



## HOW MANY AGENTS? BIDDING YOUR INSURANCE

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Your organization's insurance program is one of its most valuable assets. You need insurance to fund any losses that could otherwise put you out of business. Other reasons for insurance are many facilities (hotels, restaurants, schools) require proof of insurance, your board members want Directors & Officers insurance, and your volunteers may ask for accident insurance.

All organizations strive to reduce or control their insurance costs. Many believe "bidding" their insurance with at least two (2) competing insurance agents or brokers will save them money. People think the competing agents keep each other honest and result in the best coverage for the best price. This is faulty thinking and here is why.

### Insurance Is Not a Commodity

Nonprofits are complicated organizations where no one policy or insurance company meets the needs of all nonprofits. Two agents competing on an account implies that buying insurance coverages is comparable to buying office furniture. While personal auto insurance and homeowners policies can be considered commodities similar to furniture, most insurance coverage for nonprofits is more complex, made up of customized intricate legal and financial documents.

Policies with similar names such as "commercial general liability" can have substantial differences in coverages. The policy may have exclusions, such as advertising and personal injury or products and completed operations coverage, that another policy with the same title does not have. Another general liability policy may have custom endorsements that broaden coverage. So although the quotation says "general liability" the devil is in the details, and you do not know exactly what is covered without reviewing the coverage forms and all endorsements.

## **Insurance Industry Consolidation**

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The insurance industry continues to consolidate through mergers, acquisitions, and insolvencies. According to the Independent Insurance Agents & Brokers of America (the Big “I”), the 46,000 independent agencies in 1992 were reduced to 39,000 by 2004. The consolidation is even more dramatic among insurance companies.

The number of insurance companies willing to write nonprofits continues to decline. For example, two companies that wrote nonprofits, The St. Paul and Travelers Insurance companies, merged further lessening competition. Also within the nonprofit insurance marketplace, many insurance companies specialize further and only write certain types of organizations. Some will only write professional or trade associations (subject to further restrictions on types of associations), others only want social service agencies, rehabilitation programs, camps, etc. There simply are not enough insurance companies to support two or more agents competing for the same nonprofit account.

## **How the Insurance Marketplace Works**

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Another danger with competing agents is that you may not get the best coverages and price from an insurance company. You never benefit if an insurance company receives submissions for your organization from two different agents. The company may decline to quote for either agent or offer a “weak” quotation to the agent that submitted the account first. Insurance underwriters are busy and do not want to work on an account unless they have a good chance of writing it (as they say, “We don’t need practice quoting.”). Underwriters strive to work with the agent that controls the account to improve their chances for success.

## **Your Time**

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Using competing brokers requires you to do twice the work. Each agent needs to perform a thorough insurance assessment to identify your insurable exposures and evaluate your current insurance program. Facilitating an insurance assessment takes a lot of time for staff to meet with each agent, provide materials and resources for review, and provide full copies of your current insurance policies. You cannot simply provide copies of your current insurance policies and expect an agent to do a good job for you.

You (not the agent) also need to develop the insurance specifications, since you have to give the same information to both agencies. When one agent or company asks questions, you need to provide the questions and answers to both brokers so the playing field stays level.

Once you receive the competing quotations, you have to choose the best one. Quotation comparisons drive insurance professionals crazy so imagine what it is like when you have to do it. When one policy is significantly cheaper, you have to figure out why. The cheaper policy may exclude needed coverages, exclude or limit certain operations or be rated incorrectly (Incorrect classifications provide a lower rating basis.). When rated incorrectly, the error is often caught during the annual policy audit that generates a large additional premium charge.

## **Alternative to Competing Brokers — Broker Selection**

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A better approach is to select your insurance agent or broker as you choose your accounting firm or investment advisor. You can do it yourself or use an insurance consultant to help you through the process. Here’s what you do:

Develop specifications or a request for proposal (RFP) for what services and any special qualifications you want from your insurance agent. Highlight your organization and provide a summary of your current insurance program.

Distribute the RFP to 3-5 qualified insurance brokerage or agency firms. Provide instructions for responding to the specifications.

Review the responses and invite 2-3 firms for personal presentations and interviews.

Select the firm to represent you.

If you are happy with your current agent, do not go through the selection process. If you decide to conduct a broker selection and include your current agent, be sure you are willing to change if that is the right decision. Otherwise it is not fair to the other candidates.

Once you have chosen a broker or agent, the firm can begin its insurance assessment and review. Again you have the option of using an independent consultant. From the assessment and review the agent develops the insurance specifications and submits them to all viable insurance companies.

## Help Is on the Way

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Although your insurance agent provides many valuable services, an insurance assessment conducted by an insurance consultant is another option. Use an independent consultant that is not affiliated with any insurance company or brokerage firm and does not sell insurance to guarantee objectivity. The consultant can conduct the insurance assessment and perform a review of your current insurance program. The consultant's report will highlight any weaknesses in the current program and recommend options for improving the coverage.

An insurance consultant can also help you with the broker selection process, developing insurance specifications and managing the insurance purchasing process. (Croydon Consulting just happens to offer these services.) While this may seem redundant with an insurance agent, the process works well and offers additional assurances that your insurance program is as it should be.

## Summary

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Having two agents competing on your account is a waste of everyone's time to the point where many brokers refuse to participate in competitive bid situations. A better option is to validate your insurance program through an independent insurance assessment and review. Then have your agent market your account every three to five years. You may want to do it in a shorter timeframe if the organization has undergone substantial operational changes (new programs, mission revisions, ending programs), or significant change in staff size. Or you can do it because it will make you or your board of directors feel better.

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