

TECHNOLOGY

# FOUND MONEY

*"Own your own" premium finance company solution helps with client retention and improves the bottom line*

By Nancy Doucette

**M**ike Eichhorn was tired of watching money walk out the door. So he did the only reasonable thing. In 1994, he created his own premium finance company—Westbrook Premium Finance, Inc.—an affiliate company of International Placement Services, Inc. (IPSI), which his father founded in 1981. "Owning your own premium finance company makes sense because if you do it right, there really is no risk," he explains. "Your collateral becomes the cancellation provision of the insurance policy that you're financing."

*Automated Installment Systems  
President Diane Wood and Chairman  
Mike Wood in the technology area of  
their newly expanded headquarters.*



“In our case,” he continues, “we wanted an additional income stream for our operation. But the premium financing wasn’t going to be a major thrust of our operation. So we needed to find a vendor that had a turnkey operation where we’d be able to control the direction of the division but have little day-to-day operational responsibility.”

Michael J. Eichhorn, CPCU, is executive vice president of IPSI, which is located just outside St. Louis, Missouri. IPSI is an E&S wholesaler that focuses exclusively on commercial business in Missouri, its contiguous states, as well as the Carolinas, Florida, Georgia, and Virginia. As it turned out, the solution he was seeking was available through another St. Louis-based organization: Automated Installment Systems (AIS).

“This is our baby,” says Mike Wood, chairman of Automated Installment Systems. He’s referring to the Epitome™ System that is the “brains” of AIS’s turnkey system which enables retail agents, MGAs, and specialty carriers to establish and manage their own premium finance company. “Third-party administration of agency, brokerage or insurer-owned premium financing companies is all we do,” he explains. “We don’t handle direct premium financing nor do we sell or license our proprietary software. That allows us to concentrate on the technology side, which is what drives the operation.”

Simply, Mike Wood says, AIS offers insurance firms all the advantages of owning their own premium finance company without any of the hassles. There’s no need to hire additional staff to deal with licensing or compliance issues. All the reports and audits are handled by AIS. That’s important to Mike Eichhorn. “AIS handles the banking, licensing, all the legal issues with the secretary of state, all the statutory notices—late notices, intent to cancel, cancellation notices, reinstatement notices, and so on. The statutory notices are extremely important to finance companies. They must be done on time and to the letter of the law.”

What’s more, Eichhorn continues, AIS prepares all the financials, all the way to the general ledger. So on a monthly basis, he reviews general ledger and statistical activity. On an annual basis, he says, he simply takes the reports generated by AIS, reviews them, and with a little additional input he’s able to turn them over to IPSI’s CPA who prepares the 1120s. But because the Epitome System is 100% Web based, Eichhorn can view



*Diane Wood uses Mike Eichhorn's premium finance company's home page to demonstrate how it's an entry point for everyone—internal staff, outside producers, or the insured.*

any or all of IPST's financed accounts anytime, anywhere. "Pretty much anything you'd want to see in a financial, I can see online," he reports.

The idea for AIS came to Diane Wood, president of the firm, back in 1982 when she and her husband owned a small regional finance company. She decided to outsource the company's payroll administration to ADP. "Mike and I realized that we could provide a similar service to insurance organizations for premium finance," she recalls. By 1987, their concept had evolved into a national company.

AIS streamlines the process of setting up an "own your own" premium finance company, as Mike Wood explains: "We reserve the corporate name for the premium finance company, we form their corporation, we get their premium finance company licensed, we work with them to get a Web site developed for their finance company, and we help them develop a rate chart (how much down and how much a month). We set up their finance company in our Epitome System and we set them up for e-commerce which allows the insured to come online and make a payment. And naturally, we train their staff on how to interact with the Epitome System."

The main operating system is IBM AS/400 driven, Mike Wood continues. "It's not something that breaks down or needs to be rebooted like some servers," he says. Epitome also utilizes IBM's WebSphere® software, which he points out is ideal for high volume transaction processing and e-commerce. Its technology investment has enabled AIS to hold its monthly fees at the same level for years, he says.

"AIS has implemented technology effectively and as a result, they've been able to keep their costs constant," Eichhorn observes. "And while it costs money to implement more and more technology and make that ongoing technology investment, if it's done correctly, it can increase efficiencies and hold down costs. AIS has figured out how to make that formula work."

AIS's Epitome System is flexible enough so that Eichhorn can adjust the premium finance charge or change the payment terms. "We've had situations where we have the account and the insured wants premium financing but an outside finance company is offering a better rate. We can adjust the rate or change the payment terms—instead of nine payments, the client may

want only four or as many as eleven. We can make that decision at the point of sale if it makes sense to the parties involved.

"The key is to make it as simple and easy as possible for our retail agents to do business with us. Additionally, we don't want them going to someone else for premium financing," Eichhorn says.

Like Mike Eichhorn, Michael Rand, president of Northeast Agencies, Inc. (NEA), based in Buffalo, New York, wanted an additional income stream for his multi-state wholesale operation. NEA had been using a large national premium finance company before contacting AIS. "AIS came highly recommended to us," Rand reports, "so we didn't investigate other organizations offering similar capabilities. I flew to St. Louis, toured their operation, met the people, and felt comfortable with them. We still have the same processes that we did five years ago before we switched to AIS. The difference is we're using our own finance company. The finance charges that used to leave our organization and go to the outside finance company are now staying here."

"In many cases, the agents who contact us already do premium financing," Diane Wood explains. "So in essence, that organization's own your own finance company already exists—it's just not under the organization's corporate control. Our model works best for organizations that are able to finance a minimum of \$100,000 per month. The AIS client organization can make a nice return on its capital."

"The real earning asset of an own your own premium finance company is the loan receivables," Mike Wood adds. "For every dollar that the client organization finances on an annual basis, it's creating an ongoing asset of about 35 or 40 cents. If the client organization is financing about \$1 million a year, that means an asset base of about \$400,000 is brought under the direct ownership control of the client organization."

Mike Rand acknowledges that NEA is seeing revenue generated from a service that his organization wasn't enjoying before. Additionally, the organization's bad debt is practically nil. "When you're financing millions of dollars, you want to know that the operation that's behind you has integrity. AIS is such an organization."

At this point, NEA's premium finance company is licensed in five

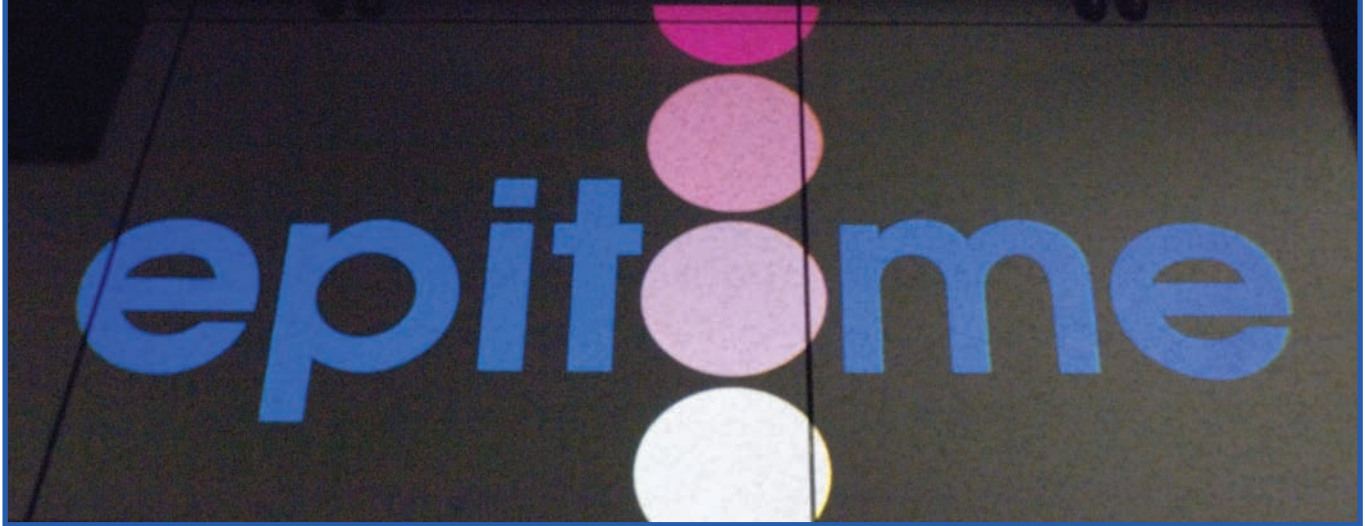
## IS IT RIGHT FOR YOU?

"We want you to be able to make an informed decision about whether owning a premium finance company is a good investment for your agency," Mike Wood explains. If you're thinking it might be, there are tools and resources at the AIS Web site to help you decide. "It's important that organizations have enough volume to finance. If not, they're tying up their capital," he says.

Among the resources available at the Web site is a brief yes/no test to help you determine if an own

your own finance company is appropriate, and an income projector which forecasts the annual profit from an own your own finance company, based on how much you're currently financing with an outside finance company. Additionally, there are lists of considerations that need to be addressed when you're evaluating the own your own finance company solution.

Mike and Diane Wood also offer an online demo that highlights the capabilities of the AIS Epitome System.



states. Rand explains that if the business warrants getting the premium finance company licensed in an additional state, AIS will provide the details for getting licensed in a new state. Diane Wood notes that AIS has a paralegal on staff to help with regulatory and compliance issues. In fact she's been a part of the AIS organization for almost 19 years. Diane explains that the paralegal is actually the entry point into the AIS system. Each organization's finance company needs to be incorporated, so the paralegal assists with that process and all of the license issues. She keeps AIS updated on changes in state laws—for instance, what can be charged for late payments or bad checks, Diane continues.

"The management and staff of AIS have combined experience of over 150 years in the area of premium finance," says Mike Wood. "Our programming staff has over 30 years of combined experience—just on our system."

Another important resource that AIS offers its clients is an internal auditor. He works with client auditors, state auditors, and the SAS 70 auditors. "We are Sarbanes-Oxley compliant," Diane points out. Each of the premium finance companies that works with AIS has

its license displayed at the AIS headquarters in St. Louis. "When outside auditors schedule their examinations, the audits are conducted at our location. For the SAS 70 audits, each year the auditors test the flows of our systems, our internal controls, and our security. The results of that examination are then passed along to clients so that they know that what's running the backroom of their premium finance company is a safe, secure environment," she says.

"We've never failed an audit," says Porus Austin, senior vice president and CFO for Western Marine Insurance Services (Westmar), of Stockton, California, who has been working with AIS since 1989. "We've never failed any compliance requirements from the state of California." Westmar is a recreational marine specialist. "We have a huge volume of contracts going through AIS," Austin says. "Many of our clients prefer making payments, so being able to fulfill that preference has really helped with client retention. That's good business. What's more, we're investing our capital into something that builds the bottom line. That's good business, too."

Mike Wood is understandably pleased with the fact that none of

AIS clients has ever had a major exception on any examination. "All the statutory issues are programmed into the computer, so no one has to do a lot of manual calculations," he says.

But let's get back to one of the motivators for setting up an own your own finance company: an additional revenue stream. Mike Wood is proud of the return on investment enjoyed by AIS clients. "I hesitate to say it, because it sounds too good," he admits. "Based on clients' results for 2005, in the aggregate, our clients earned 58% return on investment."

That aside, though, Mike Wood concludes: "One of the philosophies that we share with our clients or prospective clients is: 'You never start a business to make a profit. You start a business to do a job. And if you do that job well, the profit will take care of itself.'" ■

### For more information:

#### Automated Installment Systems

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