

# **Insurance Agents – Update**

## Training and Responsiveness to Policyholders

### **Executive Summary**

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Citizens recognizes that its agents are the face and voice of our company. Therefore, it is essential they be knowledgeable and committed to providing superior customer service. Citizens agents are required by law to hold a Resident or Non-Resident Agent License, to be appointed with at least one authorized insurer that is writing in Florida, and to have in-force policies with the appointed company at the time they request an appointment with Citizens. Including Customer Service Representatives (CSRs) and other office personnel, along with our current agent workforce of approximately 8,500 appointed agents, we estimate that there are easily over 20,000 individuals in over 6,000 locations in Florida representing Citizens to our policyholders.

To ensure that our agents and their staff are equipped to serve the public and our policyholders, the Agent Administration Department is committed to providing education and training in the areas of rules, processes, systems, rates and legislative changes. Three of the top initiatives for the remainder of 2007 include implementation of:

- The Agent Certification Program
- Online and Field Training
- Increased Agent Reviews

### **Agent Certification Program**

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A training program to certify agents was recommended to Citizens in 2005 by the Task Force on Policyholder Services and Relations for Citizens Property Insurance Corporation\*. The primary purpose of this program is to ensure that our agents are committed to understanding Citizens' rules and underwriting requirements so they can better serve our customers. The Agent Certification Program for new agents is slated to begin in the third quarter of 2007. This Program will include four modules: 1) Compliance and General Eligibility Rules; 2) Personal Residential (PLA and HRA) Rules and Processes; 3) Commercial Residential (CLA and HRA) Rules and Processes ; and 4) Commercial Non-Residential (CNR) Rules and Processes.

The first module is mandatory for every agent to become appointed or reappointed with Citizens and is designed to ensure that each of our agents demonstrate an adequate level of competence. The other modules are required to be successfully completed as a condition of obtaining/maintaining the authority to issue particular types of policies offered by Citizens. Each module concludes with a final exam which must be passed. Agents are eligible to earn continuing education credits for each module they successfully complete.

The Agent Certification Program will be provided online for all agents applying for an appointment and for existing agents upon their annual appointment renewal. Notice of this certification requirement will be provided to current agents 60 days prior to appointment renewal and will be required every other year after the initial year. New agents must successfully complete the mandatory module as a condition of appointment; the appointment of existing agents will be suspended pending successful completion.

\*The Task Force was comprised of representatives from the Florida Department of Financial Services, the Office of Insurance, Regulation, the Florida Association of Insurance Agents, the Florida Bankers Association, the Florida Association of Realtors, the Florida Association of Insurance and Financial Advisors, the Professional Insurance Agents of Florida, the Latin American Association of Insurance Agencies, the Consumer Advocate, Citizens Property Insurance Corporation, insurance agents and policyholders.

## **Online and Field Training**

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Citizens offers our agent force various online training modules designed to educate and prepare our agents to provide excellent policyholder service. Online training modules currently available to agents teach them how to use our electronic policy administration system (ePAS), how to write a Commercial residential policy, the correct application of wind mitigation credits, and how to use our electronic document retention system (eDocs.) Additional online training modules are now being developed to address systems, eligibility, and underwriting rules training. Citizens also offers online Underwriting and Compliance Frequently Asked Questions, as well as several Quick Reference Guides and Checklists to aid agents with eligibility questions and application submissions.

Beginning in July of 2007, Citizens plans to provide classroom-based training for our agents in larger cities for up to 250 attendees per session which will cover Agent Certification, legislative updates, wind mitigation, and other important Citizens' changes. The training will qualify for CE credits and will be open to agents and their CSRs. We will continue to partner with insurance agent associations to identify training needs and share resources to provide classroom training. We will also provide one-on-one training and onsite reviews with agencies that may need additional assistance.

## **Agent Review**

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Agent review activity has increased significantly during the past year as this unit has grown and its focus has intensified. Generally, an agent review is initiated based on one of the following triggers:

- Newly appointed agents (6 months after receiving appointment)
- Complaints received directly from customers, agents, and DFS
- Binding violation and missing information notices received from Underwriting
- Claims data
- Various reports regarding application withdrawal, policy cancellations, etc.
- Referrals from internal departments
- Homestead verification

If an agent review reveals minor problems at an agency, we may ask the agency principal to perform a self audit of the policies the Agent Review unit has already examined to permit the principal to see first hand what we identified. If the agency reviewed has systemic issues or if the problem is more severe in nature, the Agent Review team may recommend suspension or termination of an agent appointment. Our goal is to make certain that our agents provide quality customer service, follow established underwriting rules and procedures and provide the right coverage for the right price with the initial submission. The table below shows agent review activity for the past year and a half.

<b>Year</b>	<b>Agent Reviews</b>	<b>Self-Audits</b>	<b>Homestead Audits</b>	<b>New Agent Reviews</b>	<b>Suspensions</b>	<b>Terminations</b>
2006	71	1	0	0	54	12
2007**	86	107	721	109	33	4

\*\*as of 5/31/2007

## **Conclusion**

The reputation that Citizens enjoys with its policyholders is won or lost by how well our agents perform. Therefore, it's critical that our agency force be well trained, knowledgeable and committed to providing superior policyholder service to all Citizens policyholders. The programs described above are designed to meet this need by providing our agents with proper education, training, and guidance. Regulation, oversight, and if justified, appropriate discipline, are also components of these efforts.

# Insurance Agents - Update

## Commissions

### Executive Summary

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As a state created alternative market with the largest number of residential policies in Florida, it is incumbent upon Citizens to constantly look for ways to lower expenses. The savings generated by lower expenses goes directly into surplus to pay claims, reduces the need for future assessments and moderates the need for future rate increases.

Citizens' operating expenses for items such as policy processing, salaries, and the like are lower than the largest insurers in Florida. The integration of the PCJUA program into the Citizens commercial nonresidential program caused Citizens to review another component of expenses -- commission paid to agents. The PCJUA paid a 7% stated commission for its commercial nonresidential wind only program while Citizens' stated commission for the same product is 12%.

Citizens initiated a review of its commission levels and compared them to those paid by several personal and commercial lines writers in Florida. That review determined that for personal lines business, Citizens pays a commission level that is generally lower than the voluntary market, but for commercial business, the commission rate is generally higher. During this review, Citizens also reexamined the logic of paying higher commission rates for personal residential wind only policies than for personal residential multi peril policies.

Consistent with its role as a government entity and in view of its public purpose, Citizens should pay commission rates that are lower than the voluntary market. Maintaining higher commission rates may provide an incentive for agents to place business with Citizens even if another market exists.

Therefore, Citizens proposes the adoption of a commission restructuring program to achieve the following goals:

- Reduce commission expense consistent with Citizens' public role
- Increase surplus to pay claims
- Moderate future rate needs
- Establish similar commission levels for similar lines of business
- Ensure that Citizens' commission rates are not higher than the private market
- Encourage the writing of multi peril policies in wind only areas
- Ensure fair compensation for agents for work performed

The recommendations below are presented for both commercial and personal lines and show current effective commission rates and recommended changes.

## **Commercial**

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Citizens' current commercial effective commission rates are shown in Table 1 below.

**Table 1**  
**Existing Average Effective Commercial Commission Rates:**

<b>Account</b>	<b>Agent Commission</b>
Commercial Residential Multiperil	11.3%
Commercial Residential Wind-Only	11.5%
Commercial Nonresidential Multiperil*	6.25%
Commercial Nonresidential Wind-Only	11.5%

*\*Assumed PCJUA and interim wind program commission level.*

A survey of admitted carriers known to be actively writing commercial policies in Florida reported an average effective commission rate of 7% to 10%. Two surplus carriers surveyed reported an average commission of 10%. The recommendation, found in Table 2 below, meets the above outlined goals.

**Table 2**  
**Proposed Average Effective Commercial Commission Rates:**

<b>Account</b>	<b>Agent Commission</b>
Commercial Residential Multiperil	7.0%
Commercial Residential Wind-Only	6.0%
Commercial Nonresidential Multiperil*	7.0%
Commercial Nonresidential Wind-Only	6.0%

*\*New commercial nonresidential multiperil program*

## **Personal Residential**

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**Personal Residential Multiperil:** The statewide average effective commission paid to agents is currently 7.45%. The review conducted found that the current commission level for these lines of business does not require adjustment to meet the goals outlined.

**Personal Residential Wind-only:** The current average effective commission rate paid to agents within this category of business is 8.2%. In order to encourage the writing of multiperil policies in wind only areas, the recommendation is to reduce the commission level to an effective rate of 5% as of January 1, 2008.

Table 3 below lists the existing average effective commission rates for personal residential multiperil (PR-M) and personal residential wind-only (PR-W) policies.

**Table 3**  
**Existing Average Effective Personal Residential Commission Rates:**

<b>Account</b>	<b>Agent Commission</b>
Personal Residential Multiperil	7.45%*
Personal Residential Wind Only	8.2%

Effective January 1, 2008, the average effective commission paid to agents for personal residential policies will be changed as outlined in Table 4 below:

**Table 4**

**Proposed Average Effective Personal Residential Commission Rates:**

<b>Account</b>	<b>Agent Commission</b>
Personal Residential Multiperil	7.45%* (no change)
Personal Residential Wind Only	5.0%

*\*Based upon the actual commission dollars paid compared to written premium*

**Conclusion**

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To establish commission rates that:

- Reduce commission expense consistent with Citizens' public role;
- Increase surplus to pay claims;
- Moderate future rate needs;
- Establish similar commission levels for similar lines of business;
- Ensure that Citizens' commission rates are not higher than the private market;
- Encourage the writing of multi peril policies in wind only areas; and
- Ensure fair compensation for agents for work performed.

Citizens' Board of Governors has directed staff to workshop this agent commission proposal with appropriate groups and associations and bring a recommendation to the board at its next meeting.