

## Hiring Your Insurance Advisor

Hiring an insurance advisor to handle your insurance is a critical necessity for a business owner. While many business owners know this, unfortunately, others default to a personal friend, a relative in the insurance business or the sales person that is friendly and wants to save you money. While there is not really anything terribly wrong with this, after all, you should work with someone you like, it is often better to work with someone you respect. That respect should be based upon experience AND knowledge. The problem with that sentence is; since you do not understand insurance in all of its complicated glory, how do you select your broker? Well, nothing is a perfect science, but if we put aside personalities for a little bit, there are some basics that you can follow that will help you make an appropriate decision based upon facts and then can factor in the personalities. At the end of this article is an interview sheet that you can use that may be of help to you in this endeavor.

### **Some Home Truths**

First: Interview a prospective insurance agent/broker and qualify them according to your own needs.

Second: Insurance is a large portion of your annual expenses.

Third: You have a significant potential for uncovered losses that can put you out of business or cause you to lose capital and/or assets.

Fourth: All insurance policies are not created equal.

Fifth: There is no such thing as coverage for every type of loss

Any insurance broker that starts the conversation by offering to reduce your insurance premium should be shown the door - immediately. If that is all they have to offer, move on.

### **It's all About Price, Right?**

Purchasing insurance is a very serious consideration for the preservation of your business capital and should NEVER be just about price. Every agent/broker will attempt to get the lowest possible premium so that they are competitive. Many businesses have purchased insurance only to find out at the time of a loss, that the insurance was inexpensive because it did not provide proper coverage. Although agents and brokers are licensed, there are great differences of education, knowledge and market understanding among them. An insurance advisor that is at the top end of that scale is an invaluable resource to you and your business. For illustration purposes, here's a classic example: An underground water pipe breaks and the business owner has to remove a significant portion of paving as well as the pipe and replace both. The cost is \$500,000. The insurance coverage placed by their insurance broker paid not a dime. Why? Underground pipes and pavement are often excluded types of property. Here's the pitiful part: Coverage can be provided for these items and at no additional premium (the limit of insurance, however, must include these values).

It is important that you understand which losses you are insuring and which losses you are retaining. A knowledgeable insurance advisor will help you identify your normal as well as unique exposures to loss, offer coverage and, most importantly, be able to explain that coverage in terms that make sense to you as a business owner without a lot of insurance

techno-babble. Think about the many complexities of various contracts you enter into. Insurance is another contract that is just as complex and detailed as your other business agreements.

### **Keep 'Em Honest**

If you are sending your insurance out to quote to “keep your insurance agent honest”, get another insurance agent because clearly you do not trust your current agent. You should have a trusted advisor that has demonstrated their skill and depth of knowledge; who understands you and your business by asking for information and providing insurance or other risk guidance to you on an ongoing basis. If your business generates significant premium, interview competing agents and select one in addition to your incumbent agent and obtain a coverage review and quotation every three years. You should create a RFP in order to provide the same information about your company to each competing broker. Assign them insurance markets; allow your current advisor first choice for their top three or four insurance companies and have the competing broker identify the three to four insurance companies they will be using. The competing broker cannot use the same markets as those of your current broker. Your current broker should always bring their proposal to you after the competing broker.

### **Don't Shoot Yourself in Your Foot**

NEVER provide one broker's proposal or reveal information to the other. If the competing broker brings significant coverage issues and solutions to the table that your current advisor has never talked about, then perhaps you need to reevaluate your choice. One of the business practices that is the most aggravating to insurance professionals and is just plain wrong is to send everything that a competing broker has developed as risk exposures and solutions over to the existing broker by the owner. If the exposures are significant and the coverage analysis has been performed and specifics given to you – why would you do this? Let's see if this makes sense: Give someone else's work to the person that has been mishandling your coverage and tell them to fix it. That is not buying insurance based upon real solutions – that is simply buying insurance either from someone you like or because you think they are the cheapest game in town.

### **Ask and Tell Policy**

The relationship between you and your insurance advisor must be based upon proper communication. Tell your broker everything about your business; ask questions about your insurance program. **Never assume that “your agent is handling” it.** Ask your insurance advisor to become involved in contract negotiations or buy-sell agreements BEFORE you sign them. Their job is critical to your continued viability as a business: standing between you and your loss of capital and assets. As President Reagan famously said: Trust, but verify.

## Important Terms

<b>Agent</b>	Places your insurance coverages through an insurance company with which they have a contract (called an agency appointment). An agent legally represents the insurance company to the buying public. Note that in some states, the state regulations use the term “producer” and may encompass both an “agent” and “broker” in a legal capacity.
<b>Independent Insurance Agent</b>	Often represent many insurance companies with which they place insurance. Although legally representing the insurance company, they also represent the insurance buyer and have a different status than agents that represent only one company.
<b>Broker</b>	Places your insurance coverages with one or more insurance companies. A broker legally represents the insurance buyer to the insurance company and is not required to have a contract with any insurance company. A broker can go directly to certain insurance companies or may access insurance companies through a surplus lines broker.
<b>Surplus Lines Broker</b>	Also known as a “wholesaler”. This is a company through which difficult lines of insurance are written. State laws control how the insurance delivery scheme is enacted. Your broker goes to the wholesaler who places your coverage through an insurance company. The insurance company could be “admitted” or “non-admitted”. You will pay fees to both and these should be completely disclosed to you, in writing. The premium for a non-admitted insurance company does not include taxes and fees; those must be disclosed in writing along with the actual premium.
<b>Insurance Market Access</b>	The type of insurance professional that has the widest market access is an independent insurance agent who is also licensed to act as an insurance broker. Although the license name varies by state, the critical question is: Can you only write business through insurance companies with which you have a contract or do you have access to a wide variety of insurance companies directly or through surplus lines brokers? This allows the widest insurance market access to properly transfer your exposures on a competitive basis.
<b>Insurance Consultant / Risk Manager</b>	An independent person who works exclusively for the hiring party. This person will provide guidance for managing your risk and will work directly with your agent/broker (or prospective agent/broker) for proper insurance placement. An independent consultant should never actually place your coverage. This person should create insurance specifications that are extensive, provide those to your agent/broker and review the insurance placed and received for conformance. Verify that your consultant does <u>not, in any manner</u> , receive payment or share in the commission from the insurance agent/broker. This creates a conflict of interest and the consultant is no longer acting exclusively for you. A consultant should also never promise to reduce your premium and receive a fee for doing so. This also reduces the altruistic nature of the relationship.

The italicized comments are explanations about the specific questions in that particular box.

<b>Qualifying Questions</b>		
<b>Agency / Brokerage</b>	How long has your agency been in the insurance business? <i>(At least 10 years)</i>	
<b>Agent / Broker</b>	How long have you been in the insurance business and how long with the agency? <i>(At least 5 years for both)</i>	
<b>Experience</b>	<p>How long have you worked in my class of business? (At least 3 of the last 5 years on a constant basis (not one or two accounts) (Remove all that do not apply to you or add your specific class)</p> <p style="padding-left: 40px;">Manufacturer / Processor / Fabricator</p> <p style="padding-left: 40px;">Contractor <i>(General or Sub – be specific)</i></p> <p style="padding-left: 40px;">Commercial Use Property Owner / Habitational Use Property Owner</p> <p style="padding-left: 40px;">Real Estate Developer</p> <p style="padding-left: 40px;">Retail / Wholesale</p> <p style="padding-left: 40px;">Farm / Agricultural</p> <p style="padding-left: 40px;">Automotive Industry</p> <p style="padding-left: 40px;">Trucking / Shipping / 3PL</p> <p style="padding-left: 40px;">Personal Insurance</p>	
<b>Market Experience</b>	How much leverage, i.e. premium, do you have in the marketplace for my class of business?	
<b>Licensing</b>	Agent Broker Both	
<b>Education</b>	<p>Do you have a degree in either insurance or risk management?</p> <p>What insurance industry designations do you hold?</p> <p><i>Designations held by the agent/broker and the account manager(these are important as they are not required for licensing, but are voluntary choices made by the individual to further their professional knowledge). The following represent certain designations that would have the most benefit to you:</i></p> <p style="padding-left: 40px;">ACSR (Accredited Customer Service Representative)</p> <p style="padding-left: 40px;">AFIS (Agriculture and Farm Insurance Specialist)</p> <p style="padding-left: 40px;">AIC (Associate in Claims)</p> <p style="padding-left: 40px;">ARM (Associate in Risk Management)</p> <p style="padding-left: 40px;">ChFC (Chartered Financial Consultant)</p> <p style="padding-left: 40px;">CIC (Certified Insurance Counselor)</p>	

	<p>CISC (Certified Insurance Specialist in Construction  CISR (Certified Insurance Service Representative)  CLU (Chartered Life Underwriter)  CPCU (Chartered Property and Casualty Underwriter)  PRIS (Property Risk and Insurance Specialist  CRIS (Construction and Risk Insurance Specialist)  CRM (Certified Risk Manager)  RPLU (Registered Professional Liability Underwriter)  Other</p>	
<p><b>Services Offered to Clients</b></p>	<p>Does your agency have a website or brochure that outlines your services and professional commitments to us?</p> <p><i>All agent/brokers will tell you that they provide great service. What specifically does that mean? The agent should be able to exactly what they mean by that statement. These services may be provided by calling the agency if they do not have a website but not all agencies offer any or all of these services. Most agents / brokers that provide any or all of these services will provide a few of them at no additional cost – but many of these will be performed for an additional fee. Find out the fees that will be charged.</i></p> <ul style="list-style-type: none"> <li>• Do you provide newsletters or articles to their clients?</li> <li>• Is there a client section that provides information on current insurance issues or trends?</li> <li>• Do you provide loss control or prevention services?</li> <li>• Do you provide HR training, development or other services?</li> <li>• Do you provide OSHA compliance training?</li> <li>• Do you provide Workers’ Compensation claims monitoring?</li> <li>• Do you provide Certificate verification and compliance services?</li> </ul> <ul style="list-style-type: none"> <li>• Do you offer a client portal to provide immediate access to: <ul style="list-style-type: none"> <li>Policies</li> <li>Ordering changes</li> <li>Ordering Certificates of Liability Insurance or Evidence of Property Insurance</li> <li>Reporting a loss</li> <li>24 hour turnaround for Certificates or Evidence of insurance</li> </ul> </li> </ul> <p>Do you offer seminars to your clients?  If yes, subject matter:</p>	
<p><b>Contracts /</b></p>	<p>Are you experienced in reviewing Contracts, Leases, Bills of Lading?</p>	

<p><b>Leases / Bills of Lading</b></p>	<p>Are you willing to perform this service for us?</p> <p>Is there an additional fee for this service? If yes, annual amount:</p> <p>How many contracts they have reviewed in their entirety?</p> <p><i>This is critical for a proper review of both your risk transfer to others and acceptance of risk by contract. Note that the entire contract needs to be reviewed as there are many risk issues in various sections of the contract, NOT just in the insurance requirements section.</i></p> <p><i>If the agent / broker is unwilling or unable to perform this function, get another agent/broker that is more experienced or hire an insurance/risk consultant.</i></p>	
	<p>Are you willing and able to assist us in setting up bid or supply contract specifications that reflect the coverages we have purchased?</p>	
	<p>Are you willing and able to allocate premium among my various entities, locations, customers or contracts?</p>	
<p><b>Coverage Knowledge</b></p>	<p>Does the agent/broker begin their discussion solely about reduced premium or is the dialogue about risk exposures, loss of capital and harm to financial ratios, etc.?</p> <p><b>Note:</b> <i>Always have some specific questions in mind before the interview process that are specific to your business operations.</i></p> <p><i>Two small examples:</i></p> <ol style="list-style-type: none"> <li><i>1. We are a closely held corporation with a small board. Do the executives and board members have an exposure to litigation? (Yes) What is the exposure? (Customers, competitors, vendors, government) What kind of insurance would you recommend, if any? (D &amp; O coverage)</i></li> <li><i>2. We have put in a significant amount of improvements &amp; betterments into our leased building. What coverage would you recommend for this exposure? (Increase the contents coverage; add Leasehold Interest coverage. The first coverage pays for direct loss, the second coverage pays for the loss of investment due to cancellation of lease by a covered loss.)</i></li> </ol> <p><i>Is the agent / broker able to clearly explain your coverage requirements based upon your discussion of exposures and answer all of your coverage questions?</i></p> <p><i>It is important to understand that coverage language varies widely among the various insurance companies for almost every type of insurance. Your agent/broker must have an understanding of the coverages and be able to explain them to you and offer coverage choices so that you can make a proper decision in your insurance purchase. If the person is unable to perform this function, get another agent/broker or hire an insurance/risk consultant.</i></p>	

	Will you provide letters of reference from your other clients?	
<b>Coverage Placement</b>	<p>Will you provide marketing spreadsheets at each renewal showing:</p> <ul style="list-style-type: none"> <li>The insurance companies asked to provide a quote</li> <li>Insurance companies declining to quote and why</li> <li>The insurance coverages included by the quoting insurance companies</li> <li>The coverage specifications, endorsements and limitations</li> <li>Coverage recommendations with an explanation</li> <li>Alternative coverages and quotations</li> </ul>	
<b>Claims / Loss Control</b>	Do you have trained claims personnel that can assist us with our claims?	
	<p>Do you have trained loss control or safety representatives to assist us in managing our loss exposures?</p> <p><i>These people are sometimes only qualified as workers' compensation safety and loss control. Ask what areas they are qualified for: Property, General Liability, Workers' Compensation</i></p> <p><i>Ask about their education in this area, along with their years of experience. One of the designations for claims personnel is the AIC (Associate in Claims) designation.</i></p>	
<b>Relationship</b>	<i>Does your incumbent or prospective agent/broker ask you numerous questions about your business on an on-going and regular basis? They should be acting in a pro-active manner and providing information and suggestions to you about managing your business risk and exposures. A professional agent/broker not only acts as your advocate but your advisor and needs to know as much about your company as possible.</i>	