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Zachary S. Finn

Butler University, zfinn@butler.edu

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What Do You Charge? It Depends

Zachary Finn

What Do You Charge? It Depends

Agency risk management consultant explores pricing variables for service fees

You've digested all of the articles on the need to provide your clients with risk management services and have decided that this is something your agency might want to start doing.

Before you take the next step, one of the things you naturally want some guidance on is what others are charging for risk management and other consulting services. After all, how can you decide if it is economically feasible to provide these services if you don't know what you can charge for them?

The problem with answering this question is that it shares the same answer as most insurance-related questions: It depends.

Would this particular loss scenario be covered? It depends.

How much should I charge my clients for risk management services? It depends.

Based on information I heard at a session I attended at a Risk and Insurance Management Society meeting, I know that the director of risk management at one of the larger corporations uses risk management consultants from time to time and pays upwards of \$400 an hour.

Fee work that I have performed in the past was done at a \$100-per-hour rate. However, I don't think there was anything scientific to that. Essentially, I believe that was the rate that the managers of my agency felt its clients would be willing to pay and that we could make a small profit on.

Overall, I think the price of risk management services will vary for most agencies based on some pretty wide variables:

Agency profit objectives

The risk manager/consultant's cost or salary

Geographic location

Client size and sophistication

The nature of the work to be performed

Because price is such a subjective thing to try to pin down, I think it is probably one of the secondary questions that needs to be asked. Before getting to that stage, I think the real questions that an agency looking to provide risk management services first needs to ask are:

What are my client's risk management service needs?

Just about every size company will run into issues with risk transfer, loss control and claims from time to time. But a lot of these issues can often be addressed through resources that the insurance carrier has available or through specialized firms that can be utilized on an ad hoc basis.

For example, if you only receive one or two client requests for air quality monitoring a year, knowing who to call to perform that service, rather than building that expertise internally, would probably better serve you.

Are my clients sophisticated enough to recognize these needs, and will they perceive value from these services?

Some clients may not find value in the services you are offering simply because they have their own internal resources to address exposures to loss.

For those clients who don't have their own risk manager, one of the key steps in building a good risk management program is educating them on the risk management process, and then working together to understand what their exposures to loss are and how to address them. Still, at the end of the day, there will be some clients that just want to buy insurance from you and would just as soon not see you again until the next renewal date. Clients with that attitude will most likely not find value in the services you are offering and may not be good for your agency's loss ratio with that particular carrier.

What investments do I need to make to be able to fill these needs? And is the volume of work large enough to justify building resources internally, or should they be contracted out to another firm?

In answering the last two questions, you should hopefully have an idea by now whether there is sufficient demand to justify hiring a full-time risk manager(s), loss control engineer(s), etc.

An agency that is not sure whether it is ready to jump in headfirst may want to start out by using a consultant or other specialized firm until the exact volume of work can be established.

A third option would be to hire a college graduate from a good insurance and risk management program. Graduates from programs such as the one at Indiana State University (which I attended) receive education in a broad range of courses including risk management, commercial property and casualty, employee benefits, and personal lines. These graduates are in a good position to provide risk management services while holding other responsibilities such as production, claims, etc.

Are we providing these services as a prospecting and retention tool, or to generate bottom line revenue for the agency?

Once you have determined the level of investment needed to meet your clients risk management needs, it is time to figure out how the return on that investment will be measured (i.e. client retention rate, net income, etc.).

An agency with a low volume of work will need to factor the price of a consultant into the price they charge their clients. An agency with a number of choice accounts, where one of the large national brokers is sniffing around, may be more concerned with client retention and not want to charge at all.

I think ferreting out the exact price from here is just a matter of management picking the rate they feel clients will be willing to pay and that your firm can make a small profit on.