

Premium Finance Versus Direct Bill

Playing Offense



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Reality Check

Reality check... Would you hand your customer list over to your largest competitor? Well, if you are now selling 80% direct bill versus what was once 80% agency bill, you already have.

Reality check... Do you, today's independent agent, have more or less flexibility in the products you sell now than you did, say, 10 years ago? Do you make less money for every policy sold than you did 10 years ago? Do you have to compete harder today than you did 10 years ago for the same business?

I think the answer to these questions is a resounding YES! Clearly, today's independent agent is a bit less confident about what the future brings. In fact, the core independence of many agencies (along with their profitability) is in question. The ridiculous part of this whole story is that it doesn't have to be this way. A little less defense and a little more offense will do the trick.

Rethinking the Full Service Agency

The industry of independent agents is going about their business in exactly the wrong fashion. Reacting to what they are told rather than determining what they need. Let's analyze what is happening here. First, your agency is less profitable because commissions are dropping. You are handling the same number of customers for smaller profits. Secondly, you are migrating a large majority of your business to direct bill rather than maintaining agency bill business under the guise that it is easier to administrate and sell. However, in the process, you are losing investment income in the form of up front commissions and you are losing profit sharing from premium finance revenue. Most importantly, and probably the most telling sign that something is not right, you are losing control of your customer...the one foundation upon which your independent agency was built.

Now I can't help you with decreasing premiums, but on the other issue, I have some advice you might consider. In order to survive and succeed, you need to take back the control that so many have given to the direct writers. One way of doing just this is to migrate more of your book to agency bill and premium financing. Premium financing is originated and largely controlled by the agent. And, what's more, there are a plethora of premium finance companies ready and

waiting to take the administration off of your hands while still allowing you to control your customers. And on top of it, they are willing to share their profits with you!

Changing Course

So what is it that keeps the industry moving in the wrong direction? In personal lines, it is two things: the down payment and the unearned commission. Premium finance companies in the non-standard auto arena are lowering down payments to near direct bill numbers. In some cases, the down approaches 10-12%. Yes, this does mean that you will have to sell a \$17-\$20 higher down payment, but I sure hope you agree that the independence of your agency is worth it. As far as commissions go, avoiding premium finance because you don't like being debited for unearned commissions is like lending your money to someone else, free of interest. If you realize that commissions paid up front provide investment income that helps many agencies to profit and grow, you are finally getting the picture. Today's independent agencies are so happy to get the paperwork off of their desks that they are willing to sacrifice a much bigger picture in the process. Can we please stop pretending? If you want to grow, you need the capital. If you want to profit while your commissions are dropping, you need the capital. If you sell an abundance of direct bill, you cannot and will not ever have the capital.

In commercial lines it is interest rate. Does anyone really know what the interest rate equivalent of the typical direct billing fees are? I will grant you that it is less than premium financing in many cases (except for non-standard auto), but certainly not free, and these fees are on the rise. In addition, does anyone really believe that an insurance carrier is going to offer a billing plan at little or no cost, adding overhead in the form of servicing expense while simultaneously losing investment income, without building it into the premium either today or in the long run? Ever heard of the saying, "There's no such thing as a free lunch"? Think about it.



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Today's Premium Finance Company

Today's premium finance company is willing to help you keep your business from canceling with pre-cancel calls to your customers. Today's premium finance company can help you cross sell to your customers. Today's premium finance company is willing to share in the profits from the loans you submit. In many cases, today's premium finance company is willing to lend you money to grow your business. In still even more cases, today's premium finance company can be owned and operated by you, the independent agent. Have you ever heard of an insurance company willing to make such offerings to its agency force? Today's premium finance company isn't interested in taking control of your customer away from you, in fact, they would rather you keep control of your customers, and are willing to help you do so. The options are here in abundance for you. You just need to see the forest through the trees and make the situation work for you.

Playing Offense

Are you seeing a trend here? It's hard for me to believe that an entire industry of retailers which bases their existence on their link to their customers is so happy to hand their customer lists to their manufacturers because it appears to cost a little less. Don't we agree that an independent agency isn't necessarily the cheapest solution, but the service is well worth it when the insurance is actually needed? Isn't this why your customers choose to be your customers?

I don't expect this article to be news to anyone. On the contrary, I should hope that it isn't! The question is, have you done anything about it? Are you one of the many who sigh about how tough it is and about how things aren't the way they used to be? The current marketplace is very unforgiving and it's only going to get tougher. If you get accustomed to playing defense, you will always be on the defensive. In fact, you might as well join the other team. On the other hand, I never heard of someone losing because they played offense too well.

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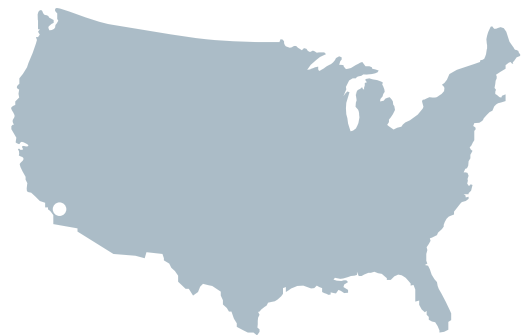
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