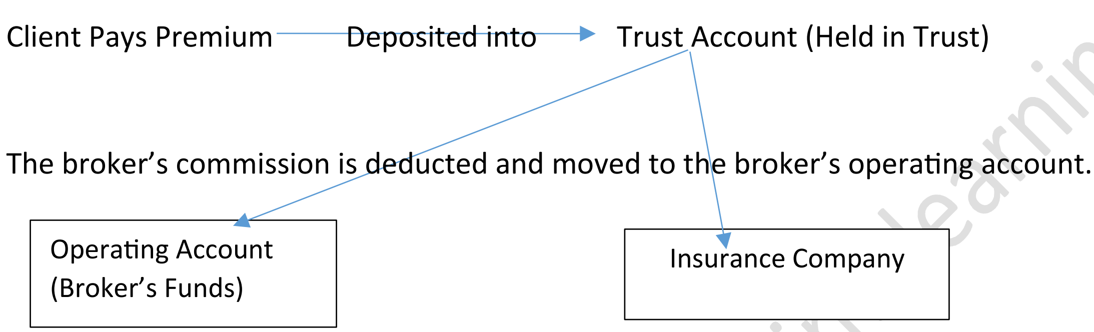
TRUST FUNDS

A **trust account** in insurance brokerage is a legally mandated bank account used to hold client and carrier funds separately from the broker’s operational funds. These accounts ensure compliance with fiduciary responsibilities, protecting premiums, claims payments, and refunds until they are remitted to the appropriate parties. Below is a detailed explanation with a diagram and example.



Explanation:

1. **Client Payment:** The client pays the insurance premium, which is deposited directly into the broker's designated trust account.
2. **Trust Account:** The trust account holds these client funds separately from the broker’s operating funds.
3. **Disbursement:** When the premium payment is due:
   - The appropriate amount is transferred from the trust account to the insurance company.
   - The broker’s commission is deducted and moved to the broker’s operating account.

Net of Commission:

When an insurance broker collects a premium from a client, the full amount goes into a trust account. The broker then calculates their commission (their fee for handling the transaction) and subtracts that from the total premium. The remaining amount—called the "net of commission" premium—is what the broker sends to the insurance company.
For example, if a client pays $100:

- The broker's commission might be $15.
- The broker subtracts $15, leaving $85.
- The $85 is then disbursed to the insurer, while the $15 is kept by the broker.

Net Premium: A net premium is the amount of premium for a policy less the commission.

NET PREMIUM = GROSS PREMIUM – COMMISSION.

Scenario: In simple terms, the key point is that once the premium is paid, the insurance policy becomes active—no matter who actually paid it. Here's an example:

Example Scenario:

- **Client's Situation:** John wants to buy a one-year home insurance policy but doesn't have enough money to pay the full premium upfront.
- **Broker's Action:** His broker, Sarah, pays the full premium on John's behalf from her own funds. John promises to repay Sarah later.
- **Event:** Three days later, John's house catches fire.

What Happens Next?

- **Policy Status:** Because Sarah paid the premium, the insurance policy is active.
- **Claim Process:** When the fire occurs, John (as the policyholder) is entitled to file a claim under the terms of the policy.
- **Insurer's Role:** The insurance company reviews the claim based solely on the fact that the policy is in force and the conditions for coverage are met—not on who provided the premium money.
- **Outcome:** The insurer will pay the claim to John if all other conditions of the policy are satisfied.

Important Note:
The internal agreement between John and Sarah (where John repays Sarah later) is separate from the insurance contract. The insurer's obligation to pay a claim is based on the policy being active, which it is because the premium has been paid.

So, even though someone else (the broker) advanced the money, the insurance company is still required to honor the claim.