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In this issue...

Tips from Tracy

In this short video, Voice Coach Tracy Goodwin, of Captivate the Room, discusses the relationship between your voice and people pleasing/peace keeping tendencies. Tracy provides tips and techniques for improving your voice, and therefore your communications, to increase your management and sales success: burand-associates.com/tracy-goodwin-video

Improve Growth & Expense Ratios with a Clear Underwriting Appetite

This article by Jason Bogart explains how a clear consistent underwriting appetite lowers expenses, enhances growth, and improves morale: deepcc.com/2022/07/14/improve-growth-expense-ratios-with-a-clear-underwriting-appetite/

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To Advise or Not To Advise?

The insurance distribution industry has been slowly evolving away from coverage knowledge for a long time. Education seems to have taken a slow road to a long death but coverage knowledge relative to premium in personal lines and SME is at a low point. I'm finding many new distributers, distributers with large books, place zero emphasis on education (and I don't count most CE as education because agents can easily obtain all their CE hours and learn absolutely nothing but how useless it is). I know some direct writers are abstaining from all coverage education for their distributors to limit their liability exposure.

Customers are frustrated though. They recognize, after filing a claim, they don't have the right coverage. With many direct writers hiding behind Sergeant Schulz's philosophy of "I see nothing, I hear nothing, I know nothing" they get their protection even if their insureds don't. With independent agents hiding behind the order taker E&O mantra of "Don't be a professional. Don't be an expert. Don't do anything but give the customers the insurance they ordered and be sure to add the disclaimer that it is their duty to read and understand their policy" (who has the insurance license?), consumers are on their own.

I read an article recently about how carriers are bypassing agents to encourage them to work with risk consultants. In today's age, issuing policies and offering quotes is not worth 13% commission. If that is all an agency is going to do and if you are retiring relatively soon, you'll be fine. For those making careers, you'll have a short career. I've worked with quite a few carrier executives who have stated they will either cut commissions for order takers and/or would like to see agents actually taking care of the insureds because failure to do so is impairing the carrier's reputation and brand.

I recently saw some interesting and preliminary information that insureds, on their own, have decided they want high quality insurance education because they don't trust their agents. Obviously, most insureds won't do this because they don't have the time, education, or knowledge this is possible. But if high quality consumers take this route, we will have adverse selection for all others.

If consumers don't trust order taker agents and carriers don't want to pay 13% for order takers, the future for order taker agents is bleak unless they severely cut their expenses, i.e. compensation.

The reality is that distributers using sophisticated technology who also admit to themselves they are nothing more than order takers have a competitive advantage because they'll strip enough expense to do well at lower commissions. The future is actually good for them. It's all the pretenders that pose as being something more than order takers who are in danger of eradication.

A different perspective is for you to determine who you are. When I graduated college, I researched a life carrier known to hire dozens and dozens of new salespeople. The goal, from my perspective at the time was that they just wanted meat to sell insurance and that the people hired pursued sales of any kind without regard to people's needs. Sell to sell was the goal.

Is this you?

Even after I'd been in the industry a few years, I did not really appreciate how insurance can make all the difference in a person's life. I was used to all the sales consultants teaching people to sell without ever addressing helping the client to a better, safer life. Sell to sell.

Then I read the book, "How I Raised Myself from Failure to Success by Selling." It was written a long time ago by Frank Bettger, who if I recall correctly, was the #1 life salesperson in the country for several years. After reading the book, I bought my first life insurance because he helped me see the true value. As I've told audiences for years, it took a dead man to explain the value proposition because all the live life salespeople failed. They just were selling to sell.

Do you want to make your clients' lives and businesses safer? Do you want to help them truly manage risk? Do you want to build for them a robust insurance program so that if they suffer a horrible loss, you will have mitigated the financial damage to a great extent, a far greater extent than order takers ever will?

Is this you? If so, knowing deeply what your clients' exposures are and then how to best cover those exposures is key to you achieving your heartfelt goals.

I am in the business of helping people achieve these heartfelt goals.

[Back to Top]

It's in the Details...

I recently read the Opinion of an Idaho Supreme Court case that reversed a lower court ruling which favored the Defendant, an insurance company. The issue involved UM/UIM coverage. The situation, as I interpreted their ruling, was pretty simple. The Plaintiff carried minimum UM/UIM limits of $25,000. They were hit and injured by another driver who carried minimum liability limits of $25,000. The at-fault party's insurance company paid $25,000.

The Plaintiff then turned to their carrier for UM/UIM coverage. Their carrier denied coverage because the $25,000 already paid equaled the state minimum and therefore did not meet the definition of underinsured. In other words, an underinsured scenario can only happen if the at-fault party carries less than state minimums. This is not the first time I have seen a carrier use this defense.

It is a bogus defense, ASSUMING policy language does not limit coverage in this manner.

Underinsured motorist coverage is clearly and unquestionably designed to cover an insured for damages that exceed the at-fault party's liability limits. The amount of coverage carried by the at-fault party is a moot point. In theory, it has zero importance as to whether UIM coverage applies. The valid question is whether a gap exists between the amount of coverage the at-fault party carries and how much their carrier is willing to pay versus the insured's total loss (with differentiation for bodily injury and property).

The only people to whom the purpose of UIM coverage may seem otherwise are those people who are either ignorant or devious. (Again, I am disregarding the policy language that exists to limit this coverage and I am only discussing the purpose of UM/UIM coverage. Policy language rules because both parties agree to the contract.) The court ruled in this particular case that the coverage sold to the Plaintiff was illusory because it served no legitimate purpose. Who needs to pay for UIM coverage if the carrier says it only applies if the insured carriers some insurance but not the state minimum? Of course the coverage is illusory.

Carriers that pull these stunts give the industry a bad name and agents who sell policies from carriers that pull these stunts give the industry an even worse name. Furthermore, such agents injure people's financial well being by selling illusory coverages. This is why reading the forms and understanding the coverage differences from one policy to another is so important.

An example of this is found by taking a long leap to cyber insurance. Consider two policies that provide ransomware coverage where everything is equal except for one clause. The first policy has a clause that stipulates the carrier will only pay ransomware claims that are paid in a recognized national currency (and goes further to say it must be in U.S. or Canadian dollars or Euros). The other policy states it will pay in such national currencies or electronic currencies (such as Bitcoin). Most ransomware today requires payment in electronic currencies. How good is the first policy?

That is not illusory coverage by any means to me even though there is a huge difference in terms. That discrepancy may simply be the result of the first company not updating their definitions as fast as ransomware demands change.

Another example involving homeowners involves the ability to rebuild wherever. Sometimes a policy allows the policyholder to rebuild wherever in the event of a total fire, and others, because of generous definitions of the guaranteed replacement clause (I find many people think all guaranteed replacement clauses read the same and I assure you they do not), enable people to rebuild anywhere, but they are not allowed to rebuild wherever they desire. At times the ability to rebuild anywhere may seem a luxury, but in other situations like massive wildfires, people literally cannot rebuild their homes on the same site or at least not in a timely manner. The ability to rebuild anywhere is dependent on having adequate coverage combined with policy terms allowing the policyholder to rebuild anywhere.

The examples go on and on. If you want to be a good agent and do what is right for your clients and your community, do the following:

1. Do not represent lousy carriers.
2. Do not think, "My job is just to sell insurance and whether it fits or actually provides needed coverage is someone else's duty." That abdication of responsibility is anathema to good agents.
3. Read and understand the coverages you are selling. Read the actual forms you are selling.
4. Help educate insureds whenever possible that all insurance policies are not equal. Huge differences exist between policies, forms, different people's needs, and especially how well different carriers pay claims.

Be a good agent, be there for your clients before the claim so they have the coverage they need.

[Back to Top]

A Positive Impact

In the insurance industry, you can have a phenomenal career in which you can make a personal difference to clients, especially as an agent. The price, however, is making the world a better place client by client rather than globally, and to do this you must become a coverage expert. You must care about your clients. You must deal with the frustration you will experience when you see how sloppy other agents are and sometimes, how much more money they make by being sloppy.

I will use the recent Colorado fires as an example of how a great agent makes the world a better place. Before going further, I want to confront experienced readers who will dismiss the following as being enviable but impossible. I have been gifted with the opportunity to work with thousands of agents. The following is only impossible if you do not care enough and do not know enough. Not knowing enough includes not knowing what is truly possible. What I describe below is being done by many of my clients who care enough and have spent the time, energy, and money to become true professionals.

When a fire occurs, especially a large fire, a family will most likely lose everything. They lose 100% of everything. They lose memories in the loss of photos, mementos, and computer memory. They lose all of their possessions, some of which they may be happy to lose, but mostly not. They must find a new place to live. If they have children, they must find a place to live, hopefully, within the same school district and, hopefully, without a longer commute. With luck they can maintain a normal grocery shopping routine at the very least. The ability to preserve some sense of normal becomes vital.

Recovery becomes a second full time job for an exceptionally long time. Hobbies go away. Socializing goes away. Dealing with insurance adjusters, contractors, building permits, debris removal, and architects becomes their new life. Finding clothes for everyone and finding a place to wash those clothes becomes the new norm. Finding all the passwords and account numbers tucked away so you can do your banking and pay for your insurance, healthcare and such might require weeks' worth of work.

All these points are reality and this list does not include any personal trauma or injuries that might have occurred.

A really good insurance agent can make an enormous difference. A sloppy agent can make their clients' lives miserable.

As an example let me show the contrast between two agents. I will begin with the issue of insuring homes to value. Two parts are required to insure homes to value. The first part is to make the commitment to insure homes to value. That may sound obvious but many agents are taught to tell insureds they only need to insure their homes to the co-insurance requirement so they can save money without losing coverage. Neither point is true and quite possibly is the work of a sloppy, perhaps unethical agent, but most likely it was an ignorant agent with good intentions.

In today's inflationary construction environment, cutting coverage to the co-insurance level is a fool's errand because with virtually 100% certainty the result is coverage that is less than the co-insurance requirement. Also, the insured is not going to save any money. They are simply buying less coverage. To save money the insured would need to buy the same coverage for less money. It is like saying "I'm saving money by buying half a sandwich instead of a whole sandwich." Of course half a sandwich will cost less, but does it do the job? If I had my way, I would make it illegal to use this sales approach because to me it is patently unethical and is only used by sloppy agents. Good agents know that inadequate coverage can leave an insured holding the bag.

Replacement Cost Estimators (RCEs) are the second part and this is more of a gray area. Without getting into the morass that all RCEs are wrong (true), some are more wrong than others. Good agents can account for that in the policy and it is at this point that deep knowledge is imperative. No one should expect an agent to be a construction expert. When completing RCEs, do not suggest to clients that you are an expert and reiterate to them that RCEs are estimators for insurance purposes only.

However, if you learn to use them well, your clients will be better protected. For example, be thorough when completing them. Also, use common sense because sometimes the numbers calculated are nonsensical. Do not leave anything out. Some fires become so hot that concrete foundations are damaged. This means the foundations must be removed (more debris removal) and re-poured which means dirt work is also required. Include the foundations and dirt work in your replacement cost estimators. Many agents forget to do this or don't know to do it.

Offer and really try to convince all insureds to buy replacement cost coverage on the structure. In my experience, the margin of error with RCE's is between 10% and 50%. The replacement cost coverage gives the insured coverage for at least the lower end of the errors. Also, be aware that the difference between carriers' replacement cost coverage varies significantly. Some are capped, some are not.

Also pay close attention to how the replacement cost endorsement works with co-insurance and improvements. During COVID many people improved their homes and forgot to tell their agents. Generally, improvements are excluded from the replacement cost endorsement, but may factor into the co-insurance factor. That would be a problem.

Really good agents, on this point alone, must dedicate themselves to deep coverage knowledge, carrier form by carrier form, because the difference may transform the ease with which a person recovers from a fire, versus a person who discovers they lack adequate coverage.

Such coverage knowledge must be paired with caring enough about your clients to talk to them. In today's world where we have geniuses telling us they can solve all problems with data, remembering to talk to clients can get lost. Talking to clients gives you the knowledge you need to offer the right coverages that will help them enormously through difficult straights.

In talking to your customers you also get the opportunity to educate them. Consumers often buy the wrong insurance because they lack insurance knowledge and sloppy agents take advantage of them. A key coverage that can make a wonderful difference when rebuilding is offering adequate Ordinance and Law coverage. Every agent I have ever spoken to about ordinance and law coverage tells me they have it covered because the policies they sell automatically include it. Whether it is or is not included is a moot point because the automatic throw-in coverage is almost always inadequate in a fire loss. Insureds need 50% to even 100% coverage. A really good agent who is dedicated to making the world a better place will emphasize and sell this extra coverage. Besides, this coverage is usually incredibly inexpensive.

I have worked with many agents through many catastrophes. I have worked with many agents in the same cities during the same catastrophes. The insureds of the most professional agents have always, in my experience, been able to rebuild their lives more quickly with much less angst, frustration, anger, and time spent. These agents have indeed made the world a much better place, client by client by client. You can join that club too.

The best part is this: For every client a professional insures well, there is one less client who a sloppy agent cannot leave hanging.

The industry needs to help change the world and a great place to start is one client at a time. Professional agents are the people who can make that difference.

[Back to Top]

Insuring What's Important

Allianz posted an article in January 2022 based on a survey of 2,650 businesses listing cyber, followed by business interruption, and natural catastrophes, as the three highest rated perils that businesses face.

Let me work backwards. The prior week, MunichRe provided a report showing that 31% of catastrophes in 2021 were covered by insurance (in claims dollars). This is in line with a prior long-term study by SwissRe concluding that only about 30% of catastrophes, in dollars, are covered by insurance.

Business Interruption coverage claims related to the pandemic, at least in this country, were denied almost 100% of time in 2020-2022 for arguably the largest business interruption event in history.

Cyber coverage can be purchased. However, it is questionable just how useful it is as a lot of cyber policies provide minimal coverage. Good coverage depends on many variables being met. Does the client actually meet the warranties they are signing for on the application? Do the adjusters have a clue relative to how to adjust cyber claims? Not to mention, is the cyber policy affordable or does it cover ransomware. All of these circumstances, *create a giant hole.*

The three biggest perils to business have, at best, maybe 30% coverage. Do businesses really need insurance, especially in the traditional marketplace, if insurance companies are not going to cover what is most important? Or is it akin to the adage that the only time a banker wants to lend you money is when you don’t need it?

I have analyzed A.M. Best claims data and the traditional insurance world is simply becoming less important because the claims activity, relative to the overall economy as measured by GDP, is shrinking. Either people and businesses are having far fewer claims or the claims they have are less likely to be covered (which makes sense given higher deductibles and carriers' continued focus on tangible property rather than intangible property).

I know some carrier people will be thinking, "But we paid a lot of claims, so we still matter!" That is pretty much a moot point because small stuff can be self-insured and a lot of quality business is moving to alternative risk transfer mechanisms. The traditional marketplace is increasingly the residue of adverse selection based on accounts and agents who do not know better options exist for quality accounts.

What to do? At the agency level the place to begin is to become educated, highly educated, on alternative markets. Next, begin getting to know the people who run quality (because there is no room for sloppy) alternative markets. Quality is everything because this market is not regulated in as many ways as traditional carriers. So many solutions exist making knowledge imperative at the agency level. An agent must know coverages inside and out to design a plan that provides the security his/her clients need.

At the carrier level you can continue dealing with adverse selection. Agents who do not know what they are doing and agents who are years behind the times relative to market solutions are writing accounts that otherwise have nowhere to go. You can continue to compete for this segment of the market. In commercial, all the estimates I have read already show a majority of premiums are in the alternative marketplace, so this residual business is likely to continue shrinking relative to the economy.

Or you can decide that policies written for 1970 manufacturing America might not be as important as the policies written for the 2022 data driven America. You might decide to broaden coverage for catastrophes, for a price, especially using alternative risk transfer methods specifically designed for catastrophes.

You might decide that, for a price, insuring business interruption for the most important business interruption events such as supply chain and civil authority makes sense. Otherwise, let's call it what it is, business interruption coverage for highly unlikely, limited perils that insureds will probably never face while ignoring the ones businesses are more likely to face.

You might decide that cyber is simply uninsurable. Or that a straight DIC type cyber policy makes sense. Or, perhaps the creation of a full cyber risk management program backed by cyber insurance, rather than putting cyber insurance at the forefront, makes the most sense.

Or, you may decide to do nothing, which I bet will be the case. Most insurance companies are not prepared for these times and this economy. But, for the ones willing to think things through and offer solutions rather than silence and denials, the potential success is tangible.

[Back to Top]

Why did you get that account?

I was talking to an agency client (and quite a few clients have told me the same story, this was just the most recent) who had failed to gain a good-sized commercial account. He was frustrated because the insured went with an agent who offered a price that was 50% less than his price. He asked for a review of his competitor's proposal. The prospect was kind enough to give him the proposal. He went through it and after choking back his vomit because of how much necessary coverage the cheaper proposal lacked, he pointed out to his prospect all of the huge coverage gaps that existed in the policy.

The prospect considered the situation and asked if the competitor had offered the needed coverages, would his price been close to my client's price. The answer was "Yes." My client asked the prospect if he agreed the missing coverages were important. The prospect said, "Obviously!" My client then confirmed with the prospect that he agreed the coverages were not being recommended just so my client would make more money. The prospect then said, "So the only reason their price is low is because they aren't offering me the right coverages?" My client said, "Yes." The prospect then asked my client if he thought the competitor agent had professional liability insurance. My client said, "Probably, but you can ask them."

The insured then said, "I really appreciate you but I'm going with the incompetent agent." I can save 50% and still be covered by their E&O. Did the other agent think he/she was a genius? Probably so.

A good example of these geniuses are those producers who pull apart a client's insurance policy(ies) and spread them out among five or even ten carriers so they can achieve a lower rate but fail to address the gaps in coverage that are created in the process. The premium decreases not because the producer is a genius, but because there is less coverage!

Quite a bit of business flows to incompetent agents in this industry simply because they are incompetent. It happens to carriers too. Years ago I was discussing Florida workers' compensation with a Florida industry guru. We were talking specifically about a carrier that had entered the Florida market and was growing their book quickly. He told me, "They are just writing the same business that every new carrier writes when they come to Florida. They write it because the last company to write it discovers it is not good quality business, they raise rates and non-renew it, the next company comes in thinking they're smarter than everyone else, and seven years later they are raising rates and non-renewing it too." I have watched that book for 20 years. Was he ever right!

The Florida workers' compensation market provides many good examples of how a chump can write a lot of business. I have fielded many calls from agents and brokers wanting to write Florida business because the rates are so high there. They start dreaming of the dollars and see headlines of carriers, agents, and brokers growing quickly. It is as if they think money grows on trees in Florida.

I tell them the same anecdote. If you play poker and go to a table and look around that table and cannot identify the chump, you are the chump. Florida business gravitates toward the new player that thinks they are so smart but it turns out is really the chump.

The incompetent agent and often carrier, gets the business.

Are you getting accounts because you are incompetent? If this is the case then over time, you will probably learn if this is so and if you do, it will be a hard lesson. If you are winning accounts based upon steep price differences, it behooves you to figure out exactly why the price differences are so steep. Sometimes it may be because of the carrier's form that you are selling looks good but is actually full of coverage gaps. These gaps in coverage are happening in the cyber market today. Some carriers' rates really are too good to be true.

From that perspective, I heard an old insurance joke that I had not previously heard, perhaps because it was in an old corny television show. The question was, "Are you selling nude insurance policies?" "Nude insurance policies? What are those?" "You know, those are the policies that tell you everything they don't cover!" Kind of corny, but also kind of to the point.

I talked to a young, good-hearted producer who had landed one of his first larger, for him, commercial accounts. I asked him to tell me about the account. As he described the account, it was obviously a hairy account. He did not know enough to appreciate how hairy it was and therefore, he did not ask all the questions he should have asked. The insured understood his advantage working with a novice, so he gave this young producer the order. He got the account because he was incompetent.

Now, obviously, a large difference exists between a good-hearted but inadequately experienced/ educated producer and a producer who purposefully suggests coverages are adequate, when he knows or should know if he took the time, that the coverages are inadequate. From an E&O perspective though, I am not sure it matters.

The difference definitely does not matter to a quality agent who lost an account because the customer is smart enough to know that an agent's E&O policy probably covers the gap. How does a good agent combat incompetence?

One way might be to describe the time lag that ensues between a claim and an E&O settlement. How would that time lag affect the insured? Also, is the insured sure that the incompetent agent is failing to meet their standard of care? A famous federal E&O case involved a flood claim. I have some of the details wrong here but the gist of the case was this: The insured asked their agent if they should buy a flood policy. Their house was about 3' above sea level and they were maybe 100' from a large body of water known to flood. Their agent told them, "No. I don't suggest you buy a flood policy." Their house was devastated in the next flood, so they sued their agent. The judge ruled that their agent was obviously so incompetent (but the incompetent agent got the sale!) that in no way did the agent meet the standard of care required for insureds to expect competent coverage advice. They lost the case and their home.

Does your prospective client want to run this risk?

If the answer is yes, a good agent probably does not want that prospect as a client. Let two losers enjoy each other's company. Understanding why you get accounts rather than simply being overjoyed to get any account is important.

[Back to Top]

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Burand & Associates, LLC is an advocate of agencies which constructively manage and improve their contingency contracts by learning how to negotiate and use their contingency contracts more effectively. We maintain that agents can achieve considerably better results without *ever* taking actions that are detrimental or disadvantageous to the insureds. We have ***never*** and would not ever recommend an agent or agency implement a policy or otherwise advocate increasing its contingency income ahead of the insureds' interests.

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