

Corporate Exposure: Choosing the Right Insurance Broker

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How efficient is your company's insurance broker? An inefficient broker can be costly—not just to the bottom line but also to your image in the insurance market.

Let me share a recent example to illustrate this point. A company that sustained a builders risk loss was told by its insurance broker that the loss was not covered under any of its policies; consequently, the insured began a lawsuit against the contractor.

In point of fact, the insured company was covered for the damage. The insurance broker should have been able to provide this information so that the client could either pursue settlement on its own or receive compensation from the insurance carrier (whose responsibility it would then have been to subrogate against the contractor).

This problem can be made considerably more complex if the insurance broker decides to cover up its inefficiency by spreading exaggerated stories about your company within the insurance marketplace (for example, suggesting a demanding management, no loyalty, or uninterested in risk reduction procedures).

Don't Give Up Yet

Suspicion of a problem does not mean that you need to switch brokers immediately. The primary requirement of the broker is to understand and satisfy your insurance needs. Sometimes the problem is merely a matter of faulty communication, which can be improved as soon as everyone understands what is expected of the relationship.

Your first and most important step should be to meet with your underwriters. Only through these meetings can you be assured that each under-

writer's image of your organization and its needs matches *your* image. The broker should show up for at least the initial meetings, since, after all, his or her role is to orchestrate successful encounters between the clients and the insurers.

During these meetings you should ask the underwriters whether they have questions regarding your operation—including personnel issues, products, locations, risk management strategies, and so on.

If you find during these meetings that too many differences come up that cannot be reconciled, or if you are in some way dissatisfied with the outcome of the meeting, it may be time to consider changing brokers.

Finding a New Broker

Before you set the wheels in motion to change brokers, you should find out what political connections your current broker may have within your organization. It is not uncommon to find that he or she was selected for any one of a number of subjective reasons (for instance, belongs to the same country club as the company president or is related to someone on the board). This political strength must not be overlooked.

If political considerations are nonexistent or unimportant, you can request that three or four brokers come in to make presentations regarding their structures, operational philosophies, and service capabilities.

Ask for—and check—references. Do not be intimidated to call a corporate officer of a *Fortune* 100 company to ask for an opinion. Conversely, do not be overly impressed by a broker's high-profile client listing. Going back a step, even the most prestigious companies may hire brokers more because of political connections than performance.

Interview Individuals

You should interview those individuals in the brokerage firm who will be servicing your account. Request a detailed organizational chart indicating names, phone numbers, and areas of responsibility (for instance, claims or safety) covered by each individual.

Do not wait until a new broker is on the account to voice your concerns or complaints about people who have been chosen to represent your interests. If someone on the brokerage "team" does not meet your requirements, you should request that the individual be replaced and that you be allowed to interview the replacement. If the firm is unwilling or unable to replace an individual, you have a good idea of how willing it will be to satisfy your future needs.

The Written Agreement

Once you have selected the broker who best represents your firm, execute a written agreement determining the broker's compensation and what services are to be performed. If the broker will be compensated entirely from underwriting commissions, find out what that figure is and make sure you are satisfied that this remuneration is deserved. If, on the other hand, you are paying for the broker's services or supplementing commissions, remember that you should get what you pay for.

Contracts should be limited to one year in term; a lot can change in 12 months.

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