

Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

Volume 22, Number 4

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In This Issue...

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2. Each originally, in part, used the term "subscription" though only magazines commonly use this term today.
3. Each wants to charge more, often far more, at renewal.

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Guidelines for the Best Seminar Set-ups



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For those readers who have responsibilities to organize onsite seminars, here are some extremely good guidelines I've identified over the last 25 years and 350 or so in-person presentations I have given for a variety of entities.

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Do regulations and laws still matter?

I have read a number of news articles over the past couple years that have made me wonder whether carriers and regulators really care about agents following regulations and laws. I selected one firm to use as an example because the firm's problems are highly publicized and they have written a lot of business. I did some internet based research that probably is not exhaustive and learned the following:

- The firm has been fined by at least 22 different states and federal government regulators for violating licensing requirements, repeatedly violating licensing requirements, and rebating.
- A rough calculation shows these penalties totaled over \$13 million.
- I don't purport these totals include all the fines and some of the reports vary between what the state insurance department reported and other sources reported. I did not make an effort to determine which source was more correct.
- This same firm has been successful writing business. This firm's revenues are at least 8 digits.

According to the firm's website, they represent more carriers than A.M. Best advises exist for the lines of business they sell. Giving them the benefit of doubt, it appears they have not lost many carriers who were upset to represent a distributor with regulatory issues. I could not find an instance where a state regulator pulled their license. (I suppose the firm had a license though the importance of that is questionable because if someone operates without a license, a regulator cannot pull their license--can they?)

This situation truly begs the question of whether carriers and regulators care about distributors who do not abide by the regulations, laws and contracts (company contracts generally require an agent/broker to possess a license). These regulations have been designed to protect the public from unscrupulous people and firms. The contracts have been designed, in theory, to protect carriers against distributors that could cause their brand and clients harm. Maybe the carriers have taken nonpublic actions but public would be better. Otherwise, other brokers and especially, it seems, startup firms are tempted to ignore the same laws, contracts and regulations.

In at least one or two states, the insurance division clearly took a stand against this firm only to have elected officials over-ride them. I truly feel for these regulators trying to do the right thing only to have others, who do not understand or maybe do not care enough about why these regulations exist and how they truly help protect the public, override the regulators' decisions.

It is far cheaper to run an agency/brokerage without the proper licenses and without following contractual requirements, regulations and laws. Therefore, if the penalties for failure are minor relative to a firm's revenue, formerly abiding agents/brokers would be wise to quit following the rules too. Otherwise they are at a competitive disadvantage.

Which brings me to another point: Where are the agents' and brokers' associations' actions? I do not understand why they have not made a loud public noise to protect their members. I know some have worked behind the scenes to protect their members and their publics, for which I applaud them. It does not seem most have been successful though so this means, potentially, the insurance departments are truly looking the other way, which is one reason the fines might be relatively small.

I looked at only one highly public firm. I am not confident other situations do not exist that are less public or undiscovered. If a founder of one such company is allowed to found other similar companies, have the regulators/carriers/associations really made a dent? The industry needs true innovation but it does not need cheating disguised as innovation.

If one easy way exists to commoditize insurance, it is to make trust, integrity and compliance optional behavior. The way to protect the value of independent agents and brokers is to cause enforcement of the regulations, laws and contracts. Truly, the way to protect the public is to enforce the regulations, laws and contracts or otherwise, get rid of them. The silence is deafening. The silence is suicide.

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Insurance is Not a Magazine Subscription

Magazines and insurance seem to have three commonalities:

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This is where the commonalities end and the last commonality should not exist. Magazines are priced at a market rate. Insurance is supposed to be priced at actuarially supported rates with only so much consideration to the market and profit because insurance is considered a public good. Insurance is heavily regulated because of its importance to citizens and commerce. Magazines just don't have the same relevance.

A real need exists to balance company/agency profitability and public affordability so that public policy is best served. In other words, insurance is supposed to be priced so that the most people possible can afford it because more people possessing insurance is the greatest spread of risk possible resulting in the lowest overall cost, and the best societal results. It works for everyone: society, consumers, agents, and insurance carriers. This combination really goes to the heart of the insurance industry. It is somewhat egalitarian in nature though almost no consumer will ever see it that way, and maybe that is because the industry is not working the way it should.

Pricing has changed significantly and is set to change even more, and in ways completely novel to the industry. Magazine renewal pricing is an example. Insurance companies probably (actually they almost certainly) bought a study from one or more large consulting firms who concluded that companies could charge x% more on renewal without any actuarial justification. After all, why would an account become riskier at renewal, unless the company is constantly developing more information in the first year? Since increased renewal rates is widespread behavior, this suggests if data is developed the first year that indicates more rate, carriers are not asking the correct questions on the initial application and are not in a hurry to fix their applications. Otherwise, they know they can just charge more. While true they will lose some accounts at renewal when they raise rates, the net gain on the accounts that stay will outweigh the loss resulting in a net gain. Different economic terms exist for the different varieties of price sensitivity but

most fall under the term "price elasticity." Price elasticity has absolutely nothing to do with actuarially sound pricing.

Moreover, companies have identified they can keep more of these accounts if the agent gets out of the way. The agency variable is an important reason companies are pushing service centers. (A question: Why do companies need agents or, at least pay agents renewal commissions if the company does all the work while achieving a higher retention rate? Just asking a question more agents need to ask themselves.)

The net result is a magazine renewal pricing program. I completely understand and appreciate the opportunity carriers have identified and partially realized. Any executive running a company would have to choose this strategy once the data was presented. This strategy is a contributing reason why insurance companies have been so profitable the last twelve years. From a public policy perspective, I am not confident pricing insurance like magazines is in the public's or even the industry's best interest.

A newer pricing factor is the supposed ability to bypass the law of large numbers and price accounts with extreme individual precision (the statistical argument as to whether this strategy works must await another day but it is not a foregone conclusion such precision works). Assuming for now this hypothesis is correct, insurance will be made available to more consumers and businesses, though maybe not at affordable rates, is a given. The reason is that because within the law of large numbers, a certain unpredictability exists as to which account will have material losses. Pricing therefore charges those who do not have claims a huge premium while greatly undercharging those that will have a claim. Actuarially, on average, the premiums and discounts will average out, i.e., the beauty of the law of large numbers.

However, if pricing is precise, the best accounts' premiums will decrease significantly, maybe by 50% or more. The worst accounts' premiums will increase by thousands or tens of thousands of percent. If too many people are priced out of the market, the market likely will not work well which is just one reason the theory of such precise pricing may not work. Additionally, I cannot imagine how it is in the public's best interest. Just consider this: quite a few uninsured drivers are already uninsured because they are bad drivers. This is why UM insurance is so important. What happens if uninsured drivers increase by 20% or 30%?

Another factor is how some insurance distribution disrupters have flaunted insurance regulations, regulations designed to protect the public and pricing integrity. The press has widely reported the shenanigans of an online independent agency/broker funded by private equity. Besides the normal ethical mores a company should observe, for their own good and the public's, this one reportedly created a software program to hide from insurance commissioners their employees' lack of insurance licenses. Insurance pricing and regulation are co-dependent. Insurance costs more when employees need licenses and licenses are another protection for the public because insurance is, again, considered a public good. Cheating by not purchasing licenses changes pricing.

The same firm has been questioned by some relative to conforming to rebating laws. Rebating is prohibited because rate filings list x% for agent commissions. Rebating arguably demonstrates that x% commission should be x% minus y% commission. An actuarial factor is not applicable and therefore, all customers should really pay x% minus y%, not just some consumers.

Anti-rebating rules are levelers. An agency can more easily afford rebates when one does not have to pay for licenses. Foregoing licenses, regardless of how easy they are to obtain, is not in the public's best interest.

The insurance commissioners have heavy workloads and plenty on their plate of more immediacy. I know they are considering each of these factors and I am not naïve enough to suggest the industry police itself on these matters. The distribution of education and knowledge helps. Keeping what is happening quiet

does not benefit anyone except the most aggressive parties. My recommendation is for all associations and regulators to consider a loud public discussion and then make the rules enforcement consistent, extremely consistent, for all.

I recommend agents keep their clients' best interests in mind by actually working the renewals. If you want a service center, build your own. Companies do not need to pay agents a renewal commission for doing nothing on a renewal. For now, they are just being benevolent. These scenarios remind me so much of the proverb involving the frog bathing in the warm water thinking they have a free warm bath until the water is boiling and they're dead.

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What a Great Business Model!

Many agents have developed a great business model. It's ingenious and brilliant. It protects them from much competition too. What is this great model you wonder?

Writing inadequate coverage on small accounts and paying producers to do so. It is a simple model but effective. It protects an agency from three directions. First, the accounts are small so fewer competitors even want to write them. Some competitors have even prohibited the writing of small accounts or at least have quit paying producers to write them. Less competition is good.

The second protected front is these accounts are written often without the correct coverages or adequate coverage limits. Why would a competitor want to BOR an account with the wrong coverages? Doing so creates a significant E&O exposure (the new agent picks up the E&O exposures created by the incumbent agent whether they want to or not). This is kind of like that other brilliant strategy of not licensing staff so they are less employable by competitors.

The third protective bastion is the accounts are not profitable if a producer is paid to write them. This shield is particularly ingenious. Some agencies think they are smart by not paying their producers to write small accounts incorrectly. The agencies who are actually smart know that because competition is less for these accounts, they can grow their agency more quickly incentivizing producers to write and renew these accounts. They know how to make up the losses on the individual accounts on volume. They know that because they've been lucky all their life they will not pay the price of having a client incur an uncovered claim and sue them for E&O.

You can now see just how brilliant this strategy really is. It is the equivalent to a castle surrounded by a large, deep moat. Some naysayers might exclaim the moat is more akin to a stinking garbage pit of incompetency and stupidity, layered with a misguided idea of fortune. So be it. Many agencies use this strategy so it has to have value.

Think of it this way: Most of the time, most small businesses never suffer a claim. When they do not have a claim, what difference does adequate coverage make? Sometimes inadequate coverage is even better than adequate coverage because sometimes, though not always, inadequate coverage costs less. Customers like you more the less they pay. Them liking you more is another benefit of this strategy.

Furthermore, even when a customer has a claim for which their coverage is inadequate, they do not always sue their agent. All one has to do is stay extremely likeable, commiserate effectively, and it helps to deflect blame expertly. It also helps to have some dirt on the client. I remember one agent who was particularly effective when employing this last tactic. His client had some large uncovered claims and they never sued him because of the dirt he had on them.

Getting past the fact it cost more to write these accounts in this manner when paying a producer is a bit more difficult. Say you make \$300 commission and pay a producer 40% plus benefits. A CSR will absolutely spend 2 to 3 hours on that account at an average of at least \$25 per hour plus benefits. Out of \$300, wages have consumed \$120 (producer), \$50 minimum (CSR), and \$31 benefits (benefits expense runs about 18% of direct compensation) for a total \$201. Add to this other staff, overhead, and marketing expenses which on average will equal approximately 25%-30% per industry average. I'll use 27% or \$81. Total expense is \$282 excluding management compensation. On the surface then, \$19 profit is not bad.

But this is where this strategy shines a light on how cost accountants are wrong. The only real expense is producer commission! The CSR would likely otherwise just waste these 2 to 3 hours (and if the producer writes 100 such accounts and the CSR spends 250 hours--they would have just wasted those 250 hours if the producer had not written the accounts). The CSRs have nothing better to do--everyone knows they just make up work to look busier than they are. Therefore, the CSR's time is free! The benefits are free because you pay the same regardless of whether the account is written. The overhead is free too!

Even better, the value of unprofitable or marginally profitable accounts is the same as profitable accounts (at least for some buyers). They do not care about profitability. They just care about total revenue so the more unprofitable accounts that are written, the more valuable the agency!

This is therefore, really and truly and exceedingly brilliant strategy!

(Note to readers: This is an extremely sarcastic article with glints of truth. I'll leave it to you to find those truisms.)

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Guidelines for the Best Seminar Set-ups

For those readers who have responsibilities to organize onsite seminars, here are some extremely good physical infrastructure guidelines I've identified over the last 25 years and 350 or so in-person presentations I have given for a variety of entities.

1. Table Set-up:

- If it is a small audience where you want the best interaction, use a U-shape.
- If it is a larger audience where you want the best interaction and physical engagement, try half or three-quarter circles. This arrangement creates an openness for the audience that improves the reception of the speaker's message.
- If all else fails, use class room style.

2. Space:

- The room should have **NO EXTRA CHAIRS OR TABLES!** I do not understand why so many convention and seminar arrangers cannot understand the importance of eliminating empty spaces. Absolutely no good reason exists for having extra chairs, especially dozens of extra chairs.

If you do not know how many people will show up, then the organizers have a different problem. If you need a large setup in the morning and a small set up in the afternoon, have the hotel remove chairs and tables. That is what they are paid to do.

- Create enough space for people to write.

3. Audio/Visual:

- Check that it works, then check again, and then check again at least one hour prior to the audience showing.
- Ask the speaker exactly what he/she needs months ahead. Then stick to it. Make sure you discuss A/V connections and be sure the hotel or you have the applicable connections.
- Make sure you know what the hotel will and will not provide. Recently I saw a hotel agree to provide the projector but not a remote.
- Keep it simple. In today's world it is great to make use of technology but unfortunately, technology does not always work. This is especially true of internet connection quality and the sound on many hotel systems. If the speaker is using the internet and/or sound, test the night before and again in the morning.
- Carry an extra remote, extra batteries, and extra cords.
- If multiple presentations are occurring simultaneously, verify through actual practice that the sound system will not cross between rooms and that the right speakers are connected to the right room.
- Be sure to check the lighting. Do your best to keep the lights bright in the audience but dim at the screen, though not dim on the speaker, if at all possible.

4. Onsite Audiences vs Remote Audiences:

- Onsite audiences take precedence over remote audiences--ALWAYS! I recently did an event where breaks in a multi-hour presentation were not permitted because of the dead time it would cause the online audience. The online audience can get up and get a drink or go to the restroom any time they want and no one cares. When the onsite audience or the speaker can't take this time, it creates discomfort and distraction to have people getting up and walking in and out of the audience.

Furthermore, the onsite audience is making the bigger commitment by showing up so cater to them.

- Don't let the technology required for the online audience to diminish the experience for the onsite audience.

5. Time:

- If you tell a speaker to speak from 9 to 11 with a 10 minute break at 10, stick to it. A good speaker will fit the schedule exactly. To start 10 or 15 minutes late because of extra introductions or to give the audience time to show up or whatever, without at least extending the time allowed absolutely decreases the presentation quality. Some speakers too will not be able to make such substantive cuts of material on their feet. Many organizers just do not seem to give any thought whatsoever to this issue.

I have absolutely refused to speak for some organizations that have at the last minute cut my presentation time materially. Doing so is just flat disrespectful to all involved.

- Similarly, do not tell a speaker they need to extend their presentation for 15-45 minutes at the last second or in the middle of the presentation. That is just amateurish.
- If you have a speaker that can't stick to the schedule, pull them.
- Sticking to a schedule by both parties is a sign of respect for all involved, particularly the audience, so they get the best experience possible.

6. Hotel Coordination:

- Check the temperature and then consider how much the temperature will rise with 20, 40, 100, or 300, people in the room. Do this before the presentation begins.
- Be sure you have the number of the hotel contact that controls temperature, lighting, and A/V. Make sure you also have their supervisor's number. Be sure you understand if they will be onsite during the presentation or if they are leaving. It is no fun when something goes wrong to only learn your contact is now an hour away.
- If you are serving refreshments, be sure the refreshments are set up at least 15 minutes prior to the audience leaving for a break.

7. If something can go wrong, it usually does. Testing and having backups is crucial. Audiences understand problems can arise but if they see the speaker and organizers have otherwise done a great job, they are almost always willing to roll with the situation. Audiences though can tell when the speaker and/or organizer have not taken the time and effort to minimize the issues.

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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 30 years' experience in the insurance industry. 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.

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