

Succeeding with Public Entity Business: Price vs. Cost

Agents and brokers must be aware of the challenges that public entities face and respond with strategies providing complete insurance programs that address these unique insurance needs and risk exposures.

By Mark McCrary, ARM, AIC

Like other niche markets, the public entity marketplace is not immune to the challenges facing the insurance industry today. Although our industry is hopeful that conditions gradually improve, the hard fact remains that it's still a soft market.

In today's uncertain financial environment, public entities are exposed to a shrinking tax base, expanding operational cost and increased pressure to deliver comparable or in many cases, additional municipal services. Boards and managers across the country are stretched and under substantial pressure.

It is difficult to paint a broad stroke on public entity market conditions, mainly because they vary greatly state by state. If a particular state is "pool heavy," then the conditions for a provider are much more challenging. States may have a long history with one carrier and in many instances the entities flock together. It's up to the new provider to analyze and compare coverages and enhancements, then expose any existing deficiencies to a prospect insured.



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There are also situations where a provider decides to leave the market, which then opens up the marketplace to others, creating a strong competitive market. The key is that agents and brokers with an experienced public entity insurance provider can size up the marketplace in their state territory. Because of these conditions, public entities are contemplating a wide range of insurance programs, from generalist carriers and one-off opportunity providers, to specialized markets and agencies that target one or more segments of public entity business.

At renewal time, pricing can vary from increases as much as 10 percent or more, to reductions on controlled business of as much as 25 percent or more. All of this causes insureds to wonder what is going on in our industry, especially considering they don't generally see this type of pricing fluctuation in their other major purchases.

The dilemma for agents and brokers who work in the public entity market is, "Do I sell 'price' or 'cost'?" "Price" is the immediate amount of money the entity will spend for its insurance program in terms of annual premium. "Cost" is the amount of money the entity will actually spend for its program, including uncovered claims, uninsured exposures from lack of specialty coverage, etc. Considering that public entities are very unique risks with equally unique exposures, any number of carriers that may offer a quote on a particular account, while fewer specialize in public entities and the specialty coverages they need.

On the surface, the easy route may appear to be to sell price. After all, it is time consuming analyzing coverages, determining sub-limits, deductibles, etc., and risky not being the "lowest bidder." But this may not be a winning strategy in the long run. Although you may write a public entity account as the low-price provider, offering a variety of sub-limits and "generic" coverages, at renewals time the account may be in jeopardy as a result of an uncovered or sub-limited claim or substandard service from a non-public entity provider that lacks the expertise necessary to service the specialized needs of the insured. Far better off is the agent or broker who takes the "cost" approach to the risk, providing better coverages to preclude unreasonably sub-limited or uncovered claims. By partnering with an experienced public entity provider, agents and brokers can create a win-win opportunity for themselves and more importantly, the insured.

Two examples:

Charles Hix of Hix Insurance, Boulder, Co., and John Hamer of The Horton Group, Waukesha, WI., are committed public entity marketers. As retail providers of insurance to municipalities, educational institutions and other special districts, they are on the front lines of public entity sales.

There are many insurance factors that apply to public entities that do not apply to regular commercial lines business, including working with boards of directors, understanding tort laws and their budgeting, and income flows, Hix said. "We pride our-selves on our expertise in this area when marketing these accounts, and the potential clients see this quite clearly," he said. "We also firmly believe in the insurance markets that we deal with compared with

WHAT AGENTS SHOULD LOOK FOR IN A PUBLIC ENTITY PARTNER

COMMITMENT TO PUBLIC ENTITIES

A long, stable track record of providing insurance to public entities is critical to selecting a public entity provider.

FINANCIAL STABILITY

A public entity provider should have admitted paper with an A.M. Best rating of "A" (XV) or better, meaning policyholder surplus to pay claims is more than \$2 billion.

PUBLIC ENTITY SPECIALIST

Specialization is tremendously important; look for a provider who focuses on, writes volume, and has underwriting authority in this niche.

SPECIALIZED COVERAGES

Select a public entity provider that offers various coverage enhancements to provide your insured more coverage than "standard" carriers offer.

RISK CONTROL AND CLAIMS EXPERIENCE

These are an integral component, and a public entity specialist should be able to demonstrate this with either a commitment by having its own internal departments or specialized teams in claims and risk control.

MARKETING SUPPORT

Choose a provider that offers sales and marketing assistance to increase your opportunities of writing with them.

pools. We favor transfer of risk over acceptance of risk for all our public entities, especially when dealing with fixed budgets.”

The Horton Group’s public sector team understands that structuring a sound program for a public client includes cost considerations, but initial premium is only part of that equation, Hamer said. “Although the current environment can make it challenging, we endeavor to show public clients that comprehensive and relevant coverage, appropriate risk transfer decisions, fair and prompt claim service, and educational tools geared to loss prevention and mitigation all deliver value by containing the true cost of the entity’s insurance program.”

Since 1973, Horton Group has guided its public and private sector clients through both soft and hard market cycles. “What makes the current climate somewhat unique is the convergence of increasing pressure on local government budgets and an influx of new carriers and programs into the public entity arena,” Hamer said. “Many public entities are attaching more significance to the relative ‘price’ of insurance offerings, while an abundance of competition suggests there will always be a carrier willing to bear the risk for less premium.”

Partnering with the right public entity provider is especially useful in the current economic climate, Hamer said. “We acquire for our customers more than a policy-for-premium swap. When we blend our own resources with those of a solid provider, we are positioned to offer a client well-crafted insurance products that deal with today’s exposures, plus services and advice that can help manage evolving exposures and avert future losses. There are still public entities who understand that those elements are as important to controlling their total costs as deft negotiation of initial premiums.”



Mark McCrary, ARM, AIC

President, Glatfelter Public Practice

Mark McCrary is president of Glatfelter Public Practice, a program administrator focused on public entity business (municipalities, educational institutions, and water entities). Among the top 25 privately held brokers in the U.S., Glatfelter Insurance Group works with agents and brokers across the county to provide insurance policies to more than 19,000 insureds.