Glossary of Selected Insurance Brokerage Financial Terms

- Income Statement: Revenues – Expenses = Profits (over a period of time)
  - Matching Principle: Report expenses on the Income Statement in the same period in which the related revenues are earned.
  - Revenues: The income generated from the sale of goods or services, or any other use of capital or assets, associated with the main operations of an organization before any costs or expenses are deducted. For an insurance brokerage, these include:
    - Commissions and Fees: Commissions are paid to agencies/brokerages by carriers and fees are paid by customers for risk management services.
    - Other Income: Growth and loss contingents paid by carriers for achieving certain performance levels. Investment income received from investments made in financial instruments/savings accounts.
    - NOTE: Just because an item is listed as "revenue" on the Income Statement, don't assume the cash has actually been received.
  - Compensation Expenses: Employment and other compensation expenses associated with the production generated during the reporting period (i.e., commissions, salaries, benefits).
  - Selling Expenses: Travel and Entertainment, Automobile, Advertising and Promotion, etc.
  - Operating Expenses: Facilities, Training and Development, Telephone, Postage, Supplies, Subscriptions, Insurance, Professional Fees, Equipment Rental, etc.
  - Administrative Expenses: Depreciation, Amortization, Insurance, Interest Expense, etc. Depreciation and Amortization are the fraction of the original cost of a long-term asset (e.g., a computer system or an acquired business) that is recorded as an expense during the reporting period. The cash may actually have been spent in a prior year.
  - Operating Profit: Profit from the operations of the business, before taking out interest and tax expense. Also known as EBIT: Earnings Before Interest and Tax.
  - Net Income: The profit remaining after all expenses are subtracted from revenues for the period.
- Balance Sheet: Assets = Liabilities + Equity (at a specific point in time).
  - Assets: Resources of value that are owned by the company and that are expected to provide a future benefit.
    - Cash and Cash Equivalents: Cash and assets that are expected to be converted to cash in the immediate future such as certificates of deposit (CDs) and money market funds.
    - Accounts/Premiums Receivable: Money owed to the company from customers who have received a product or service on credit and have not yet paid for it.
    - Fixed Assets: Buildings, vehicles, computers – any asset that is not expected to be consumed or sold in the current year.
    - Intangible Assets: Non-physical assets such as patents, trademarks, copyrights, etc.
    - Goodwill: An intangible asset recorded when one company purchases another. It is the purchase price less the fair market value of the acquired company's assets and liabilities.

    - Liabilities: Debts and other financial obligations.
        - Accounts Payable: Money the company owes to suppliers who have provided a product or service to the company on credit but who have not yet been paid for it.
        - Short Term Debt: Loans due within a year.
        - Long Term Debt: Loans due in more than one year.
    - Equity: Shareholders' ownership stake in the company.
        - Stock: The amount of money that the shareholders put into the business at the start, and over time, in exchange for ownership shares in the company.
        - Retained Earnings: The amount of profit that has been re-invested back in the business, as opposed to being paid out as dividends/distributions.
- Cash Flow Statement: The firm's cash inflows and cash payments during a specified period of time from 3 separate activities:
    - Operating activities – cash used or generated from day-to-day operating activities.
    - Investing activities – cash used or generated by investments.
    - Financing activities – cash used or generated to finance the business operations; debt or equity financing.
- Financial Ratios and KPIs:
    - EBITDA: Earnings Before Interest, Tax, Depreciation, and Amortization.
    - ROS/ROR: Return on Sales, Return on Revenue, or Profit Margin = Net Profit $ / Revenue. Indicates the firm's profit margin on revenue earned.
    - ROA: Return on Assets = Net Profit $ / Total Assets.
Indicates the firm's efficiency in managing the assets of the firm.
    - ROE: Return on Equity = Net Profit $ / Total Equity.
Indicates the profitability of the shareholders' investment in the firm.
    - Trust Ratio = (Cash + Investments + Accounts Receivables from Insurance Customers)/Accounts Payable to Insurance Carriers.
Indicates whether the agency/brokerage has the funds necessary to meet payments to carriers. Should be above 1.0.
    - Float = Accounts Payable – Accounts Receivable.
Indicates how quickly a brokerage collects its receivables from customers compared to how quickly it pays out money owed to suppliers and carriers.
    - Loss Ratio: The ratio of incurred losses and loss adjustment expenses to net earned premiums. The percentage of premiums left over for a carrier to cover expenses and produce profit after accounting for incurred losses.
    - LTV: Lifetime Value of a customer. The value of an active customer-account to the brokerage in premiums over time.