

## Process of buying an insurance

### Appointment of a Broker / Agent

Depending on your business sector, your trade association may be able to assist with the identification of suitable insurance providers. Even if your trade association can help, however, you should consider appointing an insurance broker or agent, because they have specialist skills and can save you time and money. An insurance agent will normally only deal with one insurance company and use of an agent may restrict your range of insurance options.

On the other hand the broker (or intermediary) is legally your agent and may receive a percentage of your premium (usually referred to as brokerage) from insurers. It is your legal right to know how much the insurance broker or agent is earning on your account and how the income arises, so that you can be confident there is no conflict of interest and that you are getting good value.

This set of questions for the buyers of insurance to ask brokers to ensure that there is full transparency and disclosure of all sources of broker income. The list below is not exhaustive, but you should be entitled to at least the following information:

1. Total income the broker receives from your account, both basic commission and additional commission contingent on volume or profit if any with that insurer.
2. Details of the breakdown as above for each type of insurance
3. If requested, this information should be provided at the time of placing the insurance.
4. Administrative services performed for any of your insurers
5. Other relationships that exist between your broker and your insurers
6. Whether any insurer finances any aspect of the broker business

Your broker will be able to advise you on the practical interpretation of the requirement for you to always act in utmost good faith. An insurance broker will undertake a range of services, including helping you:

- Identify your insurable risks and decide how much insurance to purchase
- Compile and validate the insurance data that will be presented to insurance companies
- Complete insurance proposal forms, when necessary
- Present your insurance information to alternative insurance companies
- Identify cost-effective risk control improvements
- Evaluate quotes from insurance companies, and
- Manage any claims

If you are choosing a broker for the first time, think about asking business associates for recommendations. There are many brokers to choose from and some specialise in particular types of insurance and/or different types of industries. When you select an insurance broker, make sure that the broker has the expertise you require, by asking:

- What experience the broker has in your business sector
- What help and support the broker will provide when you make a claim, and
- What recommendations or references the broker can offer

Decide whether you want to use a large or small broker. A Professional brokers will deal with more insurance companies and should be able to negotiate a preferential premium based on the volume of business placed with a particular insurer. Also, professional brokers may have more expertise if you are a specialised type of business, although small brokers will often focus on niche activities or businesses. In any case, you should discuss and agree the level of service that you expect from your broker.

If your broker makes a mistake and you suffer a loss and fail to have a claim paid by an insurer, you will need to be sure that the broker will make good their mistake. You are entitled to know that your interests are protected and your broker is adequately insured. So, it is worth asking your broker what Professional Indemnity (PI) or Errors and Omissions (E&O) insurance they have in place.

### **Choice of Insurance Company**

Price should not be the only consideration when choosing your insurance company. The most important service from your insurance company will be the full and prompt payment of the claim when a loss occurs. It is important that the procedures to be followed in the event of a claim are considered before the loss occurs. Decisions about who will report the loss to the insurance company and other aspects of the claims-handling procedures need to be carefully established. In the first instance, the overall reputation of the insurance company is important, both in general and in relation to your specific business sector. You will need to evaluate several factors, including the following:

- Financial strength of the insurance company
- Area of specialism and relevance to your business
- Premium charged and cost of any extensions
- Scope of cover and nature of any exclusions
- Level of excess or deductible available / imposed
- Reputation for the handling and payment of claims
- Level of support and range of advice available
- Nature and extent of the working relationships offered

The financial strength of the insurance company is vitally important. Your insurance broker is likely to have solvency criteria for insurance companies that must be fulfilled before placing business with them. However, you should check that this is the case.

### **Scope and Price of Cover**

Your premiums will be calculated based on the information that you provide and the claims history of the business sector in which you operate. They are also likely to be affected by the volume of claims that your business has already made, as well as the exact nature of the business activities that you undertake, especially any activities that place your employees at increased risk of injury. Because your premium is calculated based on the information that you provide, it is essential that the information is correct. This is the basis of the principle of utmost good faith. If you understate your property values and then make a claim after a loss, you may find that the claim is reduced in proportion to the understatement of values. This reduction is known as applying average (under insurance) and you should ask your broker to explain the implications of having an average clause in your policy.

Remember that the purpose of Indemnity insurance policies is to restore you to the same financial position as immediately before the loss. This will probably mean that the insurer will pay you a sum of money, but the insurer has the right to opt for other methods of settling the claim, by way of repair, replacement or reinstatement. You will need to make sure that you understand the scope of cover that your business has purchased.

At insurance renewal each year, it is important to undertake an analysis of the insurance options on offer, by taking the following approach:

- Ensure that you or your broker gets quotes from several different insurers, so that you can be sure that you are getting the best insurance deal available
- Compare the levels of cover and the nature of the exclusions offered by the alternative insurance companies that your broker has approached
- Ask whether the insurers offer a no-claims bonus or some other premium reduction incentives and how these can be protected
- Determine whether you are prepared to accept the standard policy wording or whether you need a policy wording specific to your business needs
- Decide the level and nature of claims that you think may occur, so that you can then decide the level of excess / deductible that you wish to retain
- Investigate whether the premium payments can be deferred to a date after renewal and whether monthly or quarterly premium payments can be arranged
- Decide what level of service you require from broker and insurers, including whether you need property protection or health and safety advice, and
- Determine whether the insurer offers 24-hour support help lines for reporting claims or provides emergency response in the event of an injury or loss

There are many similarities between the policies offered by different insurers, but you should check for variations in policy wordings. Most insurance policies provide cover for a year, after which they can be renewed, although the renewal may not necessarily be offered at the same cost. There are a few types of specialist policies, such as contractors all risks insurance and erection all risks insurance can be arranged for a longer period. Annual review of your insurance arrangements will help you to ensure that there are no gaps in your historical insurance cover.

If the policy wording does not cover all the potential exposures that you have identified, you should investigate whether you can extend the coverage. For example, you may require Crime insurance to protect you against the fraudulent acts of employees. Your Property policy may offer you a limited amount of cover, but that may not be sufficient for your insurance needs. When looking to buy any additional cover, your broker should investigate:

- Optional extensions to the policy to cover the exposure, although there may be an additional premium payable for any extension, and/or
- Other insurance companies offering the coverage you require as a standard policy wording, either as an extension or as a separate policy

### **Managing Relationships**

It is best to have a clear understanding of the relationship with your insurance broker and with your insurance companies. You should have a clear understanding of what your broker and insurer are contracted to provide. It is appropriate to produce a Service Level Agreement (SLA) that sets out the services and service standards that will be provided, especially by your broker. Examples of the issues that should be included in a typical insurance broker SLA are:

- Names of the parties to the agreement
- Duration of the agreement and the notice required for termination

- Services to be provided by the broker, including frequency of review meetings
- Contractual obligations of both parties to the agreement, including collection and compilation of insurance renewal information
- Disclosure of broker remuneration from third parties (if any)
- Details of the broker service team, including their qualifications and experience
- Performance standards, measurements and response times to be applied
- Arrangements for the review and evaluation of the contract
- Process for agreeing changes and variations to the agreement
- Complaints and disputes resolution procedures
- Frequency and timing of review meetings with the broker
- Price / cost calculations for the service and the payment arrangements
- If the contract is for more than one year, arrangements for fees in future years
- Agreement to the contract signed and dated by both parties

When deciding the detailed contents of the SLA with your broker, you should consider the items listed above, as these will influence the service levels, arrangements and the likely cost of the broker services. Additionally, the factors set out below will be relevant to your working relationship with your broker:

- You will need to spend more time with your broker in the early stages of the relationship to build mutual trust and understanding
- Always keep your broker informed of changes to your business because these may affect the insurance you need to buy, or even invalidate your policies
- Review broker performance regularly and undertake a full review every three to six years, unless you are completely satisfied with the cost and quality of service
- Insurances are normally renewed annually, although this may not be necessary or advisable, especially if there is a large claim in progress
- Do not leave the review process until the last minute, as it is generally a good idea to start discussions around three months before renewal
- Agree your policy before the renewal date, as it is only after the policy has been issued that you can be certain of the scope of your insurance cover

Remember that your insurer also wants the situation where you do not make claims. Accordingly, insurance companies often provide you with advice to assist you with the management of your risks. These additional services can become a major advantage of staying with the same insurer. For example, your property insurer may offer a survey of the premises, your liability insurer may provide advice on health and safety or product safety, and credit insurers may give advice on minimising exposure to bad debts. Avoiding a loss altogether is better than having a claim paid, so the advice can be worth a great deal and may even be included in the premium in some cases. The value of such advice should be considered when undertaking your insurer and broker reviews.

Remember to keep everything well recorded and fully documented. It is vitally important that all insurance policies and other insurance-related records are retained for the appropriate period of time. Correspondence and minutes of meetings with brokers and insurers should be retained as these documents may prove to be useful if there is ever a dispute over the extent of insurance cover.