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Chris Burand,
Certified Business Appraiser

Burand & Associates, LLC
215 S. Victoria Ave., Suite E
Pueblo, CO 81003
719/485-3868
chris@burand-associates.com

Visit us at:
burand-associates.com

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Concerned about stagnant growth?
Overwhelmed with the day-to-day details?
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tell them what to do."

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- Implement change
- Take action!

Our review provides a comprehensive, "bird's eye" view of the agency and its potential. We use our in-depth agency knowledge and broad industry experience to uncover great opportunities to fine-tune your operation. We offer suggestions and provide solutions so the office atmosphere becomes more productive and enjoyable for everyone. Our review process is straight-forward and effective.

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THE NATIONAL ALLIANCE
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Introductory Courses: New Offerings for New Hires

For your latest recruits just getting their license or preparing for a designation program, the Introductory Series of insurance courses from The National Alliance may well fill an important need.

A fast start for a career in the insurance industry means understanding some basic concepts. These newest courses allow participants to set their own pace with online access 24/7. With 60 days to complete the curriculum, quizzes, and exercises, these courses always fit busy personal schedules. Priced at $30 per course, the value to the organization is much higher. By learning insurance concepts immediately, new hires can begin contributing to the bottom line much faster.

Here are the current online course options:

General Topic:
Introduction to Property & Casualty Insurance

Commercial Line Topics:
Introduction to Commercial Property Insurance
Introduction to Commercial Casualty Insurance
Introduction to Commercial Miscellaneous Exposures and Coverages

Personal Lines Topics:
Introduction to Personal Auto Insurance
Introduction to Personal Residential Property

Additional Topics:

Introduction to Life and Health Insurance
Introduction to Employee Benefits - An Overview
Introduction to Employee Benefits - Retirement Plans
Introduction to Employee Benefits - Health Care

A course mentor is available to participants by email for questions. While these courses do not offer state CE credit nor serve as an update option for designation programs, they deliver a great advantage in concept knowledge to those entering their insurance careers.

For any questions or additional information, contact Katie O'Malley, CIC, CISR, or Beverly Messer, CIC, CRM, CISR, at 800-633-2165.

Contact:
Beverly A. Messer, CIC, CRM, CISR
Senior Vice President, Academic Development
The National Alliance for Insurance Education & Research
800-633-2165

The National Alliance for Insurance Education & Research conducts insurance and risk management education and designation programs such as Certified Insurance Counselor (CIC), Certified Risk Manager (CRM), Certified Insurance Service Representative (CISR), and Certified School Risk Manager (CSRM). The company advances the industry quality by providing insurance and risk management professionals of every experience level with integrated, practical continuing education, timely research and designation opportunities. For additional information, visit The National Alliance website: www.TheNationalAlliance.com or call 800-633-2165.

The Mad, Mad World of Insurance

The insurance industry is nonsensical on so many levels and yet it is supposed to be an industry built on actuarial tables. Actuarial work at its best is demanding math and statistics based on the probability of inevitable losses and yet, in practice, the industry continually ignores math.

At the company level, employees see this situation continually as rules change based on some VP's personal whim. This is seen in some contingency contracts too when the bonus paid for certain results make no sense. For example, I recently analyzed a contract that paid a smaller and smaller bonus, on a percentage basis, the faster an agency grew. It was not a nefarious plan. The designer simply ignored math.

Possibly the best example occurs in workers' comp. For example, when a new carrier enters the market and under prices the competition to build its book quickly, novices and perennially excessive optimists along with the gullible believe every new such company has developed a magically innovative method for writing comp at much lower rates while making a fortune. I know company executives and regulators deny this happens but the industry's track record clearly speaks for itself -- this does happen. I once tried to explain how the tail always catches up to some very smart money people and how the company they wanted to buy was not smarter than any carrier prior. They were just smarter about the tail than the potential buyers. The seller knew when that tail was going to catch up. The buyers did not understand a tail if it was attached to a dog.

Insurance agency owners are often worse though, especially if they are sitting in a room with other agency owners discussing benchmarking. Inevitably they toss around stories that only partially explain the situation and have never been tested for causality. To listen to some of these stories, one might believe every CSR named Mary is more productive than every CSR named Suzi. Sometimes the stories are even sillier. The stories, however, become gospels of faith because no reality exists to the supposed cause and effects, especially when one person dominates the conversation.

Benchmarking conversations among and between agency owners are generally awful. No speaker ever tests for the efficacy of their comments. Most of the story tellers have no education or knowledge of statistics. This makes the speakers and the listeners attracted to good stories. They take the stories and try to apply them, often causing even worse results. These sessions are, for all practical purposes, examples of the blind leading the blind.

The opportunity is obvious! Test your ideas, study basic statistics, and apply the proper methods to learn what benchmarks you want to set. I know this is not the solution most readers were hoping I'd reveal, but it is the best. Unreal advantages can be realized after 12-24 months of application. Often, one of the first benefits is realizing the initial targets for improvement were wrong.

The right targets, for smart agency owners (versus egotistical owners that like to hear themselves talk in agency circles), are consistency, progress, and growth. Consistency is the first target because without consistency, the benchmark is worthless. For those thinking, "But I still can calculate an average so that's worth something." You are wrong. An average is worthless. The best STORY that exemplifies the worthlessness of averages is the joke statisticians tell one another, "Did you hear about the agency owner that found exactly the right temperature? Half of his body was in the oven and the other half was in the freezer. On average, he was the perfect temperature!"

The median is a little better but without some semblance of consistency, the typical measures of averages and medians are worthless. A better measure often is of variance and standard deviations. Agency owners need to know how much variance exists in their agencies. One reason testing for variance is ignored is because most agency owners do not have the education or knowledge to test for it, much less use it. I see a lot of agency owners make the serious mistake of not taking specific actions because they do not know how to do the project themselves. These are not DIY projects. Even if they were, owners would have to sacrifice sales to find the time to do this work themselves. These measures are only ignored at your own risk and if you do not know how to do it, then hire someone that does.

The second target is progress. Someone asked me, "Tell me what the proper benchmark is for..." I've had that question a hundred times. <u>The right target, if your goal is to build your agency's success, is to be better tomorrow than today</u>. What someone else achieves is moot. Being better than some other agency is moot, unless your goal is to hit a high mark, regardless of whether that mark matters, simply to enhance your ego. Then the right target is to be slightly better than whatever mark you choose, whether it is an industry benchmark or the agency down the street.

Relative to truly building a better agency, competing with others to achieve higher revenue per person or a higher compensation rate or who knows what other benchmark is childish. Being competitive is fine but not in this teenage manner. The only measures that matter is whether, given an agency's business model, it is growing reasonably faster than the competition while maintaining a strong profit margin without taking extraordinary risks.

The third target is growth and in particular, growth relative to the industry. I like the term alpha growth. Often the term "alpha" is used relative to stock value but it is equally applicable with growth. "Alpha" used in this context is about achieving growth (or value) in excess of rate and exposure growth. In other words, how fast is the agency truly growing without the benefit of rate increases and their clients' exposures increasing? Hardly any entity in the entire industry measures alpha growth. One reason people do not measure it is because it is hard to measure. Maybe more important though is they know the answer is 0% or less than 0%. Reality does not go away just because a firm decides to not measure it.

Math matters in reality. Great stories have their place in sales but math eventually rules. Measure your progress, if you have the guts, relative to your progress. Measure your success using benchmarks that look forward rather than backwards. Measure your progress, not your static position and always measure your progress with many applicable measures rather than just one or two or three because tradeoffs between measures always exist. Then measure your alpha results to learn how much better your firm is truly performing. Last, if you do not have the knowledge or education to use statistics with expertise, hire an advisor who does. Success favors those who know the difference between DIY projects and non-DIY projects.

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The Management Conundrum

Life is tough for small agencies. Small agencies are arguably too dependent on a couple, or if lucky maybe six, employees. The loss of any one person can cause an owner night sweats.

Small agencies are often too dependent on three or fewer companies too. Some small agencies' existences are dependent on just a few accounts. The risk factors are high, capital is short, and growth is difficult. So much responsibility usually rests on the one person who can sell. (Interestingly, very often, only one person can usually truly sell in agencies that are even two to four times larger.)

The owner must wear so many different hats including hats that do not fit. This has changed too. It used to be the other hats fit better because the owners' responsibilities were much simpler. Today, I usually see the IT hat at least an inch too big. IT is commonly recognized by agency owners as being a responsibility they must outsource or share with someone else. Other factors are much more difficult for agency owners to let go. They feel strongly they should deal with or be able to deal with all the financial, operational, employee and carrier management functions that are keys to building a successful agency.

The best of these owners take classes and study how to manage their agencies successfully. I applaud these people because while these classes are truly vital, they take up time and time is the least available resource small agency owners possess. At least they take the time, though, versus their peers who take the easier road of managing by the seats of their pants.

Wearing these hats that do not fit is uncomfortable. The too large hats blind and the too small hats cause headaches. Managing areas that do not fit one's strengths takes so much more time and is so tiring that people get frustrated.

I was giving a presentation to an elite group of agency owners regarding higher level financial management techniques and I was really enjoying the audience. They wanted to take their agencies so much higher and they were willing to do the work. As I spoke though, I began to wonder if I had not missed an important point. Small agencies and even medium-sized agencies that are the best of the best have figured out how to go several floors higher than just the best agencies. Those owners learn the management techniques, the reports they need, the true benchmarks, and the best procedures. And then, because they are too small to hire people who have the time and ability to focus, they effectively outsource these responsibilities to a professional third party. That third party may be an accounting outsource firm specializing in insurance agencies, a consultant, an attorney, a sales coach or whomever.

They recognize that even if they have the ability, they do not have the time to wear all the hats. The best try to do it all competently, but the best of the best do not. They understand that in today's complex world, doing it all well is just not a reality. They don't realistically have the time and even if they have the time, it is not the best use of their time by a long shot. Something has to give.

The best of the best have a combination of factors going for them.

1. They recognize the need to spend their time where it is most productive.
2. They have the confidence to ask for help. I find younger agency owners have a greater facility to ask for help. That willingness is a huge advantage because they recognize the cumulative benefit of having experts assist monthly or quarterly rather than once every three to fifteen years.
3. They understand ROI much better.

The honest, best solution for small and medium agencies is to outsource some management responsibilities though never leadership responsibilities. The agency then gets (if you hire the right party) high level expertise for much less money than lesser expertise but a full time employee. Security is gained because you are not as dependent on individuals. The experts and everyone, for that matter, become more replaceable.

Sometimes too, value is gained knowing someone has your back. A professional owes this security to their clients. Many bad agency partnerships have been created for no purpose other than to have someone watching one's back. That security can be gained much easier, less expensively and likely more productively with a professional.

I am not a proponent of consultants writing articles that scream, "Hire me." I hope the reader does not take this article in this manner. I am walking a fine line but the advice of hiring a professional is not specific to me. Managing a small and medium agency with limited time and resources is more complex today than ever. The owners have to wear so many hats and because many of these hats take away from what they enjoy most (which probably is not managing people, reading contracts, dealing with the latest agency management system failure, or meeting with another insurance carrier marketing rep making pointless rounds). In most smaller agencies, the two most important roles the owner plays is making new sales and being a leader, not necessarily being a manager. When other hats take away from these two essential activities, agencies begin to slow, to stagnate, to falter and sometimes taking more and more classes to learn to be a better manager just digs the hole deeper. Give up some hats and get back to enjoying what you do best and what is best for your agency!

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Advice You Want to Hear or Advice You Need to Hear?

A good friend was diagnosed with a serious medical problem. He went to doctor after doctor for a more precise diagnosis and cure. Most doctors gave him the same prognosis but the last one advised a different course. He latched onto that doctor's recommendation like a life preserver in a North Atlantic winter storm. I asked him why he felt so strongly the last doctor was right. He said, "Because it is what I wanted to hear."

He gave no thought to the science or logic of the last diagnosis and treatment plan. It could be right or wrong for all anyone knew. It was what he wanted to hear and for the value of positive thinking, maybe it will work. Otherwise, the result will be Fortune's decision.

I do not have nearly the experience in the medical world as I do in the insurance world. I know that in the insurance world, this exact same choice of professional advice happens hourly. I see, time after time, how agency owners latch onto the CPA or attorney that gives them the answer they want to hear. I have seen it so often I can now predict with virtually 100% certainty what diagnosis an agency owner will choose.

Unfortunately, too many attorneys, CPAs and consultants make their living providing the answers their clients want to hear. Some do it consciously and some do it out of ignorance. The intent is different but the outcome is the same.

This is akin to an agent telling an insured, "Sure it's covered." That is what the insured wants to hear. Most of the time people do not have losses so they do not have claims and therefore, the agent's bad advice has no repercussions to the client. Everyone is happy! Maybe only one out of a thousand or one out of ten thousand times does the fact the insured really does not have the coverage does the injury come to light.

The same exact thing happens with these people pleasing attorneys, CPAs, and consultants that tell clients what they want to hear rather than the true, best answer. Most of the time, the wrong answer does not matter because nothing usually goes wrong, at least not immediately. Insurance is a contract. Most legal work for agencies involves contracts. The tax code is an imposed contract. It is all the same. Frequency of loss is not the issue in any of these situations. Insurance is supposed to be a severity financial remedy. Good contracts of all kinds are designed to prevent severity losses, but severity is a problem for the human brain. The human neuro muscle is not designed to deal with severity odds constructively, resulting in grossly underestimating the probability of a large loss (many studies prove this from a variety of angles and I encourage you in the insurance world to research this fascinating topic to aid your sales).

The net result is that from a frequency basis, most of the time, agency owners do not really need quality professional advice because most of the time, nothing of consequence, good or bad, happens. Quality advice, quality contracts, and quality tax recommendations are about preventing severe losses the probability of which agency owners, like most humans, will underestimate. Therefore, just because nothing has gone wrong yet, does not have any relationship to whether something severe likely will go wrong. Taking the advice you want to hear usually will not help (other than maybe the placebo effect) or hurt. Subpar advice just does not usually matter so go ahead and pay for all the subpar advice you want. If that severity event never happens, you'll never regret not paying for better advice and then listening to it.

However, if that severity event occurs, then when the person realizes the mistake made by taking the advice they wanted to hear instead of the painful but better advice they did not want to hear, it will possibly be the saddest, maybe most expensive day in the person's life. A great example is in an agency sale. Frequently valuations are poor at sale time because financial problems are revealed and the owner exclaims, "But it's never been a problem!" Not being in trust or mismanaging accounts receivable are frequent examples. Both can be mismanaged a long time until the severity event. The same goes for bad tax advice, bad producer contracts, bad bylaws, bad buy sell contracts, and bad accounting to name just a few.

Severity events often occur at the end of a life time of work whether it be an agency sale, a death, the departure of an important producer, or an insurance company taking clients or cutting compensation. Other severity events often occur when someone is sued or investigated. When these events occur at the end of a life stage, one does not have time to rebuild making the tragedy even more painful.

When severity occurs, escape is not usually realistic. Turning to someone to give the pleasing to the ears solution is an option that dries up. To add insult to injury, suing a poor CPA or poor attorney or consultant is much more difficult than suing an agent for telling someone everything is covered when it was not.

My advice is to purchase the best advice possible and do not ignore advice you do not like or run to advice you like because your emotional magnet is pointed a specific direction. Get second opinions, do some research, ask questions, and keep this in mind, a professional willing to lose a client by giving advice one does not want to hear is a professional putting your interest before their own.

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The Great Mystery

Why do insurance companies think they can coach agencies on how to run their agencies?

A senior marketing rep recently asked me to "Just create a form or speech or script that our marketing reps can give to every producer in every agency that is so good, the producers will just sell. Agency owners won't have to tell them what to do."

First response: What is this person smoking, snorting, or shooting? That's some serious la-la land thinking.

Second response: Robots are not quite that advanced. Google is working on the equivalent of the smiling P&C insurance producer Stepford Wife (for younger readers, Google "Stepford Wives").

Third response: The first insurance company "agency" consultant I met was in 1988. A long time ago. A number of carriers employed agency consultants that would give use of these people to their top agents for free or at a discount. Conflicts of interest abounded, often the advice was in MBA speak, and quality was often lacking. For eons or at least a century many company people have envied the money agents can and some do make. Beyond lacking appreciation for the time, effort, and ability sales require, they have always forgotten the risk. A key differentiator between agency people and company people is risk tolerance. It is one thing to advise agents to do this or that from a safe position and completely different when your own skin, your own ego, and your paycheck is on the line. Every day producers (at least the ones who produce) put their egos on the line. Every day their income goes up or down based on the next sale or loss of an account. That risk, that vulnerability, and the ability to tolerate and even thrive separates most company people from good producers.

A consultant not personally facing risk with their recommendations being wrong or not being implemented, and whom gets paid a company salary no matter what, is of a different quality. On the one hand, they may not have as much bias to tell agents what they want to hear but it is simply too easy to give advice if one has never had to make sales or lose sales that immediately and personally affected their paycheck.

This particular situation is maybe worse because few marketing reps are trained in really managing or consulting with agencies and the nuances are important. Saying is so much easier than doing.

Fourth response: Not being real consultants companies do not know Gerald Weinberg's laws of consulting, including: Fix yourself first and don't offer solutions if the client does not ask.

Companies have more than their share of problems. They could use some real consulting to learn why and how to build the products, rates, and agent relationships necessary to achieve better than market growth. They would need to do something many agencies already do and that is dropping their egos and at least listening. It is hard to ask someone to critique one's operations, even if the agency is paying for it. To hear a company person critique the agency's operations/sales without asking just creates a shield of rejection.

Companies have all kinds of solutions to their own problems but often those solutions are outwardly focused on their agents not selling enough. The organic growth rate is inadequate, so they believe it is the agencies' fault.

The real solution is not that agents' growth is inadequate. That is simply a symptom, not the illness. The cure for the illness is a two part prescription:

Part 1: Lose the ego. Companies will do better if the key executives get out of the Ivory Tower, go undercover, and work with people that will tell the emperor he is not wearing any clothes. Some insurance company executives' solutions to various problems that I've witnessed are as idiotic and off target as to be aiming 180 degrees backwards (for those that forgot high school geometry, this means the gun is aimed at the company, a mistaken suicide pending).

Agents and field people are scared to speak up. I saw a funny example not long ago of a newbie in an insurance company conference answer the CEO's question completely and innocently honestly. She was so green she had no idea honesty was not being sought until the audience all gasped as she completed her response. She only said what everyone was thinking and no one would say. The result is passive/aggressive behavior that only frustrates everyone.

Lose the ego and create an open environment of truly open communication. Easier said than done and after what agents have been through, they're going to need to see proof they will not be damaged before they completely open up.

Part 2: Pick better agents. Look at it this way: Can't fix stupid. The industry, like all industries, has some poor players. Some are stupid, some are unethical, and some are incompetent. Not a majority or maybe not even a large minority, but enough and some of these are the larger agents. Getting large in this industry is not completely a badge of ability so companies will benefit if they quit kneeling at the altar of volume. My suggestion is to focus on agencies that can generate true organic growth in an ethical manner. Volume can be had too easily and in too many ways that hide incompetence. For example:

1. More than one agency is still using trust monies for acquisitions. This is unethical to say the least but it also means management is incompetent. Why do business with an unethical and incompetent agent that only has brains enough to get large by cheating? Where is the future? But companies are not checking trust ratios even though their contracts give them the right to check balance sheets.
2. Clusters. My experience, and I have a lot of experience with clusters, is that most agencies join clusters "to gain the advantages that volume provides." They are not joining so they can sell more. They are joining explicitly <u>so they don't have to sell more</u>. If a company wants growth, why appoint a bunch of agencies that not only can't grow, they do not want to make any materially effort to grow? Talk about suicide.

Give better agents the tools to grow but do not try to steer or force on them the company's solutions or cause the marketing reps to act as consultants. Agencies with true leadership and a sales culture will soak up the knowledge you are giving them, they will implement those solutions, and they will execute.

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Build Value with Your Buy-Sell

Any newly formed company's owners still needing a buy-sell agreement will be well-served to talk to a dozen old time partners in privately held firms, especially firms that have had partner difficulties. Almost always the partner difficulty arises from one partner wanting to move forward and one wanting to stay put. Another version of the same story is one partner bringing value every day and another partner sucking value out every day.

A good test is an agency valuation. If a partner died tomorrow, ignoring potential family litigation (a key reason to have a high quality buy-sell is to avert such litigation), would the firm's value increase or decrease? Take a partner who works to keep and build a $750,000 book of business. Odds are high the agency's clients like this person as much or more than the agency. Compare this to a partner with a $200,000 book of business and the same management responsibilities. The CSRs are more likely to have the client relationships, mostly provide the service (unless the exact opposite situation exists where the partner is so controlling they do not allow anyone to touch their accounts which creates an entirely different valuation issue). That partner, assuming he/she is not a great leader or inside manager is just not earning their keep. If he or she died, the profit would likely increase because no producer would need be paid and the accounts would likely stick.

A well-designed buy-sell agreement creates automatic checks and balances. The traditional buy-sell agreement does not have automatic adjustments. The difference is that using a traditional buy-sell agreement when a partner does not pull his own weight means a critical conversation; maybe a confrontational conversation must occur. It means the person not carrying their weight has veto power over progress. It means stagnation.

The inherent problem/weakness of these typical agreements is all shares are commodities. All shares are equal. For many reasons that makes sense, especially for S-corporations. However, if shareholders begin making too much money based on their shares rather than their performance, the firm's value declines because almost inevitably, someone quits working as effectively as their partner(s). It happens like clockwork.

In small privately held businesses, the business is best served if all shareholders do more than contribute capital. These businesses are best served if all shareholders are also effective, high quality employees. This is obvious. It seems that something so obvious would not be the major problem it is, which is how so many partners are not contributing adequately. A disconnect has occurred.

The disconnect occurs for many reasons. First the initial optimism of partners causes all to assume everyone will always be hungry, productive, and contributing. That is a wonderful assumption that almost never works out. Life interferes.

Second, most buy/sell agreements are either written by attorneys, based on the ones I see, who do not put much thought into them. They are using boilerplates, changing the names, and overcharging. I even often see them pretend to understand valuations because they insert valuation clauses/formulas that make no sense. Other times business owners copy someone else's agreement. They simply do not know enough to complete such an important document on their own (and frankly -- though I am not an attorney -- 99.9% of the attorneys I come across do not know how to complete one on their own either because they don't know business valuations, especially the more complex agency valuation issues).

Of course, these are never problems until they are problems. Then it is usually too late to fix.

However, a high quality buy/sell agreement is largely self-adjusting preventing or at least minimizing shareholders who, for one reason or another quit being as productive as their partners and from making so much money they can begin draining the agency. I have developed many methods, almost one for every situation, and they work.

Going back to the beginning regarding new agencies, a high quality buy/sell agreement is so much easier to create initially because no one has that much to risk at that moment, not the least of which is the emotional risk. The lack of risk causes all parties to think more rationally and agree to a reasonable, logical plan that builds the agency. Improving a buy/sell once partners have value and emotion at risk is usually quite difficult. I applaud every owner who is willing to take this challenge.

To help those willing to take the challenge but hampered by partners, I have even developed strategies for developing the conversation, strategy, options, and opportunities to help get the partners onboard. If that still fails, I have developed strategies for helping the proactive partner cope emotionally, financially, and defend the agency's future. All this is far easier said than done which is why I applaud those people in this situation willing to move forward. Moving forward really is the only solution other than simply selling the agency before it declines. Moving forward though can generate far more value.

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Chris Burand is president and owner of Burand & Associates, LLC, a management consulting firm that has been specializing in the property/casualty insurance industry since 1992. Burand is recognized as a leading consultant for agency valuations, helping agents increase profits and reduce the cost of sales. His services include: agency valuations/due diligence, producer compensation plans, expert witness services, E&O carrier approved E&O procedure reviews, and agency operation enhancement reviews. He also provides the acclaimed Contingency Contract Analysis® Service and has the largest database and knowledge of contingency contracts in the insurance industry.

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 Advise*r 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.

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comply with all applicable laws, rules, and regulations.
