



A Diversification Opportunity

FOR BANKS, THRIFTS, AND CREDIT UNIONS



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Overview

Insurance premium financing is the business of extending credit to a policyholder to pay for premiums when the insurance 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 approximately \$55 Billion in annual originations
- » The United States market represents approximately \$40 Billion in annual originations
- » Net Interest Spread of approx. 4.50%
- » Variable loan sizes (\$1,000 - \$5 Million+), fee income, and growth opportunities
- » Very low credit losses driven by the collateral of “unearned premium”

Considerable Growth Opportunity for Banks

- » Bank-owned insurance subsidiaries finance significant insurance premium through unaffiliated premium finance companies each year.
- » Banks that do not have a captive insurance subsidiary have opportunities to finance the insurance purchases for their customers and even greater opportunities with their retail agency customers.

The Market



Banking and Insurance are Coming Together

As the lines between banking and insurance continue to fade, the benefit of leveraging both markets becomes clear. Insurance Premium Financing (IPF) is a primary example. Most insurance products are financed, and the market for financing insurance paper is significant. When one considers the importance of having commercial insurance in force, it is easy to understand the low default rates. Net interest margins are also higher than many other asset types.

Furthermore, for banking entities that own insurance operations (brokerages or carriers) there is incredible opportunity to capture extra revenue. In these cases, the insurance entity is producing a product that often requires financing. If the insurance entity isn't providing the financing, someone else will – and potential revenue is lost. Cross-selling further enhances the opportunity.

Proof of this concept is everywhere. Most automobile manufacturers own and promote their own financing arm. Virtually every major gasoline company offers a branded credit card. Many other industries are following suit.

Convert Challenge into Opportunity

The challenge, of course, lies within the stringent requirements and unique compliance issues faced by banks, when compared to non-bank-owned insurance concerns. Input 1 converts these challenges into opportunities by providing a comprehensive solution for bank-owned IPF operations. Our software and Internet support services have been used by bank-owned insurance financing operations throughout North America for over 25 years.

Our approach is highly detailed and analytical. We assist our clients in establishing new IPF operations or refining existing operations with policies and procedures that pass the scrutiny of federal and state regulators. This ensures bank assets perform and retain their value.

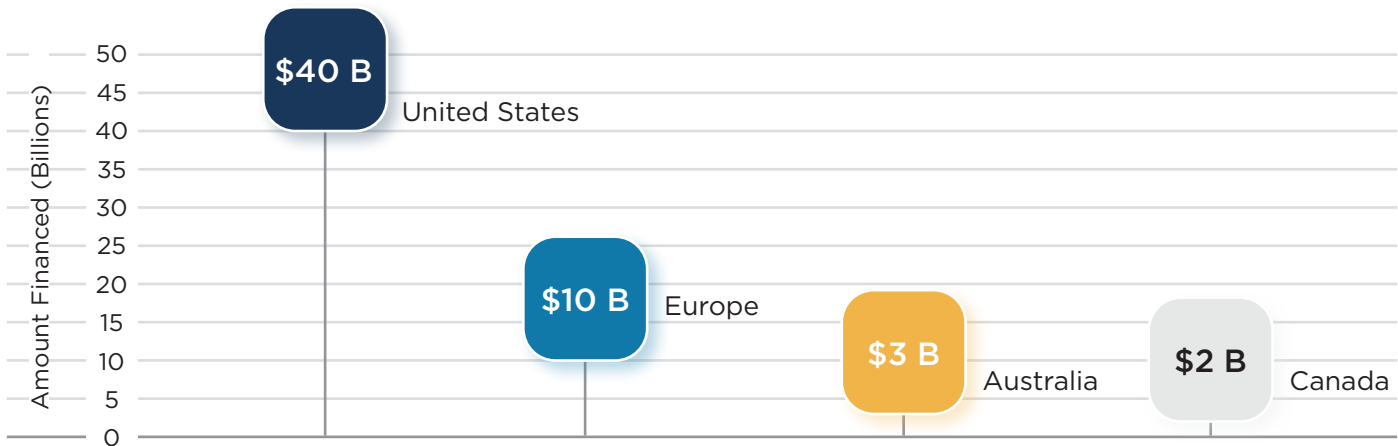
Input 1 is the only premium finance loan servicer and software developer selected by financial leaders such as G.E. Capital, J.P. Morgan Chase, Wells Fargo Bank, ING Capital, M&T Bank, Mizuho Bank, DZ Bank, Wintrust Financial Corp, and BB&T to support their premium finance lending activities. If your bank owns a brokerage or insurance carrier operation, or if your bank is simply looking for an asset type with highly favorable profitability and risk characteristics, you could benefit from the superior programs, service, and technology that Input 1 has to offer.



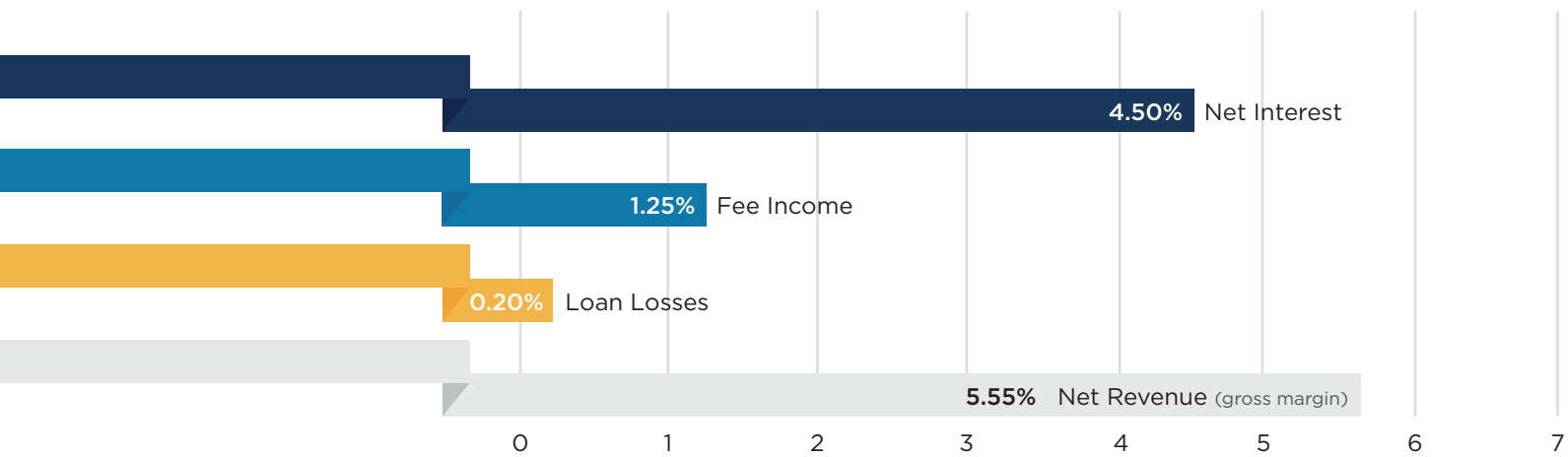
Market Size and Loan Economics

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

Global Market Size: \$55B



Economics



Premium Finance Characteristics & Benefits

Insurance premium finance provides valuable benefits to customers and the retail broker.



Product Attributes

Examples & Features

Some common loan attributes for this business include:

- » Terms commonly less than 12 months, e.g., 9 or 10 installments
- » High renewal rates
- » Full premiums are paid up front to the insurance carrier
- » 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

Product Benefits

Retail Broker





Financing insurance premiums allows a business to:

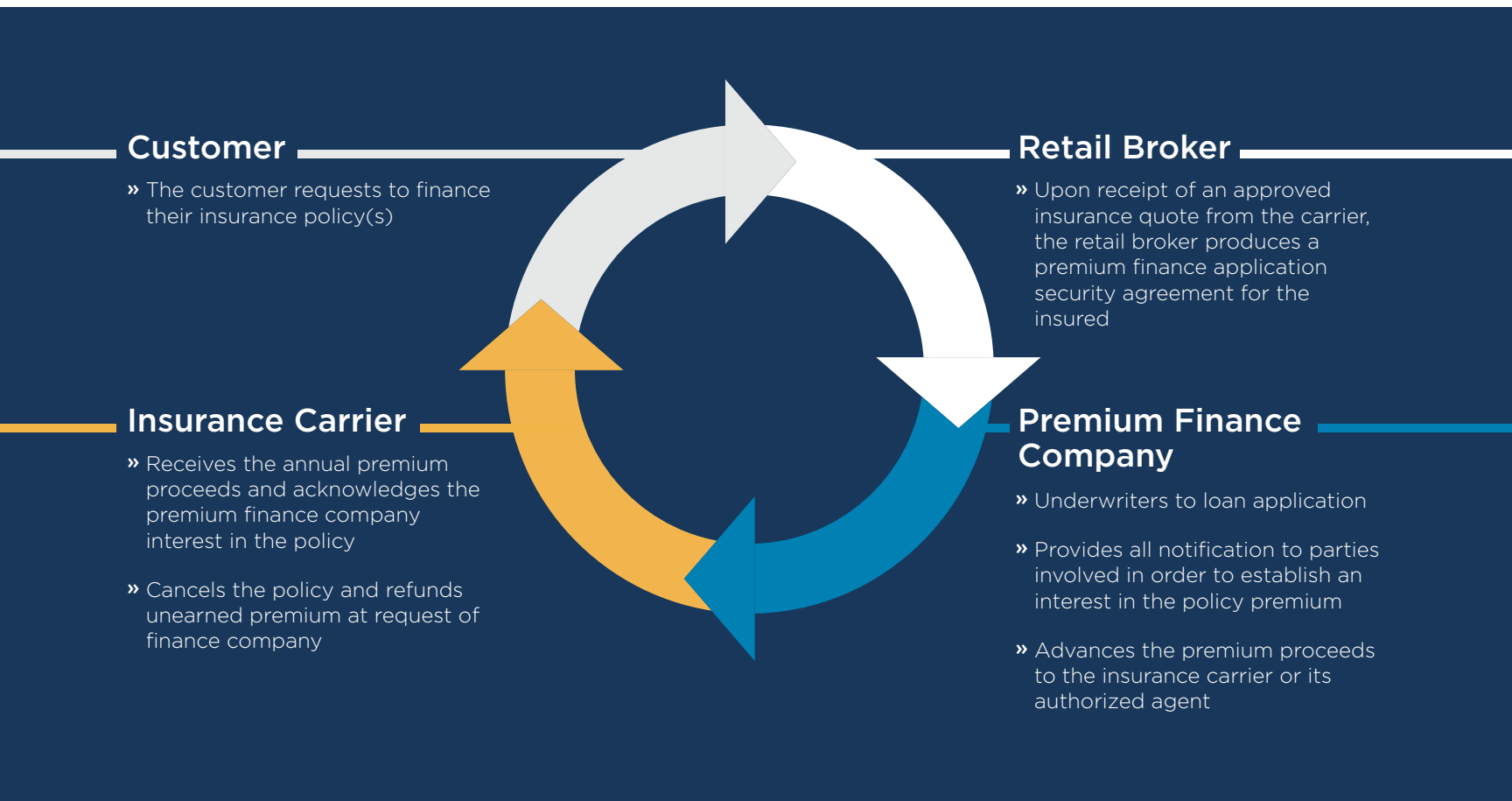
- » Provide an attractive payment plan for policyholders
- » Earn placement fees for arranging financing
- » Earn commission dollars up front instead of over time



Why this Product is Attractive to Banks

Insurance premium finance provides valuable benefits to customers and the retail broker.

 <h3>Loan Growth</h3> <ul style="list-style-type: none"> » Loans can range anywhere from \$1,000 to more than \$5,000,000 » High customer renewal rates (75%+) 	 <h3>Fee Income</h3> <ul style="list-style-type: none"> » Late fee income » Other fees
 <h3>Low Losses</h3> <ul style="list-style-type: none"> » The insurance policy serves as cash/collateral for the finance company » Commercial loan delinquency rates are low » Charge-offs in the sub-30 basis point range 	 <h3>Market Size</h3> <ul style="list-style-type: none"> » U.S. Market size of \$40B+ in annual originations » Potential market size of \$500B+ (includes entire market, non-financed, and installment billed)





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 **default**, 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 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.

Loan Example

Annual policy premium.....	\$31,250.00
Down payment.....	\$6,250.00 (20%)
Amount financed.....	\$25,000.00
Precomputed finance charge.....	\$628.13
Total payments.....	\$25,628.13
Total installments.....	9
Installment amount.....	\$2,847.57
APR.....	5.99%

Time (Months)	Unearned Premium (\$)	Loan Balance (\$)	Collateral Coverage (% of balance)
1	28,646.00	25,628.00	112
2	26,042.00	22,781.00	114
3	23,438.00	19,933.00	118
4	20,833.00	17,085.00	122
5	18,299.00	14,238.00	128
6	15,625.00	11,390.00	137
7	13,021.00	8,543.00	152
8	10,417.00	5,695.00	183
9	7,813.00	2,848.00	274
10	5,208.00	0	—————
11	2,604.00	0	—————
12	—————	—————	—————

Risk

Operating Control

- » Using an experienced third-party administrator, such as Input 1, will help banks maintain control on each and every operational aspect of this business, including: terms, rates, procedures, collection, provisional risk relative to specific coverage, etc.

Carrier Insolvency

- » 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

- » 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



Since 1984, Input 1 LLC has been a leading provider of products and services to the insurance industry. Our focus is on the billing of the property and casualty insurance premiums. We provide comprehensive outsourcing solutions and highly automated and customized receivable management tools for insurance carriers, general agents, and banks – which can be integrated into virtually any system. Intuitive client facing services such as multi-policy single bill, electronic bill presentment, electronic payments, and payment reminders via email and text. All delivered over the Internet. More than one million agents, brokers, and policyholders experience our services every day.

With over 25 years of consistent growth and a knowledgeable group of professionals devoted to the success of our customers, Input 1 provides stability and sustainability for the long run— a partner with whom you can grow. Below is a high-level list of products & services we provide:

- | | | |
|---------------------------------------|---|-------------------------------|
| ■ Premium Finance Installment Billing | ■ Premium Finance Software | ■ Statutory Licensing |
| ■ Backup Servicing | ■ Traditional Premium Finance | ■ Warranty Finance Software |
| ■ Consulting Services | ■ Installment Bill Outsourcing Services | ■ Payment Processing Services |