The Adversity of a Desperate Market

By Chris Burand

In almost 25 years in this industry, I have never seen such desperation. One of the unfortunate results is that many good agencies that have worked hard, done things well, and are not grasping at straws, are still at a competitive disadvantage. It is much like the situation faced by the most responsible citizens bailing out the most irresponsible or incompetent (take your pick) individuals and companies.

The categories in which this is occurring are widespread. Here are some important examples.

1. Certificates of Insurance. The changes to certificates have caused widespread carnage, frustration, anger, and virtually every other negative emotion imaginable. One item that is not being discussed much publicly is the difference between agencies following the rules versus agencies that are not following the rules. In particular, the question is whether to issue certificates that violate contracts, copyrights, and regulations. There is no question some agencies are doing so knowingly or, if ignorant, they are living in a deep, dark hole.

Neither companies nor associations nor many regulators (the Wisconsin Department of Insurance is a notable exception and there may be others of which I am not aware) have done much to correct the abusers. The result is that sometimes the agency willing to violate the rules, contracts, and copyrights make sales they would not otherwise make. By being silent on this issue, companies, associations, and some regulators are assisting the irresponsible—and the responsible are paying the price.

2. Premiums payable. An even more verboten subject is whether all companies and brokers are truly requiring all agencies to pay premiums on time. My theory, based on my experience, is they are not. I understand that many companies are so desperate to hang onto whatever premium they can that they would prefer to work this out rather than lose their premiums. But the best agencies lose as a result because this amounts to a handout.

3. Giving away free services. The debate that is occurring between agencies and brokers and even among regulators on whether it is ethical for agencies to give away free services such as loss control in order to get accounts is eye-opening.

The average agency makes zero dollars of profit on a commission basis per the last Growth and Performance Standards (GPS) study by the National Alliance Research Academy. So how do these firms plan on increasing their costs without going broke? Free services require significantly good management and good cost accounting methodology, which are severely lacking in most agencies and even large and supposedly sophisticated brokerages. I suspect many of these accounts will cost the agency much more than it makes; either that or the free services being offered are not that real.

More than one agency/brokerage advertises services they don't deliver. Sometimes they don't deliver because they don't actually offer the service. Sometimes they have the service but the producers won't deliver it because the producers have to pay for it through a lesser commission.

On the other hand, the desperation of this market has clearly changed buyers' perspectives of what they are buying. They understand better now that the insurance policy is only one aspect of their purchase. So moving forward, it is no longer an issue of whether these services need to be offered to adequately complex commercial accounts. Burying your head in the sand while thinking important clients will never demand these services is pure denial of reality. The real issue is what price an agency will charge for these services.

4. Companies buying into agencies. Companies cannot figure out how to grow themselves, but they are convinced they can grow agencies so their strategy is to buy into agencies. Insurance companies may not be able to grow, but they have a lot of excess cash and are desperate to invest that cash, just like they are desperate to grow. It is too early to know, but the question worth asking is whether an agency owned wholly or even partially by a carrier will treat all carriers equally? Will they treat other agencies equally?

5. Rising rates in a poor economy. Most people in this industry have never experienced a hard market in a poor economy. Customers will shop harder than ever when rates rise. They will be susceptible to promises that they don't need limits and coverages. They'll be susceptible to buying insurance from poorly rated carriers and ignorant agents. The question is, what are you doing to protect yourself and your agency when the market turns hard in a poor economy?

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