ASIA E UNIVERSITY

AGENCY MANAGEMENT SYSTEM
IN A MALAYSIAN LIFE INSURANCE COMPANY

BY

PHUAH ENG YING

MASTER OF BUSINESS ADMINISTRATION
SCHOOL OF MANAGEMENT

2016

AGENCY MANAGEMENT SYSTEM
IN A MALAYSIAN LIFE INSURANCE COMPANY

BY

PHUAH ENG YING
M60109140007

A project paper submitted to Asia e University in fulfillment of the requirements for the Master of Business Administration

A⬤U
asiaeuniversity

2016

ABSTRACT

The life insurance industry is a stable, challenging, growth and fairly recession-proof industry; everyone needs insurance regardless of the health of the country's economy. The evolution of the socio-economic landscape in Malaysia over the years has been instrumental in shaping the scope of business of insurance operators. Instead of just providing traditional financial protection products, they now also provide a broad range of financial planning options such as wealth creation. To stay competitive in the market, companies are aggressively developing and launching sophisticated and systematic information technology strategies, support - awareness campaigns and establishing close rapport with their local communities.

The industry is not without challenges. The sales and distribution management is finding it very challenging to prioritize and drive the desired sales behaviours using existing processes and platforms. Meanwhile, managing and recruiting the sales force is one of the biggest challenges agency managers face due to generational shift and the trend towards e-commerce and development of more alternative distribution channels.

This project paper focuses on an agency management which is proven effective in a Malaysian Life Insurance Company. In embracing the basic values of the company - Integrity, Customer centricity, Teamwork, Excellence and Sustainable value creation, XYZ Insurance Malaysia Berhad is committed to providing the Malaysian market with agents who are professional, passionate, well-equipped with technical skills that can support and fulfil Malaysian needs for appropriate and effective products and follow-up client services.

The level of professionalism of agency manager and sales advisors can be enhanced and improve through a comprehensive agency management system. The system adopted by XYZ Insurance Malaysia Berhad is based on the Chartered Insurance Agency Manager (CIAM), an international educational achievement for managers in the life insurance and financial services industry. The agency management system is expected to spur the recruitment of new talents and train them to achieve the Malaysian government's objective of reducing the protection gap in Malaysia in line with efforts to increase the penetration rate to seventy five (75) per cent by year 2020 (2014: 55.5%).

This study has established that this system helps to develop mega agencies who use it to the advantage compared with agencies that refuse to adapt to the change.

ACKNOWLEDGEMENT

First of all, I would like to convey my sincere gratitude and thanks to my beloved supervisor, Dr Oo Yu Hock for his guidance and assistance. His comment, valuable experiences, advice and patience have greatly assisted me in completing my study. Also, I would like to express my gratitude to all my lecturers who have directly and indirectly influenced my learning experiences for their gratitude and guidance.

Secondly, I would also like to thank Zurich Insurance Malaysia and Great Eastern Life Malaysia for giving me such a great opportunity to conduct my study. With the permission and resources granted by the company, I managed to carry out my study successfully. In addition, I would also like to thank those individuals who participated in my interviews and shared their valuable information.

Last but not least, I am forever indebted to my beloved family, spouse and parents for their support and understanding, including others who indirectly contributed to this study. **Thousand thanks from the bottom of my heart to all of you.**

DECLARATION

I hereby declare that the project paper entitled **Agency Management System in a Malaysian Life Insurance Company** is submitted in fulfilment of my Master Degree in Business Administration (MBA). This is my own work and that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

Name: Phuah Eng Ying

_____

Signature of Candidate   Date: 1st July 2016

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVATIONS

CIAM – Chartered Insurance Agency Manager

IMF – International Monetary Fund

KPI – Key Performance Index

DOME – Diagnosis, Objective, Methods, Evaluation

LIMRA – Life Insurance Marketing & Research Association

PESOS – Prepare, Explain, Show, Observe, Supervise

FYP – First Year Premium

APE – Annual Premium Equivalent

GAPE – Group Annual Premium Equivalent

PR – Persistency Ratio

GPR – Group Persistency Ratio

NR – New Recruit

GNR – Group New Recruit

CHAPTER 1

INTRODUCTION

1.0 Background of the study

The Asian financial crisis of 1997-1998 resulting in the bailout of several Asian economies by the International Monetary Fund (IMF) and the world financial crisis in 2008 which resulted in the collapse of financial markets created both stress and benefits for the Malaysian insurance industry. Some of the lessons Malaysia learnt from these crisis are that they have bought to the forefront financial market liberalization and the awareness of the importance of establishing a comprehensive and robust risk management framework[1]. Currently, most of the companies in the financial services industry and their agency managers are facing major challenges as listed below:

- Deregulation of the financial services market
- Measurement of productivity are gear towards key performance index (KPI) driven
- Stringent entry requirement for new market player
- Diverse product & service aggregation.

Government intervention is causing the industry a great deal of concern. Consumerists are attacking the industry because of what they perceive to be ineffectiveness. Inflation, though temporarily increasing the volume of business being sold, is at the same time causing economic problems for the agents, the agency and the companies.

As Malaysia moves into the next stage of economic development by transforming from a mainly production-based economy to a more innovation-driven and

knowledge-based economy, the financial services sector will play a prominent role in this evolution. However, it's reasonably safe to presume, that life insurance companies will be able to continue to their prosperous ways because of their capacity to adapt to the situation and successful sales people will continue to prosper as individual producing agents.

1.1 Objective

This paper is to study on the management system developed by the insurance company that allows agency managers to manage and monitor the agency to ensure smooth running in operation and growth in productivity. It is a journey that will bring the agency managers through all the different skills processes to be an effective agency manager.

1.2 Significance of the Study

An effective management system can help facilitate the better understanding and services to their customers which eventually develop profitable lifetime relationship based on mutual value creation. An effective management system can lead an agency to a professional and international standard.

1.3 Limitation of the Study

This study only covers life insurance industry within the framework of financial services industry.

1.4 Scope of the Study

This study is limited to determining an effective management system which can identify and resulting the main problem in the agency. It also explores how an effective management system can help to elevate pressures of new business environment and examine the application, impact and future use of information in the agency. These aspects are limited to the case study of XYZ Insurance Malaysia Berhad.

1.5 Research Question

The main research question in this study is "How does a comprehensive agency management system help to increase the performance of the agency managers?"

1.6 Research Methodology

The theory is about the effectiveness and efficiency of agency management system. The method used to secure information about the research subject is through data extracted from XYZ Insurance Malaysia Berhad's core IT system. Hypothesis developed are filtered and accepted / rejected using statistical analysis.

1.7 Organization of Remaining Study

Chapter 2 provides review of relevant literature

Chapter 3 explains the research methodology

Chapter 4 provides the findings and analysis

Chapter 5 is about the recommendations and conclusion.

CHAPTER 2

REVIEW OF LITERATURE

2.0 Company and Agency Culture

Bring together a group of people and, after a while, something interesting will happen. A culture will form. Continue adding people, one at a time to the group and something else will happen. The culture will change. No two companies' cultures are the same. We may categorize into two types – strong company culture and weak company culture. A strong culture company is positive, growing and innovative. A weak culture company is negative, directionless and stagnant.

In fact, industrial research shows a direct link between a strong corporate culture and high performance. The interest in agency culture derives largely from its presumed impact on the agency's high performance and efficiency. Moreover, it's been proven that "strong culture" organizations perform better than "weak culture" organizations. A well-conceived and well-managed agency culture closely linked to an effective business strategy can mean the difference between success and failure in the current demanding environment[2].

In XYZ Insurance Malaysia Berhad, the company values have stood it in good stead for more than 140 years and provide a sound foundation for the future. They are integrity, customer centricity, sustainable value creation, excellence and teamwork. These are the critical component of their success. These values shape XYZ Insurance Malaysia Berhad's culture and define who they are, helping to set them apart in an increasingly competitive industry. They help company to maintain the trust of their customers, their people, their shareholders and the communities in which they live and work. By embracing and implicating these values into each agency will therefore result a strong culture within the agency.

4

2.1 Agency Manager's Job and Responsibilities

Managing an agency is not very different from running any other type of business whose performance is based on sales activities. It is imperative that agency at one level is structured for success on an operational level processes, systems and procedures are well defined and systematically implemented.

On another level, from a structural perspective, the agency should be structured for success. It should have a sufficient number of qualified and productive agents to ensure the agency can withstand attrition of agents without a significant drop in production / sales. Thus, recruiting must be consistently undertaken, attrition should be managed, performance must be continuously monitored, coaching undertaken when required and training conducted on a need basis to ensure the agents are competent.

An agency manager may not be able to fully manage an agent's sales result but the manager can manage the agent's activities. The activities of agents must be constantly developing a successful agency requires discipline and dedication. The manager must be clear to what he/she wants to achieve and when he/she wants to achieve it and pursue those goals on a structured and planned basis.

Agency management, thus, demand a different temperament and a wider range of skills. Agency manager's major functions are: Planning, Recruiting, Selection, Training, Performance Management and Motivation.

1. Planning

A manager's tasks begin with planning and general management which identify profitable and non-profitable activities. The manager determines production and manpower objectives. He/she develops action plan to achieve the objectives. The

manager also should be able to project revenue based on future sales and renewal from existing policies and develop new manpower.

2. Recruiting

Attrition is a certainty, as such; recruitment must be a continuous process. The manager's most vital function is to look out for prospective agents who can strengthen his/her sales team and together strive to build a successful selling career for the agents. A manager's recruiting activities should never stop. He /she must keep on getting new agents to replace those who are likely to fail in the sales job. As the saying goes, "recruit or rust".

3. Selection

Selection is a process of eliminating candidates who are least likely to succeed as agents. By doing such, only candidates with potential will be admitted into the agency. Proper selection system or process should be developed for long term success.

4. Training

Training is the transfer of knowledge and skills both in the classroom and in the field through joint field work. Training requires skills. A skillful trainer knows the methods of transferring technical knowledge and selling skills, and inculcating good working habits.

An agency manager must be able to select the best training techniques so that the trainee agents derive maximum learning from the training. As a skillful trainer, a manager should not only impact knowledge to his/her trainees, he/she should also use methods like role plays to make learning realistic and effective. Joint filed work with trainee agents is necessary to demonstrate practical skills.

5. Performance Management

Supervision and coaching part of the performance management process. Supervision is the process of providing direction and critical evaluation for the agent. When an agent is not performing as per expected, a manager must be able to identify and study the causes of the agent's poor performance. The manager then recommends specific correction actions. During the monitoring process, the manager has to use recruiting tools to measure the progress of agents.

Coaching is the giving of advice or instruction in order to direct the performance or action of others. Specifically, coaching is aimed at improving performance or developing the abilities of agents.

6. Motivation

Motivation involves inspiring people to perform above their perceived capabilities. People are motivated according to the level of satisfaction of their needs. A manager must provide the appropriate motivation at the appropriate time to ensure optimum performance.

2.2 Planning

The management guru, Peter Drucker reminds us that time is our most critical resource and until it is managed effectively, nothing can be undertaken efficiently. Planning is one of the critical things an agency must do to achieve success. The old cliché also reminds us, "If you don't know where you are going, you'll never get there." Planning is composed of two parts: (1) setting specific goals and (2) establishing specific actions to reach those goals.

There are a few tools developed for the planning purpose. There are:

1. The Agency Planner – *Refer to Appendix 1*

7

2. Money Needs – *Refer to Appendix 2*

(Tools are shown in appendix, Source: Company's Record)

2.2.1 The Agency Planner

The Agency Planner is designed to help the agency managers do this in an easy, simplified way. It not only helps the agency managers manage by establish their action plans and schedule periodic checks on their progress toward reaching their goals. The Agency Planner uses a simple seven-step process.

Table 1: Agency Planner Seven-Step Process

• **Step 1** Helps agency determine where they are now.	In the Step 1 Worksheet, space is provided to list a number of different product lines as well as number of agents who qualify for various awards.
• **Step 2** Helps agency set agent's individual production goals and provides a monitoring system to help the agency manager monitor the agent's progress towards production goals.	In the Step 2 Worksheet, it is to determine agent's individual production objectives for the coming years, based on previous years' results. The worksheet is for recording the results for three (3) years and the average for those three (3) years. By looking at the numbers critically, noting average increases and trends, the agent should be able to establish individual goals for the next year.
• **Step 3** Presents a 20-minute exercise that will help the agency manager determine their manpower need based on how many producers they will need to reach their production objectives	Production depends on recruitment and recruitment depends on retention. Establishing manpower objectives is to determine an agency's agent termination rate. Determining a termination rate is difficult unless careful records have been kept over a long period. In the Step 3 Worksheet, manager needs to think about the status of each agent in the agency. As best as the manager can, decide whether each of these people will terminate before December 31 of the current year. The objectives determined are based on past results and best estimates of what is possible. Agency manager can significantly surpass these objectives by following through on their plans with specific actions to improve performance. These actions involve the way manager supervise their agent and discipline themselves.

• **Step 4** Provides space to plan and record the agency manager recruiting activity.	Step 4 Worksheet is a form to plan and record recruiting activity beyond the agency's initial selection questionnaire. The form helps to ensure that manager make use a full selection process and that manager is constantly aware of the progress of their selection efforts.
• **Step 5** Helps agency manager establish specific development plan for their agents. It helps manager determine what their agent's development needs are, how those needs will be met, what the results will be, how results will be measured and the time frame involved.	Step 5 worksheet helps manager establish, follow through and allow easy reference on specific development plan for agents. It also allows the manager to monitor on the development plan being accomplish, what the development will be, a quantitative measurement and a specific timeframe within which the development is to take place
• **Step 6** Provides space to analyze agency manager activities and measure the efficiency.	By recording where the manager spend their time, manager can readily see whether they are accomplishing what they want accomplished in terms of activity within a specific function; whether manager are spending time as productively as they should, and whether they are ignoring important functions that need their attention.
• **Step 7** provides space to summarize agency manager goals for next year.	Step 7 Worksheet to be completed when all objectives have been set. This form provides a quick reference to all goals. The final page of Step 7 provides an instant graphic display showing how the production objectives compare with actual results.

Source: Company's Record

2.2.2 Money Needs

To look ahead, we shall plan our work and work our plan. Agents can follow the six-step plan to organize their production for this year and to start looking ahead to next year and beyond.

Table 2: Money Needs Process

• **Step 1** Organize the money needs for the year	Determine money needs for next year using the budget form that appears in few pages. By determining how much income one must has during the year, one can calculate how much one must earn in first year life commission.
• **Step 2** Organize activities for the year	To earn the commission needed to meet the money needs, agent must has prospects, secure *appointments*, make presentations, ask prospects to buy, secure applications, deliver policies and collect first year premium from which the first year commissions will be derived. From Step 1, one knows how much must earn. In Step 2, it is translated the income into activities – the minimum requirement for gathering new qualified prospects, making personal calls and conducting interviews – in terms of annual, monthly and weekly quotas.
• **Step 3** Organize plans for self-improvement	To reach the objectives, agent must work effectively. Is someone works as effectively as compare to last year? To answer this question, rate the performance using the chart provided. Each of five major areas that determine the effectiveness as a producer is broken down into specific functions that directly affect the performance. The self-rating will help one to specify those areas in which one are not as effective as one would like to be and develop plans for improving the effectiveness.
• **Step 4** Organize prospecting plan	In a normal day, a continuous stream of prospect cards flows into and out of prospect file. At least once a month all cards should be removed from the file prior to planning prospecting and selling activities for the next thirty (30) days; enter these prospect's names on the appropriate page of the Monthly Prospecting Worksheet on the following pages
• **Step 5** Organize record keeping	The best way to stay on track with the sales and self-improvement activities is to keep good records. The Monthly Record of Activities charts are to use to track the progress towards the objectives. The real value of record keeping is that it provides valuable feedback on one's performance that will keep one focused on accomplishing the objectives. With proper record, agent will always know where they stand and should never fall so far behind in the objectives that they can't catch up.

• **Step 6** Organize long range plan	An important part of planning for the future is predicting what the future will be. Start by using the Future Prospects from to list the prospects and policy owners' one plan to see next year. Then use the Long Range Planning form to prepare a three-year plan. Make sure that objectives are based on past results and best estimates of what is possible. Agent can then meets or surpass these objectives by following through on their plans with specific actions to improve performance.

Source: Company's Record

Looking ahead to next year and beyond can help agent achieve their most ambitious goals, if they carry out the plans they have made.

The Review of Annual Plan will be done based on the DOME planning process. DOME stands for: **Diagnosis, Objective, Methods, Evaluation.** The DOME planning process can be effectively used to review where the manager stands now, in terms of achieving their plans for current year. The analysis can then be the basis of how the manager plans for next year, because that will be an accurate understanding of the manager's agency performance.

To diagnose, the manager needs to know what their objectives were for this year. Is the manager positioned to achieve them? Is it ahead? Or is it behind? What is the reason of being ahead or behind? The manager needs to express the feeling about the objectives for the current year; whether the objective is being set too high, too low and the reason why felt so. The method used to help the manager to accomplish the objectives need to be well defined. It needs to be tested to know whether it is worked or otherwise. And lastly, the manager needs to evaluate and check the progress.

2.2.3 Assumptions

One of the assumptions applies in the agency management system is the Pareto's Theorem. In this theory, it will assume the 50 percent rule, 10 percent rule and Pareto's 20/80 rule. The 50 percent rule assumes only 50 percent of an agent's production five years from now will come from agents now associated with the agency. The 10 percent rule assume at any time one agents produces more than 10 percent of an agency's business, consistently, year in and year out. Lastly, the Pareto's widely adaptable "80/20 Principle" states that 80 percent of manager's results come from 20 percent of the manager's time. 80 percent of the manager's valuable time is spent on things that produce only 20 percent of the results. Unless the manager plans and take charge of time, he/she may suffer from inefficiency and sever stress.

2.3 Recruitment

Recruitment is the process of looking for potential candidates suitable for a career in selling financial security products. The key to agency management is people. Without people all other skills that will be developed become only academic. Training, selection and motivation all presume the pressure the presence of people that can perform. Therefore, it's safe to say managers who cannot recruit, cannot succeed. The key value for agency manager is recruiting. If the agency manager can become more effective in recruiting larger numbers of highly qualified people and train those people to excel and prosper, there will be no alternative to marketing that can be more effective and efficient than the career agency system.

Recruiting unto itself, however, is not the total answer. The answer is that the recruits must be of adequate quality to be retained. At year-end there must be a net increase in manpower, regardless of attrition. Another fact is that desperate recruiting,

when people are hired just to fulfill quota and without any consideration for quality, leads to certain failure.

Selection can only work when adequate numbers of people are fed into the system. The agency manager must have the luxury of making decision based on an intelligent selection process. If enough people are fed into the pipeline and the sales systems, success will surely follow. The thrust, therefore, must be on quality recruiting and retention, not on number of people hired. The future of the agency system clearly, therefore, rests in the hands of the field manager who is recruiting and retaining high quality and productive agents.

In recruiting, it is pertinent that the agency manager develops a profile of the potential recruit. This is the blueprint of the quality of individuals who will join the agency, and subsequently influence the culture, practices, discipline and morale in the agency. In the long term the profile will determine the quality of the agency and whether the agency is able to fulfill its mission, vision and the aspirations of the leader in the long run.

The agent profile also sets the stage for effective recruiting, as the leader is able to focus his/her time and energy on recruiting the right individuals into the agency. In the development of an agent profile, the following factors have to be considered.

Table 3: Agent Profile

Age range	Managers may want to develop a young and energetic agency force, so the right candidate to be recruited is at the age group of 20-30 years old. Alternatively, manager may want to develop a mature and experienced agency force, so the right candidate to be recruited is at the age of 35-45 years old.
Educational qualification	Today with ample access to education, we are having a more qualified pool of individuals in the potential recruit market. The manager should note that the educational level of recruits does have a bearing on the type of market the manager can penetrate. Generally the higher the education level, the greater the agent's ability to penetrate the higher net-worth markets. The manager should keep in