

## SPECIAL REPORT

### I ONLY WANT THE BEST (EXCEPT WHEN IT COMES TO INSURANCE)

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As insurance advisors, we are given insurance proposals received by our clients from insurance agents that purportedly have a lower premium than what our client is currently paying. Our client is impressed by the lower premium and wants to make a change.

Over its many year history, the insurance industry has trained insureds to buy insurance based on the lowest premium as opposed to the terms and conditions of the policy and other factors relating to the coverages that are provided. This is for several reasons.

First, almost all insurance agents are paid on a commission basis. If they want to take an account away from another agent, they must have a lower price or be able to present a significantly better policy from a terms and conditions standpoint. Because most insurance agents are not trained to understand the implications of the differences in terms and conditions, their emphasis can only be in price.

Of course, their prospects or clients need to lower their expenses, and insurance is typically a significant business expense. Making decisions based on the lowest premium is also understandable in view of the fact that most business owners have never read their insurance policies and assume that they are all alike. If they did read their policies, they would not understand the important differences between insurance carriers and their terms and conditions. These business owners are good at what they do; however, as they are not trained as attorneys or as sophisticated insurance buyers, they can only make a decision based upon price.

It constantly amazes me that those same insurance buyers take a far different approach when making decisions about other aspects of their lives. Think about the following:

- Would a rational person go into the emergency room and ask for the cheapest doctor?
- Would a rational person utilize a physician that never asks questions or gathers the necessary information in order to design a medical program to keep their most important asset (their bodies) viable?

Is the business owner who selects the cheapest insurance policy without understanding the ramifications of all of the words in that policy as it applies to their business also the same person who would do the following?

- Pick the best lawyer specializing in their particular business to solve a major problem and protect the company's assets, regardless of cost;
- Pay much more money for an overnight mail delivery service as opposed to the post office because they want to be sure of the result;
- Hire the best executives to work for them to make the best decisions regarding their company;
- Continue to do business with the very best accounting advisor, regardless of cost;

Yet, when we buy insurance to protect the assets that we have spent a lifetime acquiring, we do not spend the time to understand what we are buying, nor do we hire someone to advise us on the five major areas that are critical in evaluating insurance policies or programs.

- What is the insurance company's ability to pay? (Is it solvent? Will it remain solvent in the future?)
- What is the insurance company's obligation to pay? (What do the four corners of the insurance policy say by way of terms and conditions?)
- What is the willingness of the insurance carrier to pay promptly and without litigation?

- What role does the presenter of the proposal play in the insurance program? (Are they going to be an insurance agent, which is equal to an order-taker at McDonald's, or are they an insurance counselor/advisor, which actually has liability for providing either bad advice or insufficient advice?)
- What are the many risks involved in changing insurance agents or insurance carriers?

The public needs to change its perception of insurance policies as being commodities that can be judged based upon price. Nothing could be further from the truth.

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