



POST: The Only Fair Way to Pay Your Broker?

21 APRIL 2016

As a buyer of risk financing and risk control services, you should know this: Fee-based broker compensation is the only **fair way** for you to remunerate your broker. Notice I said fair. That means fair to both parties of the transaction. If you do it any other way, one of the two parties (you or they) will not be treated fairly as regards income or expense.

To understand this, you must first learn how brokers are usually compensated. Most of the time they receive a commission on your premiums from the insurance carrier. This commission is usually between 7% and 15%, depending upon the type of coverage they provide you. YOU are paying this inside the premium.

So, when your premiums go up, they receive more income. Or, when they go down, they make less. Sound fair to you?

'Let me get this straight,' you might ask. 'Are you saying that if my broker does a great job helping us improve our risk control and claims, it is highly probable the insurance carrier will pay them less next year? So then the more they help us, the less they will make?'

Yup. It doesn't make sense, does it? It doesn't seem that your broker is being fairly compensated for doing excellent work.

Of course, there is always the flip side. When your insurance premiums go up because of poor (or no) brokerage risk control performance, or when the insurance market's costs (premiums) increase, your broker makes more based upon increased commissions!

So, not only do you pay more, but they make more. Does that sound fair?

Because of this, many buyers are moving their brokerage/agency compensation to a fee-based arrangement. In doing so, they ask the broker to 'NET OUT' the commission and then negotiate



Real People. Real Resources. Real Results.

Bowermaster.com

a fee based on the insurance services and risk control services they are providing. That way, they unhook the broker compensation from the cost of the product.

Now you would think that is the right answer, wouldn't you?

It would be the right answer, except for a couple of things that usually happen behind the scenes:

- Most brokers establish a starting point for the fee based on the projected commissions. That is their compass metric.
- Then they figure out what the minimum amount of profit they need on the account for their services.
- Then they figure out how much you are willing to pay.
- Then you and they begin to negotiate around their fee, ***rather than around your results.***

Here is something else that you should know. Many brokers have no way to actually value their services by showing you their impact on your key business metrics. They can show you premiums, loss ratios, retained losses, and other attendant costs. But, what about contributions to EBITDA, Productivity, Shareholder Value, and CAPEX, or your Compass Metrics?

Isn't that what you really want to know? Isn't that what you are willing to pay for? What if your broker showed you what the ROI was in relationship to their income. Would it bother you to spend a bit more in fee if you could pinpoint the return inside your financial statement?

Of course, it wouldn't. Isn't that the way you make every other business decision? Fairly and from an economic point of view.

Here are some additional things that you should know and expect:

- **The fee should have little correlation between what the commission would have been from an insurance company.** THAT IS NOT ABOUT YOU. It is possible for a broker to obtain a huge commission for providing you with little or no results. Or work very hard and expend their resources beyond their commission income.
- **Don't confuse service with results.** While a broker will need a minimum income to 'service' your account, the term service has many meanings. If by service they mean obtain policies, check the accuracy of coverage, answer questions and record claims, that is one thing. If they mean to provide you with risk control and claims management, then that is another. Frankly, while still important, the former example of 'service' is a lot less valuable to you than the latter.



Real People. Real Resources. Real Results.

Bowermaster.com

- **NEVER request that a broker competes against another broker based upon fee charges.** Your choice should not be around the cost of their fees but on the return on investment and business results and impact.
- **If your broker can't provide you with the decision support that goes beyond simple insurance and claims jargon, you must either pay them a lot less or fire them.** Your business has moved into the world of quantifiable analytics, results and compass metrics. If they can't address that, then it doesn't matter how you pay them... they are obsolete.

Analytics and cloud computing now provide the top brokers with the ability actually to quantify and value their services and outcomes to you. Knowing that it places you in the best position to compensate them for your improved results with a fee-based relationship, not the commission an insurance carrier provides. So, as an astute buyer with a business that is growing more aware of your own analytics, you should expect the same from your insurance broker and pay them accordingly.

It's the only fair way to do it.

By the way, when a firm compensates a broker on a fee basis, they usually call it a 'Fee for Service Agreement.' It might be better to refer to it as a 'Fee for Results Agreement.'

[Contact us](#) today and start maximizing your potential tomorrow!



Real People. Real Resources. Real Results.

Bowermaster.com