The world's most dangerous insurance publication℠

SCHIFF'S

March 14, 2005
Volume 17 • Number 4

INSURANCE OBSERVER

How to Sell Fear and Influence People

AIG is a Master

Insurance companies' ads are usually intended to make you feel secure, comfortable, and safe. They tell you that the companies have been in business for a long time, are in sound financial condition, and have always been there for policyholders. Insurance companies want you to think that they *care* about their policyholders—you, for example. Here are headlines from typical ads: "Strength. Protection. Vigilance." (Sentry); "The strength to cover business risks worldwide" (XL); "I love knowing that I've helped someone." (UnumProvident); "We're here today. We'll be here tomorrow." (Zurich).

One of the most successful companies, AIG, often does something different. It runs ads that make you feel uncomfortable, worried, frightened. Its ads raise gnawing questions about insolvency, liability, new risks, lack of coverage, and claims not getting paid. The ads arouse anxiety and, more importantly, fear.

"Speaking of your mother, how do you feel about Eliot Spitzer?"

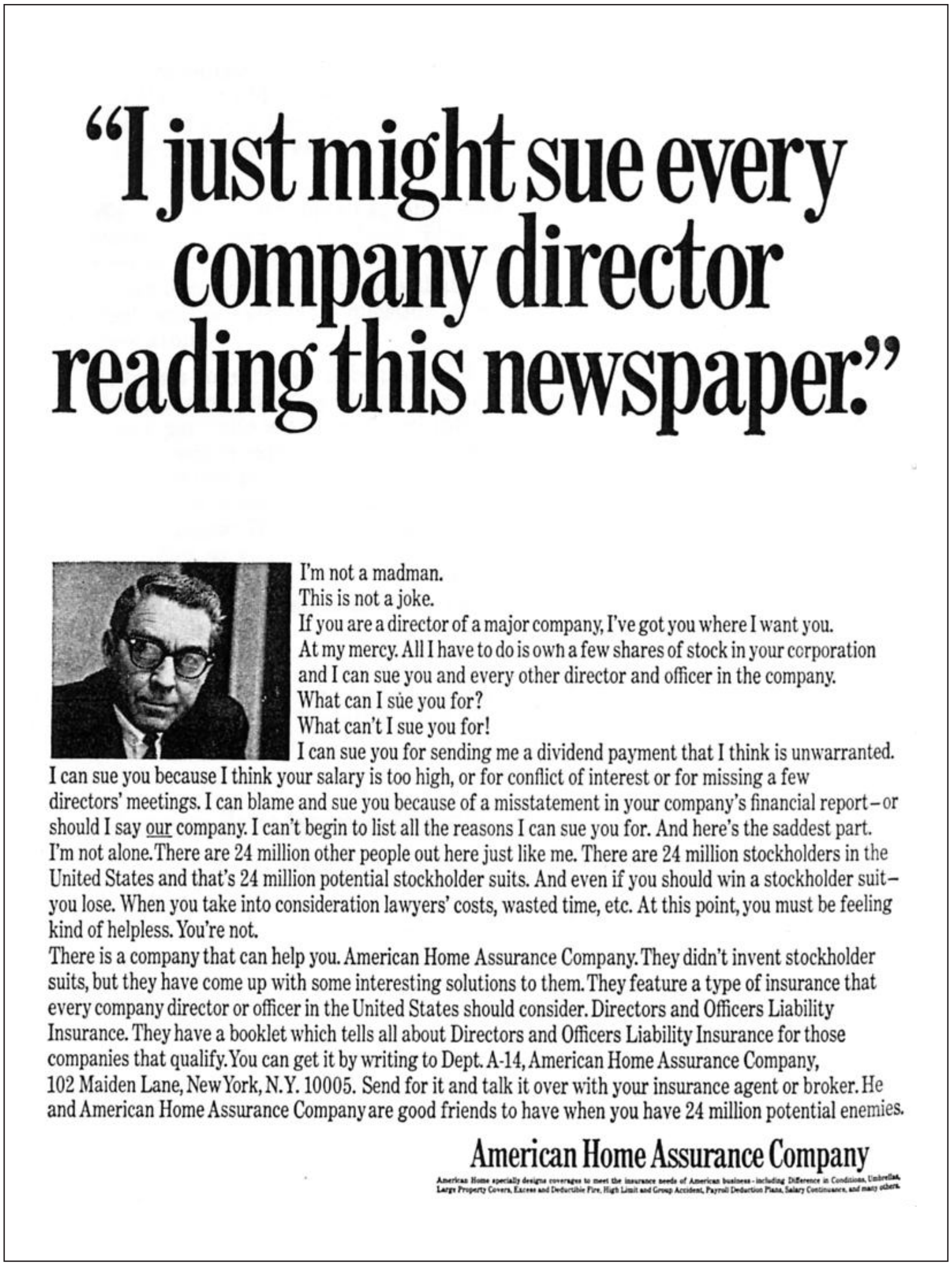
Before we discuss AIG's ads, let us briefly consider Herschell Gordon Lewis's work. In 1960, when he was making TV commercials, writing ad copy, and teaching night classes at Roosevelt University, Lewis figured he could earn money in the movie business. So he made an ultra-low-budget, feature-length "nudie" film, *Prime Time*, which by today's standards is tame and tedious. But it made money, so he cranked out more of the same: *Daughter of the Sun*, *Nature's Playmates*, and *Goldilocks and the Three Bares*. In capitalism, success spurs competition. Almost anyone with a camera could make Grade-Z movies that were as good (or bad), and many did. By 1963, Lewis had to find a new gimmick. When he came up with the idea for his next movie, he didn't know he was inventing a genre that would become known as the "splatter" film.

Today, low-budget movies can go straight to video or cable. Lewis didn't have that option. "We had to go in to see these theater owners…and convince them to throw out *Ben Hur* and *The Ten Commandments* and throw in *Blood Feast*," he said on the cable-TV show Reel Wild Cinema.

Lewis's *Blood Feast* was shot in two days, in color rather than in black-and-white. (It was billed as "a nightmare of pure gore in BLOOD COLOR.") It was schlocky, stupid, gross, and very profitable. Over the next eight years, the "godfather of gore" churned out twenty-five movies, including *Two Thousand Maniacs!*, *Color Me Blood Red*, *A Taste of Blood*, *The Wizard of Gore*, and *The Gore Gore Girls*. By 1973, however, Hollywood was making gorier films than Lewis was (*The Exorcist*, for example). Lewis left "showbiz" and went into advertising and direct marketing. He also wrote more than twenty books on these subjects.

We first came across Lewis in the 1980s when we read *Direct Mail Copy That Sells!* The title is quintessential Lewis—blunt but compelling. Surprisingly, the book is good. It's written in a clear, genial style and is filled with hundreds of examples of smart (and foolish) marketing. Lewis said that we were living in an "age of skepticism…in which nobody believes anybody." You needed to motivate people to buy your product or service, but the old motivators—sex and status—were outdated. Fear, according to Lewis, had become the most powerful motivator: "Fear cuts through the layers of fat around the reader's brain."

Lewis likes advertising copy that's



AIG's 1968 ad in "The Wall Street Journal"

honest and specific. Cleverness for the sake of cleverness isn't his style, nor is subtlety. If he's writing an ad for a diet product he won't say, "Are you heavier than you want to be?" He'll say, "Behind Your Back—Do They Call You Fatso?"

When we talked with Lewis recently, he said that fear is still a great motivator, but it is "very difficult to generate" in today's marketplace. The old type of fear ("Isn't your family's security worth $1 a week?") doesn't work anymore: "People are beyond that point."

Which brings us back to AIG, which has done well for itself by instilling fear. It makes you worry about the financial strength of insurance companies that *aren't* AIG. Its ads, for example, have implied that carriers rated "A-" are likely to fail (AIG is rated "AAA").

Here are headlines from two recent AIG ads:

"Before Facing a Casualty Crisis, Be Sure Your Insurance Provider Won't Be a Casualty Itself."

"Does Your Company Unknowingly Make Risky Investments? It Could if You Buy 'Junk Insurance' from the Wrong Carrier."

These ads quickly catch the reader's attention and create fear. Then they do exactly what an ad is supposed to do—provide a solution. AIG is a master at using fear to sell Directors and Officers liability insurance (D&O), which it pretty much invented. In a 1997 interview with *Business Insurance*'s Gavin Souter, Joseph DeAlessandro, a longtime AIG senior executive, discussed the early days (the late 1960s) of D&O:

> At the time that I started getting involved in D&O, there was a major question as to whether or not it was a legal coverage, whether or not a corporation could pay the premium on behalf of its directors and officers.
>
> We formed a group to influence the legislators to suggest to them that they make it possible for corporations to buy it, because in essence D&O protects the shareholders' interests. And we were very influential in getting the Delaware statute to be approved in 1967, allowing corporations to buy D&O insurance and also to put provisions in their bylaws to enable the company to indemnify the directors and officers for certain acts that would not be considered criminal or self-dealing.

D&O was initially a hard sell; companies didn't know they needed it. In 1968, the American Home Assurance Company, then 51.4%-owned by AIG, ran a full-page ad in *The Wall Street Journal*. The ad shows a small picture of a serious man, perhaps in his mid-fifties. He is, presumably, the average American shareholder, an everyman. The quote above his picture was enough to shock readers: "I just might sue every company director reading this newspaper."

The ad continues: "If you are a director of a major company, I've got you where I want you. At my mercy. What can I sue you for? What can't I sue you for!"

The ad, written in the first person, says that this man can sue you for conflicts of interest, for missing a board meeting, or because he thinks your salary is too high. "I can't begin to list all the reasons I can sue you for," the man says.

Reading the ad today, one is struck by its excess and opportunism. For example, the man says that directors can be sued for "sending [shareholders] a dividend payment." That, of course, is unlikely.

The ad is also notable for its hostility to shareholders, who after all, *own the companies* on whose boards directors serve. "I can blame and sue you," says the man in the ad, "for a misstatement in your company's financial report—or should I say our company." It's probably true that forty years ago directors had a particularly patronizing attitude towards shareholders, and the ad milks that attitude.

The ad continues. "And here's the

A current AIG ad

saddest part. I'm not alone. There are 24 million other people out here just like me. There are 24 million stockholders in the United States and that's 24 million potential stockholder suits."

By this point, the ad has identified an enemy—every shareholder in America—and created the fear that these "24 million" strong are on a litigation rampage.

The ad then makes a 180-degree turn. The man who has just told you that he "might sue every company director reading this newspaper," offers you assistance. "There is a company that can help you," he says. "American Home Assurance Company." He says that it has something called "Directors and Officers Liability Insurance," and tells you that they have a booklet all about it. He then tells you to "Send for [this booklet] and talk it over with your insurance agent and broker. He and American Home Assurance Company are good friends to have when you have 24 million potential enemies."

The ad generated a big response. More importantly, it helped create a key line of business for AIG, one that would generate billions of dollars of premiums over the years. (Remember: AIG was relatively small in 1968. Its insurance companies' gross written premiums were $333 million, of which AIG's "share"—adjusted for minority interests—was about half.) But D&O's significance to AIG was greater than the big underwriting profits it would generate. "It became a very important production tool," recalled DeAlessandro in 1997. "By the 1970s, if you wrote the D&O you could demand the balance of the account. It was a hook and worked very successfully. You could count the number of companies that wrote D&O on the fingers of one hand and have two fingers left over. So we could say we would be happy to write your D&O and we would like to have the opportunity to write the balance of your business, and we did."

AIG is now the largest writer of commercial lines in America. It's the lead D&O underwriter for sixty-five percent of the Fortune 100, with a market share greater than that of the next four largest D&O underwriters combined.

AIG has always been an innovator. It constantly comes out with new products for coverages that are considered risky. A 1979 article in *Institutional Investor* quoted AIG's CEO, Hank Greenberg: "The history of our experience has shown that we're much better off writing so-called 'risky business' than the non-risky automobile and homeowners insurance, which I consider terrible…In kidnap and ransom insurance, all you read about are the kidnappings. There are an awful lot of people who aren't kidnapped who buy our insurance."

Today, D&O coverage is almost ubiquitous. But AIG finds ways to squeeze more premium out of it by offering a form of coverage specifically for non-employee directors. An ad that AIG is now running once again uses fear to let people know that they need this coverage. The headline of that ad simply states, "Independent Board Members Are a Target."

The ad follows AIG's well-honed formula. A catchy phrase creates fear. That fear is then reinforced with a few statements: directors are being held to higher standards; plaintiffs are targeting their personal assets; settlement costs can exceed D&O limits; and litigation costs can use up policy limits. Then AIG offers the solution: IDL MAX, a policy that was developed "specifically for independent directors."

AIG's website does something similar. You can log on and read about D&O. If you're a director, by the time you've finished reading you may feel afraid—very afraid. "Rapid changes in the D&O market are causing board members to confront extraordinary personal liabilities," says the website. "These days independent directors are more vulnerable than ever." (The accompanying illustration is an independent-director doll stuck full of pins. "As an independent director, your D&O policy might not cover you," warns AIG's website.

When used properly, fear is a great motivator. AIG clearly knows this, but it seems that most insurance companies don't—or perhaps they are unable to create ads that use fear effectively. Some companies may want to ask themselves the following question: Behind My Back—Do They Call Me Stupid?

The world's most dangerous insurance publication℠

SCHIFF'S INSURANCE OBSERVER

Editor and Writer . . . . David Schiff
Production Editor . . . . Bill Lauck
Foreign Correspondent . . Isaac Schwartz
Editorial Associate . . . Yonathan Dessalegn
Copy Editor . . . . John Cauman
Publisher . . . . Alan Zimmerman
Subscription Manager . . . . . . Pat LaBua

Editorial Office
Schiff's Insurance Observer
300 Central Park West, Suite 4H
New York, NY 10024
Phone: (212) 724-2000
Fax: (434) 244-4615
E-mail: David@InsuranceObserver.com
Website: InsuranceObserver.com

Publishing Headquarters
Schiff's Insurance Observer
SNL c/o Insurance Communications Co.
One SNL Plaza, P.O. Box 2056
Charlottesville, VA 22902
Phone: (434) 977-5877
Fax: (434) 984-8020
E-mail: Subscriptions@InsuranceObserver.com

Annual subscriptions are $189.
For questions regarding subscriptions please call (434) 977-5877.

Insurance Communications Co. (ICC) is controlled by Schiff Publishing. SNL Financial LC is a research and publishing company that focuses on banks, thrifts, real estate investment companies, insurance companies, energy and specialized financial-services companies. SNL is a nonvoting stockholder in ICC and provides publishing services to it.