Redefining the RFP

The right outcome starts with the right process

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Improving the request for proposal (RFP)

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With more than 30 years experience working with Fortune 1000 clients to improve outcomes, Vince Gaffigan brings a unique perspective to the subject of RFPs.

The current insurance environment has become incredibly difficult, and a confluence of factors points to continued challenges ahead.

Insurers have traditionally made the majority of their income on investments, but 10+ years of persistently low rates have had a significant impact on returns. With the recent economic downturn, the yield on 10-year government bonds has fallen to near zero and is likely to remain there for the foreseeable future. As a result, insurance markets have shifted their focus to underwriting profitability and return on capital. Unfortunately, years of increased loss severity across multiple lines combined with lack of meaningful tort reform and evolving attitudes toward corporate responsibility have made this more difficult. As a result, the marketplace has moved virtually in lockstep to increase selectivity, raise attachment points and retentions, and significantly increase rates. Reinsurance is a similar story with facultative, facilities, treaty ILS and retro sectors also hardening. Capacity remains ample, but carriers have elected not to deploy it unless they can get an adequate return. COVID-19 has further complicated the picture by depressing economic activity, reducing insurable exposures and adding additional uncertainty.

As a result of these changes, brokers are increasingly delivering difficult news to their clients. In turn, many risk managers are now evaluating whether they have the right partner and thinking about conducting an RFP. While this may make sense, clients should think carefully about both the process and their objectives.

A rushed or poorly administered RFP adds little value but has the potential to consume considerable time and expense. Longer term, it also has the potential to make the current situation even worse.

The motivation

Well over a year into this market cycle, risk managers have gotten a good look at their brokers, and many have been underwhelmed by what they have seen. They have also begun to differentiate between brokers based on varied behaviors. These can generally be classified as:

OBSERVER	TECHNICIAN	CONSULTANT
• "Bystander" attitude • Quick to share negative market intelligence • Reactive to events • Inattentive and often delays to the last minute • Lacks resources and hard market experience • Weak market relationships	• Competent and capable • "Renewal mindset" • Relies on centralized broking hubs • Focused on "maintaining" versus reimagining • Resources treated as profit centers • Analytics used to justify market offering • Cyclical communication, peaking during renewal • Strong relationships at underwriting level	• Best the industry has to offer • Highly technical and experienced • Deep understanding of client's business, strategic priorities risk factors, and financial constraints • Strong command of alternative risk options • Willing to challenge the status quo • Leverages analytics and specialized resources to benefit the client • Cost of capital approach to plan design and decision-making • Strong market relationships at decision-making level • Ongoing communication

While it is not surprising that a buyer with a broker in one of the first two categories might want to make a change, the unfortunate reality is that all three types exist everywhere. ***As a result, a simple change in "brand" may not deliver the intended results.***

Further, it is also important to allow time for some "self-examination" around how the company has evolved over time and whether the current program still "fits" with organizational priorities and within financial tolerance thresholds. The broker will have ideas, but these will be easier to evaluate if all internal stakeholders are aligned as respects the priorities of the risk management program.

Common mistakes

The reality is — many RFPs fail even before they start.

Despite the best of intentions, many buyers inadvertently sabotage the effort through a flawed process. Common issues include lack of a well-defined framework, unwillingness to provide data, overparticipation, lack of sufficient time, poorly designed questions, and/or an overemphasis on price. The buyer is quickly overwhelmed with slick, glossy responses and lacks a scorecard to differentiate between them. Oral presentations are one-sided mind-numbingly repetitive, and they over emphasize capabilities and resources. **Ultimately, a "winner" is selected, but there is a lack of clarity around what is supposed to change or how that broker will be measured**. To add insult to injury, in many cases, the presentation team "experts" disappear, never to be seen again.

There is also sometimes a tendency to rely too much on "brand name" as a shortcut for expertise. Far more important is the individual who will be leading the brokerage team. What is their reputation? How knowledgeable are they in the sector? How much clout do they have in their respective organization? And, while it is true that large brokers have deep bench strength and capabilities, it is helpful to understand ***how*** those resources will be deployed and priced. It is also vital to look at the broker's overall corporate strategy.

For many, scale has become critical, and organic growth is secondary to M&A activity. This sort of focus can place an emphasis on "expense efficiency" and create a disincentive to deploy resources. Rapid combinations and shareholder concerns can also lead to an internal focus, turnover and loss of legacy knowledge. Similarly, the brokerage structure also plays an important role. For example, placement centers offer scale but exist largely to create cost efficiencies for the broker. In the current marketplace, submission volume has little impact on overwhelmed underwriters.

Finally, RFP contests frequently end up with pricing proposals that are deliberately obtuse and difficult to compare. One broker's low fee may look attractive but ultimately be supplemented by fees for required resources. Others have made science of driving revenue from alternative placement sources. **Few RFPs include a standardized pricing template or demand full disclosure of anything "extra."** Price is an obvious metric to analyze but must be balanced against the larger objectives. An efficiently designed program can often deliver value multiples greater than any perceived gap in fees.

The right broker will also drive value through critical thinking, market relationships and strong administrative support.

How to get the results you want

The right outcome starts with the right process

Understand why an RFP is needed

Know the objectives and expected outcomes.

- Is the real issue the broker, the market or a combination of both?
  - If the former, are they aware of the problem and do alternatives exist within the same firm? Have these been explored?
  - Should the incumbent be included in the RFP? Why?
- **Is there consensus around the need for change and/or the resources and capabilities needed?**
- If the RFP is "required" by company policy, would an interview suffice?
- Are all internal stakeholders truly committed to the process and willing to make time?

Build the RFP scorecard first

Starting with the end in mind helps provide perspective. A well-developed scorecard will also clearly communicate critical goals and objectives to all stakeholders and participants.

Less is more

Brokers love to talk about themselves. Put a tight cap on the number of pages in any written response and the number of participants in any presentation. Doing so saves time, highlights critical issues, engages relevant team members, and provides insight around how the broker thinks and communicates.

Collaborate with procurement

Procurement teams understand how to run a competitive process and ensure a level playing field. At the same time, intellectual capital is difficult to commoditize, so the risk manager and procurement must work closely together and agree on the key "needs" and measurements up front. Price will be critical, but capabilities and ideas should be prioritized.

Reinforce the importance of the exercise to all internal stakeholders

A flawed risk management program can impact cash flow, consume resources and expose the company's balance sheet. Selecting a broker is not a "check the box" process or something to be undertaken lightly.

Allow sufficient time to conduct an RFP

Is there time and/or a plan to both transition the program and go to market? In most cases, success means starting a year in advance.

Internal capacity should also be considered along with any ancillary impact on areas such as finance, safety, claims, budgeting and reporting.

Throw away the broker RFP template

Like contestants in a beauty pageant, brokers have an extensive library of formulaic responses carefully calibrated to deliver bland platitudes. It is critical to get beyond these to better understand whom you will be working with, how they operate and how they deliver value. Some examples are as follows.

- Discuss your firm's growth trajectory and how this has been achieved.
  - How many acquisitions has your firm made over the past 10 years?
  - Has your firm ever had a reduction in force?
- What three risks should we worry about most and why?
- Client team stability is critical. Please identify potential team members, experience and tenure with your firm.
  - Who specifically would lead our team on a day-to-day basis. Why?
  - Do you use centralized broking?
  - Will you agree to a penalty if there is turnover on the core team?
  - Which members of your proposed team will NOT be involved with us on a daily basis?
- How will your firm help us achieve our strategic priorities?
  - How do you consider changes in our business when evaluating program design?
  - What are the most critical factors for success?
  - Do your team members track time? If so, what is the objective?
- How would you propose changing our existing program and why? How confident are you of your proposed ideas/recommendations?
  - How will your recommendations disrupt our incumbent market relationships?
  - What resources will be made available?
  - Are you confident enough of your recommendations to put at least 50% of your compensation at risk?
- Every broker has an analytic platform.
  - Describe your approach to analytics and how they add value for your clients.
  - How do you deploy and charge for these tools?
- Describe how your firm would be compensated.
  - Detail any proposed fee, and detail any contingencies, reinsurance commissions, in-house brokerage fees, etc.
  - How do contingent agreements impact where your firm places business?
  - Will you agree to a flat fee to include all resources, including claims and analytics?

Be selective

Inviting all brokers to participate may be politically expedient but is ultimately unfair to all sides.

- **An RFP is the wrong setting to be introduced to a firm and its capabilities**. This would be a bit like picking a spouse after the first date. While this may make for an excellent reality show, it doesn't bode well for a strong partnership.
- By its very nature, an RFP is about making choices. Some disappointment is inevitable, but narrowing the participants allows more time to be spent with potential partners.
- **Get beyond the bio**. This is admittedly a bit challenging but critical to the outcome. Managing isn't the same as doing, and there are a lot of "experienced" brokers who haven't been actively engaged in the market in years. Dig deeper into their recent experience, level of engagement and critical thinking. Are they just pushing "tools and resources," or do they have ideas to move the program forward?

Be transparent

It is important for all participants to understand the RFP motivation, expectations and ground rules. **They must also understand who is involved in the decision-making process and what is most important to these stakeholders.**

- Being transparent, however, doesn't mean that all participants are treated exactly the same. Some will choose to ask more questions, solicit more data and dig deeper ... and this should be embraced.
- **Price will always be important**. Clearly communicate the minimum services and resources to be included in the fee and/or consider providing a pricing worksheet. Alternatively, select the broker based on capabilities and then negotiate compensation.

Decide up front whether data will be provided

If not, consider whether the effort will generate more than boilerplate responses. The best RFPs allow for a true conceptual assessment.

- Consider providing relevant data under an NDA — **but only if it is requested**. This approach offers an excellent opportunity to evaluate how much time and effort the broker is willing to invest in earning the business. It will also provide insight into how they think and what they would be like to work with.
- **Collaborate with participants.** If the goal is to select the best partner, don't shortchange the conversation by withholding information or relevant concerns.
- Sharing broker follow-up questions with all participants may seem fair but only serves to reward the laziest participants.

Treat the oral presentation like an interview — because it is!

When buyers fail to establish clear expectations, oral presentations can quickly become a compilation of "capability presentations." A better approach is to force the broker to engage on the strength of its ideas and strategies.

- Provide a topic outline in advance.
- Be certain that the broker's designated team lead is actively involved.
- Ask questions that require the broker to demonstrate how they think and engage with clients.
- Use the scorecard to evaluate feedback and ensure consistent evaluations.

Summary

RFPs have become a time-honored ritual for both clients and brokers. But, in an era where time is one of our most valuable commodities, perhaps it is time to reevaluate whether such exercises are delivering the results needed.

Size, experience, resources and marketing clout are all important but add little value if they aren't properly harnessed for the benefit of the buyer. A poorly designed RFP, no matter how well intentioned, will never provide the insight necessary to select the right partner. Today's marketplace will remain challenged for the foreseeable future, and the need for decision-making analytics and solid advice will only grow.

The best broker is the one willing to rethink the past and design a program to support the client's future. Use the RFP to ask better questions, engage the brokers and ensure the effort delivers value.

FOR MORE INFORMATION about how to drive value from the RFP process, please contact your dedicated Lockton representative.