



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

June 18, 2008

RULING LETTER NO.: 2008-90-AP

TO ALL INSURERS AND RATING BODIES AUTHORIZED TO TRANSACT
PROPERTY AND CONTINGENCY INSURANCE IN PUERTO RICO AND TO ALL
GENERAL AGENTS AND MANAGERS

COMPENSATION FOR GENERAL AGENTS

Dear Sirs and Madams:

On August 25, 2000, the Office of the Commissioner of Insurance (OCI) issued Ruling Letter No. CA-8-1578-2000, establishing how compensation for general agents should be treated with regard to the distribution of the premium dollar. At that time, the OCI provided that compensation for general agents, which traditionally was included in the portion assigned to Production Costs ("Acquisition Cost"), should be included in the Administrative Expenses portion, given that the functions they perform in processing insurance, and for which they are compensated, are administrative functions typically performed by an insurer. In accordance with the above, the OCI determined that insurers should take this into consideration and make the necessary adjustments so that rate-filing reflects this reality.

Parallel to this determination and in view of a study submitted by the Association of General Agents to the OCI, it was also established that a distribution of the premium dollar that included compensation for general agents up to 6.5% would not be considered excessive and would be in compliance with the provisions of Sections 12.130 and 27.100 of the Puerto Rico Insurance Code.

Contrary to the requirements of that Ruling Letter, no adjustments were submitted to the OCI related to rate-filing to include compensation to general agents in the Administrative Expenses portion, but rather the portion of the distribution of the premium dollar assigned to Production Costs, which until that time included compensation of general agents, was unchanged, which meant that in some cases producers or authorized representatives received a higher commission than previously,

and general agents received an additional compensation of 6.5%, charged to the portion of the distribution of the premium dollar assigned to Administrative Expenses. The guideline set forth in Ruling Letter No. CA-8-1578-2000 required modification of rate filing precisely in order to redistribute the percentages of the distribution of the premium dollar from one item to another, not to establish an additional amount of compensation for general agents.¹

Several years have elapsed since this determination, and the resulting scenario has been contrary to what was expected. The ruling has been interpreted by some insurers in a manner that totally diverges from the original intent, allowing for payment of compensation to general agents that is higher than the amount permitted by law.

In order to clarify any erroneous interpretation of the ruling and in view of the fact that the ruling failed to achieve its purpose, this Ruling Letter hereby establishes that payment of compensation to general agents will continue to be included in the portion assigned to Production Costs in the premium dollar.

Therefore insurers must pay compensation to general agents under the Total Production Costs item, in accordance with the distribution of the premium dollar approved for the rating body or the insurer, under any independent filing for which the insurer may have obtained approval from this Office. Until it has not been proved to the OCI that payment of up to 6.5% of premiums as compensation for general agents is unreasonable, this proportion will be maintained as the maximum amount an insurer may pay to general agents for their efforts in transacting insurance business.

Any other additional compensation that may be calculated and authorized, as provided in Section 9.062 of the Puerto Rico Insurance Code, that the insurer may pay a general agent, must be paid under the provisions of Rule 84 of the Regulations of the Insurance Code, as amended.

This Ruling Letter enters into effect on July 1, 2008 and sets aside Ruling Letter No. CA-8-1578-2000, dated August 25, 2000.

Strict compliance with the provisions of this Ruling Letter is required.

Very truly yours,

SIGNED

Dorelisse Juarbe-Jiménez
Commissioner of Insurance

¹ Two requests to modify the distribution of the premium dollar were received recently and denied as not complying with the aforementioned ruling letter or the other applicable provisions of the Puerto Rico Insurance Code.