**Section 903.620 General Instructions Regarding Allocation Bases**

a) Number of Items or Units

1) Item and unit counts may include the following:

A) Number of Premium Entries

B) Number of Policies

C) Number of Loss Entries

D) Number of Accidents

E) Number of Employees

 and any other unit or item counts which aid in the allocation of expenses. To the greatest practical extent, such unit or item counts shall be applied only to expenses incurred in activities having a direct relationship to the bases.

2) In determining the applicability of Number of Premium Entries as a basis of allocation, consideration shall be given to the number of premiums on original policies plus additional premiums, return premiums, reinsurance premiums, and return premiums on reinsurance. Where more than one card is punched or more than one entry is made covering only one amount, consideration shall be given thereto. Consideration shall also be given to the effect on cost of procedural differences in connection with types of entries.

3) In determining the applicability of Number of Policies as a basis of allocation, consideration shall be given to policies underlying another policy, to policies covering more than one line of business, to policies for various terms, and to the effect on cost of procedural differences in connection with types of policies.

4) In determining the applicability of Number of Loss Entries as a basis of allocation, consideration shall be given to the number of gross entries plus salvage entries and reinsurance entries, for paid or outstanding losses, or both, and to the effect on cost of procedural differences in connection with types of loss entries.

5) In determining the applicability of Number of Accidents as a basis of allocation, consideration shall be given to accidents on which specific estimates are set up, those on which no specific estimate is made, and those for which no claim is made, and to the effect on cost of procedural differences in connection with types of accidents.

6) The basis Number of Employees is of limited application and shall be used only where the cost logically follows the number of employees. It may be of use, where properly weighted, in allocating such units as cafeteria, personnel department, and payroll department.

b) Time Studies

 Time studies are actual measurements of time required to make motions, to complete a routine of regularly occurring procedure. In contemplating the use of a time study as a basis of allocation, consideration shall be given to the number of motions which must be studied to obtain a valid average and to possible distortions in the average caused by exceptional conditions during the study.

c) Overhead on Other Allocations

 Salaries of supervisors and executives may be distributed as an overhead on the salaries of employees whom they supervise. Salaries of departments such as mail and general stenographic may be distributed as an overhead on the salaries of people whose work is handled. However, no salaries shall be distributed as an overhead on other allocations if any other basis is more appropriate.

d) Premiums

1) Premiums shall not be used as a basis of allocation except when specifically noted as a permissible basis or when the expense is incurred as a percentage of premiums (subject to instructions under Commission and Allowances in Subpart C, Section 903.420(c)(2)), or when the expenses are logically allocable on the basis of premiums. In no event shall premiums be used as a basis of allocation in connection with clerical, technical, secretarial, office maintenance, supervisory and executive activities unless such basis is clearly appropriate and until all other reasonable bases of allocation have been considered and found less appropriate than premiums.

2) In determining the applicability of premiums as a basis of allocation, consideration shall be given to the applicability of direct and reinsurance premiums, and written, earned and unearned premiums, as well as to subdivisions thereof.

e) Dollar Volume of Losses

1) Dollar Volume of Losses shall be used as a basis of allocation only when the activities resulting in expense are influenced by the dollar amounts of losses, and only when all other reasonable bases of allocation have been considered and found less appropriate than Dollar Volume of Losses.

2) In determining the applicability of Dollar Volume of Losses as a basis of allocation, consideration shall be given to the applicability of direct and reinsurance losses, and paid, incurred and outstanding losses as well as to subdivisions thereof.

f) Other Special Studies

 Salaries may be allocated on the basis of other special studies, provided demonstrably more accurate results are thereby produced than through the use of the bases heretofore discussed, but not otherwise.

g) Weightings

 Weightings may be applied in using any bases of allocation but the justification for such weightings shall be stated in the Detail of Allocation Bases (see Subpart E, Section 903.630(g)). Weightings shall not be used as a means for giving effect to a basis which is prohibited by these instructions.

h) Bases Shall Be Appropriate

1) The bases of allocation used shall be appropriate and applicable to the expenses to which such bases are applied. All bases shall be limited and subdivided in such manner that the expenses to which the bases are applied have a reasonable relationship to each component of the bases. For example, an allocation basis which includes a particular line of business shall not be applied to expenses incurred for activities which do not include that line.

2) Any basis of allocation which is found to be inappropriate shall be discontinued.

i) General Work On Totals

 Where an individual or a group of employees work on totals, the allocation of the expenses involved may be based on the information entering into the totals.

j) Bases Shall Be Made In Current Period

 All bases of allocation shall be compiled or calculated from the transactions or procedures for the period applicable to the expenses to be allocated, unless the use of any other period is justified by investigation made during the applicable period. Such justification shall be set forth on the Detail of Allocation Bases (see Subpart E, Section 903.630(g)).