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Five of my Favorite Mark Twain Quotes...

"All generalizations are false, including this one."

"Clothes make the man. Naked people

To the tune of "All the World Needs is Love"

All the [Insurance] World Needs is M&A Love to solve the soft market.

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have little or no influence on society."

"Always do right. This will gratify some people and astonish the rest."

"Don't go around saying the world owes you a living. The world owes you nothing. It was here first."

"Get your facts first, and then you can distort them as much as you please."

Story of Ray

I was driving through a rural town in Colorado and remembered an agency owner I had known years ago when I was a young, new underwriter. We clashed. I was honestly in over my head. He knew good risks from bad and I didn't. I went by the book and he didn't recognize a book existed. Underwriting rules were for incompetents in his opinion and everyone knew Ray’s opinion. In a difficult socio-economic and difficult fire protection environment, he managed to usually achieve stellar loss ratios.

As I drove through the town, I remembered him fondly and the friendly relationship we eventually built. We continued to talk as friends long after I left the insurance company until life and age caused the calls to dwindle. He long ago passed.

The question that arose as I drove through the town that day was, "Is there a role for agents like Ray today?" As much as I hate to admit it, I don't think so. As a marketing rep, as an underwriter, and as a consultant I admire agents like Ray because they have a special talent that is not even tangible. They just have a touch. They have such deep, intuitive knowledge of their community and the people they insure that they created success without any rules. In today's world, though, algorithms and deep data dives trump personal knowledge and moreover, the data is cheaper than an agent.

Loss ratios in general are not quite as important either because insurance companies have been so profitable the last ten years, partially due to the algorithms they've employed and significantly due to luck as socio-economic demographics have worked to reduce claims. The net result is that some loss ratios are actually too low and companies are going to decrease prices to capture market share, especially since surplus is at record levels.

In Ray's time, slow growth and, during some hard markets no growth, was okay. Loss ratios were more important but so much surplus and price competition exists today that companies are now emphasizing growth as much or more than loss ratios. This can be clearly seen in many contingency contracts. Also, back then rate growth substituted for real growth and that was okay by companies. Today, rate growth has simply been too low for too long. Companies need true growth, i.e. actual new sales.

Another area where growth can easily be seen emphasized over loss ratios is the approval by insurance companies to do business with aggregators. Literally, thousands of agencies who would not have been able to acquire company contracts because companies historically were always concerned with the quality of business, i.e., loss ratios, that agencies joining clusters could not provide does not seem to be a concern any longer. Everything is about growth even when companies cannot come right out and say it.

So I truly hate to admit it, but for people like Ray, their days are passing quickly. A different and related role may exist, but it is not nearly as significant. Today, agents have to sell, then sell more, and then sell some more. Quantity over quality is the mantra. The companies' algorithms will do the underwriting (so far in reality and in theory going forward because the algorithms do change reality and lest anyone forget that, the lesson likely will be extremely painful) and all companies need agents to do is submit as many applications as possible. I have to emphasize this direct of a message is not one companies can deliver even if it is reality and if asked, most likely still need to deny it. Actions speak louder than words though and if a company really still focuses on quality, one needs to question whether they are investing adequately in technology or if they have a vitally unique strategy.

One of the keys then obviously is increasing the growth rate, not just the volume. Many strategies are possible but none are cheap. Most agencies can only afford one strategy so to increase the probability of success, agencies need to choose their best option and then methodically, painfully even, plan out that strategy. I say painfully because like I wrote, Ray didn't even know a rule book existed, much less a strategic plan. To plan out a strategy would have created so much emotional pain he would not have been capable. This is another reason time has passed by agents like Ray. Having the emotional capacity to build a true strategic plan and then executing it requires a different skill set and even different leadership than people like Ray possess.

To use the euphemism, "Someone moved their cheese" is not inaccurate. People like Ray still have a valuable role if they will hire and develop someone that has complementary strengths. They have to be willing to share power, authority and even the spotlight. They have to surrender some of their ego. They have to recognize and be self-aware their skills are not as valuable today. If they will, the combination will be stronger than standing alone ever was.

I miss the time where agents like Ray shined. That cowboy nature is always an invigorating, but often reckless, ride. I am enjoying even more the ride my clients that pair complementary strengths are taking. It doesn’t have the same spirit of danger, but it has so much more constructive energy, energy of seeing an organization built that better serves clients and employees.

Younger agency owners are especially keen to build strategically. I find myself enjoying a different sort of intangible skill, more of vision and true leadership than Ray's craftsmanship. Teaming the two though truly accelerates success. With whom are you teaming?

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Young People's Success Track

Life is so much more fun and rewarding when energetic young producers contact me for advice on their personal success. The fact they are contacting me from that perspective means they have more insight than many of their predecessor's already, right from the beginning, as to what is required to succeed. First they are recognizing, completely, their success is dependent on them. They are not looking at the agency owners to assist them. That is insightful given how 90%+ of agency owners are not tooled to provide the time and assistance young producers need. These young people are taking charge.

Several of these young people have encouraged me to write an article outlining some the suggestions I’ve made to them because these suggestions have worked. They want to share, which is a great sense of community.

Education: Education absolutely does not end with a four-year degree. The insurance industry, at the high levels at least, is highly technical. As one attorney recently told me, many commercial insurance policies are the equivalent of bar level exam questions. A young person who takes the time to truly learn insurance policies and coverages, bar level contractual issues, has a huge advantage over every one who tries to treat insurance as a commodity. This may not be applicable to small accounts, but that probably is not where you'll make your career.

I find many young people are not interested in this type of learning. That is a mistake but I understand their focus on risk management. A risk management focus is more of a whole health approach. This is not the place to describe a full risk management agency business model but suffice it to say, a good risk management model incorporates detailed coverage/policy knowledge.

For a young person charting their own course, there are two keys to success. First, don't use risk management as a crutch for not selling. Risk management is a great whole health model. I love it. But I see too many people wanting risk management to be so great that customers just flock and line-up to buy insurance from them. Life does not work that way. Risk management and insurance have to be sold, always. The second point is that if risk management is appealing, then get a risk management designation. Several now exist. Education is the key to success.

Self-disciplined Sales Approach: Insurance and risk management have to be sold. Most insurance agencies lack a disciplined sales approach. This is because most agency owners lack sales discipline. That may be fine for them but the course to true sales success is a disciplined approach. The best example of a great, old, tried, and comfortable but quite disciplined sales approach is detailed in the book, "How I Raised Myself from Failure to Success by Selling" by Frank Bettger. This book covers everything you really need to know to build an approach on your own. The only difference between when the book was written and today is that his methods are now computerized. The system is the same and every good sales coach I've seen today uses his methods, just with more flamboyance and ego.

One of the most exciting opportunities for new people is to go back to the beginning of insurance. Remember and remind people what insurance is really about. Insurance is about restoring lives when catastrophes occur. Whether the catastrophe is weather, a fire, or a lawsuit, insurance when it is written correctly restores peoples' and businesses' lives. When risk management is done well, not only are financial lives and stability restored, but emotional stability is restored and at its best, losses don't happen as often or the losses that do occur are mitigated. What is greater than restoring people's lives as painlessly as possible and get paid well to do it?

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Save Your Hide

Doesn't it just burn your hide when some presenter tells you that you have to do this or that?

First, discount the speaker/writer who is simply expressing their value system on you. Your best interest is served by first determining whether you are accurately distinguishing between their values and your emotions. Sometimes business owners have been known to dismiss ALL points with which they disagree, regardless of whether they (the business owner) have any foundation for their perspective. In other words, "if the speaker's perspective does not match mine, the speaker is wrong."

Second, your interests are likely best served if you rationally draw a line between opinions and facts. For example, many times I've advised agencies they were out of trust--meaning their cash was short relative to premiums payable which means they likely spent fiduciary cash. Most agency owners understand this is a fact, simply a mathematical equation, but some seem to think I am just expressing an opinion. I could provide endless examples of the inability to accept facts but this trust account example is black and white.

The most frustrating instance is when the speaker is correct but their point is opinion and their point is not what you want to hear. It is kind of like when a doctor advises you to exercise. You know you need to exercise but since one more day of procrastination is immaterial, and because you are a grown up, you should not have to listen to a patronizing expert.

When someone presents a point with which you are not comfortable, do you let your emotions override your IQ? Take a moment to consider whether the statement and your reaction are based on opinion, fact, emotion or differing values. Then, reassess your response and you may find more benefit and less pain in the presenter's message.

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Shareholder Fiduciary Responsibility

First my disclaimer: I am not an attorney so do not take any of the following as legal opinion.

Many corporate attorneys have advised me those shareholders who have authority, typically officers or board members, have fiduciary duties to the corporation. That makes sense to me. I have even read this in some incorporation documents. I see two situations where fiduciary duties might be breached in the opinion of some attorneys. If so, these situations create potentially major liability exposures but the situation also likely provides fantastic opportunities to solve huge agency problems.

The first situation is not common but it is not unusual either. This is when someone has a crooked partner. By "crooked" I mean my layman's perception of crooked which is using agency premium monies inappropriately, completing tax forms will dubious data, willingly and purposely insuring risks incorrectly, doing drugs, abuse (either domestic or employee), and other behaviors a reasonable person might think is criminal. Obviously their behavior puts the entire agency at risk. Indeed I've seen agencies forced to sell because of one partner's questionable behavior.

Odds are high the agency's other partners know of these activities or at least suspect them. At this point it seems reasonable the fiduciary clause of the incorporation documents is activated. If a partner knows another partner is engaging in behavior that likely damages the corporation, that partner has a responsibility to act. I typically see silence. One reason for the silence is the agency's incorporation documents, particularly its buy/sell agreement is written poorly. Few buy/sell agreements contain the necessary clause triggering a forced sale if a partner engages in inappropriate behavior. So the other partners are caught between a rock and a hardplace. They stay silent in hopes all will work out but rarely is the ending sunny.

The more common reason the partners' lips remain sealed is that many, likely most, agency owners have great difficulty confronting people. They are extremely reluctant to the point they'll lose a fortune if it means they don't have to have a difficult conversation with a partner. This is where the fiduciary responsibility provides the crutch these people need. They may have no choice but to address the situation if they do not want to become an accessory. Silence is not a reasonable option then is it?

The second situation is exceedingly common and that is when an officer puts their personal interests above the agency. I see this most often involving E&O. An owner is not writing accounts correctly and/or they are not following procedures. They make more sales, make sales more easily, make more money, and become richer all the while with each and every day the agency's E&O exposure grows. One might think this is stupid behavior on many fronts, the least of which is that the owner's share value decreases as E&O exposures increase. These kinds of owners do not think much further than their noses. This is just a fact, not even an opinion, so they don't see the damage they're doing to their own wealth and not much likely can be done to change that.

I have seen agency owners yell, scream, pout, demand, threaten, and even cry that if they can't get their way, they'll leave the agency. This is another threat to damage the agency from someone likely in a fiduciary capacity. An agency with such an owner, no matter how big their book, has NO FUTURE.

More commonly, these owners are passive/aggressive which makes dealing with the situation even more frustrating. Nevertheless, passive/aggressive behavior does not mitigate the danger. In fact, it probably increases the danger because resolving the problem always takes longer with passive/aggressive behavior. Again, the fiduciary responsibility may be the key to solving the problem more quickly.

Assuming the agency's attorney agrees its officers have fiduciary responsibilities to the agency, then behaviors damaging the agency by these parties can be documented. The question then can be posed: "Do you wish to continue violating your fiduciary responsibilities which, if you do, will cause an immediate financial loss or would you prefer to build with us to build a stronger agency? The choice is yours. We understand that learning to sell more appropriately may be difficult and you may incur a temporary financial loss. On the other hand, if you meet your obligations you have the opportunity to regain those losses and make even more. Again, the choice is yours."

Because so many agency owners have such conflict avoidance personalities, and these partners that damage agencies take advantage of this weakness every hour of every day, strong action is difficult if not impossible without a crutch. Fiduciary responsibility is a strong crutch. I hope you can use it to build better, stronger agencies.

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To the tune of "All the World Needs is Love"

All the [Insurance] World Needs is M&A Love to solve the soft market. All it needs is a few CEO's with egos bigger than their I.Q.'s to buy some companies, hopefully weaker companies at full price to wipe out all the excess surplus. All the Insurance World needs is a few big, bad deals to drive rates up and everyone then can make more money.

Readers know who these CEOs are and the CEOs will not recognize they are the ones with supersized egos. So with the martial art moves of using an opponent's momentum against them, push these CEOs where their egos are already driving them. Get them to make bigger and more bad acquisitions that grab great headlines, wipe out lots of surplus, and lead to years, maybe even a decade, of clean up. Look at the industry's history and it's easy to see the industry tends this direction anyway so maybe just a few gentle pushes are all that is required.

You might even want to collaborate with others to talk certain companies into making these acquisitions. Working together creates more love. The second part of the strategy, the way to really cash in is to develop a plan to pick up the pieces. For example, when a company does a bad acquisition or a good one executed badly they do not have the time or resources to focus on retention of key people, the best agencies, or the best clients. Do a study of the best things this company possesses that are likely to be ignored when they do a bad acquisition. Then execute the plan to attract those resources to your company. The best resources are going to go somewhere in these situations. You might as well get more than your share.

The ROI is much better using this strategy than to do your own acquisition. The company retains all its capital for smarter investments. It does not have to buy all the legacy junk that comes with an acquisition. It gets the best of the best without any material capital outlays. It gets the 20% of the Pareto Curve.

But, there is always a tradeoff. The tradeoff is this strategy does not generate headlines. It works wonderfully but so quietly the trade magazines will not notice and will not put your company on the cover of their magazine. If this is a turnoff, it might indicate in which category the company is.

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Burand has more than 20 years' experience. He is a featured speaker across the continent at more than 180 conventions and educational programs. He has written for numerous industry publications including *Insurance Journal*, *American Agent & Broker*, and *National Underwriter*. He also publishes *Burand's Insurance Agency Adviser* for independent insurance agents.

Burand is a member of the Institute of Business Appraisers, a department head for the Independent Insurance Agents and Brokers of America's Virtual University, an instructor for Insurance Journal's Academy of Insurance, and a volunteer counselor for the Small Business Administration's SCORE program.
