

# BROKERS

## DILIGENCE CAN HELP WARD OFF AGENCY FRAUD BY ALEX WRIGHT

It's incumbent upon risk managers to understand exactly what their agents are doing — or not doing — on their behalf.

INSUREDS COULD FIND themselves on the hook for massive bills totaling thousands or even millions of dollars if their policies are rescinded or voided because a broker misrepresents them or fails to secure adequate coverage.

That was the situation one of claims manager Beth Ossino's clients found themselves in after their property burned to the ground and her firm, Golden Bear Insurance company, discovered only



**Beth Ossino**, claims manager, Golden Bear Insurance Co.

after the event that all of the information on the application was incorrect, apart from the name and address.

"When we went out there, we found

there were all of these issues with the property that we had no prior knowledge of, that meant we would never have insured it if we had known about them," she said.

"Initially we thought that the insured must have falsified their application and then burned the house down, and so we took it to the district attorney and presented it as a case of insurance fraud.

"They sent out an investigator to the insured's agent's office and the customer service representative who dealt with them basically admitted that she had made everything up in the application."

As a result, the broker lost its binding authority and was reported to the California Department of Insurance, said Ossino, claims manager with Golden Bear.

Thankfully, though, it was a happy ending for the client as Golden Bear covered all of its losses. However, there have been



**Risk managers** can't afford to assume their brokers are securing adequate coverage.

cases where the carrier didn't pay out when the insured lied on the application, or the broker failed to secure adequate coverage, she added.

### VET PARTNERS THOROUGHLY

Ossino said it is imperative that risk managers and their organizations do their research when they are selecting a broker or seeking coverage for a particular risk.

"Any time you do business with somebody new, you should thoroughly vet them first, make sure they have the proper license and ensure that they haven't had any disciplinary action taken against them," she said.

"Most of that information is available online through your local department of insurance website where you can check the status of an agent or broker."

Christopher Boggs, Big "I" Virtual University executive director, said the burden of making sure the coverage is right for the program and that risks are presented accurately falls heavily on the risk manager.

"It's the risk manager's job to check the policies against

the exposures and program developed," he said. "Confirm the policies are what you requested. Don't assume."

One major obstacle for many risk managers, said Boggs, is not being able to verify that the company is being properly represented to the carrier. If an organization has concerns, Boggs recommends calling a meeting with the underwriter.

"Unless they are in the room or on the call, there is no real way for them to know," he said.

"The policy is the contract between the insurance carrier and its insured. If the agent or broker hasn't, doesn't or won't bring the policy — there is a problem."

In some cases, when a misrepresentation is made, Boggs said that an errors and omissions claim may have to be made by the insured or the carrier.

"An unintentional error is wholly different," he said.

"Some carriers might reform the policy in the event of a mistake.

"If it's fraud, it depends on the relationship between the parties. A material misrepresentation, concealment or fraud will void

coverage."

Andrew Barile, founder, president and CEO of Andrew Barile Consulting Corporation, said that risk managers need to make sure they fully understand the agreement they are entering into before signing it and that the brokers have given them the necessary information to know what they are covered for.

"Agreements now extend much further than just the simple one-page broker of record letter," he said.

"Another area that can result in denial of claims is where the insured themselves fails to sign the application, so it's imperative they get their broker to sit down and go through the agreement with them thoroughly so that they fully understand it.



**Andrew Barile**, founder/president/CEO, Andrew Barile Consulting Corporation

"A lot of litigation occurs when the insured doesn't follow the specific guidelines in the application forms."

For their part, retail agents and brokers looking to place a risk that they are unfamiliar with should enlist the help of a wholesale broker that has intimate knowledge of that line of business, said Ossino.

"Particularly if their client has something unique to their business, they should seek out an agent or broker that has written similar policies and is aware of the specific exposures to ensure they secure adequate coverage," she said.

"They also need to keep abreast of the latest emerging risks pertinent to that business." &