

Who's Got Your Back?: Why You Need to Know the Differences Between an Insurance Consultant and an Insurance Agent

By Dan Weedin, CIC

“What makes you different from my insurance agent?”

That's one of the most frequent questions I receive from business owners when discussing what I do as a consultant. It's a fair question because quite honestly, there are very few insurance consultants as compared to agents and brokers. This provides me an opportunity to do a little “Compare and Contrast” to help you understand the differences better. After reading this report, you will learn how save time, money, and frustration on your insurance program.

How We Are the Same

1. We both are licensed as agents. In fact, because I dispense insurance advise without having a company affiliation, I'm required to have a brokers license, too. Many agents only hold an agent's license because they have a contractual relationship with a company like Liberty Mutual, Fireman's Fund, or St. Paul/Travelers. Since they don't need to go outside these relationships, they keep only the one.
2. We both have continuing education requirements. For example, in the State of Washington where I live, agents and brokers must complete thirty-two hours of continuing education every two years. This must include three hours of an Ethics component.
3. We both care about making sure you have the right coverage. Our relationship is not adversarial, or at least shouldn't be. We just go about how we do this differently.

That's about where the similarities end. I saved the best for last...

How We Are the Different

1. Agents get paid a commission by the insurance company. Consultants get paid a fee from you. This is an important distinction.

When you pay your premium to an insurance company, the insurer then pays the agency a commission on that premium, generally around 15% for a standard property and casualty policy. The agency ownership then distributes a “split” percentage to your agent for their compensation. In other words, the higher your premium, the more money your agent receives. To add to that, your agent's “split” is generally much higher for new business than renewal. Why is that important? Because your agent makes the most money when they bring in new business. Ever wonder why you don't see your agent quite as frequently after your become a client? Now, if you have a very large premium, they probably won't change how

often they call on you. But, the less you pay, the more likely you will be dealing with the customer service representative.

As a consultant, you pay us a fee that is mutually agreed to. Speaking for myself, that fee is all-inclusive of our work, so regardless of the amount of money you pay for your insurance, your investment won't change. Consultants receive no remuneration (at least sole practitioners like myself) from insurance agents or companies. In other words, we are completely unbiased.

2. Agents have a contractual agreement to represent the insurance company. Consultants simply represent their client.

This is another important distinction because when the rubber really meets the road, the agent must side on behalf of the company. They are contractually obligated to do so as a formal representative of the company. No matter how good your relationship with your agent, he/she has allegiance to their carriers first.

3. Consultants level the playing field.

An insurance transaction has three players – the insurance company (insurer), the insurance agent, and the insurance buyer (insured). Who knows the least about the product? That's right – you!

This isn't a knock on agents. They have to know insurance for your benefit. However, they are also selling you their product. You are at a knowledge disadvantage in this transaction. As consultants, we level the playing field because we bring an insurance professional to your table that has no relationship with an insurer. We will balance out that gap and provide you leverage in your dealings with the company and the agent.

4. Consultants are able to forge a more likely long-term relationship.

I spent seventeen years as an agent. Over that time, I lost clients that I had formed a very strong relationship with because I didn't have the product they needed, or the company blind-sided us. Here's one example...

I insured a very fine electrical contractor. For years, all he worked on was commercial and single-family residences. He was given an opportunity to work on multi-family units for a substantial amount of money. As you can imagine, he was prepared to take it. For those of you in construction, you know "multi-family" is a dirty word for many insurers, and it was for mine. Not only that, my agency had no other options. My client was able to get a new policy from my competitor, which took care of his situation (at a higher premium, but worth it for him). Basically, the only reason I lost the business is because I couldn't meet his new situation.

As a consultant, relationship and results are what counts. If you've developed a great relationship with a consultant, and he/she is providing excellent value and return on your investment, then you never have to cease that relationship. You will have a consistent insurance professional at your side regardless of what the

insurance market does. The agent and company may change, but the consultant doesn't.

5. Finally, it's in your best interest to shop your insurance on a regular basis.

Regardless of your relationship with the agent, they don't represent every option. Depending on the size of your business, you should look around outside your agent every two to three years. That's just a good business practice. You may not find anyone or any company that better fits your needs. But by doing your due diligence, you're insuring that you are getting the best coverage at the best price. Otherwise, you're just guessing.

I rarely find any business owner that cares to spend any more time than is necessary on insurance. It can be a maddening, and sometimes painful process. Agents are an important part of that process. That being said, you must remember **three key points**:

1. Agents get paid based on how much you pay
2. They are obligated contractually to represent the insurer, not you
3. They don't represent every option available to you

Remember one last point. Insurance isn't a commodity, although the little green gecko would like you to think it is. Insurance will save your business and family in times of disaster, but only if you purchased it correctly. Making complex decisions by yourself on subjects that you know very little about can lead to catastrophe. Make sure you know who's got your back!

Dan Weedin, CIC is President and Founder of Toro Consulting, Inc. He has been in the insurance industry since 1987 in various capacities including company underwriting, sales, risk management, and consulting. His company is committed to helping business owners reduce their total cost of insurance through a strategized risk management process.