



New Jersey Schools Insurance Group

450 Veterans Drive
Burlington, New Jersey 08016
(609) 386-6060 • FAX (609) 386-8877
www.njsig.org

Board of Trustees Meeting of May 20, 2015

Action Item

Broker Commission Rates

NJSIG compensates brokers using a standard commission rate of 6% of earned workers' compensation premium and 15% of earned premium for other property and casualty lines of coverage. Commission rates for standard commercial lines insurers vary, but are similar to the standard NJSIG commission rates. However, there are a number of situations where broker compensation does not comply with the NJSIG standard commission rates.

- There are five accounts that were written directly by NJSIG prior to NJSIG's development and implementation of the standard rates.
- There are a number of brokers receiving commission rates that are higher than the NJSIG standard rates.

In both instances the non-compliant commissions rates were "grandfathered" in recognition of the preceding arrangements.

NJSIG favors all school districts being represented by a broker. The absence of a qualified broker creates a potential liability for NJSIG and associated financial risk member school districts in situations that would otherwise be remedied through the broker's professional liability insurance. NJSIG operations are organized as a "broker" company as opposed to a "direct-writer" form of organization. Direct writer companies employ a staff of salaried captive agents who represent the insurer in the capacity of consultative selling to the insured. NJSIG does not employ such a staff, but relies on commission-compensated brokers to fulfill that capacity. The broker form of organization is dominant in the commercial property and casualty marketplace. The fact that only five school districts of approximately 400 member school districts lack a broker representative does not support the operational and system workarounds required to accommodate their continuation. For that reason, I propose a change in the NJSIG Plan of Risk Management to the Board of Trustees.

There may be specific situations that justify a broker receiving commissions in excess of the NJSIG standard rate due to extraordinary work demands placed upon the broker by the member school district. The compensation received by a broker from a member school district, directly or through premium-driven commissions, is a matter for the member school district and their broker to decide. However, NJSIG exists to provide insurance and risk management services to its member school districts. It is fair and appropriate for NJSIG to illuminate the non-standard compensation arrangements, which are a part of member's NJSIG-provided insurance costs.



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Recommended Resolution: Approve adopting a policy of paying standard commission rates in all circumstances, unless the need for higher commission rates is substantiated in writing and fully disclosed to the member school district. Conversely, NJSIG will offer the option of 0% commission on all NJSIG lines of coverage but only for those districts whose brokers are receiving less than the standard commission rates for the 2014-2015 policy year if requested in writing by the member district. The change will be effective 7/1/15.

William Mayo

William M. Mayo, CPCU, ARM
Executive Director