Why Is Insurance Considered a Commodity?

By Chris Burand

Question: Why is Insurance Considered a Commodity?

Answer: Because consumers (and some agents) focus on price.

When people have to spend money on something intangible, something they do not really want to buy and do not fully understand in terms of value, they are not going to want to spend any more money than necessary. Unfortunately, insurance fits this mold all too well. When it comes to purchasing insurance, most consumers usually do not know the difference between one quote and another other than price. One quote could provide all risk coverages and another other could be a basic form, but the only difference many consumers would see is the price.

Agencies have the power though to bring the value back to insurance by helping their clients break the commodity mentality. The two easiest ways to do this are to improve product knowledge and to use coverage checklists.

Improve Product Knowledge

A critical reason why insurance is viewed as a commodity is that many producers and CSRs do not have enough technical product knowledge. If a salesperson does not know a complex product, especially one with a public image like insurance, then he or she is not going to be able to explain to insureds the value of the product and its benefits. As a result, the focus shifts from value to price.

Technical product knowledge is even more critical in a soft market because someone can always beat your price. This is especially true in our current soft market when some accounts can be rewritten midterm for 20+% less. Such dramatic price decreases even minimize the importance of great service because for 20% less, a client might be willing to accept a little less service when the savings are so great.

The soft market though is an absolutely great opportunity to focus on coverages and your knowledge of those coverages. For example, if a client has an opportunity to save 20% by going elsewhere, the client might be interested in knowing he or she can get a lot more coverage from you and still save 15%. If you are skilled in understanding coverages and are able to communicate the importance of those coverages, that client will likely take your offer.

Sometimes the differences in coverage are easy for the insured to see. When one quote provides no liability and another quote does, it is not going to take much convincing to get the client to buy the better coverage. But first, the producer must read and understand the coverages involved in order to advise the client of these differences.

Sometimes the coverage differences are easy for the insured to see but at first seem insignificant until a producer explains the importance. For instance, if an agent is working with a contractor, it may be very worth the agent's while to point out differences in fence coverages. This is a black and white issue that may not seem that important, but they are to a contractor who has a lot of money invested in them. The producer who can point out these differences has the advantage. If the policy covering fences costs an extra $500 on a $30,000 premium, it may be enough to make the sale.

Sometimes the differences in coverages are not easy to see or explain. For example, as many agents in New Orleans will now attest, business income and business interruption are not 100% synonymous. They are closely related, but they are not the same and this has caused many problems for people trying to recover from Katrina. Agents that did not understand the distinction were unable to explain it to their clients (and those agents are now most likely faced with E&O claims on the subject). If the agents had better educated their clients, the insureds may or may not have purchased something different—but having better educated clients would have probably prevented some E&O claims. Additionally, they would see the producer as a professional providing a valuable product, not just a commodity. This gives the producer an advantage. All it takes is knowledge about what you are selling.

Use Coverage Checklists

A second way to add value and distinction to insurance products is to use coverage checklists. A coverage checklist is the best tool for helping clients see their options and for providing a roadmap for offering the proper coverages.

Coverage checklists are more than a tool for providing professional service. As an E&O instructor and an E&O procedures auditor for the two major E&O insurance carriers, I have seen how the proper use of coverage checklists can significantly reduce agencies' E&O exposures. In fact, one carrier estimates that 40% to 60% of all E&O claims in New Orleans could have been prevented had agents been using coverage checklists. As an additional benefit, coverage checklists also increase sales.

Unfortunately, after speaking with hundreds of producers and CSRs throughout my years in this industry, I have found that less than 5% of all producers and CSRs use a coverage checklist. Why is such a great tool so rarely used? The two most common reasons are:

1) "The insured will not give me the time to complete a coverage checklist."
2) "What do I say if they want to me to explain a coverage I don't understand?"

The first response simply shows that the producer has never asked because producers who do use coverage checklists have found that their clients will almost always give them the time to complete it. The second response circles back to the importance of product knowledge, but even if a producer does not know the answer, this is a simple sales situation of advising the client you will to research the coverage specific to their situation and get back to them tomorrow.

Whatever the reason, it boils down to the fact that if producers are not discussing coverages and they are not focusing their sale on the nuances and benefits of the product, they are focusing on price. If they are focusing on price, they have changed the perception of insurance from an investment to a commodity.

Stop selling a commodity. Anyone can sell a commodity. Learn your product and use a coverage checklist to provide your clients with the value they would expect from an investment.

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