The Familiarity Trap

By Matthew R. Davis, J.D., Vice President, Claims Manager, Swiss Re Corporate Solutions*

It's been said that familiarity breeds contempt. But in an insurance agency, familiarity can sometimes breed complacency.

How many times have you, as an insurance agent, had a customer to whom you've provided great service for many years, but still does not quite seem to understand the risks associated with his property? Here's an example: You've known Jerry, a savvy speculator in aging commercial buildings, for 20 years and have been his insurance agent for 15. In 1999 Jerry got a sweet deal on a building for $300,000 that had been built in 1989. He called you and said he needed fire coverage for the building. You began talking about appraised value, but he cut you off, saying. "What appraisal? Look, I paid $300,000, so that should be plenty." You write the coverage with $300,000 limits as instructed and everyone goes along their merry way.

In 2000, you're reviewing Jerry's insurance needs and you realize that you never really discussed with Jerry what the *value* of the building was. You talk to him and ask what he thinks the building is worth. He says $400,000 since he's put an additional $100,000 in it since he bought it. You ask him if he knows how much the building cost to build and he says, "I'm guessing it was around$1,000,000, give or take – but it's been beat up since then." You suspect that the cost to replace the building is probably closer to the $1,000,000 -- if not more -- so you ask him if he wants to increase the limits to $1,000,000 to cover the replacement cost. But Jerry, as you know, is a very difficult customer and doesn't want to hear that because he doesn't want to spend the money. You make the recommendation; he rejects it, comments that "You're always trying to hit me up for more commission!" and tells you to quit bugging him.

In 2005 you are again reviewing Jerry's insurance needs and know he should have higher limits on the building, but you also know how difficult he is to deal with and that he wouldn't increase the limits anyway, because he's *constantly* looking for ways to drive his premiums down. As a result, you don't offer the higher limits.

And so it goes for several more years. You see Jerry from time to time and you mention in passing that maybe he ought to consider reviewing his limits on that building. Every time you do he says, "No, that's ok, it's fine." Or he says, "Yeah, maybe I should look into that..." and you tell him to call, but he never does. But then again, neither do you call him because you're certain it won't do any good.

Unfortunately, your familiarity with Jerry and his 'insurance buying habits' has become a trap. You've grown accustomed to telling your customer what he *wants* to hear rather than what he *needs* to hear, because frankly, you know that's where you'll end up no matter what you say.

It’s now 2012 and Jerry gives you a call. His building has burned to the ground and there’s nothing left. You notify the carrier and then, as they say, the spit hits the fan. The adjuster on site tells Jerry that the carrier won’t tender the full $400,000 because replacement cost for that structure is *$1.6 million*, which brings the coinsurance penalty clause into play... “The ‘go-insure-me-what clause?” says Jerry, right before he picks up the phone….

Yes, you get the call from Jerry. “You told me my coverage would be enough to rebuild my building!” Jerry complains, voice rising. “You are my agent. Why didn’t you *tell* me it wasn’t enough?” You get a sinking feeling in your stomach because you’ve certainly known for a long time that he should have had higher limits, and you also know you told him that he should have had higher limits. When you mention that to Jerry, though, he seems to have forgotten the times you’ve talked about it. Then you look in your file and can’t find anything that shows you talked to him about higher limits, because you never thought you needed that kind of backup with a *friend*. And let’s not even talk about coinsurance. The next words out of his mouth are “IT’S ALL YOUR FAULT!” (OR) “I’M GONNA SUE!” And the next call you make is to your E&O carrier.

Unfortunately, this scenario, or something similar, is all too familiar in the world of E&O claims. A normal aspect of human nature -- the desire to avoid confrontation -- can lead to a far more serious headache when it is not dealt with properly from the start.

So how do you prevent this from happening? It’s really quite simple.

1. Annual Reviews - A keystone of good customer management is conducting an annual review of your customers’ exposures. That means asking the right questions every year and paying close attention to the answers. The best tool to get that conversation started is a coverage checklist.
2. Coverage Checklists - If you have a coverage checklist, use it! If you don’t have one, get one! If you are an IIABA member and insured by Swiss Re Corporate Solutions, you have one available to you. The ‘E&O Happens’ website that has samples of both commercial and personal lines checklists for you to download and use. In addition, the ‘Virtual Risk Consultant,’ a service available through your state IIABA association, not only includes checklists, but also provides information about analyzing risks and determining the types of coverage necessary to protect exposures.
3. Document - After you’ve determined your customer’s exposures through your annual review and use of the coverage checklist, be sure you document what you’ve recommended to them. The best way to document this is to send them follow up correspondence, either by mail or email, outlining the coverages you’ve recommended, the coverages they’ve accepted, and just as importantly, the coverages they’ve rejected. If they will sign and return that to you, or acknowledge receipt of the email, all the better.
4. Follow up – Was your customer persuaded to accept some additional coverage or increase in limits? Are there questions that need answers before he makes a decision? Did he say he wants to think about it...? Follow through is essential. Keep careful notes and diary entries to ensure that no loose ends are left to hang you.

If you are a Swiss Re Corporate Solutions insured, the documentation process is one that could even save you money. The Swiss Re Corporate Solutions, preferred policy now includes a deductible reduction feature. If, as in this example, the agent had offered coverages or limits that were rejected, and there was *contemporaneous* written documentation maintained in the agency file showing that rejection, Westport would reduce the deductible payment for the agency by 50% up to a maximum of $12,500 – not to mention making it *much* easier for you to prove you what you told Jerry.

So let's turn back the clock and take another look at Jerry and his agent. In 1999, Jerry got a sweet deal on a building for $300,000 constructed in 1989 for $800,000. He called you and said he needed fire coverage for the building. You asked him how much and he said "well, I paid $300,000, so that should be enough." You ask him how much the building cost to build and he tells you $800,000. You ask what it would cost to replace the building in today's dollars and he answers without hesitation because he knows the square footage and current construction costs: $1 million. You recommend that he insure the building for that much. He, of course, says "No". You then send him a letter advising him that you had offered to obtain replacement cost coverage for the building for $1,000,000, but he had chosen to insure it for only $300,000. Each year after that you review his exposures, offer higher limits, Jerry rejects them, and you send him a letter confirming both your recommendation *and* his rejection.

In 2012, Jerry calls you and tells you his building burned to the ground and the carrier offered him a check for a fraction of his $400,000 limit even though it will cost $1.6 million to rebuild. "You told me my coverage would be enough to rebuild my building!" Jerry complains, voice rising – but this time you cut him off. You remind of the letters you sent him every year recommending higher limits and you offer to send him copies. A remorseful Jerry says, "No, that's ok. I remember…." Like you, Jerry has those very letters sitting on the desk in front of him.

Familiarity can become a trap, but it doesn't have to be that way. Every day, with every customer, it's *your* choice.

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**Matthew R. Davis, JD, is Vice President and Claims Manager of Swiss Re Corporate Solutions. Before joining Swiss Re Corporate Solutions, Matt served as Assistant Dean of the University of Missouri Kansas City School of Law for seven years. Prior to that, he spent thirteen years as a litigation attorney in Kansas City, first with a private firm and later as 'captive counsel' for CIGNA Insurance. Since joining Swiss Re Corporate Solutions as a Claims Specialist in 2004, Matt has handled claims for insurance agents and brokers as well as small/mid-market law firms.*