

Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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In This Issue...



Education for Professionals

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[Read more.](#)



A Few Insurance Company Insights

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[Read more...](#)

Connect with Industry Leaders while Enjoying the Colorado Rockies

I have one opening 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 skiing and enjoying the breathtaking Colorado Rockies.

This meeting is a tremendous opportunity to network with a select group of industry professionals. If you're interested, don't wait! 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.

Cost of a Data Breach

The IBM Cost of Data Breach Report 2024 <https://www.ibm.com/reports/data-breach> states the average data breach cost is almost \$5 million on a global basis. Because I'm guessing most of your clients only have \$1 million in coverage, you might want to suggest they increase their limits.

“If you always hire people who are smaller than you are,
we shall become a company of dwarfs.
If you always hire people bigger than you are,
we shall become a company of giants.”

~David Ogilvy

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Education for Professionals

I am far more used to teaching classes than taking classes. Recently though I took a 3+ day full immersion, non-insurance education program. My takeaways relative to the type of education I see people gaining in the insurance industry are as follows:

1. This non-insurance program was thorough. Therefore, it cost quite a bit of money. If you are taking the normal cheap insurance classes and want to think you're gaining material education, you are obviously welcome to your wishful thinking.

Good education is an investment. If you are not spending a fair amount of money on education that pushes you to think hard, you are wasting whatever money you are spending. It's silly to pay any money for poor education unless you are:

- Doing it only for continuing education.
- You really do not care how much you know and therefore are not willing to put in the time required to sell clients the coverages they really need. I'll return to this momentarily.
- You are too naïve and lack context to know the difference between good and bad education. Price can help you understand the difference. But ask the most knowledgeable people you know for advice.

Another way to think about it is this, if you are taking golf lessons or any kind of hobby lessons, are you spending at least twice as much on your professional education? Why would anyone spend more on their hobby lessons unless their job is a secondary hobby?

2. This class pushed me to think hard and part of that was the instructor. He was world class and so he charged more money than many others. You'll benefit by taking classes from the highest quality instructors.

3. If the program does not include muscle memory exercises, it is likely overpriced. Adults simply do not learn much sitting in a classroom, only listening. Taking notes helps, but the best method is to apply the knowledge as soon as is practical during the class. If the instructor is explaining some coverage, then write up a case study of how that coverage or lack thereof would apply in your world for your specific clients. Write-out how to explain the importance of the coverage as if talking to an insured.

We did this each day in class. For the life of me, I could not fully grasp what this instructor was explaining until I applied it. Many people think of this as working with their hands. A person can explain knitting all day long but until someone applies that with knitting needles in their hands, they are not likely going to learn what they need to learn.

The same concept applies to insurance education except that we are writing out and/or verbalizing as if explaining the coverage to an insured. High quality education always creates muscle memory even if that muscle memory is simply writing out explanations in your own words.

4. Make mistakes. I learned a lot from my mistakes. Fortunately, I was in a safe environment, so the mistakes only injured my ego.

In 30 years of E&O auditing, I find that agents don't usually take the time to learn in a safe environment. They learn from E&O mistakes and near misses. When I teach my private education classes, I create safe environments for making mistakes that only injure the ego. An injured ego still hurts, but not nearly as much as an E&O claim or having a competitor take an account based on your mistakes.

5. Learn in an environment where you can ask questions. You'll likely remember the answers to your questions, or others' questions, better than whatever else an instructor said. This is another reason why the cheap courses are mostly worthless.

6. Once you get the basics down, identify an educational opportunity that creates pressure. You'll respond differently under pressure. For example:

- Read a policy form or read about a policy form. This has a pressure score of 1, on a scale of 1-10.
- Write out an explanation of a coverage as if explaining it to an insured. That scores about a 3.
- Have someone review your work and critique your response. This has a pressure score of about 5.
- Explain a coverage as if being deposed by a plaintiff attorney in an E&O claim. That scores about a 7 and in my experience, people make a lot of mistakes at a 7, even people that know their coverages well.
- Explain a coverage in front of a jury when you've been accused of making a mistake. That scores about a 10. And in this situation, you would be very wise to have practiced your answers for hours in front of your own attorney. If your attorney does not make you practice this, find a new attorney.

Next, work on explaining an associated coverage and how that coverage integrates with the prior coverage. For example, at least six kinds of business interruption coverage exist. Can you name all six and explain why or why not a commercial client needs multiple forms and how each integrates with the other? If not, you haven't had good business interruption education or you failed to learn.

7. Insurance is extremely complex to knowledgeable people. It's only simple to those selling snake juice. I've been blessed to know some of the best educated coverage gurus, but even they do not know it all. Two solutions exist and the best solution is to combine the two even for those people with deep knowledge.

- Be brave and research a client's question or situation. Don't presume to know.
- Have a partner. That partner may be an account executive, a producer, or a buddy to bounce ideas and to get second opinions. Two good minds in these situations are always better than one good mind.

8. Take breaks in your education so you have time to digest and practice each aspect. I don't know how many gigabytes of data exist relative to explaining insurance coverages and case law and such, but it's a lot. Thinking you can learn it all without breaks is foolish.

9. Cheap education is worthless.

If you are a real insurance professional or want to be one, I hope these suggestions help you on your path to success.

[Back to top](#)

A Few Insurance Company Insights

First, when you see mutual companies reorganizing to gain better access to capital, this generally means they're out of operational surplus. It might also mean executives have figured out this might be a way to make a lot of money. Based on the carriers reorganizing, my assessment is most just need an influx of capital because they've lost so much surplus.

How did they lose so much surplus? Every carrier's story is unique but quite a number incurred huge investment losses when interest rates increased but they weren't smart enough to slow premium growth quickly, thereby causing their leverage ratios to increase too fast and too high. For others, they probably should never have been in the property reinsurance business. For some, it is bad luck. For others, they lost track of how to underwrite. And for most, it's some combination of these factors. But, it's not global warming and it's generally not catastrophic claims or whatever other excuses are being pedaled. In summary, it's mostly a management problem.

Second, the NAIC really needs to ban any new companies from including the *nom de guerre* "Universal" in their name. Seriously, how many "Universal Insurance" companies does the industry need. It's bad marketing too because with so many "Universal" insurance companies, branding is impossible. It's like if every fifth hamburger joint was a McDonalds this or that. Maybe the naming is also indicative of underlying strategy issues too. I'm not sure. But we don't need any more insurance companies, or agencies, with "Universal" in their names.

Third, sort of like mutuals needing to reorganize, there's been an exponential increase in reciprocals.

I find few agents understand reciprocals and few insureds understand them either. (This topic deserves a full article or white paper, rather than a few short paragraphs in a newsletter.) Reciprocals get what amounts to a kind of free capital contribution. For example, if a quality stock carrier raises capital, investors will want a return on their investment of probably around 12%-14%. Or if they borrow money, they'll pay interest of 5%-8% (unless they're weak and borrowing through surplus notes where the interest rate might exceed 10%). Regardless, money cost money.

But with a reciprocal, the policyholders are effectively giving the insurance company capital for free. And if the carrier fails, the policyholder has no debt protection and if the carrier sells itself for big dollars (unlikely but possible because it has happened recently), the policyholders get nothing. Money for nothing!

But the policyholder can find themselves obligated to contribute even more free money! Agents: I hope you understand what you're selling and advise your clients well.

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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