***Complexity, Intangibles & Insurance***
***By Chris Burand***

Over the past few months, I have read about proposed regulations that would require agents and brokers to provide clients coverage with the "best available insurer." To comply with such regulations, agents and brokers would have to be able to provide *tangible proof* they are placing clients with "best available insurer." The problem I fear with these regulations is not that agents must do the best they can for their customers, I believe most agents already do that, but they must be able to *prove* they are doing the best they can do. Too much of this industry is intangible and the tangible aspects are usually too complex for agencies to do a much better job explaining it than they already do. Insurance is a relationship business and that is why agents depend so much on earning a customer's trust.

Currently the most tangible evidence we have, from the customer's perspective, is price. I believe insurance is already sold too much based on price to the point of not necessarily giving clients the best coverage/price combination. The issues involved in providing coverage are simply too complex for most people to adequately explain. Price stands out as tangible and easy to compare, while coverage is vastly more complex and intangible.

How complex is insurance coverage? Consider this: A few years ago I analyzed all the possible combinations of coverage a homeowner could consider. The total? More than 30 million possible combinations of coverage!

Another example is claims service. The insurance industry does not have an equivalent of a J. D. Powers survey for claims service—although it would be nice to have one. As a result, this aspect remains very intangible. Based on my personal experience, I know how frustrating it is to have trouble settling a legitimate claim quickly.

I believe most good agents steer clients toward companies with better claims service, even if the price is slightly higher. Everyone in the industry knows there are a few companies great at paying legitimate claims and everyone knows there are a few that are lousy. Yet, because of our laws and the lack of an official claims survey, agents cannot simply tell clients that company ABC is lousy at paying claims. An agent's only alternative is to subtly steer clients in the right direction. Sometimes they make more commission and sometimes they do not but even in those situations where they make a higher commission, that is a side benefit. The major benefits are providing clients with a better company and knowing the likelihood of having to fight a claim on the customer's behalf has significantly diminished.

When I worked for a company years ago, I was calling on an agency trying to get them to place more business of a particular line with us. I carefully explained our product showing that our coverages matched their key company's coverages. We had a few better coverages and they had a few better coverages, but the coverages were pretty evenly matched. The agency said, "Thanks, but no thanks." I showed that our pricing was better. The agency said, "Thanks, but no thanks." I kept showing our advantages and the agency kept saying, "Thanks, but no thanks." I finally gave up and asked why they would not place more of their new business with us and they advised that the claims service with the other company was more trusted, not necessarily better, but more trusted. That to me is a legitimate reason. However, imagine trying to explain this to a regulator. Regulator, "Did you offer both companies' quotes to the insured?" Answer, "No." Regulator, "Why not?" Answer, "We just trust the claims service of XYZ company." Regulator, "Do you have proof their claims service is better?" Answer, "No, but we...[interrupted by Regulator]. Regulator, "I asked if you had proof their claims service was better. Do you have proof?" Answer, "No." Regulator, "And is it true XYZ company also paid more?" Answer, "Yes." Regulator, "No further questions, your honor."

Another example is ease of doing business. Agents very often simply know the logical market for an account. If they are under the burden to prove they are offering the "best available insurer" though, they would likely have to go through the exercise of getting quotes from a lot of other markets anyway. Can you imagine what that would do to an agency's costs? To the companies' costs?

Given the complexity and intangible nature of so much of this industry, it is quite easy to paint a picture of wrongdoing when in reality, the opposite is true and the agency is trying to do the best it can for its customers.

30,000 to 40,000 independent agencies are fighting for 39% of the market (according to *The Economist*, 10/23/04, p.14, "Marsh, AON & Willis together account for 61% of brokerage revenue worldwide.") This 30,000 to 40,000 estimate does not even include the direct writers or companies that completely eschew any kind of agency. The competition is very tough and because so many agents are fighting for that 39% of the market, an agency's best interest aligns fairly closely with that of their customers, more so than the agencies' companies. The highly competitive environment is also just one reason new P&C producers in independent agencies have such a high failure rate. Agencies cannot take advantage of their clients and remain competitive.

Given this highly competitive environment that forces most agents to take very good care of their clients, it is no wonder so many agents were upset that anyone would suggest they were taking unfair advantage of their clients. But given all these intangibles, the complexity, the industry's huge profits in 2004, and all the investigations, I can see why some headlines were written the way they were. Our industry faces a huge perception problem and every member of the industry must work to change that perception.

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