



## 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

The League of Minnesota Cities Insurance Trust (LMCIT) property/casualty and workers' compensation programs are designed to operate through a local agent. 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. Because of this, there sometimes is confusion and uncertainty about the role of the 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 more 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 particular 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 to make sure that everyone involved understands and agrees on what duties and responsibilities the agent will perform, and to make sure that 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 [LMCIT Sample Resolution Appointing An Agent](#).

### **A. Agent selection**

Any licensed agent can be selected to work with the member on LMCIT coverages. 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 that 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 of the agent when making a selection.

### **B. Agent formalization**

In the case of cities that are LMCIT members, LMCIT recommends the selection of the agent and the establishment of the agent's duties and compensation be addressed at the city council level. A good way to do this is through a council motion or resolution. The resolution should not only name the agent, but should also specify what services the agent is expected to provide and what compensation the agent will receive for those services.

Another approach is to develop a formal written contract between the city and the agent addressing these same points (other types of LMCIT members, such as special districts and instrumentalities, could use this same approach). Such a contract might also address the role the agent might play in overseeing the insurance options a city might purchase from sources other than LMCIT, such as specialty liability coverage for a hospital or nursing home.

To help cities and agents address these points, LMCIT and the Minnesota Independent Insurance Agents (MIIA) developed a sample resolution for appointing an agent. This sample is intended only as a starting point. Some cities may be able to use it nearly verbatim, while others may wish to make substantial changes in the list of services to be provided by the agent, in the amount or basis of the compensation the agent receives, or both.

**RELEVANT LINKS:**

Underwriting Dept.  
651.281.1200  
800.925.1122

## **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 higher or lower percentage 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.

Another possibility is for the member and agent to agree on a different compensation basis instead of the percent-of-premium approach. A flat annual or monthly retainer fee or hourly rate for services performed are some of the possibilities. When the member and agent move to this sort of arrangement, 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**

LMCIT believes it's important for members and agents to periodically discuss the agent's role. The critical points are to make sure that everyone involved understands and agrees on what duties and responsibilities the agent will perform, and to make sure that both parties are comfortable with the compensation the agent receives for those services.

Again, services vary greatly, but here's a list of services a member might wish to ask its agent to provide.

**RELEVANT LINKS:**

- Advise and assist the member in assembling and accurately reporting underwriting data needed for rating purposes.
- Assist the member 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 to the member if the member is completing the renewal application.
- Advise and assist the member 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.
- Provide assistance on questions about premium calculations.
- Advise the member on potential gaps or overlaps in coverages.
- Assist the member in ensuring contractual insurance requirements are being met.
- Assist the member as requested in submitting claims and interpreting coverage as applied to particular claims.
- Review loss reports for correct reporting, appropriate reserves, and so on.
- Assist as requested with safety and loss control activities.
- Assist the member in identifying risk exposures and developing appropriate strategies to address those exposures.
- Assist the member with the LMCIT appraisal process.
- Assist the member in managing and securing certificates of insurance.