

# THE MASSACHUSETTS AGENT

OFFICIAL NEWSLETTER OF THE MASSACHUSETTS ASSOCIATION OF INSURANCE AGENTS

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## Auto Update:

### DOI Issues Executive Summary: Results of the Survey of the Auto Insurance Market After One Year of Managed Competition ...

On April 1, 2008, the Massachusetts Division of Insurance inaugurated the change to a more competitive auto insurance market. In doing so, the state transformed from a fixed rate setting by state regulators to "managed competition." Massachusetts is the last state in the country to move from state-set auto insurance rates to a competitive rating system.

Under managed competition, insurance companies may propose competitive rates, offer new and different products, and provide new services to consumers. Consumers can benefit from shopping for the best price, coverage and service options for themselves. In order to review the impact of the changes on consumers over the first year, the Division of Insurance commissioned a study, measuring such variables as premium levels and consumer attitudes and experiences with the new system of purchasing automobile insurance. The study covers the time period from April 2008 to April 2009.

The changeover to managed competition began in April 2008 after many decades during which state regulators set the insurance rates that all automobile insurance companies in Massachusetts were permitted to charge. Since the early 1990s, Massachusetts witnessed a decline in the number of companies offering private passenger auto insurance here from 35 to 19 in 2008. In the first year of managed competition, nine new companies entered the Massachusetts auto insurance market. Under the new system, consumers can benefit because companies can compete against one another for market share by charging different rates, offering innovative discounts and other incentives, and increasing their efficiency.

The survey included nine focus groups with consumers held around the Commonwealth, a preliminary survey of 1,100 consumers, a comprehensive 30-minute survey of more than 4,500 drivers and one-on-one interviews with over 50 insurance agents and executives. Minorities and drivers in urban areas were over-sampled to ensure that their experiences were accurately reflected and then weighted to represent their overall incidence on the insured driving population. The results, which are statistically valid and reliable with a confidence rate of 95 percent, showed the following:

1. Massachusetts consumers saved over \$270 million in insurance premiums in the first year of managed competition. This data was determined from an analysis of survey responses on the premiums drivers paid for their automobile insurance.
2. Average premiums per vehicle dropped 8.2 percent during the first year under managed competition; previously in 2006-07, premiums had declined by 5.2 percent.
3. Consumers with clean driving records were 19 percent more likely to see savings under the new system than those who had accidents or violations during the first year of managed competition.

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**Auto Update . . . continued from page 1**

4. Most consumers maintained their level of coverage when renewing their insurance policies. Those who changed their level of coverage were twice as likely to increase than to decrease their coverage levels. Many insureds opted to reinvest some of their premium savings into additional insurance coverage.
5. African-American, Hispanic and Asian drivers were more likely than the overall population to increase their level of coverage.
6. Since the introduction of competition into the Commonwealth's automobile insurance market, by April 1, 2009, nine new companies had entered the Massachusetts auto insurance market. New entry into a market is a sign that the market is becoming robust and affording consumers greater price and service options.
7. The number of drivers in the so-called residual or high-risk market is declining, meaning that more drivers are able to find acceptable insurance premium and service options among competing companies in the marketplace.
8. In the first year of managed competition, there was a 13 percent decrease in the number of uninsured vehicles on Massachusetts roads.
9. Sixty-nine percent of consumers continue to purchase coverage through agents, rather than purchase directly. This number is nearly twice the national average.
10. Forty-two percent of the consumers surveyed were more satisfied with the auto insurance market in Massachusetts than a year ago and only 3 percent were less satisfied.
11. Under the new system, 87 percent more agencies are representing four or more companies, whereas under the old system many agencies represented only one or two insurance companies – this makes it easier for consumers to shop for the best policy at the lowest price for their needs.
12. Approximately three out of four consumers indicated that they were aware of the new auto insurance system, and those who were aware were 60 percent more likely to have saved money than those who were not aware.
13. Not all consumers availed themselves of the new system in the first year. Some believed shopping around would be time-consuming; they were skeptical that they would save money; they found it difficult to compare insurance policies from different companies and they believed they could not change insurance carriers before a policy had expired.

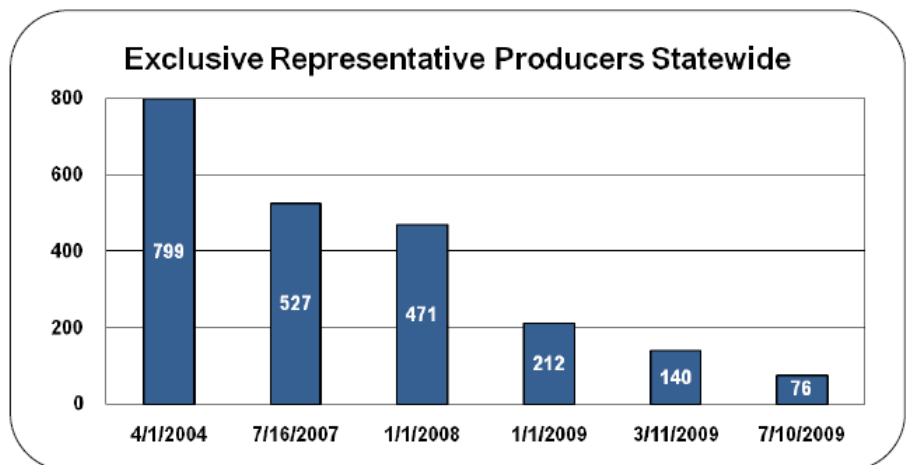
Overall, the study showed positive results for most Massachusetts drivers but also highlighted that more outreach and education needs to be done to continue to afford all consumers the benefits of managed competition.

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**DOI Issues Report to Joint Committee on Financial Services ...**

On July 13, 2009, the Division of Insurance (DOI) issued a 27-page report to the Joint Committee on Financial Services of the efforts made to facilitate the transition of ERPs to voluntary agents. The report outlines the steady decline in the number of ERPs, from 799 in 2004, to 527 when the Commissioner issued her decision on MAIP and Managed Competition on July 17, 2007, to 471 on January 1, 2009, and 212 one year later on January 1, 2009.

According to the report: "As of March 11, 2009, when the Division launched its aggressive campaign to assist the remaining ERPs to obtain voluntary contracts, we had 140 ERPs. I am pleased to announce that as of today, July 13, 2009, we only have 76 ERPs. This is a reduction of 46% from where the Division began this aggressive effort in March." A copy of the complete report is available by clicking [here](#).





## InsurBanc News

### Cash Management Services—What Difference Can They Make to an Independent Agency?

During this economic downturn, independent agencies are rightly focused on client service, operations, and technology as key factors in their competitiveness in 2009. Every independent agency has a secret weapon to heighten their profitability: their banking relationship.

Independent agencies can and should expect their banking relationship to help them reduce costs, enhance revenues, and improve efficiencies. Agencies have a significant opportunity to use their banking relationship to their advantage.

All banks offer deposit products such as checking and savings accounts. But independent agencies are not like many other businesses. They have unique cash management opportunities by virtue of monthly fluctuations in premium payment volume. A bank that recognizes this difference will offer a variety of specialized deposit products, competitively priced, to help agents facilitate cash management and maximize value.

Here is what you should be looking for:

**Optimize the earnings credit on your bank accounts.** Through the earnings credit applied to its bank account, an agency can offset the cost of services provided in conjunction with the account. Charges such as monthly service fees, checks paid and items deposited fees can pile up, but an agency can reduce the impact of these expenses by optimizing its earnings credit. Earnings credit rates and funds availability vary by bank, so be sure your bank is competitive and that there is no minimum balance to apply the earnings credit.

A good banker will help the agency set a target balance at the right level, considering the agency's cash-flow patterns over the course of a year, greatly minimizing fees and adding to the bottom line.

**Review bank investments to optimize the rate of return.** It's important to make sure your bank offers a variety of investment products with flexible terms to accommodate your unique cash flow needs. You need the flexibility to access your money on your schedule, so finding the right mix of investments is essential.

Cash management tools that provide the liquidity and high investment returns desired by agencies are matching maturity CDs (certificates of deposit) and CD ladders. Matching maturity CDs allow you to match the maturity dates to financial priorities. CD ladders allow you to distribute money over different maturities and receive a higher, blended rate of return on investments.

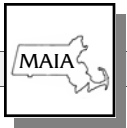
You may want to consider a sweep account to take advantage of float in your operating account. The excess cash is automatically transferred into an investment account. By doing so, the agency puts money to work when it would otherwise sit idle.

**Look for opportunities to use technology.** Your bank might offer online banking and remote deposit. However, it is important to read the fine print. Ask your banker about monthly fees, and if there's an option to run them through your account analysis. Carefully check out the product features offered and see how they fit in with your operations. Does your bank provide: client support, appropriate levels of security and controls, and reliable equipment? Inadequacies in any of these areas can be costly to your agency in the long run. In addition, with remote deposit there can be the purchase or rental fee of the equipment to consider.

These opportunities are there for agencies, and have been for many years. But many bankers simply do not realize an agency's unique needs. If they do, they may not take the initiative to discuss them with agency owners. It's up to the agency leader to take the initiative and ask about banking services.

Agency owners have a lot of priorities. But if they take the time to view and understand banking services as an opportunity to improve their bottom line, they'll make their agency more competitive by reducing costs and increasing revenues.

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**E & O Update:**

By Paul E. Walters, Claims Manager  
Utica Mutual Insurance Company

**The Pitfalls of Reducing Coverage ...**

There are a lot of valid reasons why an agent may request reduced coverage for a client.

However, that doesn't stop an E&O claim from being made! After an economic loss, the client's memory may be different from the agent's, and he or she just may not remember exactly requesting that reduced coverage. Two stories emerge, leaving a jury to flip a coin.

Let's first go back to those reasons a client might request lower coverage amounts ...

A change in exposure may warrant less coverage. Concerns over premium costs may warrant a change in coverage ... and in the current economy that can happen much more than not. A change may be made to a law where certain types of claims to which a client had previously been exposed were no longer legally viable. The imposition of award caps for certain types of personal injury actions by state legislatures may greatly lower a client's exposure.

The reasons are all valid ... however, **communication with the client is the key**. And **good documentation** of such conversations is a **MUST**.

Take, for example a claim by an owner of a large six building apartment complex. Business was slow, and the client approached the agent and asked that two of the buildings be removed from coverage on the Commercial Property policy to save premium.

Those buildings were removed from the policy. The policy was subsequently written by another carrier, and only four buildings were listed. *In that particular state, there is no duty for a client to read and examine a policy!* After policy inception, the client, without telling the agency, decided to rent the two vacant buildings out to victims of Hurricane Katrina, at government subsidized rates. A fire occurred, and the two buildings were destroyed.

While the agent's file contained a copy of the request to the previous carrier to remove the buildings, there was nothing in the agent's file documenting the discussions with the client. The client stated he did not want the buildings removed. Nothing was sent to the client by the agency memorializing the request to remove the buildings. The damage to the two buildings was approximately \$1,000,000. Faced with a word vs. word scenario with no documentation to back up the agent, the case was eventually settled for \$500,000.

In another example, a restaurant owner asked his agent to reduce the contents coverage mid-term from \$275,000 to \$150,000. The carrier lowered the limits as requested and issued a refund which the client cashed. The policy renewed. And yes, a claim came. A large one: Following a total loss to the building, the carrier paid the \$150,000 limit for contents. The client claimed he did not read the new policy, and said he thought the refund check was due to a car being removed from a personal auto policy. He claimed he never asked for a reduction in coverage. Again, there was no correspondence from the agency to the client documenting the request for a reduction in coverage. Following a trial in the matter, the jury chose to believe the client, and awarded \$125,000 plus interest and attorney fees.

During hard economic times, clients will look for ways to save premium. Agents will be looking to hold on to current clients by trying to keep premiums down. Carriers will push agents to market their products in the best economic light to avoid competition. All of this activity will occur. Regardless of the circumstances, agencies will be vulnerable when there is no clear documentation reflecting that a client has been told of the reduction and is well aware of the risks involved in the event of a loss.