



# Three Ways to Enter a New Business Relationship

By Frank Pennachio, Co-Founder of The WorkComp Advisory Group

Most insurance agents enter into prospective business relationships with one objective in mind: place insurance policies and generate commissions. This traditional and singular approach:

- ◆ Limits the agent and agency
- ◆ Frequently leaves the prospective client at great risk

We encourage agents to enter into every new opportunity with a different mindset.

The objective of every agency is to create and retain new clients. There is no rule that says these relationships are created only through the placement of insurance policies. Agents should approach prospective clients with a process focused on exploring and initiating a business relationship. This relationship is grounded with your capabilities to assist the client to:

- ◆ Reduce their risks
- ◆ Improve their business
- ◆ Drive better outcomes

Placing insurance policies is only one dimension of your relationship.

Moving from “we have great markets and can save you money with your insurance program” to “let’s explore whether we are a good fit for a business relationship” widens and deepens the dialog and opportunities for both parties.

There are three ways to engage prospects and be remunerated for the value you deliver with new relationship opportunities:

1. Commission only
2. Commission plus fees
3. Fees only

## Commission-Only Arrangements

Commission-only arrangements will likely prevail as the predominant type of business relationship between agents and clients. However, we suggest you consider the following questions before you default to commission only:


- ◆ Is the commission commensurate with the value you deliver?
- ◆ Can all of the needs agreed upon by the client be addressed with the commission revenue?
- ◆ Can the account be serviced profitably by the agency with commissions only?

If you answered “yes” to these three questions, then commission only is a good fit. However, if the commission is not sufficient, then either the client will not get what they need or the agency will provide services at a loss. Neither option makes sense.

## Commission Plus Fees

Commission plus fees is an effective alternative to address the situation we just discussed. Let’s assume you have to go to a secondary market and place a Workers’ Compensation insurance policy at a 4% commission. You may generate only a \$4,000 commission on a \$100,000 premium. Let’s also assume the new client has discovered many risks and a lack of processes within their business and has asked for your assistance to address them. How much can you intervene with only \$4,000 in revenue without losing money on the relationship?

The common response from agents to this approach is that their competition does not charge fees, so neither can they. Keep in mind that the competition likely has not taken the employer through a



discovery and assessment process to identify significant risks. The competition is generally focused just on placing policies. Once the employer discovers that the business risks are too great not to address them, the dynamic changes and the competition are no longer relevant to the discussion.

Employers are reasonable and smart. They recognize that for a business relationship to work, all parties must benefit. As long as you are transparent and disclose your revenue, they will quickly recognize when the insurance company's payment of commission is not adequate to pay for the assistance they need. Your role is to help them make educated and informed business decisions. It is more likely that employers never get the chance to make such a decision than they are to refuse to engage in a commission plus fees business relationship.

## Fee-Only Relationships

Fee-only relationships are a third option that can be effective regardless of whether you are the Agent of Record. Between 87% to 92% of employers don't change agents every year. This means only 8% to 13% of employers are business opportunities for a commission-only arrangement. However, virtually all employers have needs that have not been discovered or addressed.

When employers choose to not replace their agent, it is likely because they aren't emotionally ready to change, not because their agent is doing a stellar job of addressing their needs. Their resistance to changing agents does not mean they don't have needs or aren't willing to address them. In many cases, they are open to discussing a new business relationship as long as they don't have to immediately disrupt their relationship with their current agent.

One of the most common responses from prospective new clients is that they are happy with their current agent. If you have a process to continue the conversation and engage without replacing the agent,

then you have dramatically improved your business opportunities. Instead of this prospect going back on your prospect list, you now have the opportunity to create a new client on a fee basis and you are on the inside. Over time, employers will compare you to their current agent and recognize they are not as happy with their current agent as they thought.

On larger, more complex accounts you may want to consider fees instead of commissions, but the greatest opportunities are generated when the employer is just not ready to change agents.

We encourage you to approach prospects with a broader view of establishing a business relationship. The business relationship can take many forms. Placing policies and generating commissions is only one form and frequently limits your opportunities, leaves employers at risk and reduces profits for the agency.

## About the Author



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## About The WorkComp Advisory Group

The WorkComp Advisory Group provides leadership, training and processes to producers and agencies so they may achieve exceptional results in meeting the following business objectives:

- ◆ Increased Organic Growth
- ◆ Agency Differentiation through Sales and Technical Capabilities
- ◆ Revenue Diversification with Fee-Based Strategies
- ◆ Increased Success Among Their Young Producers