How to Choose Your Insurance Broker: What Every Contractor Should Know

For decades, contractors based their insurance brokerage decisions primarily on 2 factors:

Premiums and Risk Financing Costs – This has always been required due to the competitive nature of your business. The requirement of cost as it has related to your bidding or negotiation model.

Services Offered – From time to time, you required specialized services perhaps to comply with contractual obligations or OSHA requirements. In many cases these services and requirements were seen as a 'cost driver.'

But here is the issue that you face today… You should be asking the question: 'What is the return on investment for our brokerage relationship?'

Chances are that your firm is rapidly evolving in the usage of data, measurements and results. While the end product of your firm is still excellent and solid construction work, how you are getting there inside your business model has changed dramatically in the past several years.

Here is what you need to learn about your Insurance Broker:

1. **Their impact on your KPI's and Success Metrics**. You have established Key Performance Indicators and metrics that point to your success. In many cases they are financially driven. They include things like EBITDA, Shareholder Value and your margins inside of each job. For your brokerage relationship to be meaningful, the Broker must be able to regularly demonstrate their ongoing impact.

2. **Their impact on your Financial Leakage**. On a negotiated job or one that entails cost plus percentage compensation, you really need to know your exact overhead. Most Brokers simply provide you with a breakout of insurance rates against your sales and payroll for purposes of establishing your cost. **That is wrong.** When you do this you are leaving anywhere from 40% to 60%* of your cost structure unaccounted for. So, in the event that you 'plug' $20,000 for an insurance cost, you are leaving $8,000 to $12,000 of Financial Leakage inside the job.

3. **Their impact on your risk control cost drivers**. You are constantly being asked to implement safety and risk control initiatives inside your operation. These are all done for the purposes of reducing risk, satisfying OSHA or improving your firm's 'culture.' In virtually all cases, these initiatives are seen as a cost driver by all concerned. With the delivery of cloud computing data, your Broker now has the capability to translate your costs into the ROI of profits that have been recaptured because of these initiatives. This allows you to actually know the outcome rather than simply the process.

Of course, all of the above requires that your Insurance Broker be much more than simply an insurance provider from the 'old school.' But, how do you know if that is the case?

Simply put, if they can't provide you with the data and results we have described above, then you must seek a Broker that can. They will not be able to keep you current with the important information you need to run your business. This will eventually manifest itself in escalating costs and Financial Leakage that will erode your competitive position and limit the efficient use of your capital.

*Source: TCORCalc® Data

TCORCalc®
Broker Performance Analytics™