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In this issue...

***The Producer Funnel*, by Chris Burand and Zachary Gleason,** Read More...

Determining Building Values, Read More...

Agency Financial Management, Read More...

Is personal auto insurance truly a commodity? Read More...

Fake Risk Management, Read More...

COVID-19 is the fifth major disruption I've experienced in my insurance career. While the going is rough, professional agents come through the tough times to realize greater success when the sun shines again. I'd like to help you be one of those agencies that comes through this more successful than ever.

I am working with agencies through Zoom to develop solutions and strategies to deal with today's difficulties as well as create greater success for the future.

Sample topics include E&O issues, coverage opportunities, agency management, potential legislative impacts, and sales opportunities.

A contact form and a full list of potential topics can be found at www.burand-associates.com/looking-ahead.

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Will you really get your earnout?

In reviewing the financials of serial buyers of agencies, quite often they revise their estimate of whether they are actually going to pay earnouts. The decreases are significant, at least from a seller's perspective while potentially immaterial for a large buyer.

When selling an agency, it pays to consider the true probability you will earn the payout, especially today. I'd suggest maybe thinking about it this way: The earnout is topping, an extra dessert. Don't count on it when you are looking at the sales price. Unless you, the seller, has significant control relative to the buyer, your ability to actually earn the earnout may be impaired from day one.

The Producer Funnel, by Chris Burand and Zachary Gleason

In almost three decades of working with insurance agencies, the number one need has never changed: agency owners, managers, and staff want quality producers. Finding quality producers, defined as producers that can generate at least $400,000 of commissions on their own, is difficult but not impossible. In fact, some agencies regularly hire and develop quality producers. To begin the process, successfully hiring producers depends on developing and following a well-designed and detailed plan. Below is a three-step process which can serve as the starting point for developing a successful hiring process.

(Caveat: Producers that produce beyond the average quality producer, i.e. $1,000,000+ annual commissions, should not be considered as part of the normal producer hiring and development process.)

Step One: Prepare a "Producer Proposal." Begin by answering the question, "Why would a quality producer want to work at our agency?" This is an easy question to ask but usually difficult to answer. Answer it from the perspective of what quality producers desire, such as:

- Quality support people
- Quality carriers
- Competitive advantages
- A great opportunity to succeed
- A "can-do" work environment

They *do not want*:

- To work with producers who do not produce. This means the agency may need to clean house before hiring quality producers.
- To work with lazy agency owners. If the agency has owners who are in actuality, not really working full time, it is going to be more difficult to find quality prospects.
- To work in a "do anything to get the job done, cowboy environment." They want structure for doing the job properly.

Carefully consider all the characteristics that make your agency desirable to quality producers. Put your answer in the form of a well-designed, professional proposal.

Step Two: Develop a "Producer Funnel." The Producer Funnel is a multi-step process that filters all prospective candidates and leaves only quality producers at the end. Success depends on filtering candidates through the **ENTIRE** funnel.

The Producer Funnel:

This probably seems to be too much to wish for, much less actually require. This is why so many agency owners do not filter producers through the entire funnel. Many agency owners only use personality tests and then get upset when someone passes the test but still fails as a producer. Then the agency quits using tests and hires people at an even higher level in the funnel, which only makes the situation worse.

Large companies hire hundreds of salespeople annually and funnel them down to a dozen or so. This results in hundreds of thousands of dollars in waste. Most insurance agencies are too small to waste this kind of money annually, so instead, they waste it over a decade. They hire one or two failures, at least, every few years. Every new producer costs at least $150,000, so four failures is $600,000 at a minimum. For any agency, this is a huge waste. What is worse, while the big company has something at the end, simply because their funnel opening is so much larger, the average small business has nothing but frustration to show for its efforts and expense.

So, set up your filter and then have the discipline to stick to it.

Step Three: Fill the Funnel. How do you fill the top of the funnel with quality prospects? One of the truest sayings I know is, "If you can truly sell, you'll always have a good job." The people you want to employ most likely already have good jobs. Using the "Producer Proposal" completed in step one, you can show them why your agency is so great -- if they will inquire. But how do you get them to inquire? How do you market your agency as a great place for quality producers to work? Quite frankly, if agencies spent a good portion of their advertising budget on this process, their return on investment would quadruple. But most agencies and businesses do not. Most seem to prefer to depend on luck rather than on being methodical. I guess it is more romantic and therefore makes a better story when a successful producer is hired by luck rather than a methodical process.

The question for you is this: Would you rather try to be lucky and likely fail or would you rather be methodical and likely succeed?

A Note On New-to Sales Hires:
One of the challenges to maintaining extremely high standards in recruiting producers is that there simply aren't that many salespeople out there who actually have the desired characteristics. To combat this shortage, an agency must broaden the talent pool and consider new-to-sales hires. Since the candidates don't have any sales experience to *prove* their sales skills, at Atlante Partners, we use other aspects of their experience and personality to *extrapolate* whether they meet the requirements of the funnel. For example, ask them about a time they "supported a cause and had to influence people to that cause -- how did it go and what was the approach?" This type of question can give insight into their ability to "ask for the sale."

For new-to-sales hires it is especially important to test for coachability. One strategy is to give the candidate an assignment between the first and second interview. For example, at the end of the first interview ask the candidate to prepare better questions for their next interview and give them one or two additional points of feedback regarding their interview to utilize. Then, tell the second interviewer about the feedback and have them watch for improvement in those areas.

Finally, when bringing in new-to-sales candidates, it is imperative the agency have strong mentors and a well-defined sales process. Even the best candidates will struggle if they don't have mentors and a process to follow. In contrast, with great mentors and a great process your best candidates will do even better. If you do not have internal mentors and/or great processes, Atlante Partners can help you or you can identify outside mentors. Often outside mentors are better than internal ones anyway.

Conclusion:
What the industry has been doing for 100 years is no longer working and has not worked for a very, very long time. The failures are incredibly expensive. The funnel concept is a better solution for those organizations with the right leadership to see the long-term value -- a constant pipeline of new, qualified producers. It is like an annuity that never stops paying!

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[Back to Top]

Determining Building Values

My firm, Burand Insurance Education, teaches in-depth coverages classes. The course material is in-depth and personal and when combined with my 25 years' E&O auditing experience, we convey a lot of existing knowledge that is not possible to gain when classes are taught in a lecture setting. This combination has truly provided the best situation for our participants to learn, without an E&O event, just how much coverage knowledge they possess and then improve upon it.

We have discovered large coverage knowledge gaps among our participants relative to many coverages. This kind of in-depth education, where knowledge gaps are discovered, is the most important kind of education possible even though the discovery of such gaps is alarming to many agency owners and executives. The realization of, "Oh my goodness, my producer/account manager does not even know that?!" is disconcerting. But it is far better to learn of these gaps in a class setting as opposed to a deposition setting.

Specific to building values, we have learned that a large percentage of agency staff, producers, and underwriters, take the building value assessment at face value without understanding what the numbers actually represent. Before going further, however, I have a caveat that this article is far too short to be considered comprehensive or even thorough. Additionally, a point that we constantly reinforce in our classes is that students have to read the form they are selling to understand the coverage at hand. Much to the frustration of many people, universal answers do not exist. If everyone sold the same insurance policy, agents would not be necessary. The reason agents are necessary is to identify the applicable coverage in the form being sold. Therefore, the best advice, regardless of coverage topic, is to read and understand the forms you are selling and to not depend on your underwriters to advise you correctly. Read the definitions in the form and don't Google the definitions because Google is not the insurance company and therefore, their definitions are moot points.

Relative to building values, they are obviously important and also obvious to many, but what is not obvious to all people we have discovered, is whether the values are associated with actual cash value (ACV), replacement cost, functional replacement cost, or even market value. It is well worth every agency's time and effort to determine whether your staff and producers truly understand the differences in values and can effectively explain these differences to insureds.

Probably more important is understanding Ordinance & Law. An argument exists that replacement cost estimators include O&L. For example, the building cost to rebuild is $300,000, but new codes will add an additional $50,000 to the total. Does the estimator/ITV include that $50,000? Many people say it does and many people say it does not. I am not privy to the confidential data used to determine replacement cost so I do not know the answer. I suspect that on any given building, it sometimes does and sometimes does not. Many times, where the building design or even square footage would be changed to meet new codes, the ITV almost certainly does not include the O&L cost. Therefore, my suggestion is unless explicitly stated, never assume O&L calculations are included.

Another reason to avoid making the assumption that O&L is included in the replacement cost is because insurance is designed to restore the insured to the same financial status they had immediately preceding the claim. The immediately prior status for a building not up to current code is rebuilding it to its prior status, not the up to code status.

Many people assume O&L only applies to old buildings. That is not necessarily the case. Considering all the new green initiatives and requirements that have been put into effect, buildings that are almost new may be code deficient. With COVID-19, expect significant building code changes soon.

Two building calculations are usually required. One ITV for the building as is and one for code compliance. A common response we get in classes is that O&L is automatically included in the policy so why bother? That question is usually evidence of not knowing coverage adequately because the person asking is not doing the math relative to whether the throw-in coverage is adequate for any given building. Is the throw-in coverage 10%? 20%? How close to adequate is the throw-in coverage? Is it enough to rebuild even to the point of obtaining a certificate of occupancy?

A professional agent will take the extra step of asking the insured to determine what amount of O&L is adequate. Insurance agents don't generally have the tools required to make these assessments on their own. Realtors and contractors are great resources. However, a 10% throw-in is obviously inadequate in a whole host of scenarios. In fact, in the worst cases I've seen, the O&L equaled the entire building replacement cost. How far does the throw-in coverage go in those situations?

Explaining O&L to insureds can be difficult and many will be lost relative to what number will apply. They are not building experts either. Adding to the difficulties of true professional agents is explaining to insureds why they are bringing the situation to their attention when the last 10 agents never discussed it.

Plenty of amateur agents exist who will gladly sell inadequate coverage and never have these kinds of discussions. A knowledgeable professional agent who cares about their clients enough to have these difficult conversations has a tall hill to climb, but with success they usually make the most money too. Additionally, no one needs an agent who sells inadequate coverage.

Be the hero explaining to clients and prospects that you are working hard to protect them rather than just sell to them. Explain your extra commission is $5 (or whatever the number is) for the extra coverage. For some, when they realize you are making next to nothing for recommending better coverage, the more they will trust you. Meanwhile, you are protecting the agency from E&O claims and building a polished, professional reputation!

[Back to Top]

Agency Financial Management

I perform many agency valuations each year. Virtually every new client who requests a valuation tells me they have good data. They advise me their data is so good I will have an easy time valuing their agency.

Almost none of these agencies have good data. Their data is often of horrendous quality. The disconnect between what an agency owner thinks is good data and what truly is good data is due to many factors, mostly related to owners not possessing context for what defines good data. They think their data is good because it is good enough for them to function. What they do not understand is that the data required for a valuation, a loan, and even a sale is much more extensive than what they need on a daily basis.

Here are specific reasons and great solutions:

1. The amount of data and the quality of the data agencies need to operate is far less than the data required for high quality management, valuations, loans from banks that know agencies, and the sale of an agency. Having never known any differently an agency owner would not have any reason to know their data is poor because they are getting by just fine and have never borrowed money or had their agencies valued previously. It is just pure inexperience.

2. With better data, even small agencies can improve growth and profitability. For no other reason than improving their future, I encourage agency owners to work with someone who knows what data can make the biggest difference in the operation of your agency.

3. For valuations, a buyer, a lender, or many appraisers are experienced and knowledgeable third-parties and will require detailed and quality data because a mistake in a valuation carries a much more significant penalty than most operational mistakes due to poor data. The difference is that an operational mistake may cost 5% or even 10% whereas a mistake on a valuation due to poor data may cause a 50% - 100% error. Think of it this way: If someone makes an operational mistake of $50,000 in profit, that is a $50,000 mistake, but if the valuation is based on EBITDA at 6 times, that is a $300,000 mistake.

   The stakes are high so the parties involved want to be sure the data is correct and complete.

4. One reason agency owners think their data is good is because their accountant has not advised them otherwise. Unfortunately, far too many agency accountants do not know how to do proper accounting for independent insurance agencies. Agency accounting is unique because of agency bill business. This difference has resulted in different accounting laws and regulations and by contract. These accountants are making E&O accounting errors and the errors can continue for decades if the situation does not become too serious. No one really ever sees the errors except the IRS and they do not know what to look for either.

   The accounting mistakes start to matter when one of two events occur. The agency cannot pay its company payables or the agency is being valued. Many agency owners have vented frustration at me for pointing out their accounting issues by saying, "It's never mattered before!"

The best time to live in your house is often the day prior to selling it because everything works and looks pretty. You've fixed all of the issues, big and small, you were okay living with for years and would have continued to live with if you were not selling your home. The same goes for an agency that needs to fix its accounting.

From a lender's, a buyer's and a good appraiser's perspective, they want comprehensive data no matter how honest you are because all these parties have seen too much abuse from otherwise "great guys."

5. Balance sheets matter and your accountant should insist you have a quality balance sheet. I can understand the local accountant not knowing agency accounting rules. I have no patience with accountants who do not advise agency owners they do not have a good balance sheet. That omission is inexcusable.

   A long time ago when I first met one of my all-time favorite clients, I had to explain to him how he was slowly going broke. I showed him by using his balance sheet. I'll always remember him saying, "That's what a balance sheet is for. I've always wondered."

   Balance sheets are the first financial statement in formal filings because balance sheets are considered the most important financial statement in assessing the health of a company. You may not need a balance sheet every day or every year because you know your agency is well capitalized. However, without a quality balance sheet, no one else can know you are well capitalized. Again, too many times agency owners have asked me to just trust them when they say their balance sheet is whole. When I finally review their accounts, their balance sheets are awful. Don’t take offense when any of these third-parties require verification.

   Accordingly, get a good balance sheet. The better agency management systems have decent automated balance sheets if the data is input correctly. If your agency is small and your accountant says you do not need a balance sheet, find a better accountant.

6. Use your agency management system well. In smaller agencies especially I find owners using alternative accounting systems. These alternative systems may be easier to use, but they are not designed for the unique agency accounting requirements. Besides, you are paying for the full system so why not learn to use it?

7. I ask many questions multiple ways as checks and balances relative to financial verification. The following points often result in more than 50% of agencies providing incorrect data. I recommend reviewing these points to ascertain the quality of your data and possibly improve your profitability:
   a. Policy counts and account counts. Your counts matter. Retention is far more important on an account/policy basis than a commission basis. If your current and historic counts are wrong, you can't know your actual retention. You can't determine your cross-sell rate. You can't even determine the quality and some E&O aspects without this data. Very often, agencies cannot provide correct counts.
   b. Producer compensation. Approximately 75% of the valuations I do include statements like, "We pay producers 40/30 or 50/25 or 30/30 or whatever the commission split." But, when I

test what producers are actually paid, I find most are paid materially more and some materially less than their supposed splits. The reasons this happens are numerous including mistakes, fraud, side deals the owner fails to disclose, and many other reasons. Check and verify your compensation is correct. A buyer will verify these figures.

Every agency will be valued. It is like death and taxes. My suggestion is that an owner should not make any assumptions that their data is good -- or bad. If you have not recently had your agency valued, get it done long before it is necessary. Doing so will aid you in creating good data and quite probably, if you follow a good appraiser's suggestions/observations, will provide an opportunity to increase your agency's value.

I can vouch that the task of having to search out good data in a rush right before a sale is a far worse alternative than consistently maintaining your data. Don't assume your data is good and wait. Get it checked and have the agency valued early.

[Back to Top]

Is personal auto insurance truly a commodity?

I can live in Wishful Thinking Land or in reality, and the reality is that because our industry has failed on a thousand levels to educate, or even attempt to educate, consumers that personal auto insurance is not and should not be considered a commodity, it has essentially become a commodity. It is a shame the industry has made so little effort to educate its consumers that commercials employing idiots who cannot pronounce three syllable words are now effective at selling insurance, much less, imaginary animals and bad jokes. Insurance is a legal contract. Insurance is a **complex** legal contract. It is wrong to sell a complex legal contract to consumers by making them believe it is such a simple contract that one can trust a person who is obviously stupid.

But that edges toward Wishful Thinking Land. For the few people left in the U.S. who care to educate their clients and prospects as to why personal auto insurance is a complex purchase and therefore should be purchased with an understanding of the options that best fit them, here are a few tips you may want to share.

1. 25/50/25 is not the same thing as 100 CSL. That should be obvious, but I saw an insured fall for this deception. One of those commodity sellers told the insured, "25 + 50 + 25 equals 100!" At the very least, help your clients understand liability limits.

2. UM/UIM is insurance for you. Many consumers seem to think UM/UIM is for the other parties. I'd argue that in many ways UM/UIM may be more important than liability insurance which is why extra UM/UIM is so important.

   Look at it this way, and maybe explain it to your clients like this: There is a reason many people have minimum limits on their auto insurance. Sometimes they are poor and cannot afford more coverage, but quite often their insurance is very expensive because they are really bad drivers and cannot afford adequate, if any insurance. Are horrible drivers more or less likely to be in an accident? Do really bad drivers cause a disproportionate number of accidents? If you believe so, then does it make sense to take extra precautions against these drivers? UM/UIM is the best insurance solution.

Furthermore, if you are middle class and transporting your kids' friends, simply matching $100 or even $500 CSL UM/UIM limits is unlikely to be adequate coverage for a horrendous accident. This is why umbrellas with UM/UIM coverage are so valuable (the fact that some are expensive is for the client to decide -- not the agent).

3. Does it matter if the policy allows you to choose OEM parts? I was with a mechanic and he was telling me about the frustrations some people have when after market parts are used in repairs. Sometimes those parts do not align or do not look right. Does this matter? Different auto policies have different requirements and options. All policies are not the same.

4. Some polices are more lenient relative to who can drive vehicles. Does that matter to your client?

5. Some policies cover trailers and others do not. Does this matter to your client?

These are just five important options and the public needs help understanding them. When a carrier sells policies directly to an insured, *caveat emptor* applies. The insured is on their own. A good agent can be a hero by helping their clients understand these complex legal contracts so that they can make the right choices. After all, what does common sense suggest? Is it better to take advice from an educated and smart human agent or a cartoon character? Don't let a cartoon character beat you!

(If you want to learn more about how to have these kinds of conversations with clients relative to almost any coverage, commercial and cyber included, please let me know. We have a great program for those agencies who care the most about their clients' protection.)

[Back to Top]

Fake Risk Management

I see consultants selling and agents/producers buying what is really just junk all the time under the name of "Risk Management" and TCOR (Total Cost of Risk) and ERM (Enterprise Risk Management). 90% of the time, it is all worse than junk. What is being sold is a con and it is being sold to people that should know better but are looking for easy, sexy sales solutions.

These are strong words and it is easy to prove I am right. How can anyone on God's green earth be a risk manager if they have no idea which coverages they should be selling much less what coverages are even contained in the forms they have sold?

Many people have bought into the sales programs without understanding the whole picture and those selling the programs have nothing to gain by explaining the true complexity of a true TCOR, true Risk Management, and a true ERM program. True programs are a lot of hard work and take far more time to develop. Agents want silver bullet sales solutions rather than solutions that are real.

The fact too is that some agents don't care. Some agents could care less if their clients get the right coverages, provided they get the sale. To these agents I say, may the E&O Gods do what they may and plaintiff attorneys find the list with your names.

I have completed E&O audits and interviewed many of these faux risk managers, both the just ignorant ones and ones who knowingly don't bother. Their E&O exposures are some of the worst I have seen because when a person offers these services under these titles, all else being equal, their E&O standard of care goes to the highest level possible (the consultants selling the lite version of these programs always seem to fail to mention that point). E&O is often a matter of luck so may fortune be with you. Either way, E&O claims take time to develop between when a policy is first sold, often many renewals, and then the claim development.

Risk Management, TCOR, and ERM must begin with writing the correct coverages because risk management’s most fundamental element is the transfer of risk. The transfer of risk never occurs if the right coverages are not sold. The right coverages absolutely cannot be sold if the "risk manager" does not know his/her coverages AND does not know the form he/he is selling. We have polled producers in our education classes as to whether they have read the policies they are selling and I estimate 80% have not (prior to our program where they read many forms thoroughly). We don't even ask if they know the coverages. In my experience, many of the producers taking these fake Risk Management sales programs, fake TCOR programs, and fake ERM programs are at a near 95% failure rate. Therefore, not only do they fail to manage their clients' risk, they exacerbate their own agency's risk profile.

I am an accredited E&O auditor, certified instructor, expert witness, etc., and I see E&O statistics and claims. Failure to offer the right coverages is a leading cause of E&O claims. When a person is a "Risk Manager," they have to meet a far higher standard of care for offering clients the correct coverages all the time. Risk Managers have a duty to discuss coverage options, and if they do not know their coverages, they can't meet this standard. They arguably must also manage all risks -- not just the insurance portions of risk.

I will not even get into the math problems that affect those selling TCOR and ERM, but they don't know how to do the mandatory math required for both of these sales systems to actually work. (I can hear it now, and I'm not being sarcastic, "You mean, math is required for TCOR and ERM?" I'm not being sarcastic because the consultants who train producers on these methods often never mention the required math because they know most producers do not like to do math.)

If you really want to do true risk management, TCOR, and ERM you absolutely must do the following:

1. You must learn your coverages deeply or have someone on your team who knows coverages deeply design the insured's coverages.
2. You must be able to discuss coverages deeply and constructively with clients.
3. You must know the math.
4. You must be able to do the math.
5. You must do all the other risk management too!

Otherwise, sooner or later, you will have E&O claims. While the true practitioners of ERM, TCOR and risk management are limited, when the fakes finally compete against one, they will be embarrassed because their client will see them for the con.

Where do you go, for the few willing to invest the time to become true professionals? This is a profession where becoming truly good requires extra investment. A few good coverage programs remain. While self-serving, I believe my program, in many ways, is the best coverage program available for most people today. Coverage knowledge is where it starts.

TCOR and ERM education is much, much tougher to find. In my experience, at that level, some customization is required to find the program that is the best fit. In some ways, it is kind of like being a doctor deciding what kind of doctor to be. I've helped many agents understand and develop the math involved, which is where many programs fail even though math is foundational. Then, depending on one's emphasis, a person can hone their skills with programs specific to their niches.

You can take a fake degree that will help with sales built on false premises or do the real thing. It is up to you.

[Back to Top]

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, 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 30 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.

A complete understanding of the subjects covered in this newsletter may require broader and additional knowledge beyond the information presented. None of the materials in this newsletter should be construed as offering legal advice, and the specific advice of legal counsel is recommended before acting on any matter discussed in this newsletter. Regulated individuals/entities should also ensure that they comply with all applicable laws, rules, and regulations.
