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In This Issue...

To Niche or Not to Niche, by Jeff Kleid

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Read More...

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Read More...

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Read More...

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"Never mistake motion for action."

-Ernest Hemingway

Love wintertime in the Rockies?

Interested in networking with Agency Leaders?

Then I'd like to invite you to attend the **2017 Keystone Agency Management Meeting**, March 2-3, 2017 in Keystone, CO!

This opportunity consists of a small group question cannot be stupid.

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[Read More...]

of agency professionals who meet only during the morning. The group discusses critical agency management topics, as well as attendees' ideas, roundtable topics, successes, questions and concerns.

The schedule leaves the afternoons free for skiing and enjoying the breathtaking Colorado Rockies. The registration fee for this two day meeting is $549 per person. Please contact me at chris@burand-associates.com to learn more.

We have very limited space available so if you're interested, don't wait!

To Niche or Not to Niche, by Jeff Kleid

Like many insurance producers, I got my start by placing insurance policies for friends and family. The next step for me was when another insurance producer in my office handed me the phone book and said we have a good market for apartment owners and HOA's, so why not call them and set an appointment.

Well, I quickly learned that cold calling from a phone book was not for me. What I did learn and all these years later know to be true, is that the better you get at working through a specific industry the more opportunity you will have to succeed. Be warned, it is a lot of work. Sometimes, finding the right industry that doesn't have too many competitors while at the same time has enough insurance products to be competitive can be a daunting task.

You might have to go in several different directions before you find the one that works. There is no substitute for good old fashioned networking and business development, but planning ahead and strategic positioning will ultimately help you land in the right place.

Over the course of the last 20 plus years I have been fortunate to find, grow, build and ultimately sell insurance books of business specific to unique niches.

In every instance there were 3 common denominators:

1. Competition was truly limited to a few specific experts.
2. There were very few insurance products available.
3. I embraced those industries as if I was actually in that industry.

By learning who the players in the space are, you can learn what they do, what they don't do, and how you can create an alternative solution. I got involved in the fitness industry in the late 1990's from a referral through someone in a networking group. Even as a referral, I still had an uphill climb to become the preferred insurance provider for an association within the industry. By learning and understanding the industry, the competition's strengths and weaknesses along with a willingness to build a better mousetrap, I was able to build a solid reputation and book of business over the next 15 years. In the beginning, I had to figure out what value I could bring, what companies would embrace me, and most importantly what type of buy-in both financially and personally would I have from the owner of my agency.

Once you have thought out your commitment from a time, money and human capital direction, then you have to realize that not everyone will be excited about your new involvement. Sure the companies you represent or bring in to your opportunity with the space may or may not be excited and onboard, but those who are already in the space will do everything in their power to see that you do not get involved. You will most likely be viewed as a threat to others and their livelihood. So, don't expect an amazing welcome. In fact, you need to prepare for the opposite. Simply put, the closer you get to becoming an industry disrupter the more your competitors will try to put pressure on the insurance carriers, to either up their game or freeze you out.

Of course, there is always the option of using one of your key relationships to create a product or program, and yes it does happen, and I have personally been able to create several programs, but it doesn't just happen quickly, and it does take a real commitment of time and patience.

Don't be discouraged. If you have either found yourself writing several of the same types of risks, or find yourself with an opportunity to write multiple, like, kind and quality risks, I will unequivocally share with you, that the rewards of creating a long time successful program campaign will far outweigh the time, money and human capital that you put in and may ultimately last for years to come.

About the Author:
Jeff Kleid started as a Producer and rose to Principal and President. In addition to having a substantial book of business, under Jeff's guidance his company grew from 15 employees and producers and revenue from around $1.5 to almost 80 employees and producers with $12 million revenue from 1995 to 2008. The agency Jeff constructed served traditional Brick and Mortar, multi platform program and specialty market driven full service, Property Casualty, Life/Health divisions for both commercial and personal lines clients. Jeff has been involved in a full spectrum of insurance products and programs and in 2013 sold a second book of instantly issued online insurance policies and relationships to K&K Insurance, a division of AON.

All of Jeff's success was based on an understanding what type of producer he was and then becoming an engaging agency principal, maintaining his own book and a creating a balance between sales and management. Jeff works closely with agency owners to guide them through growth, either specific or multi directional, by engaging and individualizing the owners' and producers' sales process based on their individual abilities, limitations and desires to help them and you maximize your bottom line profitability.

[Back to Top]

Mea Culpa

A mea culpa is in order. I wrote an article that began, "It is a fact that many people with the title 'producer' don't produce. They service and accept what comes to them, but they do not produce."

A reader disagreed stating, "That is not a fact as you state. Building relationships, coaching insureds, working with the underwriters, etc., is producing. Producers do much, much more than servicing and accepting what comes their way. Producing revenue for an agency is a difficult job! It is insulting to see you say that we just sit around and wait to accept what comes our way."

The reader is correct. I could not write it better that producers service business and work with underwriters and build relationships and the good producers help insureds understand what coverage suits their needs best. Producing sales is indeed, tough work. For some producers all these factors require so much time they do not have time to prospect and develop new accounts. Nor do they have time to build their books any larger. Who is to say that a producer who only builds a $150,000 commission book but has the best client relationships and the best coached insureds and whom underwriters love is not as valuable as the producer generating $500,000 commissions with $50,000 new commission annually?

The reader never stated producers should be judged by whether they produce. Judging success objectively by sales is so capitalistic.

Another offended reader wrote, "The reason producers may not produce is because the service staff is inadequate." I have seen this happen because every producer knows they bring the staff perfect submissions every time. They always bring high quality accounts. They do not insist on remarketing accounts just to prove they are marketing the accounts. They bring accounts of adequate size. They never, ever bring partial submissions of small, poor quality accounts and insist on marketing the accounts to five markets. The producers are perfect so the staff's job is easy. This is why this particular reader's next point bears consideration: Cut the staff's compensation so they will work harder.

This is such a unique perspective reminiscent of feudalism. Quality CSRs are difficult to get and they are paid well for a reason. One reason is because, in case you did not recognize it, is the sarcasm in the previous paragraph. CSRs' jobs are hard because producers do not bring complete submissions, not even legible submissions. As a whole, they constantly require the staff to block markets for $500 commission accounts. They constantly demand new surplus lines brokers be added to the agency's stable for some $400 commission account that is just "critical to their success."

However, this particular reader's staff must be far below par. What happens when lousy staff have their pay cut 20%? The reader thinks it would motivate them. How? Well, obviously the fear of working for minimum wage. Then again, it could motivate them right out the door to less demanding agencies and the producer would have to do even more service work. That might be his goal so that he has even more excuses for not selling.

So my mea culpa is that I should have considered that production is secondary to everything a producer must do and all the staff should work twelve hour days for minimum wage. Then the producers would be really happy only doing what they want without anyone judging their lack of sales. I completely failed to consider their feelings.

I have not yet figured out exactly how the agency would develop revenues in this scenario but I'm sure if I thought about it long enough, if one built these two readers' producer friendly environments, sales would just happen. Why even worry? Why even measure sales? Such measures are so judgmental! These measures do not consider the soft market, the soft people skills, and the producers' stress. In fact, maybe producer goals should consider stress. If the goal is $500,000 commission books, the number should be discounted by some stress factor. At 50% stress, the producer's goal should only be $250,000.

Poor staff would be another discount. Less than 1,000 markets would be another discount. With every producer's goals then appropriately discounted for stress and adverse factors and a feng shui office setting, the happy quota being 100%, we might have proof money does not buy happiness. Of course, costs are involved but those costs consume the agency owner's money so maybe the phrase could be, "Money does not buy happiness but consuming other people's money does!"

What is really cool is that in the beginning, no one would have to take pay cuts just in case producer happiness karma electricity and magnetism did not pull new clients into the agency. That is the beauty of residual income. Even better, as income dwindled, everyone could have time to learn to live on less and less income. Sudden income loss is unbearable but slow loss can be emotionally and financially managed, to a point of course.

In my prior article, in fact, in many prior articles, I did not express any empathy or sympathy with the feelings of producers that don't produce. The readers' responses listed in this article are real. I did not make them up. I clearly failed to consider that I might have been hurting feelings of producers who don't produce. Such sensitivity makes me wonder how they could ever survive in sales given that so many sales situations, true proactive out the door sales situations, involves "no's". Maybe my next article should consider how it is always the customer's fault the producer does not produce.

[Back to Top]

Einstein and Insurance Agencies

2015 was the 100th anniversary of Einstein's general theory of relativity. Two aspects of physics (at least) apply to managing agencies.

1. Space and time are not distinct. In case you missed Physics 201 (I've noticed over time this is not typically a favorite class of future agency owners and insurance people in general), the General Theory of Relativity requires understanding that space and time are not separate. Instead, the universe is a four-dimensional composite of a space time continuum. One result then is that time does not have a direction.

On one hand, this makes sense because time goes round and round but never gets anywhere. On the other hand, years passing by and policy terms are clearly linear with a distinct direction. The difficulty of seeing the universe in four dimensions, and similar Einstein Physics requirements, is why so few people ever take Physics 201, much less any higher levels of physics. Normal people want to depend on common sense and four dimensions is not common sense.

Einstein's response is what is so important to agency owners and carrier executives. He said that common sense is, "...a deposit of prejudices laid down in the mind before you reach 18." Common sense is what I see retarding agency success. Examples include:

- Upfront underwriting. I know this subject is sacrosanct with many people but upfront underwriting is completely full of prejudices laid down before the age of 18. Furthermore, technology is going to underwrite more accurately than humans not because technology is smarter, but because it is not prejudiced (where the software code is written correctly).

- New producers motivating themselves to sell. There is no common sense whatsoever in this overly common strategy.

- Companies are most concerned with loss ratios. This is a great example of prejudices being formed and never adjusted. Unless a company is far behind in technology and/or they have serious profitability problems, loss ratios do not have the importance of yore. It isn't that they are not important. They just are not paramount. Growth rate is far, far more important than ever. No amount of volume is enough. Companies need growth rate.

- People are good judges of people. Every test shows that even insurance agents are not any better judges of people than other people.

- People take far too much credit for their own success usually dismissing the luck factor.

  (A footnote is that another branch of physics, thermodynamics, does consider time to be linear. It is sort of like one branch of an insurance company emphasizing growth at risk of increasing loss ratios while another branch tells you to emphasize loss ratios over growth, only the math of thermodynamics is much, much, more difficult.)

2. The 2nd law of thermodynamics involves heat transfer--not really important to agency management. But the consequences of the 2nd law are important. A consequence of the 2nd law is that any and EVERY system will become more disordered with time.

An agency is a system. A company is a system. How ordered or disordered is the only question. I see agencies with old, good procedures and old, good contracts. Over time, however, the agency begins straying from those practices. It is inevitable because someone will see the need for an exception and then another exception and then some company requires a special process, and then a few years later, the procedures are either a mess or no one follows them with any consistency.

The best solution, really the only solution that minimizes disorder over time, is an auditing system combined with continual review of the procedures. Procedures must be a living document. They are not so fixed as to be carved in stone. Then, updating the training to keep all new people within procedures and to remind experienced people what the procedures are. It is human nature to stray off course without even knowing it.

One of the most important facets of the laws of physics is they cannot be broken. One of the oddities of scientific nomenclature is the use of "laws." Human laws can obviously be broken. Nature's laws cannot be broken. Nature's laws are facts, the only walls that cannot be destroyed. Agency owners seem to confuse the idea that because human rules, regulations, and laws can be broken that somehow they can get away with breaking nature's laws. This is where agency owners and many insurance company executives violate common sense. Their prejudices are just wrong. They think they're special. They think the laws of physics do not apply to them or their organization. Physics doesn't apply capriciously. The laws of physics apply always to everyone and every organization every time. The laws of physics are like death and taxes--inescapable.

A great example this industry repeats like Groundhog Day (the movie and another example of time) is with fast growth workers' compensation companies. They arise, they grow quickly by underpricing, they either sell to someone that must add considerable capital a few years later or they fail causing all kinds of problems. Every time the company executives swear to the world "We are special! The tail does not apply to us." The tail catching up is a de facto law of physics.

Another example is the agency owner who swears they are special and therefore, good contracts, procedures, and so forth are not important because he is special. His producers will never do anything to harm him. His clients and companies love him so they never will sue. Time is circular and since no one has damaged him yet, it cannot happen in the future.

Put aside common sense. It is just a collection of teenage prejudices. Accept the reality of nature's laws. No one on earth and no organization on earth is immune to nature's laws. If you want to achieve much more success for your organization, Einstein and physics actually do have application to your organization.

Don't fight reality, because you will lose. Build procedures and constantly revisit. Don't bet on producers being self-motivated. Don't bet on a new carrier's rates remaining low. Make reality your foundation and life will be more prosperous and fun without even studying or learning anything else about physics!

[Back to Top]

Stupid Questions or Stupid People?

Every reader knows the saying or has heard a speaker say, "There's no such thing as a stupid question so ask anything you'd like!" I agree, to an extent. During presentations, almost any question is a good question and at worst, stupid questions do not really exist. In other words, a question cannot be stupid.

However, stupid people or at least ignorant people do exist. Their questions are not stupid but those questions indicate the person is either stupid or ignorant or inadequately educated. It is one thing if a young person or person new to the industry asks a question that indicates ignorance. The person is ignorant but they are trying to do something about their knowledge gaps. When an industry veteran asks a similar question though, an optimist would conclude it is better late than never, maybe 20 years late, that they ask the question. A realist would conclude the person is either stupid or lazy to be so ignorant after so many years in the industry. Take your pick.

This is especially true of coverage questions. No one ever knows everything about coverages. The key is to understand what it is you do not know. But high level, detailed, complex scenarios and questions are not the issue. I am writing about very basic knowledge. For example, "If one exclusion does not apply, none of the other exclusions should apply either, correct?" This is a real example.

Another real example, "You mean I can be sued for E&O if the client's liability limits are insufficient? Doesn't E&O just apply to property?" My favorite lately, that I've seen/heard multiple times in the last few months is, “You mean if a person has a business in their home, their HO-3 won’t provide complete coverage for the business?” Or another version of this question, "Why would an underwriter be concerned that part of the house is being used as a rental (or for a retail business)?"

These are absolutely real examples slightly changed to protect the people who asked them. I can't make this stuff up. These are such elementary questions and yet the list of such questions goes on and on and on. As an aside, all these questions were asked by agency owners. Beyond the obvious problems ignorance creates for these agents and their clients, it creates a problem for the entire industry. One, or several, bad apples do spoil it for the rest. One reason commoditization has become such a powerful force is the ignorance of these bad apples.

My call to action is this:

- Create unemployment for the lazy and stupid agents. Take their best accounts.
- Use your coverage and exposure knowledge to take accounts, even at the personal lines level.
- Use your coverage knowledge to expose them. Use your intelligence to damage their reputations nicely be revealing their ignorance to their clients and even their carriers.
- Vote to eliminate continuing education (CE) in your state or vote to make it real. The idea of getting four hours CE credit by spending 30-60 minutes in front of the computer with the answers in front of the person is a complete joke.
- Vote for tougher licensing requirements. In 2014, a Michigan Appeals Court ruled that the educational and licensing requirements "are not commensurate with the 'professions' generally deemed subject to professional negligence…" While agents might applaud this ruling for E&O, it is a pyrrhic victory. Beauticians often must spend more hours to get a license.

Last, be bold. Be bold enough to charge extra for your intelligence, knowledge, and diligent efforts to continually learn. Be bold enough to tell clients intelligence, knowledge, and education are worth more than ignorance and stupidity. Be bold enough to walk the walk. Instead of cowering behind E&O mitigation efforts to not increase your agency's standard of care, be bold enough to increase your standard of care and then walk the walk. Be bold enough to do what you say.

Be bold in your agency's leadership. Lead from the front not just with a vision, but with execution. Be assertive and educate the public about the differences between the two different kinds of insurance agents. Boldly take your agency to new heights. Rather than letting the ignorant set the standard, you set the standard!

[Back to Top]

Is your agency managed like the U.N. Security Council?

The U.N. Security Council, as readers know, requires a unanimous vote to act on anything. If one member sees the slightest advantage in voting "no," even if the situation does not directly involve their interests, nothing happens. They can even vote "no" just to make another member mad. So over decades, virtually no unanimous votes have occurred. Remember, there are only seven votes. It seems like seven entities could agree on much more over 60+ years. Consider all the speeches, time and money spent just to sustain status quo to the highest degree possible.

Does your agency require unanimous votes between partners? Forget the shareholder agreement technicalities. When it comes to making an important decision, must all shareholders agree? My experience is that a whole lot of agencies are run by the unanimous vote rule. The result is paralysis. Someone always votes "no." Sometimes that person is the same person in every vote. They are known as Mister No. Sometimes different people vote "no" but somehow, someone always votes "no." Sometimes Mister No is disguised and only votes "no" if no one else votes "no." Sometimes these people are so fixated on "no" their partners would have a heart attack if they voted "yes." It would be as if Russia and the U.S. voted the same at a U.N. Council meeting. Every other country would suspect a problem. The secure phone lines would be ringing in seconds throughout the world.

Sometimes the "no" vote is about money. "Shall we approve buying a new agency management system?" "No". "How about funding a new producer?” "No." "How about buying a birthday cake for our lead CSR?" "No."

Sometimes the "no" vote is a veto against progress. I see this often. Someone has not kept up with changes in the industry and/or technology. Moving forward is a threat to them and their only protection is their veto power. Many agencies in America are at a standstill today for this reason alone.

Sometimes the "no" vote is even more personal. The vote against progress is made because progress means individual accountability. It means aligning compensation to performance. It means leading by example. It means the shareholder is scared of being discovered they are not pulling their own weight. The point they do not understand is everyone already knows.

This is like France among the UN Security Council. Per the World Bank (16 December 2014), France's GDP is 5th largest in the world, not bad but 83% smaller than the U.S.'s GDP. Using Purchasing Power Parity, arguably a better method, France's GDP is 8th, behind Brazil according to the International Monetary Fund and World Bank. Also consider their spending on defense. No offense, but they don't spend that much and their economy is relatively small but they get the same vote as the U.S. and China. They have the position out of respect of their power 100 years ago. They were effectively grandfathered in.

Now think about how many agency owners have votes but no longer bring much value to their agency's table. They no longer can bring value so their votes can be short-sighted, even selfish. Voting for future value, for the agency's future may decrease current distributions so they vote "no." Since the vote must be unanimous, the entire agency becomes short-sighted. The agency's progress is muted. What becomes of the agency's future? What happens to an agency whose leaders cannot make a decision for progress because they let a short-sighted shareholder who is not pulling their own weight stop every initiative?

The solution is easy if the person does not have a controlling vote. Stop requiring a unanimous vote. Take the initiative your agency needs. If the other members are conflict avoiders, which is common and almost always the case in these situations, then call a coach so you can learn that confrontation is not necessarily bad. Used well, confrontation becomes constructive benefiting, truly benefitting all involved. The leadership program my partner Jay Brenneman and I have designed has achieved great results helping people in these situations.

However, if they have a controlling vote, the situation is more challenging. Various methods exist to create an environment that is safer for them to make better decisions. Ultimately, the creation of that environment must occur. These situations are rare because when someone has control but will not move forward, key people that see the opportunity to progress do not usually work there. Therefore, conflict is less likely. Birds of a feather tend to flock together and in these situations, the agencies tend to attract people that just want to survive.

Through the years, I have painfully watched agencies slowly die because they are managed like the U.N. Security Council. Historically, I did not have the tools or resources to help every time. Now I have a range of tools available. Whether the tools required are mechanical solutions, contractual solutions, financial solutions, or leadership development solutions, I have them available to help because people in these situations are enduring a lot of pain that can be resolved.

[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 200 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.

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.

A complete understanding of the subjects covered in this newsletter may require broader and additional knowledge beyond the information presented. None of the materials in this newsletter should be construed as offering legal advice, and the specific advice of legal counsel is recommended before acting on any matter discussed in this newsletter. Regulated individuals/entities should also ensure that they comply with all applicable laws, rules, and regulations.
