

Member Newsletter

Issue 24 | October 2015

President's Message

Well, fall is finally here. I don't know about you, but in Mississippi we were ready for it. Other than Ole Miss losing to Florida, things couldn't be better here.



Van E. Hedges

MI, CPCU, CLU, CRM, CIC,
AAI, ChFC

Southern Insurance Consulting

Corinth, Mississippi

(662) 287-6116

van@hedges.org

Please start making plans now for our annual conference which will be held in San Antonio on April 14 through 17. We will be staying at the Omni La Mansion Del Rio, a fabulous property located on the River Walk. It is also rumored to have the best margaritas in Texas. Our conference chairman, Russ Taylor, has secured a great rate for us and will be sending out additional information in the near future. Our program chairman, Peter Marchel, will have an outstanding lineup of speakers. Please contact Peter if you're interested in making a presentation at the conference. I truly believe that it is impossible to appreciate the benefits of AAIMCO without attending the annual conference. It is also important to remember that our bylaws require each member to attend a conference at least once every three years. Please don't miss this opportunity to network with the finest insurance consultants in the country.

Our new membership Chairman, Kevin Hromas, is often a great start. He has already added six new members, with four more being processed. This brings our total membership to 56 in all categories. We've come far, but I truly believe we can become a 100 member organization. If you know of anyone that should be a member of AAIMCO, please contact Kevin.

After much consideration, your executive committee recently approved an increase in our dues structure. This will be the first increase we've had in many years and was necessary in order to balance our budget. Professional and Affiliate memberships will increase from \$240 per year to \$300. Associate and Retired memberships will remain at \$180 and \$90, respectively. Still a bargain!

I would like to encourage everyone to add the AAIMCO logo to your letterhead and email signature. The logo cuts can be found on our website under the Member Resources section. Also in that section, you will find access to Versus Law and Producer Online-Plus. What a great member benefit! Speaking of the website, it continues to get better and better, thanks to the hard work of our webmaster Lee Hoffman. Please don't forget to upload any articles you write to the website library.

See you in San Antonio,

Van E. Hedges

MI, CPCU, ChFC, CLU, CIC, CRM, AAI



Association News »

Mike Manes – Always Thinking “Outside the Box”

Louisiana Member, **Mike Manes**, recently published an interesting article in the August, 2015 edition of the Texas Surplus Lines Reporter. The article titled “Souls Don’t Grow In The Sunshine” does not delve into any concepts or concrete issues of insurance, risk, leadership or business...but instead focuses on life - our humanity, dreams, and adversity. The article reflects on the value of insurance as an important business that protects the insureds’ assets and dreams...and yet the value isn’t proven until a bad event happens and you must deliver on promises made.

Roy Phillips – Promotion of AAIMCo

One of our longest term members, **Roy L. Phillips**, recently published an article titled “Surgically Scheduling Continuing Education” in the September edition of The Insurance Record. Mr. Phillips recognizes the importance of Customer Service Representatives who are often on the frontline of E&O prevention, and the importance of CSRs being provided Continuing Education beyond minimal requirements.

Roy sets an example of how AAIMCo Members can promote our association by mentioning their membership. This is how Roy signed-off on his article...

Col. Roy L. Phillips, CIC, CISR, CPIA, AAI, USA Ret., is the principal at Roy L. Phillips Insurance Consultant Services, LLC, based in Houston, Texas. He is a 30 year member of the American Association of Insurance Management Consultants and co-author of the Standards for Agency Evaluations.

Phillips holds several insurance licenses and is vice president at King-Phillips Insurance Agency of Houston. He is an insurance instructor; independent insurance industry consultant, arbitrator in accordance with the rules of the American Arbitration Association, published author and former adjunct professor at University of Houston. He holds non-attorney membership in the State Bar of Texas.

Brent Winans – E&O Claim Denials

Brent Winans of Delray Beach, Florida recently published an article titled “Avoid Agent E&O Claim Denial” in the Expert Commentary section of the IRMI website. In it he gives simple rules for agents to follow to avoid having their own E&O claims denied or even their policies canceled. He advises that agents should overcome their fear of reporting E&O claims and potential claims, and be careful not to violate the other requirements of their own policies.

Corwin Zass – Holistic Risk Assessment

Austin, Texas Member, **Corwin Zass**, has announced an expansion of his company, Actuarial Risk Management (“ARM”). ARM’s new division, ARM Risk Solutions, will focus on providing independent holistic risk assessment and advisory solutions with a primary focus on middle market businesses. David Teed will serve as Managing Director, with the new division being based in central Manhattan. ARM Risk Solutions will directly serve companies across a broad range of industries and indirectly via strategic alliances that ARM has formed with a number of established law firms and Top 30 accounting firms. Congratulations to Corey on his expansion!

Have news for the next edition?

We want to know what's been going on in your practice. Received an award? In the middle of a really interesting assignment? Published an article?

Email your news to
Lesley Perkins.

lesley.perkins@aaimco.com

Association News »

Marshall W. Reavis, III – A Challenging Year

This year, has offered a number of challenges for Member **Marshall Reavis** of Lake Bluff, Illinois...and at times they never seem to quit. In addition to relocating his home and office, he has also spent several weeks hospitalized following back surgery. But, the good news is that he has been able to maintain his work as an insurance litigation consultant and has also had his newest book “Insurance: Workers Compensation and Employers Liability” enter the market as an E-book. He has also learned that his earlier book “Insurance: Concepts and Coverage”, has had an international following in the EU and eight other countries in addition to a growing US market. It is only in English and published as a hard-back, paper-back and E-book. Marshall reports that another new book is due out at the end of the year.

Michael Johnston – 2015 Power Attorney

Michael Johnston of Fort Worth, Texas has been named as a 2015 Power Attorney by Fort Worth Business magazine. Johnston is one of 16 Fort Worth area attorneys named to this year’s group of Power Attorneys. Recipients of the award are selected for their outstanding accomplishments and reputations in the field of law. Winners were recognized at the publications September luncheon.

Kevin Quinley – Legal Strategist

Virginia Member, **Kevin Quinley** stayed quite busy over the summer, with numerous publications and presentations. His publications include, “A View From Above: Risk Implications of Drones” published in the Summer, 2015 edition of Today’s Insurance Professionals, and “How to Bulletproof Your Firm From Expensive Employment Liability Risks” in the July/August edition of Medical Product Outsourcing, and “Navigating Insurance Coverage Issues in Med Mal Litigation”, which is part one of a two part article published in the August, 2015 edition of Medical Malpractice Law & Strategy. His presentation topics were quite varied including, “Strategies for Bad Faith Prevention: Insurer Prospective” at the American Conference Institute’s 31st Bad Faith Claims and Litigation Conference in Chicago, Illinois, and “10 Common Mistakes in Retaining Experts...and How to Avoid them”. Please contact Mr. Quinley here for further information on any of the publications and/or presentations.

« Have news for the next edition?

We want to know what’s been going on in your practice. Received an award? In the middle of a really interesting assignment? Published an article?

Email your news to
Lesley Perkins.

lesley.perkins@aaimco.com

Membership Report »

WOW! AAIMCO continues to grow in our efforts to retain our reputation as the “Go To” association for insurance experts, consultants and risk advisors across the country.

Officially, we have **FIVE** new Professional Members since the last newsletter went out. These individuals (with the AAIMCO member who solicited them) are: **Frank Robitaille** (Al Diamond, Greg Deimling), **Elise Farnham** (Kevin Hromas), **Jeff Bronaugh** (Peter Marchel, Cheryl Koch, Lanny Hair), **Gary Jacobson** (Mike Manes, Al Diamond) and **Jeffrey O’Dea** (Tom Braniff). Everyone should have received a blast notice of their memberships and I would encourage everyone to reach out and welcome these outstanding individuals into AAIMCO. That has the added benefit of making sure you are in their contact list and they are in yours.

Professional Membership

Frank Robitaille, CPCU, ARM	R.E. Harris	3150 Bristol, #200 Costa Mesa, CA	frobitaille@arrinsurance.com
Elise Farnham, CPCU, ARM, AIM, CPIW	Illumine Consulting	633 Bo Bo Banks Rd. Grantville, GA	elisefarnham@gmail.com
Jeff Bronaugh, CPCU, CLU, ChFC, CIC	BCE Consulting, LLC	12464 N. Paseo Penuela Marana, AZ	jeff@bceconsulting.co
Gary Jacobson, JD	Vander Wel, Jacobson & Kim, PLLC	2201 Highland Drive Anacortes, WA	gary@vjbm.com
Jeffrey O’Dea, JD	Burt Barr & O’Dea, LLP	3900 Essex Lane, Suite 330 Houston, TX	jodea@tx-counsel.com

I continue to receive names from many of you with additional prospects. Many of these prospects are as a direct result of relationships that our members have with other experts that they come in contact with. That is a great way to “spread the word” about AAIMCO and I would encourage all of our members to join in the process. **Keep in mind that there are multiple levels of memberships.** The relatively new “Affiliate Membership” is a way to bring in those businesses that provide various services and resources to many of our clients and it is extremely beneficial to have them as part of our “umbrella of services”. Provide me with as much of the person’s contact information as you can obtain and I’ll pick up the ball and run from there but I need your help in targeting qualified applicants.

If you have any questions about the membership process, don’t hesitate to let me know.



Kevin Hromas

JD, EGA, RPA, PLCS, HCRI-
R/C, CPIU

Kevin Hromas & Associates

Cypress, Texas

(713) 416-8044

khromas@aol.com

Know of someone who would make a great member?

AAIMCO is always working to expand its membership with highly qualified consultants and associates.

Contact Membership Chair Kevin Hromas with your recommendation.

Treasurer's Report »



Russell M. Taylor

Risk Management
Tactix

Spring, Texas

(281) 257-8585

russ.taylor@
riskmanagementx.com

As the accompanying Profit & Loss Statement indicates, AAIMCo had a net loss of \$3,020 for the first three quarters of 2015, compared to an almost break even result for the same period in 2014. So how did we get there?

Our Total Dues income increased almost 9% as the result of adding new members. Since the beginning of the year there have been six new Professional Members, two new Associate Members and one new Affiliate member who have joined AAIMCo. Hats off to Kevin Hromas, Mary LaPorte and all the others who have had a hand in adding new faces to our growing membership roster!

During the same period the increase in dues income was substantially offset by a decrease in voluntary Referral Fees, with the result being that our total income though nine months only increased by about \$400.

Speaking of Referral Fees, thus far in 2015 we have received two contributions, one being from new Associate member Britta Moss in honor of a referral from fellow member Lee Hoffman. Thanks for paying it forward, Britta! The other is from this writer in honor of a referral from fellow member Roy Phillips.

On the Expense side, we have added new Research services for our members (VersusLaw and Rough Notes – Producer On-Line), and we are continuing to tweak and add features to AAIMCo's web-site. Those two items accounted for \$2,700 of the Expense increase. Other items include a \$350 increase in Conference expense for 2015, and a \$350 increase in Administrative and Executive Director Services due to an earlier payment of the September billing.

The remaining expenses are comparable to the same period last year and remain on target for the remainder of the year. 🍷

Treasurer's Report



Russell M. Taylor

Risk Management
Tactix

Spring, Texas

(281) 257-8585

russ.taylor@
riskmanagementx.com

Balance Sheet

	Sep 15, 2014	Sep 15, 2015
ASSETS		
Current Assets		
Checking / Savings (Woodforest)	18,983.05	14,763.18
Accounts Receivable	0.00	170.00
Total Current Assets	18,983.05	14,933.18
Other Assets		
Accum Depr - Sect 179	-600.35	-600.35
Epson Projector	600.35	600.35
Total Other Assets	0.00	0.00
TOTAL ASSETS	18,983.05	14,933.18
LIABILITIES & EQUITIES		
Equity		
Opening Balance Equity	5,265.39	5,265.39
Retained Earnings	13,785.82	12,687.66
Net Income	-68.16	-3,019.87
Total Equity	18,983.05	14,933.18
TOTAL LIABILITIES & EQUITIES	18,983.05	14,933.18

Profit & Loss Statement

	Jan - Sep 2014	Jan - Sep 2015
INCOME		
Dues		
Dues - New Affiliate Member	0.00	220.00
Dues - Affiliate Member	630.00	360.00
Dues - Associate Member	0.00	180.00
Dues - Retired Member	180.00	270.00
Dues - New Associate Member	150.00	195.00
Dues - New Professional Member	440.00	640.00
Dues - Professional Member	9,120.00	9,600.00
Total Dues	10,520.00	11,465.00
Referral Fees	1,250.00	425.00
Application Fees	100.00	175.00
Conference Registrations	7,800.00	8,000
TOTAL INCOME	19,670.00	20,065.00
EXPENSE		
Administrative Services	900.00	1,000.00
Conference Expense	9,850.48	10,203.73
Executive Director Services	2,250.00	2,500.00
Insurance	2,079.00	2,186.00
IT Services and Hosting Fees	627.40	516.86
Legal & Filing Fees	20.00	25.00
Office Supplies	115.80	3.84
Other - Misc. Expense	208.20	0.00
Photocopies	205.25	492.96
Postage and Delivery	105.43	77.28
Research Services	0.00	2,579.20
Teleconference Expense	16.60	0.00
Website Design Project	3,360.00	3,500.00
TOTAL EXPENSE	19,738.16	23,084.87
NET INCOME	-68.16	-3,019.87

AAIMCo's Referral Contribution Plan

As expressed in the Treasurer's Report, we are lagging behind last year's level of referral fee contributions. While the plan is entirely voluntary, the fact that we have had only two contributions so far this year is surprising, considering our increase in membership and the number of postings that have appeared on our listserv postings. So perhaps a refresher would be helpful, both for old and new members.

The following is our most recent history in this area:

Year	No. of Contributions	Total Contributions
2013	6	\$1,450
2014	4	\$1,250
2015 (to-date)	2	\$ 425

So as not to forget the purpose of the Referral Contribution Plan the following is a reprint of Past President Tom Braniff's 10/12/2009 email to AAIMCo Members...

"During the AAIMCo Conference at the Woodlands earlier this year, our member Ted Marules recommended a new idea of a "Referral Contribution Plan". That idea is simply for AAIMCo members to contribute an amount equal to one hour of their billable time from income that is generated by a referral from another AAIMCo member or from the AAIMCo website.

The idea is to encourage referrals among our members, and from the AAIMCo website, and hopefully generate more income for all our members.

Here's the concept...

In the event an AAIMCo member receives the referral of a potential client from another AAIMCo member or from the AAIMCo website; and it results in a new assignment from which the recommended member generates income, then the recommended member may, at his/her discretion, send a Referral Contribution to AAIMCo for an amount that seems reasonable considering the assignment and income realized. The program will operate on a voluntary basis. Members are not obligated to make the Referral Contribution.

The Referral Contribution Plan would apply only to the initial consulting project the recommended member accepted. If the recommended member develops additional projects from the client, no subsequent Referral Contribution would apply.

Members will not be hindered or precluded from working-out a fee sharing arrangement between themselves if they so choose. In fact, we encourage our members reward another with referral fees where that is appropriate.

The Referral Contributions will be considered a donation to AAIMCo in honor of the referring member. The Association will accept the donations and use the money to defer expenses associated with organizing our member Conference. The money could be used for meeting rooms, food and beverage, or any other Conference expenses the Executive Committee deems appropriate.

As an incentive to our members, the member making the most referrals, and the member making the most donations will receive recognition at our Conference, and receive a contribution from the Fund

Featured Article ▶

Agency Networks Aid Agency Net Worth

By Thomas M. Braniff, JD, CPCU

Are you considering joining an “agency network” (sometimes referred to as a “cluster”)? As with any important decision, there are advantages and disadvantages to be considered. The purpose of this article is to outline a process to assist you in making that decision.

For more than 15 years, our firm has been involved in planning and creating numerous agency networks, drafting network operating agreements, and providing advice to agencies considering network participation. We also provide advice to independent agencies that are members of networks, and have assisted agencies in getting out of this type of arrangement.

For the purposes of this article, we define an insurance “agency network” or “cluster” as any two or more autonomous insurance agencies sharing certain resources and/or working in a cooperative fashion under a formal organizational structure in order to gain certain financial, influential, and/or economic benefits, without sacrificing the integrity of individual agency identity or the ownership of the business generated through their individual efforts.

Characteristics of Agency Networks

Our experience has been that true agency networks include at least the following characteristics:

- Member agencies retain their individual identity and business structures.
- A core entity is created to manage the affairs of the group.
- Ownership of all business placed through the network remains with the originating agency.
- A formal contractual relationship exists between and among the participating agencies, specifying the duties and responsibilities of each member to the network, and the network to the members, as well as the compensation structure.
- A formal management system exists that involves members overseeing the decision-making process regarding the activities of the network.
- There are no penalties or buy-out provisions if a member elects to withdrawal from the network.

Benefits of Joining a Network

There can be numerous benefits to joining an agency network, especially for small to medium size agencies. These include:

- Increased access to competitive markets
- Preferred commission schedules
- Increased clout with carriers due to aggregation of the network’s production
- More favorable profit sharing and production growth contracts
- Networking with peers to assist one another as trusted advisors
- Increased profitability resulting in increased agency value

The benefits listed above are relatively easy for a quality agency network to achieve. A network can provide other potential benefits, depending on the complexities of each agency’s ownership, differences in the character of business handled by members, and the degree of fear over loss of independence. These benefits include:

- Perpetuation planning, including buy-out provisions in the event of death/disability
- Centralization of accounting and other backroom functions
- Uniformity of management operating systems
- Group ESO coverage



Thomas M. Braniff

Texas Insurance Consulting
Braniff Attorneys/Counselors

Houston, Texas

(713) 664-6424

tomas@texins.net

Potential Drawbacks to Joining a Network

Joining an agency network can also have drawbacks. Some problems we have encountered include:

- A certain amount of independence is sacrificed in any membership undertaking.
- True networks are managed by the members, which can result in lengthy delays in decision making.
- A portion of the members may wish to pursue a benefit or program that other members may not wish to implement (e.g., forming a premium finance company, developing specialized programs, etc.).
- A single member's poor underwriting practices or otherwise bad loss experience can spoil the entire network's profit sharing bonus.
- By necessity, another layer of accounting is required to track the commissions and other revenues generated by the group.

Factors Critical to a Network's Success

Some of the factors or characteristics of successful agency networks include:

- A well thought-out organizational structure and a formal operating agreement that are prepared by a qualified attorney. Preferably, the attorney should be familiar with the operations of an insurance agency, as well as agency network issues. Some of the provisions to be included are:
 - Membership requirements/qualifications
 - Management structure/decision making process
 - Financial commitments of members
 - Mutual covenants
 - Termination/withdrawal provisions
- Agreed upon rights and responsibilities regarding income/expenses/bonuses
- Reliable accounting/data management of the network's records
- Consistent and professional communication among members regarding opportunities/problems
- Mutual respect, compatibility, and compliance among members

Due Diligence in Selecting a Network

One of the first steps in determining if joining an agency network is right for your agency is to develop a list of the reasons you are considering doing so, as well as the benefits you expect to receive, both now and for the long term. It is also important to focus on the managerial and administrative functions you do not wish to surrender. You should obtain information regarding:

- Current member agencies, including branch locations
- Premium volume and loss ratio information
- Insurance providers represented
- Profile of the book of business (e.g., is it concentrated in any industry; does it focus on commercial or personal, etc?)
- Copy of the operating agreement
- Your agency's representation on the network's board of directors
- Decision-making process
- Compensation and expense sharing system



Thomas M. Braniff

Texas Insurance Consulting
Braniff Attorneys/Counselors

Houston, Texas

(713) 664-6424

tomas@texins.net

Essential Provisions of a Network Operating Agreement

The following is a list of some key issues that should be addressed in the operating agreement among the members of an agency network:

- Duties and responsibilities:
 - Individual member agencies' responsibilities regarding servicing, billing, and collecting and paying account currents, etc.
 - Establishment of procedures relative to the handling of profit sharing and contingency bonuses, including the formula to be used in computing distributions
 - Adherence to all company agreements held by the operating entity
 - Timely payment of insurance company balances
 - Maintenance of minimum E&O coverage limits, and naming the operating entity as an additional insured
 - Observation of all operating rules and procedures
- Termination provisions:
 - Termination for breach of operating agreement
 - Right to withdrawal with appropriate notice
 - Notice period in the event of termination/withdrawal
- Mutual covenants:
 - Confidentiality of individual members' information, both during the term and after termination
 - Non-solicitation/non-piracy among members, both during the term and for at least 24 months thereafter
 - Non-solicitation/hiring of another member's employees
 - Restriction of member agencies "brokering" with (or for) non-members agencies
 - Restriction of member agencies joining any other agency network
- Transfer of member agency ownership:
 - Prior notification to the network if a change in an agency's ownership or management control is anticipated
 - Approval process for continuing as a member if ownership or management control of an agency changes

Other Collaboration Agreements

Other options include "franchisor" or "aggregator" organizations. Unlike agency networks, these agreements generally involve an override or profit element for the individual or entity that controls participation in the group. Such organizations provide some of the benefits of a network, but do not provide the mutual support among member entities and an equal voice in the management of the group, which are characteristics of true networks. Franchisors or aggregators do however represent a valid alternative to relieving some of the market pressures independent agents experience. Many of the decision criteria discussed in this article with respect to joining a network would also apply to becoming involved with a franchisor or aggregator.

Though "brokering" relationships between agents may involve collaboration, they do not qualify as agency networks. These arrangements involve a voluntary sharing of commissions for business placed by an agent that does not hold a particular insurance company appointment, through an agent who does have an appointment with that company. Laws and regulations vary from state-to-state with respect to the legality of "brokering," and the notification the two agents must provide to the policyholders. This type of arrangement is often times unknown to the insurance carrier and is generally governed by informal understandings between the two agents. This method is frequently seen when market capacity crises emerge, and agents have little or no options for meeting the immediate coverage needs of their customers.

Conclusion

The purpose of this article is to present a broad overview of some of the primary issues and questions to be answered when an agency is considering membership in an agency network. To some degree, every agency network is unique. Membership in a network involves benefits, restrictions, and responsibilities. It is important that all parties fully understand these in advance.

Thomas M. Braniff, JD, CPCU is an attorney / insurance consultant in Houston, Texas, providing management, regulatory and legal assistance to the insurance industry, as well as others faced with insurance-related problems or opportunities. He is also a member of the American Association of Insurance Management Consultants ("AAIMCO"). More information about Mr. Braniff, can be found at www.texins.net or www.braniff-law.com.



Thomas M. Braniff

Texas Insurance Consulting
Braniff Attorneys/Counselors

Houston, Texas

(713) 664-6424

tomas@texins.net

Annual Conference 2016 ▶

Planning is currently underway for the upcoming AAIMCo Conference in **San Antonio, Texas!**

The dates are Thursday, **April 14 - Sunday, April 17, 2016**. The location is the **Omni La Mansion del Rio** in the heart of the popular San Antonio Riverwalk area.

Members are currently able to start making their hotel reservations by clicking [here](#).

Additional detail will be forthcoming, but in the meantime please mark your calendars and plan on attending!

If you would like to make a presentation at the Conference, please contact our Program Chairman, Peter Marchel, and he will put you in the lineup!

Hope to see everyone there!

