SPECIAL REPORT

BUYING PROPERTY AND CASUALTY INSURANCE

(09-11-2014)

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Asking for Quotes

How you go about buying insurance is an important process. Some buyers make multiple copies of their current insurance policies and invite multiple agents to bring in quotes from multiple insurance companies and ask that they quote "what I have right now." These agents, in turn, send applications to multiple insurance carriers.

Assuming that the insurance buyer has five different agents that go to five insurance earners, 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. These inspections consume enormous amounts of the insurance carriers' and insurance buyer's time. Insurance earners then spend additional time preparing premium quotations which are relayed to the insurance agent who prepares 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 inept insurance buyer when the insurance really needs to be placed because of a cancellation, non-renewal or increased premiums because of claims.

Reasons for Making a Change

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

- You are being serviced by ever changing “Service Representatives.”
- The current agent is not providing value added services, for example, risk management services.
- The current agent does not represent a sufficient array of insurance carriers.
- 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.
- The current carrier does not have competitive terms and conditions.
- The current agent has made major errors in providing your current policies.

Risks in Changing Insurance Agents

Changing agents and/or insurance carriers needs to be done very carefully because of the many hidden risks. Let’s look at those risks of change.

1. The new insurance agent misrepresents the account, using incorrect classifications or loss information. This can result in coverage denial, rescission of the policy, or retroactive premium adjustments.

2. The new agent gets the account but then turns it over to either an inexperienced customer service representative in the agency or sends it to an insurance company-controlled service center, which assumes

the service responsibilities, bypassing the agency and using ever-changing customer service representatives who represent only one point of view -- the insurance carrier that employs them.

3. The new agent has financial problems and does not pay the insurance company.

4. The new agent has little “clout” with the insurance carrier because of low premium volume or bad loss experience in the aggregate for accounts placed by the agent.

5. The new agent is about to be terminated as an agent by your new insurance carrier which means a non-renewal of your account in most cases.

6. The new agent quotes your account using computer based rating systems and assumes that the underwriter will honor the quote if the agent gets the business, but as it turns out the insurance company’s appetite has changed and the quote is not honored.

7. You are being serviced by a “service center” with an “800” number.

8. The new agent is selling policies, not a coordinated program.

9. The new agent lacks the capital or expertise to provide additional services.

Risks in Changing Insurance Carriers

There are also risks in changing insurance carriers:

1. There is the risk that the new 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 may fail to return prepaid premiums or pay claims.

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

3. The new insurance carrier may terminate doing business with the agent with which you do business.

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

5. The new insurance carrier may cancel your account after one claim.

6. The new 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.

7. The new insurance carrier may find that the agent misrepresented the account and cancels midterm.

8. Coverages are less than the previous carrier provided, but you do not determine this until you have a claim.

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

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

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

12. The new insurance carrier inspects the account after it gets the order and coverage with the former carrier has been cancelled or non-renewed. After the inspection, the new insurance company either cancels or imposes requirements such as the installation of new fire sprinkler system or reworking of the existing system, either of which are very expensive.

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, you may want to stay where you are.

Is Changing Agents or Carriers Appropriate?

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

1. 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 its 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. Do not 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. Do not 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, again, give you the reputation at the insurance companies of being a shopper.

2. Pick your agent first and let the agent bring you alternatives. Never use multiple agents. 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 their underwriting standards.

3. 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.

4. If you do not have a safety program, get one now. This needs to be a formal program and you need to actually do it.

5. 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.

6. From a management standpoint, show that you have strong management and that it is experienced. Include resumes of key executives. The insurance company wants to be confident that management is actively engaged in the protection of the firm's assets, both physical assets and human resource assets.

7. 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.

8. 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.

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

10. If you seek indemnity or hold harmless agreements from others, be certain to tell your underwriter about these agreements. This will reduce the underwriter's potential for loss and increase the underwriter's potential for profit.

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

12. 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?

13. Send pictures and diagrams of your property.

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

15. Do you have other written safety and risk management standards in place? If so, provide these.

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

17. Minimize rate increases by considering higher deductibles. Property deductibles of $10,000 would be a minimum for many 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.

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

The bottom line is that the careless handling of the negotiation of your property and casualty insurance program can result in significantly higher insurance costs or the unavailability of insurance.
