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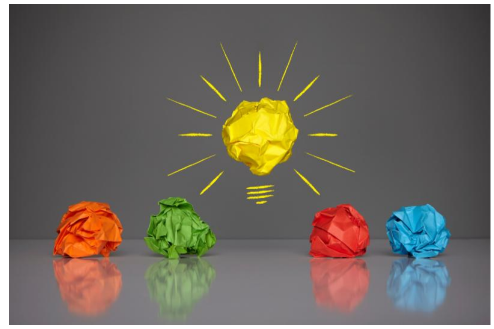

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A Look In from the Outside

You might want to check out glassdoor.com. This job search site has several potentially beneficial features, especially for large metropolitan areas. However, one of the ways in which it might be useful is the ranking employees give their employers. This includes the rankings they give your carriers. For example, you can look up ABC Insurance Company to learn what the carrier's own employees think of the company and management. This provides some interesting and useful information in some situations. Think about it: if the company's own employees don't think much of the company, what is the probability service is going to be good? Just saying.

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Do Your Clients Know HR Law?

Don Phin is an employment law expert who has put together a robust 50 question quiz so an HR person can test their knowledge about employment practices exposures. This is a great opportunity for HR people to measure their ability to reduce your client's EPLI risk exposure.

This quiz should take no more than 30 minutes to complete and they will get back the answers along with explanations.

Don has granted permission for me to share this with my readers. The following link will take you to Don's Website and the quiz: Click Here.

P.S. You may want to also check out his other program at: www.greathr.com.

Why Have an E&O Audit?

Why should every agency have an E&O Audit or, at the extreme least, have their Website and Social Media audited for E&O exposures?

1. At least one carrier gives agencies a ten percent discount on their premium for five years if they qualify and do it. That is a huge savings!
2. Good E&O practices increase sales, at least when agencies improve their E&O practices using my recommendations.
3. Good E&O practices increase productivity, at least relative to how I do audits.
4. Good E&O practices help get incompetent/lazy producers to leave!
5. And of course, good E&O practices decrease E&O exposures!

If your agency is not ready for a full E&O audit? AT LEAST HAVE YOUR WEBSITE AUDITED!

I am almost begging you to take this small step because the exposure is so important. A poor website provides the proverbial fish in the barrel for plaintiff attorneys to shoot. Do you really want to be an easy target?

An agency with a poor website is about as easy a target as any good (or even bad) plaintiff attorney could hope to find because discovery costs are so little. They hardly have to spend any money to file and really even win the case given how bad some agencies' websites are.

Every agency's website I have audited has resulted in the following type reaction, "I never thought that verbiage would be an exposure but now I see it! Thank you!" Auditing the site is even more important if you have hired a third party to create your site because they likely do not know anything about E&O exposures. They are paid to make you look good and they do not understand the balance between looking really good and creating an easy target for plaintiff attorneys.

Chris Burand is an approved E&O auditor by the key E&O carriers for independent agencies, a certified E&O instructor, the author of "50 E&O Tips" and the developer of the new E&O loss control program for affiliated agencies. Contact Chris today to set up your audit: chris@burand-associates.com.

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If I Could Build the Perfect Agency Structure

If I could build the perfect agency structure and culture, here is what I would build:

1. Relationships are key/the value of relationships is zero in today's world.

   Both statements are true. Relationships really still matter internally to the agency and externally to vendors and clients. Relationships are crucial for getting things done.

   Simultaneously though, relationships have much less to sometimes zero value today. Trying to make things happen using relationships only is a bad strategy. It truly used to work and I see so many people keep trying this today and in doing so, they just keep digging their hole deeper and deeper. Examples are:

   > Producers: A nonperforming producer is not going to begin performing just because a relationship exists. If the producer valued the relationship, they would already be performing. If they valued their relationships with prospects adequately, they would already be selling the right coverages and providing great risk management advice to their clients.
   >
   > Carriers: Local relationships may or may not matter but either way, they do not matter at the decision making level. For the most part, with just a few notable exceptions, the vast majority of local company people have authority to say "no" but not "yes." Only having authority to say "no" limits the opportunity for relationships to develop. The best an agency can hope for, in all reality, is for the local person to support the agency when elevating issues higher. At the higher levels, company executives care about your results. Period. They do not care about anything else in reality. Obviously, if they know you they might care about your health, family, etc., but really, your relationship at that level is all about performance. At this time, that performance is really all about organic growth. Loss ratios are only important at extremes (good and bad).

   I constantly see agency principals excessively depending on relationships without regard to their agency's performance. Even when it works, given the tenure these days of many company people, reliance on one strategy is risky.

2. An accountability structure.

   Relationship centric people are rarely accountability centric people. They feel accountability damages relationships. Accountability improves business relationships. Accountability only creates stress for people who cannot stand to be held accountable. Not much future exists with that mind set.

3. Job descriptions for owners and executives.

A job description for every owner is key so they can be held accountable. To the best of my ability, I would align their unique skills with their job description. I would pair owners/executives with people of complementary strengths. I doubt I would allow any single person (outside a real small agency) to run an agency because no one person has all the skills required. Even if they possess the skills, odds are about 100% they are not comfortable operating within certain realms. For example, I know many agency owners who are completely competent figuring out what needs to be done but they are completely incompetent when it comes to actually executing a strategy or having a difficult discussion with an employee or making unpopular decisions. These people need to be paired with someone for whom such actions are not uncomfortable.

4. A Nurturing Culture.

   Too many agency owners confuse nurturing with being opposite of accountability. The best nurturing has significant straightforward accountability. I'd build a culture that focuses on nurturing my employees' strengths. I'd build a culture focusing on educating clients regarding coverages, exposures, and risk management. That focus is so much more fun than just selling insurance, at least to me.

5. Focus, Focus, Focus.

   Every producer would have to choose a part of the market upon which to focus. Whether the focus is by size, SIC code, or whatever does not really matter. The agency would also choose, using larger parameters, a focus. All employees, carriers, and clients would have to fit the focus.

6. IT Outsourcing.

   I would hire the best third-party agency management system consulting firm specific to my system to help me with even the most minute aspects from the system settings to report formats to training to annual reviews. It has been my experience that many agencies are missing 10%-20% productivity improvement gains by not making this deep investment.

7. Annual Audits.

   I would spend the money on annual outside reviews. Whether the review is a periodic E&O audit or an agency valuation or a strategic plan, I'd take the time and spend the money to do this. I would build these items into a scheduled rotation.

These seven points make a large, positive difference. Many agencies do one or two, but rarely all seven. Try at least five and see for yourself if your success increases!

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What if Artificial Intelligence Replaced the C-Suite?

Much speculation and progress has been made in Artificial Intelligence (AI) regarding replacing humans even in jobs historically regarded as highly professional such as accounting, underwriting, and some types of medical practice. I have not yet read any speculation about AI replacing the C-suite suits of large companies so I will have some fun and speculate.

My first though is this, how much worse can AI be than some C-Suite executives? With that point settled, we've established that AI can outperform some executives. Everyone reading this can name executives that were absolutely and inarguably incompetent.

Second, before any readers go and blow a gasket thinking I am picking on them personally or painting all C-suite executives as incompetent, I am not. As in all professions, some people are really good and some people are bumblers. I am only portraying some executives as having been elevated past their ability.

Third, I have met dozens and dozens of large company C-suite executives and I have reviewed in detail the financial performance of many more. Some executives are really, really good at what they do. AI cannot likely replace that level of quality, at least not in the foreseeable future. Those executives are worth every penny they are paid.

The others are the ones where I wonder how they even got into college. I have seen several CEO's and a few CFO's that had no clue what their own financial statements meant. A couple clearly had no idea how reinsurance affected their expenses. A couple of others did not understand what a 100 year event actually means for their reinsurance. AI would not make these mistakes. Of course these are not mistakes until the company goes bankrupt (maybe not even then if one judges competency by the size of severance for the executive to leave) as one of these companies almost did before being purchased at 11:59 pm.

AI would probably do a better job perpetuating the next generation of management too. More than one CEO has been so territorial, controlling, and selfish they refused to allow competent people in the jobs just below theirs. A great strategy for an incompetent leader to keep their job is to make sure the people just below them are just a little more incompetent. Such C-suite folks are incredibly Machiavellian. They may not understand reinsurance or financials or coverages, but they know how to gain and keep power.

AI would treat the company first rather than putting the Prince first. Maybe the most valuable trait AI has is it lacks conflicts of interest. How many workers' compensation companies have been started with the founding CEO cashing out before tail losses caught up crashing the company? This brings up an entirely different benefit of AI in that the buyers of such companies would not be enabling the founders of such companies to skate simply by failing to do adequate due diligence. The executives of such buyers have intense conflicts of interest because of how their compensation is usually structured. No matter how one slices it or dresses compensation up, executive compensation is primarily a function of revenue size. If you do not believe me, run a regression analysis of executive compensation versus annual revenues. Boards and consultants and attorneys gussy up the compensation plan to make executives' compensation to look like it is based on all kinds of factors but they do not discuss the fact it is highly correlated with revenues. Therefore, the more acquisitions, regardless of quality, an executive does, the more they get paid. Even if the acquisitions fail, the larger the company, the larger their severance.

The examples I shared here are all programmable. In fact, these examples are easily programmed. AI is not even necessary. Excel will do just fine. Artificial Intelligence is going to have a huge impact on many industries and jobs. I don't think natural intelligence should limit thoughts as to which jobs might be replaced. Computers and software can absolutely outperform the worst executives already. We just have to let it happen.

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How to Alienate Clients while Cutting Costs

I recently "applied" for life insurance. I haven't purchased a new life policy in about ten years. The last policy was a relatively easy purchase as evidenced by the fact that I do not even remember buying it. I do not deal with many life insurance producers or life specific agencies so maybe I have lost track of industry developments or maybe I just had bad luck with my most recent purchase, but I doubt it.

I began by working through an agent I trusted. He and I did the initial application which was a fine experience. Then the debacle began. I did my "short" phone interview with the insurance carrier that lasted seemingly forever. When I was done, I realized they had asked for more medical history than my doctor. I wondered whether they actually wanted to write a policy for anyone over 25.

One reason the interview lasted so long was I couldn't understand the interviewer. I am sure she was cheap but using cheap labor with an undecipherable accent is a sign of disrespect for the carrier's agents and clients and their time. I had to ask her multiple times why she was so interested in whether I had "hives." She was trying to say HIV.

Life insurance is about trusting that a company, to which I will pay thousands of dollars over a ten, twenty, or thirty year period. I am hoping that this company will be financially strong enough to honor the contract fairly when I die. Why should my trust grow when the company can't afford a customer service representative that cannot speak English clearly?

Then I received the full application the same representative completed per the phone interview. I did not return the application immediately because I'm a busy person. Therefore the company began calling me within about five days asking me why I hadn't returned it. Then they kept calling about every third day. They did not honor my request to give me more time. Nor did they honor my demand to quit calling my cell phone. Each time they said they'd note my file and they'd quit. They didn't quit. It was pure harassment. People have had cease and desist orders issued for less harassment. Why would anyone be more inclined to buy insurance from a harasser?

By calling all the time, they clearly were trying to shove their priorities down my throat rather than respecting the priorities of their future customer. Why shouldn't the customer's priorities take priority?

Then they called from an "unknown" number per my cell. How does calling me from an "unknown" number instill trust? That number should be listed so that I can track them down. Transparency sells.

One reason they kept calling was that it took me longer than expected to return the app. The reason it took longer than expected was because they made so many errors. Evidently the representative who could not speak English clearly could not complete an app accurately either. The app literally listed someone else's SSN and other data. She made at least 17 <u>material</u> errors. If the insurance company cannot afford to for pay someone any better than this, why should anyone trust them to be solid 20 years from now? I took over an hour to fix her mistakes. Now as I await their fixes, they don't seem to be in such a hurry.

I have, by this time, spent at least four hours for a run-of-the-mill life application with modest limits. Most people would have quit but for me, it is an experiment at this point that I hope to use in this article and elsewhere to motivate this industry to clean up its act.

I am purchasing this policy because a term policy I purchased many years ago expired. The expiring, nice carrier sent me a letter offering to renew my policy for three times as much premium as a new policy would cost. <u>**That is egregious**</u>.

Furthermore, I seriously doubt tripling the price is actuarially supportable (though as I've heard more than one executive/actuary state: what rate is it that you want to support?). If ten other companies offer rates 1/3 what this company offers with exactly the same data and term life is term life if the actuaries are doing their job, I don't know any other reasonable conclusion other than the expiring carrier is trying to rip off clients. Since I did not die during the term, they clearly made good money off me. How greedy can they be? I received at least five notices from the expiring life carrier trying to "scare" me into buying an extension. I am sure this tactic often works and maybe if I was not in the industry I would have been scared enough to buy that overpriced extension. Fortunately, I know enough to know the insurance company was trying to take extreme advantage of me.

Insurance companies often get an unfair reputation, but if anything, my experience with these two well-known life companies suggest they are not being reviewed often enough with adequate scrutiny. The insurance industry struggles to build goodwill and yet, it makes the effort to look bad. Both examples, horrible, cheap customer service and egregious unsupportable rates require a C-suite decision. At least two highly paid executives chose to degrade the purchase making me wonder how financially strong the one company is and how ethical the other's executives are.

Until and unless such behavior stops, the industry's reputation will suffer. The worse the reputation, the more commoditization will develop. The worse the reputation, the more likely politicians will continue increasing regulations and when they do, do not point fingers unless you are looking in the mirror. The best solution is for agents to work with better companies and then learn to better articulate to clients the difference between carriers (this includes P&C too).

It's the industry's choice whether to clean up its act and the industry's choice begins with you.

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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 25 years' experience. He is a featured speaker across the continent at more than 300 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 and NACVA, 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. Chris Burand is also a Certified Business Appraiser and certified E&O Auditor.

Burand & Associates, LLC is an advocate of agencies which constructively manage and improve their contingency contracts by learning how to negotiate and use their contingency contracts more effectively. We maintain that agents can achieve considerably better results without *ever* taking actions that are detrimental or disadvantageous to the insureds. We have ***never*** and would not ever recommend an agent or agency implement a policy or otherwise advocate increasing its contingency income ahead of the insureds' interests.