Agency Consulting Group
PIPELINE
For Independent Agents

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PAY ATTENTION !!!

We serve on several advisory counsels in the industry to respond to agents' questions about agency operations. We recently received a question that I will paraphrase below:

"Do you think we should continue to check policies? We have found our companies to be generally accurate and our clients are quick to point out errors when they are found. We are concerned that if we don't check every policy we may open ourselves to E&O problems, even if we catch most problems. These days we must be ever-more concerned with expenses and we can better use our staff to process requested changes and to quote prospective clients and re-quote clients who question premium growth. We have found that we only check policies when we have the time, so many policies go unchecked during our busy periods."

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15-Step Commercial Lines Marketing Program

Most desirable prospects are deluged with offers for insurance. Another letter or call will not differentiate the agency from all others. A sales letter sent in bulk is NOT a marketing program. Prospects are more likely to do business with agents with whom they're familiar and comfortable. Knowing this, how do you implement an effective marketing program?

An agency's commercial lines marketing programs share a number of common themes:

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Red Flag Rule - New Delay in Enforcement…

By Debra Perkins
IIABA Executive Vice President and General Counsel

Enforcement will begin August 1, 2009 for agencies that engage in activities covered by the Rule. (reproduced with permission)

The Identity Theft Red Flag Rule ("Rule") became effective January 1, 2008, with mandatory compliance for financial institutions and creditors beginning August 1, 2009, following an initial enforcement delay of six months that was extended another three months. The FTC indicated that during the initial six month delay period, it planned to engage in outreach and provide education about the application of the Rule, and that the additional three month delay was to allow for the development and implementation of written theft prevention programs by financial institutions and creditors. On April 2, 2009, the FTC unveiled a website about the Rule, and on April 30, 2009, it announced that it would release a template on that website to assist entities with a low risk of identity theft comply with the law, such as businesses that know their customers personally. That template has been completed , and is available on the website about the Rule at http://www.ftc.gov/redflagsrule, under the tab Create Your Program.

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PAY ATTENTION

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The first thing we did when we got this question was to call the source to see if this was just a bad joke. We didn't want to offend an agent if he was actually asking this question, but we suspected that it was one of our consultant friends "pulling our leg". What we found was an experienced, thoughtful insurance agent who was seeking every way possible to do more with less. He continues to face reducing commission rates and contingency contracts and feels he must choose how to service his book of business with less people. The question above was raised seriously, but without real consideration of the basics of customer service or of agency advocacy.

The agent was in the vast farmland of the Midwest, so I asked him if he had farming experience. He grew up on a farm and insurance for farms was one of his specialties, so I posed the following question, "Since the bulk of a farmer's work is in the Spring and Fall when he sows and reaps his crop, why shouldn't he save money and eliminate all employees and expensive activities during the rest of the year?"

The agent was surprised that I would ask that naïve a question (and told me so). He said that the work that a farmer does preparing the land for the crop and tending the crop to avoid disease and other sources of failure is as important as planting and harvesting to insure the maximum return on the farmer's investment in his livelihood.

I told him that he just informed me that the farmer must PAY ATTENTION to his crop in order to assure maximum benefit. Similarly, an insurance agent must PAY ATTENTION to his clients in order to assure continuity and maximum return. The failure that we are experiencing in the agency business today stems from the conversion of insurance agents from customer service specialists to salespeople.

Many carriers would have us relinquish claims management responsibilities - they say that we just delay claims activities by our participation. They ask, even insist, on agencies using their Service Centers, claiming that they can more efficiently handle our client's questions and issues regarding their policies. They would like us to concentrate on the Sales function of the job to become their pure sales arm. The carriers covertly threaten to use other means of customer acquisition (i.e. the Web and direct writing) if we cannot fill their Sales Funnels to desired capacity.

This attitude has converted a generation of historically strong underwriters and diligent customer relationship managers into just what the carriers want – sales teams that bring a constant flow of New Business to the carriers. Sounds like the Life Insurance industry, doesn't it?

If so, please expect to be treated like the Life Insurance industry. Since little service is done by life agencies, their compensation programs are heavily front-end loaded with small residuals of limited lifetimes.

IF YOU WANT TO KEEP YOUR CUSTOMERS AND REMAIN THE OWNER OF CLIENT RELATIONSHIPS, PAY ATTENTION TO ALL OF THE DETAILS THAT ARE IMPORTANT TO MAINTENANCE OF THOSE RELATIONSHIPS.

When we do our customer surveys nationwide, we find the two most prevalent reasons that clients use independent agencies have both become antiquated and not pursued by the very agencies with whom they are insured. The primary reason people are insured with independent agents is that they feel that carriers are more concerned with paying as little as possible in a claim than with satisfying the needs of the customers. They believe that the agents act as the insured's advocate on claims and will guide them through the claims process. DO YOU??

The second most prevalent reason that people go to independent agents is that they believe the independent agent has multiple carriers and many insurance programs from which to choose. The client thinks that their agent compares their rates and insurance programs with all those available in the agency every year to select the best one for the client. DO YOU??

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The insurance companies want to control the claims process. Smart agents continue to manage claims without getting in the company's way, but assuring that the client knows that the agent is overseeing the process. This action provides the very service that the customers want most in their agents.

Even agents with the automated capabilities to examine and re-rate policies each year don't generally do so, feeling that it is a waste of time unless a large difference in rates occur from one year to the next. Yet the analysis of lost clients finds that most of the lost accounts stem from a lack of attention. Agents like to point out the customers who have died, retired, sold their businesses or have gone out of business. But the majority of customers churned from agency to agency or to the direct writers and institutional insurance entities are not in these groups. They are clients who were either dissatisfied or who felt little enough connection to their insurance agent that they entertained the barrage of mail, e-mail and direct solicitations for their insurance programs.

How do you build a relationship that is satisfying enough that customers have no need or desire to move from one insurance provider to another?

PAY ATTENTION TO THEM!!!

1. Pro-actively manage claims. Don't wait for the customer to call you asking what has happened to a claim. That is too late. Even doing the right thing at that point appears to be reactive to the client and only being done because they initiated the contact. It is YOUR responsibility to monitor the claim and call the customer every few days to assure him that the claim is progressing and compare notes to make sure he knows that you are doing your job.

2. **CHECK POLICIES!** Whether new, renewal or endorsement (especially endorsements), carriers make mistakes. More importantly, the premiums and rates change. If the client catches it instead of your staff, they believe that you do nothing unless they initiate it. They ask why not just place their insurance themselves with a direct writer if they have to manage their program instead of their agent doing so. If you don't have the capabilities yet of remarketing policies for coverage and premium on behalf of your clients, at least do so when a significant premium change occurs. Even if you can't do better, it assuages your client to know that you have done whatever you could without his prompting to verify and ameliorate his insurance rate and are paying attention to him.

3. Maintain client contact – Depending on the commissions that are paid to you, clients deserve as much attention as you can afford. Relationships are based on on-going contact, not just on the initial sale. Your best prospects are the insurance clients of agents who sell them coverage then never see them again. If you don't generate enough commission to justify personal visits several times each year, at least call them, or have your service representatives call the clients, to make sure all is well and that no changes in condition have taken place.

Personal contacts do NOT equate to mail, e-mail or newsletters. Even if they are opened, if they are innocuous junk mail, your clients won't read them. They are as inundated with junk mail as you and I. Even if you recognize the name and it causes you to open an envelope or e-mail, you immediately discard it if it is not a specific issue to which you must respond. Personal contacts are visits or phone calls with specific agendas that are valued by the clients.

The more you pay attention to clients, the longer you will retain them and the more they will value your participation as their insurance agents. Don't cut service corners in the attempt to manage your business.

15-Step Commercial Lines Marketing Program

1. In order to write new business in target markets it must have:

a. A carrier willing to sponsor competitive coverage and pricing for a target market –

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Although marketing programs can be effective in general marketing, they are much more effective to a specific target market to whom key industry phrases and concepts are common and familiar.

b. Sufficient prospects to justify the penetration of the market – you need approximately 200 prospects for each relationship manager (generally your producers) involved.

c. A program that will familiarize the prospects with the agency and the product over time

d. A set of underwriting guidelines that will permit the elimination of any accounts that would not meet the carrier's product underwriting guide – Here's an 'old fashioned' concept – THE AGENT **IS** THE LEAD UNDERWRITER. OTHERWISE HE IS NO DIFFERENT THAN A SALESMAN FOR A DIRECT WRITER.

e. Sufficient producer time and commitment to penetrate each prospect over a period of time to assure an opportunity to sell the client the services and the carrier's policies.

Do you know the lines of business for which your carriers have the BEST (or one of the best) products and underwriting understanding at a fair price – in the lower half of the spectrum? If not, do not launch a marketing program without finding out this information. If none of your carriers have products that put them in the forefront of companies writing that line of business, you cannot evolve a successful marketing program. Either you must wait until one of their products is evolved enough to successfully market or investigate other carriers.

By the way, what a company WANTS you to promote, is not necessarily a product for which it is in the best market! You are much better off marketing toward what they have predominantly written as new business in the last year.

2**.** Most desirable prospects are deluged with offers for insurance. Another letter or call will not differentiate the agency from all other insurance agents.

A sales letter sent in bulk is NOT a marketing program. IF it is even opened, it will be seen for fifteen seconds and then be discarded. If you are not the incumbent or if the client is not familiar with you, they will not even read your first letter.

3**.** Prospects will more likely do business with agents with whom they are familiar and comfortable. Would you provide confidential financial information about yourself and your business to someone who solicits you out of the blue? Neither should anyone else! FAMILIARITY BREEDS SALES, NOT CONTEMPT! The more often a prospect hears and sees you, the more comfortable he/she is with doing business with you.

4. Most agents rarely pay attention to existing customers.

The agency that spends time building a relationship with prospects will more likely assume control of them in the future. Be aware of this as you allocate your time between your clients and your prospects.

In order to properly penetrate a target market, an agency should create and implement a long-term frequent contact marketing program. With a large enough group of prospects, the expected long-term yield in sales will pay for the cost of the program. Agency Consulting Group, Inc. www.agencyconsulting.com has created a 15 step, three year marketing process to evolve the following benefits:

1. **Image development** - The prospects will be contacted by the agency many more times than they will by their current agent.

2. Product comfort - Since the agency will pursue a target market on behalf of only one carrier, they will be able to completely familiarize the clients with the products offered as well as the personal services of the agency organization.

3. Risk development - The 15 step program will include a number of notifications to the clients of common risks to businesses and how to avoid those risks through effective insurance management.

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4. Personal familiarization – The key to the success of this or any other marketing program is that the documentation that you present is only the preparation for a personal contact. We strongly recommend a personal visit by the relationship manager immediately after each section of the marketing program. The point of the marketing program is to permit familiarization of the prospect with the person (your relationship manager), the agency and the product differentiation.

Our commitment to our carriers:

The agency will pursue the entire universe of prospects in a target market, fully penetrating that market on behalf of the selected carrier only over a three-year period. IF THE PROSPECT QUALIFIES FOR THE CARRIER'S UNDERWRITING GUIDELINES, WE WILL ONLY USE THAT CARRIER'S PRODUCT IN OUR OFFERING. WE WIN OR LOSE WITH THE CARRIER. We will advise the carrier, on a monthly basis, how many prospects received contacts (and what type), how many appointments, resultant quotes or proposals and the resultant sales.

Our carrier's commitment to the agency:

This program is a dedicated, disciplined approach to penetrating a marketplace. We require confidentiality of process to avoid similar programs being implemented by our competitors in our marketing areas. We count on our carriers to avoid the "hot and cold" approach to risk selection. We have asked for the types of businesses that have become the best types of accounts for the carrier. This means that these accounts favor the carrier with low loss ratios and for which the carrier has sufficient pricing authority to reach whatever competition requires in order writing the account. OUR CARRIER'S HAVE COMMITTED TO WRITING AT LEAST 70% OF THE ACCOUNTS OFFERED TO THEM that meet their underwriting requirements.

The Agency/Carrier Partnership:

The purpose of this program is to establish growing partnerships between the agency and its best carriers. Stability, profit and growth are the most important traits of both partners to each other. The carrier expects the agency to grow through writing and retaining lines of business that are proven profit-makers for the carrier. The agency seeks carriers who can competitively perform on behalf of its clients in both product and price.

CAMPAIGN

NOTE: EACH STEP IN THIS PROGRAM IS TO BE FOLLOWED WITH A PERSONAL VISIT BY THE RELATIONSHIP MANAGER WITHIN TWO DAYS OF ITS DELIVERY TO THE PROSPECT.

Year One:

Step One: Letter one - Introductory letter by the agency principal along with the agency commercial lines brochure.

Initial visit within two days of receipt of the introductory letter offering an Insurance Program Analysis (always carry a copy of what was sent to the prospect, assuming that it was not read or was already discarded).

Step Two: Contact two - Identifying the agency as an insurance specialist in the selected target market and offering references from our current client base. Follow with a visit in two days.

Step Three: Contact three - Identifying the carrier and the product that we would like to offer the prospect (carrier brochure). Follow with visit after two days.

Step Four: Specialty Bulletin or Alert regarding a risk specific to the target market that our program addresses. Follow with visit after two days.

Step Five: Introductory letter by the agency principal welcoming the prospect and telling him that the relationship manager (the “Manager” of the specific target market division of the agency) is responsible for providing the prospect with enough information about the agency and our services to permit him to use them. Follow with visit after two days.

Year Two:

Step Six: Alternate to Step Four Bulletin or Alert - Identifying risks to the particular target

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market and ways to avoid it through appropriate insurance management. Follow with visit after two days.

Step Seven: Identify a value-added service of the agency and offer to provide it to the prospect at no cost. Follow with visit after two days.

Step Eight: Agency Newsletter with four articles outlining agency history, agency principal involvement in the community, specific relationship manager article and article about the specific target market. Follow with visit after two days.

Step Nine: Bulletin or Alert with another risk to the target market and the agency's program resolution to that exposure. Follow with visit after two days.

Step Ten: Description of the Asset Protection Model that provides services, not simple sales to justify the prospect's change to our agency. Follow with visit after two days.

Year Three:

Step Eleven: Second offer of no-obligation Insurance Program Analysis. Provide an agency reference list. Follow with visit after two days.

Step Twelve: Offer to evaluate quotes offered by incumbent and other providers without quoting the coverage from your own agency. This makes the evaluation genuine and unbiased to the prospect. Follow with visit after two days.

Step Thirteen: Additional specific risk identifier followed by a visit after two days.

Step Fourteen: Survey to determine if our visits have been beneficial to the prospect. Follow with visit after two days.

Step Fifteen: A final letter from the agency principal offering the agency's services followed by a final visit.

PROCESS

The program is conducted on a set schedule, but the schedule is not regularly timed. For instance one contact could be two weeks after a prior contact, but the next contact may be ten weeks later. We have found in our test markets that off-schedule, seemingly random contacts (which are carefully scheduled as a part of the marketing program) actually speeds the process of familiarization for a prospect. After the first four contacts, the prospect may think that you have been speaking to him for years.

The program is also NEVER mass-mailed or bulk-mailed - use stamped mail, e-mail or drop-off documentation. Depending on who is to conduct the next contact and when it is to be conducted, five to ten prospects should be mailed or contacted on any day. The follow-ups on those contacts will take whatever time the producer has to manage the process.

I rarely make ABSOLUTE statements, but here is one. This program only works if the ENTIRE marketing program is drafted at the same time. This means that all letters, newsletters, bulletins, and mailers need to be completed before the first prospect is mailed. In the years in which we developed and tested this marketing program it has NEVER worked if the marketing program was written as the schedule required.

The cost of a 15-Step Three Year Marketing Program in both dollars and producer time is considerable. The prospect type must be substantial enough that the projected number of eventual sales can justify the cost of the marketing program. For instance, if your goal is to write 10% of the prospect base within three years, if the average commission is $1,000 and 40% of it will go to the producer and if the entire marketing program will cost you $10,000, then you must sell 17 accounts (at the agency's remaining $600 commission/account) to break even in cash flow. That requires a 170-prospect minimum to achieve the Marketing Plan's goal. Budget mailing at approximately $1 per item (or more) and sales calls based on the time expected to be used by the producer.

This 15 Step Program is an integral part of the Asset Protection Model of relationship selling that is initiated and trained into agencies by Agency Consulting Group, Inc. However, it can be used independently. Even in the traditional Quote/Sell

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model, it will gain more clients from prospect marketing than traditional efforts. However, the 90% (and higher) long-term close rate on prospects of this program within the Asset Protection Model is only attained by the conversion of agencies from quote-driven sales to relationship-driven client acquisition. Call us at (800) 779-2430 for more information or to schedule a visit to determine if the Asset Protection Model is right for your agency.

Red Flag Rule - New Delay in Enforcement...

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In short, the Rule requires “financial institutions” and “creditors” that hold “covered accounts” to implement a written program (“Program”) to detect warning signs or “red flags” of identity theft, so that identity theft can be prevented and mitigated. Some key definitions under the Rule, in general terms, include:

- financial institutions - state/national banks, state/federal savings and loan associations, mutual savings banks, state/federal credit unions, or any other entity with an account from which the owner makes payments/ transfers
- creditor – a person, business or entity that provides goods or services in advance of receiving payment (e.g., arranges, extends or renews credit)
- credit - the right granted by a creditor to a debtor to defer payment of a debt or to purchase property/services and defer payment for them
- covered account – an account used for a personal, family or household purpose involving multiple payments (e.g., credit card accounts, checking accounts, car/home loans)

The FTC appears to be taking a broad view of what activities meet the key definitions under the Rule. That creates questions by insurance agencies about whether they need to comply with the Rule and if so, the nature of the compliance. Since insurance agencies each operate differently, there is not just one answer to that question that applies across the board for all agencies. Each agency needs to assess the key definitions under the Rule carefully in light of their own unique operations and activities to determine the answer to that question. An insurance agency only needs to comply with the Rule it if acts as a creditor or financial institution and has covered accounts, not merely because of its status as an insurance agency. For example, if all business of an agency is direct billed by carriers, then it appears the agency would not be a creditor nor have any covered accounts, and thus would not be subject to the Rule. On the other hand, if an agency provides or arranges premium financing for any insured’s, then the FTC could take the position that the agency is acting as a creditor with covered accounts, and needs to comply with the Rule.

While the purpose behind the Rule does not appear to be targeted at addressing the basic activities of many insurance agencies, it is impossible to predict if the FTC will try to characterize some of those activities as covered by the Rule. Being a creditor under the Rule requires that goods or services be provided in advance of payment, such as occurs when retailers arrange credit for consumers to purchase goods. But since insurance is a continuous service over a period of time, it arguably is not generally provided in advance of payment for all the service provided.

Agencies with questions about if the Rule applies to their activities can seek guidance from local counsel. In addition, some agencies in this position, out of an abundance of caution, may choose to comply, rather than spend time or money seeking a definitive answer to a question that may, by virtue of the way the Rule is written, be unduly complex.

Insurance agencies that do not fall within the definition of a financial institution or creditor under the Rule are not required to comply with the Rule. The acceptance of credit card payments does not alone make an entity a creditor under the Rule, nor does merely referring a customer to an entity that is a financial institution, such as for a loan. However, if a business, including an insurance agency, has “covered accounts” and conducts business in a way that meets the definition of a “financial institution” or “creditor” under the Rule, compliance with the Rule is required.

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For an agency owned by an entity that meets the Rule's definition of a creditor or financial institution and that has covered accounts, the entity that owns the agency should be aware of the Rule and may determine the Program to be implemented.

For entities subject to the Rule, there is no standard Program they can adopt, as the Program must be customized to the entity's size, complexity, organizational structure, and business operations/ activities. Any such Program must include reasonable policies and procedures to detect red flags of identity theft in covered accounts, and prevent and mitigate identity theft in connection with the opening and maintenance of covered accounts.

A Program must enable the entity subject to the Rule to:

1. identify red flags (described below) relevant to the entity's experience, industry, and likely risks;
2. detect the red flags identified;
3. respond appropriately to red flags that are detected in an effort to prevent and mitigate identity theft; and
4. update the Program periodically to reflect changes in risk.

Red flags or warning signs of identity theft may come from things such as past incidents of identity theft, reports in industry publications, and information published by regulators like the FTC. Examples of red flags can include things such as warnings/ alerts from credit bureaus, presentation of suspicious documents (such as those with suspicious personal identifying information or a suspicious address change), and notice from a person who believes he/she has been a victim of identity theft.

An entity required to have a Program must have the initial Program approved by its board of directors or an appropriate committee of its board of directors. In addition, the board of directors, an appropriate committee of the board, or someone from senior management must be involved in the oversight, development, implementation, and administration of the Program, and the entity's staff must be trained to implement the Program.

An entity subject to Rule can face civil penalties by the FTC for failure to meet its requirements. It is uncertain if private lawsuits are permitted for Rule violations. Insurance agencies can adopt an identity theft program even if not required to do so by the Rule. The Program requirements under the Rule may provide a good starting point for these agencies seeking parameters for what is important to consider in such a Program.

A summary of the Rule is included in a memo called "Overview of the Fair Credit reporting Act, the Fair and Accurate Credit transactions Act, and the Drivers Privacy Protection Act" starting on page 10 at letter G. That summary is available to members who log in to www.independentagent.com by selecting Legal Advocacy, under Memoranda and FAQs. More information on the Rule is available from the FTC at:

http://www.ftc.gov/bcp/edu/pubs/business/alerts/alt050.shtm.