

TEN REASONS ALL PREMIUM FINANCE FIRMS ARE NOT THE SAME



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Premium financing, to many advisors, is a relatively easy advanced market concept to understand: Using leverage, clients are able to buy the amount of life insurance they need, not just the amount they can afford.™

Superficially, premium financing life insurance is a straightforward process. Realistically, as with most things in life, the devil is in the details. Premium financing is a game of nuances and numerous iterations. Many experienced professionals lose these cases because of inexperience in dealing with those nuances and iterations. This is why we recommend that you work with established experts, which begs the question: How do I know which firm is the real deal?

Below are **10 factors** to consider when selecting the right premium financing professional/intermediary:

1

Firm Experience

How many years of experience does the firm have, and does it have a proven track record? There are many pretenders and peddlers entering the premium finance game; it is imperative to work with a firm that has a proven record of success.

2

Process

Look at the professional's process. To complete a case in a timely fashion, it is vital that there is an established method in place. Can your premium finance partner demonstrate a process that gets you from an open case to a closed case? Ask the experts what their experiences have been and to give you specific examples. If they cannot come up with one, this is a red flag.

3

Team Players

Learn whether the client's advisors work together. Are the CPA and attorney on the same page, and do they understand the costs and benefits associated with financing life insurance premiums? By including all parties in identifying the initial problem, they more likely to be on board when a solution is presented. Working with the right expert can make or break your case with these third-party advisors. If you are not 100% confident in dealing with the scrutiny of a CPA or attorney, make sure you bring in a premium finance expert.

4

Case Design And Structure

Look at the case design. Premium finance structures are part art and part science. Should the policy be highly blended with term to allow for more cash value in the early years or anchored to produce a more standard and permanent policy? Will the outlined design actually work when it is put in place, and will the numbers run with flat or compounded interest rates? Be sure to check the case design numbers to make sure they calculate accurately while also serving the client's best interest.

5

Stress Testing

Ask if your premium finance experts stress tests their designs, and if so, ask how. Do they decrease policy returns or run the maximum rates/dividends? Do they forecast rising interest rates? What methodology do they use? Stress tests provide due diligence and help manage client and advisor expectations for the future, giving peace of mind to all.

Note: Rising interest rates could affect the loan interest paid or accrued, along with the overall case design. If interest rates rise higher than expected, the client could be saddled with paying higher out-of-pocket costs or even defaulting on the loan. By incorporating historical averages in the original case design, or using the Bloomberg Forward Curve to project loan interest rates, more representative numbers can be presented and reduce the number of unwanted surprises.

When stress-testing is sorely needed, ask yourself: Will this design give me a defensible position or put me on a slippery slope?

6

Access To Banks

Consider how many lenders premium finance vendors are working with. Do they have both relationship and non-relationship lenders? Are they using lenders with deep roots in the premium finance world or is this a one-off? Premier relationships with banks that specifically work with these types of loans can eliminate future headaches, especially when specific loan underwriting will be required on an ongoing, annual basis.

7

Leverage With Carriers

Consider whether your premium finance vendor understands the process to get a premium financed case through underwriting at the carrier level. It is important to partner with a firm that understands the requirements to smoothly close the case, especially when working with one-off case structures or larger cases where carrier retentions, auto-bind limits and reinsurance are factors. Do they understand which carriers excel with financing cases? Are the carriers they work with user-friendly? If your premium finance expert cannot adequately explain or manage these, walk away.

8

Exit Strategies

Know what type of exit strategy will be included in the case design. Will the loan exit be from outside funds, the policy cash values or a combination of both? Will the loan payoff cause the policy to implode? Is it based on realistic projections? Establishing a proper loan exit strategy is not only necessary to make sure the plan design will work, but it will also make the client more comfortable with financing their life insurance premiums. Setting realistic expectations is key. Many of these designs do not have a loan exit for 10-20 years or more, so anything projected today may not be reality tomorrow.

9

On-Going Analysis/Renewal Process

Remember, premium financed life insurance policies need to be reviewed on an annual basis for policy performance, needed collateral, lender requirements and loan interest rates. Ask your vendor for a step-by-step explanation of their renewal process. While these transactions can be financially lucrative for both client and advisor, they are not a “set it and forget it” type of sale. Many experts tend to disappear around the annual renewal time.

Note: Ordering in-force illustrations and comparing them to the original exit strategy assumptions is an unfortunately lacking standard in our business. Though there are some who do perform annual policy reviews, the reality is that the vast majority of experts do not. Make sure you are working with someone who has the technology and experience in premium finance policy management. If not, your next/current premium finance deal could quickly become a nightmare scenario.

10

Changing Tax Laws

Consult legal and tax advisors when implementing a premium financed life insurance policy. This step is important due to the complexity of the premium financing. Estate and gift tax considerations must be taken into account. A premium finance transaction can offer significant asset protection and tax saving benefits. However, the premium financing firm needs to be aware of how these affect the pending transaction. Do not hope; question them upfront.

In summation, premium financing offers tremendous benefits and value for the proper client. Keep in mind it is a complex process with various nuances during implementation, requiring continual monitoring and maintenance. It is important to work with an experienced team of premium finance experts, including legal and tax advisors, when implementing this strategy for your clients.