

A Diversification Opportunity for Banks

**Achieving greater revenue and loan growth via
the Property and Casualty insurance market**



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The Market

As the lines between banking and insurance continue to fade, the requirement to leverage the strengths of these two sectors of the financial market becomes clearer.

Insurance premium financing (IPF) is where banking and insurance meet. Most insurance products are financed. If the seller does not provide the financing, someone else will – and revenue per transaction will be lost. Proof of this concept exists everywhere. Most major automobile manufacturers own and promote their own financing arms. There is no major seller of personal computers that doesn't offer and promote its financing arm. Virtually every major gasoline company offers a branded credit card. The list is endless.

Banks that own insurance concerns should be no different. What is different however, are the stringent requirements and unique compliance issues faced by the bank in comparison to non-bank owned insurance concerns.

Input 1 understands these challenges and we provide a comprehensive outsourced servicing solution for bank-owned IPF operations. Input 1's software and internet support services are used by bank-owned insurance financing operations throughout North America. Input 1's approach is highly detailed and analytical. We assist our clients in establishing new, or refining existing IPF operations with policies and procedures that pass the scrutiny of federal and state regulators. This ensures bank assets perform and retain their value.

Input 1 is the only third-party administrator selected by financial bellwethers such as G.E. Capital, J.P. Morgan Chase, ING Capital, M&T Bank, Mizuho Bank, DZ Bank and others to back up and to protect the billions in capital that they have advanced to insurance premium lenders.

If your bank owns brokerage or insurance carrier operations and you have not yet examined the benefit of an IPF arm or if your bank's IPF arm could benefit from the superior technology offered by Input 1, please read on.

Overview

Insurance premium financing is the business of extending credit to a policyholder to pay for premiums when the carrier requires payment in full at inception of coverage. Premiums are advanced either directly to the insurance carrier or through an intermediary (i.e. insurance broker) and repaid by the policyholder with interest during the policy term. By contract and statute, the finance company secures the right to cancel the insurance upon default and establishes a first position lien on the unearned premium of the policy.

Commercial insurance premium finance opportunity

- Global Market Size of \$40—\$60* billion in annual originations
- The United States market represents \$25—\$40* billion in annual originations
- Risk-Adjusted Net Interest Margins of 4.00—4.25%
- Significant loan sizes (\$40,000.00+ average), fee income and growth opportunities
- Very low credit losses driven by the collateral of "unearned premium"

Considerable growth opportunity to banks

- Bank-owned insurance subsidiaries finance significant insurance premium through unaffiliated premium finance companies each year.

**Soft vs hard market conditions*

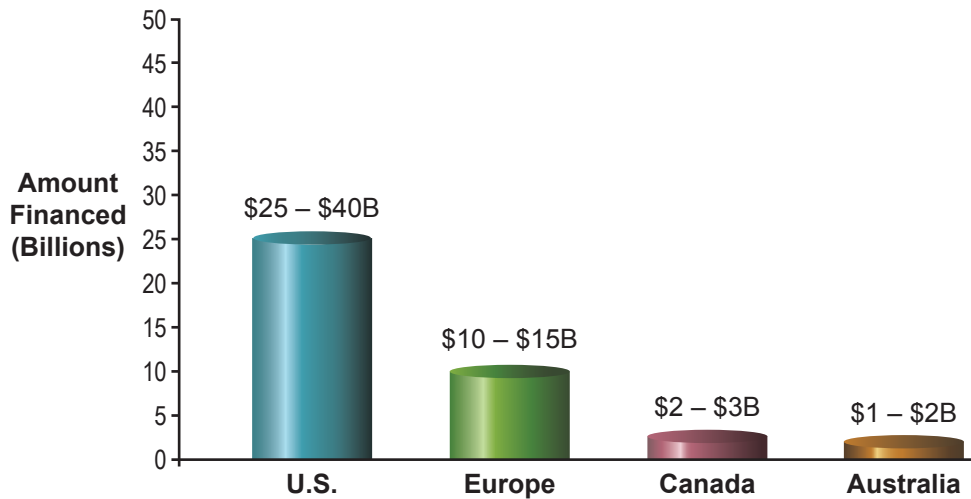


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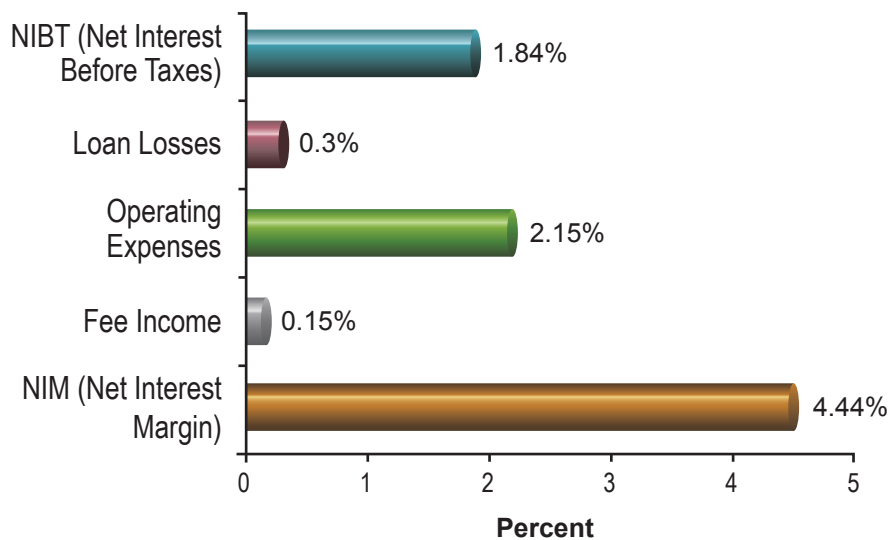
Market Size and Loan Economics

Given the significant market size and attractive economics, commercial insurance premium finance offers a low risk diversification opportunity for banks.

Global Market Size: \$40 – \$60B



Economics (\$40,000.00 Loan)



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Premium Finance Characteristics/Benefits

The insurance premium finance product provides valuable benefits to customers and the retail broker.

Product Definition

Commercial insurance premium finance is an installment loan to a business, the proceeds of which pay premiums due to an insurance carrier pursuant to an insurance policy.

Product Attributes

- Terms commonly less than 12 months, i.e. 9 or 10 installments
- High renewal rates
- Full premiums are paid up front to the insurance carrier
- Return of unearned premium to insurance premium finance company on default
- Collateralized by the unearned premium reserve on the insurance policy

Product Benefits

Customer/Insured

Financing insurance premiums allows a business to:

- Minimize depletion of cash resources
- More effectively match spending to insurance coverage benefits
- Pay multiple policies with one invoice

Retail Broker

Financing insurance premiums allows a retail insurance broker to:

- Help support the sale of insurance products (better terms/flexibility)
- Maintain full payment at start of policy, and thus avoid statement/payment processing
- Earn commission dollars up front instead of over time

Why This Product is Attractive to Banks

| Area of Interest | Premium Finance |
|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Loan Growth | <ul style="list-style-type: none"> • Loan averages can range anywhere from \$5,000 to more than \$1,000,000. • High customer renewal rates (75%+) |
| Fee Income | <ul style="list-style-type: none"> • 2.5% late fees on scheduled monthly installments • Average of one occurrence per term |
| Low Losses | <ul style="list-style-type: none"> • The insurance policy serves as cash/collateral for the finance company • Commercial loan delinquency rates are low • Charge off's in the sub-40 basis point range |
| Market Size/Trends | <ul style="list-style-type: none"> • U.S. Market size of \$25 — \$40B in annual originations • Potential market size of \$400B+ (includes entire market — nonfinanced and installment-billed) |



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The Origination Process



Customer

- The customer requests to finance their insurance policy(s)

Retail Broker

- Upon receipt of an approved insurance quote from the carrier, the retail broker produces a premium finance application/security agreement for the insured

Premium Finance Company

- Accepts the premium finance application and takes a security interest on the underlying policy
- Advances the premium proceeds to the insurance carrier or its authorized agent
- Provides all notification to parties involved

Insurance Carrier

- Receives the annual premium proceeds and acknowledges the premium finance company interest in the policy

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The Collateral

Collateral Description

- The premium finance company's collateral is called the "unearned premium" which is the residual value of the unused portion of the insurance premium.
- In the event of a delinquency, the premium finance company will cancel the policy and bill the insurance carrier for the unearned premium.
- The insurance carrier is required by law to return the unearned portion of the insurance premium to the premium finance company.
- The premium finance company will use the unearned premium to pay off the borrower's loan balance plus unpaid interest.

Example Assumptions

- Annual policy premium of \$40,000.00
- Down payment of \$8,000.00 (20%)
- Amount financed of \$32,000.00
- Pre-computed finance charge of \$1,042.24
- Total payments of \$33,042.24
- Total installments of 9
- Installment amount of \$3,671.36
- A.P.R. of 7.75%

| Time (Months) | Unearned Premium (\$) | Loan Balance (\$) | Collateral coverage (% of bal.) |
|---------------|-----------------------|-------------------|---------------------------------|
| 0 | 40,000.00 | 33,042.24 | 121 |
| 1 | 36,666.67 | 29,370.88 | 125 |
| 2 | 33,333.33 | 25,699.52 | 130 |
| 3 | 30,000.00 | 22,028.16 | 136 |
| 4 | 26,666.67 | 18,356.80 | 145 |
| 5 | 23,333.33 | 14,685.44 | 159 |
| 6 | 20,000.00 | 11,014.08 | 182 |
| 7 | 16,666.67 | 7,342.72 | 227 |
| 8 | 13,333.33 | 3,671.36 | 363 |
| 9 | 10,000.00 | (0.00) | — |
| 10 | 6,666.67 | 0 | — |
| 11 | 3,333.33 | 0 | — |
| 12 | — | — | — |

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Risk

There are three primary areas of risk for a premium finance company.

| Risk | Mitigation |
|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Operating Control | <ul style="list-style-type: none"> Using an experienced third party administrator such as Input 1 will help you maintain control on each and every operational aspect of this business including terms, rates, procedures, collection, provisional risk relative to specific coverages, etc. |
| Carrier Insolvency | <ul style="list-style-type: none"> Frequently monitor insurance carrier concentrations Maintaining a floor for acceptable insurance carriers with which to do business, i.e. must be A.M. Best Rated B+ V or better |
| Agency Fraud (only applies to non-captive owned business) | <ul style="list-style-type: none"> Implement a comprehensive due diligence process for agents Limit the number of retail brokers who will receive funds directly Develop proper fraud strategies to monitor agent transactions |

About Input 1

Since 1984, Input 1 has provided business process outsourcing and comprehensive software solutions to the premium finance industry. During this time there have been very few experienced vendors on which premium finance companies can rely for their unique service and system requirements.

Input 1 became the first premium finance software vendor to provide systems to some of the largest premium finance companies in the world, including 6 of the top 10 in the United States. Prior to Input 1's entrance into the marketplace, finance companies who financed \$100 million to \$10 billion invariably built their own technology solutions. Below is a high level list of the products/services we provide:

Outsourcing Services for PFC's
Backup Servicing
Internet Application Services
Traditional Premium Finance

Outsourcing Services for Installment Billing
Statutory Licensing
Consulting Services
Custom Software Development

Input 1 is the only premium finance software vendor that actually uses the software it distributes. Input 1's business process outsourcing service center handles over 200,000 accounts per year representing over a \$400 million in property and casualty premiums. Because of this customers have a business partner with unequalled capability in the marketplace.



Input 1

Headquarters

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Contact Information

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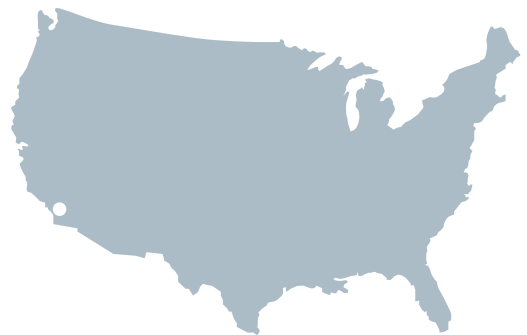
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