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Do you have a new insurance professional on your team?

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It's really up to you, but isn't now the best time to help your new professional get off to a great start?

Click here to learn more: Basic Personal Insurance Course

What is the #1 cause of E&O claims? Inadequate Coverage!

The issue is not rocket science, nor brain surgery, and not even chemistry. The simplicity of the problem makes for a really simple solution: Sell the right coverages!

I suppose another solution is to advertise you are incompetent so that your standard of care is nil. I am never sure why so many agents are so taken aback when I suggest that if they do not want to sell the right coverages, they should let prospects know they are incompetent. For some reason, they seem to think they should not have to notify prospects of their incompetence. In other words, they seem to want to be perceived as professionals while acting incompetently.

What is the best solution for selling the right coverages? Know your coverages. I find people who know their coverages sell more coverage. It is so much easier to sell a product/service you understand. For example, I find producers who have a good understanding of business income sell more business income. When I ask producers who do not understand business income why they do not sell more business income coverage, the most common response is they do not understand the coverage and/or how to help clients complete the income estimate sheets. It is funny how knowing what you are doing is such a great aid to convincing clients to purchase coverages they truly need.

Additionally, when producers know coverages and the prospect/client foregoes purchasing a coverage they most likely need, most producers find it easier to push harder because they have the confidence their knowledge provides. This knowledge gives them the conviction to push. It is hard to have conviction without knowing the coverage.

Furthermore, if an insured still does not buy the coverage, people that understand their coverages seem better prepared to discuss how the insured, in deciding to self-insure, should prepare themselves and their balance sheets in the event of a claim.

If you want to minimize your E&O exposures, increase your sales, and better protect your clients, learn your coverages. Contact us today to learn about our unique Three Dimensional Training® program to help your producers build their coverage knowledge!

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Are you young and driven to be a true insurance professional?

I sat in a conference recently. In and of itself that was odd because usually I am a presenter rather than an attendee. Another oddity is the conference was not an insurance conference but rather another profession. I took away four major observations.

1. Because I was listening rather than teaching, I was reminded that as a speaker it is imperative to always put the audience first. A speaker can easily fall in love with their own voice, however unintentionally.
2. The conference was large with around 250 attendees. The conference was all about real education too, not passive CE, so the quality of the attendees was higher than what I usually see at most insurance conferences.
3. Few people less than 50 and almost no one less than 40 attended.
4. I have excellent knowledge of the subjects being taught but only within a narrow band. The audience's knowledge of the subjects was broad but shallow. It was intimidating listening to the audience's questions. They had so much knowledge about so many aspects while my knowledge is limited to specific aspects, though my knowledge in those aspects is deep. Almost all the attendees were nerds and mostly their egos did not get ahead of their abilities.

Based on these four points, if I was a driven young person, as I once was, I would vigorously attend the highest quality professional conferences I could find. I would ignore CE (you can get it for nothing and in no time so spend time on a real education). Find conferences where the best people in the particular insurance field you like attend. Do not attend the conferences, initially, where it is mostly big egos because you will not learn the foundational aspects of what you need to truly succeed.

Do not worry about asking stupid questions. Being young, even if the question is stupid, you get a free pass. Egotistic older people do not expect you to know anything any way. Remember too that many older, egotistic nerds absolutely love to help younger people. This is especially true if you can find one to engage outside of the conference. They can become a great mentor.

Rather than worry about your youth being a detriment, focus on how youth is an advantage. Youth is a huge advantage, if and only if, you will put forth far more effort than normal so you can be a true expert by 35 or 40. People that are 60 and see a 35 year old touted as an expert almost always scoff because they've seen many such younger "experts" come and go. But they generally have immense respect for someone that truly earns the expert title. Many will go to great lengths then to assist your career.

Focus on practical technical knowledge. This is different from just practical and just technical. Using coverages as an example, I know many people (young and old) that know their coverages inside and out but can never apply that knowledge. Having knowledge and applying knowledge are two different skills. On the other hand, I know more than a few producers and maybe underwriters who have no real knowledge of coverages but they sure can get the job done. Unfortunately, someone else always has to clean up the mess.

If your strength is on the technical and not the practical, learn the practical. If you are great in the field but weak on the technical, work on the technical. This is true whether you are in claims, finance, underwriting, sales, or whatever. Right now the industry is short of people with old-fashioned technical knowledge.

Understand that technical knowledge is not Googleable. Technical knowledge means having a deep understanding of the subject, in context and contrast, and how it applies in the real world. This means true thinking. Google does not think and I find many young people confuse knowing where to find facts and true thinking. If you want to get ahead, build that deep knowledge within your brain so that you can use it to think rather than thinking you can look something up and intuitively know how to apply it. The world does not work that way in the professional environment.

The older generation will leave the industry faster than high quality young people will advance so the opportunity for young people who care, are driven and have strong work ethics is fantastic.

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Knowledge by Folklore

Credit must go to Bill Wilson at InsuranceCommentary for this great line, "Knowledge by Folklore." These three words sum up, so perfectly, how coverage knowledge is transferred and how underwriting rules are learned.

The comedies and tragedies that result are protected by confidentiality agreements. Otherwise the Greek comedies/tragedies would have serious challengers for the genre. I am not exaggerating. Some of the stories are so comedic and others ruin lives.

Here are some examples (and zero are fictional):

- I do not need to read the form because I learned all about ISO forms at my CE class (the form wasn't an ISO form).
- Is XYZ covered under the homeowners form? (The producer did not identify which homeowners form.)
- "John" once told me the CGL form provided coverage for XYZ. Does it?
- I figured the underwriter would include coverage after the fact if a claim was actually incurred. I heard they sometimes did that.
- Do you mean some forms provide that coverage and others do not?
- How do I know what coverages are in a policy?
- Aren't all auto policies the same? The comparative rater does not tell me about any differences.
- Are not all workers' compensation policies and coverages the same regardless of the state?
- Is it really important to know which state the employees are working? I was told it did not matter.
- The broker told me they would add liquor liability so I told my client they had it. Then the broker decided to not add it and my friend at another brokerage told me that was okay.

You probably get the picture. Many readers are probably insisting that I made these up but I did not. These come from many sources including E&O audits following major E&O claims where the producer was operating by folklore.

I know for a fact in many instances the problem is not just one of laziness and competence. I would argue laziness and incompetence is usually the cause of operating by folklore, but not always. What I have learned over time is some people have specific reading issues.

I am not a doctor but some people have disclosed diagnosed reading issues. They did not share specific diagnoses but I suspect some may have dyslexia. For others the situation may be more complex. For those people, reading policies, understanding what they are reading, understanding the context and how in a real claims situation what those words really mean is a true struggle. Maybe they just dislike reading. Maybe they are just not quite adequately intelligent. Maybe reading long insurance policies just is not something they have the patience or ability to sit still long enough to do.

I can understand this. If this is the case, then as the employer or maybe it is yourself, how do you change the learning environment to overcome these situations and avoid the fallback position of learning by folklore? Changing the learning environment is absolutely the only solution for those that are not lazy but sitting down and reading is not a realistic solution.

The answer varies by person. At my firm, we have developed a process for training on coverages that changes the environment. It works well for many people. It will not work for everyone, especially if they have a diagnosed reading disability because reading forms is absolutely essential to providing the right solutions to your clients. But by changing the environments in which the forms are read can make all the difference for many people.

For the lazy ones, what is the best solution?

Getting rid of lazy employees relative to reading and understanding forms actually helps motivate others to improve their skills so sometimes the new learning environment and elimination of deadweight go hand in hand. If the person who will not learn coverages is a really good producer, then maybe the solution is to create a team approach rather than allowing the producer to learn by folklore. The team approach can be an extremely constructive approach although it likely requires a reduction of producer compensation.

If you are interested in learning more about coverages and forms, I strongly recommend reading Bill Wilson's new book, "When Words Collide." It is a book all serious students of coverages need to read, especially if you want to put your clients' best interests at the forefront of coverage knowledge. If you are also interested in different learning environments and processes for your employees, please contact me.

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A New Business Income E&O Exposure

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This inequality in knowledge and this new emphasis creates quite an E&O exposure. My suggestion to you is to become far better in your business income knowledge and ability to craft the right coverages and numbers for your clients. In my E&O audits, a large majority of producers do not have adequate conversations on this subject with clients because they do not know the coverage well enough to have the discussion, so they skip it. They create E&O exposures by doing so and they leave money on the table as well. In a sense, they are digging a grave.

I am uniquely qualified to assist your agency because of three critical factors no one else in the industry, to my knowledge, possesses.

1. I am a Certified Business Appraiser. This is a difficult certification to obtain. Possessing this certification is my ticket, literally, into the meetings where the Plaintiff bar is presenting. This is why I know what is happening on the plaintiff side of the BI claims world.
2. I am a certified E&O instructor and a certified E&O auditor. I'm fairly certain no one else possess both E&O certifications AND a CBA.
3. I have created a new, in depth, and original approach to teaching business income that, if followed, is going to assist your agency in reducing E&O exposures while increasing sales and improving relationships with clients.

This is your opportunity to work with the most qualified entity in the industry on this defense mechanism which can be turned into a revenue producer. Or you can keep the E&O exposure. Contact me today to learn how to take advantage of this unique opportunity.

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The Economic Theory of Mediocrity

I was having some work done and the man who I'd hired stated, "Mediocre work is the bane of this industry. Consumers are too ignorant to know quality work. It is not that they are stupid. They simply do not have enough experience to know quality work from mediocre work, until it is too late."

This very intelligent tradesman, really a superb craftsman is a better description, summed up an economic theory outlined in an article by Carl Shapiro ("Consumer Information, Product Quality, and Seller

Reputation," *The Bell Journal of Economic,* Vol. 13, No. 1 (Spring 1982), pp. 20-35.) In this article, Mr. Shapiro analyzed the markets where consumers are not perfectly informed about product quality.

This tradesman, who takes enormous pride in the quality of his work, for which he was rated the best in the U.S. at one point, went on to say he once asked a well-known person in his same field how in the world he was able to complete so many jobs in any given month or year. The man stated, "Consumers do not know the difference between your work and mine. If I can take short cuts and complete three times more projects than you, but price my work 25% less than yours, I get the advantage of a much higher profit margin than you (and higher than I deserve) plus I get the volume. The consumer never knows the difference because they don't know what the differences are."

Listening to this craftsman telling his story, I was thinking:

1. He really should be teaching a college level economics/marketing class. He is well spoken and has real world application.
2. He can determine, with some accuracy, the value of cutting corners and taking advantage of consumers.
3. His problem is my problem. His problem is all my insurance agency clients who really care about the craft of providing clients with the right coverages and solutions problem. It is the same everywhere.

His frustration was boiling over and I can commiserate because I often feel the same frustration when I see insurance agents hire other consultants who charge as if their product was quality, and it is not. The agents do not know the difference because maybe they only purchase the service once or twice in their careers making them easy targets for more conniving "consultants."

I never learned about Shapiro's analysis in college even though I took numerous economic courses. I did not learn about it in my master's program either (possibly a victim of Shapiro's analysis here too?). I learned about it in a book, *Phishing for Phools, The Economics of Manipulation & Deception*, by the brilliant and Nobel prize winning economists George Akerlof and Robert Shiller. I almost hate sharing this information because there are readers that might use it to take further advantage of the true coverage experts.

In their book, they use Shapiro's analysis to describe how the public, governments, and other financial institutions were taken advantage of by financial institutions that used/abused the rating companies. In their book, they used the example of avocado farmers. Let's say that an avocado rating entity exists.

Historically, they rated the quality of avocados as AAA, AA, A, BBB, BB, B, C. These six ratings from best to worst. Most consumers can't tell the difference between a AAA, AA, A, and maybe a BBB avocado, but historically, the avocado rating company did a pretty good job making the distinctions enabling avocado farmers to charge more for the highest quality without taking advantage of consumers. (Think bonds, securities, derivatives, insurance companies, etc.) Then this one farmer develops this new kind of avocado that looks like an AAA old-fashioned avocado. It has the same feel, texture, and taste--at least at the moment it is being graded. You see, the farmer figured out how to grow an AAA avocado that was an AAA avocado within the small time frame he knew it would be graded. But since it did not last, it did not deserve the rating. The rating companies only looked at it for one moment. They did not have the complex analytical tools to see they were being taken advantage of. The consumers couldn't tell the difference at the store either so they relied on the ratings provided and since it is cheaper to grow avocados that don't last, they liked the high quality (they thought) with the lower price.

The corner cutting farmer will then outsell the quality farmer causing the quality farmer to sell out or cut his quality to compete, unless somehow he can convince consumers there is a difference (they can't easily see) between his quality product and the mediocre product. As Shapiro described his analysis in 1982, this is always going to be a problem in free markets. The sharks will take advantage of those who take pride in their quality and consumers, all day, every day provided the consumer can't tell the difference until it is too late (picture the credit crisis and purchase of horrible financial products that were graded AAA because neither the rating companies, much less the consumer--even those these were sophisticated consumers--could tell the difference).

Shapiro's analysis is at the heart of my craftsman's frustrations, and quality insurance peoples' frustrations everywhere. How has this situation developed in the insurance industry? Pretty much the same way it develops everywhere. Where before trust played such a key role, trusting relationships have become less important. To some extent this is a carrier-agency issue. Carriers used to truly care more about the quality of their agents (at least some did). Not so many care about quality today unless it decreases their cost.

Predictive modeling is one facet whereby trust is less important because predictive modeling can, in theory, address the advantages trust used to provide and do so more cheaply. Whether it does or does not is a moot point because even if it fails, the horse will be long gone out of the barn, just like Shapiro's analysis predicts. Corner cutters and worse look for situations in which quality cannot be determined until long after the sale is made.

This is why the authors titled their book, *Phishing for Phools, The Economics of Manipulation and Deception*. It is my position the insurance industry has always suffered reputational issues because the product is complex, the consumers' ability to understand the complexities are minimal, many sellers of insurance do not understand the complexities themselves, and quite a number of insurance sellers are willing to take advantage of consumers. Unfortunately the P&C industry has always had those brilliant sellers advising clients "You only need 80% coverage on your building" leading the consumer to believe that somehow, someway, 80% = 100% and the price was cheaper. Shapiro's analysis in action because the consumer does not understand 80% does not equal 100%. Can't be simpler than that.

Today though, we have a new level of marketing genius within many new insurance companies and agencies selling insurance that looks great to consumers upon purchase but is rather hollow, especially hollow if any kind of crisis/catastrophe occurs. The coverages simply do not exist. Another model, sometimes separate and sometimes related, is arguably the capital does not always exist but they have figured out how to get their ratings without the public understanding the difference between shareholders providing the surplus and the consumer providing the surplus themselves. The pressure is intense to decrease quality to mediocre.

Another pressure point is all the acquisitions that have occurred because with those debt loads, quality will suffer and anecdotally, does suffer.

Truly only one solution exists for those who want to maintain their quality and stay in business. That solution is complex. Beware of those selling simple solutions (my bane of consulting existence are others selling simple consulting solutions to agents that just can't tell the difference). In summary, the solution must entail:

- Selling a trusting relationship in reality, not just advertising, rather than insurance.
- Identifying a means by which you quit competing against mediocre. To compete directly against these entities when selling complex products, especially complex financial products, is simply a race to the bottom. You have to completely change the game.
- You have to sell versus market. Marketing really is about transactional sales whereas selling is about building relationships one at a time. Marketing is essential to mediocre because it requires creating a false sense of quality on a mass scale. You must counter this by building a true sense of quality the hard way, one customer at a time.
- You have to tell people your story, over and over and over. So many quality producers just expect consumers to realize the quality of their service/product but this is not reality. People are not going to initially understand the difference. The situation really is no different than if I was to buy a cheap wrench. I can't tell the difference until I use it. Then when I use it to try to fix something that is broken, I discover it rounds off the nut edges and compounds my problem. The same goes for an insurance solution. Until they have a claim, they may not know the difference on their own. You must tell them if you want them to value you before they have a problem.

These four points also require really knowing your coverages but also knowing how to apply them intelligently. Insurance education is subpar today (Shapiro's analysis at work again). I created a new program that is not education as you know it and my goal is to create, as I have, long-term relationships with people to provide ongoing, customized and real world practical knowledge that my clients' clients will appreciate, resulting in higher sales and lower E&O exposures.

Which side of mediocrity are you on? Will you provide quality services and help your clients understand that quality? Or, will you take advantage of your clients by selling "good looking" coverages that in reality fall far short of quality coverage?

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Chris Burand is president and owner of Burand & Associates, LLC, a management consulting firm that has been specializing in the property/casualty insurance industry since 1992. Burand is recognized as a leading consultant for agency valuations, helping agents increase profits and reduce the cost of sales. His services include: agency valuations/due diligence, producer compensation plans, expert witness services, E&O carrier approved E&O procedure reviews, and agency operation enhancement reviews. He also provides the acclaimed Contingency Contract Analysis® Service and has the largest database and knowledge of contingency contracts in the insurance industry.

Burand has more than 30 years' experience in the insurance industry. He is a featured speaker across the continent at more than 300 conventions and educational programs. He has written for numerous industry publications including *Insurance Journal*, *American Agent & Broker*, and *National Underwriter*. He also publishes *Burand's Insurance Agency Adviser* for independent insurance agents.

Burand is a member of the Institute of Business Appraisers and NACVA, a department head for the Independent Insurance Agents and Brokers of America's Virtual University, an instructor for Insurance Journal's Academy of Insurance, and a volunteer counselor for the Small Business Administration's SCORE program. Chris Burand is also a Certified Business Appraiser and certified E&O Auditor.

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