

AMS Accounting Terminology

Agency: An entity that places insurance coverage on behalf of its clients with various Insurance Companies or Brokerage Companies for a commission (usually a percentage of premiums).

Agent: An employee of an agency. An individual licensed by the state to counsel others on insurance coverage. Also known as: a producer or executive.

Insured: The owner of the insurance policy. The agency's customer or client.

Insurance Company: The issuer of coverage. Also called carriers. Agencies typically have contracts allowing them to place business with specific companies.

Brokerage Company: A large agency that caters to other agencies by placing coverage with carriers with whom the agency does not have a contract. Brokerage commissions are normally lower than commissions with companies because the agency shares commission with the broker. In addition, the brokerage payment terms are usually not as favorable (long) as the insurance company's, so collections must be done well.

Fee Company: A fee company in AMS360 is a state entity to which surplus lines taxes are paid directly by the agency. This workflow involves setting up a billing charge for the state-specific surplus lines tax, which will then flow to an "account current" on the fee company.

Finance Company: An organization which finances insurance premiums.

Broker: An agent who does not work for the agency, but who places business through the agency. The Broker may also be another agency. Brokers are generally responsible for the payment of all agency billed premium placed through the agency. The agency does not normally contact the Broker's customers. The difference between an outside producer and a broker is one of the main points of confusion in AMS360. Only set up a broker and make the customers "brokers customers" if the agency intends to hold the broker responsible for payment of premium (a broker's statement will be produced) and the agency will not write any policies on that customer that are not shared with the Broker.

Agency Bill vs. Direct Bill Accounting

Agency Billing

In an agency billed policy, the insurance agency bills the insured for the policy issued by the insurance or brokerage company. We act as the middleman in this financial transaction, collecting the entire gross premium from the insured, our client, and passing on the net premium (premium reduced by our commission) to the insurance or brokerage company.

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Example: Policy is issued for \$1000.00 premium, at 15% commission. We need to bill the client for \$1000 (gross), and remit \$850.00 (net) to the issuing company, retaining our commission. We may or may not be paying a producer a percentage of the agency's commission.

An Agency Billed transaction is one in which we collect gross premium from our client and remit the net premium to the insurance carrier.

Direct Billing

In a direct billed policy, the Insurance Company bills our client directly. The client pays the carrier, who then forwards our commission monthly on a Direct Bill Commission Statement. Normally, the agency plays no role in handling the premium for a direct billed policy. Even if we somehow get involved in collecting or remitting the premium, gross premium is involved and we receive commissions the month following that in which the Insurance Company was paid. We do not withhold commission from direct billed premium that may end up at the agency—the entire amount is forwarded to the carrier and our commission is paid by the company or brokerage. The agency may or may not pay a producer a part of the agency's commission.

A Direct Billed transaction is one in which our client pays the Insurance Company directly and we receive commission from the company. We do not normally collect the premium on direct billed transactions.

Bank Accounts

Operating Account: The agency's main business account. This account is the recipient of direct billed commissions as well as agency billed commissions transferred from the trust or escrow account. Payroll and various vendor expenses are paid out of this account.

Trust/Escrow/Fiduciary Account: A bank account maintained solely for the purpose of depositing client premium payments and remitting premium payments to carriers. Commission amounts received as part of premium payments are transferred to the operating account on a regularly scheduled basis.