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Insurance With Assurance

Direct Billing *by Rick Janis*

What are the benefits of a direct bill insurance program?

With a premium direct bill insurance program, a customer does not have to come up with the entire year's premium payment for the policy all at once and up front to put the policy in force. By not having to pay the entire premium up front, the customer is spared having to go to an alternative financing mechanism such as an insurance premium finance company, which normally charges rates of 19% interest to finance the premium.

Historically, premiums were collected and billed by insurance agents. However, much of the industry today has changed to the more efficient and cost-effective procedure of billing the premiums directly to the customer.

Although many insurance companies still require a down payment for a direct bill, there are some companies who have now taken an even more aggressive position in the market and require no down payment money and invoice the customer directly for the first quarterly payment. This leap of faith of placing coverage in force without any money up front is due to the fact that there have been changes in the insurance cancellation laws in many of the states. These changes have enabled insurance companies to place coverage contingent upon payment. Therefore if no payment is received then no coverage went into force.

Under these direct bill plans, most insurance companies charge a per installment fee instead of interest. This is a nominal amount of money to cover the cost of issuing, processing and handling invoices and payments. Obviously, by paying your insurance company on a quarterly basis you'll increase your cash flow and save on interest payments.

One result of the direct billing system is that insurance agents do not receive copies of any invoices and are therefore blind to the status of invoices as well as the status of the payment. This is also viewed as a benefit since it removes the insurance agents from the collection process and allows them to focus on providing proper coverage, interfacing with clients about risk exposure and advising them about risk management techniques.

Normally, customers are billed for the first payment in about a week from the date coverage commences. Since the responsibility of paying on the direct billing system is placed upon customers, it's incumbent upon them to make prompt insurance payments. If the premium is not paid, a customer will receive a reminder notice. If that too is ignored, a third notice will be sent which serves the dual purpose of being a premium payment reminder and a final notice of cancellation of coverage.

The cancellation of coverage becomes effective on the date stated on the last direct bill premium notice that the customer receives. Contrary to popular opinion, there is no grace period and there are no further notices sent. Once a cancellation date comes and goes, insurance companies no longer send any other notices or direct bill invoices since coverage has effectively been terminated.

As you know, direct bill is already in place for residential types of insurance such as your personal automobile and homeowners policies. It is now becoming the future for commercial insurance policies as well.

Rick Janis is a Certified Insurance Counselor and president of the Alarm Insurance Agency. With over 7 years of experience in the security industry, he has been responsible for developing and managing comprehensive insurance and bonding programs for alarm dealers and monitoring companies. Rick is CEU certified by NBFAA and teaches CEU courses to the alarm industry on General Liability/Errors and Omissions and Worker's Compensation. He can be reached at 800-474-0933 or by fax at 800-240-0631. You may also e-mail him at rjanis@alarmins.com.