

# Five Reasons To Call Your Insurance Broker...Now!

*In good times or bad times, make sure  
your broker is on speed dial.*

By Lee Brodsky

When it comes to your corporate insurance, you probably would prefer to purchase it and then forget about it, letting it sit quietly off to the side as your firm goes about its business of originating or servicing loans. In fact, it's not until a claim arises that you'll probably think of it again.

The problem is that by putting it off to the side and forgetting about it, you may be opening yourself up to a major uncovered claim. Because while your insurance policy - a fairly static document - is idle, significant changes in your business might occur that aren't adequately covered.

So what can you do to protect yourself? Your best course of action is a simple and easy one: Give your insurance broker a call and an update on any changes.

By keeping your insurance broker informed of your company's activities, he will be able to apply his knowledge of your policies to make sure your coverage keeps up-to-date with your ever-evolving business.

Below are five situations common to the mortgage industry. When you find yourself in one of these situations, contact your insurance spe-

cialist right away, so he can investigate your options and adjust your policy accordingly.

## **Reason #1: It's time to renew**

This one is fairly obvious. Once a year you need to talk to your broker about your upcoming insurance renewal (as well as schedule a follow-up mid-year review to make sure the coverage has kept up with any changes in the business). What may not be so obvious is what you need to talk about and when you need to talk.

The conversation you need to have with your broker should focus on what changes your business has undergone since your last renewal. Increases or decreases in number of employees, locations, origination volume, etc. are all factors that could affect your insurance needs, policy limits and, ultimately, your premium. Let your broker know about new circumstances so he can negotiate your renewal using the correct information.

This is also the time to talk about your level of satisfaction with your current insurance carrier. Are you unhappy with the service? Do you want to compare premiums? Your broker can secure quotes from other carriers to see how their coverage and premiums compare.

However, that said, you shouldn't go through the process of obtaining quotes from multiple carriers too of-

ten - that is, more than once every three years (unless there have been major changes in your business). Otherwise, you may reach a point where those carriers who have already unsuccessfully bid on your business several times in the past may opt out of quoting your coverage again.

Your broker should start checking with your current carrier several months before your next renewal to see if they have had any rate changes since the last renewal and, thus, try to obtain an approximation of your renewal premium.

By starting early, your broker will have time to investigate your options with other carriers as well as give you time to make your decision without being rushed. For January renewals, start reviewing your insurance in October. For June renewals, start talking in March.

Of course, a good broker will be calling you to initiate the process. Don't wait until a few weeks before your expiration, or there won't be enough time to fully explore your choices.

## **Reason #2: Submitting a claim**

While your insurance carrier will ultimately handle your insurance



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claim, there are several good reasons for you to contact your insurance broker when you become aware of a potential loss.

First off, your broker should have a good understanding of your policy and how it works, and provide input on how to best handle the situation. In addition, he or she can work with you to undertake the necessary steps to meet the policy's reporting requirements. It's also beneficial for your broker to be aware of any claims, because it will be a consideration the next time you renew.

However, the best reason to involve your broker is that he can be a valuable ally in any dispute with your insurance company. Your broker represents you, not the carrier. So, when issues come up, it's helpful to have the broker as an advocate on your side, helping you deal with the carrier and attorneys.

With this in mind, there are two questions that typically come up when clients call me to talk about a claim: "Is the claim possibly covered?" and "Should I submit it?"

Your best course is usually to submit a potential claim. First of all, policies typically dictate that you must submit all claims to the carrier—even those under your deductible.

But more importantly, until you submit a claim and go through the insurance company's investigation, you can't be sure of all the facts and how the insurance company will interpret your policy. A situation that might not seem covered at first may be decided in your favor after a full-scale review.

Another good reason to submit the claim is that you don't know what the final loss will be or if it will exceed the deductible. If you don't report the claim in the beginning, you could be risking a major out-of-pocket expense later.

That's because a claim could start below the deductible and then grow to a sizable amount. Meanwhile, deadlines in your policy state that claims must be reported within a specified number of days after discovery, or you forfeit the right to sub-

mit a claim for that issue. Therefore, if you decide not to submit your claim, later, when you realize the full extent of the costs, it may be too late to seek reimbursement from your insurance company.

Talking with your insurance broker should help to clarify the issues at stake and provide you assistance in the claims reporting process.

### ***Reason #3: Liability issues***

There's one very important insurance question to be ascertained as you negotiate all the particulars of a purchase or sale. Whether you're the buyer or seller, you need to determine who is responsible for liabilities that are discovered after the sale of the business but took place prior to the transaction.

Obviously, this is something that neither side wants to keep. Sellers will try to include the liabilities in the sale of the assets. Buyers will try to structure the deal so that the liabilities for anything that occurred before the sale will remain with the seller.

If the seller is retaining the liabilities, the seller's broker will need to cancel the current policy as of the close date and purchase what's known as a "runoff policy" to protect the seller from presale liabilities. If the buyer is taking on the responsibility, the buyer's broker will need to determine if the past liabilities can be covered under the buyer's coverage.

The terms of the sale should dictate what's required of each side. It's fairly common for the seller to be required to carry a runoff policy for 18 to 24 months after the sale. In one such case, the buyer held back a percentage of the purchase price for two years as a method of protecting the purchaser from any claims that may be discovered after the purchase.

There are many ways to structure the deal. That is why as the deal develops, it is a good idea to discuss the details with your broker, so recommendations can be provided.

If you buy another entity that becomes a subsidiary, it is important that your broker have a full understanding

of the organization of your company and all existing insurance policies. For instance, your policy may include an "other insurance" provision. This provision states that if another policy has been taken out covering duplicate exposures, that "other" policy is responsible for any claims.

If the subsidiary is buying its own coverage while the parent also has coverage that includes the subsidiary, the two policies could cancel each other out, leaving the subsidiary with no coverage and open to an uninsured loss.

### ***Reason #4: Service expansion***

When expanding your business into new areas, keep in mind that your professional liability policy only covers those professional services specifically listed in the policy, such as a mortgage banker or mortgage broker.

So, additional services (including real estate sales, escrow agent representation, property management, etc.) are not automatically covered under your current mortgage-banking-focused policy unless the policy is specifically extended to include them.

To rectify the situation, have your broker work with your carrier to extend your policy to cover these services. As long as mortgage banking is still the majority of your business, you may be able to place these additional services under your current professional liability policy. Including these new services may only have a small impact on your rates. It may just be a matter of having them written into the policy.

### ***Reason #5: Going out of business***

While it would be nice if once the doors were closed, you were free of any past liabilities, the truth is that your liabilities don't necessarily end with the shutting down of your company. It's important to talk to your broker and discuss how your coverage responds after it's terminated.

As with any of these cases, you will find that the best results will come from treating your insurance broker as a partner and keeping the lines of communication open. **SME**