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Purchasing Insurance Using Multiple Brokers

By Larry G. Linne

We have studied market selection for insurance that is purchased through an insurance broker bidding environment. Our research has shown this model to have extreme poor outcomes and consequences. We identified 5 specific areas of concern that have true quantifiable consequences to the buyer.

<u>The model explained:</u>

An insurance purchaser sends multiple insurance agents to the insurance market place to find insurance pricing. The agent returns with a price and a service offering. The decision is made to purchase from one of these agents and they receive the market that was quoted. Decision is primarily based on the insurance price, but frequently weighted based on service capabilities and resources as well.

The 5 bad things that can happen:

1. The Insured has to be the expert. When a business receives numerous insurance company offers from multiple agents, the client is ultimately responsible for choosing what is best for the business. Insurance contracts are very detailed and wordy! They have significant differences in coverage amounts, perils identified to trigger a claim, deductibles, exclusions from the coverage, and critical contract language. A broker that has been limited in access to insurance company markets will "sell" what they are bringing to the table as an offer. They are not motivated to inform you of other insurance products or programs being better or worse. The engagement is one of receiving price quotes, not consulting advice. The worst outcome is to have an uncovered claim because of not truly understanding what the insurance policy covers and excludes. Courts are filled across North America daily with people fighting for coverage payments due to this buying strategy.
2. May get bad agent with good insurance company. I have shown a graphic of this example in numerous discussions on this topic. Picture the numbers 1 - 2 - 3. These three numbers represent three insurance agents. I ask the buyer, "if you knew everything about these three companies, would you be able to rank them first, second, and third as to the value they could bring your firm?" The buyer always says, "yes, if I knew everything about them I could rank them." Then I put 1 - 2 - 3 on the page below the first set of numbers. I ask again, "if you knew everything about three insurance companies, could you rank them first, second, and third as to the value and price they could deliver to your company?" The answer is once again, "Yes, if I knew everything about them." Then I ask, "what do you desire as to all options available?" The answer is always, "the best agent and the best insurance company." If three agents had three separate markets each, the buyer has less than a 12% chance of getting what they want. However, if they went through the process

of vetting the insurance agency first, and make a decision on the best agency (agent), then they could partner with them to find the best insurance company.

3. Agency Resources. As a buyer of insurance I prefer to do business with insurance agencies that have a Broker of Record Only model. This model is one where you give the agency the broker of record which states they are the only company who is able to negotiate on their behalf for insurance. This can also be called an Agent of Record in some states and Provinces. I prefer this model because of the availability of agency resources. In my years of working in an insurance agency, I did an analysis that determined over 30% of the agency resources were being used to "quote insurance for prospects". In the average insurance agency firm in North America, an agency will get the winning quote about 25% of the time. This means 22.5% of the service personnel in a traditional insurance agency are spending time and money working for companies that will never write them a check. This also means if I am a client, my payments are going toward that 22.5% and nothing will come back to me for that payment. A broker/agent of record only agency doesn't have that expense. Therefore, those agencies have the resources to spend money on services and resources that will improve my company. I don't assume they will all do that, so I simply ask what they are going to do to help with my company's risk management, emerging risk awareness, education, and improving my risk profile. Those items accomplished strategically will decrease my insurance spend and improve my total cost of risk. This strategy alone will decrease my cost of insurance potentially more than any difference in insurance company pricing difference.
4. Market Communication and brand. Most people have no idea what insurance Underwriters are thinking behind the scenes. I have interviewed over 250 Underwriters in my career on this topic. When you learn what they told me, you will not ever want to get a bunch of insurance quotes through multiple brokers again. Here were the areas of interest:
    1. They have stacks of requests for pricing on their desk every day. They only want to work on the ones where they have the best chance of winning. If they get a request and know that numerous companies are quoting, many times they will either decline or will throw a quick "high" number at it so it will go away.
    2. When they see a prospective client come in a few different times over the years, they believe it is a company that has no loyalty to the insurance company relationship. They see it as a "shopping client" and they will again throw a higher number to lose or decline to quote. This can be a big problem in a year where other companies refuse to quote or when carriers leave the market. The "brand" of the insured will still be in the mid of the Underwriter. I spoke to an Underwriter this past week and he told me, "companies that go to market every one to two years and shop their insurance are focused on the wrong things. Those companies are depending on the insurance market to lower their costs. We want companies that will focus on risk identification, risk management, and improving the profitability of the risk decisions in their company. Those are the clients we want to write, and we will reward them."
    3. When claims come up that become grey areas, insurance companies have choices if they will pay or try to defend not paying in court. A client that stays loyal to an insurance company will get more favorable treatment in these scenarios. I have even seen companies pay claims that were not legally required to pay. They did it due to long term profitability with that client.
5. Your Story Told Properly. We asked over 100 Underwriters how often they receive applications and submissions from insurance agents that are completed and ask for all the credits. The answer of 100% of them was less than 30% of the time. Some said less than 10% of the time. Let me be clear! If the information that comes in doesn't identify areas

for credits and doesn't have communication to indicate a great risk that deserves a lower price, the Underwriter will put a full premium on that pricing quote. This means a couple of things:

1. 70% of all insurance pricing in the market today is potentially priced higher than it should be priced.
2. A buyer can receive 3 quotes from different insurance agents and none of them would be the lowest price available if the agents didn't submit them properly. The client would take the lowest price quoted, but not get the lowest price available!

The model we believe will keep insurance pricing to the lowest possible level over the longest period of time is the following:

1. Pick an agent that understands your business, your industry, and has a proven (even potentially endorsed) model of submitting a client to the insurance market.
2. Make sure the agent has a clear plan on how they will assist in risk identification, risk management, and creating options for risk financing. Many alternative risk financing strategies are available for companies who consistently keep losses down to a minimum.
3. The client and the agent go to the insurance market and pick the right company. This allows the agent to be an Advisor on all available markets (insurance expertise), as well as be a negotiator who can work with the right market to get the price at its lowest accurate level.

The one potential positive that could happen with this strategy is limited access of an agent to all markets. A desired insurance agent/broker may not have access to a specific market that is currently offering lower pricing in that industry class. This eliminates the potential of a low priced market from being accessed and offered in a single broker environment. However, we have consistently seen the brokers ability to improve the 5 items listed above. These five items have significant value above most single year price offerings from a rogue market. Therefore, unless a market is significantly lower (which everyone in the industry will be very much aware), it is still better to work with an agency/broker partner that will go to the markets they have available and help manage risk throughout the year.

The bottom line is for an insured to pick an agent and then partner with them on improving the story being told to insurance companies by improved risk management and clear messaging in the submission.

One multi-million dollar uncovered claim because the client didn't understand the contract, will quickly prove that point!