SPECIAL REPORT

AN INSURANCE BUYER'S GUIDE TO BUYING PROPERTY & CASUALTY INSURANCE

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TIPS ON AVOIDING COMMON PROPERTY & CASUALTY INSURANCE PITFALLS THAT COULD DESTROY YOUR BUSINESS

- **Buying Property and Casualty Insurance**
- **Selecting an agent to represent you.**
- **Selecting an insurance company.**
- **The quote process.**
- **Ordering and reviewing policies.**

How do you buy insurance? The worst thing you can do is to behave as the typical insurance buyer. This is the buyer that makes multiple copies of his or her current insurance policies and invites multiple agents to bring in quotes from multiple insurance companies, asking that they quote "what I have right now."

Assuming that the insurance buyer has five different agents that go to five insurance carriers, there may be 25 insurance carriers "bidding" for an account. When these carriers receive a submission, they record the information in their computer systems and examine whether or not they looked at the same account previously.

If these carriers decide to go forward with a quote, which is less likely if they perceive that the insurance buyer is a constant "shopper," they will send out insurance company inspectors who will, for the most part, all ask the same questions while looking at the same facilities, consuming enormous amounts of insurance carrier's and insurance buyer's time. Insurance carriers then spend additional time preparing premium quotations which are relayed to the insurance agents who prepare their own proposals for presentation to the insurance buyer.

All of this, as it turns out, is usually a waste of time because the insurance buyer never intended to leave its long time agent to begin with but just wanted to keep that agent "honest." This type of wasteful "quote contest" will surely come back to haunt the insurance buyer when the insurance really needs to be placed because of a cancellation or non-renewal.

There are occasions, however, when it may be appropriate to consider making a change in agents or insurance carriers. Some reasons for doing this are:

- The insurance agent is not providing effective services, for example, risk management services.
- The agent does not represent a sufficient array of insurance carriers.
- Agency service is relegated to the least experienced representative.
- The current insurance company is attempting to impose rate increases that are unaffordable or they may, in fact, withdraw from writing your type of business.
- The current carrier is no longer able to provide the coverages or limits necessary.

<u>Changing Insurance Agents or Insurance Carriers</u>

Changing agents and/or insurance carriers needs to be done very carefully because of the many hidden risks.

Risks Involved in Changing Insurance Agents

The potential pitfalls involved in changing insurance agents are numerous. Consider the following:

- An insurance agent, due to inexperience, incompetence, or fraud may misrepresent your account, using incorrect classifications or loss information. This can result in coverage denial, rescission of the policy, or retroactive premium adjustments.

- An agent may turn your account over to an inexperienced or incompetent customer service representative in the agency.

- An agent may send your account to an insurance company controlled service center which assumes the account servicing responsibilities, using ever-changing customer service representatives who represent only one point of view — the insurance carrier that employs them.

- An agent may have financial problems and might not render proper payment to the insurance company.

- An agent may have little "clout" with an insurance carrier because of low premium volume or bad loss experience in the aggregate for accounts placed by the agent.

- An agent may be on the verge of termination of its contract with an insurance carrier, which means a non-renewal of your account in most cases.

- An agent may quote your account using computer based rating systems assuming that the underwriter will honor the quote if the agent gets the business; however, as it turns out, the insurance company's appetite has changed and the quote is not honored.

- An agent is selling only policies, not a coordinated program.

- An agent lacks the capital to provide additional services.

Risks Involved in Changing Insurance Carriers

There are also risks in changing insurance carriers:

- There is the risk that the insurance carrier will become insolvent and cancel mid-term. Most insurance carriers can cancel without any reason with only 10 to 30 days notice depending on the type of policy, and could fail to return pre-paid premiums or pay claims.

- There is the risk that after writing an account the carrier will have a change of appetite and will either cancel your account mid-term or non-renew at the next renewal date.

- The insurance carrier may terminate doing business with the agent.

- The insurance carrier will perform payroll audits differently, resulting in major additional premiums being retroactively applied.

- The insurance carrier may cancel your account after one claim.

- The insurance carrier may inspect after the business has been placed and then want to cancel the policies mid-term with 10 to 30 days notice.

- The insurance carrier may find that the agent misrepresented the account and cancels mid-term.

- Coverages are less than the previous carrier.

- Claims are handled by an “800” number in a service center in some far away state.

- The insurance carrier checks driving records and excludes drivers that were previously acceptable because of different underwriting standards.

- The insurance carrier obtains loss experience after the fact and finds the agent hid some of the losses and cancels mid-term or non-renews.

- The insurance carrier inspects the account after it is quoted and imposes new or additional loss control requirements, such as a mandatory renovation or installation of an automatic sprinkler system.

If you have been with an insurance company for a considerable period of time and the service from a claims and audit standpoint has been good and premiums are reasonable, you may want to stay where you are.

If Changing Agents or Carriers Is Appropriate, Consider the Following:

If the premium or coverage forms being imposed upon you at your renewal are unpalatable and your current agent does not have a solution, it may be necessary to seek proposals from other insurance companies or from other insurance agents. Here are some suggestions as to how to do this:

- Collaborate with your agent (if you have confidence in that agent) on a shopping strategy. There is both formal and informal shopping of insurance. Formal shopping involves sending applications to insurance companies that are duly recorded in their computer system and may entail actual inspections by the insurance company and the work involved in rating up your particular premiums.

  Informal shopping, however, is the preferred way to determine how to proceed. Your agent, if competent, is aware of numerous insurance companies that may have an appetite for your type of account. Often a phone call will provide an indication as to whether or not the insurance company would be interested and what their pricing might be. In using the informal shopping method you do not burn out the market and you are able to sort out varying offers before you ask an insurance company to formally quote. This is the “rifle” rather than the “shot gun” approach to insurance buying.

  Don’t burn out the market by shopping every year. Look at insurance costs in the long term and also look at these costs as a percentage of sales. Don’t ask for quotes if you are not prepared to move your account. Keeping your current carrier “honest” is not a good reason to shop your account because of the inherent risks in doing so long term. Quoting and inspections by insurance companies are expensive and insurance companies have long memories when they quote an account and don’t get the business. Avoid quote contests which will waste your time and give you the reputation at the insurance companies of being a shopper.

- Pick your agent first and let the agent bring you alternatives. Never use multiple agents. If you do look for alternatives to your current insurance program, remember that the devil is in the detail. Your agent should prepare an accurate submission of all of the facts pertinent to your account. The underwriter needs a quick picture of what your business is, your loss history, your loss prevention efforts, your financial status, and other factors. Your mission is to demonstrate that your account will make a profit for the underwriter and meets underwriting standards.

- Your loss history is the most important information you can give an insurance company and it should be maintained over a long period of time, sometimes ten years or more. Gather this documentation and keep it updated at all times. This will allow you to demonstrate that you have had more profitable years than unprofitable years from a claims to premium standpoint. Never fabricate your loss information but always explain. Insurance carriers will not usually hold a major loss against you if you have a history of profitability.

- If you don't have a safety program, get one now. This needs to be a formal program and you need to actually do it.

- Your financial information is critical. Cooperate with financial reporting agencies. Seek copies of their credit reports to be certain that yours has accurate information. Insurance companies underwrite, to a large degree, based upon your financial ability and will give the best rates to accounts with high credit scores.

- From a management standpoint, show that you have strong management and that it is experienced. Include resumes of key executives.

- In your submission you need to carefully list all entities that you currently use and that you have used in the past. If a new claim is made against an entity that you are no longer using, you will not be covered unless that entity is listed as an insured.

- Driving records are important. Check these driving records yourself on a regular basis or have your agent do it for you. Submit the driving records of your principal drivers to the insurance company with your submission. If you have an effective driver safety program, there will be no surprises in the driving records.

- Tell the underwriter about your maintenance programs. What do you do to perform preventative maintenance on your machinery and equipment, on your roofs, or on your sidewalks?

- In submitting your account, include your sales, payroll and loss history by year. This allows the underwriter to relate payroll and sales to losses.

- Include a summary of the nature of the buildings you occupy. Are these buildings sprinklered? Is the sprinkler system adequate for your type of occupancy? Do you have a central station alarm system? Does the organization used by most insurance companies to establish the rates consider your building to be adequately sprinklered?

- Send pictures and diagrams of your property.

- If you have a safety committee, discuss its operations and its makeup.

- Do you have other written safety and risk management standards in place?

- You need to start early in the process of securing alternative proposals. 120 days prior to the expiration is not too soon.

- Minimize rate increases by considering higher deductibles. Certainly deductibles of $10,000 should be a minimum for many property accounts. You should not be turning in small claims.

- If you choose not to turn in small claims then take advantage of reducing the premium by having a higher deductible.

- You may want to consider trimming “frill” coverages. Ask your agent to break down the premium by coverage. Eliminate coverage for smaller risks such as towing losses, rental reimbursement, or mini-tort losses.

SELECTING AN AGENT TO REPRESENT YOU

Insurance buyers choose an insurance agent to represent them in a variety of ways:

- Direct solicitation by an agent: an agent calls, asks to quote, has the lowest price, and gets the business.

- An insured calls an insurance agency and is assigned to an agent based upon the alphabet, or is given to the agent that is not busy, usually meaning the newest and probably the least experienced agent.

- An insured goes to an agent that a relative or friend had.

- The insured bought the insurance over the Internet and receives service from an "800" number to change autos or to make claims.

- The insured purchases insurance from an agent they liked but the agency that agent worked for reassigned them to another person within the agency. Or, the agent sent the file to an insurance company owned service center that services the account on an "800" number basis, presenting only the products of that one insurance company.

- Specifications were sent to multiple insurance agents and the lowest bidder gets the business.

The purchase of insurance, for the purpose of protecting assets from loss, is a very complicated process requiring expert guidance and advice. The same insurance policy issued by different insurance companies may contain different language and different coverages.

For example, a basic automobile policy covering one automobile in a state such as Michigan allows for a variety of choices:

- What limits of liability: $100,000 or $1,000,000?

- Should personal injury protection be excess or coordinated, and how does this affect health insurance?

- Should excess wage loss benefits be purchased under personal injury protection above the statutory amount? Personal injury protection under the Michigan no fault statute provides limited protection for up to three years.

- What limits for uninsured motorist coverage: $20,000 or $1,000,000?

- What limits for underinsured motorist coverage, and is it even available?

- What deductible for physical damage: $50 or $2,500? What are the pros and cons?

- Is it even worth buying physical damage coverage, such as comprehensive and collision, on a vehicle with minimal market value?

- For personal insurance should the automobile policy be combined with the homeowners policy with the same insurance company? What are the advantages and disadvantages of doing this?

- How should youthful drivers be handled? Should they be placed on the same insurance policy or separately? Should they be added to commercial policies where available?

- What is the best way to title an automobile in order to minimize the risk of losing assets of husband and wife? How should these names be scheduled on the auto policy?

The homeowners policy presents similar issues:

- If the amount of the loss exceeds the limit on the policy for fires, for example, will the insurance company pay above that amount? If so, is there a cap on that amount or is the coverage, known as guaranteed replacement cost, even available?

- How should items such as jewelry, fine arts, furs, gun collections or stamp collections be handled?

- Is mold coverage available, even where the mold is as a result of water damage resulting from a fire?

- Is ordinance or law coverage appropriate to cover differences in building codes?

- What should the limit be for personal liability insurance: $25,000 or $1,000,000?

- How should recreational vehicles be handled, such as jet skis and snowmobiles?

For the commercial account, the options are even more numerous and complicated. The same basic property and liability package policy issued from one insurance company might have 20,000 words and a policy from another company might have only 15,000 words. Which is better?

In addition, there are hundreds of endorsement and coverage options to choose from.

Selecting an agent or insurance advisor to represent an insured is the most critical decision in structuring a commercial insurance program because few insureds are competent to make decisions on an appropriate insurance program to protect their assets.

Also, the truth is that many insurance agents are not competent in all areas. Their mission is to sell you an insurance policy based upon the lowest premium, which may or may not be the most appropriate choice for you.

The following are some of the basics regarding insurance agents, insurance agencies, and other related information.

Licensed Agents

Insurance agents can be licensed by preparing, either by correspondence course or by classroom setting, for 40 hours and passing a basic exam regarding property and casualty insurance.

This exam does not really prepare the insurance agent for the "real world" of personal and commercial insurance. The situation is similar to that of the medical intern. Although the intern may be licensed as a doctor, consulting with the intern is not the same as consulting with an experienced doctor. The insurance exam tests basic concepts pertaining to insurance regulations and some of the insurance coverages, but it is by no means comprehensive and does not equate to experience and long-term training.

There are Several Types of Insurance Agents

Solicitor: A solicitor is appointed by an insurance agency. The solicitor cannot bind insurance but can solicit insurance and place the insurance.

Agent: An insurance agent is appointed by specific insurance carriers and has the ability to bind within the parameters established by the contract with the insurance company.

Brokers: An insurance broker is basically the same as an insurance agent. In essence, the broker or agent is an intermediary between the insurance organization and the insured, receiving a commission for services rendered. The broker usually has no authority to bind an insurance company without its specific permission.

Surplus Lines Agent: A surplus lines agent is licensed to place insurance with insurance carriers that write specialty insurance, and that are not admitted to do business in the particular state involved. The major difference between admitted and non-admitted carriers is that the state insolvency fund will not protect an insured for the insolvency of a non-admitted insurance company.

Establishing Qualifications

How do you establish the qualifications of your insurance agent? This is obviously critical because it is the insurance agent that is making recommendations as to appropriate coverages and the appropriate placement of insurance for an insured's account.

Look at the experience of your insurance agent in your field. Does your agent specialize in a particular industry or profession, or is your agent more of a generalist representing the local ice cream store as well as the local plastics manufacturing company? Generally speaking, the agent specializing in a particular area of commerce is better than a generalist.

The professional designations held by the insurance agent are important in establishing their commitment to their field and their level of knowledge.

The following are the typical designations:

- LIC – Licensed Insurance Counselor
- CIC – Certified Insurance Counselor
- CPCU – Chartered Property and Casualty Underwriter
- ARM – Associate in Risk Management
- AAI – Accredited Advisor in Insurance
- CLU – Chartered Life Underwriter
- CRM – Certified Risk Manager
- JD – Juris Doctorate (attorney)
- CPA – Certified Public Accountant
- CISR – Certified Insurance Service Representative

If your insurance agent has been in the field for a number of years and has no designations, you need to question his or her competency and commitment to the insurance profession.

Negotiating skills are critical as well. This is the ability to present your account to an insurance carrier and to negotiate the coverages that are appropriate to protect the insurance buyer's assets at the most reasonable cost.

Also look at the clients represented by your agent. Ask for a client list and see if other people in your field are represented by that agent.

Direct Writers vs. Independent Agents

Also in the insurance business there are agents known as direct writers and agents known as independent agents. A direct writer is an agent that is exclusive to one insurance company, either as an employee or independent contractor. A direct writer represents only one insurance company and independent agents typically represent multiple insurance companies.

The direct writers could be a good choice on very small main street types of accounts. They sell policies with premiums as low as $250 and these can be efficiently handled by direct writers. Direct writers in total probably write more personal insurance than independent agents. For insureds that are not particularly discriminating regarding coverages, direct writers of personal insurance may have the lowest price. Do not look for any risk management or any significant counseling from most direct writers.

The reality of the situation is that the $250 policy pays the direct writing agent commissions of between $25 and $37.50. Typically after these policies are written they are then handled directly by the insurance company and renewed year after year without any further questioning as to whether or not that policy continues to be appropriate.

The independent agency system as opposed to the direct writing system is better for most insureds who have significant assets because it allows an insurance agent to select the most appropriate company for the insured and to design a complex insurance program. With this said, however, the insured needs to determine who actually handles the account within the agency. If the agency is going to take the personal or commercial account and send it to an insurance company owned service center, then that arrangement is no better than the direct writer arrangement. The insured has lost a personal relationship with the agent and that insured's account is considered to be too small to be serviced by the agency personnel on a regular basis and, of course, “out of sight” is “out of mind.” When the file is sent to the insurance company owned service center, service will be reactive instead of proactive.

Also, when an insured looks at the structure of an independent agency, aside from the off-premises insurer owned service center issue, an inquiry should be made as to who services the account within the insurance agency. Is it the insurance agent that originally developed the relationship, or is it now the service representative that assists the insurance agent or a pool of service representatives within the agency?

As a general rule, the typical service representative's workload and experience are the most appropriate to effectuate changes on a policy such as change of car endorsements or to prepare invoices and certificates of insurance, but they are not usually experienced enough to provide meaningful insurance advice.

The best arrangement is to be certain that the experienced insurance agent is the one that is reviewing your account on a regular basis, understanding how your business or personal risks have changed, and making appropriate recommendations with service assistance by a commercial or personal service representative on a supplemental as opposed to primary basis.

The Agent/Carrier Connection

Another factor to look at in selecting an agent or an agency is the quality and number of insurance carriers represented. In the property and casualty insurance field it is not easy to represent an insurance company. In order to do so, an agent must commit a significant amount of insurance premium. An insurance agency that has $1,000,000 in insurance premiums might represent one or two insurance companies, whereas an insurance agency that has $10,000,000 in premium volume might represent ten insurance companies.

It is obviously better to have an agent that represents multiple insurance companies so that as the appetite for a particular risk changes, the insurance agent has options.

This also presents more of an opportunity for the insurance agent to do informal quoting rather than formal quoting. Under the formal quoting process, applications are presented to insurance companies, they are recorded in the insurance company's computer, and could be held against the insured if that insurance company does not obtain the business. In the informal process, a discussion is held over the telephone between the insurance agent and the insurance company underwriter to see if that company might be appropriate for an account and what the premiums might be. A formal submission is made only after informal discussions with a variety of underwriters.

Another issue pertains to the availability of "surplus lines" insurance carriers within the agency. The admitted insurance company is more regulated by the state insurance authorities than the surplus lines insurance company.

The surplus lines insurance company provides specialty insurance products or even high risk insurance products and, in many cases, is an appropriate choice for an insured. Insurance agents either represent these specialty companies directly or have access to them through other organizations.

Additional Services

An insured should also look at what additional services are available from the insurance agency and insurer. For example, an insurance agency that employs attorneys might have additional expertise in dealing with insurance coverage or claims disputes, or in designing insurance programs.

Another service is loss control. The insurance premium charged by an insurance company includes a component for loss control; however, this is misleading because insurance carriers typically "inspect" accounts for acceptability and do not spend a great deal of time in minimizing losses. The larger the account, the more likely that meaningful loss control services will be provided by the insurance agency or by the insurance company.

Agency Size

An additional issue is to look at the size in deciding on an insurance agent. There are very large insurance organizations in the United States that generally focus on writing Fortune 500 companies that produce commissions in excess of $100,000 per year for a typical account. This would equate to something in the area of $1,000,000 in premiums. For this size account the national brokers have significant clout with the insurance carriers and have specialty products and the expertise to handle that type of business.

Accounts that are smaller than the threshold established by these brokers may not receive any significant service because they may be relegated to small account service centers that provide service over "800" numbers on a reactive rather than proactive basis. At the other end of the spectrum is the very small insurance agency that might have several employees and represents several insurance companies. These agencies are best for very small accounts, either small personal or small commercial accounts, but generally do not provide additional services such as legal, loss control, or even much proactive advice.

It is between these two areas that most insurance buyers should focus their efforts in purchasing insurance or obtaining risk management services that are appropriate to their needs.

Conclusion

The secret to the selection process is the personal interview with the agent to determine that person’s experience, their areas of specialty, their insurance designations, and how the account is serviced within the agency; that is, directly by that agent or by others.

You should be looking for a long-term relationship with a person that will be making recommendations regarding the protection of your assets and will be “hands on” throughout the course of the relationship.

SELECTING AN INSURANCE COMPANY

Typically, the insurance agent places your account with an insurance carrier; however, insureds need to have some basic information regarding insurance carriers.

Types of Insurance Carriers

There are three basic types of insurance carriers: 1) admitted; 2) non-admitted but approved; and 3) non-admitted and not approved.

Admitted Insurance Companies

The admitted insurance company is the insurance company that is used for the majority of insureds within the state of Michigan. This type of carrier receives a great deal of scrutiny from the state insurance department. The insurance department reviews their financial statements, approves their policy forms, approves the rates they charge, and also there is an insolvency fund that provides protection for insureds when the insurance company becomes insolvent.

The advantage of an admitted carrier is that insureds can have a comfort level in utilizing them, knowing that there is oversight of what they are doing by state insurance officials.

At the same time, insureds need to be aware that the state insolvency fund is not a guarantee of protection for insurance companies that become insolvent. For example, the insolvency fund has a limit on the net worth of the insureds that it will protect. Insureds with a net worth of approximately

$25,000,000 or more will not have any protection from the insolvency fund. The insolvency fund also has limitations on the amount of claims it will pay and the amount of premium it will return if a policy is cancelled because of insolvency.

The disadvantages of using admitted insurance companies include the lack of flexibility in rates and forms. For example, the insurance company is required to charge premiums that are in accordance with the rate filings made by the insurance carrier with the insurance authorities. The forms that are used are also filed and cannot be changed without permission of the authority which reduces the flexibility of the insurance company.

Non-Admitted But Approved

When the insured looks at the use of non-admitted insurance companies, although these companies have flexibility in their policy wording and can charge whatever they feel is necessary from a premium standpoint without oversight, there is an additional tax that is imposed on this insured in most states and there is usually no insolvency fund guarantee.

In Michigan, non-admitted companies are “approved” as a “surplus lines” carrier after a review of the financial and other information.

Not Admitted Not Approved

In very rare instances, an insured is allowed to use surplus insurance companies that are not admitted and not approved with the appropriate payment of tax and filing of specific forms as required by statute.

<u>Direct Writers vs. Independent Agency Carriers</u>

The majority of insurance companies are admitted insurance companies. There are two types of admitted insurance companies: direct writers and independent agency carriers.

Direct Writers

The direct writer insurance carrier has employees who represent it as agents or independent contractors who represent it and they typically do not offer options with any other insurance company. The advantage of a direct writer is that the cost of doing business is typically lower and, in many cases on small accounts, it can produce a policy at less premium than other types of insurance carriers.

The disadvantage of the direct writer is that it offers little by way of additional services, it typically does not provide ongoing analysis of the risk management needs of an account, and may not have a great deal of expertise. Its agents are generalists, charged with putting the business on the books and that business is then serviced, for the most part, by the service center of that insurance company.

Independent Agency Carriers

The independent agency carriers select independent agents to represent them and the advantage of this type of arrangement is that the agent represents multiple insurance companies and has multiple options, therefore, in placing an account. For medium sized accounts these companies also can provide additional loss control services depending on the needs of the account.

Self-Insured Workers' Compensation Trust

There is an additional type of insurance arrangement in Michigan and in many other states that is known as a self-insured workers' compensation trust. In Michigan, there is a statute that allows certain insureds to become self-insured for workers' compensation and also allows groups of insureds to join together and to pool their workers' compensation premiums under supervision of the Department of Labor. This type of arrangement operates in many ways like a typical insurance company and is used by independent agents.

The advantage of this type of arrangement is that the cost structure of a self-insured workers' compensation trust is far less than many insurance companies because it does not have an expensive bureaucracy. Typically it will have one administrator who supervises the claims handling and loss prevention services which are generally provided by a third party or perhaps in house, and also secures reinsurance.

Under this arrangement the premiums are pooled together, claims are paid, the services necessary to loss control and claims handling are paid for, and after a period of time any surplus remaining is returned to the members.

This arrangement is typically the most effective way to purchase workers' compensation coverage because the self-insured workers' compensation trusts specialize in particular areas such as metalworking accounts, plastics accounts, construction accounts, retail, or hospitality.

These trusts are also less likely to have "knee-jerk" reactions if there is one bad loss year. They typically take a "big picture" view.

The disadvantage of a self-insured workers' compensation trust is that every member is jointly and severally liable for the losses of all members. In the worst case scenario, if all of the premiums disappear and the reinsurance fails, every member could be assessed for claims of all the members that must be paid.

From a practical standpoint, because of the supervision of the Department of Labor and the requirements for maintenance of substantial funds to pay losses and the requirements for excess insurance, this is not any type of significant problem.

Other Factors In Determining What Is Best For You

Insurance carriers provide numerous services. They provide underwriting services which typically today are structured between small account underwriters, medium account underwriters, and large account or specialty departments.

The small accounts are generally handled by computer programs for specified classes of business with minimal underwriting. Medium sized accounts, or what is known as middle-market in the insurance industry, are handled by underwriters that have the responsibility for pricing those accounts in the commercial field, and then of course making the decision as to whether or not they should be written.

For small commercial accounts and for personal insurance accounts, the insurance companies have developed service centers. For a small fee to the insurance agency they agree to assume the responsibility for servicing an insurance agent's business with that insurance company. Using an "800" number, insureds call for service needs and the person answering will answer with the insurance agency's name and, therefore, provide service; however, the service is actually provided by the insurance company and not by the insurance agency.

Although this works well for basic policy changes and renewals, the bottom line is that the insured does not receive the independent advice that is necessary to maximize the protection of assets.

Reputation

A major element in determining what insurance company should write your account is the reputation of that insurance company for the payment of claims. Most agents are aware of insurance companies that have a reputation for poor claims handling; however, they will still use that insurance company where necessary to get the business or to place the business if the client insists on the lowest premium. One of the secrets is to try to find out from the agent the real reputation of the insurance company being recommended.

Carrier Stability and Breadth

Another issue is carrier stability. Insurance company appetites for particular risks change depending on profitability. For example, the insurer may be the largest writer of construction business this year, and withdraw from the field next year. It may be a major player in the personal insurance but because it was too competitive its losses require it to withdraw from the field next year. Generally speaking, the lowest priced carrier is going to have the least stability in the marketplace.

Carrier breadth of appetite is also important. There are some insurance companies that will write only particular classes of business, such as manufacturing. However, if that same manufacturer acquires another business or another property that is outside of the area of expertise of the specialty company, it will not write that additional exposure. Also, it may be good at writing property and liability insurance but not good at writing workers' compensation.

A narrow breadth of appetite is not necessarily bad for insureds that are within that breadth of appetite; however, generally speaking there will be little flexibility in staying with that carrier if that insured has a frequency of losses or does not comply with the loss control recommendations of the insurance company.

As a general proposition, insureds with operations in multiple states should also do business with an insurance carrier licensed in those states as opposed to splitting up the program between two companies.

Conclusion

In summary, the experienced insurance agent is best able to guide an insured through the complexity of selecting an insurance carrier and whether it is best to use an admitted vs. non-admitted carrier, direct writer vs. independent agency carrier, or utilizing specialty sources such as workers' compensation trusts.

Only the experienced agent knows about carrier appetites, reputation, and multi-product and multiple state capacity.

THE QUOTE PROCESS

How Often Should You Quote Your Insurance?

It is probably not best for you to quote your insurance among different agents every year. In fact, you should be cautious about having your existing agent quote the account among the same carriers every year. You should collaborate with your agent and ascertain what insurance companies will be approached for your renewal. Depending on the market conditions, it may not make sense to blanket the market with submissions and to spreadsheet the premiums to see who is lowest in cost. In a hard market, of course, your agent may not have as many options with insurance companies as during a soft market, given underwriting restrictions and generally rising prices. In that circumstance, it may make more sense to quote your account among different insurers using a different agent.

Agents typically can get a feel for what increases and coverage changes are to be expected from the current carrier. If there is stability in coverages and pricing with your current carrier, and there is satisfaction with the claims paying and loss control services of the insurer, it may be in your best interest to avoid authorizing an agent to blanket the market with applications to multiple insurers. The insurance industry is a small community of underwriters that know what accounts are shoppers. Underwriters know that the quoting process is a time consuming one. It involves the expenditure of resources in loss control surveys, reviewing of applications, reviewing of loss histories for the past five years, time involved in rating the account, and negotiations with the agent. On some accounts this can be a 20- to 30-hour process on a particular account. Underwriters know what accounts are shopped and may be unwilling to offer a quote to those accounts. You do not want to "burn out the market" with blanket submissions every year. Instead, wait until you really need to look at other alternatives among insurers such as when premium increases are unacceptable, you are non-renewed, or your agent demonstrates less than stellar quality in the design of your insurance program.

There is a difference between shopping among insurers and shopping among insurance agents and brokers. Many agents have access to the same insurance companies, both nationally and locally. Further, the same general rule applies to agents as to insurance companies that agents know what accounts are bidders and will shy away from spending the considerable time and resources in a quoting contest. As a general rule of thumb, it may make sense to consider other agents in the following situations:

- Your agent is not proactive in developing alternatives for you to consider at renewal and instead offers the same insurer year after year without discussing possible options.

- You have had your insurance policies reviewed by an outside consultant, such as an attorney or insurance expert, and have determined that there were coverage gaps that you did not know about.

Your agent does not spend quality time with you at renewal and throughout the year going through your insurance program and what is covered and what is not covered. Detailed summaries of insurance should be expected from your agent as well as narrative letters explaining coverages. If you receive your policies in a window envelope without an explanatory letter or personalized summary or personal visit, it is probably time for a new agent.

- Your agent does not have access to a specialized program, such as an association program, that offers reduced costs and improved coverages. Programs can sometimes offer better coverages and pricing due to the volume of business with a particular insurer. These programs may be exclusive in nature meaning they are not accessible to all insurance agents.

- Your agent is not proactive in dealing with claims on your behalf.

Gathering the Information

As mentioned above, there is considerable information that insurance agents and insurers must obtain and review to consider your account. This includes:

Loss History

Your loss history is critical to your ability to negotiate a favorable insurance program that includes the better coverages and pricing. Carriers typically require five year loss histories to quote your account. Loss histories are maintained in computer databases by individual insurers and can be obtained for the asking. Usually this involves a letter on your letterhead signed by an officer of the company that authorizes the release of the loss history.

Even where you are not shopping your insurance, you should request loss histories (also called “loss runs”) at least once a year and perhaps more frequently. The reason for this is that there may be reserves or “estimates” on your loss history that claims personnel have listed but that should be lowered or closed out. There can also be errors in the listing of claims and this should be reviewed and presented to the insurer for clarification and amendment.

If you have a poor claims history there are a few things you should do. First, be certain that a prospective insurer is not quoting your account “subject to receipt of loss history.” If this is the case and you have had some claims, the new insurer could cancel you midterm by providing you thirty days notice and you could be in a precarious position in terms of finding a new insurer. On all applications for insurance, it is asked whether a policy has been cancelled or non-renewed and this is something that will have to be explained. If you fail to do so you could be cancelled mid-term or in the event of a major claim the insurance company could, in fact, sue to rescind the policy on the basis of fraud.

Secondly, if you have had one or two major claims, you may be able to provide an explanation that will satisfy a prospective insurer that the loss causing event would not occur again. Carefully review your loss histories to see what needs to be changed and what needs to be explained and work with your agent on this process.

Safety Programs

Not surprisingly, insurers are not eager to write accounts that will have a propensity to have claims, whether property or liability in nature. While your loss history is one good indication of future claims, the existence of a safety program is something that is considered as well. Insurers know that those organizations that are proactive about safety and claims are the better insureds from a claims incurred standpoint. As a result, spend time showing the insurer that you have a safety plan and a safety committee. Perhaps you should even appoint a safety officer with accountability for compliance with safety and loss control standards. This will do you no good with the insurer unless they know about it. Therefore, you should provide information to your agent regarding your safety and corporate compliance plan and also give a copy of this to the loss control representatives when they come out to do a review of your facility.

Financials

At times, insurers will ask to see a copy of your financials. Some insureds are reluctant to release financial information. However, it is generally only the agent and the underwriter that see such financials. If necessary, require that the agent sign a confidentiality statement.

In reviewing the financials, the insurer will be looking for a few things. First, the insurer will look to see whether there is a positive net worth. Second, the insurer will be looking to see net sales which is often a basis for determining general liability premiums. Insurers generally are looking for financial stability. Spend the time to attach an explanatory memo to your financials where explanations are required.

Management

Is the management of the organization proactive in dealing with safety and claims? Is there an attitude of concern for coverages or is the insurance process more of a spreadsheet bidding war? These are questions that will be important to obtaining a favorable quote.

Relevance of Current Coverage

Policies are not the same. There is no such thing as quoting “apples-to-apples.” Because of this, you need to understand what coverages you have in place in relation to those that are desired. You would not want to leave a program for another set of policies that do not necessarily provide coverages which are as broad. Have your agent and even prospective agents review your current policies to be sure there are no gaps that result from making a change.

Driving Records

Your insurer will ask for information on employees who drive on behalf of the company. Individuals with poor records such as suspended licenses, driving while impaired, reckless driving or excessive speeding tickets will be excluded by your insurer and you would want to know about this before you move your insurance program to a new insurer. Insurers have different standards on driving records. If you have an in-house system for obtaining and monitoring driving records, this is something that you should tell your agent and insurer about.

Maintenance Programs

What program is in place for maintaining the premises, its equipment, and your vehicles? A maintenance program should be reviewed with your insurer and agent.

Showing Indemnity from Others

Often times you will have entered leases or other contracts that are in your favor from an indemnity and hold harmless standpoint. For example, if you are a distributor of a product and the manufacturer has agreed to hold harmless and indemnify your organization for claims arising out of the product you are selling, this would be less of a risk for your own insurer. These situations should be discussed with your agent.

Preparing Specifications

It is generally advisable to have a game plan for the coverages that are desired before starting the quoting process. This can be accomplished by drafting a set of specifications that can be provided to the agents that show precisely what the minimum standards for quotes are.

The specifications require some expertise in terms of the available coverages and exposures that you have. As a result, you should have either your current agent assist you in preparing the specifications or an outside expert such as an attorney, business advisor or insurance expert. These specification documents are usually by line of coverage.

Signing Applications or Specifications

Be cautious about signing any application completed by your agent or someone else. It is common practice for insurance agents to complete applications and have the applicant sign them. In some cases, these applications are attached to the policies as warranties and if any information is inaccurate, it can be grounds for the denial of a claim.

Tips for Structuring the Program

Insurance policies and programs are not interchangeable commodities. All policies have gaps and exclusions along with highly technical insurance language. As a result, it is important to keep in mind certain standards in achieving the best insurance program possible. While insurance market conditions will often times dictate the availability of certain coverage enhancements, other coverages should be minimum standards. The following are some key points to consider:

Same Date

It is best to have a common expiration date for all insurance policies. This can create premium clout that can be effective in negotiating with insurers and can also assist in minimizing unforeseen gaps. For example, an umbrella policy typically provides excess coverage over certain scheduled underlying policies. When those policies have different dates, there is a potential for a gap to the extent the underlying scheduled policies are placed elsewhere. This general rule should not only apply to the property and liability policies but also to other policies including employment practices, directors and officers, fiduciary liability, crime, umbrella and workers' compensation policies.

Same Agent

For reasons similar to those for having a common date of expiration for all of your policies, the same agent should be used for all policies as a general rule. Where there are competing agents involved in different aspects of managing your risks and insurance policies, the potential for an uncovered claim is increased.

Same Carrier

There can be fine lines between various different types of policies. For example, a general liability insurer may try to argue that a claim is excluded because it is a professional act whereas the professional liability insurer may, in turn, deny coverage stating that there was no professional service that caused a wrongful act. In these situations, having the same insurer can minimize the chances of competing denials which can find the policyholder in the middle. It is usually best to have the same carrier for as many lines of coverage as possible.

Deductible Options on Property

Particularly in hard market conditions where underwriting restrictions are imposing price increases, increased deductibles for property insurance can provide cost savings that will minimize the increase.

Self-Insurance on Nominal Exposures

You should look at self-insuring areas that would not be catastrophic to your business. For example, towing and rental reimbursement costs on an automobile insurance policy usually would not cause a financial hardship on a business that did not carry such coverages.

Payment Terms

Payment terms should be negotiated up front with your insurer and agent. Where the insurance is placed with a standard licensed insurer, quarterly and sometimes monthly payment plans can be negotiated for no additional premium or for a nominal service charge. For nonstandard insurers, payment plans are usually not available outside of a premium financing arrangement that would be handled by an outside premium financing company.

Allowing Others Such as Tenants to Buy Insurance on Your Assets

Be cautious about allowing other parties to purchase your insurance. For example, with triple net lease agreements it is commonplace for the tenant to be required to purchase the insurance for the landlord. This is usually not recommended. One reason is that the landlord will typically only be named as an additional insured and not a named insured on the policy purchased by the tenant. This would mean that the landlord would have inferior liability coverage to that of the tenant.

Moreover, in allowing another party to purchase your property insurance and other lines of coverage, you are at risk to the sloppiness of the third party's insurance agent and could have very little control over the insurance that protects your assets.

Seeking the Broadest Coverages

Our team of insurance experts has found over the years that insurance should not be purchased in the way janitorial supplies are purchased. All policies are different in what they cover and what they do not cover. As a result, you need an expert to compare the available policies and to make recommendations to you. Sometimes this expert can be an attorney. However, your agent should also be providing you with coverage comparisons.

It is important to set your sights on having better coverages than the average program offers. This does not necessarily mean that you will be paying more in premium dollars. Even minor enhancements in coverage can be negotiated that could save the day for you in a compromising coverage situation. See our following chapter on “Ordering and Reviewing Policies” that includes checklists of things to look for.

Although some insurers offer broader coverage forms than others to start with, sometimes even those coverage forms can be improved. It is an important rule to remember that insurance companies typically only offer the coverages that their agents request in an application. Oftentimes coverage enhancements can be added for a nominal additional premium, if any.

Dividend Plans

On workers’ compensation policies, some insurers will offer dividend plans that could return premiums to you in the form of dividends if you have a favorable claims year. Some such insurers pay dividends to insureds based on the performance of the entire book of business while others will pay dividends based on your account’s performance. In any case, most workers’ compensation policies do not start out by offering dividends programs. Such programs can sometimes be negotiated with insurers, particularly if you have the rest of your insurance with the same insurer. If your insurer will not offer a dividend plan and you are paying workers’ compensation premiums in excess of $100,000 for that coverage, you should look for one that does.

Self-Insurance

Self-insurance is a possibility to consider. All insurance programs contain deductibles which are, in effect, self-insurance. Other forms of self-insurance include “going bare” on property or liability insurance. Some businesses that do not have lienholders or mortgagees that require property insurance may decide they can afford to self-insure. However, self-insurance should be structured whereas dollars are earmarked for expected claims. Moreover, to the extent possible, stop-loss insurance can cap your losses at a certain point.

Captives

Captives involve a single large company or a group of related companies getting together and forming their own insurance company to insure their individual risks. This pooling mechanism typically involves off-shore corporations but can involve domestic corporations as well. The appropriate venue for the captive involves considering many factors and tax ramifications that you would need expertise to properly consider. By and large, a captive is not appropriate for premiums less than $3,000,000 for the reason that there are expenses that need to be managed including reinsurance and administration costs. A feasibility study can be generated to determine if a captive makes sense for a particular insured or group.

Association Programs

Association programs can offer considerable benefits to particular trade group members. The premium clout that typically accompanies such programs usually translates into broader coverages and more competitive rates. Your agent may not have access to these programs. However, if you are a member of a trade group association, you should check to see if insurance programs are available and ask for comparisons to how the coverages offered differ from your own.

Insurance Specifications

It is advisable to draft a set of insurance specifications that detail all of your locations, limits of insurance, automobiles, payrolls, and annual sales by classification type. Further, you should include a list of required coverages such as the following:

- Blanket limits of property insurance between buildings and contents and between locations.

- Agreed amount endorsement (no coinsurance) for property insurance for buildings and contents, electronic data processing and personal property of others.

- Agreed amount endorsement (no coinsurance) for business interruption coverages.

- Broad form notice of occurrence endorsement on the liability insurance that will prevent the insurer from denying a claim based on late notice of that claim unless an officer of the company knew about it and did not report it.

- Aggregate per project or location on the liability insurance.

See our checklists in the next chapter that also include other coverages to request.

<u>One Agent or Multiple Agents?</u>

There are a plethora of insurance agents that are licensed to sell insurance. Many of these agents represent the same insurers. There are exceptions to this rule, however. Some agents have exclusive access to specialized programs such as association programs. However, it usually does not make sense to entertain proposals from more than one agent. The reason for this is that most agents will not quote when there are multiple agents because they are under the impression that your account will be "bid" every year and that only the lowest cost wins. It is for this reason that it makes sense to talk with your current agent at least 90 days before the expiration date of your program and get a sense for what his or her direction will be. Will the agent be attempting to renew the policies with the current carrier without doing a lot of comparison shopping for you? Will the agent be offering creative ways to offset major increases? Is there an increase that is expected at all? If there is not going to be an increase or change in coverages with your expiring carrier, and your current program is determined to properly cover your organization, it may make sense not to shop the coverage at all.

With minor exceptions, you should avoid blanketing the market each year with submissions from various agents. The reason for this is that most carriers know what accounts are shoppers and shy away from offering a quote. Instead, you should consider taking your account to market only when necessary.

One process is to hire an outside consultant to assist you in interviewing agents to determine their competence and available resources and whether it makes sense to spend the considerable time it will take to prepare specifications and in reviewing any proposals.

Two agents are not able to access the same insurer for your account. Therefore, if you will be having multiple agents work on your account, it is advisable to get a list of markets that each agent will be pursuing. Most carriers will accept an agent of record letter that will enable you to appoint a specific agent to be your agent of record for a particular carrier. This applies to existing policies that are in force and to prospective quotes. If you do not like a particular agent's style or lack faith in the agent, the agent-of-record option is an alternative. However, some insurers will not accept mid-term agent of record letters and will only accept a change in agents at the time of renewal.

What Carriers Should Be Considered?

Depending on the type of business you are in, your designated agents will have access to multiple insurers. Agents generally have a feel for what markets are best for what exposures. Carriers are known for having an appetite for certain kinds of risks. For example, Carrier A may be willing to write a machine shop while Carrier B would be more competitive for a service related organization. Educate yourself on the appetite of various insurers by asking your agent what the carriers preferences are. Sometimes, insurers are impressed by a quality loss control report to the point that they are willing to overlook poor loss history with prior insurers.

Time to Submit Proposals

The task of comparing insurance programs can be a daunting one. You should set deadlines of at least 30 days before your expiration date for presentations to be made (including by your existing agent) so that you can have the quality time to review each proposal, ask questions and consult outside experts. Some insurers and agents will be lax in getting renewal proposals to existing clients. You should hold your existing agent accountable to the same deadline you set for the other agents so that you can be sure you know what the renewal terms and pricing will be for the expiring program.

Comparing Proposals

There are as many proposal formats as there are agents. Proposals that are only a few pages and merely list limits should be unacceptable to you. Such proposals do not outline coverage issues or deficiencies with any degree of particularity and should be avoided. Instead, ask the competing agents to follow a standardized format that you can use to compare each proposal once you have all of the proposals.

Be certain to pay close attention to the terms and conditions listed on the proposal. For example, proposals that are contingent upon review of loss history and driving records should not be acceptable.

Instead, provide that insurer with that information to start with so that the chance for an unexpected mid-term cancellation can be avoided. Keep in mind, however, that some insurers will not inspect the premises until after the order has been given to them. Consider whether you may have inspection issues at the time loss control comes out. Is your sprinkler in good working order? Is the sprinkler density appropriate for your operations? What is the overall appearance of the building and related structure? When was the roof and electrical last updated?

A key issue often missed by agents is the proper listing of named insureds among policies. It should be noted that past joint ventures or partnerships are not automatically covered for liability insurance. Further, all names of existing entities should be listed. In reviewing proposals, take care to review the listing of all entity names to be sure that you are not buying a policy that would leave your assets from one of the companies uncovered. Consider a broad form named insured endorsement which some carriers will add that will grant automatic coverage to entities that are subsidiaries that are owned at least 51% by the principal named insured.

Understanding the Proposal “Guarantee”

Most proposals will contain a limitation of time in which the deal can be accepted. Pay close attention to this and obtain a written extension if necessary.

Proposals are important in the case that you have an uncovered claim. Although in many states the proposal will not bind the insurer unless the insurer actually issued it, where a proposal misrepresents the extent of coverage or is ambiguous, this would be important in proving an errors and omissions liability case against your agent.

Also understand that proposals are not guarantees of long-term coverage at all. Insurance companies can cancel coverage at any time for any reason with 30 days notice or even 10 days notice in the event of nonpayment of premiums.

Reviewing Payment Terms

Some proposals may not detail the payment terms that are available. As mentioned in previous pages, whether there is a payment plan will depend in large part upon the type of insurer that you are using. Standard insurers often offer monthly or quarterly payment plans.

Be aware, however, that late payments can raise red flags with your insurer and impact your renewal premiums.

It is common for insurers to offer direct bill which means that instead of the insurance agent billing you, the insurer will. Questions about coverages or changes in your insurance should still be directed to your agent for the most part. The direct bill arrangement is merely a billing conduit. Similar payment plans are available through direct bill as are typically available through agency bill.

Premium financing is usually an option and interest rates vary.

ORDERING AND REVIEWING THE POLICIES

Once a decision has been made as to what policies and coverages you want, the insurance agent should be informed and this should be followed up in writing before the inception of the policy. This is particularly the case to the extent that any coverage changes are made that are inconsistent with those mentioned in the proposal. In the event of a claim between the time the coverage is bound and the time that the insurance policies are delivered, you want to have the appropriate documentation showing which coverages you had ordered.

Keep in mind that although insurance agents may tell you that they have the authority to bind the insurer, this authority is often limited to the exact underwriting rules of the insurer. As a result, ask your agent to confirm that the insurer has bound the coverage. If possible, get a copy of the exact quote that the insurer provided to the agent.

Policies take some time to be issued by the insurance company. This varies greatly among carriers. However, you should be proactive in demanding that policies are delivered within 30 days of the inception date. This is important because you would want to read your policies and raise any questions with your agent as soon as possible to avoid any miscommunications or unforeseen gaps.

Binders, Certificates of Insurance and Summaries

While waiting for your policies, you should have at least a binder of insurance that indicates that coverage has been bound with the insurance carrier. Further, you should obtain updated certificates of insurance for your vehicles, and for loss payees, landlords, and others that you are required to list on your policies. Moreover, you should have your agent provide a summary of insurance as to what is covered and what is not. The reason for this is that the binder of insurance does not contain all the details of coverage and usually only lists the applicable insurance limits. This is not to say that your agent's summary will bind the insurer. In many cases it will not since the agent may be the legal agent for the policyholder and not the insured. This varies among the laws of the various states.

Checking the Policies Against Expectations

It is rare for an insurance policy to be issued exactly as ordered. Insurance company processing departments often omit locations, endorsements, and there may be other errors. As a result, you should take steps to be sure your policies are reviewed to assure that they are as ordered.

It is incumbent upon the insurance agent to check the policies for accuracy. However, a detailed review of all coverage forms, policy language and endorsements may not occur in all cases. As a result, it is often advisable to have an outside consultant or attorney review your policies in relation to the proposal of the agent and the exposures that you have. Further, the insured should read the policies themselves to see if there are any glaring errors that the insured would pick up through a review of the policy.

Although policyholders may not have the technical know-how to understand all of the policy language, there are certain critical things to consider.