

Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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In This Issue...

Do Homeowners Policies have to Become Commoditized Too?

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[Read More...](#)

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[Read More...](#)

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Agency Valuations: Accuracy is Critical

Agency values are much more than good conversation. An agency valuation is the first step for many critical activities, such as:

- **Mergers and Acquisitions**
- **Estate Planning**
- **Buy-Sell Agreements**
- **Ownership Transfers**
- **Divorce Settlements**

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Ben Jeffreys
Account Executive/Agent
Laiming Insurance Group

Service Selling Supercharge is series of audio lessons to write, retain, and grow business.

Written and presented by Emily Huling, CIC, CMC, service-selling industry expert.

Here's how the program works:

1. You receive 52 service-selling lessons for PL, CL, and Benefits CSRs in three-to-six minute mp3

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Matt Wells Producer School Scholarship Awarded

AUSTIN, TX (April 30, 2015) -- Kimberly El Amrani is the recipient of The Matt Wells Scholarship for The National Alliance Producer School on May 13-15 in Tallahassee, Florida. Kim is the Principal Owner/Agent with Prime Insurance Group, LLC, in Henrico, Virginia. Selected for her high potential for leadership and success as a producer, Kim personifies the values of professional development and continuing education.

This special scholarship, founded in 2003 by Mark Wells, Editor, Publisher and Chairman of Wells Media Group, Inc., honors the legacy of his son, Matt Wells. *Insurance Journal Magazine*, part of the Wells Media Groupnetwork, grants these special scholarships. The magazine sponsors this award in partnership with The National Alliance for Insurance Education and Research. The scholarship, granted for each Producer School, provides full tuition, a \$2,500 value, covering materials, instruction, and pre/post course work.

For additional information about the Producer School and scholarship opportunities, call The National Alliance at 800-633-2165 or visit the website at www.TheNationalAlliance.com.

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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 (CSR). 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.

Do Homeowners Policies have to Become Commoditized Too?

The definition of a commodity is that the item is completely interchangeable with any other item of the same nature. For example, an ounce of gold is an ounce of gold. A bushel of red wheat is a bushel of red wheat. A barrel of West Texas crude is a barrel of West Texas crude. And unfortunately an auto policy has become an auto policy (in the public's mind).

Do homeowners policies also have to become commodities? If agents do their jobs correctly, homeowners should never ever become a commodity. If agents do not do their jobs correctly, and many do not, they should lose their jobs because if homeowners becomes a commodity, consumers simply do not need agents. The choice then is up to the agents. What will it be?

Insureds need the answer to be that agents and CSRs will step up and do their jobs better. The reader may wonder where I'm coming from accusing people of not doing their jobs well. I have been doing E&O audits and before that, file audits, for 25+ years. A large portion of agents, producers and CSRs do not ask the questions or take the time to explain coverages so insureds often do not have the right coverages. The reason this is not more apparent is most insureds do not have homeowners claims or the claim is an extremely basic claim so the fact they do not have the right coverage is not noticed. It is kind of like someone stealing money and thinking no damage is done simply because the victim has not noticed.

Here are some facts. Take a community with 100,000 homes, or even an agency with 1,000 homeowners policies. It is impossible that all 1,000 homeowners need the same coverages (forget about the differences in coverage A values). For example, a typical insurance company will have 25 different homeowners endorsements relative to coverage, not mortgage related items. Why have 25 different coverage endorsements if needs did not vary so significantly? Yet I visited an agency specializing in personal lines not long ago where, out of 300 policies, 98% had only one or two endorsements, typically replacement cost on the structure and contents.

It is virtually statistically impossible that at least 20% of those policyholders did not have extra exposures such as boats, collections, businesses in their home, higher liability limits, water backup, flood, incidental farming, increased special limits, loss assessment for homeowners associations, extra ordinance or law, and/or earth movement. That agency's book did not address those 20% because their people never asked the appropriate questions. People do not buy extra insurance, even if they need it, if someone does not offer and explain it.

This is why a coverage checklist is so valuable. It is the reminder to ask the pertinent questions each and every time. I mentioned that most inadequacies are not discovered because most insureds do not have a

claim. These inadequacies are discovered when a catastrophe occurs. Catastrophes create large numbers of E&O claims because so many insureds have inadequate coverage. I hear agents and attorneys write and say all the time that they have procedures to win in court in these situations. Great, but wouldn't it be better to avoid being sued initially? Wouldn't it be better for your insureds to have the right coverage so they don't suffer an uninsured loss? Wouldn't it be better for your reputation? Unhappy clients tell many more people about their bad experiences than happy ones.

More selfishly, but really a win-win, if an agency sells more coverages that are important but the frequency of claims under those forms is small, the agency will make higher commissions and their loss ratios will decrease. Sometimes a point better loss ratio is worth tens of thousands in contingencies. Everyone wins.

This brings me to the most important point and that is the consumer. In the summer of 2013, North Central Colorado suffered its worst flooding since the area was settled in the 1800's. The vast majority of property flooded lacked proper and/or adequate coverage. Those consumers lives were altered, some lost everything, some do not and will not have the financial resources to become financially whole again. What is so great about insurance is that it is the financial savior in times like that when the consumer has the right coverages. The best way to protect your clients, your community, your reputation and your E&O is to be sure your agency is offering the coverages your clients truly need. Moreover, doing so may just keep homeowners from becoming a commodity too.

[\[Back to Top\]](#)

The Best Leads List

I was presenting a seminar regarding producer compensation and several agents took the stand that producers should be paid without regard to whether they actually work the renewal. On the surface this strikes me as nice work if you can get it. Money for nothing. On the other hand, if you own an agency, why would you ever pay someone for not doing anything? That is leaving good money on the table. Additionally, why in the world does an insured need an agent that does not work the renewal? What value does the agent bring? Why not go direct and save 15%?

Some readers are getting red in the face reading this because these questions pose a threat to their lifestyle. The reality, and it is a reality of the business world, is that their lifestyle is past the risk stage. Money for nothing has seen its day. It may take years before every agency realizes this reality. Rural locations and agencies serving lower socio-demographics might hold on longer, but it's over.

I was talking to a well-known, high quality CE instructor and he had an agent recently ask him a coverage question in the class. He responded the answer was on the front page of the policy. The agent responded, "I don't have time to read the policy!" Why does an insured need an agent that does not read the first page of the policy? What value exists to the insured in that relationship?

A lot of talk has been bandied back and forth regarding the internet and direct writers, etc. The reason these distribution sources have traction is that a large market segment either does not want agents that don't work for their money or do not want agents period. Historically they had no choice but to work

with an agent. Today, they have a choice.

But that is not the prime opportunity for the best agencies and producers. As the saying goes, even a broken clock is correct twice a day. I have met with thousands of producers and even the lazy ones that don't read policies and don't work renewals have a handful of nice accounts. My suggestion if you're in need of getting a high quality leads list is to attend CE courses or other educational programs and just wait for someone to make a stupid remark indicating extreme laziness. Moreover, not only are these folks telling the world they're lazy, they telling the world they're stupid enough to advertise they're lazy.

The insurance world is a small world and it's not typically that difficult to identify good accounts certain agencies and the producers within those agencies write. Taking those accounts, assuming they're not family accounts, should be like taking candy from a baby, like shooting fish in a barrel. If they're too lazy to read policies or work renewals, then even if they're working more on their best accounts, the odds are they're taking short cuts so they have more time for golf.

Take those accounts and do yourself and their clients a big favor.

[\[Back to Top\]](#)

Why Private Data Means Private Data

One of the first steps all smart and fair parties should take when opening discussions regarding a merger or an acquisition is signing a quality nondisclosure agreement (NDA). Even if the parties are friends, it is best to sign an NDA and then follow it. Nothing can ruin a deal or friendship faster than letting confidential information get out.

So why do some entities not insist quality NDA's be signed upfront?

- Some entities just do not know enough. Purely innocent but after reading this article, hopefully they do not make that mistake again.
- Some entities clearly want to take advantage of their naïve peers. Do not underestimate this point. The industry has some sharks that make Jaws look like a child's goldfish.

Quite often I see agency owners with little experience thinking all NDA's are created equal. That is a far cry from reality. NDA's are supposed to be meant to keep all data confidential to the parties and typically their advisors (excluding legal compulsion of course). Many NDA's do not provide such total privacy and the reasons are often nefarious such as:

- One party, usually the buyer, wants to use the other party's data if the deal falls through.
- The NDA allows one party's advisor(s) to use the data. If the data is only used anonymously as part of a big database, I am not too concerned. However, some NDA's allow the advisor to use the data any way they choose. For example, they can take the party's financial data and solicit other parties to buy the agency or take advantage of the agency. That is not good.
- Surprisingly, when asked to improve the NDA to provide proper protection, sometimes these parties act as though they've been slandered, as if their honesty is being questioned. They take

exception to someone not just trusting them. I can understand this if this was their first rodeo but this is rarely ever the case. They are professionals and they know better. They are just putting on a front or they're upset their less-than-honest intentions have been discovered.

Another issue I have experienced is when companies will not sign an NDA. Whenever an agency is discussing a special program, a special product/service they have developed, or any other special and proprietary information with companies, especially when the agency is looking to partner with a company, get an NDA upfront. More than one company has stolen an agent's/broker's program.

NOTE: None of the materials in this article should be construed as offering legal advice, and the specific advice of legal counsel is recommended before acting on any matter discussed in this article. Regulated individuals/entities should also ensure that they comply with all applicable laws, rules, and regulations.

[\[Back to Top\]](#)

Blockers

Do you have someone blocking the agency's progress? Someone that does not want to change? Do you have someone that does not want to share data or clients with key people? Do you have someone that does not want to invest in the future? Do you have a partner that wants all profits now and does not want to invest money in people? Do you have someone who is unfamiliar with 2015 pay scales? Do you have someone that thinks the internet is just a fad?

If so, is this person a shareholder or key executive? If so, before identifying a solution, consider the cause of their motivation and obstruction. At the most basic level, is their obstinacy due to:

1. Sound business reason?
2. Lack of knowledge?
3. Cheapness?
4. Greed?
5. Insecurity?
6. Ego?
7. Other?

One has to identify the root cause to effectively remove the blocker. The strategy for bringing forward a person who has the best intentions but lacks current knowledge has to be completely different than the strategy used to deal with a greedy partner. Truly understanding the root cause of their blocking behavior is a key to knowing how to progress.

If you are the person wanting to move the agency forward, some personal soul searching will also benefit you and the agency. Having visited hundreds of agencies, often the situation I find is one person wanting to move the agency forward and another holding it back. The more progressive person understands the other person's motivations. Yet no progress is made because the more progressive person simply cannot bring themselves to having a crucial conversation with the other party. They dislike

confrontation too much. They see confrontation existing when it really does not exist. Or perhaps the progressive person is insecure about moving the agency forward and is using the blocker as an excuse to shield their insecurity. Either way, nothing gets done. Is this you?

If so, your choices are therapy or bringing a third party into the agency to handle the situation for you. I suppose another choice exists and in fact, it is a common and maybe the most popular choice, and that is to procrastinate. Simply put off the conversation as long as possible, until a crisis precipitates the conversation. I have seen agencies collapse, literally, because the progressive partner absolutely could not bring themselves to having a crucial conversation with the blocker.

Blockers get their way most of the time in these situations because no one will have the crucial conversation required to move the agency forward. Sometimes, depending on the situation, blocking is an extremely selfish strategy whereby the individual benefits while killing the agency. I see this most often when an older partner is being paid far more than they are worth preventing the agency from investing in the future. This partner is being paid and maybe the value of their shares is locked so they greatly benefit. The next set of shareholders will not be so lucky.

Sometimes blockers truly have just been left behind. Pay scale is most often indicative of when this occurs. They still think paying a CSR \$25,000 or \$30,000 is adequate for a good CSR. While their motivation is innocent, the damage done is the same and they still get their way if a critical conversation is not had.

Assuming a crucial conversation occurs, what is the likely outcome? Obviously this depends on the people involved and their specific situation. In some cases, the blocker simply needs to be removed. If they are a shareholder, hopefully the agency has a high quality shareholder agreement that facilitates this track. If you do not have a high quality shareholder agreement/buy-sell agreement, let's work on it earlier rather than later when all parties are entrenched.

Assuming the blocker does not necessarily need to be removed, the key to positively resolving this situation is following a strict script for bringing the person around. Hard work is involved in preparing the script and sometimes the meeting must be facilitated by a third party. But when the script works, the feeling of relief and accomplishment and goodwill is overwhelming. Everyone wins.

If you have a blocker in your agency, what are you going to do about it?

[\[Back to Top\]](#)

Promises

I was giving an E&O presentation at an agents' conference when someone exclaimed they were going to forego advertising if plaintiff attorneys were going to hold the agency's advertising claims of expertise against them!

This exclamation caused me to think. A plaintiff attorney's attack on this point is genuinely unfair because it prevents the agency from having their cake and eating it too. The agency should be able to

advertise they are experts and they always carefully match coverages and price for every client without really having to do so, except for their VIP accounts and the squeaky wheels. After all, if the agency did it for everyone, they'd go broke. How's a poor agent to sell insurance if they cannot make grandiose statements from the heart while simultaneously limiting service so they can make a profit? It's a heck of a dilemma.

Live up to the promises by working every account and going broke due to the cost or not make any promises resulting in no sales or make promises that are not fulfilled and being sued for every penny. If ever there was a damned if you do and damned if you don't scenario, this is it isn't it? No matter what, poverty results and that just isn't fair. Our President has confirmed that poverty, regardless of the reason is not fair.

Instead, the attorneys should consider the agent's heart. When the advertisement and the website promises were made, the agency had great and sincere intentions. Their heart was in the right place. Furthermore, all the insured needed to do was ask for more assistance for the promises to be fulfilled so it is really the customer's fault.

Another important, though unspoken variable is that selling can be extremely fun. It is the work that follows the sale that is not fun or at least not as much fun. No one should have their fun taken away and it is a lot more fun to make a sale and then immediately sell some more, forgetting the promises in-between the clients' doors.

A great aspect about selling insurance historically was after the sale, the company did the main work with that being claims and then they took over the billing making life even better. A better sales gig, especially if the CSRs were good, never existed. Now the courts are insisting sales and advertising promises be fulfilled. So now sales are less fun, more work, and less profitable but if the producer does the work, at least they're less likely to be sued. As the song says, "What's a poor boy to do?"

My suggestion is to sue the plaintiff's bar for discrimination. My observation is that a large percentage of producers have severe attention disorders or at least they seem to since their ability to focus for any length of time on a non-fun subject is measured in nanoseconds. So, by suing producers for not fulfilling promises and missing details is really suing a disadvantaged class. The plaintiff's bar has quite a juxtaposition and all the agents' associations need to do is frame the publicity correctly.

Furthermore, the Constitution guarantees the right to the pursuit of happiness. So when you know your happiness is best pursued by making sales and your happiness is diminished if promises made must be fulfilled, your constitutional rights are being violated.

So as with the solution for so many perceived wrongs, you must sue. Approximately 40,000 independent agencies exist so a class action should be entirely feasible. Find the name of a producer that has an especially likeable face. Then choose the right county. Plaintiff attorneys have their favorite counties in which to bring a disproportionate number of suits so you just need to find the opposite kind of county.

Then find a favorable face to appear on MSNBC. They need to have a sad story that evokes great emotion so overwhelming that the failure to fulfill promises becomes secondary. Make sure you get your families photographed but leave out the fat kids. They need to be really skinny and preferably dirty with

signs saying, "Don't hold my Daddy Accountable! He was just trying to feed us!" Get witnesses to testify how happy the name of the agent was making sales and living the high life versus how despondent he became trying to do all the work his promises created and how that hard work proves he has a good heart.

I don't see how a group of agents would not win. We have discrimination, a constitutional violation, we have poor, skinny, dirty kids, the party being sued is despised by many Americans, and everyone knows the phrase "caveat emptor" always applies any way. This is really a great example of just taking some lemons and making lemonade because when the suit is successful and you win gazillions, you'll never have to work again!

[\[Back to Top\]](#)

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 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.

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