

## How Compensation Management Drives Value and Transforms Business for Insurance Marketing Organizations and MGAs

### Executive Summary

Today's insurance marketing organizations and Managing General Agents (MGAs) are being driven toward an impasse. Compensation plans are increasingly complex and difficult to track. Verifying the accuracy of carrier commission revenue is becoming stressful and labor-intensive, so most MGAs must trust that payments are error-free. Meanwhile, regulatory changes increase administrative burdens and the potential for mistakes—and it is doubtful if traditional, homegrown or legacy systems can handle more requirements.

The problems go deeper, limiting growth. Traditional technology lacks scalability, so most marketing organizations cannot add carriers, products or product lines without difficulty. Internet exposure invites business expansion, but inadequate technology turns it into a nightmare of administrative headaches and manual calculations. Business potential from a merger or acquisition often goes unrealized because of inadequate technology.

Compensation management can transform these encumbrances into a competitive advantage. The right solution gives insurance marketing organizations and MGAs the ability to forecast and reconcile revenue from carriers, stimulate growth by leveraging multiple channels, additional carriers and third-party systems, establish efficient accounting practices, and streamline business operations using a flexible platform.

VUE Compensation Management™, the leading compensation management and insurance commission solution for insurance marketing organizations and MGAs, establishes the foundation for an efficient, growing business that handles industry changes effectively. The solution is designed specifically for insurance by VUE Software®, experts in technology for the insurance industry. Cost savings and rapid return on investment (ROI)—along with peace of mind—are characteristic of organizations using VUE Compensation Management.

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## Introduction

Negotiating the insurance industry's growing complexities often requires much time and effort on the part of insurance marketing organizations and MGAs. Many are unaware of what compensation management can do to address their challenges.

In this white paper, VUE Software describes a number of critical problems that keep MGAs from capitalizing on their potential. The paper also presents five value propositions that illustrate how VUE Compensation Management—the leading solution in the MGA space—supplies the ideal technology infrastructure to support, drive and transform insurance marketing organizations' and MGAs' businesses.

## Overwhelming Challenges

Changes across the insurance industry are multiplying the challenges MGAs must face. Their overall problem is very accurately summed up in a single phrase: inadequate technology. Because change is ongoing, time is not on the side of the MGA that lacks state-of-the-art technology tools for handling compensation management issues like the following:

### Difficulty Keeping Pace With Industry Changes

To remain competitive in a changing business environment, carriers need to create increasingly advanced compensation plans. MGAs can be overwhelmed by the administrative demands created by new bonus programs, frequent comp plan changes, product-specific incentives, differentiation within product lines and the need to track unique requirements for each carrier.

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### Problems Verifying Carrier Payments

Numerous MGAs invest excessive time and labor trying to understand, predict and verify incoming commission revenue. However, because they cannot model carriers' compensation structures, there is no way to quickly verify payment accuracy. An MGA can either trust that incoming revenue is correct or attempt to manually calculate the expected revenue.

## Growth Limitations

MGAs are growing out of their technology systems. One of the primary reasons is the evolving insurance industry, which continuously creates demands for updated business processes. Often it is too expensive to patch and maintain outdated technology systems. Part of the burden is shouldered by manual activities—which carry a new price tag in terms of time, labor, inaccuracies and delayed payments to agents.

These inefficient systems make it difficult for expanding MGAs to add new carriers. The same barrier prohibits selling a wider variety of products or adding agents from different locations. An MGA may have a sales force and customers, but inadequate technology limits growth.

Many MGAs attempt to serve national markets using the broad reach of the Internet. However, a significant Internet presence requires advanced technology to handle the

resulting business and avoid floundering administratively. With the breakdown of geographic restrictions, mergers and acquisitions are more frequent. However, MGAs that lack robust tools inevitably fail to capitalize on their opportunities, thus falling far short of their potential.

### Changes in Regulations

Requirements brought about by insurance-related legislation have been increasing and will continue to do so. Industry-leading administrative tools are crucial for compliance.

Many MGAs are handicapped because their systems lack the scope, flexibility and controls to meet regulatory demands without manual intervention. In the health insurance sector, for example, Medicare Advantage and the subsequent Medicare Improvements for Patients and Providers Act (MIPPA) of 2008 have brought about situations requiring excessive man-hours to handle accurately.

### Five Powerful Value Propositions

Clearly, every MGA that wants to survive—and thrive—in today’s challenging environment requires a robust technology system designed for compensation management.

VUE Software has taken this requirement a step further by designing VUE Compensation Management, its end-to-end compensation management solution, specifically for the insurance industry. VUE

Compensation Management puts organizations in control by bringing five critical value propositions to the table:

#### #1: Ability to Forecast and Reconcile Revenue From Carriers

Compensation management gives MGAs much needed insight into carrier activity. The sidebar “Verifying Commissions Yields a 10-Percent Revenue Increase” shows the incredible value of VUE Compensation Management when it comes to the potential for inaccuracies on the part of a carrier.

MGAs are empowered to do all of the following:

- **Model a carrier’s compensation plan:** An MGA can plug the variables in a carrier’s comp plan into VUE Compensation Management, which then reports on projected commission revenue to the penny. The solution has the metastructure to model and track any compensation plan in the industry.

#### Verifying Commissions Yields a 10-Percent Revenue Increase

A top U.S. provider of employee and retiree benefits recently experienced difficulty confirming the accuracy of a carrier’s payments. This provider, an MGA, sells thousands of policies through Medicare Advantage. The organization’s high business volume created numerous receivables to track.

“We had \$40 million in receivables this year, and 150,000 unique enrollments, which means there’s a massive amount of transactions per month,” said a spokesperson for the MGA. “The capacity for error is huge.”

Using VUE Compensation Management, the MGA was able to forecast commissions and reconcile the difference between expected and actual commission revenue. The MGA discovered that an additional 10 percent of revenue had been missing due to carrier error. In all likelihood, this amount would never have been recovered otherwise.

“It takes so much time to manually calculate how much we’re owed. Visibility is severely handicapped without a system like VUE Compensation Management,” said the spokesperson. “We find errors in commissions every day—maybe the carrier is using the wrong comp table or not paying on a policy at all. It’s so clear that we’re being underpaid.”

- **Accurately forecast carrier payments:** By modeling carriers' plans and entering agent activity into the system, MGAs can forecast what a carrier's payment should be. Successful MGAs set up the receivable ahead of time.
- **Reconcile commission revenue and verify its accuracy:** Upon receiving a commission check and statement from a carrier, the MGA is able to reconcile the carrier payment with what should be paid for each policy according to the carrier's commission structure. This enables MGAs to prevent financial losses by giving carriers clear evidence of payment inaccuracies.
- **Pay agents correctly:** MGAs can pay their agents according to the reconciled payment amount, reducing errors or overpayments that may result from unverified commissions.

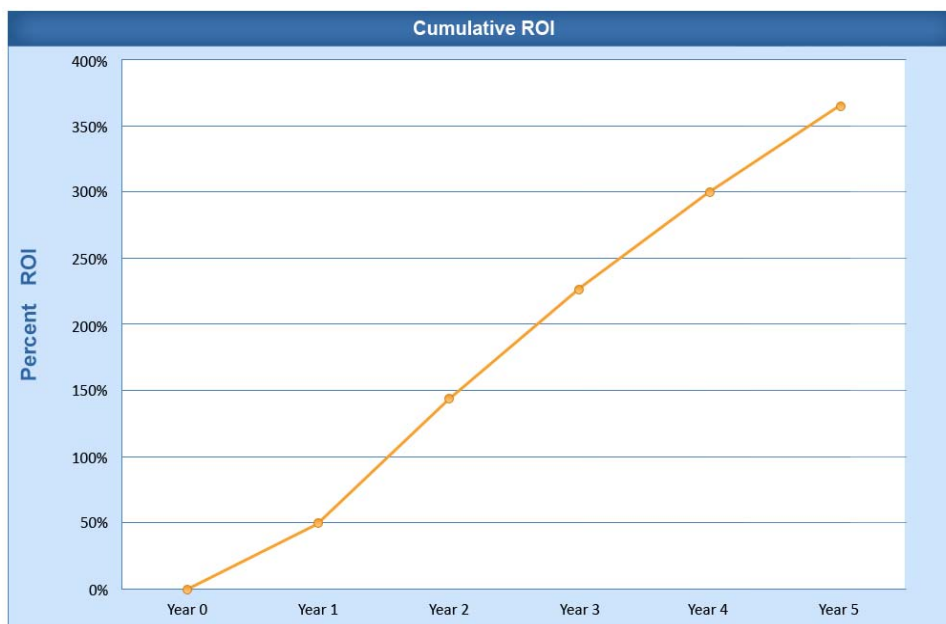
## #2: Dramatic Cost Benefits and Immediate, Ongoing ROI

VUE Compensation Management drives cost benefits from the very start, resulting in substantial, long-term ROI.

**Rapid implementations:** A fast implementation means an MGA saves time and labor—and therefore money. William J. Ryan, director of Information Technology at United Insurance Group Agency Incorporated (UIG), made the following statement about VUE Compensation Management: "The implementation speed was incredible. We were up and running in less than 90 days from signing, which is testament to the VUE Software team's knowledge of the insurance industry and willingness to work alongside us to meet a very tight timetable and budget."

**Short time to benefit:** UIG started seeing returns in less than one year. MGAs can expect excellent results very quickly, not only in terms of financial ROI, but also with improved business operations, time savings and the ability to act strategically.

**Five-year ROI projection of 365 percent:** An MGA that implemented VUE Compensation Management ran a cost-benefit analysis (CBA), projecting an ROI of 100 percent after less than two years and an impressive 365 percent after five years. Extensive savings are anticipated in the areas of agent certification, data entry, commission processing, commission statements, process improvements, information technology (IT) expenditures and accounting.



**An MGA implementing VUE Compensation Management predicted the costs and benefits shown above. ROI accumulates year after year. The MGA's expected net savings at the end of five years is approximately \$3 million.**

**Critical factors that drive ROI:** Cost savings and benefits emerge from four major areas:

- Realizing the full receivable from carriers without manual calculations
- Distributing fixed costs over a higher volume of business by adding carriers, products and product lines
- Expanding the existing agent and customer base
- Reducing administrative costs through increased efficiencies, the elimination of manual intervention, error reduction and low support fees

### **#3: Growth Driven by Multiple Channels, New Carriers and Third-Party Systems**

By expanding and segmenting their marketing channels, MGAs are better able to leverage human capital. Channels can be divided by product line, region, communication type or in other ways. VUE Compensation Management enables MGAs to establish a variety of segments, such as direct sales, Internet sales and telemarketing, and to manage, incent and compensate each segment differently. Advanced tools empower MGAs to handle

complex hierarchies, project future sales and manage revenue across every segment.

#### **Insphere Transforms its Business**

Insphere Insurance Solutions<sup>sm</sup>, a large, independent career agency group focused on middle-market solutions, is using VUE Compensation Management to transform its business.

By leveraging VUE Compensation Management as the core of its technology, Insphere will capitalize on many of the solution's capabilities:

- Multiple marketing and distribution channels, including the creation of a telemarketing channel
- Expanded use of the agent base to carry and promote additional products
- Integration with third-party components using SOA
- Integration with Microsoft Dynamics CRM

According to Phillip J. Hildebrand, president and CEO of Insphere, "It was essential for us to select a solution that would meet our current needs and be flexible enough to adapt to our evolving requirements as well. The VUE Software suite offered solutions that seemed tailor-made to fit our business model."

MGAs can also add new carriers, innovative product lines and more agents at any time. Whereas the typical system has difficulty accommodating the added volume and complexity, VUE Compensation Management is scalable and versatile enough to rise to the challenge easily. Furthermore, the solution's service-oriented architecture (SOA) allows it to readily integrate third-party systems. For example, VUE Compensation Management integrates natively with the customer relationship management (CRM) functionality of the Microsoft Dynamics<sup>®</sup> business software solution, Microsoft Dynamics CRM.

Multichannel support—combined with the ability to add carriers, sell new products and integrate third-party systems—establishes a superior foundation for business transformation.

### **#4: Efficient Accounting for End-to-end Revenue Management**

Many MGAs have a variety of revenue streams. These might include straight commissions, bonuses, aggregate quarterly rewards, service fees, administration fees or other sources. VUE Compensation Management handles accounting for all of these, tracking each one by category and managing hierarchies easily.

Automatic, accurate accounting of commission advances to agents is another compelling benefit of VUE Compensation Management. The solution consistently calculates and tracks advanced commissions for a virtually unlimited number of policies. In addition, chargebacks

are accurately calculated, recorded and incorporated into commission checks with little to no manual involvement.

## #5: Flexible, Comprehensive Platform for Streamlined Business Operations

Most MGAs consume unnecessary resources struggling with fundamental business processes. VUE Compensation Management enables MGAs to handle important tasks easily and cost-effectively:

- **Managing the agency:** Agent records, licensing information, policy data and so on are all in a single, user-friendly system.
- **Keeping up with industry changes:** Because VUE Compensation Management is specific to the insurance industry, VUE Software keeps the entire system up to date with industry developments.
- **Eliminating manual data entry by leveraging carrier interfaces:** The system's technology infrastructure supports automated carrier interfaces and helps speed application processing and internal recordkeeping. Data entry is virtually eliminated, and all the details necessary to reconcile discrepancies with carrier payments are at hand.
- **Paying agents efficiently:** VUE Compensation Management minimizes administrative effort when it comes to maintaining payment accuracy, completing payment cycles on time and resolving disputes. The solution helps ensure that agents are paid based on the reconciled amount from the carrier, eliminating the need for time-consuming manual verification.
- **Communicating with agents:** Portal technology is available for 24-x-7 communication with agents. This online capability saves an MGA time and gives agents the information they need, so they focus on selling instead of their commissions.

### A Single System Serves all Agency Channels

One MGA already had multichannel distribution but used several different systems to manage it. This organization benefited greatly from VUE Compensation Management. The solution enabled administration to keep all agent records in a single storehouse and avoid the nightmare of error-prone duplicate recordkeeping, multiple payment systems and multiple statements. Business complexity and processing costs declined, and profitability soared.

## Conclusion

Current dilemmas and a future of unknown challenges make an automated, comprehensive compensation management solution a necessity. Such a solution helps organizations establish efficient business operations, maintain positive carrier relationships, win in the face of industry changes and enjoy growth and overall profitability.

Customer testimonials, CBA studies and ROI reports all point to the value of VUE Compensation Management, the leader in automated compensation management for insurance marketing organizations and MGAs. Implementing this proven, comprehensive solution positions the forward-thinking organization to handle today's issues successfully while being well prepared for tomorrow.

## About VUE Software

VUE Software is the product division of Computer Solutions and Software International (CSSI®) dedicated to providing industry-specific business technology solutions to companies in the insurance, healthcare and construction verticals. Our solutions are tailored to the needs of these particular industries, thus differentiating themselves from one-size-fits-all performance management and compensation suites such as enterprise incentive management (EIM) and sales performance management (SPM) solutions. VUE Software's solutions allow companies to manage strategic incentive plans, automate producer administration and organize complex data and contractor policies, resulting in greater administrative efficiency and improved sales performance. For more information or to arrange a demo with a representative, please call 1.877.4.VUESOFT or visit [www.vuesoftware.com](http://www.vuesoftware.com).

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