



For Immediate Release

March 19, 2003

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National Consumers League Letter to Four States Calling for an Insurance Industry Investigation

[Read the NCL Press Release: NCL Seeks Investigation into 'Risky Practice' in Insurance Industry](#)

March 17, 2003

Dear Attorney General:

For more than 100 years, the National Consumers League has represented consumers and workers in the marketplace and workplace. We have members from every state and work with several state Attorneys General and Insurance Commissioners on matters of fraud and deceptive practices. It is with great concern that I write to ask you to investigate a potentially dangerous practice within the insurance industry known as “leveraging.”

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. Frequently insurance companies are pressured into paying millions of dollars extra for reinsurance by brokers who threaten to withhold primary insurance referrals unless the insurance companies purchase reinsurance at an inflated price. One of our informants referred to this as the “dirty underbelly of the business.” We are concerned not only that this practice is unethical, but also that it impacts the price that property and casualty insurance companies charge consumers and businesses. We understand that reinsurance is the second highest expense (after personnel costs) for these companies.

The following is our understanding of how the practice works:

When an insurance company wants to purchase reinsurance, they most 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, we are told, 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.

This environment often inhibits insurance companies from being able to bid their reinsurance business competitively. As a result, insurance companies are compelled to send their reinsurance business to the broker who has sent so much primary business their way even when paying more – sometimes millions more – for reinsurance.

We urge you to investigate this practice and to determine how widespread it has become and how leveraging – or tying as it is also known – may adversely affect consumers and businesses that purchase property and casualty insurance. In addition, we wonder whether leveraging has the potential to contribute to the primary insurance company’s overall underperformance, which could translate into devalued stock or overpriced insurance premiums? In order to survive, could an insurance company be forced to go with a reinsurance company that does not offer adequate coverage?

Thank you for your consideration. If you would like additional information, please have a designated member of your staff give me a call at 202-835-3323, x 118 to discuss this matter further.

Very truly yours,

LINDA F. GOLODNER

President

The [National Consumers League](#), founded in 1899, is America 's pioneer consumer organization. Our 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.

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