

Finding a Great Professional Advisor

By Chris Burand

Man, it is hard to find good help these days! I continually hear this when consulting with agents, and they're right! I constantly discover huge accounting errors, legal problems, and operational issues all courtesy of professional advisors. I'm not a CPA or an attorney, so if someone without these credentials like myself is finding material errors, quality is a serious problem.

Part of the problem is these advisors do not know enough about insurance agencies. Many do not accept the fact that insurance agencies are different and have unique needs. They want to treat agencies like any other business.

I have written often about the need for professional advisors to understand the unique requirements of independent insurance agencies. To summarize, the following points are key:

1. **Trust Ratio:** Knowledge and understanding of the trust ratio is critical. Ask your professional advisors to define this key ratio for you.
2. **Buy-sell agreements:**
 - A. Set formulas (such as "1.5 times revenues" or "6 times EBITDA") are rarely accurate and many courts do not uphold them. In fact, for some circumstances, courts have almost banned valuations based on such formulas. Yet, attorneys are consistently writing buy/sell agreements with set formulas and many of those formulas have no basis in reality. For example, when the formula completely ignores whether the agency is in trust or out of trust, the buyer may have to pay the price to purchase the agency and eventually replenish 100% of the trust monies! I have seen this increase the effective purchase price by millions—and I've seen it happen time after time.
 - B. Extremely few attorneys are qualified business appraisers. So if they are not qualified business appraisers, how can they write a proper valuation formula?
 - C. Many attorneys claim they can write a valuation clause for an insurance agency because they have written them for many other businesses. Insurance agency valuations are quite unique and knowledge of appraisal methodology in other industries (assuming they have such knowledge) does not qualify one to value insurance agencies.
3. **Taxes:** I have seen many tax returns where the CPA did not understand the importance of trust monies and the mix of cash and accrual accounting that is a virtual must in every insurance agency. The results can be as minor as paying tens of thousands of dollars in extra taxes to virtually bankrupting the agency.
4. **Employment contracts:** Employment contracts may seem fairly standard, but insurance agencies are unique again. An attorney must have very strong insurance knowledge to write a proper agreement that classifies business correctly.

Professional advisors clearly need specific technical expertise if they are to provide agency owners with competent advice. If your professional advisors do not have this knowledge, then the next best solution is to team them with an agency consultant that does know insurance agencies and can analyze contracts well.

Solving these critical technical issues is only half the battle. The other half is the advisor's personality, professionalism, and ethics. The *Wall Street Journal* ran a study some time ago regarding how to find the best service providers, both from a competency perspective and whether they are likely to over charge the customer. The study applied to taxi drivers, plumbers, attorneys, consultants, and accountants. The key factor? How busy the service provider is. The busier they were, the less likely they were to overcharge the clients and the more value the client received because these busy service providers do their jobs much more efficiently and effectively relative to the value gained. This means they may charge more per hour, but the total cost will be less and the return on investment will be greater.

Keep in mind too this means they may not want to sit around and chitchat. They are unlikely to spend time protecting fragile egos as many advisors do. Picture the divorce lawyer that is great at listening to stories but lousy at winning cases. Ideally if you could have both it would be great, but if you have to choose, which do you prefer? If protecting egos is required, I strongly recommend you tell your advisors up-front because based on my experience, protecting egos requires at least seven times more hours than finding and implementing technical solutions.

Protecting egos is something many professional advisors excel at doing, albeit at a cost of often incompetent technical advice. I have worked with many agents who loved their advisors, but they never got their issues resolved. These advisors always left everyone feeling good after each visit, but they left behind serious, unresolved issues. For example, one agency learned during a very nasty dispute between partners that the beloved advisor had not valued the agency properly, had not identified that the agency did not own all their accounts, and had not identified serious accounting problems. Another example is the attorney that used a lease agreement for an employment contract. Or the CPA that practically bankrupted the agency because he did not understand agency bill and would not ask. Or the sales guru that everyone loved but the producers' sales never increased.

While well-meaning, many professional advisors are predators feeding on fragile egos. They are smart enough to know that many business owners prefer to maintain their ego rather than improve their business, regardless of what the business owner says. Their strategy is to provide exactly what the customer wants, which makes sense because the customer is paying the bill and given these advisors' success, the demand for such an approach is clear.

The very best professional advisors may be able to do both: protect the client's ego and provide correct technical advice. But many business owners' egos are so fragile, they are so insecure, that any advice that contains even a wisp of constructive criticism will result in total disregard of that advisor's advice. I often joke with audiences that when I get certain phone calls from some agents searching for help, I ask how many consultants they have gone through. I ask because I've learned that some agency owners trying to solve a problem will get angry with the first consultant who gives them an answer that hurts their ego. They will discount the second consultant too. They will usually listen to the third one.

Finding the right advisor then depends on your goal as much as it depends on finding someone that truly knows insurance agencies. If you are seeking a true pro, find the busiest professional specializing in the insurance industry. If you know you're sensitive or one of your partner's egos are sensitive, let them know this up-front. No wrong answer exists, but the difference is critical. This will help the advisor help you achieve your real goal.

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