



Ask the Right Questions

Nobel laureate Naguib Mahfouz once observed that, “You can tell whether a man is clever by his answers. You can tell whether a man is wise by his questions.” Mahfouz would make an excellent insurance agent.

In an age that attaches great value to the ubiquitous, standardized FAQ, the wise insurance professional never forgets that if you want the right answers, you have to ask the right questions.

Consider this scenario: Widget Co. has been in the widget business for 125 years, but is in the market for a new broker to handle its insurance. The company’s CEO, Mr. Widget, has seen and liked your agency’s billboard (which proclaims, “At Expert Insurance, we’ll take care of *all* your insurance needs!”), and schedules a meeting at your office.

Without knowing what a widget is and despite not getting a word in edgewise, you get the business in five minutes. Based on his years of experience in the industry, Mr. Widget confidently tells you what type of coverage he wants, what limits he needs, and where his business is located. “Business is booming!” he proclaims, heading out the door. “We’re even looking at acquiring the warehouse next door!”

You promptly submit an application based on information gathered during your conversation and obtain a quote that you pass on by email. He accepts by reply email a short while later and you place coverage the same day, exactly as ordered.

Several months later, Widget Co. suffers a fire at both warehouses—the old and the new. The buildings are a total loss, as is the stock inside. The claims adjuster at the scene delivers bad news: the stock coverage is limited to \$100,000. Plus, the policy’s coinsurance clause will likely come into play given the \$500,000 limit on the structure, which, by her estimation, will cost \$2.5 million to rebuild. And what of the new warehouse next door (just the other side of State Line Road) that sustained damage as well? Not covered at all. Nor, it seems, are the injured, non-resident employees working in that out-of-state facility.

When you ask Mr. Widget how much stock was on hand, he recites from memory, “\$250,000—in preparation for the holidays, of course.” When you nervously inquire how long the building has had \$500,000 in coverage because there may be a problem with the policy’s coinsurance clause, he confidently tells you, “Since 1976, when I took over as CEO.” He then pauses, wrinkles his brow and asks, “What’s a coinsurance clause?”


You did exactly as you were told, but your E&O carrier tells you the agency may face a six-figure exposure on the facts of this case. What went wrong?

You followed your instructions to the letter, but your duty to the customer may have gone beyond simply filling an order. Given your boast that “We’ll take care of all your insurance needs,” Widget may assert that you created a “special relationship” as a result of which you owe a “professional standard of care”: to *inquire* and advise insureds about available coverage(s) and examine the policy to be sure it meets the insured’s needs.

So what is being insured? You have no idea. You passively accepted your customer’s confident opinions about what he wanted and was willing to pay for.

The customer indicated that he was looking into acquiring another warehouse, but you never asked the follow-up question: Did you buy it? If you had, you might have noticed that the second warehouse and its workers were located in another state.

It is exceedingly common to meet customers who think that because they are experts in their own fields, they are experts in yours, as well. Be patient with this customer, but never forget: he may be “smart,” but you still need to be wise.

Ask the right questions. 

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Best Practices Lead to Better-Run Agencies

When assessing your own operation and current procedures, begin by asking what the law is in your state—and your customer’s—regarding the duty of a broker to his customer.

Failure to procure coverage and failure to analyze risks accurately are the leading drivers of E&O claims. A broker must have a thorough knowledge of her customer’s business, so the first step in placing coverage for a new customer is understanding its operation(s) and exposure(s) to loss.

What is the “order” from the customer? If you are uncertain whether coverage is sought for a particular property or peril, always err on the side of circling back—sooner rather than later. Next specify what responsibilities each of you has going forward, and in what timeframe.

Deliver a copy of the policy to your customer ASAP with a strongly-worded, conspicuous request that he review it carefully to ensure that it contains the coverages and limits requested and contact you with any questions, concerns or changes in circumstances.

Be prepared to explain key elements of the policy to the customer. If terms are defined in the policy, always refer to the policy definition.

—M.D.