Vertafore

Just-in-time industry practices and insights for Carriers

v3b

Just-in-time appointment policy

A just-in-time (JIT) appointment policy leverages the Producer Licensing Model Act stance that an agent can be appointed at the time the first application (new business) is received for processing. Carriers can identify the need for an appointment when the application is received and submit the appointment to the state. Further, each state has a defined period that the appointment can be submitted after the business is received. In most cases this period is 15 days. In some states the period is longer, up to 30 or 45 days.

Why should you practice just-in-time? JIT allows you to optimize appointment expense by aligning the spend with actual business while simultaneously meeting compliance requirements. This replaces many carriers' historical practice of global appointing—all agents in all states, for all writing companies.

A JIT policy:

1. Reduces your appointment expense. Depending on the number of writing companies, appointment volumes, and agent volumes, this policy can reduce expenses by millions of dollars annually.

2. Positions sales and distribution to increase the number of agents without a significant increase in appointment or transaction expense.

3. Reduces your volume of transactions, thereby reducing expense associated with the electronic filing process.

4. Enables improved agent experience by eliminating appointment chargeback practices.

5. Is consistent with industry practices—JIT has been widely adopted by hundreds of carriers.

A just-in-time strategy can be used for all agency and agent appointments, across both captive and independent distribution channels.

JIT considerations

Vertafore has analyzed the trade-offs between various just-in-time strategies and implementations. Consider the following as part of your decision-making process.

1. Just-in-time can be deployed in a variety of approaches

a. Appoint when receiving business regardless of state, except for known pre-appoint states (for example, Pennsylvania). This is most prevalent in our view.

b. Appoint in resident states only and add non-resident as business is received.

Disclaimer: This document includes notes and observations from conversation at the SILA National Education Conference,SILA Best Practices Handbook, NAIC Producer Licensing Model Act (PLMA). The responsibility of all compliance related decisions resides with the carrier. If you have questions about specific regulations and how they might apply to you and your business, please consult a licensed attorney in your jurisdiction.

2. Just-in-time implementation requires strong process controls within new business processing

Key points for control environment:

Agent identification - Whether paper or electronic, applications need to capture the agent in a manner that new business processing can easily recognize and select the correct agent. Generally, this would be first and last name in combination with National Producer Number (NPN) or agent number.

Enforcing restrictions - The review process to determine whether license and appointment information should restrict the ability to book, bind, and issue until verifying the license and appointment information is compliant, potentially with manager override capability to address specific exception scenarios.

When enforcing restrictions, three levels of process controls should exist in support of JIT:

Manual

New business processing staff manually check license and appointment information to determine pass/fail. For failures, the new business processor would coordinate with licensing staff to take appropriate action.

Electronic review

New business systems are configured to check license and appointment information by web service call to licensing database to determine pass/fail. For failures, the new business processor would coordinate with licensing staff to take appropriate action.

Electronic appointment profile

New business systems are configured to check license and appointment information by web service call to the licensing database to determine pass/fail status. If pass, the business is processed. For failures, the licensing database is configured to take action and automatically submit the appointment to the state, sending a message that the error has been satisfied. In the event the license is not in place and the agent cannot be appointed, the licensing system will notify the new business system. The new business processor would then coordinate with licensing staff to take appropriate action.

Control environment review – manual and technology implications

Onboarding and contacting - During the onboarding process, communications will need to clearly state your firm has a just-in-time appointment policy and agents will be appointed at the time new business is received. It is important to let them know they are authorized to sell.

Commission distribution - The payment of commissions is generally distinguished between new or initial commissions and ongoing or trail commissions. Under JIT, the core assumption is that the initial commissions are paid because the agent was licensed and appointed at the time of sale. For the initial commission, you can decide not to perform a license and appointment check (since the agent was verified at the new business step), or you can perform a secondary review. This is not a requirement, however, since very little change typically occurs in license and appointment information. Commissions are generally paid very soon after the business is processed.

Agent of record changes - If an agent transfers from one agency to another, the new agent can be licensed only and may not need an appointment. Verification that the new agent holds the proper license should be performed.

Web portal access control - A failure point for many companies has been that the logic for web portal access is sometimes controlled by the status of the appointment. In a JIT situation where no business is conducted yet, or where the agent has not produced in a period and associated appointments were not renewed, the agent should not be restricted from accessing materials or information needed to sell or service. Ensure that the access is not controlled by the appointment, but separate access and permission controls.

New business - As stated earlier, strong new business controls (systems and documented procedures) are required to ensure compliance. System edits are needed to ensure licenses and appointments are in place for receiving and processing new business.

Additional premium, changes, and renewals - Many carriers see differentiation for considerations outside of selling or soliciting new business. They hold that additional premiums, changes to coverages, or renewals are not equivalent to new business, and therefore there is no need to maintain appointments.

Contact center authorization - In a JIT situation where no business is conducted yet, or where the agent has not produced in a period and associated appointments were not renewed, then the agent should not be restricted from accessing materials or information needed to sell or service. When the business is received, the appointment will be added.

Servicing agent - Many companies do not require the appointment to be maintained unless the agent is conducting new business. The servicing agent would continue to have full access to the policy and customer.

Background check process - To defer costs, in some cases carriers have opted to hold on performing a background investigation until the appointment is needed. The conventional opinion is that the pass rate is very high, therefore holding the background check until the appointment is issued poses minimal risk. In this scenario, there remains some risk to customer experience and consumer protection given that the agent might not pass, even if failure is rare. Industry experience suggests that this risk is very low, and many companies have opted for this path. Most companies opt to perform background checks at the point of contracting or onboarding, as this aids in downstream processes.

Organizational change management

From a policy stance, the changes introduced by just-in-time appointing represent a shift in compliance position. Effective change management implementation will support understanding and adoption of a JIT policy and resultant process changes.

Agents

Agents will need to be informed that your firm practices JIT appointing so they know they are compliant and can still submit business. Appointments will be added as business is received. In very few cases, agents may challenge this, and carriers may simply appoint them in order to be easy to do business with, deferring a decision on whether to maintain the appointment as part of the termination for lack of production (TLOP) process.

Further, in the TLOP process, any communications with the agent should emphasize that the non-renewal is a part of administrative review, that the appointment is not currently needed, that the non-renewal will not impact their ability to sell, and that the appointment will be added immediately if new business is received and the appointment needed. In short, let them know it is a non-event so they can keep selling.

Sales & Distribution

Sales and distribution, including wholesalers, will need to know that the policy has changed, that compliance is still being maintained, and that the process brings your firm into industry practices. They will also need to know how the process will work across a variety of transaction use cases.

Other internal Teams

Other internal teams—such as operations, customer and agent contact centers, and the licensing and contracting team—will need to know that the policy has changed, that compliance is still being maintained, and that the process brings your firm into industry practices. They will also need to know how the process will work across a variety of transaction use cases. Additionally, these teams will need to update their procedures and quality review processes to reflect the changes.

Termination for lack of production

Termination for lack of production (TLOP) is a process review of all appointments for all agents where no new business has been received over a certain number of months (usually 12, 18, or 24). The appointments identified are non-renewed and terminated with the state.

In conjunction with a just-in-time approach, the TLOP process is the process of nonrenewing appointments where no business has been received for the particular jurisdiction.

Why terminate for lack of production? TLOP allows you maximize the economic effectiveness of your appointment expense management process. Used in conjunction with JIT, TLOP achieves an optimal balance of compliance and cost.

The TLOP process is not recommended for agency appointments.

TLOP considerations

Administration of the program - The administration of the program should be considered as an ongoing regularly staffed and managed function. Because of the ongoing opportunity to save costs and manage compliance, this should not be considered an isolated side effort.

Communications to the agent - Communication with the agent should send a clear message that non-renewal of the appointment is an administrative clean-up effort and does not impact their ability to write business. Under JIT, if business is received and there is a need for the appointment, one will be added immediately.

Agents thinking they still need the appointment - This is usually resolved through a conversation with the agent to clarify the company's position and facts from sales, RVPs, the contact center, licensing team, and compliance. If the agent still wants the appointment, simply add the appointment to avoid the negative experience and debate. This scenario is infrequent because both JIT and TLOP are very well established in the industry.

Data management - To render a decision on whether to renew an appointment, the data needs to identify the state writing company, agent, policy written in that jurisdiction, and the date the policy was issued. Data will need to be aggregated from the licensing system for policy administration to review and render the decision.

Charging for appointments - In some carriers, there still is a transfer of appointment fees from the carrier to the agent. The practice is negatively perceived by the agents and creates a complex, transaction-by-transaction review for costs and payment. The costs for postage, labor, and reconciliation are significant, and the trend is to move away from this practice.

Identifying appointments to non-renew

Renewal and decision schedule

To identify appointments for non-renewal, a state-by-state appointment renewal schedule must be established. Renewal processes differ in each state (and change periodically), occurring annually or biannually, on a fixed date or throughout the month of one's birthday. Some states issue appointments in perpetuity; some do not issue them at all. Additionally, states may require appointment termination requests to be submitted in advance to avoid automatic charge and renewal. An appointment renewal schedule must account for all applicable state requirements.

Once these considerations have been addressed, the following steps apply:

1. Perform comparison. This is usually done in a variety of systems or applications (Excel, Access, etc.).

2. Identify the agent appointments that have no new business associated within the previous duration (12, 18, or 24 months).

3. Process the appointment terminations with the states.

4. Generate the communication to the agents.

5. Repeat process for each renewing state on schedule.

Summary

Just-in-time and termination for lack of production represent a significant opportunity for carriers to control expenses while achieving compliance with state regulations with no negative impact on agent experience. At Vertafore, we offer extensive system capabilities to strengthen your control environment by ensuring your data, new business processes, auditing, and reporting capabilities orchestrate the process for you. Consult our team to discuss how we may support you further.

Ready to take the next step?

Call 800.444.4813 or

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