



WHAT WE EARN

In 2005, we produced our first explanatory leaflet on how we generated our income. Over the years, there has been more and more pressure from our regulators to make this information more transparent, so we have decided to be as open as we can on our earnings. In this document, we cannot be specific on every Insurer or class of insurance, as there are thousands of different permutations. What we have tried to do is give you a flavour, which we hope helps, and remember, where requested, we are very happy to give you a full breakdown on our earnings.

General Commission

LFC's main source of income is generated from commission paid by Insurers, and is a percentage of the premium you pay (not including the Insurance Premium Tax). Our commission rates vary from class to class and from Insurer to Insurer but there is generally quite a standard set of commissions available. For example, some Insurers pay 5% on Employers Liability insurance but this can increase to 14.5% from others. On Motor Fleets, we can see a range of 7.5% to a maximum of normally 12.5%. Package policies can range between 16.5% and 25% and for special schemes or "on-line" facilities, we may receive up to 30% for certain types of insurance.

Overrides

In certain circumstances LFC may receive enhanced commissions as a result of our size and relationship with Insurers, but generally will be based on the profitability of the account with that Insurer. We believe this 'buying power' is not unusual in the business world and generally benefits our clients with negotiated lower premiums, additional covers and more sympathetic claims handling.

It is well documented in our internal regulations, that, choosing an Insurer for our clients is based upon:-

- Extent of cover being adequate to satisfy your requirements
- Quality/Financial Security of Insurer is acceptable.
- Premium is most competitive taking the above points into consideration
- Administration quality of Insurers is acceptable.

Only after these 'boxes are ticked' off, would the question of commission be considered, and, on the rare occasions there is a large difference in our potential earnings, we may ask our clients to make the choice of Insurers.

Broker Fees

Occasionally, LFC may work with an Insurer that quotes premiums net of any commission or the commission level is low and not commensurate with the work undertaken. This is generally the Lloyd's market or specialist Insurers for difficult risks. In these circumstances we will need to generate income/additional income from the placing of cover and therefore charge a Broker Fee. This fee must be agreed and approved prior to inception or renewal of the policy and this is explained in our Terms of Business.

Policy Fees

LFC strives to provide a professional service to anyone requiring insurances, whether they are sole traders or large public limited companies. We greatly believe that the sole trader of today could be the PLC of tomorrow. Commercially, however, we must be conscious of the minimum administration costs of arranging clients insurance and quite often these costs far outweigh the commission we earn. As such on certain classes of insurance we may charge a policy fee at inception and renewal.

Interest on Insurance Premiums held

LFC run accounts with our Bankers, the rules and procedures governing this as laid down by the FSA. In simple terms, when you pay premiums to us they are paid into designated accounts and are only used to pay 'your' insurance premium to Insurers. In the unlikely event of the failure of LFC, your premiums can only be used for insurance premiums and are not available to the Bank or Receivers. Premium balances can run at quite high levels and LFC may earn interest on these funds. LFC feels that this revenue stream is fair as we incur bank costs for each individual payment into and out of the bank and employ staff to carry out the daily, weekly and monthly reconciliations and settlement to Insurers.

Premium Financing

As stated in our Terms of Business, LFC can also generate additional revenue when arranging your premium finance. The benefits of premium finance are numerous including paying just one monthly payment for all policies, helps cash-flow, low interest rates, generally spreading payments over 10 months thus giving you "2 months off", etc. These benefits are clear and we hope the facility is something that we can continue to provide indefinitely. We make an additional charge for this service as there are costs to LFC associated with arranging the finance:-

- Arrange credit check of clients
- Complete forms on-line or hard copy and arrange for it to be signed
- Collect premiums a minimum of one month after premiums due
- Accept 'bad debts' if premium not paid
- Arrange and administer refunds in the event of cancellation or default.
- Refund commissions earned to finance company if return premiums inadequate to cover debt.
- Occasionally endorse policy with finance company interest on larger loans.
- Deal with any account queries
- Assist in collection of bad debts.

LFC currently has two facilities Close Premium Finance and Premium First, the majority of our cases are placed with the former. Interest rates are similar and every 3 years, LFC will go out to tender to obtain the best deals for our clients. Cost is not all that matters, accuracy, efficiency and flexibility are as important and if any of these are lacking a lower interest rate can prove to be a false economy.

We hope this explains our 'earnings' to you which are all within standard market ranges. If you have any questions regarding this please do not hesitate to call.

Other Income

Generally, the aforementioned are our basic forms of income. In addition, on Motor insurance, we may charge for Uninsured Loss Recovery, wherein, in the event of a non-fault accident, you will be entitled to legal assistance free of charge to claim for personal injuries, car hire, excesses and the like. We only offer one provider for this service and we also act as Insurer where we set the premium charged. Historically, we have also received an introductory fee from the providers, where a claim has been successful. We no longer accept such payments.

We offer a credit card service and we have made a decision to charge 2%. This amount covers the charge made by the card companies and for our rental of the equipment and general administration costs.

