

Erie Indemnity: Setting the Next Management Fee

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Erie Indemnity Company occupies an unusual position in the insurance business. It is a publicly traded stock company and attorney-in-fact for the subscribers of Erie Insurance Exchange. The Exchange writes insurance and is Indemnity's sole customer. Indemnity provides policy issuance, renewal and administrative services in return for a management fee governed by the subscriber agreement.

The two organizations depend on one another, but their interests and financial statements are not interchangeable. Indemnity's stockholders benefit from the company's earnings and capacity to provide services. Exchange subscribers depend on the Exchange's financial strength, competitive insurance products and service. The Board must consider both organizations when it sets the management-fee rate.

For this classroom exercise, take the perspective of a director preparing for the Board's recurring decision on the **2027 management-fee rate**. This is a teaching frame, not a disclosed Board assignment or meeting. The Board generally sets the rate annually, usually in December for the following year. The subscriber agreement caps the rate at 25%; the rate for 2026 is 25%. What rate should the Board set for 2027, and what evidence and process should support that decision?

Three defensible paths

1. **Retain the 25% cap.** Preserve the existing rate and the resources it may support for policy issuance, renewal, agent compensation, technology and administration.
2. **Set a lower rate.** Leave a larger share of the economics in the Exchange, while testing whether a lower fee could support its competitiveness or subscriber interests.
3. **Choose an intermediate rate with review conditions.** Balance Indemnity's service capacity and Exchange interests, and specify the operating evidence the Board should require at its next review.

The alternatives are not forecasts. Public disclosures do not establish the effect of a rate change on insurance prices, Exchange surplus, agency behavior, service quality, or retention. The Board's task is to make a decision under that uncertainty, not to calculate an undisclosed optimal rate.

Two entities, one operating relationship

Indemnity has served as managing attorney-in-fact for Exchange subscribers since 1925. The Exchange is a reciprocal insurer; Indemnity is the public company that provides the management services. The Exchange and its affiliated insurers use independent agencies as their distribution channel. Those agencies are non-exclusive: they also place competitors' products. ERIE describes its goal as being the lead insurer with its agents, but the public record does not disclose how agents allocate attention among carriers.

The management fee is based on the Exchange's direct and affiliated assumed written premiums under the subscriber agreement. The 25% contractual ceiling and Board-set rate should not be confused with Indemnity's reported accounting revenue allocation. Under the filings' revenue-recognition approach, issuance and renewal fee revenue is recognized as services are performed, with estimates for cancellations. Indemnity reported an allocation of 24.41% for the first half of 2026. That accounting figure is not a different contractual cap or a simple statement that 25 cents of each premium dollar is reported as current-period revenue. [1]

The financial measures also describe different entities and accounting bases. Written premiums refer to Exchange insurance activity. Exchange policyholders' surplus is a statutory insurer measure. Indemnity reports its service operations and earnings under GAAP. A change in the management-fee rate could affect the relationship between the entities, but the available disclosures do not quantify policyholder pass-through or other resulting effects.

The Board's recurring decision

Indemnity reports that the Board sets the rate at least annually, generally in December for the coming calendar year. In setting it, the Board considers operating results against prior-year and industry estimates, the relative financial strength and capital of Indemnity and the Exchange, projected revenues and expenses, earnings and capital needs, and competitive position. [1]

At the cutoff, the most recent operating information was the second quarter and first half of 2026:

Exhibit 1. Selected operating context

Measure	Latest disclosed result	Entity / basis
Direct and affiliated assumed written premiums, H1 2026	\$6.769 billion; up 3.4% year over year	Exchange and affiliates; written premium
Policy retention	87.5% at June 30, 2026; 88.4% at December 31, 2025	Exchange; two different measurement dates
Policyholders' surplus	\$10.7 billion at June 30, 2026; \$10.1 billion at December 31, 2025	Exchange; statutory measure
Issuance and renewal fee revenue allocation, H1 2026	24.41%	Indemnity; GAAP revenue recognition
Policy issuance and renewal operating cost, H1 2026	Up 4.2%	Indemnity; expense categories as recast in the 10-Q
Agent compensation share of 2025 issuance and renewal expense	About 71%	Indemnity; full-year 2025 expense mix
IT services share of 2025 issuance and renewal expense	About 10%	Indemnity; full-year 2025 expense mix

Sources: 2025 Form 10-K, Item 7, p. 19; Q2 2026 Form 10-Q, Item 2, pp. 28-35. Values are reported by the company. The retention observations have different date endpoints and are not a matched-year comparison. H1 premium growth reflects price, exposure, mix and new business; the filing does not provide a decomposition sufficient to isolate those effects. The H1 2026 expense comparison uses the 10-Q's recast presentation.

The Exchange's surplus increased over the six months, and the company reported an A ("Excellent") AM Best rating for the Exchange and property-casualty subsidiaries. These facts provide context for capital strength. They do not establish that capital is excessive or that any particular fee rate is affordable.

Indemnity reported that H1 commissions rose \$72.7 million, primarily because of incentive compensation and premium growth. It also reported that H1 issuance and renewal costs increased 4.2%. These figures describe the operating stakes; they do not establish whether spending created incremental service value, whether higher commissions generated business, or whether a lower fee would reduce services. The 2025 disclosure attributes approximately 71% of issuance and renewal expense to agent compensation and about 10% to IT services. Expense shares do not measure the return from either activity. [1]

A channel question without a channel answer

ERIE identifies competition from direct-writing insurers and companies using captive or employed agents. Its independent agencies sell multiple insurers' products. This creates a strategic question: how much service and agent support does the Exchange need to remain competitive, and what evidence would show that the fee funds valuable activity?

Academic studies suggest competing mechanisms. Independent agents may provide screening, coverage matching and service that support better outcomes. They may also increase costs relative to other distribution systems; direct models have shown stronger cost or revenue efficiency in some historical insurer samples. The available studies are old or only partly accessible, and they do not identify the return on ERIE's current services or an optimal fee.

Treat them as provisional context, not as company-specific evidence. [2]

The Board therefore faces an information problem as well as a rate choice. The public filings do not provide agency-level productivity, channel share-of-wallet, service-quality measures, line-level retention and profitability, prospective capital budgets, or evidence of how a fee change would affect subscriber prices or Exchange surplus.

Governance context

The Q2 2026 Form 10-Q reported that an amended complaint was filed on June 11, 2026, adding two plaintiffs and seeking to challenge management-fee amounts for calendar years 2020 through the present. The filing describes allegations concerning fee setting and states that Indemnity intends to vigorously defend against the allegations and requested relief. These are plaintiffs' allegations in a pending action, not findings or a determination of liability, fee fairness, financial effect, or outcome. No later procedural developments are part of this case's information set. [1]

This disclosure makes the Board's process and record relevant to the discussion. It does not establish that a lower 2027 rate is required or that any prior rate was improper.

Decision brief

Prepare a short recommendation to the Board that:

1. Selects a 2027 rate within the 25% contractual ceiling and explains the strongest case for a different rate.
2. Separates Indemnity's resources and stockholder interests from Exchange subscribers' insurance and capital interests.
3. Identifies the financial and operating evidence needed to assess service capacity, agent support, Exchange competitiveness and both entities' capital needs.
4. Proposes two or three review measures, identifies who should produce them, and explains what evidence would cause the Board to revisit its choice. Any thresholds or review dates you supply are classroom assumptions, not company targets.
5. States what cannot be concluded from public evidence, including fee elasticity, optimal rate, pass-through to policyholders, service return and causal retention effects.

Do not assume an undisclosed Board discussion, management intention, fee change or lawsuit outcome. Keep the three alternatives plausible; your grade depends on your use of evidence and reasoning, not on selecting a predetermined rate.

Source notes

1. Erie Indemnity Company, 2025 Form 10-K, filed February 23, 2026, Item 7, "Operating Overview," p. 19 and related financial statement notes; Q2 2026 Form 10-Q, filed July 30, 2026, Item 1 and Item 2, pp. 4-15 and 26-35, Part II, Item 1, "Legal Proceedings," pp. 38-40. SEC filing links and detailed locators are in the research source register. The 10-Q accession is 0001628280-26-051079.

2. See the research source register for bibliographic details and access depth for Berger, Cummins & Weiss (1997), Regan & Tennyson (1996), Cummins & Doherty (2006), Park, Lee & Kang (2009), and Rubio-Misas (2022). These studies provide competing historical mechanisms, not ERIE-specific estimates.