Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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Everyone Hates Insurance

And taking those sentiments seriously will result in a more profitable model.

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Agent Compensation and Carrier Results

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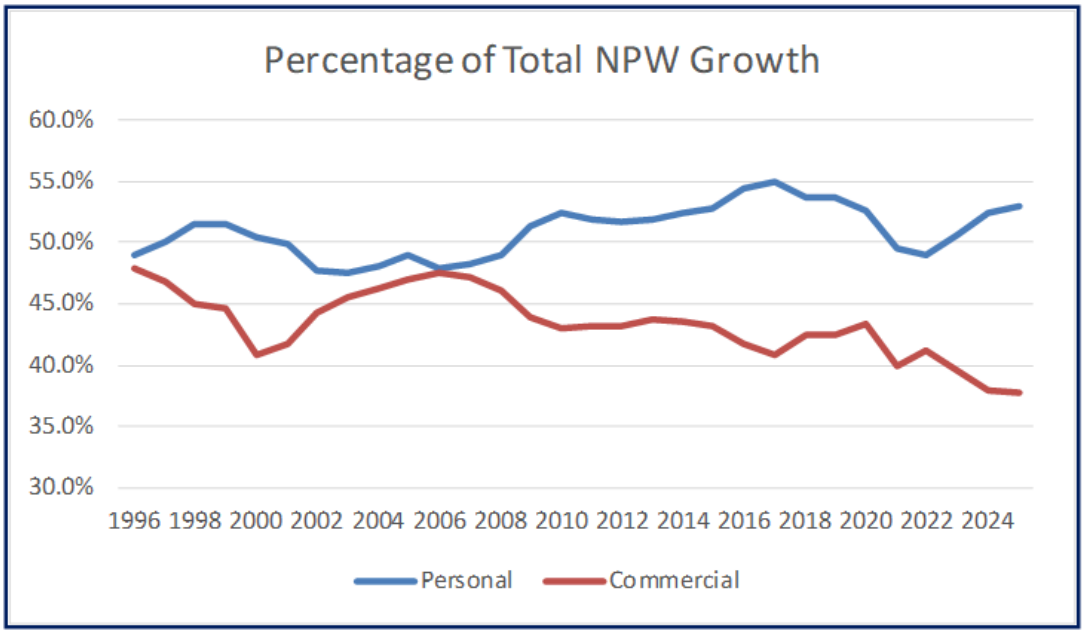
Which is More Important? Commercial or Personal Lines?

The chart below, based on A.M. Best data, pretty much says it all. Commercial lines is of less and less importance.

In total, Personal Lines now constitutes almost 53% of all NPW, while commercial lines only accounts for 38% (this doesn't add to 100%, with the differences being reinsurance and miscellaneous lines). For all those marketing/sales gurus who advised agents, and maybe some carriers, to ditch personal lines ten years ago, how sage was their advice?

Admitted commercial lines is in even worse shape. Surplus lines, almost all of which is commercial, has a median annual growth rate of 14.9% since 2018, inclusive. Commercial lines in total has only averaged 5.9%. This means that, adjusted for rate, likely all commercial premium growth has been in surplus lines.

What is the future of commercial lines, especially admitted commercial lines? To learn the answer, contact me at chris@burand-associates.com.



An Important Question from Patrick Wraight,
Director, Insurance Journal's Academy of Insurance

I have a question for an organization I don't normally write about: NAIFA, the National Association of Insurance and Financial Advisors.

How in the world does supporting the removal of prelicensing education fit with your mission and your code of ethics?

I'm asking because California recently became the latest state to eliminate its mandatory 20-hour, line-specific prelicensing education requirement for insurance producers. The

licensing exam remains, as does the 12-hour ethics and California Insurance Code requirement.

NAIFA celebrated the decision, describing prelicensing education as an unnecessary barrier that prevents qualified professionals from entering the financial services industry.

Here is where I get stuck.

How does learning prevent someone who is qualified from entering the field?

Every job I've ever had required some degree of learning before I was ready to do it. Insurance is complicated. The decisions insurance professionals make can affect someone's business, home, savings, health, or family.

I understand the argument that requiring someone to sit through a certain number of hours does not guarantee learning. That is fair. Passing a licensing exam also demonstrates some level of knowledge.

But passing an exam demonstrates that someone can pass an exam. It does not necessarily mean that person is prepared to explain complicated coverage, recognize an exposure, or help a client make a consequential financial decision.

If the existing education requirement was ineffective, then improve it. Replace seat time with demonstrated competence. Show us the evidence that the requirement failed to protect consumers or prepare professionals.

But simply removing structured education and calling it progress feels less like eliminating red tape and more like lowering the bar.

The license should be the beginning of an insurance professional's learning journey. For too many people, it becomes the end of it.

And please don't point me toward CE as the answer. That is a different conversation, and I have thoughts.

NAIFA says it exists to empower professionals and consumers through advocacy and education. Its code of ethics calls members to develop their skills and increase their knowledge through education.

So I'm asking sincerely: How does removing an education requirement advance those commitments?

What am I missing?

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Are you getting your share?

The publicly traded brokers' self-reported average annual organic growth rate has averaged 5.2%. The industry's average growth rate is 6.9%. That means the brokers are bleeding accounts.

Are you getting your share of their accounts? Contact me today to learn more about how to leverage this opportunity: chris@burand-associates.com

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A First Look at SIGMA's New Book: Decoding Analytical Topics in Risk & Insurance

By SIGMA Actuarial

SIGMA's latest book, *Decoding Analytical Topics in Risk & Insurance*, is here! From its inception, our goal for this book was to build on SIGMA's extensive list of educational resources by focusing on more advanced topics. The ideas for many of these can be traced to the overwhelming success of SIGMA's earlier book, *An Actuarial Advantage*, which was written by Tim Coomer. We were honored to receive Tim's permission to reference his work and discuss how it relates to each chapter.

As a first step in introducing this new resource, we are offering an exclusive, limited release to SIGMA's friends, clients, and professional network. Before making the book available to our broader audience in 2027, we wanted to share it first with those who have supported SIGMA and followed our educational efforts over the years.

Tim's talent extended far beyond his knowledge of insurance and analytics, as he was highly adept at conveying that knowledge in an effective manner. We tried to replicate his educational approach by:

- Providing specific and clear examples of real-world applications.
- Making the language accessible to non-actuaries, such as brokers, chief financial officers (CFO's), risk managers, and students, as well as many other insurance professionals; and
- Highlighting the power of analytically based decision making.

We wanted this book to serve as an entry point for those seeking to understand complex topics and emerging risks. Accomplishing that would simply not be possible without the groundwork laid in An Actuarial Advantage. For that reason, and in consideration of our

long-term friendship with Tim, we dedicate this book to him as a way to honor his enormous contributions to the world of risk analytics.

As part of this limited release, the first 50 people to request a PDF will receive a complimentary hard copy of the book. Click to request your PDF.

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Everyone Hates Insurance

And taking those sentiments seriously will result in a more profitable model.

Everyone hates insurance because:

- No one trusts insurance companies, except maybe the C-suites that run them and delusional people.
- No one understands what they get from insurance until they have a claim.
- Too many claims' outcomes fall far below reasonable expectations.
- And I believe consumers understand intuitively that insurance companies do not really have any incentive to minimize claims, i.e., practice risk management. They absolutely believe carriers want to minimize claim *payments*.

This last point may seem counterintuitive because minimizing claims is all insurance companies talk about. As I tried to convince some agents last week, the company people you talk to do not know the whole story. In fact, only a select group of C-suite people really understands. But the situation is easy to understand if you step back and consider the details.

Let’s assume politicians became anti-plaintiff attorneys and passed legislation that limited all liability claims to $100,000. The most coverage anyone would need to purchase would be $100,000. Trial attorneys would go out of business because it’s difficult to afford to try many cases paying less than $100,000, and this is the maximum! Most claims would be for less.

If no one needs to buy more than $100,000, all else being equal, losses will decrease significantly, especially severe claims. But premiums will also decrease. Premiums will fall more than the $100,000 limit because the overall market will shrink so much that carriers will compete for the remnants. The last thing a CFO wants to report is a decrease in revenue.

The more suits, the higher the premiums. The higher the premiums, the more growth carriers report. The plaintiffs' bar is one of insurance companies' best friends.

Now, flip the switch. If claims are spread fairly evenly for carriers, carrier management can coast on 6% annual premium growth simply to cover 6% annual claim growth. This makes it seem they’re growing their companies when they are not. The more revenue, though, the more they’re paid, so it’s all good.

The key to success in this model is to achieve slightly fewer claims than the market as a whole, so the carrier can increase rates by just a little less than competitors to grow with true new clients plus rate inflation. This is easier said than done, but this is a winning formula, and the lower rate slightly mitigates the lack of trust.

My family history is in oil and mining. These are true commodity businesses in which the company has zero say in setting the price. Not even Exxon sets the price of oil. Farmers face the same challenge. In these businesses, the name of the game is achieving the lowest production cost. The only way to increase profits is to mine or grow more at a low cost because you cannot raise prices.

What if insurance companies and agents had a fixed price for their services? What if they could not raise rates to cover next year's claims? How would operations change?

Agencies would need to finally become operationally efficient. No matter what benefits AI brings to distributors, operational efficiency won't be maximized unless leadership brings discipline to producers. Rate increases cover a lot of poor operational management, and that would need to cease for the business to remain viable.

Growth could come only from new customers and better coverages. Getting new customers is expensive, which requires better operational efficiency to pay for that growth. The publicly traded brokers’ organic growth rates over the last ten years averaged less than overall industry growth, so their organic growth would likely turn negative.

A benefit of this model is that risk management becomes very real rather than something to talk about, which builds trust. Carriers typically address the need to reduce claims by

reducing coverage. Most catastrophic damages are not covered. One reason property is becoming more profitable is the huge deductibles. The increase in various driver exclusions clearly reduces coverage. Insureds do not like their coverage being reduced, especially without a reduction in premiums!

If rates were held steady, true risk management would be mandatory for success. It is the equivalent of finding a way to pump oil at a lower cost. Insureds would appreciate this because no one other than arsonists, plaintiff attorneys, and the insurance industry wants claims. People relate to risk management and feel like they're getting something for the money they spend. The benefit is tangible. Insurance becomes less expensive, so people despise it less.

This model is gaining traction with quality alternative risk solutions and, hopefully, some regular insurance companies. These entities have nothing to lose and everything to gain by disposing of the old model. Traditional insurers are creating alternatives too because they see the need, but they cannot afford to suddenly abandon the existing model and embrace a better one. It will be interesting to see whether better carriers and models win before other carriers can transition, or whether everyone agrees it's better to ride the current of ever-higher claims, resulting in faux growth. I know whom I'm rooting for!

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Agent Compensation and Carrier Results

Carriers spend a lot of money on agents. Some carriers now spend more on agent compensation than on all other expenses combined, excluding claims and loss adjustment expenses. They spend more on agents than on IT, salaries, reinsurance, rent, and everything else.

The question then that should be asked is: does all this compensation make a difference?

About 20 years ago, Elliott Spitzer launched a huge investigation into agency compensation and whether a pay-to-play scheme existed. It gained huge headlines and cost agencies and carriers fortunes. National carriers, although not regional carriers, changed their profit-sharing contracts significantly as a result. The premise was that some brokers, especially large brokers, told carriers they needed to pay more to get their business. This implied putting brokers' interests ahead of clients' interests, so Spitzer investigated.

No doubt this was happening at some level, but I believe it was rare among somewhere around 99% of agents. In the end, the publicity caused everyone to realize carriers were willing to pay much more than advertised. Networks grew quickly on the premise that a network could negotiate more compensation for its members than they could on their own.

This is not necessarily true, but it sells. Size is not nearly as important to successful negotiations as many believe. I coach agencies on negotiating with surgical precision, and some small agencies make more than much larger brokers. We have a lot of success.

I also consult with carriers on agent compensation. I don't see this as a conflict of interest because the relationship is symbiotic. Carriers shouldn't pay too much, and agents shouldn't be paid too little. Everyone, including clients, benefits if compensation is based on performance, so my clients' results are fair to all parties.

But someone needs to check whether compensation correlates with performance. In my studies of P&C producer performance, when commission exceeds a certain percentage, performance no longer correlates with sales. Good producers will sell, and incapable producers will not. Paying a producer who cannot sell 50% does not increase their ability. Pay a good producer too little, and they'll leave.

I also studied the growth and loss ratios of P&C carriers that use agents, along with their commission and contingency expenses. I excluded government funds and reinsurers because neither is comparable to regular carriers. My research covered the carriers that account for about 90% of premiums within this universe.

The results are just about perfectly random. Carriers that incur a low commission expense do not achieve better or worse growth than carriers who pay high commissions. The same goes for contingencies. Obviously, despite Spitzer and other AGs' accusations, higher compensation does not correlate with more growth.

It's also obvious that agents place business based on a multitude of factors more important than commission rates. This means carriers should focus on ease of doing business, better products, better rates, better claims, better something other than compensation because higher compensation does not move the needle. Many carriers waste money paying higher commissions than necessary.

However, it seems some carriers pay high commissions not to grow, but because they have nothing else to offer. Maybe they hope that by paying high commissions, their retention rate will remain better than it otherwise would be.

What was really fascinating is that contingency expense does not correlate to better loss ratios. The primary factor in contingency contracts is the agency's loss ratio so I expected a correlation to loss ratios and contingency expense. But the results are random. This is likely an example of individual agencies' results washing each other out. An agency with a good loss ratio is offset by an agency with a bad loss ratio. Another factor is the narrowing of loss ratios between carriers.

Most importantly, this shows the effectiveness of predictive modeling some carriers have achieved. Their contingency contracts may look good, but with predictive models that work well, agents are not often going to achieve low loss ratios. More than one carrier has what looks like a lucrative contingency contract that is not, in reality, lucrative.

If I were running a carrier and needed to cut expenses and my commission expense was high, I'd cut commissions because the blowback is likely minimal. Take some of the savings and give it to agents that truly perform well.

On the other hand, if I were running an agency performing materially better than normal, I'd demand more compensation.

The idea of paying all agencies the same commission rate is a silly business model unless it lets you pay less overall because top performers don't demand compensation commensurate with their performance. That worked for decades, but it's a limited strategy today. Smart agents realize how easy it is to move quality business to captives and even their own carriers, leaving adverse selection with the carriers who pay based on the assumption that no agent is better or worse than another.

These are the kinds of studies and consulting advice distributors and carriers need, using rigorous and proper statistical methods. This is the most efficient way to use your capital and time. When I lead clients to the water, and they actually drink, they do very, very well.

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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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