Book of Business in the Enterprise:

A business function that has been eagerly awaiting a systematic solution. A position paper from BobTrak

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Introduction

BobTrak is a company and a software application suite that address a business function that has largely been neglected in terms of off-the-shelf software and services. In this position paper I try to explain the function, examine the ways it has been addressed in the past, and show how BobTrak solves the problem as we come into the marketplace.

The function is "Book of Business", which refers to the assignment of customers to specific sales or servicing staff over the life of a long-term business relationship. In some respects it is similar to Customer Relationship Management – CRM. But while there is some overlap, there are also significant gaps between the functions as well. This becomes clearer as we proceed.

It also bears a superficial resemblance to sales territories in manufacturing and high tech, and as such, might be expected to fall into the Sales Performance Management – SPM – or Incentive Compensation Management – ICM – orbits. But again, the typical SPM or ICM system would not handle the problems inherent in Book of Business management without extensive customization. In fact, SPM/ICM system implementers almost invariably find themselves on the hook to design and deliver a complex pre-processor to manage the Book of Business function upstream, and then hand the output to the SPM/ICM system for commission and bonus processing.

While many industries have selling models that overlap Book of Business extensively, it is a fundamental problem in the insurance and financial services industries. For that reason we concentrate on these two verticals in our discussion. Where other industries are relevant to a given point or idea, we do not ignore them. But the primary focus is insurance and financial services, including banking and investments.

What do we mean by "Book of Business"?

In theory…

Book of Business – "BoB" – is an important facet of a business paradigm in which companies sell products or suites of products to customers in contracts, subscriptions, or relationships that persist over time, rather than as more discrete events. While there is an initial sale of the product to the customer in this type of sale, it creates a sales or servicing relationship that might be far more significant than the atomic sales event that created it. Examples of sales of products to a customer over time include policies and accounts in the insurance and financial services industries. An insurance policy or an investment account has a life-cycle in which it is sold, it generates premiums or contributions, it is modified with more or less coverage or with different investment products, it might be exchanged for a similar product, there might be claims against it, and eventually it terminates – perhaps years after the initial sale. That sale was important, but the totality of the policy means more to the carrier and the agent than the initial sale did. Therefore, in this model, the account is the meaningful unit of measure,

not the sales order. If you sell policies, service contracts, investments, or subscriptions, the long-term value of the long-term relationships with customers could be the foundation of your entire business model.

Clearly, every company would like to sell more of its products or services to its existing customers. In some industries, however, repeat business to customers is often treated as just a happy event for a sales rep. If your company sells widgets, of course you'd like a customer to keep buying more of them, and you might have an account representative who has that customer in her sales territory. But in the widget case, each additional sale to the customer is generally treated as a discrete order that stands on its own.

Where the core selling model is relationships over time, there is generally is a specific sales person or sales people who manage the relationship. Insurance policies can be active for decades, and someone (or several someones during the life of the policy) must manage and service the relationship between the company and the policy holder for as long as the policy is in effect. The collection of those long-term selling and servicing relationships with clients is often referred to as the selling or servicing agent's book of business in the insurance and financial services industries, and that's how we refer to it in this paper.

In practice…

Just like any core business function, the assignment of customers to sales staff generally must be tracked and managed. It is of more than academic interest to the company to know which sales rep or agent services which accounts. First of all, sales crediting for events over the life of the relationship are impacted by knowing which agent "owns" the account. Since commissions and bonuses are a significant expense, and since they contribute heavily to the seller's perception of working with the company, getting the sales crediting right is an important reason to want to track the relationships accurately and efficiently. So the downstream ICM/SPM system needs to know who the agent of record is, or the sales territory in which a given relationship might be sitting.

Insurance and financial services agents, agencies, branches and brokerages – collectively called 'producers' from here on – and the products they sell are highly regulated. While the insurance carrier would love to accept policies being created randomly by anyone who wants to fill out an application, there are rules they must follow about regulation of the producers servicing those policies, and as policies or other financial products are swapped between agents of record, the regulatory status of those producers must be validated each time a new event in the life of the contract occurs. Carriers have had to refuse good business because the producer selling it was not licensed properly.

If a producer ceases to service a policy for any reason, that policy must be reassigned to another licensed producer within a short time window in order to stay compliant with state regulations. So it's not enough to check the policy and the agent of record on the receipt of a new event in the life of the contract – there must also be proactive maintenance of the agent of record assignment for each policy.

Operationally, it turns out that there are not a lot of off-the-shelf systems to track which agent services which accounts. Producers can transfer policies or their entire books of business to other producers for any reason at any time, but the policy administration systems usually only know who the selling agent was on the day of the initiation of the policy. From that day forward, it's very likely those systems lose visibility into whose book of business that policy falls.

What is the rest of the problem?

What I've described so far, while important, isn't terribly complex. A beginning data modeler could

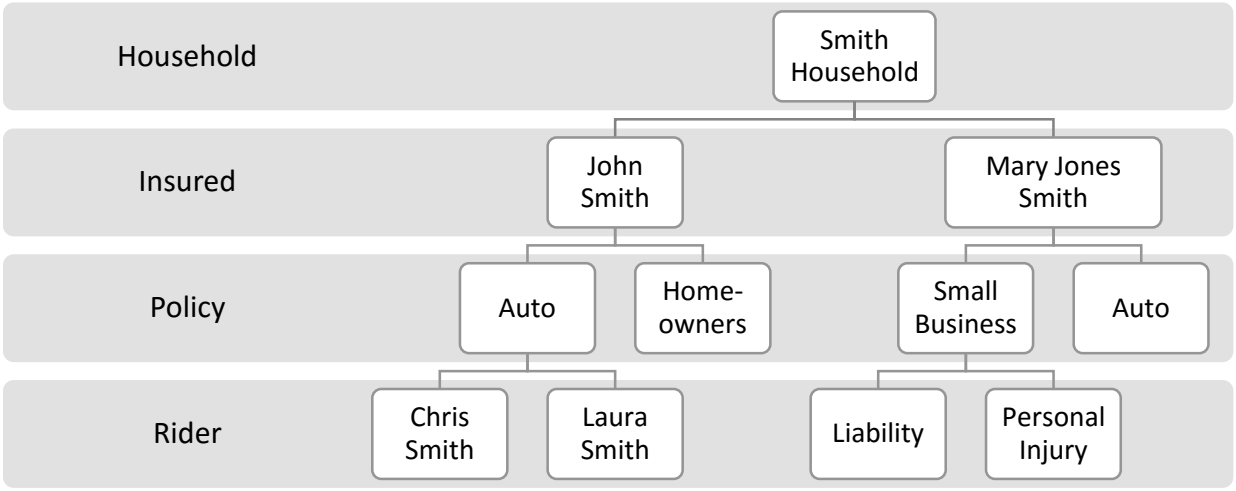
pretty quickly figure out that you need a table to link a policy number with an agent, and if you feel really ambitious, a start-date and an end-date. And if tracking the link between the producers and policies were the crux of the problem, that would be enough.

However, it's not quite that easy. There are three complicating factors that make tracking policy or account ownership far more interesting:

- Accounts are hierarchical;
- Producers are hierarchical;
- And producers exist in multiple iterations in hierarchies.

Accounts are hierarchical

An account might have many members, members might have multiple policies each, and each policy might have multiple riders or modifications. And any producer could sell at any level of the hierarchy. Think of the concept of the "household" in property and casualty insurance. Leaving aside for a moment the problem of defining households based on existing policies, a household might look like this:



John and Mary Smith have many policies with the carrier, some that may go back years before they were even married, and over time those policies changed – children were added to the auto policies, for example. And importantly, different agents might well have sold those policies. So when a premium comes in for, say, Mary's liability rider on the small business policy, which agent gets credit for it and must be checked for proper licensing? Perhaps that rider was sold individually by an agent in a different office from the one who sold the small business policy in the first place. Or perhaps not. Or perhaps the carrier would like to know how many producers are involved with the Smith household so they can consolidate all of them under a single producer for a better customer experience.

And maybe the carrier would like to know that the Smith household has three different lines of P&C insurance, but doesn't have health insurance through the carrier. That would be useful information to give the producer or producers servicing the household to point them towards another potential product to sell. This is called "white space" marketing.

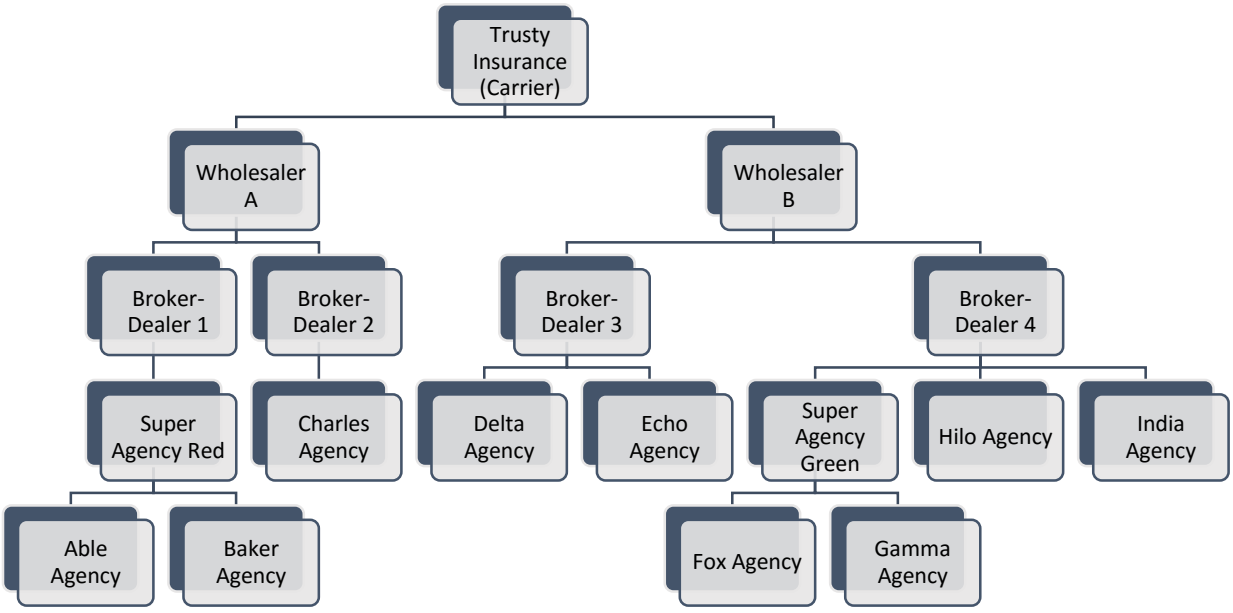
Sales territories in manufacturing and high-tech have similar problems. A shipment of widgets is made to ConGlomCo's loading dock in the 12th Arrondisement in Paris. That might belong in a Sales Exec's geographic territory, while France belongs to a Country Manager's territory, Widgets in Western Europe might belong in a Product Specialist's territory, while ConGlomCo belongs to the ConGlomCo Account Manager's territory. That one sale of widgets could belong to several members of the sales staff, or

none, or one, depending on a company's sales policies. But tracking account ownership within one or many hierarchies adds serious complexity to the evidently simple problem of managing relationships between accounts and producers or sales people.

Producers are hierarchical

This is much more of an insurance and financial services problem than other industries face. What it comes down to is that, just as accounts have a natural hierarchy, so too do producers – agents, agencies, super-agencies, broker-dealers, and wholesalers.

Again, an overly simplified visual might help clarify the problem:



Why do we care? Because sales and servicing of (hierarchical) accounts takes place at various levels in the producer hierarchies. The agent makes the sale, and the agent is compensated for it. But the agent's agency is also compensated, as well as the super-agency, the broker-dealer, and the wholesaler up the chain. Equally, the agency owner might make the sale, meaning that no low-level producer is involved, just the agency-level. This is a simple version of the rollup problem in the ICM world, and in itself it's not that interesting. It only becomes an issue when we examine the next part of the problem – multiple iterations of producers in hierarchies.

Producers exist in multiple iterations within hierarchies

As independent producers advance within their chosen careers, they might move from agency to agency, then become agency owners themselves, then perhaps become super-agency owners as they buy other agencies and consolidate them under a single management structure, then possibly end up building up brokerages. They might buy the agency where they began their careers, so that if you flatten out the hierarchies across time, it appears that they are reporting to themselves. Not everyone moves around this much, of course, but enough do that it must be recognized, planned for, and managed. And the part that concerns us is that *any sales of any policies made at any level must be tracked against the producer's place in the hierarchy when she or he made the sale for as long as the policy is in effect*. It's not enough to know that Suzie Johnson made that sale or services that policy; we much know that she became agent of record for that policy as an agent in the Baker Agency, or as the

owner of the Fox Agency, or in her role as the head of Super Agency Green.

Incidentally, keeping track of Suzie Johnson's relationships with the carrier over time is complicated just on its face. But now add mergers of agencies, broker-dealers, even carriers, all of whom might have different contracts with Suzie in different parts of her career, and it becomes somewhat mind boggling.

Now let's make it worse. Suzie might be the servicing agent for a life insurance policy sold by Larry Burns. Maybe Larry retired and sold Suzie his book of business. Now Suzie gets the commissions payable to Larry – but *she is paid according to Larry's role and place in the hierarchy when he sold the policy*. In a very real way, Suzie "becomes" Larry (or a specific version of Larry) with respect to that policy. She's not compensated as she looks today; she's compensated as Larry looked in 1998 when he sold the policy.

This puts the book of business problem into its own space and takes it away from policy administration, producer administration, customer relationship management (CRM), and even incentive compensation management (ICM). The relationships are extremely complex and fluid, and a system that doesn't model the data properly only provides partial answers to the questions that need to be answered. Calculations happen at the complex link between the producer, the hierarchy, and the policy or account

Account value over time

Now that we have discussed the problems that come with tracking account ownership by producers, let's add the final bit of functionality we need when we need to systematically manage the book of business problem. That is, what is the value of a policy or of a book? This question is tightly bound to the problem of ownership, which is why we discussed that first.

At an operational level, and given a business model that looks at the account over time rather than one driven by atomic events, the aggregation of business events in the life of the account form a picture of the account that cannot be derived from the receipt of a single payment alone. One place this is critical is, again, in the ICM/SPM domain. It is common for producers to be paid commissions and bonuses based on the increase in value to an account over a defined period. This might include the growth of assets under management (AUM) for investment advisors, or the sum of premiums received, perhaps for a rolling number of months, for an insurance policy serviced by the producer. The receipt of a single premium or contribution is valuable economically, but not useful to help determine the producer's compensation. We might need to look at the sum of premiums for the rolling 12 month period for that single policy in order to derive the number that is the basis for compensation. The calculation tends to happen at the policy or account level, not at the producer level, so putting all the premiums for a producer in a period into a bucket doesn't give the right answer.

And one more wrinkle – it's not uncommon to specify that the sum of premiums must only include those received since becoming agent of record for a policy. When policies never change hands, this isn't much of a problem – the sum is the sum. But since producers can transfer policies at any time, the distinction could well matter. And the value can be different for different members of the producer's hierarchy based on when different people took on their roles.

Aside from the calculation of a basis for compensation, producers have other reasons to want to know the value of their books. The best reason of all is for independent agents who sell their books when they want to retire. But how do they price the book? The face value of the policies times some factor? The number of policies? The sum of commissions received for the policies? Do they want that value for a year, or two, or five? However the producers might want to price the book, they need to be able to point to all of their policies and find whichever historic values they care about. And currently, that

probably means digging through filing cabinets and pay statements from each of the carriers to whom the producer is contracted, and manually assembling an answer that is more or less accurate.

In addition, there are also industry awards that come from the combined value of a producer's book of business, and qualifying for the award is not an easy administrative task.

For the carrier, these are interesting questions, but they have others as well. Firstly, there is a lot of regulatory reporting for which they are responsible, and insight into the total value of their producers' books is critical. And then there is the matter of contract negotiations. A broker-dealer might come along and negotiate for a favorable commission rate for the agencies and agents with whom they are contracted. This comes with a promise to deliver $XX in new policies per year. But do they really deliver on the promise? Figuring that out without good tracking, and then good analytics of the values of the policies, is very difficult, and some carriers don't even bother trying.

If a carrier had good reporting on the value of an agent's, agency's, or broker-dealer's book of business, they could very likely provide better service to their agents in terms of additional training on products that aren't selling well, or more favorable rates for products that the producers are selling. It's just more data for the analytics mill, and insurance and financial services are all about consuming data and squeezing out meaning from it. But it is not easy to get to this data in the systems in place today.

How is it being done now?

Currently, the options most carriers and broker-dealers have for managing BoB include legacy mainframe systems, custom pre-processors in front of newer ICM/SPM systems, or off-the-shelf tools that don't perform all the functions needed to completely and accurately manage the function.

Legacy systems

Legacy mainframe systems actually do a pretty good job – assuming the business never changes. Most of the systems built during the heyday of COBOL were fairly monolithic. They managed everything from policy administration to commissions to reporting and beyond. But the other side of that coin is that it's not easy to unwind a particular function from the system without breaking the rest of the system as a whole.

Further, one large system often cannot be reconciled with another, which becomes a serious issue in the event of a merger or consolidation of different lines of business. So the same producers end up being modeled and managed in multiple systems with no way to aggregate results across them. And if you decide you'd like to change the basis of compensation for the producers, it requires a hefty IT project that might take years to make the modifications.

Custom pre-processors

ICM projects tend to become drivers of system rationalization. At long last the compensation folks get the budget to install a spiffy new ICM application, and that drives the replacement or upgrade of the systems around the commissions process. The carrier looks to the vendor to solve the book of business problem as part of the ICM system replacement, but the vendor doesn't have software to manage book of business. Several awkward conversations later ("But your sales guy said!"), it turns into a multi-year-long project to build out a complex, highly-specialized pre-processor to take policy and premium data and apply BoB logic to it prior to feeding it into the new ICM system.

Depending on how good your implementation consultants are, how much budget they have, and what time constraints they are facing, you likely get a pre-processor that manages your problem as it exists today more or less well, but which might not be flexible enough to allow a single change to the business

next year, let alone an acquisition or a consolidation. And again, depending on how good the consultants are, it might or might not perform well. Some of these pre-processors have been in place for years and the carriers and vendors are afraid to look at them cross-eyed for fear of breaking them.

Incomplete or inadequate tools

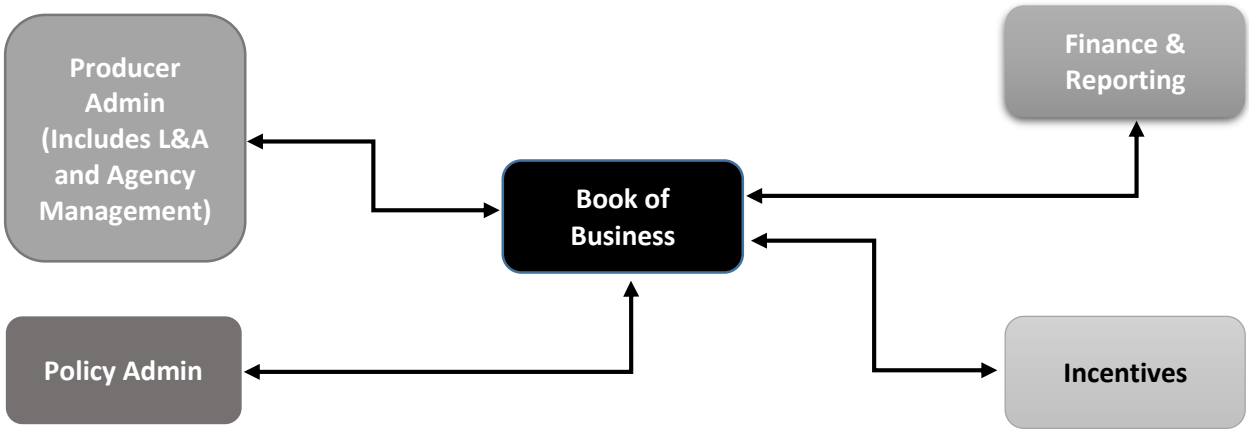
As mentioned earlier, some carriers have tried to use off-the-shelf customer relationship management – CRM – systems to manage their producers' books of business. While a simple enough BoB model could be maintained in a CRM system – a simple policy-to-producer mapping, for example – anything more complex would be a challenge. CRM systems generally won't manage multiple hierarchies and instances of producers. And they typically can't perform the complex aggregations of business events – in fact, they mostly don't have any provision for tracking them.

There are increasing numbers of ICM vendors looking at the BoB problem, but most seem content to stop at tying producers to policies. The aggregation becomes another pre-processor. And the ICM system itself, while theoretically extensible to calculate at the policy level, in practice won't allow it when there are millions of policies to track.

Where does Book of Business fit in?

As stated earlier, the book of business function hasn't been clearly delineated in insurance and financial services operations. It has coexisted with legacy mainframe systems, but once it becomes decoupled from that, it becomes a bit of an orphan process.

In BobTrak's view, BoB is quite central to financial operations and tightly linked to many of the systems in place today, without overlapping any of them completely. We believe the picture of the ecosystem would look something like this:



Book of business is actively engaged with many of the core systems in the insurance and financial services IT space. It receives reference data from the producer admin systems and the policy admin systems, while also providing data services to both. And it enriches transaction data that will be used by the incentive compensation management systems, while also consuming commission and bonus data created by them to tie back to the policies. And BoB provides rich data to be used in financial analysis for the enterprise as a whole.

What will the solution look like tomorrow?

BobTrak feels that a complete BoB solution must have at least the following functionality to be viable in

insurance and financial services operations:

- **Managing customer hierarchies**:
  It's not enough to track explicit policy ownership – the aggregation of policies within hierarchies must be known as well;
- **Honoring producer hierarchies**:
  The rollup of policies serviced by agents, agencies, broker-dealers, and wholesalers must be maintained;
- **Accepting and managing multiple instances of producers in the hierarchies**:
  Over the course of a career, independent producers generate business for many agencies, broker-dealers, and even carriers. With mergers and acquisitions, all the contract relationships between producers, policies, and carriers must be maintained;
- **Maintaining the joins between producers, policies, and hierarchies**:
  This also includes providing seamless functionality for effecting transfers of policies between producers while honoring the proper contractual relationships between the producers;
- **Tracking business events for the calculation and aggregation of account-based values**:
  These events could include premiums, commissions, policy exchanges, contributions to annuities, or any other events that make up the life of the account. The system must accept the events and provide fast and accurate aggregations based on user-defined rules;
- **Provide deep analytics of the rich data maintained and generated in the system**:
  This is critical for providing the return on investment that takes the system from being strictly operational to something far more strategic.

Needless to say, the system must also be highly performant, secure, reliable, and accurate. That's a basic requirement for any applications that enter a company's IT ecosystem.

BobTrak wouldn't raise these points unless we were firmly committed to providing all the functionality, accuracy, and performance needed. Our rigorous data modeling coupled with big data techniques, built on top of a bulletproof application architecture, is the solution to a problem that has been ignored too long. It's a problem that can be solved, and we help you put that solution into production now.

Contact David.Kelly@BobTrak.com for more information or for a product demonstration.

