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An Insurance Broker's Accounting Procedure

Helen P. Juergens

You may question the title of this paper.

It is not "Insurance Accounting"—nor is it "Insurance Company Accounting."

It is titled "Insurance Broker's Accounting" as there is a difference between Company and Broker's Accounting.

Before we begin the Accounting phase, I believe we should go into the background of an Insurance Company and an Insurance Broker.

An Insurance Company is the *insuring* part of your contract. An Insurance Company assumes the responsibility of *payment* for any losses or claims incurred during the period of coverage written in a contract, duly authorized and signed by its legal representative, with the premium therefor paid by the Insured.

An Insurance Broker represents the buyer of insurance rather than the seller and he deals with many, many different Insurance Underwriters in obtaining value for his client's insurance dollar and rendering counsel and advice. He thinks of himself as being on the "buyer's side of the fence" and since it is a fact that an Insurance Company must of necessity look at the problems first and foremost from the Insurance Company's point of view, the client needs someone in the middle to interpret, rationalize and, possibly, compromise differences.

An Insurance Broker is the *servicing* part of your contract and is responsible to the Company for the collection of all premiums.

Some Brokers are responsible for the collection of premiums to Agents or other Brokers. Very often they pay net to the Agent or Broker (which means premium less commission) but in some cases, the *gross* premium is paid and monthly remittances are issued to the Broker for all commissions due on paid premiums.

An Agent or Broker has duties and responsibilities toward his clients in addition to his represented Companies. The Commercial Accounts or Individuals to whom he sells insurance coverages are his Insureds or Customers. The selling procedure is quite interesting and usually follows this pattern.

The Broker interviews an Executive or Insurance Manager of a large Plant—secures all records on insurance coverages and, in most cases, is given all contracts of the present carrier. The Broker then makes a study of the present coverages and then drafts a proposal

of what he believes is necessary and advisable to insure the Company's properties and their liabilities. This proposal is then presented and thoroughly discussed with the Executive or Insurance Manager. In some cases, other executives are brought in on the discussions as to the final decision on the matter. There may be occasions also when a Broker may use the knowledge and experience of an Insurance Company Executive.

If the Broker is awarded the order, policies are written and delivered to the Insured. Now, the premiums on the entire account are paid by the Insured in due course, usually 30 days from date on contracts. The Broker's commission is deducted from the premiums and paid to the Company within 60 days.

Should a loss occur or claims be made against the Insured, notice should be given to the Broker, who, in turn, handles the reporting and final adjustment with the Insurance Company adjusters.

The loss or claim is *paid* by the Company to the Insured direct—but it is the duty of the Broker to care for his clients' interests at all times until claim is satisfactorily settled.

Some Insurance Brokers do a great deal of business with one another. One will represent a certain Group of Companies—another, a different Group. Each Insurance Company sets a limit of liability it cares to assume on any one particular risk. When a Broker secures a large account and he exhausts the liability limits of his Companies, he turns to another Broker representing a different Group and places the excess amount with him.

This may be done with four or five other Brokers until the entire line has been placed. In a transaction such as this, the first Broker whose business it is, loses some of his commission to the second, third or fourth Broker.

Now with that background, we may begin with the Accounting Procedure of an Insurance Broker.

A Broker who is also an Agent for Groups of Companies, reports all of his monthly writings for each individual Company under one report which is called an "Account Current." This "Account Current" records all data pertaining to each piece of business written in a particular month for each specific Company represented by the Broker.

The premiums are tabulated—the commis-

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sions are figured and net balance recorded. The report is sent to the Company at the close of business and the net amount is due and payable within 60 days. This may help you to understand why *your* Insurance Broker requests prompt payment of high auto and homeowners premiums, because no matter what part is left unpaid at the end of the given time, your Broker must advance the money for your protection and his credit rating and to keep his high reputation in this field.

In addition to "Accounts Current" reports, there are risks placed with Companies not represented as Agent and these items are called "Brokerage Accounts." These items are listed individually and picked up in the same manner when paid. These premiums are also due within 60 days, except in some States where the time limit is only 20 days from date of inception.

Our Company has a complete installation of electronic equipment in the Chicago, New York and San Francisco Offices, and this installation services all other offices in the particular area. The St. Louis Office uses a Friden Flexowriter which tapes all necessary data for any accounting or statistical report.

These tapes together with typed invoice copies are mailed to Chicago. The tape is then converted to listings which is the beginning of the Accounting Department functions.

In addition to all Accounting requirements, any sort of statistical report can be submitted to Management in a very short period of time from these identical punched cards and listings.

For instance, should Management want a breakdown of total *commissions* for a designated period of time by *class* of coverage, i.e.

- Fire
- Casualty
- Marine (5 classes within one class)
- Bond & Burglary
- Boiler & Machinery
- Life
- Accident
- Pension

or a quarterly report of Premium volume, by class, placed with certain Groups of Insurance Companies, all that is necessary is a call to Chicago and the next morning's mail will bring results in the exact requested detail. If this same job were assembled manually, it would involve days of recording—adding—checking; but with electronic tabulators and computers, the job is comparatively simple—if all input is correct and kept current.

We can also have listings run off giving us the volume of premium or commissions involved in any given period of time—i.e.

- Annual
- 3 Years
- 5 Years

These figures are sometimes necessary in setting up a budget for the year.

Then again, Management may be interested in a particular producer's volume. His total premiums and commissions can be arrived at very easily by using a "Contact Number" recorded in original billing data and a listing is run off giving this figure. We have a fast and correct dollar total of the production of a particular individual.

Our "Accounts Receivable" and "Accounts Payable" Trial Balances are run off in the same manner—also "Accounts Receivable" balances are "aged" for the Credit Department.

Deposits and "Cash and Check Disbursements" are recorded daily on the same machine with different program tapes and from these listings come all "Cash and Disbursements" cards to be matched with Accounts Receivable and Accounts Payable cards. When balanced, the cards are pulled from the current file and zero-punched to remove entries from future Trial Balances and Statements.

These cards are then filed in a "Closed Card File" for any reference necessary at a future time.

Our monthly reporting consists of a Comparative Net Income Analysis and a Comparison of Expenses for the previous year and current year to date.

On the Quarter, we report in a more complete manner. In addition to Comparative Net Income Analysis and Comparison of Expenses, we submit the following:

- Balance Sheet
- Balance Sheet Supporting Detail
- Statement of Working Capital
- Working Capital Reconciliation
- Statement of Advanced Premiums
- Other Receivables—Detail
- Other Payables—Detail
- Sub-Brokerage Paid—Detail
- Statement of Fixed Assets & Prepaid Expenses

All of the first four Reports require comparisons for three preceding years together with first, second, third quarterly, or complete four-year, figures.

The Balance Sheet records cash which does not include any monies collected for which Companies have not been paid. These payments are totalled and pulled out of "Cash in Banks" listing and set up as Trust Funds on Working Capital Statement as contra figure both in Assets and Liabilities.

The Accounts Receivable total includes only the Uncollected Income which is the commission on Unpaid Premiums—Fees due from customers for Engineering or Actuarial Services, Advanced Premiums which is money advanced to Companies on past-due items.

(Continued to page 15)

In This Issue

This issue contains two articles written by ASWA members describing accounting procedures of their particular businesses. The editor is hopeful that these articles will provide inspiration for other readers to consider submitting similar materials for possible use in forthcoming issues.

Helen P. Juergens is Chief Accountant in the St. Louis, Missouri office of Marsh & McLennan, Inc. She describes in detail the accounting procedures of her particular company and defines terms encountered by accountants with respect to insurance coverage.

Rita V. Rodriguez is a native of Cuba and a graduate of the University of Havana. She is Vice President and Comptroller for Sugar Cane Farms Company of Palm Beach, Florida, and previously was employed in the sugar industry in Cuba.

Pauline Graham of London, England, was introduced to our readers in the February 1964 issue when she reported on the 1963 European

Congress of Accountants. Her manuscript is based upon a paper presented before her Accounting Seminar at the London School of Economics.

Correction

One of our readers, Anne Mantzoros, Chicago ASWA Chapter, has called our attention to an error appearing on Page 3 of the April 1964 issue, "Benefits of Adopting a Natural Business Year." The reference to the requirement of estimated tax payments by smaller corporations, under the 1954 Code, should be changed to read that smaller corporations with estimated *taxes* for the current year of less than \$100,000 are not required to pay the first installment of income tax until 2½ months after the close of the fiscal period with the balance due three months later.

Our appreciation to reader Mantzoros for calling this to our attention.

Annual Meeting

American Society of Women Accountants

In accordance with ARTICLE X, Section 1, of the National Bylaws of the American Society of Women Accountants, notice is hereby provided that the 24th Annual Meeting of the Society will be held in conjunction with that of the American Woman's Society of Certified Public Accountants at The Americana Hotel, Bal Harbour, Miami Beach, Florida, September 30-October 3, 1964. The Annual Business Meeting of the American Society of Women Accountants has been called for 9:30 a.m. on Friday, October 2, 1964.

Eileen Griggs
National Secretary, 1963-64

Miss Peters (Continued from page 9)

In 1961, Miss Peters was appointed to fill the unexpired term of Betty Brown as National First Vice President and Advisory Chairman. She has also served the Society as Auditor, Secretary, Vice President, and President-Elect, during the period since 1960.

She previously was President of the Detroit ASWA Chapter and is presently a member of the American Institute and Michigan Association of CPA's, AWSCPA, and the American Association of Hospital Accountants.

Insurance Brokers (Concluded)

The Accounts Payable, likewise, includes only such items as commissions due Brokers, employees' payroll deductions, etc.

Of course, the Balance Sheet carries all other figures such as:

Accrued Taxes
Investments
Net Worth

in the same manner as any other Company's Balance Sheet.