Insurance 101: Comparing Policies

by Tom Conley

We know discussing insurance and comparing policies is anything but exciting. As we approach budget season, you may find yourself trying to compare quotes from various insurance providers. Unfortunately, it does not simply come down to which one has the lowest price.

“Price” is not the “final cost.” There are significant differences in policy forms from company to company. Even though you may publish a formal RFP, the responses you receive will never be apples to apples. With the information in this article, you will be armed with the knowledge to spot these differences, ask some good questions and be assured that you have done a good job in making the right decision.

Examine Insurer’s Ability to Pay

When you purchase insurance, you are purchasing a promise to pay future claims. You want to select an insurer with the financial ability to pay when your future claims occur. You should request the following information: How long has the company been in business providing all lines of coverage? Demand a current audited financial statement. Standard market insurance carriers are regulated, and their financial strength is closely monitored with ratings assigned to them (A, A-, B, etc.). Self-insured trusts, on the other hand, are not regulated, so it is incumbent on you to investigate the financial strength. Some will provide a copy of their financial statement, and some historically will not. It is highly likely that the only bids you receive will be from self-insured trusts.

Check with their Insured Customers

Ask for a current list of insured cities, counties and districts, and check with some of them regarding satisfaction with the service and coverage. You also may want to check with some who have left the program to find out about their experiences.

Look at Financial Ratings for Reinsurance Provider

Find out from whom the insurer purchases insurance. This item is called reinsurance or excess insurance. Find out the financial ratings of those companies. Are they known, legitimate companies or highly rated ones that simply “front” for other low-rated carriers? Reinsurance is akin to marriage. The companies get to know each other and how they operate, and they usually work together on a long-term basis. If the carriers seem to change often, or levels of retention are increasing or otherwise changing, this fact is worth investigating.

Focus on Major Policy Design

Now, on to issues to look for that vary from policy to policy. You may encounter an insurance sales representative who dwells on minor policy differences to make his or her company’s offer seem superior. With all the various supplemental coverage enhancements today, there are bound to be areas where one policy is a little better here while another is a little better there. It is a wiser use of your time to focus on the big picture, the major policy design.

General Liability and Public Officials Liability insurance policies differ the most from carrier to carrier. The biggest difference is whether your policy is "claims-made" or "occurrence." In our opinion, you want to have occurrence liability coverage. Should you ever decide to switch carriers, an occurrence policy will continue to provide coverage if a claim arises later from an event that occurred during the time you were covered. A claims-made policy will not do this. Coverage ends when you switch carriers. A claim that shows up later will have no coverage. You can purchase additional coverage for this exposure, but it typically costs as much as two years of additional premiums. If you are in the position of considering a claims-made policy, be aware of this extra cost that you eventually may incur.

Another major difference from policy to policy is annual aggregates. A policy may cover you for $1 million. But if it has aggregates, you are getting that amount of coverage only for the year, not for each claim. Therefore, your coverage for the year might get used up by one claim early in the year, which leaves you with very little or no coverage for the remainder of the year. Stay away from these!

In the area of defense costs, some policies include these in the limit of coverage. This cost can seriously erode the amount the policy has left to ultimately pay your claim. If you have a long, drawn-out legal battle, the defense costs can quickly add up, which leaves you with few remaining funds to pay your claim. Stay away from policies that include defense costs "inside" your limits of coverage!

Check Out the Deductibles

Deductibles can vary considerably from policy to policy. Are deductibles included in a quote when you did not ask for them in your RFP? You must look closely for deductibles placed where you do not currently have them or want them, or deductibles that are higher than you have or want. Some companies apply the deductible to "claims expense" and legal fees. This action means you will have a deductible to pay for every claim, even on claims that close with no claim payment. Try to avoid these vague deductibles, and stick with a company that charges the deductible only if a claim is awarded.

Deductibles for "named storm" damage can vary greatly, so pay close attention to that area as well. Carriers can vary considerably as to how they handle the covering of "property in the open," so this issue warrants a close look. The same goes for how "non-monetary" claims are handled.

Examine Workers' Compensation Credits

If you have requested quotes for workers' compensation, watch for credits that may be included that you may not currently receive or qualify for, such as the credits for a drug-free workplace and for safety programs. These credits are sometimes thrown in to gain a pricing advantage where they are not appropriate. In addition, payroll may be inappropriately moved from higher cost employee class codes into lower cost ones to gain pricing advantage.

Look at Returns and Guarantees

Inquire as to whether the insurance company shares profits and returns premium to its customers.

Two-year rate guarantees have become popular in the soft market of recent years. Give due consideration as to whether these guarantees benefit you or just benefit the salesperson. It sounds like a good idea on the surface, but often it's simply a sales tool designed to guarantee a customer stays on the books. And understand that your premiums are not what is guaranteed not to increase. This is a “rate” guarantee, not a “premium” guarantee. These offers are generally made when the business cycle has rates falling year after year. Getting yourself out of one of these deals is costly and difficult. We’ve seen a lot of cities get pushed into this situation without realizing what they signed up for.

Consider Value-Added Services

Finally, take the time to inquire about value-added services such as disaster recovery assistance, loss prevention training, asset valuations, safety grant programs, cyber liability protection and human resource/employment practices legal assistance and training.

Remember, price is not the only issue. A policy that looks cheaper on the surface may reveal major inferiorities upon closer inspection. If you take the time to dig a little deeper and keep these points in mind, you can make the daunting task of comparing insurance policies a lot easier. And, you can feel comfortable that you gave the decision the proper attention.

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