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In this issue...

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Are You Missing Out?

Recently a client reported one of their carriers was steeply cutting agency compensation. Were they panicking? No, not at all. I had advised them several years ago this was almost a certainty within the near future. They heeded my advice and acted quickly. They moved all the business they could and were paid well for it. So, not only did they avoid a pay cut, but they got a pay raise. What did that carrier's other 500 or so agents do proactively? My guess is not much.

This is just one of the benefits of my carrier analysis service. Deep knowledge of your carriers' stabilities enables you to be in the driver's seat, to proactively manage your carrier relationships. The benefits for your agency and your clients are huge.

Want to learn more? Contact me at chris@burand-associates.com.

Jimmy Breslin: "Why, it's an honor"

I watched a documentary about the late writers Jimmy Breslin and Pete Hamill. I was too young and too distant (my local papers did not often carry their columns) to read their work in their heydays. However, when I later read some of their writings, even when I completely disagreed with their perspectives, I admired their work, especially Jimmy Breslin's writing. I appreciated how he enjoyed fighting for regular people and what was right. I often disagreed with what he thought was "right" but regular people need a voice and he gave them a voice without screeching and with reason. That is to be admired.

The documentary included a line from Breslin, "Why, it's an honor..." in response to why he would go to, seek out, and even fight for what he saw as right, as a need to help people when in reality, he did not have to do anything. He did not get anything from it other than his joy of fighting the authorities.

That line, "Why, it's an honor..." really struck me from a different angle, when considering the fight as just the same as the fight for what is right in insurance. And what is wrong with insurance.

I had a boss a few decades ago whom I detested. He once asked me with a perfectly straight face and true bewilderment, "Why do you have to be honest?" He literally did not see the contradiction. In other words, he did not understand he had crossed an ethical boundary because "dishonest" to him did not mean unethical. It was a bizarre meeting for me, especially after having come from another industry where honesty was prized.

What I see many account managers fighting against, and a reason some agencies cannot keep good account managers, is that they are not being given the opportunity to honestly tell a client, "Why, it's an honor to get you the coverage/service you deserve." Many account managers I have met, and I have met thousands, deep in their hearts genuinely want to help clients get the coverage and the service they know their clients need. When they experience daily corner cutting -- whether because management has decided not to check renewals or turn smaller accounts over to faceless and sometimes unlicensed service centers, or producers who are not being completely straightforward about coverages, they look for work elsewhere.

Whereas in other agencies, "Why, it's an honor to serve you" can honestly be heard in every client communication. I love working with those agencies.

Yet the honest producers who work hard as heck to truly serve, are often beaten by producers who are slicker, somewhat dishonest, and more often than not just incompetent people who possess excessive self confidence relative to their IQ's. Incompetent agents often make sales because clients believe the much lower price that has been offered was derived through strategy rather than a reduction in coverage. In other words, the clients are too ignorant of insurance and coverages to discern the truth. This is not a slam because why would anyone expect lay people to be experts and if they were experts, they probably would not need an agent in the first place. Ignorant consumers plus ignorant agents do not usually result in good coverage solutions, but it can result in significant sales. In fact, I was at a conference recently where someone from private equity declared that this is the perfect environment in which to make a fortune. And, like my former boss, saw absolutely no ethical issue whatsoever.

Therefore, producers, and agents in general, who consider it an Honor to Serve Customers with the right coverages and solutions, must know coverages inside and out and work hard to develop their communication skills so they can convince clients to buy from them even if the price they offer is higher because the coverages are better.

It's an honor for me to advise clients who are working to build a more constructive environment in which insureds get the protection required, an environment in which meritocracy exists within the agencies and carriers with which I'm privileged to work.

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Now Offering Amateur Liability Insurance!

Undoubtedly, you have all heard of Professional Liability Insurance. For insurance agents, the common moniker is "E&O" insurance. Yet, when you attend E&O classes, the instructors advise you that agents are not professionals and should never, ever, whatever, under no circumstances, suggest to the public that they are professionals!

"Professional" is a binary word. It is like a computer code where every item is a "0" or a "1". A person is either a "Professional" or not a "Professional". The opposite of a professional is an amateur. Therefore, if you are not a professional, you are an amateur. In that case, why buy professional liability insurance? You should buy amateur liability insurance! It is cheaper, and most amateurs focus on selling price anyway. Buying a professional level liability insurance policy is a waste and probably a marketing ploy by carriers to get agents to pay more for insurance than they should.

Amateur liability insurance is what you really need when you are simply a peddler, an order taker, an amateur in other words. Amateurs have a much lower standard of care, generally, so why buy insurance designed for professionals who have a high standard of care? Buy a policy that fits well with amateurs who simply sell insurance policies without giving much thought, if any, to actually providing the coverage their customers need. The fact is that if you think selling someone low limit policies and property policies that are for the ACV or limited mortgage amounts is doing someone a favor and that by doing so you are fulfilling your obligations, you are an amateur. If you just slap ALS on all your commercial accounts and call it good, you are an amateur. If you do not methodically offer your clients the coverages and coverage limits they truly need versus the coverages you think they'll buy, you are not a professional. If you just offer the ordered coverages, you are an order taker and not a professional.

Save some money and buy an amateur E&O liability policy. If you are not sure where to find this coverage, let me know and I'll direct you to some solutions.

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Carrier Strategies

I was speaking with a COO regarding carrier strategies. He is knowledgeable and one of those people who tries to do things the right way the first time. Our conversation ended with him commenting that too much slack still exists for carriers to get real about the need to improve their operations.

His comment bothered me and I started to protest. Any halfway knowledgeable carrier executive, board, investor, or regulator should see that substantial improvements are required now! The most successful carriers have already captured so much market share they are moving steadily toward putting their competitors out of business, one hundred sales at a time.

The most "in-your-face" evidence is that two carriers combined are consistently writing $10 billion in net new premiums annually. There are only thirteen carriers out of around 1,000 that even have $10 billion premium! These two carriers are writing more premium than all the other 987 or so carriers have written in their entire histories! In other words, each year these two carriers consume the equivalent of dozens of carriers just in their net new business.

What else does it take to turn on the light bulbs?

But he was right. Too much money is still being made and no one's job is in jeopardy. Real improvements by carriers will not be made until a serious catalytic event occurs. For example, about three years ago I advised certain clients that one of their carriers' business models had no future. The carrier could not afford to maintain such an expensive model and did absolutely nothing to improve until A.M. Best sent a warning shot across the bow. Then they cut commissions fast. Talk about getting a fire lit! Nonetheless, the problem and solution were obvious years ago.

What then to make of all the announcements regarding this or that innovation at carriers? It is interesting to read these press releases because behind the scenes many carriers' operations remain sloppy. Their operations make too many mistakes, possess too many inefficiencies, and too little internal data, or at least too little organized data. So much of Insurtech technology is focused on external data, not internal data. This is because the focus is on sales. Focusing on external data means no one is prompted to look at the internal processes and data that must be improved. Sweep it under the rug for as long as possible--preferably until the executives retire.

In fact, a larger reason why some carriers focus on the external is that they hope they will not have to deal with the internal. They can bypass the weaknesses that need to be fixed. This is one reason the MGA platform is growing so quickly. They want the MGA's to provide the technology, including processing technology, and the carriers will only provide the paper. It is kind of a third-party processing, outsourcing model.

Few carriers have this option. Most do not have the financial, legal, time, or bandwidth. These carriers in particular should be highly motivated to immediately move forward with foundational level processing improvements. A little time is left and much of what needs to be improved does not require investment in new technology. Technology used well depends heavily on whether people are following the standardized procedures and that there is someone to monitor whether the employees are following such procedures. Without these steps, technology cannot ever achieve its potential productivity improvements. New technology is not going to solve the problem (unless all users of such technology are eliminated).

Urgency is required at the leadership level. Most carriers will not find that urgency until they are threatened with a downgrade, hit a tipping point of losing too much business, or incur some other catalytic event. This reality creates enormous opportunities for carriers with better leaders.

To determine whether you are winning or losing, here are a few metrics to follow:

1. Use Direct Written Premium rather than Net Written Premium to measure your market share and compare growth rates. Virtually all carrier metrics for these points are based on NWP and NWP is a poor measure of these points. The reason is that too many carriers, especially commercial carriers that have interesting surplus sources, play games with their reinsurance. Maybe "play" is too strong a word because I am sure regulators would catch them if they were "playing" with their reinsurance. However, when a carrier increases their reinsurance by 50% one year and decreases it by 40% the next and then increases it substantially the following year, "playing" seems like an appropriate term to me.

2. When measuring expense ratios, carefully examine your competitors' use of reinsurance from year to year because when carriers' reinsurance programs change substantially from year-to-year, their expenses change dramatically too. Some will appear to have much lower expenses than they actually incur, but gain a timing advantage. I find many insurance company CFO's who buy straight-up reinsurance and are steady in their reinsurance programs have difficulty believing some carriers follow such volatile reinsurance strategies. That disbelief will cause others to overlook the impact on their competitors' performance metrics.

3. Many more considerations are required for an apples-to-apples comparison but these two are fundamental. In my work with carriers, I find a lack of important knowledge exists because executives have been taught that all carriers' numbers are equalized so that reviews show apples-to-apples results. That is not necessarily the case.

   An example might be a highly rated carrier whose surplus is in reinsurance recoverables. In fact, their reinsurance recoverables might exceed 100% of their remaining surplus and without those recoverables, that carrier's solvency would most likely be in doubt. Moreover, that carrier might be their own reinsurer. It is an interesting circle and not really comparable relative to any metrics of a carrier buying straight-up third-party reinsurance and whose reinsurance recoverables are near the industry average of 1% of surplus aid.

Few carrier executives are willing to push financial limits that far. Yet, in peer comparisons, carriers like this do not ever have asterisks next to their numbers. The wrong conclusions might be drawn, especially by executives trying to run their companies in a more traditional manner.

The solution for this latter group of carrier executives who have the emotional strength to create urgency is extremely simple and yet still complex. The simple part is to focus on the basics. Technology will not compensate for weak leadership or poor operational management. Quality operations support growth, however, faster growth on top of poor operations will cause an eventual collapse. Operations must be the foundation. The hard part is divorcing a carrier from historic approaches and cultures. This would include the use of better performance metrics. For example, measuring how much the carrier pays in profit sharing as a percentage of Net Written Premium is appalling and worse than useless because profit sharing is not a function of Net Written Premium. It is a function of Direct Written Premium and profitability. Good metrics are correlated with function. Carriers have measured profit sharing expenses as a percentage of Net Written Premium because it is easy, not because it is correct or even useful.

A new culture built by the best leaders will keep the parts of the old culture that are beneficial and eliminate all else. The goal must be to grow legitimately, without tricks, and in a manner in which operations will support growth faster than the industry norm. That is the only way to avoid being subsumed by carriers who are already achieving so much success. Instead of just focusing on the growth goal, focus on how operations must improve to support $X millions of additional premium too. This is the way in which most successful companies operate and this must be the point to which you lead your company.

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Remaining Ignorant

Business Income and Cyber are arguably the two coverages least understood by agents (although given what I'm seeing in property claims, I'm not too sure most agents understand how to insure property correctly either). Most agents know more than their clients, so they sound sort of intelligent but as the saying goes, a little bit of knowledge is dangerous.

I am a Certified Business Appraiser (CBA). As the certification site states, this designation "earned the reputation of being the industry's most difficult credential to obtain." I share this to let readers know I am deeply immersed in two worlds, business valuation and insurance. The business valuation world has awakened to the huge business opportunity related to carriers whose adjusters do not understand how to properly adjust business income claims and to represent clients in suits against agents for selling or completely failing to sell correct business income coverage.

I've taken the appraisal industry's insurance business income program and frankly, it is a better program than the vast majority of the insurance industry's own business income classes. The people taking their classes are also, in my experience, far more knowledgeable about business income in general than agents even before they begin the program. And for all the readers who out of ignorance think that "I don't really need to understand BI because ALS is the magic solution," you are wrong. Stop selling BI or learn it properly.

These business appraisal experts are formidable opponents in a lawsuit. If you don't want to be on the wrong side of the table when one of your customers' BI claims is not going so well, either learn BI in depth or provide caveats that you aren't promising adequate coverage and they should get their accountant to assist them in not only figuring out the amounts, but time factors too.

This same group of appraisal and accounting experts are building their cyber BI chops to provide the same expertise relative to cyber BI claims. I have developed and teach a high level, high quality cyber insurance program and most agents taking the course are aware of what they need to know, but don't. Their desire to learn and their call to duty to provide their clients with solid cyber coverage gains my utmost respect. But knowing these are the people willing to learn and how most really struggle understanding the BI cyber issues, combined with my E&O audit results that touch on producer knowledge, and few producers possess a tenth of what they need to know about cyber BI.

The accounting and appraisal experts are going to run circles around these agents and many of the adjusters I've met. And rightfully so.

A little knowledge is dangerous. Don't pretend or even give the impression you know what you are doing relative to cyber unless you really do. It's a disservice to your clients and a huge E&O exposure to you. If you are afraid you'll lose the account if the client discovers you are ignorant, then become knowledgeable. Faking it until you make it is not a good option with this new class of opposing and formidable experts.

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Is your company built for success or conflict avoidance?

An extremely simple, common experience upon which you can assess yourself and your managers are these scenarios:

- At the agency/broker level, if you have a producer who everyone likes but is mostly incompetent at increasing sales, will you fire them within a year? Ninety percent of agencies will not fire that person.
- At the carrier level, if you have a marketing representative who everyone really likes, agents included, but nothing ever gets done, will you fire them? It almost never happens.

Flipping the tables:

- At the agency level, if you have an opportunity to increase productivity by 20% but the middle manager, a person who has loyally but incompetently served the agency for 15 years, must be fired, will you fire this person? 100% of the time, the answer is "no."
- At the carrier level, If you have a marketing representative or underwriter who is petitioning to improve how things are done and they have a workable solution with only one "flaw," which is under performers will be exposed necessitating action by management, will their recommendations

be acted upon? The answer is almost always never. Action will happen only at the last minute when the company is sinking.

I have worked for, consulted with, and testified about thousands of carriers, agents, brokers, and IT firms. In this industry, systems are built to avoid conflict. Often the conflict that is avoided is imaginary. I have seen that often because the leader has no idea how to lead so they see every conflict as a confrontation. Constructive leaders see opportunities in these situations rather than conflict.

Going along and getting along is important and society pays a high price for all the ineffectiveness and ineptitude that goes with conflict avoidance systems. It is why companies and agencies do not improve until a massive sense of urgency exists. That sense of urgency often comes too late. It is why businesses buy other businesses rather than improving their own performance. Acquisitions generate little conflict at the very top. One infamous insurance company has purchased multiple other carriers and ruined each one in turn. Their IT systems never worked so they bought companies with better systems and then ruined those too. It is a company that has lost billions of dollars over the last five years, yet nothing has changed internally because that would mean conflict.

Competent people are designed to see things differently from one another. They bring different life experiences, different educations, and they are in different positions (even if one underwriter is underwriting Minnesota and another is underwriting New York City), so they see the situations differently. With quality leadership, these differences among competent people are a strength.

Lacking quality leadership skills, the leaders simply do not want to listen to the different perspectives. They do not want to harness these differences and as a result the differences become arguments, and nothing gets done because no one can agree on anything. Therefore, group think is initiated. It is easier to go along to get along. So even with competent employees, most agency and carrier internal systems are designed to achieve, at least at the surface level, group think.

The human need to avoid conflict is strong and usually dominant, especially in sales organizations where salespeople just want to make everyone HAPPY! If you want to make your organization successful, only two options exist. The first is, if you are the leader but have fallen into the conflict avoidance trap, to obtain counseling. Psychologists have named conflict avoidance as a known issue requiring counseling. Life is easier too when you are not always afraid of causing conflict.

The second solution is to hire managers who are not afraid of conflict and who possess conflict management skills. This may seem like an obvious point, but many people who are conflict avoiders cannot fathom people who do not avoid conflict. Conflict avoiders have a difficult time imagining how a leader who is not afraid of conflict can deal with conflict with the result being a decrease in conflict. They think that dealing with conflict results in bigger or more conflict. People who are unafraid of conflict and skilled in dealing with conflict know how to harness situations and create accountability, which results is an extremely productive environment. Better yet, the conflict that exists becomes collaboration. These types of departments, agencies, and divisions are the best places in the world to work, and they have the most success.

Is your company or agency built to succeed or avoid conflict? If the latter, what improvements will you make?

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An Insurance Agent and an Attorney went into a Bar

I read about an E&O case where an insured asked for complete auto coverage but failed to explicitly ask for collision coverage, so the agent only sold them comprehensive and liability coverages. Why the agent did not verify with the client that they did not want collision coverage is beyond me, but the agent did not ask. The insured had a collision, discovered they had no coverage, and sued the agent for E&O. The agent's defense was that the insured asked for complete coverage and not specifically collision, and had a duty to read his policy. The agent won.

An insurance agent went to an attorney and asked for a producer contract. The attorney sent him a contract a month later accompanied by an invoice for $4,500. It was a lousy contract, but the agent got what they asked for, a producer contract. Turnabout is fair play.

The attorney fulfilled his duty. The agent did not know which clauses and conditions should be included in the contract any more than most insureds know what coverages to request, especially for commercial policies, but also for homeowners policies. The agent complained that the reason they asked the attorney for a contract was they did not know what to include in the contract and the attorney should have known what was needed. The insured thought the agent should have specifically offered collision coverage (I agree) because the insured did not know what to request. Ignorance was bliss for both the insured and the agent until the insured had an accident and a producer left the agency with their accounts. The judge held that the contract's restrictive provisions were invalid.

A different judge ruled that the agency did not fail the insured because the insured should have read the policy, understood all the provisions, terms, and requested the correct coverages. Did the attorney fail the agent any more than the agent failed the insured?

A small business owner went to an agent to buy a workers compensation policy and liability and property coverage. The agent asked how much liability coverage the insured wanted and the prospective client said that his client contracts required him to have $1 million in liability coverage. When asked how much property coverage was needed, the insured was not sure. The agent offered $100,000 and the insured thought that with depreciation, $100,000 would be adequate.

A few months ago, the insured's building caught fire which then spread to the rest of their $20 million building. They tried to replace their equipment only to discover the replacement cost was $500,000. They slept very little after learning they had no material coverage. Did their agent do their job? The agent provided what the insured requested. Should it have been obvious to the agent that the insured needed to be educated about the difference between depreciated costs and replacement costs? Obviously, but the standard of care for an order taker is generally to take orders and not offer advice or education.

Agents have a serious contradiction of purpose which has existed since the industry began and has always been an issue. Now, due to an insured's more complex needs, technology, regulation, and much more aggressive competition, the contradiction is creating more branding issues, sales choke points, compensation issues, and legal problems.

The purpose of insurance is to protect an insured's assets, or more precisely, reinstate an insured's balance sheet to the same numbers present immediately prior to their loss. If an insured is sued and loses $2 million and they have $2 million or more liability coverage, insurance pays for the suit and the insured's balance sheet is protected. Rather than having to write a $2 million check and seeing their balance sheet value decrease by $2 million, the insurance company writes the $2 million check thereby protecting the insured’s balance sheet. If the insured wins, a good policy pays for defense and the cash on their balance sheet also remains unchanged.

If an insured's building has a fire or burns to the ground, the building is rebuilt to the same status, sometimes better, as it was just prior to the fire and the value of the building on the balance sheet is restored. Restoring the balance sheet, thereby protecting the balance sheet, is the singular primary purpose of insurance. This rule is basic, hour one of an insurance education (at least a quality education).

Yet most of the agents and company people I encounter, including people with many designations, do not know or understand this important rule. Their ignorance contributes to the awful reputation of the insurance industry.

Protecting assets is the fundamental foundation of insurance--bar nothing. Yet agents depend on a standard of care, a legal standard whereby they often cannot be held accountable for deficiencies in coverage (coverage is the balance sheet protection offered, the coverages afforded) provided they sold to the insured what the insured ordered. Yet, nearly 100% of insureds do not know enough about insurance or even their assets, much less the ways in which their assets need to be covered, to place an order with an agent for $X property and $Y liability and leave with any confidence they have adequate coverage.

Why am I so confident nearly 100% of insureds, commercial insureds too, do not know what coverages they need? Because virtually 100% of agents do not know how to cover their clients adequately and they have a license. So why should we expect unlicensed people to know more about insurance than licensed people?

If the purpose of insurance is to protect assets and the distributors of insurance (agents and brokers) lack the knowledge and lack the standard of care to deliver such protection, a contradiction exists between purpose and execution. The result is a lousy reputation because alignment between the purpose and delivery is broken.

No one needs an attorney who offers a generic and useless contract. The fee is a complete waste of money. An insurance policy that does not provide coverage is wasted money.

Carriers have done a rather good job of providing coverage options, however, those options are useless if their distributors do not know how to use these coverages well. Why spend money developing options, if the agents cannot be bothered to offer those options to their clients who need them?

Several new insurance distributors have figured all this out. They have identified that traditional distributors, including large brokers, have failed to recognize the opportunity to provide clients with the coverages they really need. These new players see that most producers are superfluous to the process.

They see an opportunity to cut the charade of pretending to offer expert advice while hiding behind the "duty to read the policy and I'm just an order taker" defense. Distributors should be up front and not pretend that they are employing producers who are actually offering advice, but are just order takers--cheaper order takers. No pretense or wishful thinking by an agency is adding an iota of value, even though they are continuing to collect full commissions. Instead, cut the producers, negotiate a better filed rate with carriers, and gain a huge competitive advantage by being honest – that they are nothing more than order takers at a lower price.

Independent agents are paid more, in theory, because the sales brand and cost of building the brand's reputation lies with the agency, not the company, as opposed to direct writers where brand building lies with the carrier.

IA carriers are currently enjoying strong profits, no matter what they say, if they are having a problem, it is their problem. The smart ones see clouds looming and they see they are paying order taker agents too much. Progressive figured that out long ago.

The plethora of silly insurance commercials funded with billions of dollars is still far, far cheaper than paying order taker agents commissions commensurate with a professional. Order takers are not professionals and do not deserve professional levels of pay. There is this myth that no one in the IA world seems to check regarding the price of these advertisements. One myth is that for some reason, the price of the advertisements is otherwise excluded from their expense ratios--a nonsensical thought process.

But for those doubting me, GEICO's expense load is about 11%, less than the commission expense alone for traditional IA carriers.

These advertisements work so well that two such carriers combined are growing by about $10 billion NPW annually. These two carriers are eating away at other carriers' market share and their low expense ratios are a key reason why they succeed. The easiest savings is the elimination of agency commission for agents who do not perform any real value.

One component is brand representation. Think of a NASCAR driver. Their cars and fire suits have all kinds of logos on them because they are a brand representative. They sell the brand. How is an agent who does not know coverages represent a carrier? Well or ineptly? When that claim is not paid because the agent did not offer the right coverages, who usually gets blamed? How well is the agent actually representing the carrier? What happens in the social media world?

This is the new reality. Some of the private equity players have figured out that many producers are useless so they fired them and kept the profits while carriers keep paying full commissions. When will carriers quit paying excessive commissions to parties who do not offer adequate protection to insureds and have poor brand representation?

The time has long since passed to establish a two tier licensing system and for the insurance commissioners, if they really are for protecting consumers, to get behind a license for order takers and a separate license for professionals. Unfortunately, too many forces exist at every level protecting the status quo.

I can help build structures for agents and carriers desiring to be professionals or be a representative who is a professional which would offer much better compensation models for all involved. I can build the metrics and strategies for carriers before their more efficient competitors take a few hundred million, or billion, in market share. The race to offer pretend value at higher profit margins has been run and the winners declared. If you were not at the winner's circle, you are not the winner. Your opportunity now is to build back true value.

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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.

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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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