



Department of Business Regulation

1511 Pontiac Avenue
Cranston, RI 02920

Insurance Bulletin Number 2006-2

Producer Compensation Disclosure

For all insurance policies issued in Rhode Island after January 1, 2006, insurance producers must comply with R.I.G.L. § 27-2.4-15.1. In accordance with this statute notification regarding the producers compensation must be made by the producer with regard to every initial placement of an insurance policy, however, the content of that disclosure depends upon the contractual relationship between the producer and the insured.

Producers whose compensation is limited to commissions paid by the insurer to the producer, must inform insureds that they will be paid a commission by the insurer. If the contract between the insurer and the producer provides for any other potential compensation (i.e. contingent commissions) the producer must also inform the insured that the producer may receive performance based compensation from the insurer in addition the policy commission. The notification to the insured may be made at any time but no later than policy delivery.

Producers who receive compensation from the insured may not accept any form of compensation from the insurer unless the producer provides to the insured a description of the methods and factors utilized for calculating compensation from the insurer or other third party and the producer obtains the insured's documented acknowledgement that such compensation will be received. The notification to the insured may take place at any time during the selling, soliciting or negotiating of the insurance sale as long as the insured receives the information prior to consummation of the transaction. For example, a producer could provide the notification along with the policy illustration.

If a producer is an employee of an insurer and his or her compensation is received solely from that insurer, the producer is not required to make any disclosure regarding compensation.

Producers should use any reasonable method to inform insureds as detailed above. The Department does not require any specific form of transmittal, however, upon inquiry from the Department, producers will be required to document the compensation transmittal. The Department would, therefore suggest that some form of written notification would be the best practice.

The Department has also received inquiry as to insurers obligations under this statute. Although, the Department believes that it would be a good business practice for insurers to monitor compliance with all statutory and regulatory compliance by the producers with whom they contract, the statute places the burden of compliance with the producer rather than the insurer.

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