

Choose the Right Companies and Watch Your Profits Skyrocket! ***By Chris Burand***

“Searching is half the fun: life is much more manageable when thought of as a scavenger hunt as opposed to a surprise party.”

—Jimmy Buffett, A Pirate Looks at Fifty

Are your companies’ actions a surprise?

Do you represent extra companies as a cushion to protect yourself from unexpected company actions?

Would you like to know your companies are unlikely to take detrimental actions instead of always wondering what they are going to do?

If you answered “yes” to any of these questions, then it’s time to start searching for clues to forecast your companies’ stabilities rather than letting their actions catch you by surprise. Below is a table of one company’s results from several years ago. Look at the chart and take a moment to think about what you think that company did in the ensuing years.

| | Company Pure Loss Ratio | 1999 Industry Average |
|----------------------------------|-------------------------|-----------------------|
| Commercial MultiPeril | 76.70% | 69.70% |
| Private Passenger Auto | 71.80% | 68.00% |
| Commercial Auto | 87.00% | 78.50% |
| Other Liability-Occurrence* | 56.10% | 69.00% |
| Workers' Comp | 81.20% | 81.20% |
| Reins-Casualty** | 86.20% | N/A |
| Medical Malpractice Claims-Made* | 65.30% | 77.60% |
| Homeowners | 91.60% | 64.00% |

*Includes Occurrence and Claims-Made for Industry Average

**Includes Casualty and Property for Industry Average

| Comparison of Growth Rates | Growth Rate |
|----------------------------|-------------|
| Company Growth Rate | -7.00% |
| Industry Growth Rate | 5.00% |

Do you think they raised rates? How about tightened their underwriting? Do you think they got tougher on their agents? This company did all these things. Using the charts, you probably predicted these actions, so why be surprised by a company’s actions when you can predict them?

Agencies need to look carefully at their companies’ results to manage their agencies effectively. Unfortunately, most agencies don’t because they don’t know their companies’ results and they

don't know how to get them. The good news is companies have this information! Ask them! If, however, a company is not willing to share their results, start searching for a new company. Every company should be willing to provide this information upon request and if not, the company is not worth representing. Other sources include state insurance departments (though finding the information may be difficult) and A.M. Best.

Be careful not to rely on company ratings (A+, A, A-, B+Y for example) because very little correlation exists between a company's rating and whether they are likely to make drastic changes in underwriting, pricing, or appetite. Many companies rated in the "A's" have taken sudden actions detrimental to agencies and rating downgrades did not precipitate their actions. Agencies need companies' actual results by line for their state.

Another very good tool for evaluating your companies is a company evaluation survey (similar to the one shown below). Everyone in the agency should rate each company in the areas where they deal with the each company. Tally the scores and then ask yourself if the companies with the worst scores are "Why Companies" as in, "Why do we represent them?"

Use your companies' own results and your survey results to take control of your agency's future. Get rid of your worst companies before they start cutting back and you find yourself losing tons of business or a company appointment. Agents that fire companies smile forever-after when talking about it.

With greater control and knowledge, you will not need to represent as many companies and based on surveys by Rough Notes, APIS, and Best Practices, agencies representing fewer companies make a lot more money, all else being equal. Contingencies are higher and agencies are more efficient because they spend less time with marketing reps and underwriters and they have fewer manuals, rates, and procedures to learn. Additionally, the companies you continue to represent will enjoy bigger books and closer relationships. Choose the best companies and watch your profits skyrocket!

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