



# **The Potential for Immediate Funds Transfer (IFT)**

**September 7, 2011**

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# Challenges of new payment mediums in the personal lines insurance sector

The personal lines insurance market can be classified as very competitive and mature with significant provider sophistication

Different payment channels and mediums used to be a provider differentiator

Personal Lines Insurance (US)	B2B	Receipts - C2B Disbursements - B2C
<b>Receipts</b> Payments made <b>to</b> the insurance company for an obligation	Small % of total; large transactions, customer directed, predominantly electronic	Large % of total; multiple channels, multiple mediums, customer choice, highly automated
<b>Disbursements</b> Payments made <b>from</b> the insurance company	Claims provider payments, corporate obligations, taxes	Dual payee checks, small % ACH, experimenting with cards, potential for IFT
<b>Liquidity and Float</b> The conversion to cash and prediction of needs	Large transactions necessitates predictable timing – but overall less than 30% of receipts	Large numbers smooth spikes, multiple channels adds complexity, cost, and choice – availability has never been better



# Receipts - Customer preference drives payment channel expansion

## Payment channel offerings are based upon customer demand

- Over the last 15 years, no channels have gone away; only new channels added
- Volume shifts – demographics, company incentives, type of insurance
- Billers have different needs – payment acceptance vs. actual funds received
  - credit providers vs. service providers
- Regulatory changes driving demand? (i.e. – Check 21, Dodd-Frank)
- Would IFT be customer demanded? Company demanded? Both?

### B2B (Originated by C2B)

- Mortgage companies – EDI/EFT
- Merchant acquirer - Wire
- Alternative payment providers – Wire
- On-line bill consolidators – ACH

Importance

### C2B (Direct)

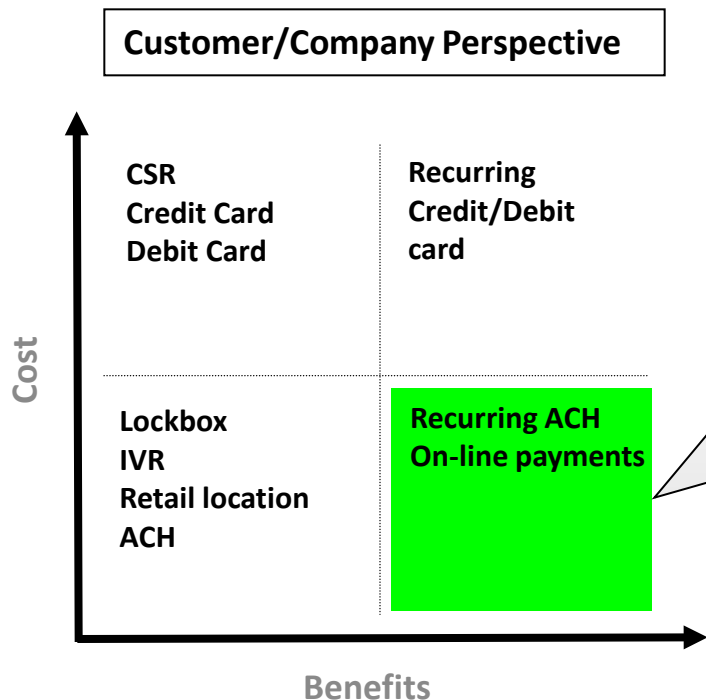
- Direct Debit, Recurring ACH
- Lockbox (ARC, ICL)
- IVR, Company Website
- On-line Bill Payments
- Agency – Check
- Agency – Cash
- Debit Cards
- Credit/Prepaid Cards

Cost



# Receipts – The Importance of Positioning

Payment channel success and adoption often rests on the attractiveness



## Customer Requirements:

- Does it make paying bills easier?
- More automated?
- Greater control without hassles?
- Provide discounts or offers?
- Embrace technology?
- Private and secure?

## Company Requirements:

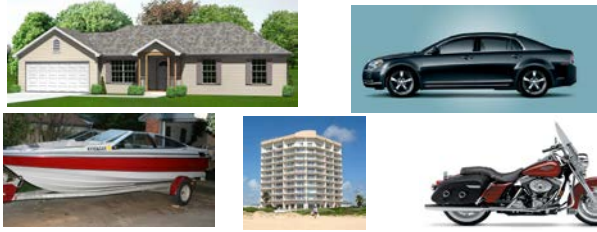
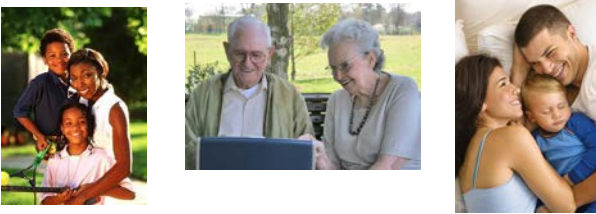
- Less/least costly to administer?
- Mechanized and secure?
- Boost customer retention?
- Increase customer satisfaction?
- Improve cross selling?
- Open additional means of communication or marketing?
- Provide additional demographic understanding?



# Disbursements – The contract, customer choice and differentiation drive payment medium selection

## Payment mediums are based upon:

- Insurance contract with lien holders wanting protection and proof of payment – Dual Payee Check (B2C and B2B)
- Customers can defer payment to a provider upon completion of repairs (B2B)
- Catastrophe response is driving creative payment exploration
- Corporate obligations are largely ACH, wire or check, with check & wire declining
- Would IFT be customer demanded? Company demanded? Both?

	<b>Property/Casualty Insurance</b> 	<b>Life Insurance/Annuities</b> 
<b>Traditional Disbursement Mediums</b>	<b>Checks</b> <b>ACH</b>	<b>Checks</b> <b>ACH</b> <b>Retained Asset Accounts (checks)</b>
<b>Emerging Disbursement Mediums</b>	<b>Cards</b> <b>IFT</b>	<b>Retained Asset Accounts (cards)</b> <b>IFT</b>



# IFT – Will likely carve out a nice niche

IFT will have benefits for individuals and businesses, but it must be:

- Cost effective
- Easy and Secure
- Immediately available
- Consumer valued
- Allow for remittance detail
- Improve cross boarder payments
- Funds immediately available
- Work with banks and non-banks

**How could IFT show up in the insurance space?**

➤ **Subrogation clearing (B2B)**

Settling of subrogation obligations between insurance companies with minimal remittance information - currently settled by check today

➤ **Catastrophe (Emergency Living Expenses)**

Cash availability need is immediate

➤ **Life Insurance/Annuity withdrawals**

Larger transactions, sometimes needed quickly for medical expenses, closings, deadlines

**Where IFT is not likely to show up?**

- **Payroll**  
ACH direct deposit is dominate
- **Accounts Payable**  
payment terms and contracts rule
- **Retail locations**  
cash and check still the medium most received, cards next
- **EDI Applications**  
large amounts of remittance data



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