Insurance as a Commodity: Buyer Beware

By Justin Bradley, CPIA

There's a time-tested, proven way to buy raw material for your product: contact three vendors, give them all the same request for quotation (RFQ), and ask for their best price and availability. It can work so well that some manufacturers will use this same method to buy their insurance. The problem is that insurance is not a commodity. You are paying to financially transfer risk. If said risk is not transferred as you truly need, then any financial savings you've made can be quickly undone.

Commercial insurance policies are legal contracts. However, for many manufacturers, they are viewed as a commodity — a product or service with no qualitative difference between insurance carriers, agencies or coverages. Buying insurance like a commodity has saved companies money before and will save them money in the future, but the financial risk far outweighs the reward in the long-run. The commoditization of insurance among manufacturers is bad for business – your business. It will certainly impact your bottom line but maybe not in the way you had hoped.

Imagine you're buying steel for your company. You might see the quality, chemistry and physical properties of the steel as being equal across most suppliers — and for the most part you're right. So what else is there to really base your decision on other than price and availability? Now imagine you're buying your company's insurance this way. In doing so you've implied that these legal contracts and those who supply them are virtually all the same, too. Therefore, the driving factors in your decision again become price (premium) and availability (agents getting you a quote before the current policy expires).

When you buy a commodity, there is flexibility. If the supplier sends the wrong material, they take it back. If they under-shipped you on the quantity, they send you more. The impact on your bottom line is minimal because the supplier can make things right for the most part without you incurring much cost, if any. Suppliers of a commodity want to keep your future business and will accommodate accordingly. This same luxury does not exist with insurance.

When a claim is not covered because your policy didn't cover what you thought it did, there is no "making it right" by the carrier. When a claim is not covered because you thought your new lower-priced policy from your new agent covered everything that the last one did, there is no "do-over" for you or the agent. You can point fingers and take everyone to court but paying for the uncovered loss out of pocket, the ensuing court costs, lawyers and anything else it takes to make your business whole again will have quite an obvious impact on your bottom line at that point. That impact will far outreach the few percent you saved on insurance premiums that year.

It would be naïve to say price shouldn't play a role in your decision making process with insurance — of course it should. However, there are better ways to leverage the insurance marketplace in your favor that don't carry the risk of buying it like a commoditized good. If you're focused on price, then your agent is focused on price — and if the agent isn't focused on covering your exposures, then you're all playing with fire.

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