**Section 903.520 Allocation of Expenses to Lines of Business**

a) Allocation of Expenses

1) The allocation of expenses to lines of business shall be by expense groups. Each classification of expense within each expense group shall be allocated separately to lines of business on the bases of allocation prescribed as follows.

2) All bases employed in such allocations shall be applicable and appropriate to the expense group of which such expense is a part.

3) Example - Expenses which are allocated to lines of business as an Overhead on Salaries shall be calculated in relation only to the salaries included in the same expense group.

|  |  |  |
| --- | --- | --- |
| Expenses Included in the  Expense Group, Loss Adjust.  Expenses |  | Bases of Allocation  to Lines of  Business |
|  |  |
| Claim Adjust. Services:  Direct  Reinsurance Assumed  Reinsurance Ceded |
| Actual  Actual  Actual |
|  |  |
| Commission & Brokerage  -Direct |
| See Commission & Allow.  (Subpart C, Section 903.420(c)(2)) |
|  |
|  |
| Allowances to Managers | See Commission & Allow.  (Subpart C, Section 903.420(c)(2)) |
| and Agents |
|  |  |
| Salaries | See Spec. Inst. Relating  to Allocation of Salaries &  Other Expenses (Subpart E) |
|  |  |
|  |  |
|  |  |  |
| Employee Relations & |  |  |
| Welfare |  | Overhead on Salaries |
|  | | |
| Pensions |  | Overhead on Salaries |
|  | | |
| Directors' Fees |  | Overhead on Salaries |
|  | | |
| Traveling & Entertain. |  | Special Studies |
|  | | |
| Rent & Rent Items |  | Overhead on Salaries |
|  | | |
| Equipment |  | Overhead on Salaries |
| Printing & Stationery |  | Overhead on Salaries |
|  | | |
| Postage, Telephone &  Telegraph, Exchange &  Express |  |  |
|  |
| Overhead on Salaries |
|  | | |
| Legal & Auditing |  | Special Studies |
|  | | |
| Income from Spec. Serv. |  | Special Studies |
|  | | |
| Miscellaneous |  | Special Studies |
|  | | |
|  | | |
| Expenses Included in the  Expense Group, Acquisition,  Field Supervision &  Collection Expenses |  |  |
| Bases of Allocation  to Lines of Business |
|  |  |  |
| Commission & Brokerage:  Direct |  |  |
|  | Actual, but Subject to  Instructions Under  Comm. & Allow.  (Subpart C, Section 903.420(c)(2)) |
|  | |
|  | |
|  | |
|  | | |
| Reinsurance Assumed |  | Actual |
|  | | |
| Reinsurance Ceded |  | Actual |
|  | | |
| Contingent-Net |  | Special Studies |
|  | | |
| Policy & Membership Fees |  | Actual |
|  | | |
| Allowances to Managers &  Agents |  | Spec. Studies, but |
|  | Subject to Instructions under  Commission & Allowance  (Subpart C, Section 903.420(c)(2)) |
|  | |
|  | | |
| Advertising |  | Premiums |
|  | | |
| Salaries |  | See Special Instructions  Relating to Allocation of  Salaries & Other Expenses (Subpart E) |
|  | |
|  | | |
| Employee Relations &  Welfare |  | Overhead on Salaries |
|  | | |
| Pensions |  | Overhead on Salaries |
|  | | |
| Directors' Fees |  | Overhead on Salaries |
|  | | |
| Travel. & Entertain. |  | Special Studies |
|  | | |
| Rent & Rent Items |  | Overhead on Salaries |
|  | | |
| Equipment |  | Overhead on Salaries |
|  | | |
| Printing & Stationery |  | Overhead on Salaries |
|  | | |
| Postage, Telephone &  Telegraph, Exchange  & Express |  | |
|  | Overhead on Salaries |
|  | | |
| Legal & Auditing |  | Special Studies |
|  | | |
| Income from Spec. Serv. |  | Special Studies |
|  | | |
| Miscellaneous |  | Special Studies |
|  | | |
|  | | |
| Expenses Included in |  |  |
| the Expense Group, | Bases of Allocation to |
| General Expenses | Lines of Business |
|  |  |  |
| Comm. & Brokerage-  Direct |  | See Comm & Allowances  (Subpart C, Section 903.420(c)(2)) |
|  | | |
| Allowances to Managers  & Agents |  | See Comm. & Allowances  (Subpart C, Section 903.420(c)(2)) |
|  | | |
| Boards, Bureaus & Assn. |  | Special Studies |
|  | | |
| Surveys & Underwriting  Reports | |  |
| Special Studies |
|  | | |
| Audit of Assureds'  Records | |  |
| Special Studies |
|  | | |
| Salaries | | See Spec. Instructions  Relating to Allocation  of Salaries & Other  Expenses (Subpart E) |
|  | | |
| Employee Relations &  Welfare |  | Overhead on Salaries |
|  |  |
|  | | |
| Pensions |  | Overhead on Salaries |
|  | | |
| Directors' Fees |  | Overhead on Salaries |
|  | | |
| Travel. & Entertain. |  | Special Studies |
|  | | |
| Rent & Rent Items |  | Overhead on Salaries |
|  | | |
| Equipment |  | Overhead on Salaries |
|  | | |
| Printing & Stationery |  | Overhead on Salaries |
|  | | |
| Postage, Telephone &  Telegraph, Exchange  & Express |  |  |
| Overhead on Salaries |
|  |
|  | | |
| Legal & Auditing |  | Special Studies |
|  | | |
| Income from Spec. Serv. |  | Special Studies |
|  | | |
| Miscellaneous |  | Special Studies |
|  |  |
|  |  |
| Expenses Included in the | Bases of Allocation |
| Expense Group, Taxes | to Lines of Business |
|  |  |  |
| Taxes, Licenses & Fees:  State & Local Ins. Taxes  Ins. Dept. or State  Licenses & Fees |  |  |
| Special Studies |
|  |
| Special Studies |
|  | | |
| Payroll Taxes |  | Overhead on Salaries |
|  | | |
| All other (excluding  Fed. Income & Real  Estate) |  |  |
| Special Studies |
|  |

b) Definitions

1) The term Actual means that the expenses are susceptible of direct and accurate allocation, and companies shall allocate directly to lines of business and shall not employ any apportionments or estimations.

2) For definitions of the terms Special Studies, Premiums and Overhead on Salaries, see Subpart B, Section 903.310(b).

c) Other Bases Permitted or Prescribed

For those expense classifications permitting the basis Overhead on Salaries or Premiums, any other basis of allocation may be adopted which yields more accurate results. The bases Overhead on Salaries and Premiums shall not be used if clearly inappropriate.

d) Other Instructions Applicable

In making any allocations to lines of business, companies shall observe the General Instructions Regarding Allocation Bases (see Subpart E, Section 903.620)

e) Records Required

The methods followed in allocating to lines of business shall be described, kept and supported as set forth under Detail of Allocation Bases (see Subpart E, Section 903.630(g)).

f) The effects of the application to each operating expense classification of all bases of allocation shall be shown on records kept in clear and legible form. Such records shall be readily available for examination.