LCM INSIGHTS | RISK ADVISORY

The Purchasing Trap

Why "Risk Management" Quietly Became Insurance Shopping

LCM Solutions Inc.



For an industry that markets itself on protection, insurance has a structural problem it rarely discusses openly: almost everyone inside the supply chain does better when premiums go up.

Brokers earn commission on the placement. Insurers grow on premium volume. Reinsurers price risk they never see directly. Claims adjusters and TPAs are compensated, directly or indirectly, by the volume and complexity of claims moving through the system. Restoration companies are paid when there is damage to restore. None of this makes any single participant dishonest. It simply means the economics of the system point in one direction, and it isn't the client's.

This isn't a conspiracy. It's just business behaving the way business behaves. Growth is the objective, and in insurance, growth is priced in premium. The difference is that in most industries, the customer benefits when the provider grows, through better products, lower costs, or improved service. In insurance, growth for the provider and cost reduction for the client are frequently in direct conflict. That tension has been baked into the model for roughly three centuries and it is not something any one broker, underwriter, or adjuster can dismantle unilaterally.

That doesn't mean no one is trying. We've met plenty of people across brokerages, carriers, and adjusting firms who joined this industry to reduce risk and protect the businesses they serve. They are, in our experience, a minority however and they are fighting a structure that has three hundred years of inertia behind it.

That inertia is reinforced at the top. Much of the industry's senior leadership (the people with the standing to actually change how the system works) is now within a few years of retirement. They will say the right things about client outcomes and innovation, and many believe them. But a leader entering the final stretch of a long career has little personal incentive to disrupt a model that has worked well enough to get them there, and every incentive to protect the stability of their position and their exit. The result is an industry that talks about change while the people best positioned to drive it are, understandably, the least motivated to.

THE CAPTIVE RESPONSE AND ITS LIMITS

Some organizations, tired of being industry-led, built their own answer: the captive insurance market. A captive lets a company retain and manage its own risk rather than transfer all of it to a carrier, in theory removing the misalignment entirely.

In practice however, captives often end up managed by the same industry they were built to bypass. Large brokerages run captive management divisions, for a fee. The structure changes; the economics frequently don't.

> *"The honest question isn't 'captive or insurance.' It's: what can we do to stop being 100% dependent on an industry that isn't structurally built to prioritize our outcomes?"*

Captives also require capital, actuarial infrastructure, and regulatory commitment that most mid-market and even many large organizations don't have the appetite or balance sheet to support.

The answer is narrower than a captive, but it's available to almost anyone: take direct control of the risk itself. Reduce the frequency and severity of what you're insuring against, and you reduce your dependence on a system you don't control.

WHEN THE RISK MANAGER BECOMES A PURCHASING AGENT

Here is where the structural problem compounds itself. Inside many organizations, the risk manager's role has narrowed, often without anyone deciding it should, into something closer to a purchasing function. The calendar is built around the renewal cycle. Success is measured in premium held flat or reduced, coverage broadened, and a program placed on time. Very little of the role is left for the harder, slower work of actually reducing the underlying risk.

That matters because purchasing roles, in any industry, come with a well-understood set of pressures; competing vendors courting the buyer, relationships built over years, hospitality and access that shape which options even make it to the table. Insurance is not unique in this. It is unique in how invisible the effect is, because insurance is broadly treated as a necessary evil rather than a strategic decision, and the renewal is treated as a transaction rather than a governance question.

The consequence lands in the boardroom. If the C-suite is only ever shown a slate of insurance placement options (this carrier at this premium, that carrier at that retention) there is no basis for a different conversation, and therefore no incentive for change. The purchasing frame has already limited what "risk management" means before the discussion even starts.



MAKING THE COMPARISON POSSIBLE

The reason this framing has persisted for three hundred years is not stubbornness. Until recently, there was simply no credible way to put risk mitigation and insurance premium on the same footing. Insurance produces a clean number: the premium. Risk mitigation has historically produced a much softer case: fewer incidents, presumably, someday, maybe.

That gap is closing. We're proud to be working with partners who can now quantify risk reduction in

financial terms. We can now translate what a mitigation investment actually does to expected loss, EBITDA at risk, and cost of capital, in language a CFO already speaks. That's the shift that matters. It means the choice in front of the C-suite is no longer insurance or prevention. It's a single, quantified comparison: what does it cost to transfer this risk, versus what does it cost to reduce it, and what's the return either way.

That is the gap LCM was built to close. We don't sell insurance, which means our only incentive is making that comparison as accurate and useful as possible for the organizations we work with. We call the approach Predict | Prevent | Protect®. Identify where the exposure actually sits, deploy validated mitigation partners against it, and only then decide how much risk transfer you actually need to buy.

Insurance isn't going away, and it shouldn't. But it should be one line in a decision, not the whole decision. Organizations that can't build a captive still have a choice available to them: stop being purchasing agents for an industry that benefits from their premium, and start being risk managers again.

If it's been a while since anyone gave your program an unbiased look — one not shaped by a placement to protect or a renewal to hit — talk to LCM.

We'll review your current coverage and preventative options side by side, with no broker or insurer relationship on our side of the table to influence the answer.

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