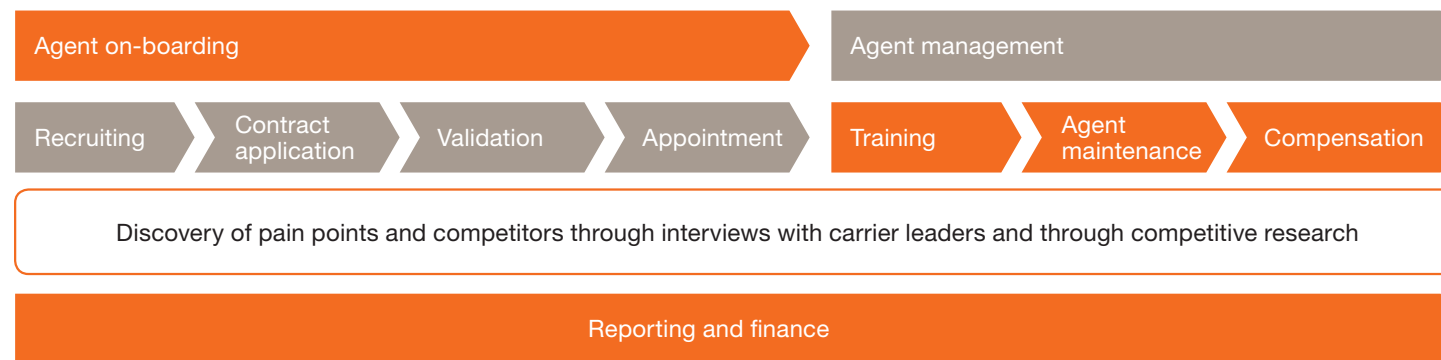


Step 3—Evaluate operational efficiency.

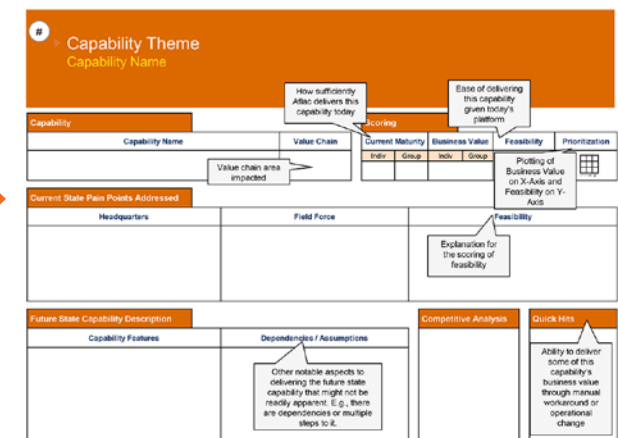
To discover future-state incentive compensation capabilities, carriers should consider all aspects of operations across the agency value chain and understand what competitors are doing.



Agency value chain



Addressing current-state pain points and considering competitive needs will yield a set of future-state business and technical capabilities.



Step 4—Align architecture with business needs.

The overall roadmap for change and the cost to implement it will be largely influenced by what a carrier inherits in the way of legacy technology.



Optimizing architecture: scope and considerations	Current-state integration architecture	High-level conversion strategy
	<ul style="list-style-type: none">• What systems support producer administration and compensation today?• When I change a product or rate today, which systems must be touched and regression tested?	<ul style="list-style-type: none">• Should conversion to a new platform be a “big-bang” or a phased approach by line of business or geography?• How do I begin conversion and data quality analysis early enough to avoid surprises and to avoid adversely impacting my transformation roadmap?
	Future-state integration architecture and PAS impact	Achieving a single master producer ID
	<ul style="list-style-type: none">• How can I carve out producer administration and compensation from my existing PAS environment?• How can I simplify and streamline integrations going forward?• How can I isolate commission changes in one system to improve speed to market?• How do I make enable configuration of rate changes by business power users rather than rely on IT for costly code changes?	<ul style="list-style-type: none">• How do I go from tracking multiple agent numbers per producer to one master producer ID?• What can I do with a master producer ID and how does it improve the customer experience for my producers?

The architecture and high-level conversion strategy will define the blueprints for moving from the current-state landscape of core and ancillary systems to a less complex and more streamlined future-state, technical architecture, including a high-level data conversion strategy.

Step 5—Make business case for change.

Incentive compensation transformations are costly, multi-year efforts that impact all aspects of the agency value chain. To make the case for investment, it is important to capture both costs and benefits realistically.



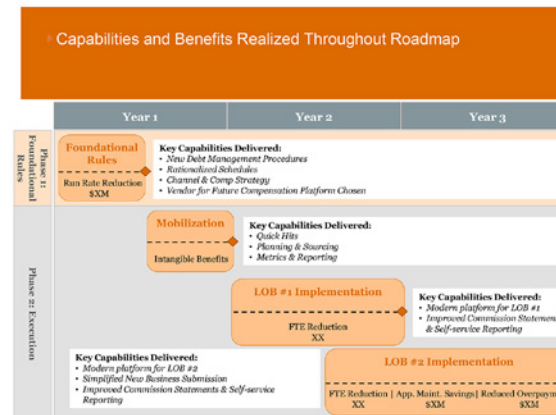
In order to create a complete business case for an incentive compensation management (ICM) transformation, a carrier should:

- Create a model for estimating the labor, hardware, and software associated with every track of work within the roadmap.
- Survey what other transformational initiatives are being considered, e.g., policy administration systems transformation, and determine how ICM transformation best fits in from a time and feasibility standpoint.
- Capture full-time-equivalent (FTE) cost savings associated with moving from an inflexible legacy system to a flexible rules-based system, and from manual processing to producer self service.
- Capture intangible benefits such as improved customer experience for the producer.
- Determine savings associated with improved ability to communicate with regulators and with mitigating risk of fines.

Sample benefits summary

Compensation Transformation Benefits – Summary				
Hard Benefits				
Category	Year over Year Savings of ~\$XM	Savings Start	Notes	
Debt Management	\$XM	Q4	Debt management reduces excessive debt and reducing annual debt write off by ~\$XXM	
Operational Efficiency	\$XM	Q1	XX fewer FTEs required to support Agent Administration and Compensation across Group and Individual businesses	
Overpayments	\$XM	Q1	Improved accuracy results in XX decrease in overpayments	
Retirement of Applications	\$XM	Q4	Retirement of legacy systems results in lower hardware/software service, support and maintenance costs	
Other Intangible Benefits and Compelling Reasons for Action				
Improved commission statements, metrics and reporting & reduce risk of audit violations				
Creation of a rationalized set of commission structures that will flex to meet the needs of our sales force / Increased insight into field behavior				
Policy Administration replacement is made easier if the Compensation platform is replaced first				
Single repository to manage producer data across multiple sales channels				
Improved agent/broker experience, especially important for Brokers' higher standards				
Increased speed to market when releasing new products				
Ability to add acquired companies to Platform under separate or combined Business Unit				
Ability to offer self-service to producers for on-boarding and maintenance of demographic information				

Sample roadmap

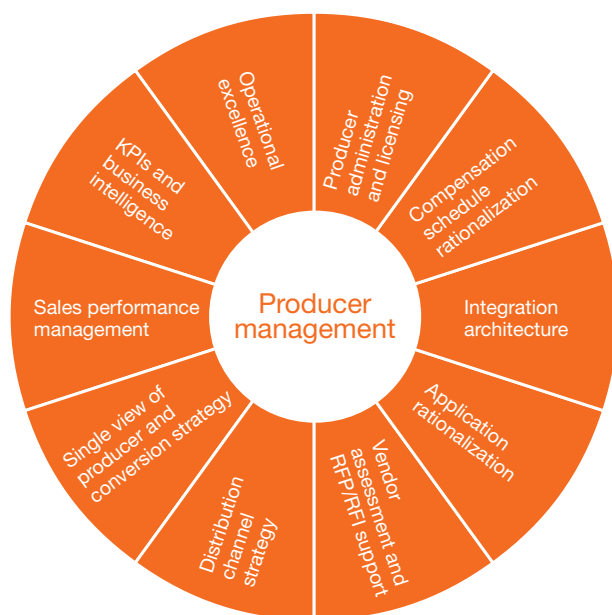


How PwC can help



*Our capabilities and
tailored approach.*

PwC has considerable experience assisting carriers address specific needs across a broad range of topics relating to insurance producer administration and incentive compensation management.



Needs	Issues we help clients address
Producer administration and licensing	<ul style="list-style-type: none"> • Increase automation and self-service of producer on-boarding, license validation, and maintenance to streamline operations and reduce manual efforts.
Compensation schedule rationalization	<ul style="list-style-type: none"> • Analyze current collection of compensation schedules and hierarchies against corporate objectives. • Design strategic set of schedules to compensation hierarchies while pursuing corporate objectives, and designing run-off strategy for legacy plans.
Integration architecture	<ul style="list-style-type: none"> • Perform upfront data interface analysis to identify common business events, to logically group domain data, and to rationalize interfaces among producer systems.
Application rationalization	<ul style="list-style-type: none"> • Design approach to phasing out of legacy producer administration and compensation applications as well as their related ancillary applications.
Vendor assessment and request for proposal/request for information (RFP/RFI) support	<ul style="list-style-type: none"> • Evaluate current leading incentive compensation management (ICM) and sales performance management (SPM) vendors against business and technical requirements. • Establish objective framework for evaluating short-listed vendors including business-scenario driven proofs of concept.
Distribution channel strategy	<ul style="list-style-type: none"> • Define channel strategy and future-state distribution model (Broker, managing general agent, and career agents). • Define distribution segments tied to producers and market segments.
Single view of producer and conversion strategy	<ul style="list-style-type: none"> • Consolidate disparate views of producers into single view of producer information. • Designing iterative, risk-mitigated approach to conversion of legacy data to new producer administration platform.
Sales performance management	<ul style="list-style-type: none"> • Develop innovative incentive programs aimed at driving service, customer-satisfaction, persistency, and penetration and provide tools to support training, education, pricing, and cross-selling across channels.
Key performance indicators (KPIs) and business intelligence	<ul style="list-style-type: none"> • Develop and leverage operational and performance metrics that can be easily accessed and used to create ad-hoc reports and make business decisions.
Operational excellence	<ul style="list-style-type: none"> • Perform competitive analysis with respect to resources supporting administration and compensation across organization.

What makes PwC's Financial Services practice distinctive.

Integrated global network	With 34,000 industry-dedicated professionals worldwide, PwC has a network that enables the assembly of both cross-border and regional teams. PwC's large, integrated global network of industry-dedicated resources means that PwC deploys the right personnel with the right background on our clients' behalf whenever and wherever they need it.
Extensive industry experience	PwC serves multinational financial institutions across banking and capital markets, insurance, asset management, hedge funds, private equity, payments, and financial technology. As a result, PwC has the extensive experience needed to advise on the portfolio of business issues that affect the industry, and we apply that knowledge to our clients' individual circumstances.
Multi-disciplinary problem solving	The critical issues financial institutions face today affect their entire business. Addressing these complexities requires both breadth and depth of experience, and PwC service teams include specialists in strategy, risk management, finance, regulation, operations, and technology. This allows us to provide support to corporate executives as well as key line and staff management. We help address business issues from client impact to product design, from a go-to-market strategy to an optimized economic model to proper functional practices across all aspects of the organization. We excel at solving problems that span the range of our clients' key issues and opportunities, working with the heads of the business, risk, finance, operations, and technology operations.
Practical insight into critical issues	In addition to working directly with clients, our practice professionals and Financial Services Institute (FSI) regularly produce client surveys, white papers, and points of view on the critical issues that face the industry. These publications—as well as the events we stage—provide clients with new intelligence, perspective, and analysis on the trends that affect them.
Focus on relationships	PwC US helps organizations and individuals create the value they're looking for. We're a member of the PwC network of firms with 169,000 people in more than 158 countries. We're committed to delivering quality in assurance, tax, and advisory services.

PwC is distinguished by the depth and breadth of its professionals.

PwC has a broad range of experience in the life and annuity, accident and health, and the group employee benefits sectors.

Members of our team have been working in multiple sectors solving consumer and agent challenges across many clients. We recently completed a large, strategic capability mobilization project for a global insurer with a focus on the US life and annuity business unit, compiling more than 100 capabilities and more than 30 initiatives, one of which was a replacement of its agency management processes and systems. In addition, we have a number of group employee benefits clients, one of which we worked with to develop a three-year customer experience strategy and assisted with numerous operations redesign projects. Finally, we have worked with a number of accident and health carriers solving similar challenges, specifically in the agency compensation landscape.

PwC has expertise assessing agency administration and compensation processes from licensing and contracting through compensation and payment.

Members of our team recently completed a full end-to-end producer management requirements definition, scenario creation, and vendor selection process for a US-based life and annuity company. The process scope included producer on-boarding, licensing and appointment, hierarchy, benefits,

compensation, debt management, reporting, and technical/non-functional requirements. Additionally, we created 15 detailed business scenarios and facilitated workshops with three incentive compensation management (ICM) vendors to assist our client in selecting the right vendor. The scenarios ranged from agent appointment to complex bonus setup, benefit deduction and agent debt reporting. For an opportunity like this, our proposed engagement team brings process and capability frameworks as accelerators in addition to experience with many of the top vendors.

PwC has deep technical experience implementing some of the leading ICM vendors.

PwC's has significant experience implementing the leading ICM vendors. From 2004 to 2006, PwC helped a large-line insurer in re-architecting its producer compensation software due to performance issues. This project was a significant investment that required multiple releases, first for life and annuity agents, and later property and casualty agents. The team played multiple roles on that engagement ranging from program management to architecture, system integration/data conversion, and quality and performance testing. More recently, PwC has worked with several top life and annuity and accident and health carriers to evaluate a replacement of existing producer administration and compensation systems with best-in-class vended solutions.

Appendix



Select qualifications.

Agency management compensation strategy— Leading accident and health carrier.

Issues

A leading player in the voluntary worksite market experienced challenges with its overall end-to-end compensation and producer administration processes. The client engaged PwC to develop a strategy to improve its ability to maintain incentives and performance programs, reduce the administrative burden of managing producer on-boarding and proliferation of commission schedules, and to reduce the cost and complexity of its legacy systems supporting producer administration and compensation.

Approach

- PwC assessed the current-state business and technical architecture to produce a prioritized list of future state capabilities and technical architecture blueprints.
- The PwC team presented observations and recommendations to executive leadership, including the chief executive, information, and administrative officers, as well as the head of sales, throughout the course of the project.
- We created a request for quotation and proof of concept for vendor assessment models that would assist the client with vendor selection.
- PwC also provided a list of prioritized future-state initiatives to simplify and improve agency compensation and administration processes, and a financial model of proposed compensation schedule rationalization and consolidation scenarios.
- The team developed a high-level data conversion strategy with a future-state architecture blueprint.
- The PwC team also performed a change-readiness assessment and produced a roadmap to support the implementation and execution of the agency compensation and administration program.

Benefits

The PwC multi-phase compensation transformation roadmap is estimated to deliver significant year-over-year cost savings beginning in the first quarter of 2014.

***Producer compensation
system assessment and
proof of concept—
Life and health insurer.***

Issues	A global life and accident and health carrier engaged PwC to help evaluate and run a proof of concept to select a cloud-based, producer-compensation system to support its accident and health business, specifically with the goal of rolling out the solution for South America and East Asia.
Approach	<ul style="list-style-type: none">• The PwC team performed an assessment of the existing agency compensation modules contained within the policy administration systems to determine if any could be externalized for use by the carrier's global accident and health platform.• We also developed business and technical requirements, and performed a market scan to deliver required functionality via a Cloud-based, Software as a Service (SaaS) platform.• We developed a proof of concept demonstrating the ability of the cloud-based solution to integrate with the existing policy administration system using real products and compensation rules.• PwC also created a high-level conceptual architecture that illustrated integration points.
Benefits	<p>PwC provided the client with a solution capable of supporting rigorous business and integration requirements with minimal product changes.</p> <p>We also provided the client with mitigation strategies based on our past experience with the cloud-based, producer-compensation systems.</p>

Agency management requirements and vendor selection— Life and annuity insurer.

Issues	A major life and annuity insurer selected PwC to help mobilize and execute an IT strategy project, a strategic capability mobilization project, and multiple execution projects. One of the execution projects was to elicit and capture producer administration and compensation requirements and to conduct a request for proposal (RFP), vendor assessment, and proof of concept.
Approach	<ul style="list-style-type: none">• PwC led the selection of a new agent administration and compensation platform by eliciting requirements, developing business scenarios, and running a proof of concept with three leading vendors.• We collected requirements across agent on-boarding, licensing and appointment maintenance, hierarchy, benefits, compensation, and reporting areas.• The PwC team also created business scenarios and ran full-day workshops to evaluate vendors.
Benefits	PwC provided an objective recommendation for a new agent administration and compensation platform, including more than 250 high-level requirements. Vendor contracts also now in place and implementation is underway.

Agency management compensation strategy— Leading accident and health carrier.

Issues	PwC was asked to work with a leading incentive compensation management (ICM) vendor at a large multi-line insurer in revamping the architecture for producer compensation software that was creating performance issues for the client.
Approach	<ul style="list-style-type: none">• An enterprise producer commissions project was suffering significant delays because of stalled requirements and questions regarding whether the commissions vendor could handle the complexity and volume of the client's life insurance hierarchies. PwC initially stress-tested the software and found significant architectural issues in processing commissions for 250,000 Life payees.• Next, PwC worked with the software vendor in revamping the architecture to address software limitations, as well as to drive the overall release schedule for the entire program.• The PwC team provided stress and performance testing, business rules design and process engineering, commissions implementation, and data conversion planning and execution.• Following successful completion of these activities, PwC led subsequent release planning, budgeting, and implementation for an additional 100,000 P&C payees.
Benefits	<ul style="list-style-type: none">• PwC successfully delivered a first release of a commission platform servicing more than 250,000 life producers and 1.2 million monthly transactions for more than 200 life and annuity products.• We also delivered a second commissions release for P&C producers, covering producer administration for 100,000 property and casualty producers.• Finally, PwC reduced producer overpayments, decreased time to market for life products, rationalized back office systems, and consolidated service centers.

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"Simplicity is the ultimate sophistication: How insurers can streamline incentive compensation for their producers," PwC FS Viewpoint, April 2013. www.pwc.com/fsi

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