

What Is an Insurance Broker and How Many Do You Need?

For small businesses, purchasing insurance, like paying taxes, is a necessity, but wouldn't it be nice if the process could be as painless as possible? That's where insurance brokers come in.

Unlike insurance agents who typically represent one carrier, a broker is independent and is able to represent many different carriers, theoretically giving their clients — that's you — the best coverage at the lowest price. Brokers can help you maneuver the morass of paperwork and translate the industry jargon so common in the contracts.

Like agents, these brokers don't charge you for their services, but instead receive a commission from the carriers directly.

That's the theory, and in general, it's true. But the line between agent and broker can get blurry. Good agents will often find the best coverage for their clients, even if it is with another carrier, and some brokers have special relationships with certain carriers, getting a higher commission the more business they place.

Because of this role switching, make sure you ask a couple of key questions when shopping for a broker. Ask them how many different carriers they represent in a given market, such as health care. If it's only a few, that could mean they are acting more like an agent. Ask brokers how they are compensated and if they have any special commission deals with the carriers they are recommending. Also, make sure brokers aren't charging any special over and above the cost of the coverage.

Beware of brokers who continually switch your insurance to new carriers. Brokers generally earn higher commissions when they bring new business to an insurance carrier. Unless the savings are significant or you've been dropped due to your claim history, it's not advisable to switch carriers haphazardly.

How many of these brokers do you need? **In general, you are going to need two brokers.** One that specializes in property and casualty, particularly worker's compensation, and the other who understands all the ins-and-outs of employee benefits, especially health care. In addition, depending on your business, you might need a broker that specializes in another field, such as professional liability.