WHITE PAPER

THE BROKER SELECTION PROCESS

Smarter Strategies for Selecting Your Next Broker

HYLANT

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MAKING THE RIGHT DECISION

Smarter Strategies for Selecting Your Next Broker

JUST AS AN EXECUTIVE MIGHT PICK UP THE PHONE AND CONSULT WITH A CPA OR ATTORNEY, BUSINESS LEADERS SHOULD RELY ON THEIR BROKER AS A SOURCE OF VALUABLE INSIGHT.

Marie Sanders felt another headache coming on. When hired as the first CFO of the $85 million company a year ago, she assumed she'd focus on strategic planning, but the owner-CEO and his advisory board buddies demanded round after round of cost-cutting. This morning, two pieces of bad news landed in her inbox. The first was the equipment estimate for the plant expansion. Can't do much about that. The second was a renewal notice with an 11% increase from the company's primary property and casualty insurer. Marie heard from hungry brokers all the time. Surely one of them could find a better rate and take some of the pressure off of her.

There are many reasons companies decide to switch their insurance coverage to a different broker. Often, it's frustration with a premium hike from a carrier the broker represents. At other times, it may be dissatisfaction with some aspect of the service provided by the broker's team. Sometimes, it's just a desire to "shake things up."

No matter the motivation, companies find themselves trying to identify potential brokers and determine ways to compare the coverage and other services each offers. Without experience or practice in the selection process, they settle on approaches such as simply requesting premium quotes or issuing complex requests for proposals (RFPs).

There are more effective and more strategic ways for companies to choose the insurance brokers who will best address their needs and culture.

In this white paper, we'll:

- explore the fundamental nature of a broker-client relationship,
- share the advantages and disadvantages of common selection strategies, and
- present approaches that improve the likelihood you'll make the right choice.

SHOULD YOU FOCUS ON MARKETS, PRICE OR BROKERS?

One of the biggest misconceptions about the insurance marketplace is that coverage is essentially a commodity, and the best way to get a lower price is to divide coverage into separate markets and ask a handful of brokers to provide quotes for each market. Companies using this approach assume all brokers operate in the same way and have access to identical coverage, so the best choice will be the broker who can squeeze the lowest price from a carrier.

The market-focused approach is a symptom that a company doesn't really under the role brokers play in protecting its business. It assumes brokers are just salespeople trying to generate as much volume as they can. It drives the broker to focus solely on price instead of finding a strategy that best serves the company's needs. And, far too often, it gives credence to the adage "you get what you pay for."

Is it easier?
Some companies think the market selection approach is simpler, but it actually involves a great deal of extra work and time. Instead of sharing key information with a single broker, the company will need to schedule time to go over the same information with several brokers and answer questions. Comparing all the quotes for coverage adds time, as will the inevitable follow-up calls from brokers who want to "see how the process is going."

Best foot forward.
As insurance experts who are in constant contact with carriers, brokers understand how to best present a company's needs to the current marketplace, structure all of the markets in the most cost-effective way, address concerns from underwriters, and negotiate the finer points. They know which carriers are best suited for the client's needs and when and where those carriers are most likely to compromise.

Carriers prefer brokers.
Finally, most insurance carriers would rather work through brokers than sell coverage directly to companies. Brokers and carriers have a solid understanding of each other's expectations and needs, plus they have experience at working through the issues that may crop up during underwriting. Carriers who know a company is looking primarily at price recognize the business will be less profitable and likely to require more direct service, so they're less eager to pursue it.

THE BEST BROKERS ARE TRUSTED ADVISORS.

Many companies think of insurance brokers primarily as salespeople charged with filling a specific need for the best price. That common characterization ignores the value of the expertise brokers bring to their clients, not only in terms of securing the right insurance coverage, but also considering the opportunities to better manage the risks threatening the clients' profitability and continued viability.

Holistic approach.
Instead of focusing on the premium for a specific policy, a skilled broker looks at the company in a broader, more strategic context. A broker should examine a company's overall needs based on questions such as:

- Is the company hoping to be acquired?
- Is it planning acquisitions of its own?
- How will the company attain the headcount needed to support an upcoming expansion in a tight labor market?
- Are unrecognized issues driving benefits costs higher than they need to be?
- What are the company's key business objectives?

Alternative strategies.
When a broker has a solid understanding of a company's business objectives, they're able to respond with innovative strategies far more impactful and long-lasting than simply choosing a carrier. For example, a company may think it simply needs a larger insurance policy, but the broker may recognize other, more economical ways to reduce the inherent risk (such as loss control programs), better addressing the company's needs and saving it money. After all, insurance coverage is only one of many ways to manage risk. Through their expertise, brokers may present other ideas their client may not have considered.

Proactive approach.
Most companies don't have the time or desire to become insurance experts, so they count on their brokers to communicate timely knowledge and advice. The COVID-19 pandemic provides an excellent illustration. During the initial response to the pandemic, the federal government was issuing a slew of rules and regulations related to healthcare and health insurance, from how COBRA should be administered, to changes in the measurement period for coverage under the Affordable Care Act, to adjustments to subsidies.

Companies struggling to stay open and afloat didn't have the time to stay ahead of all these developments, so brokers like Hylant took on the task of gathering and analyzing the information, then disseminating it in easy-to-understand language. Their clients were able to comply with new requirements.

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Benefits and the labor market.

Another example of how a broker partner should recognize timely challenges and bring creative solutions to the table involves employee benefits programs in the current labor market. It hasn't taken workers long to recognize the strong demand for their services, so companies have had to deal with rising wages, higher turnover, and longer hiring cycles. Generous benefits programs have become a must-have for organizations needing to attract and retain the best talent. The simple solution is to budget more money for compensation and benefits, but that's not necessarily the best response financially.

The right broker approaches employee benefits from a strategic perspective instead of simply seeking the lowest premium cost. Whether that's solving a talent retention issue, exploring alternative structures to control costs while providing a higher level of care, or setting up a more efficient benefits administration system, the broker's expertise supports the company's objectives well beyond recommending policies.

Answers in data.

Risk management programs typically generate megabytes of data. Skilled brokers constantly analyze that data to identify patterns and root causes. A broker may notice an increase in claims that warns of an increased risk of heart-related issues, such as more prescriptions for blood pressure medication. Further investigation reveals most of these claims are coming from workers in sedentary roles, so the broker may recommend a wellness program that includes a walking challenge. Improving the employees' health averts larger and costlier claims down the road.

Bigger isn't better.

There's a common misconception that the large, publicly owned brokers offer both pricing advantages and a greater depth of resources than smaller, privately owned brokers. Actually, that's rarely accurate. Independent firms like Hylant provide competitive pricing and access to comparable tools and expertise, with two key differences. First, a privately owned firm is more likely to view a company as a valuable client than a huge national firm, and their high-touch service will reflect that. Second, an independent firm's experts are generally more accessible than their counterparts at big firms, making it more likely the company will be able to work directly with them.

THE INHERENT FLAWS OF RFPS

Often, companies considering a change in insurance coverage will decide the best way to investigate and evaluate the alternatives is to send a request for proposal (RFP) to a handful or so brokers. They draft a lengthy RFP designed to address every potential question or concern that comes to mind, set a deadline, then collect and compare the responses. The argument for the RFP approach is that it leads to a faster, more objective and balanced decision, but the reality nearly always falls short. Why?

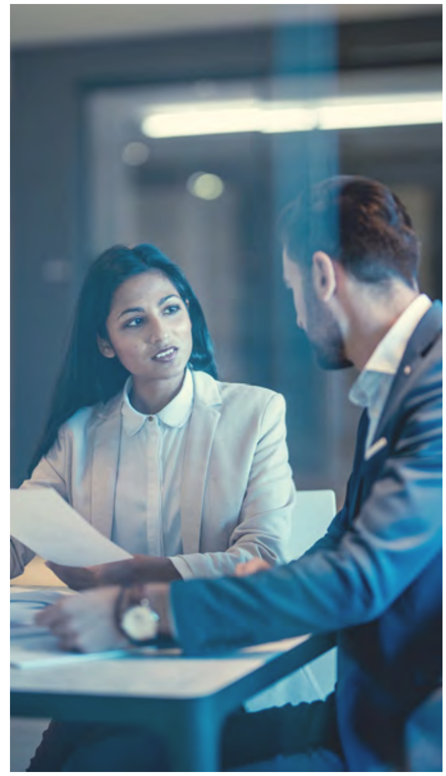
Complex and inefficient.
Instead of simplifying the decision-making process, RFPs tend to generate so much information and take so much extra time to review that they complicate and delay the selection. RFPs typically deliver inadequate insight into the most critical issue: the nature of the working relationship with the broker.

Invariably positive.
Everything the brokers say in the RFP will be extremely positive toward their team. There's likely to be a long list of promises, descriptions of resources, and stories of happy clients. Even questions designed to prompt "negative" answers will produce backhanded compliments—like the job applicant asked to share weaknesses who responds, "Sometimes, I work harder than I should." Some brokers may even use a professional copywriter to polish the responses.

It's TMI.
Consider a typical insurance RFP. We'll say it includes 40 questions, from the basic "describe your business" to more specific questions such as "what steps have you taken to reduce premium costs for companies in our industry?" We'll also assume the company sends it to 7 brokers. If each question receives answers averaging a page and a half, the company will have to pore through more than 600 pages—about the length of a book.

Does everyone on the team read through all the responses carefully and thoughtfully? Most of the time, no. Typically, just one or two people skim through each response and give a closer reading to a handful of relevant sections. So the company has devoted a substantial amount of staff time to identify and organize the right questions, each broker has invested far more time than that to provide meaningful responses, and in the best of cases, only a small fraction of the information is actually reviewed. In other words, the process wastes everyone's time.

Mixed motives.
RFPs are often used when a company intends to keep working with the same broker but wants to "test the waters" to see if a better option arises. Sometimes, they're used so top management (or with non-profits, the board) can be assured the selection process was thorough. No matter the motivation, RFPs tend to be time-consuming and far less informative than users hope.



INSTEAD OF SIMPLIFYING THE DECISION-MAKING PROCESS, RFPS TEND TO GENERATE SO MUCH INFORMATION AND TAKE SO MUCH EXTRA TIME TO REVIEW THAT THEY COMPLICATE AND DELAY THE SELECTION.

INTERVIEWS: FAR MORE EFFECTIVE

So is there a more effective way to evaluate prospective brokers? There is, and not only does it provide more useful insight, but it involves far less time and trouble, and most executives have plenty of experience with the approach.

Conducting a series of broker interviews is similar to the way most companies hire employees: winnowing a list of potential hires down to the handful who appear to be worth the time for an interview. You already have the candidate's resume, so when you conduct the interview, your goal is to get a better sense of how well they'll fit with your organization and its goals. And sometimes, a candidate with an impressive resume turns out to be a disappointment.

While interviews may seem to be time-consuming, in reality, they take a fraction of the time needed to develop, manage, and review RFPs.

Simple process, valuable insight.
Instead of sending RFPs to a long list of brokers, identify two or three you believe have a good reputation and/or experience in your industry. Invite them in for a focused interview (or interviews) with your team. Devoting an hour to discussing your company's needs and how the broker intends to address them will provide insight into how they do business and how well-aligned the broker is with your company's culture and values. You want to learn more about what they do for their clients.

Right relationship.
Request that the broker's team members who will directly handle your account attend the interview. That way, you'll get a sense of how well everyone's personalities mesh and your level of confidence and trust. (Some large brokerages have dedicated sales teams or top managers who are tasked with landing new clients, but the relationship is handed off to an account manager once the contract is signed.)

Who should participate?
With busy workloads, it can be difficult to carve out time for interviews, but it's important to include the staff members who will be affected most directly by the choice. For example, if you're considering an employee benefits broker, interviews might involve the CFO, HR director, and the HR department's benefits lead, each of whom will approach the interview and consider the responses from a different perspective.

INTERVIEWS: FAR MORE EFFECTIVE

POWERFUL QUESTIONS.

As with employment interviews, the quality of questions is critically important. You're not looking for information about when the broker's business was founded or where the principals attended college. You need to know how the broker thinks, how they'll approach your needs, and what unique aspects they'll bring to your business. Strategic questions such as these will encourage responses that offer valuable insight:

- If you were our broker, how often should we expect to hear from you?
- Discuss three situations in which a client left you for another broker.
- Name something innovative you've recently done for a client and how it turned out.
- What do companies like ours not realize about our insurance?
- What's your timeline and process for handling renewals?
- What happens if we disagree with one of your recommendations?
- Why would our company be important to your team?

Encourage the brokers to ask you questions, too, which will provide additional insight into how they think and do business. Not having questions or asking highly general questions is a sign your business won't be all that important to them.

Share critical data.
When selecting a broker, some companies are reluctant to share key data, such as claims information, the names of current carriers, or how existing policies are structured. However, a prospective broker cannot provide meaningful insight without that information. The more open you are with key data, the more targeted the brokers' responses can be.

STILL CONVINCED AN RFP IS BEST?

If your management team or board insists on pursuing the RFP process, or if the concept simply provides greater comfort and confidence for you, make it as meaningful as possible. An RFP may be an effective strategy if the process is approached thoughtfully and with focus.

Limit the participants.
Instead of taking the shotgun-style approach of sending the RFP to a long list of brokers, concentrate on just two or three firms that appear to be promising or that come highly recommended from your counterparts at other companies.

Fewer, more focused questions.
Instead of asking 40 or 50 general questions, limit your RFP to a handful of more strategic questions covering the issues that are most important to your company. Although you're asking fewer questions, those you select should provide more useful insight.

Create a scoring rubric.
Develop a simple spreadsheet with the qualities most important to your company and assign a range of points to each. For example, if helping you communicate with employees is twice as important to you as having access to fitness resources, you might assign a maximum score of 10 points to the first and 5 to the latter. Rubrics remove much of the subjectivity from the discussion. You may have really liked Broker A's personality, but when you study the rubric, you realize Broker B is more closely aligned to your company's specific needs.

Follow up with an interview.
Don't make the decision based solely on the RFP. Invite your first choice (and the second if the scores are close) to sit down with your team for an hour or so. Ask the broker to send the people who will work directly with your team. There are two objectives: to clarify or expand on anything that's unclear after the RFP and to see how well everyone gets along. If your team doesn't feel comfortable with the broker's people, it's likely to be a difficult and unsatisfying relationship.

Check references.
Ask each broker for references of satisfied clients as well as clients who no longer work with them. Then take a few minutes to call each of those references. Ask the happy clients why they've continued to work with the broker and what (if anything) they'd change about the working relationship. Ask the past clients what they thought about working with the broker and why they moved on. In just a few minutes, you'll gain valuable perspectives that will help you make a more informed decision.

HYLANT WOULD BE HONORED TO BE YOUR BROKER.

Since the founding of our family-owned business over 85 years ago, Hylant has promised to make you our top priority. We offer a variety of risk specialty services for your business insurance needs and a full suite of employee benefits services, including health and wellness. We're more than an insurance brokerage firm. We view risk holistically, so we'll work closely with you to develop risk management strategies that align with your short- and long-term goals.

Learn more about how we help organizations like yours reduce risks and protect your assets by contacting our team today.

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