

MASTERING

THE REQUEST FOR PROPOSAL PROCESS

The right process and the right people
are needed to achieve the right results.



INTRODUCTION

For many years, insurance buyers enjoyed the benefits of a 'soft' market, with an over-supply of insurer capacity generating significant competition, resulting in what many described as an unprecedented run of low-end premiums.

In recent years, the insurance market has shifted to what is commonly termed as a 'hard' market. It has been primarily driven by a series of natural catastrophes and a spate of significant insurance losses across the globe combined with a sustained period of low interest rates and falling investment returns for insurers.

The slow economic downturn accelerated by the ongoing Covid-19 pandemic, which multiple industry experts anticipate will be the most significant insurance event in history, has only worsened what was already one of the most challenging insurance landscapes in living memory.

SO, WHAT DOES ALL THIS MEAN?

Put simply, insurers have been:

- **increasing their premiums,**
- **reducing coverage,**
- **withdrawing their support across several key businesses and geographies,**
- **tightening their underwriting guidelines, and**
- **excluding cover for certain types of risks.**

These challenging conditions, and the complexities that come with it, are making broker negotiations with insurers more difficult than ever. As a result, insurers are adopting higher levels of scrutiny when evaluating risks and making regular changes to their policy terms and conditions to limit the overall breadth of cover provided.

In short, the annual renewal process has become far more rigorous and challenging than ever before.

For businesses, this means there is additional complexity around the balancing act of getting the right insurance at the right cost and potentially exposes the company to over-paying for their insurance or leaving the business exposed if it has inadequate coverage.

In such an environment, the performance of your insurance broker is critical. Not only do they play an essential role in helping businesses manage the risks that they face, but they are also tasked

with managing the various obstacles and difficulties emanating from a distressed insurance market.

As a result, brokers are increasingly delivering difficult news to their clients and presenting renewal outcomes that are far from ideal. Consequently insurance has leapt to the top of the agenda for many organisations, who face many questions: Are we working with the right insurance broker? Do our insurance policies still provide adequate coverage? Are other organisations experiencing the same levels of pricing increases and/or reductions in cover? Are there better, more most-cost effective solutions out there? Are we getting the best returns on our investments on insurance?

This uncertainty drives many organisations to re-examine the makeup of their overall insurance arrangements, including broker relationships. The question is: what's the best way to go about this? More often than not for most companies, the answer is a Request for Proposal (RFP) exercise.

SUMMARY

BENEFITS OF A WELL-RUN RFP:

- **It's an excellent corporate governance exercise**
- **It allows you to explore the market and test multiple vendors (bidders) all at once**
- **You drive and control the process**
- **You receive technical input from various market and industry experts**
- **Helps identify any deficiencies or weaknesses within your current program**
- **It creates competitive tension, leading to better financial outcomes**
- **Gets you the best overall returns for your investments on insurance**



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STRUCTURED CORRECTLY, IT CAN ALSO BE A HIGHLY EFFECTIVE WAY OF DETERMINING THE STRENGTHS AND WEAKNESSES OF YOUR EXISTING INSURANCE PROGRAM.”

Indeed, there's no better way to test the adequacy of your insurance program and compare the intricate offerings of a group of brokers than a well-run RFP process. There are many different ways to construct your insurance program, and no two brokers are created equal. There are dozens of factors that need to be considered when deciding which approach and which broker is right for you.

A successful RFP exercise makes the overall process far more efficient and simplified.

The decision to undertake an RFP requires careful consideration and planning. A poorly constructed and run RFP can not only be a waste of time and resources but of even more significant concern, it can also damage your organisations reputation in the insurance marketplace.

WHAT IS AN RFP?

RFP's have played a crucial role in business for many years and are commonplace in the insurance market. They allow companies to conduct an in-depth vetting process on a selected number of insurance brokers of their choosing while enabling the brokers to demonstrate their expertise and unique service propositions.

The challenge in completing a successful RFP exercise lies in striking the right balance between which brokers to involve, what questions to ask, what rules/ conditions to apply, what information to release, and how much time to allocate to the process.

COMMON MISTAKES

All companies want the best results when opting to run an RFP exercise. Unfortunately, however, many RFP's fall over or fail to deliver the results that the company sets out to achieve, not through a lack of effort, but more often than not, because of a flawed process that was destined to fail from the outset.

This is understandable. Running an RFP process can be a daunting task, particularly for someone who has never run one before.

Some of the more common mistakes we see include:

An unwillingness to provide sufficient data. Some organisations release very little/limited information, which impedes a broker's ability to produce a high-quality response offering genuine insight into assisting the organisation. This leads to more standard boilerplate responses that offer little to no value and precludes the buyer from making a well-informed decision.

Assigning responsibility for managing the RFP exercise to the wrong people.

A lack of in-house experience or tasking the wrong individuals to manage the process can often steer the RFP in the wrong direction. For example, many organisations allocate responsibility to members of their procurement teams, however, this can often lead to an overemphasis on price – a particularly problematic issue in a challenging insurance environment where the market dynamics and attitudes of insurers are constantly changing.

SUMMARY

THE 8 MOST COMMON RFP MISTAKES

- **An unwillingness to provide sufficient data**
- **Assigning responsibility for managing the RFP exercise to the wrong people**
- **Reliance on the current broker**
- **Over participation**
- **Lack of sufficient time**
- **Poorly drafted questions**
- **Over emphasis of broker scale and size**
- **Waiting for a problem to present itself before running an RFP**



By no means are we suggesting that pricing should be ignored or overlooked, but it's essential to ensure that it carries the correct weighting throughout the decision-making process.

Reliance on the current broker. This may seem counterintuitive, but many organisations, for one reason or another, rely on the assistance of their incumbent broker when undertaking an RFP exercise. We have seen this derail several RFP projects over the years. The incumbent broker uses this to his advantage, sitting in the background and manipulating key elements of the process (e.g. what information is and isn't released to other brokers and delaying the release of the requested information) to protect their own interests.

Over participation. Involving too many brokers can often deter others from responding while also taking up more of

your time. If possible, it's recommended that you limit your pool to a maximum of five participants or fewer.

Lack of sufficient time. This applies to both the RFP exercise itself and the ensuing renewal period after that. Responding to an RFP is time-consuming, and the more time brokers have, the better their responses generally are. Similarly, the more time your appointed broker has to manage your renewal, the better the outcomes. So be sure to allow ample time for both.

Poorly drafted questions. The trick here is to ask open questions without being too generic. If you're too specific, the answer may not touch on all the areas you're interested in, but if your questions are too general, you might not get the information you're after. Either way, you are limiting the brokers ability to showcase their expertise.

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Over emphasis of broker scale and size. Organisations often place too much importance on a broker's size and scale of in-house resources. While such features are imperative for some (e.g., a multinational organisation that requires the services of an international broking firm), working with a broker that can provide an extensive array of services, or one that boasts significant clout / buying power in the marketplace, does not necessarily mean that you'll reap any benefits. The question is: how are these resources going to be deployed, and at what cost? A broker's performance is only as good as the individuals overseeing your account.

Waiting for a problem to present itself before running an RFP. This doesn't apply to the RFP process itself, however, it is an error that a lot make. Many companies

view insurance as an unwanted but necessary part of running a business. It can be costly, time consuming, and often goes unused.

For this reason, many companies adopt a 'set and forget' approach when it comes to their insurance. However, this can be a costly error, particularly when insurers are handing down significant premium increases and reducing cover.

Ultimately, many companies wait for an issue or a series of problems to occur (e.g. denial of a claim, an uninsured loss event, poor broker performance, bad renewal results etc.) before taking action. By then, it's too late – the damage is already done. The key is to be proactive, not reactive.



HOW TO ENSURE A POSITIVE RFP EXPERIENCE

Skilfully creating an RFP is critical to ensure success from the outset. If the specified requirements are overly ambiguous, you risk receiving long-winded submissions that fail to provide you with the insight you need to make the right decision. If the requirements are too narrow or restrictive, or if the bidding brokers are working with insufficient information when preparing their response, their innovation is limited.

Every company is different, and there are many different motivations behind running an RFP. There are, however, some common ground rules that should always be followed when running a broker RFP, no matter your situation:

BE SELECTIVE WITH YOUR PANEL OF BIDDING BROKERS:

Most brokers are confident in their ability to work with just about anyone. However, like all other service providers, some are far better and far more experienced in specific areas than others. For example, some brokers maintain dedicated practice groups that work exclusively with organisations from particular industries. Others have created unique placement facilities or insurance schemes that leverage the group buying power of organisations from the same sector to achieve more competitive pricing and greater levels of cover for their clients.

Identifying those brokers or individuals that have proven capabilities and experience working within your industry from the outset will improve your chances of receiving high-quality submissions that offer relevant and meaningful information from all brokers involved.

Take the time to meet with those involved:

The primary goal of the RFP is to find the best partner to work with, someone that demonstrates a deep understanding of your industry and needs. To achieve this, bidding brokers must be allowed to develop an understanding of your business and be empowered to respond appropriately. Thus, it benefits both you and them.

Taking the time (no more than an hour) to meet with each active bidder has multiple benefits. Firstly, it enables them to familiarise themselves with the business and its associated risks, correct any misconceptions they may have, and identify your servicing needs.

From the buyer's perspective, it allows you to have a candid conversation about exactly what you are looking for in a broker. You need to reinforce the most critical issues to you and what you are aiming to achieve, convey the company's key messaging, and promote the positive features of the business first-hand.

It also demonstrates that you are genuine in your intentions and allows you to start the broker evaluation process early by measuring the bidding brokers' initial performance (i.e. Did they ask a lot of well-thought questions or merely brag about themselves? Did they do their research before the meeting? Were they on point? Was the Q&A session informative or inane?).

All of this incentivises and encourages the bidders to put their best foot forward, which further enhances your chances of receiving exceptional RFP submissions.

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Know what information to release and how to go about it:

As the old saying goes, knowledge is the key to success. The more each bidding broker knows about you in an RFP, the greater your chances of getting the information you are looking for.

Releasing the correct data is essential to the RFP process, as it influences how the brokers can and will respond. The correct information also strengthens the broker's ability to showcase their innovation, market knowledge, and skills.

However, what information to provide and to who is often a point of contention.

Let's consider that an insurance brokers' primary role is to work with their clients to understand and transfer their insurable risks to the insurance market and manage their insurance portfolio/program after

that. Therefore, bidders must be given the information they need to understand your risks, and how they are currently managed (e.g. what policies you currently have, what your claims history looks like, what information has been disclosed to insurers, what levels of insurance you purchase).

Only then can they provide meaningful answers and information relevant to you so that you in turn can measure their expertise effectively.

Armed with the right level of detail, bidding brokers can pinpoint weaknesses/ deficiencies in your insurance program. They can also identify optimal carrier partnerships, devise strategic marketing plans, create more cost-effective solutions and recommend appropriate risk management and training programs that could ultimately lead to better results in the future.

Essentially, the right information provides an excellent opportunity for the brokers to showcase what they can do and the level of expertise they bring to the table.

A common issue often arises when deciding how to manage any requests for additional information from different brokers that fall outside of the aforementioned 'insurance' related information.

One approach is to share all questions and your answers among all bidders, the rationale being that this ensures that all parties are then working with the same information, making it an even playing field. However, this can cause a significant backlash among the bidding brokers and is a tactic that we strongly recommend against. Consider this: why should one broker benefit from another broker's research, hard work, or creative thinking?

Define your evaluation criteria early on and use a scorecard to grade brokers:

When drafting your RFP, it's essential to consider what's important to everyone involved, as one person's priorities may differ from others. For instance, staff responsible for dealing with the broker on a day-to-day basis may prioritise the brokers general account management services, whereas risk managers typically prioritise coverage, procurement managers prioritise costs, and so on.

Accordingly, it's essential to collaborate with all stakeholders that will play an active role in the decision-making process to establish what areas are most important and how each broker will be rated.

Using a scorecard with pre-defined scores for each of the RFP questions (where the most highly prioritised questions carry the highest scores) is a practical solution

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BROKERS CAN SHOWCASE WHAT THEY DO AND WHAT THEY CAN BRING TO THE TABLE WHEN PROVIDED WITH THE RIGHT INFORMATION”



to show that you arrived at your final decision in a manner that was both fair and transparent. It allows all stakeholders to have their input, sets a benchmark for how each broker will be judged and provides evidence that the decision was made without bias.

It can also be used, if necessary, to provide feedback to unsuccessful bidders, showing them how they were rated against the competition, where they scored high/low etc. While this sounds like a relatively minor matter, unsuccessful brokers appreciate honest feedback, and a scorecard is an easy and straightforward solution to achieve this.

Conduct Final Presentations and Check for Chemistry:

Any broker will tell you that preparing an RFP response is a very time-consuming and costly exercise regarding the man hours they invest. Accordingly, every bidding broker should be allowed to make a final presentation in an ideal world after submitting their response.

While we encourage this, we appreciate that not everyone has the time to accommodate such a request. Moreover, if a particular broker submits an inadequate response compared to the rest, then there's little point in inviting them to an unwinnable situation. You'll likely just be wasting your time and theirs.

At the very least, organisations should take presentations from their preferred candidates or frontrunners before making any decision (unless there are extenuating or unforeseen issues preventing this). Again, to ensure all parties are on the same page and that all items have been successfully covered off.

Appointing an insurance broker is a big deal and should be treated as such. They play a critical role in protecting the company against potentially crippling financial losses should a major catastrophic event (or series of events) ever occur. Changing brokers is not something that you should be doing



regularly and chances are you'll be working with them for several years, so investing a little extra time to ensure you make the right choice can pay off.

It's also essential that you like and trust your broker and the individuals you deal with. Presentations allow you to evaluate whether or not the brokers nominated service team is a good fit for you. Treat the presentations like an interview process – because it is.

Allow Sufficient Time:

While allowing sufficient time seems obvious, many RFP's fall over due to timing restraints. Various key activities and dates/milestones need to be managed throughout a well-run RFP, and it's essential to allocate enough time for each when scheduling the RFP timeline.

Firstly, give the brokers enough time to digest all the information you are (or should be) releasing and prepare their response accordingly. If you want the bidding brokers to invest their time into drafting a bespoke, high-quality response, then it's essential that you give them the time to do so.

Secondly, don't rush the evaluation and decision-making process. Take the time to ensure you are in a position to make a well-informed and educated decision. Remember, you have to allow time for reading through all the responses, host broker presentations, conduct internal meetings/discussions, and get sign off (if necessary) from senior partners.



Lastly ensure that your appointed broker has enough time to manage the renewal process, execute the agreed go-to-market strategies, and complete any additional value-add services that were promised during the RFP exercise (e.g. individual risk consulting exercises). This is particularly important in a distressed market, where insurer response time is typically a lot slower than usual.





Generally speaking, the more time a broker has in the marketplace, the better the outcomes.

It's never too early to start the RFP process. However, if you wait too long to get started, you run the risk of running a rushed, frantic process that fails to meet expectations.

Secure the best services and be clear on what you are getting:

Brokers are always hungry for new business, and in a distressed market, a broker's biggest competitive advantage is often what they are able (and willing) to offer as part of their fee.

The competitive nature of an RFP creates the perfect opportunity to negotiate the best deal when it comes to your broker's fee and overall services provided. In addition, brokers are often more open to including specialty services as part of their fee that would otherwise be subject to additional costs (e.g. supplementary risk management/consultancy services) or are willing to provide them at discounted rates.

Now is a great time to take advantage of this opportunity, given the current issues in the marketplace. When insurers are scrutinising clients more than ever, engaging your broker to perform the right risk management/consulting services can be highly beneficial. That's because the output of such work puts them in a stronger position when negotiating terms with insurers on your behalf.

Many brokers like to brag about the endless array of services they offer, only to quote a fee based on a limited service model that is designed to be supplemented by additional fees for required resources.

Another area to address is what, if any, 'hidden' or undisclosed fees may apply. For example, will the broker look to earn additional commission/brokerage when placing your insurance program? Do they utilise mandatory quoting platforms with insurers that generate extra income for their business? Are they entitled to earn additional payments through alternative incentive-based models with insurers (e.g. profit shares, contingent commissions, volume bonuses etc)?

Ideally, each bidding broker should be providing you with a breakdown of what is and is not included in their fee and how much they would look to charge for any additional consulting-based services that may be required.

Explore additional expertise:

Some brokers can provide a wealth of services in addition to their general insurance broking services, either through their in-house resources or via exclusive joint-venture or partnership arrangements with third party specialists. This may include employee benefits services, health and wellness consultants, property valuation teams, or individual subject matter experts.

So, it's worth asking the question of what other services the bidding brokers can provide.



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GETTING CLEAR ON WHAT SERVICES THE BROKERS ACTUALLY INCLUDE IN THEIR FEE IS ALSO IMPERATIVE TO DETERMINE WHICH BROKER IS OFFERING THE BEST VALUE FOR MONEY.”



CONCLUSION

In summary, an RFP exercise can be an extraordinarily effective and uncomplicated solution to reviewing your current insurance arrangements, but only if it's executed properly.

All brokers are different, and no one broker has exclusivity on good ideas. And while a broker's credentials, experience, industry knowledge, depth of resources and market relationships are all important, they add little to no value if they are not utilised correctly.

In today's market, the performance of your insurance broker is more important than ever. The role they play in helping guarantee your organisations long-term security should not be taken for granted. With insurance being a significant overhead for many organisations, it only makes sense to ensure you are making the best use of your investments in insurance.

An RFP allows you to do just that.

A well-constructed RFP process can help ensure you enjoy the best the market has to offer across all facets of your insurance program regardless of the market conditions. This can range from coverage (insurance protection) and pricing (premium levels and broker remuneration) to broker service and advocacy and insurer security.

And it's important to remember that you do not have to change from your incumbent broker to benefit from running an RFP exercise.

Ultimately, an RFP project can be an excellent solution for any organisation looking to test, challenge, benchmark and/or critically analyse their current insurance arrangements. ●

ABOUT THE LION PARTNERSHIP

The Lion Partnership is an autonomous advisory service to support businesses through the complex and often costly exercise of implementing efficient insurance programs.

We have formed close working partnerships over the years with several other expert advisors throughout Australasia, which enable us to deliver further specialist support and benefits to our clients.

Continual growth and expansion of our unique consultancy practice is a testament to our professionalism and ability to deliver outstanding outcomes for our clients consistently. Critical to our success has been our ability to foster strong working relationships with leading insurance brokers and providers in the market – relationships developed over the past 12 years by our open and transparent approach.

As an independent firm, our job is to help our clients secure the best deal in the market for them, no matter their size, profession or industry. Our understanding of the insurance market and our years of experience in working with organisations across multiple industries and disciplines means we are well equipped to help any organisation looking to optimise their insurance arrangements.

To find out more about the range of ways to get the best returns on your investments on insurance contact The Lion Partnership today.

thelionpartnership.com

