

# SALES AND RELATIONSHIP MANAGEMENT

## Your Business Accelerator

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*“Things may come to those who wait, but only things left by those who hustle.”*

Abraham Lincoln

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### **Not Enough Time, Not Fast Enough**

Customers are increasingly educated, competent and connected to technology. To expand insurance relationships, Sales and Relationship Management must be able to react, adjust, and satisfy customer/agent demands on the spot. Qualifying customer needs and credibility in offering a solution are prerequisites for even being in the running. New customer demands have made insurance coverage and services conversations far more complex, requiring a wider range of product knowledge, sales techniques, customer insights, and company-wide awareness. And the customer expects a fast response. This is the key challenge facing today’s insurance sales function: how to balance the need for faster customer response while gaining the right information to qualify the customer underwriting risk profile, close the sale, and prepare an effective renewal process.

The ability to close deals efficiently and the knowledge needed to invest your time in the right customers are critical factors driving your insurance company’s success. Both depend on a timely, two-way flow of information. Accurate and speedy information exchanged through the best channels can help improve revenue results and reduce selling costs. Information flowing through Sales can affect every other department in the insurance company. For example, high demand forecasts will drive greater internal resourcing and transaction processing needs. The slower the two-way flow of information, the less responsive the organization.

This viewpoint brings together the three core insights in this book (see Introduction). Sales and Relationship Management must have clear accountability for premium results and underwriting quality. This requires information sweet spots that connect home office and field decision-making capabilities. A sales and relationship management function with the right information, at the right time, driven by the right incentives, is formidable. Unfortunately, many insurance company organizations do not optimize sales time and speed of execution due to three barriers:

**Barrier 1: *You don't set revenue targets and allocate effort based on maximizing overall contribution***

How you measure performance and set compensation drives how Sales and Relationship Management allocates its time. If you define targets in terms of potential underwriting profit and contribution, Sales will invest time where it maximizes sustainable returns from new business and renewals. Customer relationships that secure today's inquiries and tomorrow's revenues are a strong competitive advantage. If focusing Sales on customer relationship profitability isn't a new thought, and it's not difficult to see the benefits, why is it still rare in terms of implementation?

There are several reasons. In many cases, integrated profitability information is unavailable or is too sensitive to distribute. Determining how to allocate costs and define internal transfer pricing may be complex or politically charged. More frequently, the insurance company's focus on first-year revenue means that Sales does not have or need a perspective on long-term customer renewal contributions. As a result, it neglects to measure cross-sell and up-sell revenue paths or the estimated lifetime value of a customer.

The customer's potential lifetime value is not static: it changes over time. A good sales or relationship manager can positively affect the change. Effecting positive change requires that Sales understands:

- The cost benefit of maintaining versus acquiring customers
- Relative weighting of various opportunities based on the "cost" of expected effort
- Longer term planning as opposed to a single sales opportunity
- A multi-tiered portfolio approach to cross-selling opportunities
- Continuous focus on underwriting quality, risk controls and retention.

Without an understanding of these sweet spots, your time may be poorly invested. Or worse, you won't know if it is or isn't.

**Barrier 2: *There is no two-way clearinghouse for the right information at the right time***

IT departments are precisely benchmarked and highly subject to internal scrutiny. These departments expect reliable company-to-company relationships, where vendors are business advisors and valued solutions experts. Sales, too, is becoming more and more about information rather than just products and relationships.

However, turning insurance sales professionals into experts on every coverage topic is not the answer. Team selling with the right combination of brokers and agents is essential when required. There is simply too much customer information required to process, distill, and communicate for sales managers to be fully educated on every possible buying scenario. Instead, Sales needs to be an efficient clearinghouse of the right information at the right time. What's missing in most organizations is an effective flow of "smart facts" among the customer, the agent/broker, and the

carrier. Smart facts are focused information packages about customer needs and challenges, insurance company advantages, and important interaction points between both entities.

The two-way nature of this information is critical. The entire organization (Marketing and Product and Portfolio Management in particular) needs customer insights into what works, what doesn't, and what is of greatest importance. Without this, your response to important concerns is impeded, and you won't understand the customer perspective, which is necessary for sustainable relationships. Smart facts let Sales:

- Build on customer success stories and best practices
- Link understood insurance values to what the customer requires
- Proactively deal with issues between the customer and insurance company (such as service delays, etc.) and stay on top of the account.



*Sales: two-way clearinghouse of smart, fast facts*

Sales and relationship managers—your front line with customers—are at a disadvantage when trying to build reliable relationships and loyalty if you do not provide them with these smart facts in a timely fashion.

### **Barrier 3: You don't measure the underlying drivers of sales effectiveness**

What type of input drives the results, as measured by sales success? This is rarely evaluated or understood, and yet it is one of the most critical areas for an insurance company to master.

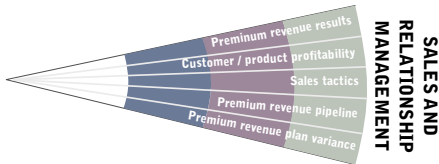
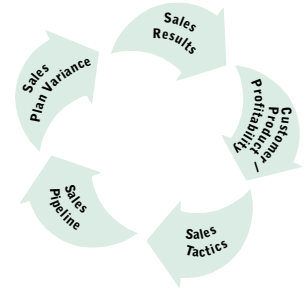
Lead generation, customer preparation, sales calls, and collateral material are all familiar tactics of the sales process. The missed opportunity comes from not tracking what expectations were set around these tactics and not monitoring what actually happens. Despite significant investments in automation and customer relationship management systems, insurance companies miss this opportunity when they see setting targets as a complicated planning exercise or when it conflicts with an organization's bias to rely more on intuition.

The choice doesn't have to be either/or. Experience and intuition can guide the initial tactical choices and outcome expectations—but monitoring these outcomes lets you make informed decisions to improve your results. Your goal is to increase sales productivity and adjust tactics when something doesn't work. Without set expectations and a means to monitor the underlying drivers of sales effectiveness, you will likely suffer both higher selling costs and missed sales targets.

## Continuous Accelerated Realignment

The five decision areas described below can improve the speed of sales execution and enable a more effective use of time. They rely on the two-way flow of vital information between customers and insurance company. This sharing of information can accelerate the speed of adjustments and realignments of product, market, message, service, and other elements of the business. Decision areas in Sales and Relationship Management:

- **Premium revenue results** → What is driving premium, services revenue, and renewal performance?
- **Customer/product profitability** → What is driving contribution performance?
- **Sales tactics** → What is driving sales “close” effectiveness?
- **Premium revenue pipeline** → What is driving the revenue pipeline?
- **Premium revenue plan variance** → What is driving the revenue plan?



The order of these decision areas reflects a logical flow of analysis and action. They start with understanding where Sales is achieving its results, first in terms of overall revenue performance and then in terms of net income or contribution. This is followed by drilling deeper into how the Sales function is using its time and to what effect. Finally, the insights gained are applied to revising the planning and forecasting process. In this way, Sales can drive a continuous and accelerated re-examination and realignment of the organization. This cycle is anchored by the organization’s strategic objectives (profitability and net income) and incorporates frontline realities for an accurate view of Sales and Relationship Management performance.

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*“The introduction of these information sweet spots has created an optimal basis for decision-making in the HanseMerkur insurance group’s sales and service processes.”*

Horst Karaschewski, Application Development Manager, HanseMerkur Insurance Group

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## Premium Revenue Results

Premium revenue results are one of the most basic and important information sweet spots and are one of the two foundations of Sales management, the other being Sales planning. They provide a consistent overview of first-year and renewal revenue across the five basic components of the business—product, customer, territory, channel, and time.

Accurate understanding of these components suggests why results diverge from expectations. *Are premiums trending down in certain territories? Is this consistent across all product lines, coverages, channels, territories, and customers?*

Premium revenue results should not be confined to managerial levels, but should be shared at various levels of the organization. You can empower the front line with appropriately packaged analytic information, adapted for individual representatives with specific products and services in specific territories.

Beyond immediate operational analysis, revenue results let you recognize broader performance patterns to see if strategies and management objectives are on track and still making sense. With a consistent flow of information over time, you can make more strategic comparisons, interpretations, and adjustments. For example, if premiums are flat in the preferred customer segment, you need to know: *Is this a tactical problem or a strategic one—i.e., should this lead to a full re-evaluation of the insurance company's future in the underwriting market segment? Are significant resource investments necessary to revive this segment? Has the product or service proposition been outflanked by the competition or purchased through higher commissions?* These questions are part of an accurate assessment of premium revenue results.

Premium revenue results information also connects time spent, level of underwriting responsibility, strategic decision-making, and operational activities. If you identify a weakness in a commodity segment of the market, the insurance company has a number of time-related options to deal with it. A drop in such revenues in the short term may cause serious competitive damage, leading to long-term difficulties. The short-term solution might be a series of sales push activities, such as more promotions and more aggressive pricing. Given the impact of this on adverse selection and the net income margin, however, management may choose to look at the overall product and service proposition to identify and find opportunities to cut costs. This may require long-term strategic decisions at the highest level of the organization involving Marketing, Product and Portfolio Management, Operations, and Finance. Revenue results are one of the main contributors of information for this decision. The speed and accuracy with which this information is provided to the insurance company is critical. More of this dynamic will be covered in the Executive Management chapter.

## PREMIUM REVENUE RESULTS

GOALS	METRICS	DIMENSIONS	
New 1st Year Gross Written Premium (1%)	Policies (#)	Premium / Revenue Results	Underwriting Layers
Retention Gross Written Premium (1%)	UW Quality Audit Score	Aging	Layers
Income Growth (1%)	Premium Audit Score	New or Retained business	Underwriter
	Gross Written Premium (\$)	Aging Period Bracket	Underwriter
	Net Written Premium (\$)	Insurance Charter Location	Sales Channel Partners
	Earned Premium (\$)	Insurance Charter Location	Sales Channel Type
	Gross Commission (\$)	Insurance Company	Sales Partner
	Net Commission (\$)	Insurance Company	Agent - Broker
	Deductible (\$)	Insured	Agent-Broker
	Excess (\$)	Insured	Agent of Record
		Insurance Risk Location	Sales Organization
		Territories	Sales Region
		Gen Codes	Sales Territory
		Product - Coverage	Organization Code
		Product Line	
		Coverage	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Sales	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
Underwriting	Professionals	*		
	Executives	*		
	Managers	*	*	
	Analysts	*	*	
Operations/Production	Professionals	*		
	Executives			*
Marketing	Executives			*
	Managers		*	
	Analysts		*	
	Professionals		*	
Finance	Executives			*
	Analysts		*	
Customer Service	Executives		*	
	Analysts		*	
Claims	Executives			*
	Analysts		*	
Actuarial	Executives			*
	Analysts		*	
Regulatory/Legal	Executives			*
	Analysts			*
General Management	Executives			*
	Analysts			*

**Customer/Product Profitability**

The key to this decision area is recognizing which customers, product lines and services are making the largest contributions. A basic contribution assessment is possible using an “income less direct costs and incurred claims” formula for customers and products. Once this is calculated, you can develop more complex views by allocating direct costs using certain drivers to determine effort or activity plus related costs. This may highlight inconsistencies in internal transfer pricing and lead to a reassessment of net operating income for various products and services. Using a phased approach when moving to a more direct measure of income enables learning by successive iterations, with the benefit of gaining wins and proof of value before tackling more complex cost allocations and associated drivers. The sales function must adopt the income goals and work with the rest of the organization on achieving them.

Understanding customer lifetime profitability is vital to a business. It focuses the organization on the value of the long-term customer. Customer/product profitability is a powerful tool that is used at senior levels of product management, risk management, and corporate strategy. The sensitivity of this information dictates that it cannot be widely distributed, but by indexing some of this information for the sales function, you ensure Sales understands its profit priorities and is ready to put that knowledge into action.

GOALS	METRICS	DIMENSIONS	
Average Gross Written Premium (\$)	Policies (#)	Insurance Charter Location	Underwriter
Average Net Written Premium (\$)	Reinsurance Contracts (#)	Insurance Charter Location	Underwriter
Net Underwriting Result (\$)	Gross Written Premium (\$)	Insurance Company	Agent - Broker
Operating Profit (\$)	Assumed Premium (\$)	Insurance Company	Customer Risk Controls Rating
Underwriting Ratio	Ceded Premium (\$)	Insured	Risk Control Rating
	Net Written Premium (\$)	Insured	Risk Control Rating
	Earned Premium (\$)	Insurance Risk Locations	Policy Year
	Acquisition Cost (\$)	Territories	Policy Year
	Direct Cost (\$)	Geo Codes	Accident Year
	Allocated Cost \$	Product - Coverage	Accident Year
	Claims Paid (\$)	Product Line	Post Year
	Loss Adjustment Expense (\$)	Coverage	Post Year
	IBNR (\$)	Underwriting Layers	Reinsurance Type
		Layers	Reinsurance Type
		Sales Channel Partners	Reinsurer
		Sales Channel Type	Reinsurer
		Sales Partner	Reinsurer
		Sales Organization	Reinsurer
		Organization Code	Reinsurer

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	+		
	Managers	+		
	Analysts	+		
	Professionals	+		
Sales	Executives	+		
	Analysts	+		
Underwriting	Executives			+
	Analysts	+		
Claims	Executives			+
	Analysts	+		
Actuarial	Executives			+
	Analysts	+		
Marketing	Executives			+
	Analysts		+	
IT/Systems	Executives			+
	Analysts		+	
Customer Service, Audit and Human Resources			+	
Operations/Production			+	
Purchasing			+	
Regulatory/Legal			+	
General Management			+	
		Executives		+
		Executives		+

*“This information is essential for our agents in the field. It allows them to provide the best advice to our customers and fulfills an important strategic role in the overall process. On completion of the conversion, around 750 field users will benefit from the vast range of easily available information.”*

Horst Karaschewski, Application Development Manager, HanseMercur Insurance Group

**Sales Tactics**

This decision area evaluates the sales process to determine which activities and mechanics are most effective. The key is to understand what resources, activities, and technology tools you need to achieve targets for specific channels and accounts. This decision area continually monitors and reviews the *what* (resources) versus the *how* (mechanics).

The *what* includes understanding the following: *How many warm and cold prospects are available? How do you best approach them? How much time is spent on research? How much time is spent with existing customers versus time with new customers? What is the proportion of direct effort to indirect effort?* You require insight into all these areas to optimize time and resources.

The *how* includes understanding how the cost and time spent on activities like promotions, face-to-face meetings, brochures, direct mail, and cold calls will drive revenue targets.

GOALS	METRICS	DIMENSIONS			
Sales Calls (#) Customer Gain (\$/%) Commission (\$-%)	Inward Customers (#) Customer Cancellations (#) Lost Customer Count (#) New Customer Count (#) New/Lost Customer Ratio (%) Prospect Rating Score Qualified Prospects (#) Applications (#) Eligible Submissions (#-%) New Policies (#) Renewed Policies (#) Gross Commission (\$) Net Commission (\$) Sales Cost (\$) Sales Cost per Application (\$) Sales Cost per Policy (\$)	Insurance Sales Channels Channel Agent of Record Sales Channel Partners Sales Channel Type Sales Partner Insurance Risk Location Territories Geo Codes Product - Coverage Product Line	Fiscal Week Fiscal Year Quarter Month Week Insurance Market Segment Market Segment Micro-Segment Sales Organization Sales Region Sales Territory Organization Code Sales Time Priority Rating Priority Rating		
FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS	
Sales	Executives Managers Analysts Professionals	*			
Finance	Executives Analysts		*	*	
Marketing	Executives Analysts		*	*	
Underwriting	Executives Analysts		*	*	
Claims	Executives Analysts		*	*	
Regulatory/Legal	Executives Analysts		*	*	
Compliance	Executives Analysts		*	*	

By combining these two viewpoints, Sales is able to guide greater sales effectiveness by matching prospects to the most effective channels and contact points for customer acquisition and retention. Sales tactics are a direct extension of the sales performance decision area. You need a structured and coordinated understanding of sales tactics to manage your customers and sales effort effectively. This information must be accessible by your Sales front line to direct their efforts and help them learn from the success of others. In today’s climate, sales process information is also audited to evaluate compliance with “know your customer” mandates and related anti-fraud regulations.

*“The introduction of this type of reporting has brought a clear improvement in quality. The strategic information in our system now provides the required caliber and transparency. This situation supports our sales activities 100 percent.”*

Godehard Laufkötter, Manager of the Sales Controlling, HanseMerkur Insurance Group



### Premium Revenue Pipeline

This is more than a premium revenue forecast; it is an opportunity to see into your insurance company’s future and change it. The revenue pipeline is critical as an early warning system of future opportunities, growth, and problem areas. By defining and monitoring the phases of the revenue pipeline, you can derive metrics that let you qualify new performance standards and manage business growth. Your pipeline intelligence can become even more sophisticated by looking at details such as qualified submission rates for new versus renewal customers, territories, product and service groups, markets, and more.

Each metric suggests useful business questions that can lead to positive functional change:  
*Why do only 2 percent of initial customer inquiries lead to policy application requests? How does this compare with the competition’s underwriting experience? What would it take to increase this ratio to 5 percent? Why are “qualified” policy applications lost, possibly for a given customer segment?*  
 The revenue pipeline should tie into operations, typically to future resource and processing requirements. The more predictive and accurate the revenue plan is in terms of product or service needs, the more efficiently operations can manage its transaction processes and staffing and stop expensive, reactive resourcing allocations due to short-term bottlenecks.

GOALS	METRICS	DIMENSIONS		
Policy Issue - Success Ratio	Average Income per Customer (\$)	Insurance Sales Channels (Channel)	Fiscal Week	
1st Year Net Written Premium Growth (5%)	Average Income per Insurance Product/Service (\$)	Agent of Record	Fiscal Year	
Net Written Premium Growth (3%)	Applications (k)	Sales Channel/ Partners	Quarter	
Income Growth (5%)	Eligible submissions (k%)	Sales Channel Type - Sales Partner	Month	
Renewals (5%)	New Policies (k)	Insurance Risk Location	Week	
	Renewed Policies (k)	Territories	Insurance Market Segment	
	Green Certificates (k)	Gen Codes	Market Segment	
	Net Commission (\$)	Product - Coverage	Micro-Segment	
	Sales Cost (\$)	Product Line	Sales Organization	
	Sales Cost per Application (\$)		Sales Region	
	Sales Cost per Policy (\$)		Sales Territory	
			Organization Code	

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Sales	Executives	•		
	Managers	•		
	Analysts	•		
	Professionals	•		
Underwriting	Executives	•		
	Managers	•		
Claims	Executives			•
	Managers	•		
Marketing	Analysts		•	
	Professionals		•	
Customer Services	Executives			•
	Managers		•	
Audit	Analysts			•
	Professionals		•	
Operations/Production	Executives		•	
	Managers		•	
Purchasing	Executives			•
	Managers		•	

**Premium Revenue Plan Variance**

Premium revenue planning is a control mechanism, tightly linked to the budgeting and planning process. It is also a way to manage change and understand the ebb and flow of your business. Unfortunately, the control side tends to dominate. A top-down budgeting process, where corporate growth objectives must be achieved at all costs, emphasizes planning over the actual situation. This leads to companies identifying and plugging revenue gaps with short-term revenue solutions, usually at the expense of underwriting quality—milking the future to get results today. More useful premium revenue plans work from the bottom up.

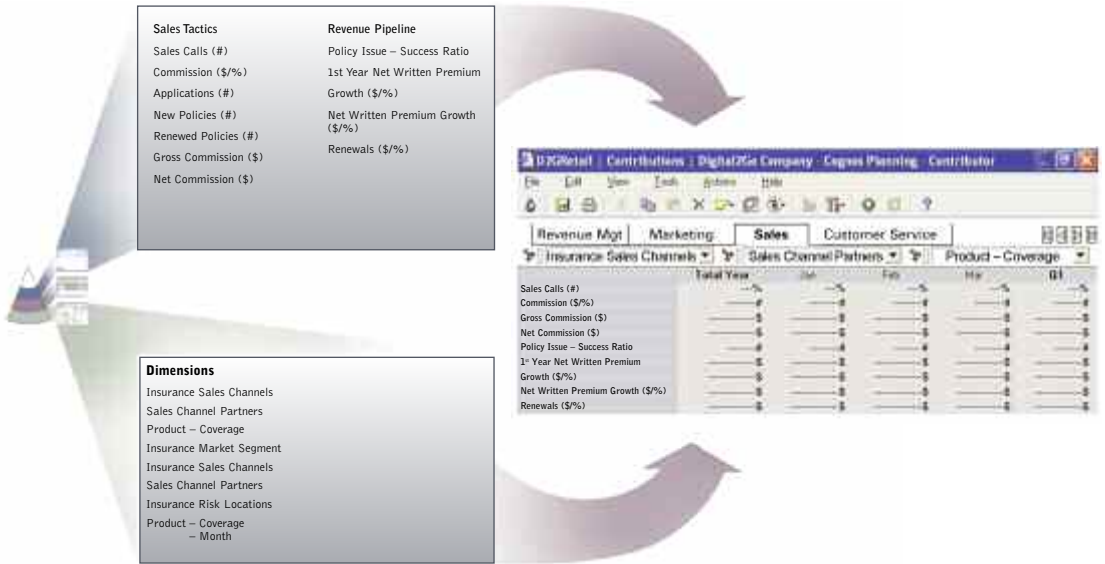
Alignment and accountability must be meaningful. In a meaningful revenue plan, every department that affects the customer provides feedback on revenue objectives, markets, customers, channels, and products. Iterations of this process may be needed to fit with top-down corporate objectives, but it allows individuals across the organization to own their numbers and be fully accountable.

When the entire business is engaged in monitoring under- or overperformance, frontline levels of the organization can answer questions regarding the *where* and *why* of existing revenue targets. The sales function responsible for a missed customer segment revenue target can explain the *why* and suggest ways to correct the gap. Today’s tools enable that essential granular knowledge to be included and rolled up into meaningful plans. Customer account-level variance analysis helps reinforce customer focus and strengthen service delivery standards.

GOALS	METRICS	DIMENSIONS		
Results Plan (5%)	Policies In-force (#)	Reporting Period	Insurer	Product Line
Results Variance (5%)	New Policies Issued (#)	Year	Product Line	Line of Business
	Average Premium per Policy (\$)	Quarter	Sales Channel	Partners
	1st Year Gross Written Premium (\$)	Month	Sales Channel Type	Sales Partner
	Renewal Gross Written Premium	Forecast Scenario (Plan/Actual/Forecast)	Sales Organization	Sales Region
		Scenario	Sales Territory	Organization Code
		Insurance Market Segment		
		Market Segment		
		Micro-Segment		

FUNCTION	DECISION ROLES	PRIMARY WORK	CONTRIBUTORY	STATUS
Finance	Executives	*		
	Managers	*		
	Analysts	*		
	Professionals	*		
Audit	Executives			*
	Managers	*		
	Professionals	*		
Customer Service	Executives		*	*
	Analysts		*	
Operations/Production	Executives		*	*
	Analysts		*	
Purchasing	Executives		*	*
	Analysts		*	
Underwriting	Executives		*	*
	Analysts		*	
Claims	Executives		*	*
	Analysts		*	
Sales	Executives		*	*
	Analysts		*	



*The Sales Tactics and Revenue Pipeline decision areas illustrate how the Sales function can monitor its performance, allocate resources, and set plans for future financial targets.*