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Message from the Chair

by Joseph F. Menschik, CPCU



Joseph F. Menschik, CPCU, is the owner of Menschik Insurance Services, in Blauvelt, N.Y. Menschik received a bachelor of business administration in insurance from the City College of New York in 1965 and his CPCU designation in 1975. An active member of the CPCU Society, Menschik has served as a governor, chapter president and a committee member.

The CPCU Society’s Annual Meeting and Seminars in Denver is coming up at the end of August, and the Agent & Broker Interest Group will be offering very relevant and exciting seminars. The topics were initiated by feedback that members provided to the question, “What can we do that would be relevant to you?”

We again need your feedback. For the 2010 Annual Meeting in Orlando, Fla.,

please post your topic requests for seminar and/or interest group projects on our Web site. What we are doing in Denver came out of member input. We hope the same thing will drive our Orlando seminars.

In 2008, we expanded the number of Agent & Broker Interest Group Annual Meeting seminars to three, which gave us a very full plate. We are repeating this in

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Message from the Chair

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2009 by offering the following significant seminars in Denver:

(1) What FEMA Never Told You ... About Flood.

Monday, Aug. 31

10 a.m.–Noon

The National Flood Insurance Program (NFIP) was worthwhile when it was created, but it has not evolved to fill legitimate, evolving insurance needs.

- (a) Congress knows the program needs restructuring and with an “eye dropper” is only extending the existing program in short increments.
- (b) The public’s expectation of coverage and the reality of what really is covered are sometimes two different things.
- (c) Legislators’ knowledge of the insurance mechanism is limited at best.

The Agent & Broker Interest Group hopes, with the Society’s approval, to create a document following this seminar to be distributed to Congress and Homeland Security to educate politicians as to what is not in the program so that they may have a knowledge-based platform to use when they eventually reformat the NFIP. We realize that not everything will be done.

(2) Certificates of Insurance ... Or How I Got a Job in the Prison Laundry.

Tuesday, Sept. 1

10:15 a.m.–12:15 p.m.

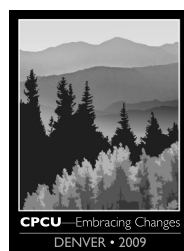
The demands and pressures exerted on agents and brokers by the public’s misguided attempts to create illusionary coverage by issuing certificates of insurance in imaginative ways threaten agents and brokers in several respects that could evoke E&O

exposures. These requests can also threaten licensing, if agents mistakenly comply with improper requests. Some of these issues even originate from government agencies. Agents feel squeezed between clients’ needs to conduct business and their desire to keep clients happy. The pressures create ethical and economic crises

(3) International Insurance Perspectives — Oops ... My Client Has Gone International. Tuesday, Sept. 1 1:30–3:30 p.m.

The Agent & Broker Interest Group and the International Insurance Interest Group are collaborating in what we hope will be a series of seminars that will serve as a resource and road map for agents and brokers to assist their clients who have expanded beyond U.S. borders. It really is a different world out there, and most of us fly blind when we encounter it for the first time. Only the largest brokers are international in scope (with internal referral resources). The rest of us need help. Given the fact that the Society is growing internationally, this gives us resources that we can tap into.

We hope to be able to create a CD library of the programs we will put on each year as a resource for the future. Think of this Denver seminar as “International Insurance 101 — The Survey Course.” Where we go from here will most likely expand from this point forward with your help and input.



Also during the Annual Meeting, our interest group’s committee will be holding one of its two annual face-to-face planning meetings. Our interest group committee is

geographically challenged in that we are heavily weighted by members from the Northeast. We want to confront insurance issues affecting agents and brokers from coast to coast, and would welcome your active participation. Our agenda is in many ways different from that of the IIABA & PIA, and only has some areas of overlap and collaboration.

The CPCU Society is nonpolitical by its charter, so we deal with education and ethics and steer a neutral route on political issues. But this does not mean we cannot act as a resource, as a group or as individuals, to those who need to build an insurance knowledge base so that policy decisions are made from the best information and data available. This sometimes creates a fine line that would require Society Board approval in advance of action on projects that we, as an interest group, will seek to undertake.

When our interest group undertakes a project, we will invite your assistance and cooperation. Obligations will be limited to that project only and not require the usual three-year CPCU Society service commitment. That is what is happening now with our current project of creating a national database of carrier coverages and extension of coverage for Agents & Brokers Professional Liability Insurance.

With involvement in the CPCU Society, you will experience insurance as it should be and meet a truly great group of people. I know that service is not for everyone due to family, job and economic factors, but there are opportunities for some to test these waters. If you cannot get involved at the Society level now, please stay involved locally within your chapters. Upholding CPCU status should be more than an academic exercise. When you get involved on any level, the return on your investment will exceed your expectations! ■

Message from the Editor

by Ellen M. Clements, CPCU, ARM, CIC, CPIW



Ellen M. Clements, CPCU, ARM, CIC, CPIW, is a vice president, senior client manager, with Willis HRH in Boston, Mass. Her professional background includes senior management, negotiation, placement and service of property and casualty insurance programs, process improvement, quality initiatives, organizational development and training. She has worked in the insurance industry for 40 years. Clements is on the Board of Directors for the CPCU Society's Boston Chapter and sits on the Visibility Committee. She is also a member of the CPCU Society's Agent & Broker Interest Group Committee and is editor for the interest group newsletter.

When I was selecting articles for this edition of our newsletter, I thought long and hard about the economy and the impact it is having on agents and brokers all over the world. I believe this issue tackles a number of topics that will be informative — and certainly relevant — for what we are facing today.

Our chairman, **Joseph F. Menschik, CPCU**, has done a wonderful job of highlighting the three seminars that our interest group has developed for the Annual Meeting and Seminars.

Certificates of insurance have become more of an issue for all of us, certainly more than in the past. We will be covering this topic in depth. What the National Flood Insurance Program does not cover is a mystery to most, and we hope to uncover the unknowns for you. And for the first time, we are collaborating with the Society's International Insurance Interest Group, which represents members from around the world, to make us all more aware of everyone "going global."

In this issue:

- **David Edward Hulcher**, in "Avoid E&O Exposure and Uncover Hidden Profits — Use a Checklist!", reminds us that one of the most important things agents and brokers need to always do is DOCUMENT! DOCUMENT! DOCUMENT! Hulcher provides us with insights on how to mitigate E&O claims, raise customer confidence and increase competitiveness. This is a must read for every agent and broker.
- **William C. Wilson Jr., CPCU, ARM, AIM, AAM**, provides us with an article on certificates of insurance, which we hope will whet your appetite for attending our seminar at the Annual Meeting in Denver. "Certificates of Insurance — What Do They Cost Your Agency???" brings to light the actual costs associated with issuance, but more importantly what it can cost the agency if a mistake or misstatement is made. As agents and brokers, we are regularly asked to review the Indemnification and Insurance Provisions within contracts to determine if a client's insurance program meets the contract requirements. Your agency can be at risk for the slightest misstatement. "It depends" is a very cautious response to a client's question, especially when your client expects a specific response. Just remember — CYA! Cover Your Agency.
- **John R. Graham**, president of Graham Communications, always offers us a steady stream of insights on

how to sell in whatever environment we happen to be facing. I think all will agree this has been the worst environment to produce new business. Year-after-year rate reductions have all programs at bare minimum or below. Carriers are pricing coverage at what they consider "sustainable" rates wherever they can. Flat renewals, or modest increases, are becoming more the norm. However, there will always be those carriers that are looking to "buy" business, making it even more difficult to maneuver. Grahams' two articles — "How to Keep Your Sales from Running Out of Gas" and "Eight Ways to Get Serious about Making Sales in Today's Economy" — will help guide us through the maze.

- **Thomas J. Ryan, CPCU**, adds a bit of humor — something we all need to get through each day — to his article. "We Get No Respect!" addresses selling "value" as opposed to "price" and how we as brokers are sometimes treated like **Rodney Dangerfield**. This article provides additional insight on the issues. We cannot get enough good advice in this economy.
- **Jeanne Z. Moscarillo, CPCU, CIC, AU, AAI, CRIS**, reminds those of us who entered the industry in the "dark ages" of the depth and breadth of our current knowledge having learned how to rate. "Rating Knowledge — An Endangered Species" brings to light the truth of our electronic age, that is, the overreliance on computers to do our thinking for us.
- **David A. Thompson, CPCU, AAI, API**, reviews an important lesson: Always read the policy before denying a claim.

Please do not hesitate to send me your comments or recommendations for future articles. Our next issue will be packed with coverage specific topics. I would like to hear from you on whatever topics you would like us to address. They can be sent to me at ellen.clements@willis.com. ■

Avoid E&O Exposure and Uncover Hidden Profits — Use a Checklist!

by David Edward Hulcher



David Edward Hulcher is director of agency E&O risk management for the Professional Liability Program of the Independent Insurance Agents and Brokers of America's for-profit subsidiary, Big "I" Advantage Inc. He is focused on enhancing the risk management activities for the Professional Liability Program, including the development of loss control information and tools to assist agents not only avoid E&O claims but improve their business practices and procedures in general. Prior to joining Big "I" Advantage Inc., Hulcher worked as a sales executive in the commercial lines department of the CIMA Companies Inc.

Editor's note: This article first appeared in the March 2009 issue of the Leadership & Managerial Excellence Interest Group newsletter.

It's safe to say that no agency wants to be involved in an E&O claim and all agencies want to be more profitable. The leading claims made against insurance agents include "failure to procure coverage," "failure to identify client exposures" and "failure to recommend coverage." Using risk analysis exposure checklists can make staff less vulnerable to these types of E&O claims. Reducing an agency's E&O exposure, however, isn't the only benefit of using checklists; they can also uncover hidden profit potential. This brief article will explore the benefits of integrating the use of checklists into your agency's procedures and some key considerations in doing so.

Strictly from an agency E&O risk management perspective, checklists can reduce exposure to both knowledge-based and procedural-based claims. Knowledge-based errors occur because of inadequate staff training, an inability to recognize client risk exposures and a general lack of familiarity with coverages available. Procedural claims result from a lack of timely action or follow-up and include a lack of thorough documentation. Using checklists provides agency staff with a tool to uncover risk exposures in a structured fashion and gives direction on the applicable coverages available to the client. Identifying potential gaps in coverage and recommending available coverages can help avoid the knowledge-based errors of "failure to identify exposure or recommend coverage."

Documentation of customer files continues to be one of the most important areas of E&O risk management. E&O claims commonly involve swearing matches pitting the customer's word against that of the agency. Agency staff may have done everything correctly, but if there is no written documentation in the file, it doesn't matter. Memories fade and staff

changes over time, but documentation of customers' files should not. Using a risk analysis exposure checklist not only allows agency staff to better determine coverage needs of customers, but also serves as valuable written file documentation. Checklists can include columns for a client accepting or rejecting coverage along with a place for the customer's signature. This can also be included with the customer's proposal. Quality documentation in the customer file provides a solid foundation for your defense of an E&O claim, and may prevent claims from making it to the courtroom (or at the least may reduce the ultimate loss payment).

Using risk analysis exposure checklists can also facilitate revenue growth within the agency. Checklists can be used not only on new business accounts, but on renewals as well. They can alert producers to gaps in coverage or newly developed areas of exposure, creating opportunities to sell more coverage. This may uncover hidden revenue opportunities while decreasing the agency's vulnerability to E&O claims from failure to recommend adequate coverage. In addition, consider that identifying new exposures and making coverage recommendations may increase the customer's perception of the agency staff's professionalism. The customer will see that agency staff has a very clear and comprehensive understanding of his or her insurance needs. This can lead to greater customer loyalty and increased referrals.

The benefits of using checklists are numerous, but there are some considerations for every agency to contemplate when implementing the use of checklists into the agency's operations. First, does using a checklist increase the agency's required standard of care with its customer? Swiss Re, the preferred endorsed carrier for the Big "I" Professional Liability Program, considers using checklists a best practice





for agencies. While an agent's required standard of care varies by state, using checklists as an agency best practice in itself does not necessarily establish an increased standard of care. The key is to implement a procedure for using checklists that all agency staff constantly follow.

The challenge agencies must address is whether it is practical to use risk analysis checklists with every customer. The reality is that it may be difficult to use a checklist with every customer for various reasons. The agency's procedures for using checklists should include criteria for identifying which accounts require the use of a checklist. This criteria may be based on the complexity of customer needs, the severity of exposures or the type of transaction (new or renewal). Premium size or account commission is not an accurate method to determine on which accounts a checklist can be effective. For accounts where a checklist is not required, the agency can provide the customer with written confirmation that the agency procured the coverage requested by the customer and offer to provide a more thorough risk exposure analysis upon request.

Agencies must also consider whether to create their own checklists or to purchase checklists commercially available. While it may be tempting to create one's own checklists, it is preferable to purchase industry-standard checklists. These checklists will be thorough, current and standardized. For consistency, all employees should use the same set of checklists based on the stated predetermined criteria as outlined in an agency's procedures. Establishing a consistent pattern and practice that is adhered to by all agency staff will prove beneficial should an E&O claim arise. And remember, implementing procedures is one thing and monitoring adherence to them is another.

Using risk analysis exposure checklists can improve the quality of an agency's operations. They can reduce E&O exposure, unlock opportunities for hidden profits and build the customer's perception of professionalism. All these things will bring your agency a step closer to managerial excellence. ■

Certificates of Insurance — What Do They Cost Your Agency?

by William C. Wilson Jr., CPCU, ARM, AIM, AAM



William C. Wilson Jr., CPCU, ARM, AIM, AAM, is the director of the Independent Insurance Agents & Brokers of America's Virtual University. He is the former director of education and technical affairs for the Insurors of Tennessee and, prior to that time, he was with the Insurance Services Office Inc. Wilson is a graduate of the Illinois Institute of Technology with a bachelor's degree in fire protection and safety engineering. He is a committee member of the Agent & Broker Interest Group. Wilson is a former member of the CPCU Society's Board of Governors and past president of the CPCU Society's Mid-Tennessee Chapter.

Certificates of insurance are almost universally viewed by agents as a necessary evil. These documents do have a legitimate purpose and a value to insureds. However, things have rapidly escalated out of control to the point that seemingly everyone wants to be an additional insured on everyone else's policies, or they at least want a certificate of insurance (COI) from anyone with whom they do business.

All too often these parties make demands to which agents simply cannot comply

— legally or practically. Yet agents are pressured to issue inaccurate certificates in order for the insured to get a job or get paid for completed work. Certificates of insurance, for the most part, generate no revenue for the agency but create significant costs and dramatically heighten the agency's E&O exposure.

One consultant estimates the cost to issue a "plain vanilla" ACORD 25 at \$7, and if some customization is required, it could be as much as \$15 to \$18 (or more). This could be even higher when you get into requests that some third parties make involving lists of questions in addition to the certificate.

To illustrate, an agent was asked to "attest and warrant" via an "agent affidavit" that a subcontractor's insurance program "complied in full" with an 88-page construction contract. The contract required the subcontractor to insure "any and all ... liabilities ... penalties ... and fines ... without limitation." Completion of a 40-item questionnaire was also required of the agent. It had to be notarized, witnessed by an independent party, and sent to the certificate holder via certified mail. The insured was an HVAC contractor that employed three people.

No insurance program can comply with this type of indemnity agreement, though the general contractor claimed that no agent had ever refused to submit such an affidavit. Similarly, one of the most common requests from contractors is to be named as an additional insured on a subcontractor's policies on a "primary and noncontributory" basis and for that wording to be shown on the certificate. While this is done routinely, primacy of coverage on a CGL policy is governed by the general contractor's policy, not the subcontractor's policy. So the agent cannot make this statement absolutely without reviewing the other party's policy.

A number of states are dealing with these growing problems via statutes, regulations

and insurance department directives. The fine in one state for an inaccurate agent affidavit is up to \$10,000. In another state, a fraudulent certificate can earn the issuer up to five (5) years in prison at hard labor.

One producer and a customer service representative spent a total of 2 1/2 hours on one COI that had to be redone four times. The final time they had to reissue the certificate because a field on the form was not applicable — they had entered "NA" and the certificate holder would only accept "N.A." The agency had to reissue the certificate and add the periods after the "N" and "A" entry. The contractor was due \$300,000 on a job, and the general contractor refused to pay until the certificate met its satisfaction to the letter (or, better, punctuation mark).

Another agent estimated that 3 percent of its commercial lines revenue went to pay for the agency's certificate operation, which included two full-time staff members. That's a big chunk of agency profit being invested in an activity that is being provided to third parties free of charge. It was estimated that the agency's cost of issuing certificates is double the cost over just three years ago due to the increase and complexity of requests.

Needless to say, unlike insurers who can increase premiums when expenses rise, agents have no way of passing along these costs unless they can (and are willing to) charge a fee for this type of service, which in many states is not an option.

To learn more about this topic, including other remedies, be sure to attend "Certificates of Insurance ... Or How I Got a Job in the Prison Laundry" at the Annual Meeting and Seminars in Denver, Colo., on Tuesday, Sept. 1, at 10:15 a.m. to 12:15 p.m. ■

How to Keep Your Sales from Running Out of Gas

by John R. Graham



John R. Graham is president of Graham Communications, a marketing services and sales consulting firm. He writes for a variety of business publications and speaks on business, marketing and sales issues. Contact him at 40 Oval Road, Quincy, MA 02170; (617) 328-0069; jgraham@grahamcomm.com. The company's Web site is grahamcomm.com.

Editor's note: This article is reprinted with permission from Graham Communications.

Most of us have figured out that it's smart to have at least a few gallons of gas in the tank at all times. And it's not very bright to see how far we can go before running out of gas. A couple of "come and get me" calls is usually all it takes before we get the message to head for the gas station before disaster strikes.

Nevertheless, far too many businesses somehow missed this memo. Every day they are running out of gas and don't know how to find their way to the nearest pump.

Now, if this seems somewhat obtuse, try this: Salespeople find themselves trying to run on empty, and there's no gas station within 50 miles. Worse yet, they can't find their way to the pump even with a GPS.

The message here is utterly elementary: As salespeople, we let the good times deceive us. Because we were so successful, it didn't take much to convince ourselves that it would go on forever. But, as we all know, it didn't.

While all that's history, few, if any, salespeople — and even fewer sales managers and business owners — have anything that even resembles Plan B.

Here's where it gets really interesting: These same companies honestly believed their strong sales figures were the direct result of their prospecting prowess, when there was absolutely no connection. While some of the sales executives in several of these companies may now realize they were in error, others do not have a clue why their sales have continued to nosedive. They look everywhere, except at their prospecting. Here's what went wrong:

- Because sales were good, they didn't bother analyzing their best customers so they could reach out and find more that fit the profile. This is the "Huns coming over the mountain mistake." The hordes of customers kept coming, whether consumers or B-2-B buyers.

- They couldn't see the need for an ongoing program to identify and cultivate new prospects. How many times have you heard a salesperson or a sales manager say, "You know, we really have more customers than we can handle"? That was a common attitude until quite recently. If that isn't enough, salespeople let it be known that they weren't hired to do "scut work," a term that can be translated as performing trivial, unrewarding, tedious, dirty and difficult chores.
- These are the same salespeople who talked endlessly about their "great relationships" with customers. They really believed what they said, even though they didn't take the time to understand the customer's business and they weren't there to give help when it was really needed.
- They saw a prospect as someone they could call today for an appointment tomorrow or next week. They didn't see prospecting as a strategy for creating a continuing flow of new business. No matter how you cut it, they acted as if they were in charge. Now, they find themselves faced with customers and prospects that have taken the reins away from them.

The salespeople we're describing talked about sales and took pride in their success. Unfortunately, they were so blinded by their success that they failed to do what was needed to be successful once the sales tap was turned off.

- They failed to implement the tactics that could continue their success.
- They did little or nothing to pull more and more prospects into their orbit.
- They failed to work at making sure their customers knew they had valuable knowledge and were not just selling something.
- The more sales declined, the more their sales managers urged them to ask for referrals. Of course, referrals are wonderful, but in a recession, no

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How to Keep Your Sales from Running Out of Gas

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customer is thinking about anything other than survival, and referrals cannot be forced. They tend to fall into your lap when least expected.

Given an economic environment that's difficult and drags on and on, why do salespeople fail? The answer isn't that they have a negative attitude, don't work hard enough or give up too easily. It isn't because they aren't skilled in selling.

The problem is that they are asked to do something that customers not only don't want but also actually reject.

More than anything else, customers do not want someone around who is trying to sell them something. Americans, for example, have had a 70s love affair with cars, yet they have stopped buying them. We have long had a negative savings rate; yet, savings has gone from below zero to 5 percent almost overnight.

Those who say, "The main task of a business is to make sales" are faced with a tough problem: It isn't working. Rather, from a marketing viewpoint, the main task of a business is to create customers — those who make a conscious decision to do business with you.

Kraft Foods' free recipe app "iFood" for the iPhone illustrates this "pulling-the-customer-to-you" process. It's an ingenious way to attract customers (not try to grab them) by offering easy and successful recipes, complete with shopping lists, shortcuts and even brief "instructional" videos that take the viewer through the cooking process.

Yes, the recipes call for certain Kraft Food products, but the results are so pleasing the user can only have a good feeling about Kraft Food for the help they get. Instead of trying to get people to buy their products, Kraft uses a marketing tactic that pulls customers.

Trying to figure out gimmicks to "grab" customers is a waste of time, but never more so than in a recessionary period. Investing time and effort in helping people solve problems and make life more enjoyable and easier is the way to create customers today.

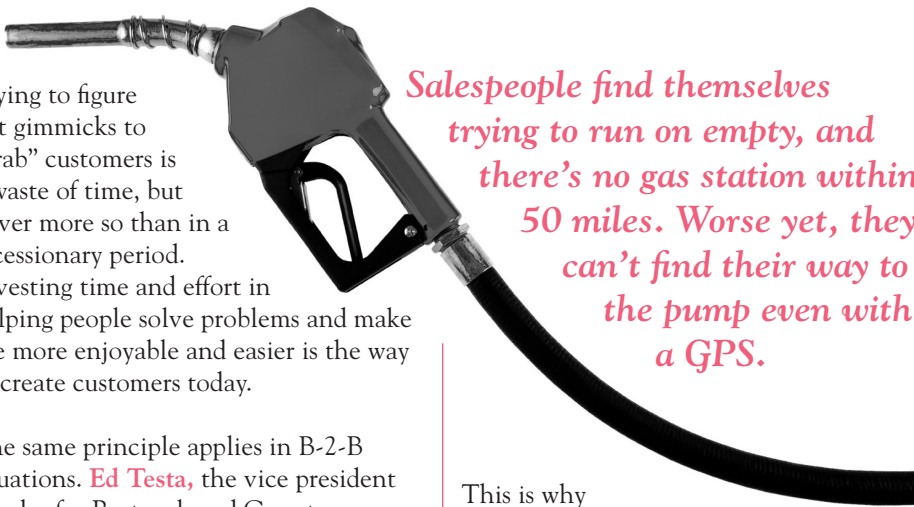
The same principle applies in B-2-B situations. **Ed Testa**, the vice president of sales for Boston-based Greystone Equipment Finance Corporation, specializes in the graphic arts industry where he has practiced the art of pulling customers closer for more than 20 years.

Although he has never taken a booth at a trade show, he maintains a demanding show schedule, and you'll always find him working a customer's booth. "You have to support them," says Ed. "By being there, I can get acquainted with dealers who are buying equipment or will make a purchase in the future. They know we're here to help when they get ready."

It is another example of how salespeople can benefit from constantly pulling customers closer. This example underscores the point. After conducting a training program for a life insurance firm, the presenter made sure the names of the key people at the session were added to his company's database since they made it a practice to stay in touch regularly.

Four years later, a principal of the insurance firm called to arrange a meeting. Changes had taken place, and they were ready to implement a full-blown marketing communications program.

Today, pulling is far more effective than attempts to grab customers and prospects. No one, no matter how competent, is smart enough to know when prospects are ready to buy. If that's true, then it's constant cultivation that creates sales.



Salespeople find themselves trying to run on empty, and there's no gas station within 50 miles. Worse yet, they can't find their way to the pump even with a GPS.

This is why a prospecting strategy of building a database combined with constant cultivation is the way to pull customers closer and closer. When this happens, you'll be there when they get ready to make an inquiry, ask for information or place an order. ■

Eight Ways to Get Serious about Making Sales in Today's Economy

by John R. Graham

Editor's note: This article is reprinted with the permission of Graham Communications.

Stunned. Confused. Shocked. These three words describe the reaction of countless salespeople to the dramatic drop in their numbers. All of a sudden they hit a wall and don't know what to do.

Riding on a record of closed sales, a competent insurance producer didn't know how to cope with a \$28 commission check.

Needless to say, the sales ranks are thinning daily.

No one really knows what to do. The answers from the sales gurus are lacking, nebulous or less than convincing. One such "expert" leaves his audiences rolling their eyes as he tells them that it's time to ask for referrals. Referrals are tough to come by in good times, let alone a recession.

There are important selling lessons to be learned from the dramatic selling situations that just about every salesperson is going through currently.

(1) We've run out of "silver bullets."

Many salespeople start looking for the next gimmick the moment they encounter a problem, whether it's getting leads or setting up appointments. As one salesperson said after working on a new market for less than 60 days, "If this doesn't work, I'll need a different mousetrap."

For the past 15 years or so, closing sales was relatively easy. Customers have been plentiful and most have been in a buying mode. Unfortunately, many salespeople thought it was their

skill that was driving their success, when it was more like order-taking than anything else.

Now, every salesperson is faced with the stamina test: "Do I have what it takes in a recession?" Instead of looking for a fantasy solution, the place to start is to look at ourselves.

(2) Stop looking for a ray of hope.

Optimism is the salesperson's drug of choice. Without it there's no getting up in the morning. Optimism works — as long as there's another sale in the offing. But not when the orders dry up, not when anyone wants to meet or even talk or not when every day is a Dead Zone.

Hoping things will change, hoping the next call will be different or hoping the old magic will return is not only a waste of time, but also avoids developing new strategies and ways of approaching and reaching customers.

For example, astute life insurance producers saw an opportunity when so many people lost a considerable portion of their retirement funds in the decline of the stock market. These salespeople are suggesting that life insurance can make up for what has been taken away.

Instead of always hoping things will change, focusing on how to work with the hand we're dealt produces the best results.

(3) Reposition your message.

Failing to change a sales message to fit the new economic reality is fatal. A human resources firm talks about "investing in retaining valued workers" at the very moment when layoffs are mounting. This approach may

resonate with companies when there's low unemployment, but not now.

Leonard Lodish, another Wharton School marketing professor, makes this comment about sending the correct message: "If your company has something to say that is relevant in this environment, it's going to be more efficient to say it now than to say it in better times." The task is figuring out a message that addresses the customer's situation. Nothing else works!

(4) Do something new, but don't cut prices.

Yes, the fashion industry has slashed prices, including the normally sacred high end. That was the right move since retailers were faced with high inventories. The fast food industry got it right fast. Wendy's, for example, offers three "waaaay better" 99-cent sandwiches, but the price hasn't changed on its regular products.

In the same way, Apple is said to be readying a new iPhone to market, a lower-priced nano version. It certainly makes sense since the nano iPod became a huge success.

(5) Keep the right perspective.

There's nothing worse than phony optimism. Everyone can see through it. If we were to go to the Web sites of *The Wall Street Journal*, *USA Today*, the *Financial Times* and any one of a dozen others, there's good reason for pessimism. Here were the top headlines in the *Financial Times* one day recently:

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"Consumers rein in spending"

"Fears over jobs and falling home values"

"Wall Street downbeat on stimulus fears"

"Boeing and 3M lead blue chips into negative territory"

Duplicate this "news" day-after-day, and it takes a toll on anyone, particularly those responsible for making sales.

While bad news infects the air we breathe, it is still true that more than 90 percent of the workforce is on the job, the freeways are packed morning and night, homes are being bought and sold, and on Friday nights the bars and restaurants are filled to capacity in many places. And in spite of all the bad news, the economy keeps on going.

No matter how much bad news there is, the cup is far more than half full.

(6) Avoid trying to convince customers what to buy.

The best way to lose a sale is to tell the customer that you have what they need. That may have worked in the past, but it's the wrong message now.

A sales rep from a major radio station in the Boston market called, attempting to arrange a "20-minute" meeting. "I think we're a good fit for your client," she stated.

Unfortunately, she did not get the memo that makes it clear that what a salesperson "thinks" doesn't count. She made no attempt to communicate that she understood the client's goals. Even worse, the "product" she wanted us to recommend to our client was being touted to a variety of businesses. The bottom line was that the station expected the client to fit *their* program.



What may be "a good fit" for the radio station may not meet the client's requirements.

(7) Educate endlessly.

The fact that today's customers are more suspicious and less trusting than they were in the past isn't a message that salespeople want to hear. Like it or not, it not only takes time, effort and patience for customers to become believers, but it also takes timing.

TriFactor LLC, a leading material handling integrator in the Southeast, understands the sales benefits of educating both current customers and prospects. They describe the company's new Web site (www.trifactor.com) as "The Learning Center." The company is committed to sharing its experience and its expertise. It's built into the culture. They see the business as a total learning center.

Customers today connect with information, not sales pitches.

(8) Invest in tomorrow.

Salespeople have a long history of being what might be called "today" people. Their focus is on what's happening at the moment; they're not known for thinking about the future.

There is always a need for agility and adjusting to short-term objectives. At the same time, a study by **Dr. Gary Lilien** of Penn State's Smeal College of Business makes the point for a consistent approach to marketing and sales. "Companies that have been looking at marketing as an investment," Dr. Lilien states, "and not an expense, and have been running their business through customer knowledge are the ones that are going to come out of this [recession] really, really well."

One of the best examples is Amazon.com. Even when their competitors were suffering, Amazon was beating them by using their extensive knowledge base to stay close to their customers by providing them products and services that were based on their unique interests.

It's a poignant lesson for every business.

Selling is more about understanding the customer than it is about skill or sales techniques. Those who take seriously the challenge of connecting with customers in ways that speak to their issues and meet their needs will prosper whatever the economic circumstances. ■

We Get No Respect!

by Thomas J. Ryan, CPCU

Thomas J. Ryan, CPCU, is chairman and founder of The ISU Group, an independent insurance and financial firm. Ryan's career has encompassed areas such as agent and broker, sales and management, mergers and acquisitions, underwriting and many others. An agent at heart, his career has led him through not only insurance, but also through fields that range from transportation and commodities to staffing and franchising. He has served on a number of boards for companies in the U.S. and abroad, and is active in many community organizations. An inspiring speaker and industry expert, Ryan earned a bachelor's degree from Haverford College in Pennsylvania.

Comedian **Rodney Dangerfield** is not the only person who "gets no respect." The same thing can be said about the insurance agent. Of all the problems facing the independent agency system, this is by far the most significant. And it is the root cause for the slow, but deliberate, demise of the independent agent as we know it today.

The average consumer has no idea of the complicated nature of an insurance contract and the in-depth understanding agents must have of key insurance and risk management principles and concepts to fully serve the needs of their clients. A customer is happy as long as his or her agent knows the answer to, "How much is the premium?"

Why are agents held in such low regard? Maybe it's because we sometimes act as nothing more than "quote messengers." Well, how much is carrying a message worth? There is no doubt that an insurance agent leads the life of a professional, described in *Webster's New International Dictionary* as: "The occupation, if not purely commercial, mechanical, agricultural, or the like, to which one devotes oneself; a calling in which one possesses to have acquired some special knowledge used by way

either of instructing, guiding or advising others or serving these in some art."

The study hours consumed, the tests mastered, the licenses obtained, the professional designations earned, plus the ongoing hours, days, months and years devoted to the needs of the insureds, alone qualifies the insurance agent as a professional. So why then is the agent not recognized as such?

It is because the training, licensing and sales techniques are all created by insurance companies, either directly or indirectly, and are based on the need of insurance companies to get their quotes into the hands of the consumers. Insurance companies essentially are in the betting business. The premiums they quote are an expression of the "odds." The company bets that a policyholder will not have a claim, and the policyholder bets the premium amount that he or she will have a claim. If there's no claim, the insurance company wins; if there is a claim, the policyholder wins.

Why then do agents and brokers get no respect? It is because agents and brokers are not in control at the point of sale. The agents and brokers' control takes the form of the insurance company's "odds" (or premium) for taking the bet. In other words, it's the price.

Because all bets are influenced by a bit of luck, it is almost impossible for an agent or broker to have the lowest price for every separate form of insurance all the time. Consequently, the practice of buying insurance from a number of different sources is the most common practice among business owners and to a lesser extent customers, in areas such as personal lines and life as well.

Yes, prospects and clients have the feeling that an agent is on the insurance company's "team." The agent delivers the best quote he or she can obtain, but very likely it is not the best for every form of insurance every time. Why and how this causes insurance agents and brokers

to get no respect is a combination of the insurance company's need to narrow its focus to make a better profit and the insurance agent's failure to "take control" and change the selling process.

What is necessary for the agent to take control?

First, it is necessary for the producer to have a clear mental picture of a meeting in which the producer is in charge of the meeting — not the prospect. Most producers whose goal is to present a quote are actually at the whim and direction of the prospect. The producer is responding to the prospect's desire to gain information, to satisfy his or her curiosity, and to answer the question, "Is my current agent's price as low as it should be?"

How else can the prospect find an answer to this question other than to have another "quote messenger" take the time and effort to secure underwriting information, complete applications and distribute them to markets, compare the respective insurance companies' proposals, select the one the agent believes is the lowest price, and deliver it some 10 to 15 days after the prospect's initial visit with perhaps having invested between \$1,000 to \$2,000 of time in the effort?

Now, who is in control of the scenario I just painted? Is it the client? No ... it's still the **prospect**, of course!

How can the agent gain control? Quite simply the same way any professional — a lawyer, a doctor, an architect or an accountant — acquires control. The agent has to decide to build and conduct a professional practice, not just run a business to make a living. What is the measure of the difference? Making sure a prospect agrees to be a client by turning over control of his or her insurance needs, whether business or personal, to you

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We Get No Respect!

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— the agent — just as he or she would do when selecting a doctor, a lawyer, or an accountant, for example. This also means replacing all current agents or brokers. For the client, putting his or her insurance needs in the hands of one professional — you — the benefits are tremendous.

Why aren't agents and brokers doing this now? Well actually, some are, and they're picking up accounts, which can generate \$10,000 to \$50,000 on all forms of insurance, on a regular basis a number of times a year. The technique they use is one based on a concept of ISU Insurance Services — One Responsible Source™.

In the absence of realizing the true role or purpose of the independent agent or broker, many a practitioner has fallen victim to the “I can get it for you cheaper” syndrome, thus adding to the insured's impression that insurance is a commodity and price is the only differential.

This tends to relegate the “product” of insurance to a tangible status, whereas the service rendered by an insurance agent or broker is the epitome of an intangible service. The inability of the insurance professional to understand this difference is the source of his or her failure to enjoy the respect which doctors and lawyers expect and sometimes take for granted.

Doctors do not sell diagnoses and operations or attorneys jury awards. They are paid for their knowledge and reputation — knowledge gleaned from years of study, practice, experience, specialization and mental efforts as well as reputation based on ethical conduct and patient/client recommendations. Is this so different from the practice of a professional insurance agent or broker?

In much the same way as doctors are compensated for the knowledge required to write a prescription and the pharmacy is paid for the medicine prescribed, insurance professionals are compensated

for their knowledge to recommend the proper coverages, including endorsements, and the insurance companies are paid for the document called a policy.

When one selects a provider of professional services, it is based on emotions such as trust, confidence and beliefs — all intangible feelings. Yes, the selection of a professional provider of services is an emotional decision and paying for knowledge is payment for an intangible. Thus the insurance agent or broker will not enjoy the respect granted to a professional until such time as he or she stimulates the most important emotions of the prospect at the time of sale.

And what are these emotions? All emotions can be described by five words: pleasure, security, status, profit and convenience.

Insurance agents and brokers will not join the ranks of professionals until they change their behavior at the point of sale as well as the public's view of the profession. ■

Rating Knowledge — An Endangered Species

by Jeanne Z. Moscarillo, CPCU, CIC, AU, AAI, CRIS



Jeanne Z. Moscarillo, CPCU, CIC, AU, AAI, CRIS, is currently an account manager in the construction department at Britton-Gallagher & Associates Inc., a Cleveland, Ohio, insurance agency. Previously, she worked as an underwriter at Progressive Insurance Company. Moscarillo has been a licensed agent since 1980; she earned the CPCU designation in 1989 and the CIC designation in 2006. Moscarillo earned a Bachelor of Science in education from The Ohio State University.

Editor's note: This article first appeared in the July 2009 issue of the CPCU Society's Underwriting Interest Group newsletter.

In 1980, when I started my insurance career in a Cleveland area insurance agency, I had the opportunity to learn commercial insurance from the "bottom up." (This was prior to PCs, the Internet, PowerPoint, cell phones or Blackberrys.) As archaic as it sounds, this training provided me with a very good foundation of knowledge, which, for the most part, has not changed to date. This point is evidenced by my leaving the insurance industry in 1988 to become a stay-at-home mom and returning to the same independent insurance agency in 2002.

During this 14-year lapse, some things had changed — and quite a bit! The assistant that I had once hired was now my manager, one of my former underwriters was now president of a regional insurance company, and business was now conducted by computer and the Internet. However, most of what I learned in my first eight years in the insurance industry did not change. One company was still using a \$10,400 executive payroll for general liability as the premium-rating basis; automobile, general liability, property and workers compensation rating still used the same classifications; and the RCP property code still had the same components.

The problem I see today is that learning the fundamentals of rating is disappearing, both at the agency level and at the company level. Many company underwriters don't know how to rate. I called a company underwriter to get the percentage credit to increase the deductible, and this person had no idea what it was. I was advised that an underwriter just enters the information — it's the computer that generates the rating and premiums' output!

Agents should always request complete rating worksheets and have the knowledge to read them. This gives them the power to look for potential misclassifications, excessive base rates, credits that were not applied, and errors or omissions in the rating process. They will also, at least, be able to estimate any changes in property limits and general liability premium basis, and delete the collision on a vehicle and facilitate other common changes that come up in client meetings or calls.

Rating training is becoming very rare to find. Companies have cut back on agency training and seldom offer rating training. Agencies can neither afford to send employees long distances nor have them out of the office for long periods of time. My advice is to locate people in your organization who have rating knowledge. Have them develop a simple course and

teach this to others in the organization — before it's too late! All processing, customer service and marketing employees in your agency should have this knowledge to properly service, retain and write new accounts. Audits, endorsements, policies and proposals all involve understanding rating elements. To be able to do your best job, everyone involved in these processes needs to know the basics of rating. Extinction is nearing.

A sample rating outline follows, which can be amended to meet your needs.

I. Property.

A. Basic Fire Rate.

1. Class Rate.

a) Construction.

b) Protection Class.

2. Specific Rate.

a) ISO Contact Information.

3. Information Needed for Loss Cost Rate.

4. RCP.

B. Group II and AOP Rates.

C. Other Rating Factors.

1. Coinsurance.

2. Deductible.

3. RPM.

4. Schedule Credit.

5. Package Credit.

D. Premium = Limit of Insurance X Final Rate.

E. Other Coverage Premiums.

1. BI/EE.

2. Expanded Endorsements.

II. General Liability.

A. Sublines.

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- 1. Premises (313).
 - 2. Product/Completed Operations (316).
 - 3. Independent Contractors (315).
 - B. Classifications and Codes.
 - C. Premium Basis.
 - 1. Payroll (P) per \$1,000.
 - a) Payroll Rules.
 - b) Cap on Payrolls.
 - 2. Gross Sale(s) per \$1,000.
 - a) Inclusions.
 - b) Exclusion.
 - 3. Total Cost (c) per \$1,000.
 - 4. Area (A) per \$1,000.
 - D. Other Factors.
 - 1. Increased Limits.
 - 2. Deductible.
 - 3. Experience.
 - 4. Scheduled.
 - 5. Package.
 - E. $\text{Premium} = \text{Base Rate} \times \text{Other Factors} = \text{Final Rate} \times \text{Premium Basis}$.
 - F. Other Coverages.
 - 1. BFGL.
 - 2. Nonowned and Hired Car (NO & HC).
 - 3. Additional Insureds.
 - 4. Waivers.
 - G. Audits.
- III. Automobile.
- A. Vehicle Year, Make, Model.
 - 1. Model Year.
 - 2. Cost New/Symbol.
 - 3. VIN (Vehicle Identification Number).
 - B. Use of Vehicle.
 - 1. Service.
 - 2. Retail.
 - 3. Commercial.
 - 4. Private Passenger — Code: 0798.
 - C. Vehicle Weight.
 - 1. Light (Gross Vehicle Weight 0–10K/6).
 - 2. Medium (Gross Vehicle Weight 10–20K).
 - 3. Heavy (Gross Vehicle Weight 20–45,000).
 - 4. Extra Heavy (Over 45,000 Gross Vehicle Weight).
 - 5. Heavy Truck — Tractors (Gross Vehicle Weight 10–45,000).
 - 6. Extra Heavy Truck — Tractor (Over 45,000 Gross Vehicle Weight).
 - 7. Trailers.
 - 8. Semitrailers.
 - 9. Service or Utility (0–2,000 Load Capacity).
 - D. Radius.
 - 1. Local (0–50 miles).
 - 2. Intermediate (51–200 miles).
 - 3. Long Distance (Over 200 miles).
 - E. Coding of PP (0798).
 - F. Territory (Garaging).
 - G. $\text{Liability Premium} = \text{Rate} \times \text{Increased Limit's Factor} \times \text{Credits}$.
 - H. Other Coverages.
 - 1. Expanded Automobile.
 - 2. Fellow Employee Exclusion Deleted.
 - 3. Nonowned and Hired Car.
 - a) Number of Employees.
 - b) Cost of Hire.
 - 4. Medical Payments.
 - 5. Uninsured Motorist.
- I. Covered Automobile Symbols.
- IV. Employer's Liability and Workers Compensation.
- A. Payroll (Workers' Comp Rules).
 - B. Codes (Workers' Comp Codes).
 - C. $\text{Premium} = \text{Final Rate} \times \text{Payroll per 100}$.
- V. Employee Benefits.
- A. Rated on Number of Employees.
 - B. May Be Included in Broad Form Endorsements.
- VI. Inland Marine — Contractors Equipment.
- A. ACV of Equipment.
 - B. $\text{Premium} = \text{Rate} \times \text{Credits} \times \text{Limit of Insurance per 100}$.
 - C. Other Coverages.
 - 1. Leased or Rented Equipment.
 - 2. Extra Expense.
- VII. Umbrella.
- A. Percentage of General Liability Premium.
 - B. Percentage of Automobile Liability Premium.
Automobile — Number of Vehicles According to Class.
- Note:** Complete information may be found on Web sites such as ISO, NCCI or Silver Plume, and may involve subscriptions. ■

Business Use under the Personal Auto Policy

by David A. Thompson, CPCU, AAI, API



David A. Thompson, CPCU, AAI, API, is an instructor with the Florida Association of Insurance Agents in Tallahassee, Fla. He travels extensively throughout the country presenting continuing education seminars.

Editor's note: This article first appeared in the June 2009 issue of the CPCU Society's Personal Lines Interest Group newsletter.

A recent question posed by an agent pointed out the need to read the auto policy before jumping to conclusions. A co-worker of mine said he wanted to run a coverage question by me before he answered an agent. The situation was that the insured had a personal auto policy (PAP) correctly rated for pleasure use.

This insured flew out of town on a business trip, rented a car, and during the course of the business trip damaged the car in an accident. He turned the claim in to his PAP insurance company, which promptly denied the claim, stating that because the PAP was rated for personal use, the car rented for business use was not covered for physical damage.

Hearing the situation, I promptly stated that the company's position was incorrect because rating on the PAP does not affect coverage for a rental vehicle. My co-worker agreed, and we remarked how "Most likely no one even read the policy before denying the claim." Then ... I was humbled, as was my co-worker. He called from his cell phone saying he had obtained a copy of the policy in question and found this language in the physical damage coverage section:

"Coverage under this part does not apply to a non-owned vehicle rented by you or a relative if being maintained or used by a person while employed or engaged in any business. However, this exclusion does not apply if you have paid our business use surcharge."



There it was, just as the company stated — no physical damage coverage on a rented auto unless the PAP had a business

use rating. This points out how different one company can be from another when it comes to coverage issues. The standard Insurance Services Office (ISO) PAP would clearly cover this claim because there is no such business use exclusion found in that policy.

This insured's company is not alone in using its own policy language. Other carriers have language in their respective forms that excludes coverage for a rental car used for business purposes. And when one considers the thousands of people traveling for business these days, a coverage gap such as this is significant.

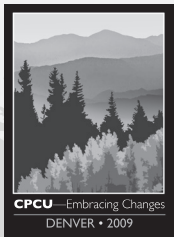
The bottom line is: Policies have a unique language that can create serious problems come claim time. Agencies should make certain their PAP clients are asked if they **ever** rent a vehicle for business purposes. If answered affirmatively, and if the policy excludes such usage, this gap needs to be pointed out **and documented** at the time the policy is written and at each "insurance checkup" with the client. If endorsements exist to fill the gap in coverage, they should be added to the policy. While it does take additional time, it's time well invested if it saves a claim denial for a client. ■



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Chair

Joseph F. Menschik, CPCU
Menschik Insurance Services
E-mail: joe@menschik.com

Editor

Ellen M. Clements, CPCU, ARM, CIC, CPIW
Willis HRH
E-mail: ellen.clements@willis.com

CPCU Society

720 Providence Road
Malvern, PA 19355
(800) 932-CPCU
www.cpcusociety.org

Director of Program Content and Interest Groups

John Kelly, CPCU, AAI

Managing Editor

Mary Friedberg

Associate Editor

Carole Roinestad

Design/Production Manager

Joan A. Satchell

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