Tips for Selecting an Insurance Broker

AAPA Port Administration and Legal Issues
Seattle, WA

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A Few Thoughts on Consultants

From Dilbert

Adams, S., The Dilbert Principle

- “Consultants have credibility because they are not dumb enough to be regular employees at your company.”

- “Consultants eventually leave, which makes them excellent scapegoats for major management blunders.”

- Consultants will return your calls, because it’s all billable time to them.”
Introduction

- An excellent broker is a valuable asset.

- A qualified brokerage team supplements your own abilities.

- Individuals handling your account is key and more important than the actual firm.
5 Things to Consider When Selecting a Broker

- A Team of Quality People
- Pay Attention to the “Day-to-Day”
- Advise, Don’t Just Sell
5 Things to Consider When Selecting a Broker

- Form a Partnership
- Understand the Client’s Business
Does Size Matter?

- The rise of independent and regional brokers
- Clout and leverage to stand at the table with the largest insurers
- Service, Service, Service
AND ....

- Quality outweighs size, even in marketing

- See that the broker emphasizes only the services you actually need
Remember . . . .

- Define your needs clearly
  (A written service agreement or letter of understanding is important!)

- Relate broker compensation (fee or commission) to actual services rendered
Selection Options

- Appointment without formal, competitive bids

**Advantages:** Quickest; Doesn’t disturb markets

**Disadvantages:** Could be more expensive; Appearance of impropriety; Reduced exposure to new ideas & developments
Selection Options

- Broker’s Proposal/Conceptual Presentation

**Advantages:** Doesn’t disturb markets; Variety of ideas and a cost indication; Continuity of existing markets; Creates competition among underwriters

**Disadvantages:** Time involved can be lengthy; Over promise coverage and understate premium
Selection Options

- Qualified Competitive Quotations

**Advantages**: Doesn’t disturb markets;
Creates competition between both brokers and underwriters;

**Disadvantages**: Good quote/unsatisfactory broker;
May not be able to utilize best combination of markets; Complete separation not always possible
Selection Options

- Unrestricted Competition (Free-for-All)

Advantages: Elimination of political criticism; Lower premium

Disadvantages: “Blocked” markets; Turn off to underwriters; Doesn’t allow for achievement of understanding; Emphasis on price - not coverage and service;
One, or Multiple Brokers?

- Property/Casualty and Employee Benefits
- Property related exposures/Casualty related exposures
- Specialty brokers on particular lines of insurance
Compensation

- Commissions
- Fees
- Hourly Rates
- Performance/Value Based Compensation
- “Total” Compensation
A Final Thought About Consultants

I keep paying you for consulting, but you never make any recommendations. I'm what you call a "feel good."

My job is to make you feel secure in the knowledge that someone brilliant is shaping your strategies.

This is weird; I hate you, but at the same time I feel good.

You're welcome.

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QUESTIONS?

THANK YOU!