1991

Comment letters on Proposed Industry Accounting Guide for Insurance Agents and Brokers dated August 15, 1991

American Institute of Certified Public Accountants. Insurance Agents and Brokers Task Force

ED on Proposed industry accounting guide "Insurance Agents and Brokers"

No.	Date Rec'd	Name of Respondent	Mailed to Task Force
			11/6/91
1	9/13/91	McQuade & Capron	
2	10/24/91	Walts, Scobie & Wakeford	
3	10/25/91	Grand Rapids Holland Ins. Inc.	
4	10/29/91	Louisiana Society of CPAs	
5	10/29/91	American Business Insurance	
6		Holmes Murphy	
7		McCracken Computer Inc	
8	10/30/91	Cashan & Comp. Ins.	
9		Olson & Olson, LTD	
10		Delphi Users Advisory Group	
11	10/31/91	Marsh & McLennan Co	
12		Florida Institute CPAs	
13		Moore Poveriz, Welbrett & Marsh	
14		Smith Sibley & Company	
15		JCL Insurance Agency Inc	
16		Frank B. Hall	
17		Arthur J Gallagher & Co	
18	11/1/91	Frederick Rauth & Company	
19		Eastern Insurance Group	
20		E Kenkes & Co.	
21		E. M. Ford & Co.	
22		The Flagship Group LTD.	
23		Vaaler Insurance, Inc.	
24	11/4/91	First Security	11/15/91
25		Andy Anderson Ins. Agency	

Proposed industry guide
"Insurance Agents and Brokers"

of S.	Date Rec'd	Name of Respondent	Mailed to Task Force
			11/5/91
26	11/4/91	Engle-Hambright & Davies, Inc	
27		Britton-Gallagher & Assoc, Inc	
28		Delphi Information Systems Inc	
29	11/5/91	Underwriters Safety & Claims, Inc.	
30		Underwriters Safety & Claims Inc	
31		Massachusetts Society of CPAs, Inc	
32		Smith Inc.	
33	11/7/91	Adler, Green & Hassen	
34		Berends Hendricks, Stuit	
35		Steen, Layland & Company	
36	11/8/91	Insurance & Financial Services, Limited	
37	11/12/91	Riggs, Counselman, Michaels & Downes, Inc.	
38	11/18/91	Max Behm & Assoc.	
39		Robert E Miller Insurance Agency	
40		Trier, Reeves & Lawley P.C.	
41		Dean and Company	
42		Gale Smith and Co. Inc.	
43		PDP Group	
44		The Daniels Agency, Inc.	
45	11/19/91	Yates Insurance Agency	
46		PDP Group	
47		Creative Risk Management Corp	
48		Reager Harris	
49		Byerly Insurance Agents	

ED on Proposed Industry Accounting Guide
"Insurance Agents & Brokers"

Ref No	Date Rec'd	Name of Respondent	Mailed 3/10 Task Force
50	11/19/91	Huffman & Associates	
51		Cohen-Seltzer, Inc.	
52		Reager Harris	
53	11/18/91	Taylor & Mark	
~~54~~	~~11/19/91~~	~~New Hampshire Society of CPAs~~	
54	11/19/91	Russell E. Stephens & Co.	
55		Barney & Barney	
56		Riggs, Counselman, Michaels & Downes, Inc.	
57		Pye, Karr Ambler &	
58		John C. Weghorn Agency, Inc	
59		Frank F Haack & Assoc. Inc	
60		D. J. W. Insurance Agency, Inc.	
61		Dan Bothrell Agency, Inc.	
62		Reager Harris Insurance	
63	11/20/91	Starkweather & Shepley, Inc	
64	11/19/91	Ben A. Reed & Assoc, Inc	
65	11/20/91	McQueary & Henry, Inc	
66	11/20/91	McQueary & Henry, Inc	
67	11/20/91	Mack and Parker	
68		Purefoy & Company	
69		The Young Agency, Inc	
70		Upshaw	
71		Frank Furman	
72		Pritchard & Jerden, Inc	

Reference Number	Date Recorded	Name of Respondent (Company, Co.)	Mailed to task Force
73	11/20/91	Frank F. Haack & Associate	12/13/91
74	11/20/91	McQueary & Henry, Inc.	
75	11/21/91	Huffman & Associate	
76	11/22/91	Creative Risk Management Corp.	
77	11/21/91	Spear, Safer, Harmon & Co.	
78	11/22/91	Smyth, Sanford & Gerard	
79	11/21/91	Dejarnette & Paul, Inc.	
80	11/21/91	Boynton Brothers & Co.	
81	11/21/91	J. Edward Cochran & Co.	
82	11/21/91	Laub Group, Inc.	
83	11/21/91	Wisenberg Insurance & Risk Management	
84	11/20/91	Dawson Insurance & Financial Services	
85	11/21/91	Morgan-Marrow Co.	
86	11/20/91	Insurance Brokers, Great Lakes Agency	
87	11/20/91	Doherty & Russo	
88	11/19/91	Wright & Percy Insurance Agency	
89	11/20/91	Clair Odell Group	
90	11/20/91	Morse, Payson & Noyes	
91	11/21/91	Athens Insurers	
92	11/20/91	Cottingham & Butler, Inc	
93	11/21/91	Professional Insurance Agents, Inc.	
94	11/21/91	John C. Conklin Agency	
95	11/21/91	Lanier Upshaw	
96	11/21/91	Lattimore, Black, Morgan, & Cain, PC	
97	11/21/91	Coopers & Lybrand	
98	11/21/91	Murray, Schoen & Homer, Inc	
99	11/21/91	Consolidated Insuranced Center, Inc.	
100	11/21/91	NACSA	
101	11/21/91	Seaboard Financial Group	
102	11/21/91	Alton Insurance Agency, Inc.	
103	11/22/91	William A. Richard, Jr.	
104	11/22/91	Lawrence C. Ramsey, PC	
105	11/22/91	Thames Batre Mattei Beville & Ison Insurance	
106	11/22/91	Rebsamen Insurance	
107	11/22/91	The Gleason Agency, Inc.	
108	11/22/91	Pearsell & Frankenback, Inc.	
109	11/22/91	Fisher & Brown	
110	11/22/91	Swantner & Gordon	
111	11/20/91	Byerly Insurance	
112	11/19/91	Dan Bottrell Agency, Inc.	
113	11/20/91	Bowers, Schumann & Welch	
114	11/20/91	Underwriters Safety & Claims, Inc.	
115	11/20/91	T. J. Adams & Associates, Inc.	

116	11/20/91	Insurex Agency, Inc.	12/13/91
117	11/20/91	Mack & Parker, Inc.	
118	11/20/91	Morse, Payson & Noyes Insurance	
119	11/20/91	Reager Harris	
120	11/20/91	Dawson Insurance & Financial Services	
121	11/20/91	Bolton & Company	
122	11/21/91	John C. Conklin Agency	
123	11/19/91	Barksdale	
124	11/20/91	ZLITZ Insurance	
125	11/20/91	Upshaw-The Strength of experience	
126	11/20/91	Wright & Percy	
127	11/22/91	Lawrence C. Ramsey, PC	
128	11/21/91	Consolidated Insurance Center, PC	
129	11/21/91	Murray, Schoen & Homer, Inc.	
130	11/21/91	Great Lakes Agency	
131	11/21/91	Wisenberg Insurance & Risk Management	
132	11/22/91	CMH Insurance	
133	11/21/91	Lanier Upshaw, Inc.	
134	11/19/91	Reager Harris	
135	11/19/91	Putnam Agency	
136	11/22/91	NACSA	
137	11/22/91	Fisher & Brown	
138	11/22/91	Van Gleder Insurance Corporation	
139	11/20/91	Wellington F. Roemer Insurance, Inc.	
140	11/22/91	Barger Insurance	
141	11/21/91	Laub Group, Inc.	
142	11/22/91	Zeiler Insurance	
143	11/22/91	Boynton Brothers & Co.	
144	11/20/91	Seaboard Financial Group	
145	11/22/91	Rebsamen Insurance	
146	12/02/91	Hoyt & Petersen	
147	11/27/91	Klinesmith, Laudeman & Talbot, Inc.	
148	12/02/91	Ulrich Voorhees Warner Associates	
149	11/25/91	Morgan-Marrow Company	
150	11/22/91	Direct Response Group	
151	12/03/91	Offenhauser & Co.	

Rec'd 9/13/91

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September 9, 1991

Ellise G. Konigsberg
Technical Manager
ACCOUNTING STANDARDS DIVISION - File 3165
AICPA
1211 Avenue of the America
New York, New York 10036-8775

Dear Ms. Konigsberg:

I received a copy of the Exposure Draft of the Proposed Industry Accounting Guide for Insurance Agents and Brokers dated August 15, 1991. I commend you and the committee on the work you have done to produce the draft. Your guidance will be of great assistance to many practices, including my own, which involves work for several insurance agencies, particularly property and casualty agencies.

As you know, it is customary in the insurance brokerage industry for the insured to pay an agency well in advance of the time that the agency is required to remit the net premium to the carrier - frequently a period of 30, 40, or even 60 days or more. This industry practice involves a pricing considerations in the coverages to take into account the opportunity of the agency to earn investment income on the funds while so held.

As I reviewed the draft, I did not find addressed the statement of cash flows treatment of cash balances held by the brokers and payables to the underwriters/carriers.

We believe this practice may have a noteworthy impact upon the reader of financial statements due to the often significant fluctuations on a year-to-year basis in the amount of cash balances held by the agency and premiums payable to the carriers at any particular balance sheet date. (Such amounts depending on the time of collection of premiums and other matters that may vary from time to time.)

For these reasons and others, I wonder whether it is appropriate in the statement of cash flows to classify the changes in premiums payable as an operating activity, or whether more appropriately these changes should be treated as investing or financing activities.

If classified as an operating activity, the changes in these large balances can lead to significant year-to-year variations in cash flow from operations that in fact are not attributable to the commercial success of the operating activities, but rather the frequently somewhat random timing of the receipt of premium payments and the remittance of these amounts to the carriers.

The fact that the cash balances the agencies are permitted to hold (and the investment income they produce) are taken into account in the pricing of the coverages, indicates a reasonable presumption that they could be classified as related to investing activities.

I would be grateful for your thoughts on this, including whether or not addressing such a matter would be appropriate for the Accounting Guide.

Best regards.

Sincerely,

Jeffery P. Capron

Jeffery P. Capron

JPC/dml

Rec'd 10/24/91
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Walter A. Watts (1906-1989)
David E. Scobie
Herbert W. Wakeford

Members
American Institute of CPAs
N.C. Association of CPAs
AICPA Division for Firms

October 21, 1991

Ms. Ellise G. Konigsberg, Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated: August 15, 1991

Dear Ms. Konigsberg:

In reviewing the proposed accounting guide for Insurance Agents and Brokers, I find myself compelled to question the logic of the authors concerning the recognition of income of retail brokers, and related wholesale brokers. The guide basis of income recognition is on the "effective date" of the policy without addressing the "matching of revenue and expense principal of accounting". In connection with both revenue and expense recognition matters, I believe their are normally two dates of a policy, i.e. the <u>policy issuance date</u> and the <u>effective date</u> of the policy. I believe the revenue and expense recognition issue should provide for revenue to be recognized at the earliest date. The following real life example may be appropriate.

> Insurance Agent for a property and casualty insured risk contacts his client several months before the renewal date of an existing policy. With the advice and consent of the client, coverage is established, deductibles determined and the policy is issued on December 15, X1 to be effective on January 1, X2. While the client may cancel before January 1, X2, I believe the contract is a "done deal" on December 15, X1. It is unlikely the policy will be cancelled. All the costs of issuance of the policy have been provided by December 15, X1. With a matching of revenue and income concept in mind, it logically appears that either the revenue should be recognized on December 15, X1 or alternatively the expense of selling the policy should be deferred to January 1, X2. I personally believe revenue should be recognized on December 15, X1 with a historical contingency provided for cancellations as the computations are easier and are logical.

Therefore, I believe paragraph 2.5 (on page 17) should be reworded. I also believe that costs of writing a policy on the earlier of the two dates should be accrued if not paid by the agent at the earlier of the issuance date or the effective date. I have seen situations where the issuance of the policy exists before the effective date and where all the work of selling the policy, with receiving premiums before the effective date of the policy.

In addition, I believe the guide should state a preference for the net method of recording fees and commissions from clients (see paragraphs 2.39 and 2.40 on page 23). It is not logical to me for an agent to use the gross method as services are typically being sold (i.e. the Agent only receives a commission). Regardless of which method is used, the accounting guide should require the financial statements to disclose the method used.

Finally, I believe it would be helpful if illustrative financial statements were enclosed with the guide including note disclosures. Should you need more information, please let me know.

Sincerely,

WATTS, SCOBIE & WAKEFORD

David E. Scobie

David E. Scobie

DES/tmp

Enclosure

Rec'd 10/25/91

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October 23, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Div., File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg,

The purpose of this letter is to provide comment to the Insurance Agents and Brokers Task Force regarding the Proposed Industry Accounting Guide for Insurance Agents and Brokers. My comments will be addressed to the issues for retail brokers.

First, I agree with the definition of the revenue recognition date except point three, (par. 2.5). The Task Force elected to use the date substantially all required services related to placing the insurance as the Revenue Recognition Date. I agree, that this does constitute the point at which a great deal of effort for an insured has been completed, but as paragraph 1.28 notes, "...it may not be the final act." The Task Force seems to have selected the *specific performance method* from the FASB Invitation to comment regarding Accounting for Service Transactions. I would submit that the *proportional performance method* is more accurate in the insurance sales environment. More specifically, due to the uncertainty of the number, or degree of similarity, of future acts, the straight-line method spread over the performance period is a more accurate measurement for the following reasons:

1) An agent has an obligation to service a policy over the policy period. Even if the most substantial amount of work is completed upon placement and the effective date, the insured expects service from the agent over the policy period and will change his agent if not receiving said services.

2) Uncertain events over the policy period are illustrated by an insured's ability to cancel the insurance, the company's ability to cancel following adequate notice as defined in the policy, and the insured's freedom to change agents.

3) The future acts are never similar in number or degree. Every claim and policy change is unique and the insured may need significant amounts of technical assistance during the policy period.

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4) Finally, billing arrangements are usually dictated by the insured within the agent's credit policy. During the policy period, the agent must bill and collect premium and remit the net premium to the insurance company.

Furthermore, if consideration is given to the method an accrual basis insured uses to expense their premium, the *proportional performance method* is consistent in a macro economic environment. An insured records their insurance expense into their books as billed. On any given balance sheet date, they have prepaid insurance to the extent they have paid the bill and that their policy premium is not earned. Further, if an insured has not paid the premium, their balance sheet includes an accrual for earned premium owed the agent. Thus, in either a prepaid asset or a liability situation, insurance premiums in an accrual environment are expensed as earned. This also agrees with how the party on the other end of the transaction, the insurance company, earns and accounts for its premium. Thus, the *proportional performance method* is more consistent with the overall economy.

The theory I have espoused does become more complicated in practice. Our agency, for example, has many more insureds on installment billing than on an annual premium at the effective date of the policy. For those on an annual payment plan, we would have unearned revenue at any balance sheet date. Furthermore, our policy is to bill installments 30 days prior to each installment date. We would then have unearned revenue from installments as well. Our method of accounting is currently similar to those large and publicly held brokers mentioned in paragraph 2.3. From a materiality standpoint, the unearned revenue may not be recorded to the balance sheet because most of our insureds are on monthly billings, which closely resemble straight-line earned premium. Granted, there are other exceptions, such as short-rate cancellation clauses in some policies, but again materiality may be a factor.

After considering the above arguments, it is also possible to disagree with the Task Force's revenue recognition date as it pertains to installment billing (par. 2.16) and direct billing (par. 2.21). Under these payment programs, the earned premium amortizes rather evenly on the billing effective dates on an agency bill basis and the payment due dates on a direct bill basis. Therefore, the *proportional performance method* again more accurately reflects the industry's earnings. However, both the direct bill and installment bill theories I have mentioned are only proportionate when billings by the agent or the company are timely.

Finally, it is important to consider the economic impact of accounting changes. The first, agency computer software will need to undergo significant changes to include in income the annual commission on installment policies. This is an inconvenience only, but would not be as extensive if it followed the installment billing methodology under the *proportional performance method* I outlined above. Regardless, I do admit that software changes should not be a consideration in not making an accounting change, if the underlying theory is sound.

The economic reality of a change to the method outlined by the Task Force for an agency recording revenue at the later of the billing or effective is dramatic. If you assume that an agency has all accounts on monthly installments and the expiration of the policies are spread evenly over the year, an agency's commission income would increase by 50% in the year of change. For book purposes, this income would be offset by the commission percentage paid to agents. However, for tax purposes, the commission expense would not be deductible because the agency would not receive the cash for the additional 50% of commission income within the 75 days required to pay their agents in order to receive a tax deduction at year end. The federal income tax bill would then be 34% of an additional 50% of gross income. Similar to not having received the cash to pay agents, the agency would also be required to pay the income tax before customers are billed. As you can see, this phantom income due to the Task Force proposal could bankrupt many insurance agencies, unless the agency continues the use of their old accounting method for tax purposes.

It is at the taxpayer's election whether to make this accounting change for tax purposes. However, all insurance agency tax returns will wave a flag for an audit if they report Schedule M-1 items of almost 50% of their income as being not taxable. Furthermore, it is not beyond the realm of possibilities that the IRS and Congress, upon seeing the revenue impact of this accounting change, mandate use of the Task Force's Revenue Recognition Date. There is no guarantee that this tax exposure would exist; however, if the theory is not an accurate reflection of agency economics, why open the possibility of adverse tax consequences.

Based upon the above arguments, I respectfully request the Task Force reconsider their definition of revenue recognition date. The purpose of the Task Force is to provide consistency in insurance agency accounting; however, the underlying theory when considering insurance contract law and macro economics mandates that the Task Force define the revenue recognition date to address the issues as I have presented them.

I would be pleased to further discuss the above concepts at your convenience.

Very truly yours,

Wayne A. Walkotten

Wayne A. Walkotten, CPA
VP Finance & Administration

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Rec'd 10/28/9
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Louisiana CPAs

October 21, 1991

Ellise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Dear Ellise,

The members of the Accounting and Auditing Standards Committee of the Louisiana Society of Certified Public Accountants has reviewed the following exposure draft:

Proposed Industry Accounting Guide
Insurance Agents and Brokers
August 15, 1991

Certain members of the committee have the following comments:

1. Par. 2.4 refers to advance billings, but it does not discuss here or in the financial statement presentation section beginning at Par. 2.37 how the related deferred revenue (or deposits, as some brokers refer to them) should be presented. Guidance in this area would be helpful, since brokers/agents commonly advance bill certain insurance lines.

2. Illustrative financial statements and typical disclosures pertinent to the industry would be helpful. (Comment made by three members of committee)

3. The guide provides standardization with regard to revenue recognition policies (billed vs. coverage in effect, premiums reasonably estimated, and substantially all services performed) which I believe is needed.

4. I've read most of the exposure draft and it appears logical and reasonable. I am a firm believer of Industry Audit Guides and feel this one would be useful to those who practice in this industry. (Comment to this affect made by three members of committee)

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5. The effective date should be for years beginning after December 15, 1992 with earlier adoption encouraged.

I hope the above comments prove to be useful to you. If this committee can assist you further in any way, please let us know.

Sincerely,

Glenn J. Vice

Glenn J. Vice
Vice-Chairman
Accounting and Auditing
Standards Committee

Rec'd 10/29/91

OCT 2 8 1991

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American Business Insurance, Inc.

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October 24, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division
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Dear Ms. Konigsberg:

The purpose of this letter is to comment on the exposure draft dated August 15, 1991, of a proposed AICPA industry accounting guide, Insurance Agents and Brokers (Accounting Guide). I appreciate the opportunity to express my views on this important Accounting Guide.

American Business Insurance, Inc., (ABI) is a $120 million revenue insurance broker with offices in 18 states and 1,400 employees. ABI prepares GAAP-basis financial statements for its parent, Great American Insurance Company of Cincinnati, Ohio. I have been employed with ABI since 1988 as its Corporate Controller. Previously, I was a divisional controller with a Fortune 500 company for five years. Prior to the Fortune 500 company, I was in the audit division of Arthur Andersen & Co. for four years. I am a member of the AICPA and California Society of CPA's.

The requirements set forth in paragraphs 2.5 and 2.16 of the Accounting Guide would necessitate substantial and costly changes to our data processing software system as well as the software systems of most other insurance brokers. A significant portion of our $120 million in revenues is realized from the placement of property and casualty lines of insurance for which premiums are principally paid on an installment basis (specifically workers compensation). ABI's accounting policy is to recognize revenues (commissions) on the effective date of the insurance policy or the billing date, whichever is later. In order to conform with paragraphs 2.5 and 2.16, we would have to change our accounting policy and modify our data processing software system.

Our software vendor (Delphi/McCracken Information Systems, Inc., of Westlake Village, CA) and our data processing staff have informed us that the changes would require extensive modification to the existing software system. For your information, Delphi/McCracken software is operational in 57 of the largest 100 insurance brokers in the U.S. The potential benefit of changing revenue recognition rules does not justify the cost.

In addition to the extensive and expensive changes required by paragraphs 2.5 and 2.16, I believe recognizing revenues on the effective date is an extremely aggressive accounting method. Recognizing revenues on the later of the effective date or the billing date is a more conservative accounting method. Also, since there exists obligations to service the policies after the effective date, the matching concept is realized.

If you should require any additional information, please feel free to call.

Sincerely yours,

Edward J. Bowler

Edward J. Bowler
Vice President and Corporate Controller

c: Bernard H. Mizel, President and Chief Executive Officer
American Business Insurance, Inc.
Vincent H. Trapani, Executive Vice President and Chief Financial Officer
American Business Insurance, Inc.

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Rec'd 10/29/91
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HOLMES
MURPHY

October 24, 1991

Ellise G. Konigsberg
Technical Manager
Accounting Standards Division File 3165
AICPA, 1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Konigsberg,

After reading the exposure draft for insurance agents and brokers, I have some concerns about how the draft is written. I have listed my major concerns below:

Installment Billing Arrangements - The entire commission should be recognized when the transaction is initially recorded - 2.16

1. It will be difficult to recognize expenses that match the revenue generated. Example: Agent Commission Expense
2. Most computer systems can not give you the correct data as this is currently not industry practice.

Estimate Contingent Income - Accrue contingent commissions - 2.10

1. Most underwriters reports are not completed timely and are received up to 2 months after close of the reporting period.
2. Loss information is difficult to gather on a timely basis.

Financial Statement Presentation - Investment income on fiduciary funds should be disclosed along with advances to clients and underwriters. (Iowa currently is a non trust state) - 2.42

1. It would be difficult to separate investments and funds with out a large amount of work on behalf of the brokers.
2. Sophisticated automation systems would half to be required.

First year life insurance Commissions - All first year commissions should be recognized up front regardless of whether they are paid on a semiannual or quarterly basis. - 6.10

1. This creates problems in generating matching commission expense
2. Revenue recognition is accelerated.

I would appreciate you response to these concerns.

Sincerely,

Cynthia S. Adams
Financial Manager

Holmes Murphy
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Rec'd 10/30/91
7

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October 28, 1991

Ms. Ellise G. Konigsberg
Technical Manager, Accounting Standards Division
File 3165
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RE: EXPOSURE DRAFT: PROPOSED INDUSTRY ACCOUNTING GUIDE, INSURANCE AGENTS AND BROKERS

Dear Ms. Konigsberg:

I am writing to formally protest the above guideline.

I appreciate the task which was undertaken by your group. In fact I agree with quite a bit of the proposal. But I cannot condone the Installment Billing Arrangement. In order for an account to qualify for an installment plan it has to generate a large annual premium. Our agency, for example, hasfour large accounts which generate over 50% of our annual revenue. To complicate matters, their expiration dates are in November and December. Given your new program, we would be required to immediately recognize their entire revenue and profit, and pay tax in February when we have collected less than one-sixth of their annual premium. We cannot afford this and we will be required to either borrow, sell, or fold our agency. I have confirmed the tax consequences with our CPA and this will cause a hardship to our agency.

Please consider the following before your group decides on the implementation of this program:

1. Small agencies cannot afford the tax consequences.

2. Return audits were not taken into consideration. Along with the premium refund is commission dollars. But if the IRS has a third of the accelerated income, where does the agent get the difference in cash? Remember, our States regulate the time frame in which we must refund an insured's refund.

3. How can you accelerate income without the ability to accelerate or anticipate expenses.

4. Contractors are allowed to use percentage of completion accounting, completed contract, straight accrual, or cash. Their revenues, profit margins and costs are as well known at contract time as ours, yet they receive great latitude in their guidelines. One may argue their costs fluctuate, but then whose doesn't? Get real! The only thing for certain in life are death and taxes, and you're trying to cause one with the other.

5. Your group neglected cancellations. How do we recoup the tax paid on cancelled policies? Remember the IRS does not refund overpayments in a timely manor.

6. Bankers may be unwilling to renew or issue lines of credit to agencies if the line is used to pay taxes instead of business development which they are intended.

It is quite obvious to anyone involved Chapter 2 was designed for the large, publicly held corporations. Accelerating revenues and profits greatly enhances the value of firm in the market, and I believe you will see a large instantaneous increase in the value of their stock should your proposal ratify. In fact I am curious as to the firms your panel members represented. Did a small agency owner actually agree with this?

Thank you for your time. I recognize this is a complex issue, but I do not feel your proposal is well thought out, nor is it fair to the small business owner.

Yours truly,

Lance M. Olson
Vice President

Rec'd 10/30/91
8

Cashan& Company
INSURANCE

Since 1946

October 28, 1991

Ms. Ellise G. Konigsberg
Accounting Standard Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

I have received a copy of the above mentioned document. Our agency would like to go on record as also "taking serious exception to many of the proposed methods of accounting that are presented in this draft."

You have recently received a letter from Ed Harrington and Steve Warner of the Delphi/McCracken Users Group. I have attached a copy for your convenience. We choose not to reiterate all the points mentioned in their letter. However, please be advised that we do, in fact, agree with each item and the respective explanations noted in their letter.

It is our opinion that this draft does not allow us to report our revenues using accounting practices that are synonymous with this industry. We strongly encourage you to re-evaluate your position in these areas.

Sincerely,

Cashan & Co

Susan L. Parenteau

Susan L. Parenteau
Director of MIS

ELEVEN SOUTH THIRD STREET P.O. BOX 436 HAMMONTON, NJ 08037-0436
NJ 609-561-2600 800-582-7602 PA 215-569-8907 FAX 609-561-3503

October 25, 1991

DRAFT

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As Co-Chairmen of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion dollars in premiums each year.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initally recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42)

5. Reasonably estimate and accrue direct bill commissions (2.21).

6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25)

7. "Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

8. Advances to underwriters and clients must be tracked and disclosed in financial statements (2.42).

9. Estimate and accrue the ultimate premium on retro policies (5.17)

10. First year life commissions should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

11. Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Here is a further explanation on the above items:

<u>Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)</u>
The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract <u>or by industry practice</u>, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bear's a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

<u>Item 2 - estimating and accrueing contingent commissions (2.10)</u>
Brokers should not be required to make "reasonable efforts...to obtain information from underwriters..." (2.10) concerning potential contingent commissions. Often times this information is not known for <u>months</u> after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

Accrueing estimated contingent commissions would be very unreliable and would cause brokers to report as current income (and bear the appropriate tax liabililty) commissions that they may not be paid for for months, if at all.

<u>Item 3 - estimating and accrueing commissions on "reporting-form" policies - (2.14)</u>
This is an onerous accounting practice to have to make "reasonable efforts to obtain information" regarding these type policies and accrue the commissions associated with them. These premiums are not billed to the insured and reported to the underwriter until the reporting form is received and the premium calculated. It is an onerous accounting practice to accrue the estimated premium, without billing the client and reporting it on the "account current" statement to the underwriter, then reverse the transaction and record the actual premium when it is determined at a later date. The primary purpose of reporting-form policies is to accommodate the unknown fluctuations in volume that the premium is based upon.

<u>Item 4 - accelerating installment billings into the current period (2.16, 2.42)</u>
Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

Item 5 - estimate and accrue direct bill commissions (2.21)
This, quite simply, is impossible for most brokers to do because their automation systems do not accomodate it and, by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been cancelled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

Item 6 - recognizing fee income separately from commission income (2.25)
This is an onerous practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

Item 7 - "trust accounting" as a requirement (2.42)
Several states have requirements similar to the proposed guidelines. Outside of the national brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients is an onerous requirement to all that don't have sophisticated automation systems. In many broker businesses, this information would be simply impossibile to obtain.

Item 8 - disclosing advances to underwriters and clients (2.42)
See explanation for Item 7.

Item 9 - accrueing the "ultimate premium" on retro-policies (5.17)
Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and therefore would only serve to inflate receivables and payables on the broker's balance sheet.

Item 10 - recognizing all first year life commissions up front (6.10)
Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

Item 11 - estimating an adjustment due to cancellations of life policies where the commission has been paid up front (6.13)
This information typically cannot be reasonably estimated and it is an onerous requirement to go through some actuarial or statistical calculation to make an attempt at estimating it.

In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

*accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

*have a very detrimental impact on a broker's tax liability and cash flow

*have a detrimental effect on the balance sheet presentation, and may impare brokers from obtaining credit

*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Ed Harrington, Chairman
Delphi/McCracken
INfinity Users' Group
303-722-7776

Steve Warner, Chairman
Delphi/McCracken
INSIGHT Users' Group
908-469-3000

Rec'd 10/29/91

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McCRACKEN COMPUTER INC.
Ten Mall Road Burlington, Massachusetts 01803-4109 Telephone (617) 273-0010 Fax (617) 273-1209

October 29, 1991

Sent via Fax (203) 722-1994

Mr. John T. Bailey, Chairman
Insurance Company Committee
Coopers & Lybrand
280 Trumbull Street
Hartford, CT 06103

Dear Mr. Bailey,

Delphi/McCracken provides software to a large segment of the property casualty agency and broker population. We estimate that well over forty billion dollars in premium is processed each year by software we have developed.

We understand that changes to the accounting rules for our customers may be approved shortly. These changes in turn will have significant impact on several large development efforts currently underway at Delphi/McCracken. Because of this, we would like to have an opportunity to meet with the appropriate individuals to discuss these proposed changes before they are approved.

Thank you in advance for your cooperation.

Sincerely,

Jack Esselen

Jack Esselen
Executive Vice President

JE/nc

cc: Ellise G. Konigsberg, AICPA
John L. Kreischer, Kreischer, Miller & Co.

10

FACSIMILE MESSAGE FORM

TO: Ellise G. Konigsberg
American Institute of
Certified Public Accts.

FAX NUMBER: 212 575-3846

FROM: Mary Lai

REF: "Exposure Draft Proposed Industry Accounting Guide Insurance Agents & Brokers"

LAI INSURANCE AGENTS & BROKERS
BOX 100 · OAKLAND C.A. 94604-0100
(415) 444-1111
FAX (415) 444-2924

DATE: October 29, 1991

MESSAGE:

This letter will evidence my concerns about the proposed "Industry Accounting Guide Insurance Agents & Brokers" dated 8/15/91.

I am a member of the Delphi User's Advisory Group, and share the concerns set forth in letters signed by Ed Harrington and Steve Warner, dated 10/25/91 and forwarded to your office. A copy of that letter is attached.*

If I can be of any assistance please do not hesitate to call.

ACTION TO BE TAKEN:

Number of pages INCLUDING THIS PAGE: 7

OUR FAX # IS 1-(510) 444-2924
OUR PHONE # is 1-(510) 444-1111

* Committees and Task Forces
pls see attachment to #8

ML 10/91
Delphi

10/31/91 11

Marsh & McLennan Companies, Inc.
1166 Avenue of the Americas
New York, NY 10036-2774
Telephone 212 345 5000

October 30, 1991

MARSH & McLENNAN COMPANIES

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division
American Institute of
Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

File Reference 3165

Dear Ms. Konigsberg:

The views expressed herein are those of Marsh & McLennan Companies, Inc., a New York Stock Exchange listed company with significant interests in insurance broking, reinsurance broking, consulting and investment management. The Company has approximately 24,000 employees worldwide.

With respect to the Exposure Draft titled *Proposed Industry Accounting Guide - Insurance Agents and Brokers* dated August 15, 1991, we commend you on the thoroughness exhibited in your approach to this subject. The draft is comprehensive and generally very well thought out.

Concerning the document, Marsh & McLennan Companies has the following observations and suggestions:

> Relating to excess of loss treaty reinsurance contracts (paragraphs 4.13 and 4.14), the Exposure Draft proposes that revenue should be recognized at the effective date of the contract. While we can appreciate the stated views opposing the use of installment accounting treatment for retail and wholesale brokers, reinsurance broking is unique in that contracts can change over their lives. This can result in a significant reduction in brokerage revenue when contracts are cancelled and re-written, which happens with some frequency. Given the likelihood of these cancellations and related rewrites, it appears at least distortive and potentially improper to record revenue on an excess of loss reinsurance contract on a basis other than over the life of the contract.

Concerning the financial statement presentation section (paragraphs 2.37 through 2.42), we strongly agree that full disclosure should be provided on the absolute amounts of fiduciary cash held by a broker along with the aggregate of uncollected premiums receivable from clients and payable to underwriters. Marsh & McLennan has, in fact, been including such disclosure in its financial statements for many years. However, we disagree that the balance sheet should be presented gross to reflect these items. The position taken in the Exposure Draft, although possibly theoretically proper based on the conceptual framework, is another example of how the AICPA and FASB are more attuned to the theoretical concepts of a reporting issue as opposed to the more important pragmatic aspects impacting users of financial statements. As a result of the relative magnitude of these amounts to a broker's balance sheet, the gross method would distort certain classifications and render the balance sheet less meaningful for analytical purposes. The ultimate value and understandability of insurance broker balance sheets for potential investors, current shareholders, financial institutions, employees and other readers of the financial statements would be reduced as a result.

In addition, it is important to note that, as set forth in Statement of Financial Accounting Concepts No.1, the FASB concept statements do <u>not</u> establish Generally Accepted Accounting Principles ("GAAP"). Therefore, you are basing the sole support to now change GAAP with respect to the balance sheet presentation of these items (understanding that an Industry Audit Guide is in GAAP's second tier of authoritative literature) on a concept statement that does not purport to be GAAP. We believe that this is inappropriate and without merit. Established industry practice, which has proven to be full and fair disclosure in the past, should not be changed because of an esoteric definition set forth in a document that itself is not GAAP.

As an alternative to the gross method, we would propose that the net balance sheet presentation would provide more meaning to the true operational nature of the insurance broking business. The amounts of fiduciary cash and the related premium payable to underwriters would be individually reported on the face of the balance sheet and offset. The amount of investment income earned on fiduciary funds would be disclosed in the footnotes. In addition, the amount of the uncollected premium receivable from clients and the corresponding payable to underwriters also would be disclosed in the footnotes. Reporting the information in this manner would provide full and complete disclosure of these items, while leaving the balance sheet undistorted.

As a matter of clarification, the exposure draft as currently written indicates that reinsurance brokers review and evaluate the financial responsibility and stability of foreign insurance organizations (paragraph 4.11). This statement is not accurate as the reinsurance broker gathers information for its clients to review in arriving at their final decision on the markets. Although the Exposure Draft indicates later in the foreign reinsurance section that the ceding companies ultimately decide the assuming companies, it should be clarified that reinsurance brokers are not financial analysts nor do they guaranty the viability or stability of the markets.

We appreciate the opportunity to express the views of Marsh & McLennan Companies, Inc. on the Exposure Draft. We trust that these comments and suggestions will assist you in finalizing the document.

Sincerely yours,

Frank J. Borelli

Frank J. Borelli
Senior Vice President and
Chief Financial Officer

Douglas C. Davis

Douglas C. Davis,
Vice President and Controller

Rec'd 10/31/91

FLORIDA INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

325 WEST COLLEGE AVENUE • P.O. BOX 5437 • TALLAHASSEE, FLORIDA 32314
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October 28, 1991

Ellise G. Konigsberg, Technical Manager
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

The Accounting Principles and Auditing Standards Committee of the Florida Institute of Certified Public Accountants has considered the Exposure Draft (ED) of a proposed industry Audit Guide "Insurance Agents and Brokers" issued by the Insurance Agents and Brokers Task Force of the Insurance Companies Committee of the Accounting Standards Committee of the AICPA on August 15, 1991. This letter of comment is based on our committee's discussion of the ED in a October 18, 1991 meeting.

The committee was in general agreement with the ED and believes it should be issued, but would like to make the following comments:

- The section covering Authoritative Accounting Pronouncements (paragraphs 1.26 to 1.28) should mention AICPA Technical Practice Aids (TPA) 6300.01. Although not considered "authoritative," the guide should note that the revenue recognition criteria in paragraph 2.5 are consistent with the response in 6300.01. This TPA would be considered authoritative at the fifth level in the proposed Statement of Auditing Standards entitled "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report."

- The committee unanimously agrees with the revenue recognition criteria in paragraph 2.5.

- In paragraph 2.19, the committee believes that the likelihood of the multi-year contract being fulfilled (i.e., premiums received) should be considered before revenue is recognized.

- In paragraph 2.21, the definition of "adequate and timely" should be expanded to include the following guidance:

- A sentence should be added to paragraph 2.21 indicating that external documents from the underwriter should be obtained; not just an internal estimate based on historical trends.

- The guidance given in paragraph 2.10 should be repeated as applicable or a cross-reference to 2.10 should be supplied.

- The committee unanimously agrees that the gross method should be used for financial statement preparation.

    - Specific mention should be made of the need to use the gross cash flows from agency billed transactions in the statement of cash flows.

    - Consideration should be given to requiring the direct method for the statement of cash flows.

- In paragraph 6.10, the committee suggests that the likelihood of the contract being fulfilled be considered in situations where monthly, quarterly or semi-annual premiums are paid.

- In paragraph 8.7, examples of other systematic rational methods of amortization would be helpful.

    - Amortization should be considered for all purchased policies not only for those with signed renewal rights as defined in paragraph 8.5.

- The committee believes that illustrative financial statements and related footnotes are needed. These should include different examples for areas where different types of revenue or expense recognition criteria have been determined.

The committee also believes that the summary preceding the document is excellent and should be included in the final audit guide.

We appreciate the opportunity to provide comments in response to the ED. Representatives of our committee are available to discuss these comments with the Division or its representatives at their convenience.

Sincerely,

Gary L. Holstrum by Ed Leonard

Gary L. Holstrum, C.P.A., Chairman
The Accounting Principles and
Auditing Standards Committee
(813) 974-4186

Members of Task Force to Coordinate
Comment Letter:

Edward Leonard, C.P.A.
Stanley Ciotola, C.P.A.
Michael O'Rourke, C.P.A.

EJL/st

01-EJL\EXDR1018.LTR

ESTABLISHED 1923
Moore Povenz Wilbrett & Marsh
INSURANCE

DOUGLAS S. POVENZ
WILLIAM H. MOORE

R. JAMES MARSH
ROBERT E. WILBRETT

Rec'd 10/31/91

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PORT HURON, MICH. 48061-5014

October 29, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Re: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

I have had a chance to review and discuss with my CPA some of the changes that are proposed in the generally accepted accounting principals for insurance agents and brokers. I frankly can't believe the total lack of knowledge of our business shown by AICPA in proposing these new standards. It is incomprehensible to me that my CPA would be put in the position of telling me to accrue income for items which are not billed and are not reasonably estimatable. Not only would or could this impose a tax liability, but it would distort my financial statements and be totally unmanageable.

We have tried for years to estimate contingent commissions for budgeting purposes and, although, we do have some idea we are normally quite far off on our predictions. We have no idea what reports our customers are going to submit as far their sales and inventory and would never be able to estimate commissions on reporting form policies. We have no automated method for accruing direct bill commissions, which generally involve Personal Lines policies, although not totally. On Personal Lines policies the policy itself is generally a six month policy and billed on a six month basis, although, could be billed more frequently, and we have no idea even if those policies will be renewed because of extreme price competition. It would not be reasonable to accrue commissions on direct bill policies.

Michigan is not "a trust accounting" state. Although, we certainly have the responsibility to pay our insurance companies we have no legal or even ethical requirements to separate funds. Estimating ultimate premium on retro policies is a joke. There could be retro adjustments up to seven, eight, ten years after the expiration of the policy and we have no idea what claims settlements would be and no control over them; so estimates would be an absolute joke.

Estimating any commissions, whether they be direct bill or life, or any other income upfront to create an income for which we would pay tax, really does not make any sense. If my CPA were to propose such a program we would find another way to have our financials done rather than through somebody approved by your organization.

The insurance agency business is being squeezed by lower premiums, lower commission percentages and the poor economy. If we were to have to institute the accounting methods proposed in your exposure draft, we would have to have additional personnel in our accounting department. At the present time, we are trying to find ways to cut personnel in order to maintain our financial viability.

In my 30 plus years in the insurance agency business having seen all types of laws, rules and regulations, I can't remember seeing any proposal that shows as little consideration and knowledge for our industry as the AICPA proposal. It is beyond belief that a CPA Organization would think that there is "no significant obligation to perform services after insurance has become effective". That position alone indicates a lack of knowledge of our industry or in simpliar terms is, <u>stupid</u>.

Sincerely,

MOORE POVENZ WILBRETT & MARSH

Douglas S. Povenz

DSP/mll

cc: Douglas Austin, CPA

Rec'd 10/31/91

14

S&Co. SMITH, SIBLEY & COMPANY
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
American Institute of Certified Public Accountants
1222 Avenue of the Americas
New York, NY 10036-8775

October 29, 1991

Re: Proposed AICPA industry accounting guide, Insurance Agents and Brokers

Dear Ms. Konigsberg,

On behalf of several clients, representing the insurance industry as underwriters, reinsurers, and agent/brokers, I have read, with great interest, the proposed accounting guide referenced above. The clients I represent range from one employee sole proprietor agents to a large agency grossing $4-5 million in annual commission income to a small insurance company which engages extensively in the reinsurance business.

As was suggested in the forward letter, small enterprises will not be affected by these guidelines because they are not presenting GAAP financial statements. For those enterprises presenting GAAP financial statements, it was further suggested that the recommendations in the exposure draft would result in several changes in present practice by eliminating existing accounting alternatives and requiring additional disclosures. My experience with the industry leads me to believe that this is a fair position. However, my clients and I disagree with the task force belief that those changes generally would not be extensive. It is our position that the proposals will create changes significant enough to necessitate major overhauls in accounting system software and office procedures. Several of the proposals will make it necessary for small enterprises to hire additional staff or experts to assist them in the calculation of amounts required to be disclosed. For proper disclosure of the estimated amounts proposed, several years time must pass before statistical information of any value can be developed which will allow meaningful and comparable assumptions and valuation estimates.

We do not believe that the costs of implementing these changes justify the benefits which will be received. We do not agree that the objective of the exposure draft "to eliminate the use of alternative accounting practices in similar circumstances" has been met through the proposals suggested. Further, we do not agree with several assumptions (as set forth below) which the task force makes

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in reaching its conclusions.

In paragraph 1.26, FASB Concept No. 5, paragraph 84 is referenced as guidance for revenue recognition. Paragraph 84 states: "In recognizing revenues...the two conditions (being realized or realizable and being earned) are usually met by the time...services are rendered to customers". Further, paragraph 2.5 states that revenue should be recognized on the effective date of the policy because this is the date on which all of the criteria (as set forth in 2.5) are met. The implication one can draw is that when all four events have taken place, the revenue has been earned.

In reaching the revenue recognition guideline set forth, the task force has taken the position that no significant obligation exists to perform services after the insurance has become effective. In reality broker obligations to the insured continue throughout the policy period especially in the property casualty coverage area of the industry. Endorsements are quite common and may occur at any time during the coverage period. It is not uncommon for changes to occur several times to one policy. Often these changes are not premium bearing endorsements, therefore, any costs incurred in servicing the changes relates back to the original premium. Claims processing is another service provided to the insured after the effective date of the policy. Again, the usual practice is for the insured to contact the agent in the event of a claim. Either the agent will process the claim or will provide guidance to the client on how to effect the claim directly with the underwriter. Brokers often act as risk managers for their clients because most small companies cannot afford to have a full time insurance person on staff. This entails claims studies in which loss analysis are developed detailing where losses are coming from, i.e. division or department, etc. Brokers traditionally act as collecting agents as well. That is billing for the policy premium and remittance of the net premium to the underwriter is often the responsibility of the broker. The above examples represent the most common continuing services, but certainly not all the services provided to clients after the effective date of the policy. Costs of providing these services includes such things as transportation, correspondence, personnel, postage, stationary, etc. Such costs represent a significant financial commitment on the part of the broker and in many instances may far outweigh the cost of developing the business.

Paragraph 2.16 states "revenue recognition...should be tied to the performance of the service". Since significant services continue throughout the policy period, we do not agree that the entire commission has been earned on the effective date of the policy.

In addition, while coverage is effective on that date, that coverage is subject to change at the desire of the insured. Since possible changes may affect the premium due under the policy and therefore, the commission due the broker, further evidence exists that the revenue has not been earned at the effective date of the policy because of the tenuous nature of the revenue. It seems the ideas developed in 2.8 relating to contingencies might very well apply - i.e. "Contingencies that might result in gains usually are not reflected in the accounts since to do so might be to recognize revenue prior to its realization." While it may be possible to accrue estimated revenue or losses due to policy endorsements, it would take several years to develop statistical information of sufficient value to make reliable and comparable estimates. Also of concern, is the cost of making such estimates, not only to the broker, but to the underwriter as well. Such costs include additional manpower - either personnel or consultants, to develop the estimated amounts.

In paragraph 2.2, the historical methods of accounting for commission income are set forth. My large agency client uses Delphi accounting software. This software is used by approximately 1100 independent insurance agents including over one-half of the top 300 agencies nationwide. The software allows for recognition of revenue on an as billed basis. In addition, direct bill income is accounted for as received. The changes proposed by the exposure draft would necessitate major software changes for a majority of those agencies who would be likely to be affected by this accounting guide. In effect a one-step process (billing the insured, recording the revenue and account receivable) would have to be changed to a two-step process (recording the receivable and revenue, creating a billing function which would allow for lump-sum and installment billings).

Regarding direct bill income: Paragraph 2.21 suggests that a reasonable effort should be made to obtain adequate and timely information to reasonably estimate and accrue the amount of commissions that have been earned on direct bill business. However, entities also have the option to recognize revenue as received or notified. Because over one-half of the largest agencies are currently accounting for this income on the latter basis, I believe that practice will continue and the objective of establishing consistency in the industry will be defeated.

Paragraph 2.14, dealing with reporting-form basis premiums, essentially allows entities to continue reporting according to industry practice which is as the events occur. In so doing, the task force gives recognition to the difficulty or impossibility of estimating and accruing commissions related to reporting-form premiums. Does a change to estimating and accruing create greater consistency in the industry if many will determine that this change cannot reasonably be accomplished and therefore, continue as before? Is a change to estimating and accruing warranted in view of the enormous cost such a change will entail? I believe those questions are valid not only as relates to 2.14 , but as relates to all suggested accruals for estimated revenues and/or losses.

Regarding financial statement presentation: We agree that fiduciary funds and premiums receivable meet the definitional criteria for assets and should be included in the balance sheet as assets. Additionally, we agree that premiums payable to underwriters meet the definitional criteria for liabilities and should be included as well on the brokers' balance sheet. However, we feel the requirement to disclose investment income on fiduciary funds as suggested in 2.42 should be re-evaluated. The calculation of this amount would be next to impossible. Let me use an example to explain our position. Premiums submitted to the broker belong to the broker to the extent of his commission and to the underwriter for the net due on the policy. The premiums submitted do not come in two separate checks, one representing commission, one representing premium. Rather, one check is received for the entire amount. Therefore, physical separation upon deposit to the financial institution is impossible. Funds would have to be shifted from one account to another potentially causing significant loss of revenue. Alternatively, an allocation of earnings would have to be made. If the premiums received were due to ten different underwriters, each of which had a different pay schedule, I believe one can picture the accounting nightmare developing in this situation. I do not know of any software that presently could handle the calculations. Such a package would be extremely complex and therefore, costly. The calculation would be beyond the ability of many smaller entities and the cost prohibitive.

Provisions relating to reinsurance intermediaries in paragraphs 4.12 to 4.18 call for deferring income over the life of the service obligation, setting up loss contingencies, recognizing income from excess of loss treaties at the effective date of the contract and estimating and accruing revenue related to premium adjustments, estimating and accruing revenue from pro rata reinsurance contracts when the earnings process is deemed to be complete, and making provision for related commission adjustments.

In my experience, run-off business revenue is accounted for as suggested in 4.15. However, reporting to the intermediary generally lags by several months. The only way to get the desired information is to audit the ceding company books. While provision is generally made for this in the contract, as a practical matter, the expense is generally too great to offset the benefit received. That consideration applies to all the estimating and accruals suggested by the task force. Cost outweighs the benefit. Additionally, provision is made to recognize revenue as received if information cannot reasonably be obtained for estimate purposes. Therefore, it seems current practices will continue and the objective of eliminating alternative accounting practices will not be accomplished.

In addition to the above accounting issues, the task force should be acutely aware of the tax consequences these rules may create. As you know, the Internal Revenue Service posture is to give effect to GAAP as the desired accounting method for tax reporting. For many entities, the changes entailed under the exposure draft will necessitate two sets of books, one for financial statement purposes and one for tax purposes. For C corporations the possibility exists for increased taxes due to the alternative minimum tax adjustment for book vs tax accounting income. If an entity does not want to keep two sets of books and reports income for tax and financial statement purposes according to the proposed accounting guide, a change in accounting method request will have to be filed with the service and the income adjustment recognized over a six year period. Conceivably, a consequence of such a change is a reduction in cash flow due to tax liability on income not yet received.

As a practitioner in the public arena, while I understand the value of the matching concept which provides for a proper matching of revenues and the expenses to produce those revenues, I have a general concern for the complexity we are creating in an effort to adhere to this theory. It seems that we are at times so caught up in the effort of accomplishing the matching, we forget to give affect to the practical. We are so busy making estimates and accruals that we sometimes loose sight of the tangible income and expense thereby making provision for intangibles which never actually occur and so have to be adjusted off the balance sheet at a future date. My general apprehension is that we are making financial statements so complex, their usefulness to the public is diminishing. It seems each new requirement for estimating and accruing allows entities to practice "creative accounting", if you will. As a result, have we really made financial statement reporting more consistent and comparable? Are we truly providing the general public a better product with which they are able to evaluate the financial position and results of operations? My fear is we are gradually creating a monster that no one will understand and only the most sophisticated will be able to use to their advantage.

An additional concern is that with each new requirement such as those suggested in the exposure draft, we are creating additional costs not only for the entities which must adhere to the new rules, but also for ourselves in providing services to those entities. Each of the proposals suggested will require significant CPA intervention on behalf of the client as we audit, review, compile, help develop the amounts, etc. That means bigger fees for the client. How many will be able to afford those services. Are we pricing many smaller entities out of our market? In so doing, how have we served the public? More and more will reduce the level of service we provide in an effort to contain costs. Because of the increased reporting requirements, documentation in our files, etc. ensuing over the past several years, the cost of providing the same service today as opposed to five years ago has doubled or tripled for many of my clients. Quite frankly, I have a hard time seeing that the changes proposed create enough additional benefit to the public to justify the expense involved.

In summary, we do not agree with the measurement date for revenue recognition because substantial services continue after the effective date of the policy (with the exception, perhaps, of life insurance policies). Further, the potential for significant commission changes exists because of the possibility of policy changes throughout the life of the policy. We believe that proposed estimating and accruals would create significant increased expenses in order to comply resulting in financial strain or inability to comply because of lack of funds. The additional record keeping necessary to effect the changes increases the likelihood of error and thus potentially decreases the reliability of the financial statements.

Proposed estimates and accruals create the necessity to develop statistical information upon which brokers may rely for purposes of future accruals. The development of such statistics will entail great expense to go back to past years for development or alternatively will go many years in the future before reliable information can be developed. Therefore, the usefulness of this information is conceivably many years in the future.

Since there are numerous opportunities under the proposals to continue present accounting practices, it seems little headway will be made to eliminate diverse accounting practices.

For these reasons, we strongly urge the task force to rethink its' position especially giving consideration to the cost/benefit issue of these proposals.

Respondents are specifically requested to comment on the need for or desirability of illustrative financial statements in the accounting guide. I believe illustrative statements may provide guidance as to account titles and proper classification on the balance sheet thereby creating more consistency throughout the industry. Agencies are often required to provide financial statements to prospective clients, underwriters, etc. Often it is desirable to provide statements which omit notes and combine statement components. Therefore, it will be helpful if the guide provides illustrative condensed financial statements as well.

Thank you for this opportunity to voice my concerns and those of my clients. We appreciate your consideration of our concerns.

Sincerely,

Susan Lowry

Susan J. Lowry,
Certified Public Accountant

Rec'd 10/31/91

15

ARTHUR J. GALLAGHER & CO.

October 28, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
American Institute of CPAs
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

We are pleased to provide our comments on the Proposed Industry Accounting Guide for Insurance Agents and Brokers. In general, we concur with substantially all of the conclusions reached by the Task Force. In one instance, as noted below, we believe that the proposed guide should be revised.

With respect to revenue recognition on installment billings, the current draft proposes that the entire commission be recognized when the transaction is initially recorded. However, the draft also indicates that commissions on multiyear policies should generally be recognized on an annual basis, because the policyholder could discontinue coverage prior to the end of the multiyear policy. It is our opinion that these two accounting treatments are contradictory.

In practice, a policyholder may generally discontinue coverage at any point during the policy term. The fact that a policyholder may drop coverage in mid-term on a multiyear policy does not seem to be sufficiently unique to justify a different method of revenue recognition as compared to an annual policy with installment billings.

Any method of commission recognition should attempt to match revenues and costs. Until all administrative work relative to the preparation and issuance of each installment bill has been finished, additional costs will be incurred and the transaction may still be considered to be incomplete. Accordingly, we believe that commissions on installment billings should not be recognized until billed, to more properly match commission revenues with those costs associated with the installment billings. This treatment may also justified on the basis of conservatism; it seems more prudent to defer recognition of commissions on installments until the transaction has been successfully concluded. We do agree with the Task Force's conclusions regarding multiyear policies, which are consistent with the goal of matching costs and revenues.

The Gallagher Centre, Two Pierce Place, Itasca, Illinois 60143-3141
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The Task Force has requested guidance as to the need for illustrative financial statements. We believe that the current draft is adequately explained and that no illustrative examples are necessary.

If you would need any clarification regarding our comments, we would be pleased to discuss this matter with you in further detail.

Very truly yours,

Robert Mason

Robert F. Mason
Manager, Corporate Accounting
For Arthur J. Gallagher & Co.

Rec'd 10/31/91

16

JOE MAX GREEN
INSURANCE AGENCY, INC.

Joe Max Green
president

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Gary Willis
vice president

October 30, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the draft mentioned above, and we disagree with many of the proposed methods of accounting that are presented in this draft.

Ed Harrington, President of the Delphi Users Group, sent me a copy of the letter that he wrote to you on October 25, 1991. I am in complete agreement with all of the issues that are pointed out in that letter (copy enclosed).*

We urge the AICPA to review these proposed guidelines before finalization of these accounting principals. I would appreciate hearing from you as soon as possible.

Thank you for your consideration.

Yours truly,

Joe Max Green
President

JMG/jl

* Committee & Task Force's:
See attachment to #8

0- 0

JMG

Rec'd 10/31/91

17

October 31, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

. nk B. Hall & Co. Inc.
South Building
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Comments on the Exposure Draft
Proposed Industry Accounting Guide for
Insurance Agents and Brokers

1. **Recognition of Brokerage Income on the Effective Date of the Underlying Policy.**

The insurance broker is compensated for his services by commissions usually stated as a percentage of the insured's premium. The broker's services for which he is compensated include evaluating the risk, determining the insurance requirements, selecting the underwriter and placing the insurance. Many brokers have historically recognized the commission on the date that the insured is invoiced even if that preceded the actual effective date of the underlying policy. As indicated in paragraph 2.3, regardless of the passing of the effective date, the broker's work has been substantially completed and the related costs to produce, market, and place the coverage have been incurred on the date the insured was billed. On the billing date the general criteria for recognition of income as outlined in FASB Statement of Financial Accounting Concepts No. 5 and the related literature discussed in paragraph 1.26 and 1.27 of this document seem to be met. The only rationale given to deferring the income until the effective date is that the effective date is more objective than the billing date because brokers may have some discretion in selecting the billing date (paragraph 2.3). It is true that selection of an objective and consistently applied cutoff date is an important consideration if comparative financial information is to be meaningful. The recognition method described in paragraph 2.5 presumably would allow a broker to recognize income on the later of the billing or effective date since paragraph 2.3 states that, "If the premium is billed after the effective date, significant portions of the work generally are performed and the related costs are incurred between the effective date and the billing date." If this is presumed to be true, a broker could recognize income on the billing date as long as it is not prior to the effective date and would have the same discretion in choosing the revenue recognition date as a broker currently recognizing income on the billing date prior to the effective date. The danger of materially misstating financial results through the manipulation of the revenue recognition date on policies could be controlled by requiring the disclosure of the effect on net income of recording more than one annual commission on policies in a given year.

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Established in 1862

Another consideration for the selection of the cutoff date to be used for revenue recognition is that for calendar year-end companies the effect of adopting revenue recognition on the "policy effective date" can be to materially misstate the total equity of the business entity. It so happens that a disproportionate number of insurance policies have an effective date of January 1. Since substantially all of the work has been completed prior to the effective date, substantially all of the expenses to be incurred in connection with the earnings process have been expensed prior to this date. By requiring that the income in connection with these policies be deferred, even if billed prior to January 1, we by definition are pushing the income into a later accounting period. For a broker who has been consistently recording such income in December, on the billing date, the adoption of this new accounting treatment could significantly reduce the reported net worth at the balance sheet date. Since all of this income in question could in theory be reflected on the balance sheet at 12:01 a.m. on January 1st and since all of the other criteria for income recognition have been met in December, I question whether or not the benefit derived from the selection of the effective date as the cutoff outweighs the negative impact described herein. In this case the selection of the expiration date of the old policy (December 31) would be a more appropriate revenue recognition date, providing the appropriate objectivity as well as better matching of revenues and expenses and a truer representation of the net worth of the enterprise.

Effective Date of the Accounting Guide

Due to the significant programming changes which will be necessary to accommodate the various changes in accounting methodology outlined in the Guide, it is recommended that the Guide be effective for financial statements for fiscal years beginning after December 5, 1992.

Very truly yours,

Robert Schneider

Robert S. Schneider
Vice President/Controller
Frank B. Hall Insurance Brokers Inc.

Rec'd 11/1/91

18

RAUH
Frederick Rauh & Company
Insurance and Financial Services Since 1870

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October 30, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division File 3165
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents & Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

As a member of the AICPA and privately employed with Frederick Rauh & Company, an insurance agency/broker affiliated with American Business Insurance, the ninth largest national broker in the United States, I feel qualified to respond in part to the above referenced exposure draft. I have several concerns both from a certified public accountant's view and as the CFO of Frederick Rauh & Company.

I will address specific items individually and reference paragraph numbers from the exposure draft.

1. The earning process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initially recorded (2.5, 2.16, 2.36). The basic premise that the earnings process is substantially complete and that no significant obligation exists to perform services after the insurance becomes effective is inaccurate. There are numerous obligations the insurance agent must perform during the entire policy period including but not limited to continuing to verify adequate insurance coverage, endorsing the policy to add and delete insured property, changing limits of coverages, consulting on prospective new insurance plans, etc. As errors and omissions becomes more important each day, the insurance agent must increase his or her activity during the policy period to a level even beyond that of the past.

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12). It is difficult if not impossible to reasonably estimate contingent commissions for year end closing. Each insurance carrier has a separate contract with the agency/broker which includes a formula to determine the amount of contingent commission the agency/broker is eligible to receive. This formula analizes losses during the year and is run after December 31. This calculation can even be changed in January or February of the following year depending on how companies reserve for losses not yet settled. Even if the agency contacts each insurance carrier to determine what contingent commissions will be paid, this information isn't available until well after year end closing.

3. Reasonably estimate and accrue commission on policies that are on a reporting-form basis (2.14). This accounting practice "make reasonable efforts to obtain information" is very difficult if not impossible for the insurance agency/broker to follow. This would require an entry to commission without ever billing the client and reporting it on the "account current" statement to the insurance carrier. The whole purpose of a reporting form is for the client to report ongoing information important to the determination of commissions. Without the reporting form, the agent could only make broad guesses about a client's business to record income.

4. Reasonably estimate direct bill commissions. Since direct bill commissions are billed by the insurance carrier, the agency/broker does not have the information concerning renewals, premium levels and method of payment, to make the determination to record commissions. This would force the insurance agency to make broad guesses based upon historical renewal information and seasonal fluctuations to estimate commissions.

5. "Trust Accounting" as a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements. Several states have requirements similar to the proposed guideline, requiring insurance agencies/brokers to complete trust calculations. From my experience, for the most part, these guidelines are ignored by insurance agencies/brokers. Only those highly visible national and public companies diligently follow state trust guidelines. Separating fiduciary funds, and the related investment income, is very difficult and leads to inefficiencies requiring separate lock boxes, daily trust calculations, multiple checking accounts, and generally more people to staff the accounting department.

I strongly urge the AICPA to look very carefully at these proposed guidelines and revise them. We want accurate reporting in our industry, but need reporting requirements that can be met and will be of benefit to the financial reporting process. If I can be of any assistance or provide you with any clarification or information, please don't hesitate to contact me.

Sincerely,

Mark R. Erion

Mark R. Erion, CPA
Senior Vice President &
Chief Financial Officer

MRE/cls

Rec'd 11/1/91
19

EASTERN
INSURANCE GROUP

October 30, 1991

Ms Elise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms Konigsberg,

I am writing on behalf of our agency, a member of the Delphi/McCracken User's Group, regarding a recent Exposure Draft involving Insurance Agents and Brokers. Although our chairman has written a letter to you expressing our concerns (see attached)* I would like to add my own comment which relates most specifically to items one, four, five and ten.

What about the Matching Principle?

The Draft's premise that the earnings process is complete at the effective date of the policy fails to take into effect the expense that is associated with servicing the policy throughout its life.

We agree totally with the responses on the attached letter and hope that our views will be carefully considered.

Sincerely,

Kathleen

Kathleen Godwin
Accounting Manager

* Committees & Task Forces:
See attachment to #8

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Recd 11/1/91

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E. Kinker & Co.

INSURANCE

Established 1919

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October 30, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americans
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

I take serious exception to many of the proposed methods of accounting that are presented in this draft. It is my contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agencies nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious strain on many agencies.

I would strongly urge the AICPA to revise these proposed guidelines. I would appreciate a response to this letter.

Sincerely,

Samuel W. Tuten

Samuel W. Tuten
President
SWT/skb

Reed 11/1/91

21

E.M. FORD & Company

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October 29, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8875

Dear Ms. Konigsberg,

I am writing in response to the exposure draft regarding GAAP for insurance brokers and agents. As controller of an insurance agency and a CPA, I feel that the proposed guidelines would do more to distort the financial picture of an agency rather than providing a more accurate view as was intended. Also the requirements in order to present statements as these guidelines mandate would impose an entirely too rigorous record keeping process. But most importantly, these guidelines would have a negative and, in some agencies, a severe impact on the tax liability, cash flow, balance sheet presentation and credit rating of the agency.

We take serious exception to many of the proposed methods of accounting that are presented in the draft. I am joining with other agencies across the nation to strongly urge the AICPA to revise these proposed guidelines.

Sincerely,

Keith J Flaspoehler

Keith J. Flaspoehler, CPA

Rcv'd
11-1-91

22

THE
FLAGSHIP
GROUP
LTD.

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October 29, 1991

Ms. Elise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N. Y. 10036-8775

Ref: Exposure Draft - Proposed Industry Accounting Guide - Insurance Agents and Brokers 08/15/91

Dear Elise:

I have had the opportunity to review the above mentioned document and find various areas that need to be given much further and directed consideration, as they may relate to The Flagship Group and our associated companies. I draw your attention to the letter forwarded to you by Ed Harrington, Chairman, Delphi/McCracken Infinity Users' Group that we are a member of. I stand behind the letter issued by Mr. Harrington and request that you give due consideration to the various points raised in his letter, as they effect our industry.

Insurance agents are under increasing pressure to provide services and facilities in a professional way to our client base. Your proposal is certainly not in line with the way we currently handle our accounting, will generate onerous record keeping requirements, and will most definitely have a very negative impact on tax liability, cash flow, and balance sheet preparations. We currently use the GAAP accounting procedures in the development of our own financial statements.

I ask that you give due consideration to the comments made by Mr. Harrington on behalf of our industry.

Sincerely yours,

Stephen A. Johnsen, Pres.
THE FLAGSHIP GROUP, LTD.

:abw

cc: Mr. Ed Harrington
Chairman

Rcv'd 11-1-91

23

Vaaler Insurance, Inc.

October 29, 1991

Ms. Elise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft dated August 15, 1991
Proposed Industry Accounting Guide
Insurance Agents and Brokers

Dear Ms. Konigsberg:

I am writing to you in response to the proposed methods of accounting in this draft. These accounting standards do not represent standard industry practice and would place an unreasonable recordkeeping burden on agencies, as well as create adverse financial effects.

Several specific points should be mentioned. First, the earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective. Quite frankly,this statement indicates a lack of understanding of the competent function of a commercial insurance operation. In the case of an agency which handles primarily commercial lines, as this agency does, there exists a substantial liability to determine if the insured's coverage is adequate, to monitor the insured's risk, and to make changes to the policy when necessary, and provide continuing services in claims handling, loss control, etc.

Second, agents would be required to reasonably estimate and accrue contingent commissions. Estimates of contingent commission would be unreliable at best. Contingent commissions are seldom finally determined until near or after year-end because of the time necessary to ascertain claim loss history. It would create an unfair tax burden to record these estimates as current income, when they are for amounts not yet determined with any certainty and will not be received for months.

Third, agents would be required to reasonably estimate and accrue commissions that are on a reporting-form basis. It would be an extremely cumbersome process to accrue an estimated premium for a policy without either billing the insured or reporting the net premium payable to the insurance company on the monthly account current statement. The reporting-form basis is used to manage coverage for inventory levels that vary; this points out that the premium and associated commission cannot be estimated with reasonable certainty at the effective date.

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Fourth, an agent would be required to report the entire commission on installment contracts as of the effective date. Again, as in the previous situation, it would be a tremendous accounting burden to maintain an accounting system that would record the accounts receivable and accounts payable amounts at the effective date of the policy for financial reporting purposes, yet to bill the insured and report to the insurance company on the account current statement on an installment basis which could be monthly, bimonthly, quarterly, semiannually, or annually. This also represents a significant acceleration of the recognition of revenues (and the accompanying tax liability) without the ability to demand payment for these revenues. Additionally, the collectibility of installment billings cannot be reasonably estimated because there are no guarantees that the contract between the insured and the insurer will remain in effect and that future installments will be paid.

Fifth, the draft states that direct bill commissions should be estimated and accrued. In the case of direct bill policies, an agent relies on the insurance company to provide information on policy renewals and cancellations. And again, the requirement to accelerate commissions on installment billings would require an extremely complex accounting system - our computer system would not support this - and would create a tax burden for revenues which could not be received at the effective dates.

Sixth, "trust accounting" is not required in the State of North Dakota. Separating fiduciary funds and the related investment income would be a difficult task, creating an additional accounting burden.

Seventh, first year life commissions would be recognized as income up front, even if the commissions are paid on an installment basis. Again, this creates a next-to-impossible accounting requirement and recognizes revenue that cannot be collected at the effective date.

To summarize, these proposed guidelines create both detrimental effects to an agency's financial condition and the necessity for an extremely burdensome accounting process. We urge the AICPA to revise these guidelines.

If we can be of further assistance or provide additional information, please contact us.

Very truly yours,

VAALER INSURANCE, INC.

David A. Vaaler, CEO

DAV:kw

Rec'd 11/4/91

24

First Security
Insurance

First Security
Insurance

C. DAVID ROCKETT
CONTROLLER

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PHONE (704) 322-417

October 30, 1991

Ms. Elise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York NY 10036-8775

Re: AICPA Proposed Accounting Principles

Dear Ms. Konigsberg:

As Controller of First Security Company, Inc., I am writing you on our behalf concerning your proposed Exposure Draft regarding generally accepted accounting principles for insurance agents and brokers. Many of these proposed guidelines are not consistent with the way most agencies handle their accounting. They represent some very difficult record keeping and have significantly a negative impact on tax liability, cash flow, and balance sheet presentations. Furthermore, most agencies do not have the automation capabilities to deal with such guidelines.

We feel very strongly about items discussed in this letter. The specific items we find disturbing are summarized and explained below referencing your paragraph numbers.

1) The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exist to perform services after the insurance has become effective, therefore the entire revenue should be recognized when the transaction is initially recorded.(2.5,2.16,2.36)

<u>Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)</u>
The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exist to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract <u>or by industry practices</u>, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bear's a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

2)Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

<u>Item 2 - estimating and accrueing contingent commission (2.10)</u>
Brokers should not be required to make "reasonable efforts...to obtain information from underwriters,,," (2.10) concerning potential contingent commissions. Often times this information is not known for <u>months</u> after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

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<u>Item 3 - estimating and accrueing commissions on "reporting-form" policies - (2.14)</u>
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4)The entire commission on installment contract should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42).

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Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and difficult accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

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In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ration (the dollor amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

5)Reasonably estimate and accrue direct bill commissions (2.21).

Item 5 - estimate and accrue direct bill commissions (2.21)

This, quite simply, is impossible for most brokers to do because their automation systems do not accomodate it and, by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been cancelled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

6) The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25).

Item 6 - recognizing fee income separately from commission income (2.25).
This is a difficult practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is difficult, and quite probably not possible for most accounting systems.

7)"Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

Item 7 - "trust accounting" as a requirement (2.42)
Several states have requirements similar to the proposed guidelines. Outside of the national brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the realted investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients is a difficult requirement to all that don't have sophisticated automation systems. In many broker businesses, this information would be simply immpossible to obtain.

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Item 8 - disclosing advances to underwriters and clients (2.42).
See explanation for Item 7.

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10) First year life commission should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

Item 10 - recognizing all first year life commissions up front (6.10)
Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be a difficult accounting requirement for many brokers to internally generate such figures.

11)Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Item 11 - estimating an adjustment due to cancellation of life policies where the commission has been paid up front (6.13)
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In summary, it is our belief that these proposed quidelines:

*are not representative of current standard industry practices;

*accelerate revenue recognition without the broker being able to have the benefit of construction receipt until a later point in time;

*have a very detrimental impact on a broker's tax liability and cash flow

*have a detrimental effect on the balance sheet presentation, and may impare brokers from obtaining credit

*contain record keeping requirements that are difficult at best and impossible, most likely, without a very sophisticated automation system.

I would strongly urge the AICPA to revise these proposed guidelines. I would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

Sincerely,

C. David Rockett

C. David Rockett
Controller

CDR:mll

Rec'd 11/4/91

25

Andy Anderson
INSURANCE AGENCY, INC.

October 28, 1991

Ms. Elise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

We are writing you to express our sincere dismay over the apparent lack of understanding your organization has regarding the accounting practices of insurance agencies.

We take serious exception to many of the proposed methods of accounting that are presented in the above referenced draft.

Since we are members of the Delphi Users Group we have been advised by our chairman of this draft and fully support his October 25, 1991 letter to you on this matter.

We strongly urge the AICPA to review and revise these proposed guidelines.

Sincerely,

Charles E. Anderson

Charles E. "Andy" Anderson, President
Andy Anderson Insurance Agency Inc

P.O. Box 1627 • 2720 Frederica Street • Owensboro, Kentucky 42302-1627 • 502-926-4550

Recd 11/4/91
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ENGLE-HAMBRIGHT & DAVIES, INC.

RISK MANAGEMENT - FINANCIAL PLANNING - INSURANCE

115 EAST KING STREET, P.O. BOX 3080
LANCASTER, PENNSYLVANIA 17603
PHONE 717/394-5681
FACSIMILE 717/394-0842
1-800-544-7292

October 31, 1991

Ms. Elise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165 AICPA
1211 Avenue of the Americas
New York, NY 10036

RE: Exposure Draft Proposed Industry Account Guide
Insurance Agents and Brokers

Dear Ms. Konigsberg:

I am writing to express my serious disagreement with the captioned draft. Primarily my concern with it is that the premises on which it is based are simply wrong, and so far wrong, that it is difficult to understand where you got the information to begin with. Any thought that work on an account stops after inception is outrageously wrong. We are required by professional standards, by legal requirements, and by the requirements of the various state insurance departments to provide ongoing service. The insurance agent or broker who fails to do this will either be bankrupt or will be terminated by the regulatory authorities.

I will not go into the details of the other provisions of your proposed changes, but I support the letter which was written by Ed Harrington and Steve Warner on behalf of Delphi User's Group.

I strongly urge you to reconsider what are poorly thought out and wrong proposals.

Yours very truly,

C E McMurtrie

Christian E. McMurtrie
Chief Executive Officer

wls

Rec'd 11/4/91 27

BRITTON-GALLAGHER & ASSOCIATES, INC.
6240 SOM CENTER ROAD SOLON, OHIO 44139-2913
TELEPHONE 216/248-4711
FACSIMILE 216/248-5406

October 29, 1991

Ms. Elise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: AICPA Proposed Accounting Principles

Dear Ms. Konigsberg,

Today I learned that the AICPA has produced an Exposure Draft regarding generally accepted accounting principles for insurance agents.

I cannot believe what I read. Some of the proposed guidelines could never be met, some would require doubling our bookkeeping staff, and some would have an extreme negative impact on tax liability.

Obviously the proposers did not spend much time discussing these with brokers. Please reconsider your position.

Sincerely,

BRITTON-GALLAGHER & ASSOCIATES, INC.

Don R. Britton
President

DRB/lb

cc: Greg Skoda, CPA

Rec'd 11/4/91 28

DELPHI INFORMATION SYSTEMS
USERS ADVISORY GROUP

October 25, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As Co-Chairmen of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion dollars in premiums each year.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initally recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42)

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Here is a further explanation on the above items:

<u>Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)</u>
The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

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Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

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Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

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Several states have requirements similar to the proposed guidelines. Outside of the public brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the aggregate amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients would require very onerous record keeping requirements for the majority of brokers nationwide. In most broker businesses, this information is quite simply impossible to produce.

Item 8 - disclosing advances to underwriters and clients (2.42)
See explanation for Item 7.

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In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

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*have a detrimental effect on the balance sheet presentation, and may impare brokers from obtaining credit

*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Ed Harrington

Ed Harrington, Chairman
Delphi/McCracken
INfinity Users' Group
303-722-7776

Steve Warner

Steve Warner, Chairman
Delphi/McCracken
INSIGHT Users' Group
908-469-3000

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&Claims, Inc.

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All lines of insurance
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October 29, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

I am writing you on behalf of some 1100 independent insurance agencies nationwide. As an issuer of financial statements which are audited by independent certified accountants, we feel qualified to comment.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

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In addition, I believe it unreasonable to require trust accounting when many other industries that receive prepayments are not required to adhere to same.

Item 8 - disclosing advances to underwriters and clients (2.42). See explanation for Item 7.

Item 9 - accruing the "ultimate premium" on retro-policies (5.17). Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and, therefore, would only serve to inflate receivables and payables on the broker's balance sheet.

Item 10 - recognizing all first year life commissions up front (6.10). Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

Item 11 - estimating an adjustment due to cancellations of life policies where the commission has been paid up front (6.13). This information typically cannot be reasonably estimated and it is an onerous requirement to go through some actuarial or statistical calculation to make an attempt at estimating it.

In summary, it is our belief that these proposed guidelines:

- are not representative of current standard industry practices;

- accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

- have a very detrimental impact on a broker's tax liability and cash flow;

- have a detrimental effect on the balance sheet presentation, and may impair brokers from obtaining credit;

- contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

James K. Johnson
Controller

JKJ/jmk

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30

SCOTT C. FERGUSON, Vice-President
Finance & Administration

October 29, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

I am writing you on behalf of some 1100 independent insurance agencies nationwide. As an issuer of financial statements which are audited by independent certified accountants, we feel qualified to comment.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initially recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

11405 Park Road • P.O. Box 23790 • Louisville, KY 40223
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4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42).

5. Reasonably estimate and accrue direct bill commissions (2.21).

6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25).

7. "Trust accounting" is a requirement - i.e., the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

8. Advances to underwriters and clients must be tracked and disclosed in financial statements (2.42).

9. Estimate and accrue the ultimate premium on retro policies (5.17).

10. First year life commissions should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

11. Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Here is a further explanation on the above items:

Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36). The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/ property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bears a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premiums and/or receives the commission.

Item 2 - estimating and accruing contingent commissions (2.10). Brokers should not be required to make "reasonable efforts...to obtain information from underwriters..." (2.10) concerning potential contingent commissions. Often times this information is not known for months after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

Accruing estimated contingent commissions would be very unreliable and would cause brokers to report as current income (and bear the appropriate tax liability) commissions that they may not be paid for for months, if at all.

Item 3 - estimating and accruing commission on "reporting-form" policies (2.14). This is an onerous accounting practice to have to make "reasonable efforts to obtain information" regarding these type policies and accrue the commissions associated with them. These premiums are not billed to the insured and reported to the underwriter until the reporting form is received and the premium calculated. It is an onerous accounting practice to accrue the estimated premium, without billing the client and reporting it on the "account current" statement to the underwriter, then reverse the transaction and record the actual premium when it is determined at a later date. The primary purpose of reporting-form policies is to accommodate the unknown fluctuations in volume that the premium is based upon.

Item 4 - accelerating installment billings into the current period (2.16, 2.42). Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

<u>Item 5 - estimate and accrue direct bill commissions (2.21)</u>. This, quite simply, is impossible for most brokers to do because their automation systems do not accommodate it and, by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been cancelled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

<u>Item 6 - recognizing fee income separately from commission income (2.25)</u>. This is an onerous practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

Item 7 - "trust accounting" as a requirement (2.42). Several states have requirements similar to the proposed guidelines. Outside of the national brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients is an onerous requirement to all that don't have sophisticated automation systems. In many broker businesses, this information would be simply impossible to obtain.

In addition, I believe it unreasonable to require trust accounting when many other industries that receive prepayments are not required to adhere to same.

Item 8 - disclosing advances to underwriters and clients (2.42). See explanation for Item 7.

Item 9 - accruing the "ultimate premium" on retro-policies (5.17). Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and, therefore, would only serve to inflate receivables and payables on the broker's balance sheet.

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We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Scott C. Ferguson
Vice President
Finance & Administration

SCF/jmk

Rec'd 11/5/91 31

MASSACHUSETTS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS, Inc.
105 Chauncy Street, Boston, MA 02111 (617) 556-4000 FAX (617) 556-4126 Toll Free 1-800-392-6145

October 30, 1991

Ms. Ellise G. Konigsberg, Technical Manager
Accounting Standards Division
File 3165
AICPA, 1211 Avenue of the Americas
New York, NY 10036-3775

Re: Proposed Industry Accounting Guide (IAG) "Insurance Agents and Brokers"

Dear Ms. Konigsberg:

The Massachusetts Society of CPAs Insurance Accounting and Auditing Committee is comprised of 15 members who are affiliated with accounting firms and industry. The Accounting Issues Subcommittee (Subcommittee) is comprised of 3 of those 15 members. The Subcommittee has reviewed and discussed the Proposed Industry Accounting Guide (IAG) "Insurance Agents and Brokers." The comments resulting from that discussion are summarized below. The views expressed in this comment letter are solely those of the Subcommittee and do not reflect the views of the organizations with which the Subcommittee members are affiliated.

The Subcommittee supports the IAG as drafted. The members believe that information about the operations of insurance agents, brokers, and reinsurance intermediaries was needed and adequately addressed in the IAG. The key accounting issue addressed related to revenue recognition for services provided. We believe that the conclusions contained in Chapter 2 "Retail Brokers" are appropriate and should eliminate the differences that have emerged in practice. Consideration was also given to the specialized revenue generating activities of reinsurance intermediaries, managing general agents and life insurance agents and brokers. The members reviewed and were in agreement with the revenue recognition conclusions in Chapters 4 through 6 related to these entities.

A secondary issue that we reviewed related to gross vs. net presentation of fiduciary funds. We agreed with the gross method conclusion reached in Chapter 2, paragraph 42.

The Subcommittee appreciates the opportunity to comment on Proposed SOPs. While we have no constructive criticisms to offer, we hope that our expression of consideration and support is helpful to the AICPA in its deliberations.

Very truly yours,

Gregory E. Murray

Gregory E. Murray,
Massachusetts Society of CPAs
Insurance Accounting and Auditing Committee
Accounting Issues Subcommittee Chairman

SMITH INSURANCE, INC.

Rec'd 11/5/91 32

October 30, 1991

Ms. Elise G. Konigsberg
Technical Manager
Accounting Standards Divisions File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg,

I am a partner in an insurance agency. We write over $25,000,000 in property and casualty insurance producing about $4,000,000 in revenue. I have read the Exposure Draft, Proposed Industry Accounting Guide, Insurance Agents and Broker, dated August 15, 1991. I am troubled by this document's lack of understanding of my business.

I am particularly incensed by the position the draft takes by stating "...no significent obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initially recorded (2.5, 2.16, 2.36). If that's the case, why do we have so many insurance agents and brokers competing for business? Why doesn't the insured simply buy the cheapest policy available? I'll tell you why, because we all continue to differentiate ourselves. We provide service and counselling beyond the delivery of the policy in order to keep our accounts. If we stop those services, we loose our identity with the customer, and lose the account.

I disagree with many items in the draft and believe all of my concerns are reflected effectively by Ed Harrington and Steve Warner of DELPHI/McCracken dated 10/25/91. I urge you to reconsider your position and not accept this draft as the final position to be taken by the American Institute of Certified Public Accountants.

Sincerely yours,

Michael A. Meeneghan

MICHAEL A. MEENEGHAN,
Executive Vice President/Treasurer

MM/cad

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Alder, Green & Hasson
Certified Public Accountants

November 5, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Exposure Draft Proposed Industry Guide
Insurance Agents & Brokers
Dated: August 15, 1991

Dear Ms. Konigsberg:

In response to the above referenced exposure draft, I am enclosing a copy of a letter from the Delphi-McCraken Users Group. I firmly and whole-heartedly agree with each of their positions on this matter, with the following additional comments.

Our firm represents a number of insurance agencies. Our clients principally use financial information for internal management purposes. External reporting is often of relatively little importance in this industry. When confronted with this issue of whether to go to the effort and expense of converting their financial information to GAAP, I would anticipate that our clients would choose to have us add a disclaimer to the accountant's report rather than comply. Further, I believe that most agency owners prefer to run their agencies utilizing financial information that is consistent with current industry practices. Accelerating the recognition of revenue on installment contracts and contingent commissions, for example, could create situations where management makes decisions that are based on financial information that, while economically appropriate, lacks conservatism. In soft markets, customers frequently shop the market and cancel installment contracts. With respect to contingent commissions, in this economy, I suspect that not even the underwriters could predict with any degree of accuracy, what they will pay out.

Finally, I would like to state that an industry accounting guide would be an important resource for CPA's like, myself. In the past, I have had to utilize financial reports of public companies and word-of-mouth information to resolve accounting issues. I encourage they AICPA to develop guidelines. However, I strongly feel that these guidelines should attempt to reflect and clarify existing industry practices rather than rewrite them.

I also respectfully request that, in the future, you give the public more than 45 days to respond to exposure drafts. Your current methods of diseminating proposed guidelines are simply too slow to allow practioners to respond within such a short time frame.

Very truly yours,

George Hess

George P. Hess, CPA
Partner

GPH/llm
Enclosure

October 25, 1991

DRAFT

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As Co-Chairmen of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion dollars in premiums each year.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

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In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

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*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Ed Harrington, Chairman
Delphi/McCracken
INfinity Users' Group
303-722-7776

Steve Warner, Chairman
Delphi/McCracken
INSIGHT Users' Group
908-469-3000

berends
hendricks
stuit
insurance agency, inc.

34

November 5, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

The purpose of the letter is to add comment to the Insurance Agents and Brokers Task Force regarding the proposed Industry Accounting Guide for Insurance Agents and Brokers. My comments concern retail brokers and in specific, Revenue Recognition.

Retail Insurance Brokers do much more today than sell a policy. Over 70% of our agency's compensation is devoted to service. We sell the policy, make changes to the policy and settle questions and claims on the policy in most circumstances. Insurance is not a typical product. It is a contract. It usually runs for a twelve month period, but is subject to cancellation with a pro-rate return at any time by the insured. About 90% of our commericial contracts are sold on a payment plan with premiums and commission received as payments are made. Our commercial clients recognize their expense over the period of coverage and accrue any prepaid as an asset.

For the above reasons, it seems logical that a proportional performance method of revenue recognition is more appropriate.

Sincerely,

Thomas L. Stuit

Thomas L. Stuit CPA
Berends Hendricks Stuit

TLS:sv

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Rec'd 11/7/91 35

Stein, Layland & Company
A Professional Corporation
Certified Public Accountants

210 West 22nd Street
Oak Brook, Illinois 60521
708/572-9748

October 31, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, N.Y. 10036-8775
By Fax (212) 575-3846

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As a practicing CPA, member of the "Tax Division" of the AICPA, and partner in this firm which provides accounting, auditing and taxation services to several insurance agents and brokerage firms in the Chicago land area I would like to take exception to the proposed change in the method of accounting for brokerage firms in this exposure draft. The changes could cause several financial strain for most of my insurance clients due to increased accounting costs and acceleration of the date on which income taxes would have to be paid.

I have reviewed the letter to you by Mr. Ed Harrington, Chairman of the Delphi/McCracken INfinity Users' Group dated October 25, 1991 and in general agree with each of his statements. In that you already have a copy of his letter there is no need to rehash each point. Therefore I will address only those points that need to be reiterated.

1. Most of my insurance clients are small to medium in size with one that is a large brokerage house. Each client has a distinct accounting system some of which are manual. Not one of their systems is designed to accommodate the accounting that would be required by this proposed change. Our largest insurance client just adopted (October 1, 1991) a complete new accounting system after almost a year of investigation and preparation. The new software (Delhi Information System) does not provide for the extensive accounting that will be required by these proposed changes. The cost to purchase additional or to modify existing software and accounting systems plus the time to learn and implement the proposed changes far outweighs any reporting improvements from these changes.

2. The proposed requirement that installment billing and their related expenses be estimated will change the character of the balance sheet and income statement of the insurance

businesses. It is true that for several types (namely life and auto) of insurance most of the expense in obtaining and servicing a contract are incurred prior to the policy starting date. But this is certainly not true with most personal lines, health and business policies. Further if a claim is made during or after the policy period the services that must be provided by the brokerage house will substantially exceed those required to sign up a policy. In the area of business insurance it is not a common practice for the broker to visit or contact customers once a year. As in the independent accounting industry the only way to properly service and keep a customer is to make it a practice to maintain contact throughout and even after the accounting/policy year. This is especially true for insured who are construction contractors, truckers or manufacturers. Since part of the total commission the insurance carrier pays to a broker is based on the claims submitted it is imperative that the broker monitor his clients to reduce claims where possible. This may take the form of visiting job sites or providing in-house or carrier provided specialist to review the insured compliance with the terms of the insurance contract and make suggestions on ways to reduce exposure to accidents or hazardous conditions. Further, the terms of the insurance contract(s) may require changes as the policy period progress to reflect adjustments in the insured business. Most policies are also cancellable at any time. These costs and contingencies can not be reasonably determined on the date the insurance contract is executed.

3. The requirement, for financial statement purposes, to accelerate the commissions due to a brokerage house prior to being fixed and determined either by payment of the installment or passage of time will encourage Congress, the Internal Revenue Service and many state governments to require brokerage firms to adopt the same method for income tax purposes. This acceleration of income, without the receipt of cash, will place substantial burdens on brokerage taxpayers. The Internal Revenue Code places severe restrictions on accrual of expenses. In general accrued expenses are not deductible until all events have occurred. Wages due to owners and certain shareholders are deductible on the cash method of accounting even if the taxpayer has adopted the accrual method of accounting. Wages (commissions on sales) due to non-shareholder/owner employees must be paid within 2 1/2 months of year end to be deducted. This presents a substantial problem for sole proprietorships, partnerships and closely held incorporated

entities in that they may be forced to accrue substantial revenues and not be permitted to deduct (schedule M-1) the related expenses in the same year. This could lead to a situation where the brokerage house is taxed on the commission income in year 1 (related wage expenses being deferred until actually paid) and a substantial tax loss in year 2 if the premium is not paid or the policy is cancelled. The resulting loss in year 2 many or may not offset year 2 net income or may create a net operating loss that the sole proprietorship, partnership or S Corporation shareholder may not be able to fully utilize.

In summary it is my belief that the proposed guidelines, if adopted, will have detrimental effect on the insurance brokerage industry. To comply with the requirements will cause brokerage houses substantial additional accounting expenses for which they will get no direct benefit and acceleration of their income taxes. Small, medium and large brokerage houses that are not required to have certified audits may reduce the level the services by our industry or accept a "qualified opinion" to avoid adopting the proposed accounting change and the associated auditing costs.

I strongly recommend that the insurance and brokers task force revisit the proposed accounting changes to take into consideration both the accounting and tax costs adoption of these proposals will cause. It is further request that the proposal be addressed in a future edition of the Journal of Accountancy and that the period for comments be extended until 30 days after said publication. The reason for this request is that most practitioners to whom this practitioner mentioned this exposure draft did not know it had been issued and were unable to obtain a copy prior to the comment deadline. I did not know of it's issue until a client provided me with a copy of the Delhi/McCracken Users; Groups letter referred to above.

If I can be of further assistance please advise.

Sincerely,
Stein, Layland & Company P.C.

H. K. Layland Jr

H. K. Layland, Jr.

Rec'd 11/8/91 36

Your Doorway To Protection

INSURANCE
&
FINANCIAL
SERVICES,
LIMITED.

November 6, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

I am writing to you as President of a Propety/ Casualty insurance agency with annual revenues of $2.5 million and premiums in excess of $15 million. I am also writing to you as President Elect of the Independent Insurance Agents of Delaware. I simply cannot believe some of the proposed industry accounting standards identified in the August 15 exposure draft for insurance agents and brokers.

I am sure you have received comment on these items from across the nation but, I would like to add one more. The most important areas to most agents and brokers that we feel are not addressed correctly are:

1. Your exposure draft indicates that the earnings process is substantially complete upon the effective date of the policy. Nothing could be further from the truth. Our activities as agents and brokers only begin when the policy is effective. In fact, there is a ration of 3 to 1 service to sales people in our end of the business. This, itself, is testimony to the fact that ours is dramatically more than a ministerial duty during the course of the policy year.

2. Accruing contingent commission based on reasonably estimates is wholly and completely impossible. Further, the information is absolutely unavailable to us in some cases until 90 days after the close of a calendar year.

3. Accelerate installment contracts. Virtually every automation vendor in the United States has spent significant time, effor and energy just to accomodate the installment method of recognizing income, expense and payable. Further, most insureds now pay their premium in installments.

666 Yorklyn Road, P.O. Box 537, Hockessin, DE 19707-0537 (302) 239-2355 (Fax) 239-5722

4. Trust accounting is required. Few, if and, agencies in the United States can deal effectively with this requirement.

Ms. Konigsberg, I had an opportunity to review the draft of the letter sent by Ed Harrington and Steve Warner of the Delphi/ McCracken Users' Groups. They elaborated on the above points and a number of other significant areas far better than I can. But, I thought it important that you get an additional point of view.

Thank you for taking the time to read this letter and consider my comments. I hope they assist you in making positive changes to the accounting guide.

Sincerely,

Kevin K. Thomas, CPCU, CIC
President

Riggs, Counselman, Michaels & Downes, Inc.
555 Fairmount Avenue, Baltimore, Maryland 21204-5497
Telephone: 301/339-7263 Facsimile: 301/339-7234

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October 31, 1991

Ms. Elise G. Konigsberg
Technical Manager
Accounting Standard Division, File 3165
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Exposure Draft "Proposed Industry Accounting Guide - Insurance Agents and Brokers" Dated August 15, 1991

Dear Ms. Konigsberg:

I am including copies of the letter written to you by Messrs. Ed Harrington and Steve Warner of the Delphi/McCracken Users Groups which complete state our views on this matter. We have written previously addressing our concerns and this later letter better summarizes our continued objection to the implementation of the proposal.

Very truly yours,

L. Patrick Deering, CPA

Lawrence R. Bird

Lawrence R. Bird, CPA

LRB:dtb
Enclosure

DELPHI INFORMATION SYSTEMS
USERS ADVISORY GROUP

October 25, 1991

RE: AICPA Proposed Accounting Principles

DEAR DELPHI USERS ADVISORY GROUP MEMBERS:

The DUAG Board is requesting your immediate attention to an issue that could have significant detrimental effects to the way many of us handle our financial reporting. The American Institute of Certified Public Accountants (AICPA) has produced an Exposure Draft regarding generally accepted accounting principles for insurance agents and brokers. Many of these proposed guidelines (1) are not consistent with the way most of us handle our accounting, (2) represent some very onerous record keeping requirements, and (3) have a very negative impact on tax liability, cash flow, and balance sheet presentations.

Even if you do not have a CPA prepare your financial statements, or do not prepare your statements according to their "generally accepted accounting principles," these AICPA guidelines often find their way into IRS regulations. Therefore, these guidelines could be detrimental to us all from a tax standpoint.

I have enclosed a copy of the letter I have sent (along with Steve Warner from the INSIGHT Users Group) that summarizes the troubling aspects of this draft. I encourage you to review my letter, review the AICPA draft exposure for yourself, and write your own letter to the AICPA expressing your disagreement. The AICPA draft exposure indicates that COMMENTS ARE TO BE RECEIVED BY OCTOBER 31, 1991, so time is obviously of the essence. Even if you can't make the October 31, deadline, your letter will be important.

You can probably obtain a copy of this draft exposure from your local CPA, a local chapter office of the AICPA or call Annemarie in your Users Group office for a copy. Comments should be addressed to:

Ms. Elise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Thank you for your immediate attention to this matter. I think it is very important that they hear from us en masse!

Sincerely,

Ed Harrington

Ed Harrington,
Chairman

EH:ap

P. O. Box 6984 • Westlake Village, California 91359 • Telephone (818) 991-8799 • FAX (818) 707-2419

October 25, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As Co-Chairmen of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion dollars in premiums each year.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initally recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42)

5. Reasonably estimate and accrue direct bill commissions (2.21).

6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25)

7. "Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

8. Advances to underwriters and clients must be tracked and disclosed in financial statements (2.42).

9. Estimate and accrue the ultimate premium on retro policies (5.17)

10. First year life commissions should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

11. Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Here is a further explanation on the above items:

Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)
The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bear's a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

Item 2 - estimating and accrueing contingent commissions (2.10)
Brokers should not be required to make "reasonable efforts...to obtain information from underwriters..." (2.10) concerning potential contingent commissions. Often times this information is not known for months after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

Accrueing estimated contingent commissions would be very unreliable and would cause brokers to report as current income (and bear the appropriate tax liabililty) commissions that they may not be paid for for months, if at all.

Item 3 - estimating and accrueing commissions on "reporting-form" policies - (2.14)
This is an onerous accounting practice to have to make "reasonable efforts to obtain information" regarding these type policies and accrue the commissions associated with them. These premiums are not billed to the insured and reported to the underwriter until the reporting form is received and the premium calculated. It is an onerous accounting practice to accrue the estimated premium, without billing the client and reporting it on the "account current" statement to the underwriter, then reverse the transaction and record the actual premium when it is determined at a later date. The primary purpose of reporting-form policies is to accommodate the unknown fluctuations in volume that the premium is based upon.

Item 4 - accelerating installment billings into the current period (2.16, 2.42)
Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

Item 5 - estimate and accrue direct bill commissions (2.21)
This, quite simply, is impossible for most brokers to do because their automation systems do not accomodate it and, by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been cancelled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

Item 6 - recognizing fee income separately from commission income (2.25)
This is an onerous practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

Item 7 - "trust accounting" as a requirement (2.42)
Several states have requirements similar to the proposed guidelines. Outside of the national brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients is an onerous requirement to all that don't have sophisticated automation systems. In many broker businesses, this information would be simply impossibile to obtain.

Item 8 - disclosing advances to underwriters and clients (2.42)
See explanation for Item 7.

Item 9 - accrueing the "ultimate premium" on retro-policies (5.17)
Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and therefore would only serve to inflate receivables and payables on the broker's balance sheet.

Item 10 - recognizing all first year life commissions up front (6.10)
Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

Item 11 - estimating an adjustment due to cancellations of life policies where the commission has been paid up front (6.13)
This information typically cannot be reasonably estimated and it is an onerous requirement to go through some actuarial or statistical calculation to make an attempt at estimating it.

In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

*accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

*have a very detrimental impact on a broker's tax liability and cash flow

*have a detrimental effect on the balance sheet presentation, and may impare brokers from obtaining credit

*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Ed Harrington, Chairman
Delphi/McCracken
INfinity Users' Group
303-722-7776

Steve Warner, Chairman
Delphi/McCracken
INSIGHT Users' Group
908-469-3000

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November 12, 1991

Max Behm and Associates Insurance

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Gerald P. Baron, CPCU
President

Ms. Ellise G. Konigsberg
Technical Manager Accounting Standards Division
AICPA File 3165
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents & Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

By now I am sure you have received a considerable volume of correspondence relative to Insurance Agents and Brokers reaction to the proposed changes, not the least of which was a long and detailed letter from Mssrs. Ed Harrington and Steve Warner, representing various Delphi/ McCracken Systems users. Therefore, I will not go into the detail as provided in the aforementioned letter, as I feel that they have touched most of the bases.

However, I must take this opportunity to express my own extreme discomfort and take serious exception to the positions taken by your organization in this Draft Proposal.

Your proposals for estimating and accruing contingent commissions, estimating commissions on reporting policies, installment contracts and direct bill commissions,is at best ludicrous for the typical Insurance Brokerge firm. To estimate and pay taxes on unrealised income would probably force most brokers and agents into severe financial chaos. In addition, this procedure probably violates, or comes close to violating, the provisions contained in the Insurance Codes of many states, ie. the State of California, which prohibits a broker from "PULLING DOWN" commissions from a policy until such time as the policy is paid in full and the Insurance Carrier is paid.

Before you proceed any further, I would suggest that someone take the time and effort to at least discuss these proposals with the affected industry.

Thank you for your consideration.

Very truly yours,

MAX BEHM & ASSOCIATES, INC.

Gerald P. Baron, CPCU
President

GPB:lmm

ROBERT E. MILLER
INSURANCE AGENCY
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November 14, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N. Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

We take <u>serious exception to many of the proposed methods</u> of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initially recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.15-5.18, 6.12).

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5. Reasonably estimate and accrue direct bill commissions (2.21).

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ROBERT E. MILLER
INSURANCE AGENCY
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6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25).

7. "Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned in such funds must be tracked separately and disclosed in financial statements (2.42).

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Here is a further explanation on the above items:

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ROBERT E. MILLER
INSURANCE AGENCY

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the policy term. In addition, the agent bears a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide ongoing policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

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ROBERT E. MILLER
INSURANCE AGENCY

PERFORMANCE IS OUR POLICY.

ITEM 4 - accelerating installment billings into the current period (2.16, 2.42).

Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on the installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's finanfial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

ITEM 5 - estimate and accrue direct bill commissions (2.21).

This is an onerous practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

ROBERT E. MILLER
INSURANCE AGENCY

PERFORMANCE IS OUR POLICY.

ITEM 7 - "trust accounting" as a requirement (2.42).

Several states have requirements similar to the proposed guidelines. Outside of the national brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients is an onerous requirement to all that don't have sophisticated automation systems. In many broker businesses, this information would be simply impossible to obtain.

ITEM 8 - disclosing advances to underwriters and clients (2.42).

See explanation for Item 7.

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Contrary to the statement in paragraph 5.17, the utlimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and therefore would only serve to inflate receivables and payables on the broker's balance sheet.

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Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

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ROBERT E. MILLER
INSURANCE AGENCY

PERFORMANCE IS OUR POLICY.

In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

*accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

*have a very detrimental impact on a broker's tax liability and cash flow;

*have a detrimental effect on the balance sheet presentation, and may impair brokers from obtaining credit;

*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Greg Smart
General Manager

GS/mah

114 West Gregory Blvd.• Kansas City, Missouri 64114-1108 • (816) 333-3000 • 1-800-333-2808 • Telefax: (816) 822-1641

Rec'd 11/18/91 40

GRIER REEVES & LAWLEY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

434

J. Marshall Grier (1914 - 1978)
William L. Reeves, Retired
Mark H. Lawley, CPA
David B. Waddle, Jr., CPA
William C. Kirby, CPA
Phillip L. Jimmerson, CPA

DATE 11-18-91 FAX # 1-212-575-3846

TO ELLISE G. KONIGSBERG TECHNICAL MANAGER
ACCOUNTING STANDARDS DIVISION FILE 3165 AICPA

FROM MARK H. LAWLEY

NUMBER OF PAGES TO FOLLOW 4

SUBJECT AND OTHER INFORMATION EXPOSURE DRAFT DATED 8-15-91
PROPOSED INDUSTRY ACCOUNTING GUIDE FOR
INSURANCE AGENTS AND BROKERS
GR&L RECEIVED A COPY OF DRAFT FROM OUR
<11-14-91>
CLIENT - SEEMS THAT AICPA NOT ONLY
LEFT OUT INDUSTRY, BUT LEFT OUT A
PART OF ACCOUNTING PROFESSION. COMMENT
PERIOD SHOULD BE REEVALUATED

11/18/91 08:08 ☎214 794 2112 _____ G R & L 002

OCT 28 1991

Independent Insurance Agents of America
INCORPORATED

Independent Insurance Agent

DHS 36
Dick Marks
713-622-2330

October 23, 1991

TO: STATE EXECUTIVES

Copies to State National Directors
Executive Committee
Finance Committee
Selected Others
Staff VP's & Directors

FROM: RUSS BURNETT, VP & CFO Russ

RE: PROPOSED ACCOUNTING GUIDE FOR INSURANCE AGENTS & BROKERS

Last week I received a copy of an "Exposure Draft" of a new Proposed Industry Accounting Guide for Insurance Agents and Brokers published by the American Institute of Certified Public Accountants (AICPA). The AICPA is the professional organization for CPA's and as such is the "rule making body" that establishes accounting standards and related reporting requirements.

While this Guide is dated August 15, 1991, after phone conversations with the AICPA and the partner from Ernst & Young, CPA's, who chaired the committee, I found that they had sent over 4,000 copies of the Guide to CPA's throughout the country, yet, they had not provided copies to the members of the industry affected, i.e., the Independent Insurance Agents. They were excited that IIAA had the ability to distribute this document to key leaders in the industry and were supportive of the actions and time frames that are discussed in this memo.

What does all this mean?

Effective at an undefined date in the near future, there will be a published set of accounting rules for the Insurance Agent and Broker industry. These rules would become Generally Accepted Accounting Principles (GAAP) and would be required for any Agency who utilizes an external CPA to prepare their financial statements. These rules would be those that banks would look to in lending situations.

They would NOT be the rules for the IRS, at least, not at the present time. Historically, when the accounting rules are to the benefit of the IRS, the IRS will adopt them as their own over some future time frame.

What do we want from you?

In conjunction with our Executive Department, I am mobilizing an effort to review the Guide, determine its impact on the broad range of our members, and develop a response to this Exposure Draft. We will be developing a consolidated IIAA response and are asking that you develop and/or coordinate an effort in your state to provide us with as much input as you can. We do not discourage a direct response from the state or individual level but also want to be consistent in our presentation and objectives. At this point we intend to include copies of the state replies to our consolidated response.

127 S. PEYTON STREET ALEXANDRIA, VA 22314 • (703) 683-4422 • FAX (703) 683-7556

We would like you to identify key members in your organization who could provide valuable input regarding this Guide, get them a copy and ask that they respond to you so you can formulate a state response or, if you feel its more appropriate, they can respond to the AICPA directly. We truly want a grass roots effort from those that are impacted by this Guide. We would request that a copy of all responses be sent to my attention in Alexandria.

Are there problems with this Guide?

We have not had the time to work through all the consequences of the Guide but the attached Outline of Issues should give you a sense of the proposed rules. I'm sure the impact varies based on the size of Agency, sophistication of the internal and external accountants, the type of accounting used for book and tax purposes, and on and on. If it will affect your members, we should respond.

One area that we have already identified as a potential problem relates to the recognition of revenues on Installment Billings. The Guide suggests that the revenue should be recorded at the inception date while current practice seems to be to record the revenue as the installment is received.

What is the time table?

Short. The stated deadline is October 31, 1991. But, due to the late delivery to us and the importance of your input the AICPA and the Committee Chairman have orally assured me they will consider our comments if they are received soon after the stated deadline. I would think we should aim for comments being mailed no later than November 15, 1991.

Updates.

As we move forward we will try to keep you updated with new findings, areas of concern, and summaries of the responses to date.

Thanks.

I recognize that this was not on your schedule but thank you in advance for any response and assistance you can provide.

Encl.

PROPOSED INDUSTRY ACCOUNTING GUIDE
INSURANCE AGENTS AND BROKERS
PRELIMINARY IIAA SUMMARY AND OVERVIEW

REVENUE RECOGNITION

Basically the Guide suggests that the Accrual Method of accounting should be used. Revenues should be recognized when all of the following criteria are met:

Coverage is effective.

Premium amount is known or can be reasonably estimated.

Substantially all required services have been rendered.

No significant obligation exist to perform additional services.

For detail discussions see paragraph 2.5.

This raises the issue of a sales vs service organization and what expenses are incurred on an ongoing basis when servicing an account after the effective date of the policy. There appears to be a misunderstanding of the Independent Agency System. Please note paragraphs 5.7 and 5.12 under "Managing General Agents".

The use of the Cash Method of reporting would not be acceptable.

INSTALLMENT BILLINGS

Under the same criteria as listed above, all revenue would be recognized when the transaction is initially recorded (paragraph 2.16). It is my understanding that this is at variance with most of the current practice wherein revenues are recorded over the term of the policy as collected.

CONTINGENT COMMISSIONS

Contingent Commissions would be recognized as soon as the broker can reasonably estimate the amount that will be received. (paragraph 2.10)

BALANCE SHEET PRESENTATIONS

Both the gross amount due from clients and the related liability to underwriters should be shown on the balance sheet as assets and liabilities respectively. The fiduciary cash funds should be shown as an asset not netted against the premium liability. (paragraph 2.42)

MANAGING GENERAL AGENTS

The first sections of the discussion under this heading are informative and give some insight into the entire thinking utilized in the preparation of this document. Paragraphs 5.4 through 5.12 should be of interest to all agents and brokers not just MGA's.

LIFE INSURANCE AGENTS AND BROKERS

Accident and health insurance, group insurance plans, employee benefit services, credit life and health insurance, and short-duration term life insurance should be treated the same as retail property and casualty insurance.

First-year commissions on long-duration life insurance policies should be recognized when the first premium is paid regardless of how total premium is paid, e.g., monthly, quarterly.

Note that paragraph 6.6 again makes interesting reading as general background.

INTANGIBLES

In addressing the issue of intangibles, the Guide suggests that in an acquisition values should be assigned to all the possible components including non-compete agreements, licenses, goodwill and renewal rights. All such costs should be amortized and renewal rights specifically should be amortized on a basis "...consistent with the assumptions used in determining the values assigned to them." (paragraph 8.7)

This approach appears to be consistent with what we want the IRS to use.

Rec'd 11/18/91

11. 18. 91 04:05 PM *DEAN & CO 2168359987 P01 41

DEAN and COMPANY

RISK ANALYSIS • INSURANCE • EMPLOYEE BENEFITS
30400 Detroit Road, Cleveland, Ohio 44145
Telephone (216) 835-9440 Facsimile (216) 835-9987

To: The American Institute of Certified Public Accountants (AICPA)
c/o Elsie G. Konigsberg, Accounting Standards Div., File #3165
1211 Avenue of the Americas
New York, New York 10036-8775 fax# 1-212-575-3846

From: J. Patrick Phelan
Executive Vice Presiden

Date: 11-18-91

Subject: AICPA's Proposed Changes in Accounting Standards for Agents and Brokers

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As an independent agent, we disagree with the proposed changes in the reporting of income. These changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. Most agents use installment billing and report income as it is earned, over the term of the policy.

The AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

1 Pages including this one

DEAN and COMPANY

RISK ANALYSIS • INSURANCE • EMPLOYEE BENEFITS
30400 Detroit Road, Cleveland, Ohio 44145
Telephone (216) 835-9440 Facsimile (216) 835-9987

To: The American Institute of Certified Public Accountants (AICPA)
c/o Elisie G. Konigsberg, Accounting Standards Div., File #3165
1211 Avenue of the Americas
New York, New York 10036-8775
fax# 1-212-575-3846

From: J. Patrick Phelan
Executive Vice Presider

Date: 11-18-91

Subject: AICPA's Proposed Changes in Accounting Standards for Agents and Brokers

As an independent agent, we disagree with the proposed changes in the reporting of income. These changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. Most agents use installment billing and report income as it is earned, over the term of the policy.

The AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

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EST. 1868

GS

GALE, SMITH AND CO., INC.

P. O. BOX 23108 • 2404 ELLISTON PLACE • NASHVILLE, TENN. 37202 • 615/327-2800

INSURANCE • BONDS • EMPLOYEE BENEFITS

6380
2434

TO: Ellise G. Konigsberg - AICPA

FROM: GALE, SMITH & CO., INC.

DATE: 11-18-91

IF THERE IS A PROBLEM WITH THIS TRANSMISSION, PLEASE CALL OUR OFFICE AT (615) 327-2800 AND SPEAK WITH John Witherspoon, Jr. Jaw,

THE NUMBER OF PAGES YOU SHOULD RECEIVE IS one INCLUDING THE COVER. OUR FAX NUMBER IS (615) 320-0427.

THANK YOU.

Re: FILE #3165

Dear Ellise:

To change your accounting standards to make all installments due on the effective date or billing date would be an absolute disaster. The amount of time in our accounting dept. on the additional work for the accountants would be unnecessary and uncalled for. There is no way to have our accounting software programmed to accomodate showing the full earned commission as of the date of the policy as opposed to the date of the installment.

91 NOV 18 PM 4:14

TEXT PROCESSING DEPT
AICPA

PAT/12301

Recd 11/18/91 43

PDP Group
P.O. Box 984
Executive Plaza IV
Hunt Valley · Maryland · 21030

301 · 584 · 1500

November 18, 1991

American Institute of Certified Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, New York 10036

To Whom It May Concern:

PDP Group is a national brokerage concern with approximately $180 million in premiums. We operate both on the retail and wholesale levels. Your recommendations for changing accounting standards would be devastating for my company because of the following:

1. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

2. A vast majority of agents and brokers use installment billing and report income as it is <u>earned</u>, over the term of the policy.

3. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

4. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

5. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

The Daniels Agency Inc

Settle and Daniels Insurance Service

Rec'd 11/18/91 44

November 18, 1991

Ms. Ellise Konigsberg
Accounting Standards Division
File 3165, AICPA
Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Kenigsberg:

I am writing to express my deep concerns and disagreement with the proposed changes in the reporting of income for insurance agents and brokers.

These changes represent a dramatic departure from current industry practice re: The Reporting of Commission Income and Installment Billing. Almost all agents use installment billing and report income as it is earned over the policy term.

These changes will have a devastating financial impact on independent agents costing our firm thousands of dollars in tax liabilities and computer software changes.

I urge the AICPA to delay implementation of the proposed accounting standards to allow time for the thousands of small independent insurance agents across this country to have their views heard.

Sincerely,

Charles R. Daniels III

Charles R. Daniels, III, President
THE DANIELS AGENCY

CRD:emn

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245 Route 22 • Pawling, NY 12564-1214 • (914) 855-3300 • Fax (914) 855-1860

SENT BY:404-633-1312 ;11-19-91 ;10:59AM ; YATES INSURANCE AGY→ 2125753846;# 1/ 1

Rec'd 11/19/91 415

FACSIMILE

YATES INSURANCE AGENCY
P. O. DRAWER 95806, ATLANTA, GEORGIA 30347
FOUR EXECUTIVE PARK EAST, SUITE 200, ATLANTA, GEORGIA 30329
TELEPHONE: 404/633-4321 FAX: 404/633-1312

TO: A I C P A
1211 Avenue of the Americas, NY, NY 10036-8775

ATTENTION: ELLISE G. KONIGSBERG
Accounting Standards Division, File

FROM: Yates Insurance Agency
P. D. Yates, Jr, Chairman

DATE: November 19, 1991

6380

NO. OF PAGES **FAX NO.:** 212 575-3846 434

MESSAGE

RE: Changes in Accounting Standards for Agents and Brokers

We strongly disagree with the proposed changes in reporting insurance premium income. The majority of our insurance billings are on an installment basis, and there is no way we would want to report the income earnings on any other basis than how we report it at the present time.

I will certainly appreciate your considering not making this change.

Very truly yours,

P. D. Yates, Jr.
Chairman of the Board

91 NOV 19 AM 10:28

Rec'd 11/19/91 46

PDP Group
P.O. Box 984
Executive Plaza IV
Hunt Valley · Maryland · 21030
301 · 584 · 1500

November 19, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

I have recently become aware of the AICPA's proposed commission income reporting change to disallow the installment method of reporting.

As a representative of a managing general agency/brokerage operation, I strongly disagree with the proposed change to the current installment income recognition method. This is a dramatic departure from the current reporting methodology which recognizes commission income only when the current installment is billed and earned. The installment method is much more accurate and conservative in its approach, and does not require the use of annual estimates of premium which vary in our line of business (automotive) due to economic cycles in the market, which greatly impact exposure bases (inventory levels and staff payrolls). This change would have a devastating financial impact on the independent agent network and brokers, by an initial one-time artificial generation of income and resulting tax liability with no real funds to pay the liability. All our current software is not programmed to handle the proposed income recognition method and would require substantial amounts of non-recoverable overhead.

I'm sure that most of the nation's agents and brokers ascribe to this time tested conservative approach, and could not have been included in the AICPA decision-making process. I request that you delay any implementation and listen to the views of financial executives in the agency/brokerage field. I am willing to discuss the matter with you or any representative of the AICPA.

Very truly yours,

PDP GROUP

Charles H. Feihe

Charles H. Feihe, CPA
Chief Financial Officer

CHF/jlp
cc: Mr. William M. Pitcher
Mr. Donald W. Doyle

SENT BY:CREATIVE RISK MGMT. ;11-19-91 ; 11:24 ; CREATIVE RISK MGMT.→ 2125753846;# 2

Rec'd 11/19/91 47

Creative Risk Management Corporation

34820 Harper
Mt. Clemens, Michigan 48043-4890
(313) 792-6355 TWX: 810-231-9520

W. T. Platt, Jr., A.R.M.
Senior Vice President

November 19, 1991

AICPA
c/o Ellise C. Konigsberg
Accounting Standard Division
1211 Avenue of the Americas
New York, NY 10036-8775

RE: File 3165

It has come to my attention that the American Institute of Certified Public Accountants is preparing changes to the Accounting Standards used by Agents and Brokers for the reporting of income. WHY? I fail to see any positive results from these proposed changes, in fact, can only see where it will cost everybody except Accountants.

You should know a vast majority of agents and brokers use installment billing and report income as it is earned over the term of the policy.

We can only see these changes having a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

AICPA should delay implementation of the proposed accounting standards to allow time for <u>all</u> interested parties to have their views heard, as it is our understanding that only a few large agencies or brokers had any input - you need to hear from the majority.

We see no need for this dramatic departure from current industry practice.

Sincerely,

WTP/kar

11/19/91 14:41 ☎ 1 502 429 5465 REAGER HARRIS 01

Recd 11/19/91 48

6380
434

Insurance
REAGER HARRIS
Since 1904

November 19, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165 / AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

Just a short note to make a strong request to rethink the proposed changes in accounting standards for agents and brokers. The proposed changes would have a devastating financial impact on the independent agents, costing them millions of dollars in tax liabilities and administrative costs with computer software technology.

My request is to delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

John L. English

John L. English
Senior Vice President

JLE:db

FAX: 212-575-3846

91 NOV 19 PM 3:00
AICPA
DEPT.

Insurance
REAGERHARRIS
Since 1904

November 19, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue Of The Americas
New York, NY 10036-8775

Re: Changes In Accounting Standards For Agents and Brokers

Dear Ms. Konigsberg:

The information I have received concerning the change in accounting standards proposed by the AICPA as respects agents and brokers for reporting commission income is alarming to me to say the least. I would hope this proposed change would be reconsidered due to the following:

1. Independent Agents and Brokers disagree with the proposed changes in the reporting of income.

2. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

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November 19, 1991

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Your thoughtful consideration would be very much appreciated.

Sincerely,

John L. English
Senior Vice President

JLE:jlc

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Recd 11/19/91 49

Byerly Insurance
AGENTS AND BROKERS, INC

525 North 12th Street
P.O. Box 525
Lemoyne, PA 17043-0525
(717) 761-4010
1-800-872-1127
FAX (717) 761-4320

FAX 212-575-3846

November 19, 1991

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
C/O ELLISE G. KONIGSBERG
ACCOUNTING STANDARDS DIVISION FILE 3165
1211 AVENUE OF THE AMERICAS
NEW YORK NY 10036-8775

RE: Changes in Accounting Standards for Agents & Brokers

Dear Ms. Konigsberg:

Independent Agents and Brokers disagree with the proposed changes in the reporting of income. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

A vast majority of the Agents and Brokers use installment billing and report income as it is <u>earned</u>, over the policy term. The proposed changes will have a devastating financial impact on independent agents and brokers costing them well into the multi millions of dollars in tax liabilities. This will also impact the administrative cost of change computer software for this proposed change.

Independent agents and brokers were not included in the AICPA decision-making process. They were not represented on the agents/broker task force which made the policy recommendations. The task force consisted of large brokers and very large accounting firms whose interest does not necessarily coincide with those of independent agents and producers.

AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

We appreciate your hearing our position on this matter.

Sincerely,

David A. Dominiani, CPA
Manager, Contract Bond Division

DAD:mes

Byerly
Insurance
AGENTS AND BROKERS, INC

525 North 12th Street
P.O. Box 525
Lemoyne, PA 17043-0525
(717) 761-4010
1-800-872-1127
FAX (717) 761-4320

FAX 212-575-3846

November 19, 1991

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
C/O ELLISE G. KONIGSBERG
ACCOUNTING STANDARDS DIVISION FILE 3165
1211 AVENUE OF THE AMERICAS
NEW YORK NY 10036-8775

RE: Changes in Accounting Standards for Agents & Brokers

Dear Ms. Konigsberg:

Independent Agents and Brokers disagree with the proposed changes in the reporting of income. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

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Independent agents and brokers were not included in the AICPA decision-making process. They were not represented on the agents/broker task force which made the policy recommendations. The task force consisted of large brokers and very large accounting firms whose interest does not necessarily coincide with those of independent agents and producers.

AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

We appreciate your hearing our position on this matter.

Sincerely,

James F. Cuff, Jr., CPCU
Vice President/Operations

JFC:mes

Byerly Insurance
AGENTS AND BROKERS· INC

525 North 12th Street
P.O. Box 525
Lemoyne, PA 17043-0525
(717) 761-4010
1-800-872-1127
FAX (717) 761-4320

FAX 212-575-3846

November 19, 1991

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
C/O ELLISE G. KONIGSBERG
ACCOUNTING STANDARDS DIVISION FILE 3165
1211 AVENUE OF THE AMERICAS
NEW YORK NY 10036-8775

RE: Changes in Accounting Standards for Agents & Brokers

Dear Ms. Konigsberg:

Independent Agents and Brokers disagree with the proposed changes in the reporting of income. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

A vast majority of the Agents and Brokers use installment billing and report income as it is <u>earned</u>, over the policy term. The proposed changes will have a devastating financial impact on independent agents and brokers costing them well into the multi millions of dollars in tax liabilities. This will also impact the administrative cost of change computer software for this proposed change.

Independent agents and brokers were not included in the AICPA decision-making process. They were not represented on the agents/broker task force which made the policy recommendations. The task force consisted of large brokers and very large accounting firms whose interest does not necessarily coincide with those of independent agents and producers.

AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

We appreciate your hearing our position on this matter.

Sincerely,

James C. Byerly

James C. Byerly, CPA
President

JCB:mes

HUFFMAN & ASSOCIATES TEL: 2323457 Nov 19,91 14:43 No.009 P.02

Rec'd 11/19/91 52

HUFFMAN & ASSOCIATES
201 East First Street P. O. Box 1906
Rome, Georgia 30162-1906
Phone: (404) 291-4000
Fax #: (404) 232-3457

ELLISE G. KONIGSBERG
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: CHANGES IN ACCOUNTING STANDARDS FOR AGENTS & BROKERS

Dear Ms. Konigsberg:

Independent Agents and Brokers diagree with the proposed changes in the reporting of income. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

W M HUFFMAN JR CPCU

pbr

Recd 11/19/91 51

COHEN-SELTZER, INC.
250 SOUTH 17TH STREET
PHILADELPHIA, PA. 19103 • (215) 735-7788

VIA FAX TRANSMISSION

TO: Ellise G. Konigsberg, Accounting Standards Division
AICPA

FAX #: (212)575-3846

FROM: Robert S. Seltzer, CPCU RSS
President

DATE: November 19, 1991

RE: Changes in Accounting Standards for Agents & Brokers

With reference to the proposed changes for reporting commission income, please note my opposition to those changes as follows:

1) As an Independent Agent and Broker I disagree with the proposed changes in the reporting of income.

2) The changes represent a **dramatic departure** from current industry practice regarding the reporting of commission income and the use of installment billing.

3) A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4) The changes will have a **devastating financial impact** on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5) Independent agents and brokers (representing 27,000 plus firms across the country) **were not included in the AICPA decision-making process** and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

6) AICPA should **delay implementation** of the proposed accounting standards to allow time for all interested parties to have their views heard.

RSS/pat

FAX

Recd 11/19/91 52

Insurance

REAGERHARRIS

Since 1904

November 19, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211U Avenue Of The Americas
New York, NY 10036-8775

Re: Changes In Accounting Standards For Agents and Brokers

Dear Ms. Konigsverg:

Having just received word that the AICPA is preparing to change the accounting standards used by agents and brokers for reporting commission income I wanted to express my alarm and urge your consideration of the following points:

1. Independent Agents and Brokers disagree with the proposed changes in the reporting of income.

2. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Insurance
REAGERHARRIS
Since 1904

November 19, 1991

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Your thoughtful consideration would be very much appreciated.

Sincerely,

Richard L. Martin, President

RLM:jlc

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Rec'd 11/18/91 53

TAYLOR & CLARK

Insurance Services Inc.
Old School Commons
10201 Main Street P.O. Box 1187
Fairfax, Virginia 22030
Telephone: 703/691-2828
Fax: 703/691-1017

Ronald S. Clark C.P.C.U.
Frank C. Cloyes C.L.U.
A. B. Elliott, Jr.

November 18, 1991

AICPA
c/o Ellise G. Konigsbert
Accounting Standards Division, File 3165
1211 Avenue of the Americas,
New York, New York 10036-8775

RE: Accounting Standards for Insurance Agents & Brokers

We have just heard from the National Association of Casualty & Surety Agents about the change relating to reporting full annual commission on installment policies.

This would have a devasting impact on all independent insurance agents and we ask that input from our agents associations (NACSA, Professional Insurance Agents and Insurance Agents of America) be considered before implementation. We are against this because:

1) Automated accounting systems for independent agents take commission income as installments are billed. To change the standard would require a major change in all the systems currently in use.

2) We don't actually get the commission until the installment (normally monthly) is billed. Therefore a change would show us earning commission when we don't actually get the money.

I can understand why the national brokers would love this. They are looking to show earnings to enhance their stock value. That doesn't sound like sound accounting practice to me.

Please delay implementation until views are heard from the many thousands of small businesses who would be severly impacted.

Sincerely,

Ron

Ronald S. Clark, CPCU

cc: Ken A. Crerar

RSC/12186

Independent Insurance Agent

RUSSELL E STEPHENS AND CO
192 BROAD ST PO BOX 711
BLOOMFIELD NJ 07003 18AM

WESTERN UNION MAILGRAM

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2017487211 MGMB TDRN BLOOMFIELD NJ 166 11-18 1130A EST

Rec'd 11/19/91 54

ELLISE G KONIGSBERG
CARE AMERICAN INSTITUTE OF CERTIFIED PUBLIC
ACCOUNTANTS
1211 AVENUE OF THE AMERICAS
NEW YORK NY 10036-8775

INDEPENDENT INSURANCE AGENTS AND BROKERS ARE APPALLED AT YOUR PROPOSED CHANGES IN REPORTING INCOME WHICH IS A DRAMATIC DEPARTURE FROM THE CURRENT PRACTICE REGARDING REPORTING COMMISSION INCOME AND USE OF INSTALLMENT BILLING. NEARLY ALL AGENTS AND BROKERS USE INSTALLMENT BILLING AND REPORT INCOME AS IT IS EARNED OVER THE TERM OF THE POLICY. YOUR PROPOSED CHANGES WILL HAVE A DEVASTATING IMPACT ON AGENTS AND BROKERS COSTING US MULTI-MILLIONS OF DOLLARS IN TAX LIABILITIES AND ADDITIONAL COSTS TO CHANGE OUR COMPUTER SOFTWARE. INDEPENDENT AGENTS AND BROKERS WERE NOT INCLUDED IN AICPA'S TASK FORCE. YOUR TASK FORCE CONSISTED OF BIG NATIONAL INSURANCE BROKERS AND LARGE NATIONAL ACCOUNTING FIRMS. I URGE YOU TO DELAY IMPLEMENTATION TO ALLOW ALL INTERESTED PARTIES TO HAVE THEIR VIEWS HEARD. COPY TO WALTER SCHMIEDESKAMP, DELOITTE-TOUCHE, PARSIPPANY NEW JERSEY.

WILLIAM H STEPHENS, RUSSELL E STEPHENS AND CO
192 BROAD ST PO BOX 711
BLOOMFIELD NJ 07003

11:35 EST

MGMCOMP

MGM CS (10/89)

Rec'd 11/19/91 55

BARNEY & BARNEY

INSURING CALIFORNIA BUSINESS SINCE 1909

November 15, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Exposure Draft -- Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

Without qualification, we as a large regional insurance brokerage firm must go on record vigorously opposing the proposed methods of accounting that are presented in the above-referenced draft. To follow what is suggested in various parts of this draft would inflict the majority of insurance agents and brokers with serious financial strains.

The assumptions set forth in this draft as to when to recognize revenue are way off base insofar as what exists in the "real" world. Suggesting that "the earnings process is substantially complete" and that "no significant obligation exists to perform services" after the insurance has become effective is not an accurate representation of what actually is the case. There does exist a continual, ongoing obligation (no, DUTY) to service insurance policies all during the course of the policy term. Insurance clients demand and professional ethics require that this be done.

This incorrect premise is the basis for AICPA's subsequent incorrect conclusion that states the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

With regard to AICPA requiring brokers and agents to "reasonably estimate and accrue for commissions" in this draft, you would then have to assume that we have timely knowledge of such things as insurance companies claim loss experience (regarding contingent commissions) far ahead of the time when this information is actually available---requiring some sort of clarevoyant vision that is not currently resident in this office! Estimating and accruing for certain revenue elements simply is not an easy task given all of the variables that come into play.

We take specific issue with the following paragraphs in this draft:

-- Paragraphs 2.5, 2.10, 2.16, 2.14, 2.21, 2.25, 2.36, 2.42, 5.16, 5.17, 5.18, 6.10, 6.12 and 6.13

YOUR Independent Insurance AGENT

MAIN OFFICE
9171 TOWNE CENTRE DRIVE, SUITE 200, SAN DIEGO, CA 92122
POST OFFICE BOX 85638, SAN DIEGO, CA 92186-5638
FAX: (619) 452-7530 (619) 457-3414

Member of Assurex International

As a member of a national organization of insurance brokers which represents some 4 billion dollars of premium volume, I would strongly urge the AICPA to revise these proposed guidelines. I am in complete disagreement with your positions as relates to the above-referenced paragraphs. I contend that these proposed methods of accounting are not representative of standard industry practices. Further, these proposed changes would place a serious financial strain on many agencies as well as significantly increasing their tax liabilities without having access to the counter-balancing cash flows to meet these additional tax obligations.

I would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles. If I can be of any further assistance or provide you with any further clarification, please do not hesitate to contact me.

Sincerely,

David M. Farrand

David M. Farrand
Chief Financial Officer

NOV 19 '91 15:50 R.C.M. AND D 028 P01

RCM&D

Riggs, Counselman, Michaels & Downes, Inc.
555 Fairmount Avenue, Baltimore, Maryland 21204-5497
Telephone: 301/339-7263 Facsimile: 301/339-7234

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Rec'd 11/19/91 56

November 19, 1991

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To Ellise G. Konigsberg	From Deeringer Bird
Co. AICPA	Co. RCM&D
Dept. Acct. Standards	Phone # 410 339 7263
Fax # 212 575 3846	Fax # 410 339 5897

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

As one of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion in premiums each year.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

We will first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore, the entire policy revenue should be recognized when the transaction is initially recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42).

5. Reasonably estimate and accrue direct bill commissions (2.21).

RCM&D

Ms. Ellise G. Konigsberg (2) November 19, 1991

6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25).

7. "Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

8. Advances to underwriters and clients must be tracked and disclosed in financial statements (2.42).

9. Estimate and accrue the ultimate premium on retro policies (5.17).

10. First year life commissions should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

11. Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Here is a further explanation on the above items:

Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)

The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bears a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

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Ms. Ellise G. Konigsberg (3) November 19, 1991

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

Item 2 - estimating and accruing contingent commissions (2.10)

Brokers should not be required to make "reasonable efforts...to obtain information from underwriters..." (2.10) concerning potential contingent commissions. Oftentimes this information is not known for months after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

Accruing estimated contingent commissions would be very unreliable and would cause brokers to report as current income (and bear the appropriate tax liability) commissions that they may not be paid for months, if at all.

Item 3 - estimating and accruing commissions on "reporting-form" policies (2.14)

This is an onerous accounting practice to have to make "reasonable efforts to obtain information" regarding these types of policies and accrue the commissions associated with them. These premiums are not billed to the insured and reported to the underwriter until the reporting form is received and the premium calculated. It is an onerous accounting practice to accrue the estimated premium, without billing the client and reporting it on the "account current" statement to the underwriter, then reverse the transaction and record the actual premium when it is determined at a later date. The primary purpose of reporting-form policies is to accommodate the unknown fluctuations in volume that the premium is based upon.

Item 4 - accelerating installment billings into the current period (2.16, 2.42)

Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice

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among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancelable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

Item 5 - estimate and accrue direct bill commissions (2.21)

This, quite simply, is impossible for most brokers to do because their automation systems do not accommodate it and by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been canceled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

Item 6 - recognizing fee income separately from commission income (2.25)

This is an onerous practice to accomplish in many cases. The insured is oftentimes billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

Item 7 - "trust accounting" as a requirement (2.42)

Several states have requirements similar to the proposed guidelines. Outside of the national brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state where they operate. Separating fiduciary funds and the related investment income is a very difficult task unless the broker has a sophisticated automation system. Disclosing the amount of fiduciary funds, the related investment income, advances to underwriters

RCM&D

and advances to clients, is an onerous requirement to all that don't have sophisticated automation systems. In many broker businesses, this information would be simply impossible to obtain.

Item 8 - disclosing advances to underwriters and clients (.42)

See explanation for Item 7.

Item 9 - accruing the "ultimate premium" on retro-policies (5.17)

Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker and, therefore, would only serve to inflate receivables and payables on the broker's balance sheet.

Item 10 - recognizing all first year life commissions up front (6.10)

Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

Item 11 - estimating an adjustment due to cancellations of life policies where the commission has been paid up front (6.13)

This information typically cannot be reasonably estimated and it is an onerous requirement to go through some actuarial or statistical calculation to make an attempt at estimating it.

* * *

In summary, it is our belief that these proposed guidelines:

* are not representative of current standard industry practices;

* accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

* have a very detrimental impact on a broker's tax liability and cash flow;

* have a detrimental effect on the balance sheet presentation, and may impair brokers from obtaining credit;

RCM:D

* contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Very truly yours,

L. Patrick Deering
L. Patrick Deering, CPA
Chairman of the Board
Member of AICPA

Lawrence R. Bird
Lawrence R. Bird, CPA
Senior Vice President
Member of AICPA

J. Wilson Pickett
J. Wilson Pickett, CPA
Controller
Member of AICPA

dtb

Rec'd 11/19/91 57

Pye Karr Ambler and Co., Inc.

Insurance

Thomas and Water Streets
P.O. Box 25
Jenkintown, Pa. 19046

6380
434

November 19, 1991

The American Institute of
Certified Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division
1211 Avenue of the Americas
New York, NY 10036-8775

RE: File 3165

Gentlemen:

The proposed changes in the standards used by insurance agents and brokers for reporting commission income would create an administrative disaster for both agents/brokers and their accountants (your members). Neither the agents/brokers nor the insurance companies we do business with have the technology to implement such standards.

Additionally, the present condition of the economy has forced more and more individuals and corporations to pay their premium on an installment basis. Consequently, the proposed changes would force agents/brokers to report income that they have not, and may never be, received.

Therefore, I implore AICPA to seek input from interested parties, including agents and brokers associations, before implementation of the proposed changes. (Unfortunately those who "represented" agents and brokers on your Task Force do not represent the vast majority of those who would be effected by the changes.)

Sincerely,

Lou W. Karr

LOU W. KARR
President

LWK/MLW

Rec'd 11/19/91 58

JOHN C. WEGHORN AGENCY, INC.
156 WILLIAM STREET
NEW YORK, NY 10038
TEL.# (212) 227-4600

FAX COVER SHEET

FAX # (212) 962-7246

DATE: 11/19/91

TO: ELLISE G. KONIGSBERG, ACCOUNTING STANDARDS DIVISION

FAX #: 575-3846

RE: CHANGES IN ACCOUNTING STANDARDS FOR AGENTS AND BROKERS

FROM: RICHARD J. WEGHORN, JOHN C. WEGHORN AGENCY, INC.

NUMBER OF PAGES (INCLUDING COVER PAGE) 1

IN THE EVENT THAT YOU HAVE ANY PROBLEMS RECEIVING THIS TRANSMISSION OR IF ALL PAGES ARE NOT RECEIVED, PLEASE CONTACT US AT (212) 227-4600.

MESSAGE:

1) INDEPENDENT AGENTS AND BROKERS DISAGREE WITH THE PROPOSED CHANGES IN THE REPORTING OF INCOME.

2) THE CHANGES REPRESENT A DRAMATIC DEPARTURE FROM CURRENT INDUSTRY PRACTICE REGARDING THE REPORTING OF COMMISSION INCOME AND THE USE OF INSTALLMENT BILLING.

3) A VAST MAJORITY OF AGENTS AND BROKERS USE INSTALLMENT BILLING AND REPORT INCOME AS IT IS EARNED, OVER THE TERM OF THE POLICY.

4) THE CHANGES WILL HAVE A DEVASTATING FINANCIAL IMPACT ON INDEPENDENT AGENTS AND BROKERS COSTING THEM WELL INTO THE MULTI-MILLIONS OF DOLLARS IN TAX LIABILITIES AND FOR ADMINISTRATIVE COSTS OF CHANGING COMPUTER SOFTWARE TECHNOLOGY.

5) INDEPENDENT AGENTS AND BROKERS (REPRESENTING 27,000 PLUS FIRMS ACROSS THE COUNTRY) WERE NOT INCLUDED IN THE AICPA DECISION-MAKING PROCESS AND WERE NOT REPRESENTED ON THE AGENT/BROKER TASK FORCE, WHICH MADE THE POLICY RECOMMENDATIONS. THE TASK CONSISTED OF BIG BROKERS AND BIG ACCOUNTING FIRMS, WHOSE INTERESTS DO NOT NECESSARILY COINCIDE WITH THOSE OF INDEPENDENT PRODUCERS.

6) AICPA SHOULD DELAY IMPLEMENTATION OF THE PROPOSED ACCOUNTING STANDARDS TO ALLOW TIME FOR ALL INTERESTED PARTIES TO HAVE THEIR VIEWS HEARD.

I URGE YOU NOT TO SUPPORT THE PROPOSED CHANGES IN ACCOUNTING STANDARDS.
THANK YOU.

Rec'd 11/19/91 59

FRANK F. HAACK
& ASSOCIATES, INC.

2323 N. MAYFAIR RD., SUITE 600, MILWAUKEE, WI 53226
(414)475-1344 • FAX(414)475-1833

November 19, 1991

Ms. Ellise G. Konigsverg
Account Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Changes in Accounting Standards for Agents and Brokers

Dear Ellise:

As an independent agent, I strongly disagree with the proposed changes which would require the reporting of income when a policy is effective. This would represent a dramatic departure from current industry practice and would cause a great administrative problem as well as a devastating impact.

We have always considered commission to be earned over the term of the policy as the client is served, just as we expense our costs associated with servicing that policy over the policy term as they are incurred.

I strongly urge that you delay implementation of these proposed standards to allow time for all interested parties to have their views heard.

Yours very truly,

WILLIAM R. HAACK
President

WRH:mms

Rec'd 11/19/91 60

D. J. W. INSURANCE AGENCY, INC.

DEPENDABLE INSURANCE
"SERVING SOUTH LOUISIANA SINCE 1909"

P. O. BOX 11138
105 W. MAIN ST. NEW IBERIA, LA 70560-1138
(318) 364-7616

November 19, 1991

Ellise G. Konigsberg
Accounting Standards Division
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Changes in Accounting Standards for Agents and Brokers

1) Independent Agents and Brokers **disagree** with the proposed changes in the reporting of income.

2) The changes represent a **dramatic departure** from current industry practice regarding the reporting of commission income and the use of installment billing.

3) A vast majority of agents and brokers use installment billing and report income as it is <u>earned</u>, over the term of the policy.

4) The changes will have a **devastating financial impact** on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5) Independent agents and brokers (representing 27,000 plus firms across the country) **were not included in the AICPA decision-making process** and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

6) AICPA should **delay implementation** of the proposed accounting standards to allow time for all interested parties to have their views heard.

Very truly yours,

Marcel J. Derouen Jr.

Marcel J. Derouen, Jr.
President

MJDJr/sdv

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434

Independent Insurance Agent

DAN BOTTRELL AGENCY, INC.

Rec'd 11/19/91 6

TELEPHONE 960-8200
TELECOPIER 960-8240

POST OFFICE BOX 1490
700 NORTH STATE STREET, SUITE 400
JACKSON, MISSISSIPPI 39215-1490

WRITER'S DIRECT NUMBER:

(601) 960-8254

November 19, 1991

AICPA c/o Ellise G. Konigsberg
Accounting Standards Division File 3165
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Changes in Accounting Standards for Agents and Brokers

Gentlemen:

Along with other independent agents and brokers across the country, we strongly disagree with the proposed changes currently being considered by the AICPA in the reporting of income. This change represents a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. A vast majority of agents and brokers, to include our agency, use installment billing and report income as it is earned over the term of the policy. This is especially true when working with commercial accounts.

These changes will have a **devastating financial impact** on independent agents and brokers costing them well into the multi millions of dollars and tax liabilities and for administrative costs of changing computer software technology. There are some 27,000+ independent agents and brokers who we understand were not included in the AICPA decision making process. In addition, they were not represented on the agent/broker task force which made the policy recommendations. While we appreciate the input of large brokers and large accounting firms, their interests do not necessarily coincide with those of the independent producers.

We strongly encourage the AICPA to delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

DAN BOTTRELL AGENCY, INC.

C. Ray Dixon

C. Ray Dixon, Jr., CIC
Comptroller

CRD:th

Recd 11/19/91 62

Insurance

REAGERHARRIS

Since 1904

November 19, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue Of The Americas
New York, NY 10036-8775

Re: Changes In Accounting Standards For Agents and Brokers

Dear Ms. Konigsverg:

The information I have recieved concerning the change in accounting standards proposed by the AICPA as respects agents and brokers for reporting commission income is alarming to me to say the least. I would hope this proposed change would be reconsidered due to the following:

1. Independent Agents and Brokers disagree with the proposed changes in the reporting of income.

2. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Insurance
REAGERHARRIS
Since 1904

November 19, 1991

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Your thoughtful consideration would be very much appreciated.

Sincerely,

James E. Carrico

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Insurance

REAGERHARRIS

Since 1904

November 19, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue Of The Americas
New York, NY 10036-8775

Re: Changes In Accounting Standards For Agents and Brokers

Dear Ms. Konigsberg:

The information I have received concerning the change in accounting standards proposed by the AICPA as respects agents and brokers for reporting commission income is alarming to me to say the least. I would hope this proposed change would be reconsidered due to the following:

1. Independent Agents and Brokers disagree with the proposed changes in the reporting of income.

2. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Insurance

REAGERHARRIS

Since 1904

November 19, 1991

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Your thoughtful consideration would be very much appreciated.

Sincerely,

Joseph M. Carrico, Treasurer

JMC:jlc

JLE:jlc

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Insurance

REAGERHARRIS

Since 1904

November 19, 1991

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Your thoughtful consideration would be very much appreciated.

Sincerely,

Joseph M. Carrico, Treasurer

JMC:jlc

JLE:jlc

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Rec'd 11/20/91 63

ESTABLISHED 1879

STARKWEATHER & SHEPLEY, INC.

INSURANCE

November 18, 1991

AICPA
c/o Ellise G. Konisberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

To whom it may concern:

1) *Independent Agents and Brokers* ***disagree*** *with the proposed changes in the reporting income.*

2) *The changes represent a* ***dramatic departure*** *from current industry practice regarding the reporting of commission income and the use of installment billing.*

3) *A vast majority of agents and brokers use installment billing and report income as it is* *<u>earned</u>**, over the term of the policy.*

4) *The changes will have a* ***devastating financial impact*** *on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.*

5) *Independent agents and brokers (representing 27,000 plus firms across the country)* ***were not included in the AICPA decision-making process*** *and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessrily coincide with those of independent producers.*

6) *AICPA should* ***delay implementation*** *of the proposed accounting standards to allow time for all interested parties to have their views heard.*

Sincerely,

Richard A. Bentfield

Richard A. Bentfield
President

RAB/ds

155 SOUTH MAIN STREET • P. O. BOX 549
PROVIDENCE, RHODE ISLAND 02901-0549
TEL: 401-421-6900 FAX: 401-272-0180

Rec'd 11/19/91 64

BEN A. REID & ASSOCIATES, INC.
7887 Katy Freeway • Suite 429 • Houston, Texas 77024
Phone: 713/688-0869 • Fax: 713/688-0911

TELECOPIER COVER LETTER

Date: November 19, 1991 Time: 10:00 a.m.

PLEASE DELIVER THE FOLLOWING PAGES TO:

6380
434

NAME: Ms. Elise G. Konigsberg
AICPA - Accounting Standards Division

FAX NO: 212-575-3846

FROM: Ben A. Reid

TOTAL NUMBER OF PAGES (including cover page): 2

Comments: RE: CHANGES IN ACCOUNTING STANDARDS FOR INSURANCE AGENTS AND BROKERS

Dear Ms. Konigsberg:

In connection with the proposed changes in the accounting standards used by insurance agents and brokers for reporting commission income, we would like to express our views as follows:

1. Ben A. Reid & Associates, Inc. disagrees with the proposed changes in the reporting of income.

2. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task Force consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

If you do not receive all the pages, please call back as soon as possible.

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

It would be greatly appreciated if the above comments would receive serious consideration.

Thank you.

BEN A. REID & ASSOCIATES, INC.

Ben A. Reid

Ben A. Reid
President & CEO

McQueary & Henry, Inc.

Rec'd 11/20/91 lo5

Dallas Office:
4006 Belt Line Road
Suite 115
Dallas, Texas 75244
(214) 788-0121
Fax (214) 788-0198

Houston Office:
5222 FM 1960 West
Suite 212
Houston, Texas 77069
(713) 893-3404
Fax (713) 893-7224

Tyler Office:
5620 Old Bullard Road
Suite 130
Tyler, Texas 75703
(214) 581-7571
Fax (214) 581-7594

Affiliated Companies:
Signal Administration
of Texas, Inc.
Mc & H — Life Agency, Inc.

November 20, 1991

5493
434

Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Changes in accounting standards for insurance agents and brokers

Dear Ms. Konigsberg,

As an Independent Insurance Agent, I disagree with the proposed changes in the reporting of income. These changes will have a devastating financial impact on insurance agencies. It would cost millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

Independent agents and brokers were not included in the AICPA decision making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task Force consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

AICPA should delay implementation of the proposed accounting standards in order to allow time for all interested parties to have their views heard.

Best Regards,

McQueary & Henry, Inc.

Bill Henry
Bill Henry
President

BDH/eh

91 NOV 20 AM 9:55
AICPA
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McQueary & Henry, Inc.

Rec'd 11/20/91 66

Dallas Office:
4006 Belt Line Road
Suite 115
Dallas, Texas 75244
(214) 788-0121
Fax (214) 788-0198

Houston Office:
5222 FM 1960 West
Suite 212
Houston, Texas 77069
(713) 893-3404
Fax (713) 893-7224

Tyler Office:
5620 Old Bullard Road
Suite 130
Tyler, Texas 75703
(214) 581-7571
Fax (214) 581-7594

Affiliated Companies:
Signal Administration
of Texas, Inc.
Mc & H — Life Agency, Inc.

5493
434

November 20, 1991

Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Changes in accounting standards for insurance agents and brokers

Dear Ms. Konigsberg,

As an Independent Insurance Agent, I disagree with the proposed changes in the reporting of income. These changes will have a devastating financial impact on insurance agencies. It would cost millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

Independent agents and brokers were not included in the AICPA decision making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task Force consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

AICPA should delay implementation of the proposed accounting standards in order to allow time for all interested parties to have their views heard.

Best Regards,

McQueary & Henry, Inc.

E C Harmel

Evelyn C. Harmel
Comptroller

ECH/eh

91 NOV 20 AM 9:56
AICPA
TEXT PROCESSING DEPT.

NOV 20 '91 08:13 MACK & PARKER CHGO. P.1

5493
434 Rec'd 11/20/91 67

MACK and PARKER, Inc. /Insurance/Risk Management

55 East Jackson Boulevard • Chicago, Illinois 60604-4187
(312) 922-5000 TELEX 270103 (MACK and PARKER) FAX (312) 922-5358

November 19, 1991

By FAX 212-575-3846

Ms. Elise G. Konigsberg
Accounting Standards Div., File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Insurance Agents and Brokers Accounting Standards

Dear Ms. Konigsberg:

For the following reasons, we believe AICPA should delay implementation of the proposed new accounting standards for insurance agents and brokers:

1. Independent agents and brokers disagree with the proposed changes in the reporting of income.

2. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Thank you for your consideration.

Sincerely,

E. E. Mack

Edward E. Mack III
President

91 NOV 20 AM 9:57

AICPA
TEXT PROCESSING DEPT

1426A/saj
CC: NACSA

Assurex
International Insurance Services

REPRESENTING THE BUYER®

PURIFOY & COMPANY

Rec'd 11/20/91 68

Insurance

PHONE: 817 - 773-6844

AL PURIFOY, CPCU
MACK PURIFOY, AAI, CIC
DON BANKSTON

4 SOUTH NINTH
POST OFFICE BOX 1088
TEMPLE, TEXAS 76503-1088

6380
434

11/20/91

ELLISE G. KONIGSBERG
A.I.C.P.A. - FILE 3165
ACCOUNTING STANDARDS DIVISION
1211 AVENUE OF AMERICAS
NEW YORK, NEW YORK. 10036-8775

DEAR MS. KONIGSBERG,

PLEASE DELAY IMPLEMENTATION OF THE PROPOSED ACCOUNTING STANDARDS FOR INSURANCE AGENTS TO ALLOW TIME FOR ALL INTERESTED AGENTS TO HAVE THEIR VIEWS HEARD. AS MANY INSURANCE AGENTS DISAGREE WITH THE PROPOSED CHANGES IN THE REPORTING OF INCOME.

YOUR CONSIDERATION WILL BE APPRECIATED.

YOURS VERY TRULY,

Al Purifoy

AL PURIFOY. C.P.C.U.

AP/pk

91 NOV 20 AM 9:57
TEXT PROCESSING DEPT
AICPA

Independent Insurance Agent

Rec'd 11/20/91 69

The Young Agency, INC.

Total Asset Protection & Insurance Services

November 20, 1991

Ellise G. Konigsbert
Accounting Standards Division
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: File 3165

Dear Ellise:

As treasurer of one of the largest independent insurance agencies in upstate New York, I would like to express my vehement disagreement with the pending changes being considered relative to the way insurance agents and brokers record commission income, for the following reasons:

1. The changes represent a **dramatic departure** from the current industry practice regarding the reporting of commission income and the use of installment billing.

2. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

3. The changes will have a **devastating financial impact** on independent agents and brokers, costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

4. **Independent agents and brokers** (representing 27,000+ firms across the country) **were not included in the AICPA decision-making process** and were not represented on the Agent/Broker Task Force which made the policy recommendations. The Task Force consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

I implore you to request that the AICPA delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

Ralph Cinnamon
Treasurer

Bridgewater Place
500 Plum Street, Syracuse, NY 13204-1480 (315) 474-3374 (800) 426-1120 FAX (315) 474-7039

Rec'd 11/20/91 70

upshaw
the strength of experience.

November 20, 1991

American Institute of Certified Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division, File 3176, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

It has been brought to our attention that the American Institute of Certified Public Accountants is preparing to change the accounting standards used by Independent Insurance Agents and Brokers for reporting commission income. One of the major proposed changes would disallow the installment method of reporting income and require income to be reported at the effective date of the policy. This change represents a dramatic departure from the current industry practice regarding the reporting of commission incomes and the use of installment billing. A vast majority of Agents and Brokers use installment billing and report income as it is earned over the policy term. This change would have a devastating financial impact on the Independent Agents and Brokers, costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

Independent Agents and Brokers which represent 27,000 plus firms across the country were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task Force consisted only of big brokers and big accounting firms, whose interest did not necessarily coincide with those of the independent producers.

Independent Agents and Brokers in general disagree with the proposed changes of reporting income.

We strongly urge that AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

A response to this letter would be greatly appreciated.

Yours very truly,

Charles Allen Iti

Charles R. Allen

CRA:tc

610 S. Tyler, Suite 100
P. O. Box 1289
Amarillo, Texas 79105
806/372-5561

Rec'd 11/20/91 71

TO: Ellise G. Konigsberg
Accounting Standards Division
File 3165

1) Independent Agents and Brokers disagree with the proposed changes in the reporting of income.

2) The changes represent a dramatic departure from current industry practive regarding the reporting of commission income and the use of installment billing.

3) A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4) The changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5) Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coinside with those of independent producers.

6) AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Frank H. Furman, Jr.
Frank H Furman, Jr

Ellise G. Konigsberg
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

PRITCHARD & JERDEN, INC. Rec'd 11/20/91 72

Insurance & Risk Management

November 19, 1991

Ms. Elise Konisberg
AICPA
1211 Ave. of the Americas
New York, NY 10036-8775

Dear Ms. Konisberg:

This letter is in reference to the pending Changes in Accounting Standards for Agents and Brokers.

I have given my thoughts previously to NACSA (National Association of Casualty and Surety Agents) about these proposed standards, and understand you are the party other comments need to reach to prevent these changes from becoming industry standards.

I have worked in the administration/financial and accounting area of the insurance business for over 20 years, both with a major carrier and with a large agency. Thus, I feel qualified to speak out on these changes.

It is not clear to me who commissioned this study, nevertheless, I cannot understand how this could be undertaken without consultation with insurance leaders, or insurance experts in the financial field. The results of this study prove to me that not all perspectives were consulted.

As a partner in an independent agency, and after talking with others like me about these changes, we are appalled they would even be recommendations. It is clear that the people involved in suggesting these changes knew little about the insurance business and insurance accounting.

A few points:

1. Most of what is suggested is impractical and would vastly increase processing costs, and hence premiums.
2. With the predominance of installment billing, it is hard for me to understand how anyone could recommmend these ideas.
3. Reporting income on a before-earned basis would require massive data processing changes, huge costs, and is unfair considering how income is received.
4. A new review is in order...one that would include insurance professionals.
5. None of these changes should even be considered without full input & an evaluation of these comments and others like them.

Please let me know if I can be of service in answering questions regarding a new review of accounting standards.

Sincerely,

Gil C. Simonds, CPCU
Financial Vice President/CFO

3565 PIEDMONT ROAD • BUILDING THREE • SUITE 700 • ATLANTA, GEORGIA 30305-4604
TELEPHONE (404) 238-9090 • FAX (404) 261-5440
"AN EMPLOYEE-OWNED FIRM"

11/20/91 08:04 FAX 414 475 1833 FRANK F. HAACK 001/001

Rec'd 11/20/91 73

FRANK F. HAACK
& ASSOCIATES, INC.

2323 N. MAYFAIR RD., SUITE 600, MILWAUKEE, WI 53226
(414)475-1344 • FAX(414)475-1833

November 19, 1991

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434

Ms. Ellise G. Konigsverg
Account Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

AICPA-TEXT PROC.
1991 NOV 20 AM 9 05

RE: Changes in Accounting Standards for Agents and Brokers

Dear Ellise:

As an independent agent, I strongly disagree with the proposed changes which would require the reporting of income when a policy is effective. This would represent a dramatic departure from current industry practice and would cause a great administrative problem as well as a devastating impact.

We have always considered commission to be earned over the term of the policy as the client is served, just as we expense our costs associated with servicing that policy over the policy term as they are incurred.

I strongly urge that you delay implementation of these proposed standards to allow time for all interested parties to have their views heard.

Yours very truly,

WILLIAM R. HAACK
President

WRH:mms

McQueary & Henry, Inc.

Rec'd 11/25/91 74

Dallas Office:
4006 Belt Line Road
Suite 115
Dallas, Texas 75244
(214) 788-0121
Fax (214) 788-0198

Houston Office:
5222 FM 1960 West
Suite 212
Houston, Texas 77069
(713) 893-3404
Fax (713) 893-7224

Tyler Office:
5620 Old Bullard Road
Suite 130
Tyler, Texas 75703
(214) 581-757[illegible]
Fax (214) 581-7594

Affiliated Companies:
Signal Administration
of Texas, Inc.
Mc & H — Life Agency, Inc.

November 20, 1991

Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Changes in accounting standards for insurance agents and brokers

Dear Ms. Konigsberg,

As an Independent Insurance Agent, I disagree with the proposed changes in the reporting of income. These changes will have a devastating financial impact on insurance agencies. It would cost millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

Independent agents and brokers were not included in the AICPA decision making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task Force consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

AICPA should delay implementation of the proposed accounting standards in order to allow time for all interested parties to have their views heard.

Best Regards,

McQueary & Henry, Inc.

Joe G. Roach
Secretary

JGR/eh

Rec'd 11/28/91 75

HUFFMAN & ASSOCIATES
201 East First Street P. O. Box 1906
Rome, Georgia 30162-1906
Phone: (404) 291-4000
Fax #: (404) 232-3457

ELLISE G. KONIGSBERG
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: CHANGES IN ACCOUNTING STANDARDS FOR AGENTS & BROKERS

Dear Ms. Konigsberg:

Independent Agents and Brokers diagree with the proposed changes in the reporting of income. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

W M HUFFMAN JR CPCU

pbr

Rec'd 11/21/91 76

Creative Risk Management Corporation

34820 Harper
Mt. Clemens, Michigan 48043-4890
(313) 792-6355 TWX: 810-231-9520

W. T. Platt, Jr., A.R.M.
Senior Vice President

November 19, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standard Division
1211 Avenue of the Americas
New York, NY 10036-8775

RE: File 3165

It has come to my attention that the American Institute of Certified Public Accountants is preparing changes to the Accounting Standards used by Agents and Brokers for the reporting of income. WHY? I fail to see any positive results from these proposed changes, in fact, can only see where it will cost everybody except Accountants.

You should know a vast majority of agents and brokers use installment billing and report income as it is earned over the term of the policy.

We can only see these changes having a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

AICPA should delay implementation of the proposed accounting standards to allow time for <u>all</u> interested parties to have their views heard, as it is our understanding that only a few large agencies or brokers had any input - you need to hear from the majority.

We see no need for this dramatic departure from current industry practice.

Sincerely,

WTP/kar

Rec'd 11/21/91 #77

Spear, Safer, Harmon & Co.

A Professional Corporation of Certified Public Accountants

8350 N.W. 52nd Terrace, Suite 301
Miami, Florida 33166
(305) 591-8850 Fax (305) 593-9883
1-800-776-1099

One Financial Plaza, Suite 2210
Fort Lauderdale, Florida 33394
(305) 763-3440 Fax (305) 763-3488

November 19, 1991

Ms. Ellise G. Konigsberg, Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

In regards to the exposure draft on the proposed industry accounting guide for Insurance Agents and Brokers, I have the following comments.

Regarding managing general agents (MGAs), Chapter 5 suggests the following guidance:

REVENUE RECOGNITION (paragraph 5.12)

"...the predominant function of an MGA is the performance of a broad range of services relating to underwriting and managing the business on behalf of the client underwriters..."

"...if the services are performed relatively evenly over the contract period, commissions and fee revenue should be recognized pro rata over the contract period..."

EXPENSE RECOGNITION (paragraph 5.21)

"Because the recoverability of costs from future revenues is not assured, MGAs should continue to expense all their costs as incurred..."

It is apparent from the description offered in Chapter 5 that an MGA has more similarities to an insurance company than to a retail agent or broker. The fact that an MGA performs services over the contract period makes the requirement to recognize revenue over the contract period very reasonable. However, the requirement to expense all costs as incurred is inconsistent. I suggest that acquisition costs should be charged to operations as required in the 1991 AICPA audit and accounting guide "Audits of Property and Liability Insurance Companies".

The requirement to expense acquisition costs as incurred while revenue is recognized over the contract period is similar to the statutory accounting practices (SAP) in the insurance industry. As stated in the 1982 AICPA industry audit guide "Audits of Fire and Casualty Insurance Companies" Chapter 9, this requirement by SAP creates the following condition:

"...in a period of increasing premium volume, the results of statutory underwriting operations of a company are depressed to the extent of the expenses applicable to the increase in unearned premiums which will be reflected in income of later years. Conversely, in a period of declining premium volume statutory underwriting results are benefited by premiums taken into income whose related costs were charged against income in prior periods..."

The main reason offered for the statutory requirement is because liquidity considerations are deemed more important under SAP than the GAAP principle of matching expenses with revenues.

In summary, it is my view that an MGA should follow the GAAP requirements for revenue and expense recognition as described in the 1991 audit and accounting guide "Audits of Property and Liability Insurance Companies" because it would result in a better matching of expenses with revenues.

Sincerely,

Antonio L. Amador

Antonio L. Amador, CPA

NOV 22 '91 14:37 P.1

Rec'd 11/22/91

#78

Smyth, Sanford & Gerard

INCORPORATED

November 21, 1991

Ellise G. Konigsberg
Accounting Standards Division File 3165, AICPA
1211 Avenue of the Americans, New York, N.Y. 10036-8775
Fax: 212-5753846

1) Independent Agents and Brokers disagree with the proposed changes in the reporting of income.
2) The changes represent a **dramatic departure** from current industry practice regarding the reporting of commission income and the use of installment billing.
3) A vast majority of agents and brokers use installment billing and report income as it is <u>earned</u>, over the term of the policy.
4) The changes will have a **devastating financial impact** on independent agents and brokers costing them well into the multi millions of dollars in tax liabilities and for administrative costs of changing computer software technology.
5) Independent agents and brokers (representing 27,000 plus firms across the country) **were not included in the AICPA decision-making process** and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms whose interests do not necessarily coincide with those of independent producers.
6) AICPA should **delay implementation** of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

Paula Pizzo

Paula Pizzo
Controller

135 WILLIAM STREET, NEW YORK, N.Y. 10038 / 212-374-1323

Telex: 640598 Telefax: 212-691-0722

#79

DeJarnette & Paul, Inc.

634

Rec'vd 11/21/c

#79

Agency Est. 1899

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Mailing Address:
P. O. BOX 17370
RICHMOND, VIRGINIA 23226
Located:
4212 PARK PLACE COURT
INNSBROOK CORPORATE CENTER
GLEN ALLEN, VIRGINIA 23060

804-270-0069 FAX: 804-270-0136

November 21, 1991

Post-it™ brand fax transmittal memo 7671 | # of pages ▸

To Ellise Konigsberg	From James A Paul Jr
Co. AICPA	Co. DeJarnette & Paul
Dept. Acct. Standards Dir.	Phone # 804/270-0069
Fax # 212/575-3846	Fax # 804/270-0136

AICPA
c/o Ellise G. Konigsberg
1211 Avenue of the Americas
New York, NY 10036-8775

Gentlemen:

I have received a notice from the NACSA of a plan to change accounting standards for agents.

This seems to indicate that when a policy is billed on installments over a period of time, usually a year, we would be responsible for reporting as income commission to be earned rather than commission earned on a per installment basis.

In Virginia, these installment type billings are filed with the Corporation Commission and we do not owe our carrier any premium until they bill us which is for the installment itself.

We have no certainty that the installment will be paid and I can't see your approach doing anything but overstating our income which would necessitate us paying taxes on dollars not received.

I can understand your position if our companies were kind enough to pay all of the commission for the policy up front rather than as it is received which is the way most companies handle it.

I hope and request that you delay implementation of these proposed accounting standards until you have had further time to hear out NACSA and our position.

Yours very truly,

James A. Paul, Jr.

JAPJr:csm

Rec'd 11/21/91
#80

Boynton
Brothers
& Company

200 JEFFERSON STREET, PERTH AMBOY, NJ 08862
908-442-3300 FAX 908-442-3813

POST OFFICE BOX 427 CHESTER, N.J. 07930
908-879-8999 FAX 908-879-8959

1197 AMBOY AVENUE, EDISON, NJ, 08837
908-603-8200 FAX 908-603-8222

November 21, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Changes in Accounting Standards
for Agents & Brokers

Gentlemen:

I have recently become aware of the AICPA proposed changes in accounting standards for insurance agents and brokers.

These changes represent a dramatic departure from current industry practice and could have a devastating financial impact on our agency.

Please consider delaying any implementation until all parties can be heard from on this matter.

Thank you for your consideration of this matter.

Sincerely,

Boynton Brothers & Company

Michael J. McMahon

Michael J. McMahon, CPCU
Chairman

MJM: vm

NOV 21 '91 15:40 J.EDW.COCHRAN&CO. P.1 Rec'd 11/21 #81

EDWARD W. COCHRAN, JR.
PRESIDENT

J. EDWARD COCHRAN & COMPANY

INCORPORATED
FOUNDER - J. EDW. COCHRAN
140 WEST WASHINGTON STREET
HAGERSTOWN, MD. 21740

INSURANCE
AGENTS AND BROKERS

(301) 739-6400
FAX (301) 739-7495

5493
434

91 NOV 21 PM 2:53
TEXT AICPA ACCOUNTING DEPT.

November 20, 1991

AICPA
c/o Ellise G. Konigsberg, Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Changes in Accounting Standards For Agents and Brokers

Dear Ms. Konigsberg:

I would like to take this opportunity to offer my comments to the American Institute of Certified Accounts concerning the proposed changes of the accounting standards used by agents and brokers for reporting commission income.

1. As an Independent Agent, I disagree with the proposed changes in the reporting of income.

2. The changes represents a dramatic departure from current industry practice regarding the reporting of commission income and use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers, costing them will into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Thank you for sharing my views with the American Institute of Certified Public Accountants.

Sincerely,

J. EDW. COCHRAN & CO., INC.

Edward W. Cochran

Edward W. Cochran, Jr.
President

EWC,Jr/vb
Enclosure

Rec'd 11/21/91
#82

INSURANCE
Laub Group inc.

1233 North RiverCenter Drive, Suite 203, P.O. Box 12950, Milwaukee, WI 53212-0950 • 414-271-4292 • FAX 414-271-5578

VIA FACSIMILE

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the America's
New York, NY 10036-8775

Dear Ms. Konigsberg,

We have recently become aware of proposed changes for insurance brokers in the method of accounting for commission income. We understand that one of the proposed changes would disallow the installment method of recognition and require income to be recognized at the effective date of the policy. As you may know, installment billing is frequently used when the insurance industry is in a soft market, something we have been experiencing since 1988.

We strongly disagree with and object to the proposed changes in income recognition for installment billed policies. Not only would it create a systems and accounting nightmare, trying to track commission income on a basis separate from the billing cycle, but it would penalize insurance agents and brokers at a time when we can least afford it.

We strongly urge the AICPA to delay implementation of the proposed accounting change to allow time for all interested parties to have input into the process. This is a matter of serious concern to us. Please reconsider these changes.

Sincerely,

Dirk S. Nohre
Vice President, Finance
jct

Rec'd 11/21

#83

November 20, 1991

American Institute of CPA's
c/o Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

I have just learned about the proposed changes for reporting of commission income for insurance agents and brokers, and upon reading the proposal, I must voice my concern that such a change will have a devastating impact on most agents and brokers.

The cost in terms of additional tax liability to our agency is significant, only overshadowed by the cost to convert our investment in computer operating systems. I am puzzled as to what is gained by the proposed changes from the reader's perspective when evaluating the financial statements.

I encourage you to delay this change until further study has been made, and I invite you to solicit the perspective of independent brokers to provide valuable input.

Sincerely,

James M. Parsons, CPA
Vice President-Finance & Administration

JMP/kw

cc: Mr. Joe L. Williams, President
Wisenberg Insurance + Risk Management

4828 Loop Central, Ninth Floor P.O. Box 983 Houston, Texas 77001-0983
713/666-5200 Telex 763213 Fax 713/669-4724

Rec'd 11/20
#84

DAWSON
INSURANCE &
FINANCIAL SERVICES

DAWSON
INSURANCE &
FINANCIAL SERVICES

FAX TRANSMITTAL SHEET

	# of pages ▸ 2
To Ellise Konigsberg	From
Co. AICPA	1340 DEPOT STREET CLEVELAND, OH 44116-1716
Dept.	Phone # 333-9000
Fax # 212/575-3846	Fax # 356-2126

~~November~~ 20, 1991

1369.

AICPA
C/O Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

Please accept this letter as my request to not make any changes in accounting standards for insurance agents and brokers.

The reasons for my request are as follows:

1. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

2. Almost all insurance agents and brokers use installment billing and report income as it is earned over the term of the policy.

3. The changes would potentially have a devastating financial impact on independent agents and brokers, costing us well into the multi-millions of dollars in tax liabilities, as well as adminitrative cost of changing computer software technology.

4. Independent agents and brokers which represent in excess of 27,000 firms in the U.S. were not included in the AICPA decision making process and were not represented on the Agents/Broker Task Force which made the policy recommendations.

5. AICPA should definitely delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

In closing, if I can offer any further clarification on this message, please feel free to contact me at 216/333-9000.

Sincerely,

D. Michael Sherman

DMS/jk

Rec'd 11/21

MORGAN-MARROW COMPANY

#85

November 21, 1991

Ms Ellise G. Konigsberg
Accounting Standards Division
AICPA File 3165
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Dear Ms Konigsberg,

Speaking for Morgan-Marrow Company, an Independent Insurance Agent, I strongly object to the proposed change in accounting standards affecting commission income reporting. A sizeable portion of our business is paid through installments. To require the total premium amount to be reported as earned on the policy effective date, will necessitate a cripling infusion of capital, not to mention accelerated income tax charges.

At the very least we request AICPA delay implementation of the proposed accounting standards to allow all interested parties time to air their views.

Sincerely,

Browning C. Wharton

Browning C. Wharton
Corporate Secretary

SIX MANHATTAN SQUARE • SUITE 200 • HAMPTON, VIRGINIA 23666 • (804) 865-1900
INSURANCE SINCE 1907

GREAT LAKES AGENCY
INSURANCE BROKERS

434
6369

11/20/91
#86

AICPA-TEXT PROC.
1991 NOV 21 AM 9:05

November 20, 1991

AICPA
1211 Avenue of the Americas
New York, New York 10036

Attn: Ellise G. Konigsberg
Accounting Standards Division
File 3165

VIA FAX: 212/575-3846

Dear Ms. Konigsberg:

Independent Agents and Brokers disagree with the proposed changes in the reporting of income.

The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

A vast majority of agents and brokers use installment billing and report income as it is earned , over the term of the policy.

The changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

Independent agents and brokers (representing 27,000 plus from across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Very truly yours,

Timothy N. Thoelecke
President

TNT/sn

Rec'd

Rec'd 11/20/9

#87

Doherty and Russo

CERTIFIED PUBLIC ACCOUNTANTS

ANTHONY J. DOHERTY, CPA
ANTHONY J. RUSSO, CPA

JAMES P. TURK, CPA

MEMBERS
AMERICAN INSTITUTE
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

November 20, 1991

Ellise G. Koniqsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Koniqsberq:

This letter is in response to your request for comments on the exposure draft for a Proposed Industry Accounting Guide for Insurance Agents and Brokers. As an Independent Certified Public Accountant whose firm prepares both audited financial statements and compilations for large and small independent insurance agencies, I am very concerned with theoretical as well as the practical aspects of this exposure draft.

Paragraph 1.2 states that this guide uses the term Broker to refer to both Insurance Agents and Brokers. My experience indicates substantive differences in the operations of Brokers and Agents. Whereas the Brokers work is generally completed upon the issuance of the policy, the Agent performs services for the customer on an on-going basis. The Agent is continually handling claims for insured, preparing Certificates of Insurance, answering questions about coverages and keeping informed about customer risks.

Paragraph 2.16 states that the entire commission should be recognized when the transaction is initially recorded. Because of the substantial amount of services rendered on this type of business I do not feel that a proper matching of revenues and expenditures would be accomplished through this income recognition method. Additionally, I feel that disallowing the installment recognition of income in cases where both the customer pays using the installment method and the agent is billed by the underwriter using the installment method, would be directly counter to industry practice as it relates to the Independent Insurance Agencies.

Finally, from a practical standpoint, a change from the installment income recognition method would present a serious financial hardship to the many Independent Agencies due to software changes and additional administrative costs.

Sincerely,

DOHERTY & RUSSO, CPA'S

BY: ______________________
ANTHONY J. DOHERTY
-PARTNER-

Rcv'd 11/19/91
#88

WRIGHT & PERCY

November 19, 1991

Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

I would like to take this opportunity to respond to the Exposure Draft of the Proposed Industry Accounting Guide for Insurance Agents and Brokers. I have been a CPA for nine years and the Controller of a large independent insurance agency for six of those years. Therefore, I feel I am very qualified to address the problems which would be created by this Industry Accounting Guide.

It is my opinion that the basic assumption of this industry guide which treats brokers and agents the same is flawed. It is true that both negotiate with underwriters to place insurance risks. In practicality this is where there similarity ends. It seems that the basic assumption in this Exposure Draft as it relates to the recognition of income is that once the insurance coverage is placed with an underwriter that the work is complete. This is true for a insurance broker. However, this is certainly not the case with the insurance agent for commercial property and casualty business. An insurance agent is constantly in contact with their client. Certificates of insurance are requested by clients which must be sent for them to various business entities in order for them to carry out their prescribed trade or business. Claims are reported to the independent agent who then reports them to the insurance company. Generally those clients which require more servicing time are also those which have policies which are billed on the installment method.

General Insurance & Contract Bonds
521 Laurel Street P.O. Box 3809
Baton Rouge, LA 70821-3809
504-387-3271 FAX 504-336-4536

It is true that the industry standard is to recognize income based on the billing or effective date whichever is later. In the case of large commercial property casualty clients which are generally billed on an installment basis, it is my contention that "a significant obligation" does "exist to perform services after the insurance has become effective". Therefore, since the underwriting insurance company bills the agent based on the installment plan specified in the insurance policy and the insurance agent bills the client on this basis; I believe that the recognition of the asset, liability, and commission income should be based on the same premise: billing or effective date whichever is later. I disagree with your requirement in paragraph 2.16 which states "the entire commission should be recognized when the trasaction is initially recorded." I contend the installment method for the recognition of income does effectively match the recognition of income with the performance of a service by the insurance agent since placing the insurance with an underwriter is not the only service provided by an insurance agent.

It appears to me that this Exposure Draft has completely disregarded a basic principal of accounting: matching. You state that all costs whether initial direct costs, indirect costs, or subsequent servicing costs are to be expensed as period costs and expensed as incurred. In 2.36 you state: "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance". This is a totally inaccurate statement when applied to independent insurance agents. As I stated before, I feel your basic premise that agents and brokers are essentially the same is flawed. It <u>is</u> standard insurance industry practice that agents provide services to the client other than the placement of the insurance. If you are attempting in the remainder of paragragh 2.36 to recognize the matching of revenues and expenses, I do not feel the presentation is very clear.

I certainly do not pretend to know the credentials of the members of the Insurance Companies Committee or the Insurance Agents and Brokers Task Force. I do; however, as a CPA in industry with direct knowledge of the independent insurance agency and how it functions in relation to clients, insurance brokers, and insurance companies feel I have an understanding of the impact of this Exposure Draft on the independent agent. I feel this exposure draft is a dramatic departure from current industry practice. It is my opinion that the recognition of income on all policies based on the effective date thereby not allowing income recognition based on installment billings serves no useful purpose. I contend that the current practice of recognizing income based on installment billings does match revenues and related expenses. I feel this method furthermore does provide financial statements which do present fairly the financial condition of the business.

If this Exposure Draft is adopted as written, the impact on the independent agent will be devastating. The financial impact of this Exposure Draft would be tremendous both with increased administrative costs and the expense of changing computer software programs. I personally have worked on two computer software systems and have examined three others. All of these systems which are used and sold nationally recognize income on installment billings based on the billing or effective date whichever is later. It appears to me that this Exposure Draft was written to benefit the large insurance broker and large accounting firms. If an Industry Guide is intended to be a guide for the practitioner to use "as a resource to assist them in understanding the operations and business practices of insurance agents and brokers" then I feel the guide should recognize what is standard for the industry. This Exposure Draft does not do so.

Sincerely,

Beverly D. Choppin

Beverly D. Choppin

KEC'Q

SENT BY:CLAIR ODELL GROUP ;11-20-91 ; 15:16 ; CLAIR ODELL GROUP→ 2125753846;# 1

~~#89~~ RCVD 11-20-91

89

6380
434

CLAIR ODELL GROUP
INSURANCE

FAX TRANSMISSION

DATE: 11/20/91

TO: Ellise G. Koenigsberg

OF: AICPA

TO FAX PHONE NUMBER: 212-575-3846

FROM: Jerry A. Odell, Vice Chairman

RE: Proposed Changes in Accounting Standards.

THERE ARE A TOTAL OF 1 PAGES INCLUDING THIS ONE.

PLEASE CONTACT OUR OFFICE IF THERE ARE ANY PROBLEMS IN TRANSMISSION

MESSAGE TEXT:

Independent Insurance Agents strongly oppose proposed changes in Accounting Standards for reporting Commission Income. These changes will have a devastating effect on our members and should not be adopted.

Recv'd 11/20/
#90

Morse, Payson & Noyes
Insurance

November 19, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Subject: Comments With Respect to Accounting Guide for Insurance Agents and Brokers

Dear Ms. Konigsberg:

I have reviewed the Proposed Industry Accounting Guide for Insurance Agents and Brokers and would like to comment on the specifics of the Guide prior to its completion and issuance. As the Vice President and Chief Financial Officer of a privately-held insurance agency with gross revenues of approximately $10,000,000, I am obliged to comment on this Guide because of my sense for the overall impact that this Guide will have on all agencies, but in particular the smaller agencies. I will attempt to refer to the respective paragraphs in the Guide as I outline my comments.

<u>Revenue Recognition Guidelines</u>

2. Paragraph 2.2 under Revenue Recognition makes the statement that "the methods used by brokers to recognize commissions associated with placing insurance risks with underwriters have varied." Although it would be difficult to argue this point, the majority of agencies follow the practices of recognizing revenues under the following guidelines:

   A) Policies that are billed by an agency, with the exception of installment billing arrangements, reflect revenues at the policy or coverage effective dates.
   B) Policies with installment billing arrangements reflect revenues on the effective dates of the individual installments.
   C) Policies that are billed by the insurance carrier reflect revenues when the commissions are received by an agency (cash basis).

Revenue Recognition Guidelines, continued

The Guide recommends a dramatic departure from the above methods of reporting income for Installment Billing Arrangements (Paragraph 2.16) and for Direct Billing Arrangements (Paragraph 2.21). One principal reason for the methods of revenue recognition currently being followed by a majority of agencies, especially the smaller agencies, is the current agency management (data processing) systems that are in use today. The limitations that are inherent in these software products do not begin to address the issues that all agencies would face if required to record so-called "installment-bill" and "direct-bill" policy commissions by the same method as that for agency-billed business. None of the current agency management software alternatives adequately afford agencies (large or small) an ability to track the volume of policies that are on these types of billing mechanisms in such a way as to economically account for the related commission revenues in such a manner. Any requirement to determine and record commissions on these policies as discussed in the Guide would place an overhead burden upon all agencies, and especially upon the smaller agencies that typically lack the sophistication and technology to address this issue. It would likewise place an additional burden on all agencies to incur the cost of revisions to their respective agency management systems to allow them to correct this method of revenue recognition.

Income Tax Implications

One significant area that needs to be addressed is the impact that such changes would have on all agencies from an income tax standpoint. These changes would eventually be viewed by the Internal Revenue Service as a significant revenue producing opportunity. The Guide would give the Internal Revenue sufficient support to force the earlier recognition of revenues for approximately 27,000 independent agencies and brokers across the country and thus create a "windfall" in tax revenues. I would expect that those agencies who rely very heavily on "direct-bill" business would be faced with paying large income tax bills without the benefit of having received the cash relating to those same revenues from the respective insurance carriers. This would obviously place a devastating financial burden on these agencies.

Committee Representation from Smaller Agencies

In the Preface of the Guide, the names of the "Insurance Agents and Brokers Task Force" are listed. No indication is given, however, as to the nature of involvement of these individuals in the industry that is the subject of the Guide. I would expect that the majority of these individuals are directly involved in the insurance agency and/or broker industry. I question whether the smaller agency population has been adequately represented on this task force. I would appreciate further information as to the nature of involvement of these individuals in the industry and their respective agency's size in terms of gross revenues and also their agency's ownership structure, ie. publicly or privately held.

Primarily because of the serious financial impact that this Guide would have on independent insurance agencies for major software revisions and the above-mentioned income tax ramifications, I would oppose these guidelines being implemented.

If you have any questions or if you desire further clarification of these points, please call or contact me in writing.

Sincerely,

Raymond F. Brogan

Raymond F. Brogan
Vice President
Chief Financial Officer

cc James Kilbride, President (Morse, Payson & Noyes)
Ken A. Crerar, Executive Vice President (NACSA)
Russ Burnett, Vice-President and CFO (IIAA)

NOV 20 '91 13:15 ATHENS INSURERS P.1/1

Rcv'd 11-20-91 #91

ATHENS INSURERS

AICPA-TEXT PROC.
1991 NOV 20 PM 2:16

November 20, 1991

1645
434

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775
FAX (212) 575-3846

Dear Ms. Konigsberg:

As an independent insurance agent and an employer of 40 people, I am distressed that the AICPA is proposing to change the reporting of commission income and disallow the installment method of reporting income paid on installments. I disagree with the proposed changes, as this represents a dramatic departure from the current industry practice regarding the reporting of our commission incomes. Installment billings are implemented to provide our customers with an easier way of paying their insurance premiums. By the changes you propose, we would be penalized because we are attempting to help our customers.

The changes would dramatically alter our financial picture and adversely impact the lives of all of our employees. I know you do not want this to happen.

Independent agents were not included in your decision making process and were not represented on the Agent/Broker Task Force which made the policy recommendations. The task force consisted of big brokers and big accounting firms who, historically, do not get involved in installment billings.

I ask that you delay implementation of the accounting standards until all interested parties have had an opportunity to provide their input.

Yours truly,

Lewis L. Scruggs, Jr., CPCU

LLS/lh

91 NOV 20 PM 3:29
AICPA
TEXT PROCESSING DEPT

P.O. BOX 8107
ATHENS, GEORGIA 30603
PHONE (404) 353-2111

NOV-20-91 WED 11:57 COTTINGHAM, BUTLER, SISCO P.01

#92

RCV'd 11-20-91

634

COTTINGHAM & BUTLER, INC.

Insurance

ESTABLISHED 1887

JOHN E. BUTLER, CPCU
TIMOTHY H. BUTLER
TIMM G. JOHNSON
ANDREW J. BUTLER, CPCU
RICHARD V. McKAY, CPCU
STEPHEN A. WYLIE, CPCU
STEPHEN J. BONFIG, CPA
STEVEN B. CADE
DOUGLAS J. ECKERMANN
TIMOTHY J. KUNKEL
ROBERT M. LINDSAY, CPCU, CLU
CHRISTOPHER D. PATRICK
MARY PAT RENAUD
LINDA L. SCHULLER
WILLY SCHULLER
SCOTT A. VOELLINGER
LARRY A. VOGT

November 19, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

FACSIMILE

1991 NOV 20 PM 1:35

AICPA TEXT PROC.

Re: Proposed Industry Accounting Guide,
Insurance Agents and Brokers

Dear Ms. Konigsberg,

We would like to comment on the above recently issued exposure draft.

The recommended guidelines state that an agent is not obligated to perform services subsequent to policy inception date. This is incorrect. We are obligated by our contracts with the various insurance companies to service policies. Also, most probably, we would be severely criticized by the various state insurance departments (to include having our license revoked). And, we would be under great criticism from our clients, who would likely move their coverages to another agent. We are a "service" industry and our reputation is built on our quality service to our clients.

We presently recognize commission income at invoicing of premiums or on the inception date, whichever is later. Thus, for the vast majority of our business, we use the installment method. Smaller, less complicated policies and coverages are mostly billed annually and would be recognized as income on the inception date. This concept does reflect proper timing of recognition of income, in that it most closely <u>matches</u> the recognition of income with the related expenses. We also do this on a <u>consistent</u> basis, and thus we feel that our income statement is accurately and fairly presented.

We would like you to consider the case where all of an agents policies renew on the same day. Per the proposed guideline, all income would be recognized in one month, and thus one month would show a huge profit, and the other eleven months would show a loss. This would not be reflective of actual operations.

COTTINGHAM & BUTLER, INC.

The other major area of concern is the recommended recognition of receivables and payables. To recognize unbilled receivables causes two major problems:

1) Many times installment accounts are either undefined or subject to considerable adjustment during the year.

2) The reader of the financial statements would receive a false impression of actual current receivables-to have receivables listed that will not be billed for a period up to 11 months from the date of the statement, would give the reader a false understanding of the actual facts.

In view of what we have outlined, we believe the proposed guideline should be reconsidered and delayed in implementation in order for the AICPA to more fully study the matter.

Sincerely,

COTTINGHAM & BUTLER, INC.

John E. Butler
President

Stephen J. Bonfig
Treasurer

JEB:mbn

11/20/91
#93

PROFESSIONAL INSURANCE AGENTS, INC.
1610 N. LAURENT • P.O. BOX 2625 • 512/578-3691 • VICTORIA, TEXAS 77902
FAX #512/578-7565

November 20, 1991

AICPA
c/o Ellise G. Konigsberg,
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, N. Y. 10036-8775

Re: Changes in Accounting Standards for Agents & Brokers

Dear Ms. Konigsberg:

Please accept this letter as a voice of disapproval for changing the accounting standards for agents and brokers. The changes indicate a dramatic departure from current industry practice. This change would have a devastating financial impact on independent agents since reporting income is done as it is earned over the term of the policy. If this change is approved we will incur sufficient tax liabilities and administrative cost in changing computer software technology.

Independent agents and brokers representing 27,000 firms across the country were not included in the AICPA decision making process.

Please delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

Hardy McCullough

Hardy McCullough
Executive Vice President

11/21/91
#94

JOHN C. CONKLIN AGENCY

PROTECTION THROUGH INSURANCE SERVICE

ONE UNIVERSITY PLAZA, HACKENSACK, N.J. 07601
201-342-2145
FAX: 201-342-1597

November 21, 1991

Ms. Ellise G. Konigsberg
American Institute of Certified Public Accountants
Accounting Standard Division, File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

With respects to the Proposed Changes in Accounting Standards For Agents and Brokers, please note that independent agents and brokers strongly disagree with these changes in the reporting of income and also the following:

1. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.
2. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.
3. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.
4. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.
5. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Very truly yours,

John C. Conklin, III
Vice President

JCC,III/had

11/21/91
#95

Lanier Upshaw, Inc.

Established in 1941

YOUR Independent Insurance AGENT

1129 U.S. 98 SOUTH
P.O. BOX 468
LAKELAND, FLORIDA 33802
813/686-2113
FAX 813/682-8292

November 21, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

It is my understanding that the American Institute of Certified Public Accountants is preparing to change the accounting standards used by agents and brokers for reporting commission income. Independent agents and brokers disagree with the proposed changes in the reporting of income.

The proposed changes represented a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. A vast majority of agencts and brokers use installment billings and report income as it is earned, over the term of the policy. Actually, a large number of our policies are written on "direct bill" systems whereby the insured pays the company the gross premium and we get a commission check the following month for our commission earned on the amount paid. Therefore our income actually drags a month or two in many instances.

The proposed changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities for administrative cost of changing computer software technology. Independent agents and brokers representing some 27,000 plus firms across the county were not included in the ACIPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task Force consisted of big brokers and big accounting firms whose interest did not necessarily coincide with those of independent producers.

It is my strong suggestion that AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard. Thank you.

Sincerely yours,

LANIER UPSHAW, INC.

C.W. Bovay

C.W. Bovay, CPCU
President

Rec'd 11/20/91

#96

OFFICES OF

LATTIMORE, BLACK, MORGAN & CAIN, P.C.

Certified Public Accountants

5203 Maryland Way, Suite 200 P.O. Box 1869

Brentwood, Tennessee 37024-1869

(615) 377-4600

JAMES S. LATTIMORE, JR.
CHARLES W. BLACK, JR.
DAVID K. MORGAN
R. MICHAEL CAIN
CROLEY W. GRAHAM, JR.
W. JOSEPH ATKINS
ROY W. OAKS
STEVEN E. DODSON

November 20, 1991

Ellise G. Konigsberg, Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

I am a local CPA and I have several insurance agencies as clients. I am concerned about several provisions of the proposed Industry Accounting Guide for Insurance Agents and Brokers. When I first learned about this Exposure Draft, I requested a copy, but it seems that the comment period is extremely short. I hope that the comment period has been extended and that my comments can be considered.

Most small insurance agencies recognize commission income at the later of the billing date or the effective date of the policy. To do otherwise would cause an unreasonable amount of work which would accomplish very little. There are usually only a very few policies which are billed after the effective date. However, the reason that this does occur is that the agent must wait for the policy information to be provided by the insured company. This method of revenue recognition is both conservative and widely used. I would urge you to allow its continuance.

The second issue relates closely to the first. Many insurance premiums are billed on an installment basis. As you know, these policies can be canceled at any time and the unearned commission income would have to be returned to the insurance company. In order to comply with this accounting change, most agencies would have to incur significant costs to revamp their accounting and computer systems. I do not believe that the costs involved justify the benefits. Also, financial statements prepared under current accounting practices are more conservative. I would urge you to reconsider this provision and continue to allow agents to recognize commission income on installment billings as they are billed.

Very truly yours,

LATTIMORE, BLACK, MORGAN & CAIN, P.C.

David K. Morgan

David K. Morgan

DKM/ebw

Rec'd 11/21 #97

Coopers
&Lybrand

certified public accountants

1251 Avenue of the Americas
New York, New York 10020

telephone (212) 536-2000
telex 7607467
cables Colybrand

in principal areas of the world

November 21, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division
File 3165
American Institute of Certified
Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Comments on the Exposure Draft of a Proposed Industry Accounting Guide, Insurance Agents and Brokers

Dear Ms. Konigsberg:

We are pleased to submit our comments on the August 15, 1991 Exposure Draft (ED) of the proposed AICPA industry accounting guide, Insurance Agents and Brokers.

In general, we support the recommendations contained in the ED. We believe the guidance on revenue and expense recognition will help eliminate some of the existing diversity in practice and promote greater uniformity in financial reporting.

We have the following specific comments on the proposed guide:

- The last sentence in paragraph 5.1 mentions that some entities referred to as MGAs retain all or portions of the insurance risks described in FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises. We suggest that the Guide clearly state that the accounting prescribed in chapter 5 does not extend to those MGAs that do, in effect, bear all or portions of the insurance risk. The Guide should also indicate that those entities would need to follow the guidance contained in FASB Statement No. 60.

- Paragraph 5.16 indicates that contingent profit commissions should be accrued and recognized as revenue when such commissions are determined on the basis of the underwriting results of current or past periods and if the MGAs can reasonably estimate the amount of such commissions. We believe such commissions should only be recognized to the extent that the commissions could not be reduced or eliminated by adverse loss experience of future periods.

Additionally, the last sentence in paragraph 5.16 states that any future paybacks of commissions caused by adverse experience of future periods should be recognized as losses in those periods. Notwithstanding our above comment with respect to revenue recognition, we believe use of the term "payback" could be misinterpreted to mean that adjustments to prior contingent commission revenue should be accounted for on a cash basis. Accordingly, we suggest the reference to "payback" be deleted and the last sentence be shortened to simply read, "Any significant modifications or adjustments to prior contingent profit commission revenue represent changes in estimates that should be accounted for in those future periods."

. We believe that inclusion of illustrative financial statements for insurance agents and brokers would serve to reinforce the accounting practices and disclosures recommended by the guide.

* * * *

We appreciate this opportunity to express our views. If you have any questions concerning our comments, please call Frank J. Tanki or John P. Gilliam in our National office.

Very truly yours,

Coopers & Lybrand

Coopers
&Lybrand

11/21/91 16:27 NO.704 P002

Rec'd 11/21/91
#98

MURRAY, SCHOEN & HOMER, Inc.

71 North Avenue
P.O. Box 719 New Rochelle, N.Y. 10802
914 / 632-6969 FAX #: 914 / 632-9170

November 21, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division, File 3165
1211 Ave of the Americas
New York, NY 10036-8775

Re: Changes In Accounting Standards for Agents and Brokers

We have been advised that one of your proposed changes to the accounting standards used by agents and brokers for reporting commission income is to disallow the installment method of reporting income and require income to be reported at the effective date of the policy. This and other changes proposed would cost the over 27,000 agents throughout the country millions of dollars in taxes and administrative costs. It would have a devastating financial impact on independent agents and brokers across the country.

Most agents and brokers use installment billing, especially in the larger risks and report income as it is earned over the term of the policy.

It would also require millions of dollars in administrative costs to change our computer software programs.

We understand that independent and agents and brokers were not included in AICPA decision making process and we ask that you delay implementation of the proposed accounting standards to allow all interested parties an opportunity to have their views heard.

Thank you for your consideration.

Sincerely,

Norma D. Homer

Norma D. Homer

NDH/ls

Rec'd 11/21/91
#99

CIC Consolidated Insurance Center, inc.
7130 RUTHERFORD ROAD, BALTIMORE, MARYLAND 21207 301-944-9550 800-492-0196 (MD) 301-265-5990 (FAX)

JOHN F. DOETZER, CPCU
PRESIDENT

November 21, 1991

The American Institute of Certified
Public Accountants
Accounting Standards Division, File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Attn: Elsie G. Konigsberg

RE: Changes in Accounting Standards for
Agents and Brokers

Gentlemen:

The proposed changes in reporting income of Independent Agents and Brokers is absolutely absurd. The entire Independent Agency/Brokerage community has reported commission income as billed; that is, either on an annual or monthly basis.

These changes will have a devastating financial impact on Independent Agents and Brokers. Potential additional tax liabilities, not to mention totally unnecessary administrative costs to change our computer software technology to meet these useless standards will drive many Brokers out of business. The present system has served the industry well for many years. It is fair and accurate for tax purposes, insurance company needs, and most important, for the needs of our clients.

I strongly urge the AICPA to delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

John F. Doetzer

John F. Doetzer

JFD/llg

NOV 21 '91 16:56 FROM NACSA PAGE.002

Rec'd 11/21/
#100

NACSA

NATIONAL ASSOCIATION of CASUALTY & SURETY AGENTS
316 Pennsylvania Avenue, S.E.
Suite 400
Washington, D.C. 20003
(202) 547-6616
FAX (202) 546-0597

November 21, 1991

Mr. Wayne Karuth
Chairman, Agent/Broker Task Force
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Karuth:

We are writing on behalf of the members of the National Association of Casualty & Surety Agents (NACSA) regarding the accounting guidelines for insurance agents and brokers developed by the Insurance Agents and Brokers Task Force of the American Institute of Certified Public Accountants (AICPA). NACSA represents the nation's leading commercial, property and casualty insurance agencies and brokerage firms. Our member-agencies specialize in providing a range of products to business and industry representing billions of dollars in insurance premiums.

The AICPA recommended guidelines represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. A vast majority of our members use installment billing and report income as it is received or earned, not on the effective date of the policy. The changes, as the Task Force must be well aware, will have substantial tax and other financial implications for agents and brokers.

Your proposal was brought to our attention just a few weeks ago. We understand that our sister agent organizations, the Independent Insurance Agents of America and the National Association of Professional Insurance Agents also have just learned of the AICPA's planned changes. Considering the dire impact of the proposal, we were horrified and dismayed to learn these issues have been under consideration for some time and without input from the group most affected by the changes -- the 45,000 plus independent insurance agencies and brokerage companies across the country! Unfortunately, the AICPA Task Force is comprised primarily of representatives from the big brokerage firms, whose interests at times are quite divergent from those of large and mid-size agencies.

We are extremely concerned with some of the issues your proposed draft raises, particularly the tax ramifications and the issue of a broker's obligation to service the policy contract. Both these issues are politically sensitive and need far more discussion among the producer community.

From a practical standpoint alone the guidelines are problematic. Changing computer systems to accommodate these new accounting practices will cost our members millions.

In our assessment, if the AICPA recommendations are adopted, they will have a devastating financial impact on independent agents and brokers potentially costing them well into the multi-millions of dollars. The result will be a severe economic drain on their agencies placing them at a serious competitive disadvantage in the marketplace.

Overall, we see no strong rationale for making the changes as proposed. We have outlined some of our initial concerns in more detail in the attached document, but unfortunately we have not had time to do a thorough evaluation of all the proposed changes.

In light of the potential impact of the changes, we urge you to delay implementing the guidelines for several more months to allow all parties affected by the AICPA proposal to have their views seriously considered. We are more than willing to work with your committee to resolve this matter in a way that accommodates the interests of all those affected. We also would appreciate a response to this letter, as well as an outline of the process that will be followed in finalizing the proposed guide.

We look forward to hearing from you.

Sincerely,

William P. Wallace

William P. Wallace, CPCU
President

NACSA
NATIONAL ASSOCIATION of
CASUALTY & SURETY AGENTS
316 Pennsylvania Avenue, S.E.
Suite 400
Washington, D.C. 20003
(202) 547-6616
FAX (202) 546-0597

NACSA COMMENTS ON AICPA EXPOSURE DRAFT

Proposed Industry Accounting Guide Insurance Agents and Brokers (August 15, 1991)

The following are comments on specific issues raised in the AICPA Exposure Draft Proposed Industry Accounting Guide Insurance Agents and Brokers.

Our first comment relates to paragraph 2-16 in which the Proposed Guide rejects the installment method of recognizing commission revenue because "the collectibility of installment billings for annual insurance policies ordinarily can be reasonably estimated when transactions are initially recorded." We feel that the fact that the Proposed Guide contains nineteen paragraphs (paragraphs 1.14 through 1.19 and 2.6 through 2.14) detailing the numerous adjustments that can be made to a broker's commissions is a strong argument against the conclusion reached in paragraph 2.16 which states that collectibility can be reasonably estimated. The Proposed Guide lists the following circumstances which result in adjustments to commissions:

1. Adjustments in premiums
2. Changes in coverage
3. Policy cancellations
4. Errors in calculating premiums or commissions
5. Retrospectively rated policies
6. Premiums subject to change due to audit
7. Variable premiums (reporting form premiums)

Paragraph 1.19 even describes three different types of cancellations all of which would produce different adjustments to commissions that would be reported under the proposed Guide. Although policy cancellations are only one item on the above list, the possible reasons for cancellations, for example, bankruptcy of a customer, death of a customer, change to another agency, are too numerous to list in this letter.

Because of the various uncertainties listed in the Proposed Guide we feel that the collectibility <u>cannot</u> be <u>reasonably</u> estimated; and therefore, we believe that the installment method is appropriate for reporting commission revenue. We also feel, due to the many uncertainties mentioned above, that to record the entire commissions on the effective date is contrary to the basic accounting concept of conservatism. This is because the majority of these adjustments usually result in a decrease in commissions; and therefore, both assets and income would be overstated if the Proposed Guide was followed.

We strongly disagree with the statements made in paragraphs 2.31 and 2.36 which state that subsequent servicing costs are performed only "to retain or increase business with the clients but not because they are required to serve the policies." Activities such as billing, collecting and claims processing are not done to retain or increase business, but rather are necessary to service the current policies that are in force.

As we mentioned earlier, there is no way to predict which customers will be repeat customers; therefore, to say that these services are provided to assure some future benefit is wrong. These activities are performed to provide essential services to current customers. Because these and other services are provided to customers during the terms of their insurance policies, to record all commission income at the effective date, in our opinion, violates another basic accounting concept, the matching principal.

The statement in paragraph 2:6 that "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance," is incorrect. Not only are the brokers contractually obligated to the underwriters to provide services to clients, but also they are required by moral business practices, and by state insurance commissioners, to service the insurance policies during the course of the policy term.

Another non-accounting issue which we feel needs to be mentioned is the enormous burden the change from the installment method would cause most insurance agencies. Most of the insurance agencies' accounting systems, including the majority of the computer software now used by insurance agencies, is designed for the installment method. We feel that the changes this Guide would force on insurance agencies is greater than those forced on all companies by FASB 96 which, as you know, will never be implemented as originally proposed.

We would like to bring to your attention the fact that despite your assertion in the "summary" that the guide was sent to organizations that the Task Force identified as having an interest in accounting for insurance agents and brokers, we did not receive a copy, nor did the National Association of Insurance Brokers, the National Association of Surety Bond Producers, the Mortgage Insurance Companies of America or the National Association of Professional Insurance Agents receive a copy.

Also, three out of four insurance agencies that we talked to were not aware of the proposed guide. We feel that these and other organizations need to receive a copy of the Proposed Guide, and we think the deadline for comments should be extended with a follow-up period for further discussion of the issues.

/tb

#101
Rec'd 11-21-91

SEABOARD FINANCIAL GROUP

November 20, 1991

American Institute of Certified
Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Sirs:

I am writing on behalf of Seaboard Financial Group, Inc., regarding the proposed change in the accounting standards used by agents and brokers for reporting commission income. Seaboard Financial Group, Inc., comprised of independent insurance agents and brokers, headquartered in Norfolk, Virginia, disagrees with these proposed changes.

The changes which you propose would not be financially feasible for the vast majority of independent agents and brokers. The primary reason for this is that most agents/brokers do not have the financial resources to have a custom agency automation system in place and the source code and programmers on staff to make such changes. The vendors that sell software to firms like ours do not offer the necessary computer technology to record commissions in the fashion you propose. I have personally discussed the development of the necessary software enhancements with our current vendor, and the cost of the enhancements is prohibitive. The minimum cost to an agency such as ours would be approximately two months of programming time to develop the technology, the development of extensive audit programs to track and balance unbilled installments, and data conversion costs, not to mention the hundreds of internal hours needed to convert and debug.

It is also our opinion that installment billing revenue recognition more approximates the culmination of the earning process as commissions are recorded as premiums are earned. If the standards allow recognition at the effective date of the policy, then large reversals in an amount proportionate to the unearned premium will be required in the event of cancellation.

AICPA
November 20, 1991
Page two

In addition, the agent's earning process is not complete at the time of sale. Commercial accounts have significant claim, consulting, endorsement, certificate, and collection activity throughout the policy term.

In summary, we disagree with the proposed changes in the reporting of income and ask that you delay implementation of the proposed accounting standards to allow time to have independent agents and broker voice their opinions.

Sincerely,

Jeffrey A. Snyder, CPA
Chief Financial Officer

JAS/ssg/p21

c: George G. Phillips, Jr., Chairman,
Seaboard Financial Group, Inc.
Ken A. Crerar, Executive Vice President
National Association of Casualty and
Surety Agents

Rec'd 11/21/91
102

Alton Insurance Agency, Inc.

• SUITE 900
• 1735 JEFFERSON DAVIS HIGHWAY
• ARLINGTON, VIRGINIA 22202-3499
• TELEPHONE (703) 892-4800

November 25, 1991

AICPA c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

The intent of the AICPA to change the accounting standards used by agents for reporting commission income would have a devastating financial impact on independent agents and brokers across the country. The following are reasons why this should not be done:

1) Independent Agents and Brokers disagree with the proposed changes in the reporting of income;

2) The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3) A vast majority of agents and brokers use installment billing and report income as it is <u>earned</u>, over the term of the policy.

4) The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5) Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

6) AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

Robert R. Parks

Robert R. Parks, CPCU, CLU
President

11/22/91 12:04 NO.538 P002/002

Rec'd #103 11/22

6400 Fairview Road
Charlotte, North Carolina

Mailing Address
P.O. Box 220748
Charlotte, NC 28222

(704) 366-8834

November 22, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

This correspondence is documentation that Cameron M. Harris & Company, a Charlotte, North Carolina Insurance Agency, is opposed to the proposed changes in accounting standards used by agents and brokers for reporting commission income. This Company especially disagrees with the proposed change that would disallow the installment method of reporting income and require income to be reported as of the effective date of the policy. Since the vast majority of agents and brokers use installment billing and report incqme as it is earned, over the term of the policy, the proposed change would diverge taxable income and the associated cash flow. In addition to accelerating the tax liability of over 27,000 independent agencies and brokerages across the country, there is the additional expense of the administrative costs associated with changing computer software or manual calculations.

Cameron M. Harris & Company feels that the proposed accounting changes should be withdrawn or, at a minimum, tabled to allow time for all interested parties to have their views expressed.

Sincerely,

William A. Richard, Jr.

William A. Richard, Jr.
Chief Financial Officer

WAR/smh

cc: Mr. Cameron M. Harris
Gene Link

William A. Richard, Jr.
Chief Financial Officer

NOV-22-91 FRI 12:29 LARRY RAMSEY P.01

#104
Rec'd 11/22/9

034

Lawrence C. Ramsey, P.C.
Certified Public Accountant

November 21, 1991

AICPA
Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

I request the position stated in paragraph 2.16 be reconsidered and modified. In Virginia the insurance carrier obtains approval from the regulatory authority for a type of policy that provides for installment billing, generally quarterly, and it becomes a condition of the policy that is not subject to control by the agent/broker. Since the payment terms are imbedded in the policy, the installment billing is not under the influence of the agent/broker, and the insured has the right to cancel. I believe the historical method of recognizing commissions as each installment is billed should be continued in this circumstance.

Additionally, since accounting systems are not currently designed to anticipate income prior to recording the transaction event, this rule would place an undue work burden on the agent/broker because these calculations would need to be performed and tracked outside the normal accounting system.

Thank you for your consideration of this matter.

Sincerely,

Lawrence C. Ramsey

Lawrence C. Ramsey

LCR/vwo

P.O. Box K 185
Suite 100
8006 Discovery Drive
Richmond Virginia
(804) [illegible]
Fax

#105
rcv'd 11-22-91

Thames
Batre'
Mattei
Beville
& Ison
INSURANCE
Since 1891

Russell Ladd, III, CPCU
Edward Ladd
Harry W. "Bo" Mattei, CLU
Lewis Beville, CPCU
Jay Ison, CIC

November 22, 1991

American Institute of CPA's
c/o Ellise Konigsberg
Accounting Standards Division, File 3165
1211 Avenue Of The Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

We have been notified of a proposed change in accounting standards that would dis-allow the installment method of reporting income. We are strongly against the implementation of this proposed change since it would represent a significant departure from current industry practice. Adoption of the proposed change would accelerate an over state earned income and would have a negative financial impact on independent agents.

We encourage the support of the AICPA in postponing the implementation of this change in order to allow interested parties to let their views be know.

Thank you for your consideration of this matter.

Very truly yours,

Lewis E. Beville

LEB/cep

Rec'vd 11/22/91

#106

Rebsamen Insurance

AICPA
C/O ELLISE G. KONIGSBERG
ACCOUNTING STANDARDS DIVISION
FILE 3165, AICPA
1211 AVENUE OF THE AMERICAS
NEW YORK, N.Y. 10036-8775

NOVEMBER 22, 1991

RE: CHANGES IN THE ACCOUNTING STANDARDS FOR INSURANCE AGENTS AND BROKERS

DEAR MR. KONIGSBERG :

REBSAMEN INSURANCE, INC. IS THE 47TH LARGEST OF 27,000 PLUS INDEPENDENT AGENTS AND BROKERS IN THE NATION. WE WERE INFORMED YESTERDAY BY OUR NATIONAL ASSOCIATION OF CASUALTY & SURETY AGENTS THAT THE AICPA IS ABOUT TO MANDATE THAT OUR INDUSTRY CHANGE SOME OF ITS ACCOUNTING STANDARDS. THE MOST DEVASTATING OF WHICH WOULD BE THE DISALLOWANCE OF THE INSTALLMENT METHOD OF REPORTING INCOME.

I AM A MEMBER OF THE AICPA AND I WAS SHOCKED THAT THIS WAS BEING CONSIDERED. NOT ONLY DOES IT NOT MAKE SENSE TO MAKE THESE CHANGES, BUT UNLIKE OTHER PROPOSED CHANGES I HAVE NOT SEEN ANYTHING WRITTEN IN THE ACCOUNTING JOURNAL OR ANY OTHER AICPA INFORMATION SOURCES CONCERNING THESE MATTERS.

THE RELEASE WE RECEIVED ON THIS ISSUE STATES THAT THE AICPA HAS DECIDED TO IMPLEMENT THESE CHANGES AFTER DISCUSSING THEM WITH THE AGENT/BROKER TASK FORCE, CONSISTING OF BIG BROKERS AND BIG ACCOUNTING FIRMS. THE BACKBONE OF THIS INDUSTRY, THE MEDIUM TO SMALL AGENTS AND BROKERS, WERE APPARENTLY NOT GIVEN A VOICE OR ANY CONSIDERATION IN THIS PROCESS.

I RESPECTFULLY REQUEST THAT THE AICPA DELAY IMPLEMENTATION OF THESE PROPOSED CHANGES TO ALLOW COMPLETE REPRESENTATION OF OUR INDUSTRY. THE ADMINISTRATIVE COSTS AND TAX CONSEQUENCES OF THESE CHANGES COULD LITERALLY FORCE SOME FIRMS OUT OF BUSINESS. IT WOULD NOT BE EQUITABLE TO MAKE SUCH CHANGES WITHOUT CONSIDERING THOSE MOST EFFECTED BY THEM. BUT THE BEST ARGUMENT FOR DELAYING THESE CHANGES IS THAT THE INSTALLMENT METHOD OF REVENUE RECOGNITION MORE CLOSELY MATCHES THE EARNINGS OF THESE REVENUES. IT MAKES NO SENSE TO RECOGNIZE INCOME BEFORE IT IS EARNED.

SINCERELY,

John H. O'Donnell

JOHN H. O'DONNELL CPA
VICE PRESIDENT
ASSISTANT SEC/TRS.

Rec'd 11/22/91 #109

THE GLEASON AGENCY, INC.
INSURANCE
BT Financial Plaza, Suite 204
P.O. Box 8, Johnstown, PA 15907
814-535-8411 • Fax 814-536-5554 • 800-452-0803

Altoona
Philadelphia
Johnstown
Harrisburg
Pittsburgh

November 21, 1991

Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

Recently, I learned of a proposed change in the accounting standards currently used by insurance agents to report commission income. One aspect of this change would be the disallowment of the installment method of reporting income. Due to the additional tax liabilities that will be incurred, and the costs to make the required revisions in computer software, this proposal will have a very significant expense impact on independent agents and brokers who are already financially strapped. In addition, such a change is in total opposition with the basic principles of accounting which state that income should be recognized when earned.

Ms. Konigsberg, the AICPA should postpone the implementation of these proposed changes until such time as the independent agents and brokers, who were not represented on the task force which made the policy recommendations, have had an opportunity to express their views. If you have any questions, or you require any additional information, please feel free to call me at (814) 535-8411.

Sincerely,

Michele A. Malzi
Controller

SENT BY:Xerox Telecopier 7020 ;11-22-91 ;10:13AM ; 9082327139→ 2125753846;# 1

Rec'd 11/22/91
#108.

434
6369

Pearsall &
Frankenbach, Inc.

INSURANCE
53 Cardinal Drive PO Box 2037
Westfield, New Jersey 07091
(908) 232-4700 Fax (908) 232-7139

11/20/91

FAX MEMO TO: Elise G. Konigsberg, Accounting Standards Division, File 3165, AICPA

FROM: F. Chandler Coddington, Jr.

RE: Changes in Accounting Standards for Agents & Brokers

91 NOV 22 AM 9:15

AICPA
TEXT PROCESSING DEPT.

This is a huge departure from current industry practice regarding the reporting of commission income and the use of installment billing.

When a policy is paid in monthly installment, no way could we afford on the inception date show that income fully earned for income purposes. That would be devastating to us. We would perhaps have to have all of those large accounts track on our fiscal year, which would be a virtually impossible administrative task.

It's the fully earned commission of 1/12 of the installment premium being due that is a huge accounting concern to us.

One C.P.A. I talked to indicated that it would cause us irreparable harm, and he could not understand why this initiative was being proposed.

Appreciate your review and the whys and wherefores of this initiative.

Thanks kindly.

/cj

#109
Rec'vd 11/22/91

FB

FISHER~BROWN
INCORPORATED
INSURANCE — BONDS
...IT PAYS

November 22, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

As Vice President and General Manager of Fisher-Brown, Incorporated, I take serious exception to many of the proposed changes of accounting standards used by agents and brokers for reporting commission income. As you know, one of the proposed changes would disallow the installment method of reporting income and require income to be reported as of the effective date of the policy. This change represents a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. Most agents and brokers use installment billing and report income as it is earned over the term of the policy. These changes will have a devastating financial impact on independent agents and brokers in both tax liabilities and administrative cost of changing computer software.

Since independent agents and brokers were not included in the AICPA decision making process and were not represented on the Agent/Broker Task Force that made the policy recommendations, I ask that you delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Thank you for your consideration.

Sincerely,

Kirk Ball

Kirk Ball, CPCU
Vice President and
General Manager

KB/jm

MAIN OFFICE:
1701 WEST GARDEN STREET ☐ P.O. BOX 711
PENSACOLA, FL 32593-0711 ☐ 904/432-7474
FAX: 904/438-4678

304 STEWART ST. S.E.
MILTON, FL 32570 ☐ 904/623-3414
FAX: 904/626-7722

Independent Insurance Agent

315 MARY ESTHER CUT-OFF ☐ P.O. BOX 845
MARY ESTHER, FL 32569 ☐ 904/243-9187
FAX: 904/664-5350

1714 WEST 23RD ST., SUITE K ☐ P.O. BOX 16359
PANAMA CITY, FL 32406 ☐ 904/785-7404
FAX: 904/769-5942

Rec'd 11/22/91 #110

BLOIS BRIDGES
JERRY HUNT
MICHAEL SWANTNER
RANDAL M. LEE

Swantner & Gordon
INSURANCE AGENCY, SINCE 1936

D.P. McCLURE, CPCU
MARK WESTON RAY
STEVE ADDKISON, CPCU
LEROY RYZA, CPCU
BILL BRAZDA
JENNIFER CARMER
J.T. TOLLETT, III

November 19, 1991

Ellise G. Konigsberg
Accounting Standard Division
American Institute of Certified Public Accountants
1211 Avenue of the America
New York, NY 10036-8775

RE: Changes in Accounting Standards for Agents and Brokers

Dear Ellise:

Independent Agents and Brokers disagree with the proposed changes in the reporting of income. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of instalment billing.

A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.

Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decisions-making process and were not represented on the recommendations. The task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Thank you for your consideration.

Yours Truly,

Blois Bridges
Managing Partner
Swantner & Gordon Insurance Agency

BB/tle

101 N. SHORELINE, P.O. BOX 870
CORPUS CHRISTI, TEXAS 78403-0870
(512) 883-1711 • FAX (512) 883-3902

Rec'd 11/20/91 #... 111

Byerly Insurance
AGENTS AND BROKERS, INC

525 North 12th Street
P.O. Box 525
Lemoyne, PA 17043-0525
(717) 761-4010
1-800-872-1127
FAX (717) 761-4320

FAX 212-575-3846

November 19, 1991

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
C/O ELLISE G. KONIGSBERG
ACCOUNTING STANDARDS DIVISION FILE 3165
1211 AVENUE OF THE AMERICAS
NEW YORK NY 10036-8775

RE: Changes in Accounting Standards for Agents & Brokers

Dear Ms. Konigsberg:

Independent Agents and Brokers disagree with the proposed changes in the reporting of income. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

A vast majority of the Agents and Brokers use installment billing and report income as it is earned, over the policy term. The proposed changes will have a devastating financial impact on independent agents and brokers costing them well into the multi millions of dollars in tax liabilities. This will also impact the administrative cost of change computer software for this proposed change.

Independent agents and brokers were not included in the AICPA decision-making process. They were not represented on the agents/broker task force which made the policy recommendations. The task force consisted of large brokers and very large accounting firms whose interest does not necessarily coincide with those of independent agents and producers.

AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

We appreciate your hearing our position on this matter.

Sincerely,

David A. Dominiani, CPA
Manager, Contract Bond Division

DAD:mes

Byerly
Insurance
AGENTS AND BROKERS, INC

525 North 12th Street
P.O. Box 525
Lemoyne, PA 17043-0525
(717) 761-4010
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November 19, 1991

AMERICAN INSTITUTE OF
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1211 AVENUE OF THE AMERICAS
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RE: Changes in Accounting Standards for Agents & Brokers

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A vast majority of the Agents and Brokers use installment billing and report income as it is earned, over the policy term. The proposed changes will have a devastating financial impact on independent agents and brokers costing them well into the multi millions of dollars in tax liabilities. This will also impact the administrative cost of change computer software for this proposed change.

Independent agents and brokers were not included in the AICPA decision-making process. They were not represented on the agents/broker task force which made the policy recommendations. The task force consisted of large brokers and very large accounting firms whose interest does not necessarily coincide with those of independent agents and producers.

AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

We appreciate your hearing our position on this matter.

Sincerely,

James F. Cuff, Jr., CPCU
Vice President/Operations

JFC:mes

Byerly
Insurance
AGENTS AND BROKERS, INC

525 North 12th Street
P.O. Box 525
Lemoyne, PA 17043-0525
(717) 761-4010
1-800-872-1127
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FAX 212-575-3846

November 19, 1991

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
C/O ELLISE G. KONIGSBERG
ACCOUNTING STANDARDS DIVISION FILE 3165
1211 AVENUE OF THE AMERICAS
NEW YORK NY 10036-8775

RE: Changes in Accounting Standards for Agents & Brokers

Dear Ms. Konigsberg:

Independent Agents and Brokers disagree with the proposed changes in the reporting of income. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

A vast majority of the Agents and Brokers use installment billing and report income as it is earned, over the policy term. The proposed changes will have a devastating financial impact on independent agents and brokers costing them well into the multi millions of dollars in tax liabilities. This will also impact the administrative cost of change computer software for this proposed change.

Independent agents and brokers were not included in the AICPA decision-making process. They were not represented on the agents/broker task force which made the policy recommendations. The task force consisted of large brokers and very large accounting firms whose interest does not necessarily coincide with those of independent agents and producers.

AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

We appreciate your hearing our position on this matter.

Sincerely,

James C. Byerly

James C. Byerly, CPA
President

JCB:mes

Rec'd 11/19/91
#112

DAN BOTTRELL AGENCY, INC.

TELEPHONE 960-8200
TELECOPIER 960-8240

POST OFFICE BOX 1490
700 NORTH STATE STREET, SUITE 400
JACKSON, MISSISSIPPI 39215-1490

November 19, 1991

WRITER'S DIRECT NUMBER:

(601) 960-8254

AICPA c/o Ellise G. Konigsberg
Accounting Standards Division File 3165
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Changes in Accounting Standards for Agents and Brokers

Gentlemen:

Along with other independent agents and brokers across the country, we strongly disagree with the proposed changes currently being considered by the AICPA in the reporting of income. This change represents a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. A vast majority of agents and brokers, to include our agency, use installment billing and report income as it is earned over the term of the policy. This is especially true when working with commercial accounts.

These changes will have a **devastating financial impact** on independent agents and brokers costing them well into the multi millions of dollars and tax liabilities and for administrative costs of changing computer software technology. There are some 27,000+ independent agents and brokers who we understand were not included in the AICPA decision making process. In addition, they were not represented on the agent/broker task force which made the policy recommendations. While we appreciate the input of large brokers and large accounting firms, their interests do not necessarily coincide with those of the independent producers.

We strongly encourage the AICPA to delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

DAN BOTTRELL AGENCY, INC.

C. Ray Dixon

C. Ray Dixon, Jr., CIC
Comptroller

CRD:th

BOWERS, SCHUMANN & WELCH
"Model Agencies Across America"

Corporate Headquarters

November 20, 1991

American Institute of Certified Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ellise:

I am writing to you to express my strong opposition to the proposed changes in the reporting of income by insurance agents and brokers, specifically as it relates to the installment method of accounting. The proposed change would require agents to report all income earned up front, on the effective date of each policy, rather than on an installment basis as it is earned. Quite frankly, I am in a state of disbelief that such a change is even being considered! It certainly warrants some kind of reconsideration.

Installment billings are the norm in insurance operations today; very few policies are billed and paid in one lump sum. This method applies not only to the client, but also to the insurance companies that agents and brokers represent (that is, as clients are billed on an installment basis, commissions earned by agents are paid to them by insurance companies in the same manner). Furthermore, cancellations occur frequently during the policy period for many reasons, i.e., income is earned during the period, not before.

Route 31 North, PO Box 978, Washington, NJ 07882 Phone: 908-689-8557 Fax: 908-689-8485

This change would have a devastating impact on the insurance industry, not only in increased tax liabilities, but in the overwhelming redesign of automation and other office systems. The magnitude of the proposal is frightening to say the least, and the change can only hurt all aspects of this industry, including the consumer.

I want you to feel free to call on me if there is anything I can do to make our voices heard. This is a very serious matter, and I strongly recommend that the AICPA delay any further action until the issues can be thoroughly reexamined with a representative group.

Thank you for your consideration of my request.

Sincerely,

Michael J. Azar
Vice President & CFO

lf

cc: NACSA
Scott Welch
Glen Welch
Todd Welch

Underwriters Safety
& Claims, Inc.

Established in 1941

All lines of insurance
Surety bond specialists
Self-insurance administrators

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#114

SCOTT C. FERGUSON, Vice-President
Finance & Administration

November 20, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Accounting Standards for Agents and Brokers

Dear Ms. Konigsberg:

In further review of the proposed industry standards for accounting by insurance agents and brokers, I would like to be on record as disagreeing with what is proposed.

Not only is it a dramatic departure from current industry practice, which is probably more conservative than that of which is proposed, it is also done without much input from the non-national independent agents and brokers throughout the country. Your proposal appears to be based on that from representation of large national or international brokers and accounting firms and does not necessarily coincide with that of the majority of the industry in terms of number of entities or premiums handled.

Notwithstanding the above, the changes proposed here would have a substantial negative impact on all agents and brokers in terms of incurring tax liabilities which would probably be exceeded by the administrative costs in changing software to come close to adhering to this policy.

I strongly recommend that the AICPA delay any implementation of the proposed accounting standards and reconsider their position.

Sincerely,

Scott Ferguson

Scott C. Ferguson
Vice President
Finance & Administration

SCF/jmk

11405 Park Road • P.O. Box 23790 • Louisville, KY 40223
(502) 244-1343 • Fax (502) 244-1411

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#115

INSURANCE AND SURETY BONDS
T.J. ADAMS & ASSOCIATES, INC.

November 19, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Changes In Accounting Standards for Insurance Agents & Brokers

Dear Ms. Konigsberg:

We are an independent insurance agent dealing primarily with commercial customers and we represent a number of insurance companies. We recognize income as customers are billed (usually as a commission percentage of the billing) and carry an account receivable from the billing date until the item is paid. Most policies have sizeable premiums which are not paid in one payment.

It would not be logical or practical to report income at the effective date of each policy unless it is a completely prepaid policy. Often there are changes in the amount of installments due to changes in exposures. We recognize income as down payments, installments, changes, audits, refunds or other transactions are billed. This requires recognition of a portion of income before it is earned, since down payments and installments are usually front end loaded and the annual deposit premium is fully paid in the first six to ten months. If the income were to be recognized at policy inception, we would be recognizing it a full year (on an annual policy) before it was fully earned. Even under our present system, some income is recognized before it is earned.

Under Illinois law, the insurance producer cannot be paid his commissions until the premium is collected from the customer.

The proposed changes would have a dire financial impact on independent agents and brokers. It just doesn't make good sense to recognize income in the manner proposed. There are 27,000 independent agents, by far the vast majority of whom do business as outlined about. Please reconsider and give us a chance to be heard. We would be happy to provide more detailed input and data to show you what the changes would do to us. Most of us use automated systems and the administrative costs alone would pose great hardships. May we suggest that you seek input from the Independent Insurance Agents of America and the National Association of Casualty and Surety Agents in considering accounting standards for agents and brokers.

Please advise if we can be of any assistance.

Yours very ~~truly~~,

Ted Adams

T. J. Adams, C.P.C.U.

TJA:kr

2001 Spring Road, Oak Brook, Illinois 60521-1812, (708) 572-1550 FAX (708) 572-5278

Rec'd 11/20/91

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insurex agency, inc.

November 20, 1991

The American Institute of
Certified Public Accounts
c/o Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165, AICPA
1211 Avenue of the Americas
New York, New York 10036

Dear Ms. Konigsberg:

The American Institute of Certified Public Accounts is preparing to change the accounting standards used by Independent Insurance Agents and Brokers for reporting commission income. One proposed change would disallow the installment method of reporting income and require income to be reported at the effective date of the policy.

Independent Agents and Brokers disagree with the proposed changes in the reporting of income. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

A vast majority of agents and brokers use installment billing and report income as it is earned over the term of the policy. The changes proposed would have a devastating financial impact on Independent Agents and Brokers costing well into the multi-millions of dollars in tax liabilities, administrative costs and changing computer software.

Independent Agents and Brokers which represent over 27,000 firms across the country, were not included in this decision making process and were not represented on the agent/broker task force which made the policy recommendations. The task force consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

FAX (901) 725-6444
P.O. Box 40450 · 2158 Union · Memphis, Tennessee 38104 · (901) 725-6430

We feel strongly that the American Institute of Certified Public Accounts should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

Dale L. Morris, CPCU, ARM
Vice President

DLM/ts

cc: Mr. Ken A. Crerar
Executive Vice President
National Association of Casualty
and Surety Agents
316 Pennsylvania Avenue, SE, Ste 400
Washington, DC 20003

Rec'd 11/20/91

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MACK and PARKER, Inc. /Insurance/Risk Management

55 East Jackson Boulevard • Chicago, Illinois 60604-4187
(312) 922-5000 TELEX 270103 (MACK and PARKER) FAX (312) 922-5358

November 19, 1991

By FAX 212-575-3846

Ms. Elise G. Konigsberg
Accounting Standards Div., File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Insurance Agents and Brokers Accounting Standards

Dear Ms. Konigsberg:

For the following reasons, we believe AICPA should delay implementation of the proposed new accounting standards for insurance agents and brokers:

1. Independent agents and brokers disagree with the proposed changes in the reporting of income.

2. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Thank you for your consideration.

Sincerely,

E. E. Mack

Edward E. Mack III
President

1426A/saj
CC: NACSA

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118

Morse, Payson & Noyes
Insurance

November 19, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Subject: Comments With Respect to Accounting Guide for Insurance Agents and Brokers

Dear Ms. Konigsberg:

I have reviewed the Proposed Industry Accounting Guide for Insurance Agents and Brokers and would like to comment on the specifics of the Guide prior to its completion and issuance. As the Vice President and Chief Financial Officer of a privately-held insurance agency with gross revenues of approximately $10,000,000, I am obliged to comment on this Guide because of my sense for the overall impact that this Guide will have on all agencies, but in particular the smaller agencies. I will attempt to refer to the respective paragraphs in the Guide as I outline my comments.

<u>Revenue Recognition Guidelines</u>

2. Paragraph 2.2 under Revenue Recognition makes the statement that "the methods used by brokers to recognize commissions associated with placing insurance risks with underwriters have varied." Although it would be difficult to argue this point, the majority of agencies follow the practices of recognizing revenues under the following guidelines:

   A) Policies that are billed by an agency, with the exception of installment billing arrangements, reflect revenues at the policy or coverage effective dates.
   B) Policies with installment billing arrangements reflect revenues on the effective dates of the individual installments.
   C) Policies that are billed by the insurance carrier reflect revenues when the commissions are received by an agency (cash basis).

100 Middle Street, P.O. Box 406, Portland, Maine 04112, Telephone (207) 775-6000, Telefax (207) 775-0339
Maine Service Office of Assurex International, an Insurance Corporation with over 60 offices Worldwide.

Revenue Recognition Guidelines, continued

The Guide recommends a dramatic departure from the above methods of reporting income for Installment Billing Arrangements (Paragraph 2.16) and for Direct Billing Arrangements (Paragraph 2.21). One principal reason for the methods of revenue recognition currently being followed by a majority of agencies, especially the smaller agencies, is the current agency management (data processing) systems that are in use today. The limitations that are inherent in these software products do not begin to address the issues that all agencies would face if required to record so-called "installment-bill" and "direct-bill" policy commissions by the same method as that for agency-billed business. None of the current agency management software alternatives adequately afford agencies (large or small) an ability to track the volume of policies that are on these types of billing mechanisms in such a way as to economically account for the related commission revenues in such a manner. Any requirement to determine and record commissions on these policies as discussed in the Guide would place an overhead burden upon all agencies, and especially upon the smaller agencies that typically lack the sophistication and technology to address this issue. It would likewise place an additional burden on all agencies to incur the cost of revisions to their respective agency management systems to allow them to correct this method of revenue recognition.

Income Tax Implications

One significant area that needs to be addressed is the impact that such changes would have on all agencies from an income tax standpoint. These changes would eventually be viewed by the Internal Revenue Service as a significant revenue producing opportunity. The Guide would give the Internal Revenue sufficient support to force the earlier recognition of revenues for approximately 27,000 independent agencies and brokers across the country and thus create a "windfall" in tax revenues. I would expect that those agencies who rely very heavily on "direct-bill" business would be faced with paying large income tax bills without the benefit of having received the cash relating to those same revenues from the respective insurance carriers. This would obviously place a devastating financial burden on these agencies.

Committee Representation from Smaller Agencies

In the Preface of the Guide, the names of the "Insurance Agents and Brokers Task Force" are listed. No indication is given, however, as to the nature of involvement of these individuals in the industry that is the subject of the Guide. I would expect that the majority of these individuals are directly involved in the insurance agency and/or broker industry. I question whether the smaller agency population has been adequately represented on this task force. I would appreciate further information as to the nature of involvement of these individuals in the industry and their respective agency's size in terms of gross revenues and also their agency's ownership structure, ie. publicly or privately held.

Primarily because of the serious financial impact that this Guide would have on independent insurance agencies for major software revisions and the above-mentioned income tax ramifications, I would oppose these guidelines being implemented.

If you have any questions or if you desire further clarification of these points, please call or contact me in writing.

Sincerely,

Raymond F Brogan

Raymond F. Brogan
Vice President
Chief Financial Officer

cc James Kilbride, President (Morse, Payson & Noyes)
Ken A. Crerar, Executive Vice President (NACSA)
Russ Burnett, Vice-President and CFO (IIAA)

Insurance

REAGERHARRIS

Since 1904

Rec'd 11/19/91

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November 19, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211U Avenue Of The Americas
New York, NY 10036-8775

Re: Changes In Accounting Standards For Agents and Brokers

Dear Ms. Konigsverg:

Having just received word that the AICPA is preparing to change the accounting standards used by agents and brokers for reporting commission income I wanted to express my alarm and urge your consideration of the following points:

1. Independent Agents and Brokers disagree with the proposed changes in the reporting of income.

2. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

Insurance

REAGERHARRIS

Since 1904

November 19, 1991

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Your thoughtful consideration would be very much appreciated.

Sincerely,

Richard L. Martin, President

RLM:jlc

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Rec'd 11/20/91
#120

DAWSON
INSURANCE &
FINANCIAL SERVICES

November 20, 1991

AICPA
C/O Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

Please accept this letter as my request to not make any changes in accounting standards for insurance agents and brokers.

The reasons for my request are as follows:

1. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

2. Almost all insurance agents and brokers use installment billing and report income as it is earned over the term of the policy.

3. The changes would potentially have a devastating financial impact on independent agents and brokers, costing us well into the multi-millions of dollars in tax liabilities, as well as adminitrative cost of changing computer software technology.

4. Independent agents and brokers which represent in excess of 27,000 firms in the U.S. were not included in the AICPA decision making process and were not represented on the Agents/Broker Task Force which made the policy recommendations.

5. AICPA should definitely delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

In closing, if I can offer any further clarification on this message, please feel free to contact me at 216/333-9000.

Sincerely,

Mike Sherman

D. Michael Sherman

DMS/jk

Insurance Brokers
Established 1931
1100 El Centro Street
Reply To - Post Office Box 820
South Pasadena, California 91031
818 799-7000
Fax 818 441-3233

Rec'd 11/20/91
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BOLTON & COMPANY

November 20, 1991

American Institute of Certified Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Gentlemen:

It is our understanding the American Institute of Certified Public Accountants is preparing to change the accounting standards used by insurance agents and brokers for reporting commission income. One of your proposed changes would disallow the installment method of reporting income and require all commission income to be reported at the effective date of the policy.

We couldn't disagree with that method more. It is illogical to assume that all commission is earned on the inception date of the policy. It is not.

More and more, the trend in insurance is toward installment billings. That means we bill the premium monthly without interest charges. We do not realize any income until that monthly billing is issued. Furthermore, in many plans, the commission may not be realized for some year to two years following the issuance of the policy (in retrospective rated policies).

So what you are doing is going against the trend in insurance. This is contrary to insurance industry practices and extremely detrimental and devastating financially to the small independent agency system throughout the United States.

I urge you to reconsider the implementation of these proposed accounting standards in order that more input and reconsideration be given to this situation.

Sincerely,

William D. Bolton
Chairman/CEO

WDB:lh

Rec'd 11/21/91

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JOHN C. CONKLIN AGENCY

PROTECTION THROUGH INSURANCE SERVICE

ONE UNIVERSITY PLAZA, HACKENSACK, N.J. 07601

201-342-2145

FAX: 201-342-1597

November 21, 1991

Ms. Ellise G. Konigsberg
American Institute of Certified Public Accountants
Accounting Standard Division, File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

With respects to the Proposed Changes in Accounting Standards For Agents and Brokers, please note that independent agents and brokers strongly disagree with these changes in the reporting of income and also the following:

1. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.
2. A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.
3. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.
4. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.
5. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Very truly yours,

John C. Conklin, III
Vice President

JCC,III/had

Rec'd 11/19/91

BARKSDALE

#123

November 18, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Changes In Accounting Standards For Agents And Brokers

Dear Ms. Konigsberg:

Please consider the following comments:

1) Independent Agents and Brokers disagree with the proposed changes in the reporting of income.
2) The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.
3) A vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy.
4) The changes will have a devastating financial impact on the independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.
5) Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task Force consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.
6) AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Respectively,

Charles F. Porter
President

CFP/bg

Barksdale Bonding and Insurance, Inc. • Box 13389 • Jackson, Mississippi 39236-3389
601/981-6700 • WATS 1-800-844-6700 • FAX 601/981-9191

Rec'd 11/20/91 #124

ZUTZ INSURANCE

Harry David Zutz Insurance, Inc.
Zutz and Company, Ltd.
H. D. Zutz and Company
Zutz Risk Management, Inc.
Professional Liability Insurance, Inc.
Gus Reissman & Bro. Co.

November 20, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165 - AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

As insurance brokers, we would like to voice our objection to the proposed change that is being considered by AICPA which would mandate that commission income be reported as of the effective date of the policy. This is patently unfair!

Most of our policies are written on an installment basis, and to assume that the total income is earned on the policy as written as of the effective date, would artificially (and incorrectly) inflate our income in a manner that is neither accurate nor a reflection of industry standards.

At the very least, I would urge that AICPA solicit the views of those who are directly involved before instituting such a onerous change.

Sincerely,

Harry David Zutz

HARRY DAVID ZUTZ

HDZ/llm

300 Delaware Avenue ■ P. O. Box 2287 ■ Wilmington, DE 19899 ■ 302-658-8000
1-800-441-9385 ■ Telex: 753 706 ■ Fax: 1-302-658-8015 ■ Cable Address: Zutzinsur
Albion House ■ 87-89 Aldgate High Street ■ London, EC3N 1 LH, England ■ 01-480-7629 ■ Fax: 01-488-2867

Rec'd 11/20/91 #125

upshaw
the strength of experience.

November 20, 1991

American Institute of Certified Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division, File 3176, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

It has been brought to our attention that the American Institute of Certified Public Accountants is preparing to change the accounting standards used by Independent Insurance Agents and Brokers for reporting commission income. One of the major proposed changes would disallow the installment method of reporting income and require income to be reported at the effective date of the policy. This change represents a dramatic departure from the current industry practice regarding the reporting of commission incomes and the use of installment billing. A vast majority of Agents and Brokers use installment billing and report income as it is earned over the policy term. This change would have a devastating financial impact on the Independent Agents and Brokers, costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

Independent Agents and Brokers which represent 27,000 plus firms across the country were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task Force consisted only of big brokers and big accounting firms, whose interest did not necessarily coincide with those of the independent producers.

Independent Agents and Brokers in general disagree with the proposed changes of reporting income.

We strongly urge that AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

A response to this letter would be greatly appreciated.

Yours very truly,

Charles Allen Ite

Charles R. Allen

CRA:tc

619 S. Tyler, Suite 100
P. O. Box 1299
Amarillo, Texas 79105
806/372-5561

Rec'd 11/20/91
#126

WRIGHT & PERCY
INSURANCE

TELE FAX
SENT
11/20/91 BDC

November 19, 1991

Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

I would like to take this opportunity to respond to the Exposure Draft of the Proposed Industry Accounting Guide for Insurance Agents and Brokers. I have been a CPA for nine years and the Controller of a large independent insurance agency for six of those years. Therefore, I feel I am very qualified to address the problems which would be created by this Industry Accounting Guide.

It is my opinion that the basic assumption of this industry guide which treats brokers and agents the same is flawed. It is true that both negotiate with underwriters to place insurance risks. In practicality this is where there similarity ends. It seems that the basic assumption in this Exposure Draft as it relates to the recognition of income is that once the insurance coverage is placed with an underwriter that the work is complete. This is true for a insurance broker. However, this is certainly not the case with the insurance agent for commercial property and casualty business. An insurance agent is constantly in contact with their client. Certificates of insurance are requested by clients which must be sent for them to various business entities in order for them to carry out their prescribed trade or business. Claims are reported to the independent agent who then reports them to the insurance company. Generally those clients which require more servicing time are also those which have policies which are billed on the installment method.

General Insurance & Contract Bonds
521 Laurel Street P.O. Box 3809
Baton Rouge, LA 70821-3809
504-387-3271 FAX 504-336-4536

It is true that the industry standard is to recognize income based on the billing or effective date whichever is later. In the case of large commercial property casualty clients which are generally billed on an installment basis, it is my contention that "a significant obligation" does "exist to perform services after the insurance has become effective". Therefore, since the underwriting insurance company bills the agent based on the installment plan specified in the insurance policy and the insurance agent bills the client on this basis; I believe that the recognition of the asset, liability, and commission income should be based on the same premise: billing or effective date whichever is later. I disagree with your requirement in paragraph 2.16 which states "the entire commission should be recognized when the trasaction is initially recorded." I contend the installment method for the recognition of income does effectively match the recognition of income with the performance of a service by the insurance agent since placing the insurance with an underwriter is not the only service provided by an insurance agent.

It appears to me that this Exposure Draft has completely disregarded a basic principal of accounting: matching. You state that all costs whether initial direct costs, indirect costs, or subsequent servicing costs are to be expensed as period costs and expensed as incurred. In 2.36 you state: "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance". This is a totally inaccurate statement when applied to independent insurance agents. As I stated before, I feel your basic premise that agents and brokers are essentially the same is flawed. It <u>is</u> standard insurance industry practice that agents provide services to the client other than the placement of the insurance. If you are attempting in the remainder of paragragh 2.36 to recognize the matching of revenues and expenses, I do not feel the presentation is very clear.

I certainly do not pretend to know the credentials of the members of the Insurance Companies Committee or the Insurance Agents and Brokers Task Force. I do; however, as a CPA in industry with direct knowledge of the independent insurance agency and how it functions in relation to clients, insurance brokers, and insurance companies feel I have an understanding of the impact of this Exposure Draft on the independent agent. I feel this exposure draft is a dramatic departure from current industry practice. It is my opinion that the recognition of income on all policies based on the effective date thereby not allowing income recognition based on installment billings serves no useful purpose. I contend that the current practice of recognizing income based on installment billings does match revenues and related expenses. I feel this method furthermore does provide financial statements which do present fairly the financial condition of the business.

If this Exposure Draft is adopted as written, the impact on the independent agent will be devastating. The financial impact of this Exposure Draft would be tremendous both with increased administrative costs and the expense of changing computer software programs. I personally have worked on two computer software systems and have examined three others. All of these systems which are used and sold nationally recognize income on installment billings based on the billing or effective date whichever is later. It appears to me that this Exposure Draft was written to benefit the large insurance broker and large accounting firms. If an Industry Guide is intended to be a guide for the practitioner to use "as a resource to assist them in understanding the operations and business practices of insurance agents and brokers" then I feel the guide should recognize what is standard for the industry. This Exposure Draft does not do so.

Sincerely,

Beverly D. Choppin

Beverly D. Choppin

Rec'd 11/22/91 #127.

Lawrence C. Ramsey, P.C.
Certified Public Accountant

November 21, 1991

AICPA
Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

I request the position stated in paragraph 2.16 be reconsidered and modified. In Virginia the insurance carrier obtains approval from the regulatory authority for a type of policy that provides for installment billing, generally quarterly, and it becomes a condition of the policy that is not subject to control by the agent/broker. Since the payment terms are imbedded in the policy, the installment billing is not under the influence of the agent/broker, and the insured has the right to cancel. I believe the historical method of recognizing commissions as each installment is billed should be continued in this circumstance.

Additionally, since accounting systems are not currently designed to anticipate income prior to recording the transaction event, this rule would place an undue work burden on the agent/broker because these calculations would need to be performed and tracked outside the normal accounting system.

Thank you for your consideration of this matter.

Sincerely,

Lawrence C Ramsey

Lawrence C. Ramsey

LCR/vwo

CIC Consolidated Insurance Center, inc.
7130 RUTHERFORD ROAD, BALTIMORE, MARYLAND 21207 301-944-9550 800-492-0196 (MD) 301-265-5990 (FAX)

Rec'd 11/27/91

#128

JOHN F. DOETZER, CPCU
PRESIDENT

November 21, 1991

The American Institute of Certified
Public Accountants
Accounting Standards Division, File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Attn: Elsie G. Konigsberg

RE: Changes in Accounting Standards for
Agents and Brokers

Gentlemen:

The proposed changes in reporting income of Independent Agents and Brokers is absolutely absurd. The entire Independent Agency/Brokerage community has reported commission income as billed; that is, either on an annual or monthly basis.

These changes will have a devastating financial impact on Independent Agents and Brokers. Potential additional tax liabilities, not to mention totally unnecessary administrative costs to change our computer software technology to meet these useless standards will drive many Brokers out of business. The present system has served the industry well for many years. It is fair and accurate for tax purposes, insurance company needs, and most important, for the needs of our clients.

I strongly urge the AICPA to delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Sincerely,

John F Doetzer

John F. Doetzer

JFD/llg

Independent Insurance Agent

Rec'd 11/21/91 #129

MURRAY, SCHOEN & HOMER, Inc.

71 North Avenue
P.O. Box 719 New Rochelle, N.Y. 10802
914 / 632-8989 FAX #: 914 / 632-9170

November 21, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division, File 3165
1211 Ave of the Americas
New York, NY 10036-8775

Re: Changes In Accounting Standards for Agents and Brokers

We have been advised that one of your proposed changes to the accounting standards used by agents and brokers for reporting commission income is to disallow the installment method of reporting income and require income to be reported at the effective date of the policy. This and other changes proposed would cost the over 27,000 agents throughout the country millions of dollars in taxes and administrative costs. It would have a devastating financial impact on independent agents and brokers across the country.

Most agents and brokers use installment billing, especially in the larger risks and report income as it is earned over the term of the policy.

It would also require millions of dollars in administrative costs to change our computer software programs.

We understand that independent and agents and brokers were not included in AICPA decision making process and we ask that you delay implementation of the proposed accounting standards to allow all interested parties an opportunity to have their views heard.

Thank you for your consideration.

Sincerely,

N. D. Homer

Norma D. Homer

NDH/ls

GREAT LAKES AGENCY
INSURANCE BROKERS

Rec'd 11/21/91
#130

November 20, 1991

AICPA
1211 Avenue of the Americas
New York, New York 10036

Attn: Ellise G. Konigsberg
Accounting Standards Division
File 3165

VIA FAX: 212/575-3846

Dear Ms. Konigsberg:

Independent Agents and Brokers disagree with the proposed changes in the reporting of income.

The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

A vast majority of agents and brokers use installment billing and report income as it is earned , over the term of the policy.

The changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities and for administrative costs of changing computer software technology.

Independent agents and brokers (representing 27,000 plus from across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

AICPA should <u>delay implementation</u> of the proposed accounting standards to allow time for all interested parties to have their views heard.

Very truly yours,

Tim

Timothy N. Thoelecke
President

TNT/sn

Rec'd 11/21/91
#131

WISENBERG
INSURANCE + RISK MANAGEMENT

November 20, 1991

American Institute of CPA's
c/o Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

I have just learned about the proposed changes for reporting of commission income for insurance agents and brokers, and upon reading the proposal, I must voice my concern that such a change will have a devastating impact on most agents and brokers.

The cost in terms of additional tax liability to our agency is significant, only overshadowed by the cost to convert our investment in computer operating systems. I am puzzled as to what is gained by the proposed changes from the reader's perspective when evaluating the financial statements.

I encourage you to delay this change until further study has been made, and I invite you to solicit the perspective of independent brokers to provide valuable input.

Sincerely,

James M. Parsons, CPA
Vice President-Finance & Administration

JMP/kw

cc: Mr. Joe L. Williams, President
Wisenberg Insurance + Risk Management

4828 Loop Central, Ninth Floor P.O. Box 983 Houston, Texas 77001-0983
713/666-5200 Telex 763213 Fax 713/669-4724

Rec'd 11/22/91 #132

6400 Fairview Road
Charlotte, North Carolina

Mailing Address:
P.O. Box 220748
Charlotte, NC 28222

(704) 366-8834

November 22, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

This correspondence is documentation that Cameron M. Harris & Company, a Charlotte, North Carolina Insurance Agency, is opposed to the proposed changes in accounting standards used by agents and brokers for reporting commission income. This Company especially disagrees with the proposed change that would disallow the installment method of reporting income and require income to be reported as of the effective date of the policy. Since the vast majority of agents and brokers use installment billing and report income as it is earned, over the term of the policy, the proposed change would diverge taxable income and the associated cash flow. In addition to accelerating the tax liability of over 27,000 independent agencies and brokerages across the country, there is the additional expense of the administrative costs associated with changing computer software or manual calculations.

Cameron M. Harris & Company feels that the proposed accounting changes should be withdrawn or, at a minimum, tabled to allow time for all interested parties to have their views expressed.

Sincerely,

William A. Richard, Jr.

William A. Richard, Jr.
Chief Financial Officer

WAR/smh

cc: Mr. Cameron M. Harris
Gene Link

William A. Richard, Jr.
Chief Financial Officer

Rec'd 11/21/91
#133

Lanier Upshaw, Inc.

Established in 1941

YOUR Independent Insurance AGENT SERVES YOU FIRST

1129 U.S. 98 SOUTH
P.O. BOX 468
LAKELAND, FLORIDA 33802
813/686-2113
FAX 813/682-6292

November 21, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

It is my understanding that the American Institute of Certified Public Accountants is preparing to change the accounting standards used by agents and brokers for reporting commission income. Independent agents and brokers disagree with the proposed changes in the reporting of income.

The proposed changes represented a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. A vast majority of agencts and brokers use installment billings and report income as it is earned, over the term of the policy. Actually, a large number of our policies are written on "direct bill" systems whereby the insured pays the company the gross premium and we get a commission check the following month for our commission earned on the amount paid. Therefore our income actually drags a month or two in many instances.

The proposed changes will have a devastating financial impact on independent agents and brokers costing them well into the multi-millions of dollars in tax liabilities for administrative cost of changing computer software technology. Independent agents and brokers representing some 27,000 plus firms across the county were not included in the ACIPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task Force consisted of big brokers and big accounting firms whose interest did not necessarily coincide with those of independent producers.

It is my strong suggestion that AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard. Thank you.

Sincerely yours,

LANIER UPSHAW, INC.

C.W. Bovay

C.W. Bovay, CPCU
President

Rec'd 11/19/91
#134

Insurance

REAGER HARRIS

Since 1904

November 19, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue Of The Americas
New York, NY 10036-8775

Re: Changes In Accounting Standards For Agents and Brokers

Dear Ms. Konigsverg:

The information I have received concerning the change in accounting standards proposed by the AICPA as respects agents and brokers for reporting commission income is alarming to me to say the least. I would hope this proposed change would be reconsidered due to the following:

1. Independent Agents and Brokers disagree with the proposed changes in the reporting of income.

2. The changes represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing.

3. A vast majority of agents and brokers use installment billing and report income as it is <u>earned</u>, over the term of the policy.

4. The changes will have a devastating financial impact on independent agents and brokers costing them well into the multimillions of dollars in tax liabilities and for administrative costs of changing computer software technology.

5. Independent agents and brokers (representing 27,000 plus firms across the country) were not included in the AICPA decision-making process and were not represented on the Agent/Broker Task Force, which made the policy recommendations. The Task consisted of big brokers and big accounting firms, whose interests do not necessarily coincide with those of independent producers.

Insurance

REAGERHARRIS

Since 1904

November 19, 1991

6. AICPA should delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Your thoughtful consideration would be very much appreciated.

Sincerely,

James E. Carrico

P.O. Box 24008 Louisville, KY 40224 (502) 425-9444 FAX (502) 429-5465

Putnam
The Putnam Agency

Recd 11/19/91 #135

Putnam Agency, Inc.
Putnam Building□PO Box 991□Ashland, Kentucky 41105-0991□606-329-2200□FAX:606-325-7787

November 19, 1991

Ms. Ellise G. Konigsberg
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

Please accept this letter as the statement of our firm in disagreement with the proposed AICPA standards for the reporting of commission income by insurance agents and brokers. The proposed changes are a dramatic departure from current industry practices with regard to installment billings (of predominantly one year policies) which are predominantly on a cash basis. We produce and service (for example, claims, certificates of insurance, policy changes, answer client questions) policies we place for our clients and our practice is to recognize the income as the services are rendered.

I should note that your recommended standards will have a very severe financial impact on insurance agents and brokers. Our computer software is not compatible with collecting data on the basis of your new standards. The cost of revised software will be considerable. As important, is the fact that the recognition of income up front rather than as collected and earned by service to clients will considerably speed up tax payments and will be a considerable and permanent drain on cash in an industry with traditionally very thin capital. Our assets are typically largely financed by accounts payable to the insurance companies.

We ask you to delay implementation of the proposed accounting standards to allow further and wider consideration of the matter. I point out that some 27,000 insurance producers in the country are independent agents and brokers. We were not represented in the Agent/Broker Task Force which made the policy recommendations.

Very truly yours,

PUTNAM AGENCY, INC.

Erland P. Stevens, Jr.

Erland P. Stevens, Jr., CPCU
Chief Financial Officer

Rec'd 11/22/91 #136.

NACSA

NATIONAL ASSOCIATION of
CASUALTY & SURETY AGENTS
316 Pennsylvania Avenue, S.E.
Suite 400
Washington, D.C. 20003
(202) 547-6616
FAX (202) 546-0597

November 21, 1991

Mr. Wayne Karuth
Chairman, Agent/Broker Task Force
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Mr. Karuth:

We are writing on behalf of the members of the National Association of Casualty & Surety Agents (NACSA) regarding the accounting guidelines for insurance agents and brokers developed by the Insurance Agents and Brokers Task Force of the American Institute of Certified Public Accountants (AICPA). NACSA represents the nation's leading commercial, property and casualty insurance agencies and brokerage firms. Our member-agencies specialize in providing a range of products to business and industry representing billions of dollars in insurance premiums.

The AICPA recommended guidelines represent a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. A vast majority of our members use installment billing and report income as it is received or earned, not on the effective date of the policy. The changes, as the Task Force must be well aware, will have substantial tax and other financial implications for agents and brokers.

Your proposal was brought to our attention just a few weeks ago. We understand that our sister agent organizations, the Independent Insurance Agents of America and the National Association of Professional Insurance Agents also have just learned of the AICPA's planned changes. Considering the dire impact of the proposal, we were horrified and dismayed to learn these issues have been under consideration for some time and without input from the group most affected by the changes -- the 45,000 plus independent insurance agencies and brokerage companies across the country! Unfortunately, the AICPA Task Force is comprised primarily of representatives from the big brokerage firms, whose interests at times are quite divergent from those of large and mid-size agencies.

We are extremely concerned with some of the issues your proposed draft raises, particularly the tax ramifications and the issue of a broker's obligation to service the policy contract. Both these issues are politically sensitive and need far more discussion among the producer community.

From a practical standpoint alone the guidelines are problematic. Changing computer systems to accommodate these new accounting practices will cost our members millions.

In our assessment, if the AICPA recommendations are adopted, they will have a devastating financial impact on independent agents and brokers potentially costing them well into the multi-millions of dollars. The result will be a severe economic drain on their agencies placing them at a serious competitive disadvantage in the marketplace.

Overall, we see no strong rationale for making the changes as proposed. We have outlined some of our initial concerns in more detail in the attached document, but unfortunately we have not had time to do a thorough evaluation of all the proposed changes.

In light of the potential impact of the changes, we urge you to delay implementing the guidelines for several more months to allow all parties affected by the AICPA proposal to have their views seriously considered. We are more than willing to work with your committee to resolve this matter in a way that accommodates the interests of all those affected. We also would appreciate a response to this letter, as well as an outline of the process that will be followed in finalizing the proposed guide.

We look forward to hearing from you.

Sincerely,

William P. Wallace

William P. Wallace, CPCU
President

NACSA
NATIONAL ASSOCIATION of CASUALTY & SURETY AGENTS
316 Pennsylvania Avenue, S.E.
Suite 400
Washington, D.C. 20003
(202) 547-6616
FAX (202) 546-0597

NACSA COMMENTS ON AICPA EXPOSURE DRAFT

Proposed Industry Accounting Guide
Insurance Agents and Brokers
(August 15, 1991)

The following are comments on specific issues raised in the AICPA Exposure Draft Proposed Industry Accounting Guide Insurance Agents and Brokers.

Our first comment relates to paragraph 2-16 in which the Proposed Guide rejects the installment method of recognizing commission revenue because "the collectibility of installment billings for annual insurance policies ordinarily can be reasonably estimated when transactions are initially recorded." We feel that the fact that the Proposed Guide contains nineteen paragraphs (paragraphs 1.14 through 1.19 and 2.6 through 2.14) detailing the numerous adjustments that can be made to a broker's commissions is a strong argument against the conclusion reached in paragraph 2.16 which states that collectibility can be reasonably estimated. The Proposed Guide lists the following circumstances which result in adjustments to commissions:

1. Adjustments in premiums
2. Changes in coverage
3. Policy cancellations
4. Errors in calculating premiums or commissions
5. Retrospectively rated policies
6. Premiums subject to change due to audit
7. Variable premiums (reporting form premiums)

Paragraph 1.19 even describes three different types of cancellations all of which would produce different adjustments to commissions that would be reported under the proposed Guide. Although policy cancellations are only one item on the above list, the possible reasons for cancellations, for example, bankruptcy of a customer, death of a customer, change to another agency, are too numerous to list in this letter.

Because of the various uncertainties listed in the Proposed Guide we feel that the collectibility <u>cannot</u> be <u>reasonably</u> estimated; and therefore, we believe that the installment method is appropriate for reporting commission revenue. We also feel, due to the many uncertainties mentioned above, that to record the entire commissions on the effective date is contrary to the basic accounting concept of conservatism. This is because the majority of these adjustments usually result in a decrease in commissions; and therefore, both assets and income would be overstated if the Proposed Guide was followed.

We strongly disagree with the statements made in paragraphs 2.31 and 2.36 which state that subsequent servicing costs are performed only "to retain or increase business with the clients but not because they are required to serve the policies." Activities such as billing, collecting and claims processing are not done to retain or increase business, but rather are necessary to service the current policies that are in force.

As we mentioned earlier, there is no way to predict which customers will be repeat customers; therefore, to say that these services are provided to assure some future benefit is wrong. These activities are performed to provide essential services to current customers. Because these and other services are provided to customers during the terms of their insurance policies, to record all commission income at the effective date, in our opinion, violates another basic accounting concept, the matching principal.

The statement in paragraph 2:6 that "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance," is incorrect. Not only are the brokers contractually obligated to the underwriters to provide services to clients, but also they are required by moral business practices, and by state insurance commissioners, to service the insurance policies during the course of the policy term.

Another non-accounting issue which we feel needs to be mentioned is the enormous burden the change from the installment method would cause most insurance agencies. Most of the insurance agencies' accounting systems, including the majority of the computer software now used by insurance agencies, is designed for the installment method. We feel that the changes this Guide would force on insurance agencies is greater than those forced on all companies by FASB 96 which, as you know, will never be implemented as originally proposed.

We would like to bring to your attention the fact that despite your assertion in the "summary" that the guide was sent to organizations that the Task Force identified as having an interest in accounting for insurance agents and brokers, we did not receive a copy, nor did the National Association of Insurance Brokers, the National Association of Surety Bond Producers, the Mortgage Insurance Companies of America or the National Association of Professional Insurance Agents receive a copy.

Also, three out of four insurance agencies that we talked to were not aware of the proposed guide. We feel that these and other organizations need to receive a copy of the Proposed Guide, and we think the deadline for comments should be extended with a follow-up period for further discussion of the issues.

/tb

FB

FOUNDED 1911

FISHER-BROWN
INCORPORATED

INSURANCE — BONDS

...IT PAYS

Rec'd 11/22/91 #137

November 22, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

As Vice President and General Manager of Fisher-Brown, Incorporated, I take serious exception to many of the proposed changes of accounting standards used by agents and brokers for reporting commission income. As you know, one of the proposed changes would disallow the installment method of reporting income and require income to be reported as of the effective date of the policy. This change represents a dramatic departure from current industry practice regarding the reporting of commission income and the use of installment billing. Most agents and brokers use installment billing and report income as it is earned over the term of the policy. These changes will have a devastating financial impact on independent agents and brokers in both tax liabilities and administrative cost of changing computer software.

Since independent agents and brokers were not included in the AICPA decision making process and were not represented on the Agent/Broker Task Force that made the policy recommendations, I ask that you delay implementation of the proposed accounting standards to allow time for all interested parties to have their views heard.

Thank you for your consideration.

Sincerely,

Kirk Ball

Kirk Ball, CPCU
Vice President and
General Manager

KB/jm

MAIN OFFICE:
1701 WEST GARDEN STREET □ P.O. BOX 711
PENSACOLA, FL 32593-0711 □ 904/432-7474
FAX: 904/438-4678

304 STEWART ST. S.E.
MILTON, FL 32570 □ 904/623-3414
FAX: 904/626-7722

Independent Insurance Agent

315 MARY ESTHER CUT-OFF □ P.O. BOX 845
MARY ESTHER, FL 32569 □ 904/243-9187
FAX: 904/664-5350

1714 WEST 23RD ST., SUITE K □ P.O. BOX 16359
PANAMA CITY, FL 32406 □ 904/785-7404
FAX: 904/769-5942

Van Gilder Insurance Corporation
Brokers Since 1905

Rec'd 11/22/91
#138

November 22, 1991

VIA FAX

The American Institute of Certified Public Accountants
℅ Ellise G. Koingsberg
Accounting Standards Division, File #3165
1211 Avenue of the Americas
New York City, NY 10036-8875

Gentlemen:

We strongly believe you should delay implementation of the proposed industry accounting guide 'Insurance Agents and Brokers'. Of particular concern is the recognition of income on Installment Billing Arrangements (Section 2.15-2.16). The first sentence of Paragraph 2.15 simply is not true (generally, insurance premiums are determined and billed annually). For at least the last 10 years, the vast majority of Worker's Compensation, Commercial Package and Automobile Policies have been written on an installment billing basis. Furthermore, on these type of policies there are constant service requirements and associated costs if the broker properly performs his service. To restate, there should be no change from the current practice of recognizing commission income on installment billings when each installment billing is effective.

Another example of the lack of understanding of the industry in the exposure draft is Paragraph 2.36. Once again the first sentence (Brokers typically are not obligated, either by contract or by industry practice, to provide service subsequent to placing the insurance). Quite the contrary, any broker who does not provide subsequent service on a policy, will, at the least, suffer going concern problems in a very short period of time.

Implementation of the exposure draft will have an adverse effect on the industry due to the substantial costs that will be incurred to change computer software to recognize income. Furthermore, such a change in revenue recognition will significantly increase the income tax liabilities of the industry for no good reason.

I would strongly urge you to rewrite the draft.

Yours very truly,

Henry C. Higginbottom

Henry C. Higginbottom III
Secretary Treasurer

HCH:wcq/r

700 Broadway, Suite 1035, Denver, CO 80203 • 303/837-8500 • FAX 303/831-5295

Rec'd 11/20/91 #139

Wellington F. Roemer Insurance, Inc.

3912 Sunforest Court
P.O. Box 8730
Toledo, Ohio 43623
(419) 475-5151
Fax: 419-475-8750

November 20, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

As a member of the AICPA and as the chief financial officer for an independent agent I wish to express my disagreement with the proposed changes in the reporting of income on the installment method. The changes represent a dramatic departure from current industry practice regarding their reporting of commission income and the use of installment billing. Most agents and brokers use installment billings and report income as it is earned over the term of the policy.

The changes will have a dramatic financial impact on independent agents costing them well into the millions of dollars in tax liabilites and for administrative costs of changes in computer software technology.

Please carefully consider these points and my hope would be that the changes in accounting standards for agents and brokers would be at least delayed so that these proposed standards could be examined by interested parties and their views be heard.

Thank you for your time and consideration.

Sincerely,

John H. Hock
Controller/CPA

JHH/br

BARGER INSURANCE
AND REAL ESTATE COMPANY, INC.

LB & B BUILDING
P.O. BOX 700
WAYNESBORO, VA. 22980
703/946-6100
FAX 703/946-6155

Rec'd 11/22/91 #140

November 22, 1991

THE AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

We are in the general insurance agency business here in the Shenandoah Valley of Virginia and have been in business since 1911. We have a 12,000 customer base representing twenty-five insurance companies and employ approximately fifty people. You can see from this background that we do have interest in accounting standards for insurance agents and brokers.

You can't imagine how important the proposed changes in reporting of income would be to this agency. The dramatic departure from our current practice regarding commission income and use of installment billing is critical to our business. Many of our commercial accounts pay on installment basis either nine monthly installments or on a quarterly basis. It would devastate our financial reports if we had to cost them in a different manner.

We are apart of a large group of business people, possibly 27,000 firm in this country that would be impacted by changes in procedures. Please delay implementation of your proposed accounting standards and allow us time to give you important input on the impact that it will have on businesses. Thanks for giving us your consideration.

Sincerely,

C. P. Barger
CPB/jb

INSURANCE
Laub Group inc.
1555 North RiverCenter Drive, Suite 203, P.O. Box 12950, Milwaukee, WI 53212-0950 • 414-271-4292 • FAX 414-271-5578

Assurex INTERNATIONAL

Rec'd 11/21/91 #141

VIA FACSIMILE

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the America's
New York, NY 10036-8775

Dear Ms. Konigsberg,

We have recently become aware of proposed changes for insurance brokers in the method of accounting for commission income. We understand that one of the proposed changes would disallow the installment method of recognition and require income to be recognized at the effective date of the policy. As you may know, installment billing is frequently used when the insurance industry is in a soft market, something we have been experiencing since 1988.

We strongly disagree with and object to the proposed changes in income recognition for installment billed policies. Not only would it create a systems and accounting nightmare, trying to track commission income on a basis separate from the billing cycle, but it would penalize insurance agents and brokers at a time when we can least afford it.

We strongly urge the AICPA to delay implementation of the proposed accounting change to allow time for all interested parties to have input into the process. This is a matter of serious concern to us. Please reconsider these changes.

Sincerely,

Dirk S. Nohre
Vice President, Finance
jct

Rec'd 11/22/91 #142

ZEILER INSURANCE, INC.

12159 South Pulaski • Alsip, Illinois 60658-1299 • (708) 597-5900 • FAX (708) 597-8266

November 22, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated, August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the draft mentioned above, and we do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would significantly affect our record keeping and tax liability. Our current accounting system could not accomplish these guidelines.

Steve Warner, President of the Mc Cracken National Advisory Board, sent me a copy of his letter to you dated October 25th. We are in complete agreement with all of the issues outlined in his letter (copy enclosed).

We urge the AICPA to review these proposed guidelines before finalization of these accounting principals.

Thank you for your consideration.

Sincerely,

ZEILER INSURANCE, INC.

Donald E. Zeiler
President

DEZ/ms

DELPHI INFORMATION SYSTEMS
USERS ADVISORY GROUP

October 25, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As Co-Chairmen of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion dollars in premiums each year.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initally recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42)

5. Reasonably estimate and accrue direct bill commissions (2.21).

6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25)

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7. "Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

8. Advances to underwriters and clients must be tracked and disclosed in financial statements (2.42).

9. Estimate and accrue the ultimate premium on retro policies (5.17)

10. First year life commissions should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

11. Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Here is a further explanation on the above items:

Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)
The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bear's a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

Item 2 - estimating and accrueing contingent commissions (2.10)
Brokers should not be required to make "reasonable efforts...to obtain information from underwriters..." (2.10) concerning potential contingent commissions. Often times this information is not known for months after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

Accrueing estimated contingent commissions would be very unreliable and would cause brokers to report as current income (and bear the appropriate tax liabililty) commissions that they may not be paid for for months, if at all.

Item 3 - estimating and accrueing commissions on "reporting-form" policies - (2.14)
This is an onerous accounting practice to have to make "reasonable efforts to obtain information" regarding these type policies and accrue the commissions associated with them. These premiums are not billed to the insured and reported to the underwriter until the reporting form is received and the premium calculated. It is an onerous accounting practice to accrue the estimated premium, without billing the client and reporting it on the "account current" statement to the underwriter, then reverse the transaction and record the actual premium when it is determined at a later date. The primary purpose of reporting-form policies is to accommodate the unknown fluctuations in volume that the premium is based upon.

Item 4 - accelerating installment billings into the current period (2.16, 2.42)
Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

Item 5 - estimate and accrue direct bill commissions (2.21)
This, quite simply, is impossible for most brokers to do because their automation systems do not accomodate it and, by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been cancelled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

Item 6 - recognizing fee income separately from commission income (2.25)
This is an onerous practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

Item 7 - "trust accounting" as a requirement (2.42)
Several states have requirements similar to the proposed guidelines. Outside of the public brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the aggregate amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients would require very onerous record keeping requirements for the majority of brokers nationwide. In most broker businesses, this information is quite simply impossible to produce.

Item 8 - disclosing advances to underwriters and clients (2.42)
See explanation for Item 7.

Item 9 - accrueing the "ultimate premium" on retro-policies (5.17)
Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and therefore would only serve to inflate receivables and payables on the broker's balance sheet.

Item 10 - recognizing all first year life commissions up front (6.10)
Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

Item 11 - estimating an adjustment due to cancellations of life policies where the commission has been paid up front (6.13)
This information typically cannot be reasonably estimated and it is an onerous requirement to go through some actuarial or statistical calculation to make an attempt at estimating it.

In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

*accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

*have a very detrimental impact on a broker's tax liability and cash flow

*have a detrimental effect on the balance sheet presentation, and may impare brokers from obtaining credit

*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Ed Harrington

Ed Harrington, Chairman
Delphi/McCracken
INfinity Users' Group
303-722-7776

Steve Warner

Steve Warner, Chairman
Delphi/McCracken
INSIGHT Users' Group
908-469-3000

Boynton
Brothers
& Company

Rec'd 11/22/91 #143

- 200 JEFFERSON STREET, PERTH AMBOY, NJ 08862
908-442-3300 FAX 908-442-3813
- POST OFFICE BOX 427 CHESTER, N.J. 07930
908-879-8999 FAX 908-879-8959
- 1197 AMBOY AVENUE, EDISON, NJ, 08837
908-603-8200 FAX 908-603-8222

November 21, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Changes in Accounting Standards
for Agents & Brokers

Gentlemen:

I have recently become aware of the AICPA proposed changes in accounting standards for insurance agents and brokers.

These changes represent a dramatic departure from current industry practice and could have a devastating financial impact on our agency.

Please consider delaying any implementation until all parties can be heard from on this matter.

Thank you for your consideration of this matter.

Sincerely,

Boynton Brothers & Company

Michael J. McMahon

Michael J. McMahon, CPCU
Chairman

MJM:vm

Rec'd 11/20/91 #144

SEABOARD FINANCIAL GROUP

November 20, 1991

American Institute of Certified
Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Sirs:

I am writing on behalf of Seaboard Financial Group, Inc., regarding the proposed change in the accounting standards used by agents and brokers for reporting commission income. Seaboard Financial Group, Inc., comprised of independent insurance agents and brokers, headquartered in Norfolk, Virginia, disagrees with these proposed changes.

The changes which you propose would not be financially feasible for the vast majority of independent agents and brokers. The primary reason for this is that most agents/brokers do not have the financial resources to have a custom agency automation system in place and the source code and programmers on staff to make such changes. The vendors that sell software to firms like ours do not offer the necessary computer technology to record commissions in the fashion you propose. I have personally discussed the development of the necessary software enhancements with our current vendor, and the cost of the enhancements is prohibitive. The minimum cost to an agency such as ours would be approximately two months of programming time to develop the technology, the development of extensive audit programs to track and balance unbilled installments, and data conversion costs, not to mention the hundreds of internal hours needed to convert and debug.

It is also our opinion that installment billing revenue recognition more approximates the culmination of the earning process as commissions are recorded as premiums are earned. If the standards allow recognition at the effective date of the policy, then large reversals in an amount proportionate to the unearned premium will be required in the event of cancellation.

In addition, the agent's earning process is not complete at the time of sale. Commercial accounts have significant claim, consulting, endorsement, certificate, and collection activity throughout the policy term.

In summary, we disagree with the proposed changes in the reporting of income and ask that you delay implementation of the proposed accounting standards to allow time to have independent agents and broker voice their opinions.

Sincerely,

Jeffrey A. Snyder

Jeffrey A. Snyder, CPA
Chief Financial Officer

JAS/ssg/p21

c: George G. Phillips, Jr., Chairman,
Seaboard Financial Group, Inc.
Ken A. Crerar, Executive Vice President
National Association of Casualty and
Surety Agents

Rebsamen Insurance

Rec'd 11/22/91 #145

AICPA
C/O ELLISE G. KONIGSBERG
ACCOUNTING STANDARDS DIVISION
FILE 3165, AICPA
1211 AVENUE OF THE AMERICAS
NEW YORK, N.Y. 10036-8775

NOVEMBER 22, 1991

RE: CHANGES IN THE ACCOUNTING STANDARDS FOR INSURANCE AGENTS AND BROKERS

DEAR MR. KONIGSBERG :

REBSAMEN INSURANCE, INC. IS THE 47TH LARGEST OF 27,000 PLUS INDEPENDENT AGENTS AND BROKERS IN THE NATION. WE WERE INFORMED YESTERDAY BY OUR NATIONAL ASSOCIATION OF CASUALTY & SURETY AGENTS THAT THE AICPA IS ABOUT TO MANDATE THAT OUR INDUSTRY CHANGE SOME OF ITS ACCOUNTING STANDARDS. THE MOST DEVASTATING OF WHICH WOULD BE THE DISALLOWANCE OF THE INSTALLMENT METHOD OF REPORTING INCOME.

I AM A MEMBER OF THE AICPA AND I WAS SHOCKED THAT THIS WAS BEING CONSIDERED. NOT ONLY DOES IT NOT MAKE SENSE TO MAKE THESE CHANGES, BUT UNLIKE OTHER PROPOSED CHANGES I HAVE NOT SEEN ANYTHING WRITTEN IN THE ACCOUNTING JOURNAL OR ANY OTHER AICPA INFORMATION SOURCES CONCERNING THESE MATTERS.

THE RELEASE WE RECEIVED ON THIS ISSUE STATES THAT THE AICPA HAS DECIDED TO IMPLEMENT THESE CHANGES AFTER DISCUSSING THEM WITH THE AGENT/BROKER TASK FORCE, CONSISTING OF BIG BROKERS AND BIG ACCOUNTING FIRMS. THE BACKBONE OF THIS INDUSTRY, THE MEDIUM TO SMALL AGENTS AND BROKERS, WERE APPARENTLY NOT GIVEN A VOICE OR ANY CONSIDERATION IN THIS PROCESS.

INSURANCE • BONDING • RISK MANAGEMENT
DIVISION OF REBSAMEN COMPANIES, INC./1500 RIVERFRONT DRIVE/P.O. BOX 3198/LITTLE ROCK, ARKANSAS 72203-3198/(501) 661-4800

I RESPECTFULLY REQUEST THAT THE AICPA DELAY IMPLEMENTATION OF THESE PROPOSED CHANGES TO ALLOW COMPLETE REPRESENTATION OF OUR INDUSTRY. THE ADMINISTRATIVE COSTS AND TAX CONSEQUENCES OF THESE CHANGES COULD LITERALLY FORCE SOME FIRMS OUT OF BUSINESS. IT WOULD NOT BE EQUITABLE TO MAKE SUCH CHANGES WITHOUT CONSIDERING THOSE MOST EFFECTED BY THEM. BUT THE BEST ARGUMENT FOR DELAYING THESE CHANGES IS THAT THE INSTALLMENT METHOD OF REVENUE RECOGNITION MORE CLOSELY MATCHES THE EARNINGS OF THESE REVENUES. IT MAKES NO SENSE TO RECOGNIZE INCOME BEFORE IT IS EARNED.

SINCERELY,

John H. O'Donnell

JOHN H. O'DONNELL CPA
VICE PRESIDENT
ASSISTANT SEC/TRS.

HOYT/PETERSEN
INSURANCE GROUP

Rec'd 12/2/91 #146

December 2, 1991

~~October 29, 1991~~

Ms. Elise G. Konigsberg
Technical Manager
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

re: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
dated 8-15-91

Dear Ms. Konigsberg:

I am the controller of Hoyt/Petersen and Company, one of Northern California's larger insurance agencies. I am a CPA and member of the AICPA. I have been in the insurance industry more than 10 years and am well acquainted with common industry practices and issues regarding how and when income is earned. I totally disagree with many of the proposed methods of accounting for income and with the underlying rationale in the above exposure draft. I seriouly question the authors' understanding of the insurance industry.

The basic premise underlying the draft, that income is fully earned when a policy is sold and that further service is unnecessary is flawed. Expense statistics of agencies do not support that assumption. The salaries expense of support staff that service a policy once it is in force is 25-30% of commission revenue. Further the salesman is expected to continually service the account throughout the policy year. In agencies where someone other than the person who sold the policy is assigned to act as an account executive in addition to clerical support then the sales commission is adjusted usually by 15% or more of commission dollars. Therefore if all these expenses are incurred over time after the point of sale it would be reasonable to also recognize the revenue as it is paid to the agency. Further most commercial auto, liability and worker's comp policies are either on reporting form or are subject to multiple endorsements that increase or decrease premium and commission as vehicles or exposures are added or deleted through out the year. These commission dollars are not estimable at policy inception. Therefore paragraphs 2.5, 2.16,2.14 and 2.36 are based on incorrect assumptions.

The writer would appear to have no knowledge of how information is dessiminated from insurance companies to agencies. Since contingent commissions are based on premium volume and loss ratios which insurance companies book on an as earned basis and agencies book on an as billed basis the premium volume differs on each set of books. Further the agency has limited

2868 Prospect Park Dr., Suite 600 • Rancho Cordova, CA 95670 • P.O. Box 3042 • Sacramento, CA 95812-3042 • (916) 631-1200 • Fax No. (916) 635-6288

and not timely access to loss information and is totally dependent on the when and how the company will report and reserve the losses and give this information to the agent. Therefore contingent commissions cannot be estimated. Paragraph 2.10, 5.16, 5.18, 6.12.

Recording the receivable, payable and commission revenue when the installment is due more, not less accurately reflects the timing when income is earned. More and and more policies are written on installments that are practically pro- rata and reporting form premiums are booked as the exposure, be it payroll or sales, is incurred. It would be ludicrous to book income as earned at inception when the insurance contract is to provide insurance over time not at a point in time. That would be akin to reporting rents when a lease is signed rather than over time. Likewise with the reporting of fees. As it is now fees are paid for servicing a policy through a time frame not at a point in time. And although there may be some slight lag in time as to recognition of direct bill income by reporting it as recieved rather than as written the difference is immaterial. However requiring an agent to badger a company as to whether and how much it has received on a direct bill policy so that the agent could accrue income is counterproductive to the entire thrust of the direct bill system. Paragraph 2.14 and 2.21.

The entire agency system is under assault from all sides- direct writers, so called consumer advocates who would cut out the middle man and insurance commissioners with political agendas of their own. What we don't need now is ill conceived and superfluous accounting standards that totally miscontrue the nature of the insurance contract, and that would distort not enhance the accuracy of financial statements.

I would appreciate your consideration of my letter and I would be happy to discuss any of these issues with anyone at anytime.

Very truly yours,

Marianne I. McReynolds

Marianne I. McReynolds CPA
Controller

Rec'd 11/27/91 #147

INSURANCE
K L T
BONDS

Klinesmith, Laudeman and Talbot, Inc.

SUITE 900, 821 GRAVIER
NEW ORLEANS, LOUISIANA 70112-1526
PHONE (504) 561-8900
FAX (504) 561-8909

November 27, 1991

Thomas Kelly, Vice-President Technical
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Industry Accounting Guide for
Insurance Agents and Brokers

Dear Mr. Kelly:

It has come to my attention, as an independent insurance agent, that the AICPA has promulgated a ruling which would require agents and brokers to recognize revenue at the time the policy becomes effective and the cost of the premium is known. I have no idea what perceived problem has caused AICPA to include this provision, however, I cannot believe that it could be worse than your proposed solution.

This "solution" would create an accounting nightmare for independent agents and brokers, and provide very misleading information to those who rely upon the Financial Statements prepared by your members.

The people who proposed this rule obviously have little or no knowledge of the operations of the insurance agency system. A policy issued on an account of any complexity usually has numerous endorsements during the policy period which change the effective annual revenue, it is often issued on an installment basis, or a deposit plus monthly, or quarterly report basis. Cancellations and rewrites are commonplace. The confusion, cost, and complexity of bringing all of these items to an annualized basis would create an accounting nightmare that would cause my agency and probably many others to avoid using outside CPA's.

In addition to the bookkeeping problems, it would appear to me that the results would be terribly misleading. You would be encouraging current booking of deferred income. If I am not

INSURANCE
KLT
BONDS

Klinesmith, Laudeman and Talbot, Inc.

SUITE 900, 821 GRAVIER NEW ORLEANS, LOUISIANA 70112-1526
PHONE (504) 561-8900
FAX (504) 561-8909

mistaken, this is exactly the opposite of the direction that is being taken in other industries.

As an independent insurance agent, I strongly urge that you drop this proposal from your "Accounting Guide for Insurance Agents and Brokers".

Yours very truly,

KLINESMITH, LAUDEMAN & TALBOT, INC.

B.H. Talbot, CPCU

BHT/ah
cc: Clint Romig
Metairie, La.

Rec'd 12/2/91
#148

ulrich
voorhees
warner
associates

Somerset Executive Square
One Executive Drive
P.O. Box 6728
Somerset, NJ 08875-6728

908-469-3000

Insurance • Bonds • Risk Management
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December 1, 1991

Ms. Ellise G. Konigsberg
AICPA
1211 Avenue of the Americas
Accounting Standards Division
New York, New York 10036-8775

Re: File #3165
Changes in Accounting Standards
for Agents and Brokers

Dear Ms. Konigsberg:

As the Chief Financial Officer of a large regional insurance agency/broker located in New Jersey, I have become aware of the American Institute of Certified Public Accountants proposed changed to the accounting standards used by insurance agents and brokers for reporting commission income. I am shocked that independent agents have not been made a part of the Agent/Broker Task Force which made the policy recommendations. The Task Force consisted of big brokers and big accounting firms whose interests do not necessarily coincide with those of independent agent/brokers.

The proposed changes will cost agents and brokers millions of dollars in taxes and administrative costs. In fact, most of the major insurance company computer software vendors are unable to provide the necessary programming changes to comply with these new regulations if in fact they are passed.

You have recently received correspondence form my counterpart, Ed Harrington of Talbort Corporation in Denver, outlining in detail the reasons why these proposed changes, are to say the least, unfair and ridiculous. I beg you and your organization to pay heed to the needs of the majority of independent insurance agents and brokers. Please do further research into this matter and support the majority of affected people with your good judgement. Thank you.

Very truly yours,

Stephen

Stephen A. Warner
Executive Vice President

SAW/cz

- MORGAN-MARROW COMPANY

#149

Rcv'd 11-25-91

6380
434

MORGAN-MARROW COMPANY
484 VIKING DRIVE SUITE 140
VIRGINIA BEACH, VA 23452
(804)486-0004

OUR FAX NUMBER IS (804) 431-8256

DATE: NOVEMBER 25, 1991

TO: ELLISE G. KONIGSBERG   DEPT: ACCOUNTING STANDARDS AICPA

FROM: NED MORGAN

SUBJECT: CHANGES IN ACCOUNTING STANDARDS FOR INSURANCE AGENTS AND BROKERS

I AM TAKING THIS OPPORTUNITY TO LET YOU KNOW THAT THE PROPOSED CHANGES WOULD HAVE AN EXTREMELY NEGATIVE FINANCIAL IMPACT ON INDEPENDENT INSURANCE AGENCIES.

MANY AGENTS AND BROKERS USE INSTALLMENT BILLING AND REPORT INCOME AS IT IS EARNED DURING THE TERM OF THE POLICY PERIOD.

INDEPENDENT INSURANCE AGENCIES WERE NOT INCLUDED IN THE AICPA DECISION MAKING PROCESS. I URGE THE AICPA TO DELAY IMPLEMENTATION OF THE PROPOSED ACCOUNTING STANDARDS TO ALLOW TIME FOR ALL INTERESTED PARTIES TO AIR THEIR VIEWS.

Direct Response Group
A member of the Capital Holding family

Rcv'd 11-22-91
150

CapitalHolding

November 22, 1991

Insurance Agents & Brokers Task Force of the
Insurance Companies Committee
Accounting Standards Division, File 3165
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775
c/o Ellise G. Konigsberg, Technical Manager

Re: **Proposed Industry Audit Guide - Insurance Agents & Brokers (August 15, 1991)**

Gentlemen:

We support the Committee's effort to provide guidance for determining preferable accounting and reporting practices by agents and brokers. However, we disagree with the rationale for non-deferral of acquisition costs when applied to MGA-type organizations employing direct response methods (hereafter referred to as "Direct Response Agents"). Specifically, we take exception to the position stated in paragraph 5.21 that all costs should be expensed "because the recoverability of costs from future revenues is not assured". We believe that future revenues are predictable and that recovery of costs from future revenues can be demonstrated as indicated below. Given this position, we believe costs incurred to produce future insurance-related revenues should be deferred and amortized over the premium paying period of the underlying policies consistent with the provisions of Statement of Financial Accounting Standards No. 60. Deferral of acquisition costs by Direct Response Agents produces a better matching of expenses with related revenues.

Direct Response Agents generally incur considerable upfront costs in the acquisition of new insurance business (eg. postage, printing, telephone, and publication costs). Such acquisition costs are often recovered over time via level commissions from the underwriter. Direct Response Agents have developed capabilities to reasonably estimate results of marketing campaigns and future revenues. Detail statistical analyses of prior marketing efforts are performed on a campaign-by-campaign basis. Statistics such as response and conversion (Issue) rates, cost per $1,000 premium, average premium per policy, and policy lapse rates are diligently accumulated and monitored for each customer segment and marketing campaign. Based on such analyses and emerging actual results, the Direct Response Agent determines if adequate margins will be available to absorb acquisition and future servicing costs. Using methodologies which are identical to those used by Direct Response Underwriters, Direct Response Agents can obtain a comparable level of assurance as to recovery of acquisition costs.

Section 8 provides additional support to the argument that the future commission stream is reasonably determinable, thereby providing an adequate basis for determination of recoverability. Paragraph 8.6 states: "appraisers generally value renewal rights at the present value of the projected future earnings attributed to such rights, as follows: anticipated gross renewal commission income...". Employing similar methodology, Direct Response Agents can determine recoverability.

The Direct Response Agent has a level of control over the future commission income stream which is similar to that enjoyed by underwriters. Historical experience has shown that the Direct Response Agent can successfully place business with alternative underwriters as circumstances warrant.

Section 7 proposes inconsistent accounting treatment for identical expenditures based upon the nature of the reporting entity rather than on fundamental accounting principles. We believe accounting standards should be consistently applied based on sound principles such as matching costs with related revenues.

We agree with paragraph 2.36 which discusses deferral and recognition of revenue as services are performed. However, in situations where deferral of acquisition costs is appropriate (as discussed above),commission revenue should be recognized on a basis which matches both the services provided and the systematic amortization of acquisition costs over the estimated premium paying life of the underlying policies.

We appreciate the opportunity to express our concerns and recommendations about this pronouncement and hope the Committee will give serious consideration to these comments.

Respectfully submitted,

Douglas A. Sarcia

Douglas A. Sarcia
Vice President, Financial Reporting

DAS:jas
AICPA

Rcv'd 12-3-91 151

Offenhauser&Co.

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—Insurance Since 1882—

December 3, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Ladies & Gentlemen:

The message of this letter is in disagreement with the proposed changing of accounting standards for agents and brokers. If I understand this proposal correctly, this proposal would have a devastating effect on the financial condition and orderly accounting on agents and brokers in our country.

First, there is a common and heavy useage of installment billing for commercial, and especially large commercial insurance contracts. In our particular agency there are four or five contracts out of several thousand that consitute a large annual premium volume in comparison to the large number of very small policy premiums. In the changing insurance marketplace it is highly possible that one or more of these large contracts could be terminated partway through the annual term, calling for a return of the unearned portion of commission and the insurance carrier's portion, creating a large adjustment in mid-term. It has been our accountant's recommendation to spread these monthly throughout the year on an earned basis, as this is a more orderly way of assuring the money is available, if necessary, to refund premium.

This same orderly spreading of premium is also appropriate in the installment billing process, as many of our insureds cannot pay their premiums all at one time at the inception date of the policy.

Second, we do not feel that adequate investigation has been made of the impact of this proposed change as viewed from the agent's and broker's viewpoint. There are a large number of independent agents and brokers throughout the nation who are impacted by this decision, and yet these entities have not, apparently, been adequately surveyed to respond to this proposal. It would appear that a number of big brokers and big accounting firms have been contacted, but these do not adequately represent the large number of independent producers throughout our country.

(Continued)

I would urgently solicit your delay of implementation of these standards until such time as a more inclusive group be surveyed for a broad search of the matter.

Sincerely,

OFFENHAUSER & CO.

Josh R. Morriss, Jr.

Josh R. Morriss, Jr.

JRMJr/ml

AICPA

American Institute of Certified Pub

1211 Ave
New York,
(212) 575-6200 Telex: 70-3396
Telecopier (212) 575-3846

April 20, 1992

To the Insurance Agents and Brokers Task Force

File No. 3165

Enclosed for your information are comment letters 202-207, which were received during January 1992 on the exposure draft of the proposed industry accounting guide, *Insurance Agents and Brokers*.

Sincerely,

Ellise Konigsberg/ads

Ellise Konigsberg, CPA
Technical Manager
Accounting Standards

EK:ads

cc: Insurance Companies Committee

Reference Number (cont.)	Date Recorded	Name of Respondent (Company)	Mailed to Task Force
190	1/92	Hastings - Tapley (IIAA)	4/16/92
191	1/92	Insurance Coverages Ltd. (IIAA)	
192	1/92	Cliff Davis & Associates, Inc. (IIAA)	
193	1/92	Forrest Sherer, Inc. (IIAA)	
194	1/92	Mutual Insurance, Inc. (IIAA)	
195	1/92	Pearsall, Maben, Frankenbach (IIAA)	
196	1/92	Independent Insurance Agents of America, Incorporated (IIAA)	
197	1/92	Mutual Insurance, Inc. (IIAA)	
198 Duplicate of #158		~~National Association of Professional Insurance Agents (IIAA)~~	
199	1/92	Davis-Garvin Agency, Inc. (IIAA)	
200	1/92	Zeiler Insurance, Inc. (IIAA)	
201	1/92	J. Byrne Agency, Inc. (IIAA)	
202	1/92	Davis - Baldwin	4/21/92
203	1/92	Poe & Associates, Inc.	
204	1/92	Hales & Associates	
205	1/92	Pickett-Rothholz and Murphy	
206	1/92	Abraham, Borda & Co., CPA's	
207	1/92	Independent Insurance Agents, Inc. for Wilkerson-Callaway Insurance (IIAA)	

Reference Number (cont.)	Date Recorded	Name of Respondent (Company)	Mailed to Task Force
171	12/91	Carlin Insurance	4/16/92
172	12/91	Sobel Affiliates, Inc.	
173	12/91	Palley, Simon Associates Insurance	
174	1/92	Cottingham & Butler, Inc. Insurance (IIAA)	
175	1/92	Grand Rapids Holland Insurance, Inc. (IIAA)	
176	1/92	Campbell Galt & Newlands (IIAA)	
177	1/92	The Talbert Corporation (IIAA)	
178	1/92	Independent Insurance Agents of Utah (IIAA)	
179	1/92	Rich & Cartmill (IIAA)	
180	11/7/91	Zimmer-Blanc Insurance Agency (IIAA)	
181	1/92	Berends Hendricks Stuit (IIAA)	
182	1/92	National Association of Casualty & Surety Agents (IIAA)	
183	1/92	Carswell of Carolina (IIAA)	
184	1/92	Rosenfeld Einstein & Associates (IIAA)	
185	1/92	InsuranceOne (IIAA)	
186	1/92	Patterson/Smith Associates (IIAA)	
187	1/92	Independent Insurance Agents of New Hampshire (IIAA)	
188	1/92	Morse, Payson & Noyes (IIAA)	
189	1/92	Murray, Schoen & Homer, Inc. (IIAA)	

Reference Number	Date Recorded	Name of Respondent (Company)	Mailed to Task Force
152	12/12/91	Sanford & Purvis	4/16/92
153	12/12/91	The Gleason Agency, Inc. Insurance	
154	12/12/91	Klinesmith, Laudeman and Talbot, Inc.	
155	12/12/91	Gregg-Miller & Associates	
156	12/12/91	Maloy Insurance	
157	12/13/91	Edward F. Cook Agency, Inc.	
158	12/17/91	National Association of Professional Insurance Agents	
159	12/18/91	Thomas Rutherfoord, Inc.	
160	12/14/91	North Pointe Financial Services, Inc.	
161	1/92	Charles L. Crane Agency Company	
162	1/92	MacIntyre, Fay & Thayer Insurance Agency, Inc.	
163	1/92	Abraham, Borda & Co., CPAs	
164	2/92	Assurex International	
165	12/91	Hartman, McLean & Schmidt, Inc.	
166	12/9/91	Adams and Son, Inc.	
167	12/91	Watson Insurance Agency	
168	12/91	Marvin Johnson & Associates, Inc.	
169	12/91	Glendale Insurance Agency (IIAA)	
170	12/91	COMPRO Insurance Services, Inc.	

DAVIS BALDWIN

#202

January 10, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

Please be advised that we have reviewed the subject exposure draft, and we do not agree with its proposed accounting practices for our industry.

For the most part, these standards would impose extremely burdensome record keeping and tax liabilities, with little benefit in improved or more accurate reporting of an agency's financial position.

Attached is a copy of a letter sent to you on October 25 by Steve Warner, Chairman of the Delphi/McCracken National Advisory Board. We are in complete agreement with all of the points in that letter.

We urge the AICPA to carefully consider the negative benefit ratio that imposition of these standards would produce.

Sincerely,

DAVIS BALDWIN, INC.

Charles M. Davis, Jr.
President

att.
xc: E. Ray Charles, C.P.A., w/ att.

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DELPHI INFORMATION SYSTEMS
USERS ADVISORY GROUP

October 25, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As Co-Chairmen of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion dollars in premiums each year.

We take <u>serious exception to many of the proposed methods</u> of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initally recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42)

5. Reasonably estimate and accrue direct bill commissions (2.21).

6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25)

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7. "Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

8. Advances to underwriters and clients must be tracked and disclosed in financial statements (2.42).

9. Estimate and accrue the ultimate premium on retro policies (5.17)

10. First year life commissions should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

11. Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Here is a further explanation on the above items:

<u>Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)</u>
The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract <u>or by industry practice</u>, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bear's a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

Item 2 - estimating and accrueing contingent commissions (2.10)
Brokers should not be required to make "reasonable efforts...to obtain information from underwriters..." (2.10) concerning potential contingent commissions. Often times this information is not known for months after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

Accrueing estimated contingent commissions would be very unreliable and would cause brokers to report as current income (and bear the appropriate tax liabililty) commissions that they may not be paid for for months, if at all.

Item 3 - estimating and accrueing commissions on "reporting-form" policies - (2.14)
This is an onerous accounting practice to have to make "reasonable efforts to obtain information" regarding these type policies and accrue the commissions associated with them. These premiums are not billed to the insured and reported to the underwriter until the reporting form is received and the premium calculated. It is an onerous accounting practice to accrue the estimated premium, without billing the client and reporting it on the "account current" statement to the underwriter, then reverse the transaction and record the actual premium when it is determined at a later date. The primary purpose of reporting-form policies is to accommodate the unknown fluctuations in volume that the premium is based upon.

Item 4 - accelerating installment billings into the current period (2.16, 2.42)
Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

<u>Item 5 - estimate and accrue direct bill commissions (2.21)</u>
This, quite simply, is impossible for most brokers to do because their automation systems do not accomodate it and, by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been cancelled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

<u>Item 6 - recognizing fee income separately from commission income (2.25)</u>
This is an onerous practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

<u>Item 7 - "trust accounting" as a requirement (2.42)</u>
Several states have requirements similar to the proposed guidelines. Outside of the public brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the aggregate amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients would require very onerous record keeping requirements for the majority of brokers nationwide. In most broker businesses, this information is quite simply impossible to produce.

Item 8 - disclosing advances to underwriters and clients (2.42)
See explanation for Item 7.

Item 9 - accrueing the "ultimate premium" on retro-policies (5.17)
Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and therefore would only serve to inflate receivables and payables on the broker's balance sheet.

Item 10 - recognizing all first year life commissions up front (6.10)
Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

Item 11 - estimating an adjustment due to cancellations of life policies where the commission has been paid up front (6.13)
This information typically cannot be reasonably estimated and it is an onerous requirement to go through some actuarial or statistical calculation to make an attempt at estimating it.

In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

*accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

*have a very detrimental impact on a broker's tax liability and cash flow

*have a detrimental effect on the balance sheet presentation, and may ~~impare~~ impair brokers from obtaining credit

*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Ed Harrington

Ed Harrington, Chairman
Delphi/McCracken
INfinity Users' Group
303-722-7776

Steve Warner

Steve Warner, Chairman
Delphi/McCracken
INSIGHT Users' Group
908-469-3000

Insurance & Financial Services

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#203

VIA FAX (212)575-3846

December 31, 1991

Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

ATTN: Ellise G. Konigsberg

Dear Gentlemen/Ladies:

Poe & Associates, Inc. is a general insurance agency headquartered in Tampa, Florida. Our 1990 revenues exceeded $46 million. We are writing on behalf of the insurance agency and brokerage industry to register our objection to the proposed changes of accounting standards for insurance agents and brokers, as set forth in the August 15, 1991 Proposed Industry Accounting Guide.

* * * * *

We agree with many of the items in your proposal. Specifically, we agree that it is appropriate to show the entire premium receivables and related insurance company payables. We also agree that it is appropriate to include elements of interest income in the revenues category on the income statement.

* * * * *

We continue to believe that the time for recognizing revenues associated with policies billed by an insurance agent or broker is at the latter of (1) the billing date, or (2) the effective date of the policy. We understand that your proposal would require acceleration of revenue recognition in those instances in which the billing process has not been completed at the time of the effective date of the policy. Many times a billing cannot be issued before the effective date, because the premium amount is unknown. If your proposal were to be adopted, then estimates would be required to be made in order to comply. Such estimates could eventually result in material overstatements of revenues.

We are also opposed to the concept of estimating (and recording as revenues) contingent commissions, because it is our experience that the amounts can not be reasonably estimated. There are too many judgmental factors involved by the paying insurance companies for the insurance agent to make an appropriate estimate. We continue to believe that contingent commissions should be recorded when received. It would be acceptable to us to record such amounts when the amounts have been determined by the insurance companies if that information is made available to the insurance agent.

With respect to the proposal that brokers and agents should make reasonable efforts to obtain information that would enable them to reasonably estimate and accrue commissions that are related to premiums which are to be paid by insured's on a reporting-form basis, we suggest that it is typically not reasonable to estimate the amount of the premiums and related commissions before determination by the insured. It is our recommendation that no change be made in the reporting of commissions on these type policies.

Many policies are written on a deposit premium basis and accordingly are subject to audit. Therefore, additional premiums or return premiums will be calculated, many after the expiration of the policy. We have no reasonable way to determine the impact of such premium adjustments. Further mid-term premium rate adjustments may occur. There is no reasonable way to estimate these at the policy inception date.

* * * * *

Our major concern with the proposals is that they would require either unsound estimating in order to arrive at revenue amounts, or it would require substantially different accounting and computer systems in order to accurately (if that is possible) track the information required to account for revenues on the basis of the proposed standard. We recommend that the American Institute of Certified Public Accountants delay implementation of the proposed accounting standards in order to allow time for further discussion of these concepts.

Very truly yours,

Donald E. Howery
Vice President, Treasurer and Secretary

DEH/jm

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Two Westbrook Corporate Center • Suite 840
Westchester, Illinois 60154
Tel. No. (708)409-0080 • FAX No. (708) 409-1211

#204

January 29, 1992

PERSONAL AND CONFIDENTIAL

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms. Konigsberg:

Hales & Associates, Inc. is a management consulting firm dedicated exclusively to the insurance agency and brokerage industry. We represent a large number of independent property-casualty insurance agents and work with them on various financial issues. In many of our client situations, we review the financial statements a majority of which are prepared using Generally Accepted Accounting Principles. Our review focuses on the profitability and financial strength of a particular client.

We have read the exposure draft for the Proposed Industry Accounting Guide for insurance agents and brokers. We are very concerned about some of the issues and feel that it is essential that the AICPA review this draft in light of the original objectives. We also believe it is essential that certain issues be changed to reflect erroneous assumptions of the committee which were the basis of the draft.

In the cover letter, there is an indication that "The objectives of this exposure draft are to eliminate the use of alternative accounting practices in similar circumstances and to provide guidance in preferable accounting practices in differing circumstances." In our opinion, rather than eliminating the use of alternative practices, the exposure draft expands the alternative practices and would have the effect of reducing the comparability of financial statements for insurance agents and brokers. For example, the exposure draft defines contingent commissions. It points out that due to the nature of contingent commission arrangements, the determination of such income prior to receipt is virtually impossible. It then sets a general accepted industry accounting guide to accrue this type of income. It allows that if adequate data is unknown, the broker should not accrue this income. Traditionally, brokers have recorded this income when received. We believe that the exposure draft allows for two alternatives, either accruing or not accruing, based upon the same facts and circumstances.

Fundamentally, we believe the exposure draft is flawed and requires significant changes prior to final issuance. As a result of the significant flaws, we believe the following undesirable results occur:

- The draft would decrease the comparability of financial statements by allowing for increased alternative accounting treatment for similar transactions.

- The draft would allow for opportunities for manipulation of income and expenses and inconsistency of financial reporting by individual companies while following generally accepted industry accounting procedures.

- The draft would result in adverse income tax requirements through the acceleration of what, in many cases, would be unearned income.

- The draft would require significant changes in the accounting procedures followed by most independent insurance agents and brokers. The increased record keeping requirement would place an undue burden and greatly increased costs on these companies without any increase in the quality of the financial reporting.

- The exposure draft has primarily been directed to publicly-owned brokers. We believe this is a fundamental flaw and must be corrected. The cover letter to the exposure draft indicates "Other insurance brokers, including many smaller enterprises, ordinarily do not present GAAP-basis financial statements." Most of the independent and smaller enterprises which you refer to do prepare financial statements on a GAAP-basis. We continue to encourage more enterprises to do so. Many are required because of financing, stock transfer agreements or perpetuation plans to have GAAP financial statements. We believe that this exposure draft will cause many who currently prepare GAAP financial statements to discontinue this practice because of the onerous, inconsistent and misleading financial requirements spelled out in the current exposure draft.

We understand that the exposure period expired on October 31, 1991. We encourage you to extend this exposure period and expand the distribution of the draft. We believe that the thrust of the exposure draft has been unduly influenced by a small number of public insurance brokers. We believe that there are thousands of independent insurance brokers who prepare GAAP-basis financial statements and are not fully aware of the erroneous assumptions and onerous requirements of this draft.

We would be happy to expand on specific issues in the draft which require further attention. I will plan to speak with you regarding the methodology of communicating specific flaws which we feel are apparent in the current exposure draft.

Sincerely,

William S. Welland
Executive Vice President
Hales & Associates, Inc.

dc

#205

Pickett-Rothholz and Murphy

Insurance Agents
and Brokers Since 1919

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January 6, 1992

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated, August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the draft mentioned above, and we do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would significantly affect our record keeping and tax liability. Our current accounting system could not accomplish these guidelines.

Steve Warner, President of the Mc Cracken National Advisory Board, sent me a copy of his letter to you dated October 25th. We are in complete agreement with all of the issues outlined in his letter (copy enclosed). see #155 & 202

We urge the AICPA to review these proposed guidelines before finalization of these accounting principles.

Thank you for your consideration.

Sincerely,

David K. Murphy

David K. Murphy
President

DKM/jr

Abraham, Borda & Co.
Certified Public Accountants
2857 Nazareth Road
Easton, Pennsylvania 18042

#206

Alan Abraham, CPA
Geoffrey B. Borda, CPA
Michael D. Corvino, CPA

David M. LaValva, CPA

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January 17, 1992

American Institute of Certified Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

I am a partner in the certified public accounting firm of Abraham, Borda & Co. We service insurance agents and brokers in Pennsylvania and New Jersey. We have reviewed the above-referenced exposure draft and I would like to express my deep reservations and concerns over the negative impact which would be felt if this proposed guide was made policy.

Below please find my comments:

Paragraph 2.6 - 2.11: Discusses the recognition of contingency commissions on the accrual basis of accounting once the contingent period has concluded. Historically, the revenue recognition has been made on the cash basis and for good reason. The contingency income can be a sizable part of an agency's income and the premature recognition of income could cause tax and related cash flow problems. The clients we service in the insurance industry are normally not notified of the contingency income until after the due date of the Federal tax return. Since the return would be due prior to the notification, the filing of a return or a precise extension would not be possible.

Also, preliminary information received from insurance companies is often not readily available to our agencies. Additionally, even if the information was available but the payment was not received until after the Federal tax filing date, the company would likely need to use trust funds to pay a Federal tax obligation. If this payment forced the company to be "out of trust", the broker's license may be put in jeopardy.

Paragraph 2.1 - 2.5: Relates to the recognition of revenue on the effective date of policy with no regard to billing date. The recognition at the beginning of the policy period (effective date) would be inappropriate since it presupposes that the policy will continue in force for the entire period and assumes a cancellation of the policy will not occur. In addition, substantial services would not have been performed (ie: claims, continuing risk management, risk prevention programs and education, etc.) and therefore not matched with the related revenue if it was recognized on the effective date of the policy.

To require these changes would be unfair and would create a severe burden both economically and administratively to insurance agencies and brokers. With the current state of our economy, it is difficult enough for our clients to keep their heads above water. I don't know if they can survive any additional weight.

You must delay any action until all the issues have been resolved with the insurance companies and the insurance agents.

If you have any questions please feel free to contact me.

Thank you very much for your time and consideration.

Very truly yours,

ABRAHAM, BORDA & CO.

Geoff B. Borda

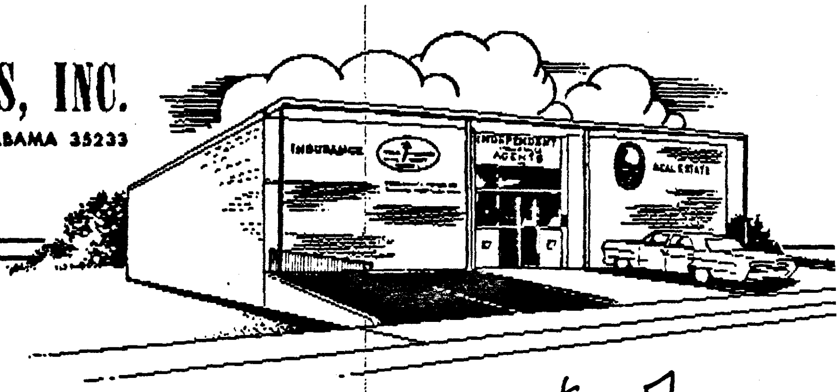
Geoffrey B. Borda, CPA
Partner

GBB/ap

Copy: Scott Welch

INDEPENDENT INSURANCE AGENTS, INC.

3016 SEVENTH AVENUE, SOUTH BIRMINGHAM, ALABAMA 35233
PHONE 328-4870



ROY PAIR
PRESIDENT
MARK L. MYATT
VICE PRESIDENT

#207

January 30, 1992

BY FAX TRANSMISSION
212-575-3846

Ms. Ellise Konigsberg
AICPA

Dear Ms. Konigsberg:

Mr. Russell Burnett suggested that we send you a copy of the attached letter.

Thank you.

Sincerely,

INDEPENDENT INSURANCE AGENTS, INC.

Mark L. Myatt

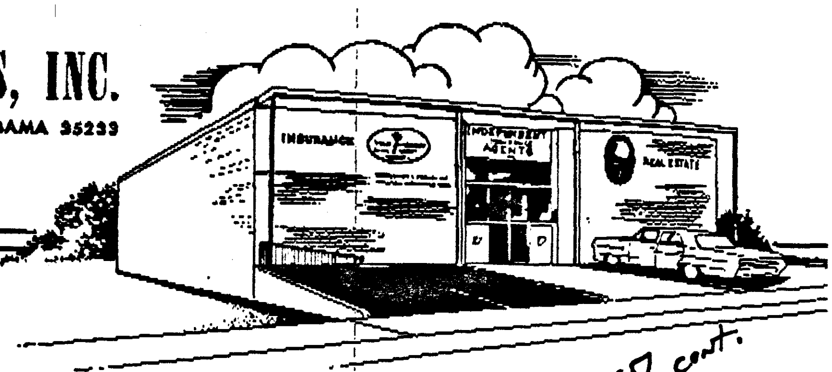
Mark L. Myatt

MLM:kh

INDEPENDENT INSURANCE AGENTS, INC.

3016 SEVENTH AVENUE, SOUTH BIRMINGHAM, ALABAMA 35233

PHONE 328-4870



ROY PAIR
PRESIDENT

MARK L. MYATT
VICE PRESIDENT

207 cont.

January 28, 1992

BY FAX TRANSMISSION

Mr. Russell Burnett
Vice President
Independent Insurance Agents,
of America
National Headquarters
Alexandria, Virginia

Dear Mr. Burnett:

We are very concerned about the proposal by the American Institute of Certified Public Accountants to change the generally accepted accounting principals to force our agency to account for installment billings on an accrual basis.

Our agency offers three-year, guaranteed-rate policies that can be invoiced on an annual, six-month, or quarterly basis. We take our commission income in as the customer is invoiced and pays. This would hurt us and the customer we are trying to serve.

We need the support of the National Association to prevent this change.

Thank you.

Sincerely,

INDEPENDENT INSURANCE AGENTS, INC.

Mark L. Myatt

Mark L. Myatt

MLM:kh

CC: Mr. Larry R. Plum, Senior V.P., Cincinnati Insurance Company

AICPA

American Institute of Certified Pub

1211 Ave
New Yor
(212) 575-6200 Telex: 70-3396
Telecopier (212) 575-3846

April 16, 1992

To the Insurance Agents and Brokers Task Force

File No. 3165

Enclosed for your information are comment letters 152-201, which were received from December 1991 through January 1992 on the exposure draft of the proposed industry accounting guide, *Insurance Agents and Brokers*.

Sincerely,

Ellise Konigsberg

Ellise Konigsberg, CPA
Technical Manager
Accounting Standards

EK:ads

cc: Insurance Companies Committee

Reference Number	Date Recorded	Name of Respondent (Company)	Mailed to Task Force
152	12/12/91	Sanford & Purvis	4/16/92
153	12/12/91	The Gleason Agency, Inc. Insurance	
154	12/12/91	Klinesmith, Laudeman and Talbot, Inc.	
155	12/12/91	Gregg-Miller & Associates	
156	12/12/91	Maloy Insurance	
157	12/13/91	Edward F. Cook Agency, Inc.	
158	12/17/91	National Association of Professional Insurance Agents	
159	12/18/91	Thomas Rutherfoord, Inc.	
160	12/14/91	North Pointe Financial Services, Inc.	
161	1/92	Charles L. Crane Agency Company	
162	1/92	MacIntyre, Fay & Thayer Insurance Agency, Inc.	
163	1/92	Abraham, Borda & Co., CPAs	
164	2/92	Assurex International	
165	12/91	Hartman, McLean & Schmidt, Inc.	
166	12/9/91	Adams and Son, Inc.	
167	12/91	Watson Insurance Agency	
168	12/91	Marvin Johnson & Associates, Inc.	
169	12/91	Glendale Insurance Agency (IIAA)	
170	12/91	COMPRO Insurance Services, Inc.	

Reference Number (cont.)	Date Recorded	Name of Respondent (Company)	Mailed to Task Force
171	12/91	Carlin Insurance	4/16/92
172	12/91	Sobel Affiliates, Inc.	
173	12/91	Palley, Simon Associates Insurance	
174	1/92	Cottingham & Butler, Inc. Insurance (IIAA)	
175	1/92	Grand Rapids Holland Insurance, Inc. (IIAA)	
176	1/92	Campbell Galt & Newlands (IIAA)	
177	1/92	The Talbert Corporation (IIAA)	
178	1/92	Independent Insurance Agents of Utah (IIAA)	
179	1/92	Rich & Cartmill (IIAA)	
180	11/7/91	Zimmer-Blanc Insurance Agency (IIAA)	
181	1/92	Berends Hendricks Stuit (IIAA)	
182	1/92	National Association of Casualty & Surety Agents (IIAA)	
183	1/92	Carswell of Carolina (IIAA)	
184	1/92	Rosenfeld Einstein & Associates (IIAA)	
185	1/92	InsuranceOne (IIAA)	
186	1/92	Patterson/Smith Associates (IIAA)	
187	1/92	Independent Insurance Agents of New Hampshire (IIAA)	
188	1/92	Morse, Payson & Noyes (IIAA)	
189	1/92	Murray, Schoen & Homer, Inc. (IIAA)	

Reference Number (cont.)	Date Recorded	Name of Respondent (Company)	Mailed to Task Force
190	1/92	Hastings - Tapley (IIAA)	4/16/92
191	1/92	Insurance Coverages Ltd. (IIAA)	
192	1/92	Cliff Davis & Associates, Inc. (IIAA)	
193	1/92	Forrest Sherer, Inc. (IIAA)	
194	1/92	Mutual Insurance, Inc. (IIAA)	
195	1/92	Pearsall, Maben, Frankenbach (IIAA)	
196	1/92	Independent Insurance Agents of America, Incorporated (IIAA)	
197	1/92	Mutual Insurance, Inc. (IIAA)	
198 Duplicate of #158		~~National Association of Professional Insurance Agents (IIAA)~~	
199	1/92	Davis-Garvin Agency, Inc. (IIAA)	
200	1/92	Zeiler Insurance, Inc. (IIAA)	
201	1/92	J. Byrne Agency, Inc. (IIAA)	

#152

SANFORD & PURVIS

Insurance

Rec'd 12/12/91

November 22, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Changes in Accounting and Standards
for Agents and Brokers

Dear Ms. Konigsberg:

I am writing in response to a memo I received with regard to the above.

The proposed changes are absolutely outrageous, and I find it hard to believe that anyone would even suggest such a change. The financial effect this change will have on most, if not all Independent Agents, is catastrophic.

The AICPA would be remiss if they did not delay any final decisions regarding this matter until such time as all interested parties could be heard.

Kind regards,

Todd D. P

Todd D. Purvis

TDP/kal

Sanford & Purvis, Inc.
211 Bellevue Avenue
Upper Montclair, NJ 07043
(201) 783-6600
FAX (201) 746-0337

Rec'd 12/12/9.
#153

THE GLEASON AGENCY, INC.
INSURANCE
BT Financial Plaza, Suite 204
P.O. Box 8, Johnstown, PA 15907
814-535-8411 • Fax 814-536-5554 • 800-452-0803

Altoona
Philadelphia
Johnstown
Harrisburg
Pittsburgh

November 21, 1991

Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

Recently, I learned of a proposed change in the accounting standards currently used by insurance agents to report commission income. One aspect of this change would be the disallowment of the installment method of reporting income. Due to the additional tax liabilities that will be incurred, and the costs to make the required revisions in computer software, this proposal will have a very significant expense impact on independent agents and brokers who are already financially strapped. In addition, such a change is in total opposition with the basic principles of accounting which state that income should be recognized when earned.

Ms. Konigsberg, the AICPA should postpone the implementation of these proposed changes until such time as the independent agents and brokers, who were not represented on the task force which made the policy recommendations, have had an opportunity to express their views. If you have any questions, or you require any additional information, please feel free to call me at (814) 535-8411.

Sincerely,

Michele A. Malzi
Controller

#154

INSURANCE BONDS

Klinesmith, Laudeman and Talbot, Inc.

SUITE 900, 821 GRAVIER NEW ORLEANS, LOUISIANA 70112-1526
PHONE (504) 561-8900
FAX (504) 561-8909

November 27, 1991

Thomas Kelly, Vice-President Technical
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Industry Accounting Guide for
Insurance Agents and Brokers

Dear Mr. Kelly:

It has come to my attention, as an independent insurance agent, that the AICPA has promulgated a ruling which would require agents and brokers to recognize revenue at the time the policy becomes effective and the cost of the premium is known. I have no idea what perceived problem has caused AICPA to include this provision, however, I cannot believe that it could be worse than your proposed solution.

This "solution" would create an accounting nightmare for independent agents and brokers, and provide very misleading information to those who rely upon the Financial Statements prepared by your members.

The people who proposed this rule obviously have little or no knowledge of the operations of the insurance agency system. A policy issued on an account of any complexity usually has numerous endorsements during the policy period which change the effective annual revenue, it is often issued on an installment basis, or a deposit plus monthly, or quarterly report basis. Cancellations and rewrites are commonplace. The confusion, cost, and complexity of bringing all of these items to an annualized basis would create an accounting nightmare that would cause my agency and probably many others to avoid using outside CPA's.

In addition to the bookkeeping problems, it would appear to me that the results would be terribly misleading. You would be encouraging current booking of deferred income. If I am not

INSURANCE
K L T
BONDS

Klinesmith, Laudeman and Talbot, Inc.

SUITE 900, 821 GRAVIER NEW ORLEANS, LOUISIANA 70112-1526
PHONE (504) 561-8900
FAX (504) 561-8909

mistaken, this is exactly the opposite of the direction that is being taken in other industries.

As an independent insurance agent, I strongly urge that you drop this proposal from your "Accounting Guide for Insurance Agents and Brokers".

Yours very truly,

KLINESMITH, LAUDEMAN & TALBOT, INC.

B.H. Talbot, CPCU

BHT/ah
cc: Clint Romig
Metairie, La.

Rec'd 12/12/91
#155

GREGG MILLER

NATIONAL INSURANCE BROKERS

December 9, 1991

Ms. Elise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the draft mentioned above, and we do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would significantly affect our record keeping and tax liability. Our current accounting system could not accomplish these guidelines.

Steve Warner, President of McCracken National Advisory Board, sent me a copy of his letter to you dated October 25th. We are in complete agreement with all of the issues outlined in his letter (copy enclosed).

We urge the AICPA to review these proposed guidelines before finalization of these accounting principals.

Thank you for your consideration.

Sincerely,

Gregg-Miller & Associates

Jim Chippendale
President

JJC/rb

enclosure

2800 North Central Avenue, Suite 300 • Phoenix, Arizona 85004
P.O. Box 34 • Phoenix, Arizona 85001-0034
(602) 222-5700 Toll Free: 800-528-1171 Fax (602) 222-5790

Attachment
to #155

DELPHI INFORMATION SYSTEMS
USERS ADVISORY GROUP

October 25, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As Co-Chairmen of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion dollars in premiums each year.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initally recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42)

5. Reasonably estimate and accrue direct bill commissions (2.21).

6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25)

31416 West Agoura Road • Westlake Village, California 91361-4672 • Telephone (818) 706-8989

7. "Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

8. Advances to underwriters and clients must be tracked and disclosed in financial statements (2.42).

9. Estimate and accrue the ultimate premium on retro policies (5.17)

10. First year life commissions should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

11. Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Here is a further explanation on the above items:

Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)
The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bear's a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

Item 2 - estimating and accrueing contingent commissions (2.10)
Brokers should not be required to make "reasonable efforts...to obtain information from underwriters..." (2.10) concerning potential contingent commissions. Often times this information is not known for months after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

Accrueing estimated contingent commissions would be very unreliable and would cause brokers to report as current income (and bear the appropriate tax liabililty) commissions that they may not be paid for for months, if at all.

Item 3 - estimating and accrueing commissions on "reporting-form" policies - (2.14)
This is an onerous accounting practice to have to make "reasonable efforts to obtain information" regarding these type policies and accrue the commissions associated with them. These premiums are not billed to the insured and reported to the underwriter until the reporting form is received and the premium calculated. It is an onerous accounting practice to accrue the estimated premium, without billing the client and reporting it on the "account current" statement to the underwriter, then reverse the transaction and record the actual premium when it is determined at a later date. The primary purpose of reporting-form policies is to accommodate the unknown fluctuations in volume that the premium is based upon.

Item 4 - accelerating installment billings into the current period (2.16, 2.42)
Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

Item 5 - estimate and accrue direct bill commissions (2.21)
This, quite simply, is impossible for most brokers to do because their automation systems do not accomodate it and, by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been cancelled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

Item 6 - recognizing fee income separately from commission income (2.25)
This is an onerous practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

Item 7 - "trust accounting" as a requirement (2.42)
Several states have requirements similar to the proposed guidelines. Outside of the public brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the aggregate amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients would require very onerous record keeping requirements for the majority of brokers nationwide. In most broker businesses, this information is quite simply impossible to produce.

Item 8 - disclosing advances to underwriters and clients (2.42)
See explanation for Item 7.

Item 9 - accrueing the "ultimate premium" on retro-policies (5.17)
Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and therefore would only serve to inflate receivables and payables on the broker's balance sheet.

Item 10 - recognizing all first year life commissions up front (6.10)
Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

Item 11 - estimating an adjustment due to cancellations of life policies where the commission has been paid up front (6.13)
This information typically cannot be reasonably estimated and it is an onerous requirement to go through some actuarial or statistical calculation to make an attempt at estimating it.

In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

*accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

*have a very detrimental impact on a broker's tax liability and cash flow

*have a detrimental effect on the balance sheet presentation, and may impare brokers from obtaining credit

*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Ed Harrington

Ed Harrington, Chairman
Delphi/McCracken
INfinity Users' Group
303-722-7776

Steve Warner

Steve Warner, Chairman
Delphi/McCracken
INSIGHT Users' Group
908-469-3000

Rcv'd 12-12-
#156

MALOY
INSURANCE

4045 Amboy Road
Staten Island, New York 10308

718.967.2400
800.876.1826 In New Jersey
718.967.4789 FAX

December 10, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated: August 15, 1991

Dear Ms. Konigsberg:

We are in receipt of a copy of the captioned draft, and we strongly disagree with a number of the proposed methods of accounting presented in the draft. These standards are not representative of standard industry practices and would create both unfair tax obligations and impossible record keeping responsibilities for our agency and our industry.

Please pay special attention to the points raised to you by Steve Warner's letter of October 25, 1991. His points are absolutely on the mark as to the incorrect assumptions which went into the proposed standards, as well as the financial hardships which will result from a completely unfair and unjustifiable acceleration of tax liabilities which would result from the changes you have proposed.

We urge the AICPA to review these proposed guidelines before finalization of these accounting standards.

Sincerely,

RA Maloy

Richard A. Maloy
Chairman

Rcv'd 12-13-91
#157

THE COOK AGENCIES
Insurance

December 13, 1991

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division, File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Proposed changes in accounting standards for agents and brokers

Dear Ms. Konigsberg:

The proposed changes for reporting income by agents and brokers could have a devastating effect upon many, many small businesses across the country. The number of independent insurance agents in the United States has already decreased by nearly 50% over the past few years and the industry is in bad financial condition.

I do not understand how or why you would propose to impose the burden of accrual accounting for income on this fragile industry segment. Forcing small firms to count as income money that they have not received yet and forcing them to pay cash taxes on this phantom income seems to me to be nonsensical. I don't understand why you would consider implementing such a change without serious discussion with the parties who would be so severely affected by this unneeded change.

I suggest that you review the procedures by which you determine to make changes such as this as you must realize that judging the effect of imposition of what in reality are arbitrary standards must be an important part in your decision making process.

Sincerely,

Robert F. Denny

Robert F. Denny, CPCU/CIC
Chairman

RFD:jd

EDWARD F. COOK AGENCY INC. Offices in Jamesport and Southampton
20 MAIN STREET • EAST HAMPTON, NEW YORK 11937 (516) 324-1440 FAX (516) 324-3980

RCV'd 12-17-91
#158

PIA NATIONAL

NATIONAL ASSOCIATION OF PROFESSIONAL INSURANCE AGENTS

OFFICE OF THE PRESIDENT

400 N. Washington St.
Alexandria, VA 22314
703/836-9340
FAX: 703/836-1279

December 17, 1991

Ellise G. Konigsberg
Technical Manager
Accounting Standards Division
Agents and Brokers Task Force
American Institute of Certified Public Accountant
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

I am writing in response to AICPA's recent accounting guide for insurance agents and brokers.

This proposal could seriously affect the 180,000 independent agents, brokers and their employees who comprise the membership of the National Association of Professional Insurance Agents (PIA National).

PIA believes the proposal does not accurately reflect how agents and brokers do business in real life. The draft raises a long list of complex legal, accounting, tax and operational problems that would cause confusion in an agency's financial reporting.

Among PIA's many concerns are:

- Definition of an agency's service as it relates to activities after the first date of coverage, and its impact on when income is recognized.
- Lack of clear direction in how agents should handle premiums collected by installments.

PIA was given little time or notice to review this proposal. With the new January sign-off deadline approaching, we strongly recommend that AICPA meet with all affected agent groups at the earliest possible moment. We need to jointly, and fully, resolve the concerns of agents and brokers. Equally important, we need to better understand your goals and intentions in drafting this proposal. PIA offers to organize a joint meeting so we can decisively deal with these problems face to face.

We appreciate AICPA's extending the original fall deadline, and urge you to extend your January deadline, if necessary.

PIA also appreciates this opportunity to share our concerns. We look forward to working with you on this important issue.

Sincerely,

Daniel J. Blum

Daniel J. Blum, CPIA
President

Rcv'd 12-18-91
#159

RUTHERFOORD
INSURANCE AGENTS, BROKERS & CONSULTANTS

5493
434

December 18, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

I am writing to express our dissatisfaction with the AICPA's proposed changes in accounting for insurance agencies. These issues need much more time for review, and should include insurance agencies in the decision-making process. Anything that would change the financial impact on agents, including tax ramifications, should be reviewed very closely before changes are made. I would appreciate being involved in this decision.

Sincerely,

Brad Buie, CPA

Brad Buie, CPA
Vice President of Finance
Member, AICPA

BB/mln

AICPA
TEXT PROCESSING DEPT.
91 DEC 18 PM 3:12

Thomas Rutherfoord, Inc.
Corporate Office • One South Jefferson Street • P.O. Box 12748 • Roanoke, Virginia 24028
(703) 982-3511 • Toll Free (800) 476-1478 • Fax (703) 342-9747

Rcv'd 12-14-91
#160

North Pointe
Financial Services, Inc.

December 12, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft - Proposed Industry Accounting Guide
Insurance Agents and Brokers, Dated, August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the draft referenced above. We do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices. Our major concern is the additional administrative burden and cost that would be incurred to comply with these standards. Our current computerized accounting system is not able to provide the information necessary to comply with many of these changes. A lesser concern of ours is that these proposed changes may also significantly affect our tax liability.

Steve Warner, President of the McCracken National Advisory Board, sent me a copy of his letter to you dated October 25, 1991. We are in agreement with all of the issues outlined in his letter (copy enclosed). See #155

We urge the AICPA to review these proposed guidelines before finalization of these accounting principles.

Thank you for your consideration.

Sincerely,

NORTH POINTE FINANCIAL SERVICES, INC.

Michael E. Wegener

Michael E. Wegener, C.P.A.
Controller

MEW/jw

28819 Franklin Road
P.O. Box 2223
Southfield, MI 48037-2223
(313) 358-1171
(800) 229-6742
Fax (313) 357-3895

#161

CRANE
SINCE 1885

Charles L. Crane Agency Company
Professional Insurance Counselors

Jerry Burnett
General Manager

100 South Fourth Street
St. Louis, Missouri 63102
314 241-8700

January 9, 199~~1~~2

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated: August 15, 1991

Dear Ms. Konigsberg:

Our Agency has reviewed the draft mentioned above and we do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would significantly affect our record keeping and tax liability. Our current accounting system could not accomplish these guidelines.

Steve Warner, President of the McCracken National Advisory Board, sent me a copy of his letter to you dated October 25, 1991. We are in complete agreement with all of the issues outlined in his letter (copy enclosed). see #155

We urge the AICPA to review these proposed guidelines before finalization of these accounting principals.

Thank you for your consideration.

Very truly yours,

Jerry Burnett

JERRY BURNETT
General Manager

JB/gh

FAX 314 231-2226
FAX 314 444-4970

#162

MF&T
MacIntyre, Fay&Thayer
Insurance Agency, Inc.

January 28, 1992

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York NY 10036-8775

Re: Exposure Draft
Proposed Industry Accounting
Guide Insurance Agents and
Brokers
Dated, August 15, 1991

Dear Ms. Konigsberg:

Our Agency has reviewed the draft mentioned above, and we do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would significantly affect our record keeping and tax liability. Our current automation system could not accomplish these guidelines.

We urge the AICPA to review these proposed guidelines before finalization of these accounting principals.

Thank you for your consideration.

Very truly yours,

Michael J. Susco

Michael J. Susco
Chief Executive Officer

MJS/dbs

Sixty Wells Avenue, Newton, Massachusetts 02159-0130 (617) 332-5100

#/163

Abraham, Borda & Co.
Certified Public Accountants
2857 Nazareth Road
Easton, Pennsylvania 18042

Alan Abraham, CPA
Geoffrey B. Borda, CPA
Michael D. Corvino, CPA

David M. LaValva, CPA

Telephone
(215) 258-5666

Fax
(215) 258-6240

January 29, 1992

American Institute of Certified Public Accountants
c/o Ellise G. Konigsberg
Accounting Standards Division
File 3165
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

I heard the President's State of the Union speech last night and one of the points he brought up was of great interest to me. It relates to the above referenced exposure draft as mentioned in my letter of January 17, 1992 and the tremendous impact it would have on insurance agencies and brokers.

President Bush said that any regulations that are on the drawing board or have recently been put into effect, which would hinder the growth of the economy or would hurt a particular industry, should be looked at and removed in order to help stimulate our economy.

I would include this exposure draft as one of the examples that President Bush was referring to. Again, with the state of our economy, the administrative burden this would carry on the small and medium size agencies will result in increased costs and cash flow requirements that may not be met. Consequently, some of these businesses may not be here to see the economy turn around in the future.

Again, thank you for your consideration. If there are any questions, or you care to discuss, please do not hesitate to give me a call.

Very truly yours,

ABRAHAM, BORDA & CO.

Geoff B. Borda

Geoffrey B. Borda, CPA
Partner

GBB/ap

Copy: Scott Welch

#164

Assurex
INTERNATIONAL

Community Corporate Center
445 Hutchinson Avenue
Columbus, Ohio 43235-1408
Phone: 614/888-4869
Fax: 614/888-6378

February 25, 1992

Ms. Ellise G. Konigsberg, Technical Manager
Accounting Standards Division, File 3165
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers

Dear Ms. Konigsberg:

I am writing to you as a CPA and as vice president, finance of Assurex International Corporation, an organization which represents over sixty (60) independent insurance agencies. These agencies produce nearly $3 billion dollars in annual premiums written.

In reviewing the proposed exposure draft, some exceptions are noted to the methods of accounting that are being presented in the draft. We believe that many do not reflect current standard industry practices, would require extensive and costly record keeping, and would accelerate an agency's tax liability when they do not have the ability to accelerate revenues. This, of course, would put an unfair financial strain on most agencies.

The following will summarize and explain the specific items with which we take exception.

1) Paragraphs 2.4, 2.5, 2.16, 2.31, and 2.36:

These paragraphs present that the earnings process is substantially complete at the effective date of the policy and that no significant obligation exists for the agency to perform services after the policy has become effective. Under these assumptions, the revenue should therefore be recognized when the policy is effective.

The basic premise that the earnings process is complete and that there is no obligation for the agency to perform additional services after the effective date is definitely not accurate for most commercial casualty/property insurance policies.

1) - Cont.

For agencies which sell commercial lines of insurance, an obligation to service these policies after the effective date and through the term of the policy does exist. The agency must monitor the insured's risks, insure that their coverage remains adequate, monitor claims activity and handling, etc. Agents and agencies have been held liable for deficiencies when they have not properly monitored their client's insurance protection subsequent to placing the business.

2) Paragraphs 2.16 and 2.42:

These paragraphs deal with the presentation and reporting of premiums, commissions, and premiums payable on company installment contracts. The premise stated is that on the policy effective date, an agency should reflect the total premium receivable, commissions earnings, and premium payable as if billed and due on the effective date. Paragraph 2.42 also states that these fiduciary funds (premium liabilities) must be tracked and disclosed in the agency's financial statement along with investment revenues generated from such funds.

When an insured has an installment billing arrangement with the underwriter, the agency is not permitted to bill the insured, and therefore does not have any liability due the underwriter. To institute a requirement to record receivables for amounts which are not able to be billed to the client would require an agency to expand its accounts receivable system to provide for receivables able to be billed and receivables not able to be billed.

This acceleration of income could also generate current taxable income to the agency for which the agency is not permitted to accelerate the cash collection of those revenues. This would create an unjust financial burden on an agency.

Relating to separating fiduciary funds and the associated investment income generated from these funds, most agencies would not currently have automation systems which would permit this tracking. It would, therefore, become necessary for them to expend funds to comply with this onerous record keeping requirement.

We appreciate the opportunity to respond to these AICPA proposed guidelines and we urge the AICPA to reconsider the proposed draft as issued.

Sincerely,

ASSUREX INTERNATIONAL

C. Richard Zesiger, CPA
Vice President, Finance

CRZ/cavm

#165

Hartman, McLean & Schmidt, Inc. 10751 Falls Road, Suite 256
P.O. Box 1427
Brooklandville, Maryland 21022
(301) 337-9755

HMS

December 9, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated, August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the draft mentioned above, and we do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would significantly affect our record keeping and tax liability. Our current accounting system could not accomplish these guidelines.

Steve Warner, President of the McCracken National Advisory Board, sent me a copy of his letter to you dated October 25th. We are in complete agreement with all of the issues outlined in his letter (copy enclosed). See #155

We urge the AICPA to review these proposed guidelines before finalization of these accounting principles.

Thank you for your consideration.

Sincerely,

HARTMAN, MCLEAN & SCHMIDT

Lee G. Kexel
Treasurer

LGK:js

Independent Insurance Agent

#166

C. G. ADAMS—1859-1935
C. A. ADAMS—1900-1971
C. R. ADAMS
T. R. HICKEY
D. K. ADAMS, CPCU

Adams and Son, Inc.

INSURANCE BROKERS
44 SOUTH STREET · P.O. BOX 460
AUBURN, NEW YORK 13021
PHONE: (315) 253-8481

FAX 315-253-6508

FAX PHONE: 315 253-6508

FACSIMILE MESSAGE

5497
434

ADDRESSOR: CHARLES R. ADAMS

ADDRESSEE: AICPA, c/o ELLISE G. KONIGSBERG
ACCOUNTING STANDARDS DIVISION, FILE 3165

COMPANY: AICPA

LOCATION: 1211 AVENUE OF AMERICAS, NEW YORK,NY 10036-8775

FAX NUMBER: 1 212 575 3846

DATE: DECEMBER 9, 1991 TIME: 10:10 A.M.

TOTAL NUMBER OF PAGES INCLUDING THIS: 1

Re: CHANGES IN ACCOUNTING STANDARDS FOR AGENTS AND BROKERS

Apparently you are proposing doing away with the installment method of reporting income, in favor of all income relative to a given policy becoming reportable on the inception date of the policy.

Irreparable harm could come to small agents and brokers from such a foolish suggestion, particularly with reference to the tax implications attendant to a December renewal now paid in seven or more installments.

Apart from that is the direct conflict with the normal earned commission procedures followed in the insurance industry.

The necessary computer software changes for such a strange idea would be most difficult cost wise.

Installment billing is a normal and necessary part of our every day business life in the insurance business and your ludicrous suggestion is completely unacceptable - made the more so since I don't remember anyone asking us what we thought of such a peculiar idea.

Should you persist in this line of action, I for one would recommend to our industry that the necessary legal action be implemented immediately to stop your meddling in such a normal and necessary business practice.

Regards,

CHARLES R. ADAMS

#167

Watson INSURANCE AGENCY

245 E. SECOND AVENUE

P.O. BOX 879
TELEPHONE (704) 865-8584
GASTONIA, N.C. 28053-0879

December 10, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

I have reviewed some of the proposed accounting methods presented in the above captioned draft and am very concerned about the affect they would have on our organization.

We are not a small, unsophisticated agency but are large enough to have what we believe is the most sophisticated computer system available to agents and brokers, the McCracken System. It would be very difficult and unreasonably expensive for us to adopt many of these standards.

Any standard which causes us to recognize in advance commissions resulting from future billings is unreasonable. The suggestion that, once the policy effective date has passed, that we have no further obligation to provide service to the account is personally insulting to any insurance professional I know.

Given the roller coaster nature of insurance agent profits and losses during the past few years, any attempt to estimate contingent commissions is not only a waste of time but highly subjective.

I could go on because I found no proposed practice with which I can agree. Although it may seem so, most of us in the insurance business do not try to make the insurance business so esoteric that those outside our field have difficulty dealing with it.

Ms. Ellise Konigsberg
Page 2
December 10, 1991

These proposed guidelines, which on the surface may appear reasonable to the casual observer, would have a highly detrimental affect on my business and, in my opinion, would not accomplish their proposed objectives.

I strongly urge your re-consideration of these proposed guidelines.

Sincerely yours,

WATSON INSURANCE AGENCY, INC.

Thomas Craig Watson, Jr., CPCU
President

/sbk

cc: Mr. H. Leon Collis, CPA
Collis & Associates
103 E. Third Avenue
Gastonia, NC 28052

P.O. BOX 1849
COLUMBUS, IN 47202
(812) 372-0841
FAX (812) 372-2687

MARVIN JOHNSON

& ASSOCIATES, INC.

#168

DECEMBER 11, 1991

MS. ELLISE G. KONIGSBERG
ACCOUNTING STANDARDS DIVISION, FILE 3165
AICPA
1211 AVENUE OF THE AMERICAS
NEW YORK, NY 10036-8775

RE: EXPOSURE DRAFT
PROPOSED INDUSTRY ACCOUNTING GUIDE
INSURANCE AGENTS AND BROKERS
DATED, AUGUST 15, 1991

DEAR MS. KONIGSBERG:

OUR AGENCY HAS REVIEWED THE DRAFT MENTIONED ABOVE, AND WE DO NOT AGREE WITH MANY OF THE PROPOSED METHODS OF ACCOUNTING THAT ARE PRESENTED IN THIS DRAFT. THESE STANDARDS ARE NOT REPRESENTATIVE OF STANDARD INDUSTRY PRACTICES AND WOULD SIGNIFICANTLY AFFECT OUR RECORD KEEPING AND TAX LIABILITY. OUR CURRENT ACCOUNTING SYSTEM COULD NOT ACCOMPLISH THESE GUIDELINES.

STEVE WARNER, PRESIDENT OF THE MCCRACKEN NATIONAL ADVISORY BOARD, SENT ME A COPY OF HIS LETTER TO YOU DATED OCTOBER 25th. WE ARE IN COMPLETE AGREEMENT WITH ALL OF THE ISSUES OUTLINED IN HIS LETTER. see #155

WE URGE THE AICPA TO REVIEW THESE PROPOSED GUIDELINES BEFORE FINALIZATION OF THESE ACCOUNTING PRINCIPALS.

THANK YOU FOR YOUR CONSIDERATION.

SINCERELY,

STEPHEN D. JOHNSON
CHIEF EXECUTIVE OFFICER
MARVIN JOHNSON & ASSOCIATES, INC.

jk

#169

Glendale Insurance Agency

BROKERS AND AGENTS SINCE 1928

750 FAIRMONT AVENUE, P.O. BOX 831, GLENDALE, CA 91209-0831

PHONES: (818) 244-1144
(213) 245-2351
FAX: (818) 242-5288

WRITERS DIRECT DIAL NUMBER
818-547-1972

December 11, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division-File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents & Brokers
Dated, August 15, 1991

Dear Ms. Konigsberg,

Our agency has reviewed the information contained in the draft mentioned above. We agree 100% with the enclosed summary done by the user group of our computer soft ware system. see #155

Our industry is dominated by people who would be called small businesses. The dollars involved in your proposal for 90% of us would be very small. The item count we would have to work with to comply would be huge. Perhaps the 25 largest insurance firms who do business with large businesses would be in a position where your proposal might have some practical purpose.

We small business people would drown in the effort to comply with this request.

Cordially,

Dan Johnson, CPCU
President

COMPRO
INSURANCE SERVICES, INC.

#170

December 11, 1991

Ms. Elise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: **Exposure Draft**
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated, August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the draft mentioned above, and we do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would significantly affect our record keeping and tax liability. Our current accounting system could not accomplish these guidelines.

Steve Warner, President of the Delphi/McCracken National Advisory Board, sent me a copy of his letter to you dated October 25th. We are in complete agreement with all of the issues outlined in his letter (copy enclosed). see #155

We urge the AICPA to review these proposed guidelines before finalization of these accounting principals.

Thank you for your consideration.

Sincerely,

Thomas C. Stone
Chief Financial Officer

TCS/ps

Enclosure

550 S. Winchester Blvd. • P.O. Box 611090 • San Jose • CA • 95161-1090 • Fax 408/246-8266 • Phone 408/236-3000

#171

CARLIN INSURANCE

233 WEST CENTRAL STREET
NATICK, MASSACHUSETTS 01760
TEL. (508) 655-0522 (617) 237-1272
FAX: (508) 655-8853

December 12, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft
Proposed Industry Account Guide
Insurance Agents and Brokers
Dated, August 15, 1991

Dear Ms. Konigsberg:

Our agency recently received, in review, the draft mentioned above. We do not at all agree with the provisions of the proposed methods of accounting presented within this draft. These standards are not representative of insurance industry practices and would significantly affect our record keeping and tax liability. Currently, our accounting systems cannot accomplish this. It is also debatable whether this serves any useful purpose to an agency in terms of improving its operational capability.

Steve Warner, President of the McCracken National Advisory Board, sent me a copy of his letter to you dated October 25. We are in complete agreement with all the issues outlined in this letter (copy enclosed).

see #155

We urge the AICPA to review these proposed guidelines with a broad spectrum of insurance agents and brokers prior to any finalization of these accounting principles. We have also checked with our CPA's and find that they were not aware of the proposal to amend these standards.

We thank you for your consideration of this.

Sincerely,

Samuel W. Wakeman, CPCU, ARM
President

SWW:dm

SW.EGK

#172

Sobel Affiliates Inc.
INSURANCE
1225 FRANKLIN AVENUE / GARDEN CITY, NY 11530-1609 / (516) 294-8588 / FAX: (516) 294-8974

December 18, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

RE: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

This office has received and reviewed summaries of the changes you are suggesting in the Exposure Draft which you have proposed as an industry accounting guide for our profession. A careful reading of these proposed regulations indicates a substantial unfairness.

The requirement would require us to spend an inordinate amount of time to produce some of the records which you are suggesting; it is an impossibility to accurately predict some of the items you want estimated and the possibility that insurance brokers and agents will be required to pay taxes for which they are not liable at all, or to pay taxes in advance of when they would actually be due, is totally unjust.

Under these circumstances, we sincerely suggest that you withdraw these proposed guidelines and re-think them with an eye towards conforming, more closely, to current industry standards.

Very truly yours,

Sobel Affiliates Inc.

Irwin P. Labadorf

IPL/rw

#173

palley
simon associates
insurance RYDAL EXECUTIVE PLAZA, P.O. BOX 508, JENKINTOWN, PA 19046 • 215-884-2100 • FAX 215-572-1417

December 18, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

RE: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated, August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the draft mentioned above, and we do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would significantly affect our record keeping and tax liability. Our current accounting system could not accomplish these guidelines.

Steve Warner, President of the McCracken National Advisory Board, sent me a copy of his letter to you dated October 25. We are in complete agreement with all of the issues outlined in his letter (copy enclosed). See #155

We urge the AICPA to review these proposed guidelines before finalization of these accounting principals.

Thank you for your consideration.

Sincerely,

Mahlon B. Simon, ~~Jr.~~ CLU, ChFC

MBS:pc

Enc.

COTTINGHAM & BUTLER, INC.

Insurance

ESTABLISHED 1887

#174

JOHN E. BUTLER, CPCU
TIMOTHY M. BUTLER
TIMM G. JOHNSON
ANDREW J. BUTLER, CPCU
RICHARD V. McKAY, CPCU
STEPHEN A. WYLIE, CPCU
STEPHEN J. BONFIG, CPA
STEVEN B. CADE
DOUGLAS J. ECKERMANN
TIMOTHY J. KUNKEL
ROBERT M. LINDSAY, CPCU, CLU
CHRISTOPHER D. PATRICK
MARY PAT RINALDO
LINDA L. SCHULLER
WILLY SCHULLER
SCOTT A. VOELLINGER
LARRY A. VOGT

October 25, 1991

Mr. Ken Crerar
NACSA
316 Pennsylvania Avenue SE
Suite 400
Washington, D.C. 20003

Ms. Colleta Kemper
NACSA
316 Pennsylvania Avenue SE
Suite 400
Washington, D.C. 20003

Dear Ken and Colleta,

In connection with the response to the AICPA on the exposure draft, I have the following comments:

1) Agents are, in fact, either as a matter of common law or agency contract, obligated to service their clients. Enclosed please find a copy of a page from one of our contracts--see paragraph 2(F).

2) If an agent would not service their clients, they undoubtedly would come under scrutiny by the state insurance department.

3) The vast majority of agents now recognize commission income on the later of the billing or inception date. For large, commercial policies, this would more closely correspond or relate to the work involved on the particular policy than by recognizing the total commission on the inception date. My estimate in our agency would be that approximately 40% of the total service work on a policy is done prior to, or closely after, the inception date, with the 60% remainder spread out during the policy year. A typical insurance company pay plan would be 25% down with nine installments. Recognizing 25% of the commission income on the inception date and 1/9th each month thereafter would, thus, more closely correspond to the timing of the service work.

4) In the extreme case of an agency where all of their customers renew in the same month, the total year's commission income would be recognized in that month, with all other months showing a loss. Their monthly financial statements would not be representative of the true results of operations.

P.O. BOX 28 • DUBUQUE, IOWA 52004-0028
319-583-7301 • FACS 319-583-7339

Assurex International

5) With the current method of recognizing commission income that most agents use, as long as they consistently use the same method from year to year, their financial statements will be representative of operations.

6) To recognize installments as receivables and payables would distort the financial statements by inflating receivables and payables for items not yet due or billed. This could be compared to a service contract or a lawyer on a contingent fee, in that the future obligation is set by contract, but is not recognized until such time as the fee is due.

I would appreciate a copy of the final comment letter to the AICPA. Let me know if I can be of further assistance in this matter.

Sincerely,

COTTINGHAM & BUTLER, INC.

Stephen J. Bonfig
(319) 583-7344, ext. 215

SJB:cn

INA/Aetna Agency-Company Agreement

#174 cont.

We, the insurance companies signing this Agreement, appoint you to be our insurance agent.

1 Our Relationship

a *Authority.* You will act as our agent for those lines of business and those territories in which you and we are both licensed and otherwise qualified to do business.

b *Status.* You are an independent contractor. You are not our employee. You are free to exercise your own judgment in conducting your business. Nothing in this Agreement shall be interpreted as creating an employee/employer relationship between you and us.

2 Your Authority And Duties

a *Binding of Risks.* You will solicit, accept and bind risks in accordance with the underwriting rules, regulations and directives we give you. You will promptly notify us in writing of all risks written or bound.

b *Collection of Premiums.*

1 In accordance with our procedures, you will collect, account for and pay premiums on business you write. You will be responsible for collecting all premiums on business which you solicit and which is accepted by us. You must pay us the premium even if you do not collect it from the policyholder.

2 Additional premiums which develop by audit or under reporting form policies and renewal premiums on non-cancellable bonds, will be treated specially. Your duty to pay us such premiums will be satisfied if within 60 days after the billing date (in the case of additional premiums) or the renewal date (in the case of renewal premiums) you tell us in writing that you haven't been able to collect such premiums. We, then, will be responsible for collecting the premium. You will not be paid any commission on any premium we collect.

3 All premiums, including return premiums, which you receive are our property. You will hold such premiums as a trustee for us. This trust relationship and our ownership of the premiums will not be affected by our books showing a creditor-debt relationship, the payment of balances at stated periods or your retention of commissions. Unless we agree otherwise in writing, you must maintain premium monies in a separate bank account and not mingle such monies with your own funds.

c *Payment of Expenses.* You will pay all your own expenses. Such expenses include rent, clerical expenses, postage, advertising, transportation, personal local license fees, solicitor's fees, loss adjustment expenses you incur under policies issued through you and any other expenses you may incur. Unless we have given you prior written permission, you may not commit us to any expense or obligation.

d *Company Forms.* All policies, forms and other supplies we furnish you will remain our property. You must return them to us upon demand.

e *Compliance with Rules, Laws, etc.* You must comply with all of our rules and regulations. This includes present as well as future rules and regulations, whether as a part of our rate manual or otherwise. You must also comply with all applicable laws.

f *Records.* You must keep complete records and accounts of all transactions pertaining to insurance written under this Agreement. Such records and accounts must be kept current and readily identifiable. We will have the right to examine your accounts and records and make copies of them. We may make such examination as often as we feel is reasonable either while this Agreement is in effect or after it terminates.

g *Reporting and Accounting.*

1 You must report promptly all insurance bound and accepted. We may require other additional written reports from time to time.

2 You will notify us immediately if you receive notice of any claims, suits or losses under our policies. You will cooperate with us in the investigation, adjustment, settlement and payment of claims. You will also assist us in the collection of deductibles from insureds.

3 The collecting, accounting and payment of premiums on business written by or through you will be in accordance with our procedure. The balance due on each statement will be paid by you no later than 45 days after the end of the month in which the business was recorded on our books. Exceptions to this rule are described in our procedures.

3 Compensation

a *Commissions.* As full compensation for your services under this Agreement, we will pay you a commission on business which you submit to us and which we accept. You may deduct your commission from the premiums you collect for us. If we bill the insureds directly, we will pay you your commission by the 30th day of the month after the month in which we receive the premium.

b *Rate.* Your commission will be based on the commission rate in effect on the date the insured is required to pay the premium. Commission rates may be changed from time to time as mutually agreed upon by you and us. You and we may negotiate commission rates for specific risks.

c *Refunds.* If we refund any premiums, you must pay us the commission we originally paid you or credited to your account because of such premiums. The rate of the commission refund shall be the same as the rate at which the commissions were originally paid.

d *Set Off.* We may reduce the amount of commissions you may retain or we are to pay you by any amounts of money which you owe us. The amount of the reduction or set off may include any expense we incur because attachments by other people of moneys we owe you and any payments we make if the attachment is successful.

4 Suspension

If you fail to pay us premium when it is due or if you otherwise fail to comply with this Agreement, we may suspend or otherwise limit your authority until the premium is paid or you comply with this Agreement to our satisfaction. Such suspension or limitation will not affect any of your other rights or obligations under this Agreement. So long as you have used accounting procedures acceptable to us, you will not be considered to have failed to pay premium merely because of good faith routine differences in your accounting records and ours if you are not willfully withholding funds.

CORPORATION
Surety Bonds & Insurance

NOV 4 1991

#174 continued

October 29, 1991

Mr. Ken A. Crerar
Executive Vice President
NACSA
316 Pennsylvania Ave., SE, #400
Washington, DC 20003

RE: AICPA proposed accounting principles

Dear Mr. Crerar,

Recently the American Institute of Certified Public Accountants (AICPA) published an Exposure Draft on proposed generally accepted accounting principles for the insurance agent/broker industry. There are several proposed guidelines included in this draft that:
(1) are not representative of standard industry practices,
(2) require very onerous record keeping,
(3) require very sophisticated automation systems that most agencies do not have, and
(4) could significantly increase an agency's tax liability and cause a serious financial strain.

I am writing this letter not only as NACSA member, but also as the Co-Chariman of the Delphi/McCracken Users' Group - a group of some 1100 independent agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300), many of whom are also NACSA members. I have addressed a letter to the AICPA on behalf of this group (a copy is enclosed) that details the specific proposals that are troublesome.

I would like to know if NACSA is aware of this Exposure Draft and proposed guidelines from the AICPA and if we, as a national organization of independent agents, have been involved in the development of these and/or have responded to the AICPA concerning these proposals. If so, please let me know what involvement NACSA has had, and if they have forwarded a "position statement" or the like to the AICPA. If not, this is something that I feel is imperative for our organization to be involved with at the national level and for our member agencies to be aware of and express their own views to the AICPA.

Thank you for your prompt attention to this. If there is anything further I can be of assistance in, don't hesitate to call. I'll look forward to hearing from you soon.

Sincerely,

Ed Harrington

Ed Harrington
Chief Financial Officer
The Talbert Corporation

Co-Chairman
Delphi/McCracken Users' Group

P.O. BOX 9364 ■ DENVER, COLORADO ■ 80209-0364
TELEPHONE 303-722-7776 ■ FAX 303-722-8862

Denver ■ Grand Junction ■ Casper ■ Salt Lake City

DELPHI INFORMATION SYSTEMS
USERS ADVISORY GROUP

October 25, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As Co-Chairmen of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion dollars in premiums each year.

We take <u>serious exception to many of the proposed methods</u> of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initally recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42)

5. Reasonably estimate and accrue direct bill commissions (2.21).

6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25)

7. "Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

8. Advances to underwriters and clients must be tracked and disclosed in financial statements (2.42).

9. Estimate and accrue the ultimate premium on retro policies (5.17)

10. First year life commissions should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

11. Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Here is a further explanation on the above items:

<u>Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)</u>
The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate for nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract <u>or by industry practice</u>, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bear's a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

Item 2 - estimating and accrueing contingent commissions (2.10)
Brokers should not be required to make "reasonable efforts...to obtain information from underwriters..." (2.10) concerning potential contingent commissions. Often times this information is not known for months after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

Accrueing estimated contingent commissions would be very unreliable and would cause brokers to report as current income (and bear the appropriate tax liabililty) commissions that they may not be paid for for months, if at all.

Item 3 - estimating and accrueing commissions on "reporting-form" policies - (2.14)
This is an onerous accounting practice to have to make "reasonable efforts to obtain information" regarding these type policies and accrue the commissions associated with them. These premiums are not billed to the insured and reported to the underwriter until the reporting form is received and the premium calculated. It is an onerous accounting practice to accrue the estimated premium, without billing the client and reporting it on the "account current" statement to the underwriter, then reverse the transaction and record the actual premium when it is determined at a later date. The primary purpose of reporting-form policies is to accommodate the unknown fluctuations in volume that the premium is based upon.

Item 4 - accelerating installment billings into the current period (2.16, 2.42)
Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

Item 5 - estimate and accrue direct bill commissions (2.21)
This, quite simply, is impossible for most brokers to do because their automation systems do not accomodate it and, by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been cancelled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

Item 6 - recognizing fee income separately from commission income (2.25)
This is an onerous practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

Item 7 - "trust accounting" as a requirement (2.42)
Several states have requirements similar to the proposed guidelines. Outside of the public brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the aggregate amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients would require very onerous record keeping requirements for the majority of brokers nationwide. In most broker businesses, this information is quite simply impossible to produce.

Item 8 - disclosing advances to underwriters and clients (2.42)
See explanation for Item 7.

Item 9 - accrueing the "ultimate premium" on retro-policies (5.17)
Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and therefore would only serve to inflate receivables and payables on the broker's balance sheet.

Item 10 - recognizing all first year life commissions up front (6.10)
Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

Item 11 - estimating an adjustment due to cancellations of life policies where the commission has been paid up front (6.13)
This information typically cannot be reasonably estimated and it is ar onerous requirement to go through some actuarial or statistical calculation to make an attempt at estimating it.

In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

*accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

*have a very detrimental impact on a broker's tax liability and cash flow

*have a detrimental effect on the balance sheet presentation, and may impare brokers from obtaining credit

*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Ed Harrington

Ed Harrington, Chairman
Delphi/McCracken
INfinity Users' Group
303-722-7776

Steve Warner

Steve Warner, Chairman
Delphi/McCracken
INSIGHT Users' Group
908-469-3000

#175

GRAND RAPIDS HOLLAND INSURANCE INC.

October 23, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Div., File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg,

The purpose of this letter is to provide comment to the Insurance Agents and Brokers Task Force regarding the Proposed Industry Accounting Guide for Insurance Agents and Brokers. My comments will be addressed to the issues for retail brokers.

First, I agree with the definition of the revenue recognition date except point three, (par. 2.5). The Task Force elected to use the date substantially all required services related to placing the insurance as the Revenue Recognition Date. I agree, that this does constitute the point at which a great deal of effort for an insured has been completed, but as paragraph 1.28 notes, "...it may not be the final act." The Task Force seems to have selected the *specific performance method* from the FASB Invitation to comment regarding Accounting for Service Transactions. I would submit that the *proportional performance method* is more accurate in the insurance sales environment. More specifically, due to the uncertainty of the number, or degree of similarity, of future acts, the straight-line method spread over the performance period is a more accurate measurement for the following reasons:

1) An agent has an obligation to service a policy over the policy period. Even if the most substantial amount of work is completed upon placement and the effective date, the insured expects service from the agent over the policy period and will change his agent if not receiving said services.

2) Uncertain events over the policy period are illustrated by an insured's ability to cancel the insurance, the company's ability to cancel following adequate notice as defined in the policy, and the insured's freedom to change agents.

3) The future acts are never similar in number or degree. Every claim and policy change is unique and the insured may need significant amounts of technical assistance during the policy period.

4) Finally, billing arrangements are usually dictated by the insured within the agent's credit policy. During the policy period, the agent must bill and collect premium and remit the net premium to the insurance company.

Furthermore, if consideration is given to the method an accrual basis insured uses to expense their premium, the *proportional performance method* is consistent in a macro economic environment. An insured records their insurance expense into their books as billed. On any given balance sheet date, they have prepaid insurance to the extent they have paid the bill and that their policy premium is not earned. Further, if an insured has not paid the premium, their balance sheet includes an accrual for earned premium owed the agent. Thus, in either a prepaid asset or a liability situation, insurance premiums in an accrual environment are expensed as earned. This also agrees with how the party on the other end of the transaction, the insurance company, earns and accounts for its premium. Thus, the *proportional performance method* is more consistent with the overall economy.

The theory I have espoused does become more complicated in practice. Our agency, for example, has many more insureds on installment billing than on an annual premium at the effective date of the policy. For those on an annual payment plan, we would have unearned revenue at any balance sheet date. Furthermore, our policy is to bill installments 30 days prior to each installment date. We would then have unearned revenue from installments as well. Our method of accounting is currently similar to those large and publicly held brokers mentioned in paragraph 2.3. From a materiality standpoint, the unearned revenue may not be recorded to the balance sheet because most of our insureds are on monthly billings, which closely resemble straight-line earned premium. Granted, there are other exceptions, such as short-rate cancellation clauses in some policies, but again materiality may be a factor.

After considering the above arguments, it is also possible to disagree with the Task Force's revenue recognition date as it pertains to installment billing (par. 2.16) and direct billing (par. 2.21). Under these payment programs, the earned premium amortizes rather evenly on the billing effective dates on an agency bill basis and the payment due dates on a direct bill basis. Therefore, the *proportional performance method* again more accurately reflects the industry's earnings. However, both the direct bill and installment bill theories I have mentioned are only proportionate when billings by the agent or the company are timely.

Finally, it is important to consider the economic impact of accounting changes. The first, agency computer software will need to undergo significant changes to include in income the annual commission on installment policies. This is an inconvenience only, but would not be as extensive if it followed the installment billing methodology under the *proportional performance method* I outlined above. Regardless, I do admit that software changes should not be a consideration in not making an accounting change, if the underlying theory is sound.

The economic reality of a change to the method outlined by the Task Force for an agency recording revenue at the later of the billing or effective is dramatic. If you assume that an agency has all accounts on monthly installments and the expiration of the policies are spread evenly over the year, an agency's commission income would increase by 50% in the year of change. For book purposes, this income would be offset by the commission percentage paid to agents. However, for tax purposes, the commission expense would not be deductible because the agency would not receive the cash for the additional 50% of commission income within the 75 days required to pay their agents in order to receive a tax deduction at year end. The federal income tax bill would then be 34% of an additional 50% of gross income. Similar to not having received the cash to pay agents, the agency would also be required to pay the income tax before customers are billed. As you can see, this phantom income due to the Task Force proposal could bankrupt many insurance agencies, unless the agency continues the use of their old accounting method for tax purposes.

It is at the taxpayer's election whether to make this accounting change for tax purposes. However, all insurance agency tax returns will wave a flag for an audit if they report Schedule M-1 items of almost 50% of their income as being not taxable. Furthermore, it is not beyond the realm of possibilities that the IRS and Congress, upon seeing the revenue impact of this accounting change, mandate use of the Task Force's Revenue Recognition Date. There is no guarantee that this tax exposure would exist; however, if the theory is not an accurate reflection of agency economics, why open the possibility of adverse tax consequences.

Based upon the above arguments, I respectfully request the Task Force reconsider their definition of revenue recognition date. The purpose of the Task Force is to provide consistency in insurance agency accounting; however, the underlying theory when considering insurance contract law and macro economics mandates that the Task Force define the revenue recognition date to address the issues as I have presented them.

I would be pleased to further discuss the above concepts at your convenience.

Very truly yours,

Wayne A. Walkotten

Wayne A. Walkotten, CPA
VP Finance & Administration

kaw

CAMPBELL GALT & NEWLANDS
INSURANCE & RISK MANAGEMENT

#176

October 24, 1991

Russ Burnett
Independent Insurance Agents of America
127 S. Peyton Street
Alexandria, Virginia 22314

Dear Russ,

Attached are my thoughts and Dick Hanson's on the proposed industry accounting guide for agents and brokers. This is a well written document that has only one problem for agents; the recognition of income before it is received. This would be something that would require two levels of receivables to be booked, no automation vendor has a system to accommodate this provision and you would pay taxes on deferred income unless you went to a tax accounting basis when you filed.

If you have any questions on our notes, don't hesitate to call.

Best regards,

Dennis Goode

Dennis Goode

dg/da
Enclosure

Portland
Mohawk Building
708 S.W. Third, Suite 400
Portland, Oregon 97204
(503) 224-8390 Fax 224-8319

Gresham
Walrad Insurance
(503) 667-4171 Fax 661-1768

Washington County
Belvedere Park
(503) 648-4151 Fax 648-0924

176

Comments on Potential Problem Areas Only.

This is a well written document that understands the issues very well.

The assumption is made that at the time of a sale, all income should be recognized because all services have been performed. There are no incidental services on a policy to be performed as by definition.

Page 19. Installment billing arrangements

Requires recognition of income at beginning of policy period regardless of installment billings and time when account is payable to company.

Problem:

1. Early recognition of income not collected.
2. Payment of income taxes on early recognition. Book basis of income must be accrued and tax basis is billed. Very involved and costly to agent. No incentive to do what is recommended by agents.

Page 20. Direct bill arrangements similar problem to installment billings.

Page 24. Financial statement presentation same problem.

Automation vendors are not geared to currently do this.

Volume of transitions in an agency makes early recognition of income a problem.

Other comments:

Recognition of contingency commission before received could be debated by agents. We do recognize the income and create a receivable when the amount is known, not when received. This is inconsistent with way would handle individual policy account.

DENNIS GOODE
10/24/91 176

① WELL WRITTEN

② PROBLEM – ONLY ONE PROBLEM
– ACCRUAL METHOD

+ INSTALLMENT BILLING (LARGER #) 30-40% of # MIN AND INCREASING
NO VENDOR SUPPORT (REDSHAW)

– TAX DIFFERENCE IS PROBLEM

– COMMISSION COMPENSATION
– PAID AS BILLED
– KICKBACK IF POLICY ALTERED

– WORKERS COMP IS MONTHLY BILL
HEALTH INS IS " "

"BILLING CYCLE BY COMPANY IS KEY"

ASCPA

#177

THE TALBERT CORPORATION
Surety Bonds & Insurance

October 30, 1991

Mr. Russ Burnett
VP & CFO
IIAA
127 S. Peyton Street
Alexandria, VA 22314

RE: AICPA Exposure Draft

Dear Mr. Burnett:

I received a copy of your letter dated October 23, 1991 addressed to the State Executives, et al, regarding the AICPA proposed accounting principles. I am glad to know that the IIAA is aware of this and is taking steps to respond to it on the national level and encourage agencies nationwide to respond individually.

There are many aspects of these proposed guidelines that I find very troubling. I have written my own response to the AICPA (copy enclosed) on behalf of the Delphi/McCracken Users' Group, of which I am the Co-Chairman.

see #155

A copy of my letter has been sent to all our user members, with an encouragement to write their own response. I strongly support the same "grass roots" response from all members of the IIAA. It's my belief that these proposed guidelines will have a very detrimental effect on most independent agencies nationwide, even if they do not report their financial statements according to GAAP. We as an industry need to cry loud and hard to the AICPA, before these guidelines find their way into "law".

I'm going to encourage our own state association to publicize this issue via our regular newsletters, etc. I feel that it would be wise to do so on the national level as well.

Please feel free to copy or use my letter to the AICPA in whatever manner you wish. Be sure to let me know if there is anything else I might do regarding this issue. Thank you.

Sincerely,

Ed Harrington

Ed Harrington
Chief Financial Officer

enclosure
EH:hme
cc: Henry Kyle, IIAA-Colo

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INDEPENDENT INSURANCE AGENTS OF UTAH

11/5/91 #178

October 30, 1991

Mr. Russ Burnett
Independent Insurance Agents of America
127 S. Peyton Street
Alexandria, Virginia 22314

Dear Mr. Burnett:

Because of the time frame allowed to report, I will try to cover the preliminary IIAA summary overview on the proposed Industry Accounting Guide in this letter. This information came from telephone calls with agents.

<u>REVENUE RECOGNITION</u>

We agree that revenues should be recognized when coverage is effective and premium amount is known or can be reasonably estimated; however, we do not agree on the other two items because we as agents usually don't know when all required services have been rendered or when no significant obligation exists to perform additional services.

<u>INSTALLMENT BILLINGS</u>

We disagree with the first sentence because of the above. We agree with revenues being recorded over the term of the policy as collected.

<u>CONTINGENT COMMISSIONS</u>

We disagree. We do not count these until we've got them. We've had too many fall through.

<u>BALANCE SHEET PRESENTATIONS</u>

We agree.

IIAU(tah)

F178 cont.

<u>MANAGING GENERAL AGENTS</u>

We have no comment on this.

<u>LIFE INSURANCE AGENTS AND BROKERS</u>

We agree.

<u>INTANGIBLES</u>

We agree.

This probably isn't as in depth as you would like, but I hope it helps.

Sincerely,

Steve Baugh

Steven A. Baugh, CAE
Executive Director

#179

NOV. 1, 1991

from Richard D. Teubner, CPCU

1 of 5

ANALYSIS OF EXPOSURE DRAFT

1. Revenue Recognition

As a preliminary to understanding the question of revenue recognition, the payment relationship between the agent and his company must be understood. The typical agency contract calls for the agent to pay the company the net premium due (gross premium less agent's commission) within 45 days from the end of the month in which the policy is effective. As such, all business effective (and billed) in October is payable to the company on December 15th.

The question then becomes one of when the policy was received back from the company --- as we must get it back before we know how much to bill the client. If we receive a policy back from the company in October, but the policy was actually effective in September, we none the less bill it in October and pay for it December 15th.

If we receive a policy back from the company in October, but it is not effective until November, we bill the client now, but don't report it to the company on our account with the company until November. As such, the company then receives the net amount due them on January 15th.

With the value of money representing investment income, many companies have recognized the problem of delay in issuing a policy by requiring the agent to prepare an estimated billing to the client in the month that the policy is effective, and then adjusting the billing to the final actual amount in the month in which the policy is finally received. Let's assume that we have a policy effective October 1st. If we haven't received the policy by the end of October, we will estimate the premium (which for sake of example we estimate to be $20,000) and bill it to the client in order for it to be in the report of business for the month of October. In December, we finally receive the policy. The actual premium turns out to be $23,578.00. At that time, we bill the client for an additional $3,578 to complete the transaction. The effect is that the company receives their share of the $20,000 on December 15h. and their share of the remaining $3,578 on February 15th. rather than having to wail until February 15th. for their share of the entire $23,578.00.

RICH & CARTMILL

The basic accounting principle should be ------

INCOME IS RECOGNIZED IN THE MONTH IN WHICH THE AGENT REPORTS THE PREMIUM TO THE INSURANCE COMPANY.

In most cases, this will be the same month in which the policy is effective.

It must be remembered that we, the agents, initiate a report of premiums charged clients during each monthly time period, and pay the company their net premium due from that total monthly report 45 days from the end of the month in question.

For all intents and purposes, we recognize income based on the month of policy effective date, rather than the actual day of policy effect.

2. Installment Billings as respects Rēvenue Recognition

Once again, we may utilize a billing payment plan that is offerred by the company in which the company agrees to accept the payment of an annual premium over a period of months. This is not a question of an agent extending credit by permitting a client to delay payment over a period of time, but rather a formal plan of payment between the company and the insured. An example of such a plan is attached

When the installment billing follows a plan instituted by the insurance company, the Revenue Recognition will follow just exactly what we have stated above:

INCOME IS RECOGNIZED IN THE MONTH IN WHICH THE AGENT REPORTS THE PREMIUM TO THE INSURANCE COMPANY.

In our example attached, we will report $6,945.00 in the month of September. THe company will receive their share of the $6,945.00 from us on November 15th. (45 days from the end of the month in which the billing was made). To say that we the agent should recognize the total commission on the $34,753 would be totally incorrect, as the insured does not owe the total premium at inception date.

If on the other hand, the $34,753 was due in September, but we the agent agreed to let the client pay it out over several monthly installments, we would recognize the total commission in September.

RICH & CARTMILL

3. Policy changes during the policy term

Policies are frequently adjusted during the policy term, or perhaps cancelled during the policy term. In any event, as soon as the policy change is formally received by us from the insurance company, we report the change on our monthly report to the insurance company, and Recognize Revenue (either commission due or commission to be returned). Our client, is of course billed at that time for any additional premium due, or is credited for any amount due back to him.

Again, there is no change in the Revenue Recognition:

INCOME IS RECOGNIZED IN THE MONTH IN WHICH THE AGENT REPORTS THE PREMIUM TO THE INSURANCE COMPANY

4. Reporting form policies

Many times a policy is written based on a deposit premium being charged as of the inception, and then reports of payroll, sales, values, etc. being made on a frequency basis (that would be monthly, quarterly, or seim-annually) with a premium charge determined by applying a rate to the basis of the report. This is very common on large workers' compensation policies and on many large liability policies. The principle of Revenue Recognition is no different than on any of the other types of transactions. The insurance company computes the charge for the report, and we bill the client and report it on our monthly report to the insurance company. Absolutely the same type of recognition as on #2 or #3 above.

5. Contingent Commission

Certain types of income outside the normal commission received from the sale of insurance are found in our business. This includes "Contingent Commission", "Growth Bonus Income", "Countersigning Commission" etc. None of this is predictible either in amount or whether you will receive it at all. As such, this type of income should be RECOGNIZED AS INCOME IN THE MONTH IN WHICH ACTUALLY RECEIVED.

6. Direct Bill Commission Income

We have no way of knowing in advance the amount due, therefore Direct Bill Commission Income should be RECOGNIZED AS INCOME IN THE MONTH IN WHICH ACTUALLY RECEIVED.

RICH & CARTMILL

7. Fee in lieu of Commissions

This is not a common practice in our business, but in those cases in which a fee is charged, it should be RECOGNIZED AS INCOME IN THE MONTH IN WHICH THE CLIENT IS BILLED.

****

LIFE INSURANCE

1. First-Year Commission

Life insurance commission is paid to the agent as received by the insurance company. If a policy is to be paid on a monthly, quarterly, or semi-annual basis, it is unrealistic to expect the agent to recognize the commission as income before the premium is paid to the company based on the contract for payment between the policy holder and the company. All life insurance commission due the agent from the insuring company should be RECOGNIZED AS INCOME IN THE MONTH IN WHICH ACTUALLY RECEIVED.

5 of 5
Zich + Cartmill attachment 1-1-91

USF&G®
INSURANCE

BRANCH NAME: OKLAHOMA CITY
AGENT CODE: 7278

DATE: 09/07/91

INSTALLMENT PAYMENT NOTICE

AGENT: RICH AND CARTMILL, INC.
3365 E. SKELLY DRIVE
TULSA
OK 74135

INSURED: OKLA. INSTALLATION CO.
POLICY: 1MP13391528700
POLICY PERIOD: 09/04/91 - 09/04/92
EFFECTIVE DATE: 09/04/91

IN CONSIDERATION OF THE ISSUANCE OF THE ABOVE CAPTIONED POLICY, THE FOLLOWING PREMIUM IS PAYABLE TO THE AGENT DESIGNATED ABOVE.

DUE DATE	INSTALLMENT PREMIUM
09/04/91	6,945.00
10/04/91	3,476.00
11/04/91	3,476.00
12/04/91	3,476.00
01/04/92	3,476.00
02/04/92	3,476.00
03/04/92	3,476.00
04/04/92	3,476.00
05/04/92	3,476.00
TOTAL PREMIUM	34,753.00

THE GRANTING OF PERMISSION TO PAY THE PREMIUM IN INSTALLMENTS DOES NOT CONSTITUTE PAYMENT OF THE PREMIUMS, NOR DOES IT WAIVE THE RIGHTS OF THE COMPANY TO CANCEL THE POLICY IN ACCORDANCE WITH THE TERMS THEREOF.

DISTRIBUTION: INSURED ✓

Zimmer~Blanc Insurance Agency

A DIVISION OF JOHN F. ZIMMER INSURANCE AGENCY, INC.

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JOHN F. ZIMMER, III, C.P.C.U., A
JAMES G. ZIMMER, AAI
J. GREG ZIMMER, JR.
GAYLORD L. BLANC
H. GALE WILLIAMS
WILLIAM T. ZIMMER, ChFC

#180

Nov 4, 1991

Rec'd 11/7/91

Russ Burnett
IIAA
127 S. Peyton Street
Alexandria, VA 22314

RE: Proposed Accounting Guide For Insurance Agents

Dear Russ:

As an Independent agent in the small category...But Automated, I feel that this should be given to the Agency Management System people, to see how it compares with what they are now doing.

I agree that the method of handling installment is incorrect. Their method does not take into consideration changes that could change the total amount of the policy premium, or cancellations.

There is something wrong with the section 2.42, but I'm not sure what it is. I believe it has to do with the installment policies.

I believe most small agents are on a cash system. It is easy, and efficient system for this type of agent do, and it makes sense.

There are other insurance words that should be included...example, the word 'deposit premium', has another meaning to most agents. This means the minimum premium that the company will charge if the coverage is cancelled or not accepted.

Best regards.

John F. Zimmer III, CPCU, AAI
S N D Nebraska

berends
hendricks
stuit
insurance agency, inc.

#181

November 5, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

The purpose of the letter is to add comment to the Insurance Agents and Brokers Task Force regarding the proposed Industry Accounting Guide for Insurance Agents and Brokers. My comments concern retail brokers and in specific, Revenue Recognition.

Retail Insurance Brokers do much more today than sell a policy. Over 70% of our agency's compensation is devoted to service. We sell the policy, make changes to the policy and settle questions and claims on the policy in most circumstances. Insurance is not a typical product. It is a contract. It usually runs for a twelve month period, but is subject to cancellation with a pro-rate return at any time by the insured. About 90% of our commericial contracts are sold on a payment plan with premiums and commission received as payments are made. Our commercial clients recognize their expense over the period of coverage and accrue any prepaid as an asset.

For the above reasons, it seems logical that a proportional performance method of revenue recognition is more appropriate.

Sincerely,

Thomas L. Stuit

Thomas L. Stuit CPA
Berends Hendricks Stuit

TLS:sv

1680 28th street, sw • grand rapids, mi 49509 • phone: (616) 531-1900 • fax: (616) 531-6360

DRAFT

NACSA
NATIONAL ASSOCIATION of CASUALTY & SURETY AGENTS
316 Pennsylvania Avenue, S.E.
Suite 400
Washington, D.C. 20003
(202) 547-6616
FAX (202) 546-0597

#182

November 5, 1991

Ms. Ellise G. Konigsberg
Technical Manager
Accounting Standards Division
File 3165 AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Konigsberg:

This letter is in response to the Exposure Draft "Proposed Industry Accounting Guide Insurance Agents and Brokers." The following are our comments on specific issues raised in the "Proposed Guide."

Our first comment relates to paragraph 2-16 in which the Proposed Guide rejects the installment method of recognizing commission revenue because "the collectibility of installment billings for annual insurance policies ordinarily can be reasonably estimated when transactions are initially recorded." We feel that the fact that the Proposed Guide contains nineteen paragraphs (paragraphs 1.14 through 1.19 and 2.6 through 2.14) detailing the numerous adjustments that can be made to a broker's commissions is a strong argument against the conclusion reached in paragraph 2.16 which states that collectibility can be reasonably estimated. The Proposed Guide lists the following circumstances which result in adjustments to commissions:

1. Adjustments in premiums
2. Changes in coverage
3. Policy cancellations
4. Errors in calculating premiums or commissions
5. Retrospectively rated policies
6. Premiums subject to change due to audit
7. Variable premiums (reporting form premiums)

Paragraph 1.19 even describes three different types of cancellations all of which would produce different adjustments to commissions that would be reported under the proposed Guide. Although policy cancellations are only one item on the above list, the possible reasons for cancellations, for example, bankruptcy of a customer, death of a customer, change to another agency, are too numerous to list in this letter.

DRAFT

Because of the various uncertainties listed in the Proposed Guide we feel that the collectibility cannot be reasonably estimated; and therefore, we believe that the installment method is appropriate for reporting commission revenue. We also feel, due to the many uncertainties mentioned above, that to record the entire commissions on the effective date is contrary to the basic accounting concept of conservatism. This is because the majority of these adjustments usually result in a decrease in commissions; and therefore, both assets and income would be overstated if the Proposed Guide was followed.

We strongly disagree with the statements made in paragraphs 2.31 and 2.36 which state that subsequent servicing costs are performed only "to retain or increase business with the clients but not because they are required to serve the policies." Activities such as billing, collecting and claims processing are not done to retain or increase business, but rather are necessary to service the current policies that are in force.

As we mentioned earlier, there is no way to predict which customers will be repeat customers; therefore, to say that these services are provided to assure some future benefit is wrong. These activities are performed to provide essential services to current customers. Because these and other services are provided to customers during the terms of their insurance policies, to record all commission income at the effective date, in our opinion, violates another basic accounting concept, the matching principal.

The statement in paragraph 2:6 that "Brokers typically are not obligated, either by contract or by industry practice, to provide services subsequent to placing the insurance," is incorrect. Not only are the brokers contractually obligated to the underwriters to provide services to clients, but also they are required by moral business practices, and by state insurance commissioners, to service the insurance policies during the course of the policy term.

Another non-accounting issue which we feel needs to be mentioned is the enormous burden the change from the installment method would cause most insurance agencies. Most of the insurance agencies' accounting systems, including the majority of the computer software now used by insurance agencies, is designed for the installment method. We feel that the changes this Guide would force on insurance agencies is greater than those forced on all companies by FASB 96 which, as you know, will never be implemented as originally proposed.

DRAFT

We would like to bring to your attention the fact that despite your assertion in the "summary" that the guide was sent to organizations that the Task Force identified as having an interest in accounting for insurance agents and brokers, we did not receive a copy, nor did the National Association of Insurance Brokers, the National Association of Surety Bond Producers, the Mortgage Insurance Companies of America or the National Association of Professional Insurance Agents receive a copy. Also, three out of four insurance agencies that we talked to were not aware of the proposed guide. We feel that these and other organizations need to receive a copy of the Proposed Guide, and we think the deadline for comments should be extended past November 22, 1991.

We strongly urge the AICPA to revise this Proposed Guide. We would appreciate a response to this letter, as well as an outline of the process that will be followed in finalizing the Proposed Guide.

Sincerely,

NATIONAL ASSOCIATION OF
CASUALTY & SURETY AGENTS

/tb

CARSWELL
OF · CAROLINA
Insurance Agents and Brokers

#183

November 13, 1991

Mr. Russ Burnett, VP & CFO
Independent Insurance Agents of America
127 S. Peyton Street
Alexandria, VA 22314

Dear Mr. Burnett,

Enclosed is a draft of the letter written by the Delphi/McCracken Users Group. This letter excellently summarizes the troubling aspects of the exposure draft produced by the AICPA. Many of these proposed guidelines (1) are not consistent with the way most of us handle our accounting, (2) represent some very onerous record keeping requirements, and (3) have a very negative impact on tax liability, cash flow and balance sheet representations.

Thank you for your attention in this matter. If I can be of any further assistance or provide you with any further clarification, please do not hesitate to contact me.

Sincerely,

Karen J. Lehman

Karen J Lehman CPA
Controller

cc. William C Thomas, President

Attachment to #183
Carswell of No. Carolina
from Karen Lehman

DRAFT

October 25, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

RE: Exposure draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated August 15, 1991

Dear Ms. Konigsberg,

As Co-Chairmen of the Delphi/McCracken Users' Groups, we are writing you on behalf of some 1100 independent insurance agencies nationwide. This group represents some of the largest agencies in the country (over half of the top 300) and processes in excess of $30 billion dollars in premiums each year.

We take serious exception to many of the proposed methods of accounting that are presented in this draft. It is our contention that they are not representative of standard industry practices, that they require very onerous record keeping, that most agents nationwide do not have the accounting systems in place with which to accomplish these guidelines, and that they will significantly increase an agency's tax liability and put a serious financial strain on many agencies.

I'll first summarize the specific items that we find troubling and reference your paragraph numbers, then offer a further explanation of each item.

1. The earnings process is deemed to be substantially complete upon the effective date of the policy, and no significant obligation exists to perform services after the insurance has become effective, therefore the entire policy revenue should be recognized when the transaction is initally recorded (2.5, 2.16, 2.36).

2. Reasonably estimate and accrue contingent commissions (2.10, 5.16-5.18, 6.12).

3. Reasonably estimate and accrue commissions on policies that are on a reporting-form basis (2.14).

4. The entire commission on installment contracts should be accelerated and reported as of the effective date and the associated premiums and net payable amounts reported as accounts receivable and accounts payable respectively (2.16, 2.42)

5. Reasonably estimate and accrue direct bill commissions (2.21).

6. The method of revenue recognition for fees is different than and separate from the revenue recognition for commissions (2.25)

7. "Trust accounting" is a requirement - i.e. the amount of fiduciary funds and the investment earned on such funds must be tracked separately and disclosed in financial statements (2.42).

8. Advances to underwriters and clients must be tracked and disclosed in financial statements (2.42).

9. Estimate and accrue the ultimate premium on retro policies (5.17)

10. First year life commissions should be recognized as income up front, even if the commissions are paid monthly, quarterly, or semi-annually (6.10).

11. Estimating and recording an adjustment due to cancellation of life policies in which the annual commissions have been paid in advance (6.13).

Here is a further explanation on the above items:

<u>Item 1 - recognizing full annual commission on effective date (2.5, 2.16, 2.36)</u>
The basic premise that the earnings process is substantially complete (2.5) and that no significant obligation exists to perform services after the insurance has become effective (2.5, 2.16, 2.36) is not accurate for most commercial casualty/property insurance policies. This MAY be accurate for some life insurance or possibly personal lines insurance operations, but it is certainly NOT accurate fo. nearly all commercial property/casualty business.

A portion of paragraph 2.36 states: "Brokers typically are not obligated, either by contract <u>or by industry practice</u>, to provide services subsequent to placing the insurance. However, they generally do so to retain or increase business with the clients but not because they are required to service the policies."

For any agent that sells commercial lines insurance, and most personal lines operations, this premise is simply absurd. There is a SIGNIFICANT obligation to service these policies during the course of the policy term. In addition, the agent bear's a substantial liability to monitor the insured's risks, determine if the insurance coverage remains appropriate, etc., and make changes to the policy as need be. This obligation comes about through ethical business considerations, which are currently being emphasized by all state insurance commissioners, and by numerous and continuing court decisions declaring a broker's professional duties to provide on-going policy service to his clients.

The false premise the AICPA has taken is the basis for the wrong conclusion that the full annual commission on virtually all policies should be recorded as of the effective date, regardless of when the broker bills the premium and/or receives the commission.

Item 2 - estimating and accrueing contingent commissions (2.10)
Brokers should not be required to make "reasonable efforts...to obtain information from underwriters..." (2.10) concerning potential contingent commissions. Often times this information is not known for months after the year end. Also, many times the preliminary information available is inaccurate because it does not yet properly reflect the claim loss history, which takes a longer period of time to ascertain.

Accrueing estimated contingent commissions would be very unreliable and would cause brokers to report as current income (and bear the appropriate tax liabililty) commissions that they may not be paid for for months, if at all.

Item 3 - estimating and accrueing commissions on "reporting-form" policies - (2.14)
This is an onerous accounting practice to have to make "reasonable efforts to obtain information" regarding these type policies and accrue the commissions associated with them. These premiums are not billed to the insured and reported to the underwriter until the reporting form is received and the premium calculated. It is an onerous accounting practice to accrue the estimated premium, without billing the client and reporting it on the "account current" statement to the underwriter, then reverse the transaction and record the actual premium when it is determined at a later date. The primary purpose of reporting-form policies is to accommodate the unknown fluctuations in volume that the premium is based upon.

Item 4 - accelerating installment billings into the current period (2.16, 2.42)
Insureds that have an installment billing contract with the underwriter are not required to pay those premiums to the broker at the policy inception. Therefore, from the broker's position, these premiums cannot be billed yet and are not due to the underwriter yet. This represents a very cumbersome and onerous accounting practice to record the full annual premium at policy inception, then to bill the insured and report the payable to the underwriter per the terms of the installment contract.

Many commercial policies are billed on installment contracts. To many commercial brokers, this represents a significant acceleration of revenues, and its accompanying tax liability, without the broker being able to receive payment for these reported revenues. This may be a common practice among publicly held brokers that have an incentive to boost earnings per share, etc. Most other brokers, however, would find this (1) quite impossible to do on their accounting system, and (2) significantly burdensome financially to have to pay taxes on revenues they cannot receive payment for.

In addition, the recording of the associated premiums as current accounts receivable and the net amount payable to underwriters as current accounts payable, has a negative impact on a broker's financial statement in that it dilutes the current ratio (the dollar amount of working capital remains the same while the current asset base it is measured against increases). Creditors and underwriters alike use this ratio in evaluating the financial position of a broker.

Contrary to the last sentence in paragraph 2.16, the collectibility of installment billings CANNOT be reasonably estimated. The policy is a cancellable contract between the insured and the underwriter and there is no reasonable certainty that the policy will remain in effect and that the installment premiums will be paid.

Item 5 - estimate and accrue direct bill commissions (2.21)
This, quite simply, is impossible for most brokers to do because their automation systems do not accomodate it and, by the nature of direct bill business, they do not record premium and commission information when the policy is placed. They must, therefore, rely solely on obtaining information from the underwriters regarding how much business has been cancelled, non-renewed, etc.

Also, since the broker many times receives these commissions in installments over the course of the policy term, the broker is once again being required to accelerate this revenue into current income without having the economic benefit of receipt with which to pay taxes.

Item 6 - recognizing fee income separately from commission income (2.25)
This is an onerous practice to accomplish, in many cases. The insured is often times billed the fees associated with a certain policy at the same time (and even on the same invoice) as the premium on the policy. To require two methods of recognizing revenue on a given policy is onerous, and quite probably not possible for most accounting systems.

Item 7 - "trust accounting" as a requirement (2.42)
Several states have requirements similar to the proposed guidelines. Outside of the national brokers, most brokers do not comply with "trust accounting" requirements as a normal course of practice unless they are required to do so in the state they operate. Separating fiduciary funds, and the related investment income, is a very difficult task unless the broker has a sophisticated automation system. Disclosing the amount of fiduciary funds, the related investment income, advances to underwriters and advances to clients is an onerous requirement to all that don't have sophisticated automation systems. In many broker businesses, this information would be simply impossibile to obtain.

Item 8 - disclosing advances to underwriters and clients (2.42)
See explanation for Item 7.

Item 9 - accrueing the "ultimate premium" on retro-policies (5.17)
Contrary to the statement in paragraph 5.17, the ultimate premium on these policies is NOT usually estimable. Retrospective premium adjustments are often direct billed from the underwriter to the insured. In addition, these policies typically do not carry any commission revenue for the broker, and therefore would only serve to inflate receivables and payables on the broker's balance sheet.

Item 10 - recognizing all first year life commissions up front (6.10)
Many first year commissions are paid quarterly or semi-annually. Recognizing the full first year commissions on life policies once again accelerates revenue recognition. In addition, many life operations don't internally track the amount of business being written, but rely on the underwriters to provide such information. This would be an onerous accounting requirement for many brokers to internally generate such figures.

Item 11 - estimating an adjustment due to cancellations of life policies where the commission has been paid up front (6.13)
This information typically cannot be reasonably estimated and it is an onerous requirement to go through some actuarial or statistical calculation to make an attempt at estimating it.

In summary, it is our belief that these proposed guidelines:

*are not representative of current standard industry practices;

*accelerate revenue recognition without the broker being able to have the benefit of constructive receipt until a later point in time;

*have a very detrimental impact on a broker's tax liability and cash flow

*have a detrimental effect on the balance sheet presentation, and may impare brokers from obtaining credit

*contain record keeping requirements that are onerous at best and impossible, most likely, without a very sophisticated automation system.

We would strongly urge the AICPA to revise these proposed guidelines. We would appreciate your response to this letter and to the proposed timeline for finalizing these accounting principles.

If we can be of any further assistance or provide you with any further clarification, please don't hesitate to contact us.

Sincerely,

Ed Harrington, Chairman
Delphi/McCracken
INfinity Users' Group
303-722-7776

Steve Warner, Chairman
Delphi/McCracken
INSIGHT Users' Group
908-469-3000

Rosenfeld
Einstein & Associates
Insurance Agency, Incorporated

November 14, 1991 #184

Mr. Russ Burnett
IIAA
127 Peyton Street
Alexandria, VA 22314

BY FACSIMILE

Subject: Proposed Accounting Guide For Insurance Agents & Brokers

Dear Mr. Burnett:

As a member of IIAA and the owner of an independent insurance agency, I want to comment about the proposed Accounting Guide from the AICPA.

REVENUE RECOGNITION

I disagree with the logic used in the recommendations that are being made in this area. First of all, I feel that there is a basic misunderstanding in the way that an agent operates. The four criteria which are stated in section 2.5 overlook and fail to recognize that the services performed by an agent continue throughout the policy period and even beyond. While there may be agents who do not feel that they have an obligation to perform services beyond the effective date of coverage, they must be in the minority. Agents who plan to succeed over the long term cannot place coverages into effect and stop. The service after the sale is a vital and necessary part of the job of the agent and must be taken into consideration in the recognition of revenues and expenses. To disregard this reality, as the AICPA proposal does, is to overlook the agent's ~~most~~ important role.

Section 2.4 distinguishes the difference in the agent's legal obligation to perform ongoing services and that which the agent incurs at his discretion to retain or increase business. Again, I feel that this logic illustrates a total lack of understanding of the practical operation of an Agency. The Agent sells his services to the client as an agent for the duration of the policy and not just to get the order. Although it may be proper to indicate that no legal obligation exists for ongoing services, any agent who wishes to remain in business must be willing and able to provide an insured with ongoing advice and service.

COMMISSION ADJUSTMENTS

Section 2.14 again shows the lack of understanding that the preparers of this document have. An account is not going to be on a reporting form basis if there is a means to reasonably estimate the values, premiums and commissions in advance.

116 South Pleasantburg Drive • P.O. Box 5145 • Greenville, South Carolina 29606 • (803) 271-6336 • FAX (803) 242-1854

INSTALLMENT BILLING ARRANGEMENTS

I again disagree with the proposal because it presupposes the use of the Revenue Recognition Date, described in section 2.5 Revenue Recognition. The proposal indicates that the preparers fail to understand the real duties of the agent and do not place a relationship between the recognition of the revenue and the incurring of the related expenses.

The preparers use APB Opinion No. 10 regarding Installment Method of Accounting to further justify the earlier recognition of revenue. We are not selling a "hard" product that the customer picks up and takes home for his current and future use; rather, we sell a product and service whose use is tied to the passing of time. Realistically, it would be more accurate to recognize the revenue from an installment at the time of its due date rather than at the inception date of the policy because the policy could be cancelled before the revenue is actually earned. From an accuracy standpoint, it would be more accurate to recognize the revenue at each installment's due date. If using a monthly installment schedule, is would seem to be more accurate to recognize the income each month, which is closer to the time-related earning of the income, rather than recognizing it all at the inception date, a method which could lead to substantial overstatement of revenue.

LIFE INSURANCE AGENTS AND BROKERS

Section 6.10 outlines the proposed manner to recognize the revenue from a life insurance policy. Most life insurance premiums are paid directly to the insurance company on a monthly basis. To recognize all of the revenue at the inception of a policy, even though there is no certainty that the future premiums would be paid, resulting in no commission to the agent, is not a proper recognition of the significance of time to the earnings process.

Can you imagine the effect of this method of income recognition to an agent who sells a large policy in November of a given year the premium on which is to be paid monthly? All of the revenue would be recognized in November. If the policyholder terminated the policy in March of the following year, the agent would end up having overstated his revenue for the prior calendar year, and would pay income taxes based upon a larger income that really never existed. This does not make sense.

CONCLUSIONS

Passage of this proposal would require a major overhaul in the manner in which agents account for almost all aspects of their operation. Substantial system related programming changes would be necessary to adjust to the proposal which will result in major expenditures and large time commitments away from the Agent's primary business. If any of these changes do in fact occur, please allow adequate time for these changes to be made.

I am troubled by the assumptions made in the proposal, particularly with regard to the recognition of revenue and the reliance upon a concept that the Agent's primary duties and responsibilities are carried out at the point of sale and/or effective date of coverage. I am a proponent of good and clear accounting procedures for our industry, and have always conducted the affairs of our Agency with proper methods and GAAP in mind. It seems to me, however, that sweeping changes are being proposed for our industry by the AICPA, with the recognition of revenue being the most drastic. I would like to encourage you to insist upon further research and greater input by actual Agents and Agency operators before discussions are continued or concluded.

Please feel free to contact me if you have any questions about this letter or if I may be of assistance in this matter.

Sincerely,

ROSENFELD-EINSTEIN & ASSOCIATES
INSURANCE AGENCY, INC.

Daniel M. Einstein
Treasurer

c: Mr. Lee Ruef
IIASC

INSURANCEONE

12200 Twinbrook Parkway
Rockville, Maryland 20852

Telephone (301) 984-5900
Automated (301) 984-7289
Facsimile (301) 770-5639

Robert A. [illegible]
Marvin S. Kay

Maury Young
Max Holtzman

#185

DATE: November 12, 1991

FACSIMILE TRANSMISSION COVER SHEET

NAME: Sharen D. Favre

COMPANY: Independent Insurance Agent

FACSIMILE NUMBER: 410-880-4260

THIS COVER PLUS None PAGES TRANSMITTED BY:

NAME: Richard M. Young

INSURANCE ONE, INC.

FACSIMILE NUMBER: (301) 770-5639

TELEPHONE NUMBER: (301) 984-5900

PLEASE CALL Eileen Rosenberg AT THE ABOVE NUMBER IF THERE ARE ANY PROBLEMS WITH THIS TRANSMISSION.

RE: Proposed Accounting Guide

COMMENTS: My internal accountant developed only one particular concer: with the guide given the VERY SHORT timetable. The one concern is the recognition of commission on installment premiums and the feeling that current practice should prevail. The time to develop information to recognize all commission up front would be enormous and not relecting our real world.

In a matter of such importance, significantly more time for reflective study should be provided.

PATTERSON/SMITH ASSOCIATES
2755 Hartland Road, Falls Church, Virginia 22043 Mailing Address: P.O. Box 1407 Merrifield, Virginia 22116-1407
(703) 698-0768, (800) 792-9800, FAX: (703) 698-0137

#186

November 14, 1991

Ms. Sharen Favre, AAI
Executive Director
Metropolitan Washington Association of
Independent Insurance Agents
9101 Guilford Road, Suite 103
Columbia, Maryland 21046

Re: Proposed Accounting Guide for Insurance Agents and Brokers

Dear Ms. Favre:

This is in response to your request for comments on the proprosed accounting guidelines for insurance agents. The area of greatest concern for our agency is the issue of revenue recognition. The following outlines how we record commissions, receivables and liabilities, and intangibles in our agency and my concerns.

Agency billed premiums-- We record agency billed premium at the time of receipt of the policy and recognize the revenue from that billing on the later of the billed or effective date of the policy. Revenue for installment billing is recognized on the effective date of each installment.

Recognizing revenue based on the coverage effective date would result in our recording much of the revenue 30 to 60 days earlier for non-installment billing and up to a 11 months earlier for installment billing. In addition, to implement this would require a change in our accounting software as well as a significant change in our procedures for processing policies within the agency.

Direct billed premiums-- We recognize the revenue for these policies when the commission is received from the insurance company, that is, on a cash basis. We handle our commissions generated on our life and employee benefits business on the same basis. Methods of payment by the insurance companies vary. Some insurance companies will pay the commission on a policy in full on the effective date of the policy and some insurance companies will pay commissions to the agent as the premium is paid to them by the insured.

to accrue this revenue at the effective date of the policy would require additional bookkeeping. The majority of the direct bill property and casualty commissions received in our agency are personal lines and many are small dollar value. In our employee benefits division, the reporting is further complicated by the fact that premiums vary month to month based on the number of employees enrolled in the group insurance. This information does not generally come through the agent, but rather is directly reported from the insured to the insurance company.

Contingent Commissions-- We presently record contingent commissions when received which, for the most part, is within the first several months of the year. To change the income recognition to when the dollar amount can be reasonably estimated may result in our reflecting this commissions one year earlier than we currently do.

Balance Sheet Presentation-- We are in agreement with the gross method of financial statement presentation of account receivable and liabilities to underwriters.

Intangibles -- We handle intangibles basically as stated in the proposed guidelines.

I am concerned about what I feel to be an unneccesary cost associated with additional bookkeeping that would be required to accrue all agency commissions at the effective date of the policy. I am also concerned with any accounting guideline that would open the door for IRS to require agents to report income and pay the corresponding tax on that income prior to receiving the cash for those commissions as would be the case for direct bill, installment billings, or contingent commissions. This could cause a hardship for many agents.

If you would like to discuss any of this further, please feel free to contact me.

Sincerely,

Denise E. Bell

Denise E. Bell
Secretary Treasurer

Post-It™ brand fax transmittal memo 7671

	# of pages ▸ 1
To Russ Burnett	From Sharon Frere
Co. IIAB	Co. MetroWash AIIA
Dept. Accts	Phone # 301-470-2202
Fax # 703-683-7556	Fax # 410-880-4260

Independent Insurance Agents of New Hampshire

#187

November 15, 1991

Mr. Russ Burnett, VP & CFO
IIAA
127 S. Peyton Street
Alexandria, VA 22314

Re: Proposed Accounting Guide
For Insurance Agents & Brokers

Dear Russ:

Responding to your correspondence dated 10/23/91, the following comments have been prepared by our SND Peter McArdle.

Regards,

Tony

Anthony J. Juliano, CPCU, AAI
Executive Vice President

AJJ/gj
enc.
cc: Peter J. McArdle

Executive Vice President, Anthony J. Juliano, CPCU
Director of Membership Services, Stanley B. Burbank

P.O. Box 606, 125 Airport Rd., Concord, NH 03302, Telephone (603) 224-396
Fax (603) 224-0550, NH WATS 1-800-852-3373, NE WATS 1-800-531-605

RETAIL BROKERS

Par. 2.5 Commission income should not be recognized on an accrual basis but on a cash basis. Many commercial accounts require a great deal of service throughout the policy term such as risk and claims management, processing endorsements for changes in coverage and periodic revisions. In addition, many policies are on installments that transcend the fiscal year of the agency. With the economy being what it is today it is not all that uncommon to have substantial return audits. If we had to recognize the income fully upfront we could be in a position of having to pay taxes on money we never receive and would only get credit long afterward.

CONTINGENT COMMISSIONS

Par. 2.10 Even though we as agents anticipate we may be due a, contingent commission, we are at the mercy of the companies on actually receiving a contingent commission. It is not all that uncommon for companies to arbitrarily raise reserves at the end of the year, or suddenly change the IBNR factor on company expense factors. Therefore, having to report possible contingency income and then not actually receive it puts the agency in an untenable position.

INSTALLMENT BILLING

Par. 2.16 Many commercial accounts are billed on installments that may transcend the fiscal year of the agency. As these accounts require year round service, income should be recognized as billed and not up front. In many cases the placing of the renewal is the easy part and the servicing of the account throughout the year is the time consuming expense part.

BALANCE SHEET PRESENTATIONS

Par. 2.42 Here in NH we have had fiduciary accounting for sometime and it works very well. The agent should be required to separate out funds that belong to the agency and those that are merely being temporarily held in a fiduciary capacity. We are allowed to keep the investment income earned on the fiduciary funds with the permission of the insurance companies.

Morse, Payson & Noyes
Insurance

#188

November 19, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division
File 3165, AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Subject: Comments With Respect to Accounting Guide for Insurance Agents and Brokers

Dear Ms. Konigsberg:

I have reviewed the Proposed Industry Accounting Guide for Insurance Agents and Brokers and would like to comment on the specifics of the Guide prior to its completion and issuance. As the Vice President and Chief Financial Officer of a privately-held insurance agency with gross revenues of approximately $10,000,000, I am obliged to comment on this Guide because of my sense for the overall impact that this Guide will have on all agencies, but in particular the smaller agencies. I will attempt to refer to the respective paragraphs in the Guide as I outline my comments.

Revenue Recognition Guidelines

2. Paragraph 2.2 under Revenue Recognition makes the statement that "the methods used by brokers to recognize commissions associated with placing insurance risks with underwriters have varied." Although it would be difficult to argue this point, the majority of agencies follow the practices of recognizing revenues under the following guidelines:

    A) Policies that are billed by an agency, with the exception of installment billing arrangements, reflect revenues at the policy or coverage effective dates.
    B) Policies with installment billing arrangements reflect revenues on the effective dates of the individual installments.
    C) Policies that are billed by the insurance carrier reflect revenues when the commissions are received by an agency (cash basis).

100 Middle Street, P.O. Box 406, Portland, Maine 04112, Telephone (207) 775-6000, Telefax (207) 775-0339
Maine Service Office of Assurex International, an Insurance Corporation with over 60 offices ...

Revenue Recognition Guidelines, continued

The Guide recommends a dramatic departure from the above methods of reporting income for Installment Billing Arrangements (Paragraph 2.16) and for Direct Billing Arrangements (Paragraph 2.21). One principal reason for the methods of revenue recognition currently being followed by a majority of agencies, especially the smaller agencies, is the current agency management (data processing) systems that are in use today. The limitations that are inherent in these software products do not begin to address the issues that all agencies would face if required to record so-called "installment-bill" and "direct-bill" policy commissions by the same method as that for agency-billed business. None of the current agency management software alternatives adequately afford agencies (large or small) an ability to track the volume of policies that are on these types of billing mechanisms in such a way as to economically account for the related commission revenues in such a manner. Any requirement to determine and record commissions on these policies as discussed in the Guide would place an overhead burden upon all agencies, and especially upon the smaller agencies that typically lack the sophistication and technology to address this issue. It would likewise place an additional burden on all agencies to incur the cost of revisions to their respective agency management systems to allow them to correct this method of revenue recognition.

Income Tax Implications

One significant area that needs to be addressed is the impact that such changes would have on all agencies from an income tax standpoint. These changes would eventually be viewed by the Internal Revenue Service as a significant revenue producing opportunity. The Guide would give the Internal Revenue sufficient support to force the earlier recognition of revenues for approximately 27,000 independent agencies and brokers across the country and thus create a "windfall" in tax revenues. I would expect that those agencies who rely very heavily on "direct-bill" business would be faced with paying large income tax bills without the benefit of having received the cash relating to those same revenues from the respective insurance carriers. This would obviously place a devastating financial burden on these agencies.

Committee Representation from Smaller Agencies

In the Preface of the Guide, the names of the "Insurance Agents and Brokers Task Force" are listed. No indication is given, however, as to the nature of involvement of these individuals in the industry that is the subject of the Guide. I would expect that the majority of these individuals are directly involved in the insurance agency and/or broker industry. I question whether the smaller agency population has been adequately represented on this task force. I would appreciate further information as to the nature of involvement of these individuals in the industry and their respective agency's size in terms of gross revenues and also their agency's ownership structure, ie. publicly or privately held.

Primarily because of the serious financial impact that this Guide would have on independent insurance agencies for major software revisions and the above-mentioned income tax ramifications, I would oppose these guidelines being implemented.

If you have any questions or if you desire further clarification of these points, please call or contact me in writing.

Sincerely,

Raymond F. Brogan
Vice President
Chief Financial Officer

cc James Kilbride, President (Morse, Payson & Noyes)
Ken A. Crerar, Executive Vice President (NACSA)
Russ Burnett, Vice-President and CFO (IIAA)

189

MURRAY, SCHOEN & HOMER, Inc.

71 North Avenue
P.O. Box 719 New Rochelle, N.Y. 10802
914 / 632-8989 FAX #: 914 / 632-9170

November 21, 1991

RECEIVED
NOV 25 1991
IIAANY, INC.
Syracuse, N.Y.

AICPA
c/o Ellise G. Konigsberg
Accounting Standards Division, File 3165
1211 Ave of the Americas
New York, NY 10036-8775

Re: Changes In Accounting Standards for Agents and Brokers

We have been advised that one of your proposed changes to the accounting standards used by agents and brokers for reporting commission income is to disallow the installment method of reporting income and require income to be reported at the effective date of the policy. This and other changes proposed would cost the over 27,000 agents throughout the country millions of dollars in taxes and administrative costs. It would have a devastating financial impact on independent agents and brokers across the country.

Most agents and brokers use installment billing, especially in the larger risks and report income as it is earned over the term of the policy.

It would also require millions of dollars in administrative costs to change our computer software programs.

We understand that independent and agents and brokers were not included in AICPA decision making process and we ask that you delay implementation of the proposed accounting standards to allow all interested parties an opportunity to have their views heard.

Thank you for your consideration.

Sincerely,

Norma D. Homer

NDH/ls

cc: Ken Crerar
John LaValle

#190

HASTINGS – TAPLEY

271 Cambridge Street—PO Box 410128
Cambridge, MA 02141-0901
617-876-7510 800-842-1218 (MA)
FAX # 617-876-7155
HASTINGS - TAPLEY Insurance Agency, Inc.

Via Fax

December 2, 1991

Mr. Russ Burnett
Vice President and Chief Financial Officer
Independent Insurance Agents of America, Inc.
127 S. Peyton Street
Alexandria, VA 22314

Dear Russ:

You have asked me to review the "Exposure Draft" of a new Proposed Industry Accounting Guide for Insurance Agents and Brokers published by the American Institute of Certified Public Accountants (AICPA) and dated August 15, 1991. As a consequence, you and I have discussed my thoughts, at some length, by telephone. Our conversation also covered our reading of the October 25, 1991 letter of Ed Harrington, Chairman of the Delphi Information Systems Users Advisory Group.

As you have requested, this letter is written to provide you with brief and general comments concerning the issues.

First, the areas of contention which we discussed are as follows:

1. Should annual commission be recognized at effective date rather than over the period during which services are performed?

2. Should contingent commissions be accrued by reflecting estimates which relate to the contingent calculation period?

3. Similarly, should reporting form commissions be accrued by reflecting estimates which relate to the reporting form period?

4. Should installment billings be accrued into the current period?

5. Should direct bill commissions be accrued at effective date?

Ed Harrington provides a rational, thoughtful "NO" response to each of these questions.

We have here a classic difference. The accounting proposals, in the case of the five points hereinbefore enumerated, accelerate the period in which income is recorded, thereby moving earlier the tax consequences for insurance producers. On the other side, these positions improve the financial reporting results for insurance producers since, to repeat, they accelerate the recording of income.

By and large, producers are going to object to the accounting standards recommended by AICPA because of their adverse tax consequences. As an insurance producer, I am not inclined to further the AICPA position. On the other hand, I believe we need to recognize that the AICPA recommendations are conservative and follow practices, to the extent they are practical, which many agencies already employ.

As a director of NACSA, which has solicited opinions among its membership, I am sending a copy of this letter to Ken Crerar.

Russ, if you wish, I would be happy to discuss this further with you.

Sincerely,

Frederick J. England, Jr., CPCU
President

FJE:dmm

cc: Ken Crerar (NACSA)

#191

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NOVEMBER 26, 1991

Mr. C. Courtney Wood, CPCU, ARM
COURTNEY WOOD & ASSOCIATES
638 East Oak Place
P.O. Box 685
Edmond, Oklahoma 73083

RE: Proposed Accounting Guide For Insurance Agents & Broke

Dear Courtney:

Thank you for sharing the material with me that I've had our accountants of Ernst & Young plus our on staff CPA review the proposed accounting guideline.

My understanding is that the AICPA issues these proposed industry guidelines or exposure drafts in an attempt to develop some uniform basis of accounting and reporting for entities and industries in which there exists no authoritative accounting literature. The AICPA issues the information as the preferred method of accounting in an attempt to promote consistency. The term, generally accepted accounting principles (GAAP), usually refers to official authoritative pronouncements issued by the financial accounting standards board. In the absence of such statements by the board, the industry guidelines issued by the AICPA become the "preferred GAAP".

Both Ernst & Young, as well as our Vice President of Financial Affairs who is a CPA, have commented that the draft does a good job of documenting and explaining the various types of insurance intermediaries, and a good job in explaining the general operations of most types of insurance agencies and brokers. The draft addresses two primary concerns:

1. accounting
2. reporting.

The accounting aspect pertains to the manner in which transactions are recorded in the original books of entry of the affected entities.

The reporting relates to the manner in which the information is presented in the financial statements.

As a matter of information, we and our affiliated companies are currently accounting for transactions in the manner advocated by the AICPA in the exposure draft. However, probably the most significant change being advocated by the AICPA is stated in paragraph 2.16. This paragraph advocates that the ENTIRE amount of commission from an insurance transaction should be recognized at that point in time at which coverage becomes effective.

Independent Insurance Agent

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NOVEMBER 26, 1991

Mr. C. Courtney Wood, CPCU, ARM
COURTNEY WOOD & ASSOCIATES
638 East Oak Place
P.O. Box 685
Edmond, Oklahoma 73083 - Continued ---

This becomes pretty significant, especially when large clients who pay on an installment basis are involved. It has been our practice to recognize income consistent with the cash flow from the transaction, or recognizing commission income on an installment basis when set up by either the finance company or the insurance company.

The AICPA contends that the services which give rise to the insurance transaction have largely been completed at the time coverage has been bound, and it is at such time that the entire amount of commission due should be recognized as income in an agent's financial statements. This is where we depart from what they're proposing. In fact, this is where we disagree with what they're proposing. I'm told that in most accounting statements of this nature, the initial year of adoption of this new accounting practice will result in a "doubling up" of income in that particular year. For example, if you had an installment basis customer in one year for which you would receive premium on an installment basis that would overlap into the next year, you would recognize under the old method part of that income in the one year and part of the income in the next year with cash flow from the Insured.

However, in year two, and upon adoption of the new accounting principle, you would recognize not only the second year of installment from the previous year's transaction, but, assuming the client renews coverage, would recognize the entire transaction or the entire commission from the transaction in the second year. This could lead, typically, to an artificial increase in the income derived from the transaction in the year of adoption. Of course, eventually, if the customer continued to renew, the situation would iron itself out and the accounting practice would be smooth after probably year three.

The exposure draft also makes specific reference to the disclosure, either in the notes to the financial statements or on the face of the financial statements themselves, as to the fiduciary nature of funds being held. We subscribe to fiduciary nature and disclosure requirements being advocated by the AICPA.

I trust this is something that might be of benefit to you, and I appreciate your sharing it with me. Thanking you, I remain

Sincerely yours,

RONALD E. KREBS

REK:jso

CLIFF DAVIS & ASSOCIATES, Inc. Insurance

TEL: (404) 296-4014
FAX: (404) 297-0170

3700-C Market Street, Suite 2
Post Office Box 469
Clarkston, Georgia 30021

#192

December 6, 1991

Mr. T. Mike O'Farrell, CPCU
IIAG State National Director
O'Farrell Associates
P. O. Box 757
Lithonia, GA 30058

RE: PROPOSED INDUSTRY ACCOUNTING GUIDE

Dear Mike:

The bottom line which you point out on this can potentially be chaotic. I don't know how we could handle it. I probably have something in the neighborhood of $1,000,000 or more in premium on a free installment basis from the company. Essentially, that plan requires 25% down and monthly payments to the company. We take our commission as we bill it, not as we collect it. Saying that we would have to take that full commission up front would create utter chaos, I think, in trying to keep the records. I don't think our computer would do it.

I think the company "written record" is terribly inaccurate. Our going to the type basis which they are on would create utter chaos, I think, for most of us small operators.

I hope you sit hard on this one.

Mike, we appreciate your work for the State Association and the National Association. I know that I am guilty of not saying so often enough. Our thanks to you for all of your hard work.

Yours very truly

Cliff

Clifford A. Davis, CPCU

CAD/gl

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#193

December 12, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Re: Exposure draft
Proposed Industry
Accounting Guide
Insurance Agents & Brokers
Dated August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the above mentioned draft, and we do not agree with many of the proposed methods of accounting that are presented in this draft.

Attached is a copy of a letter to you from Steve Warner, President of the McCracken National Advisory Board, dated October 25, 1991. Our agency is in agreement with the various items outlined in his letter.

See #155

We hope the AICPA will review these proposed methods of accounting before finalization of these accounting principals.

Very truly yours,

FORREST SHERER, INC.

Tony Macak

Tony Macak
Controller

TM/jmb
Enclosure

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#194

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December 12, 1991

Ms. Allyce G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft Proposed Industry Accounting Guide
Insurance Agents & Brokers Dated August 15, 1991

Dear Ms. Konigsberg:

I have recently been advised by the Adelphi/McCracken National Advisory Board of the captioned. Upon reviewing the letter to you from Ed Harrington and Steve Warner, both of Adelphi, I find myself in complete agreement with their remarks.

It would appear to me that your organization does not understand the operations of the independent insurance agent. With our reduced commissions which are well published; the increased cost of operations including the fees charged by CPA's; the increased responsibilities of the CPA's and performing audits of insurance agencies that have pension plans; it appears to me that the additional onerous burden that is being suggested in your guide for insurance agents and brokers will do nothing but create an accounting boondoggle.

I would hope that you would seek insurance industry input with regard to such proposals, being sure that you have obtained your input from an unbiased cross section of the average independent insurance agent. I strongly urge you to review your accounting guide for insurance agents and brokers and do not disturb the current method of accounting for commissions and paying taxes on those commissions.

Cordially,

James W. Delaney, Jr., CPCU
Executive Vice President

JWD/jan

Pearsall, Maben ++ Frankenbach
Insurance & Financial Services

#195

December 16, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

RE: EXPOSURE DRAFT
PROPOSED INDUSTRY ACCOUNTING GUIDE
INSURANCE AGENTS AND BROKERS

Dear Ms. Konigsberg:

I have reviewed information made available to me with respect to the above guide and am in complete agreement with the letter of October 25, 1991 sent to you from the Delphi Information Systems-Users Advisory Group. Rather than simply repeat and affirm all of their reasoning, I attach a copy of their letter. The provisions would appear to be, in part, impossible; where possible, onerous and costly; and, in some instances, downright unfair.

see #155

Ms. Konigsberg, I will appreciate your review of the thoughts expressed by these agency leaders and others from whom I am sure you will hear.

Sincerely,

Theodore F. Frankenbach

Theodore F. Frankenbach

TFF:mm

Enclosure

53 Cardinal Drive, Box 2037, Westfield, NJ 07091
Telephone (908) 232-4700 Fax (908) 232-7139

480 Morris Avenue, Summit, New Jersey 07901
Telephone (908) 273-1900 Fax (908) 273-4946

#196

Independent Insurance Agents of America
INCORPORATED

Independent Insurance Agent®

December 16, 1991

Ms Ellise G. Konigsberg, Technical Manager
Accounting Standards Division, File 3165
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms Konigsberg:

As the representative of over 28,000 Independent Insurance Agencies operating throughout the United States, we welcome this opportunity to respond to the Exposure Draft of the Proposed Industry Accounting Guide (Guide) for Insurance Agents and Brokers.

OUR APPROACH

While the Guide is dated, August 15, 1991, our association was not made aware of the Guide until Mid-October, two months later, through one of our state associations who had received the document from one of its members. Only after contacting both the AICPA and the Chairman of the Insurance Agents and Brokers Task Force, did we find that no group representing the agent community had been given an opportunity to review the Guide, let alone participate in its creation.

With the Chairman's support, IIAA made copies of the Guide available to our State Association Executives, our National Directors, and selected members of the practicing insurance community. In less than one month we have received close to 40 responses. We are impressed by the interest and response from our members and think that this suggests that they believe this Guide to be of critical importance to them and their business operations.

We have enclosed copies of all of the replies we received and believe you will find them extremely impressive reading. The writers range from CFOs with large insurance agencies to an insurance regulator to experienced insurance businesspeople with no accounting background, but with years of practical experience. One writer's agency has acquired over 30 insurance agencies, another respondent served as the president of our Association. All have something to say about the Guide.

THE AICPA PROCESS

Our largest concern is the approach taken by the AICPA in the Guide's development. It is our understanding that only three representatives from the insurance agent and broker community served on the group that drafted the Guide. We also understand that those three represented three of the largest agencies in the United States.

We believe that the process was flawed. While the committees may have excellent accounting credentials, we believe that they are not representative of the group that will be affected by this Guide. The fact that none of the trade associations that represent the agencies, the agents or the brokers was involved or even aware of this document until two months after the exposure period began speaks ill of the consideration of those impacted. It appears that none of the businesses associated with the insurance agent and broker profession, e.g., experts in agency valuation, consultants to the industry, educators, regulators, were involved in the process.

As you will note in the comments that follow, the Guide appears to lack an understanding of the actual industry practices, the capability of the automation systems serving the industry, the implementation costs of the proposal, and the consequences on the true users of this document, the agencies and brokers themselves.

We believe that the process should be rethought and revisited. This is certainly not the first time that an Accounting Guide would be reworked after the exposure period. We would be very willing to form and support a subcommittee to bring the "real world" into this Guide; we are willing to identify and support the Committees with experienced CPAs who have practical experience in the insurance agency industry; we are willing to assist in any fashion that will provide the industry with an acceptable, practical, and appropriate set of standards upon which all parties can rely.

QUALITY OF THE GUIDE

The Guide is a well written document that has several positive aspects. It admirably addresses the many diverse accounting approaches in use in today's insurance world. The most common comment we received was that the standardization and consistency proposed would be extremely valuable to an industry undergoing consolidation and merger.

REVENUE RECOGNITION

Our strongest concern with the Guide relates to revenue recognition. On this issue the Guide fails to follow its own counsel and seems to misunderstand the industry to which it addresses itself.

The insurance agent and broker business is a service industry. While the sale of an insurance policy is a significant event, the service to the customer that occurs over the term of the policy is equally significant. It is significant both in terms of the amount of time and the amount of dollars expended. In actual practice, a major amount, at least 30% and in some cases as high as 70%, of the costs incurred by the agent and broker are in the performance of duties related to providing of service to the policyholder after the inception date of the policy. In renewal situations the percentage is even higher. The growth of Customer Service Representatives (CSR) within agencies and the creation of a national certification program for the Customer Service Representative speaks to this issue. In the last few years IIAA alone, has issued over 4,000 CSR certificates and expects that number to double in the next two to three years.

Paragraph 2.4 delivers a critical misconception of the agent and broker's business.

> "Although certain costs related to a policy may be incurred after the billing or effective date, those costs typically are incurred at the discretion of the broker to retain or increase business with the client and not because the broker is obligated to service the policy in force."

This concept is blatantly incorrect. A review of the contractual agreements between the broker and the underwriter, the legal cases before the courts and the profession's own ethics suggest that service is THE critical part of the value that agents and brokers provide.

Under the concept of matching revenues with expenses, which is at the foundation of all accounting issues, and the Guide's own discussion of Proportional Performance (paragraph 1.27) and its recognition of the agent's and broker's services in paragraph 1.28, it is extremely difficult to understand how the Guide can suggest the use of the revenue recognition date approach.

This Guide's use of the revenue recognition date fails in the discussion of Installment Billing Arrangements (2.16), Direct Billing Arrangements (2.21), accident and health insurance and other plans discussed in paragraph 6.1. The Guide argues against the use of the revenue recognition date concept in paragraph 6.6 where it recognizes that property and casualty insurance is different from life insurance, "...a relatively smaller portion of a life insurance broker's effort is devoted to provide services after the effective date"...

We believe that to provide for a proper matching of revenues to expenses, the commission earned, should be recognized over the term of the policy.

CONTINGENT COMMISSIONS AND COMMISSION ADJUSTMENTS

The Guide needlessly proposes that agents and brokers should attempt to record Contingent Commissions and Commission Adjustments before they are received. Based on the comments of our members the reality is that these amounts cannot be reasonably estimated and the cash method of reporting is appropriate. Contingent commissions and commission adjustments have become a significant portion of the agents and brokers income and to try and estimate such a large number with limited accuracy could result in some extremely misleading and inaccurate financial statements. The historical cash method of reporting is still appropriate in this situation.

ACCOUNTING SYSTEMS AND SOFTWARE

One of the factors that should be considered in the development of an Industry Accounting Guide is the practical nature of the recommendations and the reasonableness of the cost of implementing them.

Based on our review, which was admittedly limited due to the short time frame, it is our understanding that none of the software that is currently available for the industry is capable of accounting for commission income in the manner recommended by the Guide. While the software should be able to be adapted, there is no estimate of the cost of such modifications. And, certainly, the cost of the modifications would be passed on to the users, i.e., the agents and brokers.

It would appear that the Committee did not review the cost implications of this Guide. Some have suggested that this change will cost in the millions of dollars. A review of the insurance industry software suppliers would be a reasonable task to be expected and should be undertaken to determine the economic feasibility of any recommendation of change.

Also, the Guide fails to recognize that the industry software tends to be a mirror of the accounting principles practiced in an industry. Thus, in suggesting an accounting treatment that is foreign to the software servicing the insurance agent and broker industry, the Guide does not in fact represent the generally accepted accounting principles at work in the industry today.

TAX IMPLICATIONS

The Guide is not a tax document nor does it have the impact of changing the tax laws. Yet, the tax implications of the recommendations must be considered. As we are all aware, tax law tends to adjust to the accounting rules and pronouncements when it is to the advantage of the taxing authorities. Thus, if the change to the revenue recognition date approach is adopted, there will be precedent to promote the change of the tax laws to the recognition of the income on the same basis.

A number of our members very well point out the negative impact this would have on the operations of the industry. The taxing authorities would tax the income at the inception of the policy, before the cash is received and before the related expenses of servicing the policy are incurred. Thus, taxes would be paid on the gross revenues of an operation without the available cash nor the offset of the related costs.

BALANCE SHEET PRESENTATION

The balance sheet presentations suggested in the Guide are acceptable if the timing of the revenue recognition is based on the proportional performance concept. If the revenues recognition is to be accelerated to the revenue recognition date, then the presentation becomes misleading. To recognize the receivable without the related liability for future services raises the issue of adequate disclosure.

The recent changes to GAAP, relative to liabilities related to retired employees, is an example of an attempt to have the balance sheet provide adequate disclosure of future liabilities. As discussed earlier, there are liabilities on the part of the broker to provide "subsequent servicing costs" and these costs should be disclosed.

Also, it is extremely difficult to estimate the collectability of any receivable recorded under the revenue recognition date method. The policy can be canceled with no liability, non-payment is certainly a reality in today's economy, and policy changes and modifications are significant. All these issues and many others raise doubt as to the ability to properly record a reasonable asset and related reserve for collectability.

INTANGIBLES

We agree with the Guide's approach to the valuation and amortization of intangibles. Here the Guide defines a proper matching of expense (amortization) with the period that is being benefited. As you are probably aware, we have invested a good deal of effort in trying to educate the Treasury department in this area and think that the Guide would be supportive and valuable authoritative evidence in our continuing lobbying efforts.

SUMMARY

In conclusion, we strongly urge the AICPA to revisit the issues and conclusions expressed in the Proposed Industry Accounting Guide for Insurance Agents and Brokers. Input from the parties affected by the Guide should have been involved in the entire process and not be limited to a 30 day comment period. We are not suggesting that the efforts already put into this project be abandoned, but rather, suggest that sufficient time be invested to allow the realities of the industry to be reflected in the conclusions and recommendations presented.

We believe the use of the defined revenue recognition date approach to be misleading and an inaccurate presentation of the actual operations of the industry. We believe the insurance agency system to be as much or more a service industry than a sales industry, thus the recognition of income over the period the service is rendered is the proper presentation for the matching of revenues and expenses.

We believe that a Guide is necessary and appropriate but must be a document that is a representation of the industry practices; not be a theoretical thesis that cannot be implemented.

Thank you for reviewing our comments and please accept our offer to provide you with any services and support that we can.

R. C. Riley

R. C. Riley, CPCU, AAI
President

Jeffrey Yates, Esq.
Executive Vice President, General Counsel

Russell R. Burnett, CPA
Vice President, Treasurer

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#197

December 17, 1991

Ms. Allyce G. Konigsberg
Accounting Standards Division
File 3165
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft Proposed Industry Accounting & Reporting Guide for Insurance Agents & Brokers (dated August 15, 1991)

Dear Ms. Konigsberg:

If the purpose of a report from our CPA is to as accurately as possible give us the results of our operations and picture of our financial condition, it would seem the value of the report would diminish in direct proportion to the number of estimates used to prepare that report. The proposed accounting guide for insurance agents and brokers ask the agents and brokers to make several guesses as to what may happen in the future. For example, you would like us to guess whether or not insureds on an installment basis for payment of premium will in fact want to, or be able to, make those installments and to guess whether or not we will be eligible for a contingent commission and further to guess at the amount.

I can report after 40 years in this business that not all clients make their installment payments and contingent commissions are indeed elusive as we have lost what we felt would have been a substantial contingent commission as late as the last week in December when one of our clients had the poor judgement to run over a State Policeman.

It is not clear as to what purpose the changes are being proposed particularly when these changes will be based upon guesswork. In our annual audit we are asked to provide the exact amount of cash in the bank and guesses are not accepted. We employ the services of a CPA to assist us, not to hinder us. If the rules are changed then maybe we no longer need the services of the CPA, except for the preparation of an occasional report prepared on a compilation basis.

Sincerely,

W G McHenry

W. G. McHenry, CPCU
President

WGM/nac

please note #198
was a duplicate
of #158

Davis-Garvin Agency, Inc. #199

Agent Broker

P.O. Box 21627 Columbia, South Carolina 29221

December 27, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N. Y. 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated: August 15, 1991

Dear Ms. Konigsberg:

After careful review of the draft mentioned above, I do not agree with many proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would have a detrimental effect on our record keeping and tax liability. Our current accounting system could not do these guidelines.

Steve Warner, President of the Mc Cracken National Advisory Board, has sent a copy of his letter to you dated October 25th. I am in agreement with all issues discussed in his letter (a copy of which is attached). see #15[illegible]

I urge the AICPA to review the proposed guidelines before a final decision is made of these accounting principals.

Thank you for your consideration this matter.

Sincerely,

Curtis C. Stewart

Curtis C. Stewart, CPA, JD
Comptroller

CCS/jj

ZEILER INSURANCE, INC.
12159 South Pulaski • Alsip, Illinois 60658-1299 • (708) 597-5900 • FAX (708) 597-8266

#200

November 22, 1991

Ms. Ellise G. Konigsberg
Accounting Standards Division, File 3165
AICPA
1211 Avenue of the Americas
New York, N.Y. 10036-8775

Re: Exposure Draft
Proposed Industry Accounting Guide
Insurance Agents and Brokers
Dated, August 15, 1991

Dear Ms. Konigsberg:

Our agency has reviewed the draft mentioned above, and we do not agree with many of the proposed methods of accounting that are presented in this draft. These standards are not representative of standard industry practices and would significantly affect our record keeping and tax liability. Our current accounting system could not accomplish these guidelines.

Steve Warner, President of the Mc Cracken National Advisory Board, sent me a copy of his letter to you dated October 25th. We are in complete agreement with all of the issues outlined in his letter (copy enclosed). See #155

We urge the AICPA to review these proposed guidelines before finalization of these accounting principals.

Thank you for your consideration.

Sincerely,

ZEILER INSURANCE, INC.

Donald E. Zeiler
President

DEZ/ms

#201

J. Byrne Agency, Inc.
INSURANCE SPECIALIST
5200 NEW JERSEY AVENUE
P.O. BOX 1409
WILDWOOD, NEW JERSEY 08260

PHONE (609)-522-3406
FAX (609)-522-2844

BRANCH OFFICE
22ND STREET & DUNE DRIVE
AVALON, NEW JERSEY 08202
(609) 967-3003

November 13, 1991

Russ Burnett, V.P., CFO
C/O IIAA
127 South Peyton Street
Alexandria, Va 22314

Re: Proposed Accounting Guide for Insurance Agents & Brokers

Dear Mr. Burnett:

After reviewing the above mentioned proposed accounting guide, I feel that setting standards for how accountants and CPA's look at and interpret financial statements of independent agents, is a good thing. It would be much easier for agents such as myself, to not only analyze our own financial statements, but analyze other agencies as well. Below are a few items which I believe are incorrect or need addressing:

(1) Probably the most controversial area, as I see it, deals with the recognition of income on installment billings. This does not seem practical, as most agents now recognize income on installment billings as they are either billed or received. To recognize the total income on installment billings at the time of renewal, would not be practical. The Agent is not assured that the remaining installments will be paid nor collected.

(2) On Page 12, Section 1.6, it states that "After the insurance has been placed, the Broker also may provide services such as processing and collecting claims settlements for the client." I believe that collecting claims settlements is incorrect and should perhaps be replaced by assisting in claims settlements.

(3) On Page 13, Section 1.13, it states that "Brokers sometimes advance claim settlements..." I do not believe this to be true. This same wording also appears on Page 14 in Section 1.20.

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(4) Under Chapter 6, Life Insurance Agents and Brokers, Page 38, Section 6.10, it states that First year commissions on long duration life insurance policies should be recognized as income when the first premium is paid by the insured regardless of whether the first year premium is paid as a single premium or as a series of monthly, quarterly, or semi-annual premiums. Here again, this is similar to the installment issue raised in my first point.

I believe the proposed accounting guides are very good for our industry. With the one major exception of the general theme of installment billing, I believe them to be otherwise adequate. If I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Thomas P. Byrne, AAI
IIANJ Executive Committee Member

TPB:ag

cc: Jim Ross
Executive Vice President
c/o IIANJ
73 Woodbridge Avenue
Highland Park, NJ 08904

RUSSELL E. STEVENS & CO., INC.

3 of 12

November 18, 1991

Errors & Omissions
Program Administrators

201 continued

Via Fax 703-683-7556

Mr. Jeffrey Yates, Executive Vice President
Independent Insurance Agents of America
127 So. Peyton Street
Alexandria, VA 22314

Dear Jeff:

RE: Proposed Accounting Changes by
American Institute of Certified Public Accounts

I enclose a copy of the announcement sent by National Association of Casualty & Surety Agents together with a copy of our Mailgram urging the American Institute of Certified Public Accountants to stop the proposed changes that are going to have a substantial financial impact on agents and brokers throughout the Country.

I do not know if you are aware of this situation but urge you to also notify members of IIAA to take similar action to try and stop this situation before it gets out of control.

Hope this will be of some assistance to you and to our members in this matter.

Best regards,

Bill

WILLIAM H. STEVENS
WHS it
enc.

Independent Insurance Agent.

192 Broad Street • P.O. Box 711 • Bloomfield, NJ 07003
201•748•7211 E&O Hotline: 1•800•624•1109 FAX: 201•748•4097

RUSSELL E. STEVENS & CO., INC.

Errors & Omissions
Program Administrators

November 18 1991

Via Fax 908-572-2536

Mr. James J. Ross Executive Vice President
Independent Insurance Agents of New Jersey
73 Woodbridge Avenue
Highland Park N J. 08904-3295

Dear Jim:

I enclose copy of bulletin from the National Association of Casualty & Surety Agents requesting "IMMEDIATE ACTION NEEDED" to help stop a proposed change by the American Institute of Certified Public Accountants (AICPA).

It would appear that if these changes should go through we are in for a tremendous increase in our tax liabilities as well as expense in changing our compute programming.

I also enclose a copy of my Mailgram that I sent today to the AICPA and you may want to sent out a special bulletin to the members of the Association to do the same thing.

Hope this is helpful to you.

Best regards,

WILLIAM H. STEVENS
WHS it
enc.

Independent Insurance Agent.

192 Broad Street • P.O. Box 711 • Bloomfield, NJ 07003
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RUSSELL E. STEVENS
& CO., INC.

Errors & Omissions
Program Administrators

5.8.12

November 18 1991

Via Fax 201-631-7459

Mr. Walter Schmiedeskamp
Deloitte-Touche
2 Hilton Court Box 319
Parsippany, NJ 07054-0319

Dear Walter:

I enclose a copy of a bulletin received today from National Association of Casualty & Surety Agents regarding proposed changes by the American Institute of Certified Public Accountants which would appear to have a devastating effect on our tax liabilities and cost to our computer system to change over to this proposed new accounting program.

I would appreciate if you would take the lead in contacting the AICPA to stop this situation before it gets out of control.

I enclose a copy of my Mailgram that was sent today and I understand our New Jersey Association of Independent Insurance Agents is taking a strong position in this matter also and is sending a similar announcement out to all of their 1500 member agencies in New Jersey.

Hope this matter can be stopped at the moment and would appreciate hearing from you regarding your views and comments on this matter.

Best regards,

WILLIAM H. STEVENS
WHS it
enc.

Independent Insurance Agent.

192 Broad Street • P.O. Box 711 • Bloomfield, NJ 07003
201•748•7211 E&O Hotline: 1•800•624•1109 FAX: 201•748•4097

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Fax 713-622-2053

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October 31, 1991

11/5/91

Mr. Russ Burnett
Vice President and Chief Financial
  Officer
Independent Insurance Agents of America
127 S. Peyton Street
Alexandria, VA 22314

Dear Russ:

I was somewhat slightly impressed by the piece of work that the AICPA put out in their exposure draft. I guess I was unimpressed when they state therein that they have discussed it or furnished it to the industry because if they didn't come to us, I've not heard any discussion ever about them going to NACSA. So they either went to the NAIB, and those guys are probably the ones who are most effected, or it's just a little painted picture to make it sound better to their members.

While I would never purport to be a man who can read 40 some odd pages, I really don't have any problem at all with the revenue recognition date definition used.

On item 2.14 I really don't understand the meaning of the words at the very end, "current period". I think it might be better stated if it included in this fashion, "should not recognize such commissions as operating revenues until known and billed."

Under item 2.16, on the second line they use the words "cash flow". I think they must understand the difference between "cash flow" or "cash receipts", and the revenue recognition date to which they refer. These are not interchangeable words and in my mind conservative accounting would suggest that if they're going to force all income picked up, even that on an installment billing basis at the time of the revenue recognition date, they must also at the same time set up a potential liability for all of the unearned commission after day one. Sort of a cost or market, whichever is lower, instead of whichever is higher or produces revenue faster. And as a further comment on this, there are some types of policies that literally are continuous, can be cancelled or dropped at any time, and the premium's reported monthly and paid monthly.

Under 2.18, the first word on the last line is "pays". Once again they're mixing payment with revenue recognition. In my opinion the day the client accepts the installment billing for the second year or the third year, there is revenue recognition and it doesn't make any difference if he waits 6 months to pay.

Let's zip to balance sheet presentation and #2.42. I pulled out my old book, Principals of Accounting - Introductory, by H.A. Finney, Ph.B., CPA, revised edition printed in 1946. This book tells me that an asset is an asset and a liability is a liability. Neither this book nor any other accounting text book that I can find permits under conservative accounting practices to offset liabilities, whether or not in a legal trust fund, or an implied fiduciary fund, against assets. As a matter of fact, I'm shocked that some possible big AICPA member would allow this offset, since obviously if the two numbers are big enough it certainly distorts ratios. From a creditors point of view, the liability is there, and possibly even a secured one, whether or not the asset has disappeared.

Under Chapter 5, probably 5.5, maybe someplace in here they should point out that MGA's are not in the retail business but sell to the broker who provides the coverage to the consumer.

In Chapter 6, they seem to be a little confused between life and property and casualty. What is the revenue recognition on a life policy? The guy fills in an app, gives a check for one month or one year or some other period, takes a physical, and absolutely has no coverage. In property and casualty, if he fills in an app, gives a check, and the company accepts it, there is coverage. Some 30, 60 or 90 days later the life company can come back and decline coverage because of physical evidence, credit reports or whatever and that life agent has zero dollars, and to have had to recognize those dollars any time earlier in my opinion would be horribly unfair.

Secondly, for those of us who are property and casualty agents and have a little bit of life or group business, or A&H business, we don't keep tract of that trash at all. We sell a group case, the company bills it, in monthly installments, and sometime after they receive a monthly premium they send us a check. And more and more of those guys are not sending checks but accumulating commissions due us until they reach some minimum set amount like $50 or $100 or $250. We recognize that income when the green back comes flying in the door.

Under 6.10, many's the person who takes out a life policy on either a monthly or quarterly basis or monthly bank draft basis and it never goes to the full term of the first year. He gets mad, loses his job, gets a cheaper policy, or whatever, but he stops paying it. How in the world of conservatism can anybody recognize that income when that income is not earned until the premium is paid to the carrier. But if that's really what those guys want to do, then you ought to set up an unearned premium income account and slowly earn that income that you haven't yet received by reducing the unearned when you do receive it.

And my final favorite chapter, #8. As a starter, the first caption says, "acquired intangibles - other than goodwill". Item 8.4 which is under that caption includes as a separate item goodwill. Somebody's elevator doesn't go to the top.

Employment and management contracts and non-compete agreements are included as one caption. This is in my opinion a terrible error. Every single thing in the law that I've ever read, or any court decision that I've ever read, says non-compete agreements must be treated separately, negotiated separately, spelled out for in a separate part of the document, and paid for accordingly. It shouldn't be included with anything.

Item 8.5 is slightly incorrect. The seller can assign renewal rights without any signed broker of record letters from a client whatsoever. We've acquired over 20 agencies, the seller has always assigned it, and unless coverage was in a non-standard market, we never got the client to sign anything but only furnish copies of the seller's letter authorizing us to take over the handling of the account to the lender, the Workers Compensation Assigned Risk Plan, or to the existing carrier.

And under 8.6, they're way off base. I would think that the people at Russell Miller, Hales, Marsh Berry, and everybody else that I know of would state that nobody could do this by an account-by-account basis, assuming expected attrition rates, based on the historical experience for each account, each broker, the industry, economic and business environment, etc. This is an absolute positive blunder in my opinion.

And lastly, don't let them side-step Revenue Ruling 74-456. That's the best deal we've got and they ought to somehow include portions of that in the paper in order to reinforce the Revenue Rule and keep the IRS from jumping down our throat.

Well, probably you never expected to get this much debris, so enjoy reading it and let all of your other guys up there tear it apart.

Kindest personal regards,

Dick

Richard E. Marks
REM/ds

Alaska Independent
Insurance Agents & Brokers, Inc.

FACSIMILE COVER PAGE

Date: 11/19/91

From: Gina McBride

Company: IIAA
ATTN: Russ Burnett

Fax #:703-683-7556

Regarding: Proposed Accounting Guide for Insurance Agents & Brokers

_3_ Pages sent, including this cover page.

Message:

Russ:

I sent a copy of the exposure draft of the new proposed industry accounting guide for insurance agents and brokers to one of the financial examiners at our Division of Insurance. His response is attached.

I thought it might be of interest to you.

Regards,

STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

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DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

DIVISION OF INSURANCE

7th FLOOR FRONTIER BLDG.
3601 C STREET, SUITE 740
ANCHORAGE, ALASKA 99503-5934
PHONE: (907) 562-3626

November 14, 1991

Gina McBride
Alaska Independent Insurance
Agents & Brokers, Inc.
P. O. Box 203088
Anchorage, Alaska 99502-3088

Dear Gina:

The letter you sent to Gloria regarding the American Institute of CPA's ("AICPA") proposed industry accounting guide (Accounting Guide) for agents and brokers is appreciated. I am a member of the AICPA, have indicated a specialization in the insurance industry, have contributed comments to the drafting process and have specifically told the technical representative of the committee that drafted this exposure draft that I desired a copy. I did not get a copy. Thank you for sending me this document.

In your letter you inquired as to whether or not this would be acceptable to the Alaska Division of Insurance. That is an important question. Let me answer your question this way.

Read the Division's regulation, 3 AAC 23.510 <u>Generally Accepted Accounting Principles</u> ("GAAP") closely. This Accounting Guide, if adopted as a publication of the AICPA, would fall under 3 AAC 23.510(a)(3). Accordingly, the Division would consider the conclusions of the AICPA Accounting Guide to be "accounting principles having substantial authoritative support" subject to being voided because of a law, rule, etc., of a higher authority listed in 3 AAC 23.510.

Let me illustrate that by giving you an example. Paragraphs 1.26 and 1.27 in the Accounting Guide describes various methods of recognizing commissions income in the financial statements. 3 AAC 23.620 <u>Earnings of Commissions</u> deals with this same area but from a standpoint of when dollars of commission earnings may be removed from the trust accounts. 3 AAC 23.620 takes precedence in the area of removal of dollars from a trust account. 3 AAC 23.620(d) specifically excludes use of 3 AAC 23.620 to establish GAAP for the purpose of the preparation of a financial statement of a licensee. Thus the AICPA Accounting Guide, absent anything authoritative from the Financial Accounting Standards Board [3 AAC 23.620(a)(3)] or being voided by state statute [3 AAC 23.620(a)(1)] is the GAAP authority for <u>when to recognize commissions in a financial statement</u>. 3 AAC 23.620 controls for <u>when commission dollar amounts may be removed from the trust account</u>.

12 of 12

The AICPA Accounting Guide generally adopts accrual basis accounting and links revenue recognition with completion of delivery of the services for which the agent or broker is being compensated. 3 AAC 23.620(a) provides for commissions to be transferred from a trust account "...only after they are earned." Both the Accounting Guide and higher authority are in agreement on this point.

However, in 3 AAC 23.620(b) agents and brokers receive two safe harbors for identifying the date of transfer of trust fund dollars earned as commissions. Their safe harbor is a contractual relationship with the insurer and settlement date of a licensee's account current. Thus time of removal of commission revenue from the trust account MAY BECOME DIFFERENT than the time when revenue should be recognized in a financial statement.

We specifically placed 3 AAC 23.620(d) in the regulation to avoid a trap for the agents and brokers dealing with trust accounts being maintained under Alaskan law. We foresaw a situation where an agent or broker could be required to file GAAP basis financial statements, say for a filing with the Securities and Exchange Commission, which could be viewed as a violation of State of Alaska regulations. We wanted this in regulation because we wanted to avoid the ability of a future examiner to make an arbitrary and capricious regulatory judgment finding an agent or broker in violation for something required for another regulatory authority.

If your organization identifies any other possibilities of being trapped between rules of different regulatory authorities, please do not hesitate to contact the Division. As long as we do not weaken protection for the Alaska insurance consuming public, we would be pleased to consider some action to resolve the contradiction.

Very truly yours,

Eugene W. Furman

Eugene W. Furman CPA
Insurance Financial Examiner

0638E