



FEE-BASED COMPENSATION: THE PROFESSIONAL WAY OF COMPENSATING YOUR BUSINESS INSURANCE BROKER

Brokers have different philosophies regarding the way they prefer to be compensated. The most prevalent and beneficial to them is through standard commission (commission based on the cost of the insurance). While standard commission may be most beneficial to the broker, in the vast majority of cases it is not the most beneficial to the organization they are insuring. However, unbeknownst to many organizations, they are in control on how the broker is compensated.

On average, an insurance broker selling corporate property and liability insurance receives 15% to 20% of the total premium. The commission on workers' compensation typically ranges from 6% to 12% of the premium. This is on an annual basis and therefore is a significant amount of money.

It is estimated that of the total commission, 30% is used for the placement of your account with the insurance company. What are the other services your broker is providing to warrant the additional 70% of commission? Some questions to consider regarding the remaining 70% include:

- Are they providing insurance and risk management reports?
- Are they assisting with the monitoring and implementation of safety and property loss control programs?
- Are they tracking and monitoring the claims and claim reserves?
- Are they reviewing construction contracts, real estate leases and loan documents?

These are just some of the services that a broker could be providing. Even when some of these services are being performed, the compensation may still be excessive. You should ask your broker how much time is being spent servicing your account. Keep in mind, the amount of time servicing your account does not increase proportionately

with the amount of premium. The broker should be able to quantify the amount of commission you are paying them. If the broker is unwilling to be open regarding its compensation, you should be skeptical of doing business with them. It makes more sense and is more professional to negotiate the compensation based on the service requirements of your organization and the extent and quality of services rendered by the broker.

BENEFITS OF FEE-BASED COMPENSATION AND/OR "NEGOTIATED COMMISSION"

- **Reduces total insurance costs** of the organization.
- **Allows flexibility in the payment for needed services**, excluding services that are not needed.
- **Reduces brokers financial incentive** to sell more insurance than is actually needed.
- **More professional** since the compensation is based on services rendered, rather than on the cost of the insurance.
- **Prevents brokers from profiting** from poor loss experience.
- **Reduces the self interest of brokers** who may favor those companies which pay the higher rates of commissions, to the detriment of the insured.
- **Reduces the excessive commission** paid to a broker where little services are needed.
- **Provides appropriate but not excessive compensation** to the broker for the services requested by the insured.

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