

Memoirs of A Scratch Agency Owner



was that, aside from commercial auto, Allstate wasn't really a player in the business insurance market and that I would be lucky to ever write a Customizer policy. What he should have told me is that Allstate is your basic home and auto carrier and not much more.

Upon reflection, several things should have set off an alarm. I was told that I had to sign a multi-year office lease before I could begin the Allstate training program, thereby locking me into a contract with my landlord before I had even seen or signed the R3001 contract. I was not given a copy of the R3001 Agreement, Manual, Reference Guide or the Supplement for my legal counsel to review prior to making a commitment to Allstate. Again, I was a bit naïve not to question these things. During my career with Allstate, I met many Allstate agents who shared similar stories with me. But, maybe, it's just a regional problem, I don't know.

Once I got out of training and into the field as a full blown EA, I was both enthused and excited to be embarking on this epic new journey. My agency prospered through sheer hard work. We began writing lots of new business. Since my agency was a "scratch" agency, I had no choice but to write a volume of new business. Because my agency had no renewal income, it would have perished without substantial new business commissions.

The local manager would stop in from time to time, usually to give me an "atta boy" or to have me sign another document that, once again, I had no opportunity to review before he demanded my signature. Shame on me. I should have demanded a copy before I signed anything. Today, I am much more familiar with the R3001 Contract. I know now that Allstate can change the rules at any time and not administer the contract terms consistently for all agents.

MMy years as an Allstate Exclusive Agency owner were a whirlwind of experience. When my relationship with Allstate drew to a close, the ending was bitter sweet. I am anxious to tell my story so that others who follow will take heed and learn from my experiences. So, I'll start at the beginning...

In my early discussions with Allstate management, the local manager told me many times what a great opportunity it was to become an Allstate Exclusive Agent. He touted the fact that as an Allstate Exclusive Agent I would own an "economic interest" in my book of business. I was excited about the prospects of growing this "economic interest" to the point where I would someday be able to

comfortably retire. As I look back now, I realize that I was naïve. The local manager never fully explained what owning an "economic interest" really meant and I never asked.

One question I did ask was about Allstate's commercial markets. The local manager was extremely proud to inform me that Allstate offered a unique product he called "the Customizer" that would allow me to write commercial business. Once again, I was ecstatic because I had always been told that the way to riches in the P&C business was to write big commercial deals. Quoting and writing a Customizer on Alstar was a process the local manager referred to as being "slick as a whistle." What he failed to tell me

This concerns me greatly.

Allstate's regional training program was interesting to say the least. During training, Allstate's trainer confirmed that the mission of the training program was not to train an agency owner to be proficient and self-supporting with Allstate's tools (ALSTAR, IMPACT and SMART). Rather, Allstate's training program was designed to highlight only basic ALSTAR functions. In no way did it prepare Agency Owners for being productive when they opened their agency. When I complained about it, the trainer admitted as much. In fact, one of the trainers who had been a former agent boasted that it only took six hours to enter his first application into Alstar. *Only six hours?* That's almost a full day's work just to input one app!

When I opened the doors to my agency, I was told that my "life lines" would be my local manager and the Allstate 800 number. But when I called to ask a question, the local manager proclaimed that he had no idea how to use Alstar and, furthermore, that I would have to call the 800 number from then on. This was a particularly disturbing development because, at that time, Allstate was tracking how many times an agency called the 800 number. So, at the same time I was given a "life line" I was discouraged from using it. When I did use it, more often than not, I was informed that the answer could be found in the FAQs. Needless to say, it did not take me long to come to the realization that my other "life line", the local manager, brought no value to my agency.

The RMBC brought new meaning to thinking inside the box. The very nature of not assigning a specific underwriter to each agency makes it extremely difficult to develop a relationship with the underwriters at the 800 number. When representatives from my agency did speak with the RMBC, they would recite the underwriting rule. It got to be where we knew what the RMBC would say... "no." In speaking with several members of the RMBC team, they told me they were not empowered to make exceptions. I got the distinct feeling that Allstate didn't want agents to get too chummy with anyone at the RMBC, especially the underwriters.

Mind you, I'm not trying to ridicule Allstate by writing this. What I am trying to do is point out that there are things that Allstate needs to fix if it ever hopes to retain agents. In fact, I would still be with Allstate today if there were a real partnership between agents, management and other departments. I have tried to understand management's reasoning behind tracking the calls to the 800 number, but, I'm sorry, I just don't follow the logic. After all, the very reason agents call the 800 number in the first place is because it's nearly impossible to find answers on Allstate's Intranet system or from local managers.

After many such experiences, I began to understand that there are certain things at Allstate that one agent can't change. Fighting the system is a losing battle. In the end, I capitulated because I knew my efforts were falling on deaf ears. "It is what it is" became my new motto.

I have seen many new agents come and go in my short Allstate career. It just baffles me that Allstate doesn't seem to want to make it easier for its agents to do business with them. In my opinion, Allstate needs to practice what it preaches. They need to empower their agents just as agents empower their staffs. They need to make it easy to do business with them, not put up roadblocks or micro-manage the agency force.

The early years went extremely fast. I tried many different things to improve agency operations and results. Some things worked and some didn't. But, as I refined my processes, things improved dramatically both in production and other agency operations. In an effort to develop my business into a lean, mean agency machine, I decided to ask Allstate for a copy of their model agency business plan. I thought if anyone had an ideal business plan for Allstate agencies, it must be Allstate. I contacted the Territory Manager who told me to contact guess who? That's right, my local manager. This ten year plus manager told me he had never heard of such a thing. So, I went back to the Territory Manager who then directed me to go to a web page that listed various agency processes, but no model agency business plan. So, I went back to the Territory Manager for a

third time telling him that the processes on the web page were not a business plan. I pointed out that there were no benchmarks (baseline measurements), expected outcomes or actual results listed on the web site. He told me that it was the Agency Owner's job to figure it out.

In spite of this setback and the others I mentioned earlier, I was still moving forward, still writing lots business and still refining my processes. As an entrepreneur, I felt it was important to network with other Allstate agencies to learn their secrets to success and discuss the immediate and long term growth and revenue projections of our agencies. What was startling to learn was what an "average" agency's growth was likely to be. The following table has been generated from composite data:

Agency Years	Average PIF
10 Plus	2,400
7 to 10	2,100
5 to 7	1,800
3 to 5	1,700
Under 3	600

The data is sobering. An Allstate representative I queried agreed that it is extremely difficult for an agency of three years or less to earn a reasonable income. A reasonable income was defined as an annual salary of \$100,000. It is easy to see why many agency owners can't grow their business or add staff. There's simply not enough revenue.

My agency also sold its share of Allstate financial products, but I soon learned that maintaining my 6 & 63 licenses was expensive and a waste of time. Allstate's Broker Dealer did not advertise or provide support for Agency Owners. This, coupled with a 25% turnover rate for EFSs, placed additional pressure on Agency Owners to meet their annual securities quota or face paying a fine. Personally, I question whether or not it is really a fine.

With all of the things I've talked about so far, there were two final reasons that convinced me to sell my agency. The first was the introduction of Your Choice Auto (YCA) and the second was the introduction of the "new and improved" Resources for Growth Bonus Plan. YCA

was introduced in my state with a great deal of fanfare and the agents were excited about writing a windfall of new auto policies. Unfortunately, just the opposite occurred. YCA in my state turned out to be a real dog. Our auto production dropped like a rock. Strangely enough, before YCA, the state loss ratio was profitable. My question is: "why fix it if it ain't broke?"

Last but not least, the Resources for Growth Bonus Plan announced in 2006 appears to have a detrimental impact on newer agencies that are experiencing rapid growth. It's a fact that new business does not renew at the same rate as old business. It is not uncommon for a 30 year agent to have a 94% renewal ratio on a standard auto book. A new agent, on the other hand, may have an 80% renewal ratio. The difference is that the new agent's whole book is full of new policies and the 30 year agent's book is 98% renewal business. Allstate is well aware of this, yet the new RFG Bonus Plan places considerable weight on Current Retention. When I calculated my pro-

jected bonus under the new plan, it was significantly less than last year's bonus.

Now, after all this and more that I haven't addressed here, I decided to sell my book and move on. Basically, I gave up. There were just too many unnecessary obstacles in my way.

The first thing I learned when put my book up for sale was how difficult it is to find a "qualified buyer." I had several other Allstate agents interested in buying my book, but Allstate would not allow a merger. Allstate wanted to keep the storefront and add more of them, if possible. In addition, they did not want an existing agent to be able to "buy an income stream." It doesn't seem to matter to Allstate that they spend about \$75,000 to open a new storefront or that scratch agencies fail at an alarming rate. When an agency is sold back to Allstate for TPP, the company reassigns the policies to another agency or seeds the policies to a start up agency. Either way, Allstate doesn't pay full commissions on these policies for five years. The rules to capture these policies read like a Greek

novel, but not too many Agency Owners speak Greek.

In the end, I was able to sell my agency. The years working with Allstate have been a tremendous learning experience. In spite of the adversities, my agency was able to grow rapidly. The knowledge I acquired and the processes I developed and refined are invaluable. Since leaving Allstate I have decided to move over to what management might call the "dark side," but is what I call the "light side," which is starting an independent agency. For me, this is part of a natural evolution. I love the insurance business, but I must be able to do it unfettered and on my own terms.

I wish all of you Allstate Agency Owners nothing but success. Remember, the buck stops at the Agency Owner's doorstep. You can lead, follow or get out of the way. Successful Agency Owners lead. And, if you stumble along the way, remember to call NAPAA. They are a valuable resource both for new and seasoned agents. Please support them with your membership.



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