



*Independent Insurance Agents*



*Brokers of America, Inc.*



## **IIABA Policy Regarding Broker Placement Service Agreements**

Adopted October 8, 2004

Insurance brokers have long played a critically important role in the local, regional, national, and international insurance marketplace. As intermediaries between customers and insurers, insurance brokers locate and secure appropriate insurance coverage for their clients, pursuant to agreements with those clients. Brokers use their professional experience and expertise to act in the best interest of their clients by identifying the available insurance coverage to fit the needs of those clients, which often are complex and sophisticated businesses in need of customized coverage. Brokers also work with their clients to evaluate the cost and terms of insurance coverage available to best match the clients' goals. To accomplish this responsibility, brokers typically maintain relationships with numerous insurers, enabling the brokers to access the broadest range of coverage options. Insurance brokers can be compensated for their services in a variety of ways, including through the payment by insurers of fees under placement service agreements.

A placement service agreement compensates a broker for placing a specified volume of named types of coverage with an insurer and varies from carrier to carrier and by type of business involved. These agreements are negotiated individually and involve business a broker has identified as desirable to an insurer, translating into advantages to the broker's clients, such as coverage stability, favorable pricing, and enhanced coverages.

Placement service agreements are permissible under the insurance laws of every state. It is a very common industry practice for brokers to disclose to their clients the possibility of such compensation. Such disclosures promote transparency, contribute to the trust between the broker and client, and ensure that clients are knowledgeable about their broker's compensation agreements.

Placement service agreements align the needs and interests of brokers with their clients, for the following reasons:

1. These arrangements can benefit insurance buyers because brokers can leverage their relationships with particular carriers on behalf of buyers to obtain the most favorable coverages and terms.
2. Competitive bidding of clients' complex insurance needs by brokers through multiple insurers provides assurance that clients' best interests are served.
3. Brokers work with risk managers and other sophisticated commercial insurance buyers who are informed about the existence of these agreements and understand that brokers are compensated in a variety of ways, as articulated by the brokers' disclosure.
4. These arrangements do not affect the cost of insurance to clients because they are not client-specific.
5. Clients' and brokers' interests are well-aligned when the totality of clients' needs are addressed, including finding the right market with the right coverages at the right price. A

long-term win-win relationship demands that brokers serve the interests of their clients in order to retain their business.

6. A broker's clients may select other representation or a different channel of distribution from which to purchase insurance if they are dissatisfied with the broker's service, compensation arrangements, or for any other reason.
7. Placement service agreements are paid based on the overall relationship between a broker and insurer (including the services provided by the broker) and are not based on a specific insurance policy or client.

For many years, the insurance industry proactively has adhered to a series of effective business practices regarding the payment of fees by insurers to brokers. IIABA urges brokers with placement service agreements to conduct business consistent with these business practices, as follows:

- Brokers should disclose the existence of these arrangements to their clients prior to the placement of insurance coverage. This disclosure should describe the nature of such compensation agreements and advise clients that they can discuss the matter further and request additional information.
- Brokers should disclose the existence of placement service agreements in any written agreements they enter into with their clients.
- Brokers should include their compensation disclosure on their public websites, to the extent practicable.
- Brokers should be ready and willing to openly discuss and answer all questions that may arise from their clients concerning placement service agreements.
- Placement service agreements between insurers and insurance brokers should be in writing and agreed to by both parties.
- Placement service agreements between insurers and insurance brokers should be in compliance with state and federal law.

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