

## ***Perception is Reality***

### ***By Chris Burand***

A recent study by Zurich U.S. revealed what I believe could cause big problems for agents and brokers in the near future. The problem is that most commercial clients believe the property & casualty industry is healthy and making plenty of money! We know this is not true but our clients do not. Zurich U.S. has termed this discrepancy a “reality gap” and, as the old saying goes, “perception is reality.” If customers think the P&C industry is profitable now, what are they going to think when prices stop falling or worse, start rising?

The study also found that of the insureds who “changed their primary property carrier...the number one reason given was their carrier’s inability to achieve adequate rate reductions.” Another finding was that 64% of insureds experienced a decrease in their primary property coverage rates. If they think the industry is healthy, they will think agents and companies are being dishonest when prices rise! This reality gap will cause agents and brokers two serious problems.

First, commercial clients are now accustomed to rate reductions. They will feel blind-sided when rates do not continue to decrease, much less when their rates go up. Their confidence in their agent will wane and they will start to shop. If you are unlucky and your companies cease cutting prices before other companies do (which is definitely happening), you will lose more business than normal. If you are lucky, your companies will not put you in such a losing position. As rates in general start to rise though, be wary of companies still cutting prices while your companies hold steady or go up.

Second, you may be forced to defend a rate increase. Many clients are going to wonder, “If the insurance companies haven’t been making money all along, why did they cut rates before and why are they raising rates now. It sounds like somebody is trying to rip me off.” When selling, the defensive position is not the best place to be. Agents will be in peril of losing their credibility with their clients.

Avoid these serious problems by taking action today. Start educating your clients immediately. Tell them how ridiculously low pricing is today and how it has been for several years. Tell them you will do your best to keep their rates low, but they should enjoy the low rates while they last. Prepare them today for price increases tomorrow. Take the offensive. Your customers will trust you more when rates do increase and that trust will result in higher profits!

***Chris Burand*** is president of Burand & Associates, LLC, an insurance agency consulting firm. Readers may contact Chris at (719) 485-3868 or by e-mail at [chris@burand-associates.com](mailto:chris@burand-associates.com).

NOTE: None of the materials in this article should be construed as offering legal advice, and the specific advice of legal counsel is recommended before acting on any matter discussed in this article. Regulated individuals/entities should also ensure that they comply with all applicable laws, rules, and regulations.

September 1999