Carrier Relations: Getting Off to a Good Start
By Chris Burand

The carrier marketplace is very different than it used to be. Agents have fewer standard national companies from which to choose, but at the same time they have more regional companies and alternative markets.

Another factor contributing to this very different marketplace is some carriers have very different goals. Some want growth more than profit and others want profit more than growth. Many agency owners really struggle with the concept that carriers prefer growth to profit. Because of these differences, agencies need to consider what a specific carrier may want before trying to get an appointment. When an agency is searching for a new company, the agency should craft its presentation to match the company's goals or simply only meet with companies whose goals match the agency's own strengths/beliefs. This decision is very important because agencies that are proactive in attracting companies and managing their company relationships are far more successful.

A focus on growth

When working with companies looking for growth, agencies must present a growth plan to these carriers. In other words, answer the question, "This is how we are going to help you [the carrier] grow. This is our track record. This is why we faltered a little here and gained a lot here. Here is what we need from you to achieve this." Companies wanting volume can be very attractive to agencies and especially producers eager to make sales. Make sure, if this is the kind of company your agency needs, to choose the company that is not a poor short term solution. Some growth focused companies have legitimate, sound plans. Others don't. Therefore, I encourage agency owners to make several considerations.

- First, is the company growing without adequate concern for profitability, as we have all seen companies do in every soft market? It is possible to focus on growth without losing sight of profitability, but not all companies do so, especially in a soft market. Will that company be adequately stable for the agency and its customers? The second leading cause of insolvency, according to A.M. Best, is fast growth.

- Second, is the company growing without adequate respect for their loss ratio because they think they can cut expenses adequately to offset losses? These companies are going to do business with less underwriting, lower quality underwriting, lower commissions, or lower quality claims service. In these situations, do you want to expose your agency and your clients to this bare boned approach?

- Third, some companies seem to be sharply focused on growing particular kinds of business, particularly low maintenance business. Low maintenance business are accounts requiring less service/less underwriting/less commissions. These particular companies seem quite willing to lose business outside these categories but are pushing hard to grow their volume within these categories (which might explain why agencies have successfully moved considerable business to other companies but somehow still maintained their contracts with these companies). I am not sure this is a very smart strategy because it is relatively easily copied and several non-independent agency companies have proven they can outperform independent agency companies in this realm. For proof, look at State Farm and USAA. The problem for agencies doing business with companies following this strategy is supplying enough of this business to keep the companies happy.

Some agents struggle with the reasons why some companies prefer growth to profit. Simply put, their managers and/or the stock market place more value on growth. While most agency owners probably know that at some of the prices already being realized today, there is no profit for the companies on those accounts, Wall Street does not seem to see it that way. Other companies, right or wrong, think they can grow fast with lower rates without risking profits (although, 100 years of market cycles has shown otherwise).

A focus on profit

At the other end of the spectrum are those companies who, even in a soft market, are very loss ratio focused. If your agency's personality/strategy/belief is to generate low loss ratios, the best strategy is to work with companies also focused on low loss ratios. Agents should identify the carriers that appreciate up-front underwriting and are less focused on growth. I've found these carriers are usually more focused on truly teaming with their agencies. This means they are often focused on internal perpetuation because they know internal perpetuation is in their best interest. It maintains the partnership and lowers their risk. They also know that if too many of their agents sell to big brokers and big banks, they will lose their negotiating leverage. (Growth focused carriers, on the other hand, seem to figure they will just buy another company to regain their leverage in these situations.)

Profit focused companies want a plan that addresses all these factors: loss ratios and up-front underwriting, organic growth, internal perpetuation, and then volume. I find more and more agencies using these kinds of companies because most often, they are easier with which to do business.

Agencies will enjoy more success if they focus their plans/presentations on what the respective companies want to hear—not what the agencies think is in the companies' best interest. The presentation should also be professional, in color and organized in a bound book. While it is still possible to obtain company contracts largely through handshakes, it is best even in these situations to present companies with professional presentations. The presentation should explain the agency, its history, its future, and its strengths and weaknesses. If loss ratios have been high (above 60%), the reason they have been high and what you have done to correct them should be included. If growth has been weak, explain why and what have you done. Explain how you will assure the new company with adequate volume (at least $500,000, preferably $1,000,000 within 24 months). Show the company a solid balance sheet, which means the agency is in trust and has at least 30 days working capital. Explain how you will continue to treat your current carriers and how there is a place, for the right carrier, in your agency. Also, explain what you need from the new carrier.

This process is a lot more work than most agency owners desire, but if followed, the agency will have better company relationships because both parties will be working toward the same goal. Furthermore, a professional presentation will give the company more confidence in the agency right from the beginning and getting off to a good start is always beneficial. Every person in every agency knows that good company relationships are competitive advantages, so why not take the extra time and build those competitive advantages right from the beginning?

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November 2005