The Canadian Experiment: a Precursor for U.S. Agencies?

BY JIM FISH

In an astonishing move that has shaken, rattled and roiled its agents in Canada, Allstate Insurance Company of Canada has announced a bold initiative that strips agents of their renewal books of business and closes 256 agent locations throughout Canada. The company's plan is to consolidate these locations and replace them with what it calls "Allstate Insurance Agency" offices.

The new offices will all have the same look and will be strategically located in areas of high visibility. According to sources familiar with the plan, the company intends to open 103 such locations. While the details of this initiative are sketchy, it appears that the company hopes to staff each of these offices with between three and five producers, most of whom will be recruited from its pool of displaced agents. On the P&C side, each producer will have a specialized role within the agency. Each agency will be staffed with one or more "Business Development Agents", a "Relationship Development Agent" and a "Customer Care Agent."

Business Development Agents will be responsible to develop centers of influence for new business generation, handle incoming quote calls and work leads and referrals. Relationship Development Agents will be charged with expanding existing relationships by working prior quotes and obtaining life and P&C referrals. And, finally, Customer Care Agents will work the agency's renewal book to strengthen and enhance customer relationships and look for cross selling or up selling opportunities.

When the company made its announcement in July, agents were stunned. The magnitude of the change, for some, was too much to digest in one day. Others simply could not believe what they heard. But, as the disturbing details began to sink in, they began to feel betrayed by the company and grew angry over the loss of their renewal commissions. Agent morale has hit "rock bottom," lamented one agent. "I have built my customer base for more than 20 years and now they're taking it all away from me," he added. But, while the company's move is highly unpopular amongst many, if not most agents, there are some who have taken a more pragmatic approach. "This is the hand we've been dealt. It's time for us to decide to stay or to go, because there is no in-between," said one such agent.

Under the new program, agents housed in the new Allstate Insurance Agency offices will become part of that agency's "team." While the bulk of agent compensation is expected to come from new business writings, agents will also have an opportunity to earn quarterly bonus dollars if their team reaches certain objectives. The bonus measurement will include factors like loss ratio, retention, profitability and new business production. As one agent put it, "You better pray that you don't have any slackers on your team because no matter how hard you work, you'll never make the bonus."

Policy renewals in Canada will most likely be divided by Postal Codes, the Canadian equivalent of U.S. Zip Codes, and then assigned to the nearest Allstate Insurance Agency office. Our understanding of these accounts is that they will not pay renewal compensation to individual producers, are not available for capture by individual producers, but are available for cross sale opportunities. The only reward for servicing these policies appears to be in the quarterly bonus calculation described in the preceding paragraph. It is believed that the company may disregard the relationships established by the original agent of record and assign the policies to the most convenient location for the customer. "It's probably for the best since we won't have an ownership interest in the account anymore," said one agent.

If there is a silver lining, it is the company's offer to provide a base salary for two years beginning September 1, 2007. The salary is based on each agent's 2006 average earnings. As we understand it, agents can earn more than the base salary once their monthly new business production exceeds the guarantee. According to one agent, however, there is a caveat; "In order to qualify for the salary, you have to produce 70% of the unit average." That means that if the unit's average P&C premium is $50,000 per month per agent, an agent would have to produce $35,000 in P&C premiums each month in order to receive the guaranteed salary. As of this writing, we do not know if the salary would be prorated if the 70% requirement is not met. Once the two year time period expires, the guarantee disappears and the agent will only be compensated for new business production plus any shared bonuses the office team achieves.

The agent population in Canada numbers less than 500. If Allstate ever wanted to test market a totally new concept, Canada is the place to try it out. The downside is minimal, but the upside could have a huge affect on Allstate's business model here in the U.S.

It's no secret that the company continues to re-evaluate its distribution channels. A successful launch in Canada could cause the company to try the same or a similar model here. Should the Canadian model ever come to pass in the U.S., there would be no market for agents to sell their books, so the company would likely buy back agents' books of business for TPP (Termination Payment Provision). The company is currently paying 1.5X for TPP eligible policies. This amount is guaranteed in agent contracts

signed before November of 1999. In subsequent contracts, the TPP language was removed from the contract and is now part of the "Supplement." Anyone who signed an agent agreement after November 1999 should be concerned because the TPP can be changed at will or, worse yet, eliminated altogether.

Let's say the company did change the TPP formula from 1.5X to 1X, what would that mean on a million dollar book of TPP eligible policies? Under the current formula of 1.5X, the company would pay the agent $150,000. Under the 1X formula, however, the agent would only receive $100,000. That's a pretty big difference.

While it is unlikely that the company will introduce the Canadian model here in the U.S. anytime soon or totally eliminate the TPP, these possibilities do exist. Like other companies, Allstate will explore all possibilities that can add to its bottom line. That is the nature of business. The agent distribution channel is simply an option on a table full of options. When the company finally figures out a better and cheaper way to deliver products and services to its customers—and it will—the role of the agent will diminish. It is then that the company will lower commissions and/or change contracts.

We don't know how the Canadian experiment will play out, but we believe the change has already caused significant angst and stress for agents there. In addition to the psychological trauma, there is a good possibility that they could sustain substantial economic losses, once the salary guarantee runs its course.

NAPAA supports Allstate agents wherever they are. We will follow the situation in Canada as it unfolds in the coming months. Meanwhile, we ask that Allstate agents everywhere join us in extending our empathy and best wishes to our Canadian brethren.