



The Risk Management Audit...Cost Prohibitive or a Cost-Efficient, Essential Customer Acquisition Tool?

By: F. Scott Addis, CPCU, CRA, CBWA

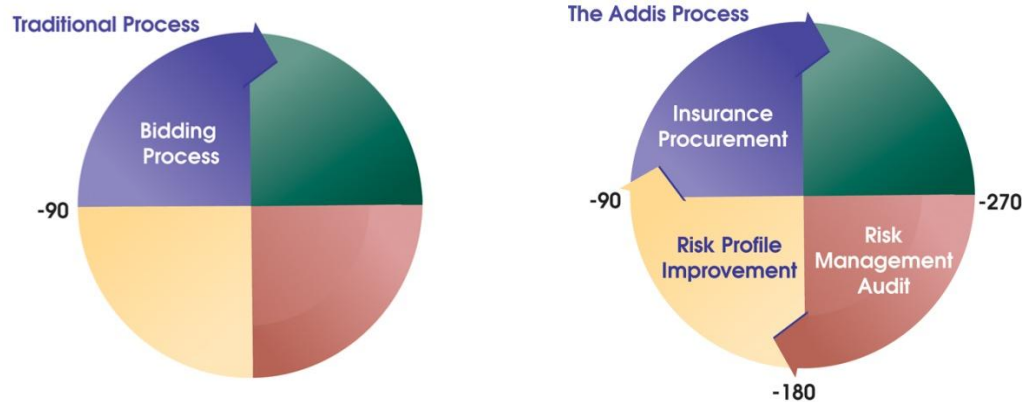
In 1990, I started an agency from scratch. No revenue, no carriers, no reputation. Only a \$50,000 credit line and a dream of serving as an Outsourced Risk Manager for the middle market business segment.

Knowing that I could not compete on price or product (as I had no market clout), and believing that the middle market consumer was starving for a differentiated approach, the concept of a Risk Management Audit (RMA) was born. This diagnostic customer acquisition assessment process would be focused on empowering organizations to identify, measure, prioritize and mitigate their exposures to loss. Instead of starting with the traditional "bidding process," The Addis Group offered a Risk Management Audit system three to four months after the insurance renewal.

The Addis Process™ was simple yet revolutionary. It began with a curiosity and desire to understand the inner workings of a business. If one does not understand the business and its issues, it is not possible to adequately perform exposure identification. The design and procurement of insurance is essential. It is an art. However, unlike many agents, brokers and

carriers, I did not see insurance as the cornerstone of deep, long standing and mutually profitable relationships. Insurance is a tool to transfer risk not a strategy to mitigate risk.

It was The Addis Group's goal to improve each client's risk profile before negotiating the insurance transaction. If the prospect did not want to partner with us to invest time to go through the Audit, we placed them on our mailing list and moved on.



©2016 Beyond Insurance. All rights reserved.

During the 1990's, The Addis Group took off. The firm boasted a new business hit ratio of 90%, client retention of 99%, numerous cross selling opportunities and a steady flow of qualified new business referrals. Most impressive was the firm's cumulative book of business loss ratio hovered around 25%-30%, half the industry average. While The Addis Group was gaining confidence and having fun with its simple, yet powerful customer acquisition tool, there were skeptics. Numerous industry consultants and seasoned agents and brokers believed that the Audit process was burdensome, inefficient and unprofitable. These skeptics assumed that the standard carrier commission schedule would not support The Addis Group's client acquisition and retention strategy. While The Addis Group was becoming a respected player in the Philadelphia marketplace, questions lingered. Was there a flaw in the model? Was the RMA cost prohibitive?

In 1999, Rough Notes magazine began tracking The Addis Group. In an article authored by Dennis Pillsbury entitled "Extreme Service" (August, 1999 issue), Mr. Pillsbury disagreed with the skeptics. He wrote that The Addis Group's commitment to extreme service for its clients seemed to indicate that the "service bar could be raised without affecting profitability. In fact, its success seems to indicate that going beyond insurance may well be one of the key ingredients towards survival in this increasingly competitive market." In a follow up article by Rough Notes (March, 2002) entitled "ERM Approach Leads to 90% Hit Ratio," Mr. Pillsbury's instincts were being validated. It was becoming increasingly clear that the Risk Management Audit was not flawed. Rather, it was proving to be an efficient and highly profitable tool to fuel organic growth. Elisabeth Boone confirmed Dennis Pillsbury's findings in a January, 2005 Rough Notes article

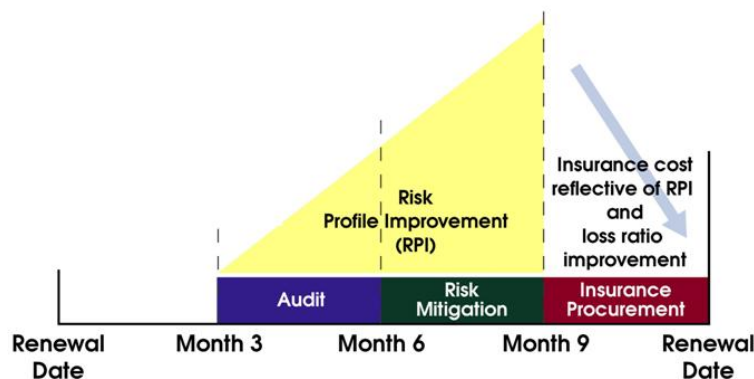
entitled “Meet at the Mega” in which she applauded The Addis Group’s Risk Management Audit process which demonstrated outstanding results.

The Addis Process had proven to be a winner with \$250,000 per employee revenue, profitability in excess of 30% and annual organic growth exceeding 25%.

Audit Process

The Risk Management Audit begins with an Action Plan which spells out the objectives, standards and steps of the engagement. This Plan serves as the blueprint for the Audit and holds The Addis Group and the prospective client accountable to each other. During the initial meeting, a point person from the prospective client’s organization is identified to gather appropriate information for the Audit. The prospect also identifies a cross section of people within the organization to participate in confidential one-on-one interviews. The CEO is strongly encouraged to participate in the interview process as his or her thoughts on risk issues are paramount.

Over the years, a number of tools and resources have been developed to support the Audit process including, but not limited to a cultural assessment, safety opinion survey, compliance audit and a quantifiable risk management assessment to benchmark organizational performance. These tools and others enhance the ability of The Addis Group to effectively and efficiently identify exposures and begin the process of risk profile improvement.



©2016 Beyond Insurance. All rights reserved.

It is essential to reinforce that the Audit is performed away from the 90-day insurance bidding cycle. As a standard practice, the Audit begins three to four months after insurance procurement. Depending on the size and complexity of the business, the Audit may take two weeks to two months to complete.

At the conclusion of the Risk Management Audit, The Addis Group presents a report which summarizes the results of the Audit. The typical report includes:

1. Review and purpose of the RMA
2. Identification and prioritization of risks
3. Evaluation of safety/risk management policies, procedures, training and orientation programs
4. Claims review and analysis
5. Insurance program design review
6. Action Plan for improvement

Far more often than not, The Addis Group is recognized as the broker of record at the conclusion of the Audit. No bidding. No specifications. No market research. No number crunching. No competing bids. No Acord forms. Just exposure identification and risk improvement strategies laid out in an Action Plan format. Simple, precise, efficient and extremely profitable. Of interest, The Addis Group chose not to charge for the Audit. It was the firm's belief that the Audit was an investment in building long term, trusted advisor relationships.

Dennis Pillsbury's 1999 intuition was right. The Risk Management Audit process takes less time than the traditional bidding exercise yet produces customer acquisition and retention ratios which are significantly higher than the industry average.

A regional underwriting manager for a major insurance company stated "The comprehensive risk strategy employed by Addis embodies the concepts of intimacy, intensity and integrity. The Addis Process greatly clarifies risk acceptance and pricing decisions by us and allows more comfort and flexibility in insurance program design. We have great faith in the Addis approach. It leverages all element of the Risk Management Process (diagnosis, design, implementation and monitoring) which invariably leads to a more rational and efficient allocation of our financial and human capital.

The Risk Management Audit – cost prohibitive or a cost efficient customer acquisition tool? The Addis Process gives us the answer.

About the Author

Scott Addis, CPCU, CRA, CBWA is the CEO of Beyond Insurance and is recognized as an industry leader having been named a Philadelphia finalist for *Inc. Magazine's* "Entrepreneur of the Year" award as well as one of the "25 Most Innovative Agents in America." Beyond Insurance is a consulting firm that offers leadership training, cultural transformation, and talent and tactical development for enlightened professionals who are looking to take their practice to the next level. Since 2007, the proven and repeatable processes of Beyond Insurance have transformed individuals and organizations as measured by enhanced organic growth, productivity, profitability, and value in the marketplace.