



How To Sell Environmental Insurance Coverage

The Secrets of the Trade

The ARMR Toolkit

Your Environmental Insurance Resource

The Secrets of the Trade

There is a secret trick that the pros use to sell a new environmental insurance policy. In this Users Guide I reveal the secrets of the trade utilized by the most successful sellers of environmental insurance policies. Many of the insights presented here are the result of 30 years of full time observations in the field.

The normal insurance sales process of filling out insurance applications, getting multiple quotes, proposing, and hopefully getting an order needs to be inverted in order to achieve any kind of success in the sale of environmental insurance.

The illustration is the outcome of a \$40,000 consulting project I did 13 years ago for an insurance brokerage firm with 40 offices.

The person in charge of sales for the insurance brokerage firm was trying to figure out why a handful of producers did well in selling environmental insurance but most did not. Even top sales people almost always failed at completing the sale of pollution insurance. What I came up with for the explanation was the successful sales folks were doing things a lot differently in the production process than the unsuccessful sales folks. Success had little to do with insurance market access or products.

To Be Successful, You Must Alter The Insurance Production Process

Traditional Sales Process	Environmental Insurance
<ul style="list-style-type: none">• Complete applications• Obtain multiple quotes• Choose the best one• Propose• Hopefully get an order• Bind Sometimes, 1in10	<ul style="list-style-type: none">• Figure out the need• Craft a placement• Benchmark the price• Sell it• Get one application• Get one quote• Turn around in less than two weeks• Bind every time

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Step One, Establish A Need

The first step in selling a pollution insurance policy to a new buyer (the best prospect) is to firmly establish the need for the environmental insurance coverage by teaching the customer about the effects of pollution/fungus/mold/bacteria exclusions on their risk management strategy.

Without that first step there is little hope of actually getting an order on a pollution insurance policy at any price.

Coming to the table with a bunch of insurance quotes will not increase the chances of success, but it will burn out everybody involved in the process of getting those quotes.

The most effective way to establish the needed degree of understanding at the customer level is to review the various coverage restrictions for “environmental” losses in the customer’s actual insurance policies, including the property insurance policy. Everybody seems to forget property insurance policies have pollution related coverage restrictions.

Ideally you want the customer to read their own exclusions in the policies they have in place and then you need inform them what those exclusions do to the coverage. Most producers need help in interpreting the effects the effects of various pollution exclusions, which is one of the services ARMR provides. If you think you have a rock solid knowledge base on how pollution exclusions work, that is only because you’re confused. Nobody is rock solid on pollution exclusions because the exclusions themselves are not rock solid. The courts in different states and sometimes within the same state routinely alter the views of even highly trained insurance professionals in how pollution exclusions should apply to given loss scenarios.

It is important to recognize that as soon as the term “pollution insurance” is utilized the customer is going to be thinking about their loss exposures to landfills, and hazardous waste. You need to get them out of that mode of thinking by informing them that within the discussion about pollution exclusions the real concern is about contamination which is an operative word in

a pollution exclusion. If you have a customer who has something that can be associated with contaminating something they need to evaluate their environmental loss exposure. The loss exposure could be the result of causing a drinking water spill on carpeting. In the state of Wisconsin sandwiches contaminated with listeria bacteria successfully triggered the pollution exclusion which was upheld by the appellate court in 2002. Since that time all losses involving bacteria would be subject to ISO pollution exclusion’s. I like this example because sandwiches triggering pollution exclusions are about as far away from hazardous waste and landfills as you can get.

The insurance coverage in-place evaluation process is much more effective at establishing a need for environmental insurance coverage than using loss or claims scenarios. This is because unless the scenario involves a direct competitor in the customer’s home town, insurance buyers tend to shrug off these examples as “that would never happen to me because of” whatever. There will always be a rationalization by the customer (that is not rational) as to why that claim scenario you just presented would never happen to them. If they are reading their own insurance policies the coverage gap is real to them and it’s not a hypothetical scenario.

After the customer understand the exclusions its ok to introduce some examples of uncovered losses in claims scenarios. We have a lot of them on the ARMR website as do some of the insurance companies who sell environmental insurance.

But it usually does not work to start the discussion about the need for environmental insurance with loss scenarios, insurance buyers almost always think they will be covered somehow because after all they are good people and would never pollute anything. That is another irrational behavior that is common with insurance buyers when it comes to environmental

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insurances, pollution exclusions do not have a “good people” exception.

It helps to utilize outside resources to establish an understanding about the effects of various pollution exclusions with the customer. Someone from the outside with the proper introduction as an “expert” can be viewed with more credibility by the customer than the producer. The credibility of the insurance coverage advice is a critical component in gaining a sale of an environmental insurance policy.

A lot of producers shun the introduction of outside resources for fear it shows weakness in the subject matter or worse weakness in the general topic of insurance. But unless a producer is a full time practitioner in environmental insurance with access to specialized training from journeymen with more than ten years of experience, every producer is going to be weak in the subject matter in relative terms. Without credible authority in the coverage gap message, the need for environmental insurance cannot be established and the odds of actually selling an environmental insurance policy are really bad, which I detail below. My advice is to utilize outside technical resources in the sales process as much as possible to accomplish these three things:

1. **Establish the need for environmental insurance**
2. **Solidify the resource supported production process**
3. **Minimize the chances of making a really bad coverage placement of environmental insurance. (In some sectors there is a 75% fundamental defect rate in the environmental insurance policies being sold for the last 15 years)**

How do you introduce the resource into the production process? If you have a prospect that needs CPL or mold coverage and you are using ARMR as

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your resource you can say to the customer “this is not a common form of insurance so we went to the folks that actually invented this coverage to help us out in getting the insurance you need”. That is actually a true statement; the current ARMR underwriter/producer team created the first CPL policy ever sold in 1986. We rolled out the first specialty mold coverage in September 2003. Introducing ARMR as a consultant/resource that invented the coverage solves two problems for the producer. The producer does not have to stick their neck out and discuss coverage issues they are unfamiliar with on a solo basis and the customer is much more likely to believe the “outside consultant” introduced by a trusted advisor, even if the producer is fully proficient in the topic.

A very effective way to discuss the effects of pollution exclusions is to set up a conference call between the customers with the specialist/resource. It is important for the producer to be in the customer’s office for the call in order to turn the pages on the insurance policies being discussed in the coverage evaluation. Prior to the call send the in place insurance policies to ARMR and we can walk both of you through the coverages of concern. Once introduced as the “experts who invented the insurance” it is easier for us to point out with credibility why environmental insurance is needed than it is for the producer to do so. The producer needs to overcome the potential that the customer is thinking during the entire coverage discussion “this person is just trying to sell me something”.

Once the need for environmental coverage is established with the customer, then all you need to make the sale is a conceptual solution to the acknowledged coverage gap.

In that meeting with the customer you need to be able to say “We can fill those coverage gaps in your insurance with an environmental insurance policy for around \$xxxx. What would you like to do? In our coverage evaluation conference calls we can ask that question as a natural outcome of the discussion. Where did the projected \$xxxx premium come from? ARMR had that figured out as a premium benchmark before the call stated. We write thousands of pollution

insurance policies we have a pretty good idea how much a pollution insurance policy is going to cost before we ever talk with an insurance underwriter.

You should avoid like the plague asking a unqualified customer if they would like some quotes for pollution insurance. The worst possible answer to the question is “yes I would like to see some quotes for pollution insurance, the more the better”. Here is the issue with obtaining quotes on first time buyers of pollution insurance, unless they are prequalified at a price point, the chances of selling any of those quotes after going through all the work of preparing a submission to get the quote is less than 1 in 10. Those are terrible odds, don’t take them.

You need to dramatically improve on the dismal industry average hit ratios in environmental insurance in order to achieve any success in selling this product line. When the insurance company underwriters or marketing folks come to your office promising environmental insurance quotes, do not drink that kool-aid. Selling environmental insurance policies has never been about getting quotes it’s all about fulfilling a need. If you don’t establish the need first you cannot close the sale of an environmental insurance policy at any price and it does not matter how many quotes you have.

After the coverage gap discussion either with you or with a “resource” as a facilitator, if the customer says “holy smokes I need to fix that gap ASAP” you have established the need and you have a sale at a predetermined price point. But you do not have a quote to bind coverage on. The potential to be in that position freaks out producers who are used to functioning in the traditional insurance production model. However as long as the expectations of the customer were established properly “we think you can fill these environmental coverage gaps with environmental insurance for around \$xxxx, what would you like to do?” you have time to get a submission put together in order to get a bindable quote on the table. If the resources who gave you that \$xxxx number are accurate you are very close to having a new business sale.

As unusual as having an order for an insurance policy without a quote is, it is actually the ideal situation to be in for the eventual and relatively quick sale of an environmental insurance policy. Having an order without a quote is the goal in resource supported environmental insurance production.

Obtaining Benchmark Premiums

If ARMR is your resource we will have provided you the fill in number as a benchmark premium before the conference call or any other time you need an estimated premium amount for a client . It takes us very little time to do this in most common classes of business.



Needed information obtain benchmark premium

1. For Contractors, all we need to know is what do they do, how big are they by gross revenue by their services mix and what is there previous loss picture on GL?
2. For Projects, what is it, how long will it take to complete, size. (Project policies are rarely the right choice for a contractor; always be ready to provide ARMR with the total gross revenues of the firm as well as the project information)
3. For our exclusive Property Environmental Risk Management (PERM) product line on clean commercial property, simply get us the property schedule from the property insurance policy showing location, size, occupancy, and type of construction, the current property premium including windstorm but not earth quake and the GL premium amount.
4. If you have tougher environmental loss exposures we will need to help you get full submission together, benchmarks usually do not work on these kinds of risks.



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When ARMR gives you a benchmark we will have considered which of our 25 markets with over 100 policy forms will be the best match for that customer.

We will also know that chosen market can get the placement done at the benchmark price we give you, assuming there are no surprises in the insurance application.

But be careful not to refer to a benchmark as a “quote”. We do not have a quote yet in this process, we do not even have a submission to the underwriter yet.

You need to call a benchmark a benchmark premium or estimated premium in your communications to the customer. It is also good to say that we had to make a lot of assumptions about no past losses or problems with preexisting pollution conditions to establish the premium benchmark. The pricing could change if the submission reveals unusual circumstances. Give yourself some wiggle room. 90% + of our benchmarks are right on the money but also leave some room for changes when we get surprises in insurance applications.



Increasing The Hit Ratio Is the Key To Profitability

When we gave you the benchmark ARMR knew which underwriter could meet the coverage needs and the price we put out there as a benchmark for your customer.

When you let us know that you have a known buyer of the conceptually proposed insurance coverage, we will send you the application for the exact insurance policy we benchmarked for you. This way you never have to go back and ask for a second application to be completed.

To speed things along at the underwriter's desk to actually obtain a bindable quote, we will advise the preselected underwriter when we send you the application that we already have an order on a submission for the XYZ Company and they should

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be expecting a submission soon. The underwriter will make a note that a full submission on a known buyer of their insurance policy is headed their way and that we need to go to the top of the pile for a bindable quote when the actual submission gets there.

It is common for us to have bindable quotes in less than 2 hours in this scenario.

Once we get the quote from the insurance company you will receive a full proposal showing the premiums, taxes and all of the policy forms.

Interestingly none of those items are needed to get the conceptual sales completed based on an established need for the coverage and a benchmarked environmental insurance solution.

The ARMR inverted production strategy produces hit ratios on submissions of 70% to 90%.

In contrast, underwriters run a hit ratio of less than 10% on submissions.

Environmental insurance underwriters have been getting 10% hit ratios on submissions (not quotes) for as long as I have been asking underwriters about hit ratios, about 30 years.

Submissions are time consuming for the brokers and customers. Not all insurance applications delivered to insurance buyers to complete actually turn into submissions. In fact many customers get turned off by an 8 page pollution insurance application that asks all sorts of irrelevant questions for what they do for a living. Throw into that mix a very high chance of starting with the wrong insurance application and having to get another one completed in order to bind a quote from a more desirable insurance company and it is easy to understand why so few good prospects actually bind environmental insurances. About 50% of the good prospects for environmental insurance burn out in the application phase.

Increase Production Efficiency

The producers using traditional sales techniques on environmental insurance also burn out with these typical results.

100 known prospects (not suspects)

50% will not complete the insurance application.

50 applications produce 50 to 200 submissions to underwriters depending on how many markets are approached by the producer.

We commonly see wholesalers approaching up to ten markets for quotes doing so is self-destructive.

Mystical underwriting guidelines usually eliminate ½ the potential carriers at this stage.

200 submissions will typically only produce 100 quote letters.

At a 1 in 10 hit ratio on 100 quotes but only 50 customers, only 5 of those quotes turn into orders, This makes the producer less than desirable from the underwriters perspective. Once labeled a “bucket shop” by the underwriter future quotes from the underwriters are not competitive and the downward spiral to ultimate failure for the producer is set into motion.

Poor hit ratios
= Bad subsequent quotes
= Poor production results

To get those quotes, how did the producer know which insurance application to give to the prospect to complete in the first place?

They didn't know and therefore they likely do not have the insurance application they need to bind coverage on those 5 accounts.

Another carriers 8 page insurance application that asks the mason how many PCB's they incinerate

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among other irrelevant questions will need to be completed to bind coverage.

Chances are at least one of those 5 interested prospects will never get around to completing the right application and therefore coverage will never be bound for that prospect.

At the end of the month's long process, out of 100 prospects the producer may write 4 accounts out of 200 submissions they supplied to underwriters.

Those numbers do not work for a producer, the producer is working hard by but not efficiently.

The ARMR sales strategy fixes the production efficiency problem.

We will benchmark each of 100 prospects usually within in minutes.

Realistically the producer should write 25 of those accounts the first time through if the ARMR needs assessment sales process is used.

Hit ratios can even run higher in our target classes of business, we run a 90% closing ratio on new business in one of our programs for restoration contracting firms.

Another 25% of those 100 prospects will bind coverage within one renewal cycle.

The bottom line is a producer is going to sell about 50% of the prospects from the current accounts in the office within 2 years utilizing the ARMR production model, versus 4% of those accounts utilizing the traditional apply/quote production methodology.



BEST PROSPECTS

Who are the best prospects for an environmental insurance policy? Of course the obvious “environmental” accounts are prospects. But they are not the best new business prospects.

Going into 2015 here are my top prospect picks

1. Any stakeholder who can be associated with a water loss inside a building. This includes the owners of commercial real estate. Water leads to mold and bacteria growth that used to be insured and now is excluded or severely sublimited in property and liability insurance policies. Legionnaire’s disease claims are now excluded for example. ARMR has customized insurance for these risks that is the best in the world. Plus most of the environmental insurance policies sold to insure these risks are fundamentally flawed in the coverage. It’s like shooting fish in a barrel.
2. 90% of fire and water restoration firms are sold materially defective General Liability insurance policies. There are 15,000 prospects out there with fundamental coverage defects in their GL policies because of fungi/bacteria exclusions.
3. Although included as a stakeholder in #1 above plumbers, roofers and sprinkler contractors stand out as firms in dire need of environmental coverage because of fungi/bacteria exclusions. Almost all are ignorantly and needlessly uninsured.
4. Always focus on the current customers of the agency/brokerage for two important reasons:
 - You can sell a new product line to an old customer, you can sell a new customer an old product line, but you cannot sell a new product line to a new customer. That an old adage but it applies perfectly to pollution insurance sales. You are 5 times more likely to close a pollution insurance sale for a first time buyer (the best prospect) on an existing customer than on a new prospect.
 - You need to close the door on potential errors and omissions claims if a current client finds themselves ignorantly uninsured for an environmental loss that could have been insured and you never told them about the coverage gaps or potential coverage solutions utilizing environmental insurance. Following the sales strategy discussed here of, inform/educate, offer and recommend the purchase of environmental insurance should create a bullet proof defense for failing to offer environmental coverage in the face of a uncovered pollution loss.

In over 30 years of my observations any producer pursuing environmental insurance production full time by utilizing the traditional insurance production model of apply, quote, propose, bind, on environmental insurance policies has lost their job as a producer within 2 years. I have even seen the managers who thought this was a good new business production strategy lose their jobs due to the failure to generate sales. The ARMR inverted production method produces superior sales results and profits because the hit ratio is so high on accounts that actually go into the application phase.

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The ARMR production process for environmental insurance is designed to integrate the special resources of the ARMR organization into the new business production function of insurance brokerage firms.

Incidentally, never sell a pollution insurance policy without knowledge that the policy being proposed is fit for the purpose for which it is intended. Always include the policy form with all the endorsements in the proposal to the insured. There are no accepted industry standards for the coverages offered in environmental insurance policies.

Even policies with the same name like Contractors Pollution Liability for example can vary a great deal in their coverage. Environmental insurance is the only line of coverage that I am aware of where it is possible to sell a insurance policy that excludes everything the customer does for a living by default. For example a fatal coverage glitch can be created in an environmental insurance policy by references to an environmental law to define part of the coverage. That same policy that does not work at all for one type of contractor might be great for another type of contractor. With over 140 different environmental insurance policy forms to choose from the need for specialist resources in the sales process becomes apparent.

Why would an insurance underwriter sell an insurance policy that excludes everything a customer does for a living? I do not know a single underwriter that would intentionally do this and I know hundreds of environmental insurance underwriters. The point is the underwriter may not know the coverage nuances and glitches that are specific to your client are either. After all you have not had many educational opportunities to become proficient in environmental insurance, where would the underwriters learn the material? You would be surprised to learn of the dearth of training venues out there for environmental insurance underwriters. They know their product lines but are not necessarily experts in the subject matter of environmental risks or general insurance. That said I have great respect for a handful of environmental insurance underwriters who are true subject matter



experts in both areas.

One of the major value propositions of ARMR and a handful of firms like ARMR is the insurance policies coming out of the specialized wholesale brokerage operation's should be fit for the purpose for which they are intended. That said I have observed with amusement one specialty environmental wholesale broker fail to meet the insurance specifications of one of our risk management consulting services customers for going on five years now. This wholesale broker advertises nationally with four color glossy print ads in insurance trade journals their prowess in this coverage line. Unfortunately the retail insurance producers selling those defective insurance policies have been set up for a professional errors and omissions liability hit by certifying coverage on the certificate of insurance that is not in the insurance policies the producers sold to the thousands of firms that work for my client. All it will take to set an E&O claim against an insurance agent into motion is a denied loss that would have been covered by the insurance coverage as specified and certified by the insurance agent and a motivated plaintiff. A wholesaler is not responsible for a coverage glitch the retailer should have figured out in the first place. But in this case neither the retailers nor the wholesaler are paying attention to the specific coverage needs of I suspect hundreds of customers. The morale to the story is just because someone says they are a specialist in environmental insurance does not mean they know anything more about the subject than you do. Be sure to check the qualifications of your vendors if you are relying on them as resources. Insurance product access has nothing to do with the qualifications needed to be a resource to you in environmental insurance.

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Educational Opportunities In Environmental Insurance

In addition to great market access and superior designed insurance products to support the producers in selling these insurance products we offer these educational opportunities in ARMR:

- 45 minute web cast, New Business Production Opportunities With Modern Environmental Insurance, this is an eye opener and usually results in new business sales. Set up for individual offices, the open dialog about the firm's accounts in a closed setting usually produces new business opportunities.
- 4 hour highly rated CE class on Pollution Exclusions and Environmental Insurance which is taught in local venues. Attendees leave with a working knowledge of the subject matter, new business is always achieved from the knowledge gained in the class. This is a necessary class to shut the door on professional liability claims for unintentionally uninsured environmental losses within a brokerage firm's book of business. If you have never heard of Category 3 Water you needed this class five years ago. There is a \$3,000 charge for the course with a money back guarantee of if the office does not produce \$3,000 of commission income within 18 months ARMR will refund all of the \$3,000. It is common to achieve the \$3,000 in new business goal within an office just a few weeks after the class.
- 3 day executive education class on Environmental Risks and Insurance in the ARMR training center. This is an advance course for insurance producers. Here senior experts cover the legal basis for environmental liability, environmental insurance policy forms, underwriting, case studies including production strategies. Most P&C brokerage firms could use one producer on staff up to this level of knowledge in the subject matter.

If your office would like to partake in any of these educational programs please contact Brian Hansen our marketing coordinator at angela@armr.net (608) 824-3340

Conclusion

If hit ratios are maintained environmental insurance can be a great new business generator for an insurance agency/brokerage.

Utilizing specialized knowledge resources to facilitate a needs based production strategy is the key to exceptional hit ratios in the environmental insurance product line.

Access to the best insurance products is important, but no insurance product alone can replace the ARMR resource supported sales process for production efficiency. Insurance quotes actually get in the way of selling an environmental insurance policy.

The more quotes you have the worse your chances of success will be lower because it takes attention away from solving the coverage gap problem. If you are discussing premiums and deductibles with the customer for very long, you are well on your way to a 1 in 10 hit ratio.

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