

# Remittance and Retention



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## What do the terms Remittance and Retention mean and how do they fit into a premium finance transaction?

The two terms *remittance* and *retention* apply almost entirely to the down payment in a premium finance loan (although in commercial lines financing, these two terms may apply to the down payment plus any past due installments.)

<b>The dollar amount of the down payment consists of one or more of the following items:</b>
1. A certain percentage of each policy premium
2. A certain percentage of all financeable taxes or fees
3. 100% of all fully earned policy or stamping fees
4. 100% of the fully earned portion of the broker fee
5. A certain percentage of the financed portion of the broker fee

The amount of the down payment is always dictated by the premium finance company. When a down payment is calculated, the borrower usually makes a check out to the agent for the total amount of this down payment. Because the down payment is a composition of many fees and deposits, a portion of the down payment might belong to the agent and a portion might belong to the insurance company.

When an agent sells an insurance policy, he/she is typically paid a commission by the insurance carrier. This commission can vary widely from 3% of the premium to 20% or more of the premium. Depending upon the relationship between the agent and the insurance carrier, the agent might be permitted to take his commission out of the down payment paid by the borrower. If the agent is not permitted to do this, he must send the commission to the insurance carrier (or to the premium finance company who eventually sends it to the carrier). In this case, the carrier will eventually send the commission back to the agent at a later date.

If the agent is permitted to take his commission from the down payment, the agent is *retaining* the commission. For example, if an agent sold a \$1,000.00 insurance policy, and the commission rate was 10%, he/she is entitled to \$100.00. If the premium finance company requires a 20% down payment, then the borrower initially must pay \$200.00, \$100.00 of which is **retained** by the agent (the commission) and \$100.00 of which is **remitted** to the premium finance company (and ultimately forwarded to the carrier). To add another variable here, assume that the agent also was charging a \$50.00 broker fee which was fully earned and included in the down payment. Remember that the broker fee is charged by and belongs only to the agent. In this case, the total down payment would be \$250.00, \$150.00 which is retained by the agent and \$100.00 which is remitted to the premium finance company (and ultimately to the carrier).

If the agent were not permitted to take the commission from the down payment, the calculation is slightly different. In the first scenario, the retention would be \$0.00 and the remittance would be \$200.00. In the second scenario, the retention would be \$50.00 and the remittance would be \$200.00.

It is important to note here that the agent is able to keep the broker fee regardless of whether he/she is permitted to take the commission out of the down payment. The commission and the broker fee are two mutually exclusive items.





***Input 1***

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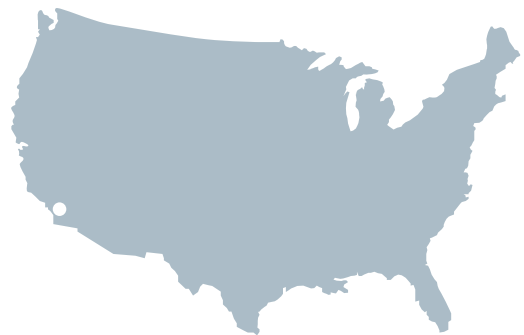
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