What do Magazines and Insurance Companies have in Common?
By Chris Burand

Answer: They both take advantage of their best customers.
Magazines continually offer new subscription rates for much less than renewal rates. Why? To get new customers! By giving new customers screaming hot deals though, they are taking advantage of their current customers. The publishers must clearly be thinking, "Once we have a subscriber, we won't lose them, so we can charge them more money."

Do insurance companies practice this same strategy with customers? Some clearly do when new business pricing is substantially lower than renewal pricing. I am not sure how new business justifies materially lower pricing, but evidently it must to support the discounts that are regularly available.

For some carriers, new business pricing may be lower for reasons other than sales strategies (i.e. reserving strategies), but customers still see it the same way. As a result, this strategy negatively impacts the industry's image and it makes life much more difficult for agents. Consider the position this puts an agent in when he or she must explain a 20% rate increase at renewal when the client can get the same policy from the same carrier for less with another agent. Or a more likely situation in our current soft market, the client can get it for 20% less than their first year premium with another carrier but the incumbent carrier won't cut the price unless the agent can prove a real threat of losing the account.

I am sure companies think their pricing is rational, but few others see it that way. If part of their logic is the same as that of magazine publishers, i.e. that it is unnecessary to worry about renewing clients leaving, then many are sadly mistaken. All they need to do is compare their retention rates to their agents' retention rates. Company rates are clearly too poor for this strategy to be working, especially with the extra costs incurred when writing new accounts. More rational pricing would be better for both companies and consumers.

Agents pay a price for irrational pricing too. Companies often offer special deals to new agents to look attractive, which is normal. With any new relationships, both parties try to please the other and hide their negative qualities. Companies, however, take it too far when they offer a much better deal to a new agent than the deal given to loyal agents. Their thought process is identical to magazine publishers, "Once we have an agent, we won't lose them, so we don't have to give them the same great deal."

Companies know it costs a lot for agents to roll business, so they rely on the belief that their current agents are unlikely to move their books when those agents discover the new agents are getting great deals. This does not bode well, however, for the partnership "relationship." It's like giving your spouse a cubic zirconia but when someone new comes along, you give your latest love a huge diamond while telling your spouse not ask or expect anything extra. Companies should be aware that in this very soft market, it is not safe to conclude that agents will not roll their books.

Companies also take advantage of their agents by demanding x% growth regardless of the size of an agent's book. Demanding 10% growth on a $2 million book might be reasonable. For example, demanding 10% growth on a $10 million book, especially in a soft market, is a very different requirement. A new agent with a smaller book is much more capable of achieving 10% growth because their base is so much smaller. What is worth more: a $10 million book of tested business growing 5% annually or a $2 million book of untested business growing 10%? (Answer: that is $500,000 of growth versus $200,000 of growth. Which would you prefer?)

I do not believe most carriers set out to take advantage of their customers or agents. I believe they simply do not understand the mistake they are making when they press an agency that is already contributing 2.5 times as much growth to grow faster.

Insurance company branding is about being stable so that when claims occur, agents and clients are confident they will pay the claims quickly and fairly. Yet, by adapting magazine sales tactics, insurance companies are defeating their own brand and their own advertising. They are reducing a very complex financial product to a commodity to be purchased based solely on price. Companies that rise above these base sales tactics build long-term stability with their agents and clients thereby creating more value. This serves everyone, the consumer, the agent, and the company, much better.

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