PRIMORIS SERVICES

Insurance-Specific Payment Services Requires Insurance Industry Knowledge

White Paper

by Primoris Services

Overview

Every business has to accept payments in order to collect funds and operate. There are multiple ways to accept money: cash, check, credit cards, electronic draft, are the most common ways. Then the method of transferring the payment from the payer (buyer) to the payee (seller) must be considered: in-person (point of sale), mail, electronic or online methods are all available. Last, but in many ways, most important, are the goods themselves.

With every kind of purchase, there are specific requirements that must be met, to satisfy both the seller and the buyer of goods and services. One of the most specialized, if not *the* most specialized areas of payment services is insurance.

Any company offering payment services in the insurance industry must not only be an expert in payment processing, but must also be an expert in insurance.

Some Terms Defined

For the purpose of this paper, the term "insurance company" may be used to refer to an insurance carrier who handles their own direct bill and payment collections, or a managing general agency (MGA) who represents the carrier. The terms "insurance company" or "company" and "carrier" may be used interchangeably.

Why Insurance?

Insurance is not a "tangible" good, so essentially the buyer is walking away with a piece of paper (if that, sometimes only an email) saying that the insurance company has contracted to assume risk on a particular event: a car accident, fire, theft, injury, or death. The evidence of this contract is the payment and the insurance company's contract ("binding") that they will assume the risk.

Why is this important? First, the date and time of the "binding" is critical: if an insurance company sells ("binds") a policy effective at 3:25pm local time for a vehicle, and the policy holder has an accident at 4:00pm, the insurance company has to pay on the claim. If the same policy is effective at 5:00pm, the insurance company does not pay on the claim. Buying and selling risk is unique in the commerce world: time is critical.

Not only time, but also what is being purchased, and what is being paid. When an insurance bill is sent for an automobile liability policy installment premium, that represents a certain number of days of risk on the policy. If a policy is about to be cancelled, and a payment is accepted after the cancellation date, many states would hold that the policy is back in force since the insurance company accepted the payment. The same holds true for reinstatements, non-renewals, late renewals, and myriad other situations in which the specific date/time of the payment is critical to the risk of the carrier.

Business Rules

When choosing a payment services company specific to the insurance industry, some business rules must be considered:

- New business: does the system support point-of-sale (POS)?
- Cancellation: does the system support cancellation rules of when to accept a payment and when not to accept a payment for reinstatement?
- Renewal: does the system allow renewal payments and even late renewals?
- Multiple options: does the system allow a customer to select paying the next invoice, or the premium in full?

Large insurance companies have full-time programmers and IT staff onboard to handle all these business rules. Most online payment service companies only validate the policy information and process whatever amount the insured enters. Other payment processors require insurance companies to hand over their entire invoicing system or large payment master files so they can keep track of invoice amounts. The best option is a payment processor who can do real time validation of insurance specific business rules.

Convenience Fees and Merchant Fees

Many state insurance regulators do not allow insurance companies to charge convenience fees for credit card payments or online payments. A third party payment processor usually can add its own convenience fee to a payment, and pass the entire premium payment on to the insurance company. The insurance company never collects a convenience fee; the third party processor handles that.

Some credit card merchant accounts require a "net deposit" to the insurance company's bank account, which means net of merchant fees, which are held back by the payment processor. Premium accounting rules by reinsurers, or in the case of MGAs, the carrier itself, sometimes require the entire premium collected to be deposited in the premium bank account held by the carrier. These two requirements may be in conflict with each other. Insurance companies must ensure that their payment processors can handle net or end of month merchant fee billing.

Funds Integrity and Flexibility

Some MGAs represent multiple carriers, and some carriers write premiums for multiple lines, states, or programs. These present a full spectrum of payment handling requirements, from point-of-sale (POS), installment billing, and funds accounting.

For example, a program may require that the initial POS payment on a policy does not have a convenience fee, with the company paying the merchant fee, but installment payments have a convenience fee added by the third party for cost reduction. Carriers might require that certain funds be deposited into individual separate premium bank accounts based on the policy being paid, and that the merchant fees be deducted from yet another operating account.

All of these requirements might be individually met by different payment processors and merchant accounts, but the best option would be a processor who can handle all of them in one integrated solution.

On a daily basis, all premium funds must be reconciled to payments received. All payment processors will provide a list of payments received, but companies must find a processor who can ensure that the funds are reconciled to individual policies, to the penny, each day. This requires knowledge of insurance lines, regulations, states, and programs.

Security and Compliance

A credit card merchant account requires the merchant (the insurance company) to adhere to a security standard called PCI-DSS (Payment Card Industry – Data Security Standard). This is a rigorous set of rules designed to protect card holder data from identity theft and fraud. Highly publicized, large breaches of card holder data creates negative press, reputation, and financial consequences for the merchant that is breached.

Unless the insurance company is comfortable handling all PCI-DSS security itself (even large companies outsource this), they should make sure the payment processor is fully PCI-DSS compliant, and enrolled in the Cardholder Information Security Program (CISP) with VISA (http://usa.visa.com/download/merchants/cisp-list-of-pcidss-compliant-service-providers.pdf) or the MasterCard Site Data Protection (SDP) Program (http://www.mastercard.com/us/company/en/docs/SP_Post_List_2012.pdf), and preferably both. This ensures that the payment processor has been assessed by an outside qualified assessor firm and found to be in compliance with the latest PCI-DSS rules.

All Internet-based transactions should use encryption techniques, and at no time should the insurance company be required to store their own card data.

Case Study

A publicly traded insurance company/MGA who writes in 38 states with multiple affiliated carriers wants to process credit card and electronic check transactions for a mix of point-of-sale (POS), agent collected, online, and automated telephone (interactive voice response, or IVR) initiated payments.

- Each carrier and program has its own business rules for cancellations, reinstatements, late payments, and renewals.
- POS and down payments should not charge a convenience fee
- Installment payments add a convenience fee of $2.95
- Recurring payments are charged each day based on invoice amounts

- Each carrier must have funds deposited into its own premium bank account
- All payments must reconcile through a single merchant account
- No card data is stored in the company's database

Primoris Services LLC was able to set this up using its insurance payment processing system, which allows a single merchant account to settle through their settlement agent services and split the single daily deposit into multiple deposits for the insurance company.

Each day, funds are settled against the merchant account and reconciled to the penny for each carrier and program, and all discrepancies are cleared. Policies are properly credited in real time when the payment is made, and all business rules are implemented in real time using secure data services.

All card data is collected securely and stored in a PCI-DSS compliant card store, and replaced with "token" data which is then used by the company's insurance management software to process future charges or automated recurring payments.

Primoris Services operates the website, IVR telephone system, and Internet gateway so all payments are securely processed and handled through a single interface. The insurance company has full 24-hour access to all payments, and can instantly void, correct, or credit a payment.

Daily settlement reports are delivered via email, and complete software integration with the company's insurance automation software completes reconciliation and settlement requirements.

Case Study: Results

The publicly traded insurance company processes approximately $10.5 million in credit card payments per year. Using Primoris Services payment system, they were able to save $159,000 in merchant fees and process over 100,000 card payments, while remaining competitive in the market and offering the services on a level of a much larger company with its own programming staff.