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Addis Group Wears RM Cap To Grow 'Beyond Insurance'

By **Sam Friedman**

Can independent agents generate the lion's share of their income from commissions and still claim not to sell insurance for a living? Can an agency function without "producers" or "customer service representatives" on its staff?

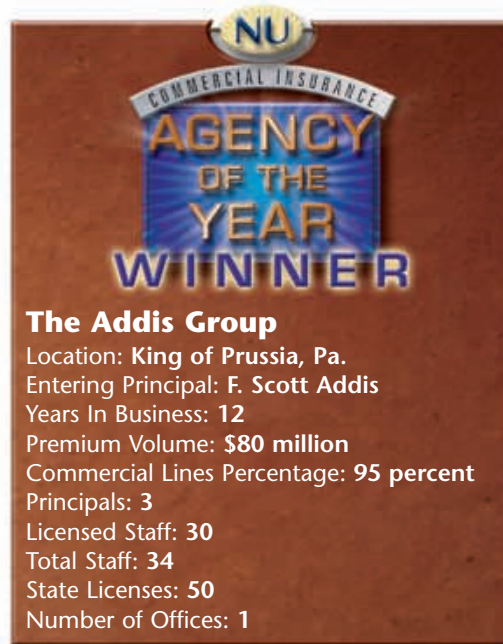
At The Addis Group in King of Prussia, Pa., the answer to both questions is an emphatic "yes."

Addis is not your typical independent agency, which is one major reason why it has been chosen as *National Underwriter's* "Commercial Insurance Agency Of The Year" for 2003. The agency was launched from scratch just over a dozen years ago by a former Johnson & Higgins broker, financed by a \$50,000 bank loan. Addis now does \$80 million in annual premium volume, generating \$8.1 million in revenue to support its staff of 34.

"The Addis Group refuses to be a pawn in the traditional insurance bidding game," the agency declared in its entry material. "Rather, we have chosen to offer customized, diagnostic risk management audits away from the bidding process."

Indeed, in the Addis logo, the firm is listed as "Risk Management Consultants" first and "Insurance Brokers" second. The agency's tag line is "The Addis Group... Beyond

Insurance." It is this "loss control rules" philosophy that caught the attention of the judges, given the theme of this year's



award program: "How My Agency Serves As Risk Manager For My Commercial Clients In The Hard Market."

Actually, Addis has always put risk management first and always will, regardless of whether the insurance market is soft or hard, vowed F. Scott Addis, the principal who submitted the agency's entry. He launched the firm along with founding partners Peter Unger and William

Rhodes, both of whom are still on board.

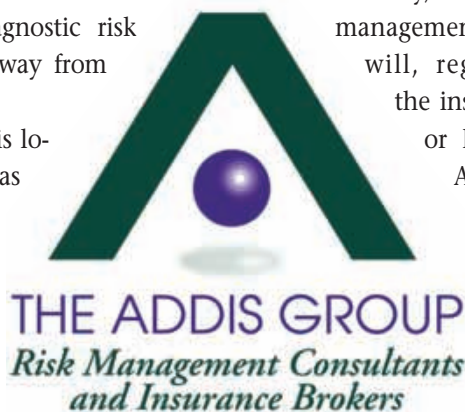
"The Addis Group's approach to safeguarding the financial health of a business does not revolve around the purchase of insurance," wrote Mr. Addis in his entry essay. During a visit to his office, he outlined an example of his agency's standard operating procedure with a new prospect.

After being approached by a local country club to bid for the facility's insurance program shortly before renewal time, Mr. Addis thanked the general manager but politely declined. Instead, he proposed working with the club a few months after its renewal was completed to perform a risk management audit.

The prospect was frankly chagrined, Mr. Addis related. The club manager insisted that the only way to secure the account was to submit premium bids against the incumbent broker and at least one other competitor.

"We can't quote somebody's account if we don't understand their operation and are unfamiliar with their risk profile," he said. While getting the proper insurance coverage for the correct price is essential, he acknowledged, accomplishing that should come at the end, not at the beginning of the risk assessment process.

Mr. Addis went on to say that by meeting with the prospect a few months after the mad renewal rush was over, both sides would have time to take a step back and see where the club stood in terms of its



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exposures and insurance program. Only then could Addis submit a fully informed proposal not just for coverage placement, but, more importantly, to detail a comprehensive risk management action plan to limit potential losses and cut down on claims.

In the long run, he emphasized, this approach will lower not only insurance costs, but the organization's overall cost of risk, while creating a safer environment for workers, club members and guests.

And oh, by the way, Mr. Addis noted, the agency would perform the risk management audit—a task that might take anywhere from 40-to-80 man hours—free of charge. All Addis asked was full cooperation from senior management and access to frontline employees.

"When I say there's no charge for the audit, that really increases our credibility and gets us in the door," said Mr. Addis. "What a selling point! I tell them I'll go over their entire operation and insurance program and point out gaps and exposures and suggest ways to save on insurance and limit risks, all at no cost to them. They always ask how I can make a living doing this. But how can they say no to the audit?"

Once a prospect agrees to go through the audit process, 90 percent come on board as clients, he reported. Most of his clients have never gone through a detailed risk management assessment, and might not have even known to ask their broker for such a review if one was not volunteered, he added.

In targeting prospects, "our sweet spot is the upper-middle-market accounts that do not have a full-time risk manager on staff," he said, noting that he deals with a variety of people—chief executive officers, chief financial officers, human resource managers, safety managers and the like.

"I always ask them how much time they spend on risk management issues,

and they usually say around 10 percent," said Mr. Addis. "Then I dig further and ask them to think about how much of that time is spent during the bidding exercise, and they usually say around 90 percent. So I point out that outside of the three-month renewal process, they put in about 1 percent of their time on risk management."

He closes by telling the prospect "that amount of attention won't get the job done. We will be your risk man-

ager all year long, and we will prove our expertise and commitment with the audit."

The audit is a two-step process. The first step identifies exposures via a tour of the prospect's facilities, confidential interviews with employees, a loss control survey, a review of individual insurance policies and the overall insurance program's design, a job safety analysis, a look at employment practices and emergency planning, contract reviews, an examination of claim history, and an experience modification review.

Included in this initial stage is a brief service satisfaction survey examining the performance of the incumbent broker, looking at factors such as the quality of pre-renewal strategy sessions, whether the renewal marketing plan was well defined, the timeliness of the renewal proposal, rating the risk management service plan provided (if there is one), the level of risk control support, as well as the quality of claims reports.

"We'll ask the prospect what they are paying their insurance broker," noted Mr.



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Addis. "Most say, 'What do you mean? I pay such and such in premiums and I suppose the broker gets paid from that.' But we say you know what you pay your accountants and your lawyers, right? Shouldn't you know what you are paying your insurance agent?"

Mr. Addis said he then notes the standard commission rates and extrapolates what their broker's compensation would likely be, and asks the prospect if they feel they are getting their money's worth with all the coverage gaps and loss control oversights that Addis points out. "That really makes them think, especially when we are offering them so many value-added risk management services that they are not currently getting from their broker, and at no additional charge."

The audit team includes risk management specialists. Indeed, there are two former risk managers and three certified safety consultants on staff—one of whom, Thomas Fleming, serves as the lead auditor.

"In 18 years on the other side of the table, no broker ever came in to

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understand my business. They just wanted to get some quick details to quote me a price on the insurance," according to Mr. Fleming, who was risk manager of Safeguard Scientifics, an information technology firm, as well as vice president of an offshore captive.

He added that even among the "handful" of former risk managers who approached him in their new role as a broker over the years, "they still all pitched price, just like the others."

In step two of the audit process, Addis defines strategies to handle risk, not just transfer it to insurers at whatever price the market will bear. This includes recommendations on loss control, safety and claims management, changes in employment policies and company handbooks, modification of the overall insurance program, plus a look at possible self-insured risk retentions. (Addis represents Churchill Casualty Ltd., a group captive in the Cayman Islands for workers' compensation, general liability and commercial auto.)

A full report is presented to the prospect and a request made to formally become the broker of record to implement the program and monitor its results. At this point, nine out of 10 sign on with Addis. "They've already invested so much time with us, and they have already gotten so much out of us with the audit, it is rare that if we've come that far together, they decline to continue a relationship with us," said Mr. Addis.

The audit makes all the difference in landing the account, according to Mr. Addis. "The audit is something tangible that can reinforce the prospect's difficult decision to leave their current insurance agent. The audit gives them the ammunition they need to fire the incumbent broker," he said.

This is how Addis can afford to put in the amount of time and resources to do

such a detailed audit for prospects with no guarantee of landing the account, Mr. Addis explained. "The extra work is worth it because once we sell a prospect on doing the audit, the closing ratio is so high," he said.

He added that Addis also saves money down the road because the agency's book of business rarely turns over. Retention rates are "near impeccable," he said, because "once Addis helps a client create a risk management culture in their operation, it becomes extremely difficult for competing brokers to dis-



F. Scott Addis:

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place us, especially if all they are selling is policies on a short-term price basis. We're the client's risk management partner at that point, not just an insurance vendor."

Getting back to the country club prospect example, Mr. Addis noted that once he was given the green light to do the audit, he and his staff spoke with a number of people "on the front line."

Among those interviewed were the golf pro (who cited risks such as caddies and players getting hit by lightning, golf carts tipping over, and players suffering heart attacks on the course); the head of catering (who noted a lack of training to help people who were choking, as well as dealing with club members who had too much to drink); and the head of housekeeping (who cited the risks to kids at birthday parties who might venture outside the dining room and fall into the uncovered pool during the winter).

"Invariably, we find that what the CEO believes are important risk issues are not the ones cited by the employees or managers during the audit," said Mr. Addis in his entry.

Another intriguing characteristic of The Addis Group's approach is that they won't do business with just anyone. Addis has drawn a line in the sand, insisting on dealing with a client base as equally committed to risk management as they are. Such accounts produce better loss ratios for insurers, and are far less likely to be turned over just because of a short-term premium fluctuation.

The easiest prospects to reject, he noted, are those who are not interested in going through the audit process, even if it is free. "All they want is a quote based on the bare minimum of contact with us and very little information. We won't waste our time with those accounts," he said.

However, even among those who do say they would like the audit, Mr. Addis carefully probes the prospect's feelings about their current service provider before investing his time. "We are not in the business of disturbing good, effective relationships with existing agents," he said. "If the prospect clearly likes doing business with the current agent, and the prospect says that in a crisis, they know their agent will be there for them, we might invite the prospect to some of our risk management workshops and put them on our e-newsletter mailing list, but we respectfully say we're leaving them with their current broker."

Mr. Addis observed that "this is terrific reverse psychology. The prospect is interested enough to go through the audit process with us, but we won't do it if they indicate they are really happy with their current broker. That gets them thinking about

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how satisfied they really are, and eventually they might be more serious about doing business with us. It certainly proves to them how serious we are about the process."

Last but not least, even if the prospect agrees to the audit and expresses reservations about their current broker, Addis will not proceed until the agency has determined the commitment from, and access to the main decision makers. If the company's top managers will not make themselves available, or the prospect drags their feet in returning basic information needed to begin the audit, Addis will try to secure more cooperation or respectfully decline to pursue the account.

Again, this "reverse psychology" will either convince the prospect to take the audit more seriously and make top managers accessible, or they will realize they don't want to go through the process after all, thereby not wasting Addis's or the prospect's time.

Mr. Addis emphasized that his agency does no mass-marketing to drum up business. Most of his prospects are referred by other clients or "centers of influence," such as accounting and law firms.

Under Addis's risk management-driven team structure, the common terms of "producer" and "customer service representative" are obsolete, according to Mr. Addis. Each prospect is assigned a team to handle the audit—the eventual account manager is included to familiarize the prospect with the person who will handle their account if they become a client.

Once the prospect agrees to use Addis as their broker and risk manager, an

assistant account manager and technical coordinator (a CSR-type function) is added to the team. Each account manager is responsible for coordinating all insurance placement and risk management services functions, which includes claims facilitation and tracking.

As for compensation, Addis personnel work off a base salary with incentive programs in place, rather than on straight commission, Mr. Addis noted.

The Addis Group believes that its risk management orientation boosts its credibility with insurance carriers and helps the agency deliver better prices, terms and conditions to clients. (Among the carriers Addis represents are AIG, Atlantic Mutual, Chubb, CNA, Crum & Forster, Fireman's Fund, The Hartford, PMA, St. Paul, Travelers, Zenith and Zurich.)

"Insurers know we've already done the due diligence going in when we approach them for a quote," said Mr. Addis. "They know how we operate, and they appreciate that not only do we understand our clients' risks, but that we're going to be continually working with them to control losses, which means the exposure should fall over time."

Addis also tries to generate a "triangle partnership" among the agency, the client and the insurance carrier by having underwriters visit prospects and see their operations first hand whenever possible, Mr. Addis noted. "Underwriters spend 80 to 90 percent of their time in the office," he said. "We get them out to tour the prospect's plant, and once they're out from behind their desks, they see what we're doing and really buy into the process. They want to

write that business. And the client appreciates meeting the underwriter as well."

A small portion of Addis' revenue comes from personal lines sales (80 percent developed from executives who do commercial business with Addis, and the rest from family, friends and referrals of those corporate insurance buyers). Addis also handles employee benefits for some clients, which they say perfectly complements their all-risk approach.

Risk management is so ingrained in Mr. Addis's psyche that it was directly responsible for his decision to leave Johnson & Higgins in the late 1980s, when he took a leap of faith by forming his own agency dedicated to loss control.

"I was doing extremely well at J&H as a senior account manager in the middle-market area," he said. "Then I was moved into the large account area, and I found myself dealing with full-time risk managers who already had their own systems in place and were already doing what I loved to do. All they wanted me for was to manage their insurance."

He said he asked to go back to the middle-market, but was warned such a move "would get me off the career path" to bigger and better jobs. He eventually decided to take his chances on his own, bringing the gospel of risk management to the mass of uninformed buyers in the middle market. "It was difficult and very scary for awhile. But what I kept telling myself was that if I failed, I could always go back to the big brokerages and be better for this experience. And if I succeeded, it would be very exciting and rewarding."

Mr. Addis said he has not looked back since. **NU**



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