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In this issue...

"All you need in this life is ignorance and confidence and then success is sure." —Mark Twain

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If you enjoy this newsletter, you might also enjoy my monthly column in the *Insurance Journal*. Check it out at: insurancejournal.com/chris-burand

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Sometimes Insurance Isn't Rocket Science

For those of you who are not affected by the near freezing of the property insurance market (think of Florida primarily, but also southern Louisiana and the entire Gulf Coast, large parts of California, and large portions of the InterMountain West), you may not realize how many property insurance carriers have been declared impaired or insolvent over the past twelve to eighteen months. There are many, but the number seems to vary depending upon how you count them and whether you include those carriers for which it is a foregone conclusion that they are probably insolvent even though no one wants to declare them insolvent.

Really, in many ways, I should be including the old Monte Python "Wink, wink, nudge, nudge" film clip here. Everyone knows it, but no one can say it.

The insurance industry is incredibly complicated on so many levels from regulatory, to legal, to insurance contracts, to licensing, to actuarial. At times, though, it is so unbelievably simple that the required solution is obvious. Although the answer is obvious, it is also pugnacious, so no one wants to admit it.

A great example is that many, maybe all, of the carriers that have colloquially "gone under" recently were losing money even without the occurrence of a hurricane. Simple fact: If a carrier is writing in a hurricane state and cannot make money when hurricanes do not hit, what makes anyone think these companies are going to be sound when a hurricane does hit? Carriers writing in cat prone states should make excessive profits during non-cat years because of the high premium rates in those states. Those profits are needed to pay claims when a severity event, a catastrophe, hits. This is not rocket science.

A recent headline stated, "Flood Maps Are Out of Date Says FEMA" (*Daily NewsFlash*, Sept 14, 2022). Well, it does not take a rocket scientist to know that this is true. Every good agent I know who sells a lot of flood policies knows this is true. If flood insurance carriers, and particularly the NFIP and WYO markets, depend on flood maps when writing policies, it is a fair conclusion that flood insurance cannot be written correctly if one cannot accurately determine flood probability and severity. Forget the fact that flood rates have historically not been actuarily based and that such actuarial justification is unnecessary because the federal government can always print the money. Again, this is not rocket science.

Another headline from *Carrier Management* stated, "AM Best Report Shows Florida Insurers Far Out of Line on Reinsurance Dependency." This week, in *Best's Commentary*, a headline stated, "Reinsurers' Losses Paid to Florida Specialists Increased More than Fourfold in Three-Year Period." A time period without the occurrence of a really damaging hurricane!

Let us think through this complex point. The Monte Carlo Reinsurance Conference was held this week and as the "Monte Carlo Rendez-Vous Daily Edition" pointed out, "...one of the key themes of the event--namely the relative scarcity of cat/all-risks capacity..." was going to be discussed in depth. So, we have carriers that cannot stay solvent without a hurricane and are too dependent on reinsurance if there is a hurricane, while at the same time there is a lack of reinsurance in the event of a hurricane. How many numbers does someone have to crunch to figure out the real issue here has nothing to do with reinsurance?

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Alternative Solutions to the Staffing Shortage

Everyone knows a huge staffing shortage exists and that the wages of quality account executives has skyrocketed. I know many agents, and carriers too, who are scrambling to find people to hire.

A better staffing solution does exist and for more than a decade I have been showing clients how (if they are willing to become better leaders or, in the alternative, hire someone with great leadership skills) they can employ fewer people and also maintain and grow their revenues. The main factor affecting growth is wastage in the form of time spent processing.

Please note the following: Many people think I mean "processing unnecessary tasks." This is completely incorrect. I mean wasting time processing because the necessary tasks take too long. This wastage has reached at least 20% in the vast majority of agencies regardless of whether the shop is large or small.

Yet, I have few clients that have made any processing changes whatsoever to capture that lost value. Times have simply been too easy. Since profits have been good enough, agency owners have not viewed positive leadership and process improvement as worthy of the extra emotional energy required. (An interestingly related topic is a conversation I recently had with someone to whom I explained how to increase profits and their response was, succinctly, "I have enough profit and growth. I don't need more of either." No need to improve, is there?)

Now though, perhaps the pain has become bad enough that agency owners will be willing to pay the emotional price. I am currently seeing agencies lose up to 75% of their experienced staff. One might think the current pain threshold would be high enough now, however, for some, possibly masochists, I have my doubts. Those agencies just throw more people at the problem and hope for the best by sitting on the self-serving rationalization that "it is what everyone else is doing!"

If an agency finds it necessary to increase staff wages by 10%, or 20%, which is common, then saving one position and increasing the wages of the other staff is a win-win. The one saved position out of the five eliminated is not likely to involve laying any one off. Turnover will take care of this issue.

That is easy to say and Jack Welch's approach would be to fire 20% of the staff, but as history has shown, Welch's approach was a failure. An abject failure. It is important to be smart about how you negotiate around this issue. What I have developed, including the metrics, shows that productivity can almost always be increased by 10%, and often 20%, simply with leadership improvements. However, I do not always mention the 20% improvement figure because most clients cannot imagine their agency is wasting one hour out of five, just at the account manager level, every single day because everyone seems so busy.

Another reason no one listens to this advice is because the solution is not a shiny silver bullet that increases sales and does not involve expensive but unproven technology that is nonetheless always sexy. I probably should make up some kind of sales fishing lure and fake technology so people will pay more attention to my advice.

The price is simple. Demonstrate leadership that motivates your staff to follow procedures and refine current procedures to increase consistency and quality. Unfortunately, this answer is so boring that anyone with a short attention span should quit reading this article at once.

I have been performing E&O audits for almost 30 years and consistency in agency procedures has not improved. Some of the big shops that I have seen now consider E&O claims as just another cost of doing business. They have given up, but what they are not taking into account are the other costs too. When every producer processes their work differently, much less when they do not even follow marginal procedures correctly, the result is that someone else must do extra work to fix the inevitable errors.

When staff does not consistently follow procedures and new employees are on-boarded, which set of procedures should they learn? What happens when the procedures they learn are different from the procedures used by their predecessor. The extra time needed to come up to speed, along with the extra clean-up time, is unnecessary and a waste.

At this point you must add the additional cost of potential E&O exposures to the pile.

Furthermore, this type of work environment is not conducive to hiring and retaining quality employees. My clients that have procedural consistency show respect for their staff. Respect is a major factor in retaining employees and an agency demonstrates respect when it insists that their staff follow procedures. In turn, the employees tell their friends and peers at other agencies how much more enjoyable it is to work at your agency. Those of my clients who require consistency do not have a problem with staff turnover. They literally have a waiting list of people who want to work there, they do not have to pay as much in salaries and they do not have to employ as many people because their productivity is so high.

The price those agency owners willingly pay is expending the extra effort required to provide superior leadership. They lead their agency rather than being led by the whiners and complainers who emphatically state they cannot follow procedures and still do their jobs (nothing oxymoronic in that thought process).

Another solution is to establish a career ladder in your agency, especially one that offers part-time work. It is a fact that young people want to work for organizations where career ladders exist. Historically, almost no agencies or brokers included career ladders in their operating plans. The staff was either a producer or a CSR. That is not necessarily the best bifurcation today. In response to the current worker shortage, a far better solution is to create low level entry positions and train people up. One might begin an employee with the most elementary processing functions, perhaps on a part-time basis. The demand by employees for part-time work is extremely high at this point. Then when a higher-level employee leaves, you can move people up the ladder so much more easily than having to find a new, highly talented and experienced account executive at a salary of 20% more than you were paying the former employee.

Your agency benefits by having reduced turnover. Employees benefit by having a career ladder through which they can advance to higher level positions. Efficiency increases. Staff quality improves and the more effective your staff, the more your ability to increase sales grows. Your staff's support and quality of interactions with your clients increases retention of accounts and referrals (or it certainly cannot hurt, while poor support does not improve retention or referrals).

Carriers are in even worse shape, especially when their top leadership is far, far away from the actual tasks of processing and underwriting. Leadership has no clue how poor consistency is on the front lines or that lack of consistency is hurting their sales growth. I have interviewed so many agency/broker executives about why they continue to grow their books with a particular carrier they love to hate. The uniform answer is because the carrier is consistently easy to do business with even though their commissions are low, their forms are not that great, and they sometimes cringe when a claim occurs. Imagine what would happen if a better carrier were as easy to do business with!

Without consistency, there is limited brand value because no one knows the quality of what they are buying. Insurance agencies/carriers think they are different from other types of businesses or they would have fixed their consistency problems by now. I fly almost every week and the consistency of airline customer service when flights are cancelled varies so significantly that I have no faith when I ask them to rebook. But, I do not have a lot of choices either. Insurance is something people must buy and as a result carriers and distributors do not pay as much attention to the value consistency brings to their brand.

However, for the two or three people reading this far in the article who can withstand the shiny silver lures and appreciate the value of consistency, know that you can build a long-term competitive advantage that most of your competitors will never, ever identify or achieve. I remember a particular insurance company who, 35 years ago, was much, much smaller than it is today. Back then the company recognized they could capture considerable market share with consistency and the resulting cost savings. They were so confident their competitors would not figure this out that they offered free tours to their competitors including explanations of how they achieved consistency. The executives at the carrier for which I worked at the time, and is no longer a P&C carrier, identified the value of processing *consistency for all other carriers, but not for them*. They did not have leadership skills. Do you?

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A Love Story Between an Agency and an Insurance Carrier

Once upon a time, an agent fell in love with an insurance carrier. The carrier was staffed by nice people who gave good advice. They took the agent on wonderful golfing outings on courses where the agent had never played. They fell in love quickly and married, soon after signing a carrier contract while the agent was still young.

Being young, the agent was molded by these early experiences. Their attachment and loyalty were fixed and their relationship grew as the book grew. The agent got to know the marketing representatives and underwriters personally and the love grew more. They shared their frustrations. Both asked for favors and forgiveness over the years.

The relationship gave birth to lots of profits and growth. Both were happy.

Then, as with many relationships, someone cheated. The carrier changed course due to new leadership. The carrier began cheating on the agent letting go of their friends. The carrier became difficult. The communication breakdown between what the agent could write and what the carrier would write became confused. The carrier obviously wanted something different, maybe something more, out of the relationship even though the agent had given the carrier the best years of their lives.

The carrier even had pictures of the agent on its walls. The agent proudly displayed the carrier's plaque front and center on their lobby wall. When the carrier quit paying claims so exceptionally well, the agent truly felt cheated for their clients. Like so many relationships though, the agent held on anyway. The agent kept thinking the love would return. The carrier said all the right things but kept on cheating. The CEO said one thing, but the nice marketing representatives and RVPs continued to say what the agent wanted to hear so the agent immediately believed those without any power. Like so many relationships, it was not a healthy one.

The carrier benefited because it had the best of both worlds. It could explore new territory while still having a loyal agent doing everything possible to make the carrier come back to its true home of a close agent/carrier relationship and impressive paternalistic claims treatment. The agent, like a scorned lover, just kept hanging on hoping things would return to normal.

The carrier cut the agent's commissions telling the agent that all agencies were taking a pay cut. Then the agent discovered that not all agencies had their commissions cut. One might think the agent would leave this abusive relationship, but unfortunately, like so many abusive relationships, the abused party remained. They stick around hoping. They are afraid. The agent had known the carrier for the agent's entire professional life. What is life without them?

Note: Please believe me that I am not belittling spousal abuse victims. I am not. The similarities in the emotions are real.

I have attended dozens of meetings where agents and brokers were clearly being taken advantage of or simply where the carrier had gone a different direction, and yet the agent still hung onto the past. They continued to believe the relationship was personal when the carrier had clearly moved onto a pure business relationship of whatever is best for them is their course. In other meetings, I explained to the agents how grossly incompetent the carrier's management was which resulted in no growth and therefore, quite limited growth opportunities for its better agents, i.e., them. An easy example of this is when a carrier's surplus is decreasing twice as fast as the carrier is growing which means the carrier will hit a brick wall in the near future. The agent hears all of this and yet the agent's heartstrings override their brain every time. The math is simple. No matter what the nice marketing representatives and underwriters claim, the carrier cannot grow until it fixes its surplus problem, period. However, the heart won't allow the brain to work.

The carrier executives are cold lovers. In this specific aspect, their brains rule over their hearts. The agents will lose until they harden their hearts. The agents will lose until they get past their fear of dating again and find carriers that are better aligned, or better yet, awake to the reality that results are the driver today, not getting to know each other's families. Some carriers cannot even keep people long enough to have time to get to know them. Results drive passions today.

Carriers are not equipped to deal with distributors who are pure business. They, like many cheaters, like having it both ways. When a distributor requires results, they don't know what to do. Accountability is no fun when you are the one being held accountable.

I do not really know the best way for agents to psychologically move past their old carrier love affairs. I have been amazed and totally frustrated with how hard agents hold onto their carriers even when it is obvious what the carrier is doing. The story above is real, although it involves a combination of two carriers. The agent's future with the carrier will stall or regress--that is certain. The carrier is moving on, but the agent can't see the inevitable. Their wishful and hopeful thinking retards their profits and growth opportunities by substantial amounts for at least five years. One agent's situation was retarded by ten years, and they still had that wishful, lingering feeling for their old lover.

I lament the old days of personal relationships and underwriters who knew what they were doing and who would advise agents how to insure a risk and who would do favors for important accounts. But those days are in the past and will not return. One reason those days won't return is because that model is too expensive relative to profit margins. All that personal stuff does not pay-off for most carriers. The numbers and statistics prove this (read the book *Noise* about consistency, or the lack of consistency, in the insurance industry if you don't believe me). People are noisy causing too much inconsistency without generating adequate benefits for the extra cost.

Getting over old loves, especially if one feels cheated, can take a long time. You have a business to run. However, nothing prevents you from inviting your old carrier friends over for lunch and golf. If you want the best for your agency, get over your emotional head trap and make business decisions based on reality. If you find yourself justifying all kinds of reasons to keep hoping the carrier will somehow come around and see how good you have been to it, get counseling. I write this with all seriousness because the sooner you can get past this hurdle, the quicker you will enjoy life more because your frustrations will decrease so much. Your agency will be healthier and you likely will become wealthier by focusing on clients and employees who truly value you for who you are.

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Insurance is One of the Least Expensive Forms of Financing

Ivo Welch, the J. Fred Weston Professor of Finance at the UCLA Anderson Graduate School of Management, a 2015 Humboldt fellow, and the editor of the Critical Finance Review published an article in *Management and Business Review*. He makes a comparison to insurance that is 100% categorically wrong exposing a complete misunderstanding of insurance and its role in finance. He writes:

"If this seems absurd, think about insurance. Most of the time, the insured pay the premium but gets nothing back. The expected rate of return on insurance is usually negative. But customers still want to purchase insurance, because the upside appears in the worst eventuality (e.g., when the house burns down). Likewise, a project with the right beta pays off in the worst stock market eventuality (e.g. the Covid 19 epidemic)."

There is absolutely zero truth to the statement that an insured gets nothing back when they don't have a claim. Insurance is an alternative form of financing that enables people to purchase assets and run businesses with far less working capital. For example, the only way people can put only 10% down on a house and still get a mortgage is if they purchase insurance on that home and add the lender to the policy. What they get then, even without a claim, is the opportunity to purchase a home with very little capital.

The alternative is saving money for most of a lifetime in order to put a much larger downpayment on the house.

The same holds true for commercial insurance. A construction company cannot get contracts without proving they have insurance. Why is this? Because if something goes wrong, the client wants to know they'll be indemnified with the least amount of trouble as possible. The alternative again, which is allowed in some contracts, is to post millions of dollars of cash. The price of such cash, use whatever model you may choose, will be more than the price of the insurance. Insurance is absolutely one of the least expensive forms of financing.

This is the third time in the last six months I've seen finance professors that had no apparent understanding of insurance. One would not allow insurance to even be part of the finance department. Another did not understand what casualty insurance even did or truly the basic foundation of what insurance is and he was a professor of insurance!

Producers sell price and account managers talk price because they too don't understand what insurance actually does. I suggest you share this with them so they understand they are not just selling a contract that no one reads until there is a claim and for which everyone thinks is a commodity that does nothing for them until there is a claim.

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All Opinions are Not Equal

There seems to be a belief among many people in the insurance industry that, "If I say it, it must be true." Others seems to think that all opinions are of equal value. Those people are wrong.

I recently read the opinion of a relative novice about some basic insurance coverage issues. The following account does not use the same coverage (to protect the ignorant), so I am using business income coverage as an excellent substitute. The novice claimed that Actual Loss Sustained (ALS) was the solution to not being sued because the insured would be paid their for the actual loss they sustained. When asked why ALS should be recommended to avoid E&O claims, the novice responded that the insured would always have their claim paid so they would not sue. When asked about the "always" they affirmed that actual loss sustained means actual loss sustained.

Are there any caveats to ALS, such as maybe time limits? The response was that in their opinion actual loss sustained means actual loss sustained. I was welcome to my opinion and this person would maintain their opinion.

That is an option, of course. Ignorance is bliss, but an ignorant opinion does not have the same value as an informed and educated one.

I had an insurance professor send an e-mail to me advising that he was smarter than I was relative to the purpose of insurance. He clearly did not know the purpose of casualty insurance. He could recite insurance code, the words, but clearly did not understand what the words meant.

This industry sells legal contracts designed to protect a policyholder's assets. It does not get any more basic than that. The opinion of someone who does not consider or understand, and often it seems does not even read, the legal contract has no value. If this someone is you, then your opinion is meaningless. All you are doing is making noise.

To have an opinion that has value beyond social media and a fragile ego, a person must be educated and have a true understanding of the policy's language, including in many cases, case law knowledge. At the very least, the person must read the contract in detail. At that point, a differing opinion may have value. I have had many significant disagreements with highly knowledgeable people who possess fantastic technical skills. I am not sure those disagreements ever resulted in conclusive rights or wrongs, but both parties walked away more knowledgeable about the nuances that may apply.

Another example of an uninformed opinion involved the following language: "...including but not limited to, ..." The person, who was an attorney who somehow passed the bar, concluded that "including but not limited to" meant, "limited to." My question was, "On what planet?"

Increasingly I am seeing this attitude from the uneducated insisting that their opinions are of equal value to all opinions pervading insurance education. It is sad but it is part of the momentum driving the commoditization of insurance products. Convince insureds that all insurance, AND ALL INSURANCE NEEDS are the same for all people, and then sellers do not need to know what is in the insurance contracts they are selling. It is a race to the bottom. What amazes me is how eager so many people are to hit rock bottom. They are after the money rather than taking care of their clients. It is a selfish trail and those who think their uneducated opinions have value are self-centered.

So many insurance entities are racing to the bottom that it is likely to be flooded. If you want to rise above the ignorant masses, become educated with concrete knowledge and real skills, so you can bring true value to your clients. Believe it or not, a large segment of the population wants to buy real coverage and to be treated as human beings. They want real care, not pretend care.

It is your choice as to whether you pursue ignorant greed based on your self-reassuring beliefs that your uneducated opinions matter or you become an expert delivering real value.

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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 *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 the Institute of Business Appraisers and 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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