CISR AGENCY OPERATIONS

LEARNING GUIDE

THE NATIONAL ALLIANCE
for Insurance Education & Research

Agency Operations

THE CERTIFIED INSURANCE SERVICE REPRESENTATIVE PROGRAM

Commercial Casualty I

Commercial Casualty II

Insuring Commercial Property

Insuring Personal Auto Exposures

Life & Health Essentials

Elements of Risk Management

Agency Operations

Insuring Personal Residential Property

Other Personal Lines Solutions

The National Alliance for Insurance Education & Research

Published in the United States by

The National Alliance for Insurance Education & Research

P.O. Box 27027

Austin, Texas 78755-2027

Telephones: 512.345.7932

800.633.2165

www.TheNationalAlliance.com

Disclaimer:

This publication is intended for general use and may not apply to every professional situation. For any legal and/or tax-related issues, consult with competent counsel or advisors in the appropriate jurisdiction or location.

The National Alliance and any organization for which this seminar is conducted shall have neither liability nor responsibility to any person or entity with respect to any loss or damage alleged to be caused directly or indirectly as a result of the information contained in this publication.

Insurance policy forms, clauses, rules, court decisions, and laws constantly change. Policy forms and underwriting rules vary across companies.

Contents

A Letter from William J. Hold, President/CEO

We know that choosing the right professional development programs to strengthen your career can be challenging. There are many options for you to choose from; so how can you be sure that your time, efforts, and money are being invested and not wasted?

By partnering with The National Alliance, you can rest assured that you are also making the best educational choice for your career—no matter what step of your learning path you are on.

For the last 50 years, our designations have been regarded throughout the industry as symbols of quality and trust. Our practical insurance and risk management courses are taught by active insurance practitioners, include policies and forms currently used in the field, and guide you through real-world scenarios to give you a deeper understanding of what your clients are facing today. The knowledge and skills you develop in any one of our courses (or designation programs) can be put to use immediately.

You will build long-lasting relationships with your clients and stay ahead of industry trends, emerging risks, and products that are constantly evolving in our dynamic market. You will have access to the industry's latest learning materials and be the first to hear about new courses. With a learning path customized to fit your needs, you will be better equipped to protect your clients.

Have no doubt that your success is our priority. Whether you are new to your career or a seasoned professional, you are about to embark on a wonderful professional development journey. Thank you for choosing The National Alliance for Insurance Education & Research as your guide toward a thriving career.

Let's take the first step.

William J. Hold, M.B.A., CRM, CISR

President/CEO

To the Participant

Welcome to Insuring Agency Operations, part of the Certified Insurance Service Representative designation program. This program will provide you with the core knowledge and tools you need in your work as a highly trained insurance service representative.

A Certified Insurance Service Representative (CISR) is recognized as someone capable of analyzing risks, policies, forms, and claims data and communicating that understanding clearly to clients, carriers, and colleagues. As a participant in The National Alliance (TNA) program of study, it is expected that you will not only gain knowledge that will give you greater success in your work, but that you will be challenged to make The National Alliance's core values of integrity, innovation, inspiration, and imagination part of your daily practice.

As experts in their fields, TNA faculty, consultants, and academic directors—each with a commitment to assisting you in your efforts to achieve standards of excellence—have contributed to the content of this course. In this course, you can expect:

- engagement in the learning process
- clear learning objectives supported by essential content
- activities designed to strengthen understanding
- exposure to real-world examples and contexts

As representatives of The National Alliance (TNA), we take great pleasure in welcoming you to this program and to our organization. We are committed to helping you become a successful Certified Insurance Service Representative.

Program Overview

This program overview provides an at-a-glance view of the contents of this Learning Guide. Here you will find section goals as well as specific learning objectives for every section.

Section 1: Ethical & Legal Requirements

Section Goal

In this section, you will develop a necessary understanding of ethical behavior and its benefits, identify ethical issues and apply ethical decision-making strategies to them, as well as learn to distinguish between ethical and legal responsibilities. The standard of care and professionalism to which insurance agents are held when conducting business will be examined, as well.

Learning Objectives

- *Understand the definition of "ethics" and identify three benefits of ethical behavior.*
- *Identify common ethical issues confronted by insurance professionals.*
- *Contemplate ways to consider ethical dilemmas, and explain the six steps to ethical decision-making.*
- *Explain the differences among peer standards, contracts, and statutes.*
- *Explain the differences among actual, implied, and apparent authority.*
- *Explain the standard of care owed by the agent to both the insurance company and the customer.*
- *Understand the requirements imposed by state insurance departments for licensing and continuing education.*

Section 2: Managing the Insurance Agency

Section Goal

In this section, you will gain an understanding of how the agency's leadership establishes values, vision, and mission statements and how these statements help to shape the agency's operations, culture, brand, and goals. You will also learn about different types of organizational structures and factors that influence how the agency conducts its operations, as well as the importance of creating descriptions for the various positions within the agency.

Learning Objectives

- *Explain the need for an agency to have values, vision, and mission statements, as well as goals and a brand that supports the culture.*
- *Explain the various factors that affect how the agency distributes its products and provides customer service.*

- *Identify the agency's various stakeholders and the purpose of the position description.*

Section 3: The Insurance Industry and Marketplace

Section Goal

In this section, you will learn about the different classifications of insurance company ownership, as well as regulation, distribution, and expectations between the insurance company, the agency, and the customer.

Next, we will dive deeper into admitted and non-admitted markets and an introduction to reinsurance.

Learning Objectives

- *Understand the differences among classifications of insurance company ownership.*
- *Identify how insurance companies distribute their products and how they service expectations, and gain an understanding of the importance of a company's financial ratings.*
- *Explain the difference between admitted and non-admitted insurance companies.*
- *Identify and describe alternative insurance markets.*
- *Explain the differences between treaty and facultative reinsurance and the importance of reinsurance to the agency.*

Section 4: Risk Management and Agency Processes

Section Goal

In this section, you will gain an understanding of the risk management process and the importance of having established processes in the agency.

Learning Objectives

- *Explain the steps in the risk management process, including:*
  - *the four logical classifications of exposure to loss,*
  - *risk control techniques, and*
  - *the difference between active and passive retention and transfer.*
- *Identify the benefits to the agency of having written and automated uniform systems and procedures along with proper documentation.*
- *Describe the components of a formal training plan and understand the purpose of an internal quality control process.*

Section 5: Managing Coverage Information Exchange

Section Goal

In this section, you will gain an understanding of why it is critical for the agency to manage the risk of how information is exchanged, the steps to improvement, different information exchange methods, and how to manage digital media platforms.

Learning Objectives

- *Understand the benefits of effective information exchange and discern the differences between one-way and two-way communication.*
- *Understand the differences among the four main types of information exchange.*
- *Recognize how to manage and mitigate the agency's risk across digital media platforms.*

Section 6: Managing the Agency Workflows and Procedures

Section Goal

In this section, you will understand and identify the necessary skills for account management and be able to explain the steps toward growing new business, servicing new and existing business, and those involved in the renewal process.

Learning Objectives

- *Explain the necessary steps to bring new business into the agency.*
- *Identify the skills needed to manage the customer's account.*
- *Explain the steps in account servicing for new business and existing policyholders.*
- *Explain the steps in renewal processing.*

Section 7: Account Management

Section Goal:

In this section, you will gain an understanding of the financial tools used during the underwriting process, types of account billings, when to use various ACORD forms for proof of insurance coverage, and proper claims handling in the agency.

Learning Objectives

- *Explain the use of and difference between a balance sheet and a profit and loss statement, as a part of the underwriting process.*

- *Understand the differences between direct bill and agency bill and explain the use of premium finance.*
- *Explain the differences among a certificate of insurance, an evidence of property insurance form, an insurance binder, and a cancellation form.*
- *Explain the steps involved in claims processing.*
- *Explain how a service center works.*

Section 8: Errors & Omissions

Section Goal

In this section, you will gain an understanding of the responsibilities of the insurance agency staff regarding errors and omissions (E&O) issues and claim defense activities. You will come to appreciate the reasons agents are held to a high standard and accountable for their actions, including mistakes—unintentional or otherwise.

Learning Objectives

- *Understand the concept of negligence, including the four elements for negligence to have occurred as it applies to an errors and omissions claim.*
- *Explain the common causes of claims made against agents by insureds and the insurance company.*
- *List the steps an agency should take when faced with a potential E&O claim.*

How to Use This Learning Guide

The Learning Guide you are using in this course is like all the learning materials published by The National Alliance; it has been written and authenticated by industry experts.

Each section in this learning guide shares the same features.

A title identifies each section.

Section 1: Ethical and Legal Requirements

The section's primary purpose is summarized in the Section Goal.

Section Goal

In this section, you will develop a necessary understanding of ethical behavior and its benefits, identify ethical issues and apply ethical decision-making strategies to them, as well as learn to distinguish between ethical and legal responsibilities. The standard of care and professionalism to which insurance agents are held when conducting business will be examined, as well.

Section text supports specific learning objectives.

Learning Objectives

- *Understand the definition of "ethics" and identify three benefits of ethical behavior.*
- *Identify common ethical issues confronted by insurance professionals.*
- *Contemplate ways to consider ethical dilemmas and explain the six steps to ethical decision-making.*
- *Explain the difference between peer standards, contracts, and statutes.*
- *Explain the difference between actual, implied, and apparent authority.*

Companies

Learning Objective

- *Explain the difference between admitted and non-admitted insurance companies.*

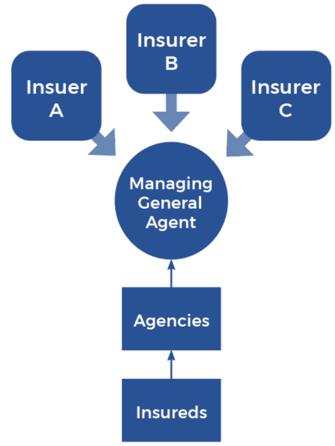
Important terms are boldfaced the first time they are used. The terms also appear in the Glossary of Terms.

Agencies will generally place business with the companies they represent. In most cases, these companies will be **admitted** as defined and licensed by the state (and described, below). On occasion, the nature of the risk or the type of coverage required will not meet the criteria of their admitted companies, resulting in the placement of coverage with a **non-admitted company** through an **excess and surplus lines broker**.

Visuals such as diagrams, graphs, and tables support the text.

Managing General Agent or Agency (MGA)

The **Managing General Agent or Agency (MGA)** is a wholesale intermediary that represents one or more insurance companies. It accepts business on behalf of his/her principal within mutually agreed upon guidelines and may have the authority to appoint agents within a specific geographical area. A Managing General Agency (MGA) may employ excess and surplus lines agents to assist in their operations. In addition to excess and surplus lines (non-admitted) markets, an MGA may also have arrangements with standard (admitted) markets.

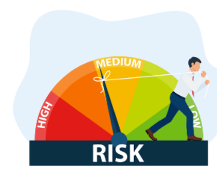


You have been unable to find coverage with one of your admitted companies for a customer. You submit the application to the MGA, who can then determine if one or more of the companies it represents would be willing to provide the coverage requested.

Each section opens with an introduction and concludes with a summary.

Introduction

Risk and the need to manage it exist in everyday life. **Risk** is defined as a condition of either positive or negative uncertainty arising from a given set of circumstances. It includes both positive and negative outcomes with a chance of loss or no loss. In the insurance industry, the definition of risk can vary according to the job function or area of expertise. For example, to an underwriter, risk is the subject of insurance; to an agent or broker, risk could be the insured or an exposure. And to others, risk could be the peril. In this section, you will learn about the risk management process and the importance of having agency processes in place to control the potential risk of errors and omission (E&O) claims and to increase the level of customer service and overall operation efficiencies.



Summary

Insurance companies can vary in their type of ownership. They are regulated by the state in which they operate in order to protect the consumer, maintain solvency, and avoid destructive competition.

Distribution channels are used to promote and deliver the products and services of the insurance company. Certain expectations are assumed between the company, the agency and the customer when selling the company's products.

Depending on the risk, the agency will either seek out an admitted market or, if rejected by standard carriers, a non-admitted market. Since conducting business with a non-admitted market can be different, the agency should have procedures in place.

Reinsurance acts as insurance for insurance companies and may be treaty, facultative, or a combination. All in all, the agency would not have anything to sell if it wasn't for the

Examples describe real-world-style scenarios to enhance your understanding of the concepts presented.

Active retention is when the customer knows before the loss that he/she will be financially responsible for all or some of the loss.

When the insured chooses not to insure the physical damage on older vehicles or chooses a high deductible on a property policy, they are practicing active retention. The insured knows, before any loss occurs, that in the event of loss, they will be financially responsible.

Passive retention is when the customer finds out after a loss that he/she is financially responsible for the loss. This may be a result of the insured not understanding the concept of retention when determining what coverage to choose when purchasing an insurance program.

It is the agent's responsibility to thoroughly explain passive retention to the customer. Also known as "WHOOPS!," passive retention may result in the customer looking to the agency to pay the uninsured loss and can create a potential E&O claim for the agency.

Check-ins and Knowledge Checks help you test your understanding before moving forward.

Check-In

Directions: List the four logical classifications of exposures to loss.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

Directions: Name two methods used to identify exposures.

1. ______________________________

KNOWLEDGE CHECK

Let's consider the scenario from the beginning of this section one more time.

Recognizing that your fellow account manager, Alex, is not taking the care or consideration of performing all of his/her duties as expected, you now realize that there might be legal ramifications following his/her behavior. Focus for a moment on the fact that Alex signed contract documents on behalf of his/her client and consider the legal ramifications in answering the question below.

Directions: Explain how Alex's actions may impact each of the following legal criteria:

1. Peer Standards: ______________________________

Each section closes with a quiz to help you assess your learning.

Section 1 Self-Quiz

Directions: Read each question below and select the one correct answer.

1. Limitations on how credit scoring is used in underwriting is an example of which one of the three topics concerning the benefits of ethical behavior?
   - ☐ Credibility
   - ☐ Government regulation
   - ☐ Public trust and confidence

2. Property values, Protection Class, other residents in the household, and rates based on classification or garaging address are all areas in which there may be _______ faced by insurance professionals

A Glossary of Terms puts the Learning Guide's special vocabulary in one, easy-to-use location.

Glossary of Terms

account rounding selling new coverage to an existing customer

admitted company an insurance company operating within the standard market; licensed by the state with forms and rates regulated; financial condition is monitored by the insurance department of the state in which they are licensed or domiciled

assets: what is owned and what has accumulated. Assets could include cash, accounts receivables, investments, buildings, business property, inventory, etc.

automated workflow a series of tasks performed automatically when a specific event occurs

balance sheet a "snapshot" of the financial condition of the individual or organization on the date it was created; it shows details on what is owned (assets) and what is owed (liabilities)

Section 1: Ethical and Legal Requirements

Section Goal

In this section, you will develop a necessary understanding of ethical behavior and its benefits, identify ethical issues and apply ethical decision-making strategies to them, as well as learn to distinguish between ethical and legal responsibilities. The standard of care and professionalism to which insurance agents are held when conducting business will be examined, as well.

Learning Objectives

- *Understand the definition of "ethics" and identify three benefits of ethical behavior.*
- *Identify common ethical issues confronted by insurance professionals.*
- *Contemplate ways to consider ethical dilemmas, and explain the six steps to ethical decision-making.*
- *Explain the differences among peer standards, contracts, and statutes.*
- *Explain the differences among actual, implied, and apparent authority.*
- *Explain the standard of care owed by the agent to both the insurance company and the customer.*
- *Understand the requirements imposed by state insurance departments for licensing and continuing education.*

Imagine you have just started a new job as an account manager at an established insurance agency. Amy, the commercial lines manager, has been assigned to "show you the ropes" during your first few weeks on the job. Amy provides you with an agency operations manual and instructs you to look it over. "This manual will provide you with all the information you need to be successful in an agency setting," says Amy. "One of the most important aspects of agency work is understanding your ethical and legal duties to the insurance company and, perhaps most importantly, to our clients."

Scenario:

During your training, you begin to notice that, on occasion, one of your fellow account managers, Alex, cuts corners. For example, after noticing that an insured forgot a signature on an application, Alex says, "Don't worry about it—she's been my client for years, and I know she won't mind me signing for her." On another occasion, you observe Alex misrepresenting a garaging address on an application form and decide to point it out. "Oh, don't worry," Alex says, "This client is a friend of mine, and fudging the address will help him get a better premium. I've done it before, and I've never gotten in any trouble."

Thought Question:

As you read through your new agency operations manual, consider how you might respond to Alex's general behavior and attitude. Do you have an ethical or legal duty to report what you have observed?

Introduction

To understand how an insurance agency operates, you must first know how to behave as an ethical insurance professional. You must become familiar with what is considered "professional" and how to best serve the customer and engage with the insurance company in an ethical manner.

To begin, let's first consider the term **professional**; it is an adjective used to describe appearance, attitude, or actions. Additionally, it is a noun that summarizes the essence of a person. Think of all the places you see and hear this term. Doctors and lawyers are referred to as professionals; you see ads for professional carpet cleaning services; there is even an insurance product called professional liability insurance.

In all instances, to be described as professional and/or a professional, is positive. And, when it comes to an insurance agent and agency, acting professionally is paramount to the success of the business. As a trusted insurance specialist, an agent is obligated to act and perform in a professional and honest manner that includes being knowledgeable and using that knowledge for the benefit of clients. Acting ethically and professionally means you're putting the needs of your clients above your own. And from a business standpoint, it means you are conducting business in both an ethical and legal manner.

What is Ethical Behavior?

Learning Objective

- *Understand the definition of "ethics" and identify three benefits of ethical behavior.*

Defining Ethics

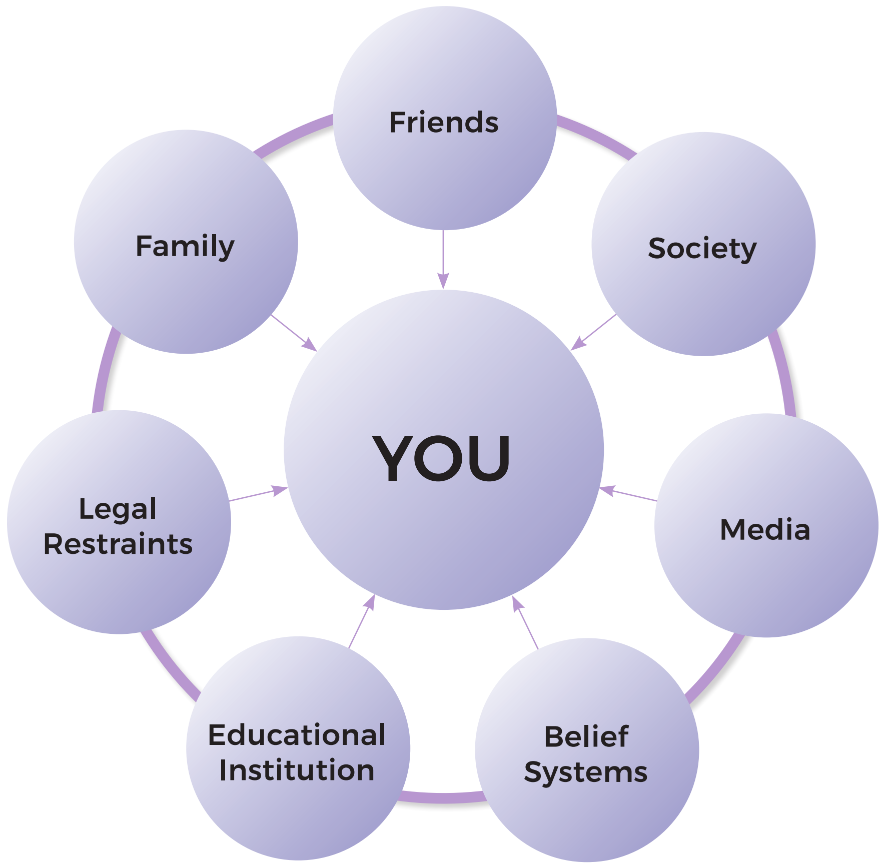
Ethics is one of those words we hear often but sometimes do not take the time to define. In business, we often speak about ethical standards, being ethical, or ethical behavior. But what, exactly, are ethics?

The root of the word, ethics, starts with the Greek word, *ethos,* meaning "moral character, custom, habit, or disposition." **Ethics** can be defined as a system or set of moral principles or practice:

- the rules of conduct governing a particular class of human actions or a particular group, culture, etc. (*Webster's College Dictionary)*
- a discipline dealing with good and evil and moral duty
- right vs. right; both possibilities have value and merit, yet one must be selected over the other

Basically, we can say that ethics is a set of rules or standards based on a set of principles or values we accept as truths and that govern our behavior.

Ethical fundamentals have been handed down from generation to generation and are typically accepted as "the right thing to do." Some factors that can influence ethics in individuals are:



Because of these influences, ethical decisions may be approached from different points of view, and it's important to keep this in mind when looking at someone's behavior choices. Occasionally, if the influences change over time, so can the viewpoint.

Now, let us consider the implications surrounding an insurance agent acting ethically. What should an agent's behavior look like when no one is looking?

A message from the Co-founder and Executive Chairman of The National Alliance for Insurance Education & Research:

ETHICS TAKES A "TIME OUT"

Be it in corporate boardrooms or on collegiate football fields, "ethical conduct" has become a subject of national concern. "Unethical conduct" raises its ugly head when people are hurt by the truly unexpected actions of others—actions that range from monies being diverted from pension funds, false statements of profitability, or college football coaches who deny they are leaving a university when they have, in fact, already reached an agreement to go to another institution.

In many cases the financial hurt created by unethical conduct is not as serious as the feelings of stupidity and betrayal felt by those misled or actually deceived. The insured said, "I trusted my agent;" the adjuster said, "Don't worry;" the player said, "My coach told us we were family;" the company president said, "Buy our stock." These are examples of all too frequent explanations by people who got the short end of the deal ethically.

IT'S WHAT YOU DO WHEN NO ONE IS WATCHING.

We have all come to know individuals who espouse and claim to be people of character and integrity. However, there is a great deal of support for the notion that character and integrity are earned by those actions you take when no one is watching—not when you are facing a client, coworker, or camera. How many times have you, as an insurance and risk management professional, been asked to "forget" a past loss, "reclassify" your client's employees for workers compensation purposes, "create" a loss, or "pretend" a Corvette is a two-door Chevy coupe? And how many times have you been told not to worry because "no one" will ever know or find out?

Unfortunately, the most important person will always know, and that person is **you!** Not only must you live with the knowledge of what you did, the harm you caused others, or the consequences of being discovered, you must also constantly agonize over what will happen the next time you are tested when "no one is watching."

—Dr. William T. Hold, CIC, CPCU, CLU

What Are the Benefits of Being Ethical?

Why should insurance professionals act in an ethical manner? Let's explore this question and what can be gained by being ethical.

Many insureds are relatively uninformed about insurance without even realizing it. Insurance is often misunderstood or not something people think about until they must. They rely on and expect their insurance professionals to explain coverage clearly and concisely and to be truthful with them. By being truthful, an agent can gain recognition within their community as a knowledgeable insurance professional.

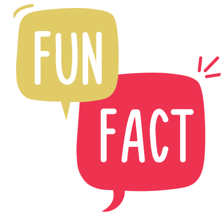
How will your clients know you are credible? There are a number of ways, but word-of-mouth communication is the main indicator. Referrals from others is validation that credibility exists; based on the recommendation, it indicates that the person who was referred has earned some trust.

The reasons for acting ethically may seem obvious. Still, let us consider in a deeper way three specific benefits of ethical behavior—both for the insurance professional and for the agency—from having ethical employees.

1. Public Trust and Confidence Gained
2. Government Regulation Avoided
3. Enhanced Credibility Earned

Public Trust and Confidence Gained

When an insurance professional gives accurate information and treats each customer with the same degree of respect and care, it is difficult to criticize that person's behavior or motives. This not only reflects on the insurance professional, but also contributes to the trust and respect toward the agency. As a result, public trust and confidence is gained, which leads to a great reputation—for the business and within the community. Establishing a reputation for being trustworthy provides both the agent and agency the opportunity to be recognized as knowledgeable and sound, which, in turn, helps with sales and overall financial status.



People at high-trust companies report:

- 74% less stress
- 106% more energy at work
- 50% higher productivity
- 13% fewer sick days
- 76% more engagement
- 29% more satisfaction with their lives
- 40% less burnout

Government Regulation Avoided

Being realistic, we have to consider that not all businesses act ethically. If the public's perception is that business is being conducted unfairly, they may demand regulatory controls be enacted. Conducting all business in an ethical manner allows agencies to avoid government regulation.

A few examples of insurance industry regulation include:

- limitations on how credit scoring is used in underwriting,
- trust account fiduciary rules, and
- unfair trade practices acts.

Enhanced Credibility Earned

There are many traits that help a business and its employees become successful; credibility is very high on that list. In many ways, credibility is a higher accolade than success. It means that other people regard you and your business as a reliable and trusted resource. As an insurance agent, enhancing your credibility with customers and companies will serve you well throughout your career. Conversely, the actions of dishonest and unethical insurance agents will always be scrutinized by underwriters as well as the agents' client base, and these questionable agents do a disservice to the industry as a whole, by eroding the public's trust.

Knowledge Check

What does an agency gain by requiring their employees to behave ethically?

____

____

____

____

Ethical Issues

Learning Objective

- *Identify common ethical issues confronted by insurance professionals.*

Whether it is your first year in the industry, or you have been in it for decades, you will come across individuals and business practices that are unethical. You may be wondering why some insurance professionals conduct business in an unethical manner. Familiar responses to this may include such phrases as:

"Everybody does it at some point in their careers."

"It's not that big of a deal; nothing too serious will happen if I get caught."

"I have to do what it takes in order to make this sale!"

"If I don't get this policy written, my bonus is out the door since I won't meet my numbers goal."

"It's not really hurting anyone."

"I will change it/fix it later."

"I was just following what my colleague was doing."

"I thought it was okay to do it."

In reference to these phrases, they have one thing in common: putting the customer secondary. Not only is procedural training important within the agency, so is training on ethics, regardless of the position or length of time you have been in the industry. Don't assume all situations will be interpreted and resolved the same way by each employee and teammate. The bottom line is, we owe it to our customers, employees, coworkers, insurance companies, and to ourselves to conduct our day-to-day business in an ethical manner. And no matter what your reasoning, there is no excuse for unethical behavior.

"Bending the Rules"

The following are examples of ethical issues that an insurance professional may face. They illustrate some of the realities that can occur and cause an agent to "fudge" in some way that has an impact on rating, premium, etc. Keep in mind we're not talking about an honest mistake being made, but about the insurance professional who intentionally takes any of these unethical actions to write or save an account.

Vehicle Usage

In personal lines:

- Rating a vehicle using the wrong classification for the exposure
  Example: Using a pleasure use classification when the vehicle should be rated as "driven to and from work over three miles one way" could result in a difference in premium.

In commercial lines:

- Rating a vehicle service use when it is really retail or commercial
  Example: Perhaps the previous agent rated the vehicle incorrectly; changing it can mean the premium will be higher, but being ethical and not jeopardizing the customer, agent, and or carrier is the best way to proceed.

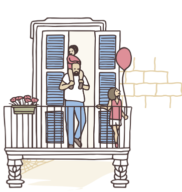
Protection Class

Using an incorrect protection class to generate a lower premium
Example: Using a PC 3, instead of 9 or 10, if the property is in the middle of nowhere, can make a significant difference in premium.

Property Values

Example: Intentionally underinsuring a house or a commercial building and relying on an extended replacement cost endorsement or blanket coverage to make up any deficiencies

Other Residents in the Household



Example: Not disclosing to the insurance company about known other residents of the household because they might not meet the company's underwriting guidelines, or because they might cause the rates to increase

Young Drivers in the Household

Example: Neglecting to tell the insurance company about young drivers in the household so the rates won't increase

Rate Basis, Classification, or Garaging Address

Intentionally understating the rate basis solely for the purpose of reducing the premium
Example: Intentionally misclassifying the risk to lower the premium or showing an incorrect garaging address (territory) to generate a lower premium

Pauline meets with her insurance agent to purchase a new insurance policy. Her agent, Alex, advises Pauline that she will be classified as a carpenter instead of a roofer since they have different exposures creating different rates. "In the long run, it will save you money!" says Alex.

Should Alex make that change for the sake of saving Pauline money?

Signing for an Insured

If you value honesty, trustworthiness, and integrity, then no circumstance would convince you to sign the insured's name on a document; it is *never* permissible. This includes applications, rejection forms, reporting forms, premium finance agreements, etc. And this still holds true even when the insured gives you permission to sign on their behalf. Consider the example that follows:

You receive a phone call from your client, Gerry, who says he is ready to move forward with the policy you quoted him. The only problem is, Gerry is traveling abroad and does not have access to a computer. Since he really needs the policy in place now, Gerry asks you to sign the documents on his behalf.

Should you? Never.

Will you? Let's hope not.

Knowledge Check

Consider the scenario used at the beginning of this section:
During your training, you begin to notice that, on occasion, one of your fellow account managers, Alex, cuts corners. For example, after noticing that an insured forgot a signature on an application, Alex says, “Don’t worry about it—she’s been my client for years, and I know she won’t mind me signing for her.” On another occasion, you observe Alex misrepresenting a garaging address on an application form and decide to point it out. “Oh, don’t worry,” Alex says, “This client is a friend of mine, and fudging the address will help him get a better premium. I’ve done it before, and I’ve never gotten in any trouble.”

Directions: Identify two examples of actions Alex has taken which represent ethical breaches.

1. ____

   ____

2. ____

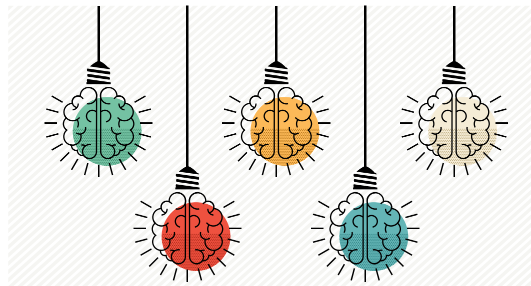
   ____

Six Steps to Ethical Decision-Making

Learning Objective

- *Contemplate ways to consider ethical dilemmas, and explain the six steps to ethical decision-making.*

Contemplating the Ethical Response



Often, a set of circumstances can impel an individual to evaluate what is the right decision—a process which then becomes critical to ethical decision-making. If a person is facing a situation that seems unethical, there are a few questions that he/she should ask:

- "How would I feel if the facts surrounding my conduct or decision appeared on the front page of the local newspaper?"
- "How would I feel if I had to explain my actions to my friends and family?"
- "How would I feel if someone took the same action with a member of my family?"
- "Will I be able to look at myself in the mirror tomorrow morning?"
- "Is it legal?"
- "Will any rules, policies, or regulations be violated?"
- "Is the proposed action consistent with past practice?"
- "Does the situation require that I lie about the process or the results?"
- "Is this really in the best interests of the customer?

With these questions, steps can be taken to reach an ethical decision (it is often clear, but sometimes the lines can be blurry). Occasionally, you may need time to contemplate a scenario before making a decision, especially when the situation presents a difficult problem that could threaten your or the agency's beliefs, or when, depending upon the decision, the result may be unpopular or unprofitable. The following series of steps to ethical decision-making is an important tool to employ when weighing choices and outcomes.

Six Steps to Ethical Decision-Making

1. **Define the Problem –** Consider not only what is the problem, but how it could affect you, your client, and the agency. Is the problem illegal? Does it violate the company's values? It is important to outline the full scope of the problem and be honest with yourself in the process.

2. **Seek Out Resources –** Often, it is difficult to reach an objective solution on your own. Seek out all available resources to fairly evaluate the problem. Such resources could be mentors, coworkers, friends, and family. Other resources could be professional guidelines and organizational policies.

3. **Brainstorm a List of Potential Solutions –** As you're thinking of possible solutions, do not only take into consideration what's been done in the past. Keep an open mind when it comes to new and different ideas; it is okay to seek advice from others. Ultimately, you will want to walk away with at least three to five solutions to minimize the feeling that it is an either/or situation.

4. **Evaluate Those Alternatives –** Now that you have your list of possible solutions, weigh each one and consider all positive and negative consequences and how likely those consequences are to occur. Once more, refer to resources, guidelines, and standards. Think about it: if one "solution" has three potential negative consequences, chances are, you're less likely to go with that one.

5. **Make Your Decision and Implement It –** At this point, you should have all the information you need to make a fair and ethical decision. If this decision involves others, be prepared to outline why you've come to this solution and the alternatives you considered. It is crucial to be transparent; people need to understand that you used appropriate and objective measures in your decision-making.

6. **Evaluate the Decision –** Just because you've implemented your solution it doesn't mean your job is done. You must evaluate whether your problem was fixed or not. If there are unforeseen consequences, you will need to revisit the prior steps and seek alternative measures to fix the issue.

Ethical Dilemma

Let's examine an ethical dilemma to help reinforce the importance of acting ethically. Insurance is a business of utmost good faith, and the role and responsibility agents and agencies have when working with customers and insurance companies should not be taken lightly.

Read the dilemma below, then read the advisory response to see how your response compares.

You overhear the CSR telling a customer the reason she is changing the insurance carrier for the customer is because the former carrier does not like to pay any claims. Your agency has a contract with this carrier.

As agency principal, what would you do?

Advisory Response

You and your employees have a duty of loyalty to the carrier. If the carrier does not pay claims, remove them from the agency. Educate the CSR on terms to use to explain why the insured is being offered a new carrier, such as explaining that the new insurer provides excellent claims service.

DISCLAIMER: The advisory responses in this course are not legal opinions. Different federal and/or individual state laws may apply to these or other scenarios with similar facts. Courts in different jurisdictions may interpret identical facts of a dilemma differently. Minor changes in the facts of a dilemma can produce different legal or ethical interpretations. Finally, there may be one or more ethically or legally appropriate resolution to the dilemma that has not been addressed.

The Effects on the Agency's Profitability

How do unethical decisions impact the agency's bottom line?

Incorrect Rating = Unprofitable Agency

The agency needs to be profitable, and unethical decisions can lead to the agency not being profitable.

If the agent rates the risk incorrectly, the insurance company won't receive appropriate premium for the exposure. This could also violate the insurance company's rates and/or forms filing with the regulator.

Knowledge Check

Let's revisit, once again, the scenario presented at the beginning of this section:

During your training, you begin to notice that, on occasion, one of your fellow account managers, Alex, cuts corners. For example, after noticing that an insured forgot a signature on an application, Alex says, "Don't worry about it—she's been my client for years, and I know she won't mind me signing for her." On another occasion, you observe Alex misrepresenting a garaging address on an application form, and decide to point it out. "Oh, don't worry," Alex says, "This client is a friend of mine, and fudging the address will help him to get a better premium. I've done it before, and I've never gotten in any trouble."

Directions: Describe how you would use the **six steps to ethical decision-making** to address this ethical dilemma.

As an insurance agent, you will bear significant ethical responsibilities. You will be expected to identify potential ethical issues, choose the correct course of action, and engage in ethical decision-making. By doing so, both you and your agency will gain public trust, develop credibility, and avoid unnecessary government regulation.

Now that you understand your ethical duties, let's take a look at your legal responsibilities as an insurance agent.

Legal Responsibility

Learning Objective

- *Explain the differences among peer standards, contracts, and statutes.*

Ethical responsibility and legal responsibility can go hand-in-hand in regards to how a person behaves; following the law can be a choice. Legal compliance is behaving in accordance with the legal system—following laws, rules, and policies. Being ethical is making a decision to “do the right thing.” Both are essential within the agency.

Legal Behavior and Legal Duties

In a court of law, the legal duties of an insurance agent (or other professional) are subject to close scrutiny. Legal duties are based on three criteria: peer standards, oral and written agreements (contracts), and statutes.

Peer Standards

Peer standards require a person’s duties be performed in a manner similar to others in the same position. The important question that will be asked when judging if that criteria has been met is, “Did this insurance agent perform in the same manner as any other reasonable and prudent agent would perform?”

Peer standards are not typically written, but rather associated with generally accepted practice in a specific field. They can also be established through common law, based on court decisions.

Because peer standards are ever-evolving, they are sometimes the most difficult for an insurance agent to follow. As the industry goes forward, standard practices are enhanced. The insurance professional who fails to recognize these enhanced duties will often be accused of failure to meet the current standard. Such an accusation may result in an errors and omissions claim.

Contracts (Oral and Written Agreements)

Oral and written agreements are another means of outlining legal responsibilities. Generally, these are referred to as contracts. A **contract** is an agreement between two or more parties which creates an obligation to do or to not do something. The law recognizes the duties of the parties to perform and provides a remedy for non-performance.

Insurance policies are contracts, as are employment contracts and agency agreements. The contract between an insurance company and its appointed agent outlines the duties of each party and can be enforced under the law.

Statutes

Insurance professions are governed by common laws, state laws, and contract laws. Statutes are written laws open to little interpretation. We encounter the enforcement of written statutes on a daily basis—whether by following a posted speed limit or complying with insurance agents' licensing requirements. An example of following a written insurance statute is when the laws protect consumers from unfair trade practices.

Knowledge Check

Consider the scenario from the beginning of this section one more time.

Recognizing that your fellow account manager, Alex, is not taking the care or consideration in performing all his duties as expected, you now realize there might be legal ramifications following his behavior. Focus for a moment on the fact that Alex signed contract documents on behalf of his client, and consider the legal ramifications in answering the question below.

Directions: Explain how Alex's actions may impact each of the following legal criteria:

1. Peer standards: ____

   ____

2. Contracts: ____

   ____

3. Statutes: ____

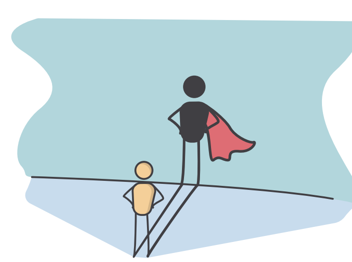
   ____

Agents' Authority

Learning Objective

- *Explain the differences among actual, implied, and apparent authority.*

Now that we've looked at the legal duties of the insurance agent, let's take a deeper dive into the ways the agent is authorized to act on behalf of the insurance company. The authority the agent has to act on behalf of the insurance company can be actual (or expressed), apparent, or implied. It is very important for an agent to fully grasp these concepts since they can determine who is responsible to pay for a loss should one occur.



Actual or Expressed Authority

Actual or expressed authority is authority that is expressly given to the agency by the insurance company. This authority is granted in the agency contract (agreement) and supplemental binding authority documentation. When actual or expressed authority is used, the insurance company is generally responsible to pay for losses. Written authority allows the agent to countersign, issue and deliver policies, provide binders, service a customer's policy, and cancel and collect premiums.

Irene, an insurance agent, has a contract from AR Insurance Company to bind coverage up to $750,000 for homeowners' policies. This authority is specifically written in their underwriting guidelines and in the agency-company agreement provided at the time the agency was appointed. Irene would be acting within her authority to insure a home for $450,000.

Implied Authority

Before there can be implied authority, there must first be an actual authority relationship between the insurance company and the agency. Implied authority describes a situation in which the authority of the agent is not specifically expressed or communicated (not in writing or other forms of communication), but it still is consistent with the agent fully exercising the expressed authority granted by the company. This allows the agent to perform all necessary duties required to sell and service the insurance policy.

A company contract may not address the agency's ability to use their company's logo on their website, but due to implied authority, it is implied the agency has permission to advertise the company on their website.

Apparent Authority

When viewed through the lens of a reasonable individual, apparent authority is authority the agent appears to have based on circumstances surrounding that belief. This can be misleading and cause customers to believe authority exists when, in fact, it may not. This often comes into play if a person is given an insurance quote by someone who does not have the actual authority to issue one—which can create legal dilemmas. Companies, such as insurance agencies, can be held legally liable under apparent authority for things that are not expressed. On the flip-side, this authority protects the insured from the unauthorized acts of the agent. An agent acting with apparent—but not actual—authority may lead the insurance company to have to pay a claim it didn't intend to insure; however, the insurance company may then **subrogate** against the agent (hold the agent responsible for paying back the insurance company).

What happens if apparent authority has been in place with a client's account for a long time and then is suddenly questioned or withdrawn? Or what if it becomes clear that there is no authority for an agent to act on behalf of a client? Either of these scenarios can have serious consequences. To see if there is a remedy for either situation, let's look at "estoppel" and the determination, "no authority."

Estoppel

Estoppel is "the principle which prevents a person from asserting something contrary to what is implied by a previous action or statement of that person or by a previous pertinent judicial determination." What does this actually mean? Basically, it prevents someone from arguing something or asserting a right that contradicts what they said previously. It is not always a black and white issue. **Estoppel,** as it applies in the realm of insurance, means that the insurance company is "stopped" from denying the agent's authority when it has allowed that same activity in the past without taking any corrective action.

Nikos Insurance Agency has previously exceeded its binding authority several times when placing personal auto liability coverage. Each time this occurred, ABC Insurance Company issued the policy without notifying the agent that the binding authority had been exceeded and without requesting the agent initiate procedures to prevent it from occurring again.

Once more, Nikos Insurance Agency exceeds its binding authority; however, before the policy is issued, a large loss occurs. ABC Insurance Company denies the claim because the agent, Marta, exceeded the binding authority. Marta asserts that implied authority was used. How? Because ABC Insurance Company did not previously take corrective action when Nikos exceeded its binding authority, it will be alleged that the insurance company is estopped from denying that the agent/agency had authority.

No Authority

If an agency doesn't represent a company (no agreement is in place), there is no authority granted, implied, or apparent, and therefore the agency cannot generate a quote or conduct business with that insurance company. This means the agency/agent has no legal authority to work with customers seeking insurance from that company and would be liable if they did so.

Hopefully, by now, you can realize the importance of an agent who acts within the scope of their authority and in proper relationship to the customer and the insurance company.

Knowledge Check

Victor works at an agency and will be participating in an insurance trade show representing Wildfire Insurance Company. Victor would like to have a booth that shows his company affiliation with Wildfire. Does Victor have the authority to put Wildfire's logo on his booth and, if so, what type of authority does this fall under?

The Standard of Care Agencies Owe to Their Customers and Insurance Companies

Learning Objective:

- *Explain the standard of care owed by the agent to both the insurance company and the customer.*

Within the authority granted, agencies have the common goal of making sure the financial future of their customers is protected at all times, while at the same time being loyal to their insurance companies. To do both, there is a standard of care that needs to be met.

Care Owed to the Insurance Company

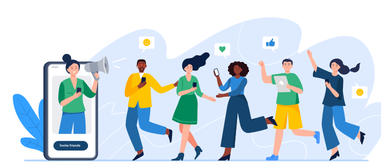
Consider this seemingly innocuous sentence: The agent represents the insurance company. What does that mean when you consider all its ramifications?

Let's review the standard of care agents owe to their insurance companies.

- Loyalty
- Good Faith
- Reasonable Care
- Contractual Duties

Loyalty

Loyalty means remaining faithful to the company/agency relationship. An agent is required to act for the benefit of the insurance company regarding matters associated with the agency contract.



Ethical Dilemma

An agent's lifelong friend is a client of the agency. The client has asked the agent to place his business in the agency's most preferred market. While realizing that the friend does meet the underwriting guidelines or qualifications, the agent is aware of facts that, if they became public, could change things.

The agent would like to help his friend, yet has a responsibility to the insurance company. What is required of the agent in this situation?

Advisory Response

An agent is obligated to remain loyal to the insurance company even when it involves the agency's best client, the agent's best friend, or the agency itself. Without exception, an agent must demonstrate loyalty to the insurance company by acting in the best interests of the insurance company.

DISCLAIMER: The advisory response is not a legal opinion. Different federal and/or individual state laws may apply to this scenario or others with similar facts. Courts in different jurisdictions may interpret identical facts of the dilemma differently. Minor changes in the facts of the dilemma can produce different legal or ethical interpretations. Finally, there may be one or more ethically or legally appropriate resolution(s) to the dilemma that have not been addressed.

Good Faith

Acting in good faith means being honest throughout the entire insurance transaction and acting in the best interests of the insurance company. It is the concept of being sincere in your business dealings without the desire to defraud, deceive, take undue advantage, or act maliciously toward others. Insurance contracts are contracts of utmost good faith, meaning all parties to the insurance contract must deal in good faith, declaring all material facts in the insurance proposal, revealing the exact nature of any potential risks being transferred to the insurance company.

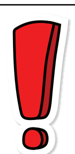
Ethical Dilemma

Jane Smith is in your office and is requesting you write a Homeowners Policy on her 60-year-old home. She has been a personal friend of your family for a long time. Jane asks you not to write on the application that she has been nonrenewed by another company due to the lack of updates to the house's wiring and roof.

How would you respond to her request?

Advisory Response

An insurance company expects agents to provide complete applications to the company. Providing honest and accurate information is an expected business practice between an insurance company and an agency. The agent should disclose to the customer the fact that this information is a vital part of the application and that the agency's relationship with the insurance company is one of good faith. Anything less could jeopardize that relationship. Acting at all times with honesty and in the best interests of the company is the role of the agent/agency in a good faith relationship.



DISCLAIMER: The advisory response is not a legal opinion. Different federal and/or individual state laws may apply to this scenario or others with similar facts. Courts in different jurisdictions may interpret identical facts of the dilemma differently. Minor changes in the facts of the dilemma can produce different legal or ethical interpretations. Finally, there may be one or more ethically or legally appropriate resolution(s) to the dilemma that have not been addressed.

Reasonable Care

Reasonable care is when one exercises care and concern for the safety of his or her self and others regarding business conducted with the insurance company. For example, when driving on a public highway, a driver must abide by the rules of the road. Failing to do so would be failing to provide reasonable care and, as a result, the driver may be held responsible should any damages occur.

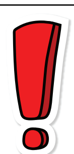
Ethical Dilemma

ABC Insurance Company's appetite for their Businessowners Policy includes a variety of businesses. The underwriting guidelines state that beauty salons, bookstores, and dry cleaners are desirable risks for this program. You have the opportunity to write insurance for a dry-cleaning store that is opening soon under new ownership. The new owner does not have any experience in this type of business and therefore does not meet the same underwriting guidelines of previous experience possessed by the former owner.

Do you try to place this business with the company even though it does not meet their underwriting guidelines?

Advisory Response

An agent is always excited about writing a new piece of business; however, placing the business with the right carrier is important. Try not to place a marginal piece of business with a carrier when it does not meet the underwriting guidelines. This rule of thumb will benefit the customer, agency, and insurance company.



DISCLAIMER: The advisory response is not a legal opinion. Different federal and/or individual state laws may apply to this scenario or others with similar facts. Courts in different jurisdictions may interpret identical facts of the dilemma differently. Minor changes in the facts of the dilemma can produce different legal or ethical interpretations. Finally, there may be one or more ethically or legally appropriate resolution(s) to the dilemma that have not been addressed.

Contractual Duties

An agent has the duty to always act within the authority granted in the company-agency agreement (i.e., staying within the agency's binding authority with regard to both limits of coverage and types of coverage; uploading policy information, or submitting the application or endorsement requests, etc., within the required time frame). The agency agreement (contract) sets the foundation of the agency's relationship with the company. It defines duties and responsibilities of both parties as well as authorizing certain activities.

See the end of Section 1 for an example agency-company agreement.

Ethical Dilemma

Agent Smith writes an automobile policy and collects the policy premium in the form of a personal check from the customer. The application has been given to the CSR for processing. Because the CSR was behind in his work, the application did not get entered into the agency management system nor was it uploaded to the insurance company until a month later.

How would you address agent Smith's actions?

Advisory Response

The agency should always submit the application (either paper or electronic) and the premium to the insurance company in a timely manner. The policyholder will be expecting a policy from the insurance carrier as well as seeing their check clear the bank within a reasonable amount of time. The insurance carrier expects the agency to submit applications and premium within a certain time period, as spelled out in the agency agreement.

DISCLAIMER: The advisory response is not a legal opinion. Different federal and/or individual state laws may apply to this scenario or others with similar facts. Courts in different jurisdictions may interpret identical facts of the dilemma differently. Minor changes in the facts of the dilemma can produce different legal or ethical interpretations. Finally, there may be one or more ethically or legally appropriate resolution(s) to the dilemma that have not been addressed.

Knowledge Check

You are meeting with a new client, Wanda, to collect the information needed for her commercial property policy application for her retail shop. During the course of the meeting, you become concerned that Wanda is not being fully forthright regarding her previous experience in this industry. Wanda wants to be placed with a preferred carrier whose underwriting guidelines require she have at least three years' experience. Wanda states she has over 10 years of experience but is unwilling provide any documentation to support her claim. Your teammate and fellow account manager, Cindy, urges you to place the business with the carrier anyway, reminding you that retail shops are a desired risk for this insurance company. Cindy also confides, "Wanda is a longtime personal friend of mine, and I can vouch for her character."

How would you respond in this scenario? Explain your answer, making sure to mention at least two of the standards of care agencies owe to insurance companies.

Care Owed to the Customer

Now that we know the standard of care insurance agents owe their insurance companies, let's explore the standard of care agents owe to their customers. Keep in mind, this can vary by jurisdiction. In many jurisdictions, the standard of care is to place the coverage the insured requests.

Adequate Coverage

To provide adequate coverage means the agency helps the customer determine the appropriate amount of insurance to meet their needs. This can be done by explaining the benefits and/or advantages of adequate amounts of insurance and by identifying their exposures to loss to determine the appropriate limits of coverage.

Proper Coverage

Before an agency can provide proper coverage for a customer, the staff must first understand the differences in coverages among the policies available from the insurance companies represented by the agency. It also requires the agency to use available tools to identify the customer's exposures to loss. Finally, it means the agency staff must keep current with changes and innovations in the insurance marketplace. Essentially, the agency must know the available policies, identify the best policy(ies) for the given exposures, and stay abreast of industry developments in order to provide proper coverage for their customers.

Coverage Placed in the Best Interests of the Customer

The insurance agency is required to place coverage on the best possible terms for the customer. This does not necessarily mean trying to get the lowest cost or placing coverage with a specific carrier solely on the basis of a sales contest or higher commission. It means placing the best coverage for the customer based on the specific needs of that customer. An AM Best Rating or other pertinent information should be included with the agency's proposal to the customer.

Prompt Communication

It is important to promptly notify customers regarding all aspects of their insurance transactions with the agency—including, but not limited to, changes, exclusions, limitations, claims, cancellations, and non-renewals.

Coverage Placed with a Financially Sound Insurance Company

Agency management should set a standard for an insurance company's financial ratings, (i.e., A–) and not deviate without the written permission of the insured party. There is no defense for placing business with a financially troubled insurance company when the agency has knowledge of the adverse financial situation.

It is important to make sure coverage is placed with an insurance company that will be able to pay claims. If the agency obtains knowledge that a company is experiencing serious financial difficulty, consideration should be given to moving the coverage to a financially sound insurance company.

Signs of financial difficulty can include the insurance company's financial rating being downgraded, delay in payment of claims, a high rate of declined claims, late payment of commissions, delay in return of premiums, etc.

You may want to refer to the following resources in Table 1.1 for additional information that will help you provide the standard of care your customers want and deserve.

Table 1.1

Resources	
The National Alliance	www.TheNationalAlliance.com
IRMI	www.irmi.com
Insurance Journal	www.insurancejournal.com
National Association of Insurance Commissioners	www.naic.org
International Association of Insurance Professionals	www.internationalinsuranceprofessionals.org
National Underwriter Company	www.nuco.com
Rough Notes	www.roughnotes.com

Knowledge Check

Consider the previous scenario in which you were pressured to place Wanda's retail business with a carrier despite not being certain she meets the underwriting guidelines. You decided to tell Wanda that you need more proof of her industry experience before you can place her with her preferred carrier. Wanda becomes belligerent, "I have never been asked to provide this type of information before, so I don't see why I should have to now! I can't believe that you don't trust me!"

Explain to Wanda how you will employ the standards of care described earlier in this section to provide her with the best possible coverage for her business.

____

____

____

____

Licensing and Continuing Education Regulatory Requirements

Learning Objective

- *Understand the requirements imposed by state insurance departments for licensing and continuing education.*

Obtaining quality education is required—and essential—in order to be an effective and professional member of the insurance industry. It begins with pre-licensing education and continues throughout one's career. Current, practical, and comprehensive continuing education will help you stay abreast of changes and innovations in the insurance industry. More importantly, staying current with your professional education helps you meet the standard of care owed to your customers:

Requirements Imposed by State Insurance Departments

Licensing and License Education

Pre-licensure requirements vary from state to state. As you know, insurance is highly complex, with laws and regulations varying by state, and it is constantly changing, as well. But all states require insurance agents to obtain a license to sell insurance. The type of license required depends on the kind of insurance the agent intends to sell. For example, are they strictly going to sell and service life and health products or only property and casualty products, or both? To effectively assist customers with their insurance needs, you should be able to make recommendations, explain how insurance works, and advise why it is needed. Obtaining an insurance license and educating yourself will give you the ability to service your customers with their best interests at heart. Once you have passed the licensing exam successfully and received your insurance license, you are eligible to sell and discuss insurance.

Many states or jurisdictions require individuals to complete a specified number of hours of insurance education (pre-license) before they are eligible to take the licensing exam.

Continuing Education

An insurance license typically is valid for two years. To renew a license, an agent must fulfill the continuing education requirements imposed by the state's insurance department. Almost all states or jurisdictions now have a continuing education requirement for agents and brokers to complete a specified number of hours of approved education before they are eligible to renew their license.

Some states or jurisdictions require some of the continuing education hours to be in specific training areas such as ethics, state law, and long-term care.

Each state has established statutory requirements regarding eligibility, as well as how to secure and maintain a license to operate or conduct business. State insurance departments are the best sources for licensing information and continuing education requirements. Most insurance departments also have the responsibility to administer, regulate, enforce, investigate, and determine disciplinary action when violations occur within the insurance industry in their state.

It is critical an insurance agent understands all relevant statutes and adheres to them at all times. Depending on the action, violations can result in fines, loss of license, or possible criminal prosecution.

The statutes for continuing education vary by state as well as type of license. Being regulated, courses must be approved by the state and strictly adhere to the state's rules regarding content, format, and other provisions. The state determines the number of hours of credit given for a course and the manner in which the course must be presented.

Regulation of the licensing process and the requirement for continuing education are designed to benefit and protect the consumer.

Knowledge Check

Let's revisit the previous scenario, in which you had to deal with a client (Wanda) who was upset, while you still uphold the standards of care to both the customer and the insurance company.

How might continuing education prepare an insurance agent to effectively handle a complex risk if the customer's expectations differ from the insurance company's ability to write the risk? Explain your answer.

____

____

____

Summary

Good Ethics = Good Business

People want to interact with those they trust. Behaving ethically in the workplace should be at the forefront of each agent's and the agency's efforts. Understanding the benefits and challenges of ethical behavior can help the agency sustain a healthy culture, gain credibility and trust, and avoid government regulation. Applying the six steps to ethical decision-making will ensure that all stakeholders are being served according to the agency's ethical standards and legal responsibilities. Knowing whether an agent's authority to act on behalf of the insurance company is actual (or expressed), apparent, or implied can bring appropriate action into focus.

Ethical concerns will surface, but by maintaining the appropriate knowledge and education level, you will have the confidence to provide the standard of care owed to both the company and customer. Education doesn't just stop once licensed, it will continue throughout your whole career and is vital in an industry that is constantly changing. Next, you will learn about the insurance agency and the various factors that impact its operations.

Section 1 Exhibits

For additional practice dealing with ethical dilemmas, read the situations below, then review the advisory response to see how your response compares.

Ethical Dilemma

The manager of your satellite location has pored over the agency contract for Company X. She reports back to you that the onerous new underwriting manual has been made part of the contract, and she will not comply with its contents. "Besides," she says, "their underwriters do not like the manual either and are overlooking many things, regardless of what the manual says."

As agency principal, how would you respond?

Advisory Response

Rogue underwriters are routinely dismissed. Populating your book of business with improperly underwritten accounts may encourage an insurance company to reconsider its relationship with your agency.

At the very least, the agency's business may be audited and have to be rewritten with another insurer, which can be an inconvenient, expensive, and time-consuming activity for the agency. During such transitions, business is often lost when identical-or-better price, coverage, or service cannot be provided by the new carrier.

Contact underwriting management at the company to clarify what is their actual direction. Advise your satellite office manager of the result of your discussion and the steps she should take going forward.

Ethical Dilemma

An agent in your office issued a binder for liability insurance to a new client. The agent listed the endorsement numbers but not the edition date of the endorsement. A claim occurs, and the insurer wants to know which edition date applies. You question the agent, and he says the most recent date, but upon further questioning, you discover he is not aware that this particular claim is only covered by the older version of the endorsement. The insurer is in the habit of issuing the newer version of the endorsement but will issue the older version when asked.

What should you do?

Advisory Response

First, recommend the producer attend a class, or train the producer on the insurance coverage and required endorsements.

You do have a complex ethical decision to make. You could simply say that the older version of the form applies. However, if something should happen to the claim and the claim goes to court, you might put the producer in a difficult position. He might wonder, “Should I perjure myself and lie about the form edition I chose, or tell the truth and deal with an expensive errors and omissions loss?

You could also explain the problem to the underwriter and ask for the binder to be reformed to list the older version of the endorsement. If the underwriter refuses, call your errors and omissions carrier. The insurer may need to update its underwriting manual to reflect its stance on when the old and broader version of the endorsement can be used so there is no confusion.

DISCLAIMER: The advisory responses in this course are not a legal opinion. Different federal and/or individual state laws may apply to the scenarios or others with similar facts. Courts in different jurisdictions may interpret identical facts of the dilemma differently. Minor changes in the facts of the dilemmas can produce different legal or ethical interpretations. Finally, there may be one or more ethically or legally appropriate resolution(s) to the dilemmas that have not been addressed.

Ethical Dilemma

Mike is a good customer who has commercial lines, personal lines, and a large amount of life insurance with the agency. Mike has always been an aggressive businessperson who lives well and even above his means, at times. Unfortunately, Mike’s home recently burned, damaging his upstairs bedroom suite and part of the downstairs. Mike is single, lives alone, and has no steady girlfriend, yet he claims twenty-seven pairs of designer women’s jeans, for a total of nearly $2,700, as part of his inventory of damaged goods. The adjuster is suspicious of this number and has asked the agent whether these values are consistent with Mike’s lifestyle.

If you were the agent, how would you respond?

- Call Mike to clarify and, if not true, ask Mike to revise his inventory. What if he refuses? What happens then?
- Simply tell the adjuster that this is consistent with Mike’s lifestyle, even though you are not sure about the jeans.
- Ask the adjuster to investigate further.

Advisory Response

If Mike is padding the claim, it is fraud. Call Mike and find out what is the real story. He may give you an excuse and say, “The jeans belonged to my sister!” If you do not get a satisfactory answer, the responsible agent will tactfully inform Mike that padding a claim is fraud and punishable by fines and/or jail time.

If Mike is, in fact, committing fraud, consider the other things he may be doing in his business that will give you even more headaches!

DISCLAIMER: The advisory responses in this course are not a legal opinion. Different federal and/or individual state laws may apply to the scenarios or others with similar facts. Courts in different jurisdictions may interpret identical facts of the dilemma differently. Minor changes in the facts of the dilemmas can produce different legal or ethical interpretations. Finally, there may be one or more ethically or legally appropriate resolution(s) to the dilemmas that have not been addressed.

Ethical Dilemma

Customer Jones came to the agency late on Friday to fill out an application for auto insurance. The agent put the application on a stack of papers and went home for the weekend. On Monday, the mail covered the stack of papers and the agent forgot the application was there.

A month and a half later, customer Jones files a claim that the company promptly denies. The agent digs through the pile on his desk, produces the application, and claims to the underwriter that it was lost in the mail—despite it being completed on time. The claim is paid.

Was the agent guilty of negligence in any way?

Advisory Response

The agent manipulated the truth in a fraudulent manner in the statement made to the company. If the lie is discovered and reported to the state, the agent could have his/her license suspended or suffer other sanctions including license revocation and harsher penalties.

The insurer may have a cause of action against the agent for the money paid to the claimant. This may lead the insurer to cancel the agency contract or restrict binding authority.

Insurers that routinely accept late applications may be giving implied authority to agents to continue the practice.

DISCLAIMER: The advisory responses in this course are not a legal opinion. Different federal and/or individual state laws may apply to the scenarios or others with similar facts. Courts in different jurisdictions may interpret identical facts of the dilemma differently. Minor changes in the facts of the dilemmas can produce different legal or ethical interpretations. Finally, there may be one or more ethically or legally appropriate resolution(s) to the dilemmas that have not been addressed.

The following is a sample agency agreement.

Agency Agreement

☐ The Super Preferred Company

☐ The Preferred Company

☐ The Standard Company

Each of the companies designated above by an “X” mark opposite its name is a party to this Agreement and is hereafter severally referred to as “we,” “us,” or “our(s).”

____

NAME OF AGENT

____

ADDRESS OF AGENT

Is a party to this Agreement and is hereafter called “you,” or “your(s).”

We agree with you as follows:

I. Your Authority

We grant you the following authority:

A. To operate in the jurisdictions where you are properly licensed with respect to the classes of risks specified in any Schedule or Addendum attached to this Agreement. You shall not, however, have the exclusive right to act on our behalf in such jurisdictions.

B. To solicit, receive, and transmit to us proposals for those insurance contracts, including fidelity and surety bonds, for which a rate of commission is specified in any Schedule or Addendum attached to this Agreement. You agree not to alter, modify, waive, or change any of the provisions or conditions of our insurance contracts, bonds, rates, rating rules, or rating plans.

C. To bind, execute, and issue the kinds of insurance contracts and bonds to which this Agreement applies, excluding surety bonds, but only as specifically authorized from time-to-time by us in writing.

D. To countersign insurance contracts, bonds, certificates, and endorsements pertaining to such classes of risks written under this Agreement, if it is used in the state of your residence.

E. To cancel any insurance contract or cancellable bond placed by you with us, and at your request we will:

1. cancel any such insurance contract or cancellable bond, and
2. decline to renew any insurance contract or bond and, upon your request, we will give advance written notice of non-renewal to the policyholder or obligor.

Nothing in this Agreement shall interfere with our right to cancel or non-renew any contract of insurance or cancellable bond issued by or through you.

The rights and obligations contained in this Paragraph E. with respect to cancellation and non-renewal of insurance contracts and bonds are subject to requirements imposed by law and must be in compliance with any applicable provisions contained within the insurance contracts or bonds.

F. To collect and receipt for premiums on insurance contracts and bonds except as applies to Section II. You assume full responsibility for and agree to pay to us all premiums, whether advance, deposit, developed, audited, additional, renewal, or otherwise, whether or not collected by you, and whether such premiums are obtained from business produced by you or through you by brokers or other producers, subject to General Provisions VI., A.

G. To retain out of premiums collected by you on business placed with us, or with respect to direct billed policies on premiums collected by us, you will receive from us as full compensation for business so placed commissions at rates specified in the applicable Schedule or Addendum attached to this Agreement. Every commission rate specified in any such Schedule or Addendum shall remain in effect for a period of at least one year. The commission rates may be changed by us only after we give you at least ninety (90) days advance notice of any proposed changes and the effective date. The changes shall be effective on the date specified in the notice without further action being required by you or us. Whenever premium is returned to any policyholder or obligor, you agree to refund commission to such policyholder or obligor at the same rate at which commissions were originally retained. If we have made any such payments on your behalf, you agree to refund such commissions to us.

You shall pay all countersigning commissions required to be paid and shall pay all commissions due and payable to brokers or other producers. If we make these payments, you will reimburse us.

H. Your authority is subject to the requirements imposed by law, this Agreement, and our underwriting rules and regulations. You agree with us that you are an independent contractor and are not our employee and are not entitled to any benefits available to our employees.

II. Direct Billed Policies

For Standard (Non-Assigned Risk) Business placed by you with us which is designated by us as direct billed, you and we agree to the following:

A. You shall submit all applications promptly to us and shall collect and remit to us with each application, the initial premium in gross (without deduction of commissions) which is mutually agreed upon by you and us.

B. We will send to the policyholder timely notices of cancellation and non-renewal and changes made in the policyholder's policy as a result of changes in statutes, coverages, or forms. We will outline to the policyholder any options available as a result of changes in statutes, coverages, or forms.

C. Insurance contracts, amendments, premium notices, cancellation, and non-renewal notices transmitted to policyholders by us shall identify you by name.

D. We will make every reasonable effort to mail promptly to you a copy of all insurance contracts, amendments, cancellation notices, renewals, non-renewal notices, and a listing of delinquent payment notices mailed directly to the Insured.

E. We will not use, or permit the use of, the records of direct billed business placed by you with us to solicit other or additional lines of insurance products from policyholders, unless authorized by you in writing, except that we may solicit other or additional lines of insurance products, without your prior written authorization, if such solicitation is made by us in your behalf.

F. At any time upon your written request and at your expense, or at our expense in the event of termination of this Agreement, we will, within 60 days to 90 days, provide you with a complete list of your in-force direct bill accounts, including expiration dates.

III. Accounting for Money

Accounts of money (including all additional and return premiums resulting from audits or otherwise) due us on business placed by you shall be handled in accordance with the accounting method designated in the Accounting Schedule attached to this Agreement.

IV. New Agent Designation

A. If you are designated as a new producer of record of an existing policyholder, you agree to the following:

1. You must submit to us a written producer of record designation signed by the policyholder naming you as producer of record.

2. You will service the insurance contract or contracts after the effective date of the designation.

3. All commissions on premium earned will be payable to the prior producer until:

   a. termination of the insurance contract or contracts, whether by expiration or cancellation, or

   b. the next subsequent anniversary date of the insurance contract or contracts, whichever occurs first.

   "Anniversary date," wherever used in this Agreement, shall mean twelve months after inception date of the policy and the end of any twelve months thereafter.

4. You will collect all premiums due us, except those collected by us directly.

B. Upon a policyholder's signed statement to us designating another producer as his producer of record on business of which you have previously been producer of record, we agree with you as follows:

1. We will notify you of its receipt and allow you 10 business days from the date of our notice within which to confirm the policyholder's intention to designate the other producer. Unless we receive signed instructions from the policyholder revoking the new producer of record designation during the 10-day period, or sooner if you agree to the substitution, such designation shall be binding upon you and us.

2. You are entitled to commissions on premium earned until:

    a. termination of the insurance contract or contracts, whether by expiration or cancellation, or

    b. the next subsequent anniversary date of the insurance contact or contracts, whichever first occurs. Thereafter, all commission earned is payable to the new producer of record.

    You remain responsible for any refund of unearned commission until:

    a. termination of the insurance contract or contracts, whether by expiration or cancellation, or

    b. the next subsequent anniversary date of the insurance contract or contracts, whichever first occurs.

3. You are no longer responsible for servicing any insurance contract for which you are no longer producer of record at the end of the 10-day period.

V. Hold Harmless

A. We will indemnify and hold you harmless from and against all claims, losses, damages, liabilities, judgments, or settlements, including reasonable costs, expenses, and attorneys' fees, arising out of the relationship of the parties under the terms of this Agreement caused by our act, error, or omission, except to the extent that you have caused, contributed to, or compounded such act, error, or omission.

B. You will notify us promptly when you receive notice of any claim or legal action, and we shall have the right to investigate any such claim and to participate or assume the defense of such legal action.

VI. General Provisions

A. If you fail to collect premiums, we will have the right to collect such premiums in any manner we deem appropriate. Any premiums so collected by us shall be credited to your account. There will be no commissions paid to you on any such premium so collected. You will not be relieved of your liability to pay such premiums for which you have not relieved yourself of responsibility as provided for in the Accounting Schedule attached.

B. All premiums are our property and are held as trust funds by you. You have no interest in the premiums and, except for the amount of commissions authorized by us to be deducted by you, will make no deductions from or personal use of such funds, nor retain any such premiums as an offset against any disputed claim you may have against us before paying the same to us. You will establish a premium trust account and maintain same. You may not commingle these premiums with other funds except with our written permission.

C. All advertising material referring directly to us or our rates, premiums, insurance contracts, bonds or coverages, must be approved in writing by us before use. All such material forwarded to the policyholder from us shall, when feasible, contain reference to you.

D. This agreement may be terminated by you or us upon written notice of intention to terminate directed to the other party at least 90 days prior to the termination date.

This Agreement may be terminated immediately upon either party giving written notice to the other in the event of fraud, insolvency, willful misconduct, or breach of the terms of the Agreement on the part of such other party. This Agreement may be terminated immediately by us giving you written notice in the event of the sale or transfer of all or a majority interest in your business by stock certificate transfer or otherwise.

In the event of immediate termination any premium in your hands or the collection for which you are responsible, shall be paid immediately to us.

In the event of termination of this Agreement and provided you have, in accordance with the terms of this Agreement, accounted for and paid to us all premiums and other moneys due and owing and securities held for or on behalf of us, your records, together with use and control of expirations, shall remain your property and be left in your undisputed possession; if there has not been such accounting, and payment by you within 60 days after such termination, the ownership of the records and the ownership of the right of use and control of the expirations shall vest in us, and you shall immediately thereafter forward any said records in your possession to us.

Upon termination of this Agreement, our obligation to pay you commissions in accordance with the Schedule or Schedules attached to this Agreement shall cease as of the date of such termination except as provided in General Provision VI E., and except commission on non-cancellable policies and bonds, or until a producer of record letter designates another producer as producer of record on such policies and bonds.

In the event there is a reasonable dispute as to the existence or extent of your liability to us, such dispute shall not prevent application of the ownership of the records and the ownership of the right of use and control of the expirations to be in your favor, provided you promptly furnish collateral security acceptable to us in an amount equal to that in dispute to be held by us until the difference is resolved.

E. For a period of one year, or for any greater period required by law, following termination of this Agreement, except for one or more of the reasons set forth in D above, you shall continue to represent us, subject to the terms of the conditions, responsibilities and obligations contained in this Agreement as if this Agreement had not been terminated, and in addition to the following conditions:

1. You will not solicit nor bind any new risk.

2. You will retain authority to service existing insurance contracts which will be permitted to run to anniversary date or termination, whichever occurs first.

3. You may renew, for a period not to exceed one year, those insurance contracts which meet our underwriting standards which exist at the time of renewal.

4. You may add or increase limits on insurance contracts but only with our prior written approval.

5. Cancellation or non-renewal of any insurance contract may be affected by us for any reason allowable by law. In the event of non-renewal, we will give you at least 60 days prior notice of our intention not to renew.

6. You will continue to receive commission on the basis paid immediately prior to termination.

You will not continue to represent us following termination if any of the following have occurred:

1. Your most recent exposure/accident year loss ratio is in excess of that contemplated by us in our rate structures, but only with respect to those classes of insurance which have developed such adverse loss ratios.

2. We have terminated this Agreement because of your fraud, insolvency, willful misconduct, or breach of any provision of this Agreement.

3. If any public authority cancels or declines to renew your Agent's license or certificate of authority.

VII. If there has been a sale or transfer of all or a majority interest in your business by stock certificate transfer or otherwise, and we did not agree to extend any form of contract to the successor firm.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/AOresources.

Why We Study Ethics in Insurance
A Word About the Agent
Why Education Is so Important for Agents

Section 1 Self-Quiz

Directions: Read each question below and select the one correct answer.

1. Limitations on how credit scoring is used in underwriting is an example of which one of the three topics concerning the benefits of ethical behavior?
   - ☐ Credibility
   - ☐ Government regulation
   - ☐ Public trust and confidence

2. Property values, protection class, other residents in the household, and rates based on classification or garaging address are all areas in which there may be ___________ faced by insurance professionals.
   - ☐ peer standards
   - ☐ apparent authority
   - ☐ ethical issues

3. An agreement between two or more parties that creates an obligation to do or not do something is the definition of what term?
   - ☐ Statute
   - ☐ Contract
   - ☐ Peer standard

4. Micah is driving down the road in his Chevy and adheres to the neighborhood speed limit of 25 MPH. Doing so, Micah is following a ____________.
   - ☐ statute
   - ☐ contract
   - ☐ peer standard

Directions: Read each statement and select whether it is True or False.

1. When the agency helps the customer determine the appropriate amount of insurance to meet their needs, this is known as providing adequate coverage.

   True **False**

2. When someone is prevented from arguing something or asserting a right that contradicts what they previously said or agreed-to by law, this is known as estoppel.

   True **False**

3. When it comes to ethical decision-making, thinking about whether a problem has three potentially negative consequences means you are "seeking out resources."

   True **False**

4. It's Friday afternoon, and Silas is just about to head home for the weekend when he realizes that he neglected to notify one of his customers about the non-renewal of her policy. Taking the time to pick up the phone to call the client immediately means that Silas is demonstrating "coverage placed in the best interests of the customer."

   True **False**

Section 2: Managing the Insurance Agency

Section Goal

In this section, you will gain an understanding of how the agency's leadership establishes values, vision, and mission statements and how these statements help shape the agency's operations, culture, brand, and goals. You will also learn about different types of organizational structures and factors that influence how the agency conducts its operations, as well as the importance of creating descriptions for the various positions within the agency.

Learning Objectives

- *Explain the need for an agency to have values, vision, and mission statements, as well as goals and a brand that supports the culture.*
- *Explain the various factors that affect how the agency distributes its products and provides customer service.*
- *Identify the agency's various stakeholders and the purpose of the position description.*

Scenario

Let's continue with the scenario introduced at the beginning of Section 1: After a few months of working at your new job, your agency is sold and is now under new leadership. Amy, the manager who trained you initially, has been promoted to director of operations and is working with the new partners to improve the overall culture of the agency.

As you learned in Section 1, your agency has had issues in the past with employees exhibiting questionable, or at times, downright unethical, behavior. Amy hopes that, along with the new leadership, she can establish a positive company culture that places ethics and responsibility at the forefront.

Thought Questions:

1. In your opinion, what are three components needed to create a positive work environment?
2. What steps might Amy and the new leadership take to ensure the agency runs efficiently and effectively, while still upholding ethical and legal responsibilities?

Introduction

An insurance agency is an individual or organization contractually authorized by a carrier to provide certain services in exchange for compensation. Agencies are the providers of the service and the ones who distribute the insurance products to the consumers.

The insurance agency can act as the sales, marketing, and customer service arm of the insurance company to solicit, write, and bind policies. In addition, the agency may be authorized to handle claims, collect and remit premiums, and perform any other services described in the contract. Holistically, the agency's focus is to sell insurance and service clients. But if you think about it, this might be a lot to manage. In order to fulfill all those functions, the agency must have a strategic business plan that is closely followed to help it define who they are, who they serve, and to stay organized and on track.

That plan should include goal setting to identify the resources and stakeholders who will contribute to the development of the agency's culture.

Regardless of its size—a one-person agency or a team of 5,000—there are common components among insurance agencies. At the end of this section, you will be able to answer WHY the agency needs to know its values, vision, and mission, WHAT is needed to reach its goals, and WHO will be involved in making it all happen.

The Insurance Agency

Learning Objective

- *Explain the need for an agency to have values, vision, and mission statements, as well as goals and a brand that supports the culture.*

Why does the agency need a plan to identify its purpose, direction, and brand?

Why is a healthy culture imperative for the agency?

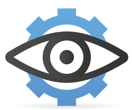
To understand the strategic direction of the insurance agency and why it exists, it is important to define the agency's values, vision, and mission in succinct statements. These statements help define expectations for the agency's employees and distinguish the agency from its competition, thereby setting the culture.

Values/Vision/Mission Statements

The Values Statement – This defines the heart of the organization; it is an expression of the core priorities and behavioral issues that matter most to the agency's management, i.e., "What do we stand for?"

Coca Cola: *"Refresh the world; leadership, collaboration, integrity, accountability, passion, diversity, and quality."*

ABC Insurance Agency: *"We believe in being professional, committed, and client-focused."*



The Vision Statement – This statement specifies what are the current and future goals of the agency.

Coca Cola: Our vision is to craft the brands and choice of drinks that people love—to refresh them in body and spirit—done in ways that create a more sustainable business and better shared future that makes a difference in people's lives, communities, and our planet.

ABC Insurance Agency: Our vision is to serve and educate our customers and to attract and retain knowledgeable employees to help achieve the agency's goals.

The Mission Statement – This action-based statement declares what the agency actually does and how it intends to connect with and serve its customers, and it reveals what makes the agency unique.

Coca Cola: Our mission is to refresh the world in mind, body, and spirit, inspiring moments of optimism and happiness through our brands and actions that create value and make a difference.

ABC Insurance Agency: Our mission is to provide insurance solutions, act with integrity and professionalism, improve processes and products, and provide employees with opportunities to grow.

Employees and customers often become and stay loyal because of what the agency values. With these powerful statements, goals can be established since direction is now provided for what happens in an organization. These statements also serve to keep everyone focused on where the organization is going and what it is trying to achieve, and provides expectations around how people are to behave.

Being SMART in Your Goal Setting

Once the agency and its employees understand the agency's values, vision, and mission, goals need to be outlined. This helps to define what needs to be accomplished and how to accomplish it—in the short and long-term. "SMART" goal setting uses the acronym, S.M.A.R.T. (**S**pecific, **M**easurable, **A**ttainable, **R**elevant, **T**ime-based), to help focus efforts and increase the chances of achieving a given goal, as well as a way to keep the operations on track with clarity.

Let us take a closer look at each of the components that make up a SMART goal.

In order for a goal to be effective, it must be **Specific.** A specific goal answers questions such as:

- What is the objective that needs to be accomplished?
- Who is/are the person(s) responsible for it?
- What steps will be taken to achieve it?

Next, a goal must be **Measurable** in order for you to track progress and know when you've reached the finish line. Quantifying goals helps you refine what you want to attain.

Attainable goals are ones that are realistic—not something that sets you up for failure. If you are an inexperienced runner and want to run a marathon, you might need to start smaller, maybe first running in a 5k. This is the point in the process where you give yourself a reality check and ask, "Can I or my team accomplish this?" Putting in the prior effort to make the goal specific will go a long way toward determining if it will be attainable. If it is not, you will need to redefine your goal.

In addition to being achievable, the goal set by you or the agency must be **Relevant.** Typically, people do not set goals just for the fun of it. There should be a true benefit attached to reaching the desired objective. During this step in goal setting, you will evaluate the goals that matter to you and the agency. Once the key benefit(s) is identified, incorporate it into your SMART goal, so it is understood by all.

Finally, the last component of writing SMART goals is that they must be **Time-Based** (also referred to as "time-bound" or "timely"). Goals do not last forever; they have a deadline. It is important that everyone involved with accomplishing the goal be on the same page about when a goal can be reached, and time-related parameters should be built in so everyone will stay the course within a designated time frame.

Now that you understand the components of a S.M.A.R.T. goal, consider the following as a SMART goal related to the insurance agency: The new business department will improve their customer experience by returning phone calls within 24 hours of receiving them, and this activity will be monitored through a weekly response-time report. Take a look at how each component of the S.M.A.R.T. goal is broken down.

Specific	The new business department will focus on customer service and returning calls.
Measurable	Measurement will be through the weekly time-response report.
Attainable:	Return within 24 hours all phone calls received during the day.
Relevant:	A positive customer experience will impact the agency's reputation and ability to grow and retain customers.
Time-Based:	Calls will be returned within 24 hours; a weekly accountability process will be established.

Goal setting makes priorities clear for everyone involved in the organization and shows employees what should be their focus within a certain time frame.

Goals should always align with the agency's vision, values, and mission statements and be based on priorities.

Check-In

Directions: Read each example and determine whether it is a SMART goal. If it is not a SMART goal, state why not.

1. Rebecca wants to increase her sales revenue by 12% by the end of next quarter.

2. The customer service team wants to have 100% customer satisfaction on all surveys.

3. Based on the agency's desired growth areas, Anthony wants to sign three new retail clients by the end of the calendar year.

Agency Brand

Setting the insurance agency apart from its competition can be challenging as customers are not necessarily keeping up with the latest trends in the insurance industry the way they might with the latest cell phone or earbud models. The customer knows insurance is something they need, but not necessarily something they want. So how does the insurance agency overcome any technological deficits and get a prospect's attention, retaining them in a long-term customer relationship? Identifying the agency's brand and projecting the desired image will be key in attracting and retaining customers. Building the agency's **brand** will include determining its target market(s), positioning its products and areas of specialization, and defining its personality. The brand will be a summary of the agency's values, vision, and mission statements expressed in both the marketplace and community, demonstrating how they differ from competition. The brand will even be projected through the agency's logo and slogan, and it will be the driving force behind the agency culture.

Agency Culture

Culture refers to the behaviors and attitudes of the organization and its employees; essentially, it is the environment the agency creates for its employees. Agency culture is a mix of leadership, values, traditions, beliefs, interactions, behaviors, and attitudes—these are generally unspoken and unwritten rules that communicate what the work atmosphere is like.

How would you describe the culture of your agency? Would you include terms such as sales-driven, service-oriented, professional, competitive, friendly, aggressive, frustrating, well organized, family-like, successful, struggling, fair, hostile, growing, strict, positive, high energy, stagnant, progressive, the best (or worst) place to work?

Every agency has its own culture, and it reflects the leadership. It is the environment in which you interact with others to achieve stated objectives.

How do you keep the culture healthy when remote work environments exist? Connection, collaboration, and communication need to be a priority to keep employees productive and to maintain a strong workforce. It is important to keep employees engaged and coordinating with each other. Regular agency-wide meetings, virtual employee appreciation parties, and digital employee newsletters/updates are all examples of how an agency's leaders can keep remote workers feeling supported, recognized, and connected to the agency's goals and culture.

Leadership

Depending on the leadership style, agency culture can be straightforward or very complex. In order to be effective, the agency culture must be a healthy one; this starts and ends with leadership.

The leaders (management team) of the agency should model and communicate the desired behaviors within the agency which, in turn, will establish the culture through a top-down formation. Otherwise, people will not understand the ways they are to behave, work together, and function as a team. It's critical for management to be intentional about the culture they create within the agency to avoid a chaotic and unhealthy environment.

To be effective, the employees need management's guidance to be united and support the agency's values, vision, and mission, as well as implement a plan of action that advances the goals. Successful agencies find that through leadership, the culture becomes well-defined and self-sustaining. A lack of leadership results in staff members struggling to understand the vision and grappling with how to unite and adhere to a particular plan or direction, thereby eroding the agency's success. It is up to management to set expectations and create an environment of constant improvement and career development. Conducting frequent meetings can provide the kind of transparency the workforce needs to feel connected to the agency's strategic goals and can help create a sense of job satisfaction—factors that will ultimately improve employee *and* customer retention.

Knowledge Check

Why is it important for an insurance agency to have values, vision, and mission statements?

____

____

____

____

Factors that Impact the Agency's Operations

Learning Objective

- *Explain the various factors that affect how the agency distributes its products and provides customer service.*

All insurance agencies have similar responsibilities and must perform similar functions. But before we can cover what all agencies have in common, we will look at some factors that can influence an agency's operations and course of action. Identifying, planning, and monitoring these areas will determine how well the operations function and the ability to service customers.

As the agency considers its goals, there are areas that need to be structured in a way to support its ability to sell, service, and retain customers; meet the insurance company's expectations; and maintain a healthy culture, along with happy and productive employees.

There are some questions the agency's management should be asking when determining WHAT is needed to meet and/or exceed its goals:

What positions does the agency need for its workforce to meet its goals?

What kind of physical and/or virtual office space and facilities are needed?

What form should the agency's organizational structure take?

What kind of technology is needed to support the operations?

What is/are the source(s) of revenue?

What would it take to expand and grow?

The Agency Workforce

What positions does the agency need for its workforce to meet its goals?

The number of employees and the positions they hold influences how the agency operates. For the agency to grow, it must invest in its workforce. In general, the larger the agency becomes, the more specialization can occur. A small agency may require each staff member to fill multiple roles such as answering the phones, reviewing coverage, rating, processing, and sending emails. In a mid-sized agency, the staff may be divided between personal lines and commercial lines, new business, account size, or assigned by producers.

Staff in the largest agencies may be departmentalized to specialize in a single line of insurance, such as workers' compensation or professional liability insurance, or to perform only one function, such as handling claims or issuing certificates of insurance.

Areas of Specialization/Lines of Business

Specialization within the agency may require all employees to have a higher level of training and skills in the type or types of business they handle. The technology the agency utilizes may require customization to meet the unique needs of the agency's areas of specialization.

Consider trucking accounts/cargo insurance: For this particular market niche, the products the agency offers and exposures that need to be addressed could vary based on different types of truckers—for example, container hauling, refrigerated trucks, truckers that are intrastate vs. interstate.

Number of Locations, Geographical Size of Operation, and Virtual Environment

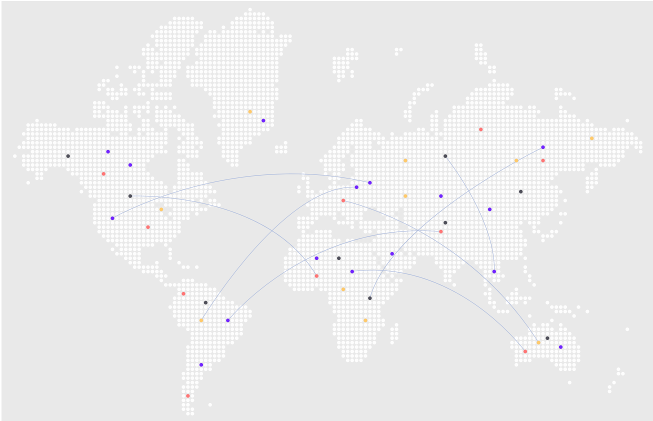
What Kind of Virtual or Physical Space and/or Facilities Are Needed?

The number of locations and whether there are any remote employees will affect how the agency operates, communicates, and informs their clients, employees, and other interested parties.

Single office locations may not be able to take advantage of remote geographic markets or opportunities. Multiple locations require expansion of systems and create additional management responsibilities.

An agency with multiple locations may choose to centralize some services, responsibilities, or features.

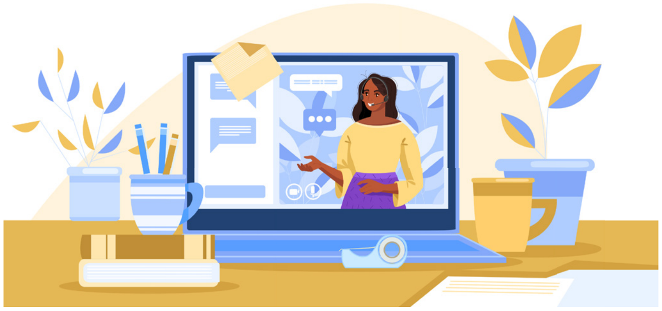
Local, Regional, National, or International Operations



Regardless of the number of locations it has, where an agency conducts business directly impacts how products are distributed and serviced. Understanding cultural differences, the environment, the local economy, and legal issues are all critical factors in the operations of an agency. Take, for example, an agency located in a rural environment as compared to a metropolitan one. The rural agency will likely need very different products and carriers to meet the unique needs of their customer base compared to those of metropolitan agencies.

Depending on the needs of the agency, another important decision is whether to centralize or localize specific operations. For instance, the agency may choose to centralize its accounting services, while all other agency services may be handled at each discreet location. Loss control, claims services, and IT are each examples of departments or services that may also be centralized and therefore managed and handled from one location to serve all the agency locations and customers.

Virtual or Hybrid Agency



Regardless of whether the agency is functioning as a 100% virtual organization (all employees work remotely) or is a hybrid (some employees work in one or more agency offices, while others work remotely), the agency needs to ensure its operations can support its employees to be productive and maintain a high level of service to its customers. The agency may discover they can save money and attract more talent by setting up a partial or completely virtual work environment. This requires more than just providing laptops! In an industry where finding talent can be a struggle, agencies are finding that providing a more flexible work environment can widen their talent pool and create more content employees who, in turn, are much more productive. Hiring, training, and managing can be handled remotely as long as the appropriate processes and technology are in place. You will learn more about the importance of process and workflows later on.

Organizational Structure

What form should the agency's organizational structure take? As with the agency culture, the way the agency is structured can vary greatly. Structure will depend on—and impact—how resources are allocated, accountability is assigned, and responsibility is delegated. Smaller agencies tend to have a horizontal reporting relationship, whereas larger agencies' organization tends to be more vertical.

Horizontal Structure

Agencies with few employees tend to have a flat or horizontal structure. The staff will generally report directly to the agency owner or, in some cases, to an employee who also serves as the office manager. Each employee may be responsible for more than one job function, having to fill in where needed.

The following example is a typical structure for a small agency.

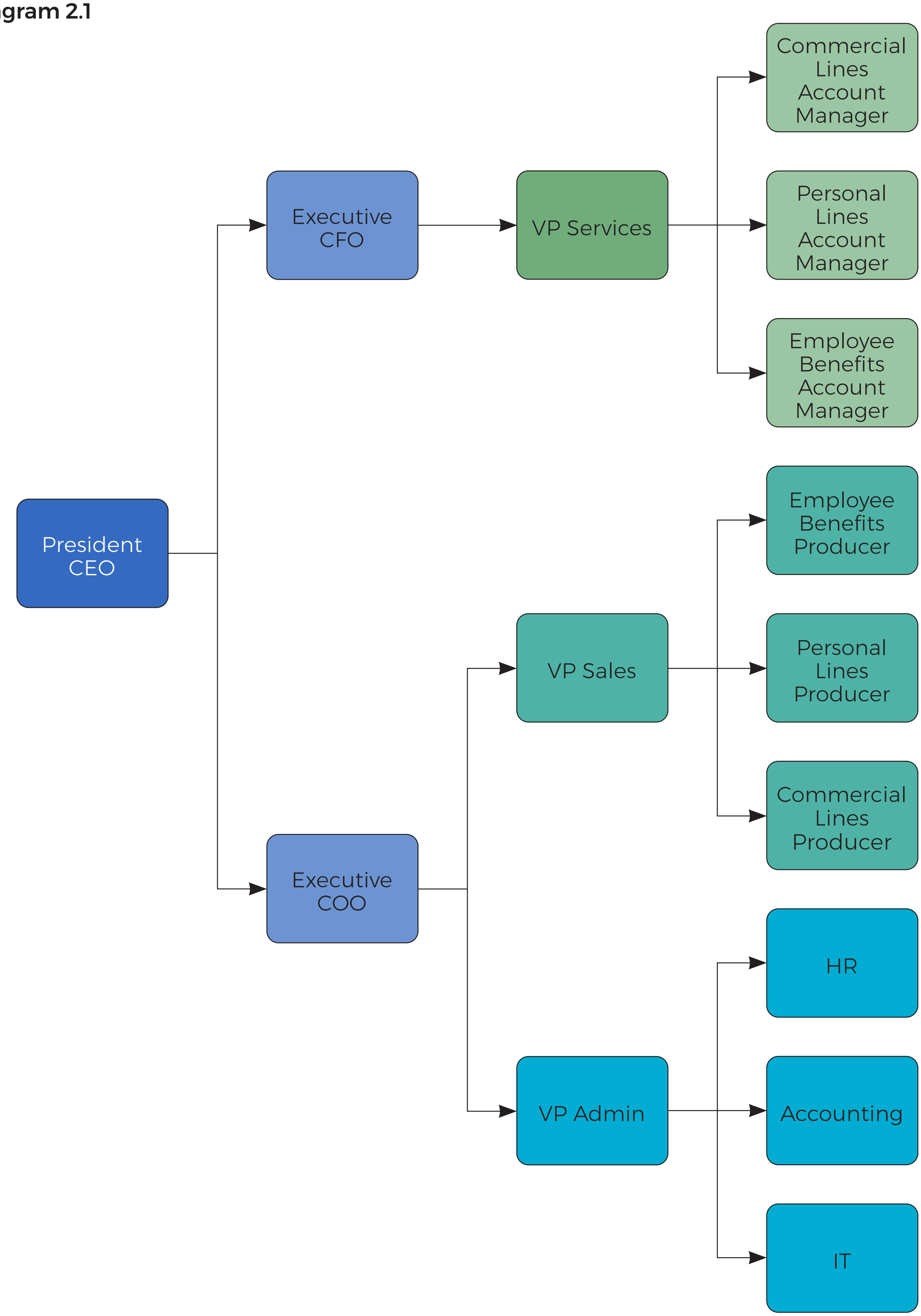
<table>
<tr><td colspan="4" align="center">Lisa
Owner
Sales</td></tr>
<tr><td align="center">Sue
Office Manager
Bookkeeper
IT
Receptionist</td><td align="center">Bob
Sales</td><td align="center">Mary
Commercial Lines
Service
Group Life & Health</td><td align="center">Sam
Personal Lines
Service
Individual Life &
Health</td></tr>
</table>

Vertical Structure

Agencies with many employees tend to have a tiered or vertical structure. The division of job functions and responsibilities are well defined, as are the reporting relationships. Keep in mind, the structure and reporting relationships can be designed in any manner.

The following diagram shows a typical traditional structure of a larger agency.

Diagram 2.1



President CEO
Executive CFO
VP Services
Commercial Lines Account Manager
Personal Lines Account Manager
Employee Benefits Account Manager
Executive COO
VP Sales
Employee Benefits Producer
Personal Lines Producer
Commercial Lines Producer
VP Admin
HR
Accounting
IT

Core Structure

The core structure of agencies differ depending on how their departments (profit centers) are organized. In general, the structure of a large agency will be designed to support the accomplishment of its agency goals. Internal and external factors may require change or modification to the structure. Technology, social media, and working from remote locations are a few examples of external factors that influence change. Internal factors could include the products sold and the size of the agency's workforce. In most cases, larger agencies use some form or combination of the following as the core of the agency's structure:

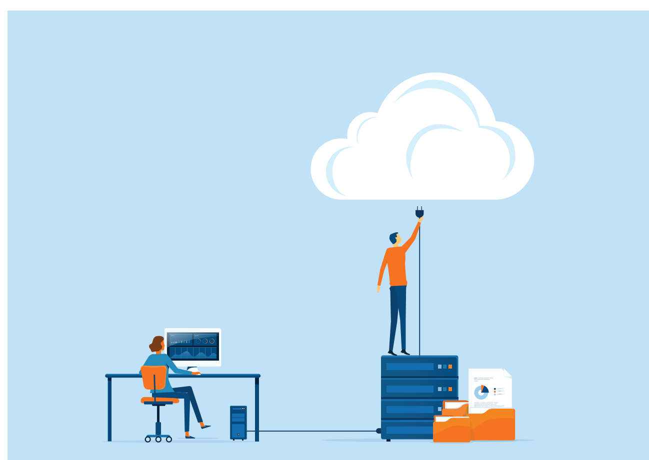
Departments

When utilizing a departmental core structure, work is handled by type or line of business, or by function, under the direction of a department manager. For example, producers would be in the sales department reporting to the sales manager; the personal lines department would consist of personal lines service account managers reporting to the personal lines manager; and so on.

Teams

A team-oriented core structure assumes a different style of organization from that of a departmental one. The sales and servicing of business is handled by a team of producers and service account managers under the direction of a team leader. This can be for commercial, personal, life and health, or a combination of any of the lines of business.

Agency Management Systems



What kind of technology is needed to run the agency? Most agencies utilize a software package called an agency management system that supports the many functions agencies tend to have in common. Since various agency management systems differ in their capabilities, the system selected and the extent of its use will affect everyday operations and the way the agency organizes its books of business. This includes how customer service is delivered, how data is stored, the layout and detail of customer files, and what type of data reports can be generated to oversee production, service, and finances.

The Digital Agency

More and more agencies are embracing digital technology out of necessity. With so many people spending the majority of their day online and using apps, the agency should have a digital technology plan, too. Many agencies found themselves being forced to adopt a variety of digital components in response to the COVID-19 pandemic and the unforeseen remote work environment that accompanied it. Through that experience, agencies have discovered that leveraging more digital technology allows their workforce to work smarter, provide more immediate service and support to stakeholders, and reduces task time.

As you have learned, the agency management system is essential to supporting the agency's operations. Some additional digital tools that can be added are customer relationship management (CRM) applications for sales and marketing, cloud hosting, video as a sales and service tool for proposals, quotes and policy reviews, self-service portals, and mobile apps. As the agency becomes more digitally oriented, the workforce is empowered to build stronger relationships with their customers, generating more loyalty and retention, and therefore, higher revenues.

Accurate Data is Key!

The addition of more robust technology gives agencies greater ability to gather, process, and gain insights to their customers and operations. To conduct a proper analysis, the data must be accurate, with uniform entries that follow the agency's procedures for workflows and data entry. Failing to do this—including failing to making entries as required—will result in information that is not reliable, time lost trying determining what is correct, potential errors and omissions situations, and ultimately, loss of business.

As you can see, directing effort and attention toward the accumulation of accurate data and clean entries is critical for gaining the benefits of increased productivity and conversion of prospects into customers. The agency management system must be able to produce accurate information and provide the reports the leadership team needs for decision-making and goal setting. Systems can be built and selected based on specific areas like property and casualty and employee benefits.

New technologies that assist with lead generation, cloud computing, artificial intelligence, and the Internet of Things are constantly emerging. It is up to the insurance agency to ensure their agency management system will integrate with other technology and resources (for ex: companies' systems, prospecting and sales software) to manage their markets and customers through their life cycles. And let's not forget, when customers have questions, they want answers "asap"; the ability to respond quickly and accurately is contingent on the capabilities of the agency's management system and the accuracy of the data.

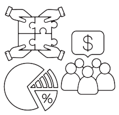
Agency Revenue

What are the agency's sources of revenue? The total revenue of an agency will, to a great extent, determine how much money the agency has available to cover expenses such as employee salaries, marketing campaigns, advertising, and automation.

Insurance agency revenue typically falls into four categories:

Commission: Commissions are typically the largest source of income and are a percentage of the premium the agency earns from selling and renewing insurance policies including those for personal lines, commercial lines, life, health and disability, and employee benefits.

Fee-based services: In addition to selling insurance coverage, agencies sometimes offer additional services for which they may be able to legally charge a fee. Loss control, risk management, and insurance consulting are examples of fee-based services.



Contingent/Profit-sharing: This is a source of revenue that agencies may receive as a bonus; some insurance companies profit-share with agencies to reward the agencies' profitability and growth (sometimes referred to as contingency income).

Investment income: Agencies also may receive income generated from the investment of their assets. An example of investment income would be interest earned on a bank account.

Expansion and Mergers and Acquisition

What would it take to expand and grow the agency? Agency growth often comes in the form of a merger or acquisition. Many of you have experienced mergers and acquisitions as they are happening more and more frequently in the insurance industry with agencies being bought and sold every day. It is a way for the agency to expand its customer base—by either buying a book of business or an entire agency/group, or joining a consortium group to gain workforce, additional markets, and diversify books of business.

Since expansion can present many challenges, it's important for the agency to establish a plan to minimize the risk and maximize the potential from the merger or acquisition, as well as support the integration of workforce, customers, markets, and technology.

Knowledge Check

What are some factors that impact how the agency distributes its products and serves their customers?

Managing the Positions Within the Insurance Agency

Learning Objective:

- *Identify the agency's various stakeholders and the purpose of the position description.*

Now that you have an understanding of how agencies can be structured, let's take a look at WHO will be involved.

Many insurance agencies divide their personnel into two major categories:

- Sales
- Service

But more and more account managers are taking on the sales aspect of handling a customer's account.

The Sales Workforce

The sales workforce is comprised of agents (referred to as producers and/or brokers in some jurisdictions) with the responsibility of identifying prospects, making sales calls, determining prospects' needs, presenting solutions, and securing the buying decision. An individual can be both an agent and a broker.

If the insurance coverage is being written with an insurance company for which the individual has a contract, he or she is acting as an agent, representing the company. If the individual is placing insurance coverage with a company for which the they do not have a contract, he or she is acting as a broker. An agent who does not have a contract with an insurance company would be considered a broker, representing the customer in the transaction, rather than as an agent.

Producer

Throughout the insurance industry today, many use the term, **producer,** in place of agent. Agencies may refer to all their sales employees as producers rather than agents or brokers. And in some cases, a producer may act as an agent for some customer relationships and as a broker for others.

Some states or jurisdictions have changed their statutes to remove the distinction of agent or broker in terms of licensing and now refer to each as an insurance producer. For example, Texas does not have a broker's license.

A producer's license is required in the states or jurisdictions that authorize them to transact insurance. When it comes to holding licenses, regardless of the title, an insurance license can be either a resident license or a non-resident license, but the producer must hold a home-state resident license before a non-resident license can be obtained. In most cases, if an agent transacts business in states other than their home state, a non-resident license is required from each of those other states, in addition to the resident license.

Some states or jurisdictions may require the individual to have an appointment or affiliation (contract) with an insurance company before it will issue a non-resident license.

Binding authority is granted to agents through the agency agreements with the insurance companies with which it holds contracts. Binding authority permits the agent to temporarily place coverage in force while waiting for the insurance company to issue the policy. Your office may choose to create a form that indicates the binding authority for each company, as shown in Table 2.2.

Table 2.2

Motor Home	OK to Bind	Do Not Bind	Refer to Company
Liability up to 250/500/100	x		
Other than Collision up to $500 deductible	x		
Collision up to $1000 deductible	x		
No more than two moving violations	x		
More than three moving violations		x	x
One at-fault accident			x
Total of three losses (collision or other than collision)		x	x
The motor home is over 20 years old		x	x
Replace with Coverage amount exceeds $150,000		x	x
Vehicle is leased and used for commercial purposes		x	
Motor home is resided in for the majority of the year	x		

The Service Workforce

The service workforce is primarily comprised of professionals who carry titles that vary greatly throughout the industry. The position or title of “customer service representative” may also be referred to as customer service agent, account representative, account executive, account manager, or various other names.

These positions are professional—not clerical. For the purposes of what you are learning here today, we will use the term account manager (AM), as they truly manage the full customer life cycle. AMs are responsible for the day-to-day management of the customer relationship. An AM serves the customer by providing information, advice, and assistance during and after the insurance transaction has taken place. How these duties take shape depends on the size and philosophy of the agency.

Table 2.3

Service Staff	
License	Since a significant portion of an AM’s responsibilities could be considered transacting insurance, many states or jurisdictions require them to be licensed as agents.
Responsibilities	AMs may have responsibilities for both personal lines and commercial lines customers. However, in many agencies today, these are separate positions. AMs may be responsible only for the marketing or the placement of coverage and not the day-to-day servicing of accounts. AMs may also have responsibilities for account rounding/cross selling to their existing customers.

Over the customer’s life cycle, the account manager will do several of the following tasks:

- **Transacting insurance** includes explaining or discussing coverage, presenting quotes, completing applications, and binding coverage.
- **Account rounding** or **cross selling** refers to selling new lines of insurance to existing customers. Examples include writing a Homeowners Policy for a customer that only has auto insurance with the agency, or selling to an existing commercial account workers compensation insurance.
- **Referral selling** is selling new lines of coverage to others who have a business or personal relationship with existing customers. If you write insurance for a general contractor, you may want to get referrals to the subcontractors they use. If you write coverage for one of the subs, you have successfully accomplished referral selling.

Other Positions

In addition to sales and service positions in an agency, there are other positions that play a big part in the overall operations of the agency. Some include positions in administration and management as well as those in accounting, claims, education/licenses, or risk management departments.

Position Description

For the employees of an agency to work effectively—regardless of whether they fall into the category of sales or service—they must have a complete understanding of what their job is, how it should be done, and how it relates to the agency's performance. To assist in this process, it is critical the agency provides each employee with a position description that defines what is expected and the components that relate to their work.

Once the insurance agency determines what kind of workforce is needed to support its operations, position descriptions can be used not only to attract top candidates, but to give a sense of accountability to the internal teams. These descriptions are the foundation of every action the insurance agency takes. A position description is needed for every position in the agency. Its purpose is to:

- provide a clear understanding of the basic requirements for the position.
- define acceptable performance.
- describe what duties and activities are to be performed.
- provide support for on-boarding and ongoing training and employee development.
- help with performance evaluation and ensuring consistency across departments and positions.
- support and justify compensation rates.

Position descriptions are more than just a paragraph or two added to a job search website; they give insight into the agency, set expectations, and provide goals and metrics for the employment life cycle. The descriptions should be kept up-to-date and present a current reflection of what is required. The components may differ by agency depending on how the agency wants to implement their business plan and structure, but most will include the following elements. Let's take a deeper look.

Components of a Position Description

There are several key areas of a position description: position title, reason for the position, authority granted, defined duties and responsibilities, standards of the work performed, qualifications, and work environment/conditions.

1. **Position Title**

   The title should accurately reflect the nature of the job, including its ranking with other roles in the agency.

   - Account Manager
   - Personal Lines Manager

2. **Reason for the Position**

   The position description should identify the objective and reason for the position. This will clarify what role the position serves in the agency and how contributes to the overall performance of the agency. This defines the role not only for the employee in that position, but for the other employees in different positions, as well. A set of all position descriptions should be made available to all the members of the staff.

   In an effectively structured agency, every position is important and contributes to the overall result.

3. **Level of Authority Granted**

   The position description should identify and describe the level of authority granted and in what areas it applies. It should also identify what the employee should do in situations that involve decisions or action outside the authority granted. Sometimes, authority can overlap, and it is important to know who is ultimately responsible for the completed task.

   Ex: Let's say you can only bind coverage with an insurance company that has a financial rating no lower than A XII. The only quote you have for a customer is A VII. Your position description states you must refer to your manager for approval.

4. **Responsibilities, Duties, and Functions**

   The position description should identify the responsibilities, duties, and functions of the position. It should specifically describe the work that needs to be completed or performed. You should never have a situation where an employee does not fully understand what is expected.

The following are examples of responsibilities:

- *Educate and inform customers about coverage, exclusions, and exposures, documenting all transactions in the agency management system according to procedures.*
- *Renew and remarket accounts, as needed, according to agency standards.*
- *Prepare, complete, and submit applications to carriers; develop summaries and proposals and provide technical support in coordination with producer(s); responsible for following-up with carriers and customers.*
- *Assist clients with coverage changes, certificate requests, binders, and endorsements; use each contact as an opportunity to review needs and cross-sell appropriate services.*

5. Measuring Performance

Additionally, the position description can serve as a measure of performance compared to responsibilities. The responsibilities should have a level or degree of measurement associated with them, referred to as a standard. This explicit description of performance measurement guides the employee in how to best satisfy the requirements of their position.

For example, the responsibility may be, “all renewals are to be bound and invoiced on or before the renewal effective date and entered in the agency management system.” The standard calls for “all” to be “bound,” “invoiced,” and “entered” by a stated “date.” A review of the transaction register in the agency management system will reveal if the standard is being met and to what degree.

6. Qualifications

The position description should include a list of education, skills, and experience the employee should possess to meet the agency’s expectations and fulfill the duties of the job.

- *Strong written and verbal skills with the ability to deliver client-focused solutions to meet customers’ needs*
- *Ability to work in team environment, collaborate with service and sales team, possessing strong listening, presentation, and negotiation abilities*
- *Five+ years’ experience in commercial lines, with a P&C license*

7. Working Conditions

A description of the working conditions would include both a listing of the physical requirements for the job as well as a description of the work environment.

- *Remote position*
- *Ability to sit for extended amount of time*
- *Ability to lift up to 20 lbs. and operate machinery*

Below is an example position description for a Customer Service Representative.

CUSTOMER SERVICE REPRESENTATIVE JOB DESCRIPTION

Position Title: Customer Service Representative

Reports to: ______________________________

A. SUMMARY

Assists in the production of new accounts and the retention of existing accounts.
Provides prompt, efficient, high-quality service to designated accounts in support of Producer activities.

B. ESSENTIAL JOB FUNCTIONS

1. Responsible for gathering the information and risk management recommendations for the renewal of designated accounts sixty days prior to renewal and for delivering renewals and/or binders for designated accounts as needed, within five days of receipt.
2. Conduct periodic service calls via phone or in person for designated accounts.
3. Perform special projects at the request of designated clients after management approval. Complete binders and/or policy or endorsement requests within three days of date quoted to client.
4. Maintain timely and thorough customer and carrier interactions to minimize the potential for errors & omissions claims.
5. After reviewing updated client exposure survey information, obtain all required renewal information from the insured and complete applications for designated renewal business sixty days before renewal date. Assists Producer(s) as needed.
6. Review renewals to determine if non-standard policies can be rewritten in a standard program. Prepare rewrite applications for business through companies no longer represented at least 30 days prior to renewal. Secure and submit all required renewal underwriting information.
7. Receive phone calls and office visitors requesting quotes, changes to existing coverage and/or new policies. Complete changes/requests within 24 hours of receipt, Determine carrier placement, complete applications or endorsements, and collect premium when applicable.
8. Review existing accounts to determine if additional lines of insurance should be solicited by mail and/or phone prior to renewal.
9. Receive and review all terminations and cancellations to determine appropriate action within 72 hours of receipt.
10. Handle premium collection through form letters and request cancellation of policies when necessary.
11. Follow up on outstanding claims and provide assistance in claims resolution as necessary.

12. Solicit new business opportunities with clients for lines of coverage not currently written by the agency. Expectations are an average of one new business referral per client serviced.
13. Actively solicit increases in limits and/or coverages, rounding out accounts through new sales to clients across lines of coverage.
14. Actively seek referrals from current client base to solicit for new business prospects; follow up to generate new business using prospect database and automation system. Expectation is five referrals per week.
15. Document all material conversations with insureds and/or carriers regarding exposures and coverages.
16. Maintain working knowledge of all rating products and processes.
17. Perform other functions as assigned by management.

C. KNOWLEDGE, SKILLS, AND ABILITIES

Must be an assertive self-starter with the ability to influence others. Prior successful demonstration of effective presentation skills through both verbal and written communication methods.

D. WORKING CONDITIONS/ENVIRONMENT

Fast-paced, multitasking office environment. Employees are provided a dedicated workstation with basic ergonomic set-up features, such as an ergonomic keyboard and mouse, dual monitors, and an adjustable chair. Workstation accommodations and adjustments are provided upon request and evaluation.

E. PHYSICAL REQUIREMENTS

Must be physically able to work a minimum of <Enter Number of Hours> hours per week in the office and/or field. The employee is regularly required to see, hear, and project voice well enough without amplification. There is frequent need for the employee to stand, sit, walk, use repetitive small motor activity, use hands and fingers, and reach with hands and arms. The employee is occasionally required to lift and carry up to 30 pounds; to stoop, kneel, crouch, or crawl, and to ascend and descend stairs. This position requires a high-energy level and ability to handle stress-related situations on a daily basis. The employee may be required to drive and travel unaccompanied in diverse weather conditions.

F. OTHER REQUIREMENTS (PREREQUISITES)

Ability to use a personal computer, calculator, agency automation system, and demonstrate proficiency in various software programs, including but not limited to all Microsoft Office software suite programs.

Candidate must satisfactorily complete pre-hire employment assessments and maintain a satisfactory driving record. Candidate may be asked to submit to a drug and/or alcohol screening. A civil and criminal history background check will be performed at the company's expense. Physical attendance is required at regular and/or mandatory company meetings. Employees are encouraged to pursue relevant professional designations; however, this is not required.

G. APPLICABLE LAWS

This employer complies with applicable federal, state, and local laws governing nondiscrimination in employment in every location in which the company has facilities.

These laws include, but are not limited to:

- ADA: The employer will make reasonable accommodations in compliance with the Americans with Disability Act of 1990.
- EEO: This is an equal opportunity employer. The agency provides equal employment opportunities to all employees and applicants for employment without regard to race, color, religion, sex, national origin, age, disability, or genetics.
- OSHA: The employer will comply with OSHA requirements as applicable.

H. CLOSING

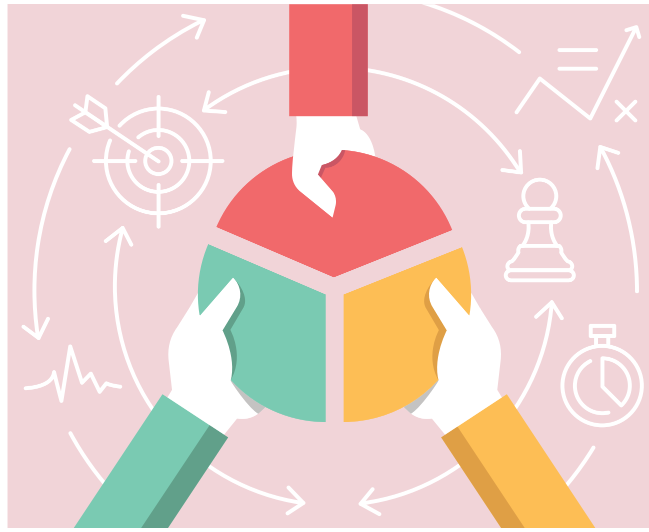
This job description is not intended as a contract and is subject to unilateral change and revision by management with or without notice at any time. Any written contractual agreements will supersede this job description.

I have read, understand, and agree to abide by the job description.

____

Signature   Date

Agency Stakeholders



We know that owners and employees are affected by the success of the agency, but others—potential stakeholders—can be impacted as well. A stakeholder is defined as "a person who has the potential to be affected by any action taken by an organization. It is a group or individual who is affected by the achievement of a firm's objectives." —*Black's Law Dictionary*
To put it succinctly, stakeholders are the people and organizations impacted by the success of the agency.

Potential stakeholders include:

- Board of Directors
- Employees
- Vendors
- Customers
- Industry Associations
- Insurance Companies
- Government

Review Table 2.4 to learn about various stakeholders.

Table 2.4

Board of Directors	The board of directors for the agency helps to guide decision-making that will lend to the agency's success. They benefit when there is an increase in the value of the agency's stock.
Employees	Managers and employers have a stake in the agency's success. Their continued job security and the potential for increased wages or benefits depends upon it.
Vendors	Vendors, such as providers of agency automation systems or comparative rating systems, benefit when their customers (agencies) succeed. Their livelihoods depend on the agencies either keeping their existing systems or spending available revenues to upgrade to newer systems.
Customers	Customers can be considered stakeholders since conducting their business with an agency that is financially stable results in high quality, responsive customer service.
Industry Associations	Industry associations, such as agency associations and user groups, benefit from agencies' successes since those agencies are more likely to continue their memberships.
Insurance Companies	Insurers have a stake in the success of an agency since it means the agency will function as a continued distribution source for their products.
Government	The government can be affected by an agency's success or failure—particularly if it results in the agency's noncompliance with insurance regulations.

It is important for the agency to understand what each stakeholder wants and expects in order for the agency to improve the service and products they offer. If you think about it, because stakeholders have a stake in the agency's success, they can—and should—be looked upon as partners in the business. Performance and accountability, along with constant communication, maintaining trust, and an willingness to listen to feedback, evaluate, monitor, and adjust as needed, will support a better partnership with stakeholders.

Knowledge Check

Your agency is seeking to hire a new personal lines account manager. Your manager shares the position description with you:

Personal Lines Account Manager

Responsibilities:

- Answer phones and handle customer queries
- Sales duties as needed

Qualifications:

- Three years' experience, or equivalent combination of education and experience
- Must be friendly and personable

Directions: Considering the role of the account manager and what you learned about the position description, what feedback would you give your manager about what components are missing?

Note: You do not need to rewrite the position description; simply explain missing components that can be added to create a more complete position description.

Summary

As you can see, there are many factors that can influence the operations of the agency. The agency's success relies on knowing Why those factors exist, What resources are needed, and—by developing position descriptions—Who will help achieve the goals. To determine, the agency starts with their values, vision, and mission statements. These statements have a direct correlation to what the agency will do. They help to define its core priorities, set current and future goals, and convey how the agency intends to serve its stakeholders. Relying on those statements, leadership can then model a healthy culture and build a strong brand. No matter the size, number of employees, locations, or tools, the agency must service their clients' needs, process policies for delivery, and communicate effectively to all stakeholders. This will increase productivity and retention and lead to greater profitability.

In the next section, you will learn about one of the agency's stakeholders—the insurance company—along with the various markets that can be used to meet your customers' insurance needs.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/AOresources.

What Kind of Agency Will You Be?
Staffing and Recruitment
Cooperating with Competitors
How Agencies Can Evolve

Section 2 Self-Quiz

Directions: Read each statement and select whether it is True or False.

1. The vision statement reflects the agency's current and future goals, such as "serving and protecting local families and businesses with the best insurance policies at the right price."

   True **False**

2. Defining the heart of the organization, core priorities, and behavioral issues that matter most to the agency's management would describe the intent of the agency's mission statement.

   True **False**

3. Read the following goal: "Jensen Insurance Agency seeks to develop a client referral program by the third quarter of 2021." Adhering to the principles of SMART goal-setting, this reflects a goal that is time-based.

   True **False**

4. The agency's brand encompasses the behaviors and attitudes of the organization and its employees. It is the environment created by the agency for its employees.

   True **False**

5. Agencies that are small and have relatively few employees tend to have a vertical or tiered organizational structure.

   True **False**

Directions: Read each question below and select the correct answer.

1. Which one of the following questions is NOT among those the agency's management should be asking when determining what is needed to meet or exceed its goals?
   - ☐ What products will be sold?
   - ☐ How long has the agency been in business?
   - ☐ What is the source of the revenue?
   - ☐ What kind of space-planning is needed?

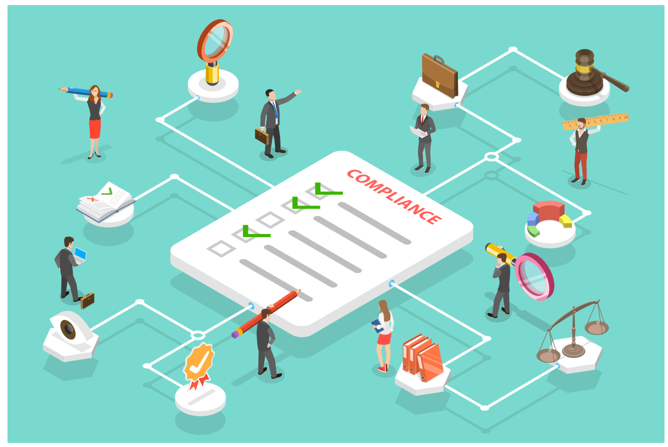
2. Carla is an insurance broker, but not an insurance agent. What does Carla not have the authority to do?
   - ☐ Act on behalf of the customer
   - ☐ Identify prospects
   - ☐ Authorize insurance transactions (bind coverage)

3. Transacting insurance, account rounding, and cross selling are all tasks performed by what position in the insurance agency?
   - ☐ Office manager
   - ☐ Account manager
   - ☐ New client business manager

4. What might an insurance agency be lacking if employees struggle to understand its vision and do not unite or adhere to a plan or direction?
   - ☐ Effective leadership
   - ☐ A sufficient number of employees
   - ☐ Experience in the industry

Section 3: The Insurance Industry and Marketplace

Section Goal



In this section, you will learn about the different classifications of insurance company ownership, as well as regulation, distribution, and expectations between the insurance company, the agency, and the customer.

Next, we will dive deeper into admitted and non-admitted markets and an introduction to reinsurance.

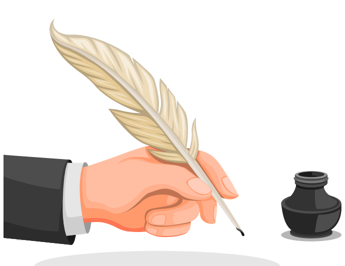
Learning Objectives

- *Understand the differences among classifications of insurance company ownership.*
- *Identify how insurance companies distribute their products and how they service expectations, and gain an understanding of the importance of a company's financial ratings.*
- *Explain the difference between admitted and non-admitted insurance companies.*
- *Identify and describe alternative insurance markets.*
- *Explain the differences between treaty and facultative reinsurance and the importance of reinsurance to the agency.*

Industry Regulation

Consider the following:

Imagine what the insurance industry would be like without marketplace regulation. What would be the risks to the agency, agent, and the consumer?



Insurance companies are regulated by the states and/or jurisdictions in which they conduct business. Compared to many industries, insurance is highly regulated. Why? One of the primary reasons is to protect the consumer. Because insurance contracts are so complex, they can prove difficult for consumers to decipher, and therefore, they need protection from unfair business practices. And when you consider the cost of coverage *and* the high stakes, it's critical the consumer have protection regarding the sale of insurance and recovery from loss. This is why the state's insurance department has approval of the policy forms and rates used by the company.

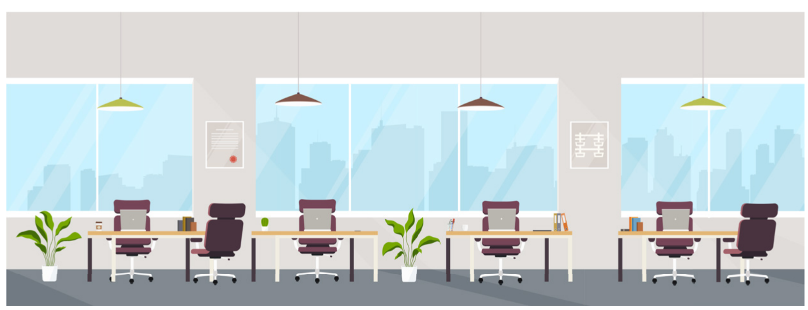
Industry regulation also serves to maintain insurer solvency and prevent destructive competition. We'll begin with a little bit of history: In 1945, the **McCarran-Ferguson Act** was passed by Congress, which essentially returned insurance regulation to the states. The Act was designed to ensure the preeminence of state regulation—*not* to free insurers from federal antitrust laws. State regulation has proven time and time again that it effectively protects consumers and ensures promises made by insurers are kept.

Insurance regulations consist mostly of state laws and other regulations regarding the solvency and markets of insurance companies. Solvency regulations seek to mitigate the risk of loss to businesses and individuals should an insurer become insolvent. The regulation is there to protect the consumer against the risk that the insurance company would be unable to meet their financial obligations. Market regulations seek to ensure fair treatment of policyholders in ensuring they are charged fair and reasonable insurance prices. Regulation monitors the insurance rates and determines if they are high enough to prevent destructive competition. It also seeks to ensure consumers have access to beneficial and compliant insurance products and are protected against insurers that fail to operate in ways that are legal and fair to consumers.

The Role of the Insurance Company

Learning Objective

- *Understand the differences among classifications of insurance company ownership.*



An insurance company is an organization that provides financial protection and reimbursement of damages to individuals, families, and/or businesses according to the policy contract. It assesses the risk and charges premiums for different types of insurance coverage. The insurance company creates and manages insurance products. These products include, for example, policies for auto and property insurance, life insurance, health insurance, etc.

The company controls their products, underwriting, claims, and pricing. They base their business model on assuming and diversifying risk. Most companies generate revenue from premiums charged for insurance coverage. Money must be set aside as reserves for paying claims. This money can be invested to generate additional income, but must be available when needed to pay those claims and can only be invested in accordance with regulatory guidelines. An insurance company can be mono-line (dealing in just one line of insurance) or multi-line (dealing in a variety of lines) and have specialties such as personal lines or commercial lines. An insurance company is divided into various departments; some of the common ones are claims, finance, legal, marketing, product development and underwriting.

Insurance Company Ownership Classifications

Insurance company ownership can take different forms.

- **Stock company —** This type of insurance company is owned by its stockholders and operates with the goal of making a profit for those stockholders. The stockholders elect the corporation's board of directors. The stockholders may or may not be policyholders. Profits may be shared with stockholders at the end of a defined period in the form of stock dividends or increase in stock value, or both.
- **Mutual company —** A mutual insurance company is owned by the policyholders—there are no stockholders—and the goal is to provide insurance at or near the actual cost of doing business. At the end of the fiscal year, if there is money left over in the form of profits or surplus, the money may be returned to the policyholders as a dividend or used to reduce future premiums.
- **Reciprocal exchange company —** This describes groups of individuals or organizations, called **subscribers**, who join together into an association for the purpose of insuring one another and are managed by an attorney-in-fact. Many reciprocals specialize in one line of insurance and or specific niche.

Knowledge Check

Directions: Given the description, identify whether the ownership of the company is classified as a stock, mutual, or reciprocal company.

A. Stock Company	______ Insurance Company Blue does not have stockholders, but instead is owned by the policyholders. At the end of each fiscal year, policyholders receive a dividend of any surplus profits.
B. Mutual Company	______ Insurance Company Green is comprised of a group of subscribers who insure one another in commercial property insurance. The company is managed by an attorney-in-fact.
C. Reciprocal Company	______ Insurance Company Red is owned by stockholders and run by a board of directors. Its goal is to make a profit each year, which is shared with stockholders in the form of dividends and increased stock values.

Distribution Methods and Expectations

Learning Objective

- *Identify how insurance companies distribute their products and how they service expectations, and gain an understanding of the importance of a company's financial ratings.*

Distribution

Insurance companies need to reach the consumer in order to sell their products. There are different distribution systems that make insurance products and related services available to the consumer. Below are some of the most common methods of distribution. Some insurance companies use more than one of these systems.

Independent Agent — Independent agents represent and work with various insurance companies, having the ability to compare, offer, and sell policies and services from the insurance companies they represent. This is known as the **independent agency system**. There are benefits of being able to offer clients policies from multiple insurance companies, giving them the ability to offer a wider selection of coverage and pricing. Independent agents serve as a direct link between the company and its customer. Under most agency-company agreements, the agency retains ownership of the accounts written with the company.

Captive Agent — Also known as **exclusive agents**, captive agents work for one insurance company and therefore are limited to only selling policies for that insurance company or a group of companies under common ownership or control. The insurance company contracts with the agent as an independent contractor to represent and sell on a commission basis for that company. The agent owns and controls the accounts, but must sell them back to the company if the agent decides to end the working relationship. As a result of having access to the insurance products offered by that one company, captive agents will typically possess a deep knowledge base.

Direct Writing System — Utilizing a "direct writer" is another option to secure insurance coverage. The consumer can shop online but does not have a local office to visit or primary contact person, as the direct writers are employees of the company.

Regardless of the type of system they support (sometimes more than one), companies also continue to develop additional distribution methods through the internet and social media.

Managing Company-Agency-Customer Expectations

The insurance company, the agency, and the agent engage in a critical partnership in order to serve the customer. Customer service expectations among all parties center around ease of doing business. Let's look at what each entity expects when it comes to conducting business.

What does the company expect from the agency?
A good working relationship between agency/company staff members
• Competent management
• Knowledgeable and professional staff
Honest submission with full disclosure of material facts
• Discretion in asking for exceptions or accommodations with knowledge of risk appetite
• High close ratio on new business and high retention ratio
Agency premium growth with that company
• Low loss ratio
• Share of the agency's business
What does the agency expect from the company?
Stability in the marketplace—not hopping in and out of lines of business
Stability and fairness in its rate structure and underwriting decisions
Some agency support through advertising, education, or possible management assistance
Fair and prompt claims handling and service
What does the customer expect from the agent?
Adequate coverage
Proper coverage
Coverage placed in the best interest of the customer
Prompt communication
Coverage placed with a financially sound insurance company

Financial Rating

Each state or jurisdiction has laws related to solvency that monitor insurance companies so the consumer is not negatively affected by the inability of an insurance company to meet its financial obligations, such as paying claims and returning unearned premiums. The state insurance department gathers data based on many factors such as claims experience, investment performance, management, combined ratio, and surplus to continually analyze financial solvency.

Insurance companies are required to submit financial data to their insurance department quarterly. That data is then evaluated by analysts to determine continued financial stability.

Remember, one of the standards of care agencies owe to their customers is placing their coverage with a financially sound insurance company. There are two ways insurance agencies can monitor their companies:

1. Check with the appropriate state or jurisdiction's insurance department to see if they have taken any action as the result of the company's financial condition.
2. Check with rating organizations that can provide information about the financial stability of a specific company.

The rating organizations widely used by insurance agents to monitor carrier financial are:

A.M. Best Company, Inc.	*www.ambest.com*
Demotech	*www.demotech.com*
Dun & Bradstreet	*www.dnb.com*
Standard & Poor's	*www.standardandpoors.com*
State Insurance Departments	
State insurance departments also provide financial rating information which can be accessed through the individual states' departmental websites or one of the organizations listed below:	
The National Association of Insurance Commissioners (NAIC)	*www.naic.org*
The National Underwriter Company	*www.nationalunderwriter.com*
The National Underwriter Company publishes the *Field Guide for Property and Casualty Agents and Practitioners.* This publication has the address of the Insurance Commissioners and other addresses that are useful.	

Knowledge Check

1. If you were forming your own insurance agency, would you prefer to be an independent or a captive/exclusive agent? Explain your answer.

2. Name one expectation the insurance company will have of the agency.

Admitted and Non-Admitted Insurance Companies

Learning Objective

- *Explain the difference between admitted and non-admitted insurance companies.*

Agencies will generally place business with the companies they represent. In most cases, these companies will be **admitted** as defined and licensed by the state (and described, below). On occasion, the nature of the risk or the type of coverage required will not meet the criteria of their admitted companies, resulting in the placement of coverage with a **non-admitted company** through an **excess and surplus lines broker**.

It is important to understand the differences between admitted and non-admitted companies, as well as the requirements and process in the placement of insurance with a non-admitted company.

Admitted Insurance Companies

As mentioned above, agencies place most of their business with admitted insurance companies (the standard market). Admitted insurance companies are those which have been licensed by the state. Their forms rules and rates are regulated, and their financial condition is monitored by the insurance departments of the states in which they are licensed or domiciled. If the company fails financially, the state's insurance **Guaranty Fund** protects business written and will step in to make payments on claims, as necessary.

- Admitted insurance companies pay the state a percentage of the written premium, known as a premium tax. These taxes are paid when the insurance company files its annual statement with the insurance department.

Admitted companies are given the authority to appoint agencies/agents; the agency/company contract authorizes the agency/agent to represent the insurance company to the public.

Non-Admitted Insurance Companies

Non-admitted companies are used by agencies to insure difficult-to-place risks that admitted carriers often can't afford to cover. These companies are not licensed by the state and are not obligated to comply with certain insurance regulations. They are often referred to as **excess and surplus lines** companies.

Some states provide a "White List" showing non-admitted carriers that are approved to do business in the state. The state insurance departments do not regulate the company's forms, rules, and rates, and there is minimal financial oversight by the states.

Keep in mind, there is no protection from the state's Guaranty Fund for business written with non-admitted carriers. There can sometimes be more flexibility with policy terms and pricing, which can be a positive for both the company and the policyholder.

Finally, agencies do not contract directly with non-admitted insurance companies; they must access the company through an **excess and surplus lines broker.**

Excess and Surplus (E&S) Lines Agent/Broker

An **excess and surplus lines agent/broker** is licensed by the state to sell property and casualty insurance through a non-admitted (surplus lines) insurer. The broker performs as a wholesale intermediary who places business for the benefit of the agent. Some agents do not use an intermediary; instead, they secure the appropriate surplus lines license to place insurance for their own customers within the excess and surplus lines market on a direct basis.

In most states or jurisdictions, an excess and surplus lines agent/broker must be appointed by a non-admitted insurer to solicit, write insurance, collect premiums, and collect surplus lines premium taxes assessed on each policy written.

An excess and surplus lines broker is licensed to write property and casualty insurance through a non-admitted surplus lines insurer.

These brokers have the responsibility to monitor the financial condition of the non-admitted insurance companies with which place coverage.

Excess and surplus lines brokers do not usually have binding authority.

They are responsible for collecting and remitting the taxes for the premium written with non-admitted insurance companies.

Guaranty Fund

quick tips!

In some states and jurisdictions, coverage cannot be written with a non-admitted insurance company unless a due diligence effort has first been made to place the coverage in the admitted market. The agency/agent may be required to document the specific number of admitted markets that declined the risk, demonstrating that an exhausted search was conducted before approaching the E&S broker or company.

One of the reasons for the due diligence requirement is because an insurance policy written with a non-admitted company is NOT protected by the Guaranty Fund of the state or states in which it does business.

Each state has one or more guaranty associations with each association handling certain types of insurance. Every licensed admitted insurance company is required to contribute to the Guaranty Fund. The pool of money is then available to pay claims, or possibly refund premiums, when another licensed admitted insurance company has become insolvent.

Even under the state insurance departments' close scrutiny of insurance companies' financial records, some occasionally go bankrupt, leaving their customers without a source to pay claims other than the Guaranty Fund.

When to Use a Non-Admitted Market

- **Type of risk**

  Perhaps a risk itself is too hazardous to place in the admitted market, or there are few similar operations. When too few like units of risk exist, it is difficult for a standard company to design and price an insurance policy profitably.

An example of this type of risk would be insurance for a business that manufacturers toxic chemicals.

- **Type of coverage**

  Occasionally, a client may want a type of insurance that is rarely requested or highly specialized. The type of coverage may have either a great or little chance of being utilized, but the financial consequences might be significant.

Conducting Business with a Non-admitted Insurance Market

The agency must consider the differences between working within an admitted versus a non-admitted market. Some of those differences are outlined below:

- Binding authority typically doesn't exist.
- Minimum premiums are higher.
- Minimum premiums are typically fully earned, so if the policy is cancelled, the insured does not receive a return premium.
- Audits are done for additional premiums only.
- The coverage forms are non-standard.
- They provide flexibility in product offerings.
- Their financial strength should be reviewed.

Knowledge Check

Greg, a fellow account manager, approaches you one day to ask for advice. "I have a client whose business represents a really difficult-to-place risk. I am having trouble placing their business with an admitted insurance company. Do you think I should go with a non-admitted company? What will I need to consider if I decide to go that route?"

1. Explain to Greg how non-admitted insurance companies differ from admitted companies, making sure to describe the risks associated with non-admitted companies.

2. Identify at least two considerations Greg should keep in mind if he decides to place his client's risk with a non-admitted company.

Alternative Markets

Learning Objective

- *Identify and describe alternative insurance markets.*

Although the agency first seeks to place customers with an admitted carrier, this may not always be possible. Instead, it may be necessary to seek an alternative market which uses techniques other than traditional insurance and reinsurance (which we'll cover later in this section) to provide coverage.

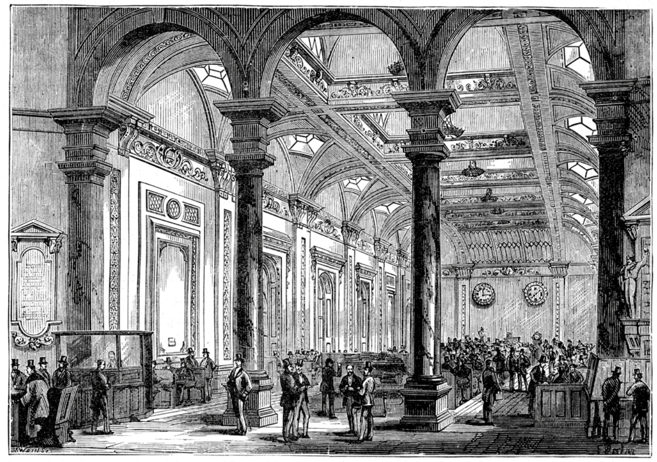
Categories of alternative markets include:

- Lloyd's of London
- Reciprocals, risk retention groups, captives
- Government programs/pools

Each of these markets has a place in an agency's business dealings, but they must be used carefully, with the understanding that the same assumptions and business practices do not apply with them. This is *not* "business as usual."

Various requirements and procedures must be observed when dealing with alternatives to the agency's admitted companies. Let us look further at each of these alternative markets.

Lloyd's of London



INTERIOR OF LLOYD'S.

Lloyd's of London is known as a market for difficult-to-insure risks as well as unique or unusual risks. It is not an insurance company; rather, it is a market where Lloyd's members are grouped together to insure risks.

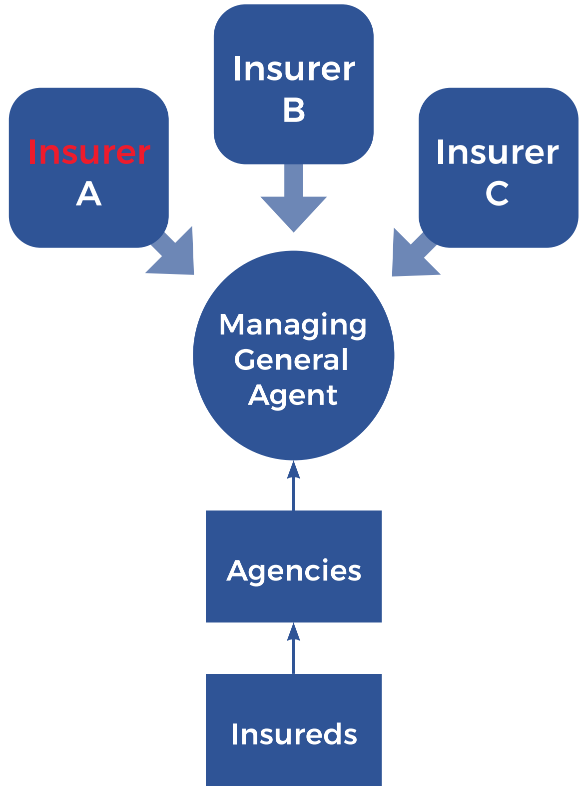
An agency typically accesses Lloyd's of London through an excess or surplus lines broker. Some agencies, however, may have access to Lloyd's brokers through appointments. Members provide financing that back the policies issued and may be grouped together into syndicates where managing agencies create and manage these syndicates. Managing agents are responsible for all activities regarding insurance submitted and accepted to the syndicate by brokers.

A broker may place portions of the same risk with more than one syndicate, especially for large and unusual risks.

FUN FACT

The Taylor-Burton Diamond: Richard Burton purchased a 69.42 carat, inch-thick diamond from Cartier for $1.1 million dollars. This ended up being the world's most expensive diamond at the time! According to Burton, Taylor wanted the ring after he insulted her hands. “That insult last night is going to cost me,” he wrote in his diary. Once Lloyd's had insured the diamond, they made the specification that Taylor should wear it in public for only 30 days a year—and even still, be protected by security guards.

Managing General Agent or Agency (MGA)



The **Managing General Agent or Agency (MGA)** is a wholesale intermediary that represents one or more insurance companies. It accepts business on behalf of his/her principal within mutually agreed upon guidelines and may have the authority to appoint agents within a specific geographical area. A Managing General Agency may employ excess and surplus lines agents to assist in their operations. In addition to excess and surplus lines (non-admitted) markets, an MGA may also have arrangements with standard (admitted) markets.

You have been unable to find coverage with one of your admitted companies for a customer. You submit the application to the MGA, who can then determine if one or more of the companies it represents would be willing to provide the coverage requested.

Risk Retention Group

A **risk retention group** is an insurance company in which each of the policyholders is also a stockholder (owner). The members are businesses with related or similar activities, and the coverage provided is limited to liability insurance. Risk retention groups are formed under federal laws granted under the federal Liability Risk Retention Act of 1986. Although formed under the federal Act, they are regulated by each state in which they do business.

Captive Insurance Company

Captive insurance companies are owned and controlled by their insureds and typically provide coverage for property and casualty exposures. A captive may be formed for a single entity (parent captive) or multiple entities (group captive) that are homogeneous in nature but can also insure. Group captives are formed and licensed by the state they are domiciled in and will use an insurance company as a front to their program.

Regional Insurance Company

Regional insurance companies conduct business only in states located in a specific geographic region. This type of company can often be more stable and offer competitive rates by avoiding states prone to high-risk exposures.

National Insurance Company

National insurance companies conduct business across the United States. They are larger and provide a great range of coverages.

Government Insurance Programs and Pools

Government insurance programs and pools are another source of insurance coverage for difficult-to-place risks.

Generally, **government programs and pools** handle risks that the admitted company will not write—either because it fails to meet the underwriting criteria or because the exposure to loss is catastrophic in nature, such as flood or earthquake.

Sometimes these markets are created when certain state or federal laws necessitate the availability of some insurance protection for all consumers. Below are some of the pools that are required by law or offered by the federal government.

Fair Access to Insurance Requirement (FAIR Plan):

The purpose of the **FAIR Plan** is to make fire insurance available to those who are unable to obtain it through other markets. Coverage is written on a basic Homeowners and dwelling fire policy, although some states may offer additional coverages. It is a state-sponsored plan, so it is not available in all states or jurisdictions. In addition, a state can choose to make coverage available only in certain counties.

Wind and/or Hail Pools

Wind and/or hail pools were formed when insurance companies were unwilling to provide wind and/or hail coverage in areas with catastrophic exposure. These plans, available along the Atlantic and Gulf coasts, provide insurance to property owners who are unable to get coverage for wind damage from hurricanes and other windstorms.

National Flood Insurance Program (NFIP)

The **National Flood Insurance Program** is one of the largest property insurance programs; it is administered by the Federal Insurance Administration under the Federal Emergency Management Agency (FEMA). Most property insurance policies exclude flood coverage, but customers located in an area prone to flooding can obtain the needed coverage through the NFIP program. It may not be available in all geographic locations.

Workers' Compensation Assigned Risk Plan

The **Assigned Risk Plan** is for those unable to buy workers' compensation insurance through other markets. It is not available in all states. It was established by individual states to make sure employers can obtain workers' compensation insurance even if standard markets are not willing to provide coverage for their business. Sometimes called "The Pool," the rates can be higher than coverage from a standard market.

Federal Crop Insurance Corporation (FCIC)

The **FCIC** improves the economic stability of agriculture through a sound system of crop insurance, and it provides the means for the research and experience necessary in devising and establishing such insurance.

As mentioned earlier, when using alternative markets, it is *not* "business as usual," and agents do not typically have binding authority. It is important that everyone in the agency working with these markets knows and understands the underwriting criteria, binding authority—if any—and the problems associated with incomplete or incorrect applications.

Table 3.1 summarizes the alternative markets covered in this section.

Table 3.1

Lloyd's	Excess and Surplus Lines	Reciprocals	Government
• Private Underwriters	• Wholesale Intermediaries • Properly Licensed Retail Agents • Managing General Agency (MGA)	• Subscribers **Risk Retention Group** • Members **Captive** • Parent	• FAIR Plan • Wind or Hail Pools • NFIP • Workers' Comp Assigned Risk • Federal Crop – FCIC

Knowledge Check

Directions: Match the term to the correct definition.

A. Captive insurance company	______ Basic fire insurance available to those unable to obtain through standard markets
B. Lloyd's of London	______ Conducts business across the U.S.
C. Managing general agent	______ Members are businesses with related or similar activities, and the coverage provided is limited to liability insurance
D. National insurance company	______ Not an insurance company, but a market where members are grouped together to insure risks
E. Risk retention group	______ Conducts business only in states located in a geographic region
F. Regional insurance company	______ Wholesale intermediary that represents one or more insurance companies
G. FAIR Plan	______ Owned and controlled by their insureds and typically provide coverage for P&C exposures
H. Wind/hail pool	______ Provides insurance to property owners unable to get coverage for wind damage from hurricanes and other windstorms

Reinsurance

Learning Objective

- *Explain the differences between treaty and facultative reinsurance and the importance of reinsurance to the agency.*

Reinsurance is a process of transferring risk from one insurer (the primary insurer) to another insurer (the **reinsurer**). It is a contractual reinsurance agreement in which one insurance company agrees to insure the assumed liabilities of another insurance company, a self-insured firm, or another reinsurer. In its simplest form, it is sometimes referred to as "the insurance company's insurance company—insurance for the insurers." The loss exposures transferred, or ceded, by the primary insurer could be associated with a single subject, single policy, or a group of policies. The primary functions of reinsurance are to:

- increase underwriting capacity
- provide catastrophe protection
- stabilize loss experience
- manage financial ratios

Let's discuss the difference between two types of reinsurance: *treaty reinsurance* and *facultative reinsurance*.

Treaty Reinsurance

Treaty insurance is when the insurance company (the **ceding company**—the primary company that transfers part of its liability to another company) agrees to transfer (cede) certain classes of business to the reinsurance company. These classes of business are described in the treaty (agreement). The insurance company agrees to cede, and the reinsurance company agrees to accept all business that qualifies, as contained in the agreement (treaty). The **reinsurance company**, in return, is the insurance company that accepts the liabilities of the other insurance company (the ceding company) for a stated premium.

A treaty states that all umbrella policies with limits above $1,000,000 will automatically cede or transfer losses in excess of $1,000,000 to the reinsurance company. Based on the treaty, the ceding company may transfer all of the loss in excess of $1,000,000, or a specified percentage of the loss in excess of $1,000,000.

Facultative Reinsurance

Facultative reinsurance is a form of reinsurance that uses offer and acceptance of individual risks in which, under a contract of reinsurance, the reinsurer retains its faculty (the ability) to accept or reject each risk offered by the ceding company. Each exposure the ceding company wishes to reinsure is offered to the reinsurer as a single transaction. The reinsurer underwrites every loss exposure individually upon its submission from a ceding company. The reinsurer is not obligated to accept any or each submission. Each transaction is individually negotiated with respect to terms, conditions, and prices.

Reinsurance Considerations

The treaty an insurance company has with its reinsurer is a factor that must be considered when an underwriter is evaluating a risk for acceptance and pricing.

Personal lines can be affected by limitations such as liability limits, property limits, protection classes, etc. The insurance company may be unable to provide coverage because reinsurance is not in place. Reinsurance restrictions may be the reason for the limitation of binding authority.

Commercial lines can be affected by both coverage limitations and pricing. If reinsurance is required on a risk that falls outside of the scope of the treaty, pricing and coverage availability can be affected. The underwriter must include a premium charge for this type of reinsurance.

Knowledge Check

Directions: Compare and contrast treaty and facultative reinsurance.

Summary

Insurance companies can vary in their type of ownership. They are regulated by the state in which they operate in order to protect the consumer, maintain solvency, and avoid destructive competition.

Distribution channels are used to promote and deliver the products and services of the insurance company. Certain expectations are assumed between the company, the agency, and the customer when selling the company's products.

Depending on the risk, the agency will either seek out an admitted market or, if rejected by standard carriers, a non-admitted market. Since conducting business with a non-admitted market can be different, the agency should have procedures in place.

Reinsurance acts as insurance for insurance companies and may be treaty, facultative, or a combination. All in all, the agency would not have anything to sell if it wasn't for the functions of the insurance company.

As you move to the next section, you will be introduced to the risk management process and how the agency mitigates its risk by implementing processes that protect it from E&O claims and potential lawsuits.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/AOresources.

A Good Company Fit for an Agency
Types of Agents and Agencies
Insurance Company Financial Ratings
Surplus Lines Agencies
Admitted vs. Non-admitted Insurance
Understanding Reinsurance

Section 3 Self-Quiz

Directions: Read each question below and select the correct answer.

1. Which one of the following is NOT one of the classifications of insurance company ownership?
   - ☐ Stock company
   - ☐ Mutual company
   - ☐ Regional company
   - ☐ City-wide company

2. Used by the agency for difficult-to-place risks and not authorized or licensed to do business in the state of jurisdiction is known as what type of insurance company?
   - ☐ Admitted insurance company
   - ☐ Non-admitted insurance company

3. Typically, government programs and pools handle risks that admitted companies won't write. Choose the scenario that best fits what a government program or pool would handle.
   - ☐ An earthquake struck and destroyed Sarah's business.
   - ☐ While driving to work, a distracted driver crashed into Jim's car.
   - ☐ The stove was left on and caused a fire in Gerald's kitchen.
   - ☐ A painter tripped on the uneven floorboards in Lynn's home, resulting in a broken elbow and dislocated shoulder.

4. When the insurance company agrees to transfer (cede) certain classes of business to the reinsurance company, this is an example of what type of type of reinsurance?
   - ☐ Facultative reinsurance
   - ☐ Treaty reinsurance

Directions: Read each statement and select whether it is True or False.

1. In the 1920's, silent film comedian, Ben Turpin, purchased a $25,000 insurance policy, payable if his trademark crossed eyes ever uncrossed. Lloyd's of London would be the market to insure this risk.

   True **False**

2. A mutual company is one owned by the policyholders *and* stockholders with the goal of providing insurance at or near the actual cost of doing business.

   True **False**

3. An excess and surplus lines agent/broker must be appointed by a non-admitted insurer to solicit, write insurance, collect premiums, and collect surplus lines premium taxes assessed on each written policy.

   True **False**

4. An insurance company in which each of the policyholders is also a stockholder—or owner—is known as a risk retention group.

   True **False**

5. The purpose of the FAIR Plan is to make flood insurance available to those unable to obtain it though other markets.

   True **False**

6. Leonard is an insurance agent who represents and works with various insurance companies. He has the ability to compare, offer, and sell policies and services to his clients. Leonard is known as a captive insurance agent.

   True **False**

Section 4: Risk Management and Agency Processes

Section Goal

In this section, you will gain an understanding of the risk management process and the importance of having established processes in the agency.

Learning Objectives

- *Explain the steps in the risk management process, including:*
  - *the four logical classifications of exposure to loss,*
  - *risk control techniques, and*
  - *the difference between active and passive retention and transfer.*
- *Identify the benefits to the agency of having written and automated uniform systems and procedures along with proper documentation.*
- *Describe the components of a formal training plan and understand the purpose of an internal quality control process.*

Introduction

Risk and the need to manage it exist in everyday life. **Risk** is defined as a condition of either positive or negative uncertainty arising from a given set of circumstances. It includes both positive and negative outcomes with a chance of loss or no loss. In the insurance industry, the definition of risk can vary according to the job function or area of expertise. For example, to an underwriter, risk is the subject of insurance; to an agent or broker, risk could be the insured or an exposure. And to others, risk could be the peril. In this section, you will learn about the risk management process and the importance of having agency processes in place to control the potential risk of errors and omissions (E&O) claims and to increase the level of customer service and overall operation efficiencies.

Risk management is the process of making and carrying out decisions that will minimize the adverse effect of risk on an organization. A risk exists where there is an opportunity for a profit or a loss. This is especially important to the personal lines customer as well as the small commercial account. Generally, these customers do not employ or have access to risk managers, nor do they hire those services from an independent consultant. The agent *is* the risk manager; this is a true value-added service of the agency. We will begin by exploring the five steps in the risk management process.

Scenario

Your agency has decided to begin offering a range of risk management solutions and services to clients. As an agent, you have basic training in the risk management process and are now prepared to begin conducting basic risk management consultations.

One of your commercial clients, Cindy, calls and tells you she has been thinking of opening a restaurant on the ground floor of her boutique hotel. She wants your help in identifying and managing the potential risks associated with this new venture.

Thought Question:

How can you help Cindy identify and control potential exposures in her new business?

Basics of Risk Management

One way to add value for your customers is by offering a range of risk management services and having efficient processes established for the agency. In order to recommend risk control measures to clients, there should be an understanding of risk definitions and the risk management process.

Some agents who counsel customers about risk management will offer basic risk management services and solutions, but will not explain financial products or the many additional sophisticated risk management solutions. They will ask questions and review information in an effort to help customers make informed decisions about the risks they have. However, true risk management is a process—a more structured approach to identifying, measuring, and controlling exposures to loss.

Some agencies have created additional departments and now specialize in providing a full range of risk management services as a fee-based service for customers of all sizes.

The Risk Management Process

Learning Objective

- *Explain the steps in the risk management process, including:*
  - *the four logical classifications of exposure to loss,*
  - *risk control techniques, and*
  - *the difference between active and passive retention and transfer.*

The purpose of risk management is to protect customers' assets through the identification and analysis of exposures, controlling the exposures, financing losses with internal and/or external funds, and implementing and monitoring the risk management program. Risk management can best be understood as a five-step process.

The Five-Step Risk Management Process

Step 1 – Risk Identification: Identify the customer's exposure to loss.

Step 2 – Risk Analysis: Determine the frequency or severity of the exposure. How much could a loss actually cost the customer?

Step 3 – Risk Control: Understand what methods can be implemented to eliminate or reduce the cost associated with the exposure.

Step 4 – Risk Finance: Fund losses by using either internal or external dollars.

Step 5 – Risk Administration: Implement and monitor the customer's risk management program.

Because an unknown exposure cannot be analyzed, controlled, or financed, the most important step in the process is Risk Identification.

Risk Management Process Overview

Step 1: Risk Identification

During the risk management process, insurance is not the primary focus. It is important to identify all the exposures to properly manage all of the risks. When agents are policy-oriented rather than risk-oriented, they may overlook some of these exposures.

An **exposure** is a situation, practice, or condition that may lead to an insured's susceptibility to adverse financial consequences or loss. Activities, resources, and assets are also considered exposures. Exposures can be either direct or indirect. A direct exposure describes, for example, a property loss, whereas an example of an indirect exposure could be the loss of income as a result of that property loss.

There are four logical classifications of exposure to loss.

1. **Property**

   This would include buildings, homes, personal property, business property, equipment, intellectual property, etc.

2. **Human Resources**

   If there is a risk of injury, disability, or death, financial hardships may occur and need to be considered.

   This also includes:

   - loss of a key person,
   - employee benefits,
   - employment practices,
   - liability exposures, etc.

3. **Liability**

   An obvious example of liability is causing bodily injury or property damage to others through the insured's negligence.

   There are many other liability exposures to consider, including:

   - personal injury (libel, slander, invasion of privacy, wrongful eviction),
   - requirements to hold others harmless, and
   - other contractual obligations.

4. **Net Income** (loss of income/loss of use)

   If an insured's property is destroyed, how will that insured continue in business?

   Where will an insured live? What will be their source of money for relocating offices or equipment?

   How will employees or the owner continue to be paid? In addition to the direct exposure to loss of property, the financial concerns and indirect exposures caused by the loss also must be considered. Indirect exposures include loss of income as a result of a loss at a primary supplier or primary customer's location.

   Exposures, perils, and/or hazards producing losses may interfere with an organization's goals and have a financial impact as a result. It is critical that a variety of methods be used to identify exposures to minimize the possibility of overlooking any.

Methods to Identify Exposures

Methods to identify exposures to loss can vary depending on the type of exposure, with the possibility of using multiple methods to address the same exposure. These methods are:

- **Expert Review**
- **Checklist, Surveys, and Questionnaires**
- **Physical Inspection**
- **Loss Data Analysis**
- **Insurance Policy Review**
- **Procedures and Policies Review**
- **Flowchart Review**
- **Financial Statement Analysis**
- **Compliance Review**
- **Contract Review**

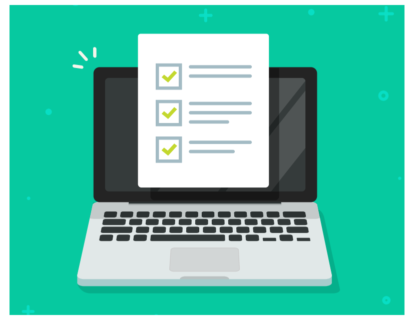
Remember, the duty of an insurance professional is to make certain the customer is protected at all times from severe financial loss.

As stated, a variety of methods can be used to identify exposure to loss. Let's take a closer look at a few of these methods.

Expert Review Method

When using the expert review method, information is gathered from experts who provide their professional opinions, recommendations, and solutions. Be sure to ask the right questions of the right person(s) and listen to their responses. This could be an internal or external person or persons.

Checklists, Surveys, and Questionnaires Method



The checklists, surveys, and questionnaires method uses information-gathering documents (lists and surveys) to search systematically for as many loss exposures as possible.

This particular method is standardized, provides a history for the risk manager, is easily classified and tabulated, and, because very little training is required to use this method, it can be utilized by non-risk management personnel.

Make sure the documents you utilize are specific to the geographic region and demographics of the agency's customers. Commercial surveys work best if specific to that particular industry.

Examples of checklists, surveys, and questionnaires include:

- List of Assets
- Activity or Situation Analysis
- Perils Analysis
- Insurance Checklist
- Industry List

Each tool within the checklist/survey method has its own use, strengths, and weakness.

List of Assets

A checklist is best suited for property and physical assets.

Strengths of this method are that it provides a list of all resources and capacities, stimulates staff to account for assets, and identifies assets that are often overlooked.

Weaknesses of this method are that it does not ordinarily address liability risks, it must be updated regularly (especially when new assets are acquired), and it provides varying cost estimates depending upon when the survey was completed.

Activity or Situation Analysis

This analysis is best suited for liability and human resources exposures to evaluate personnel and operations and how they function together, plus some activities that can be overlooked—for example: volunteer, travel, or hobbies.

Strengths include instilling a thought process for loss prevention; evaluating equipment, personnel, and operations that function together; and identifying activities that are often overlooked.

Weaknesses include too much detail; it does not focus on the financial aspect of identification; and operations and activities may vary by locale.

Perils Analysis

A perils analysis is commonly used to identify the potential causes of loss from human, economic, and natural perils.

Strengths are that it provides a list of common or likely causes of loss, uses insurance terminology, and can assist in identifying perils that occur infrequently and might otherwise be missed.

Weaknesses are that new perils are created daily, old perils are forgotten or overlooked, and the analysis may become obsolete. Upper management may be skeptical of this method for these reasons.

Insurance Checklist

An insurance checklist can be used to determine the feasibility of contractual transfer.

Strengths include that it is a definitive list of available coverage and exclusions, it evaluates exposures, and it requires limited work by the risk manager.

Weaknesses include that it is, by definition, geared toward exposures that are currently insured or are conventionally insurable, and swings in the insurance market can cause the scope of insurable exposures to expand and contract.

Industry List

This is a checklist specific to a certain operation or industry and is generally tailored to specific assets, activities, perils, and insurable exposures commonly found in that industry or operation.

Its strength is that it facilitates comparisons with peers.

Its weakness is that it can be too focused on the industry, or it can be too generic.

If the checklist is not created or at least edited by others outside the industry, the users may continue to make the same mistakes other industry participants have made.

Physical Inspections Method

With this method, physical inspections are conducted through informational visits to critical sites both inside and outside the organization, to determine exposures to risk. This consists of much more than just a "drive by."

When on-site, be sure to look for exposures (business on premises, safety or maintenance issues, fire protection, etc.), and take pictures for both the insurance company and agency files.

Ideally, the customer will allow the risk manager and the risk management team to personally view potential exposures. The ability to do so considerably enhances the team's ability to conduct qualitative analyses as well as quantitative analyses.

Some examples of the physical inspection method would be a monthly safety inspection, a workers' compensation program analysis, or a property survey report.

Example: Safety inspection checklist

Acceptable	Needs Attention	Condition
		Floors in good condition
		Floors dry
		Floors not slippery
		Floor openings properly covered
		Intake vents clean
		Exhaust vents clean
		Signs of seepage
		Signs of leakage
		Ceiling material secure
		Water piping system
		Steam piping system
		Air piping system
		Loading dock
		Storage room(s)
		Waste disposal area(s)
		Broken glass
		Lighting in all areas
		Handrails secure
		Stair treads secure
		Warning signs in place

Loss Data Analysis Method

This type of analysis can be performed on insurance company loss runs, internal loss runs, or accident and incident reports. It utilizes reports that provide detailed loss data over a specified time period—usually three to five years—which includes descriptions, dates, types, and dollar amounts of claims paid and/or reserved for future payment. This method helps to identify loss trends and patterns.

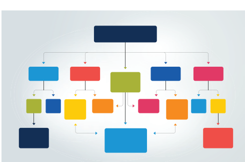
Insurance Policy Review Method

The insurance policy review method is used for reviewing insurance policies and related documents to determine exposures and perils that are and are not covered. The reviews are handled internally or by external experts focusing on what coverage is available in the marketplace. However, reviewing existing insurance policies will only tell you what is insured, not what risk actually exists.

Procedures and Policies Review Method

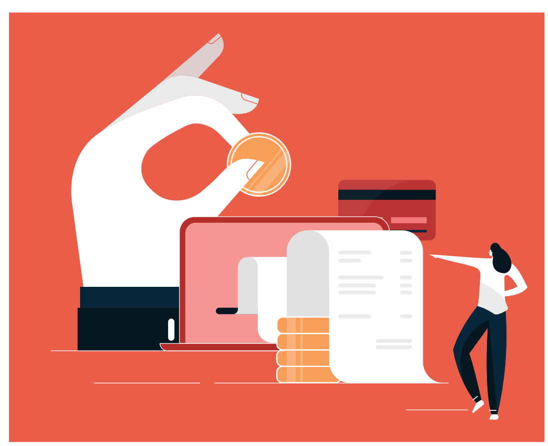
This method uses internal, external, and legal reviews to evaluate policies and procedures. Some of the items this review could include are mission statements, organizational charts, employee manuals, and procedure manuals. This method can uncover exposures that others in the organization create but for which organizational politics and realities may prevent any effective remedy of the exposures.

Flowchart Method



The flowchart method consists of detailed diagrams of the sequence in which raw materials or goods move through an organization's operations and processes to their final point of production and distribution. This method identifies bottlenecks and loss exposures.

Financial Statements Method



This method is used to identify values that are subject to loss, events that could cause loss, and the fiscal impact after loss. It involves looking at reports that provide information about a firm's financial health, including profit and loss statements and the balance sheet.

The data used in the financial statements method is usually compiled quarterly, semi-annually, and on an annual basis. This method is particularly helpful in identifying loss exposures to equipment, property, contingent business, etc.

Compliance Review Method

This method is an examination of whether there has been an adherence to professional standards and/or compliance to regulations and law by the organization. This can either be statutory or professional.

Contract Review Method

The contract review method provides a review of contracts other than insurance policies and gives insight to the organization's obligations to others. Some of the types of contracts that can reviewed are leases, purchase orders, and sales, employee, and service contracts.

Check-In

Directions: List the four logical classifications of exposures to loss.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

Directions: Name two methods used to identify exposures.

1. ______________________________

2. ______________________________

Remember that Risk Identification is the most important step in the risk management process. Risk, once identified using one or more methods, can be addressed and treated. Now, let's take a look at the second step in the risk management process.

Step 2: Risk Analysis

Risk Analysis involves measuring the exposure to loss.

- What is the frequency?
  - What is the likelihood a loss will occur?
  - How often will a loss occur?
- What is the severity?
  - What are the financial consequences should a loss occur?

Points to remember: The most severe and the most frequent exposures should be addressed first.

- Frequency leads to severity.
- Don't risk a lot for a little.
- Don't risk what you can least afford to lose.

Step 3: Risk Control

The third step in the risk management process is Risk Control. This consists of active measures taken by the insured to avoid, prevent, or reduce the frequency or severity of loss, including transferring the risk to another party. The focus of risk control is on finding and implementing solutions to prevent or reduce actual harm.

There are five primary risk control techniques.

1. **Avoidance** – Choose not to own certain property or to engage in an activity.
   - Least expensive but not always practical

   Examples: sell the all-terrain vehicle; decide not to manufacturer a product that has a high severity of loss; don't rent the jet ski while on vacation

2. **Loss prevention** – Reduce the frequency of losses.

   Examples: place non-skid material on stairways; install an alarm system; implement a process for proper stacking of boxes on shelves; conduct safety training

3. **Loss reduction** – Reduce the severity.

   Examples: install fire and smoke detectors; wear seat belts; wear safety equipment; etc.

4. **Duplication/Separation** – Focus on reducing the severity of loss.

   Examples: Maintain duplicate accounting records; park the auto fleet in two separate lots

5. **Combination** – Use more than one risk control technique.

Step 4: Risk Finance

The Risk Finance step focuses on determining how losses will be paid. In some cases, the insured may "finance" the risk through active or passive retention. In others, the risk may be transferred to another party or entity to finance any losses.

Retention

Retention is one way to finance a loss, as the customer retains the responsibility to pay for a loss if it occurs. There are two types of retention: active and passive.

Active retention is when the customer knows before the loss that he/she will be financially responsible for all or some of the loss.

When the insured chooses not to insure the physical damage on older vehicles or chooses a high deductible on a property policy, they are practicing active retention. The insured knows, before any loss occurs, that in the event of loss, they will be financially responsible.

Passive retention is when the customer finds out after a loss that he/she is financially responsible for the loss. This may be a result of the insured not understanding the concept of retention when determining what coverage to choose when purchasing an insurance program.

It is the agent's responsibility to thoroughly explain passive retention to the customer. Also known as "WHOOPS!," passive retention may result in the customer looking to the agency to pay the uninsured loss and can create a potential E&O claim for the agency.

Transfer

Transfer is another way to finance a loss. In this situation, the customer transfers the responsibility to pay for the loss to another entity. There are two types of transfer: insurance and non-insurance.

Insurance transfer is when the customer transfers the financial consequences of a loss to an insurance company. Insurance transfer is what insurance agents do every day when they sell insurance policies to customers. The loss may still occur, but the insurance company pays for it instead of the insured.

Without the security of this arrangement, the customer would have to commit his or her own assets. It is much more manageable for most individuals to pay a known small loss each year (the premium) than to pay for a large, unexpected loss.

Caution: The amount that has been transferred is the limit of the insurance policy. The insured is still responsible for the amount of any loss that exceeds the limit of insurance purchased.

Non-insurance transfer is when the customer transfers the financial consequences of a loss to another through a contract or agreement in which the other party agrees to assume the risk of the insured.

A good example is a landlord who makes the tenant responsible for insuring the building. Since the tenant has assumed this legal obligation under the contract, insurable interest has been established.

An insurable interest is when the person seeking insurance would suffer a financial loss or experience a hardship if the object to be insured was damaged or lost.

Check-In

Directions: Circle the correct answer.

Based on the scenario below, is this active or passive retention?

Rick files an insurance claim for auto body repairs to his car after an accident, but learns he will have to pay 100% of the bill due to the high deductible on his policy.

Active Retention **Passive Retention**

Step 5: Risk Administration

The fifth and final step in the risk management process is Risk Administration. This is when the risk management program is implemented, monitored, and/or revised when necessary.

By applying basic risk management techniques, you may have the opportunity to provide a benefit to prospects which they may not be getting from their current agency.

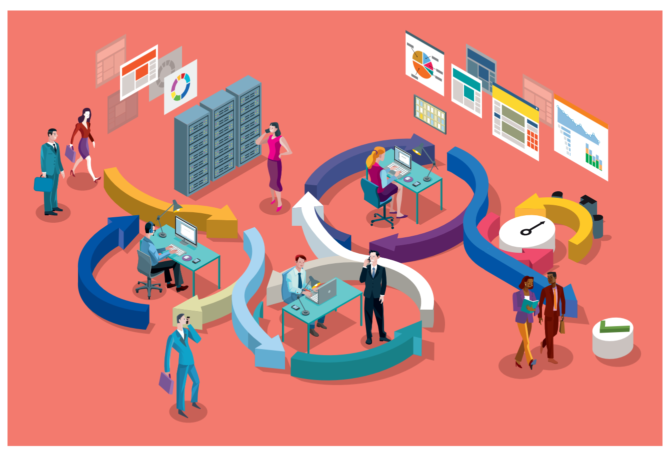
Knowledge Check

The new leadership at your agency has decided it is important for agents to become knowledgeable in risk management in order to provide this value-added service to clients. After training all account managers, the agency begins to market risk management services to clients. As a result, one of your clients, Judy, calls you to ask about risk management procedures. Judy owns a company which reupholsters furniture, and she is especially concerned about bailee and transportation exposures—that is, risks related to having customers' furniture in her care, custody, and control while being transported to her facility, reupholstered, and then transported back to the client.

Explain to Judy how you can employ the five steps of the risk management process to help her identify and mitigate potential risks.

**Note: You do not need to actually implement the process, but rather explain in general terms how the process can help Judy in this scenario.*

Agency Processes



As you are well aware, risk exists within the agency, and it is important for the agency to manage its exposures. One way this can be done is by establishing processes that minimize exposure to E&O issues. Agency processes govern the way work is handled in the agency. Taking into consideration that agencies vary in their approaches to who does what and how tasks are accomplished and delegated, there are common tasks, steps, and measures that need to be performed to ensure things get done correctly. To strive for increased productivity, the agency must provide direction and control regarding expectations on how tasks are handled. Knowing what you are responsible for and how it needs to be accomplished requires a uniform way of doing things and a way to measure the results.

Scenario

Imagine what would it be like to work for an agency that did not have clearly defined roles and processes. Consider the following example: You've started working for a new agency. Since you were referred to the role by a colleague, you realize, after being hired, that you never received any formal training on the agency's processes or procedures. You were simply told, "You're an experienced account manager—you know what to do! Just ask if you need help finding anything."

Thought Questions:

1. How would you feel as a new employee in this situation?
2. How do you imagine an agency might function without formal processes and procedures?

Define Responsibilities and Standards

Learning Objective

- *Identify the benefits to the agency of having written and automated uniform systems and procedures along with proper documentation.*

Having written, uniform systems and procedures is a means of risk management within the agency, and is crucial to the success of the agency and its employees. With processes in place for completing various tasks, the agency controls its own operations. These processes give both employees and customers the best outcome through servicing the customers' needs in an established manner. Coupling these processes and procedures with internal training is one of the best ways to manage the risks of potential E&O issues, foster higher levels of efficiency, and maintain accuracy in each business transaction.

Workflows, standards, and procedures are important as they define what is the expected result for the responsibilities, duties, and function of a position within the agency. It is a way to measure results and productivity, which leads to overall improved performance for both the employee and the agency. Consider the following definitions:

A **standard** is a stated, acceptable level of performance in every area of the agency's operations.

A **procedure** defines the tasks the agency must do or accomplish to achieve a stated standard. Who, what, and when should be identified within the procedure.

A **workflow** describes the specific keystrokes and steps that need to be performed in order to complete a procedure.

Benefits of Written Systems and Procedures

There are numerous benefits to the agency when written systems and procedures are established.

- Work gets performed in a uniform way.
- They can be used as a training tool for new employees.
- They can serve as a reference tool for all employees.
- They reinforce the quality and efficiency of work by removing uncertainty about how to accomplish goals.
- They can reduce, or even prevent, E&O losses.
- They are key for defending E&O claims.

Everyone in the agency should have quick and easy access to the agency's workflow procedures. They should be documented in a manual and/or on an intranet site which should be accessible and up-to-date at all times. When changes occur, employees must be advised of the changes as well as the reason for the changes.

A committee consisting of staff and management should meet on a scheduled basis to review procedures. It is suggested that this be part of the agency planning process since it will help identify projected changes and what resources will be needed to accomplish such changes.

Written, uniform systems and procedures also serve as a key training tool for new employees during their onboarding, in addition to being a reference tool for all employees. When everyone learns from the same source, they are more likely to approach business in a uniform manner. Written procedures improve efficiency and reinforce the "quality of work" expectation while removing the uncertainty of how to accomplish what needs to be done.

Keep in mind that written procedures are the backbone for errors and omissions loss prevention. They are visual, direct, and create a uniform way for the work to be performed. A well-written and adhered-to procedures manual is key to successfully defending E&O claims. Without a guide, the likelihood of work being mishandled or not handled at all increases, as does the agency's exposure to an E&O claim.

Standardized Documentation and Automation

As mentioned earlier, a uniform or standardized method of processing business leads to the most effective and productive way for entering information into the agency management system, and ultimately, ensuring consistency.

Using digital tools and automating routine tasks creates a more streamlined workflow. Automation is the most effective way to handle information—if it is done correctly. An **automated workflow** is a series of tasks performed automatically when a specific event occurs. To have an accurate automated workflow, information must be entered into the agency management system and other technology, as required. Reports can then be generated by pulling data from various sections or fields. If the information has not been entered, or is not entered correctly, the reports do not reflect the actual results, which means that you do not have an accurate accounting of the agency's business. Management needs to be able to assess the operations and offer tools and resources for improving agency processes.

Effective use of technology is critical for today's agencies. In addition to the agency management system, the use of automation serves as a tool for performing functions involving many other aspects of the agency—from sales and prospecting, to rating and policy issuance, to training and research, etc. It will be critical for the agency to evaluate their tools and determine if those tools are doing the job of improving the overall operations and ability for the workforce to function efficiently and serve customers' needs.

Successful agencies leverage the capabilities of their technology tools to operate at peak efficiency. But, not all agencies utilize automation to the same level or have the same type of technology. This includes agency and benefits management systems, document management systems, and software that integrates with the insurance companies' for real-time transaction processing. While many systems will require the same types of information to be entered, or will retrieve the same types of data, how the agency incorporates those technology-driven capabilities into their workflows, systems, and procedures can vary widely. The true power of technology is only as good as its implementation. As the agency expands, it will need to re-evaluate the extent and ways they are using their technology. The more the agency engages and assesses that utilization, the more they can streamline their operations, which can free up the workforce to focus on more productive, customer-focused tasks.

Let's take a look at four levels of technology utilization that the agency could move through:

- **Manual Transition –** The agency has minimal reliance on technology and automation.
- **Process Focused –** The agency is beginning to utilize technology to enhance service and allow staff to work more efficiently.
- **Service Focused –** The agency is now at the stage where the use of technology and automation is essential and is the primary source of information and documentation.
- **Client Focused –** Technology and automation are fully implemented, allowing more time to focus on the customer and achieve increased productivity.

Each agency needs to identify which level it is functioning in and determine if an adjustment in level might be necessary to support its workforce and reach its goals. Depending on how the departments/teams are set up, and if training and evaluations exist, the agency could have employees functioning in different levels. Oftentimes, the technological capabilities are available and are exactly what the agency needs, but the knowledge base needs improvement. Training must be ongoing to ensure all employees are utilizing the systems to the fullest and following the established standards and procedures.

Documentation

Detailed records and documentation should be a requirement for every transaction that takes place in the agency. Documentation should be made in the agency management system according to the agency's policies and procedures. Additionally, documentation should be completed while dealing with the customer or immediately afterwards so the information is correctly documented. Documentation should consist of facts; editorial or emotion-based comments should not be entered.

> Document (verb):
> 1. to support with records, instruments, and other evidentiary authorities,
> 2. to record; create a written record of.
>
> —*Black's Law Dictionary*

It is particularly important to document the customer's records regarding any rejection of coverage, selection of reduced limits, etc. If the insured turns down your offer of higher auto liability limits, be sure it is documented in case you must later prove higher limits were offered.

Documentation can either be the agency's best ally or its worst enemy, depending on how it's done. Effective documentation allows everyone in the agency to know and understand what is taking place with a particular client, which can be the agency's best customer service tool. And though documentation may seem to consume the workday, the failure to properly document can be used against the agency in an errors and omissions claim.

Knowledge Check

Think back to the scenario presented at the beginning of this section in which you were asked to consider what it might be like to work for an agency that had no formal training program and no defined systems and processes. After working for this agency for a few weeks, you find that you often feel confused and frustrated. You feel you are not performing to your potential and are not upholding your ethical and legal responsibilities because you do not understand what is expected of you or how tasks are to be completed. You decide to "make the case" to leadership for developing written, uniform systems and procedures.

Directions: Briefly explain what it means to have written, uniform systems and procedures.

Training and Quality Control

Learning Objective

- *Describe the components of a formal training plan and understand the purpose of an internal quality control process.*

Having in place optimal technology resources and processes are of great importance to the agency and its bottomline. But, without training and quality control, it is just under-utilized equipment and unread words in a manual. Implementing a formal training plan is a process in itself that empowers employees, maximizes resources, and allows processes to be carried out and monitored.

Training is one of the greatest investments the agency can make in its employees. Ongoing training and development can impact the agency's ability to retain employees, as well as reinforce culture and communicate the brand. By providing the ability to learn new skills and sharpen those needed to perform even day-to-day transactions, training can fulfill the needs of all generations and experience levels within the workforce. Some areas that can be built into the training plan are mentorship programs and internal and external educational opportunities.

Each position in the agency will require a certain skill level and experience level that should be noted.

The three major areas for sales and service staff that require a strong skill level and work experience are:

1. **Technical –** a complete understanding of the insuring terms and conditions in the policies sold and serviced

2. **Product Knowledge –** application of the right policies and risk management solutions, and where to secure such products and resources

3. **Agency Process –** the ability to perform your job as required by the agency

Components of a Formal Training Plan

A formal training plan contains the specific components listed below. As you take time to read through them, you will notice parameters similar to that of SMART goal setting. Why? Because, a formal training plan is one that incorporates the agency's goals.

- **Written –** As with all good plans, written documentation clarifies what needs to be done. A checklist can be an effective tool when working with a training and professional development plan in the agency.
- **Constructed by the manager and the employee –** A successful plan, one in which the manager and employee benefit, requires commitment from both individuals.
- **Relevant –** Training in the areas that relate to the position will improve the skill level and result in improved performance and enhanced professionalism.
- **Specific –** Identify the subjects to be studied, the materials included, the time offered, and the provider/instructor.
- **Time Sensitive –** Include both the time commitment needed and the date when the plan will be completed.
- **Achievable –** Confirm the objectives can be met within the time frame established and determine what will be cost. For example, an objective like, "To earn my CISR Designation in the next 90 days" may be possible, but the time away from the office may not make it a workable objective.
- **Reviewed –** The plan should be reviewed periodically for efficacy. How well did you do and did you find it beneficial?

The following are examples of goals that may be found in a formal training plan.

- Enroll in and pass the online CISR Agency Operations course by July 1.
- Attend an in-house Ethics course to be held on August 15.
- Attend the XYZ Insurance Company training session for Businessowners Policies on October 15 at their office.
- My self-development goal is to join Toastmasters by April 30.

Training is an ongoing process as the insurance industry is continuously changing. Skill levels and understanding need to be kept up-to-date. How the agency does business must adjust to handle changes if the agency is to remain competitive and productive.

Internal Quality Control

Insurance is a specialized industry with constant changes and disruptions. Adherence to the agency's procedures needs to be managed. To ensure business and tasks are being handled as intended, the agency must have an audit/quality control program in place. **Quality control** is a process through which the agency seeks to ensure its product and service quality is maintained or improved, based on their standards. Quality assurance applies to every stage of the customer life cycle (from prospect to the end of the relationship). Monitoring the agency's processes and ensuring they are generating the kind of results leadership is seeking is an important component to the operation.

If the work is not audited for compliance and corrective action is not taken when needed, the agency may experience a number of negative results. Gone undetected, poor performance may lead to poor service, loss of sales, strained company relations, low productivity, weak financial results, frustrated staff and owners, and potential errors and omissions situations.

The purpose of implementing an internal quality control process is to determine:

- the work is being done according to the agency's systems and procedures
- the quality of the work is within the required standards
- the level of productivity

To verify that the work is being performed as intended, the work must be reviewed on an ongoing basis by someone other than the employee. A certain percentage of items needs to be reviewed for all employees. Work identified as being improperly handled should be immediately reviewed with the employee.

Checking work on an on-going basis allows for corrections and changes to be handled without delay, eventually minimizing the number of items to be reviewed.

Newly hired, experienced employees need to be trained on the agency's systems and procedures. They need to be reminded that "The Agency Way" may differ from how things were done at their previous job.

In addition to determining if the work is being processed in accordance with the agency procedures, the audit or quality control program can identify if the work is within the required standards. Standards are the acceptable degree or level of performance required for an activity. Most standards will contain an element of accuracy and/or time frame. The standards must be important and realistic.

Even though procedures are complied with, if the standards are not achieved, then the process will fall short and may lead to negative results. For example, if an item is to be processed by the end of the workday and that is consistently not achieved, at some point, a backlog will develop as a result of the standard not being met. The backlog can lead to additional problems that further reduce the quality of the results.

By knowing if the work is being done according to procedures and within stated standards, the expected level of productivity can be determined for a position. Effective use of a quality control process would not only reveal how well an employee performs but may allow for a standard to be developed to which work done by other employees in similar positions can be compared. It provides a means not only to measure the quality of the work but also the workload or the amount of work of an employee.

Some positions in an agency are easier to compare than others. For example, personal lines service representatives tend to perform more uniform tasks and transactions, making measurement of their workload relatively easy, compared to commercial lines representatives, whose accounts can be highly diverse.

The following example is a comparison of the activity of three personal lines service representatives with the same skills and who are handling the same type of business:

Personal Lines	CSR 1	CSR 2	CSR 3
# Accounts	467	508	659
# Policies	1,109	1,322	1,733
# Transactions	3,573	4,297	5,396
Errors %	3.7%	1.1%	5.3%
Revenue	$166,350	$198,300	$259,950
Retention	92%	95%	87%

The quality control process would show that additional training and a workload adjustment may be in order to reduce the errors and increase productivity. Productivity suffers when errors occur; having to do something more than once results in lost time, increased expenses, and possible loss of business.

In any event, the work for any position can be measured by activity and accuracy. This being the case, the level of productivity can be determined and an appropriate workload assigned accordingly.

Knowledge Check

Consider again the scenario presented at the beginning of this section in which you were hired to work for an agency with no formal, written systems or procedures. It may not be surprising to you that this agency also does not have a quality control process in place.

In your first few weeks on the job, you notice this agency has a startling percentage of accounts that do not renew after the first year, along with quite a few customer service complaints. Additionally, employees often seem stressed and overworked, and productivity is low.

Directions: Explain how a quality control process and formal training procedure could help prevent so many customer service issues like these from occurring in the future and get the agency "back on track" with customer retention.

Summary

One of the primary goals of the agency is to manage risk not only for the organization, but for its customers and stakeholders, as well. With each transaction, a level of exposure exists.

Establishing processes for workflows, standards, and procedures optimizes time usage, creates consistency, protects data integrity, and identifies training needs, both in technology and industry knowledge.

Regardless of the size or structure of the agency, written uniform workflows, standards and procedures, and training and quality control provide the way for a strong service, sales, and growth foundation. They become the map of how things are to be accomplished and provide the landmarks, or standards, for the level of performance required. They are the cornerstone for measuring effectiveness and productivity, and they are the tools used to ensure the work is processed in an efficient and uniform manner.

Consistent training and quality control will instill the right set of skills in the workforce, building strong internal and external relationships. It will help the agency discover training gaps and opportunities for improvement to the overall quality of work.

In the next section, you will focus on how the agency can control and manage risk when information is exchanged.

Overview of the Risk Management Process

1. Risk Identification

Logical Classifications of Exposures

- Property
- Human resources
- Liability
- Net income

Identification Methods

- Expert review
- Checklist, surveys, and questionnaires
- Physical inspections
- Loss data analysis
- Insurance policy review
- Procedures and policies review
- Flowchart
- Financial statement analysis
- Compliance review
- Contract review

2. Risk Analysis

Qualitative Analysis

- Risk assessment
- Financial assessment
- Loss data assessment

Quantitative Analysis

- Loss projections of forecasts
- Cash discounting
- Cost-benefit analysis
- Cost of risk calculations and analyses

3. Risk Control

Five Techniques

- Avoidance
- Loss prevention
- Loss reduction
- Duplication/separation
- Combination

Post-Loss

- Claims management
- Litigation management
- Disaster recovery

4. Risk Financing

Retention

- Active
- Passive

Insurance Transfer

- Contractual transfer of control or responsibility
- Contractual indemnification or financial

5. Risk Administration

- Implementation
- Monitoring

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/AOresources.

How Insurance and Risk Management Work Together
Identifying Loss Exposures
Agency Technology Choices

Section 4 Self-Quiz

Directions: Read each statement and select whether it is True or False.

1. The five steps in the risk management process include: Risk Identification, Risk Analysis, Risk Control, Risk Financing, and Risk Administration.

   True **False**

2. The physical inspections method of exposure identification consists of brief visits to critical sites within the organization.

   True **False**

3. A detailed diagram of the sequence in which raw materials or goods move through a firm's operations and processes to their final point of production and distribution is an example of the checklists, surveys, and questionnaires method of exposure identification.

   True **False**

4. Loss of a key person would be an example of a loss exposure in the logical category of human resources.

   True **False**

Directions: Using the terms, **"standard," "procedure,"** and **"workflow,"** fill in the blanks below. You will use each term only once.

1. A task the agency must do or accomplish is known as a ________________.

2. The specific keystrokes and steps that need to be performed in order to complete a procedure is known as a ________________.

3. A stated, acceptable level of performance in every area of the agency's operations is known as a ________________.

Directions: Circle the term that best answers the question.

1. Which one of the following is NOT a component of a formal training plan?

   Specific **Time-Sensitive** **Presentable** **Reviewed**

Directions: Read each question below and select the correct answer.

1. The focus of risk control is on finding and implementing solutions to prevent or reduce actual harm. William is traveling abroad and has the foresight to bring a scanned copy of his passport in additional to the physical passport. Which one of the following risk techniques is this an example of?
   - ☐ Avoidance
   - ☐ Loss prevention
   - ☐ Duplication/separation

2. When the customer knows before the loss that they are financially responsible for all or some of the loss, this is known as:
   - ☐ Active retention
   - ☐ Passive retention
   - ☐ Transfer

3. When the risk management program is implemented, monitored, and changes are made when necessary, this is an example of which step in the risk management process?
   - ☐ Risk Identification
   - ☐ Risk Control
   - ☐ Risk Administration

4. When considering a risk, thinking about how often the loss may occur (frequency) and the severity of the loss are examples of which step in the risk management process?
   - ☐ Risk Identification
   - ☐ Risk Analysis
   - ☐ Risk Control

Section 5: Managing Coverage Information Exchange

Section Goal

In this section, you will gain an understanding of why it is critical for the agency to manage the risk of how information is exchanged, the steps to improvement, different information exchange methods, and how to manage digital media platforms.

Learning Objectives

- *Understand the benefits of effective information exchange and discern the differences between one-way and two-way communication.*
- *Understand the differences among the four main types of information exchange.*
- *Recognize how to manage and mitigate the agency's risk across digital media platforms.*

Introduction

While the pursuit of technical insurance knowledge is extremely important, insurance is still a "people business." As an agent, you need to develop and use enhanced *interpersonal skills* to relay insurance knowledge in a professional manner to the prospect or customer. **Interpersonal skills** are behaviors and tactics used to serve and interact effectively with others. In the insurance agency, this can include communication regarding coverages and exclusions, problem-solving hard-to-place risks, practicing good time management skills to handle a large book of business that is very transactional, negotiating, and closing the account.

Whether your primary duties are to sell, service, or manage, at some point, you will need to engage both with customers and insurance companies. Enhancing interpersonal skills will only benefit interactions with all parties and ensure that the transfer of information—whether internally or externally—is being conducted in an effective manner.

Scenario

A customer calls the agency and is irate because changes to their policy were not clearly communicated to them. Perhaps the changes were sent in a message via email or an app, but the customer missed the communication.

Thought questions:

1. How could the agency have prevented this miscommunication?

2. How would you address the customer's complaint?

Managing the Risks Involved in Information Exchange

Learning Objective

- *Understand the benefits of effective information exchange and discern the differences between one-way and two-way communication.*

When it comes to coverage discussions, the goal is not just selling, but rather to assess the risk and quickly identify customers' needs. In doing so, you are providing them with the best solutions tailored to their individual needs. In our current industry environment, insurance has become more complex, and customers have more options than they had in the past, coupled with expectations of immediate and around-the-clock access and service. Consequently, clear and concise information exchange between all parties is central to the agency's success.

The risks inherent in communication exchanges are hard to avoid, so it is up to the agency to minimize any impact by ensuring the right kind of exchange is used. When communicating with customers, employees must concentrate on what needs to be conveyed and how the information should be relayed, since insurance can be very complicated. Customers must depend on their agents to have the knowledge and communication skills to explain coverages. Good customer service depends on the ability to listen to customers' needs and determine what will be the most effective way to communicate with them.

Customer contact is necessary to generate an accurate quote, bind coverage, and provide notification of policy changes. It is critical in both acquiring new accounts and servicing accounts, since effective questioning allows the discovery of exposures. That coincides with the quality of care that customers would expect from the agency. Follow-up with customers requires concise exchanges, along with handling complaints; failure to do so could result in an E&O claim, not to mention the loss of business. Customer experience is directly related to the way agents communicate with their customers; interactions should be personal and based on customers' individual needs.

Transferring information internally can be just as critical for employees (i.e., reporting to management, communicating within a team). Effective exchanges can help the agency increase productivity, improve processes, build loyalty, and streamline the value of service the agency offers.

As many agencies are adding to their modes of communication—such as with texting—they increase risk. Texting can get business done quickly and is becoming the preferred method of communication over any other channel.

Improving Information Exchange

Insurance agencies continue to have a need for improved communication skills, regardless of position. Transferring information occurs in all areas and departments, both inside and outside the agency. Let's look further into the benefits of efficient information exchange and the various avenues communication.

Communication is the activity of conveying information between two or more individuals; it is an exchange of information through verbal communication like speaking or writing, or non-verbal communication such as listening, visual media, or behavioral cues. Communication is a critical component of *agency-customer* and *agency-company* relationships and has a positive impact on these relationships if done effectively. Conversely, poor communication skills have a negative impact.

Effective communication involves listening with openness to provide feedback. Keeping this in mind, communication skills can be the deciding factor as to whether policies are sold and customers are retained. Handling complaints, controlling conversation, negotiating, and active listening—all these impact account retention, that is, whether the account is kept by the agency or the client moves their business elsewhere.

As you can imagine, the agency will work with a wide variety of people, industries, and businesses, depending on the line(s) of insurance they focus on and write. Depending on the situation, communication serves to inform, persuade, resolve conflict, and influence.

Benefits of Effective Information Exchange

It is important to understand the benefits of effective information exchange to ensure effective communication. As previously mentioned, the agency, stakeholders, and employees can gain a lot from effective communication. Below are some benefits of effective information exchange.

- Builds trust: It creates a safe place for expressing ideas.
- Provides clear expectations: It gives clarity and direction with greater understanding of responsibilities and tools to better serve and meet goals.
- Improves relationships: Listening and providing feedback eliminates conflict by creating a sense of being heard.
- Promotes team building: A healthy work environment allows team members to be able to rely on each other and creates better relationships with leadership.
- Improves productivity: It's used to manage workloads and focus more on work, which contributes to mitigating and resolving conflict, generating higher level of productivity.

Ask yourself: does your agency have an effective information exchange system in place? Communication isn't just about presenting information; there are actually four main types of information exchange.

Before we get into those four main types, let us begin with a high-level look at the two general communication systems: *One-way communication* and *two-way communication*.

One-Way Communication

One-way communication is linear and limited; it is information passed from the sender to the receiver without any feedback. Information will be dominated by the sender's knowledge, with information poured in an unbroken flow to the receiver.

One-way communication can often be fraught with difficulties since there is a lack of feedback, which can often lead to misunderstanding. If communication is one-way, such as reading and writing, the sender loses control of the communication cycle since only the first half of the cycle occurs. The message is delivered, received, and interpreted. But the speaker cannot observe the receiver's response and loses the opportunity for clarification and further conversation. For this reason, one-way communication must be well-planned and absolutely clear. It cannot be left to chance. It must clearly and concisely deliver the desired message to elicit the desired response.

Two-Way Communication

Two-way communication is reciprocal as the receiver becomes a sender, and the sender, in turn, becomes a receiver. The most effective way to get the message across is by using a combination of listening and speaking. If the listener interprets correctly, the sender can go on to deliver another message, and the cycle of communication will continue. Reading body language can be helpful in understanding a listener's feedback and in problem solving, but it takes time and careful observation.

With two-way communication, the sender has the opportunity to judge the listener's response.

- Did the listener seem confused?
- Did the listener become upset or concerned?
- Did the listener accept or reject the message?

By paying attention to responses and feedback, the sender can remain in control by addressing concerns, clarifying points of confusion, and keeping the channels of communication open.

Knowledge Check

Sam is part of an effective team of young professional insurance agents. At his company, he and his fellow teammates rely on each other to get work done and to promote a healthy workplace culture.

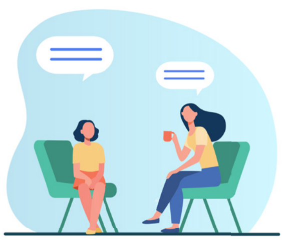
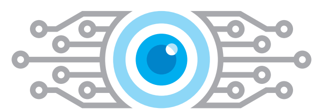
Considering the benefits of effective information exchange, this would be an example of which of the five benefits you learned about? Explain your answer.

Four Types of Information Exchange

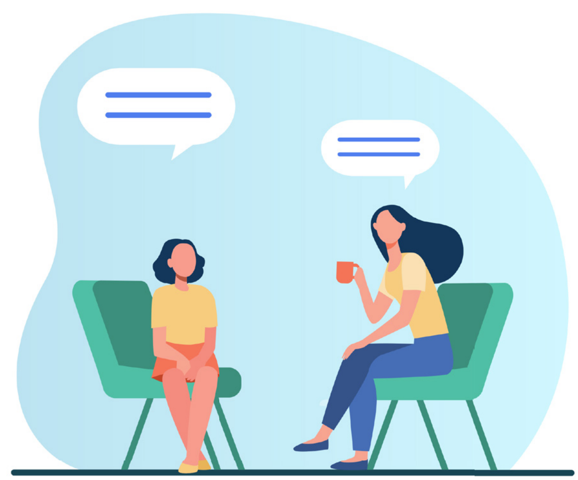
Learning Objective

- *Understand the differences among the four main types of information exchange.*

Now that you understand the two general communication systems, lets dive deeper by looking at the four main types of information exchange.

Verbal	*Non-Verbal*	*Visual*	*Written*
			

Verbal Communication

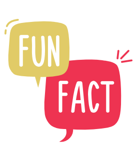


Verbal communication is the use of words to share information with other people. This form of communication includes both spoken and written forms. The verbal element of communication is all about the words you choose and how they are heard and interpreted. This can be face-to-face, over the telephone, via Skype or Zoom, etc.

Tone and pace

The speaker's tone of voice is important to what the listener perceives. A monotone voice might bore the listener and indicate you are disengaged. Use your voice to add emphasis with inflection and varied pitch to express emotion. Speak at a decent pace to establish confidence in your knowledge of the subject, and to ensure that the listener understands what you are saying.

But, keep in mind that what the listener hears is more than just spoken words.



In telephone communication, only 14 percent of comprehension comes from the words actually spoken. You may be surprised to learn that the tone of your voice on the phone is more important than the words you speak—it accounts for the remaining 86 percent of what the other person "hears."

Steps To Improve Verbal Communication

Speak with clarity; be knowledgeable and effective.

You will want to be able to explain coverages, policies, and other aspects of the customer's file, whether on a phone call or in person, so that the conversation ends without any lingering questions. Speaking to an underwriter about a risk will require clarity to ensure the underwriter can advise on the submission. This gives the customer and company a positive impression of not just you, but the agency as a whole. Customers do not want to speak with someone who mumbles or cannot articulate points clearly. Lastly, speaking effectively leaves no room for error. It means that both you and the customer have a solid understanding of the company or the issue that you are addressing for them. This sort of understanding will lead to a long-lasting relationship with the customer.

After the customer speaks, summarize for clarification what has been said before answering any questions or offering recommendations.

Avoid thinking about what you want to say next if it interferes with listening to what the customer is saying.

Do not interrupt while the customer is speaking.

Speak efficiently and be respectfully empathetic.

Customers want their questions answered as quickly as possible and in a respectful way. Doing this shows the agency appreciates their business. Speaking efficiently shows you are knowledgeable regarding their account and able to assess their concerns and solve problems on the spot. Getting right to the point and responding quickly is extremely important in this day and age and reflects on the agency's brand. You probably remember a time when you were faced with an unpleasant and slow customer service rep. Did this experience make you want to continue to do business, let alone look forward to interacting with them in the future? By paying attention to responses, the speaker can remain in control by addressing concerns, clarifying points of confusion, and keeping the channels of communication open. What the listener hears is more than just spoken words. The speaker's tone of voice is important to what the listener perceives. Two-way communication—the combination of listening and speaking—is the most effective way to get your message across. Remember, attitude can be reflected in your tone of voice. Even if you have bad news to deliver, you can do so in a way that puts the customer at ease by offering a solution to the problem. Imagine yourself making this call:

"Oh, I am so sorry to hear that your son has had another accident. The company has asked us to have him excluded from your auto insurance policy, and we will need to do that. Let me tell you what we have been able to work out as a solution…"

Although clients won't like the news, they will appreciate your honesty and concern.

Pay attention to the volume of your speech.

Don't make the mistake of assuming just because a person is older that he/she has a hearing disability; the same can be said for someone younger, who you might not expect to have hearing difficulty.

If a person is a non-native English speaker and has difficulty with the language, speaking louder is not the way to be understood. Instead, be sure to speak clearly and concisely, being sure to enunciate words.

Speak in a pleasant tone; smile before you pick up the telephone. The smile becomes apparent in your voice. Avoid using industry jargon whenever possible.

Use words customers can understand.

PIP may mean "personal injury protection" to you, but to someone else it may mean "picture-in-picture" on a big screen TV.

Never refer to policies as having all the "bells and whistles" because this could imply to the customer that the policy includes more coverage than is actually provided. A similar prohibition goes with saying, "you have full coverage on a personal auto policy."

Non-Verbal Communication

Communication is made up of more than just the spoken or written word. Non-verbal communication is the transmission of messages or signals through a non-verbal platform such as body language—through facial expressions, gestures, and eye contact. Non-verbal communication can either assist or interfere with communication.

Non-verbal signals can provide clues, additional information, and meaning beyond spoken communication. With body language, physical behaviors, as opposed to words, are used to express the message. When you're interviewing for a job, your non-verbal communication is just as important as your verbal communication. Think about it: if your body language doesn't match what you're saying, you run the risk of sounding disingenuous, which a hiring manager likely will not appreciate. Taking the time to interpret non-verbal communication, as well as being aware of your tone, will help you better understand what your customer is feeling.

Body Language

Body language is a significant part of non-verbal communication in which physical behaviors, as opposed to words, convey the message. These include signals that are sent and received at both the conscious and subconscious level. Your body language reflects your feelings toward others, just as others reflect their feelings toward you. In fact, it has been suggested that body language may account for between 60–65% of all communication. In this digital age, where now more than ever, we have the capability to interface with each other through virtual platforms, oftentimes body language is the *only* mode of communication we engage in. Taking the time to interpret non-verbal communication, as well as being aware of your own body language, will help you understand what your customer is feeling and what you are communicating to them.

Steps To Improve Non-Verbal Communication

Credibility and effectiveness in face-to-face communication can be improved by becoming aware of messages that are being conveyed through body language and tone of voice. Some of the ways you can do this are by following these helpful suggestions:

Watch Your Proximity to the Other Person (Body or Personal Space)

It is important to refrain from making physical contact and to be spatially aware when it comes to others. Keep a distance of two to four feet. A distance closer than two feet invades the other person's space. A distance further than four feet indicates a lack of involvement.

Make Eye Contact

Maintain some degree of eye contact since failure to do so may lead the other person to believe you are not telling the truth.

Be aware of cultural differences—eye contact may be viewed as a sign of disrespect.

Be Aware of Facial Expressions

Smile when it is appropriate to do so.

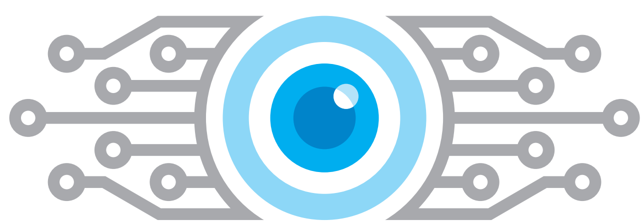
Don't roll your eyes; it sends the message that you don't believe what the other person is saying or that what they are saying is unimportant.

Be Aware of Smell

Be aware that the uses of fragrances may be offensive to others—particularly those with allergies.

Visual Communication

Driven by various platforms in the digital era, visual communication has become one of the most used types of communication. Visual communication is the practice of using visual elements as a way to communicate information or ideas. Some examples of visual communication include infographics, slide presentations, screenshots, and videos.



As we've become a much more visual society where most people and their organizations use these platforms and channels of communication, we become more accustomed to—and at times even dependent on—using visual communication to stand out.

It is extremely important that visual communication is in line with the agency's brand and marketing. Think of examples such as charts, photographs, video, and even emojis or GIFS; these can help improve the clarity and effectiveness of your message.

Written Communication

Composing effectively written communication is an extremely important skill, especially as more people work remotely and keep in touch—in writing—throughout the workday on various digital media platforms.

As we increasingly rely on written communication, it is important to be aware that we are all faced with how easy it is to create misunderstandings, regardless of intention. Unclear messages, information that is misread, or incorrectly interpreting tone or content can all be problems that we face when using written communication. To account for this, think about the structure, clarity, and content of your message before you send it. Whether in email, memo, report, or social media post, all formats should be used with the goal in mind of accurately disseminating information. Remember that in a digital age, messages live on.

Check-In

For each example, state which type of communication is primarily being used.

	Verbal	Non-verbal	Visual	Written
1. Clara's coworker is making her feel uncomfortable, so she folds her arms across her chest and shifts her gaze toward the ground.				
2. Mike creates an infographic to demonstrate a new process to his team.				
3. Tina uses videoconferencing software to meet with her team to discuss their monthly sales goals. She asks everyone to speak for two to three minutes.				
4. During the monthly sales meeting, Tom wants to share an important update, but doesn't want to interrupt, so he uses the chat function.				

Form Letters

When it comes to written communication, there are tools that can help streamline the process and ensure consistency. Various agency management systems provide a format for the agency to develop "form letters" when communicating with clients. "Form letters" are templates of various letters the agency uses on a regular basis. Using standardized or form letters will not only save time, but if used consistently, they can also reduce the likelihood of an errors and omissions claim.

Some examples of when to use form letters are:

- Cover letters for policies
- Requests for missing documents
- Notification of policy cancellation due to non-payment of premium
- Personal lines or commercial lines questionnaires

Email

Email is another widely used method of written communication.

When writing a professional email, there should be little to no abbreviations used in the text to avoid confusion or misunderstanding. If there are, make sure to make note of what a potentially misleading abbreviation might stand for. Make use of certain disclaimers where appropriate, especially if coverage is referred to.

The out-of-office message response to an email is an easy way to let your customers know that you are not immediately available.

PRO TIP	As a formal document, an email can be entered as evidence in a legal proceeding.

Texting

Depending on the circumstances, a telephone call or email may be impractical. Perhaps you want a message to be sent immediately, and it is one that requires a prompt and short response. There might be a time when you need a client to send a photo so you can quickly transfer it to their file. Texting is ideal for these types of situations.

Proofing Written Communication

Proofreading all written communication is a critical and non-optional step in the writing process. Imagine what customers might think if their name is misspelled, the information is inaccurate, or the letter is unprofessional. A simple written mishap could cost you the business of present and future clients. Remember, word travels fast—no pun intended!

There is a three-step process to follow when proofing your communication.

1. Proofing content
2. Proofing grammar
3. Reviewing before sending

Step 1: Proofing Content

A few points to consider when proofing a document:

- Is the information accurate?
- Is the message clear to the reader?
- Have you avoided the use of industry jargon and abbreviations?
- Is the message organized? Is it professionally written?
- Will the reader know what is expected of him or her?
- If information is requested, does the reader know when it is needed?
- Have you avoided including information that could lead someone to believe there is coverage for something when there is not?
- Would it be beneficial to have someone else also review the document?

PRO TIP	Correspondence containing language regarding coverage should contain a disclaimer directing the reader to refer to the policy itself for complete policy language including coverage, limits, exclusions, and conditions.

Step 2: Proofing Grammar

Avoid relying solely on a spell check tool for a misspelled words. Remember, a spell check tool will not identify incorrectly used words that are correctly spelled.

It will not identify the incorrect use of words such as, "it's" instead of "its," "there" instead of "their," "your" for "you're," etc.

Proof your work for incorrect or missing punctuation because a misplaced or missing comma or period can change the meaning of the message.

For example:

There is a BIG difference between coverage for the peril of "sinkhole collapse" and coverage for the perils of "sinkhole, collapse." There is a big difference between $100 and $1000.

Many word processing programs have a tool that will assist in finding grammatical errors in a document, such as subject-verb agreement, incorrect use of possessive nouns, and others.

Step 3: Review Before Sending

It is crucial to pay close attention to the correspondence once you are ready to send—whether that is through mail or email.

Consider the following before sending out:

- How does it look?
- How is the tone?
- Does it give the right impression?
- Is it spaced correctly?
- Are the margins correct for the length of the message? (A short message may require wider margins so that it looks better.)
- Are the font size and style easy to read?

PRO TIP	It is a good idea to review the agency's form letters annually to make sure they are current, professionally written, and not creating an errors and omissions exposure for the agency.

Knowledge Check

Consider the scenario from the beginning of this section in which a customer called and was irate because of a lack of communication regarding changes to her policy.

How could the agency improve its overall communications with customers to prevent this type of situation from occurring in the future?

____

____

Managing Digital Media in Insurance

Learning Objective

- *Recognize how to manage and mitigate the agency's risk across digital media platforms.*

There are many definitions of digital media and all appear to have the common element of combining personal interaction with technology to create some level of value. One may view it as a collection of internet-based applications permitting an exchange of content.

People may use digital media to communicate, share information, give directions, solicit advice or opinions, as entertainment, and to connect with others. By sharing content appropriately, higher engagement levels and confidence can be established.

Insurance Companies and Digital Media

Insurance companies use digital media to expand their customer base, provide customer service, inform clients, exchange information, increase product branding and visibility, and to better connect with their customers. The results have been positive, and the potential value is such that the insurance companies are dedicating significant resources to further develop their social media sites and applications. Additionally, the insurance company can collect data from these social media platforms to analyze competitors.

Insurance Agencies and Digital Media

Many insurance agencies use digital media channels because they help agents and producers develop and maintain relationships, as well as pursue sales opportunities beyond traditional methods. The use of digital media allows agency personnel to provide information and services in a format preferred by some customers. The agency can easily broadcast information or direction to a wide base of clients and prospects.

Digital media can be an excellent marketing and relationship tool when used correctly. It creates the ability to interact and communicate with clients, prospects, insurance companies, industry associations and vendors, and other resources that can lead to the achievement of your personal and agency goals.

These accounts are not meant to be solely a self-promotional online advertisement, but to inform and educate.

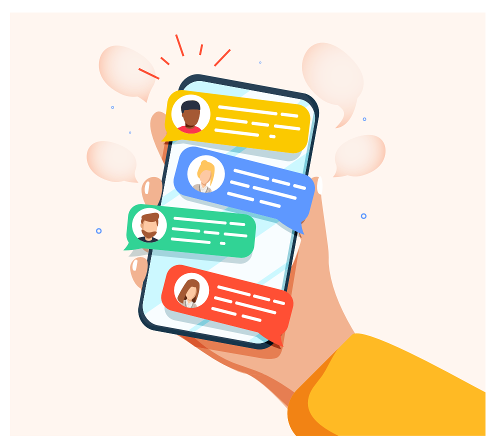
- Coverage videos
- How to file a claim
- Checklists for natural disasters
- Target marketing
- Customer testimonies
- Special event or posting about community service activities

Insurance Consumers and Digital Media

Insurance consumers use digital media as a way to gather information in selecting insurance products they may be interested in purchasing. In many cases, those researching insurance may share what they have found with others. What might this look like? The consumer may share information about insurance companies and insurance agencies on internet sites that anyone can access and, in some cases, allow others to make comments. This may lead to remarks that are both positive and negative and may be viewed by others that visit that site.

Use of Digital Media

There is no question that digital media is important in conducting business in the insurance agency. It is also critical to remember that insurance is regulated; therefore, how agency employees communicate through the use of digital media is subject to being managed. Maintaining confidentiality of customer information is paramount, including information involving insurance companies, vendors, and fellow employees.



While digital media is vital in conducting business in the insurance agency, it is not without its issues. It has created additional components to conducting business that need close monitoring.

Employee Digital Media Policy

Insurance agencies need to have a policy which informs the staff of what company information and customer information is prohibited from being posted on digital media sites.

An employee of an agency is generally provided an email address to be used for company business. For other than company business, they have their personal address. Without a specific policy, the division between media for business use as compared to personal use may not be clearly defined.

This kind of policy should contain a statement of rules, a set of guidelines, or code of conduct to be followed. The policy should not be so restrictive that it does not allow for the necessary and beneficial use of the internet and digital media.

Items that should be included are:

- Purpose
- Confidentiality
- No expectation of privacy
- Authority (to speak on behalf of the organization)
- Productivity
- Definitions
- Violations
- Discipline
- Other

Any digital media or internet use policy is likely to be complex, needs to be detailed, and will prove to be challenging to create and maintain. It will require time and attention on the part of management to establish and implement. You might not be able to do this on your own. Ask for help. Seek professional or legal assistance. Many agency organizations have worked to develop written policies.

Knowledge Check

The senior vice president of your agency, Amy, tells you she would like to increase the agency's digital media presence but is concerned about the potential risks. Amy asks you to develop a digital media plan that includes ideas for engaging current and potential customers through social media, as well as a risk management plan.

1. Provide Amy with an idea for how your agency might use digital media as a marketing and engagement tool.

2. Provide Amy with an idea for how you can mitigate the risks associated with digital media marketing.

Summary

Distributing and exchanging information does not have to be time-consuming in order to be effective. Understanding the best ways to contact and speak with clients and paying attention to what they say (and do not say—body language!) are some of the main interpersonal tools you need to set yourself up for success.

Technology and automated processes can also help ensure customers feel taken care of. Technology should support the appropriate exchange of information and can streamline processes and impact communication.

Using standardized templates for often-required emails or notifications can simplify, clarify, and protect the message that needs to be communicated. Being consistent and timely in how you communicate is extremely important. Do phone calls get answered? Are you responding to emails in a reasonable amount of time? Often, you will not hear from your clients until a claim occurs, they have a billing issue, or coverage needs to be renewed. This does not mean that you should not make the effort in-between these times to continue to maintain a relationship. Be sure to inquire about their communication preferences. Do they want contact by phone? Email? Through text? By streamlining communications using technology, the agency operates more smoothly.

Good communication is integral to sales, client relationships, team development, agency culture, employee engagement, and buy-in. Understanding how you communicate is the first step to becoming an effective communicator. Insurance should not only be understood in times of crisis; it is up to you to take advantage of multiple touchpoints with your clients to ensure they understand not only the necessity of insurance, but its value.

Next, you will learn about the importance of managing the agency's workflows and procedures. Exchanging information verbally and non-verbally during those processes will be key to successfully executing those workflows.

Section 5 Self-Quiz

Directions: Read each statement and select whether it is True or False.

1. Denise logs into a webinar on the subject of life and health insurance. She notices that the chat is disabled, and all participants are automatically muted. Once the speaker is done with the session, everyone logs off. This is an example of one-way communication.

   True **False**

2. Scott is at summer camp and wants to write a letter to send back home to his parents. He finds a post card and writes down all of the events of his summer sleep-away adventure. Writing and sending a postcard is an example of verbal communication.

   True **False**

3. A client calls you to ask for a re-quote on an insurance policy. The client is frustrated and feels like he pays too much for the coverage he has. Listening to him, you avoid thinking about what you want to say next until your customer is done speaking. Refraining from concentrating on what you want to say next is an example of taking steps towards improving your speaking skills.

   True **False**

4. Sylvia is an insurance agent and wants to broaden her network. If done correctly, it would be beneficial for Sylvia to market her business through various social media platforms.

   True **False**

Directions: Read each question below and select the correct answer.

1. Select the example below that illustrates non-verbal communication.
   - ☐ Calling your spouse to say you're running late for dinner
   - ☐ Writing an email to your boss letting her know you'll be out of office
   - ☐ Staring-down your colleague after he spoils a surprise office party

2. When proofing communication, there is a three-step process that should be followed. Identify the example below that is NOT part of this process.
   - ☐ Alicia opens her email and begins to compose her message.
   - ☐ When finished, she goes back to look over the content.
   - ☐ Noticing some grammatical errors, she takes the time to fix her text.
   - ☐ When finished, Alicia reviews the correspondence one more time before hitting "send."

3. Each of the following are examples that should be included in an insurance agency's social media or internet use policy, EXCEPT:
   - ☐ Allotted usage time
   - ☐ Confidentiality
   - ☐ No expectation of privacy
   - ☐ Definitions

4. Select the example that best showcases an effort to improve non-verbal communication.
   - ☐ Not interrupting when someone is telling you a story
   - ☐ Maintaining eye contact when a person is speaking to you
   - ☐ After the customer speaks, summarizing what has been said for clarification before answering any questions or offering recommendations
   - ☐ Making physical contact

5. During a video call, Murphy finds what the speaker is saying to be very funny. To show his support, Murphy drops in a GIF or an animated image of a cartoon character laughing and clapping. This an example of which of the four main forms of communication?
   - ☐ Verbal
   - ☐ Visual
   - ☐ Non-verbal
   - ☐ Written

Section 6: Managing the Agency Workflows and Procedures

Section Goal

In this section, you will understand and identify the necessary skills for account management and be able to explain the steps toward growing new business, servicing new and existing business, and those involved in the renewal process.

Learning Objectives

- *Explain the necessary steps to bring new business into the agency.*
- *Identify the skills needed to manage the customer's account.*
- *Explain the steps in account servicing for new business and existing policyholders.*
- *Explain the steps in renewal processing.*

Introduction

In this section, we will focus on agency workflows and procedures, which cover the basic steps in securing, retaining, and servicing accounts. Converting a prospect into a customer is the primary objective of the agency, followed by offering and providing the level of service that meets the customer's expectations and retains the business.

Scenario

Over time, your agency's new business development and prospect pipeline has grown stagnant. Currently, your agency relies primarily on referrals from existing customers, but the agency leadership recognizes that this is not sustainable in the long term.

As the commercial lines manager, your team has been tasked with developing a plan for generating new business for the agency.

Thought Questions:

1. How can your team go about identifying new leads and writing new business?
2. What systems and procedures are needed to ensure a smooth and efficient process for the new customers?

New Business Development Workflow

Learning Objective

- *Explain the necessary steps to bring new business into the agency.*

Finding new clients can be a challenge for the agency and can take time, effort, investment, and commitment. Establishing a growth plan will allow strategies to be formed around sales and the needed workflows to support the new business. Setting up the plan will allow for specific growth goals to be put in place, providing the necessary guidance for monitoring and evaluating progress so the plan can be adjusted as needed. Leadership should invest in keeping the workforce motivated since every person working in the agency plays an active role in putting business on the books and maintaining it during the customer's life cycle.

There are several items that need to be accomplished to bring new business into the agency and be incorporated into the new business development workflow.

Identifying prospects: source of business and relationships

Establishing a plan

Gathering account information and documentation

Submitting to markets

Generating the proposal

Converting the prospect to a customer

Identifying Prospects: Source of Business and Relationship

Insurance is a relationship business. Some relationships can take longer to build, but over time, that can make the difference in whether you earn their business or not. Putting in the time builds trust and loyalty and shows a genuine interest in the prospect. With the primary function of the agency being to grow by acquiring new customers, activity can be generated by cultivating various sources while a secondary plan to secure and retain the new business is established.

These sources can include:

Producer generated	A relationship has been created with the prospect by the producer through the producer's efforts.
Referrals	Existing customers or others recommend your agency to personal contacts for their insurance needs, creating an opportunity to develop a relationship.
Associations/Programs	A relationship with an association and/or the development of an enhanced product for a particular buying group generates a source of prospects. The relationship is indirect and based on being endorsed by the association or industry.
Advertising/Internet	This is generally considered call-in business. No previous relationship exists with the agency.
Cross selling/Account Rounding of existing clients	This is an excellent way to better serve customers and generate growth. It is an obligation—*not* an option—to present solutions and options that address your customers' needs.

Establishing a Plan

Once a prospect agrees to let you work on their account, it is time to develop an action plan. This may be your only chance to secure this prospect as a customer and it could require a great deal of time and expense. Keep in mind that the agency is incurring this expense with no guarantee of writing the policy. That is why it is important to qualify the prospect and establish a plan that will focus on acquiring the business.

The planning process should include, but is not limited to:

- who is responsible for which action,
- who will gather the necessary information,
- what solutions to provide,
- which markets are best,
- who will complete submission as well as the proposal, and
- who will be the key contact.

For the plan to be effective, it requires each action to be scheduled (time sensitive), as well as to provide a place for open communications on the status of any issue that may develop around an action.

Gathering Account Information and Documentation

After establishing an account plan, you must gather account information and provide documentation. Having a complete understanding of a prospect's exposures and insurance needs is critical. The information must be current and accurate, and this is also true for what the prospect foresees as future changes or events. In gathering information, discuss in detail all aspects of the client's insurance needs. Ask questions and verify and secure documentation when available. You will not be able to offer the proper insurance and solutions to the prospect if you do not fully comprehend what their needs are.

Keep in mind that you create a potential errors and omissions situation when you acquire a customer by use of a broker letter of record since you may be depending on another agent's handling of the customer's needs.

Submitting to Markets

The quality of your submission and the markets selected will determine the quality of the product and pricing you will have to present to the prospect. Insurance company underwriters are more receptive when:

- The account meets the company guidelines.
- They feel they have a legitimate chance of writing the account; avoid blanketing the market.
- The applications are accurate, complete, and legible.
- All necessary documentation is included.
- A cover letter is included to provide additional details or explanations when needed.

After the submission is sent to market, follow up with the underwriter to make sure they have received it and whether or not they need any additional information. It is also important that the underwriter understands the date you need their quotation and/or approval by.

Generating the Proposal

Regardless of the type of insurance involved, or the size or nature of the account, the prospect expects professional results from the agency when asked to provide a proposal for insurance.

The proposal reflects the work the agency has undertaken to offer solutions addressing the prospect's needs. How the proposal is constructed and presented can indicate to the prospect the level of professionalism of the agency; this may have a direct impact on the agency being selected by the prospect.

Depending on the prospect and the nature of the account, a simple proposal may be all that is needed. The more complex the account, the more personalized, detailed, and specific the proposal. In these situations, where possible, a face-to-face presentation is always recommended. It is important to understand what the prospect expects and that you meet those expectations where reasonable, as well as offer alternative solutions.

In any event, a written proposal needs to be provided and explained to every prospect and/or customer. The proposal can either be a custom template stored within the agency's management system with merge fields, or one generated by the insurance company that already has the quote information.

The agency information section of the proposal should list those things that set it apart from the competition and include the agency mission statement, agency history, agency staff, the agency's experience and expertise, areas of specialization, and customer service standards. The agency information page should present the benefits of doing business with your agency.

The agency's proposal will leave an impression with the recipient—either positive or negative. As we discussed earlier, all your correspondence should present a professional image and leave the reader with a favorable impression of your agency.

A proposal is more than just a premium quote and should contain a summary of coverage and information about the agency. The summary of coverage should be written using policy language and include a disclaimer.

DISCLAIMER: This summary of insurance is provided for informational purposes only. It is not a contract of insurance. Please consult the policy forms for complete policy language including coverage limits, exclusions, and conditions.

Converting the Prospect to a Customer

Good news! If the prospect is pleased and the proposal and the agency received the order to bind coverage, it is now time to convert the prospect to a customer. Agencies vary on how they handle this, but the following steps are typically performed once the bind order has been received:

- Insurance company(s) are notified in writing, stating terms selected and receiving confirmation that coverage has been issued.
- Evidence of the insurance, invoice, and related documents such as binders, ID cards, and certificates of insurance are generated.
- The agency management system is updated and “future suspenses” are set pending policy issuance and copy receipt.
- A thank you/welcome notice sent.
- Agency staff is informed of the new client.
- Cross-selling potential is determined.
- A new business policy check-in/review is completed and sent to customer.

Knowledge Check

Consider the scenario from the beginning of this section in which you have been tasked with generating new commercial business for your agency. Choose two sources that you think would be most effective for identifying new business prospects and explain your answer. Describe the process you would follow to convert leads into prospects and prospects into customers.

1. ____

   ____

   ____

2. ____

   ____

   ____

Account Servicing Skills

Learning Objective

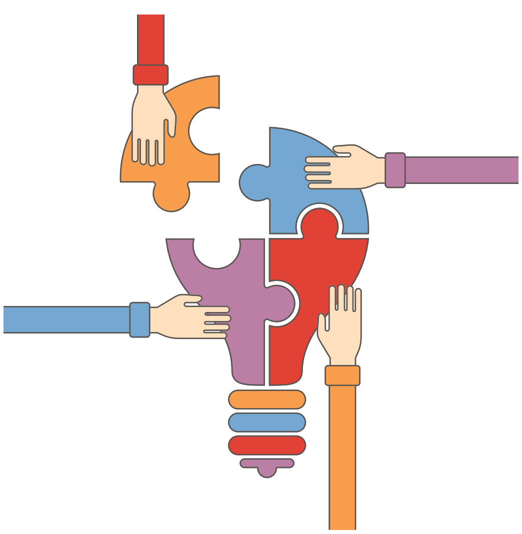
- *Identify the skills needed to manage the customer's account.*

The role of the customer service representative/account manager/ account executive is extremely important in the day-to-day operations of the agency and in the new business development plan. The agency may find itself unable to retain business if the service team members are not qualified and properly trained in the following skills to service the customer's account.

Know technical insurance knowledge	**Know insurance company underwriting requirements/ guidelines and underwriter's appetite**
Know agency standards and procedures	**Know documentation and effective customer service practices**
Know procedure to service account	**Know renewal process**

Across the board, good communication and use of technology plays a part in each of these skills.

Technical Knowledge



Know Coverage Differences. Agency staff must know the coverage differences among the policies available in the agency before coverage can be placed "on the best terms available for the customer." Those coverage differences can include perils insured against, special limits of coverage, limits of liability, additional coverages, etc.

Of course, before the agency can determine which policy would be "on the best terms available for the customer," it first has to determine the specific needs of that particular customer and which company's appetite it meets. In order to identify the best market, you will need to be familiar with each company's underwriting guidelines and requirements.

Underwriting Guidelines

Underwriting guidelines are established by each insurance company and are an indicator of the type of business the insurance company is interested in writing. Underwriting guidelines may also include the agency's binding authority.

Know your binding authority with each insurance company. Failure to stay within your binding authority could result in an errors and omissions claim against the agency.

Review underwriting guidelines periodically to stay aware of any changes. In personal lines, these guidelines tend to be more stable as compared to those in commercial lines.

The majority of the new business submitted should meet or exceed the company's underwriting guidelines. Most insurance companies keep track of an agency's new business submissions, pay very close attention to the quality of the submissions, and monitor whether they meet or exceed their underwriting guidelines.

Know the appetite and additional services available. Some questions that you can ask as you are determining if the account meets the company's appetite are:

- What classes or types of business is the company interested in writing?
- Does the company specialize in any particular class (or classes) of business?
- Does the company have loss control services available?
- Does the company provide inspections for high-valued homes?

Credit scoring is widely used as part of the underwriting process. Each state individually regulates the use of credit scoring for pricing. Some states prohibit the use of a credit score as the "sole" reason for declining to write the insurance.

It is important for insurance professionals to understand and follow their state's laws or rules regulating this issue.

Non-negotiable Guidelines. You may not always agree with a company's underwriting guidelines, but you need to abide by them. There are a few factors that affect a company's underwriting guidelines and make them non-negotiable. One such factor is that the rate or rules filed with the insurance departments prohibit any deviation. Sometimes an account's exposure will fall outside a company's reinsurance program making it ineligible for coverage by that company.

Underwriting Exceptions. What about asking for an exception to the guidelines? There are situations when it makes sense for the underwriter to make an exception and agree to provide coverage for a risk that falls outside the acceptability guidelines. Be sure to provide additional information to support the request, e.g., other policies to be written for the account, information relevant to the insured, and so on.

The underwriting guidelines require a clean driving record, but the prospect has a speeding ticket that will come off their record in 30 days. In this case, requesting an exception would be an appropriate action, and the underwriter may accommodate the request.

Exceptions should be infrequent because building a book of "exception" business can produce an unprofitable book over time.

Underwriting Specialties. While a company has underwriting guidelines, it may also have a "we'd-like-to-write" list. This may be informal but is typically a list of the classes of business it has recently been successful in writing and knows it has coverage and/or pricing advantages for.

Some companies may specialize in particular types of businesses; an example would be trucking accounts. Such companies have a level of expertise and understanding of these types of businesses which allow them to better address and offer products that may be more suited for these accounts.

The agent needs to be aware of the additional services available for the client that are offered by the insurance company. Services such as inspections, loss control, safety training, risk management support, claims review meetings, custom reports, and the ability to provide industry related information may add value. Keep in mind that the services provided may be the deciding factor when selecting the company where the business will be placed.

Once again, you may not always agree with a company's guidelines, but you need to abide by them. If an account doesn't meet a particular company's underwriting guidelines, check with other companies the agency uses.

Knowledge Check

Consider the scenario at the beginning of the section in which your team is working to develop a plan for bringing new business to the agency. Because the agency has such a strong focus on acquiring new business, you are finding that account managers are attempting to place new customers with insurance carriers even when those customers do not meet the companies' underwriting guidelines.

1. Explain to your colleagues why it is important to adhere to underwriting guidelines. What are the potential consequences for not abiding by an insurance company's underwriting guidelines?

2. Provide an example of a time when it would be acceptable to ask for an exception to a company's underwriting guidelines.

Account Servicing Procedures

Learning Objective

- *Explain the steps in account servicing for new business and existing policyholders.*

New Business Processing—Application to Policy

Application

Applications should always be completed thoroughly, accurately, and honestly, making sure the correct person (or persons) or entity is shown as the named insured.

In most instances, both spouses should be shown as named insureds. In domestic partnerships, both people should be shown as long as both have an insurable interest. An **insurable interest** is when the person seeking insurance would suffer a financial loss or experience a hardship if the object to be insured was damaged or lost.

To complete the application, questions should be asked of and answered by the named insured(s). Do not rely on old information in the customers' records, because things may have changed. If the information on the application is incorrect, there could be a problem with coverage at the time of loss. If there was fraud or material misrepresentation when completing the application, the consequences could be more serious. Make sure the application is completely filled out, including marking boxes that “trigger” coverage (i.e., replacement cost, inflation guard, agreed value on commercial property, etc.).

Make sure the application is signed. Have the named insured(s) sign the application even if a signature is not required. It is good practice to have the insured sign, agreeing to the validity of the information contained on the application. Under no circumstances should the agent sign the insured’s name.

Lack of a Market

There are going to be times when the agency won’t be able to find replacement coverage for an insured who has been cancelled or non-renewed. There are some guidelines that should be followed to make this process easier for all involved.

Once the agency has received notification of a cancellation or non-renewal, contact the insured immediately to discuss the situation.

Never indicate to the insured that this is anything other than a serious situation.

Do not promise the agency will replace the coverage. Doing so may not be possible, depending on the circumstances. However, you can advise the insured the agency will begin a due diligence effort to find another carrier.

After the initial contact regarding the non-renewal or cancellation, there are some key steps to take:

- It is important to keep the insured advised, in writing, of your progress to replace coverage. If another market can be found, review the coverage offer carefully to make certain the new coverage is identical to the non-renewed coverage.
- If the replacement coverage is on a different policy form or has limitations or conditions that provide less coverage than the prior policy, be certain to advise the insured of any of these coverage changes.
- If another insurance carrier cannot be found, advise the insured in writing that you have not been able to replace their coverage. The insured should be given enough advance notice to allow him/her to locate coverage elsewhere prior to the expiration date.
- The agency should never indicate to the insured that it will take care of everything; if they cannot provide the necessary coverage, this could easily lead to an E&O situation.

Submit Application

Now, the application needs to be sent to the insurance company. The application is uploaded to the insurance company within the time frame as allowed in the agency’s policy and procedures manual (and/or the company-agency agreement), and a follow-up date is set for the issuance of the policy.

If the follow-up date arrives and the policy hasn't been received, be sure to confirm with the insurance company that the application was actually received before extending the follow-up date.

Inspections and Recommendations

The insurance company may inspect properties to identify hazards and exposures, verify operations, establish property values, or determine fire and life safety protection. They may use inside staff or contract with third-party vendors to conduct the inspections.

In some instances, coverage cannot be bound until after an inspection has been conducted and the risk is found to meet underwriting approval.

Inspections may result in either suggested or mandatory recommendations. It is the insured's decision whether or not to comply with the suggested recommendations. Mandatory recommendations are more critical because they must be satisfied either (1) before coverage can be bound or (2) within a specified time period. Otherwise, the coverage will be cancelled or non-renewed.

Issuing Binders

If coverage has been bound, issue the necessary binders, certificates of insurance, evidence of property insurance, auto identification cards, receipts, etc.

Most jurisdictions require a binder (containing all of the required information) to be promptly issued to the insured. (Binders, certificates of property insurance, and evidence of property insurance are covered in the next section.)

Verifying the Policy (Policy Check-in)

Once the policy is issued, verify that the policy was issued correctly with the requested coverage forms, endorsements, limits, rating information, premium, etc. You don't want to wait until after a loss to find out that the policy was issued incorrectly.

Account Servicing—Existing Policyholders

Once the policy has been issued, the account servicing begins. Insureds will contact the agency to make changes to their policy; i.e., vehicle changes, driver changes, coverage changes, etc. Changes to a policy are called **endorsements**.

Verifying the Named Insured Is Making the Change

First, make sure the person requesting the change is the **named insured** (the individual or entity specifically designated by name as an insured in the insurance policy). The named insured is the *only* person who has the authority to request changes. Then, ask for all the necessary information to make the requested change. After the changes are made, the named insured will sign off on them.

Beth wants to add a new vehicle to her auto insurance policy. She will need to be asked the vehicle's intended use, who will be driving it, whether there is a loss payee, etc. If property is being added, check that the insured has an insurable interest; it is very important that this be verified.

Verifying an insurable interest confirms the insurance is rightfully sought. Recall that an insurable interest is when the person seeking insurance would suffer a financial loss or experience a hardship if the object to be insured was damaged or lost.

Communicate

In Section 5, we addressed the importance of effective communication and letting insureds know when they should receive verification from the insurance company of any changes made to the policy. This is part of an effective communication cycle. And, since you are already speaking with the customer, this would be a good time to cross-sell and further develop the account.

Request Change/Follow Up with Insurance Company

It is important that requested changes be made by the insurance company and a follow-up date be set to make sure the requested changes were made.

Now is also the time to update the customer's policy information in the agency management system and mail a policy change confirmation to the insured.

Additional Insured and Additional Named Insured Requests

Requests will be received to add an individual or an entity to your insured's policy as an additional insured or as an additional named insured. Before this is done, care should be taken to determine the insurable interest of that individual or entity. Is there really an insurable interest? Remember, the individual or entity seeking insurance must have an insurable interest in what is being insured, meaning they would suffer a financial loss or a hardship if the object, event, or action being insured was damaged or lost. If they have no insurable interest, they should not be added to the policy. It is also important for the named insured to understand how this could affect coverage in the event of a claim.

Possible thought questions to pose to the named insured who is requesting a change might include: Does the insured understand that the limit of coverage does not apply individually but rather applies per occurrence? Does the named insured really want to "share" their insurance protection? For example, if the insured purchased $1,000,000 liability limits, and others are named as additional insureds, does the insured realize that the $1,000,000 protection will be shared by all insureds?

Verify Change

When the insurance company has processed the change request, verify it was issued correctly. Again, it is easier to correct errors before a loss occurs.

Knowledge Check

Your new colleague, Erin, submits an application for a new customer's personal auto policy. After sending the application, Erin leans back in her seat and smiles, "It always feels so good to send off the application and be done with it! It's in the insurance company's hands now!" You are concerned that Erin does not plan to follow up with the insurance company.

1. Explain to Erin the steps she needs to take next, now that the application has been submitted.

____

____

____

2. Briefly describe what Erin's role will be when it comes to servicing this account in the future.

____

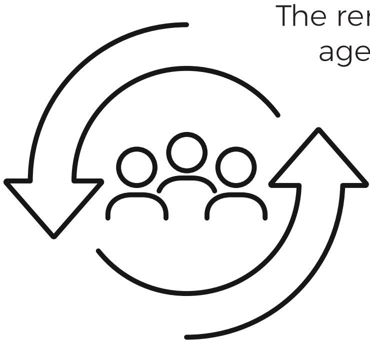
____

____

Processing Renewal Business

Learning Objective

- *Explain the steps in renewal processing.*



The renewal of the policy is one of the most important functions in the agency with respect to errors and omissions exposures. An insured may be left without coverage if a policy is allowed to lapse or if a coverage was omitted. Even more important than a missed renewal is an inaccurate renewal that results from a failure to review the insured's exposures.

Many insurance policies provide automatic coverage for additional exposures when they occur during the policy period, however, the exposures are not automatically covered on the renewal policy unless they are specifically added.

A commercial property policy provides coverage for a newly acquired building; that "automatic" coverage ends, however, at the end of the policy period. It becomes the responsibility of the agency to identify the exposure created by the new building so it can provide coverage for the new building in the renewal policy.

Renewal List

An agency must establish strong renewal procedures and controls. First, someone must be responsible for compiling a renewal list. This is generally done from the accounting data or as a report from the agency management system.

Because all policies are billed, the effective and expiration dates are entered into the accounting system. This provides an accurate source for the renewal list. This list is generally compiled 90 to 120 days prior to renewal.

Carriers often provide a renewal list, as well. Do not overlook direct-billed policies. Even though the company may be responsible for renewing direct-billed policies, the agency is still obligated to update the insured's coverage.

Review the List and Contact the Insured

The renewal list should then be reviewed to determine which insureds will be contacted, what method of contact will be used (letter, phone call, email, or visit) and who (producer or customer service representative) will make the contact. On larger accounts, a producer will generally make a client visit to review the risk information. Smaller accounts may be contacted by telephone or by letter. However, it is important to contact all customers in some manner, prior to renewal.

This is the time to obtain updated information to make sure the renewal policy will provide the needed protection. The following are some of the areas to review with the insured.

Look for:

- change in type of entity
- change in named insured
- changes in the operation (new products, new processes)
- any additional employees
- limits and locations and verify them
- new locations or buildings
- new activities
- expanded marketing areas (i.e., now doing business outside of the U.S.)
- personal lines exposures that should be reviewed
- other

This is the ideal time to meet with the insured and discuss recommendations to improve coverage and to discuss new coverages available. An example of this would be to add employment practices liability coverage to the insurance program. After this discussion, the renewal application is completed, signed by the insured, and sent to the company.

Many agencies use a written renewal checklist to make certain all of these responsibilities are assigned to a staff member and completed for each policy to be renewed.

A Complete Renewal Submission Means:

- Future applications have been created and updated with information from renewal packets, or notice has been given by the account manager to the team submitting the renewal applications to carriers that applications with audited exposures will be used.
- All currently valued loss runs have been obtained by the assigned team member.
- A current experience modifier worksheet has been obtained by the assigned team member. An experience modifier worksheet shows anything that may change—positively or negatively—the way an account may be regarded.

Note: The account manager, at this point, should consider if there is any additional information the team submitting applications to carriers should know about the account that could impact which carrier account the application would be submitted to, such as claims or a history of cancellation for nonpayment; or positive items such as a bad driver no longer being employed by the insured; or the fact that their experience modifier may be high; or that one loss is about to fall off, or be expunged, causing an inaccurate picture of the quality of risk; and so on.

It should be understood that account managers and others on the team will occasionally be surprised with knowledge about an account that results in the need to submit it even though it had originally been flagged to *not* be submitted to carriers. Non-renewals by carriers and requests for loss runs from the insured will be handled by the account management team.

Take a quick glance at the chart below; it shows the renewal process for a commercial lines account.

Table: 6.1

	Description	When	Who
1	Monthly renewal meeting	120 days in advance	producers, marketing, and service staff
2	Spreadsheet updated with instructions	during above meeting	team member
3	Renewal packets sent out	120 days in advance	commercial associate
4	Loss runs and experience modifier requested on submitted accounts	120 days in advance	team member—when loss runs are received, send a copy to the claims dept. so they can update the database
5	Applications updated for submission	90 days in advance	account managers
6	Changes to policy(s) once account is being prepared for submission; update current and future applications	as request is received from customer	account managers
7	Accounts submitted to carriers	90 days in advance	account manager
8	Receipt of submissions confirmed	80 days in advance	account manager
9	Follow up on receipt of quotes	30 days in advance	account manager
10	Analyze, negotiate quotes, discuss with producer as needed	as quotes received	account manager and relevant team members
11	Underwriter requests for additional information and supplemental applications	as requested	account manager or producer
12	Finalize proposal	as soon as possible	account manager

Table: 6.1

	Description	When	Who
13	Create finance note, auto ID cards, binders, certificates of insurance list, forms to be signed	on day proposal is finalized (no later than effective date of policies)	account manager
14	Producer delivers proposal—sells	day of proposal	producer
15	Coverages bound with carriers	day of proposal	account manager
16	Applications and certificates list updated, binder bills entered/updated, certs. issued, note updated as needed	day of proposal	account manager and other team members
17	Notify claims dept. that loss runs have been imaged as part of customer file	on day proposal is finalized (no later than effective date of policies)	account manager
18	Follow up on SBAP, BIND, NOTE activities	as they appear	account manager
19	Follow up on additional data as needed	As requested by company	account manager
20	Process policies	when received	account manager

Knowledge Check

You introduce your new colleague, Sarah, to the renewal list. What actions do you explain to her will need to be taken with the list? Explain to her the opportunities it presents.

Summary

The main goals of an agency include growing new business and caring for existing accounts through good client communication and relationships. Finding new prospects is vital, but no agency can survive without customer retention.

There are several necessary steps that can bring new business into the agency. Establishing a growth plan is primary and allows strategies to be formed around sales and the needed workflows and procedures developed to support new business. Sources for prospect mining should be identified, such as producers, referrals, associations, advertising/internet, or through cross selling and referral selling.

CSRs/account managers must be experts in gathering accurate account information and documentation for prospects and be familiar with submitting to markets, generating proposals, and converting prospects into a customers through quality service.

Honest, thorough, and accurate account servicing skills are needed to manage and service a customer's account. Technical knowledge, an awareness of agency standards and procedures, a familiarity with underwriting guidelines, and a strong ongoing relationship with the customer are invaluable for an agent to position themselves as a responsive client advocate.

Processing the renewal of the policy is one of the most important functions in the agency, especially with respect to errors and omissions exposures. Staying current on all steps of the renewal process is a way to update customer information and check that the insured's coverage is still sufficient for their needs.

Now that you understand the big picture concerning servicing new and existing customers' needs, in the next section, you will learn how to manage customer accounts.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/AOresources.

Workflows that Work

Section 6 Self-Quiz

Directions: Read each question below and select the correct answer.

1. The following are items that need to be accomplished to bring in new business, EXCEPT:
   - ☐ Submit to markets
   - ☐ Establish a plan
   - ☐ Submit endorsement request
   - ☐ Gather account information and document

2. Iris wants to grow her insurance agency by writing new business. She seeks to do so by looking at her existing client base and promoting products that are related or complementary to the existing coverage they have, or that other departments within the agency offer. This is an example of securing new business through:
   - ☐ Account rounding
   - ☐ Producer generated
   - ☐ Advertising/internet
   - ☐ Referrals

3. The quality of the product and pricing you will have available to present to the prospect is dependent on the quality of your submission and the markets selected. Each of the following are examples of when insurance company underwriters are more receptive, EXCEPT:
   - ☐ The applications are accurate, complete, and legible.
   - ☐ The account meets the company guidelines.
   - ☐ A cover letter is included to provide additional details or explanations when needed.
   - ☐ A misrepresentation is made on the application..

4. Sydney is reviewing the business auto application on one of her accounts. Since it is missing some information the underwriter will need to determine renewal coverage and pricing, Sydney should contact:
   - ☐ Sam, a listed driver on the current auto application
   - ☐ Bob Smith, the named insured
   - ☐ Karen, the office manager
   - ☐ Kim, Bob Smith's daughter

Directions: Read each statement below and select whether it is True or False.

1. When it comes to proposals to customers, it is safe to assume that the more complex the account, the more personalized, detailed, and specific the proposal ends up being.

   True **False**

2. Credit scoring is widely used as a part of the underwriting process.

   True **False**

3. The renewal process should begin 30 days from policy expiration date.

   True **False**

4. The agency's proposal should contain only the premium quoted for the prospect to review.

   True **False**

Section 7: Account Management

Section Goal

In this section, you will gain an understanding of the financial tools used during the underwriting process, types of account billings, when to use various ACORD forms for proof of insurance coverage, and proper claims handling in the agency.

Learning Objectives

- *Explain the use of and difference between a balance sheet and a profit and loss statement, as a part of the underwriting process.*
- *Understand the differences between direct bill and agency bill and explain the use of premium finance.*
- *Explain the differences among a certificate of insurance, an evidence of property insurance form, an insurance binder, and a cancellation form.*
- *Explain the steps involved in claims processing.*
- *Explain how a service center works.*

Introduction

The agency needs a financial plan that provides a roadmap for building a profitable insurance agency. Being profitable means the agency generates a profit rather than a loss. The agency needs to be able to measure its ability to generate profit, or positive net income, for a given level of sales and/or investment and its overall financial position. Understanding financial tools will help with identifying financial benchmarks, revenue per employee, tracking commissions, and so on.

As the insurance agency grows, it is important to understand, monitor, and analyze its financial health and strength. While there are many metrics one can use to evaluate financial health, an analysis of financial statements is one of the surest means to gain a better understanding.

Just as the financial health of the agency can be measured with financial tools, the financial condition of a customer can be assessed for coverage with information gleaned from balance sheets and profit and loss statements, as well. Underwriters want to see these financial instruments to be certain that a prospective insured falls within the underwriting guidelines and meets the criteria for coverage.

Scenario

The leadership at your agency has determined that account managers will be required to take additional training on the use of financial statements.

"I can't believe they are wasting my time like this!" complains your coworker, Alex. "I work in sales and customer service. Why do I need to bother with all of this financial stuff?"

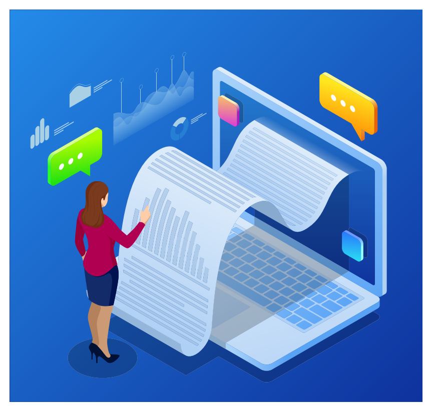
Thought Questions:

Do you agree with Alex? Why or why not?

Financial Statements

Learning Objective

- *Explain the use of and difference between a balance sheet and a profit and loss statement, as a part of the underwriting process.*



Financial statements are important tools that may be used during the underwriting process, especially in commercial lines. Therefore, agency staff with authorization to deal with financial information should have a working knowledge of the balance sheet and the profit and loss statement, including the purpose of each and the information each contains.

Evaluating the financial condition of an insured is an important piece of the underwriting process. Why? Because there can be direct correlation between the financial condition of insureds and their loss experience. Insureds having financial difficulty are more likely to experience an increase in both loss frequency (how often) and loss severity (how much), as they may not have the money needed to pay for routine maintenance or repairs.

There are two basic tools we review which contain financial data.

- Balance Sheet
- Profit and Loss Statement, or Income Statement

Note: With today's automated accounting programs, it is much easier for customers to promptly provide financial statements. However, the customer may be reluctant to release this confidential information. Customers may need to be educated on how the information will be used and assured that the information will be kept confidential both at the agency and the insurance company levels.

The Balance Sheet

The **balance sheet** is a "snapshot" of the financial condition of the individual or organization on the date the sheet was created. It shows details on what is owned (assets) and what is owed (liabilities).

There are three components to the balance sheet:

1. **Assets:** These are what is owned and what has accumulated. Assets could include cash, accounts receivables, investments, buildings, business property, inventory, etc.
2. **Liabilities:** These represent what is owed to others and the cost of accumulating the assets. Liabilities could include mortgages, accounts payable, debt, etc.
3. **Equity:** Equity is the difference between assets and liabilities. Think of it this way: If all of the assets were sold and all the liabilities paid, the equity would be any money left.

Assets – Liabilities = Equity

When applying for an auto, home, or other type of loan, you are creating a balance sheet when you complete the loan application. On the loan application, all your assets are listed, such as your house, autos, household furnishings, cash, etc.

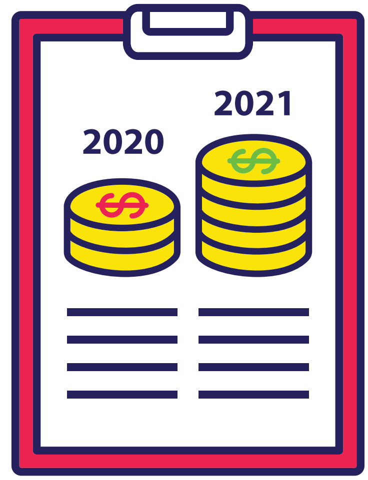
You then list all your liabilities, such as mortgage, auto loans, credit card debt, etc. The difference between your assets and your liabilities is your equity or net worth. It is possible to have negative equity or net worth if your liabilities exceed your assets.

The following is an example of a balance sheet.

Balance Sheet

Assets		**Liabilities**	
Current Assets		**Current Liabilities**	
Cash	$200,000	Accounts payable	$35,000
Accounts receivable	$41,000	Short-term notes payable	$15,000
Inventory	$150,000	Interest payable	$1,200
Other Current Assets		Taxes payable	$2,500
Total Current Assets	**$391,000**	**Total Current Liabilities**	**$53,700**
Fixed Assets		**Long-term Liabilities**	
Long-term investments	$50,000	Mortgage	$105,000
Land	$450,000	Notes Payable	
Buildings	$230,000	**Total Long-term Liabilities**	$105,000
(less accumulated depreciation)	($22,000)	**Total Liabilities**	$158,700
Plant and equipment	$120,000		
(less accumulated depreciation)	($13,000)	**Owners' Equity (Net Worth)**	
Furniture and fixtures	$36,000	Capital stock	$300,000
(less accumulated depreciation)	($25,000)	Retained earnings	$850,300
Automobiles	$44,000	Current Profit or Loss	($48,000)
Total Fixed Assets	**$870,000**	**Total Equity/Net Worth**	**$1,102,300**
TOTAL ASSETS	**$1,261,000**	**TOTAL LIABILITIES & NET WORTH**	**$1,261,000**

The Income Statement



The **income and expense statement,** also referred to as a **profit and loss statement,** summarizes the financial results over a period of time. It may be created for month-end, quarter-end, or year-end.

There are three components to the income statement:

1. **Revenues:** This shows various sources of income such as sales, service, consulting, etc. In an insurance agency, sources of income could include commercial lines commission, personal lines commission, life and benefits commission, contingent income, fee income, and so on.

2. **Expenses:** This shows all expenses incurred to generate income. In an insurance agency, expenses could include compensation expenses, business development expenses, operating expenses, etc.

3. **Profit or Loss:** This is the difference between income and expenses. Income minus expenses equals profit or loss. When income exceeds expenses, the result is a gross profit.

A profit and loss statement for one year will not paint a complete financial picture. It is better to have at least three years of statements to enable you to identify historical trends. A current income statement is often required.

When looking at an income statement, you will analyze the following:

- Has the income been increasing or decreasing?
- Has the profit been increasing or decreasing?

Remember to review the financial statements before forwarding them to the insurance company. While calculating ratios are beyond the scope of this course, there are a few basic questions you can answer:

- Is the insured's operation profitable? If not, do you know the reason?
- What is the trend of the operation's profit or loss?
- Does the income match the rate basis used in calculating the liability premium?

If you think there is a problem, be sure to discuss it with the account team before sending the statements to the insurance company.

Below is a sample year-ending statement.

Income Statement		
Gross Sales:		$1,300,000
Less returns and allowances		(100,000)
Net Sales		$1,200,000
Cost of Goods Sold:		
Beginning Inventory 01/01/21	$500,000	
Purchases	$400,000	
Less Ending Inventory 12/31/21	($600,000)	
Total Cost of Goods Sold		$300,000
Gross Profit		$900,000
Operating Expenses:		
Sales Salaries	$100,000	
Hourly Salaries	$400,000	
Officers' Salaries	$100,000	
Rent	$10,000	
Utilities	$10,000	
Depreciation on Trucks	$5,000	
Group Insurance Premiums	$10,000	
Interest Expense	$5,000	
Pension Plan	$20,000	
Property and Casualty Premiums	$10,000	
Advertising	$5,000	
Travel and Entertainment	$7,000	
Legal and Accounting Fees	$10,000	
Postage	$3,000	
Data Processing	$5,000	
Total Operating Expenses		$700,000
Net Income (Loss)		$200,000

Knowledge Check

Consider the scenario from the beginning of this section in which your coworker, Alex, was upset that account managers will undergo training on how to read and use financial statements.

Explain to Alex why evaluating a potential customer's financial condition is an important piece of the underwriting process. Describe two basic tools that can be used to review the financial data.

____

____

____

____

Billing Types

Learning Objective

- *Understand the differences between direct bill and agency bill and explain the use of premium finance.*

Customers can be billed in a few different ways, which typically are direct bill and agency bill.

Direct Billing

Direct billed policies are those the insurance company is responsible for communicating directly with the customer about, such as making premium billings and sending late notices and notices of cancellation. While the agency may be responsible for collecting the initial premium from the insured, the insurance company is responsible for collecting all subsequent premiums.

The insurance company remits the agency's commission monthly after collecting the premiums from the policyholders. Commission adjustments are made for cancellations and endorsements.

Advantage: The obvious advantage of direct billing is that the agency is not responsible for unpaid premiums. Additionally, the agency saves the cost of collecting, depositing, and accounting for the premiums, which reduces agency expenses.

Agency Billing

Agency billed policies are those billed by the insurance agency. The agency is responsible for collecting the premium for new business, renewals, and endorsements and then submitting the net premium (gross premium less commission) to the insurance company.

The insurance agency submits to the insurance company an accounting of the policies billed, showing the gross premium, commission, and net premium due. The resulting report is called an **account current statement.**

In a sense, the agency acts as the middleman in the transaction, collecting the entire premium (gross premium) from the customer and sending the reduced premium (having deducted the agency's commission) to the company.

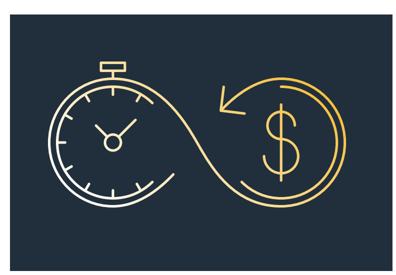
A policy is issued for $1,000 premium at a 15% commission. The agency invoiced the customer for $1,000, to be paid in full. Once the agency received the $1,000 from the customer, it remitted $850 to the issuing company ($1,000 less the 15% commission). Out of that $150 agency commission, the agency may choose to pay their producer a percentage of the agency's commission.

Agency billed premiums collected by the agency are held in a fiduciary capacity. They cannot be used for any purpose except for paying the insurance company the net premium reported on the account current statement.

> **Fiduciary:** One who must exercise a high standard of care in managing another's property or money.
>
> —*Black's Law Dictionary*

Disadvantage: The obvious disadvantage of agency billing is that the agency is responsible for unpaid premiums as well as those they collect. Additionally, the agency's expenses increase because of the cost of collecting, depositing, and accounting for the premiums.

Premium Finance



What happens if the customer cannot pay the entire premium when billed by the agency? If this occurs, a payment plan is requested as well as third-party insurance. With an agency bill policy, the agency may offer payment terms to the customer through a **premium finance company** rather than have the customer pay the full premium at policy inception. A finance agreement (signed by the insured) is sent to the finance company along with the required down payment. The insured then makes scheduled payments to the finance company.

The finance agreement allows the premium finance company to request cancellation from the insurance company in the event the insured does not make the required premium payments.

Statement Billing

Just like the agency will run an account current statement to see what they need to pay to the insurance company for agency bill transactions, the insurance companies will send a **statement billing** to the insurance agency for collection of premium. This statement is produced monthly by the insurance company and lists all transactions from agency bill items and calculates the net premium due from the agency for these items.

The insurance agency must reconcile to the insurance company's statement and submit the net premium due to the insurance company, even if the agency has not collected the money from the insured. Keep in mind, the customer is sending their payment to the agency, the agency is then turning around and sending that premium, less the commission, to the company.

If the insured does not pay the premium, it is the agency's responsibility to request the insurance company cancel the policy for non-payment. The agency is still responsible for any earned premium for the time coverage was in force.

Advantage: An advantage to the agency in receiving the statement billing is the agency can reconcile against it to see what premiums haven't been received or if a transaction hasn't been invoiced in the management system.

Knowledge Check

Explain the differences between direct billing, agency billing, and premium financing.

____

____

____

____

Providing Evidence of Insurance

Learning Objective

- *Explain the differences among a certificate of insurance, an evidence of property insurance form, an insurance binder, and a cancellation form.*

Often, when the customer is being billed and/or when the premium has been received by the agency, additional forms will be created indicating the status of the customer's coverage. After a new or renewal policy has been ordered or a policy change has been made, additional people may need to know that the coverage is in effect. These are parties that have an actual interest in the policy. In order to show coverage is in effect, one of three separate forms will be used.

1. Certificate of insurance (property or liability)
2. Evidence of property insurance form
3. Insurance binder

Certificate of Insurance

The **certificate of insurance** is one way to notify an interested party that insurance coverage is in place. Unlike an insurance binder, the certificate is not a contract or legal document.

The holder of a certificate is not a party to the insurance contract and has no rights or privileges under the contract. The certificate is issued to a third party for information purposes only. It refers to either an insurance binder or to a policy and confirms that coverage is in force as of the date the certificate is issued. It does not amend, extend, or change the policy.

PRO TIP	It is important you understand and comply with the law relating to certificates of insurance. Statutes vary by state, and it is your responsibility to stay informed to avoid violations of such statutes. When in doubt, check with the appropriate state regulatory authority or other valid resource for direction. Remember that this is a matter of law, and regardless of what the customer requests, or the insurance company approves, when you issue a certificate of insurance, it must be in compliance with the law.

Errors and Omissions Alert

Misuse of the certificate of insurance is one of the most frequent errors made by agents. These forms need to be completed accurately and not be represented as anything more than a record and outline of existing coverage.

Modifications to the existing language of the certificate should not be made without proper authorization from the insurance company.

Remember, when you issue a certificate of insurance, it must be in compliance with the law.

Evidence of Property Insurance Form

Once an insurance binder or a policy has been issued, there may be other parties who need to be notified coverage is in effect or that a change has been made to the policy.

The **evidence of property insurance form,** designed by ACORD, is different in appearance from the certificate of insurance, but the purpose is the same. Unless already granted under the terms of the policy, the holder of the form is not a party to the insurance contract and has not been extended rights or privileges under the contract. The form does not amend, extend, or alter the coverage or insuring terms provided by the policy identified.

Errors and Omissions Alert

The evidence of property insurance form does not promise the holder notice of termination (cancellation or nonrenewal) or material change of coverage. The issuing insurer will "endeavor" to mail written notice to the additional interest so named; however, failure to mail such notice is not to be considered an obligation or liability upon the insurer, its agents, or representatives.

Lienholders and financial institutions can be protected by adding the ISO endorsement CP 12 18 Loss Payable provision which provides for a promise of notice of cancellation or non-renewal.

Insurance Binder

An **insurance binder** is a temporary insurance contract that should not be issued without careful underwriting attention. A binder should only be issued when the coverage has actually been placed in accordance with the agency's binding authority as specified in the agency agreement or with permission of the insurance company. The improper use of binders has become a major cause of agents' E&O claims.

When coverage has been bound, but the policy has not been received, binders are sent to the insured and other parties who have a legal interest in the policy, such as a mortgagee or a loss payee. A copy of the binder should also be sent to the insurance company providing the coverage.

Using the Correct Form

ACORD has developed a standardized insurance binder accepted by insurance companies who subscribe to ACORD. When insurance companies subscribe to ACORD, they agree to the language on the preprinted ACORD form. The ACORD language cannot be changed without the consent of the insurance company.

Additionally, special binders that do not conform to the ACORD language should be referred to the insuring company for completion. An agency is not authorized to accept on behalf of the company any conditions that may be contained in a non-conforming binder.

Completing the Binder

When preparing an insurance binder, care must be taken to ensure that it is complete and accurate. This is a professional, not a clerical, function. Of course, all state laws regarding binders must be observed, including the minimum and maximum term of the binder.

The language in the binder must be accurate and reflect the coverage, limits, deductibles, and other pertinent information in the policy. Vague or unspecific terms can cause problems in the event of a loss. If the binder does not correctly reflect the policy coverage, the interested party may reject the binder, causing additional problems. The policy form should be specified on the binder.

A Homeowners Policy would be entered on the binder as Form HO 00 03 (10/00), rather than using the generic description, "All Risk Homeowners," which should never be entered on a binder as a descriptor.

The binder should specify the company covering the risk and should also indicate definite effective and expiration dates. Since state law can dictate if a binder is automatically renewed, it may be necessary to cancel or non-renew the binder. For this reason, a binder log should be maintained so the agency can track outstanding binders. The binder is automatically null and void once it is replaced by a policy.

Reverse Side of a Binder

Some of the most important language on the binder is contained on the reverse side of the ACORD binder form. This may be printed as a second page in some agency automation systems. Be sure to send this page when issuing a binder, as it contains safeguards for the agency and company.

One final step should be observed when issuing a binder for new, renewal, or additional coverage: sending a binder bill and collecting a deposit premium.

As we discussed earlier, insurance premiums are due and payable when coverage is effective. Collection of premiums for all transactions is part of the processing system.

Errors and Omissions Alert

Language on all three ACORD forms [the certificate of insurance (property or liability), evidence of property insurance form, and the insurance binder] should be very specific and as detailed as necessary to avoid extending coverage beyond the standard policy forms. Only authorized personnel in the agency, in compliance with the company's instructions, should issue these forms. An agency has no authority to issue any of these forms on brokered or surplus-lines business. If a binder or certificate is needed, request it from the proper company through its agent or broker.

Cancellations

A processing issue faced by insurance agencies is cancellations.

Policies may be cancelled at the request of the insured or cancelled by the insurance company.

The insured may cancel a policy for a variety of reasons; some examples include the sale of the insured property, coverage placed with another company, or the insured entered into a lease where the tenant is responsible for the insurance. Cancellation is not a partial deletion of coverage; it is a discontinuation of all coverage provided by the policy.

In the event of non-payment of premium, the request for cancellation may come from the premium finance company or the agency.

If the insured does not have the original policy, or for some reason does not want to return the actual policy, then a policy release form may be used. This form requires the insured's signature as well as the signatures of any other parties who have a noted interest in the policy, such as a mortgagee or a lienholder. Special care should be taken to make certain original signatures are obtained.

If it is a personal lines policy, obtain the signatures of all named insureds. If it is a commercial lines policy, obtain the signature of the first named insured.

Be sure to include the time the cancellation was or is to be effective (12:01 a.m., 9:47 a.m., etc.) so the specific time coverage was stopped, or will stop, is clear to all parties.

Knowledge Check

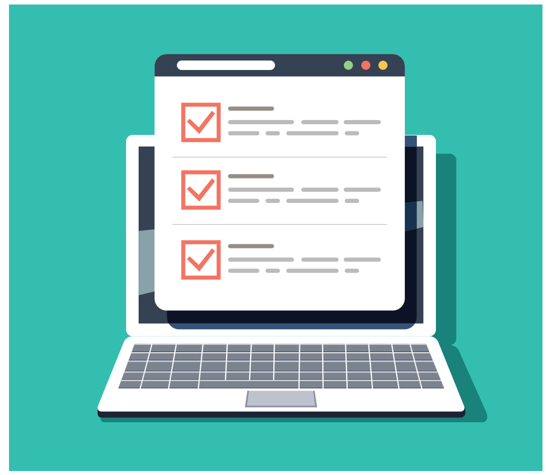
Explain the difference between a certificate of insurance and an insurance binder.

Claims Processing

Learning Objective

- *Explain the steps involved in claims processing.*

It is only when a claim occurs that an agency and a company really deliver their service and product. Until a claim occurs, the policy is just a promise. There are several steps of the claim process that we will consider:



1. The insured reports a claim
2. Taking the claim information
3. Informing the insured of the policy conditions
4. Reporting the claim to the insurance company
5. Logging the claim

The Insured Reports a Claim

While many insurance companies have made it possible for insureds to directly report a claim to the company, many insureds prefer to report it to the agency.

Agency staff needs to understand the emotion that accompanies a claim report. For many insureds, this might be their first claim, and they do not know what to expect or how to proceed. While you work with claims on a daily basis, the insured might be unfamiliar with the process and needs to rely on your knowledge.

When taking a claim report, it is important to listen with empathy. If the claim is being reported in person, be sensitive to privacy issues. The insured may not want to stand at the front counter to report a serious accident or a sensitive loss.

Taking the Claim Information

When taking the claim information, be sure to use the ACORD loss notice/claim form. Record the information accurately and include just the facts. Fill in every blank, using "none" or "N/A" if appropriate, so everyone reviewing it will know information has not been overlooked.

"N/A" and "none" do not mean the same thing. Non-applicable (n/a) means that the information requested does not apply. Don't use "n/a" when you mean "none." Do not confirm or deny coverage at the agency level.

Remember, the insurance policy is a contract between the insured and the company.

The agency is not a party to that contract and has no authority to accept or deny claims. If you think the company might deny the claim, you can tell the insured, "We are reporting the claim, but there might not be coverage because..." Then, let the insured know that the insurance company will investigate the claim and determine if there is coverage for the loss.

Inform the Insured of the Policy Conditions

Remind the insured that the policy requires them to protect the property from further damage and to retain the damaged property for the adjuster to examine. The acronym, **P.I.N.E.S.,** is useful for remembering what the insured must do, according to typical property policy conditions.

Typical Property Policy Conditions— What the Insured Must Do	
P	Protect the property from further damage.
I	Inventory the damaged property.
N	Notify the insurance company.
E	Exhibit the property to the adjuster.
S	Submit a sworn statement.

The policy conditions authorize the insured to make temporary and necessary repairs but they must not begin full repairs of the damaged property until those repairs are approved by the insurance company. It is important to inform the insured when to expect contact from the insurance company.

Additional Customer Service

Since the time of a claim is usually an emotional one, it is also a time to extend additional customer service.

A claim acknowledgment letter can be one of the strongest customer service tools used by an agency. Its purpose is to put in writing what the insured has already been told verbally and to reinforce and remind the insured of the instructions that were given.

Invite the insured to contact the agency if there are any questions or if assistance is needed during the process.

Notify the producer, supervisor, agency management, etc., of large losses, questionable losses, or losses with coverage in question.

Report the Claim to the Company

Claim information should be submitted to the company immediately. Policy conditions typically require the insured to promptly report the loss; failure of the agency to report the loss could create an errors and omissions exposure. And, in some states or jurisdictions, unfair claims practices statutes or regulations may require the agency to report all losses to the insurance company, even if the insured does not want it reported.

Claims Log

Agencies can keep a record of claims in a **claims log.** This is easily maintained in an agency management system. The claims log allows the agency to keep track of its total claim counts, number of open claims, amount paid per claim, total claims dollars paid, the time between first notice and closure, etc. It can also be used as a tool to identify trends (negative or positive) in the service provided by each company's claims department or its claim process.

The claims log should be reviewed regularly to identify loss trends or loss ratio issues. It can also be used to compare against an insurance company's loss ratio reports for accuracy.

Other Claim Issues

It is important that the agency has procedures regarding the dos and don'ts related to claims. During the claims process, several issues can arise, and set procedures can help guide how those issues should be handled. For example, the agency is expected to hold their customer's information in confidence, under all circumstances. If the claimant is the other party, you can take the claimant's information, but do not confirm any information; contact the insured (your customer) and let them know you heard from the claimant.

Another confidentiality aspect of the claims procedure is the rule to never share policy information, especially coverage or limits of insurance, with anyone other than your insured (customer).

A **reservation of rights letter** is used when an insurance company agrees to investigate a claim or suit and defend the insured while retaining the right to deny coverage at a later time. This is typically used when coverage is in question.

What should be done when a customer receives a legal notice such as a suit and summons? A **suit and summons** is the notice that a lawsuit is being filed against the insured (defendant). It requires a response within a specified period of time; otherwise, it could result in a default judgment being entered against the insured. Because of this time sensitivity, the insurance company must immediately be notified if the insured is "served" with a suit and summons and be provided with a copy of it.

After the claim is closed, the agency should follow up with either a phone call or a survey to the customer to evaluate both the agency's and the company's performance during the claims process. During the entire claims process, did the agency meet or exceed the level of customer service that it promised? This kind of feedback from the customer can prove invaluable to both the agency and company for the purposes of improving their customer relations and retention.

Knowledge Check

One of your commercial clients, Hank Harper, enters your agency and is distraught because he needs to file a claim for water damage at his restaurant. Hank is very upset and worried about the cost of repairs and potential loss of revenue for his business. Based on what Hank is saying, describe the steps you would take to handle the situation.

____

____

____

____

Service Centers

Learning Objective

- *Explain how a service center works.*

Handling claims can take a lot of time, care, and attention. In order to provide the agency's workforce the ability to dedicate their time to claims care and sales, the agency can utilize insurance company service centers to handle the more routine transactions. Service centers are used by agencies to transfer the servicing of a book of business—usually comprised of personal lines or small commercial lines—to the insurance company. In most instances, the agency gives up a portion of its commission in exchange for this service. The service center must be able to perform all agency functions: quote, process new business, attach endorsements, handle claims, assist clients in various ways, effectively communicate with clients, and provide insurance documents as necessary.

Why Would an Agency Want to Use a Service Center?

Let's take a look at some compelling reasons an agency might subcontract with a service center to carry out some of its responsibilities.

- To remove the service responsibilities and more routine tasks from the agency staff so they can use that time for sales
- To reduce personnel in the agency
- To offer extended hours for the convenience of the customers

  Service centers are available after business hours, so if the customer has a need, it can be handled by the company's service center, even on a weekend or holiday.

- To reduce E&O exposures

  Most service center agreements contain an indemnity provision stating that the agency will not be held responsible for errors made by the service center.
- Catastrophes and major disruptions

  In the event conditions cause the agency to not be able to function, calls can be diverted to the service center.

Preparing Customers to Interact with the Service Center

To prepare customers for interaction with the service center, a letter should be sent informing them of the benefits they will receive, such as extended hours of operation including weekends, along with new contact information.

If an insured calls the toll-free number to the service center, the service center representative answers as if they are an employee of the agency: "Good afternoon, ABC Insurance Agency." If the customer's inquiry falls outside the scope of services to be provided by the service center, the call is then forwarded to the agency for servicing.

Things to consider:

- What level of service, according to the service center contract, will be provided by the service center? Will the center only service existing policies, or will it also have responsibility for selling additional coverages/policies?
- Are procedures in place to assure the agency is promptly notified when a new policy is sold, changes are made, a claim has occurred, etc.?
- Is retention being monitored by the agency to measure if the service center is having a positive (or negative) impact on the book of business?
- Is the agency maintaining a central log in the agency management system for each service center in order to track errors, problems, and so on? A tracking system can be a useful tool to evaluate the effectiveness of service centers.

Knowledge Check

Your agency is considering using a service center, and the agency leadership has asked for your input. List two potential benefits of using a service center, as well as two things leadership should consider before entering into the service center agreement.

1. **Benefits:** ____

2. **Considerations:** ____

Summary

Financial tools, such as balance sheets and income statements, can be used as part of the underwriting process to determine the financial condition of a potential insured. These tools are also beneficial to the agency as it grows, helping management understand the agency's strength, overall health, and potential. Part of what can impact the financial stability of the agency is how an account is managed, billed, and how claims are handled. Occasionally the agency will need to enlist the help of a service center to process the more routine tasks and transactions, so emphasis and time can be spent selling and building relationships with new and existing customers. An additional benefit in utilizing a service center is protection from potential E&O claims, since most offer indemnity for the agency. In the next section, you will learn about common causes and additional steps the agency can take to prevent—and if necessary—defend against a lawsuit.

Section 7 Self-Quiz

Directions: Select the correct letter to match each term with the appropriate definition.

A. Direct billed **B.** Profit and loss statement **C.** Agency billed **D.** Insurance binder **E.** Balance sheet **F.** Service centers	______ Policies for which the insurance agency is responsible for collecting premium and sending the net to insurance company.
	______ A temporary insurance contract that should not be issued without careful underwriting attention.
	______ Used by agencies to assist with handling more routine aspects of a book of business.
	______ Policies for which the insurance company is responsible for collecting premium.
	______ A “snapshot” of the financial condition of the individual or organization on the date it was created.
	______ This summarizes financial results over a period of time.

Directions: Read each statement below and select whether it is True or False.

1. The three components to the balance sheet are: assets, liabilities, and losses.

   True **False**

2. The profit and loss statement can provide a financial picture over a chosen period of time.

   True **False**

3. If a customer is unable to pay the entire premium when billed by the agency, the agency may offer payment terms to the customer through a premium finance company.

   True **False**

4. The certificate of insurance is not a contract or a legal document.

   True **False**

5. The evidence of property Insurance form amends, extends, or alters the coverage or insuring terms provided by the policy identified.

   True **False**

6. A binder should only be issued when the coverage has actually been placed in accordance with the agency's binding authority as specified in the agency agreement or with permission of the insurance company.

True **False**

7. When it comes to claims reporting, after the insured reports a claim, the next step is to inform the insured of policy conditions.

True **False**

Section 8: Errors and Omissions

Section Goal

In this section, you will gain an understanding of the responsibilities of the insurance agency staff regarding errors and omissions (E&O) issues and claim defense activities. You will come to appreciate the reasons agents are held to a high standard and accountable for their actions, including mistakes—unintentional or otherwise.

Learning Objectives

- *Understand the concept of negligence, including the four elements for negligence to have occurred, as it applies to an errors and omissions claim.*
- *Explain the common causes of claims made against agents by insureds and the insurance company.*
- *List the steps an agency should take when faced with a potential E&O claim.*

Introduction

You are working in a busy agency; consider how easy it might be to accidentally omit an endorsement or assume a coverage is listed on the policy because you do not take the time to do a proper policy check-in. According to members of the Independent Insurance Agents and Brokers of America (IIABA), failure to procure coverage accounts for nearly one in five E&O claims against P&C insurance agents. Some of the ways an agent can drop the ball are failing to do a careful risk analysis, glossing over a needed coverage, or not documenting the account properly. For example, you secured a binder, but because you did not set a follow-up on a task or did not create the appropriate task in the management system, the policy is never ordered.

Since the job of the insurance agent is to manage the risks and exposures of their clients, the agency is constantly needing to respond to disruptors—whether positive or negative—that come up in their business dealings. Whether you're considering individual accounts, markets, mergers and acquisitions, or the industry as a whole; the agency and its employees are expected to remain informed.

No matter what the situation, it is important to understand the causes or events that create E&O situations and how to effectively manage the process in the event of an E&O claim.

Scenario

You recently met with George, a new client, and spent time with him filling out his application for a personal auto policy. Weeks later, George is in an auto accident for which he was at fault, and he files a claim. His claim is denied because he does not have an auto insurance policy with the insurance carrier. You realize that you forgot to submit his application on time, despite verbally binding coverage with him.

Thought Question:

How would you respond to this errors and omissions situation?

Negligence

Learning Objective

- *Understand the concept of negligence, including the four elements for negligence to have occurred as it applies to an errors and omissions claim.*

E&O claims can be brought against an agent by a customer or by a company for an apparent failure to perform a legal or ethical duty. Even with the best intentions and striving to manage accounts and change requests effectively, no one is above the possibility of causing an E&O situation. Many factors can trigger E&O exposures. In many claims, the agency is not actually at fault but is not able to prove their case. In other incidents, the agency is at fault, often because of a failure to perform to the prescribed standard of care.

Any member of the agency staff, from the front desk to the agency owner, may fail to perform a duty or action such as:

- Failure to deliver accurate information
- Failure to submit a change request
- Verbally binding coverage and forgetting to submit an application

While mistakes are often unintentional, there are also times when E&O situations are created by intentional and blatant disregard of legal and ethical standards. Let's take a look at the role negligence has in E&O claims:

Being compliant with agency standards of care is critical to E&O prevention, and the easiest way to prevent negligence is to follow procedures. **Negligence**, which must be proven, is when the agency and/or an agent is charged with failure to perform a duty. It is failure to use a degree of care that is generally considered reasonable under a given set of circumstances.

With E&O claims, an agency is often placed in a difficult situation to defend their position when accused of negligence. The burden rests with the agency to prove they were *not* negligent; that is why documenting everything is important.

There are four elements required for negligence to have occurred.

1. There must be a duty owed to another party.
2. There must be a breach of that duty.
3. There are damages—an actual loss or injury must occur.
4. There has to be a proximate cause or cause-and-effect relationship between the duty and the loss or injury.

Knowledge Check

Consider the scenario at the beginning of this section, in which you forgot to submit George's application for a personal auto policy on time, and he was left without coverage after an accident.

Is this an example of negligence? Why or why not?

____

____

____

____

Common Causes of E&O Claims

Learning Objective

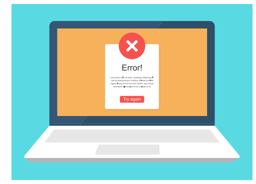
- *Explain the common causes of claims made against agents by insureds and the insurance company.*

Common Causes of Claims Brought Against Agents by Insureds

There are many reasons a customer might make a claim against an agent. Summarized in the following table are a few of those reasons. For more information on each one, continue reading and consider each of the examples.

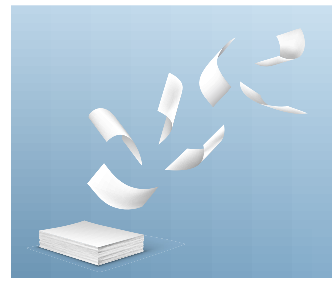
Failure to obtain proper coverage	**Failure to place coverage after binding it**
Failure to give proper advice	**Failure to promptly advise insured of rejection or lack of coverage**
Failure to maintain or renew coverage	**Failure to service policies**
Failure to place coverage on best terms and conditions available	**Misrepresentation of facts**
Placing coverage with an insolvent insurer or unauthorized insurer	**Modifying established service to customers**
Making a clerical error	

Failure to obtain proper coverage



The most frequent charge against an agent is, "You didn't give me the right insurance." Of course, this complaint is usually heard after an uncovered claim. In this case, the agent will be obligated to show they made a good faith effort to properly cover the risk.

Failure to place coverage after binding it



At times, an agent simply forgets to place the coverage. This might be a circumstance where a piece of paper is misplaced or an email overlooked, and it is not discovered until after an uncovered claim has occurred.

Failure to give proper advice

The insured tells the agent that they have an in-home business, but the agent fails to advise them of the limitations in their Homeowners policy and neglects to offer insurance to cover the exposure.

Failure to promptly advise insured of rejection or lack of coverage

The insurance company agrees to issue the policy, however, it will not provide one of the coverages requested. The insured has an uncovered loss before the agent had notified him/her of the rejection of coverage.

Consider this example: a company inspects property and notices there is damage to the roof. The insurance company requests that repairs be made within 30 days. If the roof is not repaired, the roof will be covered at actual cash value versus replacement cost.

Failure to maintain or renew coverage

The agency fails to follow up on a renewal listing that is agency billed. As a result, the policy expires, leaving the insured without coverage.

This also applies to a lack of follow-up or advice on cancellation or non-renewal.

Failure to service policies

The agency fails to notice that the insured does not carry the underlying limits required by the umbrella policy. A loss occurs, and now the insured is responsible for the gap in coverage. The insured, in turn, makes an errors and omissions claim against the agency for the coverage gap.

Failure to place coverage on best terms and conditions available

An insured's coverage is placed with a carrier where the policy was more restrictive or deficient compared to other carriers' products that were accessible to the agent at the time of the placement and would have better addressed the insured's needs.

The agency/agent is obligated to give options and to not place coverage with a company because of a sales contest or higher commissions when it would have been better for the insureds to have their coverage placed with another company.

An agent secured one quote for the insured from a company that excluded theft coverage and another from a company that included theft coverage. The agent only offered the quote that excluded theft because the price was more competitive. The insured incurred a theft loss that would have been covered under the other available coverage the agent failed to offer or provide.

The agent's action created an errors and omissions situation since the agent could have placed the coverage with an insurance company that would have provided coverage for the theft loss, but failed to do so.

Misrepresentation of facts

The agency tells the insured the policy provides coverage for something when it does not. Be cautious when you tell the customer, "Yes, you are covered…"

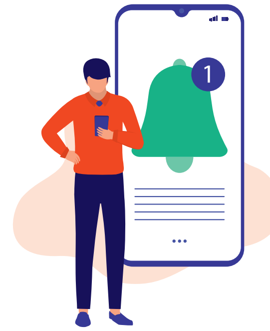
An example of this might be the insured being informed that earthquake coverage is provided when it is not.

Placing coverage with an insolvent insurer or unauthorized insurer

The agency fails to check the financial ratings of the insurance companies it represents before placing coverage for an insured. When a standard carrier becomes insolvent, the carrier may be eligible to go to the their state's Guaranty Fund, if one is operated in that state. This kind of fund is administered by the state government to protect policyholders in the event an insurance company defaults on benefit payments. These funds, however, may be limited, and this, in turn, may limit what policyholders are paid on a claim.

Some agencies' E&O carriers will have requirements that the agency place business with companies that have a certain rating (B+ rating and higher, for example).

Modifying established service to customers



Do you call the customer? Do you only call VIP accounts? These are questions that agents constantly debate and which set patterns that can put the agency at risk by creating exposures.

The agency fails to notify a customer that a premium is late when the agency has always done so in the past. The customer has a loss after the policy cancels for non-payment. The customer now claims that in the past, the agency always notified him/her of overdue premiums, and the policy premium would have been paid if the agency had followed their established notification procedures.

Making a clerical error

Clerical errors happen, but they can be costly. Even a misspelling or an incorrect description of property can lead to a lack of coverage when needed.

An endorsement for $20,000 is requested when it should have been for $200,000. The error is not discovered until after the loss occurs.

An agent forgets to check the box on the application to include replacement cost coverage when the insured specifically requested it. The error is not discovered until after the loss occurs.

Common Causes of Claims Brought Against Agents by Insurance Companies

Claims brought against agents by insureds are not the only E&O claims that can occur. There are many instances of claims brought against agents by insurance companies.

When an insurance company must pay a claim that is the result of an agent's failure to perform a duty in accordance with the agency agreement, the insurance company may exercise its right of subrogation against the agency for the reimbursement of the payment, including related expenses.

In recent years, a growing number of E&O claims have come from insurance companies claiming the agents have breached a duty to the insurer. Claims made by insurance companies against agents are often a result of the following:

Exceeding binding authority

This occurs when the agent binds a type of risk or amount of coverage that is in excess of the agency's binding authority.

The agent binds $1,000,000 liability coverage when the agency's binding authority is limited to $500,000.

The agent binds a tavern on a businessowners' policy, however, it is listed as an ineligible class of business in the company's underwriting guidelines.

Failure to properly process a claim, delay in forwarding loss information, or providing unauthorized instructions to the insured about a claim

This occurs when the agent does not inform the company about a claim. If the customer reports a claim to the agency, the agent should forward the loss information, as expected. How would you handle the situation if the customer calls the company to inquire if the claim has been reported and discovers no one has notified the company of the loss? Keep in mind, you are the agent, and therefore you are also the agent of the company. Any information given to you should be shared immediately with the carrier.

Failure to notify carrier of material change in risk

This occurs when the company discovers the information provided to them is different from what was provided when the account was written, and the company was not advised of this change. The company can inspect the property, and within the insurance contract, they have the right to cancel coverage if they discover a change in the risk over the policy period that was not consistent with the information given in the application.

The property insured is now vacant, and the agent doesn't notify the insurance company.

The insured has a farmowners' policy, and the agent finds out there is now a dirt bike track on the property used every weekend for organized racing. The agent doesn't notify the insurance company.

Misrepresenting the risk to the carrier

This occurs when the agent does not disclose pertinent information regarding the risk to the carrier in order to seek underwriting approval and/or to lower the premium. This can be the act of improperly answering specific questions that were on the application, or giving a false statement so the company will approve a policy that would have normally been denied. Concealment of material facts concerning the risk prior to the loss will typically provide the company with the right to cancel the policy. Whereas, those concealments or misrepresentations made after a loss will typically give the company the right to deny coverage for the submitted claim. This type of dishonest submission can cause the company/underwriter to be concerned about the integrity of the information received on current accounts and any future submissions

The building is an assisted living facility, but the insurance company is told it is an apartment complex.

Knowledge Check

Explain one common cause of claim brought against the agent by the insured and one common cause of claim brought by the insurance company.

Agency Defense Activities

Learning Objective

- *List the steps an agency should take when faced with a potential E&O claim.*

The agency can do everything right—check all boxes and provide proper service—but still find itself accused of an error or omission. To prepare for the possibility of a lawsuit, the agency should begin specific defense protocol and not wait to be served with a summons and complaint before preparing for the agency's defense.

The agency can take defense steps to protect itself should an E&O claim occur. If, during the initial claim-reporting there appears to be a potential problem with coverage, begin the agency defense process. Start looking in the customer files to see what documentation does and does not exist, and take the following actions as indicated below. Let's review the defense process.

1. **The agency reports the claim to their E&O carrier as required by policy language.**

   How does the errors and omissions policy define a claim? A loss? You have a burden and duty to report the claim as quickly as possible and as soon as you are aware so the agency's E&O carrier can also start their investigation. Keep in mind that the E&O carrier will typically send a representative to the agency who will assist the agency through these steps.

2. **The agency assigns one person to act as the coordinator for the E&O claim.**

   It is important to assign one person to act as the claims coordinator. The claims coordinator should collect all pertinent information into a master file and prepare a chronological written narrative. Ideally the coordinator will set a pattern in the agency and establish a methodology for every case. This will ensure there are no differences in how cases are handled.

3. **Promptly have a meeting with all agency personnel involved with the E&O claim.**

   It is important to promptly have a meeting with all involved agency personnel. To prepare, have a written narrative containing all the facts of the claim. Remind all involved parties to maintain confidentiality, and conduct a brief discussion, documenting in writing a description of each person's involvement.

   The E&O incident should not be discussed within the agency except by those who are directly involved, nor should it be discussed outside the agency. This is a situation that demands confidentiality; it is not in the best interest of the agency for others to have knowledge of a potential errors and omissions claim.

   The employees of an agency have an obligation to keep customer information secure, as well as to adhere to sound business practices. Sharing sensitive information about the events that transpire at work with insurance company personal, competitors, and others should <u>never</u> take place.

4. **Prepare to be a good witness.**

   The attorney representing the agency will help the agency staff prepare for the litigation process; there are strategies for being the most effective during the deposition and on the witness stand. The witness should review all material prior to the deposition and understand they are to answer only the questions that are asked. As always, it is imperative to remain truthful.

5. **Do not change any operating procedures.**

   The agency should not change any workflows or procedures during an open E&O investigation without approval of the E&O carrier, or until it is settled. Changing a procedure mid-stream during the investigation may be interpreted as admission that what the agency previously did was wrong.

6. **Inform the agency of the outcome.**

   Let the agency staff know the results once the situation is resolved. Discuss what the agency did that may have helped in its defense. (Proper and complete documentation, completed checklists, signed rejection of coverage, etc.)

Ask yourself the following:

- What lesson(s), if any, did the agency learn?
- Do changes need to be made to the agency's procedures manual?
- Is additional training needed for agency staff?

By default, simply by being a professional or an expert in something increases your level of legal liability. While errors and omissions claims can be taxing and potentially destroy the reputation of an agency, making preparations for circumstances such as these will leave the agency better positioned for the future.

Knowledge Check

An irate customer calls your agency because a claim on their Homeowners insurance policy was denied. The customer says your agency did not provide them with the proper coverage and that their home was undervalued and underinsured as a result. As the account manager who bound the policy and submitted it to the company to issue, you check your records and see that you have conducted the policy-check in the workflow and confirmed the insured was issued the coverage they agreed to on the signed application.

The customer has advised they are suing the agency. What steps should you take to prepare?

Summary

As you learned, errors and omissions claims can be brought against an agent/agency by a customer or by the insurance company for many reasons. Some common ones are lack of product knowledge, lack of documentation, and lack of consistent procedures. Improving these areas will greatly enhance the agency's ability to defend its position when accused of negligence. Establishing a defense protocol with steps in place will help prepare against a possible claim and lawsuit. As an insurance professional, you should remain ethical, honest, and follow agency standards and procedures—documenting every transaction—which will protect you, the customer, the insurance company, and the agency.

You have completed the CISR Agency Operations course and now have an overall understanding of the complexities of the agency structure and its operations. Your tour of the insurance agency began with looking at ethical behavior and its benefits, both to you, personally, and to the health of the agency, by avoiding E&O situations.

You explored values, vision, and mission statements and how these shape the agency's operations, culture, brand, and goals. You examined different types of organizational structures and factors that influence how the agency conducts its operations and how the various positions within the agency relate to servicing clients' needs, processing policies, and communicating effectively with all stakeholders.

You looked at the primary goal of the agency, which is to manage risk, not only for the sake of the organization, but for its customers and stakeholders, too. You observed how establishing processes for workflows, standards, and procedures optimizes time, creates consistency, protects data integrity, and identifies training needs both in technology and in industry knowledge.

Insurance should not be communicated to customers only in times of crisis but by taking advantage of multiple opportunities and touchpoints to ensure they understand both the necessity and the value of insurance. Along with this idea, you have considered that the main goals of an agency include growing new business and caring for existing accounts through good client communication and relationship.

You surveyed account management by examining the financial tools used during the underwriting process, types of account billings, and various ACORD forms for proof of insurance coverage. You also learned several important aspects of proper claims handling. In examining the responsibilities surrounding E&O issues and claims defense activities, you circled back to where you began your study; high standards, accurate documentation, professionalism, and above all—ethical behavior—are essential to the success of the agent and the agency.

Resources

Important concepts related to the Learning Objectives in this section are summarized in separate videos. Online participants can use the links to access the videos. Classroom learners can access the videos at scic.com/AOresources.

Errors and Omissions Exposures in the Agency

Section 8 Self-Quiz

Directions: Select the correct letter to match each term with the appropriate scenario that reflects a common claim made against insurance agents.

A. Failure to maintain or renew coverage **B.** Making a clerical error **C.** Failure to service policies **D.** Misrepresenting the risk **E.** Failure to place coverage after agreeing to it	______ Emma, an insurance agent, receives a request to bind coverage. She has all the requisite paperwork in her inbox and will get to it on Monday, when back in the office. Over time, the paperwork gets buried in Emma's inbox; the client calls asking why there is a delay in obtaining coverage.
	______ Marco's Insurance Agency fails to notice that one of their clients, Bob, does not carry the underlying limits required by the umbrella policy. A loss occurs, making Bob responsible for the gap in coverage.
	______ Gerry, an insurance agent, does not disclose information to the carrier that a client has vacated his primary residence, and the home has been vacant over 30 days.
	______ Isaac, an insurance agent, fails to mark replacement cost on the application. The property has a loss and is now subject to paying actual cash value. The error is discovered after the loss occurs.
	______ Stefanie, an insurance agent, is behind on her renewal listings that are agency billed. As a result, a few of her clients are left without coverage after their policies expire.

Directions: Read each statement below and select whether it is True or False.

1. In order for negligence to have occurred, there must be four elements involved. "Duty owed to another party" is one of the elements.

   True **False**

2. Failure to use a degree of care that is considered unreasonable under a given set of circumstance describes the term, **negligence**.

   True **False**

3. The agency telling an insured that their policy provides coverage for something when it doesn't is an example of **misrepresentation**.

   True **False**

4. When an E&O issue occurs, the incident should be discussed with everyone in the agency, whether they are involved or not.

   True **False**

Appendix

Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period for the Final Exam is one hour long. The test itself is composed of 50 multiple-choice questions that ask you to demonstrate what you know. Each question is worth two points. To pass, you are required to earn a minimum of 70 out of 100 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the test. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your learning guide.

1. Review the Section Goal.

2. Review each Learning Objective.

3. Change each header and subhead into a question. Then answer the question. For example,

   Header: Components of a Formal Training Plan

   Question: What are the components of a formal training plan?

4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.

5. Check your answers to each Check-In. Correct your original answers, if necessary.

6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.

7. Re-read the summary at the end of each section.

8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.

9. Review any comments, highlights, or notes you made in each section.

10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.

11. Make flash cards to help you review important vocabulary.

Sample Test Questions

The end-of-course test has a variety of questions similar to the ones you see below.

1. Each of the following is one of the four major classification of exposures to loss, EXCEPT____________.
   A) human resources
   B) property
   C) avoidance
   D) liability

2. Which of the following statements is correct regarding an insurance binder?
   A) An insurance binder should be issued when an underwriter has declined the risk.
   B) An insurance binder should be issued when coverage has been placed and is in force.
   C) An insurance binder can be used to provide coverage in place of an endorsement or certificate of insurance.
   D) There is no need to forward copies of insurance binders to the insurance company.

Sample 1: The correct answer is C, avoidance.

Sample 2: The correct answer is B, An insurance binder should be issued when coverage has been placed and is in force.

Glossary of Terms

account current statement a report submitted to the insurance company by the insurance agency which gives an accounting of the policies billed and shows the gross premium, commission, and net premium due

account rounding selling new coverage to an existing customer; also known as cross selling

admitted company an insurance company operating within the standard market; licensed by the state with forms and rates regulated; financial condition is monitored by the insurance department of the state in which they are licensed or domiciled

agency billed policies those policies billed by the insurance agency; this makes the agency responsible for collecting the premium for new business, renewals, and endorsements and then submitting the net premium to the insurance company

assets what is owned and what has accumulated; assets could include cash, accounts receivables, investments, buildings, business property, inventory, and so on.

automated workflow a series of tasks created automatically when a specific event occurs

balance sheet a “snapshot” of the financial condition of the individual or organization on the date it was created; it shows details on what is owned (assets) and what is owed (liabilities)

brand a summary of the agency’s values, vision, and mission statements expressed in both the marketplace and community, helping to position its products and services and communicate its image

captive agent also known as an exclusive agent; an agent who works for one insurance company, and therefore is limited to only selling policies for that company, or for a group of companies under common ownership or control

captive insurance company a company owned and controlled by their insureds; typically providing coverage for property and casualty exposures; may be formed for a single entity (parent captive) or by multiple entities (group captive)

ceding company the primary company that transfers part of its liability to another company, called a reinsurer

certificate of insurance a way to notify an interested party that insurance is in place; it is not a contract or a legal document

claims log an agency’s record of claims

client focused technology and automation are fully implemented allowing more time to focus on the customer and achieve increased productivity

communication the activity of conveying information between two or more individuals; an exchange of information through verbal communication like speaking or writing, or non-verbal communication such as listening, visual media, or behavioral cues

contract an agreement between two or more parties which creates an obligation to do or to not do something

cross selling also known as account rounding; selling new lines of insurance to existing customers

culture the behaviors and attitudes of the organization and its employees

direct billed policies those policies which the insurance company is responsible for communicating directly with the client regarding premium billing, late notices, and notices of cancellation, etc.

endorsements changes to a policy, such as additional coverages

equity the difference between assets and liabilities; if all the assets were sold and all the liabilities paid, the equity would be the remaining money or what is left

estoppel the insurance company is "stopped" from denying the agent's authority when it has allowed that same activity in the past without taking any corrective action

ethics a system or set of moral principles or practice

evidence of property insurance form designed by ACORD, this is another way to notify an interested party that insurance is in place; does not confer extended rights or privileges, and does not amend, extend, or alter the coverage or insuring terms provided by the policy

excess and surplus lines broker an agent who is licensed by the state to sell property and casualty insurance through a non-admitted insurer

expenses all expenses incurred to generate income; in an insurance agency, expenses could include compensation expenses, business development expenses, operating expenses, etc.

exposure a situation, practice, or condition that may lead to an insured's susceptibility to adverse financial consequences or loss

facultative reinsurance a form of reinsurance that uses offer and acceptance of individual risks in which, under a contract of reinsurance, the reinsurer retains its faculty (the ability) to accept or reject each risk offered by the ceding company

FAIR Plan Fair Access to Insurance Requirements Plan; makes fire insurance available to those who are unable to obtain it through other markets

Federal Crop Insurance Corporation (FCIC) improves the economic stability of agriculture through a sound system of crop insurance; it also provides the means for the research and experience necessary in devising and establishing such insurance

fiduciary one who must exercise a high standard of care in managing another's property or money

government programs and pools a means of handling risks admitted companies will not write, either because those risks fail to meet the underwriting criteria or because the exposure to loss is catastrophic in nature, such as flood or earthquake

Guaranty Fund a fund established in some U.S. states to protect business written and will step in to make payments on claims as necessary

independent agent and independent agency system agents represent and work with various insurance companies and have the ability to compare, offer, and sell policies and services from the multiple companies they represent

insurable interest when the person seeking insurance would suffer a financial loss or experience a hardship if the object to be insured was damaged or lost

insurance binder a temporary insurance contract that should not be issued without careful underwriting attention

interpersonal skills behaviors and tactics used to serve and interact effectively with others

liabilities what is owed to others and the cost of accumulating the assets; liabilities could include mortgages, accounts payable, debts, and so on.

manual transition the agency has minimal reliance on technology and automation

managing general agent a wholesale intermediary that represents one or more insurance company who accepts business on behalf of his/her principal within mutually agreed upon guidelines and may have the authority to appoint agents within a specific geographical area

McCarran-Ferguson Act passed by Congress in 1945, this act returned responsibility for insurance regulation back to the states, giving them preeminence over federal laws in protecting consumers and ensuring that promises made by insurers are kept

mission statement action-based statement that declares what the agency does, how it intends to connect with and serve customers, and reveals what makes the agency unique

mutual company a type of insurance company owned by the policyholders (there are no stockholders); the goal is to provide insurance at or near the actual cost of doing business

named insured the individual or entity specifically designated by name as an insured in the insurance policy

National Flood Insurance Program (NFIP) one of the largest property insurance programs; administered by the Federal Insurance Administration under the Federal Emergency Management Agency (FEMA); flood is excluded on most property insurance programs so customers in flood-prone areas can obtain coverage through NFIP

national insurance company an insurance company that conducts business across the U.S.

non-admitted company used by an agency to insure difficult-to-place risks that admitted carriers often cannot afford to cover

P.I.N.E.S. an acronym useful for remembering what the insured must do, according to typical policy conditions: Protect, Inventory, Notify, Exhibit, Submit

premium finance company finances premium payments for an insurance customer when the customer is unable to pay the entire premium billed by the agency

procedure defines the tasks the agency must perform or accomplish to achieve a stated standard; who, what, and when should be identified within the procedure

process focused the agency is beginning to utilize technology to enhance service and allow staff to work more efficiently

producer employee at an insurance agency who handles sales; in some cases, a producer may act as an agent for some customer relationships and as a broker for others

professional describes appearance, attitude, and/or actions; performing in a competent and honest manner that includes being knowledgeable and using that knowledge for the benefit of clients

profit or loss the difference between income and expenses; income minus expenses equals profit or loss; when income exceeds expenses, the result is a gross profit

profit and loss statement summarizes the financial results of a business over a period of time; may be created for a month-end, quarter-end, or year-end; also called an income statement

quality control a process through which the agency seeks to ensure product and service quality is maintained or improved, based on its standards

referral selling selling new lines of coverage to others who have a business or personal relationship with existing customers

reciprocal exchange company groups of individuals or organizations (subscribers) who join together into an association for the purpose of insuring one another; managed by an attorney-at-fact

regional insurance company an insurance company that conducts business only in states located in a specific geographic region

reinsurance the process of transferring risk from one insurer (the primary insurer) to another insurer (the reinsurer)

reinsurance company the company that accepts the liabilities of another insurance company (the ceding company, the one that transfers the risk) for a stated premium

reservation of rights letter used when an insurance company agrees to investigate a claim or suit and to defend the insured while retaining the right to deny coverage at a later time

revenues various sources of income such as sales, service, consulting; in an insurance gency, sources of income could include commercial lines commission, personal lines commission, life and benefits commission, contingent income, fee income, and so on.

risk a condition of either positive or negative uncertainty arising from a given set of circumstances

risk management the process of making and carrying out decisions that will minimize the adverse effect of risk on an organization

risk retention group an insurance company in which each of the policyholders is also a stockholder (owner)

service focused the agency is now at the stage where the use of technology and automation is essential and is the primary source of information and documentation

SMART goal a goal which is Specific, Measurable, Attainable, Relevant, and Time-based

standard a stated, acceptable level of performance in every area of the agency's operations

statement billing statement produced monthly by the insurance company and sent to the insurance agency for collection of premium

stock company a type of insurance company owned by its stockholders which operates with the goal of making a profit for those stockholders

subrogate holding the agent responsible for paying back the insurance company for a claim it did not intend to insure

subscribers groups of individuals or organizations join together as a part of a reciprocal exchange company

suit and summons legal notice that a lawsuit is being filed against the insured (defendant)

transacting insurance the activities of explaining or discussing coverage, presenting quotes, completing applications, and binding coverage

treaty reinsurance when the insurance company (the ceding company—the primary company that transfers part of its liability to another company) agrees to transfer (cede) certain classes of business to the reinsurance company

values statement defines the heart of the organization; an expression of the core priorities and behavioral issues that matter most to the agency's management; answers the question, "What do we stand for?"; specifies what are the current and future goals of the agency

wind and/or hail pools formed when insurance companies were unwilling to provide wind and/or hail coverage in areas with catastrophic exposure for damage from hurricanes or other windstorms

workers' compensation assigned risk for those employers unable to buy workers' compensation insurance through other markets; not available in all states

workflow describes the specific keystrokes and steps that need to be performed in order to complete a procedure