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Now Is The Best Time To Bid Your Corporate Insurance Program

By Robert E. Underdown, AIC, ARM

The best time to bid your corporate insurance program is when the market is good for purchasers (defined as a soft market). The next best time is when the market is difficult for purchasers (defined as a hard market).

We are presently in a soft market for commercial insurance. This may change with the current upheaval in the financial markets. In my opinion, every insurance program should be bid at least every three years or more, often depending on market conditions.

The three-year rule applies to most corporate insurance programs with the rare exception where there really are no good alternatives to existing coverage.

One benefit of a soft market is an opportunity to obtain optimal pricing on a multi-year policy. Depending on how many potential insurance carriers there are for a specific type of business, you may burn out some markets by bidding all coverages every year.

In addition, for some coverages there are significant financial commitments that make it impractical to go to bid every year. For example, if you are operating a large deductible type program where there is a requirement to post security or collateral, it may be best to consider a multi-year program.

To start with, you need to be able to articulate with great specificity exactly the type of plan or plans for which you are seeking quotes. To paraphrase the famous philosopher Yogi Berra, if you do not know what you want, you will probably find it.

As the representative of the insured, you must have a clear game plan designed around the risk tolerance, size, and finances of your firm. It is critical to have a core set of specifications against which to compare the bids. To do this you need to be a student of insurance and understand the industry.

If the experience and talent is not available within your organization, you should hire a professional consultant to design the submission and oversee the process; and then,

get out of their way. In addition, you will need to begin a comprehensive renewal process at least six months prior to the renewal date.

You may consider input from the selected brokers as to the range of options that exist in the market; however, the development of the bid specification is, in my opinion, a proprietary matter. It is important that an employee (Risk Manager), or a professional retained specifically for the renewal, maintain control of the process from beginning to end.

Alternative bids are acceptable and desirable to the extent they are clearly advantageous and not simply the flavor of the month. For example, at one point some years ago, consultants from Arthur Anderson were trying to sell me on the idea of derivatives for funding of insurance reserves. The concept appeared to me as much too speculative to be considered as a way to fund reserves.

It is important to prepare the best submission packet possible. Occasionally a corporate representative may have the chance to meet directly with an underwriter to present the case for your firm to obtain coverage at favorable rates.

The ground rules change for the extent, type, and media for underwriting submissions. You must review a few examples of what the underwriters currently think are excellent submissions. The format may vary from insurance company to insurance company, and you should do extensive preparation for this.

The basic principal I use to bid an insurance program is that I insist that it be a competition. I have seen the negative effects of a Risk Manager attempting to conduct an insurance bidding process by sending bid specifications to every agent or broker in the region. This is counterproductive, because the insurance company underwriters immediately know that the person overseeing the process is ignorant of the system and inexperienced.

I once had my CFO ask me how I knew I was getting the best price for the insurance for our corporation. I started thinking about how to explain the system I had developed over twenty years as a Risk Manager. My explanation was that I always used two competing brokers for each line of insurance coverage: liability, property, etc.

The competition was based on several basic understandings. First, the participants understood that my decisions were final and not appealable to a higher authority within the company. Second, I allocated the markets between the two competing brokers based on what I determined would deliver the best result for the company. Third, a further understanding was that one or the other of the participants would get an order for each line of coverage. Finally, it was understood the entire process was for the sole benefit of producing the optimal results for the company, meaning no one expected nor received any favors.

Another way of explaining my system is that an insurance underwriter has three piles of applications on their desk. Pile number one is submissions for coverage presented by a broker who has no competition. Therefore, all the underwriter has to do is to present the broker with a quote and they get the order.

Pile number two is submissions where there are just two competing brokers for the account, and the underwriter must present his best quote to have any possibility of receiving an order. There is, however, a 50% chance for success. This is where I want my submission to go so I know I will be receiving the underwriters best price and terms.

Pile number three is submissions from brokers where there are multiple brokers presenting multiple submissions to all potential companies. Many underwriters will simply decline to provide a quote in response to a submission that they know is sitting on every other underwriter's desk. This approach is counterproductive to all parties.

Summary

The best time to bid your corporate insurance program is when the market is soft. In this environment, you may be able to obtain a multi-year rate commitment for the best available price, terms, and conditions. In addition, when the market is soft you may be able to obtain concessions from underwriters on some of the policy coverage extensions or other terms that would be extra-cost items in a hard market.

Whether the market is good or bad for the purchase of corporate insurance, insurance should be put out to bid regularly to assure the best price under any condition.

A final thought is to be sure to obtain a commitment for any premium financing directly with the financing firms prior to awarding bids. In addition, you will always want to ask for the best payment terms available from each insurance company. Thus, you can assess the value of any premium financing along with your analysis of the specific coverages outlined in the various bids.

Robert E. Underdown, AIC, ARM, is a nationwide insurance consultant based in Scottsdale, Arizona. He serves corporations in the area of risk management and the legal community as an expert witness in insurance litigation. Mr. Underdown is an expert in agent/broker; insurance company and TPA standards of care and bad faith claims. In addition, he provides trust-owned life insurance audits and portfolio management services for individuals, trustees and other financial professionals. Find out more at www.Insurance-Expert.com or call (480) 216-1364.