

Use of Brokers as Stated on AGRiP Advisory Standards for Recognition Applications

Forty-one Recognition applications approved between 2014 and 2016 were reviewed for responses to Standard II-B relative to pool use and compensation of brokers when placing pool coverage for members. Pool use of excess and reinsurance brokers is not included in this summary.

- 11 of the 41 pools require, allow, or encourage use of brokers/agents by their members to place coverage with the pool
- 30 pools do not require or allow members to use agents/brokers

Some respondents disclosed additional information about broker relationships in their responses, anonymized in this summary.

- The pool does not pay commissions. Pool provides coverage direct to most of the membership. In the case where a broker is involved, the pool includes a separate line item in the quote entitled "broker fee" so that the member can see specifically what they are paying the broker. In many instances, members pay a flat fee to the broker directly.
- Pool members each select their own broker and negotiate a commission or flat fee with that broker. The pool is not involved in those negotiations, and, in the case of a flat fee, is generally not aware of the amount.
- Agents' commissions are based on a percentage of the members' annual contributions. Members receive notice of independent agent compensation by a notice included in their annual policy renewal documents.
- Pool pays brokerage commissions based upon a compensation package approved by the board of directors.
- Each member of the pool is required to appoint an Agent of Record. The Agent of Record is hired by the member as a personal service contract under State law. In addition, the Agent signs an agreement with the pool that specifies the Agent's responsibilities on behalf of the Trust and its Members. Agents are paid either a set commission, published by the pool, or a fee that is negotiated with the member. Agents can't receive both a fee and commission. The pool has agreements with over

150 insurance agencies. The Agents also have agreements directly with the members which the pool does not control.

- Broker compensation is disclosed at the time of approval by the Board of Directors, and every member has a seat on the Board.
- The pool is not regulated and does not select producers¹. Producers are selected by Members and serve the Members. The pool's policy statement sets forth how those producers should serve the members and the pool and the approved compensation amount payable by the pool. Members may contract to pay additional fees directly with their producer for other services. The pool also has a Producer Compensation Policy that requires full transparency of pool Producer compensation. It requires that the pool show the compensation on the Member Renewal Summary.
- The pool Broker Services Agreement and the State Administrative Code provide that brokers of record must disclose in writing the amount or percentage of compensation paid for insurance transactions on behalf of the pool. The broker shall provide to the program a written annual report on a form provided by the State Risk Manager which discloses the actual financial compensation received. Broker compensation is typically disclosed when coverage policies are renewed, as part of the annual renewal process.
- The pool compensates the broker on a fee basis. The Broker Agreement prohibits any compensation to be derived from commissions; requires the broker to disclose any additional revenue which could be earned by the broker or any of the broker's subsidiaries or affiliates as a result of the broker's contract with the pool; and requires the broker to disclose all revenues and fees earned by the broker to the pool Board of Directors and staff. The pool is required to notify members of fees and revenue earned by the broker. Broker fees and revenues for the upcoming program year, which begins May 1, are disclosed to the pool Board, staff, and members in March, prior to the beginning of the program year.
- The pool discloses the method of compensation to the member's agent through the annual report that is provided to all members. The pool is required to provide its members with annual audited financial statements per the Interlocal Cooperative Contract. The pool also discloses the process of payment and percentage of its commissions paid by line of coverage to the member and the member's agent.

¹ This scenario is applicable to two separate pools with a shared administrator.