

Insurance Broker Basics

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Many clients ask me, "How do I know if my broker is honest and really working in my best interest?" Insurance brokers battle the perceptions of several conflicts of interest and a compensation system that is not very transparent.

So, my answer is, "Yes, most are honest. But you still need to ask the right questions to really understand which broker might be the right one for you." Let's look briefly at three conflicts.

1. How much is your broker getting paid? A broker typically gets paid by commission – a percentage of the premium on each policy. Watch out for additional fees that are not always clear or explained in advance. The conflict of interest is the more the broker sells, the more he or she gets paid.

2. What's your broker's real job? The second conflict is with brokers who say "we'll help you with risk management," which implies a broad array of prevention, mitigation and legal-contractual tools will be put at your disposal. The truth can be very different: most don't have the time or the broad business knowledge to be an objective risk manager for all their clients. How much does your broker really know about your industry or the quirks of your business?

3. Who's the real customer? Brokers play a difficult intermediary role and struggle to satisfy several masters. First, there's the brokerage firm itself – where your account executive works. Second are the insurance companies and the contractual obligations the brokerage has committed to for volume and (often) for profitable business. And third, there's you. Perhaps you are getting all the attention and professional expertise you need; or, lined up against these other players, perhaps not.

So how do you get the right broker for your business?

- Get referrals and interview several candidates. Assess their knowledge and experience with your industry and accounts like yours, their business style and values, their willingness to commit, in writing, to a certain level of service, and their openness about their income and your costs.
- Understand the inherent conflicts of interest and get them out in the open.
- Recognize your broker's true role is to sell you the right insurance at the right price. Don't expect lots of non-insurance solutions or risk management advice.
- Make sure you understand your risks and which coverages are most important to your protection. One of your service requirements should be a detailed, annual meeting to explain all your coverages and exclusions to your satisfaction.
- Timing for your renewal quotations can be another critical service commitment. To get this right, you need to be in charge of timetables, meetings, getting information to the broker on-time and follow-ups.
- If you don't have the time to stay on top of these important responsibilities, delegate or get some outside, objective help – someone who's got just one client (you) and plays on your team.

You wouldn't dream of negotiating a major business deal without all your years of knowledge and your attorney's expertise. Why would you negotiate this significant business protection without all the best risk and insurance intelligence on your side?