A new approach to compensation management for insurance companies

Save time, increase flexibility and drive performance

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Emerging priorities

Insurance companies are looking for solutions that drive top line revenue growth, increase operational efficiencies, retain and reward top producers and reduce overall financial risk. Compensation management is a highly complex process and vital to the success of an insurance company's distribution channel strategy. In addition to operational efficiencies, improving compensation management systems can increase producer mindshare and align the channel's priorities with organizational objectives.

A new approach needed

Homegrown applications (often residing on legacy mainframe systems) have proved inadequate, inflexible and costly to maintain and support. The net result is a technology infrastructure unable to support and respond to the compensation requirements associated with a dynamic distribution management strategy.

In recent years, insurers have been faced with increased margin pressure, increased competition within existing distribution channels and a more challenging regulatory environment. Insurers need to seek solutions that address the limitations associated with outdated and inadequate legacy systems such as:

- Keeping up with rapidly changing business needs and market demands.
- Increasing support costs (and in many cases increased scarcity of support skills).
- Compensation calculation errors.
- Changing audit and regulatory compliance requirements.
- Inflexible manual processes and distributed systems for different program components.
- The management of complex agent or sub agent hierarchies and reporting structures.

Challenges that impact legacy solutions

Business and market conditions change rapidly
A responsive and high performing organization needs a highly flexible compensation management system. Homegrown systems are usually not developed with flexibility as a leading priority, whereas in commercially available applications, this is often the top consideration.

Maintenance and administration activities
Maintenance and administration are simpler with commercially available applications. The homegrown application is more likely to be dependent on the small group of people who created it. Many commercially available compensation management applications are designed to be administered and maintained by business users with minimal IT involvement required. This approach allows the business to have more control over the compensation process and frees up IT resources to support other critical projects and applications.

Improving payment accuracy
Compensation processing is an area that is prone to errors. Calculation logic is often buried deep within large custom built applications, making it difficult to troubleshoot the root cause of the errors. Ensuring more accurate and timely commission and bonus payouts is critical in retaining and motivating top producers. Any underpayment of commissions is likely to cause "shadow accounting" by producers, which is a counterproductive use of their time. Shadow accounting can, for practical purposes, only be significantly reduced by a system that is both validated and near real-time, providing producers the visibility they need to understand the financial results of their effort. While underpayments are reported by the producers, overpayments often remain hidden. Underpayments and overpayments are a key reason stakeholders do not trust existing legacy compensation management systems.

Compliance
Homegrown solutions often lack the financial controls and audit trails that are commercially available with off-the-shelf applications. Off-the-shelf compensation management solutions help enable an analyst to define a repeatable business process and approval hierarchies, with a full audit trail of actions. Reporting and analytics give senior management the ability to analyze compensation by the corresponding risk levels. Without these added controls and insight, insurance companies cannot operate with confidence that they are aligned with corporate regulatory and legislative requirements.

Need for robust reporting and analytics
A compensation management system should provide producers and management a clear line of sight into the key metrics driving their business. Traditionally, custom-built solutions lack the robust reporting capabilities required to effectively monitor and manage sales activity, requiring organizations to implement and support packaged business intelligence solutions to gain the proper insight into business results. And even then, the data required may not be accessible as a result of the many disparate and legacy systems.

Specialized IT skills
With the current economic challenges, organizations are required to take on more projects with fewer resources. Availability of IT personnel to take part in defining requirements and developing new applications will be restricted, and the ability to revise or tweak existing applications will be limited as well. Many existing compensation management solutions were designed and developed over 25 years ago. Finding and retaining IT resources with the necessary skill set to support these technologies will likely become an increasing challenge for insurers.

A packaged solution versus building an in-house system:
When considering a packaged solution over building an in-house system, you should consider:

–   *Technical flexibility* – Using a packaged solution with well-defined integration and pre-built connectors to other market-based and industry standard systems in comparison with the effort required to build the integration in an internally developed system.

–   *Scalability* – Through standardization of a packaged solution the enterprise is better able to scale and support organizational growth.

–   *External requirements* – Packaged solutions provide out-of-the-box industry best practices while adopting changing standards in a timely manner.

Advantages of commercially available compensation management applications
Holistic approach
Compensation management is more effective when designed and implemented from a holistic approach, with the key functionality areas considered from the start. Best-of-breed vendors have the benefit of addressing a wide range of customer requirements and experiences in building their packaged application. In addition, vendors are well positioned to assemble best-practice reports and templates, and build market-specific functionality into their solutions. An established compensation management vendor will also have experience meeting the unique requirements of the different user groups expected to work within the application.

Integrated reporting and analytics

With real-time Web access to underlying data, producers and management can obtain on-the-fly answers to their questions and explore sales and producer compensation data from many different perspectives. Performance analytics can help identify exceptions, generate graphs with more ease and create dashboards of key metrics that assist in more effectively managing the business. When questions do arise, integrated work flow reduces support requests and improves efficiency.

Built for the future

A mature compensation management application should demonstrate that it was developed with an end-user focus, but more importantly, that it is built on a robust, coherent vision, delivering not only what an organization needs to get started, but also functionality for later extension of the system.

Conclusion

An off-the-shelf compensation management solution presents a ripe opportunity to improve channel agility, increase speed to market and align the priorities of the channel with those of the company.

Incentive compensation management software is characterized by:

– Flexible, intuitive tools that help eliminate a dependence on IT and empower business users.
– Solutions that provide integrated reporting and analytics capabilities.
– Automation of workflow to support producer on-boarding and administration.
– An online inquiry/dispute resolution process.
– Forecasting and modeling capabilities that can help mitigate risk and plan strategically for unanticipated change.
– Performance and scalability to support large data volumes.

Figure 1: Agent commission statement with summary earnings that link to a detailed report

Figure 2: Performance report illustrating sales by transaction type, top products, and top producers

About IBM Industry solutions

IBM Industry solutions software delivers data-driven insights that help organizations work smarter and outperform their peers. This comprehensive portfolio includes solutions for business intelligence, predictive analytics and decision management, performance management, and risk management.

IBM Industry solutions enable companies to identify and visualize trends and patterns in areas, such as customer analytics, that can have a profound effect on business performance. They can compare scenarios, anticipate potential threats and opportunities, better plan, budget and forecast resources, balance risks against expected returns and work to meet regulatory requirements. By making analytics widely available, organizations can align tactical and strategic decision-making to achieve business goals.

For more information

For further information, please visit www.ibm.com/industries/sales-performance-management

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