

“Insurance is NOT a Commodity” Series
**“How to Compete with Direct Writers in
Personal Lines...Combating Loss-Cost,
Price-Based Advertising with the
Independent Agent Advantage”**



Independent Insurance Agent

Presented by

Bill Wilson
Tim O'Brien

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William C. Wilson



Assoc. VP, Education & Research
Director, Big “I” Virtual University
Independent Insurance Agents & Brokers of America

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www.independentagent.com/VU

Bill Wilson, CPCU, ARM, AIM, AAM has served as a trainer and speaker for various organizations, including the Independent Insurance Agents & Brokers of America and 41 of its state affiliates, the CPCU Society national convention and chapter programs, the National Association of Insurance Women (NAIW), the Southern Agents Conference (SAC), the Risk & Insurance Managers Society (RIMS), the International Risk Management Institute (IRMI), and the Society of Risk Management Consultants (SRMC).

He has conducted hundreds of technical seminars, workshops and convention presentations—from Hawaii to Rhode Island and Alaska to Florida—as well as programs on time management, presentation and public speaking skills, seminar development, and many others. He has been the top-rated presenter at several CPCU National Conventions and his programs are always highly rated by attendees. He has presented seminars or webinars to as many as 5,000 attendees in a single session.

He was the recipient of the IIABA L.P. McCord National Education Award for having the #1 ranked state insurance education program in America and has won five other national education awards, including the George M. Gottheimer Memorial Award which is presented annually to a CPCU Society member who has made an outstanding contribution to the field of insurance education, risk management or insurance consulting.

Bill has researched, developed, written, and published dozens of technical articles, manuals and CDs/audio tapes, and has authored articles in business and industry trade periodicals such as *Presentations* magazine, *American Agent & Broker* magazine, *Independent Agent* magazine, *Tennessee Insuror* magazine, *Tennessee Business* magazine, the *CPCU Journal*, CPCU Interest Group newsletters, and the *SITE Journal*.

He has been quoted as an expert in a number of mainstream publications, including *Readers Digest*, *Kiplinger's*, and *Money* magazines and the *Wall Street Journal*, and he has been cited as an expert resource/interviewee in television and radio media. He has also served as an expert witness in litigation.

And, not that it has anything to do with this program, but Bill is an avid (notice we didn't say “god”) electric guitar blues player.

Timothy P. O'Brien



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Starting at an early age, Tim O'Brien has been an aggressive consumer advocate for his insurance clients and the independent agents he has served. Armed with the personal risk management experiences gained while working with three national insurance carriers and two of the world's largest international insurance brokers, Mr. O'Brien currently serves his clients and the trusted advisor community in the New York metropolitan area through his work with the private client services practice of Amaden Gay Agencies in East Hampton, New York.

An advocate for the integration of personal property and liability insurance planning into the broader wealth management and financial planning process, he promotes personal property and casualty risk management educational programs that provide continuing education credits to professionals in the accounting, legal, and financial services community.

Mr. O'Brien has coauthored articles with both accounting and legal practitioners that have been published in *The Practical Tax Lawyer*, *The CPA Journal*, and *The NYSBA Trusts and Estates Newsletter*, while also contributing articles to *Institutional Investor's Private Asset Manager* and other publications. In recognition of the commitment shown to his clients, Mr. O'Brien was awarded the JoAnn Heltibridle Award for Professional Excellence at the AIG Private Client Group's Risk Management Conference in 2007.

In 2008, Mr. O'Brien launched [Private Risk Advisor](#), a blog that provides the trusted adviser community with insights on managing the personal property and liability risks of financially successful individuals and families.

The Big “I” Virtual University

The Big “I” Virtual University (VU) is an online education, reference, and research facility that is available for free to members of the Independent Insurance Agents & Brokers of America and on a subscription basis to others.

This 4,000+ page resource includes a research library with articles, white papers, charts, checklists, policy form analysis, and other documents on insurance coverages, agency management, sales, customer service, and technology.

Big “I” members can also access an “Ask an Expert” service to submit questions about insurance coverages or claims or agency management and technology issues to over 50 subject matter experts from across America. The service has responded to somewhere near 30,000 questions since its inception.

The Virtual University (VU) also includes a selection of online courses, approved for CE in many states, as well as periodically offering national webinars by top industry educators. For information on online courses, go to www.bigivu.com and for information on webinars, visit the “Education” section at www.independentagent.com.

The VU publishes a bi-weekly award-winning email newsletter that typically includes six or more articles on personal lines, commercial lines, agency management, sales, customer service, and technology. This newsletter is free – you do not have to be a Big “I” member agency to subscribe – and is distributed to more than 16,000 recipients in 70 countries around the world.

For more information, go to www.bigivu.com or email bill.wilson@iiaba.net.

- Visit the VU at www.BigIVU.com
 - Free bi-weekly email newsletter
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Recently Recorded Webinars

- Certificates of Insurance
- Cyber Risk Exposures and Insurance*
- The Additional Insured Illusion
- The NEW 2013 ISO CGL Changes
- 2012 ISO Commercial Property Changes
- NCCI Experience Rating Split Point Change*
- Commercial Crime Coverage
- CRITICAL 2013 National Flood Insurance Program Changes and Issues Every Agent Needs to Know
- ISO’s New HO Program...A Review of 2011 Changes
- 12 Personal Lines Hot Topics, Emerging Issues, Infuriating Claim Denials and Catastrophic Coverage Gaps
- Using the Best Practices Study*

* Free webinar

“How to Compete with Direct Writers in Personal Lines...

Combating Low-Cost, Price-Based Advertising with the Independent Agent Advantage”



Independent Insurance Agent

Presenters:

- **Bill Wilson**
Big “I” Virtual University
- **Tim O’Brien**
Amaden Gay Agencies
- **Paul Martin**
Project CAP



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Introduction

- *An Inarguable Truth*
- *An Inarguable Untruth*
- *Arguable Truth?*
- *Another Inarguable Truth*
- *Trust and Consumers*
- *Is Insurance a Commodity?*
- *Cavemen, Lizards and Discount Store Clerks, Oh My!*
- *Conclusions and Solutions*

Truth and Trust... have you ever realized there's only one letter difference? maybe it's because, one leads to the other.



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But, first a word from...



“Right now, the majority of personal lines business isn't with independent agents. Project CAP gives us a chance to win locally by competing nationally. It's a way to gain business for our own agencies, while joining other agents in a cause to recapture national market share. The opportunity is unlimited. This is our market - and this is our time.”

– **Tom Minkler, President, Clark-Mortenson Agency**



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And a word about...

Branding and Trusted Choice®

“Circumstances favor the leading brand when the category is confusing, when comparison is difficult, when the price is high, when the interest level is low, when a standard is needed, when the benefits are intangible, when the features are technical, when the advantages are unprovable, when the risk factor is high, when customers want prestige.”

– Marty Numeiers in the book ZAG



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AN INARGUABLE TRUTH

For example...



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AN INARGUABLE UNTRUTH

“All auto insurance is exactly the same. It doesn’t matter what company you get it from. It’s just a question of finding the lowest rate. But the reason these companies spend so much on advertising is that there are millions of idiots in this country who actually believe that there is a difference between different brands of auto insurance. These people have not yet figured out that they are being lied to, that all auto insurance is the same.”

<https://www.youtube.com/watch?v=J7vYuRqrOxc>



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AN INARGUABLE UNTRUTH (cont'd)

"The distinctions, typically made via mass advertising, that big insurance brands attempt to draw between each other, are baldfaced lies. Insurance is a *commodity*. Other examples of commodities are: grain, gold, oil, silver, electricity, copper, aspirin. Anything where the end product is the same *no matter which company you buy it from*. Insurance has become commoditized because the marketplace for it is so heavily regulated by state governments, that insurance companies have very, very little leeway in the kinds of services they can actually provide. Each and every detail of the entire auto insurance dance -- from the price of the premiums to the legal responsibilities of drivers who are involved in an accident -- are codified in state law, and if these laws change at all, they do so only at a glacial legislative pace. Even if an insurance company *wanted* to do something radically different, it would be literally impossible. Again: All auto insurance is the same."

<http://buzzquote.me/>



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ARGUABLE TRUTH?

Sample State Unfair Trade Practices Statute excerpt:

Misrepresentations and False Advertising of Insurance Policies. Making, issuing, circulating, or causing to be made, issued or circulated, any estimate, illustration, circular or statement, sales presentation, omission or comparison that...

- Misrepresents the benefits, advantages, conditions or terms of any policy...
- Uses any name or title of any policy or class of policies misrepresenting the true nature of the policy or class of policies...

False Information and Advertising Generally. Making, publishing, disseminating, circulating or placing before the public, or causing, directly or indirectly to be made, published disseminated, circulated, or placed before the public...an advertisement, announcement or statement containing any assertion, representation or statement with respect to the business of insurance...that is untrue, deceptive or misleading;



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ANOTHER INARGUABLE TRUTH

The cornerstone of the independent agent advantage in competing *and beating* direct sales organizations consists of...

- Trust
- Choice
- Advocacy



Independent Insurance Agent

www.TrustedChoice.com



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Trust and Consumers

The 2014 Edelman Trust Barometer Survey

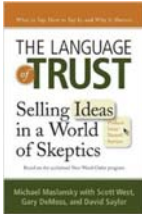
<http://www.edelman.com/insights/intellectual-property/2014-edelman-trust-barometer/>



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Trust and Consumers

"The Language of TRUST...Selling Ideas in a World of Skeptics" by Michael Maslansky



- Be personal
- Be plainspoken
- Be positive
- Be plausible



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The Independent Agent Advantage

"Trusted Choice® agencies are insurance and financial services firms whose access to multiple companies and commitment to quality service enable us to offer our clients competitive pricing, a broad choice of products, and unparalleled advocacy."

Trusted Choice® Pledge of Performance



Independent Insurance Agent



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The Independent Agent Advantage

Once again...the cornerstone of the independent agent advantage in competing *and beating* direct sales organizations consists of...

- **Trust**
 - Trusted relationship
 - Credibility (particularly product knowledge)
- **Choice**
 - Coverage and pricing options
 - Customization of products
- **Advocacy**



Independent Insurance Agent



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So.....

COMMODITIES



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Is Insurance a Commodity?

- What the "experts" say
- What consumer and business media say
- What noninsurance "experts" say



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What the “experts” say...

- McKinsey & Company
- Best’s Special Report
- Nomura Equity Research
- Gartner
- J.D. Power
- Conning
- Channel Harvest Research
- University of Minnesota Law School



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McKinsey & Company

“Agents of the Future: The Evolution of Property and Casualty Insurance Distribution”

- Advances in predictive modeling are making the agent’s role in risk selection and pricing obsolete
- Auto insurance (70% of personal lines) is fast becoming commoditized
- Carriers interacting more directly with customers at lower cost and often more consistent service levels
- Prediction: *“The End of an Era for the Local Insurance Agent”*



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McKinsey & Company (cont’d)

- Independent agents are using comparative raters to generate commodity-like price quotes
- The flood of price-centric marketing for auto insurance has conditioned consumers to focus on price as the primary buying factor
- Direct advertising more efficient than agency marketing (implied)
- Homeowners and small commercial: *“These lines are inherently more complex than auto, and the insured assets are larger; so consumers still find the counsel of a local agent valuable.”*



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McKinsey & Company (cont'd)

- With online booking available, the number of travel agents dropped from 47,000 in 1995 to 14,000 in 2011
- “With easy access to so much free information, customers are increasingly unwilling to pay for generalist advice.”
- The report co-author in *Independent Agent* magazine, January 2014: “...but agent commission structures remain largely unchanged.”



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McKinsey & Company (cont'd)

Our Counterpoints:

- Auto insurance IS complex and not homogenous
- The study’s “typical large agent” profile is based on an agency with 10% commercial lines
- Agency marketing incurs little direct cost for the carrier until business is actually booked
- Agent-produced business retention is better
- ACT LinkedIn discussion of this report: <http://tinyurl.com/ACTMcKinsey>



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McKinsey & Company (cont'd)

Our Counterpoints (cont'd)...

“Agents can successfully counter the emerging perception of auto insurance as a commodity by ‘going opposite’ with their marketing strategy and fully embracing both a local, relationship-based strategy that leverages technology and the Consumer Agent Portal.”



Bob Rusbuldt, CEO
IIABA
Independent Agent magazine, January 2014



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Best's Special Report

"Distribution Trends Continue to Shift in the Private Passenger Automobile Market"

- "In the highly commoditized private passenger automobile (PPA) segment...."
- "While a direct-only strategy benefits from lower acquisition costs...."

Counterpoint...loss ratios for independent agent-produced business are better than any other channel and how are acquisition costs quantified?



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Nomura Equity Research

"GEICO Winning the Direct War"

- Auto insurance has been commoditized
- The direct model wins
- The consumer wants *the product* cheap
- The Independent Agent's (IA) value is diminishing

"The bitterness of no coverage is remembered long after the sweetness of low price has been forgotten."

– John Eubank, CPCU, ARM,
Professional Insurance Education, Inc.



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Nomura Equity Research (cont'd)

Interview from *INN Breaking News*, November 7, 2013:

"Consumer mindset has changed with regard to online shopping...people are comfortable buying that's that are more complex like insurance."

"GEICO is the only pure direct auto insurance company and it's fully leveraging its advantages. They never have to pay any agents. Since agents take 10-12% of premiums, they can save that and largely pass it on to the consumer and spend it on advertising."



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Gartner

"Next, Social Networks Will Sell Insurance, Become Banks"

- Warns that social networks are commoditizing the financial services and insurance sectors
- Expect one (Facebook?) to enter the P&C industry by the end of 2014
- Advise insurers to plan now for the commoditization of their products and services, implying sales through portals like cloud services



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Regarding online insurance sales...

"Just as the internet has been a boon for child molesters and Nigerian scam artists, it is also an equally proficient medium for selling inferior products. When most consumers can't or won't compare insurance policies and know what they're getting for their money, relying on a faceless internet sales agent won't help much when they desperately need an advocate at claim time."



Bill Wilson
Opinionated insurance nerd



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Regarding online insurance sales...

Morty Seinfeld said it best:



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J.D. Power

"2013 U.S. Auto Insurance Shopping Study"

- 23% of consumers shopped auto insurance in the past year (a six-year low)
- 45% of shoppers switched insurers (a six-year high)
- Insurer satisfaction is at an all-time high of 804/1000 and is influenced more by price than by distribution channel
- Local agents remain as influential as in previous years



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J.D. Power (cont'd)

- 41% of shoppers cited price as a reason for their purchasing decision
- 76% of shoppers who did not purchase a policy following a quote cited price as a reason
- **HOWEVER**, price accounted for only 28% of overall customer satisfaction with the purchase experience, less important than, e.g., policy offerings (29%)....



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J.D. Power (cont'd)

"2014 Property Claims Satisfaction Study"

- 0-1000 rating scale based on settlement, first notice of loss, estimation process, service interaction, and repair process
- HO loss settlement improved by 4 points overall
- Third-party damage inspection declined from 20% to 15% of claims
- How about *denied* claims?
- **NONE** of the top rated insurers in the study primarily use direct sales as a marketing channel



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Conning

"Growth and Profit Leaders in Personal Lines Insurance"

- 12 of 18 personal lines insurers that have outperformed their peers in both growth and profitability over the past decade use the independent agency distribution channel
- 14 of 18 growth and profit leaders were smaller insurers (premium volume less than \$500M)
- Only 4 of the successful insurers appear in the top 25 writers in either auto or homeowners insurance



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Channel Harvest Research

"2012 Survey of Agent-Carrier Relationships"

- 1/3 of agents said more expensive carriers were selected 25% of the time or more
- Some agents report that more than half of their customers go with higher-priced policies
- Reasons most often cited for selecting higher priced products were:
 - Having the right coverages
 - Add-on features
 - Prior poor service or claims experience with low-cost carriers



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U. of Minnesota Law School

"Reevaluating Standardized Insurance Policies" by Daniel Schwarcz

<http://uphelp.org/sites/default/files/SSRN-id1687909.pdf>

"The current personal-lines insurance marketplace is largely organized around a myth. That myth is that personal-lines insurance policies are completely uniform. This myth explains regulatory rules that do nothing to promote insurance contract transparency."



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U. of Minnesota Law School (cont'd)

“Different carriers’ homeowners policies differ radically with respect to numerous important coverage provisions. A substantial majority of these deviations produce decreases in the amount of coverage relative to the presumptive industry standard, though some deviations increase coverage.”

“These insurers have actively hidden and obscured this trend, in notable contrast to the comparatively transparent marketing of the few carriers who have departed from standardized policies to improve coverage.”



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U. of Minnesota Law School (cont'd)

“If regulators do not act to substantially improve consumer protection in this domain, then it can be expected that coverage will continue to degrade for most carriers, in a modern-day reenactment of the race to the bottom in fire insurance that triggered the first wave of standardized insurance policies.”



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U. of Minnesota Law School (cont'd)

“It is virtually impossible for consumers to comparison shop on the basis of these pervasive differences in policy forms” because:

- Insurers refuse to make their policy forms publicly available before purchase
- There is a widespread perception among independent and captive agents that all homeowners policies are essentially the same
- Many of the insurers who use the most unfavorable forms also utilize captive agents, rather than independent agents, who are particularly unlikely to be knowledgeable or forthcoming about how different carriers’ policy forms compare



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Another expert...

"Insurers can't slip in an exclusion like 'This policy will not cover accidents if the driver has more than two moving violations at the time of the loss.' All forms are substantially similar as respects the core coverage in the policy.

"Can anybody cite a material difference between any two personal auto policies? Aren't they required to be substantially similar? You can go to numerous websites, enter your information, and get 10 quotes in minutes. All you get is the price. It would be totally unreasonable to expect the buyer to review all 10 policy forms and select the best one. And there probably isn't a best one."

Corporate risk manager on RiskList@YahooGroups.com



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What the media say...

- Daily Finance
- Yahoo! Finance
- Insure.com on auto insurance
- Insure.com on renter's insurance
- Wall Street Journal
- Training magazine



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Daily Finance

"Shop Around to Save Big Bucks On Car Insurance"

- Make sure you're comparing 'apples to apples'
- "Compare similar coverages and limits from each company to get the most accurate picture."
- "Do an informal audit to determine exactly which coverages you need, and get rid of those you don't. The more liability insurance you carry, the higher your premiums will be."



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Forbes and Yahoo! Finance

"15 Insurance Policies You Don't Need"

http://finance.yahoo.com/news/pf_article_109906.html

9. Flood Insurance

Unless you live in a flood plain or an area with a history of water problems, don't even bother buying flood insurance. If none of the homes in the area has ever been flooded, yours is unlikely to be the first.



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Insure.com on auto insurance

"How to Cut Your Car Insurance Bill in Half"

October 19, 2010

<http://www.insure.com/car-insurance/minimum-limits.html>



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Insure.com on renter's insurance

Consumer Question:

"I was a renter in the same residence for nine years and had an accidental fire which severely damaged one room. Not only did our landlord ask us to leave, but now their insurance company is coming after us for the claim. (We received none of this money, but the way.) We did not have renters insurance which I am being led to believe would not have covered the dwelling, only the contents or my personal belongings. I have never heard of this, and I haven't recovered from my own losses. What are my rights and what can I do to stop this?"

The response...



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Insure.com on renter's insurance

Insure.com Response:

You're right in believing that renters insurance only would have covered your personal belongings. Insurance for the structural space you are living in should be covered under your landlord's policy. Even if your landlord has not purchased landlords insurance, this does not mean that liability lies with you. According to [Here the site names an insurance company that shall remain anonymous because we can't believe that someone there actually said this. - Ed.], the fact that you do not own the property means that you are not legally liable for damage done to it. You should ask your landlord's company to give you the rule in writing that allows them to come after you for payment.



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Wall Street Journal

- "Insurance Fees Revealed"
- "Car Insurance: Rate Shopping Can Pay Off"
- "The Consumer Federation recommends consumers shop around to get quotes from insurers that don't use agents, such as Amica Mutual Insurance and USAA (for families with military ties), and then ask an agent to beat the best price."



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Training magazine

"But for things that come in relatively standard forms and well-known formats, such as commodity selling (**insurance**, automobiles, mortgages, etc.), the emphasis is as much on the personality and credibility of the salesperson, as the advantages of the product... The goal of commodity selling is to sell the salesperson. The goal of technical selling is to sell the product."

— Training magazine, July 2002



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And the noninsurance “experts”...

- Attorneys and teen drivers
- CPAs and auto titling
- Financial planners and trusts
- Plumbers, roofers, police officers, etc.
- “A guy at a bar told me...”



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Cavemen, Lizards and Clerks, Oh My!

- Industry Advertising
- Regulators
- Personal Auto coverages
- Homeowners coverages
- On coverage and pricing issues...



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Industry Advertising

- “Save 15%!”
- “Minimum Coverage for Minimum Budgets”
- “**Same coverage**, better value!”
- “**Same coverage**, more savings.”
- “You get the **same coverage**, often for less.”



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ARGUABLE TRUTH REDUX?

Sample State Unfair Trade Practices Statute excerpt:

Misrepresentations and False Advertising of Insurance Policies. Making, issuing, circulating, or causing to be made, issued or circulated, any estimate, illustration, circular or statement, sales presentation, omission or comparison that...

- Misrepresents the benefits, advantages, conditions or terms of any policy...
- Uses any name or title of any policy or class of policies misrepresenting the true nature of the policy or class of policies...

False Information and Advertising Generally. Making, publishing, disseminating, circulating or placing before the public, or causing, directly or indirectly to be made, published disseminated, circulated, or placed before the public...an advertisement, announcement or statement containing any assertion, representation or statement with respect to the business of insurance...that is untrue, deceptive or misleading;



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Industry "Advertising" (cont'd)

- [Representative] with [huge insurance company] spoke at an agents conference to the cost structure of personal auto and the importance of competing on price to reduce cost.
- "I think the insurance industry has created that monster, that price is all that matters." – Russ Berryhill, Nationwide agent

Arkansas Business

"Internet Insurance Model Gains Market Share, Frustrates Brokers"

October 12, 2009

<http://www.arkansasbusiness.com/article/38499/internet-insurance-model-gains-market-share-frustrates-brokers?page=all>



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Regulators

- Admitted markets
- E&S marketplace
- Texas Insurance Department

"Buyer Be Informed: Not All Auto Insurance Policies Are the Same"

While Texas financial responsibility laws require all drivers to have liability coverage, not all auto liability insurance policies are equal. Language, coverages, and exclusions vary from policy to policy. Be sure you know exactly who and what is covered under any insurance policy you consider purchasing.

<http://www.opic.state.tx.us/automobile/buyer-be-informed-not-all-auto-insurance-policies-are-the-same>



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Regulators (cont'd)

California Insurance Department

Insurance companies must offer the following coverage with every automobile policy:

- Uninsured / Underinsured Motorist

Most insurance companies will also offer the following optional coverages:

- Medical Payments
- Physical Damage (collision and comprehensive)
- Endorsements/Riders

<http://www.insurance.ca.gov/0100-consumers/0060-information-guides/0010-automobile/Auto-insurance-101.cfm>



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Personal Auto

Policy included a document suggesting the insured consider reducing UM/UIM limits from the current 100/300/50 to 25/50/10

Guess the Premium Savings:

- a. \$ 9.51
- b. \$156.78
- c. \$282.50
- d. \$746.00



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Personal Auto (cont'd)

- Undisclosed household residents are excluded
- Named insureds driving another resident family member's auto are excluded
- Numerous physical damage shortcomings
- Any type of delivery is excluded
- Theft excluded without evidence of forced entry

More...



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Personal Auto (cont'd)

- Business use of nonowned pickups and vans excluded
- Business use of ANY nonowned auto excluded
- ANY business use excluded
- Use of any nonowned auto over 10,000 GVW excluded
- Use of ANY nonowned auto excluded
- Rental car exclusions

More...



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Personal Auto (cont'd)

- Some carriers are known for poor claims handling
- Some permissive users only get minimum limits
- Unlisted drivers in the household only get minimum limits
- Indirect property damage not covered
- Policy excludes "street racing"
- But...one policy covers the use of nonowned motorcycles



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Personal Auto (cont'd)

- Medical payments only covers licensed physician fees
- Criminal acts excluded or limits are reduced
- No options to cover custom equipment
- Punitive damages excluded
- "Our duty to settle or defend ends when our limit of liability for this coverage has been exhausted by payment of judgments or settlements."



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Personal Auto (cont'd)

Insurer advertises that they sell the “same coverage” as everyone else...

- A youthful driver moved into the household after the policy was written...a January 2014 property damage liability claim was denied due to nondisclosure
- A church allowed someone to park his car in their heated bus barn in ND...he damaged the garage door and the claim was denied by his auto insurer based on the care, custody or control exclusion in their policy



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Personal Auto (cont'd)

An insurer that says they save you 15%:

- Insured’s car was in the shop so she rented a car and loaned it to someone who loaned it to someone who negligent killed someone and critically injured others
- Insurer denied the claim on the basis that the vehicle was not a “temporary substitute” and the operator was not an insured
- This appears to be covered by the ISO PAP

<http://www.floridasupremecourt.org/decisions/2011/sc10-1070.pdf>



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Personal Auto (cont'd)

VU “Ask an Expert” Service:

Dad A, Mom B, and Son C are insured by Company 1 in Florida. Stepson X resides in Maine. Dad A cosigns a loan for a car for Stepson X. Stepson X insures car in Maine with Company 2...policy only names Stepson X, not Dad A. Stepson X moves in with family in Florida and advises Company 2 of the change (policy still does not name Dad A). Son C backs Mom B’s car insured by Company 1 into Stepson X’s car in the driveway. Company 2 repairs Stepson X’s car and subrogates against Son C and Company 1. Company 1 denies the claim because Dad A owns both cars.

- **Would direct sales insurers be able to figure this out?**
- **Would an independent agent be able to figure this out?**
Hint: “We do not provide Liability Coverage for any ‘insured’...For ‘property damage’ to property owned or being transported by that ‘insured’.”



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Homeowners

- “Reevaluating Standardized Insurance Policies”
 - **Property Coverage**
 - Concurrent causation
 - Broadness of insuring agreement language
 - Increased risk exclusions
 - Water damage and mold
 - Pollution exclusions
 - Theft coverage
 - Collapse coverage
 - Power surge
 - Special personal property limits
 - Ordinance or law coverage
 - Water damage from off-premises sources



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Homeowners (cont’d)

- “Reevaluating Standardized Insurance Policies”
 - **Liability Coverage**
 - What constitutes bodily injury
 - Property damage loss of use
 - Occurrence definition
 - Expected or intended exclusion
 - Contractual liability coverage
 - Host liquor liability
 - Pollution, mold and lead liability
 - Personal injury liability

“Reevaluating Standardized Insurance Policies”
<http://uphelp.org/sites/default/files/SSRN-id1687909.pdf>



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Homeowners (cont’d)

- Roof valuation on an ACV vs. RC basis
- “Matching” consequential damage
- Water pipe leaks for weeks/months/years
- Who let the dogs out?
- Other animals (including “vermin”)
- **Change in Occupancy or Usage of Residence Premises**

“If the company has not been promptly notified of a change in occupancy or usage of the residence premises, any loss occurring during or after that time will be excluded from coverage.”



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Homeowners (cont'd)

- “Where You Reside” issue
<http://www.independentagent.com/Education/VU/Pages/featured-resources/reside/where-you-reside.aspx>
- Total unoccupancy exclusion after 30 days
- Off-premises structures (e.g., boat docks)
- Policy excluded “conversion”
- “Cheney Exclusion”
- \$50,000 in yard solar panels were excluded in a “Special Provisions” section of the HO policy



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Homeowners (cont'd)

- Total watercraft liability exclusion
- No off-premises personal property coverage
- No personal property coverage outside the dwelling
- No coverage of any kind for riding mowers
- Liability exclusions for certain pools, trampolines, firearms (including BB guns), tree houses, criminal activity, and much more
- Property in self-storage warehouses
- HO-3 vs. HO-8



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Homeowners (cont'd)

- **No coverage for business use of dwelling**
“Coverage A – Dwelling...This coverage does not apply to any dwelling used in whole or in part for ‘business’.”
- **From the insurer’s web site:**
“No Sleight of Hand. We offer the levels of quality coverage you want for peace of mind, as well as options that enable you to customize your policy to meet your individual needs. Unlike many other national carriers we don’t automatically default to 10% coverage on outbuildings and other structures like cottages and barns that may not exist on your property. Instead, we pass those savings on to you!”



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Homeowners (cont'd)

What is an "occurrence"?

- **Occurrence** means an accident....
- **Accident** means a fortuitous event that is neither reasonably anticipated nor reasonably foreseen from the standpoint of any insured person **and any person suffering injury or damages as a result.**
- **Accident scenario:** You're hosting a cocktail party and one guest makes an unwanted, lascivious advance on the wife of another guest, so the wife's husband opens up a can of Bobby Boucher on him, resulting in serious injury. If the injured party should have reasonably foreseen or anticipated a thrashing, no accident has occurred and there is no liability coverage for the suit against the named insured.



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On coverage and pricing issues...

Two of the reasons insurers reduce coverages

- Declining loss experience coupled with rate inadequacy
- The perception of commoditization

"Integrity is not just the absence of lying, but telling the whole truth, as painful as it may be."

— Bill George, former CEO of Medtronic
in Authentic Leadership



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On coverage and pricing issues...

What pricing competition can lead to...

- After his home was destroyed by fire, an insured filed a claim with his HO insurer
- The company denied coverage for numerous reasons, including the claim of material misrepresentation on his application
- *The rest of the story...*



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Conclusions and Solutions

- What WE Can Do
- Minimum Standards?
- 10 Things Consumers Can Do to Control Insurance Costs
- ADVOCACY

"Why should a consumer pay more for an agent that does not do anything?" – Agency management consultant



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What WE Can Do...Trust

- "Integrity is not just the absence of lying, but telling the whole truth, as painful as it may be."
— Bill George, former CEO of Medtronic in Authentic Leadership
- With trust comes responsibility and accountability. You MUST know what you're doing.



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What WE Can Do...Education

- "[E]vidence suggests that many insurance agents are both unaware of potential differences in coverage among carriers and unfamiliar with many details of the coverage they sell." – Daniel Schwarcz
 - ✓ "It really does come down to agents knowing their carriers' products. Auto is tricky because most coverages are the same for everyone, but not all carriers offer the same types of endorsements or policy terms (6 mos or 12 mos), etc." - Independent agency CSR
 - ✓ "Does 'a' homeowners policy cover...."
 - ✓ "Does 'a driver exclusion endorsement' exclude...."



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What WE Can Do...Education

The Good, The Bad and The Ugly

- External...educate your customers AND prospects
- Internal...CE vs. education



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What WE Can Do...Education



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Minimum Standards?

- "To the extent that true transparency proves impossible, states should impose mandatory floors on homeowners policies in much the same way they historically did with fire insurance policies." – Daniel Schwarcz
 - Are minimum coverage standards for personal auto and homeowners policies in order in much the same way as minimum financial responsibility limits?
 - Should insurers publicly post their policy forms online?



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Minimum Standards? (cont'd)

- “Notably, the carriers who employ the least generous policy forms disproportionately use captive agents to distribute their policies, whereas the companies with the unusually generous policies tend to rely on independent agents.” – Daniel Schwarcz
- If true, this is a *significant* independent agent advantage



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10 Ways to Control Costs

1. Investigate coverage and product options with your independent insurance agent.
2. Carefully consider whether increasing deductibles NOW is appropriate.
3. Consider multiple-policy discounts.
4. Ask for credits.
5. If you're going to drop coverages, consider dropping noncritical coverages.

More...



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10 Ways to Control Costs (cont'd)

6. CAREFULLY consider dropping physical damage coverage on your vehicles.
7. Weigh risk management alternatives to insurance.
8. If necessary, sell some possessions.
9. Seek expert advice.
10. Question any advice you get, even the advice you get here! Ask questions.

Source: "[Reducing Insurance Costs...Distinguishing Bad Advice from Good Advice](#)"



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ADVOCACY

"[I]nsurers are likely to be much better able to exploit consumer ignorance of company-specific differences if those consumers do not have access to an intermediary that is informed about these differences."

– Daniel Schwarcz



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ADVOCACY (cont'd)

We now know something about the **independent agent advantage** that benefits your customers.

So what about a **Big "I" advantage** that benefits YOU?



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Resources

Big "I" Virtual University:

- ["Is Insurance a Commodity? Should It Be Sold That Way?"](#)
- ["Reducing Insurance Costs...Distinguishing Bad Advice from Good Advice"](#)
- ["The REAL Value of a Renter's Policy \(and EXPERT Advice\)"](#)
- ["Comparing Apples to Oranges"](#)
- ["The Danger of Buying Insurance on the Internet"](#)
- ["Insurance vs. Legal Advice"](#)
- ["Five Important Questions to Ask an Agent About Your Insurance Coverage"](#)
- ["Marketing Personal Lines"](#)
- ["Doorknob Marketing"](#)
- Looking for something on the VU you can't find? Email bill.wilson@iiaba.net.

Be sure to sign up for our free bi-weekly email newsletter, *The VUpaint*, to get updates on our ongoing efforts in this area. Each issue usually includes six articles on coverages, agency management, sales, service, etc. and we provide notice of major changes like new ISO filings and upcoming webinars.

<http://www.independentagent.com/Education/VU/Pages/VU-point/VU-point.aspx>



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Resources (cont'd)

Other IIABA Sources:

- ["The Independent Agents' Opportunity to Take Back Personal Lines"](#)
- [Trusted Choice](#)
- [Project CAP](#)
- [ACT](#)
- [Best Practices](#)
- [Marketshare Report](#)
- [Virtual Risk Consultant](#)
- [Big "I" Markets](#)
- [Project InVEST](#)

"Right now, the majority of personal lines business isn't with independent agents. Project CAP gives us a chance to win locally by competing nationally. It's a way to gain business for our own agencies, while joining other agents in a cause to recapture national market share. The opportunity is unlimited. This is our market - and this is our time."

Tom Minkler, President, Clark-Mortenson Agency



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Resources (cont'd)

Other Sources:

- ["Insurance as a Commodity? Addressing Our Industry's Biggest Challenge"](#)
- ["The 2014 Edleman Trust Barometer Survey"](#)
- ["McKinsey Report"](#)
- ["Best's Special Report"](#)
- ["Nomura Equity Research: GEICO Winning the Direct War"](#)
- ["Geico & Psychology"](#)
- ["Gartner: Next, Social Networks Will Sell Insurance, Become Banks"](#)
- ["Conning: Growth and Profit Leaders in Personal Lines Insurance"](#)
- ["Channel Harvest Research: 2012 Survey of Agent-Carrier Relationships"](#)
- ["J.D. Power 2013 U.S. Auto Insurance Shopping Study"](#)
- ["J.D. Power 2014 Property Claims Satisfaction Survey"](#)
- ["Reevaluating Standardized Insurance Policies"](#)
- ["Unfair Trade Practices in All 50 States"](#)



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- Certificates of Insurance
- Cyber Risk Exposures and Insurance*
- The Additional Insured Illusion
- The NEW 2013 ISO CGL Changes
- 2012 ISO Commercial Property Changes
- NCCI Experience Rating Split Point Change*
- Commercial Crime Coverage
- CRITICAL 2013 National Flood Insurance Program Changes and Issues Every Agent Needs to Know
- ISO's New HO Program...A Review of 2011 Changes
- 12 Personal Lines Hot Topics, Emerging Issues, Infuriating Claim Denials and Catastrophic Coverage Gaps
- Using the Best Practices Study*

* Free webinar



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