CPCU SOCIETY INSURING YOUR SUCCESS

# Agent & Broker Solutions

A&B

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## Editor's Column

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

**Ellen M. Clements, CPCU, ARM, CIC, CPIW,** is a vice president, senior client manager, with HRH in Boston, MA. 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, *Agent & Broker Solutions.*

Aloha! We came back from a truly exciting week in Hawaii, where more than 7,000 people converged to pay tribute to the 2007 designees and to conduct the business of the CPCU Society. We were hard-pressed to find available time to take in the sights, but we managed to squeeze some in.

The CPCU Society's Annual Meeting and Seminars was filled with educational seminars and a wide array of networking opportunities. We had the opportunity to be motivated by two very strong featured speakers. This year's keynote speaker was **James Bradley**, a motivational speaker and author of *Flags of Our Fathers*. He revealed the true story of his father and five other soldiers who were photographed raising the American flag during the Battle of Iwo Jima in 1945. There wasn't a dry eye in the house. The conferment speaker—**Erik Weihenmayer** helped us learn how to harness the power of adversity to lead a fulfilling life. He is a world-class "blind" adventurer and author of *The Adversity Advantage*.

The Agent & Broker Interest Group hosted a seminar on Sunday morning titled, "Agency Survival in a Changing Environment." Our panel of presenters, **Donald B. Allen,** Professional Insurance Agents of Hawaii, **Anita Z. Bourke, CPCU,** IMA of Kansas, **Dan R. Charmichael, CPCU,** Ohio Casualty Corporation, and **Dean L. Middour, CPCU, CLU,** Thoits Insurance Service, Inc., did an outstanding job of outlining the various obstacles facing today's agents and brokers, and providing us with suggestions for surviving them.

On Monday evening we hosted the Agent & Broker Interest Group dinner. The guest speaker **Jeanne H. Neff, D.A.,** president of the Sage Colleges, delivered a riveting speech titled, "Getting a Life: A College Education in the 21st Century." The attendees included a number of new designees.

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### What's In This Issue

# Editor's Column

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*Jeanne H. Neff, D.A., president of the Sage Colleges, delivered a riveting speech at the 2007 Annual Meeting and Seminars in Hawaii.*

I strongly recommend joining the Society next year when the Annual Meeting and Seminars will be held in Philadelphia, PA. Bring a lot of business cards, comfortable shoes, and a yearning to learn. You will not be disappointed.

The next year should prove rewarding. The committee is already hard at work in pulling together seminar content for Philadelphia, as well as delivery of Society news to all of our agents and brokers. Our newsletter this quarter is full of informative articles, and also includes an introduction to our new chairman.

**Richard C. Lambert, CPCU, ARM, AIM, ARP,** our chairman for the past six years, has moved up to the Board of Governors. Rick has done a wonderful job building the Agent and Broker Interest Group Committee winning three consecutive Circle of Excellence Gold Awards. This doesn't happen without the kind of leadership Rick has provided us during his tenure. He will be sorely missed, and we wish him well in his new role.

Rick has handed over the baton to a worthy successor. **Joseph F. Menschik, CPCU,** was nominated by our own nominating committee and then unanimously voted in at the Leadership Summit in April. Joe has a very impressive history in both the industry itself, and the CPCU Society.

Joe graduated from CCNY in 1965 with a degree in insurance. He was an outstanding athlete while there in fencing. He went on to graduate school. While there he was recruited by Progressive Insurance. He took over an in-house agency, building that business over a three-year period, when he left to pursue a career as a commercial casualty underwriter with Reliance. This lasted approximately two and one-half years. In the early 1970s, he went on to Warren Kimball—a family-owned agency that was purchased by Fred S. James. This is where he learned the most about insurance.

Joe went on to open his own agency in 1974, became a CPCU in 1975, and worked long hard hours building an agency from scratch to the thriving agency it is today. In 1981, Joe became president of the CPCU Society's Westchester Chapter. In 1982, Joe was appointed to the Society's Public Relations Committee where he served three terms, and then went on to the Publications Committee where he served two terms prior to becoming a governor. While a governor, Joe was appointed by **William E. Sleeper, CPCU, CLU,** then-CPCU Society president, to the Agents & Brokers Value Added Task Force, which was a one-year task force. He continued on the Agent & Broker Interest Group Committee where he has been the past six years. He is now the chairman. Welcome, Joe! We are looking forward to working under your leadership.

With this issue I am trying something a little different, which will continue with future issues. Read our articles and send your comments, criticisms, accolades, etc. in a letter to the editor. We will run your comments in our next issue with a response. Send them to me at DIP8648@yahoo.com.

Happy reading! ■

*Attendees enjoyed listening to the "Agency Survival in a Changing Environment" seminar at the 2007 Annual Meeting and Seminars in Hawaii.*

# Immediate Past Chairman's Column—Looking Back and Forward

by Richard C. Lambert, CPCU, ARM, AIM, ARP

**Richard C. Lambert, CPCU, ARM, AIM, ARP,** is underwriting director of the Phoenix branch of CNA. He began his CPCU Society involvement in 1985. Previously, he has been a regional vice president, director, and chairman of the Chapter Affairs Committee; chairman of the Leadership Development Committee; chairman of the Annual Meeting and Seminars Task Force; and has served on several other committees or task forces.

As I wrote this in August, I reflected on the fact that it would be my last column as chairman of the Agent & Broker Interest Group. As with many of my other columns, I was not prepared, and simply started writing my thoughts of the day, hoping they would lead me to a worthwhile end.

It seems like yesterday that I received a call from **John W. Reynolds Jr., CPCU,** and incoming CPCU Society president at the time, asking me if I would consider chairing the Agent & Broker Interest Group. It was 2001, right after that infamous day, and he had learned that the chairman at the time was just in an accident and wouldn't be able to attend the CPCU Society's Annual Meeting and Seminars in Seattle. We had a skeletal crew at that Seattle committee meeting with a total of seven of us there. That was the start of a building process that will keep going after I leave.

Of the seven committee members who were there in October 2001, two have gone on to the Board of Governors, one was on the Nominating Committee and came back, two others are still on the committee, one has retired to the Napa area, and I am now leaving for the board as an interest group governor. I have one big thank-you to make here. I would never have made headway in that first meeting if **John Kelly, CPCU,** overseer of interest groups for the CPCU Society in Malvern, had not spent the time before and then during the meeting itself to bring us all up to date on the issues surrounding the Agent & Broker Interest Group. John is still working diligently with the interest groups, and has been a tremendous help to chairmen like me whenever I have needed him to help. He is always there for you.

We have come a long way since 2001. It is not my intent to ignore the efforts of others on the interest group before me, but I just know what we have done in the last six years. I hope you have seen the improvement in our activities. Here are some of the accomplishments:

- We have instituted a new designee personal contact program where we are in contact with each new designee prior to the Annual Meeting and Seminars.
- We produced our third annual Agent & Broker Dinner in Hawaii. This dinner started in 2005 as a way for us to recognize our Agent & Broker brethren who didn't have a recognition dinner at the Annual Meeting of their own to go to.
- We were instrumental in helping the CPCU-Loman Education Foundation establish the Richard A. Gerrond Award recognizing significant contributions made by an instructor of the CPCU Society's Center for Leadership courses. The award was named for one of our committee members, who died tragically in January 2005. The committee was also able to arrange for Rich's widow, Ann Gerrond, to be on hand for the first annual presentation.
- We have markedly improved the content and timing of our *Agent & Broker Solutions* newsletter. This improvement has come over time and will continue into the future, first under the tutelage of **Chris O'Donnell, CPCU,** and now under **Ellen M. Clements, CPCU, ARM, CIC, CPIW.** Thanks to you both for all the time and effort you are putting into this significant endeavor.
- Our pages on the CPCU Society web site are now taking shape under **Rick Brisee, CPCU, CIC.** This has been a work in progress over the years, and we are starting to see the changes that are possible in it. We now have an interactive part to it as we asked questions for our seminar in Hawaii.
- Our participation in seminars at the Annual Meetings has taken a step up. The teams that have put them together have done a great job, and I am really proud of what they have accomplished. We went from being beneficially helped by being "allowed" to co-sponsor a seminar, to completely developing our own. The one presented in Hawaii was excellent!
- Lastly, we are now consistently ranked in the Circle of Excellence arena with a gold recognition level. In 2002, we weren't even able to submit for an award. We grew from bronze to silver and then to gold the last two years. We just received another gold recognition for 2006–2007 for three consecutive years.

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## Immediate Past Chairman's Column—Looking Back and Forward

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Before I wrap this up I would be remiss if I didn't take my last shot at asking you to volunteer to help. I am now finishing 22 years of CPCU Society work and counting. The friends I have made are innumerable. I may see them but twice a year, but it is like we never left off. You need to volunteer for CPCU Society service to understand what I am saying. So, one last time, the Society can use your help. You will find how rewarding it can be. Our interest group could use your help to keep the projects at the highest levels possible. As Bob Barker used to say, "Come on down."

Your new chairman will be **Joseph F. Menschik, CPCU.** He was nominated by our own nominating committee and then unanimously voted in at the Leadership Summit in April. That, by the way, is how it is supposed to work in interest groups. You have bench strength and move up right from the committee. Congratulations to Joe; he has great ideas to bring forward, and I am sure he will do a great job.

I am looking forward to moving on to the role of an interest group governor. I am very interested in the changes that are coming to interest groups. The implementation of the work of the Sections Strategic Implementation Task Force is going to happen over the next couple of years. These are good, pro-active changes that will help interest groups grow and prosper. I come from the school of "change is good," and this is going to be great and much needed!

These past six years have brought a lot of highs and lows to me. The loss of one of my best friends, **Richard A. Gerrond, CPCU,** is still felt, and I am still not ready to let him go. (If you read my article two years ago, you will understand.) The progress of the Agent & Broker Interest Group is something I am extremely glad to see. I am proud to be a member of this interest group, and very proud to leave a team behind that will continue to reach new heights. The committee has changed members over the past six years as members have come and gone, and I would like to thank all of those who have contributed to our growth for the efforts you have given. Thank you all very much for the chance to have led the Agent & Broker Interest Group. ■

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# Flood Insurance Errors and Omissions Issues

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, Florida. He travels extensively throughout the country presenting continuing education seminars.

Recently, I was fortunate enough to listen in on a teleconference dealing with "lessons learned" from flood insurance claims during Hurricane Katrina. The most interesting part of the teleconference to me was when an attorney who specializes in errors and omissions (E&O) claims outlined some of the more common claims he had encountered as a result of Hurricane Katrina. Briefly, here is what he mentioned as some of the most frequent errors.

**Flood coverage at minimum limits:** Many clients purchase only enough coverage to satisfy the lender, yet come claim time they find out that those limits are inadequate to properly cover the loss.

**No contents coverage:** The Federal Emergency Management Agency (FEMA) web page indicates that approximately 38 percent of policyholders carry only building coverage and don't carry contents coverage. FAIA has developed a waiver for this situation.

**Flood policy and homeowners policy limits don't match:** As these two policies renew each year, it's important that regular reviews of coverage be made to make certain (where appropriate) that limits are adequate on both policies.

**Failure to advise of excess coverage availability:** While case law is far from consistent on this subject, suffice it to say that agencies should offer excess flood coverage that goes above the limits available through the National Flood Insurance Program (NFIP). The waiver referenced above can also be utilized for this purpose.

**Incorrect policy or incorrect limits:** In one specific case, an agent insured a home association composed of eight buildings. Each building contained eight separate fee-simple townhouses, with each unit separated by solid load-bearing vertical division walls. The agent incorrectly wrote only eight policies at limits of $250,000, and was unaware that each building actually contained eight separate "single buildings" as defined by NFIP. The agent could have written a total of 64 separate policies at $250,000 each.

While the possibility of E&O claims can be "scary," there is no need to find the nearest bridge and jump. By being a good practitioner of insurance, knowing the products that are being sold, and properly documenting files, insurance professionals can provide the proper coverage for clients and, at the same time, have a good defense should an E&O claim result. ■

# How to Make Meetings with Salespeople More Productive

## *What To Do Before, During, and After Meeting with a Salesperson*

by John R. Graham

**John R. Graham** is president of Graham Communications, a marketing services and sales consulting firm. He is the author of *The New Magnet Marketing* and *Break the Rules Selling,* writes for a variety of business publications, and speaks on business, marketing, and sales topics for company and association meetings. He is the winner of an APEX Grand Award in writing, and the only two-time recipient of the Door & Hardware Institute's Ryan Award in Business Writing. He can be contacted at 40 Oval Road, Quincy, MA 02170; phone (617) 328-0069; fax (617) 471-1504; or e-mail j_graham@grahamcomm.com.

The company's web site is www.grahamcomm.com.

While many salespeople enjoy significant rewards for their efforts, their work is becoming increasingly difficult. Even those in so-called "executive sales" find getting through the door is increasingly difficult.

Everyone is pressed for time. "If I were to say yes to just a quarter of those who ask for a meeting, I would be here until 10 p.m. every night," comments one manager.

Yet, salespeople can perform a valuable and necessary function. The good ones are excellent problem solvers, sources of helpful information, and resourceful consultants. The others, who are often painfully easy to spot, only want to make the sale, not satisfy the customer.

Everyone who deals with salespeople has had too many experiences of asking themselves, "What am I doing in this meeting? I should never have let the guy talk me into it."

For an increasingly number of people, the only way to solve this problem is to avoid as many salespeople as possible. Unfortunately, that may not be the best solution. In fact, it may not even be a good one.

To make meetings with salespeople as productive as possible, here is a handful of techniques that may be useful:

1. **"When can we get together?"** This is the killer question and it always comes from a salesperson very early in a telephone conversation or e-mail message. There's only one acceptable answer to this question: "Not at this time." It should be stated firmly. You want to stop the action and make it politely clear that you are in charge of the process. If a meeting takes place at some point, you will initiate it.

   We all have gone to sales meetings and heard the prospective customer say, "We're glad you're here. Go ahead; it's your meeting." It's almost as if the salesperson is being dared to succeed. Shame on the customer for letting this happen.

> ***Salespeople can perform a valuable and necessary function. The good ones are excellent problem solvers, sources of helpful information, and resourceful consultants.***

2. **Hold meetings in a room with a table and chairs.** While it may seem a bit absurd to even mention the physical setting for a meeting with a salesperson, where meetings are held can influence their outcome. Quite often, salespeople would prefer meeting on the golf course or at the end of the business day, any place that's less structured.

   Relaxed, laidback, and informal are appropriate in many business situations today. However, there's one place in every company that's exempt. That's where the word "purchasing" is on the door. This is where there are always clearly established protocols and procedures that everyone is expected to adhere to without exception if they want to do business with the company.

   Where a meeting is held is a "stage setting." If the goal is to be productive, businesslike, and informative, then the conditions that reflect these objectives are the

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# How to Make Meetings with Salespeople More Productive

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right place to hold a meeting. More often than not, this will be a room with chairs and a table.

3. **Ask that salespeople send you a meeting agenda.** Most meetings with salespeople waste valuable time. Customers come away saying to themselves, "Why did I ever let her talk me into having a meeting?"

   Before agreeing to meet, ask the salesperson to send you a proposed agenda, along with appropriate supporting information and data so you can be prepared. This allows you the opportunity to evaluate the salesperson, what is being offered, and if you feel a meeting will be productive.

4. **Don't let meetings get hung up on small talk.** Many salespeople revel in small talk. They probe with a sports question or ask about the photos of kids on your credenza, or comment on a current news story.

   While this passes as a "relationship-building" tactic, it is actually a technique that helps salespeople find out if you are willing to let them take charge of the meeting.

   Today, very little small talk belongs in these meetings. It tends to send the wrong message to each of the parties. Getting down to business sends the right message.

5. **"Tell me what you know about our company."** Make this your opening statement to a salesperson. It will let you know if the salesperson has researched what you do, including any problems you may be facing.

   Unfortunately, this is not always the case. If the answer is too general, nonexistent, or the salesperson stumbles over the question, it's time to end the meeting. If you do, it will avoid wasting valuable time and lets the salesperson know you are serious.

6. **"What do you want to accomplish at today's meeting?"** This should be your next question. On the one hand, it makes it clear that you are chairing the meeting. If the salesperson is unable to answer the question to your satisfaction, simply end the meeting. If you think there's a good reason to do so, reschedule it when the salesperson is better prepared.

7. **Avoid asking the "What does it cost?" question.** This is perhaps the most harmful question of all because it changes both the focus and the dynamics of the conversation. If you really want to learn something from a salesperson, don't ask this question since it puts most salespeople on the defensive, and sends the message that all that matters is price.

   Offering a different question is more productive. Focus the salesperson's attention where it benefits you the most: "What value will this purchase bring to us?" The answer will tell you if the salesperson has spent time preparing for the meeting, is only interested in coming away with the order, or doesn't have a clue.

8. **Exchanging post-meeting memos.** Before the meeting ends, discuss exchanging post-meeting memos with the salesperson. This should occur, if at all possible, within 24 hours after you've met.

   This lets you as the customer comment on and evaluate the meeting, convey any questions or concerns, suggest any next steps, or indicate that you do not want to go any further, either now or later.

   At the same time, sending a memo offers salespeople a way to reflect on the meeting, communicate their major points (and add new ones), provide supporting material, clarify issues, and make suggestions on how to proceed. By exchanging substantive memos, each knows where the other stands.

While some salespeople will find these guides like having to wear a straitjacket, they are actually helpful in making it possible for a salesperson to succeed. It's up to the customer to set the expectations and create the right atmosphere if everyone is to get the most out these meetings. ■

# Questions Agents Should Ask Themselves and Insurers Before Agreeing to and Planning of a Transfer of Business

by John T. Gilleland Jr., CPCU, API, AIS, AU

**John T. Gilleland Jr., CPCU, API, AIS, AU,** is the general manager of Appco Finance Corp. He has been employed as an underwriting manager, production underwriter, desk underwriter, and trainer.

Book rolls (a.k.a. transfers of business, TOBs) often start out with excitement and anticipation of greater profits; however, many end with disappointment as agency personnel and insureds learn the details and implications of moving insureds from old, familiar companies to new, unfamiliar companies. Answering these questions and preparing a formal TOB agreement with an action plan for doing the work necessary to maintain the book of business will prevent the usual loss of 30 percent to 40 percent of an agency's business. Answers to these questions should be used to form a formal TOB agreement and create an action plan for agency and insurer personnel.

1. What types of policy forms are being used by our current insurance companies? What types of policy forms are offered by the new company? Do the forms and endorsements compare well? If not, what is being lost and what is being gained? Is it all monoline or are some policies package policies? What new coverages are being offered? What services are expected by the insured, and will they be received?

2. What market segments do we serve now? Will the new company be very compatible with our market segments? What new market segments will we be able to serve?

3. Will our entire book of policies be rolled over without front-line underwriting? Or will we be applying the new company's new business or renewal underwriting guidelines? Or will we use our present insurers' guidelines? Who can tell us specifically what our new business and renewal underwriting guidelines are to be for this rollover as we convert the policies from our current insurers to the new insurer(s)?
    a. Are we waiving any of the new insurer(s) application's underwriting questions or requirements for the rollover (i.e. whether or not a previous insurer paid for a loss that is listed on the rollover application, amounts paid for not-at-fault accidents)?
    b. Who handles communicating this rollover agreement's details to the marketing department, so its computer systems' reports are generated properly?

4. If rating tiers are used, will the book be rolled over to comparably priced rating tiers? If underwriting tiers are used, will the book be rolled over to comparable eligibility tiers?

5. How will each risk's information get transferred from the agency to the new insurer(s)?
    a. Do the agency's files have enough information to satisfy the new insurer's underwriting requirements? What's the earliest we can see how a random sampling of files would be transferred and what the results will be?
    b. Who will read the agency's files, interpret the information, and decide what coverages/endorsements are needed from the new insurer(s)?
    c. How are we to allow for the extra time it takes for special forms to be sent, completed, and returned for states requiring

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# Questions Agents Should Ask Themselves and Insurers Before Agreeing to and Planning of a Transfer of Business

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countersigning (i.e. UM/UIM acceptance or rejection must be completed before issuance of the policy in some states)?

6. When will the policies start renewing from old paper to new paper?
   a. When is the earliest we can get started? We try to process renewals __ days before their effective dates; therefore we have already missed the __(varies day to day)__ date.
   b. What can we do for the insurer(s) to compensate for any loss of time if the information gets to an insurer late?

7. Are both the agency and insurer customer service departments fully staffed? How is work distributed, in other words: who handles which parts of the alphabet or do they use another system?

8. How will the transition progress? When and how will insureds be informed of the transition from the current company to the new insurer(s)?

9. At what frequency will the policies be rolled over to the new insurer? Agency and insurer managers need to budget team members' time so as to handle the extra work. How many applications will need to be created on the first day and during the first month the insurer(s) begin servicing our book? Who will be expected to create those applications? Can the insurer's programmers (IT department) prepare a way for our agency management system to be copied and pasted into the insurer's database and then have policy renewals generated for our policyholders so no one has to fill out any paper or computer-based applications?

10. Will waiving of signatures be okay for the rollover policies? Are our policies based in states that will recognize these as renewals and permit waiving of signatures on renewals?

11. Who will make sure our agency system can and will receive downloads containing the newly issued policy information from the new insurer(s)?

12. Will a new agency or policy number prefix code be issued for the policies rolling over?

13. Will a worksheet be created to track the receiving, processing, etc. of applications so we can measure our progress and make sure none are missed? For how long should this be tracked?

14. When can a TOB agreement be drafted by the insurer for the agency's owner and manager(s) to consider? When can a list of actions be created showing who will do which actions? ■

# Global Warming and You: What Every Insurance Professional Should Know about Climate Change

by William F. Stewart

**William F. Stewart** practices in the West Conshohocken office of Cozen O'Connor. He concentrates his practice in insurance coverage, fraud defense, bad faith defense, environmental, toxic tort, and mold coverage defense. Stewart is a member of the Pennsylvania, Philadelphia, Montgomery County, and Camden County Bar Associations. He is a frequent contributor to *Business Insurance, Best's Insurance,* and *Mealey's.* Stewart is an arbitrator for the U.S. District Court for the Eastern District of Pennsylvania, and for the Philadelphia Court of Common Pleas and the Montgomery Court of Common Pleas. In 2005, he was selected by the Pennsylvania Supreme Court to serve on the state rules committee. Stewart earned his law degree at the University of Notre Dame, where he graduated cum laude. He is admitted to practice in Pennsylvania and New Jersey, and has practiced pro hac vice in more than 10 U.S. states and territories.

The good news is, if you are reading this article, you are employed in a growth industry. The overwhelming weight of evidence suggests that global warming will dramatically increase both the frequency and severity of property and liability claims. The bad news? Unfortunately, in the coming decades, our planet will experience some combination of unprecedented hurricanes, wildfires, floods, hail, heat waves, and drought. This article endeavors to provide practical commentary on what is happening, how it will impact insurers, and what the insurance industry can do in response.

## Isn't Global Warming Just Scientific Conjecture?

In the 1890s, a Swedish scientist named Svante Arrhanius made a novel prediction about climate change. He opined that, if humans continued to release high levels of carbon dioxide into the air, it would trap heat within the atmosphere and increase temperatures on the planet's surface. Although Arrhanius' theory was rejected in his own time, the "greenhouse effect" is almost universally accepted by contemporary environmentalists. Indeed, according to an April 6, 2007, article published by the *Insurance Journal:* "no serious scientist today disputes the existence of global warming, even though its potential impact remains the subject of continued analysis." In February 2007, the United Nation's Intergovernmental Panel on Climate Change (IPCC) issued a report stating: (1) "warming of the climate system is unequivocal"; and (2) it was very likely that human activity since 1750 has overloaded the atmosphere with carbon dioxide—which in turn has resulted in the retention of solar heat.

In 1750, atmospheric levels of $CO_2$ were 280 parts per million (ppm), by 1960 $CO_2$ levels had risen to 330 ppm, and now $CO_2$ levels are 380 ppm (which is higher than at any time in the last 650,000

years). To make matters worse, the IPCC has predicted that atmospheric carbon dioxide levels could reach 450 to 550 ppm by 2050. Correspondingly, 11 of the 12 warmest years in history have occurred since 1995. Thus, the debate is no longer whether global warming is occurring, but whether we are headed toward some sort of abrupt and cataclysmic change to our environment.

## How Will Global Warming Impact the Insurance Industry?

The U.S. Environmental Protection Agency's web site states: "[w]hile the effects of climate change will impact every segment of the business community, the insurance industry is especially at risk." At an April 19, 2007, international conference on Climate Change Regulations and Policy, the insurance industry was referred to as "the big canary in the coal mine"—because insurers will be the first to feel the impact of an increase in the frequency and/or severity of natural disasters.

While it is rarely possible to conclude that any particular weather-related loss is the result of global warming, there has been an alarming increase in both the number and extent of catastrophe (CAT) claims. According to the EPA, "there were four times as many natural

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# Global Warming and You: What Every Insurance Professional Should Know about Climate Change

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catastrophes in the 1990s as there were three decades ago." Seven of the 10 most expensive hurricanes in U.S. history (Katrina, Charlie, Rita, Wilma, Jeanne, Ivan, and Frances) occurred during the 14-month period between August 2004 and October 2005. The 2004 and 2005 hurricane seasons resulted in $75 billion in insurance payments, and CAT losses during that period equated to 12 percent of overall property insurance premium—which is more than three times the historical average.

One of the most alarming aspects of global warming is rising sea levels. An April 6, 2007, IPCC report stated, with "medium confidence," that "sea-level rise and human development are together contributing to . . . coastal flooding in many areas." In Florida, sea levels have risen six to eight inches over the last 100 years because of melting Arctic ice, and an accelerated upsurge is predicted because even a one-degree increase in temperature would result in massive melting of the Greenland ice cap. While there are no reliable models to predict how an anticipated two to three degree temperature increase would affect the ice caps, there is a growing view that low-lying coastal cities like Miami may be in grave risk before the end of the century.[1]

While most of the focus to date has been on coastal areas, the effects of global warming will be universal. Tim Wagner, the director of the Nebraska Department of Insurance, recently offered the following assessment: "After New Orleans, it's becoming clearer that we are experiencing more frequent and more powerful weather events that pose huge challenges for the insurance industry . . . . [but] this is both a coastal issue and a heartland issue . . . we're seeing all kinds of extreme weather in the Great Plains, including drought, tornadoes, brushfires and severe hailstorms."

## How Can the Insurance Industry Most Effectively Respond to Climate Change?

Scientists broadly characterize responses to global warming into two main categories: mitigation and adaptation. Mitigation involves attempts to reduce greenhouse emissions through conservation, alternative energy usage, and underground carbon storage. The reality, however, is that while mitigation efforts are imperative, they are unlikely to eliminate the problem. By the end of 2007, China will surpass the United States as the nation with the highest level of carbon dioxide emissions. For the present and foreseeable future, China's first priority will be the elimination of poverty, and, thus, it has consistently refused efforts to reduce or capture its emissions. Moreover, because $CO_2$ remains in the atmosphere for decades, and because the oceans retain heat for centuries, temperatures would continue to rise even if we could curtail the global production of greenhouse gases.

Adaptation involves the response of individuals, businesses, and communities to cope with the inevitable consequences of climate change. Examples of adaptation range from the conventional construction of levies to the futuristic "seeding" of clouds with chemicals to produce rain when and where it is needed.

Insurance professionals will be called upon to employ strategies that include both adaptation and mitigation measures. Three common examples of adaptation are pricing adjustments, risk sharing with insureds (e.g., increased windstorm deductibles), and cancellation. In February 2006, Allstate announced plans to stop offering property coverage in several counties along the Chesapeake Bay. Many property insurers have ceased writing business in Louisiana and Florida, and those still issuing policies have raised rates significantly. Another example of adaptation involves a proposed National Catastrophic Fund, which would aid insurers in the event of major climatic disasters—similar in certain respects to both the Terrorism Reinsurance Act of 2002 and the National Flood Insurance Program.

In addition to adaptive measures, the insurance industry is in a unique position to mitigate climate change. The EPA has asked insurers to address global warming by: (1) educating policyholders about the financial risks associated with climate change; (2) supporting stricter building codes to minimize the impact of severe weather; and (3) promoting energy efficiency and renewables to cut greenhouse gases. And indeed, despite its unfairly maligned reputation, the insurance industry has been a leader in combating $CO_2$ emissions. Travelers offers a 10 percent auto insurance discount to the owners of hybrid cars. Firemans's Fund not only reduces premiums for environmentally friendly buildings, but also encourages its insureds to use "green" products to repair losses. In April 2007, AIG became the twelfth company, and the first insurer, to join the United States Climate Action Partnership (USCAP)—which supports a number of immediate mitigation measures including a nationwide limit on carbon dioxide omissions. Swiss Re has invested substantially in solar technology. And, the Risk and Insurance Management Society (RIMS) has entered into an agreement with the EPA to research and educate its members on mitigation and adaptation strategies.

In sum, climate change will be one of the great challenges of our time, and the insurance industry will be among the sectors most fundamentally impacted. While the prospects of global warming still present more questions than solutions, companies that take the lead in evaluating and addressing climate impact are likely to enjoy a significant competitive advantage in the years to come. ■

## Endnote

1. See e.g., Brian Handwerk, *National Geographic News,* November 9, 2004.

# Eighteen Ways to Make Sure You Lose the Sale

by John R. Graham

It happens so frequently, it almost seems as if someone is out there training salespeople to fail. For example, the woman calling launches into her sales spiel. "Our station is a perfect fit for your client. When can we set up a time to get together so I can show you what we can do . . . ?"

It's the perfect pitch for failure, setting off bells and red lights in the head. There's no need to do anything but to end the call as quickly as possible. You want to say to her, "Don't you get it?"

If more salespeople were as good at making sales as they are in losing them, they could write their own ticket just about anywhere. Unfortunately, just the opposite is true. They're so blinded by their own goals, they're literally unable to see the prospect.

Here's a checklist of 18 behaviors that contribute to losing sales instead of closing them:

1. **Don't bother qualifying prospects.** This only takes valuable time away from trying to find someone to talk to. Doing research only holds you back. By not qualifying prospects, you can be sure your closing rate will be very low.

2. **When making an appointment by phone, start by talking about what you're selling.** It doesn't make any difference that the person you're calling doesn't have any idea who you are or the company you represent or why you're making the call, but don't let that stop you. Just charge ahead. This will be almost 100 percent successful in getting the prospect to hang up.

3. **Don't waste time and money finding ways to cultivate prospects.** If prospects aren't smart enough to figure out the value your solutions can bring them or how your knowledge and experience can benefit them after talking to you for a few minutes or getting a letter in the mail, don't bother trying to share your ideas and expertise with them.

4. **Never take time to ask questions.** When you're in front of a customer, use every minute to do as much talking as you can. Asking questions or trying to get the prospect involved in the conversation is counterproductive. There's one question you should ask, however. Put prospects on the spot and make them feel uncomfortable by asking, "What do you think?" after giving them your presentation.

5. **Be sure to drop the names of other clients.** Let them know you're a real operator. Making them feel like they're small potatoes is a great way to impress customers.

6. **Never listen to what the prospect is saying.** Remember, you're there to make a sale, so don't be distracted when the customer starts talking about his or her issues or problems. Even though it can be difficult, stay on track and be prepared to bring the conversation back to getting the order.

7. **Always assume that the customer is looking for the lowest price.** Have at least a three-tiered pricing schedule in your briefcase. This way you'll be ready to lower the price when you call back and the customers tell you they're not interested or your price is too high. A few days later call back with a new, lower, "manager approved" price. This pricing system is certain to create customer confidence.

8. **Don't bother trying to figure out a prospect's problems.** You don't want to get bogged down in the prospect's issues. They will only deflect attention from your presentation. You're there on a mission so don't let anything distract you.

9. **Forget about small accounts.** You're only interested in getting the big fish in your boat. Put all your time and effort in going after the big ones. Small ones are too much bother and it's not a good use of your time servicing them.

10. **Always push for a meeting.** Of course the prospect doesn't know you or what you do or why you want to meet. Just push for a meeting. With face time, you're confident you'll get the order. Never ask prospects how they like to work with a salesperson or what they would like from you.

11. **Throw in the right words.** Pepper your presentation with terms such as value, 24/7, transparent, ROI, benchmark, throw a curve, and strategize, robust, seamless, drill down, core values, and partnering and corporate culture. That's all it takes. Don't worry about explaining what the terms mean. Using the jargon will send the message that you're a "cool" salesperson.

12. **Focus on the low-hanging fruit.** Even though you know you're a great salesperson, it's only smart to look for the easy sales by pushing price to get the order. Sure, the customer will probably leave when a pushy competitor comes along but that's just the way it goes.

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# Eighteen Ways to Make Sure You Lose the Sale

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13. **Don't bother keeping good records.** Always make it known that you're a salesperson and that good salespeople aren't good at details. Anyway, you're not a clerk or an administrative assistant. You're the hunter out in the bush bringing home the orders that feed the business. You can't be bothered with paperwork or updating the sales reporting system.

14. **Don't waste valuable selling time following up after making the sale.** Follow-up is for customer service. Keep going forward; don't let yourself look back. How can you be expected to meet your quota if you're servicing accounts? Anyway, once you have the commission, what do you care? If the customers need something, they'll call the office.

15. **Never bother to find out about a prospect's business.** That's nothing more than window dressing. It doesn't mean anything more than making the prospect feel good. You can keep the patter going. That's what makes you a great salesperson.

16. **If prospects don't buy, don't bother with them.** Make it a rule never to go back to prospects if they don't buy after you've "given the right amount of attention." Move on to the next one.

17. **Stay focused on making the sale and ignore the prospect's buying process.** Getting on the customer's "wavelength" is for inexperienced salespeople, not pros. Present yourself as a "consultative salesperson," someone who wants to understand how the customer thinks. Talk a lot about problem solving, even though your real objective is to get the order.

18. **Never prepare or rehearse a presentation.** You've been selling for years so you know how to handle every situation. Just get the appointment and play it by ear. Preparation and rehearsing are for amateurs, the new people in sales. Who needs to practice? You're out there doing it day in and day out. Don't give a thought to the fact that Tiger Woods never stops practicing. You're a pro.

There are many other ways to lose a sale, but these 18 are a reminder that it's so easy for us to con ourselves into believing that selling is different from every other job in business. Once you "have it down," there's no need to perfect your skills, gain new insights, or expand your knowledge. Whatever else this is, it's the formula for losing a sale. ■

# Marketing Niche Analysis and Planning for Insurers

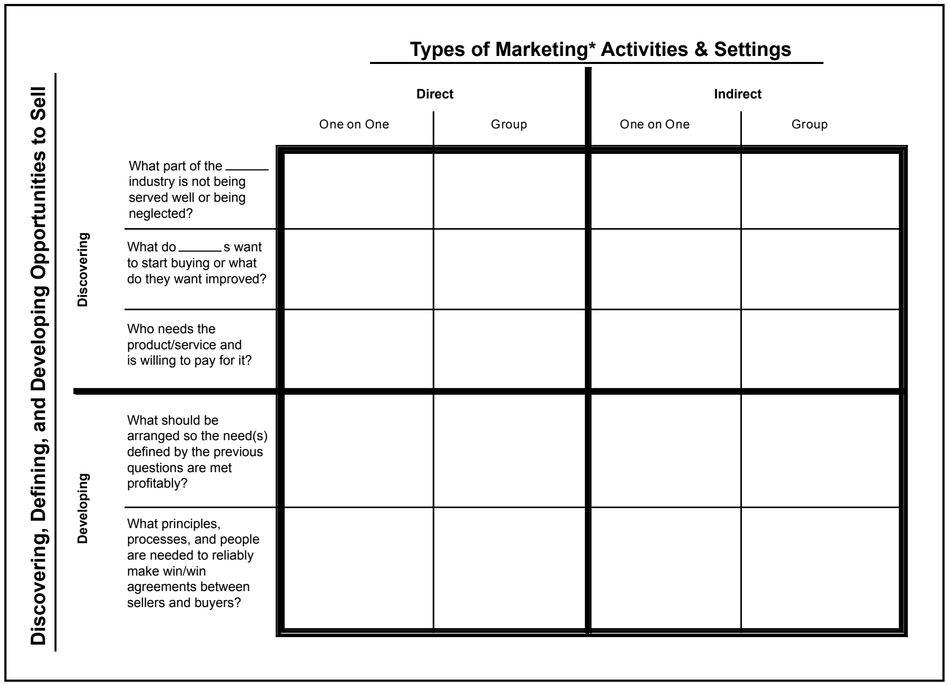
by John T. Gilleland Jr., CPCU, API, AIS, AU



## Introduction

This document was written to help insurer and managing general agency personnel to plan how to offer and distribute insurance in a targeted manner as a result of developing professional relationships linking underwriters with prospective buyers through producers. This document should be used to prepare an enterprise-wide business development plan. Such a plan should include goals, routines, and schedules reflecting how one or a few market niches will be underwritten and prospected/solicited.

## Figure 1
## Targeting Matrix




* *Marketing* is defined as:

1. The process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to satisfy customers.
2. The business of planning/coordinating, advertising, promoting, and selling directly and indirectly to willing buyers.
3. Finding out what customers want, then working to meet their needs profitably.

## Targeting Profitably

In most markets there are segments/niches that are less popular and therefore poorly served by sellers of goods and services. This document is intended to explain how marketing opportunities for profits may be targeted and served profitably. Uncovering needs for products and/or services and then selling to satisfy those needs enables salespeople to succeed financially. Simply put, this article suggests salespeople who want to diversify or completely change what they are selling should first discover a market or market niche that is being underserved, and second find a way to serve that niche profitably. Principles, processes, and people should be learned/studied to build confidence and capacity to succeed.

An example of a "market" is the trucking industry. Transportation of materials and products is a financially significant business/market. Many insurance companies insure many trucking operations hauling many items and materials to many businesses and individuals. Therefore, it is appropriate to first ask: What part of the trucking industry is not being served well or being neglected? What segments are being underserved? What do truckers want to start buying or what do they want improved? Secondly, decision makers should determine what should be arranged so the need(s) defined by the previous questions are met profitably. What principles, processes, and people are needed to reliably make win/win agreements between sellers and buyers?

Figure 1 is offered as a generic *Targeting Matrix* to enable readers to see one of many ways this process could be illustrated and applied to many marketing opportunities.

Another way of looking at this subject, trying to see it as a process, is to picture it as a staircase rising from basic to higher-level activities as seen in Figure 2.

Entrepreneurs discover needs, define the who, what, when, where, why, and who involved with those needs, and then develop opportunities to satisfy those needs profitably. This process should be applied to risk management in general and insurance in particular. How do you recommend it be done?

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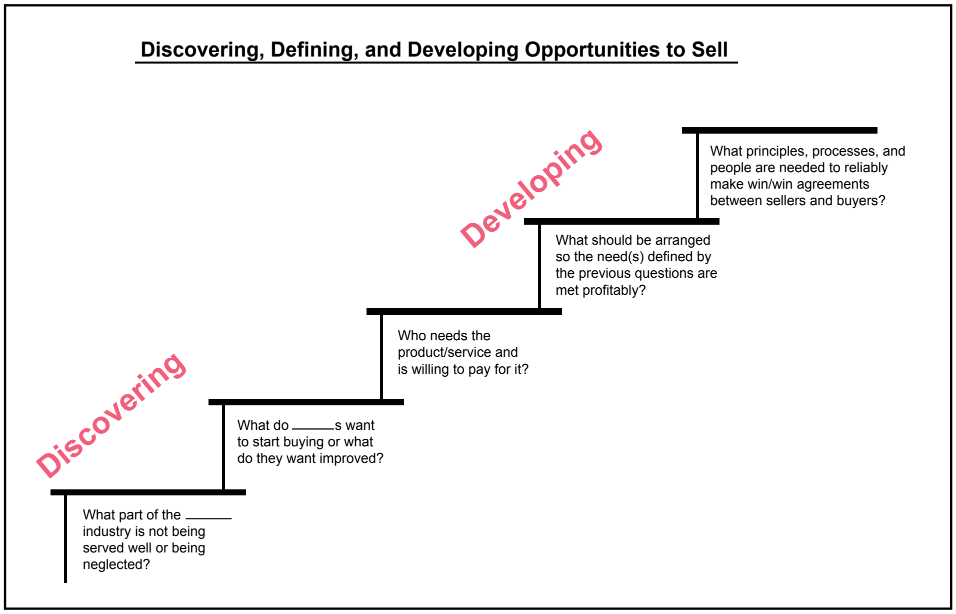
# Marketing Niche Analysis and Planning for Insurers

*Continued from page 13*

## Figure 2
## A Stairway to Profits




The decision to enter new insurance markets should be based on extensive research and planning. (Please see information below regarding new insurance markets.) This unit covers the skills and knowledge required to assess an enterprise's potential and capacity for entering new insurance markets. This material covers the skills and knowledge needed to:

1. identify new insurance markets including local and intrastate markets
2. research regulatory compliance and customer requirements
3. negotiate supply and distribution arrangements

The phrase *new insurance markets*, as used above, include geographic locations and lines of business, which are not being served by an insurer before or during this analysis and planning process. Therefore, entering new insurance markets includes beginning to offer a type of insurance in an additional geographic area as well as beginning to offer an additional type of insurance in a geographic area already served.

## A Process for Progress

We recommend a blending of marketing and underwriting principles and processes:

1. Research potential markets including competitors, products, customers and market regulations, legislation and controls using one or more methods (e.g., a self-administered SWOT analysis, a consultant's financial feasibility study). No guessing is permitted because we cannot manage what has not been measured.

2. Evaluate potential/feasibility of new market entry. Be sure to benefit from others' successes and failures. This requires analysis of market trends, assessment of implications for enterprise operations, analysis of enterprise product/service range for suitability for new market, assessment of enterprise capability to meet sales and production forecasts, and assessment of competitive position of the enterprise in the selected market.

3. Identify strategies for managing financial risk to assure feasibility/sustainability.

4. Determine and obtain resources required to support new market strategies. This includes calculating and estimating capital and cash flow requirements, pay-back periods, and returns in the short, medium, and long term and identifying internal and external sources of funds and assistance.

5. Prepare and implement strategies and action plans for entering the new market. (Please see information below regarding business plans.) Make sure your tactics are logically aligned with your plans. Make sure your plans are logically aligned with your goals. Make sure your goals are logically aligned with your strategies.

All business plans should include the following items:

- Strategies are large-scale action plans for interacting with the business environment in order to achieve long-term goals.
- Tactics are the specific actions required by the organization to implement its strategy.
- Activities are groups of tasks required by organizational units or departments for completing a tactic.
- Tasks are defined limited assignments with target completion dates.

Therefore, strategies are implemented as tactics are executed. Tactics are executed as activities are accomplished. Activities are accomplished as tasks are completed.

6. Establish infrastructure requirements for new markets. This requires identification of, and negotiation with clients, contractors, and service providers, according to enterprise requirements for maintaining financial controls and product quality.

7. Evaluate and report market entry performance. This requires setting goals and targets, analysis of sales information and financial data against budgets, preparing reports for stakeholders and for consideration in the enterprise planning cycle.

## Competency and Performance Criteria

### Research and Determine Viability of Entering One or More New Markets

- ❑ Sources of assistance for identifying and establishing new markets are identified and evaluated.
- ❑ Characteristics of potential markets are analyzed.
- ❑ Enterprise product/service range is reviewed in terms of potential market and customer requirements.
- ❑ Competitive position of enterprise product is assessed and sales projections prepared.
- ❑ Licensing and other regulatory requirements are determined.
- ❑ Costs, benefits, and risks of entering new markets are evaluated.

### Develop a Market Entry Strategy

- ❑ Resource strategies for entering the new market are developed.
- ❑ Strategies for managing risk are identified.
- ❑ Marketing strategy is developed, in association with relevant internal and external personnel.
- ❑ Distribution strategy is planned to ensure profile of product in the new market.

### Communicate Vision, Mission, and Goals for the Market

Are all stakeholders conversant in the following topics:

- ❑ Their targeted segment within the target market in comparison to other players in the industry.
- ❑ Market access including compliance requirements expressed during market conduct exams, licensing requirements, legal systems, and regulatory bureaucracy.
- ❑ Market size and historical growth and patterns.
- ❑ Distribution channels, technology, and quality.
- ❑ Competition given by local, regional, and national insurers and cooperatives.
- ❑ Product and services pricing.
- ❑ Positioning (e.g., packaging, labeling) of the company and its products and services.

### Identify Contract and Service Requirements

- ❑ Enterprise terms of payment and administrative requirements are established.
- ❑ Documentary and commercial requirements of new markets are identified.
- ❑ Finance and insurance requirements are identified.
- ❑ Requirements for transport and distribution contracts are identified to ensure quality and safety of product.

### Develop an Evaluation Strategy for New Market Entry

- ❑ Targets are identified and performance information requirements determined.
- ❑ Strategies for collecting and analyzing performance information are prepared.
- ❑ Strategies for reporting outcomes and including recommendations in future planning are identified.

### Documentation of Procedures

- ❑ Work instructions.
- ❑ Standard operating procedures.
- ❑ Enterprise-specific procedures, policies, and plans.
- ❑ Enterprise ethical standards, values, and obligations.
- ❑ Quality assurance requirements.

### Evaluate Personnel Competencies

- ❑ Can information be collected, analyzed, and organized by the team?
- ❑ Will ideas and information be communicated within the team?
- ❑ Will activities be well planned and organized by the team?
- ❑ Will problem-solving skills be applied effectively and efficiently by the team?
- ❑ Will mathematical ideas and techniques be used constructively by the team?
- ❑ Will technologies be applied productively by the team?
- ❑ Do all stakeholders explain the role of new markets in the achievement of enterprise goals and plans?
- ❑ Do all stakeholders explain the purpose and features of distribution and marketing strategies when they plan and implement planning?
- ❑ Are all executives and middle-level managers able to identify and describe enterprise budgetary and planning cycles and processes, methods for analyzing production and sales records, and costs and enterprise methods for estimating and forecasting sales and production requirements?
- ❑ Are team members able to identify the cultural requirements of the new market/clients and serve in ways that honor those requirements?

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# Marketing Niche Analysis and Planning for Insurers

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- ❑ Are all executives and middle-level managers able to prepare enterprise strategies and plans that include resource requirements, timelines, milestones, and communication strategies?
- ❑ Are all executives, middle-level managers, and front-line managers able to communicate and negotiate clearly, ethically, and effectively with a range of representatives (e.g., internal personnel, government agents, financial agencies, distributors, brokers, customers)?
- ❑ Are all information developers and disseminators able to use available information and communication technology and systems (e.g., forecasting software, budgets, research material) to assist planning, monitoring, and reporting?

Please send your comments, concerns, corrections, and questions to jtg1@profitableunderwriting.com soon. ■

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**_Agent & Broker Solutions_ Editor**
Ellen M. Clements, CPCU, ARM, CIC, CPIW
HRH
E-mail: ellen.clements@hrh.com

**Agent & Broker Interest Group Chairman**
Joesph F. Menschik, CPCU
Menschik Insurance Services
E-mail: joe@menschik.com

**Interest Group Manager**
John Kelly, CPCU, AAI
CPCU Society

**Managing Editor**
Michele A. Ianetti, AIT
CPCU Society

**Production Editor**
Joan Satchell
CPCU Society

**Design**
Susan Leps
CPCU Society

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



CPCU Society
720 Providence Road
Malvern, PA 19355
www.cpcusociety.org

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