



Brokers empowered to make business decisions

MASTHEAD

There is currently a great deal of uncertainty in the market, and the issue of up-front commission is taking centre stage. The LOA has proposed a move towards an as-and-when commission structure, and other stakeholders have also proposed various models.

Despite the rumours and uncertainty, professional brokers need accurate information to make rational, solid business decisions regarding the effect of these changes on their business.

Rational solution for professionals

Masthead has provided its member brokers with a first-of-its-kind electronic tool to help them assess the financial impact of commission changes on their business.

The Commission Impact Model will analyse data supplied by brokers regarding their commission and provide feedback regarding the impact that the currently proposed changes could have. This will allow brokers to understand the extent to which their income may be affected, and allow them to begin considering the changes they would need to make to adapt. Reaching beyond the LOA commission proposals and regardless of the outcome of the commission debate, this Model enables brokers to understand the source of their income and to take charge of their business.

Simple and fast

The Model is available on the member's section of the Masthead website. Brokers simply enter their data into the 20 data fields, and the Model will analyse the figures, providing a report that shows graphically, with explanations, what will happen to the broker's income over the first six years of the new commission arrangement.

The data required includes total income earned from commission, detailing the proportion of income derived from different categories of business as well as the average policy term written for recurring premium categories of business. All information is confidential.

The commission split data required can be obtained from commission statements or from the various broker consultants, using a form designed by Masthead. This data can be entered to a simple spreadsheet, also provided, that will collate the commission data from each company and provide the data that is needed in the Commission Input Model.

The Model has been constructed to use commission figures net of lapses, allowing for the impact that lapses have. The average industry lapse experience is used, as it is more accessible to brokers, who do not generally have detailed information regarding their actual lapse rates.

If the proposals change through the discussion process, the calculation Model will be changed to reflect this. Because each broker's data is stored, the broker can come back to look at changed scenarios without re-entering the data.

As-and-when commission and capital value

As-and-when commission gives the broker a stream of future income, which has a value. Sales in a new commission environment will provide lower commission paid at point of sale, but an increase in the capital value of a business. The Commission Impact Model will give a rough indication of the increase in capital value from the sales a broker makes.

Benefits to the broker

Masthead has empowered brokers to take control of the future of their businesses. The Model will assist brokers in understanding the impact of the proposed changes to commission on their income. For some brokers there will be a serious financial impact, but for many, the impact will be less disastrous. Either way, the information will allow brokers to make rational decisions regarding the future of their businesses and the steps they must take to adapt in an ever changing industry.