## ***What do Companies Want?***

By Chris Burand

Many agents possess a significant fear that they are not big enough. To some degree, this feeling of inadequacy is nothing new. No matter if an agency has $500,000, $1 million, $5 million or $100 million, I've had agency executives tell me they do not have enough volume to please their carriers. The carriers simply have an insatiable appetite. With such insatiable appetites, no one ever has enough and size in and of itself is the wrong goal.

This is actually proven by most, though absolutely not all, carriers' contingency contracts. Very few contingency contracts actually pay materially more for pure size once the $1 million threshold is crossed. Instead, the majority pay <u>materially more for higher growth rates without regard for initial volume</u>. The carriers are telling agencies that growth is more important than volume, but agency owners are not listening.

Growth is different than volume and maybe this is where the confusion originates. Growth is a percentage. Volume is a dollar based measure. Again, once the $1 million threshold is crossed, the dollar basis is generally less important than the percentage of growth. Another reason agency owners may be confused is that company reps are not always clear themselves so they send confusing messages.

This is why agencies of all sizes feel inadequate. No matter how large they are, the companies always want more. Many carriers are downright gluttonous. In years past, some companies have told their most profitable agents they want more growth completely regardless of loss ratio. I saw some examples of companies completely unappreciative of quality loss ratios. They were basically telling their agents with 30% loss ratios, "If you can't grow more quickly, you can take your loss ratios elsewhere!"

Times seem to be changing for some carriers though. I am seeing some carriers express urgency now toward improved loss ratios. The market is now growing faster than any time in many years. This enables them to focus on loss ratios and simultaneously, the poor quality of business written the last few years is beginning to haunt and scare them. This would likely have occurred no matter what, but last year's catastrophe claims and the severe under-reserving in workers' compensation have accentuated the rush.

Yet, agents have been brainwashed that volume will always be king. Adjusting will be difficult. The result is that perfectly good agents are now making significant mistakes in an effort to finally achieve adequate volume once and for all (which will never actually occur). For example, some are beginning to make more acquisitions. All else being equal now is a good time to buy agencies because prices are lower. However, many of the sellers are under duress which is why prices are lower. Being under duress, some sellers' prices are still too high because their retention will be less than expected and buyers who do not adequately consider this will be sorry. After all, what is the point of buying an agency to get volume if the business is not retained?

Clusters are probably the most common example. I am completely perplexed by most companies' attitudes toward clusters. For example, why do some companies pay more in contingencies because these agencies use one code rather than five codes? The company is getting <u>$0 additional volume, no improvement in loss ratios, and an even worse perpetuation problem</u>. I am not writing about the firms that deliver a truly better set of results to the companies. Companies should pay more to these firms, but these firms are few and far between.

Another factor I do not believe company executives get is that most agencies of any size (I am excluding really small agencies) that join these organizations cannot sell insurance. They are not sales organizations. They have no true sales culture. They are account babysitters. This is not a bad characteristic. It just is not a characteristic that generates sales. So if a company wants growth, this is not where they will find it unless a consolidation strategy between the cluster and carriers are part of the deal. This of course, is not necessarily good ethics.

Company executives advise they see many of their agencies happy to belong to such organizations and these agencies should be happier for the time being because: 1) their responsibility to grow has been diminished, at least for the short-term; 2) the company marketing rep is not focused on them, but on their cluster; 3) the members feel safer because the cluster has so much more volume than the agency could ever achieve on its own. This mindset obviously ignores the fact that growth is more important than volume, but nonetheless, they feel safer and feeling safer is worth a lot to most people.

We're already seeing evidence that some companies are belatedly realizing or maybe just now feeling enough pain to act on the reality that not only are they getting $0 extra dollars and 0% extra growth, their loss ratios are also deteriorating because loss ratios tend to suffer when an agency's contingency is no longer dependent on their personal loss ratio. The way most clusters are designed, contingencies are doled out based on volume. Rarely ever is loss ratio a component to the individual members. This is a great example of the economic lesson contained in what is commonly known as the "Death of the Commons."

When individuals do not own the property, when it is held in common, little incentive exists to take care of the commonly owned property. In fact, it pays to exploit the property to its fullest extent. As a result, some carriers are already pulling out of specific clusters leaving all those agencies that joined in a far worse situation than before they joined. They not only lost their contract, they have no way to get another one on their own.

My advice? Do not worry about figuring out what companies want. Agencies that have good organic growth rates and loss ratios will always find smart companies wanting to do business with them. Such companies may not be the hot company de jour. Such companies may be few and far between. But this industry is a slow growth industry in which steady, methodical, profitable growth ultimately will win. Focus on what you can control. Focus on the opportunity presented by others' mistakes. Focus on one quality sale at a time and the agency will achieve enormous success.

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June 2012