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TOP 100
AGENCIES

Strength and Power

San Francisco's ISU Group Brings Together Creative
Minds to Adapt, Survive and Succeed in Today's Market

Special Report **Top 100 Profile**



T.J. Ryan III, CEO; Teresa Tomsen, director of markets; and Steve Pearson, president of ISU International

Strength and Power

San Francisco's ISU Group Brings Together Creative Minds to Adapt, Survive and Succeed in Today's Market

By Charlie Dodge

In this age of Great Global Recession, collapsing corporations and profligate governments alike have often been proclaimed to be “too big to fail.”

Independent insurance agencies know that this is a term that will never be applied to them. And yet, although too big to fail is an unlikely prospect, becoming too big to be crushed seems like a sensible goal.

That type of strategic thinking is fueling the growth of networks such as San Francisco-based ISU Group, which offers more than just a safe harbor for smaller agencies, but also access to resources and new technologies, greater clout with carriers, and, beyond that, a sense of community.

For more than three decades, the concept of ISU has been to “bring independent businessmen the strength and power of a national organization,” says CEO T.J. Ryan III, son of the company founder. The member agencies “all work together, they learn together, they benefit from buying things together, exploiting the image together — there's a lot of power in a large group.”

Opening Doors

Agencies discover new access to carriers, and new respect. “Access to markets is a challenge for most insurance agencies,” says Steve Pearson, president of ISU International, the company's membership services and licensing arm. “Just because you have a sign on your front door and you've got licensed and the right provisions in place for your own insurance doesn't mean you can get to Hartford or Travelers or any of these big carriers.”

ISU promises members opportunities to share in success — and profit.

“One of the primary things that we do is access to market where the agent earns 100 percent of the commission,” Pearson says. “We don't take any cut, so 100 percent of the commission earned on that policy goes to our member agent who wrote that piece of business, and on the back side they're going to get revenue, profit sharing; we capture a portion of that and three quarters of that goes back to them as well.”

Pearson says what makes the ISU model successful is agent members earn 100 percent of the commission and money on the back end as well.

“A lot of systems out there say every time you send a policy through there's a little add-on fee, or your monthly fees are based upon the volume you send through [their] contracts, so the more you send the more your fees go up. We have one fee. If you send one policy or a thousand policies, the fee's the same per month.”

Pearson describes this structure as “a unique growth-based model that feeds the carriers' insatiable need for continued volume.”

The model turned in its best performance yet in 2009, with profit sharing revenue of \$3.5 million, up 22 percent from 2008. ISU leaders say an emphasis on quality over quantity has helped members survive and thrive. ISU's network includes approximately 100 agencies, with more than half based in California.

“We have no aspiration to be the biggest necessarily from a member
continued on page N14

Top 100 Agency Profile

Rank: 6

Agency Name: The ISU Group

Year Founded: 1979

Headquarters: San Francisco, Calif.

Approx. 100 additional locations nationwide

Principals: T.J. Ryan III, CEO; Steven C. Pearson, president, ISU International

% Commercial: 44%

% Benefits: 13%

% Personal: 43%

2009 Total P/C Written

Premium: \$1.2 billion

2009 Other than P/C Written

Premium: \$200 million

2009 P/C Revenue: \$160 million

2009 Benefits Revenue:

\$20 million

Mergers/Acquisitions:

9 new members in 2009

Number of Employees:

Approx. 1,100

Number of Insurance Carriers:

Approx. 350

ISU, continued from page N13

count,” Ryan says. Rapid growth “tends to undermine the sense of relationship you have.”

“The quality of individuals that come on board is very important,” Pearson adds. “A lot of agents get to a certain stage of their life, they’re comfortable, they’re going to let their business fade away — that doesn’t fit our model well. We’re looking for growth agencies.”

“One of our primary needs is to feed the chicks in the nest, which are all these insurance companies that say, ‘Whatever you sent me last time, I want more next year.’ How do we solve that problem for all of our members? One way is by getting our existing plan to produce more revenue, and the other is by bringing on quality [agencies].”

One Source

The keystone of the ISU revenue-generating plan is One Responsible Source, a program named for a phrase that popped up in a business focus group ISU had commissioned.

“What we got out of [the focus group of business owners] was that they really don’t like having four different brokers,” Ryan says. “They really like having one broker that can accommodate all the insurance needs of a business. It’s more convenient, it’s certainly more economical, and it’s more secure because you’ve got one agent who’s looking at the entire business and understands the integration of all the policies.”

ISU encourages member agencies to embrace the concept, even if it

might cost business in the short-term. Ryan describes a recent conversation he had with a member regarding a client who preferred giving the bulk of his business to a competitor, yet still maintained a less significant relationship with the ISU agency. Ryan’s advice: Drop the client unless he was willing to trust the member agency to handle all his insurance needs. The agency presented the client with that choice, and lost the remaining business. But upholding the principle of One Responsible Source was the right move, Ryan says.

One Responsible Source is meant to be the antidote to what ISU contends is the inevitable result of multiple brokers involved in a business: poor communication, loss of quantity buying power, wasted time, lack of accountability in the claims process, overbuying, under-

‘All work together, they learn together, they benefit from buying things together, exploiting the image together — there’s a lot of power in a large group.’

insuring and significant gaps in coverage.

“It’s best for the customer, and it’s good for the agency too, because quite honestly you can [increase] the size of the revenue you get out of your customer,” Ryan explains. “You have a better relationship and a much more profitable relationship.”

Quick Quotes vs. the Long-Term

Emphasizing the One Responsible Source approach also weeds out bargain basement shoppers and attracts serious clients who are willing to build a long-term relationship, the company believes.

Pearson doesn’t have much respect for such parsimonious clients, nor agents who focus their energies on providing free quotes. “It’s akin to a doctor: You go see him and he says, I can get you penicillin real cheap. Are you going to diagnose me and see what’s wrong? No, but I can get you penicillin real cheap. Would you go to that guy? And I think a lot of insurance agents, that’s what they’re all about: I can do it cheap. It may not be good, it may not fit, it may not even be what you need.”

Yet with the ISU approach: “Now we’re not in a price relationship where I got it a little bit cheaper for you. I become a source, the ‘one responsible source’ for your problems.”

The program also allows agents to tap into the technical expertise offered by ISU and concentrate on building relationships. “The One Responsible Source sales method doesn’t require that you have 10 years of technical knowledge,” Pearson says. “The system that we developed is more about a team approach, and it allows a young person new to the business, which this industry sadly needs, to be very successful.”

Instead of the old insurance sales strategy which he describes as “I’m the expert, I know everything and my 20 years’ experience is why you do business with me,” ISU promotes a newer paradigm: “I’m new in this business, I understand the concepts and I have experts behind me.”



Left to right: Cecilia West, T.J. Ryan, Carmen Blanco, Teresa Tomsen, Alex Eng, Cynthia Patterson, and Steve Pearson in front.



Standing left to right: Winston Velasco, Alex Eng, T. J. Ryan, Carmen Blanco, Tim Tomsen. Seated left to right: Cecilia West, Nyla Starr, Steve Pearson, Teresa Tomsen, Cynthia Patterson

This allows younger agents to create income faster and become excited about the possibilities of success, Ryan adds. “There’s an awful lot of guys who wash out of the insurance business just because it’s a slow ball to get rolling.”

Preserving Independence

ISU is well aware there are other networks and groupings that promise the benefits of technical resources, carrier access and premium aggregation to agencies. Company principals are quick to draw distinctions, such as the benefit of full independence.

A part of that emphasis is the decision to move away from the original identification of ISU as Insurance Systems Unlimited and instead promote a connection between the abbreviation and the concepts of Independence, Strength and Unity.

ISU pledges that member agencies will retain their name, completely own their agency, make all operating decisions, own their book of business and keep all of the commissions it earns. The goal is described as: “Be in business for yourself but not by yourself.” In addition, ISU promises agencies won’t find themselves ensnared in fine-print contract clauses, can pick and choose among programs and resources, and can leave without drama.

“We do not charge you to get out. If you want to leave, you leave — you’re an independent business; you do what you want to do,” Ryan says. “We’re dedicated to helping independent agents be independent. And we don’t tell them really to do anything other than to use our image correctly and comply with some simple insurance requirements.”

“We have a 10-day notice [that] you can leave us, and no one leaves,” Pearson says. “That’s a pretty good endorsement of what we have to offer.”

Leaving some other industry networks can be problematic, ISU warns. Ryan indicates that this has in the past sometimes prevented an agency from severing ties with an existing network to join ISU.

There can be hefty exit fees or requirements that agency business be consolidated with the group.

“Some of these models are a place of desperation for smaller insurance agencies,” Pearson says. “Every carrier has volume, the economy has turned bad, they can’t hit their volume numbers. ... That business is looking at closing down because they don’t have access.”

Another distinction ISU points to is the strong sense of community among members. “Our members share successful techniques,” explains Pearson. “Take any topic and someone in that group is going to be an expert in it, and they’re very willing to share. When any one member has an issue or a problem, we actually have a system by which we put an inquiry out to all the other members.”

The level of trust and cooperation is so high that twice last year ISU member agencies merged with others in the network, he notes.

Health Care Challenges

In the coming months and years, ISU’s concept of strength through unity will be tested not only by market forces, but also increasingly by the government. Passage of federal health care legislation and its slow roll-out guarantee a measure of uncertainty and instability in the industry.

“It’s a huge threat to benefits brokers,” Pearson says. “I think one of the disadvantages of the legislation is they’re trying to cap the profits of a health care company. Who will suffer more under the new legislation: the health care company or the professional agent who represents the products and explains to the consumer the advantages and disadvantages of different programs?”

“And if the profit is capped at a certain level, and that includes agent commissions, if you were the health care company what would you do — cut your own staff or cut the agent’s commission down? So I think agents’ commissions are definitely under threat.”

Somewhat ironically, this new threat to agency profits has increased interest among benefits brokers in ISU’s comprehensive approach. Lately, ISU has been fielding calls from benefits agents who think the time is right to diversify into P/C.

Agencies with a concentration in benefits have two problems, says Pearson: “One is their income is being squeezed, and the other is uncertainty. Nobody in the government or in the industry really understands how each of these bullet points is going to be implemented in the marketplace, and uncertainty causes a lot of turmoil.”

For Ryan, though the newly unfolding national health care structure is clearly change he cannot believe in, nor trust, his view of its impact on health insurance companies and independent agents is less apocalyptic. “The minds that are running those insurance companies are so far beyond the feeble minds that are running this country, there’s no comparison,” he says. “I think those companies are pretty sophisticated thinkers, and they’ll figure out a way to survive. Quite honestly, a lot of people think they’re in the catbird seat.”

The metaphor carries a familiar ring. In the end, that final thought sounds a lot like the way ISU sees itself: A community of creative minds that may not aspire to be too big to fail, just smart and adaptable enough to survive. ■