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# INSURANCE AND BROKERAGE SERVICE BIDS: The Importance of Defining Services, Evaluation Criteria and Scoring

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## Background and Purpose

Public procurement processes are utilized by many public entities and K-12 schools to procure goods and services, as governed by applicable laws and rules. The purpose of a public bid process for insurance and brokerage services is to create a fair and transparent process, in order to make the best selection possible. Although bid forms may vary, depending on whether you are qualifying a broker, working through market assignments, or requesting some other insurance or risk management service, this paper will focus on the key elements contained in those bids and best practices for bid evaluations.

In a bid for insurance or brokerage services, the most critical components are the service expectations, evaluation criteria and scoring methodology. These elements describe the services you seek, communicate your entity's priorities and outline how you will evaluate bid responses.

## Insurance Coverage and Brokerage Services

Insurance procurement and brokerage services are not equivalent to a commodity purchase; these are not off-the-shelf products like copy paper or pencils, where the same product is delivered to all consumers. There are many variations in insurance policies and risk financing programs, and understanding those nuances will help your entity craft a better bid and ultimately provide better protection for your operations.

For example, there are a finite number of insurance companies that write policies specifically tailored to public sector or K-12 education operations. Some of them cover state and local government operations but exclude schools. Others may be interested in school business, but only in certain states. Many policies have exclusions and sublimits that apply to certain lines of business, and they may also vary by type of entity or location. In addition to these restrictions, current market pressures are creating pressure on certain specific lines of coverage, such as pandemic/communicable disease, law enforcement liability, and sexual abuse and molestation, which requires technical understanding of policy language and forms. Understanding the options and negotiating for the best outcomes requires knowledge and expertise.

Brokerage services are also nuanced, and have evolved considerably in the past 50 years. Decades ago, it was a fairly straightforward process to engage a local insurance agent (by definition, someone who represents a specific insurance company), pay a set premium and receive an insurance policy. That changed dramatically in the 1980's, when insurance premiums for public entities and K-12 schools doubled or tripled in price, if coverage was available at all. What followed were decades of risk-financing innovations, including the formation of hundreds of public entity pools, layered risk financing structures, captives and risk retention groups. Increasingly, public entities, schools and pools looked to hire risk financing advisors and brokers with technical expertise and access to the global insurance market. These days, understanding the current insurance marketplace, new and emerging ways to finance and prevent losses, and the best practices of other similar entities across the country requires more than can be provided by a local agent representing a single insurance company.

These nuances, in combination with your organization's scope of operations, should be considered and incorporated into the evaluation and scoring process of your entity's insurance bid process.

### Sample Brokerage Services

Brokerage services go beyond placement of insurance policies; ideally they should supplement and support your risk management program. Examples of services requested in a bid process:

- Placing specific lines of insurance coverage (on a primary, excess or reinsurance basis), including property, liability, crime, auto liability, law enforcement liability, public officials or school board legal liability, boiler and machinery, cyber, statutory bonds, student accident/student travel, environmental, excess and umbrella, and crisis management and response
- Updates on current insurance market conditions, trends and emerging risks that may affect your insurance and risk management program
- The analysis and comparison of risk financing options, based on your specific risk data and the data of comparable entities
- Presentation of renewal information, underwriting data and your risk management program to insurers
- Ongoing review of your insurance program, including coverage and claims analysis, and recommendations for improvements
- Assurance of the accuracy and adequacy of all policies, policy endorsements and invoices prior to delivery
- Assist in the creation and review of individualized coverage documents and policy forms
- Issue binders, certificates of insurance and other coverage verification documents
- Advocating on your behalf to resolve claims and coverage conflicts
- Assistance in obtaining settlements from insurers for losses that penetrate excess insurance layers
- Liaising with insurance companies, claims and risk data information systems
- Risk control and claims advocacy services, as requested
- Technology to keep your policies and critical information protected and available 24/7
- Assistance with catastrophic claims and FEMA to ensure the maximum level of recovery from all sources
- Knowledge and assistance with special placements such as OCIPS, builders risk, pollution and OPPI coverages for governmental contracts

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## Scope of Operations

An important basis of the bid documents—and the proposed services that you will evaluate and score—is a detailed description of your organization's scope of operations. It is critical to describe your specific operations because there is so much variation by state and jurisdiction. Cities, counties and special districts provide a broad array of services, which may or may not include law enforcement, electrical generation, sanitation services, libraries, parks and recreation, transit operations, and day care facilities. Each of these have unique exposures and coverage considerations that you will want bidders to address.

Schools also have diverse operations. Some schools operate under the authority and control of a city or county (who may also control the bid process). Some public and independent schools board students; others operate campuses in foreign countries. All K-12 schools have field trip exposures and risks associated with the engagement of volunteers.

The examples provided are not intended to be comprehensive, but to highlight the broad range of differences and underscore the importance of understanding of your entity's unique exposures and insurance (or risk financing) needs. These exposures may indicate the need for special coverage or coverage limits as well as special services. For example, in an insurance market environment that is restricting coverage for sexual abuse and molestation claims, a K-12 school should be interested in training and risk management support in addition to insurance coverage, and that could be part of the scope of services. For a county operating a landfill next to a protected wildlife sanctuary, knowing that bidders understand the exposure and details of comprehensive environmental coverage would be paramount.

Describing your entity's specific exposures and risk management needs will help bidders understand your operations. The evaluation criteria and scoring process will communicate your priorities and describe how you will compare and quantify bid options.

## Qualifying to Compete and Evaluation Criteria

K-12 public schools and local governments may have state requirements regarding issuing bids for service. The content of evaluation criteria is typically not specified in these requirements; however, there may be obligations, disclosures or service requirements mandated by law or regulation. Often, these requirements must be documented or attested to by the vendor in order to qualify to compete. Although compliance is mandatory in order for a bid to succeed, these requirements are not always incorporated into the evaluation criteria.

Examples of minimum qualifications include:

- Appropriate business licenses (company business license, agent or broker license)
- Statement disclosing any conflicts of interest
- Minimum insurance requirements for the brokerage company (insurance to cover vendor errors, accidents and activities; sometimes this also requires a certificate of insurance naming the public entity as additional insured on the brokerage company's policy)
- Documentation of the brokerage company's commitment to nondiscrimination, equal opportunity or other employment protections

Respondents need to understand what is most important to you, the buyer, and the evaluation criteria is where you make that known. 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. It may also result in receiving fewer bids, which defeats the purpose of the process. The use of criteria (beyond price) can help an entity select the best service and products at the best price.

In general, evaluation criteria should help you understand and compare:

- The capabilities and capacity of the bidder to service your account—including the broker's qualifications and specific experience in your sector, company infrastructure, market knowledge and leverage, communication, and reputation, as well as identification of the team members who will service your account and their qualifications and expertise
- The bidder's experience with similar clients, which might be specific to your type of operations, unique exposures, location or size
- Whether the bidder understands and can meet your risk management and insurance needs, including examples of innovations or recommendations for improvement of your risk management program and insurance portfolio; examples may include risk forecasting, predictive analytics, reinsurance or captive solutions
- Your confidence in the bidder's ability to meet your service requirements in a timely and professional manner—including specifics such as issuance of certificates of insurance, complete and accurate policies, responses to questions, and contract reviews
- Whether the bidder can respond to specialized lines of coverage such as CAT property; environmental; cyber; student accident; medical malpractice; and risk management services such as ERM, loss prevention training, claims analysis and advocacy, and the management of risk data
- How the bidder will use technology to improve and support your risk management program, and the bidder's commitment to the reduction of your overall cost of risk
- Pricing options, including potential additional costs

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## Disqualification Stories

### Services and experience or type of paper?

Pay attention to the elements that would disqualify a bid. The use of a particular format, font, type of paper or response structure may ease the process for procurement—or support a goal to reduce, reuse and recycle, for example—but they have no bearing upon the skill and experience required of brokerage services. How to avoid this trap? Make these qualifiers recommendations instead of requirements, or give respondents a small bonus score for compliance.

### What does it mean to be local?

A city changed insurance brokers one year and the risk manager was thrilled. She finally had access to public sector-specific resources and the global insurance marketplace. Even though the broker's office was in a nearby city, the quality and frequency of service was excellent. In one year, the new broker was able to save the city \$1 million in insurance costs. The city's previous agent was not happy with the outcome, though. He persuaded the city manager to change the bid process to require the broker have an office in the city, and the next year, the local agent won back the business. Engagement with local businesses is a good goal, but if it limits access to qualified brokers, the cost of that goal should be considered in relation to desired outcomes, such as reducing the city's overall cost of risk or insurance costs.

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## Scoring Bids and TCOR

Evaluation criteria are subjective in nature. One way that organizations offset the potential bias of an individual is to have bids reviewed by a panel of experts or review team. In that way, individual scores can be averaged and a consensus view obtained.

The sole use of price or the over emphasis on price in the selection process shortchanges the evaluation of brokerage services and consideration of an entity's overall cost of risk. There are multiple components to total cost of risk (TCOR), including the cost of insurance, insurance brokerage fees or commissions, the losses or claims paid directly by the entity, the money invested in loss prevention and claims management, and the administrative costs associated with managing risk such as salaries and expenses. It is good practice to understand your entity's TCOR as a whole, as well as which components drive up costs.

For example, an entity that invests in risk prevention (through training and education) will likely see a reduction in claims (expressed through frequency and severity). Claims are always the largest part of the total cost of risk, so risk prevention efforts are usually good investments (especially if you target high-frequency and high-cost claims). Similarly, hiring an experienced broker with market access and influence may result in better insurance options and lower premiums. From our experience, we know that repeatedly changing insurance providers and/or brokers will drive up costs over time, and may result in coverage gaps or reduced options. It's also worth noting that insurance brokerage fees or commissions are typically a small percentage of an entity's overall cost of risk.

The examples of evaluation criteria and scoring are from recent public sector or K-12 RFP processes. They highlight different priorities, emphasized through the potential points or percentages assigned to each (e.g., experience with similar size or type of entities, developing innovative risk financing solutions, partnership with minority- or women-owned businesses).



## Examples of Evaluation Criteria and Scoring

This scoring methodology emphasizes innovation and the specific knowledge and experience of the service team with similar clients.

SAMPLE 1: EVALUATION CRITERIA	POTENTIAL POINTS
Demonstration of valuable experience servicing the insurance, safety, loss control and risk management needs of similar entities	15
Ideas for innovative risk transfer strategies intended to reduce the cost of risk	15
Members of the proposed service team demonstrated knowledge and experience servicing the risk and insurance needs of similar organizations	10
Price	10
<b>Total Potential Score</b>	<b>50</b>

This scoring methodology rewards diversity through a partnership with a minority- or woman-owned business.

SAMPLE 2: EVALUATION CRITERIA	% OF TOTAL
Proposer's experience and qualifications	30
Scope of services and performance specifications	35
Cost of services	20
Supplier diversity outreach program	15
<b>Total Potential Score</b>	<b>100</b>

## Conclusion

Using a public procurement process to validate your risk management program, purchase insurance or solicit brokerage services takes time, effort and the engagement of many people. Whether it is required by law or undertaken voluntarily, it is a process that can validate and improve your risk management program. Understanding the critical components of service expectations, evaluation criteria and scoring methodology will help your organization construct a process that is fair and transparent, and that will improve outcomes.

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Understanding  
scoring methodology  
can help improve  
your organization's  
outcomes.

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