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IS INSURANCE REALLY A COMMODITY?

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We've all seen the commercials — the ones that claim they can save you 15 percent in minutes on your home or auto insurance. These are usually humorous, catchy, and directed toward personal insurance consumers, not businesses for their commercial insurance needs. The jokes might vary, but the message is always the same: Shopping around for as many quotes as possible is a great way to save money on your insurance. However, for businesses, the answer to the titular question, "Is insurance really a commodity?" is a resounding no — insurance is not a commodity and shouldn't be treated as such. For companies, insurance is not only a necessary cost of doing business, but can be the difference between profit and bankruptcy in the event of a costly claim. Further, the insurance industry is currently in a hard market, which, simply put, means many if not all of your insurance coverage lines might be facing premium increases. Many business owners might be wondering, "How can that be when I have never even filed a claim?"

HARD MARKET IMPACT

The unfortunate reality is that most insurance carriers have been operating at a loss for the last several years. A high number of natural catastrophes has had a very significant impact on insurance carriers, along with rising legal and medical costs, growing expenses of vehicle maintenance, and more.

This market turn and consumer-directed ads on TV might cause many business owners to think they need to shop around for insurance brokers. Having multiple brokers quoting your renewal must be able to save you money, right? The reality is by doing so, you can actually put yourself in a worse situation than if you allowed your broker to identify appropriate carriers and attain the right coverages.

AUTHOR CASE STUDY

A contractor client recently reached out and informed me of his intention to change brokers. A different broker had given him a quote for \$12,000 cheaper than my renewal proposal. I completely understood his thought process, but asked for the chance to review the quote because of our longstanding relationship. I promised that, if it was a better program than what I had found, I would admit so and take the lesson learned. The further I dug into the proposal, the more exclusions cropped up that removed coverage, until roughly half of the performed work was uncovered. He was shocked by my findings, and glad that he'd given me the opportunity to double-check the proposal.

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WHEN TO EVALUATE A BROKER RELATIONSHIP

This is not to say that businesses should never take the time to evaluate their insurance broker relationship, and there are some excellent reasons to do so. These include:

- Slow response time or lack of communication from your broker
- Lack of expertise in your specific industry
- Lack of support while handling a claim
- Lack of technology or innovation
- Lack of measurable value delivered by your broker

When you do feel the need to change brokers, it is best to find the right strategic partner whom you trust understands your business and has your best interests and bottom line in mind. However, rising rates and a hardening market are not indicators of poor broker performance. In fact, it is times like these that having a stable relationship is ideal.

PUT YOUR BROKER IN YOUR CORNER

An insurance broker relationship should be valued not unlike your CPA, lawyer, banker, or any other professional advisor with whom you work. As mentioned previously, a robust commercial insurance program is a vital part of any business's operations. Would you really shop around to find the cheapest lawyer to fight your court case? No; you would probably hire someone you trust and/or even consider an internal employee.

In the long run, you really want insurance carriers competing for your business, rather than brokers. You should pick your broker first and put them to work for you. There are often better ways to save money and protect your business than just buying the cheapest insurance — that is where the expertise and experience of risk managers and brokers come into play.

Cost is always a factor, but should not be the main reason you choose to work with a broker partner. Trust is the foundation of protecting the business you have worked so hard to build. Do you feel like your broker is a true risk manager, understands your business and associated risks, and acts like a partner rather than a salesperson? If you answered no to any of these questions, then maybe it is the appropriate time to evaluate that relationship.