



For Immediate Release

March 19, 2003

Contact: Carol McKay

202-835-3323

media@nclnet.org

National Consumers League Seeks Investigation into 'Risky Practice' in Insurance Industry

Nation's Oldest Consumers' Group Calls for Probe of 'Leveraging'

[Read NCL's letter to authorities in four states](#)

WASHINGTON, DC — The National Consumers League today urged authorities in four states to investigate “a potentially dangerous practice” in the insurance industry known as “leveraging.” The practice, also known as “tying,” involves pressure tactics used by insurance brokers that could be unnecessarily costing insurance companies — and consumers — millions of dollars each year.

“We have been told by credible insurance industry whistleblowers, who prefer to remain anonymous, that insurance companies are often discouraged from retaining brokers who could find them the best reinsurance coverage,” said Linda Golodner, president of the National Consumers League (NCL), the nation’s oldest consumers’ organization. “One of our informants referred to leveraging as the ‘dirty underbelly of the insurance business.’”

Here is how it works, according to the informants: When an insurance company wants to purchase reinsurance, they often retain a broker to perform this service. The broker is supposed to solicit bids from a variety of reinsurance providers and seek out the best coverage at the best price. Some of these reinsurance brokers also broker for primary insurance. They match companies that are not in the insurance business (for example, an automobile manufacturer or shipping company) with insurance providers.

Some reinsurance brokers — who also broker primary insurance — threaten to withhold primary insurance referrals unless the insurance company gives them a sole-source opportunity to broker that company’s reinsurance needs. The insurance companies, fearful of losing lucrative primary insurance referrals, allow themselves to be held hostage by the broker.

“We’re concerned because leveraging may be costing insurance companies — and ultimately consumers — millions of dollars,” Golodner said. “It’s time that authorities looked into this practice and brought it to a halt.”

In a letter sent today, NCL urged attorneys general and insurance commissioners in California, New York, Florida, and Connecticut to investigate “leveraging” and to determine how widespread it is. NCL is also calling on them to investigate how leveraging may hurt consumers and businesses that purchase property and casualty insurance. Finally, NCL is urging them to look into whether leveraging may contribute to a primary insurance company’s overall underperformance, which could translate into lower stock prices or over-priced insurance premiums.

“We are concerned not only that this practice is unethical, but that it impacts the price that property and casualty insurance companies charge consumers and businesses,” Golodner wrote. “Reinsurance is the second highest expense (after personnel costs) for these companies.”

*The **National Consumers League**, founded in 1899, is America's pioneer consumer organization. Its mission is to identify, protect, represent, and advance the economic and social interests of consumers and workers. NCL is a private, nonprofit membership organization. For more information, visit www.nclnet.org.*

###

[Home](#) | [News](#) | [Join NCL](#) | [Archives](#) | [Child Labor](#) | [Fraud](#) | [Email Us](#) |