Featured Article

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How Insurers Can Save Money and Maintain Compliance—Part 1: Optimizing the Affiliated Agent Process

Though state rules can be convoluted, you can save on paying initial appointment and appointment renewal fees once you learn them.

Compliance has always been paramount for insurers. Licensing departments are not revenue generating: they spend money but they don't get back anything in return. However, if you consider that without the licensing department ensuring that producers are appropriately licensed and appointed and have completed product training (if indicated)—and in many cases, managing the contracting process—it's not hard to be out of compliance, and face stiff penalties as a result.

It is very difficult to budget certain costs, such as resident and non-resident license fees, license renewal fees, initial appointment fees, appointment renewal fees, training courses developed for specific products such as long-term care, annuities and flood insurance, and recertification courses. The reason for this is that it all depends on how many producers are recruited, contracted, and renewed each year. Not to tell tales on specific states, but I recently received a notice from the NIPR indicating that Vermont's reciprocal fees were changing. Some fees are going up—who could anticipate that occurring? That some states charge reciprocal fees is disconcerting when states should be working toward uniformity now more than ever before, with NARAB II just around the corner—but that's a whole other story.

Let's talk about some ways an insurer can save money. One way is by optimizing the affiliated agent process.

Affiliated Agents

What are affiliated agents—or more correctly, what is the affiliated individual process? There are 28 states that mandate affiliation of an individual with a business entity (BE). An individual can be a producer, director, officer, designated responsible licensed producer (DRLP) or designated responsible person (DRP). Of those 28 states, 11 require separate appoints for the individual and the BE by the insurer; 14 include the individual in the BE's appointment; and 3 states do not appoint the BE.

Believe it or not, there really is a method to this madness. Once you learn the state rules, though they are convoluted, you can save on paying appointment and appointment renewal fees. But bottom line, there are some states that only require the agency to be appointed. So first, you need to know in which state you are going to appoint. Does that state require individuals to affiliate with the BE? If yes, does the producer have to be separately appointed from the agency? If you are an insurer, you can require your business entities to affiliate their individuals and ask them to provide proof—because out of those 28 states, only one state reports affiliations to the PDB. In 6 states, you are unable to verify, so you can only ask for proof by requesting a copy of the completed and signed affiliation form or confirmation, if it's an online process.

In the 14 states that include the affiliated individual with the BE appointment, you only have to pay the BE appointment fee.

Let's do the numbers; we will use an average appointment fee of $20.

- An agency has 10 producers.
- You have 1,000 agencies to appoint per year.
- In this example we will only consider appointing for one underwriting company.
- Instead of paying $220 to appoint the producers (10) and the agency (1), you would only pay $20 in BE appointment fees.
- Multiply $20 by the 1,000 agencies and the appointment cost would be $20,000. Then multiply that by 14 states and it equals $280,000. $280,000, you say? That is a lot of money. Yes. **But consider the following**:
- If you are currently appointing the producers and the agency using the numbers above, you are paying $220 in appointment costs per agency. Multiply $220 by 1,000 agencies by 14 states and ***you are currently paying approximately $3.5 million in appointment fees***. If you comply with states' regulations by knowing which states only require the BE to be appointed, **you would save** $3.2 million. This is a win–win situation as well, because the insurer and the agency are compliant with state-affiliation regulations. Also erring on the side of caution and appointing the producers and the BE creates noncompliance issues. Did I hear the words "Market Conduct fine"?
- The above doesn't even consider the money saved when it is time to renew appointments.

With all that said, the affiliated agent process does two things: it saves the insurer appointment fees in some states that only require the agency to be appointed, and it keeps the company in compliance in all state rules that require the affiliated agent process.

Part two of this series will explain another way to save money to the bottom line by reconciling appointment prior to renewal.

End of Article

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