

# The **Risks** Have *Never Been Higher*

## How the insurance industry hides and protects their bottom line

### Disrupt how the game is played and take back control!

In economics lack of competition results in too high prices and shoddy product. The market forces that correct for those are missing. The sale is made no matter how expensive or inferior the offering.

*“I’m always on the lookout for anomalies or disruptions in an industry, in a market or in a particular company... Any event or pattern out of the ordinary is like a beacon telling me some new interesting opportunity may be emerging.”*

– Businessman Sam Zell of the Equity Real Estate organization looks for "anomalies" in business for extraordinary financial opportunities. From his memoir *Am I Being Too Subtle*

The insurance industry is one of those anomalies. It plots to eliminate competition, limit the flow of information, and achieve the greatest income, all at our expense. But how can that exist in the insurance market? There are thousands of insurance companies and even millions of brokers. The clues are out there. Consider the following scenarios, and then let’s circle back to see what it all means; do you see that the control is being taken away from you?



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

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## The Issue

- ▶ 1. Your broker signs you up for insurance program based on a five page proposal, a smile and a handshake. Then a month or so later what shows up? 100 pages of fine print.???



- ▶ 2. You want a certain coverage and your broker says not available in the market. Then upon competition, the coverage appears!

- ▶ 3. *“Insurance company X says they can’t compete with the current pricing.”*

This is the most common broker comment. What!!! Don’t they realize that giving bidders their competitors’ pricing is not competition?!

- ▶ 4. You approach an insurance broker other than your incumbent for quotes, but that broker says he or she is “blocked” from that market.

## What’s the Problem?

In what other industry do you sign a contract without ever seeing it? The full policy language is not even presented as part of the proposal.

And don’t count on your broker to know, or be able to negotiate, the terms:

*“Your review of these documents and any review you may seek from legal counsel or insurance consultants is expected and essential.” \**

*“[broker] did not owe [insured] a duty to ensure it understood...the meaning...” \*\**

Not getting the terms you request is your indication your broker is simply hoping you go away, and is not willing/able to generate the competition necessary to get it done.

Disclosing the current pricing! Don’t blame your broker too much for this one. This is more the system at work. Underwriters won’t quote without price when they know the broker knows it. In multi broker competition the other bidding brokers can’t give pricing because they don’t know it.

When a broker is blocked from an insurer, that means another broker has made a submission in your company’s name. The broker who has made the submission is most likely your incumbent broker. While disguised as shopping for a better deal this is most often to freeze out competitors.

## The Issue

- ▶ 5. Your incumbent broker obtains proposals from new insurers without your approval or even your knowledge.



- ▶ 6. Your broker delivers your renewal proposals at the last minute.

- ▶ 7. Your broker offers many services in addition to the delivery of the insurance product. You may find the services are shallow or even that they exist in name only.



- ▶ 8. You don't know what your broker's compensation is! You're paying it, aren't you?

## What's the Problem?

Your broker is out shopping the market? Simply being proactive? Not so fast - this behavior:

- a) blocks other brokers
- b) puts your name in the marketplace as a shopper, hurting chances to go to the same insurer later at a more opportune or strategic time
- c) amounts to corporate identity fraud; do you applaud your financial advisor at Wells Fargo for applying for credit in your name without your knowledge?

Why last- minute renewals? How better to keep you from having time to react competitively? A negotiable deal becomes take it or leave it! This has to be controlled via either early quotes or arranging extensions to be exercised if the quote is unacceptable.

Mediocre services are bundled up with the insurance product. You will likely get better services from outside specialists. But that is not the over-riding factor in this issue. The real problem is that tying services with the insurance products blends the two together and makes it very disruptive for you to leave your broker – this is the lock-in your broker is looking for. This is another way competition for the product – the insurance itself – is eliminated.

We need to unbundle the so-called service from the product so there can be real competition on the big expensive item - the insurance itself.

You are paying it – it is just undisclosed – and you can buy the coverage WITHOUT the commission built in (a so-called net purchase). When you see the size of the commission you will want to do something about it!

## Ok, who's controlling whom?

Are these things normal and to be expected? not if judged by:

- standard business practices
- rules of ethics (We might say this is just a case of simple buyer beware; but as government investigations have indicated it is the misrepresentation that is the problem. “[broker] primarily represents its own interests and those of its favored insurance companies.” \*\*\*) .
- strategic goals of buyers

There is no doubt the insurance business is an anomaly.

*“ So [broker] does not, as it contends, always ‘consider their clients best interest’...to the contrary [broker] primarily represents its own interests and those of its favored insurance companies.” \*\*\**

– From a government investigation



Now you can see this insurance market is not a naturally free market. Because of monopoly- like features there is a pot of gold waiting to be liberated. When providers are artificially achieving windfall profits, that puts you at a competitive disadvantage – and there are huge gains for those who see through it. This means dramatic price reductions and actual control over the terms of the insurance.

This is not incremental stuff – it’s monumental stuff resulting from the anomaly that is the insurance market. **How to take back control?** Have a risk manager on your side. The largest companies one; **you can have one too - on a fixed fee consulting basis.**

\* “You ... will review all documents and advise ... of any that may not be in accordance with your instructions ... within 2 weeks... Your review of these documents and any review you may seek from legal counsel or insurance consultants is expected and essential.”

– From major broker proposal.

\*\* Insurance broker’s defense in E&O action: “Moreover, like other insurance agents and brokers, the Defendants did not owe East Coast [the insured] 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).” (From a lawsuit filed by an insured, East Coast, against their insurance broker in which LicataRisk acted as expert witness).

\*\*\* The People of the State of New York v Marsh & McLennan Companies

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



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