Broker Tender Guide

Guide 2015

Contents

The objective of this guide is provide advice to members on how to run a broker tender and how to negotiate broker contracts. The guidance suggests a timeline and approach for running an objective tender and provides details of areas for discussion when contracting with a broker. Insurance buyers can use this guide to understand current best practice in this area, which will allow for a structured approach to competitive tendering for insurance services. The guide will cover selecting a broker, and will not consider placement, market exercises or the implications of the Insurance Act 2016 on broker relationships.

Section 1: Broker Tender

Introduction

Choosing an insurance broker is an important decision in the purchase of insurance. This guide is designed to offer advice on the process of running a tender for services and negotiating a contract with a broker. The advice contained in the guide is relevant to all organisations, but with a particular focus on large accounts where typically more complex cover is in place. For the smaller organisation, the activities and timeline will remain the same, although less detail may be required to complete a review of current and required solutions.

The role of the insurance broker is varied but includes the proper disclosure of material information to insurers, the negotiation of policy price, coverage levels and wordings, the provision of advice and assistance throughout the duration of the relationship and giving assistance to the buyer in the event of a claim. As the buyer's gateway to the insurance market, choosing a broker with the right skills, knowledge and market relationships is vital to the success of the insurance purchase strategy.

The broker will become the trusted partner of the insurance buyer. The broker should be able to offer advice on the existing programme and challenge the buyer around new coverage, value added solutions, programme design or innovation. The broker will require full understanding of the buyer's organisation, its current performance and ongoing strategic plans to ensure cover is held in place and relevant disclosures are made. Because of this, the relationship between the buyer and the broker is key.

Deciding to Tender

Tenders for the services of a broker can be a time-consuming process for all involved, so the decision to run a tender is never one taken lightly. Insurance service tenders are equally time-consuming and costly for the participants, and so entering a tender without the authority or willingness to move the account is discouraged. All participants enter the process with the understanding that a genuine opportunity is present.

Benchmarking a broker is good practice to ensure effectiveness and efficiency, but will not always involved a full tender process. In cases where the purpose is to examine the performance of a current broker, the buyer may consider a desk-top exercise with another broker or the use of an independent consultant. If there the purpose is a full review of services, including programme design, innovation and pricing, and there is the possibility of moving the account, then a tender could be used.

There are many reasons for making the decision to tender, including:

- **Change in circumstances**

  If the business takes a considerable change in direction, merges or acquires other businesses, changes its portfolio or business model, or moves into new global markets, this could prompt a broker tender to ensure that the correct specialists are engaged on the account.

- **Innovation**

  A broker tender can lead to more considerable changes to programme design or servicing style than might be seen at a typical renewal. If the insurance purchase strategy changes, a broker tender can offer a wider range of responses about how best to manage the current insurances.

- **Performance Issues**

  If a broker continually underperforms and the buyer has given ample opportunity to remedy this, the client may choose to tender to ensure they are receiving the required level of service.

- **Audit and Governance**

  As risk increases in importance to boards, so does the level of transparency required in all related transactions. For this reason, it is important to be able to demonstrate that a sound broker choice has been made, delivering on as many of the defined criteria as possible. This is also important to shareholders and external stakeholders to provide evidence of efficient process and spending controls.

Internal Tender Panel

The first requirement is to put together a tender panel, made up of the key stakeholders in the decision. This should involve those with a day-to-day relationship with insurance management and the senior stakeholders with ultimate responsibility for insurance. These senior stakeholders may not be involved in all stages of the tender, but should, at minimum, be involved in the final decision-making. It is important that any decision taken is taken as a group, and advice on achieving this will follow. If the insurance functions, e.g. purchase, management and claims, are split between various teams and/or people, all of these should be represented on the tender panel.

Increasingly, many organisations are involving specialist procurement professionals from within their organisation. Procurement professionals are well positioned to provide advice and to manage the most appropriate procurement process to meet the needs of the organisation. Procurement can give an objective view and constructively challenge the current arrangements, especially where these arrangements are based on long-standing relationships. Procurement professionals will have been involved in tender processes but perhaps not insurance services tenders. For this reason, it is important that the client ensures that any procurement professional, or any panel member without insurance experience, understands how broker relationships work, what is important in the insurance purchase process and that the buyer ultimately retains responsibility for the process.

Consideration should be given to the inclusion of external consultants in the process. There are a number of companies with specific knowledge of and skills in running insurance tenders. These companies will work with buyers throughout the tender process and provide their expertise in running a successful tender, as well lending their knowledge of the insurance broker market to the process.

Structuring the Tender

The structure and scale of the tender will depend on the objectives.

The tender should have a clear timeline, which brokers can accept as part of their invitation to tender. This should include the key milestones in the process:

- Deadline for acceptance of Invitation to Participate
- Pre-qualification questionnaire sent to brokers (if applicable)
- Pre-qualification deadline (if applicable)
- Invitation to continue to RFP, with full documentation pack released
- Deadline for submission of any questions
- Deadline for submission of written tender
- Invitation to continue to presentation
- Date for presentations
- Chosen broker informed.

As well as providing all applicable deadlines, the structure of the tender should include decision-making points. Brokers will want to understand when critical decisions will be made, including at what stage participants could be eliminated from the tender.

The timing of the tender is critical. Any changes to the broker should be made with consideration to policy renewal dates and tacit renewals. The tender panel must ensure that a new broker would have time to fully understand the account, stress test the cover and consider the structure prior to renewal. The Airmic Insurance Efficacy Guide and the Airmic Countdown advocate that renewal processes should begin six months in advance of renewal date, so this is the minimum time that should be available to the broker following appointment.

If a pre-qualification stage is in place, this will take around three weeks between invitation, completing and review. The tender itself will also be time-consuming. In general, brokers will require four weeks to complete a comprehensive response to a request for proposal. All tenders must be read and reviewed before moving on to the presentation stage. The full tender process could take as long as 12 weeks, meaning that the tender process would begin nine months before the renewal date of the insurances.

The timeline below illustrates how running a tender may look and what deadlines will need to be in place. The timelines are equally challenging for the client and the broker. Both parties must be clear on their responsibilities and the commitment prior to the process beginning. By making this information available to all parties at the outset, the quick turnaround from starting the tender process to written response, presentation and appointment can be achieved.

This timeline represents the minimum possible timescale for a tender. In the case of complex programme, more time may be required at each stage. The final part of the process, appointing a broker and negotiating contracts, can be particularly time-consuming, particularly if there is a change in broker and a handover will be required.

	Week 12	Week 14	Week 16	Week 17	Week 19	Week 21	Week 23	Week 24	Week 25	Week 26	Renewal Date / Week 52
Step 1	Decision to initiate tender										
Step 2	Participants invited to take part										
Step 3		Deadline for acceptance of tender invite									
Step 4		Pre Qualification Questionnaire sent to brokers									
Step 5			Submission of Pre Qualification Questionnaire								
Step 6				Invitation to complete Reponse to Tender, with full documentation pack							
Step 7					Deadline for submission of questions						
Step 8					Responses to questions issued						
Step 9						Deadline for submission of RFP					
Step 10							Invitation to continue in process				
Step 11								Presentations held			
Step 12								Chosen broker informed			
Step 13									Broker appointed		
Step 14										Begin insurance renewal	
Step 15											Insurance renewal

Selecting Participants

SELECTING A BROKER PANEL

James Purvis *Managing Director, JPIC Group Ltd.*

In the past, selecting a panel of brokers to participate in a tender was a relatively straightforward process. Nowadays, consolidation in the broker market means that there are fewer options and brokers are becoming choosier as to how and when they participate in a tender, in an effort to ensure their finite resources are utilised in the most effective way.

The days when a company could merely send an invitation to tender letter and a copy of its Report & Accounts to a number of brokers and receive comprehensive responses are long gone.

To ensure optimum engagement with the broking community and the achievement of your tender objectives, take time to get to know the brokers, their people and their propositions well in advance of a tender. Seek to build relationships with the broking community through which you can communicate your risk financing and risk management objectives, and define what a successful relationship would look like to your company.

Be open-minded about appointing more than one broker. Along with broker consolidation, there has been an increasing move towards industry and risk financing specialisation. It is not always the case that one broker can provide the optimum solution for all of a client's requirements.

Although the market for insurance brokers is reducing in size, largely due to mergers and acquisitions, there remains a wealth of options for insurance buyers when it comes to insurance services.

Brokers who are asked to tender are usually chosen on the following criteria:

- Professional expertise
- Knowledge of the appropriate business sector
- Negotiating strength in the insurance markets
- Existing relationships and previous experience.

When considering the participants, the panel will need to consider the organisation's own criteria for an insurance broker. These considerations may include:

Company culture	What are the broker's mission, vision and values? Do these fit with the buyer's?
Reach	Do they match with the required global footprint?
Global servicing	Many brokers have their own global network, while others will be members of service networks. There are positives and negatives to both approaches, so consider if this is important.
Service requirements	Does the broker have the resources to service the account?
Broker size	Consider where the account would sit within a broker. A mid-size account for one may be large for another, which could impact service levels.
Specialist lines	Not all brokers have equal capability to place specialist lines. In some cases, these may be separated and placed outside of the main programme, but if not, there must be confidence in the broker's ability to place cover.

Many brokers make use of business development professionals, and the insurance manager may have contacts at many brokers already. Using these contacts will give the best entry point for each broker. Having a contact in place means that the broker has already identified the organisation as a prospect of interest and so is likely to accept the invitation to tender. It is worth remembering that the business development contact will mainly look after prospects and may not be involved in ongoing account servicing. The buyer should meet with the client servicing team as early in the process as possible, as the relationship between the two is very important to the tender and ongoing service.

All brokers selected should have an opportunity to win the business. Participation in a tender is costly in terms of time and resources, and brokers will decline to participate if they feel there is not a genuine chance that they can be appointed. Companies that run tenders regularly as an exercise solely in providing new programme ideas to their current broker or using tender prices to drive down servicing fees with an incumbent broker may find that the amount of interest in their business wanes over time.

It is worth noting that there has been a recent move by many brokers to undertake pre-qualification assessment of tender opportunities, resulting in some invitations to tender being declined. This underlines the importance of developing relationships with brokers prior to the start of a tender and ensuring that the tender objectives are transparent and clearly communicated to whet the appetite of the broker community.

As part of the tender structure, the client should have a clear idea of how many participants will take part in each stage of the tender, with the number decreasing as the tender progresses. If a large number are invited, it may be wise to have a pre-qualification stage. The number of participants will be determined by the time and resources available internally, but as an indication, there could be as many as five participants in a written tender stage but not more than three in the final presentation stage.

Selection Criteria

Before starting a tender, the selection criteria should be agreed by all internal stakeholders. This not only includes those with day-to-day accountability for insurance but also those with accountability for risk, including the board and Non-Executive Directors. It is of vital importance that stakeholders are involved in the decision to appoint a broker, so individual scoring should be completed to improve objectivity and the scores accumulated to give a final outcome.

Criteria will change depending on the nature of the business, the tender's objectives, the company's priorities and the insurance purchase strategy, but areas to consider include:

	Areas to consider
Access to expertise	• Broker skills and experience • Quality of the service team • Access to a wider array of expertise • Claims and crisis response
Ability to supply	• Ability to service all areas of the business • Placement of niche or specialist covers • Service available in geographical locations as required
New ideas and innovation	• Efficacy of current policies • Brokers' ability to challenge status quo • Innovation and effective programme design
Remuneration	• Broker remuneration • Disclosures of commission • Required level of transparency over all income
Approach to service	• Appropriate service structure, including day-to-day management and overall stewardship of the account • Ability to meet any reporting requirements
Cultural fit	• Team fit between broker and client team • Working culture
Coverage pricing	• Broker placing skills • Achieving maximum value for money in programme design, including breadth of cover and limits/deductibles • Access to unique broker coverage options or facilities

When creating the assessment criteria, these should be specific about what is required in each area, so that appropriate scores can be given. The scores can then be weighed towards higher priority elements, if necessary.

If appropriate for the organisation, the buyer may consider using multiple brokers. For particular specialist lines, they may find one broker more appropriate for niche cover and another for wider placements. In this case, a very clear structure must be in place to ensure there are no gaps or overlaps in coverage. If multiple brokers would be considered or are preferred, this must be clear in the tender to ensure that participants fully understand what they are competing for.

Non-Disclosure Agreements

Depending on the nature of the business, a non-disclosure agreement (NDA) may be required to be completed by tender participants. Over the course of the tender, a series of information will be provided to participants, including information on the current programme structures and limits. In many cases, it is wise to seek an NDA from all involved as early as possible, and this would be done prior to the receipt of the tender documents.

Pre-Qualification

Pre-qualification can be used to collect standard information from all companies. It allows for basic corporate information to be gathered, ensuring that a participant meets all requirements before moving onto the more detailed stages, which are more time-consuming for both broker and client. It will also help confirm that all participants meet the selection criteria.

Pre-qualification is not a required stage of a tender, and in many cases where the invited panel is small or based on existing relationships, this stage may not be required. The requested information required could instead be requested at the full tender stage. Doing this would speed up the tender process, as it removes a stage in the process.

As this may be the first formal introduction to the company, it could be useful to include some basic company information about the buying organisation. It also allows the broker to begin understanding the business and where it would fit within their servicing structure.

A pre-qualification survey will gather information about the broker and could include:

Financials and ongoing viability	Annual accounts will provide details of the size, structure and ongoing financial viability of the company.
Sub-contractors	Would any part of the contract be fulfilled by a sub-contractor? If so, how would they be selected and managed?
Insurance	Evidence of relevant insurances, e.g. Professional Indemnity, Public and Employee Liabilities.
Data handling	Information on the handling of confidential information, including access, storage and deletion, including evidence of certification to applicable standards, where relevant
Global spread	Is the broker capable of servicing the global footprint of the company using an appropriate method?

Many organisations will have minimum standards for contracting companies, which may apply to an insurance broker. Collecting this information at this stage will ensure that any participants will be able to contract, should they be successful. A procurement professional, or legal professional, should be able to give a full list of requirements for the company, but these may include:

- Quality assurance
    - Details of quality assurance process, including evidence of certification to standards if applicable
    - Details of any industry specific certification e.g. CII Chartered status
- Good working practices
    - Evidence of good working practice policies, including Health and Safety, Equal Opportunities, Environmental and Sustainability policies
    - Evidence of certification to applicable standards if required
- Business history
    - Are there any court actions, liquidations or tribunals in company history that may impact on the buyer’s reputation

Request for Proposal

Following either pre-qualification or the selection of the participants, a full invitation to tender (ITT) or request for proposal (RFP) will be issued. This document will form the basis of the tender for all participants, setting out all guidelines for participants, relevant company information and requested proposal from the brokers.

All key dates, deadlines and submission rules should be made clear in this document.

Request for Proposal – Information Provided

The invitation to tender will include comprehensive company information and any specific questions or tasks the participants are required to complete.

Brokers will probably have some questions following receipt of the information. In the interest of impartiality, there should be a clear communication process for the submission of and response to these questions. Typically, there will be a deadline provided for submission of questions and these will be answered in writing by a set date. It is the buyer's choice whether all answers are provided to all brokers or whether the answers to specific questions are only provided to the participant who asked the question. It is more common to provide all answers to all participants.

The information provided should relate directly to the stated objectives and could include:

Contacts	Contact details for submissions, questions, issues arising.
Timeline	Reiteration of all key response dates and milestones.
Response format	Clear instructions on any particular style required, e.g. hard copies, headings or sections, limit to size of response / number of pages.
General conditions	Any legal statements around non-disclosure and compliance, as well as any terms that the new provider would be expected to accept, such as payment terms.
Selection criteria	It is useful for both parties to give an indication of selection criteria, although this does not mean that the full scoring criteria should be revealed. This gives the broker a better understanding of key priorities so that the proposal can be made more relevant to the client. The selection panel may choose to give only basic information at this stage, and expect further broker questions in response to the invitation to tender.
Agreement information	Basic details of the contract proposal, including length of contract, any key review procedures, contract entity and required services.
Programme information	The information provided should include details of the current insurance programme, including limits, layers and deductibles, as well as the information that would be included in an underwriting submission. This gives the participant broker a full view of the programme and allows them to consider where they could make an improvement in programme design or any premium savings.
Claims history	To ensure participants have a full view of the programme, potential costing or cover issues and frequency of claims, some information should be provided to show any recent loss history across all lines subject to the tender.

Request for Proposal – Response Required

The format of the expected response should be made clear in the ITT or RFP document. This includes whether hard or soft copies are required, the maximum number of pages and any other specified layout. To facilitate the scoring of tenders, the tender panel may wish to consider prescribing the headings the tender should follow so that information is easy to find and compare when it comes to rating.

The information required from participant brokers will depend on a number of things, including the objectives of the tender and the selection criteria. Specific questions or requirements can be included, for example global servicing propositions, response to new business, M&A activities, or specific coverage or pricing challenges.

More general requirements will include:

Service proposal	How the account will be serviced on all levels from day-to-day queries to stewardship of the account, including details of the personnel involved.
Programme design and innovation	Anticipated structure of the insurance placement, including any changes and the logic for these. Details of how the programme structure would be tested and ongoing plans to innovate to ensure that the programme remains sound, relevant and best in market. How efficacy of policies will be achieved, for example, by wording review, stress testing and review of policy terms.
Pricing	During a tender, some companies will allow participants to enter the insurance market to gather non-binding quotations on the business. This gives an increased understanding of how the brokers would be able to build the programme and at what price this could be done. It can, however, lead to risks being widely marketed. Consideration should be given to how valuable this information is. If insurance purchase is heavily price-driven, understanding the savings available can be key information, otherwise the client may choose to avoid this process completely by giving instructions that information cannot be taken to the market.
Remuneration	Any annual fees, commissions and details of how these would be disclosed on an on-going basis, and penalties for non-performance.
KPIs	An indication on how KPIs would operate and what these may look like, for further discussion on selection.
Claims management	Details of how and by whom claims would be managed.
Market relationships	Description of market relationships and how these would benefit clients, as well as any relevant unique market propositions.
Additional services	Any services that would be provided outside of the insurance purchase.
Transition plan	For non-incumbent brokers, a plan of how they would ensure that the account would be transition efficiency and effectively should be supplied to ensure the buyer understands the process. This also gives insight into the broker's ways of working. This would also apply to incumbent brokers in the case of new servicing teams.

Broker References

Collecting references can give the opportunity to talk with an existing client about their views of the broker. This allows a greater understanding of a typical day-to-day relationship with the broker than the headlines and pitching of a tender will allow. References could be collected as part of a pre-qualification questionnaire or as part of the tender document.

A good candidate for a reference should be a client whose risk profile has something in common with that of the buyer. This could include industry sector, size or scale of business or geographical spread. The broker should contact their clients to ask permission before naming them as a referee, but it may be worth requesting more referees than needed to ensure that sufficient references are received within the timescales.

References can be collected either by call, email or face-to-face meeting. It is worthwhile preparing planned questions in advance, regardless of the method used, to ensure that comparable feedback is gathered. The reference should provide insight into how the relationship works, what the particular strengths of the broker are, and any issues that occurred and how these were resolved. This should give a more balanced view of working practices.

Written Response

In general, the first response to an ITT or RFP will be a written report. When outlining the requirements, consideration should be given to the key elements of the purchase to guide participants to these areas, while allowing enough scope for them to bring forward ideas.

Remember that all written responses will need to be scored by the tender panel, so the more direction that is given, the easier the process will be. This includes providing a report structure for ease of comparison and limiting the page length of the tender. This will also encourage more tailoring of the report to the needs of organisation and less generic sales material.

Depending on the number of participants and quality of responses gathered, the consideration of written responses may lead to some brokers being removed from the process. Any participant with a response that does not meet the minimum requirements, whether on service levels, global supply or projected costing, should be informed that they will not be taken forward to the final presentation stage. Similarly, if a longer list of brokers remains in the process than can be taken forward to the presentation stage, some participants should also be eliminated at this stage. The scoring criteria put in place prior to the tender will provide a method of rating the responses.

Presentations

In most cases, the final stage of a tender will be a presentation. Following the written responses, using the defined criteria, the list of participants may be objectively reduced to a final short-list. If the incumbent broker is part of the process, it may be worthwhile to have them present first, as they will provide the benchmark for current services.

It is essential that the team responsible for servicing the account is part of the presentation. This allows the internal and broker teams to start, or continue, developing a relationship. These relationships will be critical to the success of the partnership and so should be encouraged from as early as possible.

The presentation could take a number of forms. It could directly correlate to the written response or it could select elements of the tender to focus on. It is important that comparable scoring can be achieved. Outlining distinct presentation criteria for each participant could prove challenging, but is not impossible. Another option is to use some common themes to expand upon from the tender to get around this problem.

As mentioned, this is also the time to more closely examine the service team, so this would be the time to ask service-related questions, such as how issues would be resolved, as well as technical questions, for example about the programme design.

At the end of each presentation, allow for a question and answer session to cover any points that have arisen from the tender or from the presentation itself. This can also provide the broker with a chance to ask any further questions they might have about the buying company, the team or the account in general.

Decision Making

OBJECTIVE BROKER EVALUATION

Alastair Torbet *MA. ACII, Commercial Director* and **Colin Paterson** *ACII, Managing Director*
Insight Insurance Consultancy

Risk Managers increasingly have the task of not just satisfying their immediate company boards in terms of good governance. Increasingly they have to satisfy the wider corporate stakeholder community that the highest standards of Corporate Governance are being met – stakeholders will include Non Exec Directors, Investment Community, including shareholders and lenders who can include banks and PE Houses.

This means that a rigorous process of evaluation, maintaining objectivity and transparency that stands up to Board and stakeholder scrutiny is key. Pitfalls to avoid are:

1. Being drawn to the team you know the best but who may not deliver fully to the business

2. Swayed by a strong sales proposition without fully understanding the delivery behind the promises made

3. Difficulties in comparing one proposition from the other i.e. "apples with apples".

To maintain objectivity, businesses and Risk Managers are increasingly turning to external advisers to back up the process and ensure the best decision is reached on behalf of the business. In delivering transparency, there are 7 key areas for consideration, as per the below table.

Area For Consideration	Examples Can Include
1. Business Understanding	• Process / time committed to building a detailed understanding of the business and it's requirements.
2. Innovation	• New ideas and a fresh approach to the programme
3. Market Approach	• Size, capability and reputation of the broking team: UK / Overseas
4. Risk Management Application	• Scale and relevance of resources and ability to deliver i.e. adequately resourced

5.	Service Delivery	• Qualifications, knowledge and experience of the team along with willingness to measure performance – agreed KPI's
6.	Likeability	• Fit with business and functionality and responsiveness as a team
7.	Transparency	• Basis of calculation behind the fee and transparency of commissions

When considering an external consultant it is worth checking they have a proven review methodology designed to meet the requirements of your business, sufficiently robust to stand up to Board and stakeholder scrutiny. Of course there will be other factors applying but adopting a carefully crafted process should help the Risk Manager to demonstrate the robustness of the process.

When making a decision, both the technical elements and more subjective elements need to be considered. As mentioned, the tender objectives and critical criteria will be in place throughout the tender, and so scoring should be completed by all members of the tender panel. It is important that the views of those with day-to-day responsibilities are considered as well as those of senior management.

Ability to service the account as required will be a crucial element in broker selection, but the cultural and team fit are also important. Broker client relationships are typically very close and, in many cases, the broker will become an extension to the internal team. The selection panel must be confident not only in the technical abilities of the chosen team, but also in the relationships that are being formed.

The process of decision-making should be documented so that the decision can be ratified by the stakeholders and an audit trail is available. Particularly if a decision to change broker is made, it is always useful to have full details on how the decision has been reached.

Next Steps

Following the selection of the broker, the winning broker should be informed and negotiations will be required around contract engagement, Terms of Business Agreements (TOBAs) and Service Levels. These negotiations are covered in the next section of this . Information provided in the tender is unlikely to be binding, unless stated as such, so items such as fees and penalties, limits of liability and service structure can also be negotiated if required.

Unsuccessful participants should also be informed at this stage, particularly if they include the incumbent. Unsuccessful participants are likely to request feedback on the decision. Generally, this would be collected by someone external to the team who participated in the tender, and this is very helpful to the brokers in understanding what was found to be attractive about their proposal and what was less so. If possible, the tender panel should provide this as it can prove very useful for the participant brokers, as well as helping shape ongoing relationships with them.

Broker Remuneration

In an RFP, a broker will have set out estimated costs for their services. In most cases, these will be a guide, to be discussed if and when the appointment is made. For this reason, clients should expect to have some conversation around remuneration when beginning to negotiate the appointment. Equally, if the incumbent is reappointed, proposals from within the tender responses could lead to the conclusion that discussion of remuneration is required.

The costs set out in an RFP will likely be estimated based on the information provided during the tender. How accurate these figures are will depend on the level of detail that was given. If only some coverages were included or if additional services will be included, the figure in the RFP may increase.

At this stage, confirmation from the broker may also be given on what their total income will be and how this will be made up. The following are common methods of earning for insurance brokers:

Type of income	Paid by	Reason for payment
Service fee	Client	An agreed flat fee for defined services provided by the broker. This may be adjusted by a success fee or a penalty for poor service.
Additional service / project fees	Client	If there is potential for broker services in projects outside the core, agreed duties, to be required a rate, as well as a point at which additional fees would become due, can be agreed as part of these negotiations.
Brokerage	Client / Insurer	On some policies, the broker may be entitled to brokerage, usually as a percentage of the premium. The client will pay this as part of the premium, with the insurer passing this back to the broker. The buyer must decide if this fee can be retained by the broker or if this should be considered as part of the service fee.
Commissions, insurance service brokerages, profit shares, volume commissions, additional fees of services	Insurer	These are monies paid to the broker by the insurance company with which business is placed. In some cases, these are for work completed by the broker on behalf of the insurer (e.g. policy issuance) and in others for bringing high volumes of business. The broker must disclose these if asked.

The broker should disclose all fees paid to them, regardless of by whom, and the existence of related revenue agreements, on request. This will allow the client to consider the total amount paid for their business. With a new broker, there may be difficulty in establishing exact amounts, given that no insurance has been placed, so an option may be to consider a cap on the total income, where the total payable is agreed upon, with the client responsible for payments up to that level, if anticipated brokerage and other income are not reached.

Although the tax situation can be complex, it is also worth noting that insurance premiums attract non-reclaimable Insurance Premium Tax (IPT). Intermediary fees do not attract IPT, although the fees for some types of intermediary services may attract Value Added Tax (VAT). If the insured pays a gross premium that includes commission, the insurance buyer will be paying IPT on the whole premium, including the commission paid to the intermediary. This may result in payment of non-unrecoverable IPT in circumstances where either no tax or potentially recoverable VAT could have been paid.

When considering success fees, bonus payments, fees at risk or non-performance penalties, please see the service level agreement section of this guide.

When considering income from insurers and commissions, please see the broker conflicts of interest section of this guide.

Broker Conflicts of Interest

Conflicts of interest can arise, in particular, when an insurance intermediary gains more income if the insurances are placed with a particular insurance company. This additional income can arise because of the commission payments, work transfer arrangements and/or other less easily quantifiable incentives.

The scope of services provided by insurance intermediaries can be extensive. These can range from the collection of the underwriting information to the provision of engineering advice, in addition to the more obvious areas of advice on selection of insurance companies, evaluation of insurance coverage and advice on the limits of indemnity that should be purchased.

Given that this range of services can be very wide, it is important for the buyers of commercial insurance to understand the status of the insurance intermediary. The buyer of commercial insurance will take a different view of the advice given by insurance intermediaries, depending on whether the intermediary has the legal status of or is acting as an agent of a particular insurance company.

In support of the provision of the information set out above and to deliver a more competitive and efficient market, the FSA has suggested that at least the following information should be supplied by insurance intermediaries to their commercial customers:

1. The commission that intermediary receives
2. The services the intermediary is providing
3. The capacity in which an intermediary is acting.

Additionally, the FCA has suggested that buyers of commercial insurance should be specifically alerted to their right to request commission information and should also be advised if there is a chain of intermediaries directly involved in the placement of the insurances.

It is vital to understand these conflicts, as they could affect the placement of insurances. The client must understand when the broker is working solely for them and when they are working for the insurer. Being aware of these conflicts can lead to many outcomes. A buyer may accept that the product or placement in question remains in their interest or might wish to consider a wider marketing of the cover to ensure that the pricing is competitive.

It is the view of Airmic that an insurance intermediary cannot act in the best interests of both the insurer and the insured at different times during the same insurance contract.

If an insurance intermediary is not able to state that they are the legal agent of the insured throughout the whole life cycle of the insurance contract, then conflict of interest can arise. In these circumstances, the insured will need to decide whether the fact that the intermediary is the agent of the insured and the agent of the insurer at different stages of the insurance cycle is acceptable. If the insured decides to accept this split role, more detailed information will be required on how conflicts of interest may arise and how they will be managed. In some cases, such as managed facilities, these arrangements may be more obvious than in others.

Broker Range of Services

On entering a service agreement, the buyer must be clear about what services are included and if there is any limit on these, and what services can be provided over and above the standard TOBA. Insurance intermediaries are able to provide a wide range of services to the buyers of insurance. These services are provided throughout the life cycle of an insurance contract and may include the following:

- Data collection and the preparation of underwriting reports
- Search of the insurance market for suitable insurers
- Technical advice on wordings and efficacy
- Placement of the insurance contracts and premium collection
- Claims handling support
- Compliance support, including contract certainty and payment of taxes

Support services related to the insurance contract and defined bundled value added solutions.

Other services may be offered by insurance intermediaries, including professional advice on the adequacy of the insurance cover available, the structure of insurance programmes and advice on the overall limits of indemnity that should be purchased. Additional services may include the issue of local policies in different territories around the world, as well as advice on loss control, including loss prevention, damage limitation and cost containment.

Broker Means of Disclosure

Brokers should provide sufficient information, so that insurance buyers can identify potential conflicts of interest. Often, the scope of disclosure will be set out in a Service Level Agreement (SLA) between the insurance buyer and the insurance intermediary. Such a Service Level Agreement is referred to in the industry guidance as a TOBA.

As well as being aware of the status of the insurance intermediary, the insurance buyer also needs to be aware of the level of (risk-bearing) premium that it is ultimately received by the insurer. The insurance buyer can then evaluate whether the level of fees received by the intermediary is appropriate for the work involved and whether the level of premium received by the insurer is in line with the nature of the risk that has been transferred.

Appendix A offers a checklist of disclosures to consider for all covers.

Broker Limits of Liability

Within the TOBA, the broker is likely to limit their own liability in case of failure to perform. As with all professional advice, if the advice is found to be negligent, there can be liability on the part of the broker, for example in the case of failure of the broker to notify the insurer of a claim they were made aware by the client.

In most TOBAs, this will be a standard limit imposed on all arrangements with the broker. During negotiations, the buyer must consider if this limit is enough. In some cases, the standard limit will cover the requirements, but the buyer may seek to negotiate higher broker limit of liability to what the buyer considers to be a more appropriate level.

Service Level Agreements

It is standard to have the broker agree to service levels in advance of agreement of the TOBA. This sets clear expectations on how the account will be serviced. It will be negotiated to include any service preferences in combination with how the broker can best service the account. Considerations will include:

Servicing	• Frequency of meetings • Account stewardship • Communication methods • Response times
Documentation	• Policy issuance • Invoice issuance
Innovation and design	• - Programme design • - Stress testing of programme
Information and support	• Support on relevant issues, e.g. law changes • Good information flow on relevant market updates and new products

In many agreements, a proportion of fees may be placed at risk, or be contingent on achieving agreed service levels. There are two possible ways that can be done. It can be a positive adjustment, with an increase on the base fee payable for good service or a negative adjustment, where a percentage of the base fee is withheld for poor service. In both cases, the base or deposit fee will be paid at the being of the contract term. Throughout the year, regular stewardship meetings must be held to ensure both parties agree on how the account is being managed against the SLA. This allows any concerns to be raised and issues rectified. At the end of the account year, the client will then be empowered to make a decision, provided it is based on evidence from throughout the year, on whether the additional sum is due.

Appendix A: Airmic Disclosure Checklist

Set out below is a list of issues that an insurance buyer should discuss with the insurance broker or intermediary. This list covers all stages in the purchase and servicing of an insurance contract, although it may not be exhaustive in all circumstances. It includes and consolidates the areas of disclosure.

Obtaining this information will provide full transparency and disclosure of all sources of income for the insurance intermediary, across the whole life cycle of the insurance contract. Also, there are questions related to the proposed status of the insurance intermediary and the range of services that may be provided throughout the life cycle of the insurance contract. It will be for the insurance buyer to decide whether the declared status and relationships are acceptable.

This checklist has been constructed as a list of issues designed to ensure that risk managers get appropriate information from the intermediary in relation to each class of insurance / type of business, presented on a country-by-country basis. However, in many cases, further information will be required either to clarify the answer provided or to supply further details of, for example, additional income that has been acknowledged.

The structure of this checklist is related to the steps involved in the purchase of commercial insurance and the different aspects of servicing of commercial insurance contracts. Additionally, arrangements should be agreed for conflict resolution, where this is necessary.

Disclosure Checklist – to be completed by the Intermediary

1. **Remuneration**

   In relation to the class of insurance to which this checklist refers, we receive income from the following sources:

   - Standard commission at policy level
   - Contingent commission based on volume or profit
   - Non-contingent commission, not linked to performance
   - Sub-broking income from other intermediaries
   - Facultative reinsurance commission
   - Additional income from line slips
   - Intermediary service income
   - Volume overrides
   - Advance commissions and loan pay-back arrangements
   - Non-repayable payments
   - Other sources of income.

   The amount received from each source is indicated. Where the earnings may vary, a range of possible remuneration is indicated, together with an indication of the factors that affect the level of earnings.

2. **Business Relationships**

   In relation to the class of insurance to which this checklist refers, we have business relationships with the insurance companies (as named below) involved in this insurance programme, as follows:

   - Financial links with the insurers (including any equity interest)
   - Finance provided by any insurer
   - Provision of staff training programmes
   - Provision of staff incentives by insurers
   - Work transfer arrangements and payments.

3. **Market Search**

   In relation to the class of insurance to which this checklist refers, we undertake a market search on the following basis (more than one answer allowed) and we will supply additional information, as appropriate:

   - Acting as your agent
   - Full market search
   - Limited market search
   - Panel of insurers for this class of business, as named below
   - Scheme with specific insurers, as named below
   - Specific insurers, as named below
   - Only offer insurances from the insurer, as named below.

4. **Placement of Insurance**

   In relation to the class of insurance to which this checklist refers, when we place the insurance contracts the following circumstances apply:

   - Acting as your agent
   - Placement recommendations will have no impact on earnings
   - Placement recommendations affect earnings in the following way.

5. **Claims Support**

In relation to the class of insurance to which this checklist refers, we provide claims support services in the following basis:

- Acting as your agent with primary insurer
- Acting as your agent when collecting money from the subscription market.

6. **Future Disclosures**

In relation to the class of insurance to which this checklist refers, we confirm that all of the above information is accurate and completed to the best of our knowledge and that in future we will provide relevant information:

- Automatically at the time of placement / renewal
- Without further request from you
- For each line of business / class of insurance
- For each country in which you operate.

airmic

6 Lloyds Avenue
London
EC3N 3AX
Ph. +44 207 680 3088
Fax. +44 20 7702 3752
email: enquiries@airmic.com
www.airmic.com