Hard Market Selling: How to Thrive in the New Insurance Era

By Scott Primiano, President and Founder of Polestar Performance Programs, Inc.

Like other monumental business trends, the financial crisis resulting from the 1990's stock market bubble was inevitable – a crisis that has led to a slumping insurance market that is likely to continue into 2003.

Like a Good-Time Charlie groggily waking up after a long night of careless revelry but vowing never to repeat the behavior, the insurance industry is promising a return to more sensible, secure, and economically favorable business practices.

That's the good news. The bad news is that as the latest version of the "new" economy struggles to emerge from the rubble of the dot-bomb; re-insurers, carriers, and agencies, along with the five million people working in the insurance industry, are scrambling to define their place in the market. Granted, some see opportunity and are enthusiastically re-inventing themselves to harvest it. But many others, still hanging on to dated perspectives and obsolete business practices, see only trouble and are fighting to survive.

Who can blame them? While wage and salary employment in the insurance industry is projected to increase 6 percent between 2000 and 2010 according to the US Bureau of Labor Statistics, that's substantially less than the 16 percent average for all industries combined. Data also indicates that insurance companies are doing a less-than-stellar job in training agents in key areas like customer service and client retention. While demand for insurance is expected to rise for the rest of the decade, downsizing, productivity increases due to new technology, and a trend towards direct mail, telephone, and Internet sales will continue to cause some anxiety among insurance industry professionals.

A Soft Market

Due to unprecedented losses resulting from the events of September 11, 2001, agencies and companies are scrambling to increase revenues and decrease losses by introducing dramatic price increases and restrictive underwriting guidelines across all lines of business within the industry.

According to a recent report from the investment banking firm Morgan Stanley, insurance coverage rates have risen 30 percent to 100 percent during 2001-2002. While these skyrocketing rates are being fueled, in part, by the estimated $50 billion in losses the industry absorbed after September 11, 2001, other reasons exist.

In 2001, the dot-com frenzy turned into a dot-bomb disaster for private and institutional investors alike. Portfolio income evaporated for many insurance companies and catalyzed an industry-wide examination of precariously high combined ratios (expenses + claims/premium income). This, in turn, sparked a re-underwriting effort for many carriers seeking to bridge the gap between premium income and losses, resulting in a market that could be characterized as "firming."

Just as the industry and the economy began to slowly stabilize and it appeared that the tail-spin was over, our world and our thinking was forever changed by the events of September 11, 2001. These inconceivable losses from the attacks joined with the distressed combined-ratios created by the soft market and the dwindling investment portfolios to capitulate our industry into a financial crisis overnight. Thus creating an instantly hard market and the industry's version of "The Perfect Storm". Clients, agencies, and underwriters are still reeling from the fall-out.

The problem caused by the immediate hardening of the market is not, as commonly believed, the rate increases. They are justified and overdue. The problem that we are all faced with is this: how to reeducate clients that have grown accustomed to underpaying for their coverage and the many producers who have forgotten or never learned how to sell value, integrity, and trust.

As the market continues to harden, premiums will continue to rise for all clients – regardless of claims experience. This market correction will, however, stabilize at a lower level for client companies that have lower loss ratios and are considered healthy and therefore better risks, and at much higher levels for companies with higher loss ratios that are riskier. In addition to industry classification differences, carrier pricing for risk will be heavily influenced by the frequency and severity of claims along with the functional presence of proactive client risk management and loss control programs. Frankly, marketing people have been tossed out of the boardroom and underwriting is now back in charge of pricing.

The Soft Market

- Caused by aggressive growth strategies
- Governed by marketing objectives rather than sound underwriting principles
- Fueled by foolishness and ego

Innovators Can Thrive

So, who will navigate the choppy waters the industry is experiencing – and survive to tell the tale? Client companies with active risk control programs will justifiably fare better in the matter of premiums paid while those without such programs will certainly pay more. Customer service is critical, too. Agencies and carriers that have proactively serviced their accounts will continue to do so and retain their book. Agencies and carriers that bring nothing more to the table than product and price will not be as fortunate. Insurance companies and independent agents who emphasize how to reeducate clients that have grown accustomed to underpaying for their coverage should prosper as well.

Most importantly, in an insurance arena that is changing fast, insurance buying and selling practices must also be altered. Why? Because client expectations regarding premium levels and "marketability" of their programs are universally in conflict with the new insurance economy.

In the soft market, many clients were willing to sacrifice service value-driven service to get a reduced rate. They expected nothing more than the lowest price from their agent and their insurer. Now that the "lowest price" is at best an ambiguous term, all clients are going to expect agencies, insurers, and producers justify their value and earn their keep.

Insurance Industry Challenges

- Clients are facing "market correction" premium increases that appear "unjustified"
- All agencies will be squeezed toward a narrowing band of opportunity in the middle market
- Personal lines, auto, and BOPs will continue to migrate to the Internet
- Lower middle market and small accounts will consolidate in carrier service centers and with banks that have entered the market

Clearly then, the middle market is shrinking and inevitably this means that the number of agencies and producers competing successfully in this market must shrink as well. Who will prosper and who will fail?

Years of observation and experiences in and around agencies of all sizes, specialties, and operating cultures give us a very clear picture of the type of agency that will be successful in the new insurance economy. This type of agency I call "healthy and thriving". As producer behavior tends to mirror agency attitudes, it is important that everybody learn to recognize and demonstrate the habits and behaviors that make for a healthy and thriving agency. When this is done correctly, everybody wins.

The Healthy Agency:

- Highly selective when choosing opportunities
- Little or no marketing
- Heavy use of network & referrals
- Conducts formal and comprehensive needs analysis
- Does not "sell" insurance, offers risk management services

- Active on Client committees & boards
- Active in community and industry
- Proactive client service plans are developed for all clients
- No time-line on sales process
- Low volume, carefully coordinated

We also have a good understanding of those agencies that will struggle, perhaps fail, and why they will do so. We have labeled this a "legacy agency."

The Legacy Agency:

- See the entire market as potential opportunity
- Sporadic, traditional, volume-driven sales & marketing initiatives
- Loosely networked and randomly referred
- Targets new business during "hunting season"
- Policy, price, & product focused - Producers "hit-and-run"
- Service is reactive and often anonymous
- Very limited client contact or involvement
- Limited or no community or industry involvement

Legacy agencies have reacted adversely to the soft market and are struggling to find some stability. They feel besieged by unrelenting competition, lack a strategic plan, and put most of their energy into chasing new business. They know that service is critical, yet they lack the time and the personnel to provide anything other than reactive service that repairs, but never builds. They are rushed, exhausted, and worried. These agents sell rather than develop client relationships and they do so during the traditional selling season, 90-120 days prior to renewal.

Characteristics of a "Healthy" Survivor

Let's face it, a healthy book of business is not discovered - it is developed. It is also characteristic of a healthy agency. Successful agents have been able to avoid the feeding frenzy created by the soft market and the financial hardship that accompanies it by investing their time and energy into the client organizations that created their success.

They save their clients money through sound risk management practices rather than shifting markets and they have established a service reputation that is beyond reproach. New business opportunities flow to these agents through a referral network and they are discriminating when selecting which opportunities to pursue. They tend to avoid the bidding process, as do their clients, choosing instead to build steadfast relationships that extend beyond insurance.

As the market firms, these agencies continue to thrive as the integrity of their risk management and loss control programs greatly enhance risk evaluation and carrier relationships. They are proactive, efficient, creative, and energetic. These agencies are financially sound, expertly managed, and culturally nourishing for clients, carriers, and employees.

Much like the handyman who got rich by placing an ad in the newspaper saying "I can fix anything in your house better than your husband can – and I can fix it now," it's the insurance company that adapts to changes in its environment and capitalizes on them that wins out in the end. Even in a tough business climate like the one we're in now.

Still, there's no reason that the winner shouldn't be you.

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