Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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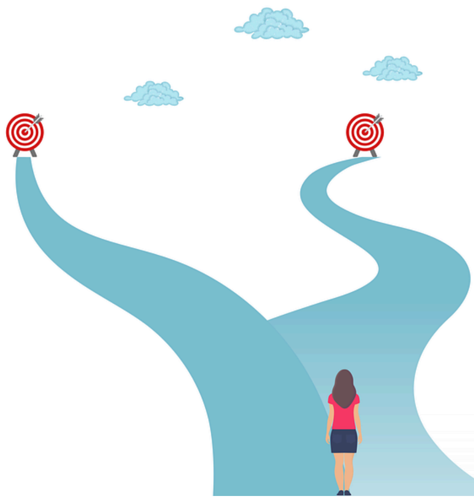

Can you pivot?

Strategy and cultural changes are more urgent than ever. For the past four years, the P&C insurance industry has been in the hardest market in the last 50 years.
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Dear Carrier Executives

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Connect with Industry Leaders while Enjoying the Colorado Rockies

I have just a few openings available for the **2025 Rocky Mountain Agency Management Meeting**, Feb 27 - 28, 2025 in Breckenridge, CO.

This opportunity consists of a small group of industry professionals who meet only during the morning. The group discusses critical agency management topics, as well as attendees' ideas, roundtable topics, successes, questions and concerns. The schedule leaves the afternoons free for

This meeting is a tremendous opportunity to network with a select group of industry professionals. If you're interested, don't wait! The last spots will fill quickly. Contact me today!

The registration fee for this two-day meeting is $750 per person. Please contact me at chris@burand-associates.com for a registration form.

skiing and enjoying the breathtaking
Colorado Rockies.

Crypto (non-)Coverage

Crypto is not money under many homeowners policies per the 4th Circuit Court of Appeals. Money is something physical as in actual greenbacks. Crypto is not a physical object. Homeowners policies typically only cover "physical" loss and if something is not "physical" it is not likely to be covered. The court ruled in this case that the $170,000 theft was therefore not covered.

Lesson #1: Make sure you and your staff understand this important point, and it will likely only become more important. Be sure they do not tell insureds they have coverage for crypto as if it was the same as actual physical money.

Lesson #2: Insurance, as we know it, becomes less and less important every day because the economy focuses more and more on intangible assets. Yet the industry refuses to insure intangible assets. What saved the industry's bacon in Covid was the lack of physical damage to physical assets. But no one needs property insurance that doesn't cover the most important assets, which are likely intangible (around 80% of companies' values, and 100% of agency values, are intangible) and the most likely causes of business interruption.

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Can you pivot?

Strategy and cultural changes are more urgent than ever. For the past four years, the P&C insurance industry has been in the hardest market in the last 50 years. Hard markets are 100% driven by a lack of surplus, not a profit issue. This is evidenced by how profitable carriers have been over the last four years. In 2023, they made record profits--but they didn't before record surplus.

Hard markets always drive far more change than soft markets. Soft markets are coasting times led largely by carrier management teams and agencies selling price. The hard market is when the tide goes out and reveals who has been swimming naked, i.e., they don't have the surplus to support all the premiums they added during the soft market and initial phase of the hard market.

With my predictive metrics, the situation is straightforward to identify carrier by carrier. But I find a lot of carrier executive teams do not understand this fundamental point and are therefore wasting time, money, and effort on misdirected strategies. Insurance company surplus strategies at the most fundamental level should possess the following points:

- Do we have real surplus or ethereal surplus? Many carriers' surplus is far stronger on paper than in reality, and some management teams are fooling themselves on this point. They've consumed far too much corporate Kool-Aid. Typically, this Kool-Aid is not as poisonous as what Jim Jones served, but I can think of a couple of examples which are likely to result in permanent injury.

- An assessment must be made using real surplus as to whether adequate surplus exists to responsibly achieve the carrier's growth goals.

- An assessment must be made as to how surplus will be grown to sustain growth goals.

I find few carrier executive teams proactively address these three points. This is one reason why carriers possessing "excess" surplus who initiate fast growth initiatives often stumble and sometimes fail about five years later. It's as though they are trust fund kids who spend all their capital not realizing that they should have only been spending the income produced by that capital. They spend their "excess" surplus and plan to continue growing quickly not realizing that once the "excess" is used up, they had better slow growth and/or figure out how to raise capital.

What is worse is they often do not seem to understand how the tail works on loss ratios so that when growth slows by plan or by force, i.e., a rating company requires them to slow because their surplus is insufficient to support continued fast growth, that the loss ratios will catch up. That eats into their surplus further.

These are fundamentals of insurance company strategic planning. All the fancy consultant speak, technology fears and drivers, and socio-economic issues are secondary if a company cannot afford growth.

So much of today's culture and easy credit has enabled many companies to shift focus from the basics of corporate mathematical finance. The situation has been exacerbated by the allowed financial engineering prevalent throughout the industry, but especially with certain insurance companies and private equity firms. Sooner or later though, if someone does not have the money to pay their bills or support growth, they fail. Running companies is easier if managers remember and manage based on the fundamental realities of math.

Revenues should exceed expenses to the extent that profits can be added to surplus at a rate that supports the company's growth goals.

Life has been easy for insurance companies even if they haven't realized it or if their management team messed things up so severely that life is hard, it is hard because of their own mistakes.

Now life is about to become difficult on a much broader scale because of two factors. The first is there are three, maybe four, carriers who manage to the fundamentals and their results are so powerful, they have been slowly putting other carriers out of business. The pace has been spread evenly enough that most individual carriers haven't fully noticed the impact, but an exponential impact is about to happen. The carriers swimming naked are about to go out of business unless they can pivot back to the fundamentals fast. The impact here is mostly personal lines, but commercial will be pressured too.

The second impact is that the alternative commercial market, especially if surplus lines is included, has become far, far better at insuring higher quality accounts on a mass level. The new types of markets are stripping traditional retail carriers and while relatively still nascent, the growth is such that regular admitted commercial carriers are not, overall, growing their premiums beyond industry inflation, if that. All the real commercial growth is in these other markets and pretty soon, those markets will reduce the lumbering carriers' growth to zero or negative. This is unless they can pivot their strategy.

To pivot their strategy, the leader needs to rise above all the bureaucracy and people who have created little unimportant fiefdoms. The pivot is simple. If the employees, especially management, are not capable of generating adequate profit with which to build surplus capable of sustaining the desired growth rate and/or cannot then generate adequate sales, find better management.

Insurance company management needs are quite similar to national leadership needs. In times of peace, countries usually need leaders that stay the course. But a leader that can only stay the course when a crisis occurs is usually a failure. The long soft market, likely the longest soft market ever preceding the hardest market in at least 50 years, did not prepare leadership for this hard market, and most are definitely not ready for the level of competition about to intensify.

Rather than focusing then on a slow transition of culture, to pivot, boards of directors likely need to complete a hard, detailed review of insurance companies' C-suites. New leadership is likely required in some cases. This is obvious given their results. And that new leader needs to be a person who can force changes, however painful, in the culture quickly. The fundamentals of insurance company finance provide the foundation for building the new culture and strategy. Always come back to those fundamentals and ask whether the strategy categorically achieves those points. If not, the strategy is too weak.

The carriers who are about to win understand these fundamentals well and manage to them. Most carrier cultures are too soft to adapt, and they will be eliminated. Our data and analytics are the best in the industry. If you have the leadership to pivot, I have the analytics.

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Dear Carrier Executives

Paying agents full commission who don't offer quality guidance to consumers is too expensive. Many carriers are now paying agents more than 50% of all their expenses. There is nothing left to cut and yet, my very detailed research shows a high correlation between strong growth and low expenses. In other words, if you have nothing else left to cut internally and your expenses are still too high, agents' commissions are all you have left if you want to succeed.

And why might cutting commissions lead to faster growth rather than reduced growth? Because these kinds of agents sell price and they'd rather sell a low price rather than fail to sell anything at a high commission. A half load is better than no loaf.

These agencies don't polish your image, and technology is bringing the day of reckoning earlier. Do you want to break out of this historic but losing model?

Many carrier executives already know the future and just are not confident of taking action now. As one carrier executive recently told me, they know predictive modeling eliminated a critical purpose of agents, especially agents of mutual companies. Upfront underwriting now gets in the way of growth and profitability.

And for expense control, why do carriers pay three entities to do one job? Why pay underwriters, agents, and your predictive modeling company all to underwrite the same accounts? Are you really that rich?

Additionally, given the huge consolidation in the industry and how carriers now pay agents through their networks where loss ratios are merged, these large entities are going to achieve your loss ratio. They won't likely achieve any material difference, unless they are one of the sloppy entities and then your loss ratios will be bad, but on scale. Paying these entities based on loss ratios makes no sense.

If you want to achieve lower costs while paying your top agents even more, in other words, having a true merit-based system, call me. I've been doing this since 1995 and until now, most carriers were too rich to care. Great savings exists in eliminating subsidies to lousy agents.

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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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