

WHITE PAPER

# THE AGENCY JOURNEY FROM LIABILITY AVOIDANCE TO CLIENT ACCOUNTABILITY

A different approach to overcoming  
the underinsurance crisis



## NEW RISKS, COMPLEX COVERAGES, AND A FIRING MARKET CREATE A CHALLENGING EXPERIENCE FOR INSURANCE BUYERS

The already complex business of insurance is growing even more complicated by the day. Globalization and automation increasingly impact our daily lives. Risks such as cybersecurity and infectious diseases are now top-of-mind issues, while the industry grapples with the challenges of covering these dynamic hazards.

On top of it all, insurance buyers continue to struggle with understanding policy wording, limits, and exclusions. Many end up assuming they have coverage where they do not, only to find themselves in a difficult situation when a loss occurs, as the pandemic-related shutdowns and subsequent business interruption lawsuits of 2020<sup>1</sup> have shown us.

These uncovered losses extend beyond the pandemic. For instance, 60% of global natural catastrophe property losses in the first half of 2020 were uninsured.<sup>2</sup> And in another case from recent years, a staggering number of people in California realized they were not insured to rebuild their homes after wildfires ripped through their towns in 2018. The uncovered losses they experienced will impact their families for generations.

Meanwhile, on the carrier side, we are continuing to fall deeper into a firming marketplace. Nuclear verdicts, social inflation (see sidebar), and adverse weather events have pushed insurers to bolster their liability shields by creating more exclusions, reducing coverages, and even pulling out of some markets entirely. High-risk industries such as trucking, logging, and steel are often the first to go.

At the end of the day, agents and agencies are faced with a challenging job—one they must do well or risk being sued. To avoid costly litigation, agencies have increasingly relied on preventive measures, such as insurance checklists, to communicate risk to clients.

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An underinsured marketplace indicates the industry isn't doing as much it should to fulfill its role.

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Effective risk management is at the heart of insurance, and an underinsured marketplace indicates the industry isn't doing as much it should to fulfill its role.

<sup>1</sup> *Insurance Journal*, "[Insurers Winning Most, But Not All, COVID-19 Business Interruption Lawsuits](#)", Nov. 30, 2020.

<sup>2</sup> *Swiss Re Group*, "[Swiss Re Institute estimates global insured catastrophe losses of USD 31 billion in first half of 2020, mostly from secondary perils](#)", Aug. 11, 2020.



### **nuclear verdicts**

massive judgments by juries (exceeding \$10 million), usually arising from auto accidents or product injuries

### **social inflation**

the increase in litigation and litigation costs arising out of societal trends

While the underinsurance crisis and the practices that led to it are widespread, agencies that recognize the problem and adapt will find themselves aligned for growth. Moving forward, high-growth agencies must lead their clients away from a commodity approach to a more effective, risk-based process.

## AN OPPORTUNITY FOR AGENTS AND AGENCIES

A significant number of today's insurance buyers may be unknowingly at risk, yet some agents are hesitant to break from the habit of pushing out coverage checklists to their clients and saying: "Here are your coverages and limits. Do you want to renew?" This simply isn't enough.

For insurance agents, there has never been a more important moment to elevate conversations with buyers about emerging risks that could adversely affect them and their business. Yet renewing "as-is" remains the status quo. According to a ReSource Pro-Insurance Journal survey, while two-thirds of producers say renewing "as-is" is rarely done, only 42% of service staff and management agree.<sup>3</sup>

Insurance buyers are generally not well equipped to make decisions around the probability of loss. When faced with a laundry list of coverages, clients are likely to say "no" because they have not suffered any recent loss. This is called a recency bias (see sidebar), where an individual is more biased toward recent events than those in the past.

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Failing to identify an exposure and recommend a solution is also one of the most frequent sources of E&O claims.

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For instance, 60% of U.S. businesses situated in a high-risk flood zone do not have flood insurance.<sup>4</sup> When explained the concept of a 100-year floodplain, the human brain is likely to underestimate the likelihood of this event based upon its own experience and knowledge, yet over the course of a 30-year mortgage, a property owner in these conditions has a 26% chance of experiencing flood.

Adding to the problem is agency errors and omission (E&O) training. E&O workshops may advise agents, "Don't say too much about policies," believing that this will minimize the possibility of agents being misinterpreted. In effect, agents may end up explaining far too little.



### recency bias

a bias toward recent events over those that occurred in the past

<sup>3</sup> ReSource Pro, *Insurance Journal*, Oceanus Partners, "[Sales and Service Survey Report](#)", November 2019.

<sup>4</sup> Value Penguin, "[Flood Season Is Coming. Homeowners in These Cities Need More Insurance](#)", May 18, 2020.

<sup>5</sup> Big I, Swiss Re, "[A Practical Guide to Agency E&O Risk Management](#)", 2007.

E&O litigation can indeed be costly, yet failing to identify an exposure and recommend a solution is also one of the most frequent sources of E&O claims.<sup>5</sup> Though these claims aren't always successful, agencies will still incur the cost of defending themselves, and it is far more advantageous to avoid them in the first place.

Thus, while training agents to avoid liability is a necessary step, there must ultimately be a balance. Agents who present their clients with a coverage checklist are likely failing to provide the context the client needs to make a purchasing decision that is in their best interest.

Instead, agents need to:

- Hold conversations with clients, walking them through the coverages.
- Help clients understand the probability of uncovered losses occurring and the adverse effects of such losses.
- Use examples and storytelling to help clients recognize and appreciate the risk.
- Explain the cost of transferring those risks to the insurance company.

By doing so, agencies can not only foster greater trust and loyalty in their clients but open up valuable opportunities for additional revenue growth through cross-selling and upselling.

### COVERAGE FOR YOU VS. COVERAGE FOR CLIENT

#### For the Agency

Using checklists exclusively to show additional coverages

Allowing the policy to speak for itself

Avoiding discussions around hypothetical claims

#### For Client

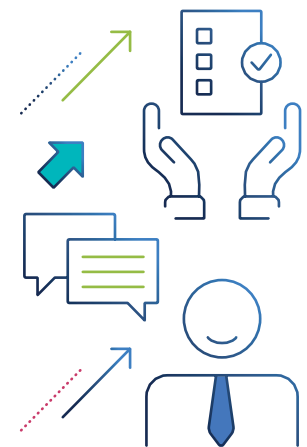
Talking through potential risks

Using real-life examples to illustrate risks

Helping clients recognize the effects of an uncovered loss

### CALL TO ACTION

One of the biggest hurdles to becoming more accountable to clients is having the right technical insurance knowledge. Some agents and customer service representatives do not know how to discuss coverages, so they simply send out a list instead. If you do not have the time or the knowledge to train agents in elevating their conversations with clients, consider partnering with an organization that can help.



## ABOUT RESOURCE PRO

ReSource Pro brings to the insurance industry tools, technology and strategic services that enable profitable growth through operations excellence. Headquartered in New York, ReSource Pro's global service centers address client operational needs around the clock. Recognized as an industry thought leader and listed as one of Inc. 500/5000 Fastest Growing Private Companies annually since 2009, the company is renowned for its focus on innovation, service excellence and trusted partnerships, and its unique productivity platform for insurance operations. Over 5,000 ReSource Pro employees provide dedicated support to hundreds of insurance organizations, consistently achieving a 97% client retention rate for over a decade.

## ABOUT THE AUTHOR

Frank Pennachio is the Practice Leader, Agency Growth Solutions at ReSource Pro. Frank Pennachio has spent more than 30 years in the insurance industry as an agent and producer. He is now a full-time trainer and consultant to independent insurance agents, insurance carriers, agent associations and technology companies with agents as their customer.

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