

What You Need to Know About Premium Funding

At Insurance HQ we strive to make purchasing insurance as easy as possible. One of the ways we do this is by providing our clients with monthly payment options via Premium Funding.

Unfortunately many clients, despite having used premium funding for years, are unaware of what the consequences of using it can be in the event you cancel a policy or fail to make monthly repayments.

These are the important facts to know about premium funding:

What is Premium Funding?

Premium Funding is a finance contract (loan) between you and a third party provider, who will pay your insurance premiums upfront with you repaying them monthly. As with all loans, there is interest and charges payable.

Why not get a monthly policy directly with the insurer?

Out of our panel of 150+ insurers, only a handful offer monthly payment options. It is also worth noting that no commercial policy is sold by insurers on a "monthly" basis. All policies are annual, with just the payment frequency changed from annual to monthly, and policies with a monthly payment preference also incur a higher premium.

Is Premium Funding hard to get, or are there credit checks?

For clients with premiums under \$40,000 there are generally no credit checks, and all that is required is for you to acknowledge the terms and conditions of the funding contract and enter your nominated bank account or credit card details. Your insurance policies are the security with which the loan is taken. It is your responsibility, and in your best interests, to ensure that you read and understand the terms and conditions for the loan from the premium funder.

What are the additional costs with Premium Funding?

Premium funders generally charge 8 – 12% interest for paying your insurance premiums on your behalf, plus an upfront \$50 administration fee included within your first monthly payment.

What happens if I miss a payment?

Should a monthly direct debit dishonour occur, your premium funder will contact you and organise a redraw date usually within the following 7 days. You may also be charged dishonour, cancellation and recovery fees if you fail to meet your monthly repayments. These charges and fees will be outlined in the terms and conditions of your provided funding contract.

The Premium Funder has the right to issue us with an instruction to cancel your policy if you do not make your monthly payment obligations. Any funds from the insurer will be sent to the Premium Funder to pay back the loan.

Making Changes to Your Insurances Throughout the Policy Period

You can make changes to your insurance policies throughout the year like normal. In the event an additional premium is due (such as adding an extra item), you will have the option of paying for this change directly or adding it to your existing monthly payments. Should your change result in a refund from the insurer, this will be refunded to your Premium Funder reducing future payments.

Paying Premium Funding Out Early

You can choose to pay Premium Funding out earlier should you wish, however, please note that the credit charges applied by the funder are not rebated, so there is no benefit once started to pay out early.

Cancelling Your Insurance Policies

There are several scenarios which involve an insurance policy being cancelled, however, it is important to be aware of the following items which will impact your refund and potentially leave you with an outstanding payment following insurer refund:

- Insurers can charge a cancellation fee, either as a fixed dollar amount or as a percentage of the refunded premium.
- Whilst we do not charge a fee for cancelling a policy, we do not refund any broker fees or commission, which are deemed to have been earned at time of placing business.
- Premium Funders may not reduce their interest charges/fees for early payout.

Insurance Cancelled by the Insurer Due to Claim (Total Loss)

In the event you suffer a major loss (e.g. theft of vehicle) when the insurer settles to you, they may also cancel the insurance as the insured item has been paid out by the insurer. There is no refund to go back to your funder, so you will need to continue to meet any repayment obligations.

Insurance Cancelled by Premium Funder

If you are behind on your payments and premium funding cancel your insurance policies, any refund will go back to the funder. Typically there would still be a shortfall between the refund amount and what is owing. If this balance remains outstanding you may also incur additional fees from premium funding.

Non Cancellable Policies

Some insurance classes are referred to as non-cancellable, which means that should you choose to cancel your policy, the insurer will not provide any refund. The types of policies, which are typically non-cancellable, include marine cargo/transit, travel, professional indemnity, management liability, construction and trade credit policies to list the most common.

Insurance Cancelled by Insured

You may choose to cancel your insurance cover in writing at any time, with the refunded insurance premium being returned to your premium funder.

The greatest impact on your loan is if the policy is cancelled in the first few months, as the refund can be disproportionate to the time insured.

As an example: You purchase an insurance policy for \$995 plus \$100 broker fee. You fund the payments with the premium funder charging \$109 interest (10%) for a total annual cost of \$1,204 or \$100.33 per month.

You cancel your policy 60 days after starting, having paid 2 monthly payments (day 1 & 31), leaving a balance of \$1,003.34.

Your refund from the insurer for 305 days will be \$748 as we will not refund our fee or \$83 commission. This results in an outstanding balance to your premium funder of \$255.34 and makes your total payable for 60 days coverage \$456 or \$7.60 per day, which is considerably dearer than if the policy remained in force at \$3.29 per day.

General Advice Warning

This document contains general information only. It does not take into account your objectives, financial situation or needs. Please consider the appropriateness of the information in light of your personal circumstances.