Who's the Customer?

Perhaps not as obvious as it seems…

The traditional view held within the broker-delivered P&C insurance marketplace is that the insurance consumer or policyholder is the broker's customer, and the broker is the customer of the insurance company. More recently, a modification of that view has taken root: the policyholder is the joint, or shared customer of both the broker and the insurer.

It is not a semantic debate because 'ownership' of the customer and the definition of what it means to be a customer, establish the rights and responsibilities of the relationship between the broker and the insurer. For example, the right to contact the policyholder, other than for the purposes of billing or administration, has traditionally been the sole preserve of the broker. An insurer wishing to develop its portfolio with given customers can only do so with the consent and cooperation of the broker. The broker can, at its discretion, move a customer portfolio to another insurer with the nominal consent of the insured. This model effectively positions the insurer as a supplier (of contracts) only, and the broker as an insurance marketplace that also adds value by providing advice and facilitating sale and delivery of the product.

Does either model truly reflect the tripartite customer/broker/insurer relationship? Let's step back and consider the key exchanges between the parties and who delivers what to whom. As a starting point, consider the following definitions:

- **customer** – one that purchases a commodity or service;
- **transaction** – an agreement between a buyer and a seller to exchange an asset for payment;
- **dual agency** – an agency relationship in which the agent acts concurrently for both of the principals in a transaction.

The first two definitions are interdependent; a customer is the payer in a transaction and the seller who offers up an "asset" (commodity or service) is the payee. With this understanding, it appears that there are only two actual customer relationships in the model: between the consumer and the insurance company, and between the insurance company and the broker. In the first, the broker facilitates the sale of a contract from the insurer (payee) to the consumer (payer). In the second, the insurer (payer) compensates the broker (payee) for facilitating acquisition of the consumer, and also for providing advice and guidance to the consumer (see Figure 1, pg.3).

Interestingly, the defining characteristics necessary for a broker to be the insurer's customer are absent; the broker does not receive an "asset" from the insurer and does not compensate the insurer in any way. Similarly, the broker provides advice and guidance but no "asset" to the consumer and is only indirectly compensated by the insurer for the services provided to the consumer. There is no contract executed between the broker and consumer that stipulates what consideration the broker will receive for the services provided to the consumer. There is, however, a contract between broker and insurer that grants the broker the right to sell the insurer's products and which stipulates what the insurer will pay the broker for the sale of a contract of given type and value, i.e., the delivery of a *customer* (asset) to the insurer. From this transactional perspective, the *insurer* is the customer, not the broker.

If the consumer is not the customer of the broker, and the broker is not the customer of the insurer, then how should the broker's role be characterized? In effect, the broker performs a dual agency role, representing the interests of both of the principals in the primary transaction (the sale of the insurance contract). The broker is compensated by both parties, directly by the insurer and indirectly by the consumer through the payment made to the broker by the insurer. Through this lens, the obvious, and important customer relationships are the *consumer as customer of the insurer*, and the *insurer as customer of the broker*. Ownership of the insurance consumer should rest primarily with the insurer.

The dual nature of the broker's agency relationship should be fully disclosed, i.e., how, and how much they are compensated and what companies they hold contracts with. Disclosure is critical, because the role of advocacy may be seen to be at odds with the opportunity to benefit from a given sale. The broker has a very real opportunity to recommend coverage that is excess to the consumer's needs or to purchase from a company that is less price-competitive than other companies it represents – either of which could potentially result in increased compensation for the broker. Under the current model, there is a presumption of independence that is not fully supported when the underlying transactions of the relationship are examined.

Figure 1

'C' denotes customer, 'S' denotes supplier and 'A' denotes agent. A broker is never a customer, only a supplier or agent.