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Marketing and Distribution: Who Sells and Distributes

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Like actuarial science, insurance sales distribution can occasionally be a complicated collection of misunderstood acronyms and arcane jargon. This situation may be exacerbated by the evolving and sometimes idiosyncratic nature of distribution and the various insurance marketing organizations, where no established standards for categorizing such organizations exists, descriptions may fall in and out of favor and be used interchangeably, and distribution models may include multiple layers and roles.

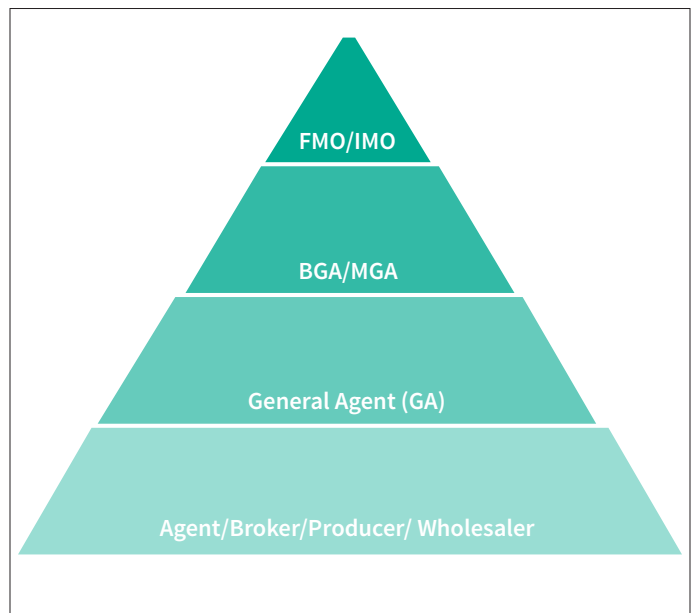
This article is the first in a series of entries supporting the theme “Understanding Distribution” that we expect to make into the SOA Marketing and Distribution Section glossary, where we will attempt to provide a framework for the distribution landscape and, at the same time, define and clarify some of the terms that may be the most misunderstood or confusing. While such definitions may vary slightly across practice areas, we attempt to offer definitions that may generally hold and point you in the right direction. We view this glossary as a work in progress and welcome feedback on key items we may have missed or defined incompletely.

Over the course of the next several newsletters, we anticipate describing terms frequently used to describe who sells and distributes insurance products, how those sellers and distributors are compensated and supported, and what the relevant regulatory elements may include. We focus here on the distribution hierarchy and the levels of those who sell and distribute, which may include the customer-facing sales expert and the management and framework supporting that expert.

DISTRIBUTION HIERARCHY

Among the common terms defined below related to who sells and distributes insurance products are several different insurance marketing organizations. While no firm standards really exist to categorize these organizations, Figure 1 may illustrate the typical hierarchy for such organizations, and we present this as a baseline for the glossary of common terms that follow.

Figure 1
Baseline for Glossary of Distribution Hierarchy Terms



Sales and distribution includes the customer-facing expert and the supporting management and framework.

GLOSSARY OF DISTRIBUTION HIERARCHY TERMS

Field Marketing Organization (FMO)/Independent Marketing Organization (IMO)

Distribution management organizations tend to provide services and support similar to what carriers provide to captive agents. These organizations are typically at the top of the distribution hierarchy and tend to be licensed to sell products in most or all states. Such organizations may train and support hundreds or thousands of agents and work with multiple insurers across the country. Use of “FMO” and “IMO” tends to be interchangeable, with FMOs often used for health insurance, while IMO may be typically used for life insurance.

General Agent (GA), Brokerage General Agent (BGA), and Managing General Agent (MGA)

A GA represents one or many carriers and markets those carriers’ products to customer-facing or “retail” distributors. GAs will typically have specific expertise in a certain product line or target market and a network of strong relationships with retail distributors. The GA may also provide carriers otherwise unavailable access to end buyers, along with operational oversight of such placements.

A BGA is a special GA who markets to brokerages, rather than agents. A BGA is often larger than a GA, and GAs may be affiliated through a larger BGA entity. Both types of entities are normally independent of the agent or broker.

GAs and BGAs may provide exposure and supporting expertise to retail agents and brokers to market products and open communication channels with carriers. BGAs and GAs may also support agents by providing administrative and customer support, licensing and appointing agents/brokers on behalf of a carrier, and creating selling agreements with those insurers.

Another special type of GA is an MGA, who is vested with underwriting authority by the carrier and may share in the risk of the product. Such arrangements help align the carrier’s and MGAs incentives to write sustainably profitable business, while the MGAs autonomy in underwriting may increase its attraction for partnering agents or brokers.

Agent/Producer vs Broker

Agents and brokers act as intermediaries between an insurance buyer and the insurance company. The terms “agency” and “brokerage” may also be extended to business entities (proprietorships, LLCs, or corporations) made up of one or many agents or brokers. Both agents and brokers have an obligation to help the buyer obtain suitable coverage for their needs and each must have and maintain a state license to distribute the type of insurance sold. As licensed distributors, both must operate in a manner consistent with regulations enforced by insurance departments. As noted earlier, customer-facing agents and brokers may commonly also be referred to as “retail agents/brokers.”

The term “agent” means a salesperson who represents the insurance company. In some states, the term “producer” may be used interchangeably. An agent/producer may have the authority to bind a prospective client to a policy whereas a broker cannot.

On the other hand, a “broker” is a salesperson that represents the insurance buyer in selecting an insurance product. Once a broker identifies a product for a buyer, an agent/producer completes the transaction on behalf of the carrier.

Independent vs Career/Captive Agents

The term “independent agent” describes an agent who is authorized, or “appointed,” to sell products from different insurance carriers. Many companies distribute products primarily through independent agents. An independent agency will function like any other small business and be responsible for its own overhead costs and other expenses.

Some large insurance companies may have “career agents” or “captive agents” who are required to exclusively sell that company’s products. A key tradeoff for this restriction is that career or captive agents tend to receive substantially greater support from their carrier in the form of shared support staff, office space, advertising, marketing materials, training, and other support.

Wholesaler vs Retail Distributors

Like wholesaling in other industries, the role of the insurance wholesaler is to place risks sourced by retail agents or brokers and serve as an intermediary between those individuals and either one or several insurance carriers.

Wholesalers may have specialized expertise in specific and unique coverages or relationship influence with carriers to place such risks more easily. This expertise and influence can be especially important for certain markets, such as coverages for very small employers or situations in which coverage is customized to a specific buyer.

GLOSSARY OF OTHER COMMON TERMS

Call Center

Centralized office or group of remote personnel who are trained to transmit or receive typically high volumes of inquiries by telephone. In the context of insurance distribution and sales, call center personnel are licensed to sell products and trained to service those products. Call centers tend to be independent of carriers, selling and supporting the products of multiple insurers. Call centers are increasingly used to engage clients and sell directly to customers.

Channel Conflict

The tension that may develop or exist between a carrier's distribution channels (e.g., brokers, captive/career agents, and direct to consumer). Each channel may seek more favorable or equitable treatment from the insurer in areas such as compensation; access to products or services; or marketing, administrative, and other investments that may support distribution.

Direct-to-Consumer (also referred to as DTC or D2C)

Distribution method that carriers use to interact directly with clients, bypassing or minimizing the involvement of an agent/broker and reducing insurer expenses. This method may be used most

often for simple products that consumers may understand (e.g., term life or dental coverage) without requiring explanation by an expert, allowing facilitation of the sales process through web-based platforms. Call center sales, direct mail, or other media advertising may also be utilized for direct-to-consumer campaigns.

In closing, we look forward to your feedback on this and upcoming installments as we construct an SOA Marketing and Distribution glossary that hopefully serves to help uncomplicate and clarify some of the acronyms and terms you may regularly encounter. ■



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