

## **The Consultative Broker™ Briefing**

A Free Publication of C.R. Ekern & Company

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### **Consultative Brokerage 2004 Year-End Readership Survey Results**

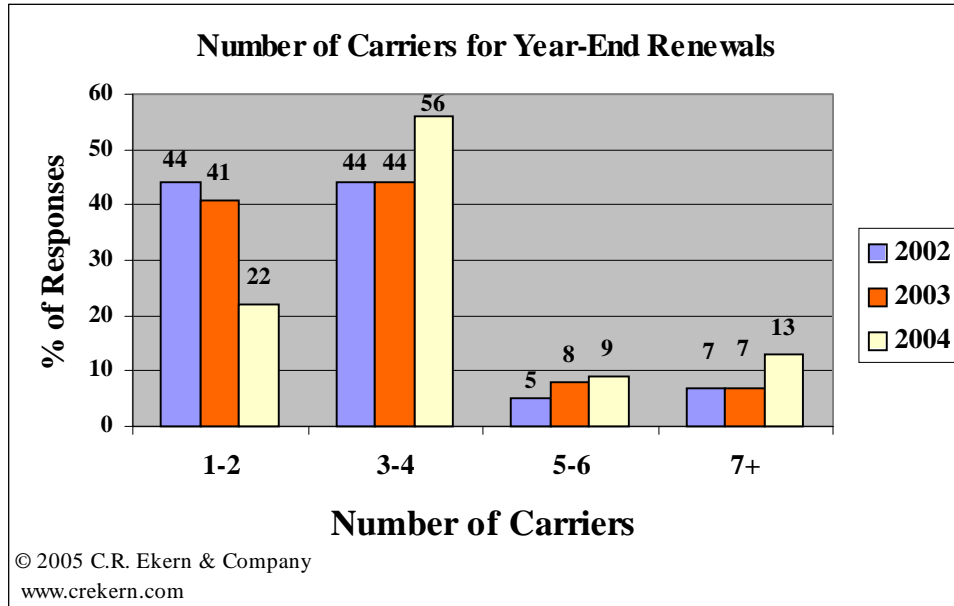
The results of the C.R. Ekern & Company 2004 Year-end Consultative Broker Briefing Survey are in. This year we heard from over 130 readers. We are very grateful for the input we received. This information is critical so that we can continue to focus on important topics and issues and how they may impact your firms.

This year our goal was to delve into how business styles are changing and what you must do to attract and retain clients. We asked questions about hit ratios for Broker of Record Letters (BOR's), the Brokerage Selection Process versus the Marketplace Selection Process, and Total Cost of Risk (TCOR). We found your responses to be very interesting and a forthright representation of your views.

Following is an in-depth analysis of your feedback, along with charts and graphs that correspond to each survey question. We hope that you find this information to be both beneficial and interesting as you continue to prosper in the changing marketplace.

*1. On average, how many insurance carriers had an appetite for your year-end renewals?*

The majority of the brokers now have 3 to 4 carriers for their deals. This is a shift away from past years when there was an even split between brokers who had 1 to 2 and 3 to 4 carriers.

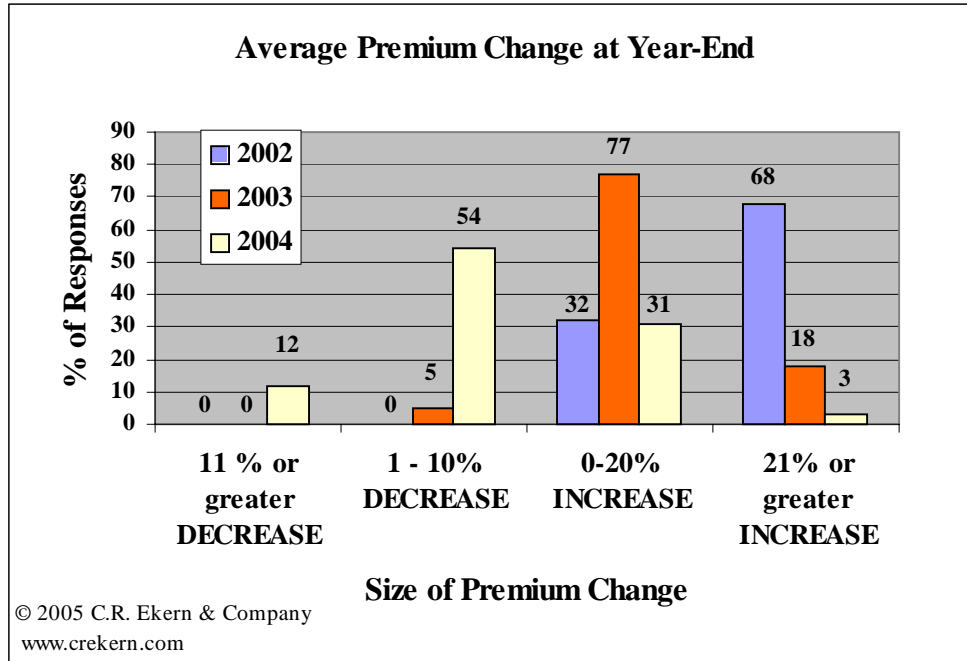


**Comments:** We all know the marketplace is shifting. One of the significant changes is the number of carriers that now have appetites for new business. More carriers realize that they can now make money at these rate levels. Unfortunately, for brokers who are conditioned to sell on the basis of price and carriers, this shift will fuel the fires. A Consultative Broker must resist the urge to go back into the price/commodity selling strategy. However, now that the capacity is returning, some brokers may use it incorrectly as a competition tool rather than as a vehicle for serving clients through skillful broking.

There is still one important fact to keep in mind. The majority of the respondents still believe the lion's share of the business is attractive to 4 or fewer carriers. This means that there are not enough carriers to go around in the old-fashioned Carrier Selection (Bidding) Process. Brokers must continue to work with the Brokerage Selection Process to fully utilize the marketplace on behalf of clients and prospects.

**2. On average, what type of premium change did you experience for your year-end renewals?**

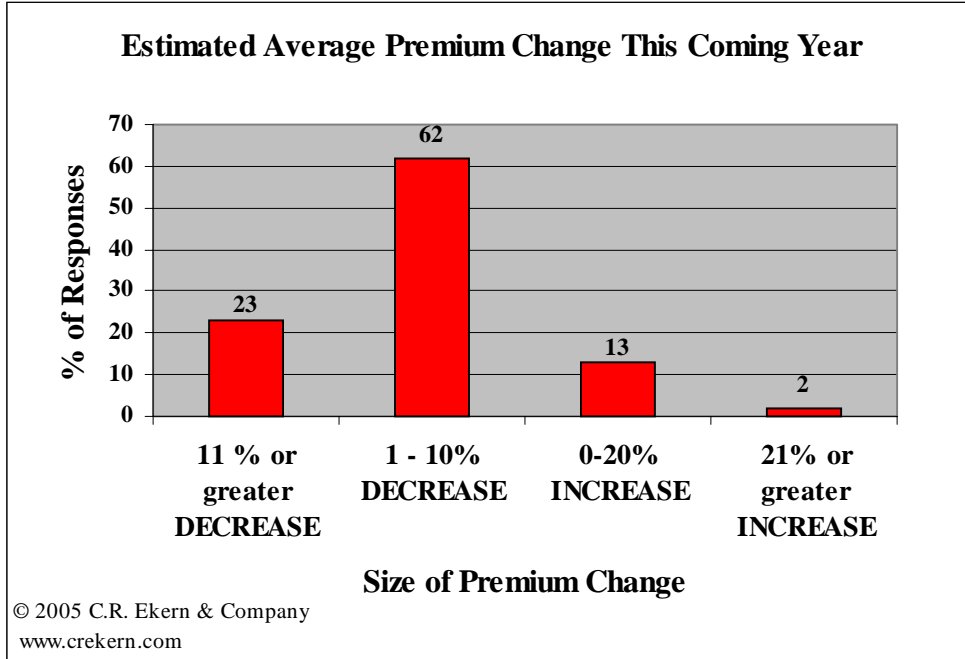
Two-thirds of you (66%) responded that the marketplace pricing had reduced 10% or more at year-end. Just 6 months ago, the majority of brokers believed that premiums were actually increasing by 10%. This is a significant shift in a short period of time.



**Comments:** The underwriting community has determined that they can now make money at the current pricing levels. In fact, they are willing to give back some of the over-inflated pricing. While they are willing to adjust their pricing, most of them are not willing to adjust their terms. They are sticking to their knitting and core businesses. When you see them changing terms and conditions, look out! It means the abyss is near. But, thankfully, for now that is not a concern.

**3. Over the course of the coming year, what type of premium change do you expect in the marketplace?**

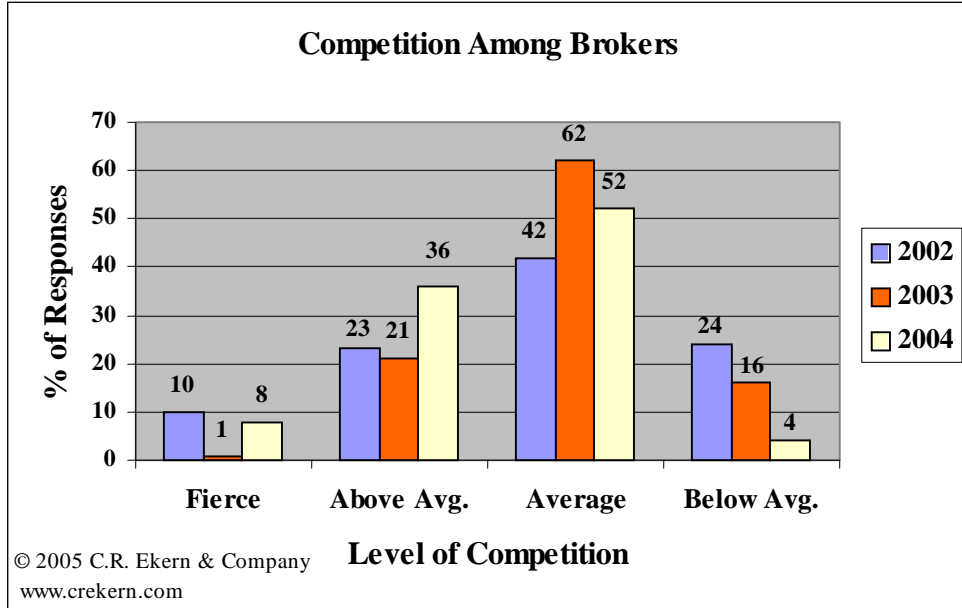
The vast majority of you (85%) expect the marketplace to fall over 10% next year. In fact, roughly a quarter of you think it will fall greater than 11%!



**Comments:** Here is what it means to you. As a Consultative Broker you should plan on a reduction in your book of 10% or more. Frankly, you will need to focus on new accounts in order to obtain growth. It is once again a selling business! You should be asking yourself right now: How am I planning to replace at least 10% of my income in 2005? Remember, that replacement simply gets you back to even. So, you should plan on writing new business equal to at least 15% of your book size. That assumes you would like a 5% raise.

*4. As regards competition from other brokers, how would you characterize the marketplace at year-end?*

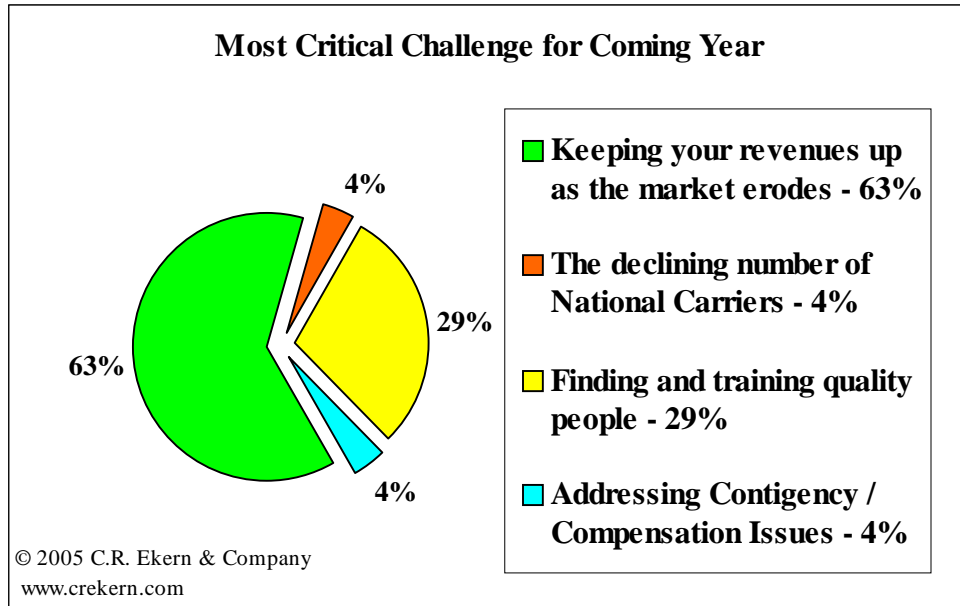
While over slightly half of the respondents considered the competition “average”, there has been a significant shift to the “above average” and “fierce” categories.



**Comments:** This indicates two things: 1. Some brokers are getting the jump on others by accepting the fact that they need to write new accounts to grow their books. 2. Because there are more carriers available, some of the commodity/price sellers are back in the market.

**5. Which of the following is the most critical challenge that you expect to face in the coming year?**

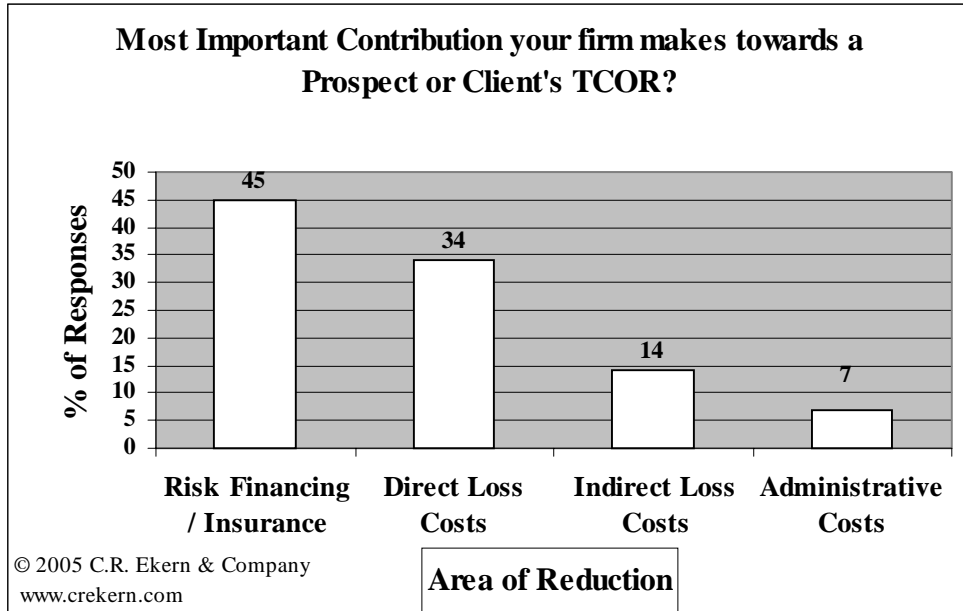
Based upon our prior observations, it comes as no surprise that about two-thirds of you told us that keeping your revenues up as the marketplace erodes was the most critical challenge. This year only 4% of you felt that the declining number of national carriers was the most important issue, compared with 27% from last year.



**Comments:** The reduction in market prices has not changed the scarcity of national carriers. It has simply masked the importance of the issue. Based upon this response, it is apparent that the reduction in national carriers is a non-issue during a period of increasing capacity.

**6. In your opinion, which of the following is the most important contribution that your firm makes to a Client/Prospect's Total Cost of Risk (TCOR)?**

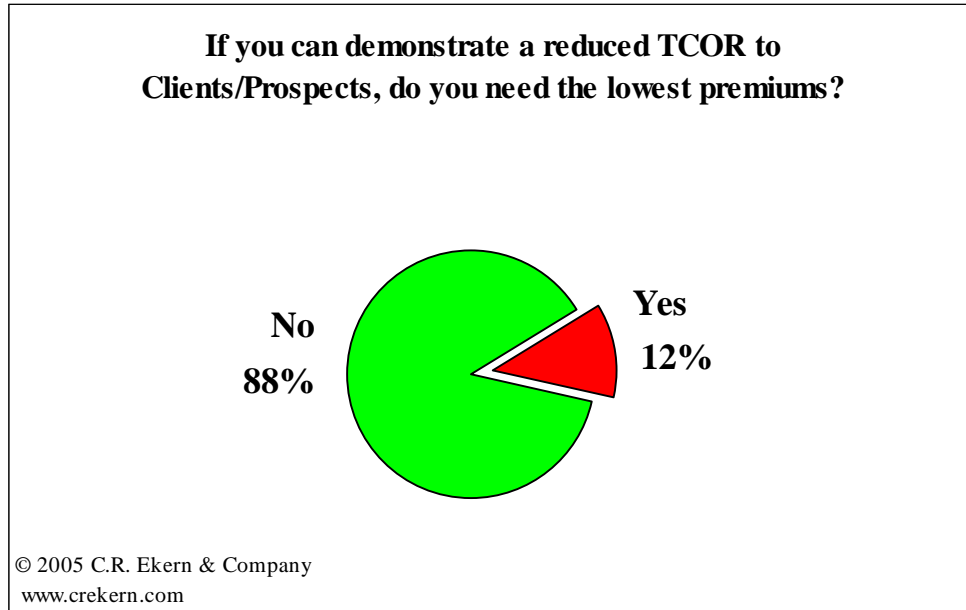
Almost half of the respondents (45%) indicated that risk financing/insurance was the most important aspect of a client's Total Cost of Risk (TCOR). This importance was followed by direct loss costs (34%), indirect loss costs (14%), and administrative costs (7%) respectively.



**Comments:** This response flies directly in the face of current industry statistics that show that approximately 80% of a client's TCOR are outside the premium (see our previous Briefing entitled, "Chasing the Right Rabbit"). This indicates the amount of work that needs to be done to educate the brokers and agents. If we believe that insurance costs are the most important component, how can we ever demonstrate our impact outside the commodity of insurance? While we all accept the notion of TCOR importance, we are simply relying upon the price of insurance as our cornerstone. Unless we understand the components of TCOR and how to adjust costs, many of us will simply follow the marketplace as it erodes.

**7. If you can demonstrate a reduced TCOR to Clients/Prospects, do you need the lowest premiums?**

Virtually all of the respondents indicated that TCOR was more important than price. 88% said that if they could demonstrate a reduced TCOR, they would not need the lowest price.



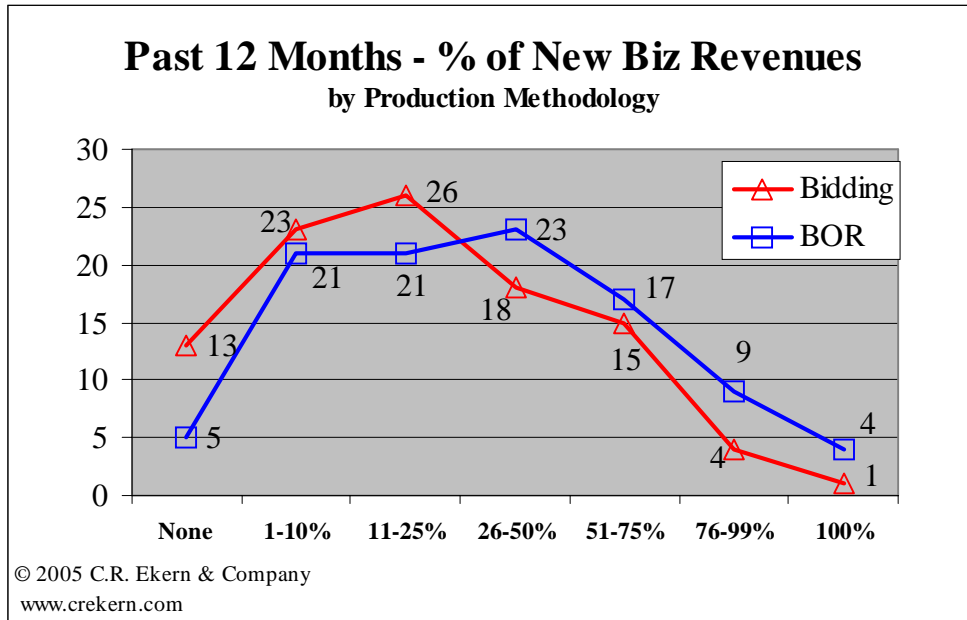
**Comments:** In a survey conducted a few years ago, clients indicated that their buying decision was based on price only 17% of the time. Now, a decade later, brokers “say” that they have come to the same belief. However, as the previous question pointed out, they still believe that price is the most important feature of TCOR.

It will be very important for brokers to bridge this TCOR gap with something other than risk financing costs. If in fact a huge portion of the brokers believe that TCOR is more important than price, yet almost half believe that risk-financing costs are the most important component, then we are simply masking price transactions under the TCOR banner. This strategy will not sustain itself in the eyes of clients.

8. Over the past 12 months, how much of your new business revenues came via the Marketplace Selection Process (i.e. Insurance Company Bidding)?

9. Over the past 12 months, how much of your new business revenues came via the Brokerage Selection Process (i.e. Broker of Record Letter Process)?

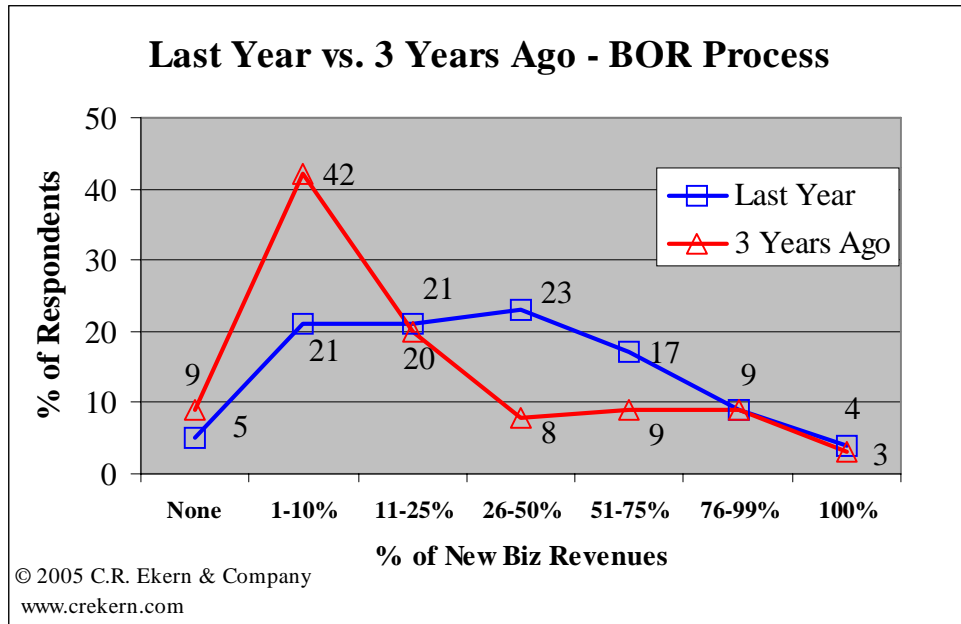
We combined these two questions in the graph below for comparison purposes. Almost two-thirds (62%) of the brokers generated 25% or less of their new business when using the Marketplace Selections Process (i.e. Bidding). However, the majority (53%) generated 26% or more of their new business when using the Brokerage Selection Process (i.e. BOR).



**Comments:** These numbers validate what we have been saying for years - The use of the Brokerage Selection Process (i.e. BOR) is gaining momentum among successful brokers. The majority of brokers are deriving more of their revenues by using the BOR Process. Therefore, their time and the overhead of the firm are more wisely spent.

**10. Thinking back to three years ago, approximately what percentage of your new business revenues at that time came via the Brokerage Selection Process (i.e. Broker of Record Letter Process)?**

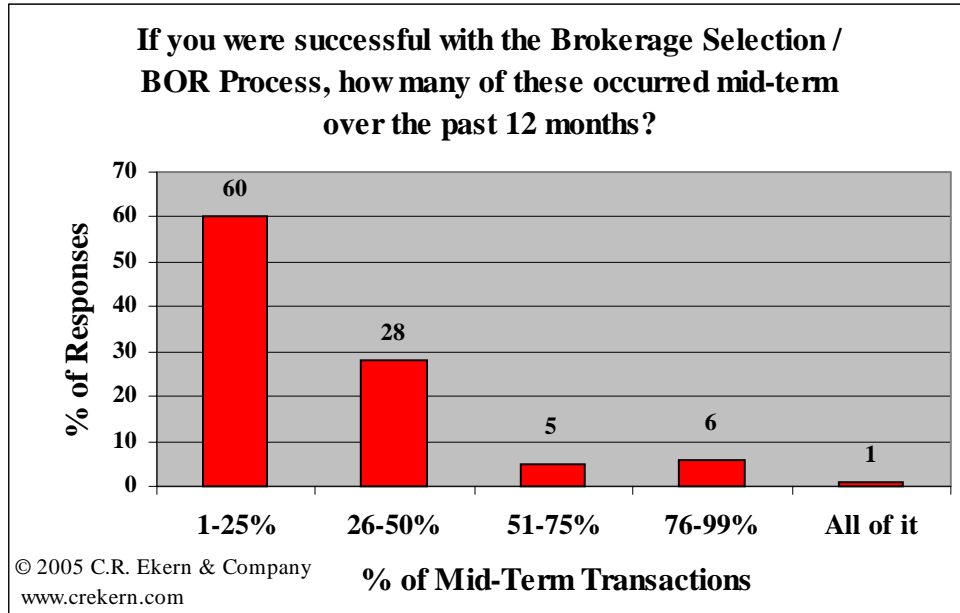
We compared the current Broker Selection Process (BOR) activity to that of three years ago. Three years ago, the majority (51%) derived less than 10% of their new business revenues from BOR's. Last year, roughly the same percentage of brokers (53%) derived more than 25% of their new business by using the BOR process.



**Comments:** This is a 2.5 times increase in the BOR process. It is hard to know whether the increase was due to improved brokerage sophistication or a reduced number of carriers to draw from. Whatever the reason, the response is very encouraging. The brokers who have adopted the Brokerage Selection Approach are well on their way to being Consultative Brokers.

***11. In the event that you have been successful with the Brokerage Selection/BOR Process, how many of these occurred mid-term over the past 12 months?***

We wanted to learn how often brokers attract new clients mid-term. The majority (60%) indicated that it occurred less than 25% of the time. The actual number of mid-term BOR's is unclear.

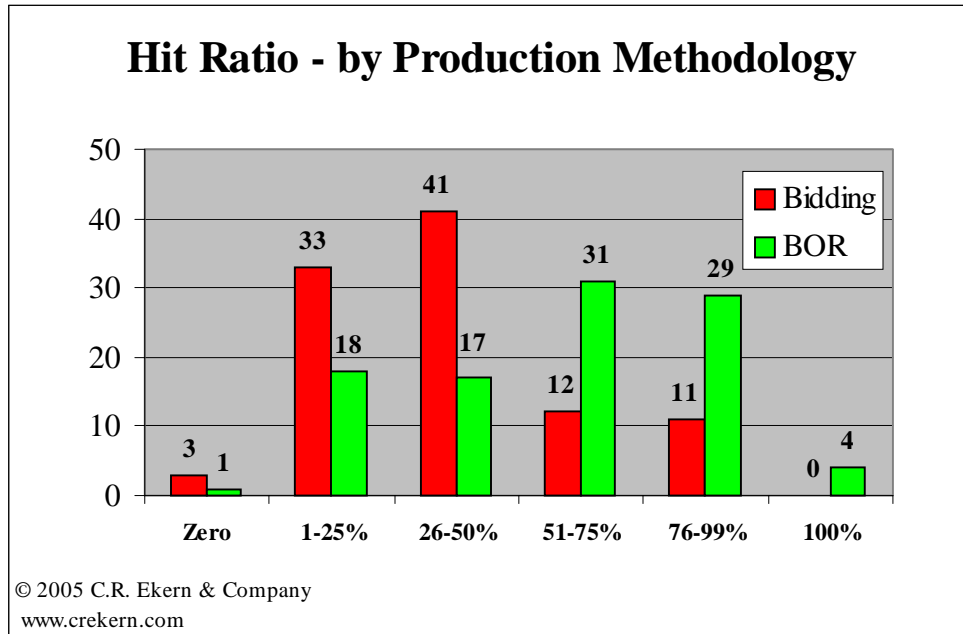


**Comments:** While the actual number of mid-term BOR's is unclear, there is no doubt that this is a growing strategy for successful brokers. These transactions do not rely upon expiration dates, as the buyer's issues need to be addressed immediately. As we have long purported: "X-dates are fools gold."

12. Over the past 12 months, what was your approximate Hit Ratio with the Marketplace Selection Process (i.e. Insurance Company Bidding)?

13. Over the past 12 months, what was your approximate Hit Ratio with the Brokerage Selection Process (i.e. BOR Process)?

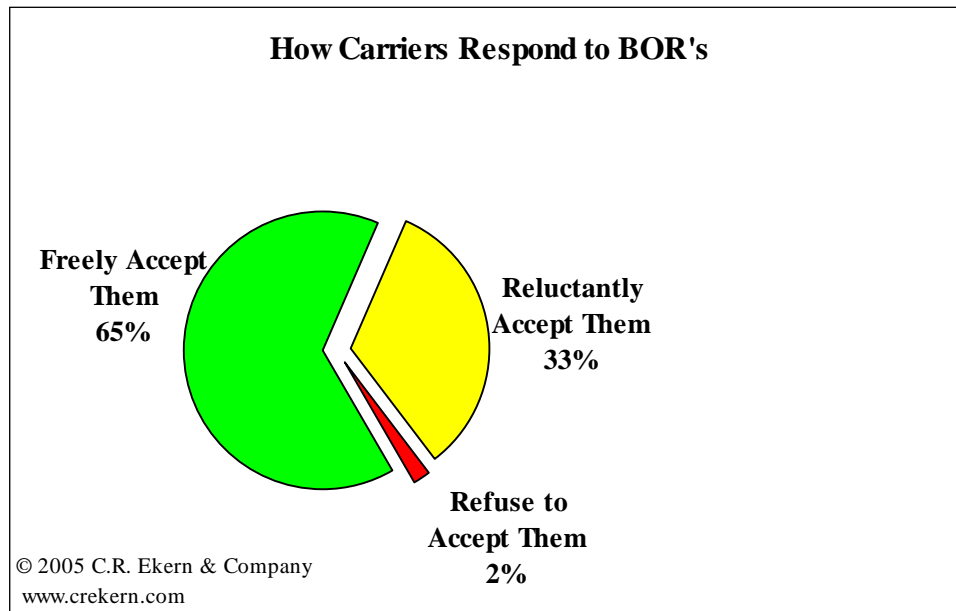
Again, we combined these questions to contrast the difference between production styles. Roughly 1/3 of the respondents (36%) who used the Bidding Process (Marketplace Selection) experienced a hit ratio of less than 25%. However, the same number (33%) experienced a hit ratio of over 76% when using the Brokerage Selection (BOR) Process.



**Comments:** The Brokerage Selection Process clearly provides brokers with a higher hit-ratio. In fact, it climbs dramatically after the 26%-50% hit ratio range, while the Marketplace Process (Bidding) falls accordingly. These statistics continue to point to the obvious – Consultative Brokers are moving exclusively to the Brokerage Selection Process to maximize their hit ratios.

**14. If you have been successful with the Brokerage Selection/BOR Process, in general, how do the carriers respond?**

Approximately two-thirds of the carriers freely accept BOR's. There is reluctance on the part of 33% of carriers, and a refusal by 2% of them, to recognize the newly appointed broker.

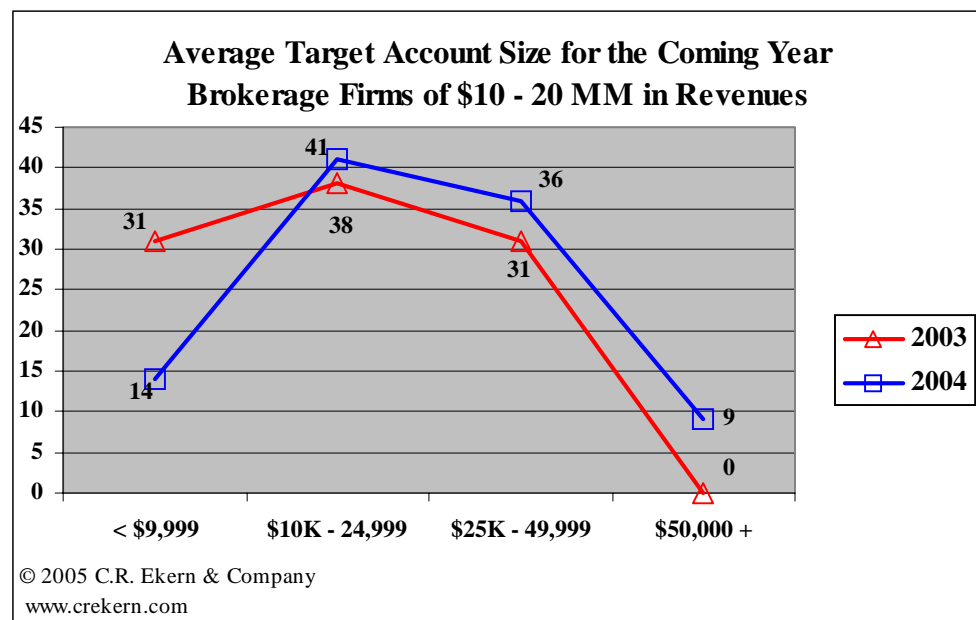
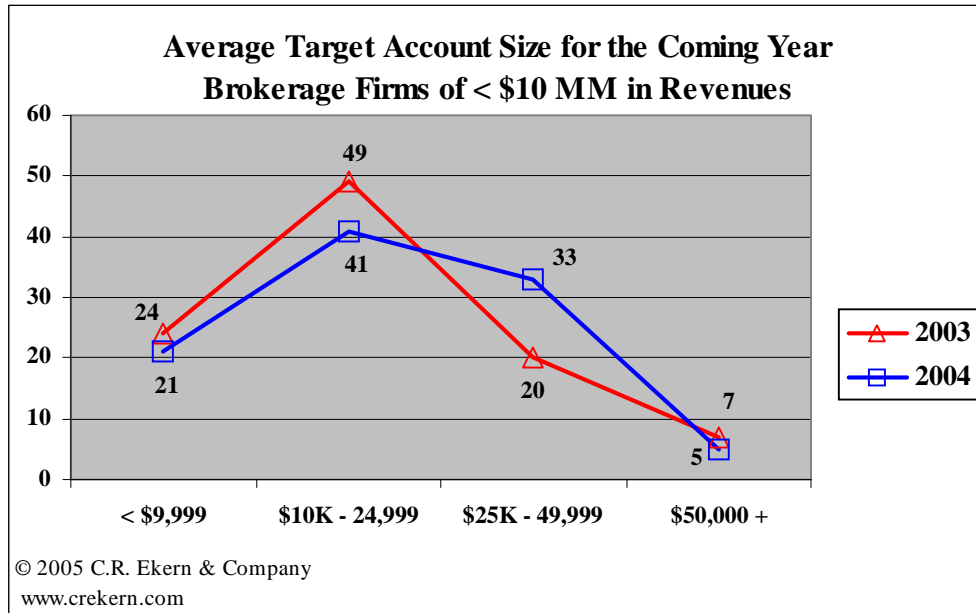


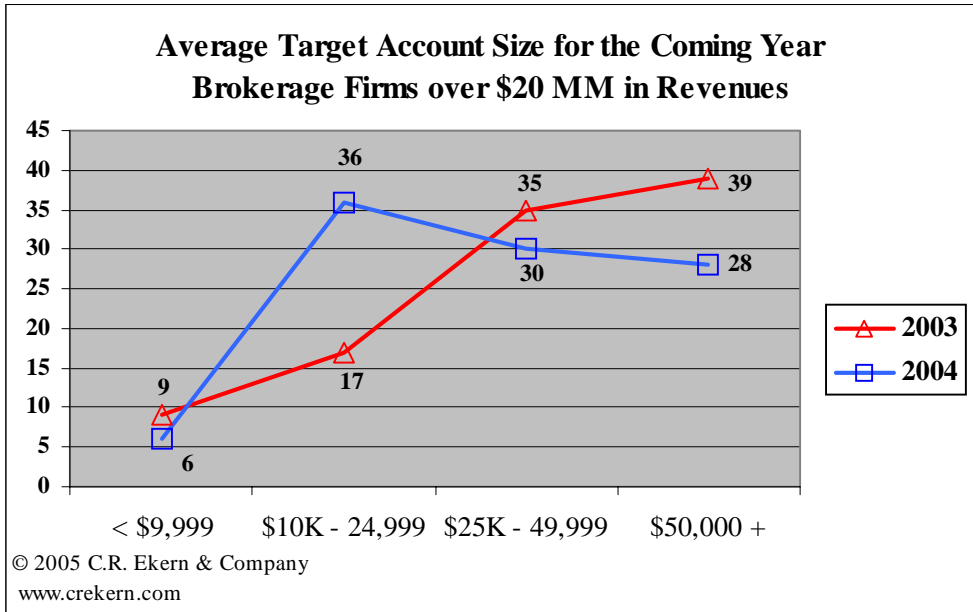
**Comments:** When we first started showing regional brokers how to do business on a BOR basis, we were told that many of the carriers either did not accept BOR's or made it a difficult process. While the majority of carriers understand the importance of BOR's to brokers and clients, 35% are still adding friction to the transaction.

As the results of our survey points out, Consultative Brokers experience a higher hit ratio, a more effective utilization of production time, and improved production and retention skills through the Brokerage Selection Process. A carrier that does not align itself with this process is out of step with its customer base. Of course, some of this reluctance may be from brokers who abuse the process or do not act in a professional fashion. However, unless carriers wish to return to the pricing points of differentiation, they must support the Brokerage Selection Process.

**15. In terms of new business for the coming year, what is the average account size (commissions / fees) that you are targeting?**

At first blush, the overall data for this question looked about the same as last year. However, when we stratified the targets by size of brokerage firm, it told us a different story. The brokerage firms in the <\$10MM Revenue range, along with those in the \$10-20MM category, have shifted their sights higher. **While those in the over \$20MM category have actually shifted their targets lower!** Therefore, the competition is now concentrated on accounts that generate between \$10,000 to \$24,999 in revenues.

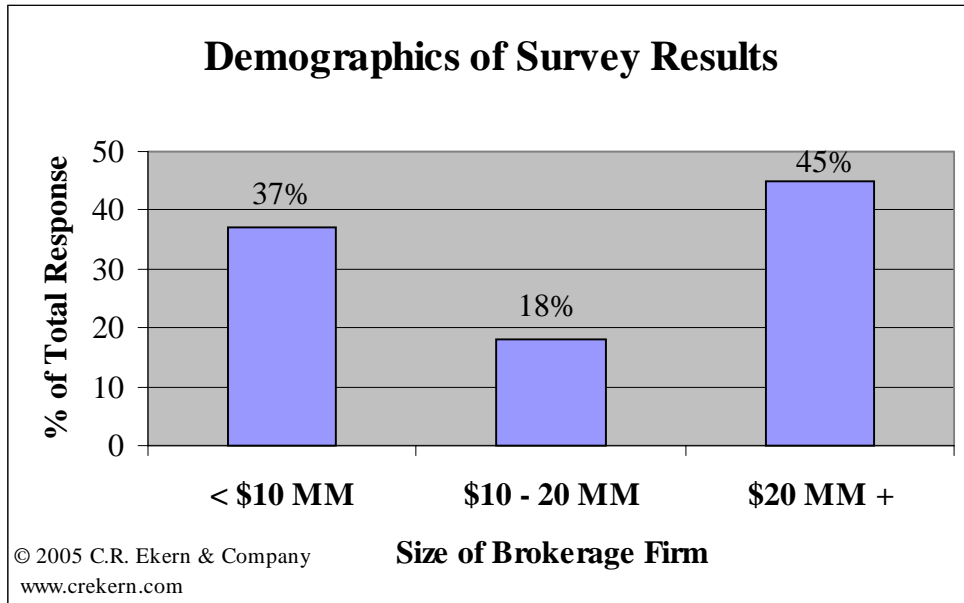




**Comments:** These three graphs show an interesting trend. We are very pleased to see the smaller and medium size brokerage firms targeting larger accounts. This denotes a solid understanding of the profitability of larger accounts. However, it is distressing to observe that larger firms are following the marketplace by lowering their target account sizes. Our past surveys have shown that these larger firms have the specialized resources that enable them to compete at the highest level possible. This trend bears watching - If it continues, the larger firms will be giving up the tremendous advantage of these resources and may be drug into the downward spiral of marketplace price erosion.

**16. What is the total size of your firm's insurance revenues (including benefits)? If you are a branch office or subsidiary of a larger firm, please select the total insurance revenues of the larger firm.**

At the end of 2004, we heard from 130 readers of the Consultative Brokerage Briefing in response to our annual year-end survey. These respondents represented approximately 100 brokerage firms from across North America. We received feedback from 22 of the largest 100 brokers in the U.S. (according to the Business Insurance July 2004 rankings.) As illustrated below, 37% of respondents were from firms with annual revenue less than \$10 MM, 18% between \$10 to \$20 MM, and 45% from firms with more than \$20 MM in revenues.



**Closing Comments:**

Thank you very much for your input and dedication to the Consultative Brokerage Methodology. We believe that these survey results show that brokers across the country are now recognizing the true value of TCOR and Brokerage Selection as they move away from the commodity-based selling approach. C.R. Ekern & Company is very pleased to provide our industry with this exclusive year-end report and analysis. As North America's leading consultant for regional brokers, we specialize in large account revenue development, client retention, and TCOR strategies. For more information about C.R. Ekern & Company, please feel free to contact us at 888.670.1177 or visit our website at [www.crekern.com](http://www.crekern.com). In the event you choose to use the data provided in this analysis for any purpose, please remember the copyright restrictions.

Best Regards to all Consultative Brokers,

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