Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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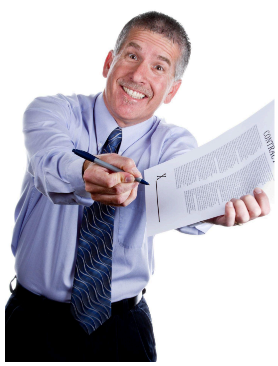

Insurance Industry Reputation and Credibility

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Sales

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Read more...

Protect your agency, yourself, and your family

As a certified appraiser specializing in independent insurance agencies, I have too often seen the costly and painful results of agency owners who opted for the cheap option when having their agency appraised.

The *Wall Street Journal* recently published an article highlighting the importance of hiring a certified appraiser. This excellent article, "What an IRS Battle Over an 850-Year-Old Painting Means for Your Taxes," by Laura Saunders, can be viewed here: www.wsj.com/personal-finance/taxes/oscar-tang-met-museum-donation-ff8e03f7?mod=wsjhp_columnists_pos_1

When the time comes to value your agency, I encourage every agency owner to invest in a certified appraiser because the cost of an inadequate valuation can be devastating.

Join the Fun!

Years ago, when I first entered the industry as a personal lines underwriter, my office received a rebuke from home office because we had written a Dodge Ram Charger as a pickup instead of a muscle car. Home office was not happy. They accused us, their own underwriters, of lying and purposely misrepresenting the risk! We sent them a photo of the pickup to prove we were honest.

It looked somewhat like the above example of a beautifully restored Dodge Ram Charger.

Home office countered by saying we were making up the vehicle. Without taking the time to research, they insisted that all Dodges with “Charger” in their name were muscle cars. Can you imagine that truck racing anything, especially a muscle car (which the auto manufacturers had quit making in the early 1970s)? They lived in an Ivory Tower and actively made our job harder.

With that quite appropriate story, we’re introducing a contest called “Where’s the wildfire exposure?"

We want to hear about properties where the wildfire exposure is minimal to nonexistent, but the underwriter insists it is so bad they cannot write it. For example, we’ll begin with this little restaurant:

> It is approximately 1.5 miles from any, literally ANY, wildfire exposure other than a few sporadic little 24” bushes here and there on the other side of a large parking lot and a highway. The restaurant is in a strip mall with lots and lots of pavement. In one direction from the restaurant, the wildfire exposure is thin brush with a four-lane highway, lots of streets, and virtually completely paved or housed for the 1.5 miles to the exposure. In the other 330 degrees, the exposure is sand and pavement for miles and miles because this restaurant is in a desert.
>
> The closest wildfire I found near this entire town was 15 miles away, and it burned 0.1 acre. According to FirstStreet.org, fire risk is moderate for the next 30 years, and no historic wildfires have happened in the last 40 years. This is at least partially due to the fact that there is virtually nothing “wild” to burn. Unless sand becomes flammable, there is no material wildfire risk.

Yet, carriers have labeled this as high wildfire exposure and refuse to write it. Is this another case of the home office not knowing the difference between flammable, inflammable, and nothing to burn?

If you have a similar story to share, please send it to me at banter@burand-associates.com. If it’s a winning story, we will share your example on our Insurance Banter

Podcast.

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Insurance Industry Reputation and Credibility

In a span of two days, I received three articles casting considerable doubt on insurance companies' reputation and credibility.

The first was a *Newsweek* article (2-25-25) citing a study done, but never made public, for the Florida Department of Insurance. The study showed how insurance companies were moving money from their Florida subsidiaries to parent companies rather than leaving money in these subsidiaries, adding to surplus and theoretically their stability.

I did not review the study, so I do not know if this is true. Some thoughts are that insurance companies have Florida-specific subsidiaries because Florida, for insurance, is an awful state. Combine hurricanes, flooding, tornadoes, a powerful trial attorney bar, and should anyone expect a better environment than awful? Awful is as good as it probably gets. We cannot eliminate Acts of God (i.e., weather), which leaves the solution as eliminating excessively permissive tort law. And Florida has started moving that direction with what appears to be constructive results so far.

The subsidiaries are likely designed to enable a carrier to walk away from huge claims to protect the rest of the company and its policyholders in more favorable regions of the country. At least from a reasonable business perspective, this is the case. A balance is required in the good years because in the good years, carriers should print profits in a hurricane state. But those profits need to be put back into surplus for the awful year where they incur a 200% combined ratio.

Instead, however, a permissive environment has allowed some carriers not to leave the money in surplus, and most of what I've seen has nothing to do with subsidiaries. Instead, it has to do with the private equity model for paying founders. That is a problem.

The second article was in a newsletter, *NARRATIVE*, which outlined a report by the American Consumer Institute, *"The Troubling Case of the NAIC and Questions Concerning Transparency and Accountability."* Obviously, this is a consumer-friendly group, but when the main national governing and financial reporting organization is questioned to this extent, the industry would be wise to think through their image. I've found the NAIC can be slow, cumbersome, and frustrating with which to work, but I have always found them to be ethical. The insurance companies should do everything possible not to create openings for more attacks. Maybe the recommendations listed in this report have value. Some of the four main recommendations I read, assuming these points are valid and I have no way of knowing if the recommendations are valid, are reasonable.

When an industry is as distrusted as insurance, insurance companies should do everything possible to reasonably set and achieve high levels of ethical behavior and a willingness to abide by those standards. The trial attorneys would not have so much leverage, and nuclear verdicts would not be the problem they are, if judges and juries thought highly of insurance.

Keep in mind the saying when pointing fingers: Look at where the other three fingers are pointing! When the industry blames nuclear verdicts on the public and attorneys, it is not as if the industry does not possess considerable responsibility.

The third article was in the *Insurance Journal,* and it was a little different. AXA's CEO stated that to keep property insurance viable, more emphasis must be placed on loss mitigation. He made some obvious points, like how concrete buildings do not burn the same as wood-frame buildings. I cannot agree more that risk mitigation is absolutely part of the solution.

However, many insurance companies are completely incompetent on this point. Concrete buildings do not burn easily or suffer much damage from convective storms, including hail. But I've seen underwriters reject and nonrenew concrete buildings because of their hail exposure. A six-sided concrete building, excluding the windows if you want, has about as much exposure to hail as to fire.

How does an industry become even less trustworthy? By making foolish decisions and taking asinine positions. The solution is not complicated. The solution does not require AI. First, admit you have a problem.

Next, risk mitigation requires another step. Insurance companies must provide proper credits for risk mitigation. It is 100% unethical to charge the same material rate on a home that has taken steps to mitigate risk and one that has not. Whether this is a hail-resistant roof, a fire-resistant roof or siding, clearing brush, better rafters, and so forth, those buildings deserve good credit.

I saw a hail-resistant roof get a 1% credit in a state with huge hail exposures, where the normal hail deductible is 10%. A 1% credit on the #1 peril makes no sense. Additionally, the 10% deductible is already so high that no amount of coverage actually exists. In this case, offer a lower deductible with a reasonable credit. But do not be so disingenuous as to emphasize risk mitigation without addressing price. All that does is spend credibility and make it easier for attorneys to bring ever more and ever larger suits.

This industry does itself no favors in creating a favorable image. The most favorable images are likely of cartoon characters. Rarely does the industry ever offer decent publicity articles, much less quality advertising of life restoration after claims.

Granted, explaining insurance financials is difficult, and lots of eyes glaze over. Still, a narrative is important so that we can show how money is not being unethically siphoned, and if it is, the NAIC should address it. If the NAIC is inadequately transparent, then address the reasonable recommendations and say “Thank you” for the suggestions. If insurance companies are truly recommending loss mitigation, then make the credits obvious. Consumers get it when asked to make their property better. However, when they’re asked to make their property safer, on their dime, while simultaneously improving the profit projections for the carrier, the carrier just increases the idea that it is just another greedy insurance company that deserves to be sued for every penny. And they may have a point.

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Sales

I’ve read so many business books on how to do this or do that better I’ve become jaded. People don’t change, which is why Socrates and Thucydides remain high quality sources of wisdom and strategy. Ancient Greeks may sound boring, but wise people recognize these are sources of great insight into how to get people to do what you want, though sometimes you must look inward first.

Fast forward about 2,500 years to a long-forgotten book, *The Force*, by David Dorsey, on how high pressured a sales job is versus a high-pressured sale. Until a person is in sales, and assuming the person is not the recipient of family money/contacts/Heisman Trophy, it’s hard to understand just how mentally and emotionally tough sales is. Even when a producer is making six figures and sometimes more, insurance sales are hard.

At the higher level, you are selling a carrier’s underwriter as much as you may be selling a client. And in this market, selling the underwriter is often the tougher task, especially when the underwriter’s position (and there’s simply no other way to describe their position) is categorically stupid.

To lose an important client to a stupid underwriting decision is possibly the hardest lost sale to deal with for some producers.

So many of my clients work through holidays, even if the underwriters do not, to ensure those accounts are renewed with the agreed upon coverages and rates. The emotional toll accumulates. Which brings me to a passage in David Dorsey’s book:

> “At the end of the year, when you wait for the final word on a crucial deal, you lose all confidence in yourself for hours at a time. You sit at your desk and question

> everything you've ever done in life. It isn't the sort of doubt that confines itself to the deal in question. It's a categorical doubt, a metaphysical doubt, as a German thinker once defined it, a doubt that calls into question you, the questioner…" "The phone rings. It's your customer. He says yes. Suddenly you're superhuman again. You forget every question that crossed your mind over the previous half hour…"

This is the emotional toil that so many qualified producers feel on a regular basis. It can make living with such people hard. It can make work life stressful for account managers too, especially because their paycheck is guaranteed. Their idea of who they are is not wrapped up in whether the client accepts or rejects them.

In working with producers for 35 years and in my own sales, I have noticed that even the truly superhuman producers are stung when rejected by a customer, especially a long time customer. It's a personal rejection most of the time. Yet the really good producers don't go so far as many poor producers in making customers and prospective customers happy at any price. They know how to draw the lines and from somewhere within them, they possess the emotional fortitude to draw that line. And with time, they all learn that one of the most powerful ways to close a sale is exhibiting a willingness to walk away.

In my readings, the vast majority of sales and management books describe strategies and tactics. Tell a prospect this or that or slyly explain how their current agent is not good enough, or do this or that on your cold calls or never do cold calls, only do broker of record letters, as so on and so on.

Assuming a person has sales ability, teaching emotional strength along with learning how to ride the ups and downs is just as important. After all, it is tough to ask 100 people for a sale and maybe, initially, get one deal.

As with Maslow's hierarchy of needs, when starting in sales, making enough money to eat and live is the primary focus. I don't ever want to relive those years. Beyond that time, the ups and downs, to some extent, can be mitigated by focusing on the customer rather than yourself. If you can develop your own personal sales model by which you help people even if it is only giving them the best coverage proposal possible, you can know you have benefited someone. Rather than focusing on not making the sale, focusing on how you did partially achieve your goal of helping someone even if it was not recognized can help a good person make it through rejections.

Then focus on communication skills as to why they would reject your better proposal. Was it that you need to improve your delivery or was it because their brother-in-law needed a customer? If the latter, try to laugh and chalk it up to life.

Quite often the reason will be because the client does not adequately understand how to judge quality versus rate in the insurance proposal. What can you do to help clients judge quality? In this hard market, quality is being subjugated to price far too often even to the point of customers buying policies from fraudulent entities and likely soon to be impaired carriers. Then you have the illusory coverages. Those policies are often far less expensive because they don't actually provide coverage! But they look like they provide coverage. And then you lose the sale and you're in the emotional sales trough again!

Knowing a customer rejected you for illusory coverage is a bad feeling. Some insurance carriers and distributors focus on uneducated sales forces because these people are most likely to sell believability and they succeed because they do not know what they are selling. How do you counter that?

I like the idea of planting seeds. Every year, maybe every six months, visit the client and plant another seed, a seed of doubt using facts. By elongating the sales process rather than focusing on not making the sale immediately helps even out those emotional troughs. You are resetting your expectations and provided you are not needing that sale to make the next car payment, longer term expectations can even out the stress of sales. It will not eliminate the stress, but nip some off the top. Doing so can also provide more energy to build a bigger pipeline and the bigger a salesperson's pipeline, the more likely they will achieve their sales goals, and feel superhuman.

Insurance sales is simply a tough career emotionally even for people that make it big. I hope this little article helps someone out there see their ups and downs are normal. I hope the few little tips helps someone see a longer time horizon that alleviates those sharp ups and downs. And when I figure out what to do with stupid underwriting decisions that don't arrive until 24 hours prior to renewal, I'll be sure to write an article on that too!

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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 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.

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