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A Fantastic Explanation!

I don't often recommend my clients watch YouTube videos, much less YouTube videos made by someone who operates a commercial sawmill in Alabama.

But this guy explains why clients need a quality agent, a quality policy (which he emphasizes is not available from companies that advertise heavily), and why people must read their policies for conditional exclusions. Not only does he explain this, he explains it better than most anyone I've ever heard explain it, possibly

Hobby Hardwood Alabama Sawmill, September 8, 2025:

https://www.youtube.com/watch?v=LPwGvEicykM

You may even want to share this with your clients!

because of his poor insurance
experiences.

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The State of Insurance Industry Education

When I entered the industry, the holy grail was attaining a CPCU designation and getting a company-paid trip to an exotic destination to receive a well-earned award. And all education was voluntary.

Then, some ivory tower regulator and/or politician, perhaps lobbied by parties standing to make money off mandated education, entered the picture. This is when mandatory continuing education was enacted. On paper, mandatory professional education makes sense until applied to a real-world setting. If a person is mandated to educate themselves, how motivated are they to actually learn? How motivated are they to provide quality advice to clients? I'll put a gun to your head so you take these classes and get educated, or else I'll pull the license you need to make a living! Awesome approach.

This is a direct contradiction with many states' standard of care for agents. Many states' standard of care for agents is that they don't have any duty whatsoever to advise clients on the coverages they need. We have attorneys and E&O experts advising agents never to claim they are professional or advisors or anything that would increase their standard of care to a point of advising clients on the need for this or that coverage.

If I don't have a duty to explain and advise on coverages, I don't need any knowledge of coverages.

Outside of autocracies, the market always wins. The insurance education market quickly realized that the solution to forcing people with little desire to learn coverages and with absolutely zero commitment to learn coverages was to offer junk education for a low price that met the low standards for CE. (A low standard for CE is oxymoronic because what is the point of forcing CE if the standard is minimal?) Now we have hours of CE offered for $99 that only require an hour, at most.

The proof is how the formerly prestigious and even new quality education programs are struggling to attract participants. Their programs, in the opinion of many, have been significantly diluted. Some might chalk this up to the need to go online, but that is a cover for the real problem. The industry has some great educators. IRMI, RIMS, and the Insurance Academy offer great courses at high levels. The Captive Insurance industry offers phenomenal courses on alternative risk transfer. However, only a tiny portion of the industry takes these classes.

What does all this say about an industry with a lousy public image? It says that few in this industry, including regulators and carriers, care about improving the image of taking care of consumers. It says that almost no one really cares enough about offering the right coverages to clients to take the time and spend the money for quality education. Dispute this if you will, but the proof is evident and solid. The standards of care would be higher if regulators cared. The best classes would be full if the industry cared.

This means it is up to the individual to make a difference. This is a hard road, full of frustration, especially if an account is lost to an imposter selling snake oil solutions. I saw an example very recently, and it collectively cost a handful of commercial clients approximately $500,000 a year over the last five years. It cost the clients, but it also cost the conscientious agent a good commission. The poser wasn’t sued, and honestly, was probably so incompetent they still don’t know what they did wrong.

The solution for all who want to make a difference and truly help your clients is a professional, advisory approach. This may involve a different way of selling insurance. Or it may involve creating an advisory company. Or it may involve quitting insurance sales and diving fully into advising clients.

For those interested in enhancing their offerings and making a positive impact in the world, contact me to learn more.

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Let's Think this Through

A California State Court ruled that the California FAIR Plan’s homeowners form is unlawful and fails to meet minimum coverage requirements. How long has the form been in place? One year? Two years? Decades? And the California DOI never raised any questions?

The California FAIR Plan, with an evidently inadequate policy, meaning their coverages and therefore their claims are less than normal, or were until this ruling, still effectively went broke after the fires. (My definition of broke might differ from the technical definition of “broke” in that they had to assess carriers ("California FAIR Plan gains approval from $1 billion assessment from member firms," *Reinsurance News*, February 12, 2025), and assessments happen when a carrier does not have the money in the bank to pay claims. To me, that means they’re broke.) Does the California DOI have regulatory review authority to verify insurance markets have the financial wherewithal to be a solid market for its population?

Several years ago, the FAIR Plan requested a large rate increase, and the California DOI wouldn't allow it. They did allow a 16% rate increase and then investigated it for not having enough reinsurance. Maybe it couldn't afford reinsurance?

This does not include the 2023 lawsuit by a consumer group, which claimed that a $500 million assessment to consumers was unjustified. I guess the fires proved the consumer group wrong. Maybe?

And the list of incompetencies is incredulous to me. We have two huge and powerful government-run organizations, both designed to protect consumers, that seem to have failed. To blame high insurance rates on global warming or greedy corporations is akin to the street corner magician performing the ball-and-cup routine. What is the best way to cause people not to focus on incompetence? Blame global warming and greed.

Let's think this through. Global warming has been so severe in Sacramento (California's capital city) that the DOI's employees were unable to read and review the FAIR Plan policy. The air conditioners were not working. Sweat was blurring their vision. And greedy insurance companies kept them from buying towels to wipe the sweat, the sweat blurred the ink on the forms they were reading, the printers were overheating, and their computer screens were suffering similar heat stress. That must have been what happened.

Global warming also prevented acknowledging that 2 + 2 = 4. I'll admit, I don't know how global warming causes people to fail at math, but that's the best I can come up with. The FAIR Plan is not a greedy corporation but a nonprofit owned by the state of California. If their actuaries say they need $500 million more, and assuming the state pays actuaries enough to employ quality actuaries, it is likely a safe bet the plan requires $500 million more. Besides, even without actuaries, insurance math is not that hard. At a basic level, all you need to know is the surplus ratio, which is equivalent to whether you can add 2 + 2 correctly. It seems like some people in California add 2+2 and get 1.

And as for greedy insurance companies pushing consumers into the FAIR Plan, it must be global warming that is warping the insurance executives' brains to do something so devious. If I am a greedy company, which implies I want to make a lot of money, then, of course, my first thought is to make a lot of money by forgoing sales, i.e., revenue. I will also make a lot of money by not writing insurance policies. Instead, I am going to cause consumers to buy insurance from some other entity in order to enrich myself.

Writing insurance in better areas with fewer claims is smarter, reasonable, and makes sense. But in California, I get assessed if the FAIR Plan cannot pay claims so even the better areas are not as much better as if I just left the state.

Thinking this through, it appears that the various entities, including the DOI, have a tax scheme in mind. By losing money, the tax savings are so significant that insurance companies make money. Hmmmm. That worked when tax rates were high and cattle were the key ingredient. Taxes are high in California so maybe that variable exists. Are these entities suggesting people are cattle? I don't know.

Insurance companies can certainly engage in considerable financial engineering. I study their financials in depth, and without question, a little more regulation in some spaces is welcome. But at the end of the day, all insurance companies are the same in the sense that they have $X of premium and $Y of investment income to pay for all their claims, salaries, IT, taxes and fees (carriers pay considerable taxes even if they lose money and do not pay income tax).

Furthermore, all responsibly run insurance companies set their rates so that their revenues and investment income exceed their outgo by a minimum of 5% and then bank that 5% difference in surplus. That surplus growth is banked to pay for large claims, catastrophes, and to enable the company to grow. Ah! But growth is bad, greedy, awful, and enriching of shareholders. I know.

Basic math follows the same rules, regardless of culture, religion, or political affiliation. Insurance companies need profits with which to grow surplus, or else they cannot write more homes. In other words, they need to grow surplus because it is surplus that pays for the catastrophic claims. The less surplus they have, the less they can responsibly insure. It's no different than the size of a home someone can buy if you have a $5,000 down payment or a $100,000 down payment.

Not only do insurance companies reasonably not want to write in certain areas due to losses, but if they have a severely limited amount of surplus, like the FAIR Plan evidently lacked, they must be choosy as to where to spend that surplus. Should they deploy it in an area more or less likely to burn?

I am not defending insurance companies. But by blaming insurance companies rather than addressing the horrendously incompetent regulatory approach, nothing gets solved. Another state is developing its FAIR Plan. They issued a release stating that because they are not profit-motivated, consumers will be better protected. That is malarky because insurance companies have not made money, even after adding investment income, on homeowners in that state over the last ten years. It is a miracle carriers still write in the state. To suggest the state can make insurance affordable by not taking profits when insurance companies are already not taking profits is silly.

The path forward involves shining a light on the facts and the math, and then not denying the reality of the math. However unpleasant the equation may be, it is reality, and effective solutions are founded on reality.

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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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