Is Using a Risk Management Consultant Right For You?

Many organizations use consultants as a source of outside expertise, but anyone can be called a consultant. The title may be used by anyone – even those with limited knowledge and/or questionable ethical standards. Some states have licensing laws, but even in states where consultants are licensed, there is nothing to prevent consulting and insurance sales being generated by the same person.

The Society of Risk Management Consultants (SRMC) is a leading professional organization in the risk management consulting field. Members must meet both experience and ethical standards and must be independent of any organization related to other insurance or other risk management services. Individuals who are employed by agents, brokers or insurers are not eligible for membership, even when consulting and insurance sales are kept separate.

Risk management consultants operate in a variety of ways. Some are independent, working only for client fees. Some firms combine fees with commissions from insurance, in which case they are not true consultants. Some may work only for fees but are associated with insurance entities. To maintain complete independence, the consulting firm should not be owned by, nor have a financial interest in, nor receive fees or other compensation from insurance companies, brokers, agents or other entities whose services they evaluate. With income solely from client fees, the consultant is free from the influence of potential conflicts of interest, which can be from the sale of insurance or other services.

Some consultants only take retainers from permanent clients, others work only on specific projects, but most are a mix of the two. Where organizations are not large enough to employ a full-time risk manager, the consultant may act as the outsourced risk management department.

While there is a legal distinction between agents and brokers, most use the terms interchangeably. The general definition of an agent is one who is appointed by an insurer to solicit applications for a policy of insurance or to negotiate a policy of insurance on the insurance company's behalf. An agent is appointed by the insurer, and receives a written and signed contract from the insurance company. With few exceptions, the agent will only have access to those carriers with which they have a contract.

In the early 2000's, the Independent Insurance Agents and Brokers of America (IIABA) recommended that its members stop using the word "consultant" in advertising programs, letterhead, or telephone directory listings. While consulting services can certainly be obtained through an agent or broker, there is a natural tendency for them to be influenced by the potential sale of insurance and not to consider non-insurance solutions.

An organization's CPA or attorney may provide opinions about adequacy of limits or types of coverage, but unless they have a specific risk management capability, they cannot analyze details of policy wording or policy limitations that could negate coverage and they cannot assess your exposures to determine what protection may be needed.

The consultant can often judge if costs reasonably reflect industry trends, exposures to loss and loss history, and where costs may be better controlled, since they are familiar with a variety of different insurance programs. The consultant can also provide an independent analysis to determine whether insurance costs reasonably reflect an organization's loss experience and when some form of risk retention may reduce costs.

While agents and brokers are used to place coverages, they can also provide a broad range of other services. It is important that these services be clearly defined and of high quality. Since consultants have knowledge of a wide range of agents and brokers, they are in a good position to provide feedback with regard to the level and quality of the services each can provide.

An effective manager uses a risk management audit as a tool for a variety of purposes, as well to assure top management and the board of directors that the risk management program measures up to the organization's needs.

Normally, the project cost is determined based on the consultant's hourly rate. Any given project can be open-ended (i.e., performed on a time and expense basis) with or without a maximum fee cap or the project can be done for a flat fee. A very small number of firms work on a percent of savings. However, most consultants believe this approach to be unprofessional, since it places more emphasis on cost than on other factors which could be equally or more important. Also, it may create a bias to recommend a course of action that may not be in the client's best interest through decreasing or eliminating coverage which may be desirable.

The first step is to define the purpose and scope of work. That is not always easy to do. If the concerns are vague, speaking to a good consultant can sometimes help management think through the problem and focus on specific needs. In many cases, a consultant has addressed similar client issues and can help clarify the client's concerns.

A referral from an industry associate is a great resource for identifying a good consultant. A trusted agent or broker, one who is not intimidated by the inclusion of a consultant, is another good referral resource.

So should you use a risk management consultant? Maybe, maybe not. Consider the costs, but also consider the reason for doing so. It is prudent management to have an independent set of eyes on your program so that you can be assured that the best possible plan is in place for your organization at that point in time.

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For more information contact:

Arlene Petersen, CPCU
T.E. Brennan Company
330 South Executive Drive, Suite 301
Brookfield, WI 53005-4275
Phone: (262) 754-1162
(888) 271 2232
www.tebrennan.com
consult@tebrennan.com