March 2023

Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

Volume 28, Number 2

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In t his issue...

Bank Deposits and Trust Monies

If you are concerned about bank failures given the recent ones, a step I highly encourage you to consider, is to put all your trust monies in a specifically designated trust account. The FDIC is supposed to provide additional insurance for fiduciary pass through accounts, which is what trust accounts are. You must name the account specifically and the account cannot earn interest. Ask your bank for additional information on the requirements. You owe it to your clients to take this extra step.

And for all the readers still commingling their accounts: STOP.

BIPA Liability Coverage

Are you offering your commercial client BIPA Liability coverage? Do you know which of your clients need BIPA liability coverage? It's probably more than you think. A couple of additional points: Understand the difference in coverage needs by state and union contract, or

From Jason Bogart, Deep Customer Connections, Insurance Carrier & Agency Connections Blog:

This article will be of interest to you: “Hold Disruptors at Bay with Fast and Efficient Transactions”. It is the fifth article in a five article series about how Insurtech alone cannot fix everything. Transaction inefficiencies cost both carriers and independent agents. It is a key opportunity for disruption, and this article contains insight into how to avoid wasteful expense.
https://deepcc.com/2023/02/28/hold-disruptors-at-bay-with-fast-and-efficient-transactions/

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the lack of a union contract. Also, are your clients complying with record retention requirements so their insurance coverage is not impaired?

Insurance Banter Podcast

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"The thing to be known..."

"The thing to be known grows with the knowing." Nan Shepard, "*The Living Mountain*"

Ms. Shepard wrote this now famous mountaineering book in the mid 1940's, though it was not published until the mid-1970's. It takes place in the Cairngorm mountains of Scotland. The quote above succinctly summarizes knowledge, any kind of knowledge, but is specific to people who are conscientious enough to continue to learn purposely. Learning purposely causes a person to realize how much more there is to know once they know something.

One of my favorite clients decided to sell his agency when he turned 80. He told me one of his regrets upon selling, and more to the point, retiring, was that he was just then beginning to have a full understanding of insurance. He was just then gaining a full knowledge of how to expertly construct coverages. I must note that this man was extremely well-educated and a consummate professional insurance agent. The more he knew, the more he realized he did not know, but needed to learn. The more he knew about insurance (the "thing" in Ms. Shepard's quote as applied here), the more things he knew he needed to know.

I have often concluded that the most important benefit of knowledge is understanding how much you do not know. At least for me, what I do not know about insurance is bigger than what I do know -- and I know a lot about insurance. Acknowledging that the unknown is so big gives me permission to do a better job because my ego is held in check, thus reducing the obstruction an ego can create when helping clients discover the best solutions for themselves.

I have never been to or much less climbed Scottish mountains. Ms. Shepard's quote reminds me of climbing mountains closer to home. It seems the peak is always, "just there," but after reaching the ridge, another appears. At times the climb seems infinite and pointless, but in the end, the hike is always infinitely rewarding. Sometimes learning about insurance feels pointless because the conclusion never arrives and is combined with the frustration of seeing so many agencies, carriers, and others who never make any attempt to learn yet still earn plenty of money even though they remain ignorant.

As Ms. Shepard's quote also connotates it is the journey that matters, not the summit. The better the journey, the more stories and knowledge one gains. The more stories and knowledge one gains, the more sales, especially high quality sales, one can make.

One reason young producers struggle with sales is they have not climbed enough mountains. They do not have enough stories or knowledge. The only solution is to take more sales journeys. Even failures create experience, stories, and knowledge. I discovered the obvious on my mountain journeys: the longer I walked, the further I got. The longer I walked, the more experiences I had, the more stories I gathered, and my skills improved along the way.

A good example is cyber coverage. If any coverage is completely 100% unknowable it is cyber insurance, if for no other reason than that the number of cyber forms is virtually infinite with little commonality (the last I saw approximately 2,000 cyber forms were available in the U.S. alone). Cyber forms generally have enough holes that if a CNC machine built a physical model of a cyber form, the result would resemble a sieve. Lots of coverage drains away with inspection and time (the time limits truly drain coverage away).

This is why pairing cyber with other key forms is often an intelligent solution, but one that comes with experience and study. The pairing is complex requiring considerable additional education but sometimes it is the only way to plug the holes. When you begin studying cyber you really begin to understand how much you still need to learn.

Similarly, I have been underwriting, teaching, and studying homeowners insurance for 35 years. Homeowners insurance is considered a relatively simple form, however the more I study it, the more I realize I still have things to learn. I hear many sales consultants talk about finding weaknesses in the incumbent agency's program and then exploiting those weaknesses to gain the account. The biggest weaknesses are usually found in coverage gaps, but in order to identify coverage gaps easily and effectively, one must put effort into learning about coverage. My clients that use this tactic no longer sell price (do not use price as the wedge because that is ultimately self-defeating and enough of a distraction that one falls behind in learning about more valuable coverage factors). These clients' sales growth is strong and by continually learning more, they bring something special to their clients. They bring their excitement which is an intangible feature in sales. They are excited to share and excited to help because they possess a more legitimate belief in themselves and their abilities than their competitors.

If your goal is to provide your client with coverage, the holes must be exposed and then plugged. To do this well, you must understand that education is a journey and by never quitting the journey, your inventory of solutions will grow and grow and grow, and the more you know, the more you will clearly see how much remains to be known.

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Fast versus Quality

I read a glowing review of Berkshire Hathaway's Three Question Commercial Application by one of their new clients. He wrote that the entire process was fast and easy. He was really pleased. Fast and easy is important for success in many businesses.

Then I reread Chris Boggs' (Vice President of Agent Development, Research and Education for the IIABA) review of Berkshire's three-page commercial insurance policy (now about 35 pages because, and I am guessing, their attorneys discovered a three-page policy is not realistic). I recommend everyone who cares a lot about quality coverage read his article. It is available here: Virtual University | Warren Buffett Champions an Inferior Product) (independentagent.com).

What is quality? Is quality a super-fast, easy to process insurance policy with lots of potential coverage gaps (relative to other available forms) or is it a policy with better coverages, coverages that are important, but require more upfront time and inconvenience with the result that better coverages can be made available?

I guess to some degree, the answer is a timing issue. Save time upfront but risk losing time and money if an uncovered claim occurs. As with everything, a trade-off exists. I often ask people to name the fastest animal. Most people respond that the fastest animal is the cheetah. Few people ask the key clarifying question of, "Over what distance?" A tradeoff exists in nature between fast bursts of speed versus long distance speed. A tradeoff always exists with everything.

This article is about good coverage that requires more time to design. More time is required to identify the coverages a client needs. More time is required to build a policy that meets those needs. Policies should be built through endorsements, even homeowners policies and BOPs. Inadequate coverage is easy to develop, which means it is speedier to offer. I am not suggesting the policy cited above is sloppy, but that a lot of agents are sloppy, that some carriers offer subpar coverage, and that some carriers are amazingly smart about how to carve out coverages in ways most agents will only discover after they get an angry call from a client.

How do you define quality? Fast? Lots of price options? Or sitting with a client and building customized coverages just for them? The place to begin answering this question is to identify what your clients value most. Are they the stereotypical contractor who never has time to do anything right and simply wants proof of ANY insurance? Do you ever wonder about the quality of their construction and therefore, whether the risk of suits against them that will affect your loss ratios make it worth writing them? Or are your customers people who want the right coverage enough to take the time to answer questions, including tradeoff questions between price and coverage?

Look in the mirror and honestly answer what kind of person you are. The answer is not just one of conscientiousness. I met with an estate attorney and an agent who had teamed up to provide estate solutions for clients, which made sense for all involved. Both were quite conscientious, but neither had a clue what coverages were contained in the insurance policy they were selling/advocating. They were very convincing in their sales pitch, and I am of the opinion they believed every word they spoke. However, they did not understand how the coverages in the policy actually worked and would not understand it, until something went wrong ten years down the road.

What kind of person are you? Conscientiousness and attentiveness to your clients' coverage needs is the first requirement for providing quality coverage solutions. Having the knowledge and being conscientious enough to think through how coverages work is the second requirement. One without the other is fairly useless and often worse because you risk leading people to the wrong solutions through baseless confidence.

Baseless confidence seems to be excessively common in today's world. A young person was interviewed on my local news channel as a result of her efforts to make the world a better place. Her emphasis involved applying technical knowledge such as required to solve medical/environmental issues. She stated she did not have the required education, "but no one could doubt her genuine goodwill to make a difference" and she was completely confident she would succeed. Her confidence was baseless because she did not know what she was doing. Intentions do not equal competence. Would you trust an auto mechanic who had never worked on brakes to fix your brakes because he was was confident his intentions were a good substitute for competence?

Look in the mirror and determine whether you possess both qualities. If you do not yet have the education, how hard are you willing to work to obtain a good education, one that includes thinking through the real world applications for your customers?

Are you willing to give up trying to work with clients who do not care? For some agents who need the money, or think they need the money, the drive to work with everyone trumps all else. Some clients simply do not care about coverage and nothing you do will make them care. Even after being hit with an uncovered claim, they may not care. Can you walk away from those prospects? Do you have the willpower required to walk away?

If you have the education and good intent to do a professional job, do you also have the willpower to charge extra fees? You need to charge extra fees and should charge extra fees because you are now worth more. It makes absolutely no sense, whatsoever, that in this industry agents are paid the same regardless of whether they sell inadequate coverage or they sell quality coverage. The commission percentages are the same (which makes one wonder if carriers care whether or not their agents sell quality coverage). It takes more time, more talent, and a select prospect pool to sell quality coverage.

There is no reason to not charge fees for the higher quality of your services. There are many myths that exist regarding agents not being allowed to charge fees, and so forth. Charging fees is a complicated subject that varies considerably by state. I have not yet discovered a state in which fees for providing specific quality services, provided they are correctly structured, is strictly prohibited. Furthermore, I do not have any clients who charge fees whose clients are unhappy about paying the extra fees. Those clients appreciate the extra value they are receiving.

We need a tradeoff in this industry between agent compensation for quality service and easy, run of the mill service. We have easy applications and complicated applications. We have easy to read policy forms and difficult to read policy forms. Tradeoffs exist between these choices. If the reader wants to offer quality coverages rather than easy applications and simple forms, compensation differentiation is the next step because easy does not equal building bespoke coverages that fit to each client’s needs.

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Agents and Attorneys

An insurance agent went to an attorney and asked him to draft a producer contract. A month later the attorney sent back a contract accompanied by an invoice for $4,500.

The agent got what she requested. The attorney had fulfilled his duty. The agent did not know what clauses and conditions should be included in a producer contract (that is why she went to an attorney!). Ignorance was bliss for the agent until one of her producers left, with clients, and the judge held the contract's protective provisions were invalid.

Did the attorney fail his client?

A small business owner went to an agent and asked for a workers' compensation policy, and liability, and property policies. The agent asked how much liability coverage they wanted, and the prospect said his own contracts required $1 million in liability coverage. When asked how much property coverage the prospect wanted, he was not sure. The agent offered $100,000 and the prospect thought aloud that with depreciation, $100,000 would be adequate.

A few months went by, then the insured's building caught fire and the fire spread to the rest of the $20 million building in which their office was located. They tried to replace their equipment only to discover the replacement cost was $500,000. They slept very little once they found out they had no material coverage. $1 million versus a $20 million liability claim and $100,000 property coverage when $500,000 is required. The policy limits were completely insufficient.

Did the agent do her job? She provided what the client requested. The standard of care of an order taker is to provide what is requested. Tough luck to the insured.

The insurance industry has a serious contradiction of purpose that has existed since the industry began and has always been an issue. But now, due to the increasing complexity of business and technology, ever more complex insurance needs, regulations and aggressive competition, this contradiction is creating more branding issues, sales choke points, and compensation problems, not to mention growing legal issues.

The purpose of insurance is to protect the insured's assets, or more precisely, reinstate the insured's balance sheet to the same numbers as immediately preceding their loss. If an insured loses $20 million, they have a $20 million liability on their balance sheet. If they have adequate insurance, their balance sheet will not change value. Without adequate insurance, their balance sheet value decreases by $20 million. Even if they win the lawsuit, their balance sheet, without adequate insurance, still deteriorates because the legal fees will be substantial. With a good insurance policy, the insurance carrier pays all the legal fees and the balance sheet remains unaffected.

If the property is replaced, the asset value on the balance sheet remains unchanged. This is day one, basic insurance. I find, based on the emails even some "insurance" professors (that's what their title is on their university emails) send to me, a sizable percentage of people in this industry must have missed day one of their insurance education. Their ignorance contributes greatly to the awful reputation this industry has for not being there in an insured's time of need. Their ignorance results in their offering inadequate coverages.

Protecting, not in a risk management sense, but from a financial perspective, assets and asset values is the fundamental foundation and purpose of insurance.

Yet agents depend upon a standard of care, a legal standard of care, whereby they often cannot be held accountable for deficiencies in coverage (coverage is the protection offered, the coverages afforded the insured's assets) of their insured's assets. However, most insureds do not know the value of their assets or enough about insurance to know about the diverse ways in which their assets need to be covered – hence their reason for asking an insurance agent to place an order for $X property and $Y liability. If the agent lives by the above standard of care it is impossible for any insured to have substantiated confidence they have ordered adequate coverage.

Why am I so confident nearly 100% of insureds, commercial clients too, do not know what coverages they need? Because virtually 95% of agents do not know enough about coverages to adequately cover their clients' needs and a very large percentage are almost proactively practicing ignorance. If people with licenses do not have a clue about coverages, why should any expectation exist that John Q. Public has an adequate working knowledge?

No one needs an attorney who offers agencies useless contracts. Their fee is a complete waste. An insurance policy that fails to provide coverages is a wasted premium.

Carriers have done a decent to excellent job providing coverage options. Agents exist to offer those options to people who do not understand insurance. If the agents are ignorant, they are not going to offer those options. The agent does not help the carrier or the insured. The agent becomes too expensive and is also expendable.

New insurance distributors have figured out that traditional distributors, including many large brokers, have failed. A few of these new players have identified that most producers are superfluous because they do not bring adequate coverage knowledge (or sales) and yet using producers to sell their products is quite expensive. They are cutting out the charade and benefitting from the cost savings. They have eliminated the pretense and by being more honest about the level of service provided, they save a considerable sum without the client's interest being damaged. Clients get the same inadequate coverage either way. Honesty can be amazing.

Independent agents in particular are paid higher commission rates because the sales brand and cost of building the brand lies with the agent. Direct writers depend on their carrier to build the brand. If the independent agents do not actually provide quality advice, their brand is worth less. This means carriers do not need to pay as much. The plethora of silly insurance advertisements funded with billions of dollars is still cheaper than paying independent agents who peddle inadequate coverages (it is a complete myth spread by people hoping to believe and accepted as gospel by people wanting to believe that heavy advertising is more expensive than agents' commissions, but GEICO's expense load is about 11%, including advertising, which is less than the commission rate paid by most carriers to their independent agents. Go look up the numbers in the NAIC filings if you don't believe me.) The ads are geared to confirm to the uneducated public that all insurance is equal, a commodity, differentiated by price and animated advertising characters. It works.

It works so well that two such carriers are writing about $10 billion in new premium annually, combined. These two carriers are eating away at other companies' market shares and their low expense ratios are a key reason for their success. The easiest savings for other carriers is the reduction of commissions for ineffective agents failing to build a differentiated brand.

Think of a NASCAR driver. Their cars and fire suits have all kinds of sponsor logos because they are helping to build a brand. They help sell the brand, several help sell insurance. How is an agent who does not know coverages representing a carrier's brand? Especially with all the social media available for when claims go bad, claims that would not have gone bad had the agent offered adequate coverages?

This is the new reality. Some new, mostly private equity backed, distributors have figured out that pretending to be a professional is expensive. Discarding the pretension and the producers who do not know their coverages saves a ton of money. Carriers need to find expense savings to survive. Carriers do not need to pay extra commissions to ignorant agents and absolutely no consumer, not one, needs agents who do not offer adequate coverages. Customers can buy inadequate coverages all by themselves over the internet. No one needs an attorney who cannot write a quality and business specific contract. No one needs a foot doctor pretending to be a brain doctor. No one needs incompetent and ignorant advisors on any subject. Agents want a double standard where professional standards apply to their advisors and they want to be seen as professional by carriers and consumers, but they want amateur standards (the opposite of a professional is an amateur) applied to their work product.

The time has long since passed for establishing a two-tier licensing system. One license for basic insurance sold by ignorant agents and one for professional agents. Too many forces exist at every level -- carriers, agent associations, regulators -- protecting the status quo so differentiated licenses will probably never happen.

So what can true professional agents do to show they are not like the attorney and other agents who are just order takers? What can these agents due to justify their current compensation paid by carriers? The opportunity now is to focus on providing real value and being paid accordingly. If you are interested in building a true professional agency, contact me!

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Sloppy Profits

A very professionally minded client of mine who was recently promoted to an executive position commented on how amazed he was to discover how sloppily the organization he is now leading was managed and yet still made so much money.

He nailed it. He answered his own question. The industry is sloppy because it can afford to be sloppy and the few firms that are led by more professional and operationally minded people are not yet powerful enough to move the market. For now, then, the profit margins are too high for anyone to really care. In other words, "I make plenty. Why should I make more?"

Brainwashing employees to believe in the mythical success of their company's corporate/industry initiatives, combined with laziness, are contributing factors to this problem too. My favorite such myth approaches the category of amazing urban myths in the belief that certain companies are going to spend themselves into bankruptcy through excessive advertising expenses and therefore, other carriers should wait them out. When asked how that scenario would be possible given that the "spendthrift" companies being discussed have expense ratios 30%-50% less than average even after spending all that extra money, the unanimous response I have received is, "but that does not count their advertising!"

If those companies' financials do not include their advertising expenses, they are probably not reporting any of their numbers correctly and are in violation of every state and SEC accounting rule imaginable. I cannot believe that is the case. Instead, the people who believe that mythical narrative are either ignorant or accusing these entities of fraud. The former is far, and I mean far, more likely but in my experience they have never actually analyzed the financials of the companies at hand. Instead, the Kool-Aid they are drinking tastes better and requires less thought. Perhaps that is why drinking alcohol is less prevalent today than when I entered the industry. The insurance industry Kool-Aid is so soothing that alcohol is no longer necessary.

Another myth is that nuclear court verdicts will sink the industry. More likely attorneys run amok will smell property claims opportunities (see Florida) and sink the industry that way. Carriers increased surplus in 2021 by $100 billion dollars. It takes a lot of nuclear verdicts to eat up one year's increase. For more perspective, the industry finished 2021 with $1 TRILLION in surplus (which it seems to have lost in 2022 due to investment strategies, not claims).

The industry is sloppy. Some carriers, probably most (but I have only interacted on this subject specifically with a few representative ones), cannot even manage to track their internal workflows correctly. They cannot run proper loss runs (at least from my analysis, their loss runs have major errors though they seem largely unaware of the inconsistencies). Somehow, they are willing to pay three entities to do one job -- underwrite. They pay underwriters to underwrite, they pay agents to upfront underwrite, and they pay IT firms to create predictive modeling software to underwrite. Does it make sense to pay three entities to do one job?

Carriers even pay two entities to complete applications. There is the agent and then there are the IT programs that automatically complete applications.

Then the carriers ignore the actuaries they employ. I have found that this fact is not allowed to be discussed in polite circles and it is not new. Thirty plus years ago I was with an RVP reading the actuaries' rate increase demands. He laughed and explained to me how he would cut the rate increase in half and the loss ratios would be fine. He was right. I had the same experience more recently with a CEO who just flat out ignored their actuaries' advice and the results were far better than if he had followed their advice. As many carrier executives have privately expressed to me, "we're not even sure why we employ them."

Predictive modeling should take their place too.

I am not even touching on the pure incompetence of some carrier IT systems, especially between merged carriers. Not to mention the carriers' pure incompetence relative to reinsurance (see the little noticed changes forced by the Iowa Derecho for proof).

At the carrier level, two crucial realities exist. The first is that the most successful carriers, as judged by their profits and growth rates, have much less waste as evidenced by their expense ratios and productivity metrics. I have developed a proprietary statistical analysis that is definitive on this point.

Second, many carriers, even large ones, are total wrecks and in attempting to camouflage their incompetence, they sell a narrative that the entire industry shares their personal woes. If they are losing money and not growing, all carriers must be losing money and not growing. One of my favorite examples of how this line is actually quite profitable for some carriers involves commercial auto. However, in nice company and in the company consisting of people drunk on corporate messaging, no one challenges, and everyone just believes.

Agencies are even sloppier than carriers. One sign I am really pleased to see is how agencies that are professionally run do not have the employee turnover problems that plague most other agencies. Their professional culture means they are less sloppy. In a cleaner shop where procedural consistency exists, more fairness exists, and this environment is extremely attractive to prospective staff. Hence, not only do they not have turnover, but some also have waiting lists of people who want to work with them. Solid leadership pays dividends.

A key reason agencies are so sloppy is that carriers pay the same amount of premium to professional agencies that they do to sloppy agencies. That shows pretty sloppy management at the carrier level.

If being sloppy is cheaper and the revenue is the same, it seems like a good business decision to remain sloppy. Many of the buyers/leaders entering the industry for the first time recognize this opportunity and are eagerly taking advantage of it. We will see if and when the carriers ever adjust. A few seem to be modifying their compensation plans to reward quality and I am really hoping the trend continues.

An additional incentive that benefits sloppy agencies is the E&O standard of care. As long as an agent does not promise anything that exceeds an order taker's standard of care, they can get away with almost anything (in most states). A fantastic example of this truth was a case in Federal Court. The insured's home was barely above sea level and not far from the water. The homeowners asked if they should buy flood coverage. The agent advised he did not think they should buy it. Of course they had a claim and brought an E&O suit against the agent. The judge concluded it was so obvious that the agent was incompetent and sloppy that he had no standard of care and the insureds lost the case.

Someone mentioned to me when I was encouraging them to take steps to increase their profits that they did not need more success. Their agency was sloppily run every which way but the owner was making plenty of money. Until the forces of change really screw down pressure on sloppy agencies, nothing will change for those with adequate success.

For those carriers and distributer executives who see the opportunity that tighter, better operated, more professional organizations have in front of them, outsized success is for the taking. The price is straightforward: Leadership. Leadership that is willing to create enough urgency to cause buy-in and cultural change. Do you have this level of leadership?

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Employer's Responsibility

There was a recent article in the [*Insurance Journal*](), about a tragic shooting in which a young child shot itself after finding a loaded pistol in the home where the child's family was visiting. One aspect of the resulting lawsuits is that the employer of the home's owner was sued for the failure to ensure a safe work environment. The employer happens to be an insurance agency.

Regardless of the merit of this specific suit, the risk exposure is real and huge given how large the work-at-home population has become and will likely remain. What responsibilities do employers have to ensure their virtual employees are working in a safe environment? This point goes beyond offering safety tips. It extends to verifying that the remote workplace is safe. It also does not matter if a lawsuit has no basis because an employer loses as soon as it is sued.

What steps have you taken to verify that your employees' workplaces, i.e. your employees' homes, are safe? What rules have you implemented? In a more reasonable context, what if office supplies are delivered to an employee's house and the delivery person is injured? What if they suffer a dog bite?

Not only is it a liability issue, but it is also a workers' compensation issue. What verifications have been put into place to determine if a work environment is safe and meets workplace safety requirements? Have you toured the homes where your employees work to verify that the lighting, seating, desk, and so forth meet the required ergonomic standards? Additionally, what have you done to verify that their at-home workplace meets safety standards?

Taking it a step further, a labor standard exposure also exists relative to verifying that employees are only working within the allowed number and prescribed hours. Do you have stated rules and procedures, along with appropriate verifications, to ensure your employees are only working within the allowed hours?

Data suggests that in order to fill many jobs, an employer must now pay a premium wage if they insist employees work onsite versus paying less for the luxury of working from home. Are the savings and happier employees worth the risk?

Specific to insurance agencies and based on what I have observed, E&O exposures are definitely higher in a work from home environment. The most specific exposure is that remote training is a pipe dream. The training of new employees is not as successful when they are alone in their homes trying to learn about the industry. Jobs in the insurance industry are complex and all the important nuances that cannot effectively be articulated in a training manual require sitting side-by-side with someone to learn the agency's management system, policies, how to deal with producers, how to deal with clients and so forth. Another way of putting it is that we are still in an extremely analogue world. Attempting to train digitally does not yet work.

These questions and realities are not only applicable to agency owners but to all of your commercial clients too. You can help them protect themselves by asking these kinds of questions. Every employer must determine how far they want to "invade" their employees' homes or whether the reality, for them, is to insist everyone come back to the office.

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Insurance Carrier Futures

I recently read an article in A.M. Best regarding a carrier I thought had long since gone the way of other poorly run carriers, and I was right, but also wrong. I have an interesting history with them.

Circa 2002, give or take a couple of years, I analyzed that particular carrier and predicted (relative to their better agents only), that the carrier had no future and that those agents should find an alternative soon rather than waiting for all of the carrier's agents to begin moving business in mass. It seemed likely that the carrier would begin nonrenewing accounts, jacking up rates, and making life unpleasant for agents and customers. I note that my advice only applied to the better agents because the agents only looking to make sales, not seeing the forest for the trees, would continue to use them regardless.

About a year later I was giving a presentation to a mixed crowd of carrier people and agency owners. I used that carrier as an example without giving any names or any particulars relative to location, niches, etc. When I finished, about four carrier people found me and asked if the carrier used as the example was their company. I looked at their name tags and sure enough, it was! They then asked if they should look for other jobs.

That carrier went through serious issues that resulted in the need to eliminate a lot of business causing agents to move accounts and often their entire books. Moving books under those circumstances is expensive and can wipe out many years of profits (specific to that book) in the worse circumstances. I quit paying attention to that carrier because it shrank so significantly it became immaterial in my world.

I have been studying insurance carriers in depth for about 25 years. To be clear, I am not trying to supplant A.M. Best or provide any type of A.M. Best alternative. They do a great job, and the analysis of carriers that I perform for agencies has a totally different purpose than does A.M. Best. They provide an extremely valuable public service designed to inform consumers of carriers that may go insolvent and they have leverage to cause carriers to manage themselves more safely. A.M. Best really benefits this industry. I do not provide any kind of public service, rating service, or any indication of the likelihood of insolvency.

My goal is simply to help my agency clients in a myriad of ways by educating them about their carriers' futures which includes identifying carriers that possess really bright futures. In reading the article, I decided to review some of my early work relative to the carriers I considered weak 20 years ago. Several of them no longer effectively exist or have no ratings. Others have been bought out and a few still exist.

In reviewing these old analyses, the carriers I thought were weak and still exist, are often still weak. It is amazing how long weak insurance companies can survive. As you might expect, the industry has a plethora of Zombie insurance companies given the 1,000 or so P&C carriers in existence. Another characteristic of these carriers is that several have reinsurance programs where the reinsurer is an entity related to the carrier and often is the weaker entity. The reinsurer is almost always located offshore. Please note that I am working within a limited universe so I am sharing personal findings and not a statistical study.

Just like the subject carrier in the article, I find it amazing that poorly, sometimes horribly, run insurance companies can survive. I do not know if their survival is a result of their unconventional reinsurance, owners who have invested so much money without an adequate return that it causes them to hold on and hold on and perhaps even invest more money, or simply a factor that given how insurance companies are run, with enough mass their demise simply takes forever and a day.

Another thought in reviewing one carrier in particular is whether some insurance carriers are simply fronts. Are they really loss leaders enabling other related companies to make profits? I am fairly sure it is the case in some instances.

One can see this is the case given how some recently established P&C carriers have been structured. The founders are going to make quite a bit of money regardless of whether the carrier fails quickly or, better for the founders, has a slow but long demise.

The question for distributors is this: Which kind of carrier best aids you in achieving your goals? For some distributors, the financial and operational health of a carrier simply does not matter. If they have the opportunity to write an account, usually, in my experience, with inadequate coverage, they simply want as many carriers as possible available to place the account at the lowest possible price. Their business model is to place as much premium as they possibly can without regard to the quality of coverages or carriers. Their operational and sales structure is about volume and they are not dependent on their carriers' assistance to help them grow. The carriers are just numbers. I believe Joseph Stalin had a famous quote regarding how "quantity has its own quality" (relative to sending masses of ill equipped soldiers to attack well defended positions).

Retention will be lower, but that loss is built into their models. Their E&O claims may be higher, but that is also built into their models. Their profit sharing is likely lower, and this too is built into their models. These are simply price shops, and some are rather large.

Other distributors focus on building relationships with carriers and clients. For these distributors, working with carriers that provide high quality products, high quality claims service, good underwriters, and a healthy combination of rate versus underwriting requirements adds horsepower to the distributors' growth and profitability. Working with carriers that are gradually deteriorating is not going to help these agents and brokers achieve success more quickly. At best, these carriers are temporary holding pens for accounts that are important to the agency but unappetizing to the better carriers.

For agencies whose management has a clear understanding of what kind of distributor they are, aligning carriers, operations, and sales with their strategy will achieve the most success.

The problem faced by a large proportion, probably a majority, of distributors is that they try to do both. Sometimes this is because they employ people who have diametrically opposite values, sometimes it is simply because they try to be all things to all people, and sometimes it is because management has no clue what they are truly doing other than avoiding conflict. When an agency is a small town agency with seven employees, being many things to the community is feasible and maybe necessary. If both conditions, small town and small agency, are not met, then agencies need to decide what kind of agency they want to become. Hire people with values that match your decision. Contract with carriers that will aid your growth and profitability. Avoid those carriers that are being used and abused by distributors who possess a different business model and avoid those carriers that are gliding slowly downward, sometimes very slowly their inevitable demise seems pleasant.

Avoid those carriers that are loss leaders for related entities. The management of those carriers will always focus on the bigger picture and provide resources accordingly. The carrier that you would do business with will receive the minimum resources necessary to provide the loss leader benefits.

An interesting finding for me in reviewing those old reports was that the carriers I identified as having the brightest futures have had the best results and helped their agents achieve extra success. I like the idea of working less hard to achieve more success and those carriers definitely helped their agencies do that.

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