

THE WAY BUSINESSES BUY INSURANCE IS BROKEN AND HOW TO FIX IT

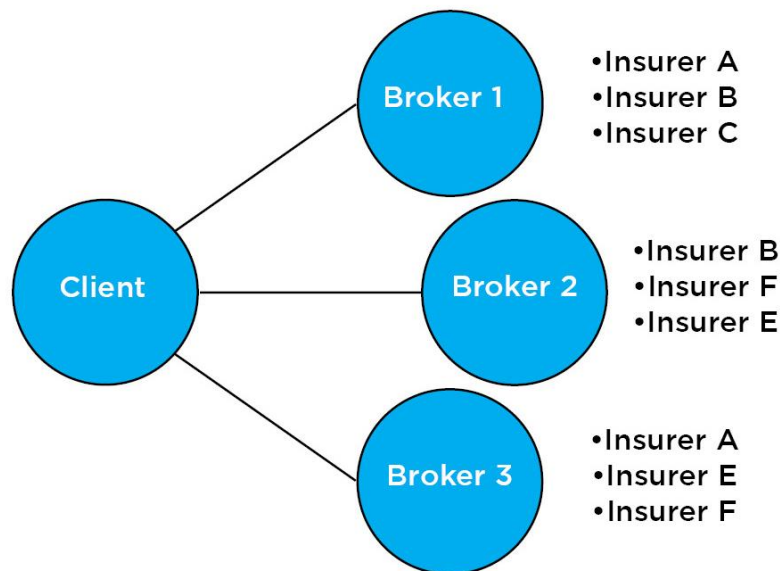
By Tom Hickey, President, Wedgwood Insurance Limited

Insurance Brokers can shoulder much of the blame. How can this be? Let's look at how commercial insurance has been bought (and sold) and what the inherent problems are.

Traditionally, a business owner may get "competitive quotes" from a few insurance brokers. Normally, this is done on an "apples to apples" basis and each broker gets a chance to pick holes (find coverage gaps) in the incumbent brokers program and explain how they have better service and more "stuff" than the current provider.

It looks something like this:

FIGURE 1 - CLIENT SELECTS MULTIPLE BROKERS



In this case, we have multiple brokers approaching multiple insurance companies. Most of the time insurance companies will not provide terms to multiple brokers so whichever broker has the earliest time stamp on their submission gets the quote. Over time, each broker will come back with a proposal from the insurance company that they were successful in getting to first.

Unless a broker has "blocked" the market (i.e.; approached every insurer so that no other broker can get terms) most brokers will end up with a market or two to present. In this case Broker 3 is eliminated as Brokers 1 and 2 have all



the markets blocked. So, what's wrong with this situation from the business owner's point of view?

Let's count the ways.

1. The business owner is now getting terms from the broker on whatever insurers they could get in the "rush" to market. Brokers may not be submitting terms from the insurance company that would be the best fit for that company because someone else has the market taken. What if the wrong broker gets the right insurance company?
2. Insurance Companies see multiple submissions from brokers for the same business and lose interest, realizing that there is a smaller chance of writing the account if it is "out to market", especially if the broker does not have a great relationship with that particular market.
3. Some brokers "block" markets as a matter of course to protect their account and prevent their clients from getting competitive terms. At times, less ethical brokers may do this without even telling the business owner what they are doing. They damage the business' reputation in the insurance marketplace without the business owner even knowing it is happening. What insurance company wants to look at insuring a business whose insurance account is "out for quotes" every year?
4. A business may end up with the right insurance company and the wrong broker or vice versa. This is an inevitable result of getting multiple brokers to get terms from the same insurance companies.
5. Dealing with multiple brokers takes lots of time, answering the same questions, filling out applications and gathering information. Insurers tell us that 75% of submissions from some brokers have mistakes. Multiply that by the number of brokers involved and that is your risk of an incorrect premium or an uninsured claim.

If you've been in business a while and been through the process of purchasing an insurance program, you've probably experienced these scenarios.

So, what is the solution? It's quite simple, really.

CHOOSE YOUR INSURANCE BROKER BEFORE YOU CHOOSE YOUR INSURANCE COMPANY

Why does this make sense?

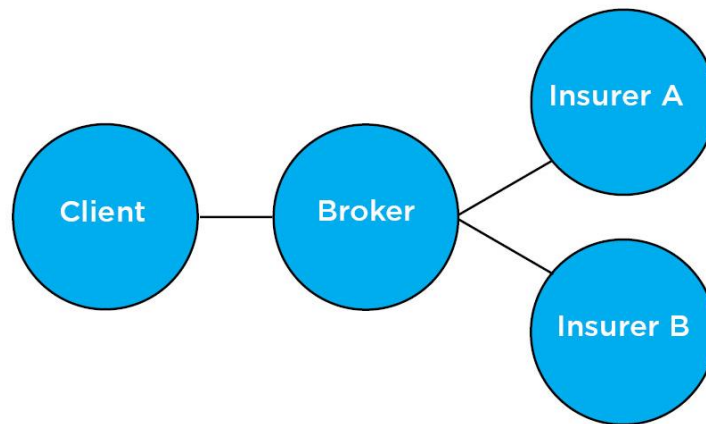
Here's a secret - by and large, the brokers you are speaking with all represent the same insurance companies. Therefore, by asking *one* broker to go into the market for you get nearly the same market access that you get by dealing

with multiple brokers. With a few exceptions on exclusive programs, this almost always holds true.

1. The insurance companies all get the EXACT SAME SUBMISSION from your broker. Your company will be represented accurately. How do you think insurance companies perceive submissions received from multiple brokers about your company that contains conflicting information? It makes them question the accuracy of the submission and can prevent you from getting the best terms.
2. Your broker can show you all the options from all the companies – this is a much more transparent process and provides you with a higher level of disclosure and the ability to do an accurate comparison without any selling pressure.

This leads to another question. How do you select an Insurance Broker? Obviously depending on the size of your business, your needs may be different. But it looks something like this.

FIGURE 2 - CURRENT MODEL FOR SELECTING AN INSURANCE BROKER



Let's skip the obvious stuff. Most reputable brokers have good people; they handle service requests well and very good at putting together a package of coverage's that should meet your needs. Since they all represent the same insurance companies, they should all be able to get you similar pricing. Here is what differentiates progressive brokers that will be here down the road from the traditionalists who will be marginalized in the future:

1. What does the submission they send look like? Are you being represented professionally? Do they make your company look good in the insurance marketplace?



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2. What risk services do they offer beside the insurance product? The risk covered under an insurance policy is a small part of the risk in a business. When they talk about cyber risk for example, what other services are offered besides insurance that might help prevent or mitigate a claim?
3. Are the services provided locally or from some central location adding travel costs and lack of local knowledge, should you need to use them?
4. Look at their website. Do they blog and provide advice and opinion on business risk in general? Do they provide useful content and resources to help your business? Do they appear to be forward thinking and dealing with emerging risks as they appear? Do they have a client portal and provide you with on---line services.
5. Can the broker clearly articulate the What/How/Why of what they do in analyzing your risk and display the value that they add beyond just advising you about your insurance product. Would you be able to view them as a trusted advisor to your business?

Whether you are a large corporation or medium size private enterprise, simply putting your insurance “out---to---market” is one of the best ways to make sure that you are sold a product that may only meet the most basic aspects of your risk management needs with a significant potential for errors, gaps in coverage and the risk of an un---insured claim.

Change the game - ask brokers to tell you *why* they should have your business. How will they help you lower your risk costs in the future and provide you with advice that goes beyond buying an insurance policy? Only then should you allow the broker you choose to investigate the insurance market on your behalf.

Find a broker who can be your Trusted Advisor, not an insurance company product vendor.