

Editorial Contact: Richard Hahn (716-372-2443)

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Insurance With Assurance

Methods of Delivering Insurance *by Rick Janis*

What are the various methods of delivering the insurance product to the public?

There are several common methods of delivering insurance. The first is the “direct writer.” For instance, companies like Nationwide and Allstate do not use independent contractors (also called local independent insurance agents), to sell and market their policies. Instead, they sell directly to the consumer using their own employees. Their employees are scattered around the country and, just like sales reps, have territories. Under the terms of their contract, the agents can’t represent any other insurance company.

Unlike Nationwide and Allstate, Geico is a true direct writer because they follow the original concept of a direct writer in that there is no local agent representing them. Their employees work in central offices around the country and take your order by phone.

A second method is the traditional independent insurance agency, which can be a small or large business that ranges from a one-man shop to agencies that are traded on Wall Street. They are called national agents or brokers (when they get to be that big they’re usually called brokers).

This method has been around since the 1800’s. The agency has contracts with specific insurance companies (manufacturers) to represent them as an independent contractor, selling their product. That contract confers upon that agent certain duties and obligations. It also gives them certain authorities such as being able to provide a quote, place coverage and to bind coverage on behalf of the manufacturer. The agent sends the manufacturer the paperwork, they process it and issue an application, which then goes back to the agent who gives you the policy. Either the agent can bill you the premium or it can be a direct bill (from the company). The direct bill is probably more common today.

A third way of delivering insurance is for the insurance company to abdicate their underwriting and servicing activities to an MGA (Managing General Agent) or wholesaler. In this instance, the MGA contracts with an insurance company to provide all of the underwriting and policy issuance functions that the manufacturer would normally do themselves. The MGA in turn underwrites and issues and quotes to independent agents.

The fourth method is what we call an exclusive or broker arrangement, which is really a “quasi agent/broker.” In this situation, the insurance policy from the manufacturer is not available through independent agents, or anyone else, except for the exclusive agent/broker given that authority.

To recap, insurance is similar to most other industries and products. There are manufacturers, distributors or wholesalers, retailers and consumers.

The manufacturer makes the product (the insurance policy) and backs it up with their financial assets to pay claims. In the case of a direct writer, the insurance goes directly from the manufacturer to the end user. In the case of an independent insurance agent, there really is no distributor involved. The product goes from the manufacturer to a retailer who then sells the policy to the consumer. With an MGA, the company goes through a distributor who in turn sells the product to insurance agents. Our other example, the exclusive agent/broker, is simply the manufacturer selling directly to a distributor who cannot sell anyone else's product and who simultaneously sells to the end-user.

Rick Janis is a Certified Insurance Counselor and president of the Alarm Insurance Agency. With over 7 years of experience in the security industry, he has been responsible for developing and managing comprehensive insurance and bonding programs for alarm dealers and monitoring companies. Rick is CEU certified by NBFAA and teaches CEU courses to the alarm industry on General Liability/Errors and Omissions and Worker's Compensation. He can be reached at 800-474-0933 or by fax at 800-240-0631. You may also e-mail him at rjanis@alarmins.com.