The Flawed and Dangerous Process Employers Follow

By Frank Pennachio
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I have asked dozens of our member agents the following question. "Do you think most employers follow a process to manage their risks and purchase insurance that is harmful to them and threatens their business?" Without fail, our members respond with a resounding YES.

This consensus opinion begs a number of additional questions, but the most obvious is how did we arrive at this state of affairs? Then, how can you leverage this condition to your advantage in the marketplace?

The Typical Process

First, let's illustrate the typical employer's risk management and insurance buying process and identify the threats. The majority of employers perceive the insurance buying process as a commodity transaction. They "go out for bids" and ask several agents to provide them with an "apples to apples" comparison. Not wanting to lose an opportunity to write a new account, agents usually comply with their requests.

The employer's standard drill of assigning insurance markets and providing copies of policies and loss runs follows. Typically, agents collect this information, may ask a few additional questions required by the underwriter and go to work shopping for the lowest price. Some agents may even delude themselves into believing they will differentiate tlater in the process and shift the employer away from this inherently flawed commodity approach.

Then, shortly before the renewal date, the agents line up and show their wares. They provide an outline of coverage and limits, and perhaps throw in a few "special" coverage enhancements. But, in the end, the employer views all insurance companies and agents as equals, and makes the decision based on price. The incumbent agent often gets the last look and the opportunity to match a competing agent's price. The employer stays with their current agent and thanks the others for their efforts with a promise they can come back and do it over again next year.

The most common explanation for these series of events is that agents have trained insurance buyers to do what they do. Probably so, but let's look at how the employer is left at risk with this process.

The most obvious is that it is likely no one conducted a comprehensive assessment of the employer's risks and threats. Everyone goes with the flow and assumes, or wishfully thinks, the current policies provide for the needs of the employer. Or, a given agent might try to pick out a deficiency or two, but a comprehensive assessment rarely occurs.

The Dangerous Outcome

As a result, all of the agents come in with a comparable program, which will likely leave the employer with huge gaps or errors. Just to name a few examples this might include:

- Incorrect Named Insureds;
- Inadequate Building, Personal Property, and Business Income Limits;
- Inadequate coverage and limits for contractual obligations;
- Inadequate transportation or off premises property limits; and
- Unacceptable exclusions.

Plus, as we know from our early insurance training, transferring risks to an insurance company is just one part of a way an employer needs to manage their risks. Assuming the unlikely event of perfect programming and risk transfer, what is being done to reduce and avoid risks? The "get me a bid" game usually does not address these two critical areas in risk management. Again, barring an assessment, the employer is not aware of steps that need to be taken and business processes that need improvement.

With the leading with Workers' Compensation strategy, these issues are magnified due to the impact of the Experience Modification Factor, Premium Audit errors, and loss of key employees due to mismanagement of injuries. In addition, employer may lack coverage for incidental Maritime exposures or employees may lose their health coverage when they are out of work with an injury. Plus, violations of Federal lurk around every corner. None of these issues have any relationship to bringing in the lowest price, but all are threats to the employer's business.

Time to Step Up

So, what can you do to leverage these conditions to your advantage and grow your business? The first step is to "step up." As we often say, "employers don't know what they don't know." Employers are not knowingly engaged in a harmful process, but too few agents have exerted their will enough to change their behavior. Agents must take a stance that they will not enable employers to continue down this destructive path. If you believe it is harmful, then refuse to engage.

You might say, "Easier said than done." Yes, doing so takes training and skills. But, first you must believe and commit. Then, you must engage in a dialog with an employer that helps them self-discover the flaws in their process.

Let's assume you respond to the typical employer's insurance buying requests with the following question, "we believe that process poses great risks for your business … would you like to have a discussion about it?" And, the employer agrees to discuss your belief. What do you think the chances are that they will discover the errors of their ways and when confronted with the dangers make the necessary changes? We assert the chances are high and your probability for gaining a new business relationship improves dramatically.

The first sale is to you. Are you ready to take on the challenge? Those who do will not only grow their business, but perhaps save a business.

About the Author

Pennachio is Co-Founder of The WorkComp Advisory Group, a sales training and consulting organization that works with agencies to leverage technical knowledge and sales strategy into successful new business development. Pennachio brings nearly 20 years of agency ownership/ management, sales training and workers' compensation expertise to his topics. He can be reached at frank@mywcadvisor.com.

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- Agency Differentiation through Sales and Technical Capabilities
- Revenue Diversification with Fee-Based Strategies
- Increased Success Among Their Young Producers