Company Contracts—A Good Read
by Chris Burand

Conversation after conversation with agency owners and company representatives continues to reveal an important problem: insurance agency owners are often not reading, much less negotiating, their agency-company contracts or contingency contracts. For example, a large company recently changed their contingency contract. Their new contract will cost hundreds of agencies, tens of thousands of dollars each and every year when compared with the company's prior contract. The marketing reps were prepared for a lot of agency complaints. Yet not one agency complained.

Another marketing rep. shared with me the reaction to a new contingency contract his company had introduced that also cut contingencies drastically. Not one of his agents complained—until they received a reduced (or did not receive any) contingency bonus the following March.

Companies count on agencies to not read or negotiate their contracts. By not reading or negotiating their contracts, agencies help companies cut their compensation more easily. Agency managers are, in effect, cutting their own throats. How freely would companies offer worse contracts if they thought their agents would actually read the contract and raise an uproar or move their books?

A good example of how freely companies feel about changing their contracts occurred recently when a company gave their agents a new, and worse, contract. They gave the agencies only six weeks to read and analyze the contract and they introduced the new contract over the Thanksgiving holiday. They only gave them five days—assuming they were not on vacation—to choose a stop loss amount. Would you ever do this to a partner if you thought they might take offense to your actions?

Agents cannot legally collude to protest companies' contracts but agents can read their own contracts and take action. Last year, many agents (some were my clients) individually protested at an agency/company meeting and the company did improve their contract. Getting a company to change their contract can be done—if agents read their contracts and take action.

Compensation can also be negotiated on an individual agency basis, although many agency owners must not believe they can negotiate contracts because otherwise, I am sure they would make time to read their contracts. Contracts and compensation are definitely negotiable. Volume is important to an agency's negotiating position, but the amount required to negotiate a better deal with a major national carrier can be as low as $500,000 written premium—although $1 million written premium is much better. Many agents and many of my clients have successfully negotiated a lot of money from their companies, often without giving the company anything extra.

In a recent survey by the IIAA, company commissions and contingencies were listed as the most important factors facing the association's members. These are absolutely critical issues and agencies can begin making more money by reading their contracts. In fact, agencies can make considerably more money if they read their contracts and negotiate a better deal.

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NOTE: 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.

None of the materials in this article should be construed as offering legal advice, and the specific advice of legal counsel is recommended before acting on any matter discussed in this article. Regulated individuals/entities should also ensure that they comply with all applicable laws, rules, and regulations.

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