Ten Ways to Shoot Yourself in the Foot with an RFP
Or: Learning from the Mistakes of Others
Purchasing procedures for public entities and schools are designed to meet statutory requirements for a fair and consistent process and survive the scrutiny of public review. The purpose of a Request for Proposal (RFP) is for the good of the public entity; ideally, it allows the buyer to “test the market,” review all potential service proposals and select the best service and coverage for the best price. The process is designed to be fair to all respondents and allow the public entity to award the winning bid based upon clear, defined criteria. The “Risk Management for Public Entities” text from the Center for the Advancement of Risk Management Education states that the purpose of an RFP is to demonstrate that an entity’s risk financing arrangements are being made through reputable insurers and intermediaries and are ethically proper and in the public interest, free of any political influences or personal favoritism.

Public entities don’t intentionally write bad RFP’s; neither do they deliberately attempt to go against the public interest (in most cases). However, whether intentional or not, a number of entities stumble in their attempt to execute a fair and competitive process. The following examples (taken from actual recent RFP processes) provide illustrations of mistakes you can avoid in your RFP process.
Common Mistakes

1. **The RFP process is controlled by the purchasing department with little or no input from the risk manager.**

Some public entity purchasing departments intentionally exclude the input of the risk manager in order to keep the process "unbiased". The problem with this is that the purchase of insurance is not the same as the purchase of a copy machine or the services of a building contractor. Not all risk financing options are created equal! When self-insured entities are seeking creative risk financing alternatives, it is especially detrimental to exclude the people with risk financing expertise from the process. In one entity, where purchasing controlled the RFP process, the end result was the selection of a broker with the cheapest fee and the simplest insurance coverage. The more complex risk financing options were not understood by the RFP review committee, so they were ignored. In this case, the entity paid less for brokerage services but will end up paying more for insurance coverage and have fewer risk financing options to choose from. Although the broker’s fee may be lower, the entity’s overall cost of risk will increase. The entity’s risk manager didn’t like the outcome, but the purchasing specialist was happy!

2. **The RFP does not contain clear evaluation criteria.**

When a broker responds to an RFP, they want to win. If it is not clear how the responses will be scored, it is very difficult to create a winning proposal. The brokers responding need to know what is most important to you, the buyer, and the evaluation criteria is where you make that known. Well written RFP’s assign weights (or percentages) to the list of evaluation criteria. Criteria usually include: the broker’s qualifications and experience, number (or dollar volume) of public entity clients, proposed services, access to markets or preferred market partners, client references and price. The use of criteria (beyond price) can help an entity select the best service and products at the best price. If you have not spelled out the criteria and the weights that will be assigned to each, you may receive widely divergent RFP responses, which in turn makes the evaluation process more difficult and less objective.

3. **The evaluation criteria in the RFP weighs price too heavily – even to the exclusion of other considerations.**

If an RFP is drafted in this way, it may force an entity to choose the lowest price even if the proposed services and provider qualifications are inferior. Selecting the right broker and purchasing appropriate insurance coverages and limits has never been more important to public entities. The process needs to incorporate an assessment of the broker’s qualifications, experience, ability to provide services, access to markets and ability to be creative when solving risk financing problems. Some forward thinking entities evaluate pricing separately from other evaluation criteria, so that they use a two-step evaluation process (first to qualify bidders, then to review price). That is often accompanied by a statement that final pricing is negotiable.

4. **The public entity has pre-decided the outcome and the RFP process is merely a formality that fulfills a legal requirement.**

It takes a LOT of time to design the right RFP, gather and rank the responses, interview candidates, check references and make a decision. Any entity going to the trouble to conduct an exhaustive RFP process should be serious about the deliberation and open-minded about the outcome. Otherwise it’s a phenomenal waste of productivity for all parties involved that can develop into a reputation that your entity pre-decides the outcome and does not take the process seriously. If you develop such a reputation, you will likely find fewer and fewer respondents to your RFP’s as time goes by. That begs the question of whether the public interest in your public entity is being served.

5. **The RFP is issued with a ridiculously short response time.**

Here’s a perfect example of this: A public entity spends three months drafting the perfect RFP for their circumstances, the RFP gives service providers 10 days to respond and the entity’s insurance program renews next month! In reality, it takes as much time to respond to an RFP as it does to draft it. RFP’s are usually so specific about format and structure that each RFP response is very individualized. It takes time to do a good job on the response, and don’t you want to see the respondent’s best capabilities? Ideally, respondents should be given 30 days to respond. When you are designing an RFP process, back up from your insurance renewal date at least six months if you are serious about an effective process. Keep in mind that many brokers begin the insurance renewal process six months ahead of time – so if you’re doing a full market review, you might want to back up the timeline even further.
6. An entity uses an RFP to “fire” their current service provider.

It’s just not a good idea to use your RFP process to air your grievances about your current service provider. If your broker isn’t performing, talk them about it directly. If you’ve outgrown your current broker, be honest about that. Broker and client relationships ought to be built upon open and honest communication throughout the process. The RFP process should be an open-minded review of options, not a griping process.

7. The RFP is so tightly written that an inadvertent error will cause disqualification.

Does it really serve the public purpose to have a process that is so strict that it favors form over content? Attention to detail is important – that goes without saying, but it shouldn’t rule the day. There have been RFP processes that disqualified responses if you used the wrong kind of paper. Is that really a high priority for proving the ability to provide brokerage services?

8. The RFP is written so that if the public entity doesn’t like the outcome, they can simply start the process over again.

Now that’s incentive to try hard, isn’t it? Many RFP’s have an “out clause” – the entity has the right to reject all proposals and start over or the entity has the right to negotiate details with one respondent. That may be important to protect the entity from an onerous, unmanageable contract – but the “out clause” should be used only under extraordinary conditions such as a dramatic change in the market or the entity itself. Otherwise, the process does not honor the qualified respondents. In one recent RFP, the incumbent provider responded to the RFP with a higher price and fewer services than a competitor. The public entity rejected all proposals and ran the process again. The second time around, amazingly, the incumbent’s price was lower and the services expanded, and they were the winner. Does that seem like a fair process to you?

9. The public entity does not control access to the insurance markets.

Some RFP processes allow the first broker to contact a market to “lock” the market for that RFP process, which effectively blocks the market from other brokers. That makes sense from a market point of view – it would be chaotic if markets were responding to the same RFP through multiple brokers. But if it is simply a matter of who can get to the fax machine first, it does not assure the public entity that they will be getting the best price in the market, the best service or the best coverage.

Ask yourself: “Is my entity getting the brokerage services we need? Would it make more sense to select a broker first and then give them full access to all markets? Or assign specific markets to brokers to control the process?” A successful process can be built around either of these options, depending upon your preferences and needs, but don’t forget to focus upon what is most important: the best coverage, the best service, the best price.

10. The RFP is biased toward “local”.

Ever heard this one? “The entity’s insurance agent is the brother-in-law of the commission chair.” Okay, who hasn’t heard that one?! This may work fine when you’re buying personal lines of insurance, but public entity risks these days are complex and have higher stakes than ever before. It’s worth asking the question “Who’s interest is being served?” in this scenario (and that question needs to be discussed by management and policy makers, as well). If “local” means “close contact” to you, keep in mind all the ways that you can achieve that these days – through telephone contacts, voice mail, e-mail and scheduling regular face-to-face meetings.

Summary

Keep in mind that you don’t need an RFP process to assure that you are purchasing the best brokerage services and the best insurance coverage at the best price. Many public entities use service plans, stewardship reports or broker service contracts to track service and responsiveness against their needs. The key issues of service, expertise, open and honest communication, full disclosure and access to national resources are the building blocks for developing and maintaining good broker-client relations. For many, having those in place satisfies the need to “test the marketplace.”

However, if you are required by law to complete an RFP process or you have a specific need or question about who can provide a service, then hopefully this list of potential pitfalls will help you avoid the mistakes of your peers…and protect you from shooting yourself in the foot with your RFP!
About the Author

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