The Key to Insurance Company Growth

By Chris Burand

Question: What is the key to profitable insurance company growth?
Answer: Great relationships with agencies.

Magazine headlines tout that one strategy or another is necessary for insurance company growth, but after 14 years as an agency consultant my experience says the key to a company's growth is their relationship with agencies. I've seen how most companies work with agencies—I've seen the good, the bad and the ugly.

Based on observation and an insider's eye as an agency consultant, there are a handful of carriers that I believe have excellent relationships and reputations with agencies. To test whether developing a quality relationship with agencies has an impact on company performance, I decided to calculate the average growth of each of my top-picks over the past five years. The carriers I believe had worked to have good relationships with agencies had a median five-year growth rate of 76.5 percent. An industry listing of the top 90 carriers shows a median five-year growth rate of 57.7 percent. My picks performed better because, I believe, the agents that work on their behalf, work harder for these companies.

The carriers I chose as top-picks continually score high in every survey of insurance companies. At any given time, they may not be the "hottest" company with the lowest rates, but to me that says even more. Agents are helping these companies grow, yet it is not because the companies offer the lowest prices. Agents are selling these companies based on integrity, trust and relationship. Each carrier I selected has a high A.M. Best rating. Each is known for treating agents well. Each works to have a great relationship with an agency.

I have asked hundreds of producers and CSRs, when price and coverages are fairly equal, how do they decide which company to place their business with. Nearly every time, the answer is relationship. This does not mean they are friends with the company or that they get free tickets to football games and concerts. Instead, they define a good relationship as one of trust—trust that the company will follow through on its promises; trust that it will act timely and work to resolve difficulties; trust that the company will be fair. These companies are willing to try to find a way to make a risk acceptable versus focusing solely on underwriting rules.

It's a fairly simple concept. No fancy marketing is involved, very little expense is incurred. In fact, most of these companies have fairly small advertising budgets. Yet interestingly, few insurance companies generate this kind of trust. Many companies may claim to do all the things agents and CSRs value, but if they truly did, more than a handful of selected companies would be on my list of top-picks and more would be growing quickly while maintaining high ratings. In reality, many talk the talk, yet few walk the walk.

A simple example of how companies can say all the right things yet destroy meaningful trust occurs when companies establish agency "growth goals." Several companies mandate significant growth levels as part of their contingency contracts. Inflexibility with those goals can jeopardize the agency/company bond because it makes no sense to demand 10% growth, for example, in a soft market. It creates resentment and may result in disrespect between the company and the agency. It weakens any sense of trust or good will.

Insurance companies, as well agents, face difficult growth in a soft market and requiring agents to grow their business significantly when a company cannot grow itself is hypocritical. Leading by example is inspirational and builds trust. Leading by force, while personally not contributing to the desired result, does not. For example, when an insurance company CEO is paid very well while his or her company achieves negative growth and the company's agencies receive $0 in contingency bonuses when their premiums decline by as little as $1, that company's agents are not going to help the company grow in the future.

On the flip side is an example from one of my favorite insurance carriers. This carrier discovered they had made a mistake in their contingency check disbursements. None of the agents were aware of the mistake. Nevertheless, after recalculating the contingency amounts this company delivered new checks, of significant sums, to those agencies affected. No agent would have been the wiser if the company had simply kept the bonus to themselves, yet the company knew of the error. That was all it took. That is what builds agency trust and allegiance.

Many of the best companies empower their underwriters, giving them authority and responsibility for growth. This puts the company's interest and the agency's interest on the same page. When a company employee's goals do not mesh with their agents' goals, situations are created in which management and underwriters are rewarded for actions that are not beneficial to the agent. But when everyone has the same clear goal of creating profitable growth, partnerships are built.

If a company does not have good agency relationships, their loss ratios are usually not as favorable. With investment incomes being equal, poor loss ratios mean that companies cannot make an adequate profit without cutting expenses. That can translate into lower salaries for employees, less qualified employees being hired and fewer happy, committed agents who will deliver growth.

When the company/agency relationships are good, loss ratios will likely be great. The companies I favor have a median pure five-year loss ratio of 55.7%! This is great! When a company achieves excellent loss ratios they can spend more on experienced and good underwriters and marketing reps. When a company has good underwriters and marketing reps, agencies can place more business with a company. This enables the company and the agency to grow faster. It's a win/win across the board.

A third example of how to build good company/agency relationships is to help agencies grow through producer development and marketing programs. Many companies abandoned these programs because they felt there was little payback from the investment. This was a smart move if agents did not have much of a relationship or level of trust with these carriers. But, such programs can add considerably to the relationship if a strong base is established first.

Companies and agencies can both grow faster and more profitably when a strong and trusting connection exists. Companies that foster that kind of partnership and reputation are living proof that such a simple strategy is immensely successful. What are the growth strategies of your carriers? What type of relationship do you have with them? What level of trust and confidence exists? Is it a little or a lot? If it's a little, you have to ask whether maintaining such relationships make any sense. Do they?

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