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The Nuances of Owning a Premium Finance Subsidiary

Part 2: Navigating the Daily Workflow

By Nadesh Shanmuganathan

In the first part of this article series (which ran in the Vol. 276, No. 15, edition of **The Standard** on May 17, 2015*)*, readers were presented with an illustration of the value proposition of owning a premium finance subsidiary. In short, greater profits, enhanced market positioning and improved customer relations.

Yet, despite these tangible benefits, many agencies that could truly benefit from having their own premium finance subsidiary are reluctant to venture into this market because of a misconception that the premium finance business is inherently tedious and risky.

The key word here is *misconception.* While there was a time when premium financing was procedurally intensive, the business in 2015 is markedly different, with technological automation having replaced many of the manual processes that previously led to inadvertent risks.

Ensuring that the day-to-day workflow is seamless has a lot to do with the foundation that is put in place. Making the right decisions at the outset about people, processes and technology will allow a premium finance operation to run on autopilot.

People

The "people" (stakeholders) who comprise a premium finance operation are a combination of staff, agents/producers, companies/general agents and clients. Most premium finance subsidiaries designate one resource to serve as the high-level administrator or "champion" of the operation. Critical to ensuring both success and risk mitigation is ensuring that this resource has been carefully selected and that he/she is effectively trained to communicate the terms of financing policies to agents and producers.

Typically, administrators are required to allocate about two hours each day to complete daily tasks, such as reviewing and approving loans, ensuring time-sensitive advisements (such as intent to cancel and cancellation notices) are mailed out, releasing funding for financed policies and applying payments/submitting payment EFT files to the bank.

Periodically, the administrator should also monitor the performance of the portfolio with respect to the ratio of quotes that are converted to loans and the default ratio. He or she will also need to monitor cancellations to see if there is a recurring pattern of NSF(s) from any given client.

In addition to these ongoing responsibilities, administrators are sometimes required to use their discretionary insight. For example, agents and producers, who are the points of sale for premium financing, may occasionally offer clients unfavorable repayment terms and waive guidelines to try and expedite a sale. In cases like these, the administrator will have to weigh the merits of the request and make the appropriate decision.

Similarly, general agents may sometimes request administrators to approve the financing of a policy that is not prudent. Again, the administrator will have to find a solution that strikes a balance between relationship management and fiscal prudence.

Processes

Putting in place a standardized set of processes for the treatment of premium finance contracts makes administration of a premium finance subsidiary easier.

Alongside this, administrators are absolved from the burden of having to make ad-hoc decisions because there is a clearly defined protocol to follow in each scenario. Establishing these protocols at the onset will set the road map and framework for years to come. While some of these protocols will be decided by state legislation — maximum fees and cancellation delay, for example — many of the other rules come down to the discretion of the business. It is important to dedicate careful thought and planning to decisions involving: the maximum and minimum limits on premiums to be financed, differing down payment percentages and repayment terms for various types of coverages and polices and the number of grace days to provide on late payments.

Just as important as these decisions is establishing a workflow that ensures optimal efficiency. Planning when to stop applying payments and close for the day, for example, or when to batch up notices/advisements for dissemination will influence the efficiency of the operation.

Luckily, there are specifically designed software systems available that businesses can leverage to manage their operations. Just as in any business today, an operation's workflow can be built around the software system, thus minimizing overheads.

The most important benefit of establishing such a framework is that it ensures risk mitigation and compliance with regulations at all times. Instituting a standard operating procedure for "closing the day," for example, ensures that intent to cancel and cancellation notices are delivered in a timely manner, guaranteeing no loss of earned premiums.

Similarly, leveraging technology and establishing a scheduled procedure for the generation of all notices will ensure reinstatement requests are delivered promptly, completely eliminating the risk of litigation as it pertains to failure to reinstate a policy.

Technology

Many agencies regard premium financing as simply one additional service they can offer but do not consider it part of their core business. This is not to say that they do not enjoy the increased profits and flexibility that come along with operating a premium finance subsidiary, just that they would not choose to do so if it meant directing resources or focus away from their core business.

For these agencies, efficiency is key. The business has to run seamlessly with minimal overhead. Just as it is integral for an agency to select a sound agency management system, a primary aspect of operating a premium finance subsidiary is selecting the right premium finance software system. Let's face it — in 2015, technology is key for the success of any business.

Many agencies will try and fail to manage the day-to-day workload of their subsidiary with rudimentary techniques like spreadsheets and a patch work of home-grown processes. Optimal efficiency and risk mitigation, however, can only be gained by using a specially designed software system. A software of this nature ties the entire operation together, allowing seamless execution of the workflow processes you have designed, integrating agents, companies, insureds and the finance subsidiary into one platform.

In one conversation, an agent can use the software to provide a quote to a client, generate a premium finance agreement and submit the contract for approval. Once an administrator from the subsidiary approves the contract, the loan is booked and the software takes over any administrative duties. The software tracks all payables and receivables, sends out notices as applicable and ensures the company remains in compliance with state regulations at all times.

In conclusion, it is clear that consolidation of the right people, processes and software makes administration of a premium finance company significantly simpler than it was even just 15 years ago.

With such a clear value proposition for starting a premium finance subsidiary and a growing awareness of how easy it is to run the daily operations, it is a safe prediction to bet that this market can offer a sustainable growth strategy for your agency for years to come. ■

Nadesh Shanmuganathan is the founder and senior partner of Third Eye Solutions. Founded in 2001, Third Eye Solutions specializes in providing services and software for businesses that offer financing of insurance premiums. Third Eye Solutions Premium Finance Software is currently in use by over 100 agencies, banks and independent premium finance companies across North America.