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DUTIES AND RESPONSIBILITIES OF THE INSURANCE AND REINSURANCE BROKER

by

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Duties and Responsibilities of the Insurance
and Reinsurance Broker

Having accepted the invitation to read a Paper on the above and having been in the business for over 30 years, my first thoughts were to define quite clearly in my mind what these duties and responsibilities are. They fall into three categories, the first being my duties and responsibilities as laid down by the law, and the second and third relating to my clients and the underwriters, with whom I place my clients business respectively.

At the outset of my career anybody could advertise the services of an insurance broker and indeed most accountants, solicitors and in some cases even the local butcher, were happy to provide this additional service. It is not so surprising given the degree of consumer protection generally required by the government that the rules and regulations have been considerably tightened over the last few years so that the fringe operators which were neither equipped nor competent to provide sound advice or services have been put out of business. Today anyone wishing to practice as an insurance broker, or indeed, a reinsurance broker, and operating in the UK must be registered with the Insurance Brokers Registration Council, a government sponsored body who have to be satisfied that the organisation seeking registration is staffed with competent people, suitably qualified, and that the organisation is financially sound. There are something like 6,500 insurance brokers registered with IBRC and, of those, approximately 400 companies including my own, are known as Lloyds Brokers, being permitted to do business with Lloyd's Underwriters and coming directly under the control of the Council and the Committee of Lloyds.

The regulations and by-laws applied by Lloyd's to Lloyd's brokers are far more stringent than the requirement of the IBRC and any company admitted as a Lloyd's broker will automatically have its registration with IBRC accepted. To meet the requirements of Lloyd's I am obliged through my auditors to

satisfy the authorities that my Company has adhered to solvency margins far greater than would normally be required. In addition Lloyd's requires that all Lloyd's brokers deposit funds with them and in addition we are required to certify that we carry errors and commissions cover of not less than a minimum figure laid down by Lloyds, and directly related to the brokerage income of the company concerned.

Also, Lloyd's have to be satisfied with the competence of the members of a Lloyd's broker's staff, and require to approve all appointments of directors and partners. I am aware that whilst dictating this Paper it may be out of date by the time of reading as following upon the wide ranging enquiry by Sir Henry Fisher, and culminating in the issuance of the Fisher Report, that all aspects of Lloyd's operations are being looked at thoroughly and brought up to date where necessary. It seems highly likely that we shall shortly be seeing new rules for Lloyd's brokers and it would hardly be realistic to think that any new proposals will show any easing of the regulations.

On the professional side of an insurance brokers business the law leaves us in no doubt that our first and foremost responsibility is to our clients, whether that client be an individual requiring some minor household insurance, or a multi-national company paying premium running into tens of millions of pounds. Contact having been made with a potential client our first duty is to advise them on the sort of insurance cover that we feel they should have. This having been established the next step is to lay our clients requirements in the best light possible before underwriters to establish the premium cost. In putting our clients needs before underwriters in the best possible light we may not withhold any material information which would be likely to affect underwriters judgement on the case concerned. Assuming that one has quoted terms and conditions and a rate of premium acceptable to the client, then the next step is to arrange cover as quoted.

Following the arrangement of the required insurance, or indeed reinsurance cover, a cover note is issued by the broker. The cover note should reflect absolutely terms and conditions of the cover arranged, otherwise if circumstances arise the client has the right to sue the broker. The next stage is to debit the client with the premium due and whilst my Company at least does not submit debit notes with indecent haste I nevertheless hope that a client would pay reasonably promptly. Upon receiving the required premium the broker is required to prepare the insurance policy and to submit it in that due time to the insurers for signing. With a bit of luck there is little further for the broker to do until the policy nears its expiry, when renewal if required will have to be negotiated and the whole process repeated again.

It does, however, frequently happen that loss occurrences take place forming the basis of a claim against insurers, and it is at this stage that the service of an insurance broker is most required by the average client. Our duty here is to provide every assistance to our client and to give such advice as may be necessary to insure that he receives a fair and prompt settlement of his claim according to the terms of the policy.

The other area of responsibility to which I referred earlier is to the underwriters who are carrying the risk, who ultimately receive the premium and pay the claims, and who, incidentally, pay the insurance broker for taking his business to them. I have a legal obligation to pay premium to underwriters once having arranged business with them, when that business is of a direct nature. And I have a strong moral obligation to settle premium when this comes by way of reinsurance. In each case, I may not hold underwriters' monies in my broker's account for longer than is absolutely necessary.

A broker having an office in London and placing his business with underwriters mainly situated in London is effectively the eyes and ears of the insurers and I do regard it as part of my duty to keep my clients and underwriters fully informed of developments affecting either side involved in the cover. Certainly when arranging insurance and reinsurance within the London market, when that business emanates from overseas I am expected to be reasonably informed as to the general state of affairs in the country concerned and in particular with the various factors affecting the insurance and reinsurance industry. I do therefore make a point in many parts of the world in viewing major risks and new developments as well as getting around generally. How else can one give a client advice if you do not know what his problems are.

In addition I like to know fairly promptly when the law in so far as it affects insurance and reinsurance is changed.

You will probably know that the insurance industry is a cyclical industry, enjoying spells when good profits are made followed by a period of declining fortunes, as the result of every would be financial whiz kid jumping on the bandwagon, with the resulting increased competition forcing premium rates to an uneconomical level, and causing the insurance industry to see the sort of results that we are witnessing this year. The inevitable result of this cut-throat competition, if it continues for too long, is bankruptcy and the subsequent inability of insurers to meet their liabilities, and I feel very strongly that the brokers duty is to place his clients insurance with secure insurers, who will be able to meet their liabilities whenever these should arise, and you will all be aware that marine insurance claims in some instances may not be presented for collection until perhaps ten years after the loss has occurred.

I shall elaborate further on this last point at the Conference.