

Rating Brokers *Intelligently*



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Business Intelligence (B.I.) technology is now available that allows insurers to rate brokers using a wide array of metrics and standards.

Five years ago, technology started to develop in ways that would allow insurers to gain a better understanding of its network of brokers — from the value they brought to the distribution network to how they stacked up to one another. Now, powerful information technology (IT) tools have helped produce a commercial software application that could very well help every Canadian insurer better understand, manage and make decisions about their own networks of agents and brokers.

WHAT MAKES A BROKER BETTER?

How do you identify the brokers who are performing at the top of their game, or the ones that are bringing the best value to your business? For

example, is it a straight function of Gross Written Premiums (GWP), in which instance brokers are doing well as long as they are bringing in business? Or does the broker's loss ratio best define its net value to a carrier?

The answer of course is that it depends. GWP may seem a logical overall indicator, but it can be misleading without the right context. On the face of it, a \$30-million-per-year broker is more valuable to an insurer than a broker that does \$3 million a year in business. But what if one broker serves one local market and the other is a global firm? The right metrics also depend on the decision at hand: bind ratio can be far more telling, for example, when we are choosing brokers to invite to our sales training programs.

Put quite simply, smart business decisions are made when they are based on the right information.

The reality for some companies in 2004 was in stark contrast to the importance and myriad of metrics that existed within their organizations. Even in a number-intensive industry such as ours, examples existed then of companies that used to measure broker performance based on only one

or two factors — the most prevalent among them being loss ratio. In some instances, carriers were not even that scientific: they viewed broker performance as a largely subjective notion defined by “gut feel.”

Clearly neither of the above scenarios lent themselves to making decisions based on the best information.

A NEW BUSINESS SOLUTION

Especially compared to other industries, there is no shortage of metrics throughout the insurance business. Five years ago, the existence of valuable data was not the challenge: it was our ability — or lack thereof — to access it in a practical, meaningful format.

Specific challenges were two-fold.

First, in one example, a company could easily find a single metric on any given broker, but obtaining a more complete picture — i.e. looking at multiple metrics at one time — required either a great deal of manual effort, or the involvement of the IT team.

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A second challenge, equally limiting in its implications, is that it used to be difficult to look at metrics on multiple brokers at one time. Countless hours went into creating sophisticated Excel spreadsheets to get around these limitations, a time-consuming task that almost always had to be done from scratch.

Such limitations were the result of several factors, one being the amount of data that still resides on our legacy systems. Fewer people today are skilled in

these decades-old systems, making even seemingly simple updates extremely difficult. Even when IT could help, a constant stream of urgent priorities meant our enhancements could take days or longer to address.

Back in 2004, it wasn't apparent what a solution to these problems would look like, let alone what direction we could provide to a vendor. One of the first major steps in producing a new technology, therefore, was to define precisely what was needed. The process started by talking to the insurers' business unit leaders who stood to benefit from knowing more about our brokers. The system envisioned would be one that:

- business decision makers, from underwriters to our CEO, would actually use;
- provides an objective measure of broker performance based on verifiable data;
- could show a complete picture of a broker's performance based on numerous metrics;
- allows users to compare multiple brokers across geographies, products and other factors; and
- still incorporates qualitative broker attributes such as responsiveness or understanding.

It was important to clarify the business leaders' roles. A new system would have to incorporate the right metrics and a sufficient number of them to facilitate better decision making throughout the organization.

The result of these deliberations was a new technology implemented in two iterations. Here are some of its most important features:

- The system incorporates more than 25 different performance factors, including standard and proprietary metrics, as well as custom qualitative factors.
- Pull-down menus and report templates let users pick the metrics they want to see, how they want the data presented and the brokers they want to assess (i.e. individual or multiple, categorized by region, tier or other factors).

• New factors can be added to the system without having to bring in the vendor or even a carrier's own IT staff.

In developing this commercial software application, it was important to keep the underlying structure of the application as generic as possible. For example, it should be able to communicate directly with legacy systems and Business Intelligence (BI) software that a company may already have, meaning the data on which it reports is always up to date and doesn't need to be duplicated anywhere.

Gross Written Premium may seem a logical overall indicator, but it can be misleading without the right context. On the face of it, a \$30-million-per-year broker is more valuable to an insurer than a broker that does \$3 million a year in business. But what if one broker serves one local market and the other is a global firm?

Looking ahead, there are almost endless possibilities for us to build on systems we already have. For example, we might explore a more formal benchmarking system or a balanced scorecard for our brokers. Predictive modelling is another compelling option, one that would add the strategic value of broker performance data in our planning for the future. Just as we did in defining our needs initially, any decisions on future capabilities will be driven by the experiences and needs of our business leaders.

BI and other tools for performance management have come a long way since we first embarked on the project, but technology built specifically for insurers will always stand out from other technologies and software packages. ≡