



# The Flawed and Dangerous Process Employers Follow to Buy Insurance and Manage Risk

By Frank Pennachio | Partner | Oceanus Partners



Buying business insurance and managing risk is a complex endeavor for most businesses. As a result, overwhelmed and distracted executives frequently take short cuts when making decisions related to managing, transferring and financing their business risks. Simply put, the vast majority of employers engage in process to manage risks and buy insurance that is flawed and dangerous to their business and employees.

## The Typical Process

First, let's illustrate the typical employer's risk management and insurance buying process and identify the threats. Most employers assume that insurance companies, insurance agents and insurance policies are similar with little to no differentiation. A process based on this underlying assumption leads to a practically exclusive focus on the price of the insurance program. Barring any other perceived or realized differences, price serves as the only differentiator.

With price as the primary focus, the employer's standard drill of "going out for bids" follows by assigning insurance markets and providing copies of policies and loss runs follows. Several agents are deployed with the marching orders to provide a prices and "apples to apples" comparison. 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 later in the process and shift the employer away from this inherently flawed commodity approach.

Then, shortly before the renewal date, the agents line up to show their wares. They provide an outline of coverage and limits, and perhaps throw in

Please share what your process for buying insurance and managing risk looks like.

a few "special" coverage enhancements or "value added services." 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 Negative Outcomes

Let's look at how the employer is left at risk with this process. Let's assume the employer shopped the market, and identified the lowest cost workers' compensation policy. However, the employer has not likely considered the following questions:

- ◆ How is the lowest price policy going to ensure that your injured employees get the right medical treatment when injured, and recover as expected instead of their medical condition getting worse and increasing the cost and duration of the injury?



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- ◆ How is the lowest price policy going to ensure that your Experience Modification Factor is correct preventing overcharges and potential lost business opportunities?
- ◆ How is the lowest price policy going to ensure that injuries are reduced or prevented, and that all employees go home in the same condition that they arrived at work?
- ◆ How is the lowest price policy going to ensure that your employees don't wander into a Federal Acts exposure and leave you at risk for an uncovered claim and your personal assets at risk?
- ◆ How is the lowest price policy going to ensure that you are in compliance with Federal and State safety requirements?
- ◆ How is the lowest price policy going to ensure that you are hiring employees fit for the job?
- ◆ How is the lowest price policy going to ensure that your workers compensation policy is coordinated with your other employee benefit programs and Federal Acts such as FMLA and ADA?
- ◆ How is the lowest price policy going to ensure that your injured employees are not at risk for narcotic addiction due to unnecessary and inappropriate prescription practices?
- ◆ How is the lowest price policy going to ensure that your injured employee does not get "lost in the system" and never return to work?

### Step Up

As you can see, shopping the market for the lowest price policy did not address any of the questions above. As a result the employer is at risk for uncovered claims, fines, litigation, unnecessary costs, and the loss of employees. In addition, when the number of claims and costs increase, the employer is likely to be less competitive and sustainable in the marketplace.

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

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Frank Pennachio has more than 30 years of experience in the insurance industry as an agency owner and as a sales and marketing consultant to independent insurance agents. He has consulted with agency owners and trained more than 1,000 agents in the past decade, encouraging them to develop their expertise in all areas of protecting an employer's workforce.

Frank is an accomplished speaker, presenting at national conferences and seminars to agents, employers and other insurance professionals. In addition, he frequently writes articles on Self-funded Group Health, Workers' Compensation, Sales & Selling, and Lead Generation for industry publications including American Agent & Broker, Risk and Insurance, Professional Insurance Agent, HR Magazine and Insurance Journal. He is recognized as an expert in the Workers' Compensation community.

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