

How to Select Your Insurance and Surety Broker

How do you know your broker is right for your business? How long have you been with the same broker? Do you shop brokers every year, every five years or every ten years? Or, do you choose your broker like your CPA or attorney? Picking the right broker for your business doesn't happen by accident. There is a process that should be followed. From a broker's viewpoint, here are the two most advantageous ways to work through this process:

Broker's Viewpoint

1. *Picking One Broker:*
Interview three to four brokers and select the most qualified to represent you to the marketplace.
2. *Having Brokers Compete:*
Allocate insurance markets between no more than two brokers and let them represent you to the marketplace. **The market is limited for contractors and having more than two brokers competing can work against you.**

10 Interview Questions:

There are some basic questions you should be asking the brokers you interview. Here is a list of ten questions to consider when interviewing potential brokers:

1. Who is the point person that will be handling your insurance on a day-to-day basis? What is their experience and skill level in handling contractors?
2. Who will be handling your Workers' Compensation and Casualty claims? What is their

experience level? Will I receive claims management or simply claims monitoring? **This is vital...claims management can save you tens of thousands of dollars per year!**

3. Who will be handling your surety needs? What is their level of experience? Do they have relationships with the best surety markets?
4. Does the brokerage have expert safety support to help formulate, implement, and monitor construction safety programs?
5. Who are the three top insurance markets they recommend for your business? And why?
6. What kind of relationships does the broker have with construction industry associates: attorneys, CPAs, and other industry affiliates?
7. Will there be a defined service plan with clear objectives and timelines to improve upon your existing program?
8. What contractor references are available from the broker? (Are they insuring any of your peers?) Ask for a list of clients you can contact.
9. How quickly and accurately are certificates processed? Who will be handling your requests?
10. What specific services does the broker provide that will benefit your company?

Picking One Broker

When choosing the Interview Process, make sure the broker puts an emphasis on services you need (i.e. loss control, risk management, contract review, OCIP review, etc.). Stay focused on the

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services that you need and choose the broker that excels in those areas. The ultimate goal of the interview process is to pick the broker who can spur competition from insurance markets. This process is similar to picking your CPA or banker. The objective is to develop a business relationship you will have for many years. By committing to one broker, you are giving notice to the insurance companies that your broker has a mandate to get you the best program available. This allows your broker, rather than the insurance company, to drive the process and control the pricing.

Advantages of Picking One Broker:

- The broker ultimately drives the process and pricing. Underwriters typically give their best efforts to a broker that controls your account.
- Underwriters will not get calls from multiple brokers, causing less confusion.
- You will have one renewal meeting.
- More time can be spent with your broker and company to arrange the best program for you.

Disadvantages to Picking One Broker:

- Has the potential to be slightly more expensive.
- Could limit your exposure to new ideas.

Since most brokers say they have access to the same markets, this process is more about picking the broker that offers the services you need for the right price. This concept can be difficult for many contractors to accept because they are

bidding every day on projects and feel their broker should do the same. Your partner broker does get competitive bids on your behalf. Your broker will be able to provide you with an analysis of all critical items, such as price, coverage, and service, so you can make the best decision for your company.

Market Allocation Process

Although the *market allocation process* is relatively the same in its initial phases (selecting brokers), the process and results could be substantially different. For example, you have to prepare two sets of specifications and field phone calls from two brokers instead of dealing with your chosen representative. You will need a format to compare different bids from the brokers.

Listed below is a brief outline of the process and some advantages and disadvantages of using two or more brokers:

Overview

1. Start the process even earlier than you would if you were choosing to *select one broker*. Four to five months prior to your renewal date is a good time to begin interviewing brokers. This will ensure you make your selection at least 120 days before renewal.
2. Assign the appropriate markets to each broker 60-90 days before the renewal. Make a clear distinction, by line of insurance, which markets each broker has access to so any confusion by the underwriters is avoided.

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3. Within the next 60 days expect the insurance companies to perform loss control analysis and further review. The selected brokers should give you consistent feedback on how the markets are responding and what to be prepared for.
4. Receive proposals 10-30 days prior to your renewal date.
5. Award the bid no later than 10 days prior to your renewal. This will help the broker get certificates of insurance out in a timely manner and clean up all subjectivities with the selected markets.

Advantages of Two Broker Bids

- The most important advantage is the generation of new, innovative, and creative solutions that a second broker might be able to present. Have you taken a look at this insurance option? Has your broker tried carving out this portion of your program? What about these payment terms? These are some of the questions that your incumbent broker should be asking, but could also be generated by getting a second opinion.
- Cost savings on ancillary lines of coverage is another possible advantage. For many contractors Property Insurance, Equipment Coverage, Professional Liability, and Employment Practices Liability Insurance, are not the drivers in your program, but saving a couple thousand dollars across numerous lines of insurance could add up quickly.

Disadvantages of Two Broker Bids:

- The time you now spend on gathering information, answering questions, analyzing proposals, and making a program decision doubles when two brokers are involved. This process could be tedious and take so much time that it may not be the most efficient way to make your buying decision.
- Not choosing one broker could muddy the waters for the insurance companies. If you do not allocate your markets clearly, and carriers are being approached by two different brokers, an insurance company could decline to quote based on conflicting underwriting data.
- Another disadvantage is, while in the spirit of competition, the brokers, insurance companies and you may lose sight of what is really important. Choosing the right broker (is the broker qualified?), selecting the right insurance company (not the cheapest price), and ensuring that your risk management program covers your operations (does this program reflect a true understanding of your company?), should always remain the common goal, for all parties involved.

When using two brokers, we suggest taking your time. Evaluate all of the options with an experienced risk manager or consultant. You must maintain your focus on the goals you want to achieve, and not confuse the lowest price with the best overall

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program. If you are getting high quality service from your broker (claims administration, loss control, risk transfer training, etc.), your program and experience will result in the lowest price in the marketplace.

It has been our experience that picking an expert construction broker with substantial market relationships will get the best results for your business. We have found it usually takes a substantial investment in time from the broker to truly understand your business and cater a program to fit your needs. Changing, or bidding, an insurance broker often is not the way to obtain the best results. Remember that a broker's compensation is typically less than 10% of your total premiums. Putting brokers out to bid to save 10% on the broker's fee translates to a 1% savings to you the client. A good broker can negotiate better savings from the other 90% of the annual premium cost. Getting a 10% savings on the other 90% can translate into a 9% savings to you because you chose the right broker. Long-term relationships and a proven track record of successful experience are major factors in pricing your insurance program. It is the broker's responsibility to enhance your relationships and offer you creative solutions.

Written by George Luther & Mike Landucci of Allied North America. Allied North America is a national, privately held insurance & surety brokerage focused solely on the construction industry and the improvement of our contractor clients Risk Management & Surety Programs.