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.

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 AfW and AMS360. Only set up a broker and make the customers “brokers customers” if the agency intends to make 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
What is it?

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

Example: Policy is issued for $1000.00 premium, at 15% commission. We need to bill the client for $1000, 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.

How is it done?
In the AMS system, agency billing is done from the Customer Service module, from within the Policy at the Premium tab. Pushing the Create Invoice link and invoicing premium affects at least three General Ledger accounts: It debits the customer Accounts Receivable (11211) for the Gross Premium. It credits Agency Billed Income (40111 or 40112 - Prop & Cas, or another revenue Group) for the commission and it credits the Company Payable (21111 or 21112) for the Net Premium due to the carrier. The invoice may also affect the Commission Expense (51110 or 51120) and the Commission Payable (21131) accounts. The fact that the invoice affects so many accounts is one reason that invoices should only be corrected via the CORRECT BILLING process, which corrects all accounts.

Paying For Agency Billed Policies—Account Current/Company Statement

Typically, agency billed policies are paid for in large numbers via a statement. When the agency gives the statement to the Insurance Carrier, it is called an Account Current. When the Insurance Company provides the statement to us, it is called a Company Statement. However, as far as the GL is concerned, these are the same transaction, regardless of who bills whom.

If we are on an Account Current basis, then at the beginning of each month we forward our list of policies due for the previous month to the carrier. This amount is due on the 15th of the following month. For example, the July Account Current is built and mailed in early August, and is due September 15th.

If we are on a Statement Basis, then the company provides us with a statement after the close of the month. Again, the statement is due on the 15th of the following month. The only exception to the due dates indicated, is in the case of Brokerages, who often demand payment in the month immediately following the statement. Pay particular attention to the due dates whenever dealing with Brokerage Companies. (In some cases, Brokerages want to be paid one invoice at a time, rather that on a statement. This usually occurs when the volume of transactions is low.)

Direct Billing
What is it?

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.

**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 withhold commissions from direct billed transactions.**

**How is it done?**

Income from direct billed policies can get into the AMS system in one of three ways.

**Statement entry:** This is the most common. Statements are either downloaded from the insurance company or data entered into AMS, crediting the income account (40121 or 40122—Prop & Cas) and debiting an asset account for the company check (11241 or 11242). This is the most commonly used method because commissions are posted accurately as they are paid by the company, thus income is actually on a Cash basis for direct billed items. We only pay producers on income we have received, and we are able to run production numbers by client, LOB, company, etc. The downside is that we are basically accepting the company's statement without any good means to reconcile it to our own books.
Service Billing: Billing from the client screen looks the same as when billing agency bill, but the General Ledger postings are the same as for statement entry. This is the second most used method. The pros here are that we develop our own list of what commissions are due and we have access to all production reports. The negatives are that we post commission before it is received (and thus may pay producers) and that we must reconcile this against the company statement if it is to do any good, and often commissions are posted incorrectly and correct billings must be done (especially for personal auto). This can be a huge undertaking.

Depositing the check as Income: This is the least used approach. The check is deposited to the General Ledger Income Account (40121 or 40122) and no invoice detail is entered. The down side of this is that no production reports will be available.

Statement Entry with Reconciliation (Deluxe)
In this form of statement entry, the system will prefill a statement based on data input at the policy level. These “expected” direct bill transactions can then be accepted and reconciled. This choice forces reconciliation, but applies income in the same way as statement entry.
AMS Accounting Terminology
Understanding Agency and Direct Billing