Guidelines On Bidding Insurance.

A successful competitive bidding process requires careful planning and skillful execution. If properly managed and undertaken at an opportune time, the bidding process can often produce both premium savings and improved coverage. The seven keys to effectively bidding an insurance program are:

1. Appropriate bidding intervals;
2. Broker* selection;
3. Comprehensive written specifications;
4. Utilization of multiple sources;
5. Allocation of carriers;
6. Appropriate decision framework; and
7. Implementation and review.

* As used in this article, the term "broker" includes agent.

(1) Appropriate Bidding Intervals

There are two pitfalls here - bidding the program too frequently or not bidding it often enough. Bidding the program too often can result in a "shopper's image" that can be counterproductive. When carriers see a particular organization bidding its program too frequently, they are reluctant to provide truly competitive bids and sometimes they decide not to bid at all.

Neither the insurance company (carrier) nor the broker is likely to make a profit if the program "moves" every year or two. In addition, switching the program from carrier to carrier and/or from broker to broker can be expensive and may also be disruptive for the insured.

On the other hand, not bidding the program often enough can cause problems, too. The most obvious is that the pricing may not remain competitive over the long haul if the carrier thinks it has no competition. A carrier that has very competitive pricing one year may not have good pricing five or six years later.

In addition, both the carrier's and the broker's service can deteriorate when an insurance "account" is taken for granted. They often feel taken for granted and they are not sure they are getting the coverage, pricing, and service they desire or deserve. Often they are not.

Taking into consideration both sides of this important issue, we recommend a bidding interval of three to five years on all major components of the insurance program. A choice among three, four, or five years can be determined by personal business philosophy, insurance market conditions, broker service, previous price and coverage negotiations, carrier service, etc.

Other variables include multi-year rate guarantees and early successful renewal negotiations. An existing agreement to renewal at the current pricing might be ample incentive to defer bidding.

Likewise, if renewal negotiations are undertaken five or six months prior to renewal a win-win scenario is achievable. If the negotiation result in satisfactory renewal terms and conditions, bidding is not necessary. On the other hand, if these negotiations are not satisfactorily concluded by a predetermined "drop-dead" date, there is still adequate time to bid the program.

(2) Broker Selection

Brokers can be selected simply on the basis of their interest in quoting, geography, contacts, reputation, size, etc. However, other factors such as expertise and available markets are more appropriate criteria. We normally recommend that more than one, but no more than three, brokers be used in this process. More than three brokers can result in a lack of enthusiasm by the competing brokers and sometimes, too few carries to go around.

The bidding process is aimed at providing a competitive test of the insurance market. Brokers have varying strengths in their relationships with individual insurance companies. One broker may have more clout with a particular insurance company the organization wants to quote than another broker. In addition, no one broker is likely to represent all the insurers the organization wants to quote.

(3) Comprehensive Written Specifications

The necessity for written specifications in any bidding process involving significant dollars is fairly obvious. The organization requesting the proposals should tell the bidders what it wants and needs, rather than the other way around. Furthermore, written specifications ensure that all carriers will quote on the same data, making a valid, "apples-to-apples" proposal comparison much easier.

Another point should be made. The organization's risk manager or an independent consultant should prepare the specifications, not by a broker. Although some brokers may be capable of doing a professional job in preparing clients' insurance specifications, they may sometimes lack the objectivity to maximize an insured's options. Brokers tend to design specifications with the programs they have access to in mind. This can limit their client's opportunity to obtain the best coverage available. In addition, the other brokers are placed at a real or perceived disadvantage when the specifications are prepared by one of the competing brokers.

(4) Involvement of Multiple Sources

If bidding the insurance program is aimed at providing a competitive test of the insurance market, it can also test the incumbent broker at the same time. One approach is to have a single broker approach several carriers for quotes. However, as mentioned, it is better to involve at least one other source in securing alternative proposals unless the organization is unwilling, for some reason, to switch brokers regardless of the results.

While using more than one broker will not please the incumbent broker, it does provide a periodic opportunity to reaffirm the value of the incumbent’s service to a long-term client. The use of multiple sources also increases the competitive pressure on the present carrier to offer its best deal on renewal. The knowledge that the account is "out for bids" with other carriers through other brokers, often can achieve very favorable results with an incumbent carrier.

The use of the term "multiple sources" rather than "multiple brokers" is intentional. This term is broad enough to include "direct writers," insurers that can (or must) be approached for quotes without a broker's involvement. In other words, direct writers deal directly with the insured. A direct writer can be a viable alternative to a broker.

Another reason to use more than one broker is the recognition that different brokers have access to different carriers and even with respect to the same carrier, they may have varying strengths in their relationships. We are talking about the concept of "clout." Influence with a particular carrier varies from broker to broker and even sometimes from office to office with large brokers.

There is no constant, optimum number of brokers to use. Generally, however, at least two, but not more than three, brokers should be used to "market" the program.

In the "non-bidding years" the incumbent broker alone should be used to obtain renewal quotes and quotes for any new exposures that may come up. The exception, of course, is when there is reason to doubt the incumbent broker's ability to obtain a competitive quote for a new exposure.

(5) Allocation of Carriers

When multiple brokers are used, it is necessary to assign carriers to brokers. This avoids more than one broker approaching the same carrier, which, as a result, may refuse to quote for either.

Each broker should be asked to submit a prioritized list of the carriers it wants to approach for quotations. Then the insured, or its consultant, assigns the carriers based on the lists received.

Typically, any duplication is eliminated by giving first preference to the broker which ranks the particular carrier higher on its list. In the case of a carrier being ranked the same by two or more brokers, a common sense decision must be made based on perceived influence, compromise, fairness, etc.

Usually, the incumbent broker should be assigned the current carriers, but should not be allowed to "play games" by giving the incumbent carrier a low-priority ranking and then insisting that it be assigned to the broker anyway even if requested by another broker. Obviously, using a consultant to manage the bidding process can reduce the pressure on the organization in allocating carriers among the competing brokers.

(6) Appropriate Decision Framework

Too often insured select a carrier based on price alone. However, coverage is often more important than price.

A carrier's financial strength, service capabilities, reputation, and willingness to provide coverage on a continuing basis are also extremely important. The broker's service is a very important consideration, too.

In other words, everyone involved, both inside and outside the organization, must realize that a number of factors can and will be considered in making a final decision. The organization, and nobody else, should decide what relative importance to assign to the various factors. An impartial opinion from an insurance consultant is very valuable in this final stage of the bidding process.

(7) Implementation and Review

The bidding process ends with the organization's selection of the insurance carrier's proposal. However, this should not be the end of the process. After a decision is made and a proposal is accepted, the policies need to be received, checked, and compared with the proposal to make sure they conform to the proposal made and accepted.

If there are errors or omissions in the policies, they should be amended as necessary. Aggressive follow-up is often needed to make sure everything promised is delivered. This involves constantly monitoring the program, including periodic reviews. Often support services that are promised by the carrier and the broker are not forthcoming in their entirety. This may require "pulling someone's chain" from time to time.

(8) Plan for the Future

Make note of any brokers or underwriters that do a great job, but don't get the business. You may want to keep in touch with them in some fashion so that you have a "Plan B" if needed in the interim between planned bid years. For example, "Plan B" may be needed if there is a large turnover in personnel at your broker or if your insurer exits a line of business. Prudent risk management includes keeping your options open.

Thank you for your time. If you have any questions don't hesitate to contact me.

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