

## The Subsidiary GAs: Outcomes and Implications

### ABSTRACT

The number of subsidiary GAs is increasing. Insurers established them as a means of improving sales competitiveness and reducing commissions while maintaining a certain level of control over the GA. To build a competitive subsidiary GA channel, the following should be considered: ❶ placing some of the parent company's high performing personnel to the subsidiary, ❷ implementing a compensation system to improve subsidiary agents' loyalties to the parent company, and ❸ differentiating the products carried by the subsidiary versus the affiliated channel.

### 1. Key fact

A subsidiary GA is a general agency whose parent company is an insurer. It can carry insurance products produced by many insurers other than its parent company. It appeared in the market in September 2004, then the number of subsidiary GAs has increased since 2014 when the TM sales were suspended due to the personal information leakage of Credit Card Companies. As of the end of 2019, 11 subsidiary GAs (7 life insurance companies and 4 non-life insurance companies) were operating.

The purpose of establishing subsidiary GAs is to enhance sales competitiveness and reduce sales expenses while maintaining a certain level of control over the GA channel. The existing GAs have been rapidly gaining market power because they can provide various products, and in the process, many affiliated agents have left to join GAs. To solve problems such as deterioration of the affiliated distribution channel and increasing sales volatility due to GAs strengthened bargaining power over insurers, insurers established subsidiary GAs that share the characteristics with both affiliated and independent channel. In particular, small and medium-sized insurers are considering moving their sales organization outside the companies to reduce fixed costs to maintain the affiliated agents, such as branch operation expenses and training expenses.

The results would depend on the purpose of subsidiary GAs establishment, however, some of the subsidiary GAs showed good performance despite initial investment costs. The characteristics of successful subsidiary GAs are as follows. First, the subsidiary GAs under the spin-off strategies to move high performing affiliated agents of the parent companies to the subsidiaries have shown relatively good performance. However, if a subsidiary GA was established to manage workforce efficiency, the cost reduction at the parent company and the profit of the subsidiary should be comprehensively considered in the evaluation of its performance. Second, a subsidiary GA with the diversified product portfolio and differentiated products achieved higher sales growth rate and profit rate.

## 2. Implications

When an insurance company establishes a subsidiary GA, it should consider the following: ❶ placing some of its high performing personnel to the subsidiary, ❷ implementing a compensation system to improve subsidiary agents' loyalties to the parent company, and ❸ differentiating the products carried by the subsidiary versus the affiliated channel. First, the parent company should allocate some of its high performing sales staff to the subsidiaries to mitigate the burden of recruiting new personnel and the low performance in the early stages of the new organization. Second, to minimize the decline in the parent company's market share after establishing the subsidiary, the insurance company should set up a plan to increase the loyalty to the parent company with a reasonable compensation system for agents at the subsidiary. Finally, it is necessary to reconcile the role of the parent company and the subsidiary in terms of products and target consumers to alleviate the possible conflict.

However, insurers should be aware that as GA's influence in the insurance market is getting stronger, establishing a subsidiary GA based on short-term results can have a rather negative effect on their long-term profits. The fee profits gained by the subsidiary from insurance products sales and the improvement of the parent company's market share occur in the short term; however, the quality of the contracts affects the parent company's profits in the long term.

In particular, insurance companies should rigorously evaluate whether the subsidiary GA channel strategies are suitable for the products that they have a competitive advantage and their business plans. In other words, the subsidiary GA channel strategies should be established based on the insurers' current product portfolios, future business plans, and future profits.

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