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Commission Accounting Playbook 2019





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Commission Accounting for Life Insurance and Annuity Agencies

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Commission Accounting for Life Insurance and Annuity Agencies

Introduction Automate Commission Accounting and Paying Agents

A Commission Accounting System allows you to track commissions/overrides and bonuses due to your agency and your agents. You can project monthly cash flow; track deals for paying overrides out of house to your top producers; know your score card to look at profitability; and measure the success of marketing campaigns.

The electronic transmission of commissions from your carriers to your commission accounting system provides many benefits to the carrier, general agency and for the agent. If a BGA uses a commission accounting system either as part of their agency management system, like Ebix SmartOffice, or a separate commission system, like SPI GreenWave, to track commissions received, then a commission data feed from a carrier is critical for tracking payables on in-house deals to pay overrides on modalized premium to a BGA's top producers. This improves the effectiveness and efficiency of commission processing by eliminating and reducing time delays, costs and potential errors with manual processing. The result of an electronic commission statement is automated reconciliation. The data in the electronic commission statement enables the BGA's commission accounting system to verify if all participants in a case hierarchy were paid correctly on the expected modal premium, identify chargeback of commissions and adjustments, match the transaction total against the commission check amount, and list expected commissions on cases that were not received at all.

Another benefit is persistency management, which provides an opportunity to improve and stabilize long-term income. The carrier can reduce expenses by eliminating the printing and mailing of commission statements, not to mention all the urgent “special requests” for commission information. The commission data empowers the BGA to handle more efficiently commission status calls from agents by providing better service, resulting in fewer status calls to the carrier. The commission data feed makes it possible for the agent to see their commission statements online at the Carrier/BGA's website.

Commission Accounting System Benefits for an Agency & Agent

- Trust with the carrier that the Agency was paid properly because of the reconciliation process
- Paid as Expected
- Track commission in-house deals and generate statements for Agents
- Reduce commission status calls by providing commission statements online for the agent
- Cash flow – project monthly income
- Score Card – Analyze Commissions, Overrides and Bonus income
 - Marketing Campaign profitable
 - Revenue from Agent commission deals to see was it worth giving the house away for example
- Reduced expenses
 - Manually tracking commissions
 - Reduced commission status calls



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Commission Data Feeds - Benefits for the Carrier

- Better relationship with the distributor because the Agency can auto-reconcile their commissions
- Stronger distributor relationship results in more business from that distributor
- Eliminate commission statements' printing and mailing costs
- Reduced commission status calls
- Reuse data feed for the Carrier Agent Portal

Commission Reconciliation

Below is the complete list of reconciling your commissions. As a Brokerage General Agency (BGA for example) that means “Overrides”, “Bonuses”, and direct commissions on personal production. Each reconciliation type listed below are reasons why each item may not have reconciled. Your commission reconciliation reports should include the items listed below:

- Did you get paid as expected on modal premium?
 - Premium was not paid as expected such as a mode change
 - Different amount on a 1035 full surrender
 - Paying up on past premiums paid late
 - Premium paid late and double payment entered same commission cycle
- First Commissions not received
 - Case not placed Inforce in time for the commission cutoff date
 - Licensing and contracting issue holding up first commission
 - Case coded to coded to a different agent in error
- Renewal commissions on large premium cases
 - Some older blocks of business may not be in your commission system for reconciliation. Filter specific cases such as those with premium greater than a certain amount.
- Do the commission transactions add up to the check/amount credited to your bank?
 - Prior debit balance forward
 - System calculation error
- Filter chargeback of commissions and adjustments
 - Insufficient funds
 - Corrections (debit or credit)
- Bonus
 - Agency commission system can't support bonus qualification criteria
 - Date sensitive such as a quarterly bonus where some of the premium production missed the cutoff date



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Premium Components / Payment Rate Category

Premium components define if a commission schedule shows a different commission rate or no commission at all on part of the premium such as policy fee or a specific rider. Premium components are necessary for commission reconciliation, projecting commissions, and paying overrides to agents. The premium components listed below are the most common used for life insurance. You need to break down your premium by premium component if the commission rate is different or no commissions are paid on part of the premium.

- Commissionable/Basic Premium
 - Premium that is completely commissionable
- Target Premium
 - Universal Life maximum amount for full commissions
 - Calculations need to be supported for “Rolling Targets”. Premium paid in below target into the second policy year, but pays first year commission rate
- Excess Premium
 - Premium exceeding target amount
- Policy Fee
 - A policy fee on a term product for example may not be commissionable
- Rider Premium
 - A premium for a specific rider may pay a different commission rate than the base coverage premium
- Flat Extra Premium
 - A temporary flat extra premium on a Universal Life policy may not be commissionable

Posting Commissions

There are 3 models for posting commissions. They are listed in order of the quickest, and most automated way to process commissions to the least and most manual and time intensive:

- Commission Data Feed from a Carrier
- Expected Commissions List
- Looking up each policy one at a time



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Biggest Challenges

You shouldn't be discouraged with initial setup and maintenance items listed below. There are ways to shortcut, automate and resource these items.

- Setting up and maintaining carrier commission schedules
 - Commission Bands
 - Multiple Schedules / levels
 - Multiple Carriers
 - Multiple Products types including other lines of business like Annuities
- Setting up In-House Schedules to Pay Agents Overrides
- Maintain ongoing commission rate changes
- Adding new carriers and products
- Building hierarchies
- Assigning schedules to the hierarchies
- General Accounting System integration
- Agency Management System integration if Commission System is separate from AMS

Agency Commission Accounting Systems for Life and Annuities

- Ebix SmartOffice Commission Module
 - <http://www.ebixcrm.com/smartoffice-for-bga>
- GreenWave Commissions System
 - <https://greenwavecommissions.com>
- IPipeline Agency Integrator Commissions
 - <https://www.ipipeline.com/insurance-software/insurance-application-software/agency-integrator>
- OneHQ – HQ Commissions
 - <https://onehq.com/operations>
- Vertafore – VUE Commissions
 - <http://www.vuesoftware.com/vue-compensation/>



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Commission Data Formats

Most carriers have your commission statements available in an electronic format. If you are doing business with 5 or more carriers then the most efficient way to get a data feed is from a data aggregator like Ebix Data Exchange Online for example to feed the commission data to your commission accounting system, which will then do the reconciliation and generate any payables to your agent automatically.

- ACORD XML 1206 Transaction
- DTCC NSCC Commission Data Transaction
- CSV file
- Excel File
- XML Other

Security

Setup commission accounting security profiles based on role in the agency. Assuming the Commission Accounting is part of the Agency Management System see the roles below:

- Commission Department – Full Access
- Licensing Department – Commission Contracts, Schedules and Hierarchies
- New Business – Commission information on Cases
- Reporting
 - Contract and schedules setup reports – IT and Commissions Dept
 - Reconciliation reports – Commissions Dept.
 - Production and Commissions Received – Operations, Commissions, Senior Management

For more information: Visit InsurTech Express: www.insurtechexpress.com

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