



Broker Selection vs. Market Selection

Pick your broker FIRST, then pick your insurance company and coverage TOGETHER.

The most ineffective and costly practice ever adopted by the Risk Management community is “market selection”. Our apologies for ruffling feathers with this statement, but it’s the truth. This practice involves divvying out insurance companies (i.e. markets) to 2 or 3 different brokers and then having those brokers only get proposals (i.e. quotations) from those markets. From a broker’s perspective, you have just told me that you don’t trust me, which begs the question, “why?” The gross flaw with this practice is that it makes the assumption that all brokers

are created equal, as if there is no compelling difference from one broker or brokerage firm to the next. As soon as you as the insurance buyer feel that you need to do “market selection”, then it’s time to find a new broker.

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It is without contest that the broker who can make the insurance decision with their client is the broker that can negotiate the best coverage and premium. When the insurance companies know that a broker has control over the decision with their client, they know that they must give it their best shot to be considered. When it’s a “market selection game”, the carriers know their hit ratio just dropped dramatically, especially if their broker is not the incumbent broker. This is proven by the fact that the incumbent broker keeps the business 85% of the time in the market selection process. Just imagine how good of a job the incumbent broker could have done if they had a whole deck to play with on your behalf. Can you imagine limiting your

Real Estate agent to just homes on designated blocks?

The market selection process creates an environment where the broker is trying to make a sale as opposed to doing what is best for the client. In this situation the broker/agent will do all they can to make the sale because it’s more about them making a commission dollar, then about making the right insurance decision for the client. Think about it. If one of the markets assigned to me is Shifting Sands of New Mexico Insurance Company, then I will do all I can to sell you their product and hopefully they are the cheapest because then you are intrigued. But if I controlled the marketplace, I could explain why Liberty Mutual Insurance Company may be the better option even though they do cost 20% more in premium. The protection and service may not be comparable, but who do you trust in the market selection process? Insurance is complicated, and knowledge and skill are required to navigate the marketplace. The broker that works in partnership with their client is guaranteed the sale, and commission, no matter what, so it becomes more about what is best for the client and their operation. It becomes more about making the smart decision for their business.



The market selection practice is also a costly one for a customer because the market selection process is time consuming—multiple meetings with different brokers to select markets; explaining your operation to different brokers and getting them to understand your business; brokers vying for your time and explaining why they “need” a certain market; broker of record letters going back and forth; dealing with upset brokers; rescinding broker of record letters because a broker convinced you to change your mind; sending “quote packets” to different brokers; multiple underwriting questions including the same questions answered multiple times for each broker; sitting down with brokers to go over the quotes; trying to determine which broker and quote are best; and so on and so on. It really is an expensive process over the long-term. There is less drain on your time and bottom-line in picking the right broker for your culture and business first. It’s no wonder why we often hear how much insurance buyers dislike the insurance buying process.

If a broker ever tells you that they have “leverage” over the marketplace, then move on because that is completely false. The insurance business is a regional business and any reputable, established firm is going to have the ability to negotiate best value solutions on your behalf. It’s the knowledge, service and resources that a broker can bring to your firm that will make the difference. At the end of the day, rates are rates and each carrier has max debits and credits they can apply per their insurance treaties, so the idea of “leverage” is a fallacy. That said, a good broker will know how best to present your account to the marketplace and negotiate the best deal on your behalf. The art of negotiation is certainly within the skillset of a good broker, but this skill is ignored and pushed aside in the “market selection” game. After all, a broker’s negotiating position is much more powerful when they control the markets and will make the final decision with their client.

Broker selection is the best practice for your insurance process, not market selection.

In conclusion, find the right broker and find peace in knowing you are on the right path. Trust your broker, as you trust your other advisors, to have your best interest in mind at all time. After all, most brokers do have their client’s best interest in mind, they just aren’t put in the position to prove it because of the misinformed Market Selection Practice. If you aren’t pleased with your broker, then find a new one. Broker selection is the best practice for your insurance process, not market selection.

The industry that utilizes the market selection process the most is construction industry. The reasoning for this, I imagine, is because they compete in a bid and quote industry themselves, so it just makes sense. However, comparing the insurance quoting process to the contractors quoting process would be an inadequate comparison. For example, market selection would be equivalent to telling a contractor they could only get material bids from a single supplier or sub-contractor to use in their quotation. Furthermore, it must be understood that brokers’ don’t mark-up quotations to include our labor and overhead costs, which is a substantial percentage of a contractors bid and where much of the difference lies. Broker selection is also best for contractors, not market selection.