

SPECIAL REPORT

WORRYING ABOUT ALL THE WRONG THINGS: MORE THOUGHTS ON BUYING INSURANCE BASED ON PREMIUMS

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Liberty is one of the largest writers of insurance in the United States. The President of Liberty, Tim Rose, was recently quoted as saying:

“I’m beginning to feel that risks that shop every year for rate decreases are beginning to be viewed negatively by the underwriting community. We’re doing that, and we’ve seen some evidence of others doing that too.”

You burn out the market when you shop your insurance based on price because there are so few carriers left in this business.

After the industry lost 10,500 jobs between August and September of 2010, there is no patience by insurance carriers in quoting accounts repeatedly and not getting the business. The underwriters are simply spread too thin.

It is expensive for an insurance carrier to inspect a prospect’s locations, underwrite, and provide a proposal. When they do not get the business, it is noted in their computer system, and the insurance carrier may not quote when an insured really needs to place their account elsewhere because they have been cancelled because of excessive losses or a change in appetite for their type of account.

If you feel the need to shop insurance, you need to examine what you are trying to accomplish. If it is in securing better terms and conditions or to obtain better claims handling, this may be a worthy endeavor. If it is to

reduce your insurance costs without understanding the terms and conditions or risks involved, it is dangerous.

Of course, as we have pointed out in our other papers, who acts as your insurance advisor is critical. If you are dealing with someone who is a student of this business and has extensive insurance designations or is an attorney or CPA, this may be a worthwhile risk. If you are dealing with someone who is out for a commission and turns the account over to a less qualified reaction based service person, this is dangerous.

The Michigan Court of Appeals says that absent a special relationship, insurance agents are “order-takers” and have no obligation to doing anything other than what the insured instructs them to do. Therefore, if an insured is conversant in the insurance available from various insurance carriers and the hundreds of endorsements available to modify those policies, this may be the way to go; however, we know that insureds do not read insurance policies. Even if they did, they would not know the options that are available to modify those policies.

I hate to say it, but in my 50 years as an underwriter and my 37 years as an attorney specializing in insurance law and insurance contracts and as an expert in this area, few people are as good as we are as insurance advisors.

Nobody else does it our way or has the professional expertise of the Marsh and McLennan people, but this is the most difficult thing of all to get across to clients.

Here is my point: most insurance buyers do not have the expertise to make insurance buying decisions on any basis other than price level, and they use this as the primary basis of those decisions. Most insurance agents also lack the expertise to make judgments on other than price.

This is sad for our profession, but it is our fault because the insurance profession (if you can call it that) has trained clients to worry about all of the wrong things.

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