

The **Risks**

*Have Never Been Higher*  
**Let us help you stay ahead of it**



## Risk Management – You Need It, And Your Broker Isn't Providing It

*“I’ve had the same broker for 10 years and never had a problem.”*

*“I trust my broker.”*

*“I recently bid out the insurance myself.”*

### **Everyone needs a good broker.**

Everyone also needs good professional risk management services. You're not adding an extra layer – you're filling a gap.

Large companies have risk management in house – usually reporting to the CFO (these companies also have insurance brokers, by the way). With smaller companies, there is often no one in the position – it defaults to an insurance broker. Can you reasonably go from formal in-house risk management to absolutely nothing, just based on the company size? NO. You have to get the amount of risk service you need – on a consulting basis.

Contact us to learn more about how we can help you stay ahead of risk.



**LICATA****RISK**  
**ADVISORS**

Risk and Insurance Management  
*The Risks have never been higher.*

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## You need risk management for three reasons:

**1. To negotiate insurance policy language.** This is not your broker's job. Your broker's job is to execute your order. Your broker does not know what is buried deep in the fine print of the policy; that is revealed only at claim time. *See notes 1,2 and 3.*

**2. To set up true competition for the insurance.** You need the best price and terms the market will bear. A single broker who says he approaches multiple insurers is not going to get the job done. Why not? Because there is no competition where the rubber meets the road – between you and your broker. You need to understand the insurance market dynamics. Brokers have many options in the market, all at various levels of broker compensation, and they have leverage over the insurers because they control the client – in their mind and in their terminology they “own” the client. They will put these options and this leverage to work, and take on all the work involved in doing that, only when they are motivated to do so by... competition. The final factor is the financial relationship the broker has with its insurer “partners”. The broker needs its book of business to be profitable with every insurer in order to obtain the lucrative contingent commissions that are delivered annually. This means high premiums and low claim payments – the essence of a conflict of interest. *See note 4.*

The final point is broker front end commission, which is hidden and very substantial. Your risk manager can eliminate the fat and cause the difference to drop to your bottom line.

(Can you conduct a bid using multiple brokers yourself? Not unless you have unlimited time available, can control the brokers, and have the ability to understand and compare the policy language – all hundreds of pages of fine print you've never seen before!)

**3. To provide the contract management and formalize the loss control** by which losses and claims are minimized.

Hire a professional and get the best of all worlds: protection for the company and for you, and the insurance job off your plate – and achieve significant net savings in the process.

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### Note 1: 2009, New York federal judge in court describing an insurance policy:

*“... many pages of single spaced, densely worded language..., to which declarations, schedules, riders and exclusions are appended, like ornaments on a Christmas tree, although without their charm.”*

– Southern District of New York, May 2009, Janart v. Greenwich Insurance Co.

### Note 2: broker liability in court:

*“Moreover, like other insurance agents and brokers, the Defendants did not owe East Coast a duty to ensure that it understood the full import or meaning of the terms of the coverage provided.”*

– Baldwin Crane Equipment Corp v. Riley & Rielly Ins, Agency, Inc., 44 Mass. App.Ct.29,31-32 (1997)

### Note 3: broker disclaimer in proposal

*“The final decisions **are yours**. We will procure the coverage chosen **by you**... **You will advise us of any provision not in accordance with your instructions... and any review you may seek from... outside consultants is expected and essential.**”*

– Disclaimer in proposal issued by large broker (emphasis added)

### Note 4: broker conflict of interest

*“Contrary to the foregoing claims, Aon has engaged in business practices in which its clients' interests have often been placed well behind those of Aon or insurers... Aon has misled clients about the nature and amount of ... compensation, concealing the obvious conflicts of interest it creates... Aon has ignored its clients' interests when steering customers to preferred insurers to achieve maximum payoff for Aon and its insurers.”*

– Supreme Court of the State of New York, The People of the State of New York v. Aon Corporation, 2005