Gallagher
Insurance | Risk Management | Consulting

11 Common RFP Pitfalls

We know that organizations strive to meet ideals through the public bidding process, and that significant resources are expended to get the process right.

We don't believe that organizations intentionally issue poor bid documents, but we've seen our share of them over the years.

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 organizations 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 need to issue an RFP, we hope that this list of potential pitfalls will help you avoid the mistakes of your peers. By the way, these examples? All true stories from actual bid processes.

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PITFALL #1

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

The Problem

We have seen some purchasing departments intentionally exclude the input of the risk manager in order to keep the process "unbiased." The problem is that the purchase of insurance is not the same as purchasing supplies or standardized services. 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.

As an example, in one organization, where purchasing controlled the RFP process, the end result was the selection of a broker with the lowest fee and the simplest option for insurance coverage. The more complex risk financing options were not understood by the RFP review committee, so they were ignored. The simpler, cheaper insurance policy provided less coverage and had more exclusions. That is likely to result in coverage disputes, less control over the claims process and conflicts regarding claims settlements (all of which will be decided by the insurance company). Although the price was lower, it is likely that the entity's overall cost of risk will increase. The organization's risk manager didn't agree with the outcome, but the purchasing specialist was happy.

Potential Solutions

Risk management experts should participate in the creation of the RFP as well as the review and evaluation process. Advocate for your desired outcomes (e.g., improvements to your risk financing structure, ideas for creative solutions, ongoing access to professional advice, working with an experienced broker), and be sure the evaluation criteria reflect those outcomes. It may help if you provide your procurement officer with examples of RFPs and RFQs from peers, and consider engaging risk management peers in the review process if you do not have internal expertise.

PITFALL #2

The RFP does not contain a clear scope of desired services.

The Problem

A clear description of desired services will help respondents describe and price their RFP response. It takes many hours to create RFP responses and, if the description of services is vague or confusing, providers may take a pass on responding. Or they may craft a response that is too elaborate, falls short or misses the mark entirely. Vague or poorly written RFPs diminish the purpose and effectiveness of the bid process. Finally, if services are not specifically outlined, an apples-to-apples comparison will be difficult for your evaluation team.

Potential Solutions

There are many variations of brokerage services and insurance products. Before you describe the scope in your bid document, consider your organization's capacity to manage risk and which activities are most important to reducing (or containing) the overall cost of risk. This is a good time to review your program needs. Budget reductions and reductions in force may limit your ability to hire staff; could any of those functions be performed through an insurance services contract? Examples include assistance with contract review, proof-of-insurance certificate tracking, risk control services, training, claims oversight and loss analysis.

We've provided a variety of examples for your review and recommend that you customize them to your needs.

PITFALL #3

The RFP does not contain clear evaluation criteria.

The Problem

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.

Potential Solutions

List the evaluation criteria and assign points (or percentages) to clarify your priorities.

Ideas for appropriate criteria:

» The broker's qualifications and specific experience in your sector, and identification of the team members who will service your account
» The broker's ability to deliver requested services
» The ability to access markets, risk financing mechanisms, and market knowledge and leverage
» The quality of the review of your existing insurance/risk management program and recommendations for improvement
» The ability to access professionals for specific risk advice such as CAT property, ERM, environmental, cyber, student accident, medical malpractice, etc.
» The use of technology to improve and support your risk management program
» The number (or dollar volume) of similar clients
» Client references
» Price

PITFALL #4

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

The Problem

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. The process needs to incorporate an assessment of the broker's qualifications, experience, ability to provide services, access to insurance markets and ability to be creative when solving risk financing problems.

We also urge you to broaden your perspective. If you consider all the costs of managing risk for your organization, the percentage or fee that you pay your broker is likely one of the smallest numbers. If you are truly concerned about lowering costs, focus on the big-dollar items, like reducing claims frequency and severity, containing claims attorneys' fees, or spending money on preventing losses instead of paying claims.

Potential Solutions

Seek a balance in your evaluation criteria. It may be helpful to use a cost-of-risk approach, where you consider the balance of all risk management-associated costs, and not just broker compensation or the cost of one insurance policy. Some forward-thinking entities consider pricing separately from other evaluation criteria, so 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.

PITFALL #5

The RFP is issued as a formality, as required by law or rule, with a biased expectation about the outcome.

The Problem

On your end, it takes a lot of time to design the right RFP, gather and rank the responses, interview respondents, check references, and make a decision. Any organization 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 that can result in a reputation that your organization 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 RFPs as time goes by. That begs the question of whether the public interest in your public entity's purchasing process is being served.

Potential Solutions

If your organization is not ready to evaluate responses using fair and clear criteria, review options for change or consider viable alternatives; perhaps it's not the time to issue an RFP. Make sure you know the rules that apply to your entity or school. Some states require a thorough review of options without requiring a formal RFP process; other states make exceptions for pools or self-insured organizations.

PITFALL #6

The RFP is issued with a ridiculously short response time.

The Problem

Here's a perfect example of this: A K-12 school spends three months drafting the perfect RFP for their circumstances, the RFP gives service providers 10 days to respond, and the school's insurance program renews next month. In reality, it takes at least as much time to respond to an RFP as it does to draft it. RFPs are 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? An unreasonably tight time frame may put your renewal process in jeopardy, which is not something we recommend in the current insurance market conditions.

Potential Solutions

When you are designing an RFP process, back up from your insurance renewal date at least six months, and start the RFP process at least 30 days before that. If you will be directing your broker to conduct a full market review (for insurance options), you might want to start the process even sooner.

PITFALL #7

An entity uses an RFP to fire their current service provider.

The Problem

It's uncomfortable for everyone to use the 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.

Potential Solutions

Utilize a stewardship report or scorecard to stay current with your broker's services and performance. Ideally, review this with your broker twice a year to assure ongoing compliance and good communication. Remember, too, that brokerage services and insurance placements are business transactions; periodic review of your business needs is better than allowing poor performance or dissatisfaction to drive the change.

PITFALL #8

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

The Problem

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. We have seen RFP processes that disqualified responses if the wrong kind of paper is used. Is that really a high priority for proving the ability to provide brokerage services?

Potential Solutions

A clear description of the scope of services and evaluation criteria that are approved by risk management and procurement should help avoid this trap. (And for the record, we always use recycled paper.)

PITFALL #9

The RFP conjoins insurance procurement and brokerage services without understanding the implications or results of that structure.

The Problem

This may be a result of borrowing the format of another entity's RFP or relying on "how we've always done this." Decades ago, all public entities purchased insurance through insurance agents. By definition, insurance agents are assigned to represent only one or a select few companies. RFPs were designed to reflect that agent-assignment approach, and entities would select an agent/broker and insurance company in one decision.

There are shortcomings to that setup, however. Joining brokerage services and insurance together in the same RFP could create the following results:

- Limiting the number and types of insurance markets that brokers can approach
- Fewer insurance options (a straightforward insurance policy versus options such as creative risk financing structures; self-insured mechanisms; captives, pools or risk-sharing organizations; or alternative risk transfer products)
- Results that are focused on insurance products, instead of a combination of products, services, capabilities, resources and predictive analytics
- Restrictions on negotiations (with brokers, nearly everything is negotiable; with insurers, very little is negotiable)

Potential Solutions

To start, be clear about what you are trying to achieve. Are you satisfied with the level of service you receive from your agent or broker? Would you like to verify that your entity's insurance (or pool, or self-insured structure) is providing the best coverage available? Is there any other reason or purpose for the bid process? To whom will you be reporting results? Consideration of the purpose, desired outcomes and decision-makers will help you craft the best process.

We believe that you get the best expertise and access if you select a qualified broker, and then utilize their skills to make insurance markets compete for your business. Separating the purchase of insurance (or risk financing structure) from the selection of the broker enables you to consider a wider range of insurance and risk financing choices.

We have included examples of brokerage services RFQs to help you review some best-in-class bid processes.

PITFALL #10

The RFP does not control access to the insurance markets.

The Problem

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 is first to make a phone call, it does not assure that your organization will be getting the best price in the market, the best service or the best coverage.

Potential Solutions

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 on what is most important: the best coverage, the best service, the best price.

Be sure to check out the examples we have posted, which come from actual entities and have produced successful outcomes.

PITFALL #11

The RFP requires—or includes—a high score for having a local office.

The Problem

Is this a problem, really? Shouldn't an organization be able to express a preference for local businesses? Answering this question should refer to the level of service and expertise that you need. Local agents are important to your community, and have insight into local politics and culture, but if they cannot access a broader network of services and insurance markets, they might not be able to meet your evolving risk management needs. We are operating in a world of growing complexity and connectedness, and looking beyond local experience may help your risk management program manage a broader array of threats and solutions.

Potential Solutions

If your organization is focused on local representation, ask yourself these questions: Whose interest is being served? Is that interest as important as meeting your risk management business needs? What does local really mean? If being local is about close contact or responsiveness, keep in mind all the ways that you can achieve that these days—through telephone, email, and face-to-face web or in-person meetings. As a compromise—and in order to achieve both local engagement and access to national resources—many of the national brokers are willing to partner with local agencies if local representation is important to your organization.

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