



Guidelines For Evaluating An Insurance Broker: What Should You Expect; What Should You Demand?

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EVALUATING THE RIGHT INSURANCE BROKER

Buying business insurance today is complicated enough and the process of choosing a broker can make it even more difficult. But, with insurance rates escalating sharply, more businesses are reviewing their current policies and weighing all their options—including whether to keep their current broker or look elsewhere. It is very easy for businesses to get lost in terminology and price comparisons when choosing a broker and unfortunately for many they end up with a policy covering only half of what they needed and costing twice as much as it should have.

Ask yourself if you are getting your money's worth from your broker; if you have any doubts, then your answer lies in—changing your traditional review process and researching the best broker available. What follows are some important *guidelines* to help you become a well-informed buyer of insurance and selecting the right broker. Hopefully you are at the stage when immediate, remedial action can be taken—before your insurance renewal date.

A BROKER'S INEXPERIENCE CAN COST YOU

Many businesses are finding that their insurance problems are magnified when they contract with a broker who lacks knowledge of the *specific risks*

associated with their industry. Clients are often surprised by the frequency with which they encounter errors and oversights in coverage made by inexperienced generalists. Examples include writing a policy—with inadequate or disproportionately higher limits, not marketed to enough carriers, one that lacks coverage strategy or omits important coverage, or where coverage was changed by the carrier but overlooked by the broker.

TAKE YOUR BROKER TO TASK

Your insurance broker should act as an intermediary between you and your insurance companies. Brokers use their in-depth knowledge of risks and the insurance market to find and arrange suitable insurance policies. Unlike insurance company agents, they are independent and offer products from more than one insurer to make certain that you get the best possible deal available.

Is your current broker *periodically* performing these tasks for you? If not, they should be.

1. Gathering information from you, assessing your insurance needs and risk profile
2. Building and maintaining ongoing relationships with you and your staff by scheduling and attending meetings in order to learn your business and foresee your insurance needs
3. Researching insurance companies and their various policies to find the most suitable

insurance for you at the best price

4. Arranging specialized types of insurance coverage in complex cases; this may involve preparing reports for insurance underwriters and surveyors and negotiating with insurers
5. Advising you on risk management and helping to devise new ways to mitigate risks, for example, by adding security measures such as fencing, surveillance cameras or lighting to commercial properties to reduce the likelihood of break-ins
6. Advising you in a timely manner when you need to make a claim on your policies
7. Consulting with underwriters, surveyors, photographers, structural engineers, and other professionals in order to advise you properly

THE VALUE-ADDED RISK TEAM

It is important that you find a broker that has created a risk management team, one that is focused on lowering the variable claim cost of loss-sensitive insurance programs because 60% - 80% of your insurance *premium* dollars relate to claim and loss control issues. Utilizing a broker's risk team can drive your costs down significantly. To ensure their success, more experienced brokers provide critical *value-added services like claim management, loss*

forecasting and trending, loss control, and experience modification analysis.

CLAIM MANAGEMENT

The ultimate purpose of an insurance program is a timely and equitable response to loss. A broker's most important responsibility is to facilitate the claims process and assist clients in claims cost containment and resolution.

With the cooperation of insurers, your broker should conduct *claim audits*, which will evaluate the quality of claims handling in compliance with general industry techniques and standards. A confidential and comprehensive report with individual case summaries should be provided to you at completion.

Should your insurance program include portions of self-insurance, the broker's staff should provide you with guidance in implementing a claim administration program and assist with--requests for proposals, evaluating responses, conducting presentations, and assisting in the selection process.

LOSS FORECASTING AND TRENDING

New ideas are the most important product the experienced broker will be called upon to deliver to you. Rather than simply reacting to problems as they arise, a broker must be in a position to anticipate your needs and suggest new ideas and new approaches. Creativity is essential to ensure the client of an up-to-date risk and insurance management program, responsive to both changing business conditions and new risk management concepts.

Your broker should implement a program of providing you with risk analysis, and loss forecasting and trending that will help you identify and quantify claims data. Utilizing loss data over an extended period can provide

you with in-depth analysis of areas that cause the highest susceptibility for claims and the origins that drive claim frequency and severity rates. Equipped with that information, you can explore a variety of options such as alternative loss funding methods, establishing necessary funding, workflow needs, retraining, or focus your loss control program on specific needs, which will ultimately reduce the number of either accidents or injuries or both.

LOSS CONTROL

Loss control should be proactive in reducing both the frequency and severity of accidents. It requires the commitment of everyone at all levels--corporate directors, safety directors, managers, first line supervisors, and employees. Effective loss control--with an emphasis on safety procedures, training, and monitoring--can minimize the potential for property, general liability, and auto claims and losses.

An effective loss control system includes the establishment of a loss control policy, assignment of responsibilities, ongoing review of claims data, periodic loss control audits and inspections, accident reporting and investigation, communication, and development and regular review of emergency and contingency plans.

Your loss control program can benefit by a partnership between you and your broker's loss control consultants and your insurance carrier. The broker's staff of safety engineers should help you develop an effective incentive based safety program, safety training, and incident investigation program. Carrier underwriters rely on these engineers to know your business and better explain the potential risks pertinent to your operations and assist in implementation of their recommendations. *This alone can result in significantly reduced premiums.*

QUESTIONS TO ASK WHEN EVALUATING YOUR INSURANCE BROKER

Has your broker...

1. Helped develop and analyze your claim data?
2. Assisted you in designing and implementing a claim cost control program?
3. Verified the accuracy of experience modification calculations?
4. Worked with you to establish renewal goals?
5. Obtained competitive proposals for coverage lines from insurance companies?
6. Clearly, presented alternatives to your insurance program?
7. Provided continuous services throughout the contract period?
8. Provided an annual summary of your insurance?
9. Provided consistent service team personnel that have knowledge of your coverage, carriers, and issues?

EXPERIENCE MODIFICATION ANALYSIS

As part of a risk management program, your broker should provide experience modification analysis in order for you to realize the *maximum* utilization of your Workers' Compensation expenditures. Keep in mind that reported experience ratings are sometimes incorrect resulting in you paying more than you should on a claim or receiving unknown benefits due to an inaccurate description of your claim

Continued on page 31

Guidelines For Evaluating An Insurance Broker:

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Continued from page 27

experience.

Using mod analysis could enable additional working capital to remain in your business by taking the surprise out of the Workers' Compensation arena. It gives you a budget-today-for-tomorrow approach with a more realistic projection of your Workers' Compensation expenditures. It can project upcoming experience ratings, illustrate separate state experience modifications, depict the effects of pending rate changes, and illustrate the effect of reserve changes or ultimate dollars spent.

Mod analysis should be able to help lower your ultimate cost, minimize any hidden costs, and properly allocate any costs involved in your Workers' Compensation program. Some

special ratings may include the utilization of past data to project future trends, justify expenditures on safety programs, illustrate the effects with deductible programs, profile the savings on first-aid payments, and allocate experience modification between states or operating divisions.

SUMMARY

Buying business insurance is getting more problematic each year; issues like property insurance have reached critical mass. As a business owner or executive responsible for the liability exposure of your business, it is critical that you select the right insurance broker--and their broker-team. The word *team* should be an essential ingredient in your evaluation process.

Once found, utilize the broker-team

to develop a risk management program that will drive your costs down dramatically. Also, look for the broker who has developed an effective team-framework of *value-added services*: claim management, loss forecasting and trending, loss control, and experience modification analysis. In the end, their team of experienced professionals will make a major contribution to your company's continued profitability.

In a future article, I will address the importance of the Scopes Categories.

About the Author

Since 1988, Troy Sankey has spent his business career in the insurance industry getting a well-rounded education in disciplines such as risk management, safety, loss control, employee benefits, construction, and property insurance. He has held positions of adjuster, field underwriter, and insurance investigator receiving many distinguished awards. His specialty--as a Senior Risk Consultant with Wells Fargo Insurance Services-- is management advisor to contracting, manufacturing, distribution, and transportation industry executives. Troy can be contacted at troy_sankey@acordia.com



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