April 2023

Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

Volume 28, Number 3

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Chris Burand,
Certified Business Appraiser (CBA)
Certified E&O Auditor and Instructor

Burand & Associates, LLC
215 S. Victoria Ave., Suite E
Pueblo, CO 81003
719/485-3868
chris@burand-associates.com

Visit us at:
burand-associates.com

The Need for High Quality

If you are selling benefits or if you have health insurance, you should read this new article: https://www.propublica.org/article/cigna-pxdx-medical-health-insurance-rejection-claims?utm_source=sailthru&utm_medium=email&utm_campaign=majorinvestigations&utm_content=feature&tpcc=nltermsheet

This article seems to suggest similar claims practices on the P&C side: https://www.bloomberg.com/news/articles/2007-08-03/home-insurers-secret-tactics-cheat-fire-victims-hike-profits

These articles show why insureds need high quality agents. These articles also maybe show why agents need higher quality carriers.

Why Every Agency Should Have an E&O Audit

I began working with some of my long-term clients, agencies with whom I've been working with for decades, when I was hired to conduct voluntary E&O audits. The proactive leadership exhibited by these

agency owners to take definitive steps to protect their agencies and to make them better is the foundation of these long and wonderful relationships.

Many, probably most, agency owners look at the cost of an E&O audit and decide they will take their chances. It is hard to believe these same agencies sell insurance, especially if they preach risk management to their own clients. Looking only at the cost is, to put it bluntly, shortsighted at best.

A thorough E&O audit, not a cursory one, improves an agency in multiple ways. The first is by helping management see the agency's exposures, which provides an obvious opportunity for them to take actions that decrease the agency's weak spots. What this really means is that the agency will decrease the probability it will be sued, and if it is sued, the odds the agency will win increase.

Next, the cost of a lawsuit is always underestimated. For starters, agency owners are fond of saying, "If that happens, I'll win in court!" As some incredibly good trial attorneys have intoned many times, the very best case only has an 80% chance of being won, at the top end. Some of the owners' confidence in winning is excessive.

Also, every suit most likely invokes the agency's E&O policy’s deductible. They may win but they still pay $10,000 in defense fees. Then when you add in all the time involved in depositions, document discovery, the great joyous meetings with your attorneys and the lost time spent actually selling -- the price increases significantly.

Depending on the situation, I have calculated all of these soft costs at anywhere from $25,000 to $100,000 for the simpler lawsuits. It is kind of like that old Shel Silverstein song "*The Winner"* made famous by Bobby Bare. The song tells the story of a young guy seeking out a bar fight with a famous older tough guy. The older guy describes his litany of injuries but how the other guy's injuries were always worse, so "I guess that makes me the winner." You may win the case, but you will still lose a fair chunk of change. An E&O audit, if the recommendations are acted upon, can make you the real winner by avoiding these situations entirely.

Additionally, at least with the way I do audits, an agency can increase sales. In fact, my clients that have most closely followed my advice have increased sales because good E&O practices result in better relationships with clients. Many producers will greatly disagree with this point but I have never had a producer who truly knew their coverages disagree. I have known plenty of producers who were not all that well educated, and did not want to become educated, fight with all their might against following good procedures because they did not know how to sell without cutting corners (cutting corners is often correlated to E&O suits).

Furthermore, good E&O operational procedures often decrease processing costs because the agency becomes more efficient. The consistency of adhering to good procedures materially increases productivity. Quite often agencies have existing procedures that are entirely unnecessary to sustain the agency and simultaneously increase its E&O exposure. An example of this is accepting premium payments in cash.

As insurance carriers' claims services fail to improve and the insureds' needs change faster than insurance forms will adjust, along with carriers pushing so many more responsibilities onto agencies, E&O exposures are increasing. The need to hire new people in this market and train them is definitely increasing the probability of mistakes. Good procedures not only reduce E&O exposures, but the learning curve is cut too.

Every agency should get an E&O audit. At the very least, it is best if your own auditor discovers a weakness rather than having a plaintiff attorney present the weakness to you in front of a judge. Good E&O audits decrease your E&O exposure (if you comply with the recommendations), increase your productivity, and increase sales. Every agency should get an E&O audit!

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What's your destination?

"Having no destination, I am never lost." --Ikkyu

"If you don't know where you're going, any road will take you there." --Tom and Ray Magliozzi, a/k/a *Car Talk*.

Ikkyu was a Japanese Zen Buddhist monk who lived in the 1400's. Tom and Ray Magliozzi hosted *Car Talk* on Saturdays on National Public Radio for several decades. They were from the Boston area and were brilliant men who made me laugh every time I listened to their show.

The quotes listed above illustrate two apparently diametrically opposite philosophies. One suggests, as many have adopted since the pandemic, that not having a destination is a great way to live life. The other seems to suggest that without a destination, it is easy to go astray.

This is not the medium in which to wax philosophically about how the two points are not actually opposites, so let's stay on the simple, surface level, polar opposite perspective as it applies to running an insurance company or an insurance agency. I have worked with hundreds of insurance agencies and brokerages on three continents and in multiple countries. I have also worked with several dozen insurance companies. Quite a few of both live by Ikkyu's philosophy. They have no destination. Therefore, their owners/executives can definitively exclaim, "We're on the right path!" The destination of the path is missing because having a destination would create accountability. Consequently, no one can ever accuse them of being lost.

Not having a destination, meaning not stating a specific goal because a goal is a destination, offers management tremendous protection if they fail to achieve business success. It offers protection from the need to maintain an industry average growth rate or even a minimally acceptable profit margin.

For example, approximately 20%-30% of P&C insurance companies, even in good years, "achieve" negative growth. About 5% lose premium for three consecutive years in any given period. They shrink and they get smaller. Despite that fact, the executives are usually not fired. They did not fail to achieve their goal because they did not have a tangible, stated destination to reach. No accountability exists because there is no way to measure success or failure.

The Gallup Organization has great information on employee management, employee engagement, and so forth. What is their #1 point for improving employee engagement? Measure. One can measure someone's height even though no controllable destination exists because height might be the epitome of predestination. However, in the business world, there is no point in measuring anything without a destination. Let me rephrase that last thought. In the business and government worlds, considerable value exists in the measurement of metrics without a set destination because those measurements provide camouflage for a company being busy but getting nowhere. Exclude those environments and a destination is required which then results in measures where accountability is unavoidable.

There are times when not knowing where you are going is different from not having a destination. One can purposely not know where they are going because they have no destination. On the other hand, one might not know where they are going by accident. Sometimes happy accidents happen in business. I like stories about products like sticky notes that were accidental successes. Nonetheless, counting on business success by being accidentally lucky is not usually a successful business plan.

I find there are many insurance companies that have no destination. They do not know where they are going and the road they have taken is dictated by their existing momentum which has the advantage of requiring the least leadership, the least emotional energy, and the least effort. The existing momentum also requires the least obvious risk. A leader choosing a new road becomes an obvious target if they do not achieve their destination. It is much safer to keep doing what has always been done. Insurance companies take a long time to waste away, more than enough time for the executives to safely retire first. One might interpret this scenario as the leader knowing and choosing the road, but it is a road for their own personal benefit more than the company's benefit.

Most agency owners have chosen a specific road. They do not have a destination, but they have a road. Choosing a road is a tactical decision whereas choosing a destination is more strategic and includes accountability.

Accountability is a key point because virtually all the "Strategic" seminars, coaches, consultants, and so forth who make a lot of money selling their strategic services never, and I mean never, insert accountability for the leaders into their programs. Without accountability, strategy is a moot point. Or to Tom and Ray's point, "Never let the facts stand in the way of a good answer."

Most agency owners choose the road that allows them to move forward by making one sale at a time and wherever that road takes them, it takes them. The road of one sale at a time has a destination, wherever it may be, and if one makes enough sales the agency will be just fine. It is quite similar to the road many insurance company executives choose and is a tactic that will likely work well and historically has worked well for agency owners.

Both scenarios beg the question, "Is your desired destination solely for you or is it for your company, its employees, and its customers?" This question is critical for insurance companies because more is at stake and ownership is not limited to a small group of people, or even a single person. The more stakeholders that exist, the more important the chosen destination will be and the more the resulting accountability will benefit the company. Ikkyu's quote is strictly personal and the personal should never trump a company’s needs. If it does, a fiduciary responsibility has been violated.

Most executives believe they are working to benefit their company, but without strict measures of accountability, including loss of pay and even dismissal, leadership does not exist. What is your company's/agency's destination? Do you categorically know the road the company/agency must take to reach that destination? What measures of accountability exist to evaluate whether you are leading your company/agency along the right road and at the right pace to achieve that destination on time? What is the exact price you will personally pay for failure? Is that price meaningful or is it, as is common in Fortune 500 companies, a situation in which the executive only makes $25 million rather than $30 million?

Again, most carriers and agencies/brokers do not really have tangible destinations and are therefore never lost. Any road they take will get them to where they are going. There are a few competitors that have a specific destination in their strategic plans and are clearly and publicly achieving their goals and slowly putting others out of business. If you are a true competitor, which option will you choose? We know what road the winners have chosen.

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Agency Valuations

When you need an agency valued, check this list first:

1. What kind of valuation do you need? Different agency values exist, exactly like different property values exist. In insurance you have replacement cost, actual cash value, market value, stated value, and so on and so forth. With a business, you have Fair Market Value, Fair Value (for investment and likely a different value using the definition of Fair Value for divorces), and so on and so forth.

2. What level of valuation do you need? With business valuations, different levels of quality exist. This is the point where many agencies are shortchanged because the decision makers do not know different levels of value exist or why using and choosing the correct level is so critical.

   The lowest level of valuations, which I often see practitioners perform, are not recognized by many accreditation firms and courts. Most business owners do not know this is an issue. A low level valuation might be appropriate for a few situations, but a valuation of a higher level is typically required.

   For almost all government purposes a formal, or nearly formal, report is required. An agency owner who thinks they will save some money and the extra 50-100 report pages by using a cheaper, less qualified appraiser usually gets a less than formal report. Not knowing a formal report is required, the agency owner thinks all is fine until the government contends that the report fails to meet the required standards. In other words, the report must not only determine a reasonably correct number but must conform with certain standards. The failure to meet all criteria, not just one part, could cause a major problem that results in an expensive solution, i.e., paying attorneys a lot of money and then paying a fine.

3. Additionally, specific formats are required for certain kinds of valuations. Requirements exist that the appraisal must arrive at a reasonable number but also conform to a specific format. Failure to achieve both may cause a business owner to lose their case.

4. Furthermore, the appraiser may need to possess one of just a few specific accreditations or else the appraisal may be ignored. The higher accreditations are much more difficult to obtain than insurance licenses so there is real meaning behind many appraisers' accreditations. For example, when completing valuations for estates and ESOPs, specific requirements exist for the reports and the required accreditations that the appraiser must possess in order to perform the appraisal.

Understanding that an appraisal is not just an appraisal, that it is not just about a number, is critical to avoid being taken advantage of by a low-quality appraiser. The cost of defending yourself in these scenarios is far higher than getting the job done right the first time.

Also, unless you are a masochist, do not fall for the ruse where a business broker provides a cheap report for market purposes and then advises that the report can be used for other purposes too. I know agencies that have lost suits under this scenario. Valuation reports are specific tools designed for a specific purpose. These reports are not multi-purpose-tools.

Another example of being taken advantage of most often applies to small agencies where someone, often the agency's accountant, advises that the agency is too small and unsophisticated to need a full valuation report. No exclusion exists, especially for estates and other governmental purposes, stating that small and unsophisticated businesses have different appraisal standards. Even with buy/sell agreements, the size of the agency does not dictate the complexity of a partnership, especially one that turns ugly.

If you really only need an informal valuation do not pay full price for something like a "Letter" valuation (even if it is 25 pages) or what is sometimes known as a "Calculation of Value." I have seen many reports that do not meet the high quality appraisal standards for which the agency was charged and paid full price as if they were receiving a high quality appraisal. A Letter valuation or Calculation of Value can be

completed with many fewer hours of work than a full valuation and therefore the price should be much, much less.

I hope this helps all readers understand that much more goes into a quality appraisal than one might expect. And because business owners do not know all the details, variables, and regulations, they are more vulnerable to being taken advantage of. Don't be taken advantage of.

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Strengths, Weaknesses, and Blind Spots

As the saying goes, we all have our strengths. Some people's strength is running really fast. I run fairly slow. Some people's strength is jumping high. I'm pretty good at jumping low. Some people can sing multiple octaves with tremendous vibrato. I can't quite carry a tune in a bucket. My music downloading skills are decent though.

In college there was a truly intelligent engineering student in my residence hall who lived a few doors down from me. He came from a family with a background steeped in architectural and civil engineering. They were the key people involved in building several well-known New York City skyscrapers. He excelled in all the calculus and physics and tough engineering classes, but he could not interpret or draw mechanical designs. He could not see what a building was when looking at a mechanical drawing. He could not draw a machine in the mechanical format. He had an absolute blind spot in his brain when it came to this important aspect of civil engineering and architectural engineering. One night I saw him almost break down emotionally over this blind spot.

One of the mythical fallacies of leadership and management seminars and consulting is that business owners do not have blind spots. They are supposed to be at least decently capable of dealing with all aspects of a business. This is what MBA programs teach and promote and charge a lot of money to students who believe they will be strongly conversant in all aspects of business when they graduate. I have an MBA so I should know.

However, this is not reality. One of the mistakes I have made when consulting with insurance company executives, agency owners, and many others in my 30 years as a consultant is that at times I failed to fully appreciate these key leaders' blind spots. I have tried a lot of solutions from badgering my clients to move forward, to studying how I could help them change their habits, to holding a couple of interventions. Blind spots are rarely fixable.

In the sales world, and therefore in the insurance agency/distribution world, those blind spots typically involve human resources (HR) and financial management. I have sat with owners who have literally lost millions in cash, not just in agency value but cash, who simply could not see how their financial statements and general ledgers showed where the money was lost. They were exactly like the engineering student in my dorm who could not interpret mechanical drawings to save his life.

I have had multiple agency owners tell me they have no idea what goes into their financials, what the financial statements mean, and that they are not going to learn either. Financials are simply not their strength and reading the statements has the same effect on a salesperson as kryptonite has on Superman.

For that matter, I have worked with insurance carrier CFO's and CEO's who did not understand their company's financial statements, how the numbers got there or how their competitors' financial statements could be better than their statements. A common comment is, "How can they make so much

more investment income than we can?" When I explain that the competitor has more money invested, the reality does not always resonate. Blind spots cannot be fixed.

The HR blind spot is especially painful in this current constrained employment market where employee turnover is so high. These people are being forced to interpret potential employees and they simply do not have the mind to do so, especially over and over and over. Salespeople are an interesting study in contrast because the good ones are so good at reading and dealing with prospective and current clients, humans in other words. That is their comfort zone. But, put them in front of humans who are potential employees, and the wheels fall off. At the least, they spend all their time "selling" the candidate on working there rather than determining whether the candidate is qualified to work there.

I have had clients put all their efforts into personally improving their blind spots because they know the weakness is hurting their organization but it just does not work. They feel like failures and in a sense, they are because they failed to improve. Nonetheless, they set themselves up for failure because fixing these blind spots is an impossible hurdle to jump.

After all this time, the only solution for blind spots (and this goes for any blind spot, not just HR or financials) that I have found is the following:

First, recognize the blind spot for what it is. I have a client who is brilliant with numbers, provided the numbers are not on their financial statements. Hand them a financial statement and their brain freezes over. By acknowledging the blind spot for what it is, they were finally able to move forward.

Second, determine how strong your emotional anathema is to that blind spot. For example, I have a client who would rather have their teeth pulled without Novocain than interview people to work in their agency. In other words, they are not going to interview people. For others, the emotions are not that strong, and maybe they can force their way through.

Third, determine whether hiring someone else to take over is the solution. Virtually everything to do with HR is a blind spot for most agency owners. (Did you become an agency owner so you could manage people?) I review some agencies' financials monthly simply so that the owners do not have to do so. It is not because they are not capable or they are lazy. It is just too painful because it is part of their blind spot. Professional interviewers exist, perhaps it is time to hire one. IT is always a favorite of agency owners (just kidding), so hire it out. Another example is a producer who just can't learn the technical coverages he/she needs to know. Partner them with someone possessing complementary skills.

I cannot think of too many situations where an agency or carrier will not benefit hugely by hiring someone else to fulfill a task that is a blind spot. Obviously, that person will do the job better, but more importantly, the energy suck of trying to deal with things that are in that blind spot, where no matter how hard you try the drawing just is not clear, takes away from all the energy you would like to apply to the leadership and management functions you do really well. The additional productivity pays for the extra help.

I am not sure what my fellow dorm student did. He left the university. I hope he pursued his passion and found a firm that could supply him with a partner who thoroughly enjoyed and was good at reading mechanical drawings. Those folks have a special talent for sure. Partnering strengths is such a fantastic way to create quality teams, increase productivity, achieve high morale, and live a more enjoyable life.

And now if I could just find a partner who would take care of my email!

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The Impact of Mismanagement on Value

Business valuations, including agency valuations, are completed based on various appraisal standards (indeed, standards do exist although not all appraisers follow them). These standards vary depending on the purpose of the valuation, the use of the appraisal, and the appraiser's professional standards. Different standards apply based upon the appraiser's professional designations and memberships. For example, the standards for valuing gems is different from the standards for valuing dental practices. The standards applicable to a CPA are different from those applicable to a certified appraiser who is not a CPA. All valuations are supposed to be based on an upfront, agreed upon definition of value before the appraisal begins. As with insurance policies, different definitions of value also exist. In insurance you have replacement cost value, actual cash value, market value, and so on and so forth.

When appraising a business, many definitions of value exist. Typically the two most common definitions are Fair Value and Fair Market Value. It is unfortunate the terms are so similar in name because the definitions and resulting values are often significantly, not only materially, different. Both require the assumption of what a prudent buyer would do upon acquisition, including an adjustment to the ex-owners' compensation to some semblance of the IRS's "Reasonable Compensation" standard.

What happens then when someone wants a valuation of their business/agency that violates all these standards, definitions, and requirements, when the client wants to know the value of imprudent management that violates the Reasonable Compensation rules, among other poor management practices?

The first thing that comes to mind is the need to watch the Mel Brooks' comedy, "*The Producers*."

What is the motivation and what are the potential issues involved when considering committed mismanagement? Often this request is associated with some form of fraud. The idea is that someone buys into a business at a deep discount with the intention to flip the business using common market standards that they think they understand, but do not. All kinds of laws and tax regulations prohibit this activity (See ESOP and estate tax rules that have been specifically designed to prevent this from occurring).

Sometimes though, the request is associated with an honest endeavor based on a seller's unwillingness to run the business or attempt to run the business well. Nonetheless, the seller wants an honest valuation that accepts that the management incompetency will be maintained post sale. This violates almost all of the business valuation standards of which I am aware, so a formal valuation is most likely impossible. It would be an outright violation of the standards if an ESOP, estate, third-party shareholders, or bank loans are involved. Assuming the appraiser and client can come to an agreement, including a complete and total release of liability of the appraiser from all applicable standards and liabilities, it could be an interesting exercise.

To some extent, the process is much like making the EBITDA adjustments in a regular valuation, but the adjustments are not the same. For example, typically if a phantom mistress is on the payroll, their compensation is excluded in a standard valuation. With bad management, assuming all partners are in agreement regarding including the paramour, her compensation stays. Using a more common example (the mistress example is not a creative invention on my part), the owners take credit for accounts they do not service, maybe never even sold, but they are credited with those accounts. As a result they are paid as if they are servicing those accounts.

Now, let us assume the above example equals ten percentage points of unnecessary expense, not an unusual amount in agencies. Let us further assume an EBITDA multiple of 7 and a based EBITDA of 25% on $1,000,000 in revenue. In a standard valuation, the ten percentage points would be added back making

the EBITDA 35% and the value would increase by $700,000 (ten percentage points on $1,000,000 equals $100,000 and multiply that by 7).

But wait! There is more. Less profitable agencies command lower EBITDA multiples, at least usually. Maybe the value goes to 6.5 x $250,000 (25% times $1 million) which equals $1,630,000 instead of 7 times $350,000, which would equal $2,450,000. The difference then is about $825,000. Incompetency is expensive.

Given a choice between competent management and standard valuation parameters or accepting incompetency as a fact, but with a willingness to accept a lower value, the former is the better choice about 99% of the time for most people, but not all. If the incompetency is intransigent, in other words, no hope exists of fixing it and no possibility exists of the buyers refusing to do the deal, then at least acknowledge the issue so the deal is affordable. When the seller insists on maintaining incompetency but also insists on a price based on competency, nothing good can result.

The best example of this situation is when the seller insists on the higher value but simultaneously insists on continuing to be paid far more than they are worth. Even if the loan payments cash flow, not enough cash will remain to enable investment in new producers, new technology, higher staff wages, and so on. The agency will come to a standstill. The new owners will go home nightly deeply frustrated.

Unfortunately, this scenario is common and frankly, it is one reason I really like the IRS's Reasonable Compensation Rules because those regulations allow me to explain to the seller that their goals are not acceptable to the IRS which is far easier than having to tell them they are being too greedy.

To each their own. When you own a business, it is your choice whether you choose competency or incompetency. It is a choice. Sometimes the choice is deliberate and sometimes it is subconscious. The owner will make a choice. Whether they make a commitment might be a different matter. Clarity is mentally beneficial regardless of the choice. No matter what some people telling you what you want to hear, incompetency has a steep price, and that price is evident when agency owners choose to run their businesses incompetently. But maybe, like with some people I know, the price is worth it to you.

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Carriers and Insurtech

I deal with the insurance world daily. Conventional wisdom says there is much more money to be made in a future, fantasy world where technology always works, even when the code is only partially written and the legal agreements for sharing data do not yet exist. To me, a dreamlike or a dreamland culture has developed whereby reality is no longer a factor in many people's minds, including powerful and intelligent leaders, i.e. "because some private equity firm believes in my idea, as proven by its investment, I am real" (see FTX). No matter if my technology does not work, it is accepted that it works because someone invested in me. Even at the ordinary worker level a belief has taken root of a fantasy land where you do not need to work because the government will always write more checks seems to have profoundly changed mind sets.

Insurance companies are investing in all kinds of technology and promising all kinds of great experiences to their insureds and investors (rarely to their agents). Yet, their existing technology is so awful that I am sure they must employ two separate technology departments that never, ever communicate. There is the technology department of the future where technology always works, never needs to be integrated with existing technology that marginally works, and never has to facilitate the day-to-day reality involving the

immensely complex data integration required to have a successful insurance company (I used the word "successful," not marginal, not poor).

The technology in which insurance companies seem to be investing so much venture capital are add-on technologies. Add-on technologies are largely worthless if the foundational system does not work. I hate to rain on anyone's parade, but like any construction project, if the foundation is weak, whatever is built on top of it will most likely collapse. Many insurance company executives do not appreciate or perhaps do not even understand, how weak their existing foundational systems are. They talk about it but talking about it is not fixing it.

Here are some reality points I have come across over the past twelve months. Previously, I have written about how the insurance industry was founded on a cost-plus basis. My family worked in mining and oil and the service companies, the really successful ones, always wrote cost-plus contracts whereby no matter the cost (with some, often superficial, restrictions), they were paid an extra 20% (or whatever they had negotiated). Therefore, the more expensive they made the project, the more money they would make.

Private equity sort of has the same deal. Traditionally there was a base fee (regardless of performance) as a percentage of the money managed, plus a percentage of the profits if there were any. Therefore, the larger the portfolio, the more money they made even though as portfolios grow, returns tend to decrease. They win even if their clients lose.

Insurance has historically operated in much the same way. Agents made the same commission percentage, and earned enough to not worry about expenses, much. Someone else always set the price. Insurance, being a de facto public utility, was priced as a public utility with X% of the profit baked in, regardless of the cost.

Insurance companies' systems and procedures therefore did little to focus on a manufacturing environment cost accounting basis. Manufacturers focus on reducing costs. Reducing costs for insurance companies would only reduce their rate filings resulting in lower profits per share. However, a couple of insurance companies have bucked the culture and are now forcing competitors to greatly reduce their expense ratios or else be eliminated. These companies are like Amazon -- if competitors do not reduce their costs, they will put those competitors out of business. They are slowly doing so quite successfully.

To succeed, all other insurance companies must cut costs and do so intelligently. They must adopt a manufacturer's cost mindset to become more efficient. In order to do so, consistency of processes must be the focus, just like in the manufacturing world. Yet when talking with many insurance company executives who oversee day-to-day operations, it is clear their companies do not have a method for measuring the consistency of their processes, much less have procedures in place. Technology is great but depends on consistency to work well. Adding new technology when the data is haphazard and inconsistent is of marginal value. Data will be inconsistent without a uniformity of procedure.

Furthermore, when I ask more detailed questions, it is clear the companies do not have the initiative to fix the problem.

It is almost as though they want to create new insurance companies and leave the legacy aspects completely in the dust, people included. This is partially why many companies have fallen in love with the new GA/MGA (admitted and non-admitted) models.

Another aspect that cannot be left behind involves claims and claims data. I recently ran across a situation where the initial reserves were input incorrectly at least 75% of the time. It was a programming error and no one at the insurance company was intellectually capable enough to put two and two together. That error created a multitude of problems. As the saying goes, one can put lipstick on a pig, but it's still a pig.

All the lipstick Insurtech in the world does not change the fact that a company's data is still a pig, and an ugly one at that.

Over and over in the claims data I review, it appears that insurance company data and data management has not improved since I began reviewing claims runs in 1988. Some company's data/reports actually look to have regressed to a 1970 level. Because of group think and the C-suite drinking too much of the company's Kool-Aid, I suspect the C-suite does not even know a problem exists. In a cost-plus model, the sense of urgency to fix the problem rates a one on a scale of ten. The companies have bigger issues to solve or at least management thinks they have bigger problems.

Bad data, poor fundamental technology and a weak foundation is the epitome of a cancer. The time to fix cancer is when the problem is small, not catastrophic. The problem now is a large but inadequately known and definitely inadequately diagnosed disease -- at least in the real world. I am not crying wolf because the executives running these insurance companies will have incredible retirement programs and will be enjoying those programs prior to their company's collapse. The collapse is not likely to happen any time soon.

The day to day, real world weaknesses of poor technology and poor operational management go on and on. If a company collapse ever occurs, rather than being sold, authors will diagnose it like an airplane crash. It was not some single factor that caused the plane to crash. It was a combination of factors and events, any one of which being absent would have enabled the plane to land safely. But what those authors will miss is THE single factor that caused the crash. That single factor is the leadership who did not live in the real world and understand and appreciate that insurance companies cannot succeed in a world that is no longer cost plus.

If you are an insurance company employee on some kind of bonus plan, check the data to make sure the data being used is correct so you are certain you are not being shortchanged. The reason I began to analyze this kind of data was because years ago when I was working for an insurance company, I was being shortchanged. The home office's response was always the same, "That's interesting. No one has ever brought that up before. We'll get it fixed next year." That company no longer exists.

As an agent, do you trust your insurance company's numbers? Do you trust that while they are focusing and spending tens of millions, maybe hundreds of millions, of dollars on Insurtech even though they cannot provide reconcilable production documents, that they will fix the reports next year?

If you are a CEO or C-suite person, what do you want your legacy to be? Or is the money still too easy to the point that you will continue to ignore reality while reaping the marketing and publicity of investing in whatever Insurtech comes along?

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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 *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 the Institute of Business Appraisers and 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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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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