

Competing with Direct Sales and Captive Agency Insurers in both Personal and Commercial Lines

Part One: **The Landscape is Quickly Changing**



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Objectives

- Discuss ways of **getting the** carrier companies **to** provide more in the way of training, service, **etc.**
- Bring about more of an **awareness of the** current competitive landscape nationwide.
- Cover the perceived advantages of both Captive agents and Independent agents/brokers respectively and how Independent agents/brokers can better utilize their strengths to compete with the Captive agent.

Poll Question

Have you been an Independent Agent or Broker or part of an agency or brokerage firm?

1. Less than a year
2. 1-5 years
3. 6-10 years
4. More than 10 years

Sales Distribution Channels

- Captive Agents
- Independent Agents
- Direct Writers/Online
- Hybrids

Exhibit 2
Local agents continue to touch the majority of business across personal auto, homeowners and small commercial



Exhibit 1
Auto insurance customers are using more channels in their shopping journey



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www.mckinsey.com/industries/financial_services

PROPERTY/CASUALTY INSURANCE DISTRIBUTION

Agency writers, whose products are sold by independent agents or brokers representing several companies; and direct writers, which sell their own products through captive agents by mail, telephone, or via the Internet and other means, each account for about half of the property/casualty (P/C) market. There is a degree of overlap as many insurers use multiple channels.

A.M. Best organizes insurance into two main distribution channels: agency writers and direct writers. The "agency writer" category includes insurers that distribute through independent agencies, brokers, general agents and managing general agents. The "direct writer" category includes insurers that distribute through the Internet, exclusive/captive agents, direct response and affinity groups.

- In 2013 direct writers accounted for 53.5 percent of P/C insurance net premiums, while agency writers accounted for 46.5 percent, according to A.M. Best.*
- In the personal auto market, direct writers accounted for 71.4 percent of net premiums written in 2013 and agency writers accounted for 27.6 percent. Direct writers accounted for 83.3 percent of the noncommercial market and agency writers accounted for 21.8 percent. Direct writers accounted for 72.9 percent of the personal auto market and agency writers accounted for 27.2 percent.*
- Agency writers accounted for 67.2 percent of commercial P/C net premiums, while direct writers accounted for 32.7 percent.*

*Unspecified distribution channels accounted for the remainder.

There were 35,000 independent agencies in the U.S. in 2012, up from 32,000 in 2011, according to the National Insurance Agents and Brokers Association's 2013 Agency Channel Survey.

13 percent of the agencies had reported a decline in 2013. 14 percent of those were reporting one contract or less. Another 14 percent reported no contracts in 2013. 13 percent of those agencies reported an increase in 2013. 13 percent of those agencies reported a decline in 2013.

13 percent of agencies report that they had opened an exclusive agent relationship in the past year.

Insurance Information Institute- www.iii.org

Buying Insurance: Evolving Distribution Channels

OCTOBER 2014

UP FRONT

- Insurance is generally bought directly through an insurer (through its captive agents, the web or other direct channels) or through independent agents and commercial brokers who provide access to the products of several insurers.
- Direct writers dominate auto and homeowners insurance sales, accounting for about 73 and 69 percent, respectively, of net premiums written in 2013, according to A.M. Best.
- Independent agents and brokers dominate commercial sales, accounting for 67 percent of net premiums written in 2013, according to A.M. Best, which classifies such writers as "agency writers."
- About 3.1 million auto insurance policies were purchased online in 2012, according to ComScore.

Insurance Information Institute- www.iii.org

Poll Question

Do you write business through a carrier who is affiliated with a company that includes Captive agents...such as Nationwide, Liberty Mutual, Allstate, etc.?

Example: Encompass Insurance utilizes Independent agents and is a part of the Allstate family of companies.

1. YES
2. NO

What does the old carnival "shooting gallery" game have in common with the Insurance Sales market?



Samples - Companies with a Hybrid Sales approach

- Allstate Insurance – uses both Captive and Independent agents
 - Encompass – exclusively uses Independent agents
 - Esurance – their online/direct Auto (only) brand

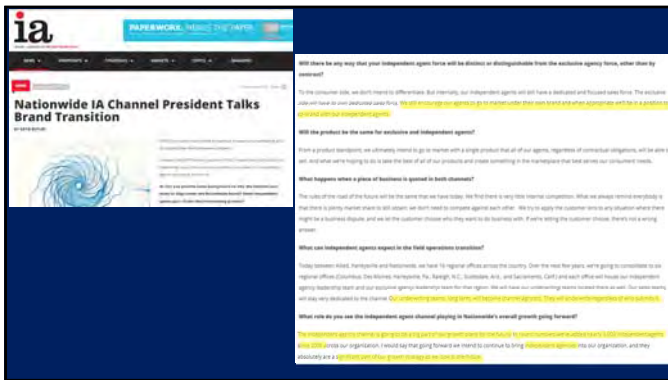
Samples - Companies with a Hybrid Sales approach

- Liberty Mutual
 - America First Insurance
 - Colorado Casualty Insurance
 - Golden Eagle Insurance
 - Indiana Casualty Insurance
 - Montgomery Insurance
 - Ohio Casualty Insurance
 - Peerless Insurance
 - Safeco Insurance – Personal Lines

Commercial Lines – Independent agents
Personal Lines – Independent AND Captive agents

Samples - Companies with a Hybrid Sales approach

- Nationwide – uses Captive agents
 - Allied Insurance – uses Independent agents
 - Harleysville Insurance – uses Independent agents
 - Titan & Victoria Ins. – Nationwide’s high-risk Auto-provider – uses Ind. agents
 - Nationwide Agribusiness (Farmland Mutual Insurance Co.) – Farm certified agents
 - Scottsdale Insurance Company
 - Lots of other affiliates!!!
 - <http://www.nationwide.com/about-us/affiliated-companies.jsp>

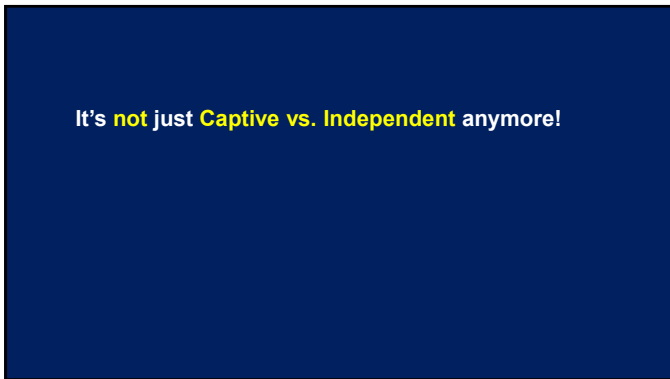






Property Casualty 360 – same article as previous slide





Advantages of Captive agents

- National and local advertising
- Customer-recognized branding
- Price competitiveness with homogeneous-type products (Homeowners and Auto, etc.)
- Same technology (type computers, software, etc.) with ALL agents
- Customized training - (carrier-specific products or technology)

Advantages of Independent agents

- A variety of markets/companies
- Flexibility in running your business as you see fit...and the ability to make adjustments when needed.
- Ability to develop your own brand...or branding!
- Ability to switch a customer's coverage to another company for reasons other than just price (poor customer service, etc.)...in order to keep their business!
- Develop your own strategy! What specific-type business do you want to write...and can you be successful/profitable writing?

Why Utilize an Independent Agent vs Online

- Insurance policies and coverages can be complicated to understand.
- Coverages don't just vary by state, they may vary by carrier.
- Whether it is Auto, HO, Business, Life or Health, these are all about insuring your assets, your future and your family's future...and the decisions are important ones!
- Very few people truly understand the importance of insurance until the day they have a claim. At that time, most people want someone they can trust to provide the extra service to help put them at ease.

How to Best Utilize Your Strengths

- When communicating with customers or potential customers, focus on the strengths of the companies you represent (not just price, but claims service, customer service, etc.)...and your own staff's experience, knowledge, and credentials!
- One of the weaknesses of large captive companies is the constant turnover and/or ever-changing job duties of their staff. Strive to have a well-trained, well-educated and loyal staff. Your customers will show their appreciation with their continued business.
- You have the ability to change course when things need adjustment....much quicker than a captive agent.
- Most customers place their business with a person they like, respect, and trust...not so much with a company!!!

How to Get More of What You Need from Insurance Carriers

Carrier-Specific Training

- Carriers want you to be profitable!
- The more you know about a company (products, pricing, service, etc.) the better chance you have of being profitable with them.
- Focus on SOLUTIONS...not complaints...and educate your staff to do the same!
- If what your company needs from a carrier is more or better training, then focus on providing the carrier with an organized and well thought out summation of your needs and/or desires. Be specific!!
- If you want to add a strength in your favor, strive to become better trained than your competition. That training may be one-on-one with the help of an employee of a carrier company or from other (group) training.

Carrier-Specific Service

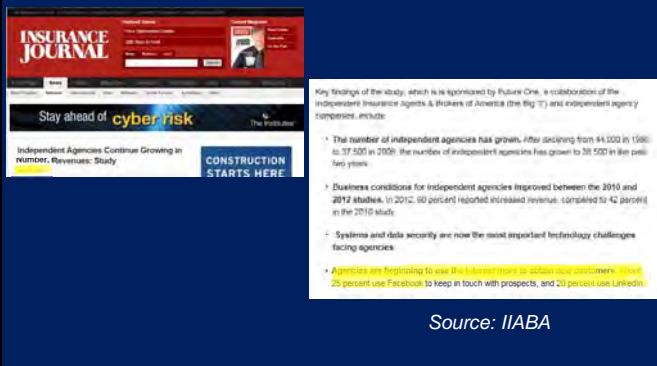
- One of the issues with service is, it is provided to us from numerous people...Every Day! We all have good and bad days....RIGHT?
- If you are not getting the service you expect, there are many ways to deal with it. Some handle it diplomatically and others...well let just say...NOT so diplomatically!
- Again, just like with the previous Training slide, be specific!
 - What are you not getting in the way of service?
 - What would you like to see done differently?
 - How can the carrier or individual(s) improve their service to you and/or your staff?

Resources to Help You Work Smarter

- The Use of Social Media... and... other means of Communication
- Technology – (example – The use of Big Data – Applied Systems, etc.)
- Insurance Associations/Organizations
- Insurance publications
- Miscellaneous

Poll Question

- Do you use any of the following Social Media to promote your business?
 - Facebook
 - LinkedIn
 - All the above
 - None
 - Other



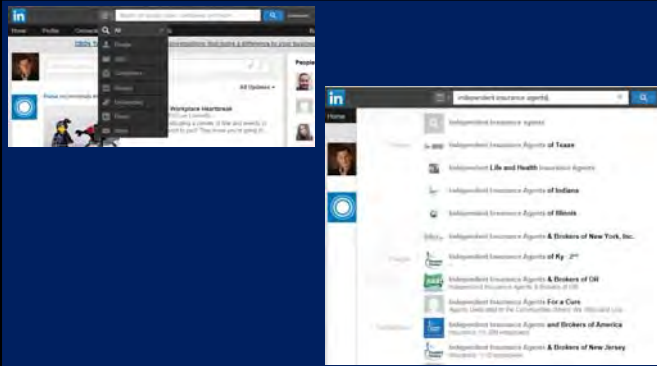
The image shows a screenshot of an article from Insurance Journal. The article title is "Independent Agencies Continue Growing in number, Revenues: Study". A sub-header reads "Stay ahead of cyber risk". The main text discusses the growth of independent agencies and lists key findings:

- The number of independent agencies has grown, after declining from 44,000 in 1999 to 37,500 in 2009; the number of independent agencies has grown to 38,500 in the past few years.
- Business conditions for independent agencies improved between the 2010 and 2012 studies. In 2012, 90 percent reported increased revenue, compared to 42 percent in the 2010 study.
- Systems and data security are now the most important technology challenges facing agencies.
- Agencies are beginning to use data management to attract new customers: 66% use Facebook to keep in touch with prospects, and 20 percent use LinkedIn.

Source: IIABA

Groups on LinkedIn

- LinkedIn can be a valuable resource for you and your office if utilized carefully and intelligently.
- There are lots of groups on LinkedIn that relate to insurance, management, training, etc.
- If you join the right groups, you can post your questions or challenges and get useful information for free....or read what others in the industry are saying on various topics.



The image shows a screenshot of a LinkedIn search for "independent insurance agent". The search results list several groups, including:

- Independent Insurance Agents of Texas
- Independent Life and Health Insurance Agents
- Independent Insurance Agents of Indiana
- Independent Insurance Agents of Illinois
- Independent Insurance Agents & Brokers of New York, Inc.
- Independent Insurance Agents of Ky
- Independent Insurance Agents & Brokers of OH
- Independent Insurance Agents For a Cause
- Independent Insurance Agents and Brokers of America
- Independent Insurance Agents & Brokers of New Jersey

If it were possible, how would you reach **100%** of your **potential** customers?

Communicate in **ALL** the ways THEY wish to communicate!!!

Not every person likes to communicate in the same manner, so it is essential to find **what works for your customers...NOT** just...what works for you or your staff!

Day to Day communication

- Phone
- Email
- Texting
- Facebook
- Instagram

Not Knowing What You Don't Know

Technology

<http://www.insurancebusiness.ca/news/how-independents-can-leverage-big-data-185441.aspx?p=1>

Insurance BUSINESS

MORTGAGE *What happens in 2015 mortgage?*

How independents can leverage big data

RSA *At RSA, we're not just committed to the industry, we're committed to you.*

However, while carriers have jumped into these developments, independent insurance producers have lagged behind.

Michael Hayes, Senior Vice President of Product Development for Applied Systems, says that in his conversations with independent agents, the relative inability of producers to incorporate and leverage big data is a recurring pain point for the sector.

"The problem in this industry is that they have time and tons of data, but don't have the resources or time to do anything with it," Hayes told Insurance Business. "They're sitting on the gold mine, but they don't know how to mine this data into a form business can actually consume."

"It's an absolute and blatant pain point agencies of all kinds face."

The open-led track and Applied Systems Co. develops its Business Intelligence (BI) platform, Applied PerformanceManagement, which pulls data from its agency management systems and other desktop technology to allow users to access and interpret data in a non-technical way. The results have been obvious and immediate, allowing just what agents and brokers can do with big data once they have the tools.

Better understanding customers

With the ability to manipulate big data, Hayes said, independents have greater insight into their clients—where users live, which products they are buying, which are most profitable to the agency and where producers may have an opportunity to cross-sell, he added.

RSA *analyzing clients for the sake of, for example, can reveal interesting insights about product interest and risk exposure that wouldn't be as immediately obvious without tools to break down big data.*

Evaluating internal operations.

The second area big data may appear to analyze is just how well an agency is performing.

"Big data can offer a spotlight on internalized operations," said Hayes. "It teaches you things about your own business that you didn't know before—how efficient are you operating? Are you doing things right? Are certain areas of business getting hung up for different reasons?"

Improving carrier relationships

Finally, access to big data has the potential to aid agencies in more wisely selecting carrier partners. Traditionally, Hayes believes agents are at an informational disadvantage when it comes to early regulations.

"The carrier often comes in and says, 'Here's all the data we throw you're not using through business,' and that has an effect on agreements and pricing," Hayes said. **"The challenge for agents is that they often have very large data to support their own positions."**

Operating data from the agency's perspective

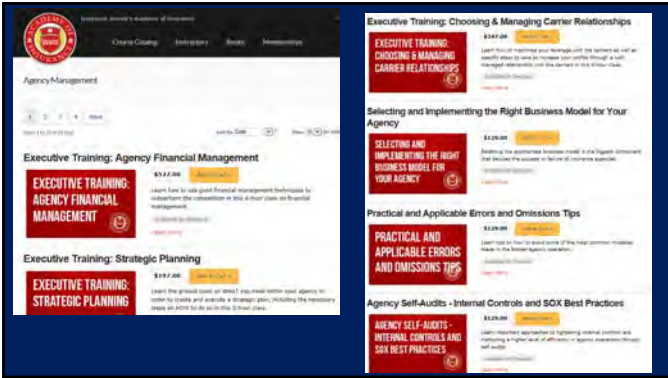
examining gross agency principals and producing big data to have a fact-based conversation.

Insurance Associations

- IIABA
- Insurance Journal/Academy of Insurance
- The Institutes
- The American College
- The National Alliance for Insurance Education & Research
- The Society of Insurance Trainers and Educators (SITE)



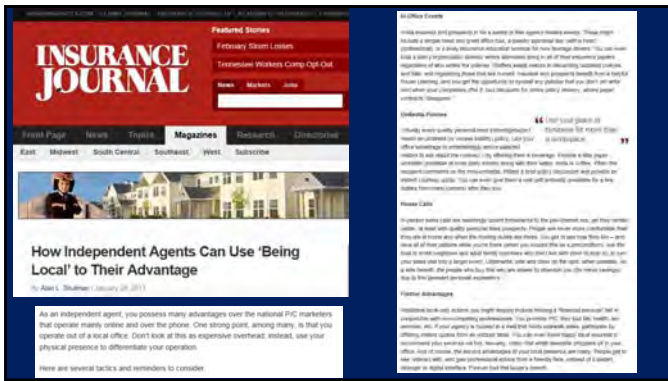




Insurance Publications

- IA Magazine – IIABA
- Insurance Journal
- Insurance Information Institute
- Property Casualty 360 – National Underwriter
- IRMI – International Risk Management Institute





Poll Question

Which of the following are strengths of an Independent Agent or Broker?

- 1. A variety of markets and companies
- 2. Ability to develop your own brand
- 3. Ability to develop your own strategy
- 4. All the above
- 5. None of the above

Key Points

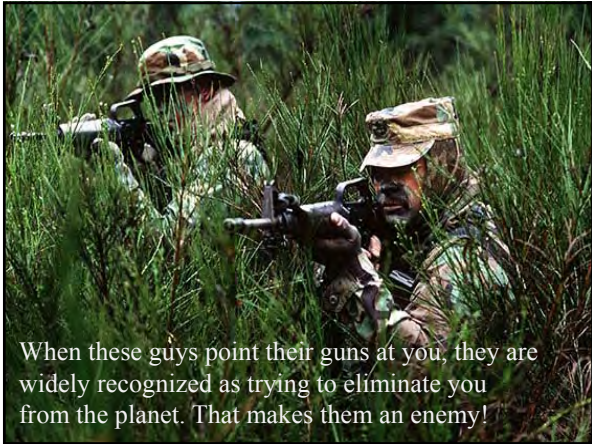
- If you want better training and service from your respective carrier companies, collectively and specifically communicate your needs and wants to them.
- The insurance sales landscape is constantly changing...and will continue to change!!!
- In order to compete in this constantly changing insurance sales landscape, concentrate on the following...
 - Work smarter...including utilizing every tool & resource available to you
 - Make sure to always provide superior service and have the best educated staff.
 - A large percentage of customers want "LOCAL" and someone they know and TRUST!

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Part One: **The Landscape is Quickly Changing**



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When these guys point their guns at you, they are widely recognized as trying to eliminate you from the planet. That makes them an enemy!



**YOUR FELLOW
INDEPENDENT AGENT IS
NOT THE ENEMY**

CURRENT CIRCUMSTANCES

- We are losing Market share to the enemy- Independent Agency Distribution Channel down from 35% to approximately 30% in the past five years (Personal Lines)
- The soft pricing market has persisted in both personal and commercial lines

CURRENT CIRCUMSTANCES

- Direct Writers are outspending on advertising by a multiple in dollars

HOW DID WE GET HERE?

- Consumers are confused about distribution system differences
- New Communication Channels have enabled consumers to get information and change shopping methodologies

HOW WE GOT HERE

- Insurance has a poor public image
- Direct Writers created a fun brand identity

WHAT WILL HAPPEN IF WE DON'T FIGHT BACK?

- Market share will continue to move toward direct writers
- Expansion will move from auto to homeowner to all personal lines and then commercial lines

WHAT WILL HAPPEN IF WE DON'T FIGHT BACK?

- There will be fewer independent insurance agents
- Ultimately the distribution system will fade from the marketplace-consultative services will still be needed

HOW DO THE DIRECT WRITERS DO IT?

- Make it fun
- Make it easy
- Make it fast
- Sell Split Limits
- Sell Less Coverage
- Focus primarily on price
- Close Multiple Times

HOW DO WE REVERSE THE TREND?

- First, understand the enemy....Get a Quote and realize the flaws in their techniques.
- Don't Play the same game and plan to win the war

HOW DO WE REVERSE THE TREND?

- Plan a value added response....this is the unrealized weapon of strength of the independent agency distribution system
- Acknowledge "compliance buyers" may be better off on the internet.

HOW DO WE REVERSE THE TREND?

- Eliminate price as the primary product focus

ELEMENTS OF A VALUE-ADDED MODEL

- Value Added Focus
- Well Trained Staff
- Operational Efficiency
- Customer Selection
- Develop Unique Services
- Communicate Value Premise regularly

REMEMBER THIS IS A WAR



HOW DO WE REVERSE THE TREND?

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ELEMENTS OF A VALUE-ADDED MODEL

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ELEMENTS OF A VALUE-ADDED MODEL

AGENCY MISSION STATEMENT

Engage the staff in developing your mission statement and prominently display it where customers can see it.

ELEMENTS OF A VALUE-ADDED MODEL

TRAIN NEW EMPLOYEES WITH NO EXPERIENCE

A well trained staff will create more net customer added-value than any single other element you can include in your plan

**BUILD WITH THE TRUSTED
CHOICE BRAND**



**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
STAFF**

- Train your staff to maximize their personal potential. Better educated staff better serve your customers
- Pick the Right people for staff – Get the wrong people off of the bus because they hold everyone back

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
STAFF**

- Create and implement morale programs to attract and keep good people
- Pay for education
- Free Snacks
- Flexibility for personal/family events

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
TECHNOLOGY**

Leverage every technology to maximize your ability to provide value-added service in every area

Office Efficiency

Website presence

Mobile platform access

Employee mobility/flexibility

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
CUSTOMERS**

ELIMINATE COSTLY CUSTOMERS

- Low premium unsupported lines
- Difficult personalities
- Primarily price focused customers
- Claim maintenance perspective customers

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
COVERAGE**

- Use the Risk Management Approach
- Emphasize the benefit of accountability when all coverages are placed with your agency.

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
AGENCY SERVICES**

NEW CUSTOMERS

- Identify all exposures and coverages
- Explain coverage choices at the time of purchase
- Insist on a coverage explanation conference as a condition of new client relationship

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
AGENCY SERVICES**

RENEWAL CUSTOMERS

- Review every personal lines policy for coverage improvements every year.
- Very few agencies provide this service level on a consistent basis.

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
AGENCY SERVICES**

- Provide free photo inventories
- Counsel new young drivers
- Provide 24 Hour Local Claim Service

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
AGENCY SERVICES**

- Actively participate in major claims
 - Accompany the adjuster on client contacts
 - Explain when a car becomes a total loss
 - Explain the property “hold-back” process

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
COMMUNICATIONS**

- Send regular newsletters 3-4 times/year
- Regularly remind of exclusions like earthquake and flood
- Combat the direct writer price message with testimonials

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
COMMUNICATIONS**

- Actively answer the question:

**Why should you do
business with us ?**

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
COMMUNICATIONS**

Some Answers:

1. Technically Educated Staff
2. Coverage Reviews
3. 24 Hour Claims & advocacy
4. Paperless for faster service
5. Generators for service in disasters
6. ASP programs for fast recovery

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
COMMUNICATIONS**

- Be ever-ready for the price conversation.....

**What does it mean
to be competitive?**

**BUILD A DISTINCT CUSTOM
VALUE PLATFORM
COMMUNICATIONS**

**Make the message real
every day with
messages on hold**

BENEFITS OF A VALUE ADDED MODEL

- Customers are more loyal-better retention
- Agency is more profitable increasing revenue
- Direct writers become less of a threat

BENEFITS OF A VALUE ADDED MODEL

- Staff morale remains high –stability of employment and pride of quality process
- Agency is more valuable for eventual perpetuation sale
- E&O exposure is virtually eliminated

BENEFITS OF A VALUE ADDED MODEL

- You become the agency of choice when looking for the next needed good employee
- Everyone has a lower opportunity to have a “bad day at the office”
- Company/agent partnerships will be more stable

**NEW FUTURE VALUE
ADDED NEEDED**

- Applications for customers on mobile devices
- 24-Hour access by customers
- 24 Hour services beyond claims-may be self service driven

**NEW FUTURE VALUE
ADDED NEEDED**

- More consumer interactive agency web-sites
- Social network engagement with customers

REMEMBER THIS IS A WAR



TAKE BACK THE TERRAIN!

Commit to a positive pro-active approach to regaining the market share that belongs to independent agents.

“Is Insurance a Commodity?”

Dispelling the Myth That Personal Lines Insurance Has Become a Commodity



Presented by Bill Wilson, CPCU, ARM, Assoc. VP, Education & Research, IIABA

Overview of Today’s Program

- ✓ Is personal lines insurance a commodity?
- ✓ What is a commodity?
- ✓ What researchers and industry “experts” say
- ✓ What the media and non-experts say
- ✓ Refuting the myth that personal lines insurance is a commodity
- ✓ A wake-up call

Is Personal Lines a Commodity?

- Price-focused industry advertising
- “Policies” and procedures
- An inarguable truth...next slide
- A real-life example

An inarguable truth

Just because someone TELLS you something is true...

Just because you BELIEVE it's true...

Doesn't make it true!

What is a commodity?

- *"A class of goods for which there is demand, but which is supplied without qualitative differentiation across a market. A commodity has full or partial fungibility; that is, the market treats its instances as equivalent or nearly so with no regard to who produced them."* – Wikipedia
- *"A good or service whose wide availability typically leads to smaller profit margins and diminishes the importance of factors (as brand name) other than price."* – Merriam-Webster

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>

<http://buzzquote.me/>

An 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;

A note on branding

“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

A note on branding

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



A note on branding



What the "Experts" Say

"Perhaps most disruptive to the traditional agent value model, auto insurance – which accounts for 70 percent of personal lines premiums – is **fast becoming commoditized**...Insurance may never be a pure commodity like copper or wheat, but personal auto is edging closer to this territory."

McKinsey & Company

"Agents of the Future: The Evolution of Property and Casualty Insurance Distribution"
June 2013

What the "Experts" Say

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

A.M. Best Special Report

"Distribution Trends Continue to Shift in the Private Passenger Automobile Market"
September 2013

What the "Experts" Say

"For a commoditized product, low cost and effective marketing are keys to gain share."

"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."

Nomura Equity Research
As quoted in the *Insurance Journal*
October 2013

What the "Experts" Say

"In their report, they advise insurers to plan now for the commoditization of their products and services, implying that they should perhaps be sold through portals the way cloud service customers purchase bandwidth and virtual machines today."

Gartner, Inc.
"Gartner Predicts 2012 Research" series addressing evolving insurance distribution channels
2011 ReadWrite.com article citation

What the Media and Non-Experts Say

- "How to Save Money on Car Insurance"
- Comparing apples to apples (not really)
- Coverage you don't need
- Bad advice
- Dumbfoundingly bad advice
- Attorneys, CPAs, financial advisers, plumbers, roofers, cops, guys in bars

What the Media and Non-Experts Say

“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.”

Source: *Daily Finance*

What the Media and Non-Experts Say

“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.

Source: *Forbes and Yahoo Finance*

What the Media and Non-Experts Say

“How to Cut Your Car Insurance Bill in Half”

October 19, 2010

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

Source: Insure.com

What the Media and Non-Experts Say

- “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.**”

Source: *Wall Street Journal*

What the Media and Non-Experts Say

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

Refuting the Myth

- Auto insurance is a commodity...NOT!
- Buying on price...the risks
- Selling on price...the risks
- Buying on price...the risks
- More real-life auto examples
- This applies to homeowners insurance too

Refuting the Myth

Refuting the Myth

“There is hardly anything in the world that some man cannot make a little worse and sell a little cheaper, and the people who consider price only are this man’s lawful prey.” – John Ruskin

Refuting the Myth

3 Real-Life Auto Examples

- Florida Supreme Court case
- The church bus barn incident
- The Fast, The Furious, and The Foolish...next slide

What does "racing" mean and why is that important?

The Fast, The Furious, and The Foolish...

What does "racing" mean why is that important?

Auto policy #1 "racing" exclusion:

B. We do not provide Liability Coverage for the ownership, maintenance or use of:

- 4. Any vehicle, **located inside a facility designed for racing**, for the purpose of:
 - a. Competing in; or
 - b. Practicing or preparing for;
 any **prearranged or organized racing or speed contest**.

Auto policy #2 "racing" exclusion:

Covered "autos" while used in any professional or **organized racing or demolition contest or stunting activity**, or while practicing for such contest or activity. This insurance also does not apply while that covered "auto" is being prepared for such a contest or activity.

Refuting the Myth

A Dozen More Auto Examples:

- Undisclosed household residents are excluded
- Business use of non-owned autos is excluded
- Business use of ANY auto is excluded
- Use of ANY non-owned auto is excluded
- Vehicles over 10,000 pounds GVW are excluded
- Any type of delivery is excluded
- Permissive users only get minimum limits
- "Street racing" is excluded
- Criminal acts are excluded or limits are reduced
- Medical payments only include licensed physician fees
- Theft without evidence of forced entry is excluded
- Sales tax is not covered under loss settlement

Refuting the Myth

Homeowners Examples:

- 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.”

Refuting the Myth

Homeowners Examples:

- “Where You Reside” issue
<http://tinyurl.com/WhereYouReside>
- 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

Refuting the Myth

Homeowners Examples:

- 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

Refuting the Myth

Homeowners Example:

- **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!"

Refuting the Myth

"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."

"Reevaluating Standardized Insurance Policies"
by Daniel Schwarcz
University of Minnesota Law School
<http://uphelp.org/sites/default/files/SSRN-id1687909.pdf>

A Wake-Up Call

- Price-based advertising is fine
- Implying that price is the only difference is not fine ("You get the SAME COVERAGE, often for less!")
- The natural progression of alleged online efficiencies with price-focused competition may lead to....

"The bitterness of no coverage is remembered long after the sweetness of low price has been forgotten."
– John Eubank, CPCU, ARM

Thank You!



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More info on this subject:

<http://tinyurl.com/NotaCommodity>
