

Understanding Broker Compensation

Given recent articles questioning the normal practices in the insurance industry, the Insurance Brokers of Canada has created this brief Q&A summary to clarify for insurance consumers the current practices in Canada.

What is an Insurance Broker?

Insurance Brokers are independent business people who buy insurance on behalf of their clients. They are the insurance consumers' advocates, championing the need to offer a choice of insurance products and services that are affordable, available, and understandable.

Their role is to provide consumers with the best insurance value.

How do Insurance Brokers decide what insurance contracts (policies) to recommend to their clients?

There are hundreds of companies offering Property & Casualty insurance in Canada. Brokers identify companies in which they have confidence and with whom they are able to develop a working relationship.

Their primary goal is to consider product, service and price in order to make the best possible recommendation to their clients so that their clients can make informed decisions about their insurance protection. The recommendation brokers make is based solely on the attributes of the insurance product or service and the needs of their clients.

How are Insurance Brokers normally compensated?

Brokers' compensation comes primarily from commissions on the insurance purchases they make on behalf of their clients. In many insurance transactions, commissions on the purchase are the only compensation that the broker receives.

This compensation may vary province to province to province; for example some provinces may include service fees. Contingent commissions on the entire group of clients the broker places with an insurer can also be part of the broker's compensation.

What are contingent commissions?

Contingent commissions are not guaranteed. This form of compensation is paid by insurance companies in recognition of the quality of the business placed with the company.

This compensation is based on specific criteria in the brokerage contract that recognizes the value of the insurance broker in helping the company grow and remain financially sound. This value is generally measured over a multi year period.

Professional brokers focus on doing the best job possible for their clients. The factors that ultimately determine contingency payments do not enter into the recommendation of the product and service provided.

Do the terms of contingent commission agreements cause brokers to “steer” their clients into unfavorable insurance placements?

No.

Reputable insurance brokers keep the interest of their clients uppermost in all their dealings. This is the way to build sound business relationships.

How can consumers find out how their brokers are compensated?

Ask your broker! It's that simple. Member insurance brokers have nothing to hide. They freely declare they are compensated on a commission basis with the potential of contingent commission. Moreover, they want their clients to be well-informed about normal practices involving compensation.

Recent media reports from the U.S. identify allegations of fraud and anti trust violations in the commercial insurance industry. What were the alleged violations?

The major accusation is with respect to bid rigging.

Individuals have been accused of arranging fraudulent and inflated bids from other insurers in order to keep the commercial client with the customer's current insurer.

The allegations described are repugnant to reputable brokers because they would represent a betrayal of their client. These acts are illegal in the U.S. and Canada and if proven should be prosecuted to the full extent of the law. There is no evidence of this kind of wrong doing occurring in Canada.

Are these common practices and what does it mean in Canada?

The Canadian Competition Bureau recently reviewed insurance practices and found no evidence of anti-competitive behavior. The Canadian insurance industry is closely monitored and regulated by both federal and provincial governments. In addition, provincial governments have jurisdiction over market conduct and consumer issues such as rate setting, sales practices and the conduct of brokers.

Property & Casualty insurance brokers try to place their clients with those companies that provide the best product, service and price.

The Insurance Brokers Association of Canada (IBAC) is the national trade organization which brings together and represents the 11 regional and provincial associations of Property & Casualty (P&C) insurance brokers in Canada. These associations work with government, regulators, and insurance companies on behalf of consumers to ensure there is a choice of insurance products and services that are affordable, available, and understandable. P&C insurance includes home, car and business insurance, but not life insurance.

Through its member associations, IBAC represents approximately 27,000 insurance brokers in virtually every community across the country. They are the principal distribution channel of property and casualty insurance in Canada.