



SCHIFF'S

The world's most dangerous insurance publication™

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INSURANCE OBSERVER

Does the IIAA Have Any Membership Standards?

The Big 'I's Dubious Referrals

Last March, we published an article about the lack of membership standards for joining the Independent Insurance Agents of America (IIAA), also known as the Big "I." We chose to write about the IIAA because its well-known logo is recognized by consumers, and, as a result, an agency's affiliation with the IIAA (and display of its logo) is likely to have a positive effect on consumers' perception of that agency's credibility.

The ancient journalistic method we used to investigate the IIAA's membership standards is known as "going undercover." Here's what we did: we asked our editorial associate—Isaac Schwartz, a 17-year-old high school student—to pose as a licensed independent agent and try to join the Independent Insurance Agents Association of New York (IIAANY).

Isaac contacted the association and said that he was president of an insurance agency named Schwartz & Associates. He used his home address as the agency's office, and gave out his cell phone number. After a couple of conversations, the IIAANY's rep told the nonexistent, unlicensed Schwartz & Associates that it was qualified to join the IIAANY, and would become a member as soon as it returned a superficial two-page form along with a check for \$475. (Schwartz & Associates didn't take the final step; in a foolish fit of frugality, David Schiff decided not to shell out the \$475.)

When we published our article about this experience, the Big "I" wrote us an indignant letter, co-signed by the presidents of the national orga-

nization and the New York chapter, criticizing the article and questioning Isaac's competency as a reporter. (We published their letter in our April 23, 2001 issue.) "Does your publication really believe that membership in IIAA and its state affiliates is acquired simply through a phone conversation?" the IIAA presidents asked rhetorically.

Although Schwartz & Associates had been welcomed into the IIAANY by its rep, and had been told that its membership application would be approved, the presidents denied this: "If Mr. Schwartz had looked farther into the New York association's membership-application process," they wrote, "he would have learned that simply returning the completed application does not guarantee membership. Once the New York associa-

tion receives an application, the claims made by an applicant are reviewed by the state association and by its local boards...We do screen all applicants for eligibility to make sure they are independent insurance agents and upstanding members of the profession and their communities. Consumers can continue to take comfort in knowing that independent agents who are members of the Big 'I' are truly members in good standing."

We contemplated the IIAA's sanctimonious letter, decided it was a load of bushwa, and wrote a rebuttal.

Since then, we haven't given the matter much thought. The phony "Schwartz & Associates" has been dormant, and its "president" has spent the last five months in an alcohol-induced stupor known as "freshman year of college."

On Monday afternoon, however, Schwartz & Associates was resurrected when it received a call from one Les Hines, president of the Ford, Hines, Klein, Watson Insurance Agency in Lawton, Oklahoma. Mr. Hines, an IIAA member, had a client who was moving to New York, and wanted to find an agent who could arrange health insurance coverage for her. He had contacted the IIAA's New York chapter for a referral, and it suggested he call "Swartz [sic] & Associates" and gave him Isaac's cell phone number.

What happened next confirmed our feeling about the letter we received from the IIAA honchos last year. Our undercover correspondent in Philadelphia called the IIAANY and asked if it could recommend an



The Ultra-exclusive 'Big I'

Anyone Can Join

We've had a longstanding fascination with the logo, branding, promotion, advertising, and salesmanship of the insurance industry. In January 1995 we published a review of insurance-company trademarks, and in March 1999 we examined insurance-company advertising and promotional literature. In August 1999 we took a gander at the Insurance Marketplace Standards Association (IMSA), a sham of an organization run by the life-insurance industry, which claims to be dedicated to ethical market conduct, but is really a marketing tool for life insurers.

The insurance industry has many trade organizations that masquerade as groups concerned with the public good. The National Association of Mutual Insurance Companies (NAMIC), for example, represents the interests of the executives of mutual insurance companies, not the mutuals or the policyholders who own them.

We decided to look into some trade group that, in addition to being a lobbying organization, has a well-known brand that affects consumers' buying decisions. After a little research, we landed in the Independent

Insurance Agents of America (IIAA), also known as the "Big I," in honor of its famous trademark.

We have nothing against the "Big I" and are friendly with many of its members. In fact, except for its long, foolish habit of deep hooks out of the insurance industry, we like the organization. Nonetheless, we turned our assistant, Isaac Schwartz, loose on the "Big I," and here's the report he filed.

Insurance agents use the "Big I" logo as a seal of approval. It's intended to reassure customers that, with an independent agent, they're well cared for. According to the website of the Independent Insurance Agents Association of New York, "Your Independent Insurance Agent is a licensed professional [emphasis added]...[who] gives you excellent service and competitive prices...There is a Difference."

This sounds good, but I wondered how the IIAA actually knows anything about "your" independent insurance agent. How does it know if he's a licensed professional or a hobbyist's con man?

I called the "Big I" and said that I wanted to become a member. Well, not me, per se. I didn't tell them I was a 17-year-old high school student employed part-time by Schiff's

Insurance Observer. I said I was Isaac Schwartz, president of Schwartz & Associates, an independent insurance agency handling \$1 million a year in premium. There is no Schwartz & Associates, and the only thing I'm president of is my school's French Club.

The "Big I's" membership representative couldn't have been nicer. He didn't ask me for any credentials—a broker's license, for instance, or even a business card. After a brief conversation in which the only truthful piece of information I gave him was my name, he told me that I qualified to join the IIAA New York chapter. (In some regions, local board approval is necessary to join the IIAA; in New York City, it isn't.) All I had to do, he said, was send in a check for \$475 and fill out a two-page form. (The form required that "Schwartz & Associates" sign a membership agreement which specified that our membership could be revoked if we were found to be in violation of the bylaws of the corporation—bylaws which, by the way, weren't included with the application.) The "Big I's" rep assured me that my membership request would be processed as soon as it was received, and even added that the IIAA's logo would be a selling point for Schwartz & Associates.

All of this raises several questions. Does it mean something that the "Big I" will sell its good name and logo for \$475? Does it mean something that the "Big I"

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Our March 13, 2001 article

independent agent in New York who specialized in health insurance. A short while later he received an email that listed seven "Agents in Metro NY." The second agency on the list was—you guessed it!—"Swartz & Associates," whose phone number was none other than Isaac's.

The IIAANY claims that "Your Independent Insurance Agent...is a licensed specialist, with strong customer and community ties." In the interest of independent agents across the country, we urge the IIAA to adopt meaningful membership standards. And, for the sake of those seeking reputable independent agents, we implore the IIAANY to stop referring people to college freshmen who aren't even licensed agents. ■

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'The Long-Term View'

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SCHIFF'S

INSURANCE CONFERENCE

Tuesday, April 9, 2002

8:30 am - 5:00 pm

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Call (434) 977-5877 or visit

<http://www.snlcenter.com/schiff/spring2002/>

- 9:00 a.m.** It wouldn't really matter what **M. R. "Hank" Greenberg**, chairman and CEO of *American International Group*, talks about, because. . .well, let's face it — *anything* he has to say about the insurance business is worth listening to. For the record, though, Hank will: 1) tell us what he's been thinking about, 2) share his outlook on the industry, and 3) have a **debate argument fistfight** chat with the ever-inquisitive David Schiff.
- 10:30 a.m.** Devotees of eloquent prose about complex accounting matters cherish three fine books: *Unaccountable Accounting*, *More Debits than Credits*, and *The Truth About Corporate Accounting*, by **Abraham J. Briloff**, certified public accountant and Distinguished Professor Emeritus at *Baruch College*. Abe has been a leader in exposing dubious, inconsistent, and incongruous accounting practices. He also has a longstanding interest in the insurance business, where such practices have a habit of turning up. He will tell you what's been troubling him lately.
- 11:20 a.m.** Most insurance companies don't do things the way *Cincinnati Financial* does. And only a handful have posted long-term results as great as Cincinnati Financial has. **Robert Morgan**, who retired as CEO of Cincinnati in 1999, spent more than three decades building a company that was started (and still revered) by independent agents. Cincinnati has delivered value to its insureds and has made a fortune for its shareholders. Bob will give us something that's hard to find these days: an independent point of view.
- Noon** Decent food and fine conversation.
- 1:00 p.m.** **Stephen Way** began working at Lloyd's when he was 15. He eventually came to America, where he founded *HCC Insurance Holdings* at the advanced age of 25. HCC is now a large specialty insurer and underwriting manager. In a no-holds-barred discussion, Stephen will tell us how this came about, and share his thoughts on capital preservation, diversification, underwriting discipline, and much more.
- 1:45 p.m.** **Glenn Daily** is a rare breed: a fee-only insurance consultant who specializes in life insurance and annuities. He is an innovative thinker, prolific author, and consumer advocate. Glenn's talk, currently titled "Clueless Consumers: A real options analysis," will delve into a variety of subjects that will be of interest to anyone in the life insurance business, anyone who owns life insurance or annuities, or anyone who might want to own life insurance or annuities.
- 2:45 p.m.** "We applaud owners who reward executives on premium growth," says **Jack Byrne**, chairman of *White Mountains Insurance Group*. "This often provides fine opportunities for us later." During his career, Jack has resuscitated GEICO, fixed Fireman's Fund, and built up White Mountains. Jack is *not* interested in: market share, producing a predictable stream of quarterly operating earnings, or managing his business according to generally accepted accounting principles. His strategy is simple — to increase intrinsic business value per share. Jack will tell us what interests him these days.
- 3:45 p.m.** As usual, **David Schiff**, editor of *Schiff's Insurance Observer*, will interrogate the speakers and, when necessary, *force* them to answer brazen questions. David will have his say on the great insurance issues of the day and will discuss where he sees value (or the lack thereof).
- 4:30 p.m.** Socialize with insurance mavens and observers. Discuss the day's events or make deals over **cocktails** while taking in the view from the top of the New York Athletic Club.