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Burand's Insurance Agency Adviser

Resources and Information for the P&C Insurance Industry

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With E&O, Prevention Really is the Best Medicine

E&O loss exposure is a major concern for most agencies, and rightfully so. Many steps can be taken to greatly reduce an agency's E&O exposure.

As an approved E&O auditor for Westport and Utica, Chris conducts a comprehensive review of an agency's procedures from an E&O perspective. An E&O Procedures Review provides the framework an agency needs to start taking preventative measures to minimize their E&O exposures!

While no recommendation, procedure, or process can totally eliminate the possibility of an E&O claim, agencies can take steps to minimize their exposure to E&O incidents. To learn more, contact Chris at chris@burand-associates.com.

Connect with Industry Leaders while enjoying the Colorado Rockies!

I'd like to invite you to attend the **2024 Rocky Mountain Agency Management Meeting**, Feb 29 - Mar 1, 2024 in Breckenridge, CO!

This opportunity consists of a small group of industry professionals who meet only during the morning. The group discusses critical agency management topics, as well as attendees' ideas, roundtable topics, successes, questions and concerns. The schedule leaves the afternoons free for skiing and enjoying the breathtaking Colorado Rockies.

The registration fee for this two day meeting is $675 per person. Please contact me at chris@burand-associates.com for a registration form. **We have limited space available so if you're interested, don't wait!**

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Better Buy/Sells

In the past few years, I have received more phone calls than ever from the families and partners of agency owners who have died. The survivors have a buy-sell agreement and now realize the buy-sell agreement is not economically feasible and/or it is written so poorly that no one understands it. These are horrible situations. How can you avoid these issues for yourself, your loved ones, and your partners?

First and foremost, never, ever use boilerplate buy/sell agreements. They are the worst. I have never seen one that fits any agency. Buy/sell agreements have huge implications so they should be taken seriously and crafted to each specific agency's situation. I have seen people sign buy/sell agreements that apply to captive agencies when they have an independent agency. I have seen them sign agreements written as if the agency owns all of their accounts when the producers actually own the accounts. I have seen agencies sign buy/sell agreements that were meant for real estate!

Second, never, ever use a formulaic agency valuation formula! The IRS actually has a few good regulations. One such regulation applies to valuation formulas for businesses with regard to estate taxes, gift taxes, ESOPs, and quite a few other applications, and states that <u>formulaic valuation formulas that are set and never updated are prohibited</u>! Therefore, the idea of setting a valuation formula of 1.5 times into eternity is not allowed and for good reason because values change (and because that formula is wrong with which to begin!)

Additionally, these formulas never take into consideration the specifics of an agency. Is an agency growing 10% annually worth the same as one that is losing revenue? Is an agency worth the same if on the date the document was signed, the agency had a 30% profit margin and now has a 0% profit margin? What if when the contract was signed the agency had no producers and now it has producers but the producers have no restrictive contracts so they can take their customers to any other agency? The list goes on and on and on.

Now, if you are just two regular people unrelated to one another and not in an ESOP or some other regulated entity that requires adherence to standard valuation rules, then you can choose a simple and silly valuation formula. It is your life to ruin and many people choose to ruin their lives every day.

The third crucial point is that you should never, ever have a generic attorney draft your buy/sell agreement. The odds are extremely high that they will violate recommendations one and two. They will pull out their generic boilerplate buy/sell agreement, use a generic formula, charge you as if they wrote it from scratch, and you will be signing junk.

Or maybe you will need to pay to educate your attorney on how agencies work, something they are not likely to understand, which may result in a better document, but one that is still not correct. Several times I have seen attorneys write generic valuation formulas into buy/sell agreements without understanding the difference between commissions and premiums. Imagine a buy/sell that stipulates the price the surviving partner will pay is 2.0 times PREMIUMS!

Agency valuations are unique. I have written extensively about this topic and if you are interested, a quick internet search will likely present quite a few of these articles for your reading pleasure. A key component almost all attorneys and generic formulas get wrong is that agency valuations always have two parts. Right off the bat then, any generic formula that only has one part is WRONG! There is a book of business value and a balance sheet value.

If you want to draw up a buy/sell agreement correctly, here are some basic steps to take. First, hire a good insurance agency consultant who understands insurance agencies and how to value them. Then have the consultant work with a good attorney. You will need both because the consultant is not going to know all the applicable legal points and the lawyer will not know how to do the valuation clause.

The valuation clause is critical and different options exist. Some of those options vary by state and purpose which in my experience are typically overlooked even by the attorneys. As an agency owner you may be bored to tears by these discussions, but a lot of money is on the line if mistakes are made.

Buy/sell agreements should also take into consideration quite a few different triggers and whether the agency's value should be affected by a trigger. For example, a good trigger to include is if a partner does something illegal, especially if that act diminishes the agency's value. Another example is if a partner leaves and takes customers with them. It would be nonsensical for the formula to still stipulate that the departing partner should be paid 1.5 times last year's commissions. These are the kinds of issues that should be covered in the agreement.

Lastly, it makes sense to have your agency valued per the buy/sell agreement so you can see how it will really work. I have had a lot of disappointed clients over the years who never went through this exercise until they had a trigger and the value was far higher than they wanted or far lower than they wanted. The valuation I completed was a solid valuation per the buy/sell agreement. It is just that the buy/sell did not work the way owners anticipated it would work. Going through this process early can save a lot of pain, anger, and money later.

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Paying Thrice

I read an interesting article by a leading purveyor of Insurtech advising carriers how to increase premiums without increasing rates. The three top recommendations were:

1. Verify auto usage
2. Verify garage address
3. Verify unlisted drivers

In 1987, when I began my career learning auto and homeowners underwriting, and did my first agency audit 30 days later, I verified:

1. Auto usage
2. Garage Address
3. Unlisted Drivers

And other variables, but these three were priorities.

Carriers are currently paying three entities to do one job and it makes no sense. They are paying underwriters to underwrite. They are paying agencies to upfront underwrite. And they are paying technology companies to create software to underwrite. When you build a rocket, you need triple redundancy. When you are insuring automobiles, you don't need and really cannot afford triple redundancy. I wish carriers would pay big time consulting money for such straightforward advice rather than paying big time fees for Insurtech, labor, and bonuses.

A good local agent can address auto usage, address, and drivers, wait -- get this -- for FREE! Imagine that!

The carrier gets this great service for FREE. Why is it free? Because the carrier is already paying commissions and contingencies. And if your agents are not doing this correctly and honestly, fire them or reduce their commissions. Life in this sense has zero need for complications or software.

Results are pretty amazing when you employ humans to do a job, set the expectations, and hold them accountable, especially when you're already paying them to do a job. If a carrier has decided its agents are so incompetent, unreliable, or are too busy to underwrite accounts upfront, quit paying them as if they were competent, reliable, and had the time to do their jobs well.

The argument I hear from carriers is they need the volume and holding agencies accountable might injure the carrier's volume. That just means you're desperate so quit pretending you have quality standards. Pretending you have quality standards when you really don't just creates friction and friction costs money. The stereotypical scenario is when the honest agent submits an application and it gets rejected while the not so honest agent submits an application for the same insured but omits some data, and voila', the account is written. And both agents have the same commission schedule. Transparency is cheaper.

Carriers are wasting so much money studying how to save a dime here and a dime there that they are probably wasting more money studying the issue than they'll ever save.

Insurance agency commissions/contingencies represent around 35%-50% of all underwriting expenses. The next largest item is usually in the single digits. In other words, carriers are not going to save enough money on postage to become adequately competitive. The solution is in aligning underwriting expenses so that agents are paid per their performance and triple underwriting redundancy is eliminated.

Most carrier executives are scared to death to acknowledge publicly (though not always privately) that distributor compensation models are broken. Who wins in this relationship? The lousiest, laziest, more aggressive (not always in a good way) distributors. Why are carrier executives so nervous about instituting an aligned distributor compensation system? They know they don't have a competitive advantage in their products, services, underwriting, pricing, or claims. They need distributors who will put business with them regardless of the quality of the business and the quality of the distributor, and they will continue to overpay those distributors, underpay the better agents, and pay three entities to do one job.

And meanwhile, the one carrier that has undeniably addressed this issue is growing three times faster, year after year with some of the highest profit margins in the industry. They accepted and then embraced reality early.

If you are a professional with a desire to work with a consultant who knows this industry inside and out, you want to create alignment while materially decreasing your underwriting expenses, and you are ready to make the hard decision to execute a simple strategy, then let's have a conversation. Contact me today at chris@burand-associates.com to schedule a call.

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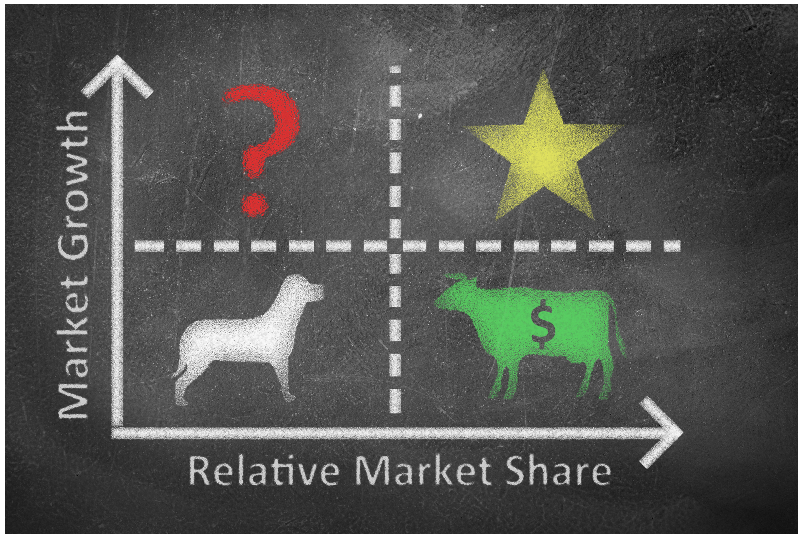
The Quadrant

Below is a representation of a model made famous by Boston Consulting Group (BCG) sometime in the late 1980's. This quadrant representation was well designed to tell a story. It was meant to differentiate between products. For example, a soap might have a high market share and a low growth rate (it gets harder to grow quickly the more market share you have), which results in a "Cash Cow". The soap generates a lot of free cash flow, and that cash flow can be used to build Stars. Stars are those rare entities that have a high market share in a market that is booming. Think about online advertising a few years ago. Google had a huge market share, but the market was still growing quickly. They got to double dip in that their free cash flow was high, and their stock was high too because future cash flow would be even higher because the market overall was growing quickly.

BCG Matrix:



What does this have to do with insurance? In insurance, high market share is not a good thing because that results in a concentration of risk and a violation of the law of large numbers. It affects insurance in many ways. The first is that some entities and regulators forget about the fact that insurance should never, ever result in a high market share at the carrier level. Obviously, the politicians thought differently by placing health insurance into a virtual oligopoly, but health insurance is not really insurance (despite what the university professors who typically email me when I write that health insurance is not really insurance, it is not really insurance because the people "insured" are not the people paying the premiums so they are not protecting their own assets. Health insurance is almost exclusively an employee benefit or a government subsidy and often both.).

Another reason to remember this chart is because people forget that banking and insurance are slow growth entities. P&C insurance insures the economy and cannot grow much more quickly than the economy, especially since P&C insurers refuse to insure the knowledge/data economy. All those newly backed entities promising fast growth are either going to give up their profits to grow and still obtain minimal market share (the Dog in the chart) or become the Question Mark/Problem Child because all insurance has low market share. As of year-end 2021, according to A.M. Best, each of the two largest P&C carriers had approximately 9.5% market share on a net written premium basis. The 11th largest carrier (out of approximately 1,000 carriers, not including subsidiaries) has a 1.8% market share. The 90th largest, which is in the top 10%, had a market share of 0.1%.

The P&C industry is unique because by definition, everyone is better off with relatively little market share. However, if you look at the Dogs who have less than 0.1% of the market and are not growing, are those carriers really doing anyone any good? Not really, with the exception of the niche product carriers offering specialized coverages. In that case, market share should be measured differently where they will have an extremely high market share in their niche. The generic tiny, no growth carriers just absorb capacity often at inefficient expense loads. Generic writing P&C carriers are boring and are meant to be boring while providing a decent return on investment with marginal growth associated with safe investments. One way to identify a likely unsafe carrier is if they tout excitement.

Insurance and banking are meant to be boring from this perspective.

An interesting tangent is the distribution angle. Insurance distributors have historically possessed even less individual market share than carriers. One recent estimate is there are 40,000 independent agencies and who knows how many captive agents, let's guess another 40,000. (When I asked Google how many State Farm agents existed, the answer was 18,000 and I got 15,000 for Farmers). That is eight agents per carrier. But agents can be Cash Cows.

One of the characteristics of Cash Cows is that with high market share and low growth, earnings are highly stable and so is the cash flow. Insurance is unique though because customer retention averages around 90% even in tiny agencies (where customer retention is often higher than in large agencies making earnings and cash flow even more stable). Insurance agency earnings/cash flow cannot exist in most industries. Change any part, especially the promise of super-fast growth and the model falls apart. Insurance agencies are not Stars and fast growth does not suit the model. But in other industries, most agencies would be Dogs because they have no material market share and marginal growth which should result in poor, unstable profits.

A question exists on how profits are measured. I have analyzed thousands of agency financial statements including publicly traded broker financials. What follows is not a suggestion that anyone is not following the required accounting rules. However, agencies that have grown organically and then hit the Dog level of no material growth can achieve significant profit margins. That business model works for small, privately owned lifestyle businesses. If the cost of growth is added, i.e., hiring and developing producers, that margin decreases materially.

Private equity and other buyers buy these effectively wasting asset agencies and the accounting rules allow them to harvest profits by not having to count the cost of growth. This combination is a key reason agencies are valued so highly. If the accounting rules were stricter, as many wise people are strongly advocating the accounting rules board to address, agency values would decrease materially because joining a bunch of wasting assets into one entity and not investing to change the culture just results in a bigger wasting asset. Proof is evident in the growth rate of networks and many serial acquirers' premiums at the insurance company level. Premium growth by distributor as measured at the carrier level is an excellent measure of whether the agencies are wasting assets.

The BCG chart above is interesting because it is still a good visual explanation of companies. It was designed for products and strategic business units. The measures are therefore relative to peer groups and quite useful for larger agencies with multiple divisions. For carriers, they should be heavily using something akin to the BCG chart to evaluate their product mix. Doing so might have saved a few regional carriers millions of dollars in their property reinsurance writings had they done this, because carriers cannot legitimately be Cash Cows like agencies.

But my primary purpose in writing this is to remind everyone insurance is supposed to be boring from a growth and market share perspective. Anyone promising differently is likely waving a red warning flag their business model is unlikely to succeed regardless of how long investors fund money losing operations.

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Will P&C Insurance Remain Relevant?

Of course it will because states mandate that people carry $X amount of insurance of varying kinds. Additionally, a huge number of contracts mandate people and companies carry insurance. It is pretty darn easy to remain relevant when someone else is forcing others to buy your product. The only question remaining is from whom the consumer will buy insurance. The insurance industry is not a complicated, rocket science like environment.

The Insurer's email blast on April 5, 2023, quoted the head of global lines for Willis Towers Watson who said, "I think [buyers] are pretty irritated. They look at the sub-95 combined ratios that insurers are delivering year-on-year, while at the same time they're having their terms and conditions reduced, and rates increased in certain lines of business. That starts to become quite unpalatable to certain clients."

I could not agree more, although most combined ratios are slightly higher than 95. That being said, the good carriers are still making plenty of money. Keep in mind that hard markets are not hard because carriers have negative profit margins. For years carriers have proven to have an amazing ability to lose billions of dollars without increasing rates. Hard markets are caused by problems with surplus. Always remember this point.

Back to Mr. Swift's point that given what carriers are doing, insurance is becoming unpalatable to consumers. I would go several steps further noting that in many markets property insurance is simply not available and if it is available, it is not affordable for most normal people. If insurance is not available or affordable, then the insurance market is not relevant.

McKinsey & Company published a report at the end of February noting that commercial insurance carriers are not keeping up with their clients' risk exposures. I would state even further that carriers are not coming close to keeping up with commercial exposures because as a matter of fact they do not offer the coverages commercial clients need.

The carriers keep offering coverage for extremely low frequency events like fires when their clients need robust coverage for cyber. Very few commercial clients ever suffer a fire, but almost 100% of them will suffer a cyber event.

Here are some other points that prove the P&C industry is marginally important and becoming less important because it will not insure the world as it exists in 2023. What mattered in 1980 does not matter that much in 2023 on the commercial side.

- SwissRe advises that only 30% of cat claims were covered in the last ten years.
- Per Karen Clark, the estimate of coverage after Hurricane Ian was $63 billion but the losses were well over $100 billion.
- Capgemini advises:
  - Less than 25% of businesses feel their insurance coverage is adequate.
  - Less than 15% of consumers think their coverage is adequate.
- 60% of personal lines customers believe they are inadequately insured (*HUB Study, Oct. 2022*).
- Only 17% of intangible assets are covered (*Aon Study, April 2022*).
- The average potential loss for intangibles is $1.2 billion versus $839 million for Plant, Property, and Equipment (PPE).
- Intangible values have increased 255% since 2009 vs. 97% for physical assets.
- The average value of intangible assets was $1.2 billion vs. PPE of $1.1 billion.
- Per *ipcloseup.com*, the percentage of a firm's value attributable to intangible assets increased from 17% in 1970 to 90% in 2020.

Only insuring 17% coverage for at least 50% of the value, with a frequency rate of virtually 100% of clients, versus selling off-the-shelf policies that cover 10% of the value with a low frequency rate is damning evidence the industry is not that important. Momentum is carrying the industry. As more commercial buyers wake up to this reality, they will find other solutions. In fact, a study by Deloitte last fall found that 80% of commercial clients are now willing to look elsewhere to find options other than traditional carriers and agencies for their insurance and risk management solutions.

Stop and consider the reality of the current climate. One of the leading brokers in the world is calling out carriers for price gouging (my words not his). A substantial portion of homeowners cannot get homeowners insurance either because it is not available or it is unaffordable. The industry only wants to insure yesterday's exposures. The majority of commercial exposures have no coverage because carriers refuse to offer the required products, particularly for intangible assets.

Going further, most agents do not know how to correctly sell business income insurance, much less cyber. I give agents a test before I begin teaching my proprietary business income classes to determine if they know the difference between revenue and income. Most do not and if you do not know the difference, you cannot sell business income insurance correctly. No one needs ignorant agents.

As long as agents and carriers make enough money, not much will change. That is just a fact and at this point, most carriers and agencies are still making enough money.

If you are an agent reading this article and you want to outperform and actually provide value to your clients, true value not the fake kind advocated by many consultants, learn your coverages inside and out. Learn about alternative markets. Learn risk management because if carriers will not provide the coverages insureds really need, your clients' only solution is risk management. Are you there to only provide, at best, half of a solution? If so, should you be paid only 50% of the commission you are now collecting?

If you are a carrier executive reading this article, might it be time to develop the intangible property coverages commercial clients actually need? Might it be time to reward those agents who actually deliver quality coverages and advice versus peddlers that just create claims issues when insureds discover they do not have adequate coverage?

I have heard carrier executives state they cannot offer coverage for intangible assets because they do not know how to value them. Let me help you. I am a Certified Business Appraiser, one of the most difficult certifications to obtain, and I have been valuing intangible assets for 30 years. Intangible assets are valued daily for all kinds of purposes all over the world. Regular run-of-the-mill appraisers cannot value intangibles, but specialists should be able to do so accurately. The valuation communities train hundreds of people per year to do this so no one even needs to reinvent the wheel. Therefore, valuing intangible assets for insurance purposes is quite feasible.

It is time to act. Only selling mandatory insurance is a dead end. The winners will be extremely low-cost providers focused only on price.

Selling the coverage people truly need, whether using existing products well like business income and cyber or creating new products is the path to avoiding uselessness. It is your choice to become a star and valuable, or share the fate of the dodo birds.

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How to Stabilize the Property Market

Hint: Old-fashioned fiscal management and regulatory fiscal management are good places to start.

I recently analyzed the homeowners loss ratios for the top 60 writers of homeowners in one of the more difficult homeowners states. I note this is one of the "more" troubled states because reality is that quality homeowners insurance is becoming incredibly difficult to obtain and if obtained, the price is ridiculously high in probably at least half our states. I am not some consumer advocate with little knowledge of how hard it is for insurance companies to make money. Instead, I'm pretty happy to go head-to-head with any insurance carrier financial analysts relative to insurance carrier profitability, the lack of profitability, and how to fix the problem. The fact is that homeowners insurance has been one of the least profitable lines of insurance for the last 20 years and a good reason why is carrier mismanagement of the product.

But it is also a regulatory issue. In my analysis of the top 60 carriers in this particular state, the average unweighted adjusted loss ratio per A.M. Best over the last ten years is 87.7%. That is awful. However, the median loss ratio is only 38.8%, which is awesome. On a median basis, the carriers are making money hand over fist. The massive difference between the unweighted median and unweighted average loss ratios indicates large catastrophe losses. Large catastrophe losses have no meaning and really no value without looking at how profitable carriers are in non-catastrophe years. In non-catastrophe years, carriers in states like this should make a fortune, as the median loss ratio indicates they are doing. They need to make a fortune in those years, leave the money in the bank, and make extra investment income on that money to pay for the catastrophe years so that "on average" everything averages out, as the saying goes. In this case, for the top 60 carriers, the results do not average out and that is because some carriers don't make enough in the non-catastrophe years.

If I eliminate those carriers that did not even have $1 million in DWP in 2022, the overall results improve materially. Being brutally frank, an insurance company has no business being in the homeowners business in a catastrophe prone state if it does not even have $1 million of premium. This is one area in which regulators can assist and that is, don't allow carriers that are too small to provide stability. They are not going to have the resources or the ability to spread the risk when a large portion of agents have more premium than the carrier. I'll get to the surplus factor momentarily.

The results excluding those immaterial carriers improved the ten-year unweighted average loss ratio by eight full points to 80.7%. The median decreased to 33.1%. Manage whatever it is you are managing based on the material and eliminate incompetent players. Their incompetence should not be the tail wagging the dog.

The median results are truly enlightening because competence, or the lack thereof, is more obvious. There were 44 carriers with at least $1 million in homeowners premium in 2022. Of those 44, 11 had not written homeowners in the state for all ten years. A ten-year timeline is a good legitimate timeline for a catastrophe prone state. I see people analyzing and distributing quarterly loss ratios and that is just a waste of time except in dire scenarios.

Insurance is based on the law of large numbers which not only means a wide distribution of risks, but a long range of time. At the least, pay attention to five-year results.

On a ten-year basis, the carriers with at least $1 million premium in this line and with material premium for all ten years, had an average unweighted loss ratios of 81.9% with a median of 35.5%. It still appears then that catastrophe losses outweigh the extra profits. But I'll return to competence.

There are seven carriers that can barely make a profit even on a median basis. In other words, their loss ratios are marginal even when catastrophes do not hit. Really interesting is that their loss ratios tend to be materially better than normal in the catastrophe years and yet their loss ratios in non-catastrophe years are so much worse than normal, they still end up losing more money. This is a competence issue, not a catastrophe issue. It is not a reinsurance issue either. They simply cannot underwrite and/or price correctly and it is probably some combination of the two.

The most competent carrier in the state actually has a ten-year unweighted average loss ratio of 44.5%. They have made a handsome profit. This particular carrier possesses some other important, old-fashioned characteristics. In the old days when the industry had periodic hard markets about every seven years, the carriers with the best balance sheets wrote a lot of business because they had the surplus available with which to write the business. A carrier that makes money in the good years, especially enough to more than offset the catastrophe years, provides far more stability to the market. This is good for consumers. It is good for agents. It is even good for shareholders (imagine a financial model that is good for all three!).

One of the reasons insurance company regulation evolved was because many insurance companies were run poorly so that executives and a few shareholders, often one in the same, made money leaving insureds holding the proverbial bag. If you read the origin story of A.M. Best on this subject, you'll learn just how bad it was. Over time, regulation has been diluted for the sake of more efficiency and the fact that the established insurance companies were managed better for their insureds. With these improvements has come complacency and now we have situations where many new carriers have insufficient resources and models that are again designed to guarantee the enrichment of specific originating parties.

I had a private equity backed new "carrier" call me to advise they had a license and $300,000 surplus. What a joke. Enough said that any regulator would issue a license for towing insurance for an entity with only $300,000 surplus. Take ten times that, $3 million, which is the minimum in some states. The average home market value in the U.S. is around $400,000. Replacement cost is likely higher, especially in a catastrophe prone state where stronger building codes have been enacted (forget the O&L coverage issue for now). $3,000,000 divided by $400,000 equals 7.5 houses. And given the data, those new carriers' loss ratios are so bad they need every dime.

The new carrier structure adds to the danger. Most of these structures are some form of assessable reciprocal whereby the founders set up a second company to provide administrative services to their own carrier. The charge is usually 20%-25% of premiums and they get this money without regards to performance. It is money off the top too. They get paid even if the carrier goes insolvent and if the carrier was initially thinly capitalized, especially if the initial surplus was borrowed, then they keep their money and everyone else loses.

Good, old-fashioned insurance carrier financial management and regulations supporting that good, old-fashioned model are the solutions. Insurance company financial management, like bank financial management should be boring. The idea of some bank president making millions and not realizing a maturity risk misalignment is happening is a joke. For some of these insurance companies, the founders have significant financial acumen, better than regulators and maybe not in a good way. Reading history and regaining an appreciation of why insurance companies need to be regulated is a good exercise.

Allowing exceptionally high profit margins in non-catastrophe years is another good idea in catastrophe prone states provided regulators insist carriers keep those profits in surplus so that the shareholders/executives use those profits wisely. Preventing thinly capitalized carriers and carriers using models that are somewhat questionable from entering the market is also beneficial because then the better carriers don't have to play the price game. It prevents too much market concentration happening too quickly with these carriers, which happens.

Another factor might be for regulators to look at the incompetent carriers and not allow them to charge inadequate rates. When the carrier complains they will then be at a competitive disadvantage for writing new business, tell them the truth that based on their performance, their actuarial rates need to be higher and since insurance premiums are supposed to be based on actuarial analysis, standing exists for this requirement. The results between the competent and incompetent are too stark to conclude luck is the major factor.

This solution will stabilize the market and while I'm generally not a fan of heavy regulation, some carrier executives need assistance from regulators in setting responsible rates that protect all stakeholders.

Does this mean that rates might go even higher? It might because stability has a price. But that might be offset by a decreased need for reinsurance and better underwriting. A carrier with plenty of surplus generally requires less reinsurance and less demand results in lower prices.

Better underwriting is important too. Carriers have largely abdicated old-fashioned underwriting. A topic for another article is how insurance carrier executives abdicate making hard decisions hoping technology solves the problem, but that is at the heart of the underwriting opportunity. Anecdotally (and only because I'm not privy to private claims analysis of the variables which carriers should be performing), homes that have that old-fashioned "pride of ownership" do not seem to suffer the same damage levels.

And finally, address risk mitigation correctly. Incentivize roofs that better withstand hail rather than refusing to write a hail proof roof because the building is in a hail zone like I saw a carrier do. The same goes for not writing in wildfire zones even when the building is fireproof and/or has a wide fire hazard clearance. In other words, use brains rather than blanket underwriting. The money is there for carriers who will use intelligence and you can afford that intelligence when your average loss ratio over ten years in a catastrophe prone state is 45% even after paying for two consecutive catastrophe years!

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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.

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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