CAMBRIDGE
PROPERTY & CASUALTY

TOP TEN PITFALLS OF BUYING INSURANCE ON THE INTERNET

In today's online marketplace, the ability for consumers to purchase insurance over the Internet is greater than ever. With the continued development of electronic security and online bill payment, online insurance transactions are become more and more common.

In 2007, the greatest growth in online insurance purchases was for personal auto policies. Some studies show that nearly 30 percent of auto insurance sales will take place online by 2011, compared with 10 percent of individual life insurance sales and over 50 percent of individual health insurance sales. The number of auto insurance policies purchased online increased by 37 percent from 2006 to 2007. So far in 2008 the number of quotes requested online has increased by 15 percent.

Despite the latest trends, consumers might want to consider the following pitfalls before committing to an online insurance program.

1. No Offices

The most obvious problem with online insurance policies is the lack of a physical infrastructure. In most cases, online insurance companies maintain their operations at a national headquarters or call center. This means that most policyholders can only communicate with their insurance company via internet or telephone. In the event of a catastrophe or other major loss, it may not be possible to communicate with your insurance carrier for an extended period of time.

Independent agents on the other hand offer a local presence that is unmatched by any online website. This allows the agent to personally respond to any emergency claims or simply meet with the policyholder face to face to discuss policy changes.

Also, independent agents are usually authorized to accept "last minute" payments from the policyholder in order to prevent policy cancellation. Some online insurance carriers are limited in their ability to accept late payments and in some circumstances may even charge a transaction fee.

2. Not All Online Insurance Carriers Are Obligated To Provide Michigan Benefits

In today's highly mobile society, it is not unusual for an individual to change jobs five or in some cases even ten times over the course of a career. Sometimes this entails a change in that individual's domicile or state of residence.

What most consumers don't know is that insurance policies are state specific. In fact, the first question that most online insurance companies ask is the applicant's zip code and/or state of residence. This in turn determines the state specific "underwriting company" and policy form. Some carriers even use the consumer's computer IP address to determine the applicable state coverages.

One of the most unknown facts about the online insurance industry involves the use of underwriting companies. These are companies within the main insurance company that are under common ownership or control, and that sell insurance in a specific state. Collectively, these entities are the "family of companies" and are operated under the main insurance company brand. The details of these entities are usually found in the fine print of the Terms & Conditions for use of the website. For example, assume a insurance buyer purchases a policy from the acme.com insurance company. Even though the policy carries the acme.com logo, the actual coverages are provided through XYZ Insurance company as the underwriting company.

The reason that online insurance carriers create state specific underwriting companies is that it allows the carrier to deny and or limit losses for certain out-of-state claims. Section 500.3163 of Michigan Codified Law provides that an out-of-state insurer is only obligated to provide Michigan benefits to an out-of-state resident if that insurer has filed and maintained a written certification with Michigan's Office of Financial and Insurance Services ("OFIS"). As long as the insurer maintains separate underwriting companies and does not file certificates in any other sates, that insurer can avoid out-of-state liability.

Although this law governs the application of Michigan benefits for out-of-state residents injured in Michigan, similar rules apply in other states. For example, if an Ohio resident was injured in Michigan, the Ohio insurance carrier is only obligated to pay for Michigan benefits if that insurance company had filed its certificate with the Michigan OFIS. The savvy insurance company will avoid this at all cost.

To consider another example, assume a California resident purchases a California automobile insurance policy through an online insurance company. Three months later, the policyholder loses her California job and moves to Michigan to stay with a friend. Two months after moving to Michigan, the policyholder is involved in an auto accident and is severely injured. Since the California underwriting company did not write insurance policies in Michigan and had not filed a certificate with the OFIS, the insurer is not obligated to pay Michigan No Fault Benefits. Moreover, it is likely the insurer will argue that MCL 500.3163 does not apply to this policyholder since she is arguably a Michigan resident and no longer a resident of the State of California. Similar problems arise when policyholder live near state borders or work across state lines.

3. <u>Online Insurance Carriers Lack Special Relationships</u>

An independent insurance agent will review an insured's list of assets, do in-home visits and offer advice for what types of insurance to buy. Insurance agents also make themselves available for updates and insurance policy reviews.

On the other hand, after buying an online insurance policy, online customers are more than likely pushed off on to the insurance company's customer service department or national call

center where they will be one of a million customers (or even one of 6 million customers). Policy reviews and updates are usually based on a call center "scripts" using boilerplate language or a series of predetermined questions. These scripts may have very little to do with the insured's insurance program and ever changing exposures.

4. **Insurance Company Phone Systems Can Be Both Complicated And Difficult To Navigate**

Most online insurance carriers offer some form of customer support through a national call center. The problem here is that many phone systems are fully automated and designed to provide very little human interaction. In fact, some online insurance companies will create a number of different 800 numbers in order to track the quantity of calls from different advertising channels or geographical areas. Simply contacting a customer representative can be both challenging and time consuming to say the least. Most independent agents on the other hand offer a direct line of communication between the policyholder and the individual with a personalized answer, the independent agent.

For example, assume your child gets a job delivering pizzas and you want to know if your policy provides coverage. You decide to contact your online insurance carrier (headquartered with its call center in Iowa) for more information. Even if you are able to locate the correct number, determine what time it is in that time zone, and navigate the complex phone system you might not be connected to the person who can answer the question specific to your state. A simple two-minute phone call to an independent agent would not only have answered the policyholder's question but would have likely included additional risk management comments such as a hold harmless and indemnification agreement.

5. **Online Insurance Carriers Have No Duty To Advise The Policyholders of Coverage Adequacy**

Most policyholders rely on their insurance agents to provide much needed expertise on technical insurance issues. In fact, most independent agents strive to develop a personal and long term relationship with each of their policyholders. This allows the agent to ask pertinent questions about exposures and anticipate the need for policy changes. Ultimately, this close relationship allows the insurance agent to better understand the nature of the policyholder's exposures.

With most online insurance companies, policyholders are left to figure the coverages out for themselves, both before and after the loss. As a consumer navigates an online insurance quote, they must select a number of different coverages and limits. Absent a background in insurance, it is unlikely that the average consumer would fully understand these coverages or the adequacy of the limits.

The general rule in Michigan is that an insurance agent has no duty to advise a policyholder of the adequacy of a policy's coverage. However, the exception to this rule is when a so-called special relationship exists.

A special relationship between the agent and the insured may be found in four instances: (1.) where the agent misrepresented coverages, (2.) where the policyholder makes an ambiguous request that the agent should have clarified, (3.) where the agent gives inaccurate advice, or (4.)

where the agent assumes the duty by making an express agreement with or promise to the insured.

Most online insurance carriers is structured in such a way that no special relationship could possibly exist. This limits the liability of the insurance carrier for suits alleging that it failed to advise the policyholder of the proper coverages. Thus, the online insurance carrier has no duty to advise the policyholder of coverage adequacy, not would it have an incentive to do so.

6. Online Insurance Carriers Require The Consumer Execute a Waiver of Liability

Most online carriers require that the policyholder release the company from liability arising out of the use of their website. The terms and conditions of one carrier state, "Insurance Company shall not be liable for any injury, loss, claim, or damage, nor any indirect, special, incidental or consequential damages of any kind, whether based in contract, tort, strict liability or otherwise, which arises out of (a) the use of, or inability to use, this site or content found in this site, or (b) unless resulting from the gross negligence or intentional actions of Insurance Company, the unauthorized access to or alteration of your transmissions or data, even if Insurance has been advised of the possibility of such damages." By way of example, this means that if you inadvertently enter the wrong policy limit from a drop-down box because the website layout was confusing, you can not sue the insurance carrier. In the same way, if the carrier inadvertently publishes your social security and/or credit card number, you are barred from bringing a suit.

7. Insurance Company Financial Ratings Are Not Always Disclosed

The A.M. Best Company, Inc issues financial strength ratings measuring an insurance companies' ability to pay claims. These financial strength ratings represent the company's assessment of an insurer's ability to meet its obligations to policyholders. The rating process involves quantitative and qualitative reviews of a company's balance sheet, operating performance and business profile, including comparisons to peers and industry standards and assessments of an insurer's operating plans, philosophy and management. In short, an A.M. Best Rating indicates an insurance company's ability to pay policyholder claims.

Often times, online insurance carriers do not disclose their financial ratings and even if they do, most policyholder's would not recognize its significance. Independent insurance agents on the other hand monitor the financial ratings of their insurance carriers and will avoid writing policies with those companies in financial trouble or who lack financial strength.

8. Online Policyholders Do Not Have An Advocate

In most states, an insurance agent is recognized as both an agent for the insured and an agent for the insurance company. As a "dual agent", the independent agent acts as a conduit between the policyholder and the insurance carrier. When disagreements arise between a policyholder and the insurance carrier, the independent agent usually has some degree of influence over the carrier depending on their relationship and the amount of existing business.

With online insurance, customer service represents are employees of the insurance company and are not policyholder advocates. In the event of a dispute, policyholders are usually required to

retain the services of a public adjuster or insurance attorney in order to sort out the coverages and negotiate the claim with the carrier.

9. **Online Customer Service Representatives May Not Be A Licensed Insurance Agent.**

Without extensive insurance knowledge, buying online insurance can be confusing. Special limits, exclusions, no-fault coverage, broad form collision coverage, and mini-tort protection are important terms to know and may not be fully explained in an online insurance quote. Without the input of a licensed insurance agent, consumers are left to their own devices when they try to get insurance estimates online.

Online customer service representatives (CSR) are mere order takers and are not always required to be licensed as insurance agents by the state's department of insurance. Moreover, online CSR's are usually trained in-house by their employer and often times lack the experience and/or expertise in other areas of insurance.

10. **National Call Centers Lack Knowledge of Local Exposures and Legal Environment**

Many insurance exposures are specific to certain regions of the country. For example, California is exposed to earthquakes, brush fires and mudslides, Northern Michigan is exposed to car/deer accidents, potholes and heavy snow falls, while Florida is exposed to hail damage, hurricanes and flood water. An online insurance company headquartered in Duluth, Minnesota might not be familiar with certain regional exposures and thus unable to tailor the policy to meet those needs. A local independent agent on the other hand would likely have personal knowledge of the various local exposures and would have access to insurance carriers specifically tailored to meet the policyholder's needs.