INTRODUCTION TO MULTILINING AND THE SELLING/PLANNING PROCESS

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Learning Objectives

An understanding of the material in this chapter should enable you to

1. Describe the value of multilining for the possible stakeholders in a financial product sale.
2. Outline the eight steps of the selling/planning process.
3. Explain how to deliver excellent service and build relationships.
4. Describe the various aspects of compliance, ethics, and professionalism as they relate to being a financial services professional.

This chapter explores the objectives and benefits of cross-selling other products to existing clients. The key to effective cross-selling is the use of the selling/planning process (to be introduced in this chapter) in every client interaction, beginning with the initial sale. By implementing the selling/planning process, you will position yourself as a professional who has the best interest of his or her clients in mind rather than the stereotypical salesperson.

client

customer

Note: the terms *client* and *customer* are used interchangeably throughout. There are some important differences that deserve a mention. A *customer* is someone who purchases a product, whereas the term *client* characterizes the type of relationship you aim to build with your customers: a mutually beneficial relationship in which the customer values your products and advice such that he or she buys multiple products from you and refers you to others.

prospect

In addition, the term *prospect* will be used sometimes to denote a person who has not yet purchased a particular product from the agent. For example, an auto policyholder is a customer and may be a prospect for life insurance.

THE VALUE OF MULTILINING

stakeholders

Often multilining is evaluated from the perspective of what it means to an agent's bottom line, which we will discuss. But, using a paradigm from the world of ethics, let's look at the value of cross-selling from the point of view of the most prominent *stakeholders* in an insurance and financial services product purchase, namely: the client, partners and dependents of the client, the agent, the company, and society.

The Stakeholders in a Financial Product Sale

Think of examining stakeholders as analyzing the ripple effect that a client's purchase of an insurance or financial product will have on the most important people and goals in that client's life. Having insight into the more prominent stakeholders can remind you of the value of your products and services as well as help your clients to conceptualize the effect their insurance and financial decisions can have on those around them.

The Client

The first, and most obvious, stakeholder is the client. When a client purchases an affordable and suitable financial product, he or she benefits. Depending on the product, the benefits could be both financial and emotional. Purchasing a 529 plan with an appropriate portfolio that reflects the client's risk tolerance will not only provide a tax-free source for a child's higher education; it gives the parents a sense of satisfaction that they are meeting their obligations to provide for their children's future according to their means.

Certainly there are people who want to find the “best deal” and are willing to have insurance and financial products with several different agents and companies. But there are also many who would rather deal with fewer agents, preferably one, and especially want to work with agents whom they already trust. This is why one of the keys to multilining your book of business is providing exceptional service. With the fast pace of life, these clients are looking for ways to simplify and consolidate their lives. Thus, they may be willing to sacrifice a higher price for greater convenience, and even more so if the agent is trustworthy and knowledgeable.

A Lesson from My Mechanic
Andy is my mechanic. He has been my mechanic for the past 5 years. He has done a lot of work on my cars, including the replacement of part of the tail pipe assembly on my Honda. It cost me $233. A local muffler shop may have been cheaper, but I went to Andy. Why? Because I value the quality of his past workmanship and I trust him. He has proven himself to be honest and helpful. For example, he warned me when he inspected my car 6 months earlier that I would probably need to replace this part. How many of your clients feel the same way about you? If you have long-term clients with whom you have a good rapport, chances are you have clients who trust you. In fact, many multiline agents could call their longtime auto and homeowners insurance policyholders and tell them they needed life insurance and they would only ask one question: "When do you want me to come in to sign the application?"

Partners and Dependents

Another class of stakeholders are those intentionally and directly affected by the client's decision to purchase or not purchase an insurance or financial product. This includes business partners, employees, additional insureds, beneficiaries, and financially dependent persons. In the example mentioned earlier, the child for whom the 529 plan has been purchased is a stakeholder. An education generally means greater opportunities and financial earning power, which, if you think in terms of future generations, could potentially affect the financial well being of all future offspring.

This class of stakeholder is often the key to motivating clients to purchase many of the products and services they need. Consider life insurance for a moment. There is a well-worn saying, "Life insurance isn't for those who die—it's for those who live." It follows that identifying who, besides the client, is or could be affected by the purchase of a product will help clients determine the financial and emotional effects created by insurable risks upon loved ones, business partners, and employees. Ultimately, such a conversation will cause the client to evaluate his or her sense of responsibility to provide for and protect them.

In fact, an entire selling system has been created by Dr. Csaba Sziklai (see advocacysystem.com for more information) around this theme of representing the stakeholders who are not represented at your meeting with the client. The unrepresented have no say in the final decision but are nonetheless affected by it, and most times quite profoundly. They are unrepresented unless someone at the meeting promotes their concerns—you. As one financial services representative put it, "If Joe Businessowner were to die tonight, his family would have financial needs, as well as his business partners and employees. Who will be their advocate and present their cause to Joe Businessowner? I will."

In applying the concept of stakeholders, make sure you take into account potential differences in your clients. Some clients, usually women, intuitively relate to the needs of others. They tend to volunteer at charitable and community organizations and demonstrate a concern for causes, such as the environment, cancer, poverty and so on. A discussion surrounding their responsibility to partners and dependents will be easier. For others, the concern for others is latent and requires a specific discussion that helps them envision how a product can affect the family's financial and emotional well being.

A perfect example is long-term care. Many clients only focus on the effect long-term care will have on their income and assets. They and their children may find it acceptable to spend down assets to pay for care. But in focusing on the financial aspects of the long-term care need, they fail to recognize the potential emotional and physical wear and tear on the rest of the family. It takes an objective third party to cause them to consider that if one child has to take care of mom or dad, he or (most likely) she may resent her siblings who only may help financially. They need someone to point out an expert, such as Dr. David Muller, who states:

> Even within the pool of success stories, it [providing long-term care for a loved one] tears people apart. It tears families apart. We've cared for lots of people whose children have divorced or separated temporarily because of the need to take care of an aging mother or father and the impact on their kids and the impact on their jobs. So the stress comes from every conceivable direction.[1]

Shouldn't the client weigh the emotional, as well as financial, aspects of caregiving for the sake of his or her family?

Agents have the opportunity to play a pivotal role in creating awareness of such issues that clients may blissfully ignore at their own peril. They can articulate the unspoken needs of family members, business partners, and employees that a client may otherwise not consider.

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1. PBS, Interviews David Muller, M.D., Frontline: Living Old, http://www.pbs.org/wgbh/pages/frontline/livingold/interviews/muller.html (accessed February 11, 2009)

The Agent

Of course, the agent is a stakeholder as well, and should understand how cross-selling will affect him or her. (See *Appendix A: Analyzing the Effect of Multilining* for a method to quantify the effects of multilining for your agency.) Undoubtedly it will mean more education, more work, and perhaps increasing office staff either now or at some point in the future. Thus, the agent's expenses and need for education will increase.

But on the other hand, multilining has a few financial benefits that should be evaluated carefully. First, and most obvious, it provides the agent with additional income. Commissions from life, long-term care, and disability insurance, and related bonuses for writing them can provide a healthy supplement to the commissions already received for servicing property and liability products.

Consider also that with each service and claim transaction executed with excellence, the agent is building a reputation and cultivating a relationship with his or her client base. All the while, the agent is in a position to gather important information such as family status, income and assets, risk tolerance, attitude toward insurance, and other valuable insights. Most importantly, by delivering quality service, trust is earned. Definitely, the agent can leverage the relationship and client information to increase property and liability coverages and sell a personal umbrella liability policy. But the agent could also leverage them just as easily to meet other insurance and financial needs that clients can afford. Clients are going to buy these products—why not from the agent? The agent could be leaving money on the table.

One way to think about this concept is to put a price tag on each marketing activity, including advertising, networking, relationship building activities (a round of golf), interviews, and so forth. These are sunk costs, specifically . They are incurred for every new monoline (auto or homeowners) household created. Thus, the agent's objective should be to maximize these costs by turning a greater profit per dollar of client acquisition cost. What is the relative cost of adding another product versus the additional revenue? Granted, the renewal commissions on property and casualty products usually are higher than the servicing compensation for other types of insurance products. But property and liability products are much more service-intensive. Changes to property and liability products and related claims activity (especially auto insurance) are much more frequent than for other insurance products.

Acres of Diamonds[2]
Russell H. Conwell was the founder and first president of Temple University (Philadelphia, Pennsylvania). Conwell was famous for a speech he gave many times entitled, "Acres of Diamonds." In his speech, Conwell told the story of a Persian farmer whose desire for diamonds causes him to sell his farm and leave his family in search of a diamond mine. His search ends in failure and he is never seen again. Ironically, the new owner of the farm discovers that it sits atop of a very large diamond mine. Tragically, instead of searching for a mine of diamonds, the farmer would have been better off staying at home and working the land he already owned. How about you? Are you in sole pursuit of new clients while valuable gems lay buried within your book of business?

Additionally, multilining a book of business turns service and claims transactions into either information gathering or pivoting opportunities—a topic we will cover later in this book. In a nutshell, if the agent is actively marketing other products, every contact with clients is an opportunity to learn more about their situation, attitudes toward insurance and financial products, and even personal financial information—intelligence that can be used to first determine whether or not a particular client is a qualified prospect (someone who needs, wants, can afford, is suitable, and is approachable) for another type of product you sell. Many life-only agents desire the client base, the relationships, and the information the multiline agent has. A multiline agent could be sitting on acres of diamonds!

Furthermore, selling other insurance and financial products diversifies an agent's sources of income. A multiline agent has many more opportunities to market than a monoline agent. Such diversification can lessen the effect of fluctuations in the property and liability market on the agent's bottom line. For example, a multiline agent's auto policy may not be competitive for a while when a competitor lowers its rates to capture market share. Or, a multiline agent may write homeowners insurance in areas where hurricanes are commonplace and may be restricted in how many new homes that can be written. In these situations, the multiline agent has other products to sell to stabilize and even grow profits.

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2. Wikipedia contributors, "Russell Conwell," Wikipedia, The Free Encyclopedia, http://en.wikipedia.org/w/index.php?title=Russell_Conwell&oldid=190127640 (accessed March 7, 2008).

As discussed earlier, the service compensation for other products is typically at a much lower level than those of property and liability policies. Many agents may be tempted to ignore actively marketing these policies because of the lower renewals. However, it is a commonly accepted fact that client retention is directly correlated with the number of products a client has purchased with an agent. Thus, while the renewal commissions for other lines may pale in comparison, often they act as insulators, protecting clients with property and liability products from defecting.

The reason for this effect is twofold. First, clients purchase multiple products with an agent because they trust the agent and/or they value the convenience of having fewer agents to contact for all of their insurance needs. Second, many clients are reluctant to transfer an auto or homeowners policy to a new insurer if the difference in rates is slight (which is defined differently by each individual client). Most companies have capitalized on this reluctance by providing a discount for customers with both auto and homeowners policies, for example. Thus, a client will only switch if the combined rate is lower. It should be noted that replacing some insurance products, such as whole life and long-term care insurance, actually would hurt the client financially. As a result, it would be financially inadvisable to transfer all of one's products to another insurer due to the availability of lower auto and/or homeowner rates. Thus, clients who do not want the hassle of dealing with multiple agents and companies will have incentive to remain with the current agent and company. Even if clients defect, most likely you will retain products such as whole life and long-term care insurance. You retain a foothold in that household to maintain contact and win them back when the tides change. Consider this fact in light of the growing number of Americans who register with the national do-not-call registry. If a client leaves and his or her phone number is on the do-not-call registry, legally you may contact the client in the future about property and liability because these additional products keep your proverbial foot in the door.

Finally, multilining your book of business means a steady source of qualified prospects for other insurance and financial products you sell. Your book of business represents people who know and trust you and who typically need more coverage. Furthermore, satisfied clients are also a good source for referrals. If you cultivate the relationships in your client base, you will find selling opportunities will abound both within and outside your book of business.

The Company

The company you represent is a stakeholder, receiving the same benefits you experience if you multiline your book of business. The more you sell, the greater profit the company makes. In addition, higher retention for you means higher retention for the company. As it does for you, multilining also means a diversification of income streams for the company, providing ballast if one line of business is experiencing unfavorable revenues due to poor claims experience or uncompetitive rates.

Furthermore, consider the old saying, “Don't bite the hand that feeds you.” That is, remember that profit at the expense of the company may not only be unethical, but it will adversely affect the company's profitability and reputation. Thus, following field underwriting guidelines and procedures for all your product lines is imperative. Sure, classifying a life or health risk incorrectly will not sink the company, but consider the cumulative effect if everyone conducted business in the same way.

Likewise, remember that your actions will reflect on the company. When an agent makes headlines, “XYZ Insurance Agent Guilty of Selling Life Insurance as a Retirement Plan,” it has an effect on how the company is perceived. Enough headlines like that and the message the public hears is that unethical behavior is endemic to XYZ Insurance—and perhaps the industry.

Society

Finally, society in general is a stakeholder in the sale of a suitable insurance or financial product. Although often overlooked, the benefits to society are worth mentioning. By helping a client and his or her partners and/or dependents, insurance and financial products prevent a greater reliance on government assistance. For example, insurance and financial products can:

- pay for long-term care and supplement Medicare, reducing or eliminating dependence on Medicaid
- replace income lost due to disability, retirement, or death of a wage earner, helping families avoid welfare benefits and reduce the impact of any potential cuts in Social Security benefits due to the projected shortfall in the coming years
- pay for higher education, reducing use of government-subsidized grants and student loans

Ethical Considerations of Cross-Selling

Laws are, for the most part, encoded ethics. However, not all ethical behavior is prescribed by law; much of ethics lies outside the realm of law. Obeying the law is about avoiding punishment. Being ethical is about doing the right thing. For example, a bystander generally has no legal obligation to intervene if an unarmed youth is taking advantage of a frail, elderly person. However, the bystander's lack of action would be considered unethical by most people.

Likewise, an agent generally is legally liable for not procuring coverages that an insured requests, but not legally liable to offer a coverage to an insured.[3] Thus, agents who do not cross-sell are not legally liable to do so. (This could change. For one opinion on this matter, see the article, “Financial Planners Risk Lawsuits for Failing to Recommend Realistic Plans for Long-Term Care,” by Harley Gordon, J.D. in the August 2005 edition of *The Journal of Financial Planning*.) However, consider Canon 1 of the American Institute for CPCU Code of Professional Ethics, which states, “CPCUs should endeavor at all times to place the public interest above their own.”[4] Similarly, the CFP® Code of Ethics and Professional Responsibility Rule 202 states, “A financial planning practitioner shall act in the interest of the client.”[5] According to these codes, is the standard of ethical behavior simply, “Do no harm?” Or, could such ethical codes and professional standards imply an ethical imperative to offer clients the opportunity to learn about products and services that they need and can afford, such as disability income and life insurance?

EXAMPLE

Peggy’s father, Harold, is in his late 60’s. He has his automobile and homeowners insurance with a multiline agent who is licensed to sell all of his company’s products, including long-term care insurance, a product his company started marketing 10 years ago. Harold first placed business with this agent 30 years ago and thus, he and the agent have a great rapport. In fact, they are golfing buddies.

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3. Scott Glovsky, “Liability of Insurance Agents and Brokers for Under-Insuring Residential Properties.” United Policyholders, http://www.unitedpolicyholders.org/pdfs/underinsurance_article.pdf (accessed March 10, 2008).
4. American Institute for CPCU, “American Institute CPCU Code of Professional Ethics.” AICPCU, ftp://blackboard.aicpcu.org/dino/canons.pdf (accessed February 11, 2009).
5. Certified Financial Planner Board of Standards, Inc., “Part II Rules,” CFP.net, http://www.cfp.net/learn/ethicsrules.asp (accessed February 11, 2009).

Late one Sunday afternoon, Peggy gets a call from her mother. Harold has had a stroke, which requires extensive rehabilitation and results in permanent impairment of his left side. Harold does not have long-term care insurance. In talking with Harold's agent, Peggy finds out that the agent never even offered Harold the product—one he could have easily afforded. Although the agent is not legally liable, did he have an ethical obligation to at least approach Harold for an appointment to discuss LTC?

The point here is not to guilt you into cross-selling, but to use ethics to raise a question that needs to be asked of all multiline agents: Do you understand the tremendous role you can play in helping clients accumulate and protect the finances needed to achieve the goals and dreams they have for themselves and their families? Few professions have the opportunity you have to affect clients, their families and businesses, and society. Multiline agents can at the same time prosper financially.

THE SELLING/PLANNING PROCESS

selling/planning process

The *selling/planning process* is the process financial professionals use to help prospects and clients identify and address their financial needs. The words "selling" and "planning" are used in order to emphasize the fact that successful agents not only excel at motivating and persuading (selling); they also know how to analyze a client's situation to develop appropriate recommendations (planning).

What follows here is an overview of the value of a "planning" approach to marketing insurance products. Then, the text outlines the selling/planning process as it applies generally to selling all types of financial and insurance products. So do not be alarmed when we mention the need to gather documents such as a Social Security statement. Of course, you will not ask for a Social Security statement when you sell property and liability insurance, but when you sell life insurance, a Social Security statement is quite appropriate.

The Value of a Planning Approach

Most state laws require a person to have auto insurance, and mortgage lenders require homeowners to own homeowners insurance. For such mandated coverages, the selling process traditionally consisted of a large amount of advertising and marketing, setting some appointments, and then taking orders. As it was, insurance agents were the sole distribution channel for property and liability insurance. But the world has changed. Alternate distribution channels have been introduced with some success. According to a comScore survey, 2.8 million auto insurance policies were purchased online in 2009, up over 20 percent from the previous year.[6] Not surprisingly, two companies that offer coverage via the telephone and the Internet ranked in the top 5 auto insurance writers for 2009, comprising nearly 15 percent of the market share and writing over $27 million in premiums between them.[7] This undoubtedly reflects the growing number of consumers—especially younger ones—who are comfortable transacting business over the Internet.

The success of these companies has further driven the perception that buying property and liability insurance is like buying milk. There is no difference from one brand to another. Consequently, customers buy based on price, which ultimately leads to lower customer retention. This may be why one of the aforementioned direct writers of auto insurance is adding agents as a distribution channel in some locations.[8] (The other company has historically used independent agents as a distribution channel.)

In addition to new distribution channels within the insurance industry, insurance agents are facing new competitors from outside the industry in banks. Up until 1999, the Glass-Steagall Act generally prohibited banks from offering insurance services. That all changed with the passage of The Financial Modernization Act of 1999, commonly referred to as the Graham-Leach-Bliley Act. Although insurance agents' immediate fears of being overwhelmed by an onslaught of banks entering the insurance arena has not materialized, to ignore the current and future presence of banks in the insurance market could be dangerous.

Currently, banks have entered into the insurance market by acquiring agencies. The efficacy of such an approach has been greatly hindered by a clash in cultures. The bank culture traditionally has been transactional, bureaucratic, and fairly stable, whereas agency culture is more relational, flexible, and fairly volatile. Such problems have caused several large banks to exit the market—at least for now. However, it is more than likely that banks will continue to look for ways to make inroads into the insurance market,

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6. Jeff Yates, "Highlights of comScores 2010 Online Auto Insurance Report," Personal Lines Growth Alliance, personallinesgrowth.org/highlights-of-comscores (accessed June 28, 2010).
7. "U.S. Total Auto—2009 Direct Premiums Written," *Best Review*, August 2010, 92.
8. Geico.com, "Own an Agency," careers.geico.com/own_an_agency (accessed June 28, 2010).

mainly because they covet the wallet of the mass affluent,[9] the ranks of whom some of your best clients may one day join. Whether or not this invasion will spill over to the broader market remains to be seen, but it is certainly an issue to watch and weigh.

What's Your Value Proposition?

Can you clearly define what value you and your company provide customers? What tangible results do you provide that make you a better choice than 1-800 AUTO or even the other agent down the street, especially if they are cheaper?

Put yourself in your customer's shoes. You have two options for obtaining product X, which appears to be undifferentiated from vendor to vendor. Vendor A is selling product X for $2,000, Vendor B wants $2,200. You would only buy from Vendor B if she can convince you that she is offering you something you cannot obtain from Vendor A. If she does not communicate it to you, or if her value proposition is not worth the extra $200, you would buy from Vendor A.

Your purported character (integrity, honesty, and so forth) will not differentiate you to someone who does not know you very well. "Quality service" will not cause you to stand out unless you can articulate specifically what you do and how it benefits your clients. "Expertise" is also too generic. For example, if an agent says, "I have 18 years experience selling auto insurance and have helped thousands of clients," this statement does not tell *how* the agent helps clients. What does he do that a competitor cannot at a lower price? A value proposition should communicate what you can do to deliver relevant benefits. Start by identifying the needs you meet and ways you can meet them uniquely. Are there unique personal traits, expertise, skills, and so on (or combinations thereof) that you can include in the delivery of insurance products and services that people would value?

Once you have identified what your value is, turn it into a concise statement that clearly communicates the tangible benefits you will provide your customers. For example: "Perhaps you are feeling 'insurance poor.' So many needs—so little money. I am a multiline insurance agent who will teach you the ABCs of protecting your income and assets from the risks we face every day. Drawing upon my 10 years as a corporate trainer, I teach my clients how to identify common threats to their financial security and put plans in place to minimize their impact."

Remember, if agents cannot clearly communicate why prospects should conduct business with them, customers will continue buying primarily on price. This is a distinct advantage for those companies who can operate with lower overhead.

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9. Laura Tara LaCapra, Banks Try to Woo 'Mass Affluent,'" TheStreet.com, 2008, http://www.thestreet.com/story/10422720/1/banks-try-to-woo-mass-affluent.html (accessed February 19, 2009).

How do these two trends affect the way agents should conduct business? Although the popularity of direct sales may have stabilized, it is large enough that agents should respond to it. Consider, again, the fact that future generations will be more apt than previous ones to use the Internet for purchases and that older generations are increasingly going online at least for information and research. Thus, the danger persists that if future prospects approach property and liability insurance purchases like buying milk or eggs, then their decision will be based mainly on price, giving an edge to nonagency distribution channels.

Furthermore, banks selling insurance products are motivated by the goal of optimizing wallet share, or revenue per client household—a concept we have already touched on. To do this, banks are aiming to tap into the consumer's preference for convenience. Think of it as the Wal-Mart Supercenter model: buy your groceries, basic hardware, clothes, electronics, and more all during one stop. Mutliline agents have the insurance products and, for many, the financial products to compete with banks for the convenience market segment, with the hope that you convert the members of this segment to value your expertise in the products you sell.

The bottom line here is that the order-taking model of providing insurance services can be implemented more profitably with the Internet and 1-800 numbers. Consequently, insurers using these strategies will be very successful with price-shopping customers. But many customers, young and old, still value the guidance of someone they trust. How do they know they can trust a financial professional? The customer or someone the customer trusts must have a good relationship with the financial professional. As noted, banks are struggling with advice-seeking customers because banking, as it stands today, is a transactional experience for customers and does not readily cultivate such relationships. That means that multiline agents have an opportunity to firmly establish themselves with the advice-seeking consumer if they offer personalized education and guidance in regard to the customer's financial and insurance needs.

What Is the Message Here?

Here is some food for thought about a situation you encounter daily. A prospect contacts your office and asks for an auto quote. He says he can give you all of the coverages from his current policy. Do you give him a quote? What is the underlying message you are sending about auto insurance?

Obviously, if you do not give him the quote, you risk the chance of losing the opportunity for the sale. But what are the implications of giving him the quote? Here a few possibilities:

- Buying auto (homeowners) insurance is strictly a matter of price.
- Auto (homeowners) is a purchase for which you do not need any advice.
- How you are treated if there are claims does not matter.
- The service a local agent can provide is easily replaced by a dot-com or 1-800 number.
- Frankly, an agent adds no real value to the auto (homeowners) insurance equation.

How can you resolve this dilemma? How will you respond? You have one minute to communicate your value. What will you say?

Personalized education and guidance can only result from a proper understanding and assessment of the customer's situation. Like a physician, the agent must diagnose, which requires gathering information by asking insightful questions. When financial needs are uncovered, the agent often must point them out and then educate the customer about the potential consequences or missed opportunities of not taking action. The agent also will typically need to help the customer quantify and prioritize his or her needs. Once the customer's needs are identified and prioritized, the agent must prescribe clear and specific action steps that the customer can take to improve his or her situation. Financial professionals from financial planners to insurance agents have found that the best way to create such an experience for each customer is to use the financial planning process.

Although there are many versions of the financial planning process, they typically include steps that mirror the following:

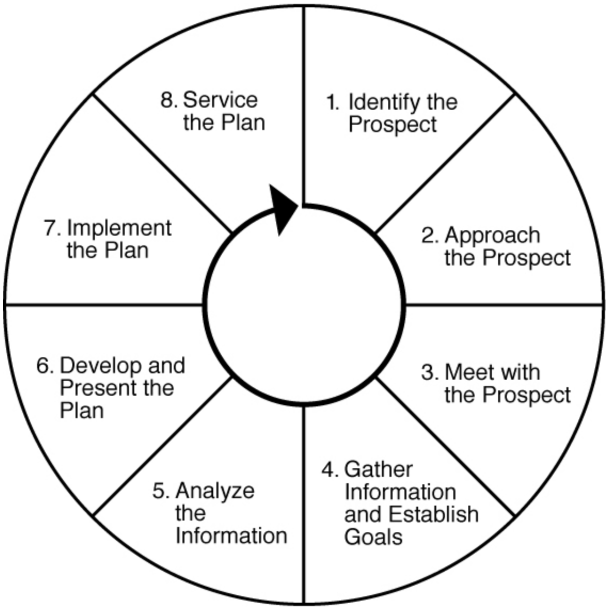
1. Meet with the client (or customer).
2. Gather information and establish goals.
3. Analyze the information.
4. Develop and present the plan.
5. Implement the plan.
6. Service the plan.

The selling/planning process used in the discussion that follow adds two steps to the beginning of the financial planning process to reflect the insurance agent's need to identify prospects and approach them for an appointment. In total, the selling/planning process has 8 steps.

The 8-Step Selling/Planning Process

The 8-step selling/planning process (see the graphic depiction) outlines the main steps involved in completing a financial product sale. Only the level of detail will vary based on the product or the complexity of the client's financial situation. The selling/planning process can be applied to the initial auto and/or homeowners insurance sale as well as to the cross-selling of other insurance and financial products.

The 8–Step Selling/Planning Process



1. Identify the Prospect

qualified prospects

Effective selling and planning begins with identifying *qualified prospects:* people who need and want your products and services, can afford them, are suitable for them, and can be approached by you on a favorable basis. The target marketing process is a proven and effective method for completing this step. It involves the following:

- segmenting the general market (and your book of business) into market segments, which are groups of people whose members have common financial needs correlated to common characteristics, the combination of which distinguishes them from members of other such groups

- identifying viable ways to communicate and obtain access to these market segments
- creating awareness of who you are and the products and services you offer in ways that reflect each group's common financial needs and characteristics (at least as a starting point)
- implementing prospecting methods (referrals, centers of influence, direct mail, and so on) for gaining access to individual prospects and their contact information

The current federal and state do-not-call laws restricting telemarketers has changed the landscape of prospecting. Some lament that these laws will hurt the financial services industry. But the change is perhaps good news for agents who use prospecting techniques that generate prospects who already have a favorable view of the agent, such as referrals and seminars. It is even more advantageous to multiline agents who have an entire book of auto and homeowners policyholders to contact for other product needs.

Step 1 of the selling/planning process may vary with the product or service being marketed. Many insurance buyers take the initiative in seeking out a source of coverage. The agent's challenge is to be a source that the agent's target prospects will find. Once these prospects become auto or homeowners insurance policyholders, further cross-selling attempts can often succeed.

People usually are not compelled by laws or lenders to purchase other individual insurance and financial products, such as disability income insurance, life insurance, annuities, and long-term care insurance. Consequently, the agent must take the initiative to identify prospects for these coverages in an existing client base or through prospecting activities.

2. Approach the Prospect

There is only one objective to this step: to set the appointment. The approach may be done via the telephone, face-to-face, or e-mail. When using a telephone approach, you will need to adhere to the federal and state do-not-call laws that apply.

3. Meet with the Prospect

This is the step in which you establish rapport, explain your business purpose, ask some thought-provoking questions, and listen, listen, and listen. The importance of listening cannot be overstated; it is essential when building any relationship. You need to earn the prospect's trust and obtain his or her agreement to gather pertinent information about him or her. In this step, you will do the following:

- Build rapport.
- Communicate your value proposition—a compelling reason why customers should conduct business with you expressed in terms of tangible results you commit to delivering.
- Explain what you do and how you do it.
- Ask questions to identify the prospect's goals, needs and problems, priorities, and attitudes.
- Motivate the prospect to take action to meet those needs, achieve those goals, and solve those problems.
- Demonstrate, in general terms, how you can help the prospect.
- Obtain agreement to proceed to the information-gathering step.

Furthermore, if this prospect is not yet a customer, he or she is determining whether or not to do business with you. Likewise, you should gather information to assess whether or not to do business with the prospect. In other words, you need to qualify the prospect. Does the prospect have a need for your products and services? More important, is the prospect motivated to meet that need? Can the prospect afford the necessary products and services? Is he or she suitable for the product?

4. Gather Information and Establish Goals

It is critical to gather detailed, relevant information about the prospect's personal and financial situation. Your objective is to collect sufficient information to make suitable and sound recommendations to the prospect. Use an effective and compliant fact finder designed for this purpose.

To be thorough, give prospects a list of financial documents to bring with them to the interview such as a will, budget, financial position statement, cash flow statement, current insurance policies, most recent Social Security statement, mutual fund account statements, and so on. You need to learn as much as you can about the prospect's overall financial situation. Of course, the type of financial documents requested will depend on the product being considered.

Before you leave this step of the process, confirm your understanding of the prospect's goals and priorities. Also establish agreement on any applicable planning assumptions (interest rates, inflation rates, investment return rates, risk tolerance, and so on). Finally, obtain a dollar commitment (when applicable) so you will know how much money is available to implement a plan. Your recommendations must be based on the prospect's ability to pay or they will not be implemented.

The key skills in the fact-finding process are as follows:

- *questioning.* Ask the appropriate closed- and open-ended questions that will give you an overall sense of the prospect's current financial situation, goals, values, and needs. Ask confirming questions to clarify.
- *listening.* Actively listen, rephrase, and reflect to ensure that you and the prospect are on the same page.
- *taking notes.* Jot down assumptions, goals, needs, priorities, and feelings.
- *summarizing.* Review what the prospect has told you, and confirm that you have clearly understood him or her.
- *acting.* Agree on a proposed next step.

5. Analyze the Information

Once you have gathered information and established goals and planning assumptions, you are ready to analyze the information. Your analysis may include activities such as

- preparing and analyzing appropriate financial statements
- projecting the outcomes of the current plan (if the prospect does nothing different)
- identifying obstacles to desired goals
- analyzing the prospect's current and desired situations as they relate to the major planning areas: insurance planning and risk management, employee benefits, investment planning, income tax planning, retirement planning, and estate planning
- determining viable alternatives and their outcomes
- analyzing alternatives using possible less-favorable assumptions (higher tax rates, lower rates of return, and so on)
- quantifying the opportunity costs of each viable alternative
- comparing the costs of implementing solutions with the client's ability to pay

6. Develop and Present the Plan

After you have analyzed the prospect's situation, you will be ready to develop a plan. In addition to summarizing the client's situation and the findings of your analysis, the plan should include recommended actions. If you provide alternate solutions, you should include a synopsis of their relevant advantages and disadvantages and a projection of anticipated costs and outcomes.

In between developing the plan and presenting it you should spend some time preparing your presentation (unless this is a one-interview planning session). Anticipate questions, objections, and concerns.

Now you are ready to present the plan. During the presentation you will do the following:

- Review your prospect's needs, wants and desires.
- Restate the prospect’s current situation and prioritized goals and needs to confirm your understanding of them.
- Identify the solutions and any additional alternatives that will cover the prospect’s goals and needs.
- Present your recommendations. Include any general recommendations, such as consulting with other financial professionals to address goals and needs beyond your expertise and/or product line.

Making Recommendations Related to Your Products and Services

As an insurance professional, you can add tremendous value by making recommendations using risk management techniques other than insurance (risk transfer). Help your prospects and clients consider how they can avoid risks, prevent losses, reduce the extent of losses that do occur, or decide when it makes sense to retain a risk. For example, you can recommend that homeowners create an emergency plan for fires, hurricanes, and/or tornados. Use your company resources or those posted on FEMA and industry associations’ websites.

In addition, learn to recognize other issues important to the financial well being of your prospects and clients and be prepared to provide general recommendations as appropriate. For example, if you discuss life insurance, it is relevant to ask about the existence of a will or a living trust. While you should not give advice regarding the terms of such documents, recommending that your prospect or client consult an attorney to review or create such documents would be a way to add value.

7. Implement the Plan

If you have conducted fact finding properly and completely and your recommendations are based on information from the fact finder, implementing the plan should simply be the logical next step in working together. That does not mean the prospect will not have some concerns or misunderstandings. It does not mean that the plan will not have drawbacks. But if you have done your job uncovering the prospect's attitudes and values, as well as his or her financial situation, you will be prepared to explain how your recommendations will enable the prospect to achieve his or her goals.

Once the prospect has agreed to your recommendations, help him or her acquire the necessary products and services. Implementation can include such activities as completing all of the required forms and applications, and delivering an insurance policy. In addition, consider following up on recommendations apart from the products and services you personally offer. Doing so will reinforce your position as an insurance and financial professional who is the overseer of a holistic plan that addresses the customer's financial goals and needs as opposed to a salesperson interested only in selling a product.

Of course, not every prospect will implement your recommendations. Do not be discouraged. It may take even the best agent several attempts to close. Sometimes prospects postpone purchases, and the agent is forced to make several appointments and compensate for a lapse of time between the presentation and implementation. There are some recognized techniques that you can use to help motivate your prospect to follow your recommendations.

8. Service the Plan

This is the step in which you turn buyers into lifetime clients. Service cements the relationship with a buyer, giving you the opportunity to make additional sales and obtain referrals.

By default, customer service is reactive—the customer initiates it by requesting a needed change, such as an increase in coverage. In these situations, the customer expects to receive excellent service.

What differentiates a financial professional from a salesperson, however, is the former initiates service contacts designed to build relationships. Such contacts are designed to foster a sense of trust and sometimes to create awareness of possible financial needs.

When financial services professionals provide excellent service and initiate customer contacts to build relationships, they find that customers are more receptive to the financial review process. The net result is multiline sales and referrals.

As you can see, providing excellent service, offering periodic financial reviews, and initiating relationship-building contacts will ultimately lead you back to prospecting (step 1). In this sense, the selling/planning process is ideally cyclical in nature.

MULTILINING STARTS WITH SERVICE

The discussion now assumes that the initial auto and/or homeowners insurance has been sold and the objective is to multiline that particular household. The centerpiece of multilining is the periodic financial review process, which will be discussed later. An agent's success with this process will directly correlate with the amount of trust customers have in the agent's character and confidence. Apart from a personal relationship with the agent, customers' perception of the agent will be drawn largely from service contacts they initiate and other relationship-building activities implemented by the agent's office. As such, the multilining process begins with the eighth step of the selling/planning process, consistently providing extraordinary service to customers. With all that running an agency entails, how can an agent ensure the delivery of such service?

In his book *The E-Myth Revisited*, author Michael Gerber describes an extraordinary service experience he had with a hotel. Initially, he was taken aback by the charming ambience of the crackling fire in the lobby and the opulent guest room. But it was the individualized treatment he received that wowed him. For example, in the morning Mr. Gerber awoke to the smell of his favorite coffee and a copy of his newspaper of choice on the doormat. This happened each and every time he frequented the hotel.

As a small business coach and strategist, Mr. Gerber had to find out how this all happened. After several stays, he approached the hotel manager who graciously entertained his questions. What Mr. Gerber found was that the hotel's owner had created and required his employees to follow a series of checklists in order to recreate the same extraordinary service experience every time.[10] In the mind of that business owner, delivering extraordinary service could not be left to coincidence and chance; they had to be deliberate and scripted. Furthermore, extraordinary service was not defined simply by responding to customer requests but by initiating unexpected and valued

10. Michael Gerber. *The E-Myth Revisited: Why most small business don't work and what to do about it*, (New York: HarperCollins Publishers, Inc., 2001), 188-196.

customer contacts aimed at building relationships and trust. Is it any different for you?

Take the time to carefully consider what you want your customers to experience every time they initiate a service contact. Furthermore, identify and select appropriate proactive service opportunities that customers will value. What follows is a brief discussion of points for you to consider.

Keep in mind throughout this discussion that every service contact will influence the customer's perception of you, your agency, and your company. Each contact will leave an impression on the customer that will fall somewhere on the customer-service experience spectrum that ranges from awful to ordinary to extraordinary. From these impressions, the customer will form their perception of your character and competence. Your objective is to deliver customer service experiences that are more towards extraordinary.

Delivering Excellent Service

The term *service* is usually associated with customer-initiated requests for service, including claims, policy change requests, account transactions (for electronic funds transfer), and so on. Every customer-initiated contact is an opportunity to first prove that you and your agency team are trustworthy and competent. In addition, these contacts may provide an opportunity to deliver an extraordinary customer service experience. Here are a few principles for creating or revising a service strategy to achieve these objectives.

Identify Customer Expectations

Obviously, extraordinary service requires that customer expectations are first met and then exceeded. Thus, the first step to providing extraordinary service is identifying what customers expect.

There are three major drivers that will shape customer expectations: their previous experiences with you; what other insurance companies provide; and other customer service experiences in general. The first two drivers are pretty self-evident. You can obtain information about them by talking to your customers and talking to customers of your competition. The third driver can be monitored by staying in tune with the changes in the sale and servicing of products especially as they are affected by technology. For example, how has/will social media (Facebook, MySpace, Twitter, and so on) affect how products are sold and serviced? What effects will customers having the ability to make policy changes online have on agents' servicing (and marketing) practices?

As you uncover customer expectations, you can then create service standards. Here are a few expectations to identify and for which to create service standards:

- turnaround time for policy and account transactions
- response time for voice mail and e-mail messages
- frequency of communications for transactions that take a week or longer
- handling of confirmation of receipt of requested information or completion of transactions
- methods of contacting your office (phone, e-mail, cell phone, after-hours service, web chat, social media, and so on)

Deliver Service with Added Value

The problem with today's extraordinary service is that often the competition figures out how to duplicate it and it is no longer extraordinary. Quick turnaround times for claims and service may once have differentiated one agency from another, but today it is the expected. The extraordinary experience with most service opportunities will often be found not in the service itself but in the details of *how* it is delivered.

Consider the gold standard of customer service, Nordstrom. The Nordstrom product line is the fare of your typical clothing department store: clothes, shoes, handbags, cosmetics and so on. Perhaps the Nordstrom products exceed the quality of its competitors. But the real driving force behind the Nordstrom success is the fact that its sales associates focus on creating memorable customer experiences that border on mythical. In the introduction to their book, *The Nordstrom Way to Customer Service Excellence*, authors Robert Spector and Patrick McCarthy share this anecdote

EXAMPLE

A female customer calls the Nordstrom store in Salem, Oregon. She had driven past the mall and had discovered when she got home that one of her hubcaps had fallen off. "Was there anyone in Nordstrom," she asked, "who could check the road that ran past the mall to see if my hubcap was there?" A Nordstrom employee did just that, found the hubcap, brought it back to the store, washed it, and notified the customer, who came and picked it up.[11]

What Nordstrom has realized is that shoes, dresses, shirts, and the like are fairly interchangeable products. But a buying experience can be altered so that it is unique and memorable (in a positive way). Value can be added to the product through the customer service experience surrounding it. Let's look at a few ways to add value. The blend of these approaches will vary from client to client. That is, what appeals to some clients will not appeal to others. (You can use notes in your contact management system to guide your interactions with each individual client.)

Emotional Connection. While there are certainly professional boundaries that must be observed, connecting on an emotional level is generally important to people. Most people appreciate the social banter that may occur during a business transaction. There is a certain appeal to a place where you are known and where someone is interested in you.

Emotional connection can be achieved using the simple principle promoted by Dale Carnegie from his book *How to Win Friends and Influence People*, "To be interesting, be interested." Make the social aspect of the transaction about the client, connecting with the client on an appropriate emotional level. In many cases, such conversations can lead to proactive service opportunities. For example, the customer may seem down. Upon some gentle probing you discover her mother passed away recently. Sending a sympathy card or even a small floral arrangement might be in order. Or, consider the emotional value of a *handwritten* "Thank You" card to a new customer. The cost is a few minutes of time, the price of a card, and the postage.

Admittedly, some customers will want a purely business relationship with you; do not waste time trying to convince them otherwise. But many customers want some level of a personal relationship, which they use as a proxy for determining trustworthiness. Of course, being too personal can lead to

11. Robert Spector and Patrick McCarthy, *The Nordstrom Way to Customer Service Excellence*, John Wiley and & Sons, Inc. (Hoboken, NJ: 2005), xi.

problems, so you will need to determine the right balance. This balance will depend on the customer. The point here is not that you want to be every customer's best friend but that you want them to have some appropriate level of connection with your agency.

In addition, for those agents who supervise an agency team, a great amount of thought should be given to the role and responsibilities of your team members. You need to set clear guidelines to help them find the baby-bear standard ("just right") for emotional connection.

Many multiline agents understand the value of emotional connection and assign accounts to individual team members for servicing contacts. This gives the customer one person to contact and allows the team member to build a relationship over time. If you do utilize this method, you may want to consider the following ideas to reinforce the importance of the emotional connection.

- Pay a retention bonus and/or a cross-selling bonus (since number of lines correlates to retention).
- Give tools and procedures to affect retention such as a modest monthly allowance to use to create extraordinary customer experiences to enhance their own reputation (and yours in the process). To test this idea on a limited basis, try a "Make a Customer's Day" campaign one month.
- Encourage team members to document others' feats of extraordinary customer service.

Valuable Financial Advice. From the sale of the initial auto or homeowners policy, establish with the customer that you are a professional providing valuable financial advice rather than an order taker. As such, you must exercise due diligence in looking out for the customer's best interest. This will often require a few more questions than what the customer may be used to, but the purpose behind your inquisitiveness is the financial security of the customer and his or her loved ones. Thus, as appropriate, gather relevant information. Then, if necessary, offer to educate the customer on the effects the change will have on coverage and premiums. When appropriate provide advice to help the customer make a decision. Good clients will be open to extra assistance and will appreciate having an explanation of how their requested transaction will affect them. If there are more appropriate ways to handle their situation, they will probably be responsive to them.

In addition, consider other insurance and financial needs indicated by the information you gather, whether or not you sell products to satisfy them.

While you ought not offer specific advice regarding products you do not sell, pointing out the need to consult other financial professionals or institutions is the mark of a knowledgeable financial professional.

EXAMPLE
Wilbur is working with Eileen, a recent college graduate, who is increasing her deductible on her collision coverage from $250 to $1,000. Wilbur asks Eileen what her objective is. He also explains how her policy would work if she were to get into an accident. He asks her where she would get the $1,000 to pay for the deductible. In doing so, Wilbur helps Eileen to see that she is paying $100 per year for $750 in insurance coverage. Because she has only $500 in her bank account, Eileen is able to see some of the benefits of keeping her deductible at $250. Finally, Wilbur also recommends that Eileen consider creating a larger emergency fund of 3 to 6 months of expenses in addition to an amount that could cover the deductible. He also points out that Eileen may want to consider a higher-yielding money market account or bank money market account, the latter being insured by the FDIC, to hold these funds.

Note that you should not waste time trying to convince anyone they need your help. In these instances customers either are comfortable making such decisions by themselves or they do not yet trust you enough. Think of how you feel when you go into a department store and someone approaches to help you. You may refuse help because you know what you want, or because you are afraid the person will try to sell you something. Therefore, if you encounter a customer who is cool to an offer of additional explanation and some recommendations, complete the transaction as requested (noting their polite refusal for help in your contact manager) and wait for another opportunity to help.

Resource for Information and/or Contacts. Sometimes, you have an opportunity to provide value by being a resource for information and contacts. For example, if a customer mentions they are looking into buying a new car, you could provide information related to insurance premiums for various models the customer is considering. Or, you can match customers with certain needs with individuals or businesses you know and trust who can meet those needs. A whole networking system, known as netweaving,[12] is based on playing this role of matchmaker between those who need a service and possible service providers. For example, if a customer wants to rewire

12. See *Power Netweaving : 10 Secrets to Successful Relationship Marketing* by Robert S. Littell and Donna Fisher.

his or her residence, you could provide a list of three electricians you know (and trust) for that customer to contact for an estimate.

Obviously, you also help the business or individual to whom you referred the customer. This will increase your value to them. Eventually, they may reciprocate and refer prospects to you, but do not ask. You want to base your referrals solely on the quality and value of an individual or business's service and product.

Define Procedures

A second principle of providing excellent service is defining the procedures for the various types of service transactions. Roles and responsibilities should be identified clearly for all involved. A system should be in place to ensure that transaction requests do not fall between the cracks. Consider such parameters as:

- How should the service transaction be completed?
- Who should complete it?
- What information is needed?
- What options could be considered?
- When should the tasks be completed?
- Who will follow up and verify completion?
- How and when will the client receive communication?
- How and when should the pivot to an appointment for a financial review (or a specific product need) occur?
- What information should be recorded in the contact management record?

Your procedures should be compiled into an operations manual that can guide agency office staff on how to complete various transactions.

You may find yourself needing to update your procedures to include a pivot from the service transaction to exploring other needs and offering an appointment for a financial review (or a product-specific appointment). We will take a look at this a little more in depth when we discuss pivoting from a service transaction.

Claims: The Most Critical Service Opportunity
Without a doubt, your response to a policyholder's claim is mission critical because it is what you sell. Your clients did not buy a piece of paper or a contract. They bought a promise, a commitment by the insurance company to pay covered losses. But the product also includes the claims process, or how the promise is carried out. First and foremost, the policyholder deserves a claim process that is prompt, professional, and efficient. What you deliver beyond that is what creates trust and develops client loyalty. Now is a good time to visit your handling of claims. Sit down with your office staff and put into writing your claim procedure. • How do you want policyholders to feel once the claim is settled? • What steps are taken to ensure this happens? Who is responsible? • What expectations need to be managed? For example, how long is the typical claims process for each type of claim? • What is communicated to the policyholder in terms of the process and any policyholder's responsibilities in the situation? • How do you show empathy? • How do you handle delays in the claims process? • How do you make the claim experience extraordinary?

Communicate Throughout the Transaction

Good communication before, during, and after a transaction is critical. Communicate the process to customers at the time they initiate the transaction. For transactions that occur immediately, consider reviewing a printed transaction receipt to verify that their transaction was processed as desired. If a transaction will take a few days, tell the customer when he or she can expect that the transaction will be completed and what may be expected of him or her. Warn of any circumstances or situations that could create a delay. Be preemptive if there are problems. A necessary step in your procedures should include setting up follow-up reminders to check on the progress of a transaction (the follow-up reminder is removed from your system once a transaction is completed). If there is a problem, the client should be notified immediately and provided a new estimated time of completion. Finally, the agent's office should communicate with the customer once a transaction (that is not completed immediately) has been completed and verify the customer is satisfied

Create a Service Recovery Plan

Unfortunately, you and your office staff will make mistakes and errors. The real issue is how will you handle them when they occur. If you have a service recovery plan, you will be able to be responsive when mistakes happen.

A good service recovery plan outlines for all team members what they can and cannot do. Because errors and omissions (E&O) insurance carriers require agents to follow a certain protocol for potential claims,[13] clear delineation is needed defining what types of situations need to be handled by the agent and which can be handled by the office staff. It is important that frontline staff members are given the training and authority to handle as many errors as they can. Policyholders want quick resolutions to their problems.

In terms of a procedure, the first step is to express empathy—even if it is the customer's fault. Phrases like, “That's frustrating,” “I can see why you're upset,” or “That's not good,” all communicate you understand how the person is feeling, regardless of who is at fault. Keep in mind that the customer is not necessarily looking for an admission of guilt but an acknowledgement that a problem exists and a willingness to resolve it. Furthermore, check with your E&O insurer to know what you can and cannot say. Admission of fault in some situations may nullify your coverage.

Step two is to listen carefully to the customer to clarify what the customer expected, what happened, and what he or she expects to be done to correct the situation. Take notes if necessary. It is important during this step to clarify ambiguous facts and provide a summarization of the customer's expectations, the course of events, and the desired correction. Clarification and summarization will emphasize to the customer that you are listening and you care. In addition, it will help you make the correction needed. Finally, the situation may reveal a need to change a procedure to prevent future mishaps.

The third step is, of course, fix the problem. When possible, it should be fixed immediately. If another party such as home office or insurance carrier personnel is involved, it is important to follow up to ensure the transaction is completed properly. In either case, the customer's approval and satisfaction needs to be verified.

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13. David Hulcher, “The E&O Angle: What If It Happens to You?” *Independent Agent*, October 2003, 50.

EXAMPLE

An irritated customer calls because he requested a car to be deleted from his policy and his most recent bill still shows the car. Sierra responds, “That's frustrating. Can you tell me what happened?” After careful listening, Sierra summarizes the course of events and confirms it with the customer. Then, she says, “I understand your frustration. Let's fix this right now. Which car did you want removed?”

An optional fourth step is to consider something extra. For small errors, like correcting a misspelled name, an apology and a correction may be all that is necessary. But for service errors that cause an inconvenience, such as a lost application that needs to be completed again, consider something extra. A greeting card and a keepsake, with your name and company logo on it, can go a long way in reassuring the customer that you value their patronage. The keepsake should be relatively inexpensive and be something that the customer would value. In other words, a sleeve of golf balls would not be a good gift to give someone who does not golf. This is another important use of the information you collect and store in your client management system. Again, be very clear about what your E&O insurer will allow or not allow you to do.

Step five is to review the situation for any procedural changes and/or training needs. A transaction may not have been completed properly because a step was missed or the team member who received the request needs more training. This step also includes, of course, implementing the change and/or providing necessary training.

Obtain Feedback on The Agency's Service

Finally, identify ways to obtain feedback on your agency's customer service. If you are a captive agent, your company may do this for you. Otherwise, or in addition, conduct an annual survey via mail, e-mail, or phone (hire a reputable vendor). The survey should be short and elicit comments and suggestions. If you use e-mail, you can utilize some relatively inexpensive Internet vendors such as Survey Monkey (surveymonkey.com), Speed Survey (speedsurvey.com), or QuestionPro (questionpro.com).

Implement Relationship-Building Contacts

In addition to delivering excellent service with customer-initiated requests, create and implement customer contacts designed to build relationships and trust. This means determining a strategy to initiate customer contacts that customers will value and appreciate. Certainly, some of these contacts ought to be business-related, designed to create awareness and interest in financial needs, such as:

- holding a seminar on education planning or long-term care
- sending a link to a web page with an article on Roth IRAs to a customer with whom you recently had a conversation about retirement planning
- mailing or e-mailing newsletters

However, some contacts ought to be nonbusiness related. For example, imagine you won tickets to the local flower show. You have no desire to go. To whom should you give your tickets? You could contact one of your new customers who loves to garden and offer him or her the tickets with no strings attached. Some activities are more involved and you should exercise discretion in which customers to invite. Here are a few ideas to stimulate your thinking:

- sending birthday cards to a family member or pet
- sending copies of any local newspaper articles about the customer or his or her family
- hosting client appreciation events (a barbecue, seminar, scrap-booking, and so on)
- organizing a book club
- sponsoring and/or participating in a charitable event
- e-mailing an interesting article relevant to a customer's situation or interests
- alerting customer about a relevant special event pertaining to his or her interests and hobbies
- calling or e-mailing just to say hello

master record

One important tool for building relationships is the agent's contact management system (CMS). It can be used as a prompt to gather information if the standard office procedure is to call and update a customer's *master record*, a data file that contains contact and personal information about a client, upon every contact. In addition, if populated with pertinent information, it can remind an agent or team member of some basic information to personalize a contact with a customer.

EXAMPLE

Chris receives a call from a customer, Ann. She has talked to Ann a few times and remembers that Ann has a daughter in grade school but she does not remember the daughter's name yet. When Ann calls, Chris pulls up the master record which lists Ann's daughter, Betsy, along with her age. Instead of asking generically about Ann's daughter, she can now ask, “How is Betsy doing?”

The master record notes that Ann is an avid golfer. Chris is organizing a four-man scramble golf tournament for “Make-A-Wish” Foundation. She asks Ann if she would be interested in participating.

Note that some information, such as the above, may not be appropriate to use if the team member servicing the customer has not had prior contact with him or her.

Needless to say, the CMS is only effective if accurate information is collected. In addition to the initial contact with a customer, service transactions are an excellent opportunity to collect information to facilitate relationship building. When a customer contacts the office, the customer’s master record should be accessed and updated accordingly. It is important that everyone in the agency knows what information you want collected and in which fields to record them. Most software packages have customizable fields, but there may be limits to the number and amount of information that each can store. If number of fields or space is a problem, consider using a contact record (perhaps the first record), marking the subject of the contact as “Personal Information” and storing less critical information there.

Below, you will find some suggested information to track in your contact management system and a few examples of how to use the information in your relationship-building activities.

Building Relationships Using Your Contact Management System

Information to Track	Relationship-Building Use
Hobbies and interests	• Determining relevant giveaways (like golf balls) • Determining relevant interactions (such as a wine-pairing event) • Using to find topics of conversation

Occupation	• Referring business or potential employees (if a business owner) • Using to find topics of conversation
Children (names and ages)	• Asking about their children (by name) • Sending any local newspaper clippings about their children
Pets (names, types, and ages)	• Sending a birthday card (if the pet is a "child-substitute") • Asking how the pet is doing (by name)
Goals and dreams	• Connecting them with relevant people or sources of information (when you happen to stumble upon them) • Asking about them at opportune times
Beverage and snack preference	• Having a complimentary refreshment that they prefer ready for them when they meet with you

COMPLIANCE, ETHICS, AND PROFESSIONALISM

Your career carries with it a tremendous responsibility. As an insurance agent, you approach both friends and strangers, ask them for the opportunity to help them plan for their future financial security, and then ask them to accept your guidance and trust your recommendations. In doing so, you have an absolute obligation to maintain the highest ethical standards of professional behavior.

You assume responsibility for helping prospects and clients meet their financial needs. It is this responsibility, combined with your training and specialized knowledge in areas of financial planning that are often difficult for prospects and clients to understand, and the promise of continued service that elevates your selling/planning activities to the level of a professional.

In today's financial services marketplace, there is a tremendous emphasis on ethical business practices and legal compliance issues. Ethical behavior in all business dealings is the responsibility of every insurance agent. What must you do to live up to this responsibility?

Certainly, an agent must comply with

- state regulations for the sale of all insurance products
- federal regulations for the sale of securities and registered products
- company rules and procedures for all marketing activities
- codes of ethical conduct
- principles of professionalism

In fulfilling your responsibility to your prospects and clients and conducting yourself as an agent, you must comply with all applicable laws and regulations. State and federal laws regulate the insurance and securities industries to protect consumers from unfair sales practices.

These regulations will be discussed first, followed by company rules and procedures, codes of ethical conduct, and professionalism.

State Regulation

Traditionally, insurance companies and insurance policies have been regulated primarily at the state, not the federal, level. Each of the states has established its own department of insurance to regulate the insurance activities conducted within the particular state. In addition to the state insurance department, the legislative bodies of each state set policy for the regulation of insurance. Each state legislature passes laws to guide the insurance company's activities and products.

The state regulation of insurance companies has several key functions:

- insurance company licensing
- producer licensing
- product regulation
- market conduct
- financial regulation
- consumer services

State insurance departments regulate the financial aspects of insurance companies. Therefore, states must be concerned with their insurers' financial solvency. They want assurance that the insurance companies have enough money invested to cover their policyowners. Making sure their insurance companies stay solvent to pay claims is of primary importance to state regulators.

There is also state regulation of market conduct. State insurance departments supervise the sales and marketing practices of both insurance companies and agents. The goal is to make sure consumers are treated fairly. In fact, each state insurance department's number one priority is the protection of its insurance consumers.

Licensing

Insurance Companies. To be able to sell insurance products in a particular state, the insurance company that offers the products must first be licensed by the state department of insurance. The insurance company must apply for a license and meet the specific requirements of the particular state.

The insurance company must file all the products it sells with the state insurance department. Some states require a mere informational filing, depending on the type of product. Other states require that the insurance company receive an official stamp of approval by the insurance department before the insurer can offer its products for sale.

Insurance Producers. A financial services professional (advisor, agent, broker, and so on) who sells insurance products is known generically as a producer. States require producers who sell insurance products in the state to obtain insurance licenses. Typically, the basic life/health insurance license allows its holder to sell most life insurance, health insurance, and fixed-annuity products. Usually, the state requires that the producer be licensed in the state where the application is written. This may or may not be the policyowner's state of residence.

Producers may be licensed in more than one state to sell insurance products. Generally, they will carry a resident license in his or her home state and have additional nonresident licenses in other states.

The producer must also obtain an appointment from one or more companies. This appointment is what allows the producer to sell a particular insurance company's products. During the appointment process, the insurance company will verify the existence of the producer's insurance license and will most likely perform both financial and criminal background checks. If a producer sells for several insurance companies, he or she will have several appointments.

Variable life insurance, variable annuities, and other investment or equity-based products, however, are generally not covered solely by the basic life/health insurance license. These products also require special licenses and registration with the Financial Industry Regulatory Authority

(FINRA), formerly known as the National Association of Securities Dealers (NASD). FINRA is a self-regulatory organization. It was established (when it was known as the NASD) under authority granted by the Securities Exchange Act of 1934 to provide voluntary self-regulation of broker/dealers under the oversight of the Securities and Exchange Commission (SEC). Depending on the state regulations, separate state licenses may also be necessary.

Although state laws that regulate insurance company and producer licensing vary, the state commissioners work together through the National Association of Insurance Commissioners (NAIC) to identify the issues of greatest importance to consumers and to set legislative standards through model legislation. Because of their work, there is general agreement on some practices in insurance sales.

Your Financial Services Practice: Unauthorized Entities
Regulation of insurance products and services varies from state to state. In Florida, for example, regulations prohibit doing business with an unauthorized insurance entity. An unauthorized entity is an insurance company that has not gained approval to place insurance in the jurisdiction where it or a producer wants to sell insurance. These carriers are unlicensed and prohibited from doing business in that state. In most cases where these carriers have operated, they have characterized themselves as one of several types that are exempt from state regulation. It is the financial advisor's responsibility to exercise due diligence to make sure the carriers for whom they are selling are approved by the department of insurance in that state.

Advice

States are also concerned with what agents call themselves and the kinds of advice they give their prospects and clients. Agents who call themselves financial planners or financial consultants may be breaking state laws unless they have obtained special licenses. In many states, financial advisors, planners, and consultants are considered separate professional groups, requiring specific licenses.

Even in routine contacts, an insurance agent's or financial advisor's discussions with a prospect or client may touch on legal or tax matters. Giving a client or prospect specific legal or tax advice can be construed as practicing law without a proper license, and that is illegal. Although discussing legal or tax matters with clients in very general terms is allowed, you cannot give specific advice in these areas. When specific advice is requested, recommend that your prospects and clients consult an attorney or tax advisor.

Federal Regulation

Although the states are the primary regulators of the insurance industry, the main responsibility for regulation of securities products rests clearly with the federal government. Securities products include the variable life and variable annuity products many insurance companies now offer. Without the proper registration, an agent is not allowed to discuss equity-based investment products with a prospective buyer.

Selling Securities Products

Financial Industry Regulatory Authority (FINRA)

To sell securities products, an agent must be properly registered with the *Financial Industry Regulatory Authority (FINRA)*. FINRA has the power to require and monitor compliance with standardized rules of fair practice for the industry. FINRA's regulatory responsibilities include registration and testing of securities professionals, review of members' advertising and sales literature, and services such as arbitration of investor disputes. Registered representatives must provide FINRA with personal information, including prior employment and any history of securities-related disciplinary action.

FINRA registration will not be issued until you are affiliated with a broker/dealer. Most large life insurance companies have broker/dealer subsidiaries and thus make sponsorship and broker/dealer affiliation easy for their agents. For independent agent, there are broker/dealers who stand ready to establish an affiliate relationship.

Marketing Securities Products

The regulations for marketing securities products are extensive. The Securities and Exchange Commission (SEC) and the broker/dealer must approve all advertising materials, including letters that mention the sale or availability of securities products, as well as any sales literature. Even stationery and business cards that the registered representatives use must meet certain standards. Failure to follow any of the rules can lead to the loss of licensing, significant fines and penalties, and a suspension of a company's right to do business.

prospectus

Before securities products can be sold, the law requires that potential buyers be given information about the product in a form known as a *prospectus*. As with the other materials associated with the sale of securities, the prospectus must follow certain formats and guidelines.

Registered Investment Advisor

The Investment Advisers Act of 1940 defines an investment advisor as any person who, for compensation, engages in the business of advising others as to the value of securities or the advisability of acquiring or disposing of securities. Most persons who fall within the act's definition of an investment advisor and who make use of the mails or any instrumentality of interstate commerce are required to register with the SEC.

Merely dealing with a security does not, by itself, make someone an investment advisor. In the 1980s, the SEC issued three tests to determine whether or not individuals must register as an investment advisor. If all three tests are answered in the affirmative, registration is required unless specifically excluded or exempted. If any of the tests is answered in the negative, there is no need to become a registered investment advisor. According to the SEC's three tests, the individual or entity must

- give advice or analysis concerning securities (security advice test)
- be engaged in the business of advising others regarding securities (security business test)
- be in receipt of compensation (compensation test)

The one notable exclusion is for any broker or dealer whose performance of such services is solely incidental to the conduct of his business as a broker or dealer and who receives no special compensation (commissions are generally not special compensation) for advice or analysis provided. Such a broker/dealer is not considered an investment advisor nor are its salespeople (who must be registered representatives), if both operate under these provisions.

It is important to remember that the purpose of the SEC in devising the three tests is to protect clients from fraud and other abusive situations. The SEC does not guarantee the competence or investment abilities of any individuals who register under the act; it merely seeks to provide a mechanism for discouraging unethical behavior, principally via full disclosure to clients.

Although the SEC does not require investment advisors who seek registration to successfully complete a qualifying exam, the individual advisor and advisory firm must follow strict rules for registration, record keeping, and compliance. Many states do require successful completion of a qualifying exam before registration as an investment advisor.

Company Rules and Procedures

Financial services company rules are developed to make certain that the company and its agents meet all state and federal regulations. They are also designed to make sure that the company has complete and accurate information on which to base the issuance of suitable financial products to its customers.

As an insurance agent who sells financial products, you function as an agent of the company you represent. In its simplest terms, an agent represents the company with a limited right to speak for the company he or she represents. What you say and do as an agent may be binding on the company. Clearly, investment and insurance companies must take due care to protect themselves from the possible misbehavior of those representing them.

Company rules also have a value to agents. They are designed to help agents make sure that they meet all applicable legal requirements. Keep in mind that most financial products are legal contracts between the owner and the financial services company. If the contract is not carefully and properly executed, it could lead to serious legal complications for the owner, the company, and the agent. A company's rules are designed to ensure that all legal requirements have been met, protecting both it and its agents.

Advertising

One area of marketing in which compliance problems can occur is advertising. Insurance agents must make sure that the materials they use to advertise, sell their products, and portray themselves are true and clearly comprehensible. Advertising that contains untrue, unclear, incomplete, or deceptive statements is unethical. Furthermore, state and federal laws specifically prohibit such advertising. The application of these laws not only applies to home office material but also to agency-prepared material or material created by the insurance agent.

If you prepare customized materials for your clients, recognize that these materials are subject to regulatory oversight. This is the major reason that insurers require that the company's home office approve in advance all sales materials an agent uses. It is a simple way for the insurer to make certain that its products and benefits are not being presented in a manner that goes against federal or state regulations. Be sure to comply with the process.

Ethical Considerations

Suitability

Your professional obligation to prospects is to help them determine and carry out the most suitable solutions to meet their financial planning needs. In identifying the need for financial products that address prospects' concerns, helping prospects understand how certain products meet those concerns, and implementing solutions to prospects' financial planning needs, you have fulfilled your professional obligation.

Client Needs

Clients expect their insurance agents not only to be accurate in their analysis but also to recommend suitable products to satisfy their needs and goals. To accomplish this, agents must conduct thorough fact finding. They must uncover client needs for insurance and other financial products, as well as clarify the client's personal goals.

Thorough fact finding will also help the agent determine the client's risk tolerance and time horizon. Risk tolerance has to do with a person's ability to withstand a financial loss. Some clients will accept far more risk in their investment portfolio than others. Time horizon deals with the period of time involved in a financial need or decision. Determining needs, goals, risk tolerance, and time horizon provides the agent with information necessary to make a product recommendation. It also gives the agent guidelines regarding the suitability of a particular product for a particular client.

Compliance and Ethics

compliance

Compliance means following the laws and regulations, and company rules that apply to the sale of all financial products. These are the minimum standards.

The conflict that may arise between the prospect's need for an insurance or investment product and the financial services company's underwriting rules or issuing standards spans both compliance and ethics. One may encounter situations when fair business practices, legal requirements, and company rules seem to conflict with one’s best efforts. How the apparent conflict is resolved is a matter of ethics, and it goes beyond compliance with the law.

Ethics is a system of principles of right and wrong that are accepted by one's profession. Behaving ethically requires one to place a prospect's best interest before one's own. It requires maintaining the highest possible standard in all one's business dealings. Consequently, it requires continuing to develop one's skills so one can provide the best possible service to those with whom one works. It is representing the industry, its companies, and its agents, in the best possible light.

Professionalism and ethical conduct demand more than mere compliance with laws and regulations. Nevertheless, following these regulations and rules is the first step in professional conduct.

The American College Code of Ethics

To underscore the importance of ethical standards for Huebner School designations, the Board of Trustees of The American College adopted a Code of Ethics in 1984. Embodied in the Code is the Professional Pledge and eight Canons.

The Professional Pledge and the Canons

In all my professional relationships, I pledge myself to the following rule of ethical conduct: I shall, in light of all conditions surrounding those I serve, which I shall make every conscientious effort to ascertain and understand, render that service which, in the same circumstances, I would apply to myself.

I. Conduct yourself at all times with honor and dignity.

II. Avoid practices that would bring dishonor upon your profession or The American College.

III. Publicize your achievement in ways that enhance the integrity of your profession.

IV. Continue your studies throughout your working life so as to maintain a high level of professional competence.

V. Do your utmost to attain a distinguished record of professional service.

VI. Support the established institutions and organizations concerned with the integrity of your profession.

VII. Participate in building your profession by encouraging and providing appropriate assistance to qualified persons pursuing professional studies.

VIII. Comply with all laws and regulations, particularly as they relate to professional and business activities.

Professional Code of Conduct and Ethics

Within all professions such as physicians, attorneys, engineers, and so on, there are generally accepted standards of conduct. Typically, they are codified by a professional association. By adopting and practicing a professional code of ethics, you will achieve the high standard of professionalism that a career in financial services demands.

All professional organizations within the financial services industry publish pledges and ethical codes that apply to their members. These codes rest on ethical common sense and seven common themes:

- Every code calls on professionals to look out for the best interests of the client.
- Most codes in one way or another ask professionals to conduct themselves with fairness, objectivity, honesty, and integrity.
- Each code requires professionals to protect the confidential information of their clients.
- Most codes require that professionals present enough information to allow the client to make an informed decision.
- Each code requires professionals to continue the learning process throughout their careers.
- Each code asks professionals to conduct themselves in a way that brings honor to themselves and to their professions.
- Most codes specify that financial services professionals should comply with the law.

Knowledge of the codes will enable you to better deal with the complexities of today's marketplace. The American College Code of Ethics is an example of standards of professional behavior to which you should constantly adhere.

Being a Professional

Professionalism

professionalism

To be successful as insurance agent, you must be a professional. *Professionalism* is defined as the skillful and conscientious engagement in a field that requires (1) specialized knowledge not generally understood by the public, (2) a threshold entrance exam requirement, (3) a sense of altruism, and (4) a code of ethics.

As a competent financial services professional, you must also be fully aware of the legal and tax ramifications of the recommendations you make. In addition, you must be able to outline the positive and negative implications of the various investment and insurance options available so that your prospects and clients can make informed purchasing decisions. You, therefore, must have a thorough understanding of your products, the problems that your prospects and clients face, and the solutions your products can provide.

Client Focus

To be a professional, you also need to be client-centered. This means you have to put your clients' interests before your own. In financial, estate, and retirement planning, your job goes beyond simply making a financial product sale. Your professional responsibility is to help your prospects and clients identify and implement all the steps that will help them accomplish their financial planning goals.

Client Confidentiality

Prospects and clients are entitled to a high level of confidentiality regarding the personal information that they give to the agent. It is expected that every agent will keep this information private and not share it with anyone other than those involved in the company's risk evaluation process. It is also necessary that prospects and clients be treated fairly, with honesty and respect, for this is the only way to foster a professional relationship that will benefit all the parties involved.

Professional Responsibility

Insurance agents have an obligation to think of themselves and conduct themselves as professionals. The public expects professional advice, and the courts see insurance agents as professionals. Insurance agents advertise themselves as having the special skills to provide guidance to clients related to insurance, investments (for registered representatives), and/or financial planning. This advertising brings a higher legal standard of performance to the agent's work.

You have an important role to serve your prospects and clients in the best way you can. Part of your professional responsibility is to encourage your prospects and clients to take actions they can reasonably afford that will enhance their financial security and that of their families. To do this, you need to educate them about the consequences of action or inaction so that they can make informed financial planning decisions. A well-informed prospect is likely to make a good long-term client if your products and services provide solutions to his or her planning needs.

Professional Development through Education

To educate your prospects and clients, you must first educate yourself. Not only do you have to understand the basic concepts involved in financial planning, but you must also keep studying in order to learn advanced concepts that are often part of the responsible planning process. You must stay abreast of new product innovations, legislative trends, and tax rulings that can affect your ability to provide the highest possible level of service.

By continually educating yourself, you will become a competent member of your clients' financial planning teams. Additional knowledge and skill development can result from pursuing the recognized professional designations of the financial services industry. The LUTCF, FSS, CLU®, ChFC®, and CFP® designations, which are all earned in part by the successful completion of a qualified course of study, indicate your ongoing commitment to professionalism.

Membership and participation in the industry's professional organizations, such as the National Association of Insurance and Financial Advisors (NAIFA) and the Society of Financial Service Professionals, offer an opportunity for continuing education. You may also want to explore the various training and educational programs provided by insurance companies, universities, proprietary training organizations, and other professional organizations. *Advisor Today* (the magazine of NAIFA) and *Life Insurance Selling* magazine are excellent sources of insurance news and sales ideas.

Formal programs can supplement your personal self-improvement regimen of daily and weekly readings in financial literature. For more information on additional training resources aimed at enhancing the skill and knowledge of the dedicated financial services professional, log on to The American College's website at theamericancollege.edu.

CHAPTER ONE REVIEW

Key Terms and Concepts

client
customer
prospect
stakeholders
selling/planning process
qualified prospects
master record
Financial Industry Regulatory Authority (FINRA)
prospectus
compliance
professionalism

Review Questions

Instructions: Read the chapter first, then answer the following questions to test your knowledge. The answers are located at the end of the textbook.

1. List the five classes of stakeholders in a financial product sale and summarize their stake in the purchase of a product.
2. What are two trends that make a "planning" approach so important? Why?
3. List and briefly describe the 8 steps of the selling/planning process.
4. List and briefly describe the principles for creating or revising a service strategy designed to build trust and create an extraordinary customer experience.
5. What are relationship-building contacts? Provide examples of the two categories of contacts.
6. Summarize the key functions of state and federal regulation of insurance companies.
7. What is an unauthorized entity?
8. Define compliance, ethics, and professionalism.