

# **Optimal Multiple-Company Rating Workflow**

January 12, 2009

Final Report

ACT/AUGIE Marketing Accounts for Competitive Rates Work Group  
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## **Summary of Recommendation:**

The work group recommends that the industry move to a new work flow for real-time personal lines quoting where the MVRs and loss history reports are procured at the beginning of the quote submission process by the agency and then incorporated in the quote request, rather than waiting to procure these reports when a request to issue the policy is made. The carrier writing the policy would reimburse the agency for report costs. The work group believes this new real-time quoting workflow would increase quote accuracy, reduce cost and improve the customer's experience.

## **Recommended Action:**

**Carriers, Vendors, and Third Party Report Providers:** Seek business partners to implement improved workflow.

**Independent Agents & Brokers:** Urge carriers and vendors to implement improved workflow and negotiate business arrangements with carriers for reimbursement of third party report costs.

## Executive Summary

Our work group was formed in early 2007 as a subgroup of the ACT workflow group, soon thereafter expanding to be a combined ACT and AUGIE work group. Attention to this topic resulted from frustrated personal lines agents who were forced to choose a workflow based on:

- a) Manufactured Rating which was becoming increasingly unreliable;
- b) Carrier Websites which forced redundant data entry; or
- c) Real Time Rating where vendor solutions were immature.

As our work group was meeting in 2007, the market was going through a transformation toward real time. Now, in October, 2008, real time rating is a reality with a choice of vendors with reliable solutions.

As our group recognized the improvement trend in 2007, we turned our focus to the top issue that was not being addressed in the market - the inability to incorporate third party reports (MVRs for example) into the original carrier quotes.

This final report will focus on the workflow the group designed to incorporate third party reports into the rating process. We will also outline issues yet unresolved and recommend next steps for the various constituent groups.

## Work Group Goals

- To Design an Optimal Multiple-Company Rating Workflow
- To Drive the Improvements Necessary to Achieve It

Scope - Early on we agreed to focus on

- Personal Lines. Commercial lines rating faced many of its own challenges.
- Agent Rating. Consumer rating has significant issues beyond agent workflows.
- Ideal Workflow. There will be adoption issues but our goal was workflow design.

## Original Workflow Issues Identified by the Work Group (from early 2007)

- Accuracy – Comparative rating solutions must be accurate. They should not be estimates but rather be full, complete, and final based on all the data available. The implication is that all data needed for an accurate quote must be acquired up front.
- Duplication of Entry – All data must be entered just once and saved. This requirement is the major obstacle for carrier website quoting. Specific issues today are that management systems do not capture all carrier data, and company-specific questions are a pain point for comparative rating software.

- Lack of Full Data Available – For new prospects it is inconvenient or impractical to ask them for all the information needed to rate all of the possible carriers. When remarketing an existing agency customer the data on the management system may not be complete enough to rate alternative carriers. Data requirements vary among carriers, and there is a significant gap between the superset of data needed by carriers and what is covered by ACORD standards and is saved in agency management systems. Accessing outside data remains an issue (see MVR/CLE above)
- Maintenance of Business Logic – Today business logic (rules, edits, etc.) may be located in multiple places in addition to the core carrier systems. Change control is a major issue - insuring that the edits stay synchronized, there is no down time after changes are made to carrier systems, and no major manual efforts or maintenance costs. Is there an ideal solution that involves just one place to store business logic with real time updates?
- Submission Process – There needs to be a seamless follow-on process to the ideal quote flow that enables a real time, uniform process to submit the application. Today some carriers provide web based quoting without web based submissions, and those that do have different approaches.
- Compare More Than Rates – Part of the added value of independent agents is that they provide guidance on policy provisions, coverages, services, etc. The ideal comparative rating process needs to involve the carriers returning not just a rate but a “benefits page” outlining their differentiating factors beyond price.
- Managing Prospects – Are prospects first captured in the agency management system, or are they first entered into the comparative rater and then passed to the management system if the policy is sold? With E&O exposure and other recent industry issues, a new best practice is emerging to use the management system to track all activity for prospects as well as policyholders. Vendors will need to address this in the management systems. Is a prospect download a possibility?
- Speed – Speed is an issue, but mostly for those carriers now using scripting. Is there some guideline we need to establish, like a maximum carrier response time of 30 seconds?
- What If – We need to be able to quickly easily quote variations in coverages, limits, deductibles and other options.

## Key Principles of the Ideal Workflow

- Functionality - The focus should be on processes, data, and functionality, but not on where performed (management system vs rating system)
- Prospect Data – Agents must have the option to store prospect data in the management systems.

- Complete Data – Accurate quotes require complete data up front
- Outside Data – Using outside data as a source is preferred to asking customers

## The Compelling Case for a Change in Third Party Report Ordering

Motor Vehicle Reports (MVRs) are the most costly third party report. Carriers cannot afford to order an MVR for every quote requested by agents, so many carriers force MVR ordering late in the process, often at the time the agent submits the risk for issuance. However, if the MVR reveals incidents that were not included in the original data provided by the agent, the quote is likely to change. The agent then must try to sell the increase to the client or re-quote the risk for multiple carriers. Often the agent will lose the prospect who is frustrated with the inefficient process and wasted time. If MVRs were incorporated into each carrier's original quote, there would be no surprises and the agent would be more likely to land the account.

If a) the agent orders an MVR at the start of the quoting process, and b) the MVR data is fed to all carriers being quoted, and c) only the issuing carrier pays the MVR cost, then carriers would significantly reduce their MVR costs. Today many carriers order two or three MVRs for every insured driver. That can be reduced to just one with the proposed workflow. The money saved can be used for agent reimbursement programs.

Third party report vendors make only a small markup on top of the fees they incur in ordering the MVRs from the states. They could adapt their business model to be left whole without impacting the overall advantages to agents and carriers.

## Proposed Rating Workflow Incorporating Third Party Reports

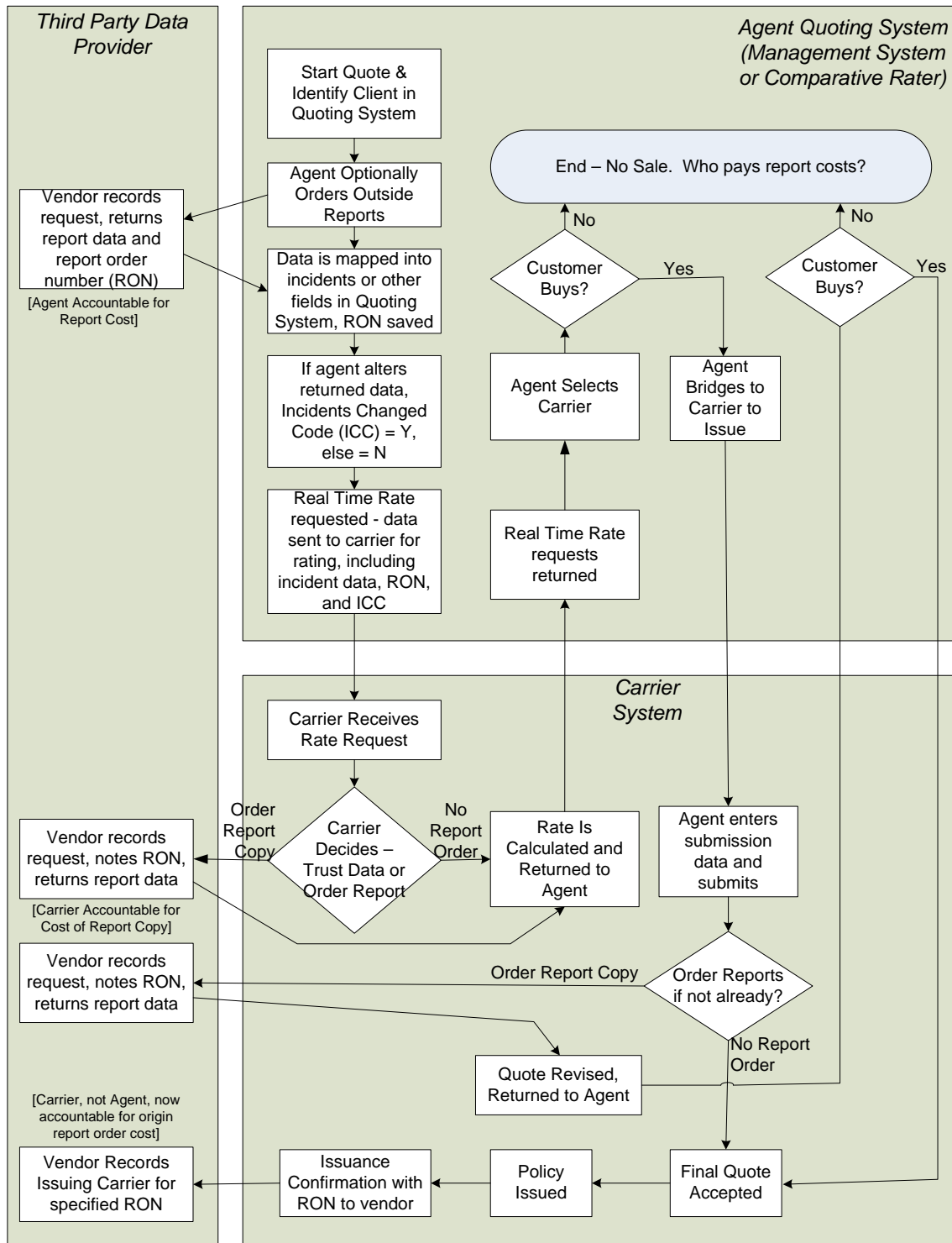
Our work group has proposed the workflow on the following page to address third party reports as part of the quoting process. One of the major differences from today's workflow is the use of agent-ordered, rather than carrier-ordered, third party reports.

In the workflow diagram note the three boxes representing the three major entities involved - the agent, the carrier, and the third party report vendor. The core of the process starts when the agent optionally orders the third party reports within the real time rating software. Report data is then sent to the selected carriers for incorporation into each carrier's returned quote.

It is beyond the scope of this report to explain every step in the proposed process, which has been the subject of many spirited discussions at ACT/AUGIE meetings since its first introduction in 2007. Please contact Roger Bevan at [rbevan@onebeacon.com](mailto:rbevan@onebeacon.com) if you have any questions about it.

As an exhibit we have adapted the workflow to an MGA environment.

# Proposed Process for Agent-Ordered Reports



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## Benefits to Involved Parties

- Agent Benefits
  - Accurate Quotes First Time, No Unexpected Premium Changes
  - Close more Quotes
- Carrier Benefits
  - Happier Agents
  - More Business
  - Reduced Costs
- Rating Solution Provider Benefits
  - Differentiation through Early Adoption
  - More Agency Sales
  - Greater Carrier Participation
- Third Party Report Provider Benefits
  - Leaders will Help Define New Paradigm
  - Revenue Opportunities for Association with Rating Vendors
  - Will Lead to Other Report Ordering Opportunities

## Comments and Issues with the Proposed Workflow

This workflow requires an industry-wide paradigm shift in our approach to third party reports. Moving to agent-ordered reports will require significant technology investments on the part of rating vendors and carriers. However, the paradigm shift will mostly be on the part of agents and third party report vendors.

The third party report vendors may be forced to restructure their business model in terms of who orders reports, how they are ordered, how they are tracked, who gets billed for how much, and how legal responsibility for the reports is handled. It will require leadership and risk taking by a vendor who realizes that being first to the party may reap great benefits.

Agents will need to understand and bear some cost and legal accountability that was previously born by the carriers. Ideally the carriers will find ways to re-shoulder those liabilities.

Because ACT and AUGIE cannot participate in discussions about business models and costs, and because ACT and AUGIE cannot provide formal legal opinions, cost and legal issues will be addressed directly by the parties involved as the workflow gets implemented and evolves.

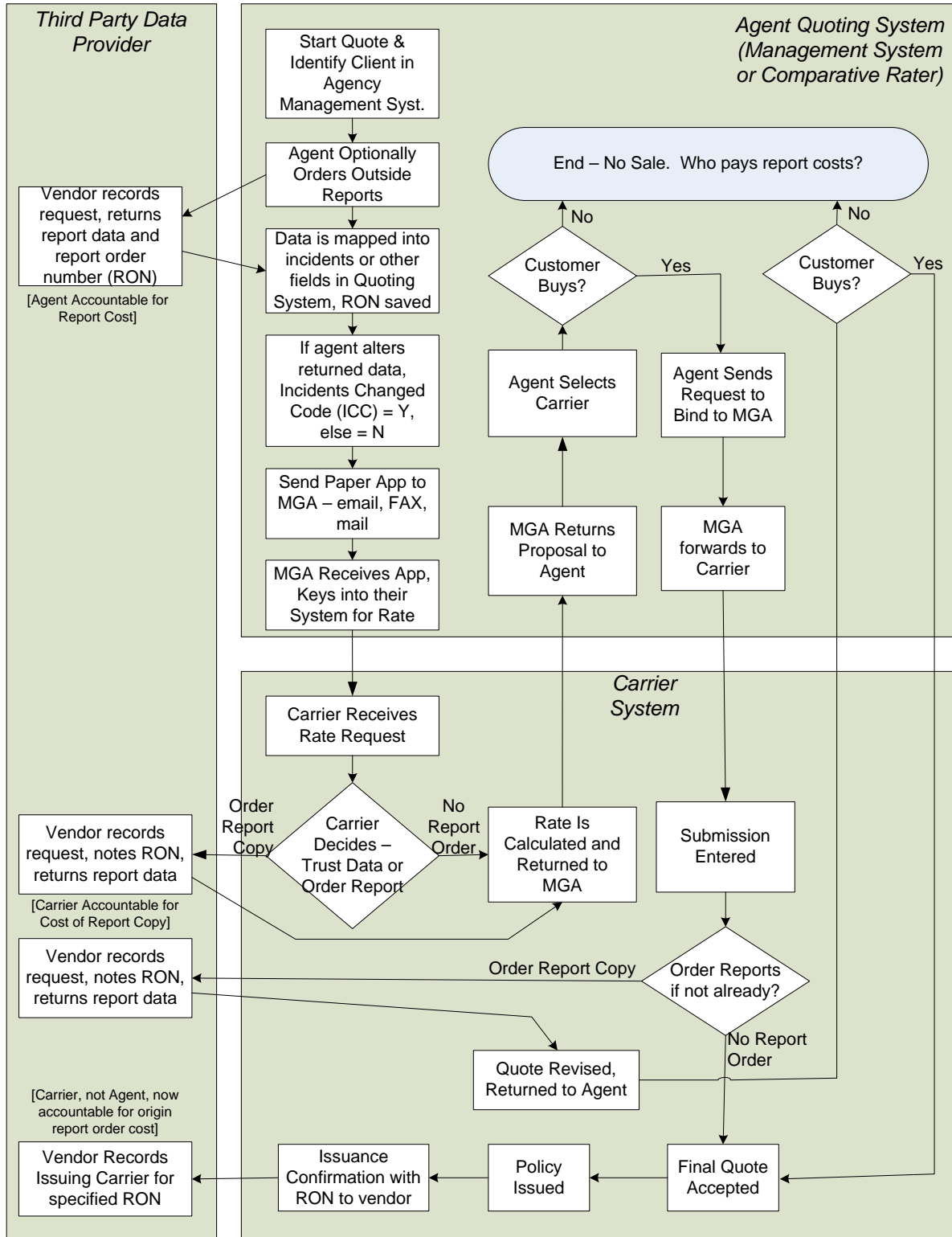
Jeff Yates of ACT has taken the initiative to solicit legal opinions from a few carrier attorneys. Refer to Exhibit B.

## Moving Forward

This work group and ACT/AUGIE in general cannot force change. The charge will fall to those agents, carriers and vendors who choose to lead. One rating vendor and one third party reporting vendor have already aligned to deliver an early solution. The first step has been taken. What can everyone do to move this forward?

- Agents
  - Be Early Adopters
  - Encourage Vendor and Carrier Participation
  - Evaluate Risk – Reward
- Carriers
  - Understand the Potential Benefits, Sell Internally
  - Work with Vendors to Drive Solutions
  - Adapt Systems and Practices - Report Ordering, Rating Web Services
  - Develop Reimbursement Process for Agent Report Fees
  - Learn to Trust the Data
  - Mitigate the Real and Perceived Risks for Agent-Ordered Reports
- Rating Solution Providers
  - Lead - Work with third party report providers, agents, and carriers to build solution
- Third Party Report Providers
  - Take Initiative to Work with Rating Solution Providers
  - Develop New Business Model for Agent-Ordered Reports
  - Mitigate the Real and Perceived Risks for Agent-Ordered Reports

## Exhibit A Proposed Process for Agent-Ordered Reports using an MGA



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**Exhibit B**  
**Marketing Accounts for Competitive Rates**  
**Report on Discussion of the Legal Issues**

This report has been prepared solely for informational purposes and is not intended to provide legal advice. It is up to each individual business entity to make its own independent determinations as to what action, if any, to take regarding the workflows recommended in this report. If specific legal or other expert advice is required or desired, the services of an appropriate, competent professional, such as an attorney, should be sought.

Jeff Yates has talked one on one with attorneys for ChoicePoint, OneBeacon, Progressive, Travelers, and Westfield about any legal obstacles they see with the workflow recommended by the Marketing Accounts for Competitive Rates Work Group. In that workflow, the agent secures the MVR and loss history report at the quoting stage and shares the information and potentially the reports themselves through a comparative rating tool with multiple carriers. Please note that this memo is not a formal legal opinion, and the attorneys Jeff Yates spoke with provided their advice without conducting independent research on these issues.

In the recommended workflow, the agent could order the MVR and/or loss history report in his or her name as a part of the quoting process. The information from these reports would be automatically entered into the rate request by the comparative rating tool, and the tool would note any agent overrides of the report information for the carriers receiving the rate request. Carriers could then decide whether to obtain one or both of the actual reports at either the quoting or issue stage of the transaction.

None of the lawyers from the carriers referenced above felt that the federal fair credit reporting laws or state motor vehicle laws would prohibit the sharing of either the information from the reports or even the reports themselves in the manner contemplated above. Whether the carrier or the agent procures the reports would not change the fact that they are being procured for a "permissible purpose" in conjunction with a single transaction for the underwriting of insurance for a single consumer. Further, the agent would be securing the information and providing the information and reports to each carrier as the agent of that carrier pursuant to a process approved by that carrier. (Our discussion did not extend to situations where the producer was acting in the capacity of an insurance broker rather than as an agent.)

Important issues to keep in mind are:

- The providers of the loss history reports being willing to change their current contracts to permit agents to secure loss history reports in their own name and to permit agents to share both the loss history reports and MVRs with multiple carriers in conjunction with a comparative quoting transaction for a particular consumer.
- The willingness of carriers to change their current processes and accept these reports from their agents in conjunction with the quoting request.
- The willingness of agents to assume the added responsibility as the procurer of these reports. This added responsibility (typically included by the third party report providers in their contracts) is that the agents would be responsible if they do not handle the data consistently with the vendor and carrier requirements and that failure results in a breach

of the privacy of this data by any subsequent party in the chain who handles the data, including the rating vendor and any of the carriers which receive it. The agents would be prudent to secure an agreement by the vendors and carrier to receive the information that they will comply with all applicable laws and regulations regarding the handling of the data, and the agent also may want to obtain a written hold harmless agreement from the vendor and the carriers relating to their handling of this private information.

Agents would continue to have the obligation to disclose to consumers that this information is being secured as part of the quoting process (“Notice of Information Practices”), and it would be important for the vendors to prompt the agents to give this disclosure and that the proper wording be used in it, including that the information may be shared with multiple carriers from which a quote is requested. Agents are already providing these disclosures when required by contract and/or law in conjunction with the securing of credit and other consumer reports. Agents would continue to be responsible for assuring that their employees obtain such reports only in conjunction with a "permissible purpose" and that they adhere to the required privacy safeguards for this information spelled out by contract and law.

The legal counsel for the carriers referenced above said that they take the responsibility to give the “adverse action” notices to consumers that are based on “adverse” underwriting or rate decisions they make when using third party reports. They typically give these notices at the issue stage when there is an application. These lawyers did not feel the responsibility to give these notices would shift to the agent as a result of the agents procuring the MVR or loss history reports, provided the agent does not use the reports to make an independent adverse underwriting decision relating to the consumer.

The lawyers cautioned that it is important for the individual business entities to take the recommended workflow and to make their own independent determinations as to the business arrangements, contracts, and pricing that are appropriate for them. The antitrust laws prohibit the work group's discussing or addressing these subjects as a group. It is also important for the individual organizations to make their own independent determinations of the legal issues associated with any business decisions they make and the work flows that follow from those decisions.