Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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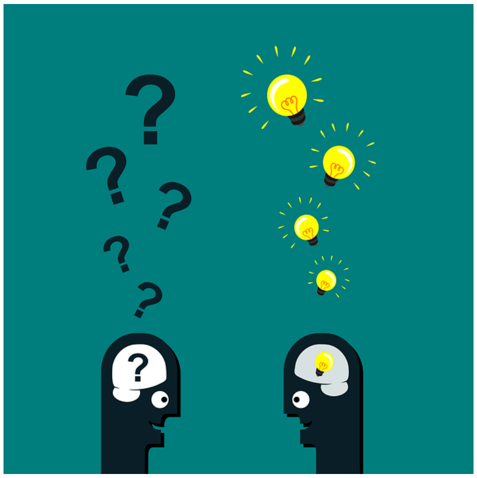
In This Issue...



It's Time to Rethink Commercial P&C Insurance

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Read more.

Customer "Churn"

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Read more...

Insurance Company Vertically Integrated Ownership

An article published in *BestWire* on March 26, 2025 is a must-read for all those concerned with new types of entities owning insurance companies, especially where vertical ownership exists. The article, "Update: Utah Regulator Moves to Place A-Cap Companies Into Rehabilitation," provides a well-written description of how vertical ownership might work. More importantly, it describes how money might be moved between related companies.

I know nothing about this particular enterprise besides what I read in this article. But also worth noting is that related companies remained B++ rated even after this article appeared. Many legitimate reasons may exist for related companies being rated at a fairly high status, even though on the surface it makes no sense. If I were running an agency, I would not likely want to place accounts with any related entity in this situation, regardless of the rating. I'm not encouraging anyone to do anything with that comment. I'm simply sharing how I'd personally handle the situation.

Given the uproar regarding the Florida DOI report that, according to the accounts I've read, suggests certain kinds of companies are moving money out of the state to the owners, leaving the Florida operations potentially short of surplus and/or needing otherwise unrequired rate increases, these scenarios with vertical ownership present problems. The optics are awful, at least.

But when financial management results in moving monies in such a way to enrich shareholders at the expense of policyholders, more oversight is required. After reading the article, you'll likely agree. At the distribution level, agents and brokers need to be careful with whom they write, including MGAs.

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It's Time to Rethink Commercial P&C Insurance

The standard market insurance industry, due to its sloth, greed, incompetence, whatever other applicable descriptive, is a categorical failure in providing the value it was created to provide. That is not one opinion of a consumer advocate group. It is a fact reported by the industry itself.

Here is the proof:

According to the Aon/Ponemon Institute 2024 report, “Intangible Versus Tangible Risks Comparison Report”:

- The average Probable Maximum Loss (PML) of information (i.e., intangible assets, but not all intangible assets) is $1.155 million.
- The average PML of Plants, Property, and Equipment (PP&E) (i.e., tangible assets), is $846 million, or almost 27% less important.
- The value of information assets (intangible) averages $1,239 million versus PP&E of $1,088 million, or 12% less important.

And yet insurance companies largely will not insure intangible assets. After all, why insure the most valuable assets? Why insure less than 50% of the market? Imagine Microsoft saying, “I think it’s a really good idea to refuse to sell Windows to more than 50% of the market, no matter how much more money we could make or how much better life would be for those businesses that could really benefit from Windows.”

According to the same report, the probability of loss is higher for these intangible assets. And you are thinking, “That’s why carriers will not insure them!” No one needs insurance for something that is not at risk. The money is in insuring what is most important, most valuable, and most at risk for the right price. People will pay extra for what is most important, provided they understand what is most important versus what is mandated. I’ll get to that difference later.

- The likelihood of information assets being lost at 50% of PML at 5% and 100% loss is 3%.
- PP&E losses, respectively, are estimated at 2% and .55%.
- This means insurance for information is far, far more important.

And yet, the industry does not even insure PP&E well: PP&E assets are only 60% insured! Total tangible assets are 47% of the total and only 60% of the 47% is insured. We’re batting .270! It’s incredible insurance company CEO’s are paid so well for failing to insure 75% of all assets, and then only insuring the least important assets.

And this does not even consider how other studies show the vast majority of structural property is materially under-insured.

Consider how much is insured in standard markets. Surplus lines now constitute about 25% of the commercial market according to A.M. Best. Now, the admitted market is at 75% of 27% or 20%.

Several years ago, I read a report showing that alternative risk transfer premiums constituted 52% of all commercial premiums. Often ,material savings exist in the ART market, so this would not be an apples-to-apples comparison because if insureds save 10%, then the market share equivalent would likely be around 55%. To be conservative, I'll assume that 20% of commercial premiums are in the ART market.

Now we are at 80% of 20% or 16%. Wow! Let's celebrate! The industry has managed to insure 16% of the least important assets! How can anyone consider this successful? Another way to look at is this: give a client a proposal to insure 16% of their building and see how that goes over.

The complexity of commercial risk combined with an industry incapable of explaining the full assets at risk is key to enabling this level of incompetency. And then there is the complacency of the insureds, which is partially attributable to no one ever offering them a solution for the 84% they need. I am fairly certain insurance agents do not bother thinking about buying coverage for their most valuable asset, the asset that using publicly traded brokers' 10k's show constitutes about 95% of their asset value, because a product does not exist to insure it.

The admitted commercial market is a dinosaur, antiquated, out of touch on almost every level. If not for a 100 years of momentum, it would probably die tomorrow rather than continuing a slow complacent glide to the grave.

The opportunity is to educate and offer solutions to clients. Take business from complacent carriers and distributors. Standout. Be different. Do not offer the same proposal for a 16% solution. Markets are developing, and risk managment solutions exist. Simply creating awareness benefits clients. If you are a company and your strategy is to compete to insure the same 16%, probably emphasizing light manufacturing, you have a bad strategy.

Back to top

Customer "Churn"

I read an article in *Carrier Management* in which the author advocated for a distribution model that "…emerges as the best of both worlds." "In an industry facing high policyholder churn…"

The article involved independent agents, and I know independent agents and their results extremely well. For decades, the normal client retention rate has been 90%, give or take two percentage points depending on the line of business and state. That number excludes non-standard auto, which has materially lower retention.

The 90% has been accurate in Alaska and NYC. It has held true in small agencies and large independently owned agencies. The agencies owned by publicly traded brokers and PE firms don't release their numbers but based on their overall results, I suspect their retention is somewhat lower, especially given their significant dependence on call centers. They are more willing to lose customers for the cost savings.

Even then, though, let's assume their retention is an awful 85%, which is awful. This is not high policyholder churn. Looking at carrier retention instead, the churn is definitely higher. Research by DonnaAi proves how hard independent agents work to retain customers by moving them between their carriers to save them money.

But this means carriers' retention rates are worse and their customer churn is higher. If carriers want more control over agents to minimize churn, an autocratic model is not the solution. In my research of carrier financials, quite a number of carriers who possess much more authority over their agents' placement have far weaker financials than those who simply provide better products at better rates.

Churn at the carrier level is mostly determined by rate increases. At 10% or more, customers and agents shop. Excluding extenuating circumstances, carriers never need 10%+ rate increases unless they've screwed something up. Either their actuaries screwed up, their marketing VP became too greedy and appointed the wrong agents, their underwriters accepted risks they should not have accepted, or someone in the C-suite ignored their actuaries, their underwriters, and their more cautious marketing reps' recommendations.

Even if inflation is 5%, 10%+ rate increases are unnecessary without a screwup. And with around 1,000 P&C carriers, a carrier's CEO who is silly enough to think they can force improvement of their churn by gaining far more control over agents' placement is silly enough to be replaced.

On the other hand, two carriers who have achieved high levels of financial success in both growth and profit margins do not attempt to control churn. And one likely has higher than normal churn because they write so much personal auto, and often not always what many consider to be of higher quality personal auto. One carrier has high rates but great products. The other has marginal products but rates combined with an easy-to-use system. In other words, control churn with quality.

Another cause of customers leaving is poor claims service, but this is a minor cause simply because most customers don't have claims often. Without a claim, they can't experience poor claims service.

In this exceptionally hard property market, another leading cause of churn is the carriers' decision to create churn by nonrenewing accounts or reducing coverage. If any carrier is upset about lower retention but they're taking hard underwriting decisions, well, seriously, are they sane?

Also, some carriers like churn because of how churn gives them some opportunities for managing reserves opportunistically.

Another reason many carriers' retention rates are poor today, as I write this, is they've run out of operational surplus. In other words, they're too highly leveraged. They must lose premium so their premium to surplus ratio is balanced. This is like a third rail that none of these particular carriers or most industry press want to admit.

In other words, carriers' churn/retention goals may vary materially from agents' churn/retention goals. Agents need to achieve much higher retention rates than carriers. In any model where a carrier decides its agents cause churn, management should consider the sage advice to consider where the other three fingers are pointing when pointing their finger at someone.

The solution to high churn, assuming a carrier actually wants to minimize their churn and increase their retention rates, and that is a dangerous assumption, is to improve quality. Poor retention is evidence of poor-quality control, unless poor retention is an intentional, though hidden, design.

Whether the carrier cannot choose their agents correctly, or they don't have the best actuaries, they cannot underwrite, they bought or mismanaged their predictive modeling software, their C-suite focuses too heavily on growth without quality, their products are marginal at high rates, or their rate increases are too high (the old adage of taking 3%-4% rate increases every year rather than waiting three years and jacking rates by 12% is one of the easiest but smartest strategies in this industry and why it is not mandatory protocol is beyond me), these are all quality issues.

By and large, the independent agency P&C industry does not have a churn issue of any significance other than maybe for nonstandard business, and churn there is endemic to the clients and model. A carrier that has churn issues has quality and/or financial issues. If they want to improve churn, look in the mirror before addressing agents or seeking to change the distribution model.

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 and 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 35 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 the 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 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.
