



## INFORMATION MEMO

# The Agent's Role and Compensation in LMCIT

*Understand the role of agents and their compensation in the League of Minnesota Cities Insurance Trust (LMCIT) property/casualty and workers' compensation programs.*

### RELEVANT LINKS:

## I. Agent's role and compensation

LMCIT is a cooperative self-insurance pool of cities and other entities, further referred to as the member, and is not an insurance company by traditional standards. LMCIT's property/casualty and workers' compensation programs are designed to operate through a local insurance agent.

## II. Key points of the agent relationship

Following are some key points to keep in mind with respect to the agent's role and compensation in LMCIT.

- As a condition of participating in the property/casualty program, members are required to designate an insurance agent. Members have the option not to use the services of an agent for the workers' compensation program, although most do.
- Members can select whichever licensed agent it wants. The selection of the agent is entirely up to the member, and any licensed agent is eligible to participate.
- The agent's role with LMCIT is different than it is for commercial carriers. From an LMCIT standpoint, the agent's role is that of an adviser and service provider to the member rather than as a salesperson for LMCIT.
- The agent's fee or commission is negotiable between the member and the agent. The member and agent can negotiate any commission or flat fee arrangement that works best for a the member-agent relationship.
- The services an agent provides is negotiable between the member and the agent. The level and types of services that members ask and expect their agent to provide vary. It's important everyone involved understands and agrees on what duties and responsibilities the agent will perform, and to ensure both parties are comfortable with the compensation the agent receives for those services.

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.

## RELEVANT LINKS:

Underwriting Dept.  
651.281.1200  
800.925.1122

See [Appointing An Insurance Agent](#), LMCIT model resolution.

Underwriting Dept.  
651.281.1200  
800.925.1122

### A. Agent selection

Members can select any licensed agent it chooses. If the member considers changing agents, LMCIT recommends the process begin well in advance of the member's coverage renewal date. This will ensure the new agent selection is resolved before work begins on the renewal, and the new agent is in place to handle the renewal work.

Some members choose to undergo a Request For Proposal (RFP) process when selecting agents. Upon request, LMCIT can provide copies of RFPs used by other members.

LMCIT encourages members to consider not only the fee or commission amount, but also the scope of services provided, and the level of experience when making an agent selection.

### B. Agent formalization

LMCIT recommends the selection of the agent and the establishment of the agent's duties and compensation be addressed at the council level, ideally through a council motion or resolution.

Another approach is to develop a formal written contract between the member and the agent addressing these same points. Such a contract might also address the role the agent might play in overseeing the insurance options a member might purchase from sources other than LMCIT, such as specialty liability coverage for a hospital or nursing home.

LMCIT and the Minnesota Independent Insurance Agents (MIIA) developed a sample resolution for appointing an agent. Some members may be able to use it nearly verbatim, while others may wish to make substantial changes in the list of services, in the amount or basis of the compensation the agent receives, or both.

### C. Agent fees and commissions

LMCIT's practice is to include an allowance for a 10 percent agent's fee in the premium for property/casualty coverage. LMCIT then pays that fee to the agent. However, the member and the agent are free to agree on a different fee, or on a different basis for compensating the agent.

If the member and agent agree on a different percentage fee, the member should notify its LMCIT underwriter. The premium quote will then reflect that change. Any increase or decrease in the agent's compensation will flow through directly as a dollar-for-dollar increase or decrease in the member's premium.

## RELEVANT LINKS:

Another possibility is for the member and agent to agree on a different compensation basis instead of the percent-of-premium approach, such as a flat annual or monthly retainer fee or hourly rate for services performed. If this arrangement is chosen, it generally works best for the member to compensate the agent directly. In that case, LMCIT would provide the property/casualty coverage quote on a "net of commission" basis.

LMCIT workers' compensation rates include an allowance for a 2 percent agent's fee. If the member chooses not to use an agent for workers' compensation, or if the agent's services on workers' compensation are included and compensated under a direct contract for service, the 2 percent agent fee allowance is refunded to the member.

### **D. Agent services**

It's important for members and agents to periodically discuss the agent's role. The critical points are to ensure everyone involved understands and agrees on the agent's duties, responsibilities, and compensation. Following are services a member might ask an agent to provide.

- Advise and assist in assembling and accurately reporting underwriting data needed for rating purposes.
- Assist in managing, tracking, and ensuring coverage is secured for insurable assets, such as buildings, mobile property, and automobiles.
- Coordinate the gathering of the information needed in order to complete the renewal application. Either complete the renewal application or provide assistance if the member is completing the renewal application.
- Advise and assist in evaluating and selecting among coverage alternatives such as deductibles, limits, optional coverages, alternative coverage forms, and so on.
- Review coverage documents and invoices to assure coverage has been correctly issued and billed.
- Provide assistance on questions about coverage and premium calculations.
- Advise the member on potential gaps or overlaps in coverages.
- Assist in ensuring contractual insurance requirements are being met.
- Assist as requested in submitting claims and interpreting coverage as applied to particular claims.
- Review loss reports for correct reporting and appropriate reserves.
- Assist as requested with safety and loss control activities.
- Assist in identifying risk exposures and developing appropriate strategies to address those exposures.
- Assist with the LMCIT appraisal process.
- Assist in managing and securing certificates of insurance.