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HOW TO SELECT YOUR COMPANY'S *Insurance Agent or Broker, Part 2*



A cost effective and comprehensive insurance program is a key element in maintaining a contractor's competitive edge – as well as a tool to assure survival following a catastrophe.

The first step toward securing such a program is choosing the best possible insurance representative.

Part 1 of this article discussed the types of insurance representatives you might use for advice and insurance placement (such as an independent agent or broker or the account team of a direct writing insurer), as well as several key qualifications to consider.

Indications of a qualified insurance representative include:

- A construction industry focus;
- Demonstrated knowledge and expertise in construction insurance and risk management;
- Access to the major construction insurance markets; and
- A reputation for excellent service, professionalism, and integrity.

This article outlines a process to help you find the best possible insurance representative for your company.

Selection Approaches: The Short List

It would be inefficient and very time-consuming to evaluate every possible insurance representative. So, when you've made a decision to change, the first step is to develop a short list of brokers to consider.

This list should not exceed five brokers, and should include your current insurance representative (unless you have decided a change is definitely in order).

As it is, agents, brokers, and sales people for direct or exclusive writers call on you regularly. Spend a little time learning about their capabilities, focusing your

questions on their construction experience and knowledge. File their information and note those who seem knowledgeable and have a personality you would like to work with for an extended period of time. Use this information to help develop your short list.

One of the best sources of information about agents or brokers and direct or exclusive writers is other contractors. Be sure to ask: 1) who they use, 2) how good a job their representative does, and 3) whether their representative seems truly dedicated to serving the construction industry. If one or two agents or brokers stand out, contact them and consider them for your list.

Once you have a short list, start selecting who will represent your company in the marketplace. A formal process is best: Ask each broker to submit a written proposal that outlines its capabilities, scope of services, and required compensation. After receiving and evaluating these proposals, invite the top two or three brokers to make a presentation and respond to your questions.

Don't Seek Competitive Bids

Notice that this process *does not* involve asking independent agents or brokers to obtain competitive proposals on your behalf from insurers. Historically, it was common to allocate markets to agents or brokers, ask them to obtain quotes, and then choose the agent or broker and insurer combination that provided the most competitive package.

This is no longer a recommended practice. As a result of substantial consolidation in the insurance industry, there are few insurers who write contractor policies, and those that do may target different types of construction specialties.

Most likely, the agent or broker who is assigned the hottest market for your account is going to win the competition by default, and this will not necessarily result in your choosing the best agent or broker. In other words, you may end up with the best insurer, but not the best insurance representative.

It makes sense to choose the best insurance representative that you can, so he or she can go to the market on your behalf and bring back competitive quotes from interested insurers for your review.

One Exception

Your preliminary research indicates that a direct or exclusive writer might be the way to go, but you are having trouble deciding between that approach and using an independent agent or broker. In this case, you might select one independent agent or broker and one or two direct or exclusive writers. This allows

the agent or broker to approach its insurers and compare the best quotes with those obtained from the direct or exclusive writers.

If You Simply Must Seek Competitive Bids

What if you or your executive management feels strongly that it's important to have multiple agents or brokers bid on your business? If this is the case, use the proposal process to narrow the field to only two agents or brokers. Then, allow them to obtain competitive bids from insurers for your review.

To avoid multiple agents approaching the same insurer, remember to assign specific markets to specific agents. But, only use this process if you would be equally happy with either agent or broker serving your account. Otherwise, you may be disappointed if your top choice submits the second best quote simply because of the market allocation process.

In summary, you will generally get poorer results if you ask multiple agents or brokers to obtain competitive proposals, rather than if you choose one (or at most two) to approach the market for you. However, if you feel strongly that this type of competition is needed, this approach should yield the best results.

The RFP Process

The next step is to identify the services you need from your insurance representative. This will certainly include all those services that go with placing insurance, such as marketing to insurers, checking policies, issuing certificates, and confirming audits and experience rating calculations.

In addition, consider what other services you might need, including help with contract reviews, claims reviews, and safety program recommendations. Develop a specific list to address any areas where you think your current insurance representative may be falling short, and then take the following steps.

Choose Your Selection Team

To make the best decision and help ensure management buy-in on the agent or broker chosen, it's usually wise to use a team of managers and executives to make the selection. For example, the team might include you as the CFM, the safety manager, the risk or insurance manager, the corporate counsel, and the HR manager.

In a small company, the president or CEO and someone from operations might be involved. In a larger company, the entire risk management department (or at least several people from the department) should be considered.

The key is to involve enough people to make a wise decision and to involve those from whom buy-in is most important. If you have little experience evaluating agent or broker capabilities, or are concerned that you don't have the time to do it well, consider hiring an outside consultant who does not sell insurance.

The RFP

Preparing a request for qualifications and conceptual proposals is the first step in the RFP process. The RFP should provide information about your company and its insurance program, and include questions about capability, qualifications, and fees; however, it should not include a request for insurance quotes.

The agents or brokers and direct or exclusive writers who receive the RFP should be given at least 30 days to respond, and you will probably need 30 days to conduct interviews and make a selection. The process should begin no less than 120 days before your insurance renewal, and preferably earlier. The RFP will:

- 1) Describe your selection process and schedule. Remember, the RFP recipients will need time to secure proposals from insurers, evaluate them, and select an insurance program.
- 2) Provide background sufficient for the agents or brokers to understand the size and complexity of your company. This might include a narrative description, your company's annual report, workers' comp payrolls by classification code, and a description of several building projects.

In addition, consider including a list of all corporate entities with a brief synopsis of their activities, a summary of current risk management activities, a company brochure, and other descriptive materials.

- 3) Provide a summary of your company's loss history and insurance program. Include up-to-date total losses by coverage line for each of the past five years. The insurance policy information might list policy limits and any special modifications or provisions.

Opinions vary about whether to provide information about current premiums, but many risk professionals prefer not to provide details by line of coverage. However, you could include the total premium for all lines if you want to convey the size of the account beyond that communicated by your company's loss history.

- 4) List the services you want, and be specific.
- 5) Ask questions about who would market your coverages and provide the requested services. Consider asking for biographies of each member of the proposed account

team. Be sure to request specific examples of each person's training and education on construction risk management and insurance. (For example, are they CRIS-certified?)

- 6) Ask for a list of contractor references.
- 7) Request information about how the insurance representative will be compensated, including the specific rates if the plan is fee-based.
- 8) Ask the agents or brokers to specify their five largest markets in general, their largest markets for construction business, the markets they would approach, and how they would do so.

Requests for More Information

You should answer all reasonable questions from the RFP recipients in a timely manner. In the interest of fairness, send each broker any information requested by competitors.

Also, note the creativity and timing of various questions, and consider these factors in your evaluation. For example, when a broker submits a number of specific questions regarding the process used to allocate and manage contract risk, such questions indicate the potential for a higher level of service than those who only ask questions related to the insurance program. Or, you might decide that a broker who submits a list of questions the day before the proposal is due may be displaying a tendency toward procrastination.

The Proposals

To rate each insurer and facilitate comparisons, review the proposals and place key data in spreadsheets. Consider preparing a score sheet that lists the important differentiators. Some examples include: construction industry focus, construction expertise of the specific account team, overall responsiveness to the RFP, appropriate resources devoted to your company's account, demonstrated commitment to professionalism and ethics, and the reputation of the broker as demonstrated by references.

The Interviews

Prepare an agenda to guide the interviews. Ensure that you ask a common set of questions and develop details on missing information. When scheduling the interviews, allow at least an hour for a straightforward account; for a more complex account with extensive service needs, the interview could take two hours or more.

Following each interview, discuss the presentation with the selection team. This allows identification of strengths and weaknesses while the information is fresh. If you're using a

score sheet, complete it at the end of each interview. It can be reviewed and tweaked before making a final decision, but it's important to record impressions soon after the presentation.

The Decision

After the last interview, ask team members to rate the brokers and select the one they believe is most qualified. The downside of score sheets? If not carefully constructed, they can lead to wrong conclusions. So, while the scores should provide some excellent guidance, factors not included on the score sheet may also be appropriate for consideration.

Conclusion

By carefully selecting a professional insurance representative and communicating your expectations, you can add an effective business advisor to your management team.

Take a long, hard look at the level of service your current insurance representative provides and determine if any deficiencies could be handled by better communicating your expectations. When you decide to make a change, establish a goal of adding a trusted advisor (instead of a mere insurance provider) to your team. If you succeed, the benefits will be great. **BP**

Editor's Note: Portions of this article were excerpted from "Broker Selection," a chapter in *Practical Risk Management*, published by International Risk Management Institute, Inc.

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