Using A Lean Methodology To Select The Best Insurance Broker For Your Company

A Total Cost of Risk evaluation will identify a choice that aligns with strategic goals.

Introduction

Companies that apply Lean Risk Management Principles to the broker selection process have experienced significant cost saving. This article discusses how companies can eliminate waste in insurance brokerage services and improve their insurance program in the process.

By Lori L. Siwik
Founder and Managing Partner
SandRun Risk

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Protecting your business' assets is important for maximizing productivity and improving business performance. "Risk management" has been defined as the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to eliminate, transfer, minimize, monitor, and control the probability and/or impact of unfortunate events; and to maximize strategic opportunities.[1] Frequently, businesses purchase insurance to manage the risks.

More companies are evaluating how they manage their risk management function and concluding that improvements are needed. They are looking at how they purchase insurance and their broker's performance in the insurance-buying process. We encourage such reviews through a Total Cost of Risk Analysis.[2] A Total Cost of Risk (TCOR) Analysis might show that a company is paying more for insurance than its competitors. It might also confirm that the basic service from the current broker is lacking. This is evidence of waste!

To remove this waste, companies can use a "kaizen" model by initiating a broker-selection process. The kaizen process kaizen focuses on rapidly improving a process so that it creates more value and less waste.[3]

Companies should go through a thorough brokerage firm selection process every three to five years. Why? Because having the right brokerage firm is key to ensuring that the company is receiving top service and the brokerage firm is using best practices.

During the kaizen, the company will undertake a Request for Proposal (RFP). The RFP will follow a format to document the scope of the project — a "value proposition." The value proposition will: help the company align around the objectives of the RFP and agree on what to include in the RFP; identify those brokerage firms that will be part of the RFP and who within the company will drive the implementation of the RFP; and serve as the agreement on how the RFP will be handled.

The objectives of the RFP must be clear, measurable, and have specific time targets. In order to develop objectives for the RFP, the company should go back to the ***identity of the problem and think of the conditions that must be met to consider the problem solved.*** This is what drives the kaizen process. For instance, a problem could be that the TCOR is above peer benchmarks, and the objective would be to reduce TCOR to the peer average.

A lean risk management consulting firm can be retained to effectively manage the broker-selection process. In doing so, the company needs to identify who internally will be the "process owner" — the person or persons who will be responsible for the performance of the RFP process. This often is the CFO, Treasurer, General Counsel, or Risk Manager.

Several brokerage firms should be considered as part of the process. Referrals, publications, industry associations, current working relationships, and the risk management network are good ways to identify candidates.

1 Hubbard, Douglas (2009). *The Failure of Risk Management: Why It's Broken and How to Fix It*. John Wiley & Sons, p. 46.

2 The Total Cost of Risk Analysis was discussed by the author in *Using Lean Risk Management to Reduce Costs: How a Total Cost of Risk approach eliminates waste and maximizes the value received from insurance programs.*

3 *Lean Lexicon, Third Edition,* Lean Enterprise Institute, p. 37 *insurance programs, May 2013.*

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The company should decide what type of broker-selection process they want to undertake. There are two types. One is a conceptual process — a "beauty contest" during which several (four or five) insurance brokers present their credentials and ideas to improve the company's insurance program. The company selects the brokerage firm with the best credentials, service proposal, and market expertise. The other type of broker-selection process is called a managed-broker placement. The brokerage firms compete against each other in the placement or renewal of insurance policies at competitively bid prices.

Once the brokerage firms are selected, an RFP letter is sent to each of them identifying the type of broker-selection process being used, the purpose of the RFP, the identity of the policyholder, the insurance programs that are part of the RFP, location of policyholder data needed for the RFP[4], rules for the RFP, specifications, qualifications and references, timing of evaluating the policyholder data, and timing for producing the written proposal and making an oral presentation.

The written proposal from the brokerage firms should be focused on the specific needs of the company and how effectively the brokerage firms can represent the company. The written proposal should meet the objectives of the RFP as set forth in the RFP letter.

After the brokerage firms submit their written proposals, they will attend a face-to-face meeting where several members of the brokerage firm can discuss the written proposal, meet with the company, and demonstrate the strength of their skills and abilities in representing the company. Brokerage firms have staffs who are "specialists" in the various types of insurance coverage: general liability, property, international, directors and officers, workers compensation, etc. Brokerage firms will bring these specialists to the face-to-face meeting as they will be the ones working on the company's insurance program. It is a way for the brokerage firms to demonstrate the strength of their skills and knowledge. It is also a way for the company to evaluate the brokerage firm and its staff.

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4 Information about the company, loss runs, policies, insurance programs (insurers, limits, retentions, and exposures), engineering reports, etc., should all be made accessible to the brokerage firms involved in the RFP. To be fair, a data room should be set up to give each of the participating brokerage firms access to the same data.

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A number of criteria should be considered by the company as part of the RFP process. Below are just a few of the criteria that should be included in the evaluation:

- **Advocacy ability**: The brokerage firm should know how the insurance carrier is rated, thoroughly understand policy language and differences in policy forms among the various carriers, and know the insurance company's claims-handling and payment policies. The brokerage firm selected should be an advocate for you, not the insurance company.
- **Industry expertise:** Understands your business
- **Technical competence**
- **Location of the brokerage firm — compared with the location of the company**
- **Financial condition of the brokerage firm**
- **Market access**: Should reach out to several insurance carriers in the marketplace, not just one.
- **Clear communicator**: Expresses himself/herself clearly. Responds promptly to telephone calls and emails.
- **Credentials and experience:** Are they a CPCU, CRM, ARM, JD, MBA? Has been a broker for several years and has broad experience as a broker for many companies.
- **Outstanding service**
- **Strong ethics**
- **Global capabilities**
- **Technology resources**
- **Broker compensation:** Commissions, fee based, combined commission and fees, incentive/bonus plans?

A good lean risk manager should use a Broker Selection Criteria Ranking Sheet to evaluate each of the brokers, their proposals, program structures, remuneration, placement estimates, and other criteria. The above criteria, and many more, are set forth on the Ranking Sheet. Each of the brokerage firms is scored on the criteria, and then the brokerage firm with the highest score is selected. This is the most efficient way to ensure that the broker-selection process is fair, and that the company selects the broker that best understands the company and its needs. Using an objective scoring system to evaluate potential brokers can shed light on hidden waste and illuminate the path to a decision that results in the best broker to provide a solution to the identified problem.

Conclusion

Competition between brokerage firms as part of the broker-selection process and competition among insurance companies vying for the business are essential tools in helping companies discover what solutions are available in the marketplace. When properly managed, using lean methodology, companies can assure they receive top value for their dollars, and thus gain the competitive edge they are striving to achieve without paying too much.

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