Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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I believe small agency owners have the hardest job because they must generate the revenue, service the revenue, manage IT, manage people, manage carrier relationships, and wash the dishes.
Read more...

Wait! There's more...

Attain your Peak Efficiency and Productivity

Burand & Associates' PEP System® Analysis (Peak Efficiency and Productivity System) is THE gateway for identifying the best opportunities for improving productivity.

In a typical agency, the PEP System® Analysis commonly identifies:

- As much as 20% wastage
- Uneven workloads
- Mismatches between work and compensation
- E&O exposures
- The true top performers
- Training needs

The value is simple:
- Easier agency management
- Less stress
- Reduced expenses
- Increased profits

- Potential morale problems
- The root causes of productivity problems

Contact Chris today to learn more at: chris@burand-associates.com.

In Other News...

This *"60 Minutes"* segment may be worth checking out: https://www.cbsnews.com/news/florida-whistleblowers-hurricane-ian-insurance-60-minutes-transcript/.

A book worth reading, especially Chapter 10 because it is about insurance claims, is “When McKinsey Comes to Town,” written by Walt Bogdanich and Michael Forsythe.

Agents can be of huge assistance to clients when helping them with claims.

Claims-Made Insurance

Fred Fisher's recently published book, "Claims-Made Insurance - The Policy That Changed the Industry," is a valuable resource for insurance professionals.

Fred’s book begins with an introduction by Angelo Gioia’s of his professional biography and that history alone is worth reading because much to the error of many insurance company employees, executives, private equity buyers and order taker agents, it is proof that coverage education has significant capital value.

To stymie the plaintiff law firms from growing richer on the insurance industry, the insurance industry should embrace rather than disregard coverage education, as it has severely done. Educated people make better decisions (the alternative is ignorant people making decisions), offend fewer stakeholders, and improve its ethics.

A reader doesn’t need to read far to gain value. On page 11, Fred writes, “Just don’t make money because it’s out there to be made! Provide financial security to the client rather than just selling them some insurance like my competitors do.” Those are the ethics lessons foundational to the book and essential to understanding the difference between an insurance policy designed to truly protect the insured and one designed to make insureds think they have coverage and for regulators to think coverage is being meaningfully provided.

His analysis is the most holistic analysis of insurance I have read. Fred describes how vital insurance is to our economy, and specific to professional liability professions, far fewer professionals would exist today if not for professional liability insurance, including insurance agents. Don’t take your job for granted!

At the very least, all professionals should read Chapter 3: A Defining Issue: What is the definition of “Claim”? 99% of carrier employees and agency producers I meet take the word “claim” for granted. What is insurance if no knows what constitutes a “Claim”? I’ve researched the definition extensively including the rather elliptical definition in many policies. Yet, how can one sell insurance and not know the definition of a claim? When underwriting a risk, how can one not know the definition of a claim?

For every single insurance professional who agrees they have an ethical if not a legal duty to sell clients coverage to protect their assets, especially when selling professional liability, D&O, and such, you must read Fred's book so that you possess the knowledge required to give the best advice.

And when you know more than your ignorant competitor, you'll sell more!

Fred's book is available on Amazon at: Amazon.com: Claims-Made Insurance - The Policy That Changed the Industry: A Deep Dive, Review, and History.

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Misleading Packaging

Considerable research, articles, and fodder for politicians' "business is bad" sound bites has originated from consumer companies shrinking their products while keeping prices the same. The theory is that if prices don't increase but the product shrinks, consumers won't notice or won't be as upset. The price per ounce increases nonetheless, but creative packaging might mitigate the blowback. Just to satisfy my intellectual curiosity, I'd like to see how much this "creative" or deceptive packaging helps the companies' profit margins compared with a really good study of consumer reactions relative to brand reputation.

But I don't work in tangible consumer products. I work in the insurance world and is the same thing happening in insurance? Prices are not decreasing except maybe in workers' compensation. But are the coverages remaining as robust? A consumer is more likely to notice they have less toothpaste than they are to notice that a carrier has nibbled away coverages.

Agents that do not notice the reduced coverage run a serious E&O risk, but I'm not seeing many agents notice what sometimes seems like what's left after a rodent eats away the edges of some package.

I read a really interesting personal auto exclusion that eliminated collision coverage for a sober designated driver under specific circumstances. This is with a major carrier.
Many ways exist to increase profits. One way is better pricing. Another is better underwriting. Another is extremely intelligent marketing. But another is to reduce coverages without reducing prices.

We are seeing this in property. Huge deductibles (i.e., less coverage), but still large price increases.

I am definitely seeing it in cyber. Cyber may be the best (i.e. worst) example of reduced coverages.

Another example of reducing the product is insisting on better loss control/risk management but not reducing the price accordingly. The insured in these cases is spending more to reduce their risk. Remember, people can reduce risk with risk management or transfer of risk to an insurance company. The better the risk management, the less important insurance is. So when an insurance company demands better risk management, especially without much offset in their rate, they effectively become less important. They will not feel the blowback the first year, likely not the second or third year. But if the client is smart and the risk management is effective, they'll move their account the third year, maybe even to a captive.

This is where a really good insurance agent, someone that sells coverage rather than just price, likely gets frustrated. The insured sees a lower price and jumps without understanding the lower rate is for even less coverage, and the new agent/carrier is likely not explaining this. (My favorite example is where a direct writer told the insured that they still had $100,000 liability coverage because their new policy was $25,000/$50,000/$25,000!)

Explaining to an insured what that coverage reduction really means, catching it early, and giving them options is invaluable. Also invaluable is notifying a family with a young, responsible driver, who might act as a designated driver, that they would not have certain coverage if the others in the vehicle were not sober.

The more carriers and rodents eat away at anything, the more important it is to contain the damage. And really good agents are invaluable in containing the damage and adding value back into the package.

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Small Agency Success

I consult with insurance agencies, brokers, carriers, and support systems of all sizes. My agency clients range in size between $100,000 in revenue to far over $100 million in revenue. I believe small agency owners have the hardest job because they must generate the revenue, service the revenue, manage IT, manage people, manage carrier relationships, and wash the dishes. Years ago when I began my career, life was less complex and being a small agency owner was easier. But now, small agencies are expected and required to perform similarly to large agencies in many ways, including all the regulatory burdens.

This is a problem for the insurance industry because this industry is based on having tens of thousands of relatively small retail distributors. Business schools, high-flying consultancies and P/E firms have been advising so much dilution is a waste and the roll-up opportunities are rich for the easy taking. And carriers have watched helplessly (well, the weak carriers have watched helplessly) worrying they were losing their negotiating leverage, and they have.

However, potentially a bigger issue exists and that is answering the fundamental question of whether the industry needs small agencies and whether in this environment, small agencies can survive. The industry was built on the backs of small agencies because it was by far the least expensive way to build a distribution force. Insurance is also based on trust and local people trust local people far more than some New York based faceless entity. An interesting side benefit is that this local trust likely, in fact certainly though only on an anecdotal basis, reduced E&O claims. People think twice about suing their neighbor but not Wall Street.

Smart insurance companies would be wise to support small agencies, and even provide incentives, provided those small agencies performed. A key reason carriers moved away from small agencies is the lack of performance. Another reason is many small agencies were excellent upfront underwriters and upfront underwriting has been taken over, for better and for worse, by algorithms and drone inspections. These small agencies lived off slow growth, low loss ratios, and high contingencies. The smart carriers already know that the contingency model is dead. They just don't know how to pull the plug, but it makes zero sense to pay underwriters to underwrite, agencies to underwrite, and software firms to create underwriting systems.

Arguably the most successful carrier today primarily pays the software developer to underwrite. Other carriers will follow or be put out of business.

If you are a small agency owner in this environment, and hopefully representing one of the handful of quality carriers who directly support smaller agencies, what else can you do to make your life easier?

Hire the best advisors possible. That is the most important advice I can give. Small agency owners are far more likely to rely on suggestions from other owners and do-it-yourself this or that. For example, with legal agreements, they try to cut and paste someone else's agreement without much clue as to what they are doing. These are bad practices to follow.

In 1990, this might have worked but in this more complex carrier and regulatory environment, do-it-yourself projects should remain something done at home. The pain of the mistakes is not felt immediately. For example, creating a flawed producer contract or a non-piracy agreement will not cause pain until someone violates the contract or you are sued.

I have warned agency owners their contracts were flawed more than 10 years prior to them feeling the pain. Their responses are always the same, "It's worked so far!" A fence always works, even if it is broken, until the wrong person crosses over. A legal agreement only works if it withstands pressure. In other words, if you get an agreement, have someone test it. This requires hiring an attorney or consultant that has been through these situations many times.

And hire high quality advisors. I have read countless legal agreements written by the local attorney who "has done hundreds of these agreements" but has not a clue how to write the contract. Maybe the problem is that insurance agencies are unique businesses, and the attorney is too naïve or egotistical to ask the right questions to write the contract correctly. Or maybe they are just incompetent. But the contracts written by 90% of the smaller (and sometimes large) law firms I review are deeply flawed, and I'm not even an attorney testing the fence.

The same goes for the local, run of the mill accountant. Some generic accountants are great. I'm lucky my own CPA is so good, but most are not. Without any question whatsoever, insurance agency accounting is unique, and especially independent insurance agency accounting is unique. The CPA must understand these unique requirements if they are to offer correct advice. They absolutely cannot offer the advice the agency owner needs if they do not understand insurance agency accounting.

I analyze insurance agency financials every week. It is interesting to me how the financials and operational details agencies send my firm today often have more problems than 25 years ago. I do not know all the reasons why. But one reason is that many of the systems agencies use today are subpar. And small agencies are hard pressed to afford the better systems. For some reason or another though, many small agencies have been sold that all those "bells and whistles" of the more complex systems are not necessary. In reality, if you want an easier life and the ability to grow successfully, you need many of those bells and whistles.

The most important feature you need is an integrated accounting system. Those agency management systems that recommend using a system like QuickBooks for accounting are missing a key point because those accounting systems are like the generic accountants. Insurance agency accounting is unique, so you cannot use a generic accounting system and get correct results, much less results, reports, and data that correlate. When you are a one-person band and can keep everything in your head, you might get by for some time.

Eventually your accounting needs to work and often the time when someone discovers it does not work is when they are ready to sell and/or when they are facing a suit, a divorce, a disability, or their families are trying to clean up and sell the agency after their death.

The world is more complex today. Smart insurance companies should support well-run small agencies to regain the leverage and reduce their concentration of risk. Small agencies should hire the best advisors they can afford to make their life easier so they can do what they really enjoy doing.

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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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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.

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