



## **Beware the Ides of the Market**

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By Tim Cunningham

It is imperative to remain diligent and focused on the insurance market and the economy as you maneuver into the remainder of 2009 and into 2010. Pause, take a step back and listen to what the market is telling you. If you're not paying attention today, you may deeply regret it in the future. The status quo is not an option.

The agency-brokerage business remains stable. Well-managed firms with adequate capital can weather almost any storm. The key word here is "almost," as the perfect storm environment of an insurance market that remains relatively soft combined with major economic uncertainty could be problematic. We simply don't know the extent of the current situation until individual firms can ascertain the impact on their business of slow growth, unemployment, cutbacks, restructurings and other events occurring among their clientele.

Some pundits believe the soft market is ending, and they may be right. But that doesn't mean a hard market is imminent. Rather, the market may have bottomed out and it might linger there for some time. Absent a major insured disaster or a series of calamitous events, loss trends resulting from the reckless soft market may need to deteriorate further before we see any measurable rate acceleration.

It would be folly, therefore, to believe your revenue salvation depends on a near-term market shift. A key issue is that a significant segment of commercial premium is driven by sales and payroll. Barring a miraculous turn of events, both metrics will remain soft into 2010 and beyond. Retail sales are gloomy, the auto industry is iffy, and construction in many sectors has come to a halt. Broad economic uncertainty and shortage of capital will continue to place downward pressure on your revenue base.

The challenge, therefore, is to push out as much profit margin as possible from your existing platform. It's more important than ever to embrace process and technology. The conundrum is that you can rarely manage down expenses in lockstep with falling revenue. Even so, your near-term attention should remain on staffing and payroll. If you don't have a properly constructed salary administration policy and producer profitability model in place, you won't be able to manage your largest single expense—it will be managing you.

Now, a word of caution: A miserly siege mentality can ruin employee morale and client relations. If you haven't embraced an inclusive management style, this may be a good time to start by having an all-

company, all-hands meeting. Then hold periodic “fireside chats” to keep everyone in the loop. The consequences of your actions? Your firm will ultimately be stronger and far better prepared to navigate the future.

*Tim Cunningham is a founding principal with OPTIS Partners, LLC ([www.optisins.com](http://www.optisins.com)), a Chicago based investment banking and consulting firm providing M&A, valuation and strategic consulting services to firms in the insurance distribution sector. Tim is a member of the American Agent & Broker editorial advisory board. The author can be reached at 312-235-0081, [cunningham@optisins.com](mailto:cunningham@optisins.com).*