

FRENCH INSURANCE BROKERS'
FOCUS GROUP

Our position on the remuneration of insurance brokers.

Paris, Wednesday 26 August 2020

Foreword

The French Brokers' Focus Group looks at the profession of insurance broker. It champions a qualitative view of the profession, as practised by those out in the field, very much a part of the local economic fabric and with close ties to their clients. This memorandum tackles a largely unknown but historic aspect of their remuneration: commissions as a percentage of premiums paid. Brokers can, in fact, be paid either on a commission basis - currently the most common practice - or through fees and sometimes a combination of both, depending on their clients' situation and needs. The aim of this memorandum is to promote freedom and diversity in remuneration.

I. The insurance broker : a profession with added value

First of all, we need to remember that insurance brokers are insurance intermediaries¹. They are tasked by their clients (a company or a private individual) to provide advice in taking out an insurance policy. Their role consists broadly of:

- Analysing the needs of the clients (the insured or policyholder), which is done by auditing their risk exposure,
- Negotiating with insurers to find the insurance solutions offering the best value for money and setting them up,
- Helping clients put the solutions into practice and, in particular, defending their interests in the event of a claim,
- Periodically checking clients have adequate insurance cover, particularly when it comes to renewing policies,
- Drawing up innovative insurance solutions for clients requiring specific cover (for example, those in fragile situations, high-risk professions or young entrepreneurs).
- Correcting the imbalance in the relationship between insurers and the insured.

A true intermediary between supply and demand, the broker is an added value service provider who systematically takes the side of their clients in an ever more complex, digitalised world. Their support manifests itself through their duty to advise². This is a legal obligation and respecting it means the broker must provide any and all information enabling their clients to choose policies suited to the risks they need to cover and to check whether the insurance contract meets the needs expressed and audited.

¹ Insurance intermediaries (brokers, general agents, insurance agents, intermediary insurance agents) are registered and listed on the French register of insurance intermediaries ORIAS (Organisme pour le Registre des Intermédiaires en assurance)

² Insurance code, articles L. 132-27-1 et R. 132-5-1-1 (life and capitalisation insurance); articles L. 520-1 et R. 520-1 (insurance intermediaries). Civil code, articles 1103 (formerly art. 1134), article 1194 (formerly art. 1135) and article 1231-1 (formerly art. 1147) common law. Consumer code, article L. 111-1 (any professional seller of goods or service provider).

The system of remunerating brokers via a commission as a percentage of premiums is a common and age-old practice³, recognised under current regulations. For the French Brokers’ Focus Group, this practice does not compromise public policy on combating conflicts of interest and ensuring competition; on the contrary, it guarantees clients access to completely transparent, universal and independent insurance advice.

II. Remuneration through commissions : **guaranteeing access to advice for all**

Some people feel commission-based remuneration leads to a conflict of interests. The fact that the broker earns more the higher the premium creates the impression that the broker might pay closer attention to the size of the commission in their choice of insurers than a duty to get the best policy possible for their client.

But the truth of the matter is that when the market is bullish many clients are able to negotiate conditions so that commissions do not follow the rise in premiums. And, when the market calms down, the pressure of competition quickly turns into a drop in premiums which always has a knock-on effect on commissions.

Remuneration through a commission as a percentage of premiums always protects the client's interests because:

- It has the advantage of being universal and mutualised, “small” for the “little guys” and “big” for the “big guys”. This makes it possible for all clients, regardless of their size, to call on the services of a broker to access independent and quality advice. With fee-based remuneration the opposite occurs: clients forgo the expertise of a broker and problems related to inadequate risk cover multiply. So a diversity of means of remuneration guarantees access to independent advice for all.
- It enables brokers to offer insurance that has real social value and at a suitable price, moderated for all including those deemed “fragile”. Fee-based remuneration prevents the broker from offering those products that rely on the diversity of means of remuneration model.

Remuneration through a commission as a percentage of premiums offers the client numerous advantages because it is so flexible:

- It suits the reality of the job of a broker whose tasks are numerous and multi-faceted depending on the type of clients and risks and how they evolve over time - all variables not so compatible with the rigidity of fees.
- It means the client can benefit from services that are not subject to specific invoicing such as an assessment and audit of their insurance context, the tendering phase, setting up guarantees, support throughout the duration of the contract and should a claim be made and periodic checks on whether the product still suits the client's needs.

Lastly, the Covid-19 health crisis has shown that the French model, based on remuneration through a commission as a percentage of premiums, is highly resilient. Thanks to this model, in a time of crisis clients experienced no interruption to the service.

In fact, even though new business plummeted during the pandemic, revenues only dropped slightly due to inertia in outstanding amounts. Brokers were able to keep working, without

³ Commissions as a percentage of premiums date back to the very beginnings of the profession of broker. Documents attest to the existence of 40 sworn maritime brokers in Lyon in 1574. It was in the mid 19th century, after the idea of insuring goods really began to take hold, that brokers in land-based insurance began to appear in France and other industrialised countries. The “Union of Land Insurance Brokers for the Seine Department” was created in 1896 (Syndicat des courtiers d’assurances terrestres du Département de la Seine).

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having to systematically furlough colleagues or close branches, and keep providing a quality service at a time when help and advice were crucial.

In conclusion, two options are emerging: either the cost of independent advice continues to be mutualised through commissions that make it accessible to all, or it becomes individualised through fees and accessible to a minority of well-off clients.

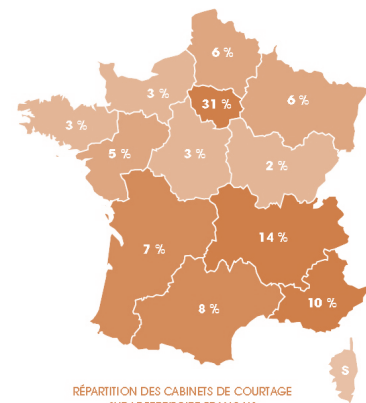
III. Remuneration through **commissions is not a shady system**

The latest regulations⁴, such as the decree on implementing the Insurance Distribution Directive (IDD2), oblige brokers to inform their clients whether they work on a fee basis, a fee and/or commission basis and/or any other type of remuneration.

These successive regulations work well in France. They enable transparency as to payment and encourage a constructive dialogue between brokers and their clients. The safeguards set up in France and Europe really play their part now in battling conflicts of interest.

These regulations thus create a structure for the coexistence of several remuneration models, enabling several types of broker to offer their services. This plurality guarantees a competitive market, something that is very much to the benefit of clients. The transparency already defined in legislation gives clients the information they need to choose the professional that suits them best, all the while guaranteeing a universal and quality advice service. Companies also put contracts out to tender to encourage competition between brokers.

While in the past some commissioning modes may have generated bad commercial practices, the latest regulations and brokers' conflict of interest management policies mean this is no longer the case today.



Source : INSEE - DADS 2015 Fichiers Entreprises - Traitements AGEFCS PME

Conclusion

The French Brokers' Focus Group fears the end goal of criticism of commission-based remuneration is to suppress this means of payment. The aim, it seems, is to force France and Europe to adopt the Anglo-Saxon model of remuneration by fees only.

This model speeds up market concentration which would be detrimental to local brokers and would deprive a great many clients of the benefits of fair competition, especially the vulnerable and/or those on lower incomes.

We believe this is incompatible with the French vision of brokerage which is one of independent and universal advice. This model would weaken French players⁵ comprised mainly of small, medium and intermediate-sized firms that cover the country, giving large multinationals an advantage.

About us? The French Brokers' Focus Group looks at the profession of insurance broker. It champions a qualitative vision of the profession, practised by those out in the field, very much a part of the economic fabric and with close ties to their clients. The Focus Group is made up of eight French brokers: April, Bessé, Cbp-Group, Conseil et Courtage en Assurance de Lyon (CCAL), Finaxy, Groupe Burrus, Siaci Saint Honoré and Verlingue.

⁴ IDD, MIFID2.

⁵ 24,470 insurance or reinsurance brokers in 2018 (compared to 23,967 in 2017), an increase of 2%, and 24,988 in 2020, an increase of a further 2%