INTERNATIONAL FEDERATION OF RISK AND INSURANCE MANAGEMENT ASSOCIATIONS
WHITE PAPER
ROLE OF THE INSURANCE BROKER

This paper is being published to provide insight and guidance into the role of the broker from the perspective of risk managers. As an international association, IFRIMA represents risk managers in many jurisdictions throughout the world. Practices relating to the role of the insurance broker vary by jurisdiction, so that this paper is written to represent a view that is not restricted to the practices of a particular region.

In 2004, IFRIMA issued its position paper on Enterprise Risk Management. In that paper, we defined the foundation of a strong risk management program as requiring a disciplined, consistent process throughout an organization. In addition to other elements, it was stated that the process should include effective residual risk transfer, "... ensuring the best possible coverage at the lowest possible transfer cost".

In that context, the accountabilities of the risk manager include the purchase of appropriate insurance programs that effectively transfer residual risks. The placement of effective insurance programs requires access to the worldwide insurance and reinsurance markets, as well as the ability to develop and implement alternative risk financing techniques.

In defining how this residual risk transfer process is carried out, it is important to distinguish among those insurance-purchasing organizations that do not have an internal risk management function and those that do. In the first case, the broker has a broad advisory role in helping the organization to determine its insurance requirements as well as placing the insurance on their behalf. However, in more sophisticated companies, such as most of the member organizations of the IFRIMA associations, where there is an individual designated as the internal risk manager, the relationship with the broker is very different.

In order to effectively meet their internal accountability, risk managers choose the level of involvement of the broker in the placement of their coverage. This can range from little or no involvement of an insurance broker and outsourcing some of the required activities to an intermediary to the utilization of a broker throughout the placement. As the risk management discipline has evolved and risk managers have become more sophisticated in their knowledge of the process, they have become less dependent on the brokers and have increased involvement in directly managing the relationship with to insurance underwriters. Not only is it the risk manager who determines the insurance needs of his/her organization, but also he/she is directly involved in the placement of the insurance whether or not an insurance broker is used. This evolution has been evidenced even more so in many regions of the world, most notably continental Europe, where risk managers have little or no reliance on their brokers, preferring to place their coverage directly with insurers.

In light of the above, the management of the broker is structured like any other outsourced activity. It is an additional resource available to risk managers to meet their obligations to their employers. Risk managers will determine the suite of services he/she requires and direct the activities of the broker in their implementation of their organization's risk transfer strategy. These activities can be broadly categorized:

1. ***Advisory***
   The insurance broker can provide the internal risk manager with information that assists the risk manager in determining the risk transfer strategy for their organization. This information can include exposure and claims analysis, best practices within its own industry and business in general and information on insurance markets.

2. ***Transactional***
   In order to efficiently access the worldwide insurance markets, many commercial insurance buyers utilize the services of insurance brokers. The extent and modalities of such use is extremely variable by country, industry, individual organization, and even by line of coverage. In many jurisdictions, such as North America

the use of intermediaries is still prevalent, however in other countries, such as continental Europe, the traditional brokerage intermediation is less and less common.

Insurance brokers also might be asked to provide expertise in the "marketing" of the account. This should include the development of comprehensive, effective underwriting submissions, identifying potential insurance partners and designing and organizing presentations by clients.

3. ***Servicing and Administration:***
Once the insurance policy is placed, regardless of the extent of involvement of the broker in such placement, a significant amount of servicing and administration work remains to be done, and continues from the inception of the policy throughout its expiration. This can include checking of policy wordings, premium payments administration, issuing of certificates, routine claims administration, among other activities. Through economies of scale achieved in supplying similar services to numerous clients, the broker can often provide such services more efficiently than the internal risk management department. These services should be clearly listed in a comprehensive servicing agreement.

Many insurance brokers describe their role as purchasing the most coverage possible at the lowest price. This is not necessarily true. The role of the broker is to execute the insurance management strategy that is determined by its client, to the extent indicated by its client. For most organizations, that strategy will include the development of strong, long-term relationships with its insurance transfer partners. It is important that the risk manager build personal and corporate relationships with the underwriters on his or her account. While the broker might provide additional specific services, no individual can present the risk of an organization better than an internal professional. It is up to the risk manager to determine the risk financing strategy and then to direct the efforts relating to the presentation of the risk and the negotiation of the terms of the insurance policies.

This position paper is being issued at a time when the commercial insurance industry is at a crossroads. The scrutiny of the business practices of both insurance brokers and companies has sharply escalated since the investigations into practices such as contingent commissions and tied selling. Unfortunately, allegations of bid rigging and fraud by specific individuals have resulted from certain of these investigations. The impact has been felt throughout the insurance world, as other jurisdictions have begun their own investigations into these matters.

As a result of these investigations, a number of industry experts have declared that the distribution channel for insurance products is broken. IFRIMA agrees with this observation. It is IFRIMA's position that the business model established by brokers and insurers has not provided for flexibility in the difference between providing brokerage services for small, medium and large accounts. With respect to larger accounts, the insurance broker is an outsourcer of specific activities. The risk manager leads and directs these activities. Invariably, these accounts require personal attention and tailoring of services; focus on corporate relationships and a sound marketing strategy that is executed by the broker on behalf of the risk manager and his/her organization.

It is also the position of IFRIMA that in providing advisory transactional and administrative services, the insurance broker is clearly the representative of the insured organization. While the influence of large insurance brokers with insurance companies is an important asset, it should in no way change the nature of this relationship. As the insured's representative, the broker must provide professional services to its clients with transparency and integrity.

****

The International Federation of Risk and Insurance Management Associations (IFRIMA) is the international umbrella organization for risk management associations representing 26 organizations and over 30 countries throughout the world. With its roots going back to the 1930s and its development through the discipline of insurance and risk management, IFRIMA is uniquely positioned as a leader in risk management and its application.