



## STREAMLINED BROKERAGES

## The ethics of cost-efficiency

A junior staffer commits a typo while working on a certificate of insurance, leaving a client without coverage. How to do more for less responsibly

BY THE CIP SOCIETY - *The Insurance Institute of Canada*

In an effort to streamline operations, a brokerage manager was striving to have tasks and responsibilities placed in the hands of staff members who could capably accomplish them at as low a cost as possible.

However, occasionally the effort required to complete the task, such as typing a form, doesn't reflect the enormous responsibility attached to carrying out the task correctly. In one particular situation, the completion of certificates of insurance was tasked to the staff's most junior clerical member. Since it was deemed to be a task of simply transferring data from one document to another, it was felt that this did not require the involvement of a higher-salaried team member. The junior staff member keyed in the information presented to her, but unfortunately it was incorrect. Subsequently the client put in a claim; it was discovered the certificate holder did not have the coverage they thought they had.

A number of ethical questions arise: is the brokerage manager potentially

putting everyone at risk by attempting to streamline the process? Is the junior staff member responsible to verify every piece of data she is requested to type? Does the client or certificate holder have responsibility to verify they are getting the coverage they requested? Does the insurance company have a part to play in ensuring accuracy?

### Julie Pingree, CIP

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Streamlining operations is critical to succeeding in business, but it can result in additional risk if not implemented with care. Before changing processes, it's important to make sure you can continue to fulfill your obligations and primary business purpose once the change has been made.

In any insurance brokerage, guiding the customer through the insurance process to ensure they are adequately covered is critical; it should be the ultimate test in whether eliminating or changing a

process can be successful. In this particular scenario, the objective of matching skill level required to do the work with the right level of expertise is a good goal; where things fell down is in the execution.

First and foremost, it's important to set clear parameters and guidelines for the junior person. For example, if the certificate request is the result of a new contract having been signed, or if it is written on a non-standard form, it should be referred to a more experienced person for review. Secondly, a person taking on new tasks must be properly trained. Providing some basic knowledge on coverages and policy structures will help to minimize errors in issuing certificates. Lastly, there should be an ongoing quality control process. If there isn't adequate follow up to see that the individual has understood the training and is executing well, the customers and the brokerage are at risk.

Ultimately, the brokerage is responsible for the coverage, due diligence and accuracy of the documents they are producing. By putting good processes in place, the

brokerage is doing its utmost to provide quality service to customers, thereby satisfying their ethical responsibility. Having said that, even with the best processes in place, mistakes can happen and there may be legal responsibility for an error.

### Maurice Audet

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Certificates of insurance share one thing with Rodney Dangerfield. They get no respect.

Most certificates are issued to satisfy contractual requirements such as loan agreements, leases, construction contracts, and so on. And yet they invariably contain a disclaimer such as: "This certificate is for information purposes only and confers no rights on the holder." However, major companies do rely on insurance certificates. Without them, loans are held up, contractors can be

denied access to construction sites, and landlords can deny access to the leased premise.

Too often, the person assigned to issue certificates has no experience in reading a contract; this is a bad thing, since the certificate is issued to comply with a contractual requirement.

Poorly drafted certificates of insurance have consequences. They cause delays, and delays cost money. Assigning the issuance of certificates to the lowest person on the corporate pecking order does not serve the broking community well. As in all other job functions, people must be trained and a more senior person should review at least a sample of certificates before they go out. Blindly issuing certificates of insurance inconveniences the client, gives insurance brokers a bit of a tarnished reputation, and increases our own E&O exposures.

The disclaimer will undoubtedly protect the broker in some circumstances.

But our courts are reluctant to dismiss liability when the broker knew, or should have known, that the certificate holder would be relying on the document.

### The Last Word

While brokerages are doing their best to streamline operations and minimize costs, a risk assessment can help owners understand what processes require the most training and oversight. When a mistake is made, the consequences for the client may result in coverage being denied, and the brokerage may face legal ramifications as a result. If the same mistake continues to be made without the brokerage taking action, the problem becomes an ethical one. CU

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