Insurance Companies Can Add Value to Agencies
By Chris Burand

I wrote an article several years ago refuting the idea that a specific company contract could *significantly* increase an agency's value. I wrote the article because one or two insurance companies were advising their agents that having their contracts would increase the agency's value by 50 to 100 percent. My position still stands. No company can increase an agency's value by that much. Specific companies however, do provide competitive advantages which can help agencies grow faster, become more profitable, and hence, increase their value. How do they do it?

1. **Great competitive advantages**

Competitive advantages come in many shapes and sizes. Some companies have better pricing which is certainly a great competitive advantage. Some companies offer great products. Others are willing to write tougher classes of business. Some companies offer great service and great underwriting capabilities thereby enabling agencies to improve their productivity. Most companies however, do not offer anything particularly or consistently special. They may offer a good price now and then, they may write a tough piece of business once in awhile and they may have a couple outstanding products. But to add appreciable value, a company must offer that something special on a consistent basis to truly provide a competitive advantage and some very successful companies do just that.

2. **Limited representation**

An insurance company can offer a great product and a super price, but both are totally inadequate if every agency in town represents this same company. For a company to deliver value to an agency, the company must offer something special to the agency. A great company represented by every agency adds value, but not extra value. For example, if every woman had Manolo shoes, Manolos would not be special, but because every woman does not own a pair (or two), those who do feel they have something special.

If a company is represented by everyone, no one has a competitive advantage. Even if the company has the best price and the best coverages every time, all the other agencies representing that company can offer those same prices and coverages making, each agency indistinguishable. This may work for companies, but it fails agencies. Agencies can have greater success if they represent a good company that few others represent because their sales become more proprietary which can add to an agency's value.

If an agency takes advantage of the opportunities presented by their limited representation of a great insurance company, their sales can grow more quickly. This results in not only a higher multiple, but the multiple is applied to larger commissions resulting in an even greater impact.

Insurance companies that are selective in choosing their representation may find they grow faster too. I've seen companies that are very selective when appointing agencies significantly outgrow other companies with reputations for appointing almost any agency. Even with fewer agents representing them (fewer by thousands), the selective companies still grew much faster because of the competitive advantages available to their agents.

3**. Pay for Performance**
While the fate of contingency contracts as we currently know them is unclear, agents and companies can still benefit from the lessons we've learned as we move forward into a new era of performance pay. A fair and well-designed bonus contract can greatly increase an agency's value, particularly if it emphasizes loss ratios. A smart agency will improve its upfront underwriting to capture bigger bonuses. I have seen agencies achieve substantial bonuses year after year in these situations. There is no doubt their value and profits are higher as a result.

4. **Real Underwriting**
Real underwriting increases an agency's value because it enables an agency to write more accounts. An agency can creatively (in a good way) find ways to write and price an account. Every account can be insured at a price, but unfortunately, a lot of business is left on the table because of slot underwriting.

5. **Great Claims Service**
The average agency has a retention rate of 89% according to the APRS's 2006-2007 *Growth and Performance Standard* study. After taking into account businesses being sold and people moving, the average retention rate is very high. This means most agencies do not lose many accounts to competition unless the renewal price they obtain is very high, they provide poor service, or the client receives poor claims response. Hurricane Katrina revealed which companies provided great claims service and which offered horrible service, at least in New Orleans. Preliminary anecdotal evidence indicates that companies with bad claims service have resulted in the filing of E&O claims against agents. This obviously is not good for an agency's value.

6. **Consistency**
A company that demonstrates consistency in who they are and what they do can increase an agency's profitability and value, albeit subtly. Some companies are known far and wide for their changing appetites. "What are they willing to write this year, or even this week?" is the common question many agents ask. Having to move business around because a company changes its direction or appetite can be very expensive. Being able to legitimately keep accounts with the same company year after year decreases an agency's expenses and increases its sales capabilities because producers save many hours not having to rewrite existing accounts. They can focus on finding and securing new accounts—accounts lost by agencies possibly representing inconsistent carriers.

Six powerful ways a company can increase an agency's value. Introducing any of these strategies is rather simple and inexpensive. Companies that offer these advantages tend to be more profitable too. The toughest part is the philosophical change required by the insurance company's top management. The focus must shift from quantity to quality. They must trust employees and their carefully selected agencies to do a great job. The companies that do this have great results.

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