

## FIRST INSURANCE FUNDING

# Dollars and sense and your commercial insurance client

By Joe Micallef

Competition for the Canadian commercial insurance client is at an all-time high. Brokers are continuously looking for ways to differentiate themselves in the eyes of the client. One way to accomplish this is by adding more value for your clients by way of additional offerings that complement your insurance expertise. Financial solutions and more premium financing benefit your commercial clients.

## What is premium financing?

Business owners know incoming cash flow doesn't always match what's going out. This is particularly true when larger expenses like business insurance premiums are due. Premium financing is a convenient solution. It works like a short-term loan: A premium finance provider pays the client's insurance premiums on their behalf, which the client pays back over an agreed-upon period, typically between nine and 12 months.

## Funding options

There are various options your commercial clients can utilize when funding their insurance premiums. You can help them choose the option that best supports their individual goals and business needs.

### Paying in full

Some clients may prefer paying their premiums with cash, drawing on operating capital from the business. Others might opt to reinvest in higher-yielding options or invest in the business.

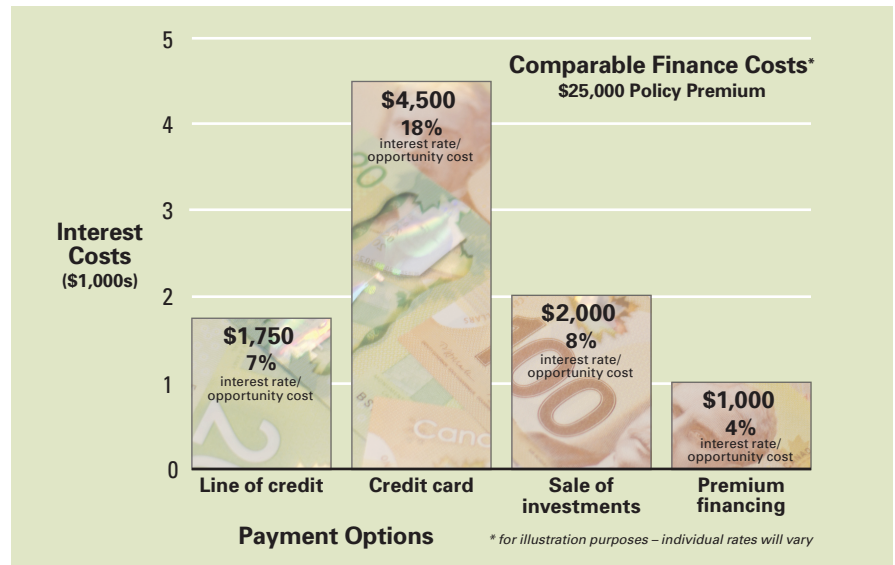


“Our new offering is the payments solution the industry has been waiting for. We're bringing it to market via a flexible, innovative and broker-centric platform.”

— Joe Micallef

option when your client's policy is with a single carrier.

A broker offering to fund a client's policies with his or her own capital



**Brokers can help their clients understand how premium financing can cost less than other options plus preserve their credit and cash flow.**

Clients may also resort to drawing from their lines of credit to pay premiums in lump sums. This choice could potentially affect their credit rating and tie up lines of credit should other opportunities or emergencies arise. And interest payments can be costly. Select premium financing partners can also offer the ability to accept payments by credit card.

### Monthly instalments

There are also options available that enable clients to pay premiums in instalments over the course of the year. Direct Bill, for example, is a service many carriers offer. The carrier takes over the logistics of billing and collecting premiums directly from your client. This is an

(also known as in-house financing) has become more common in the past few years. This model is an option for brokers with capital and the expertise and resources to process contracts, payments and collections.

Another favourable option is to provide your clients premium financing with competitive terms and rates. Easy monthly instalments are a very palatable option for many businesses, as they can spread out the payments over the term of the policy and smooth the impact to cash flow. Premium financing also gives brokers the added benefit of enhancing their service offering, reducing time on risk and reducing their receivables. And it offers brokerages the ability to generate another revenue stream via commission payments.

## Payment solutions

Partnering with a payment-solutions provider bolsters an insurance broker's status as a trusted advisor by providing expertise and a variety of financial solutions.

*Client benefits*

Taking advantage of premium financing options allows your commercial clients to smooth out their cash flow over the year. Rather than tying up working capital in large lump sum insurance policy payments, clients pay smaller monthly financing instalments, allowing them to reinvest capital into their businesses. Premium financing also simplifies payments, as multiple commercial policies can be consolidated into a single premium financing contract so the client has just one payment. Clients conveniently sign one contract and payments will automatically be made without writing cheques, even for policy and coverage changes throughout the year.

Unlike a typical loan, premium financing does not affect bank covenants or overdraft lines; a client's traditional borrowing capacity and line of credit remain intact. Some clients might not realize financing payments may be less expensive than alternative options. They may choose to extend their line of credit or cash-out investments to pay premiums upfront. Brokers can provide value to their clients by offering a cost-effective payment plan option by way of a premium finance agreement.

*Broker benefits*

Partnering with a payment-solutions provider of premium financing enhances your value offering to clients. It can also make sense to your brokerage from a financial perspective.

Premium financing relieves your administrative burden. Your premium finance provider is responsible for contract processing, invoicing, payment collection and debt recovery, so you can focus on your area of expertise – growing your business and serving clients. By offering clients additional payment services such as premium financing, you are enhancing the value you bring to your client and differentiating your services from competitors.

Some premium finance providers offer no-questions-asked financing or pre-approved terms, which enables you to confidently offer your commercial clients flexible payment options with each commercial policy.

Finally, brokerages can improve cash flow and fast-track revenue by earning their commissions upfront without the need to wait for earned premiums. Should brokers choose to use their own capital and resources to offer clients monthly financing, they effectively create a portfolio that puts their excess capital to work as an investment instrument. Similarly, partnering with a premium finance provider can create a secondary revenue stream by way of commission payments.



**“Our financial strength and stability is unparalleled in the Canadian market. Our partners can leverage this to build stronger businesses.”**

– Stuart Bruce

**Risk management**

Carrying accounts receivables comes with risk to you as a broker: insurance risk, risk of lost profits and the risk of damaged client relationships. Your bottom line may be affected by the cost of resources

to manage your receivables, the cost of write-offs, loss in interest revenue and loss in revenue generation. There is also a risk of damaging relationships with your clients through followup or cancellation activity due to defaulted payments. When you finance a policy's premium, your

and your clients. Look for a partner that offers premium financing as well as additional financial services benefiting your brokerage and your clients. An example could take the form of broker loans to help you achieve your business goals, including refinancing, succession, growth or acquisitions. Beneficial offerings can also include credit card processing, training sessions, accredited presentations and support of insurance industry events and associations. A premiere partner should provide responsive turnaround times and professional customer service for you and your clients.

An ideal partner operates with technology solutions and innovates to improve service to you and your clients. For even greater efficiency, ask potential providers if they have a technology platform that can integrate with your current broker management software and/or partner with your managing general agents and carriers.

If you service niche markets, you'll want to look for a partner offering special program packages directly supporting clients you may have in specific sectors.

Good finance partners will tailor commission arrangements to you while providing competitive terms to your clients.

The payment-solutions company you select to partner with should have the flexibility to customize pricing plans to your clients based on a greater understanding of your desired commission arrangement, funding delay and specific client needs.

You'll find that a top payment-solution provider's offering will extend beyond premium funding. These additional services add further value to your relationship with your clients and will differentiate you from the competition.

The right partner is a strategic alliance that positions you to win in the competition for the Canadian commercial insurance client. **IP**



First Insurance Funding's Joe Micallef has more than 20 years of global business banking experience.



finance partner assumes the risk. This removes you from the associated administrative tasks, protecting your reputation and the relationship with your client.

**Choosing a partner**

As with any partnership, you want to carefully consider not just price, but the entire value offering provided to you