EPISODE 1307

[INTRODUCTION]

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Noah Molnar (NM): There are lots of these third-party renter insurance programs out there. When you really break down the relationship and you break down the dollars, what we found is, the larger your portfolio is, the less it makes sense to partner with one of these third-party companies. If you have 5,000 or 10,000 apartment units and every resident is paying a third-party insurance company $15, $16, $17 a month, it's a lot of money going out the door into the pockets of third-party insurance companies.

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Whitney Sewell (WS): Your goal as an operator is to increase your NOI as much as possible. There are many other things around those goals that help make that happen. But one of those things is increasing the revenue. You're always looking for ways to do that. How creative can you be at increasing the income of the property or the different amenities or things that tenants want that improve their stay. They're saying improve their quality of life while at your property. So, one way that this is being done that I've not heard of before until today, you're gonna have to listen to the show to figure it out. I'm encouraged by our guest today, Noah Molnar.

He helps investors create additional cash flow by turning rental insurance into property revenue streams. The POPIC group company specializes in structuring, forming, and managing specialty insurance programs. The industry is set up so that third-party insurers are set up to profit. POPIC works with hundreds of multi-family owners to shift their paradigm, allowing the owners to capitalize on the revenue stream. First, a little bit about the interview here. I didn't realize this is how it worked. And so, once he started talking about it, I was like, wait a minute, this is not something I've heard of before. And you still may not understand so I want you to listen to the interview. If you're an operator, this may be something that could increase the value of your properties significantly. So, I'm in the process of learning. I want to investigate it myself and to see if it's something that would work for us. But I think it's going to open your mind a little bit to some opportunities or options that maybe you've not thought of before.

[INTERVIEW]

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WS: Noah, welcome to the show. I know you have a product that is something that most operators need to know about. And there are some efficiencies behind this that I know that help the tenants and help us in the overall operations of finding tenants and having amenities for them and to attract them and even some of the internal admin stuff. So, I wanna get into that. But tell us a little bit about what POPIC is. What that does for operators and let's dive into some of the nuances that maybe the listeners have never heard of before.

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NM: Yeah, absolutely. I appreciate it, Whitney. POPIC, we really look at ourselves as an insurance manager. And what we really set out to do is help owner-operators be more efficient and more profitable with certain areas of insurance. And what's interesting is, as I'm sure you know, when most operators think of insurance, you do not think of it as a positive to your bottom line. You typically think of it as the opposite. Most of the time , insurance is putting you in the red or hurting the deal, not helping a deal. So we look at it from a slightly different angle. And so our business has always been taking the concept of insurance and identifying particular lines of insurance coverages that are really profitable for third party insurance companies and creating programs around taking that revenue stream and shifting it away from a third party, on to our clients.

And so that's really been our business over the past seven years. The focus has been exclusively in the multi-family student housing, single-family verticals, and it's really been surrounding resident insurance programs.

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WS: So, it's great to clarify that it's resident insurance, it's not like property insurance.

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NM: Correct.

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WS: And property insurance can make or break a deal with different things that may have to be accounted for when thinking about property insurance and you better have it. But man, it seems like there are so many amenities that may not even be beneficial to your tenants. And people had different things for so much time and money and investing in amenities for tenants. It's like, you look out there or you watch videos, whatever, or gamers from the property, it's like nobody's even using these things. What good did that do? But this amenity or having something like this, it could be a massive benefit. Why don't you speak to that? Speak to some pros of having something like this as an operator and let's jump in.

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NM: When you look at the entire landscape, it's now pretty much standard in the industry to require residents to carry $100,000 of liability coverage or some sort of renters insurance. And most owner-operators are partnered with a third-party insurance provider. Every software company has its own internal resident insurance program. There are lots of these third-party renters insurance programs out there. And when you really break down the relationship and you break down the dollars, what we've found is the larger your portfolio is, the less it makes sense to partner with one of these third-party companies. If you have 5,000 or 10,000 apartment units and every resident is paying a third-party insurance company $15, $16, $17 a month. It's a lot of money going out the door into the pockets of third-party insurance companies. The other issue with that relationship is when it's a third-party insurance company, you lose a lot of control. A lot of losses that you think should be covered are not. There can be a long back and forth in getting claims covered. Go through the whole process and be left with nothing.

But what we do is a little different than a simple relationship where we actually come into a portfolio. We set them up with their own wholly-owned licensed insurance company and that entire premium income, that $12, $14, $15 a month that was going out the door to someone else, now all goes to our client's insurance company. They cover any of the claims that occur. They control the funds throughout the whole process. But they also earn all of the underwriting profit. So, it's really driving NOI to the property and it is giving people more control over their losses.

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WS: You've called my attention. I've not heard of this before, creating my own insurance company to be able to do this. It makes a ton of sense. We do look at other things like that, and where we have a problem in the business, how can I fix that problem? And oftentimes, it's like, I gotta go figure it out and do it myself. Or I gotta find those experts and just bring them in-house. You know, let's just go figure this thing out. I think to be an entrepreneur, that's just the way you have to think. Most of the time it's like, you gotta be able to figure things out, and this is an interesting fix potentially instead of bringing in that third party like you're talking about. You do lose control. It's your own insurance company. So, am I understanding that right? You're gonna help me to build my own insurance company so I own the company that the tenants are paying for the renters insurance too. Is that correct?

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NM: Correct. That can sound scary. I'm in the real estate business. I am not in the insurance business. What do you mean I'm gonna have my own insurance company? And so, we try to make this as easy and seamless as possible for our clients. That's really our role in this entire relationship. We have been in this formation and management of insurance companies' business for 25 years. As a group, we have formed hundreds of these. And so our role, we do all of the formation of the insurance company, all of the ongoing management of the insurance company. So, all of the various corporate regulatory filings, all the accounting, fees handling, all of the nitty-gritty that goes on behind the scenes is all handled by us. And also all of the administrative services with training the property management team, doing the policy tracking, setting everything up within the property management software system. So, it's really this turnkey solution that's handled by us. But the insurance company, the bank account, it's all owned and controlled by you. So, you're getting this service, but you're earning the upside. We try to make it as seamless as possible to help you in your operations.

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WS: Okay. Speak to operators that are thinking what you said a minute ago. Wait a minute, I don't know if I want to own an insurance company. Maybe that's a conflict of interest, me, owning the insurance company that's providing the insurance to the tenant that's living in my property. What are some things we should be thinking through there? Or maybe some answers to common questions around those things?

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NM: Yeah. Those are great points. And the way that we look at these types of programs, number one, the potential conflict issue. We have all third-party claims administrators that handle the reimbursement of claims. So, there is no direct relationship between the owner-operator or owner of the insurance company and the tenant because of this third-party claims administration that comes standard with all of the programs. In terms of owning your own insurance company, it really comes down to what the scale is of the portfolio to support it, and so that's a big consideration. Typically, our minimum clients have about 2,000 to 2,500 units in their portfolio for it to make economic sense. And then we have great options where we can slowly get our clients into this program where they can lay off the risk and they can just earn a fee as it's building up. And then when they feel comfortable with the program and the administration and the premium income versus claims, they can run the full program. So, we have a lot of ways to help these people in, make sure they're comfortable. They get everything that is going on with the insurance company. Once they get used to it and they see how the dollars flow, it becomes really, really attractive to them.

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WS: That's awesome. You answered one question of mine about the size of the portfolio to really start something like this or need to make it sense. So 2,000 units, roughly. And then, what about the administration side? What kind of burden is that? Is this company gonna have to hire members or people to implement something like this or manage this? What does that typically look like?

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NM: What we see as a big issue with just the traditional third-party renters' insurance programs out there. So, there are various levels of what groups do. The first thing would be, your lease just has an insurance requirement in your lease, no program in place. And so in that scenario, it is 100% under priority management team to do that administration to make sure the resident has a policy, to track it, to view it. It becomes a huge pain in the butt for the on-site team. A lot of these third-party programs as well, they're very heavily reliant on the property management team. And we firmly believe that on-site managers have so much going on, that the last thing that they should be responsible for is administering your insurance requirement. It's not the best use of their time. And so our kind of program and system that we have in place completely takes this workload off of the property management team.

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NM: It is extremely simple. The way it's implemented, there is a one-page lease addendum at the resident's side. What that lease addendum says is you're required to carry X amount of insurance coverage, and until you provide your own insurance, we are going to enroll you into this program. We are going to charge you typically $12-$13 a month. So the way that we structure this, every resident is auto-enrolled. There is a chart that's activated on their ledger, and it's all set up with the property management software system to just automatically activate like any other chart. Then the resident has one of two options. Option one is just do nothing. You've met the insurance requirement of the lease. Nothing further is required. Option two, the resident wants to go and get a State Farm, Geico, Allstate policy, whatever. They are more than welcome to. We have a proprietary policy tracking website. Resident goes to the website, uploads their policy, we review it, track it. We're the customer service to work with them, and it's completely away from the property management team. But what we typically get, Whitney, is about 80% of residents enrolled in our program versus 20% with third-party policies.

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WS: Interesting. So, I was gonna ask you, can we require tenants to use our own insurance company? It sounds like, you've answered it there. Every resident, they're auto-enrolled unless they ultimately have it from somewhere else.

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NM: That's correct. We think it's better to provide the residents with the option because you avoid these called forced-placed insurance issues. It's very well documented that requiring residents to carry insurance is standard. It's done in pretty much every single state. It's just the normal course of operations. But where people can potentially get themselves in trouble - and you've seen it in other industries, not in multi-family - there's been some issues in the lending industry where you're requiring someone to use insurance from a particular insurance carrier. And so our solution is - make it easy, make it simple, make it inexpensive for the resident. But if they wanna get their own insurance at any time, they are more than welcome to. Most people, if you provide them that inexpensive, simple, convenient option, they're really just wanna do what's easiest to get their keys, get into their unit, and they know they've met all the requirements of the place.

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WS: Can you go with them when they leave? If they sign up with us and then let's say, they're moving out of there at the end of their lease, go to another property. Can it go with them? And do we even want it to?

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NM: It's really tied to the property, not the individual resident. This program just stays at the property. So, if that resident leaves, this insurance does not travel with them.

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WS: Okay, so, it's property-specific. More so than site portfolio-specific or company-specific.

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NM: It is really more company-specific or portfolio-specific. Let's say, we set this up for "Whitney Investment Company LLC" and you own 10,000 apartment units, and you sell a 250-unit property. Then that property would leave the program, it would not continue. And so, we have notices that go out well in advance that let the residents know that your participation in this program ends at this effective date and to please check with your new property management company what their insurance requirements are and what the options are. And so really the insurance company that we set up for you is just for your portfolio that you either own, manage, or have some contractual relationship to.

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WS: Okay, now that makes sense. How have you seen operators promote this to tenants? For it to be as successful as the amenity that it is?

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NM: There are two kinds of main things that I think results in the high participation that we receive. The first is just the simplicity of it. I think for lots of programs, not just insurance programs but various programs where you're trying to get residents to sign up for something, if they have to go outside of their normal leasing process or they have to do anything extra, you're going to lose participation. And so since it's seamlessly built into the leasing process where they're automatically enrolled, most people just default into it. The second thing that I think results in good participation rates is we have lots of different options in how the residents cover their stuff. And with the renters insurance policy, there are two components. There is the liability component and that's what protects the owner-operator's property. And there's the contents coverage, that's what protects the resident's property. We have a unique way of doing that where the resident gets to completely customize their contents coverage. They get to choose their own limits, their own deductibles, and their own payment terms. They can make it as expansive or as minimal as they want. It gives them a lot more flexibility than if they have to go off the shelf with some third-party insurance company. I think it's the ease and simplicity, inexpensive nature of it, and just that it's paid with rent and the flexibility it provides really results in these high participation rates.

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WS: Speak to how it affects the NOI.

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NM: If you look at our standard program, the way that the dollars flow. Residents that are enrolled will typically pay, $13 a month. That $13 a month, our clients have the flexibility to leave whatever portion of that they want at the property level as additional income. Most of our clients will leave $2, $3, $4 per resident per month just at the property as additional income and then have the balance ceded to the insurance company as a premium. Let's say you leave, $3 at the property level as a premium, then you have $10 per resident per month going to your insurance company. Of the money within that insurance company, a certain amount is going to be administrative costs for running the program. You're gonna have a certain amount that are claimed expenses for covering claims. Then you're probably looking at about $6 of net profit per resident per month to the insurance company.

So now, you've built up all of this free capital and reserves within the insurance company. You're talking NOI. Okay, first you have the income just left at the property level. Then you have all of this additional income and underwriting profit within the insurance company. It's then up to our clients what they want to do with that excess fund. Do they want it to go back to the property? They want to use that insurance company as a new vehicle to lead to a future acquisition, to invest as an insurance company would. So, it opens up all of these really unique opportunities for our clients now that they're sitting on all of these cash reserves with their insurance company to have now this completely new investment vehicle that they did not have before.

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WS: It's just an interesting model. So we've talked about renters insurance numerous times on the show. Not anybody that's doing what you're doing. It's so unique. I've enjoyed learning about that. What else should I be asking you about for this model that maybe I haven't thought of yet or wouldn’t know to ask you?

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NM: The interesting thing for us as a company, so we started this in 2015, me and my partner. We started with one client with about 6,500 units. Today, we're about 750,000 units across the country, spread out, probably 60 to 70 different portfolios. My favorite thing about POPIC, since we started this company six, seven years ago, we have had 100% client retention within our programs. And that's tough to do over any period of time. I think in this industry, better relationships can be failed. They don't always last forever, and it really just shows the value that we drive to our clients, both economically and administratively, because I don't think you can have one without the other. They need to really be married in order for it to be successful. In a similar kind of thinking and thought process, how familiar are you with security deposits, alternative programs, and the different sorts of options out there?

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WS: Somewhat. We've done some different things around security deposits.

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NM: It's a very similar model. This has been a really hot new product for us. You have to look at the whole industry, it's been a very hot-button topic for the past two, or three years. It's been this trend, and the trend is, in an effort to help residents get into units at a reduced cost without all of these large upfront fees, to have some sort of deposit alternative available. The standard program with a third-party provider, there are some nuances to each of the programs, but effectively resident pays in (unintelligible) deposit either a monthly recurring fee or an upfront fee both of them are non-refundable. That fee goes to a third-party insurance provider. At the end of the lease, if there are any unpaid balances or excess damage to the unit and property management isn't able to collect, that insurance provider reimburses the property. It's been really successful marketing for the unit and helping people market their units at a reduced cost. We had a handful of clients a couple of years ago who asked us to vet some of these programs for them, and we were able to gather a tremendous amount of loss data, both from our clients and other areas as well. And we were pretty blown away at how low the loss ratios were.

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NM: It's also one of those things that when there are a lot of groups jumping to get into a space from an insurance company perspective, I think there's a reason most people don't do things to lose money, they see it as an opportunity. So, we really think this is a great opportunity to use that same insurance company vehicle that our clients already have, that's already underwriting their resident insurance to also underwrite the deposit piece. So, that's a very similar model. That monthly fee instead of it going from a third party goes to our client's wholly-owned insurance company. At the end of the lease, they cover whatever claims expenses occur but they earn all of the underwriting profits. Those are the two main products. The idea is to take something that your residents are already paying for. So, we're not adding any increased burden on the residents because they are buying these things. They're just buying it from a third party and creating this new revenue opportunity.

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WS: That right there is a great quote. I'm writing it down. Take something your tenants are already paying for and turn it into some kind of revenue stream. It's so smart. Noah, we're gonna jump to a few final questions. You can relate them to the business or personal, either way. But what are some of the most important metrics that you track?

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NM: Most important metrics we're tracking. Number one is resident participation. With our programs, if you only have 20% or 30% of residents participating in your program versus 70% or 80% of residents with third-party policies then the program is not going to be very profitable. So we are very, very hands-on tracking that participation, month over month, property by property. If there's a group of properties that are lagging behind for some reason, we'll go in and hold refresher training and this is the thing with that - the way we earn income is a percentage of what the residents pay. So, we are very vested in the success as well. So, it's this great symbiotic relationship between us and our clients because we have complete, our interests are aligned. That's one. The other is loss ratios. How much premium income is your insurance company taking in and how much is going out in losses. In most scenarios, there's a huge gap. Our historic loss ratio is about 10%. And that shows how profitable these are. So for us, those are the two main metrics that we're really tracking carefully.

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WS: Yeah, that's awesome. One question I thought of though as you were talking about that, that I've been meaning to ask you was, how long does it take to implement this? You were talking about if there's 20% of the ten that are taking part in this, is it a matter of turning over a majority of the units before? Because maybe, we required it before but we required some kind of third party. How long does it take to implement this? And for it to be profitable.

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NM: Great question. So to start the program, to get the insurance company fully licensed and be ready to go live, it's about a 45-day process. While that's taking place, there are two things occurring. You have our team that is forming the insurance company, and then you have our operations team who works with our client's operations team to do everything to get the program ready at the property level. We wanna try to line those up. As the insurance company is licensed, we're ready to go live. From the day we're going live, it really all depends on what is in your lease today. Do you have an insurance requirement? Do you have some sort of program? Is there any capability to roll residents over from an existing program? But let's just say, no. You don't even require insurance today. It's really going to be a fresh start for new and renewing residents. So, it's about an 18 to 24 months rollout period to hit our participation numbers. So, 18 to 24 months, we expect about 75% to 80% of residents enrolled, and then it just stays very stable for the length that they are our clients.

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WS: Awesome. I mean to ask you that earlier. That's helpful to think through that. Maybe it's a property that we have with a large portfolio. But there are a number of properties that we're fixing to exit. Just thinking through implementing something like that.
What are some habits that you are disciplined about that have produced the highest return for you?

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NM: What's interesting, especially in light of Covid over the past couple of years and just changing the entire nature of how people work and where they work from, I think the people that were routine-driven really excelled versus the people who were not as routine-driven who may have floundered or struggled a little bit. That's something for me that even before that, I've always been very strict about following a schedule and following a routine. And without that, I do not perform as well, professionally, personally, everything. So for me, my days start at the same time every day. It typically starts with a workout in the morning every day, which helps me throughout the rest of the day. That's just something I'm really strict about. With travel schedules, I travel a lot, I have two kids under 20 months. Your life throws you a lot of wrenches to knock you off of that, but for me, that's how I'm successful. I keep very detailed open items both for clients and prospective clients, and it's really just following that schedule for me that is able to make me be successful.

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WS: Keeping a routine. Things do not happen randomly. People are purposeful that it says daily consistent actions. Listeners have heard me talk about that so much on the show, it's like, what's your routine? And how is that gonna help you six months from now, whatever you're doing even if you don't even have one for sure. I appreciate you sharing that. How do you like to give back?

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NM: How do I like to give back? That is a great question. We have always, as a company, been heavily involved with local philanthropy mostly related to the sporting type of endeavors. Me personally, prior to getting into this industry, I played five years of professional lacrosse before getting into this space. And so, I've always been very involved in youth sports and volunteering at a local high school and at the youth level to try to get kids as involved in sports as early as possible. Until I had kids myself, I was volunteer-coaching at this level for a long time in different sports. For me, I don't think there's any way to replicate the professional environment that people get into like sports, and really, team sports. From early on, you learn what it's like to play on a team, to put the success of the team before your individual success, to may not be the best player on that team, but still, find a way to contribute and help out towards the overall goal. And I think it really shows for people that get into the professional world, if they haven't had that team experience, it can be a difficult transition for them. Because all of a sudden you're going from either, let's say, life in college where you are only concerned about yourself in your own way to then working for an organization where you have to put yourself aside for the overall benefit of the company. Without having that background there, it can be challenging. That's where I like to spend my efforts.

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WS: That's awesome. Noah, I'm grateful for your time and really exposing us to this business model that I've not heard that before. I'm grateful for that. And so I wanna do some more research myself and learn more. I know the listeners, listeners who are operators would want to do the same. So, it's incredible. Tell the listeners how they can get in touch with you and learn more about you.

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NM: Yeah, absolutely. I would say the best way to get in touch with me would be by email, N as in Noah, nmolnar, N-M-O-L-N-A-R at POPICLLC (nmolnar@popicllc.com). That's the best way. I and my team would love to have some conversations with whoever is out there. And really regardless of your portfolio or your size, please reach out. We have different programs, and different options, and we can make something fit for everybody.

[END OF INTERVIEW]

[OUTRO]

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WS: Thank you for being a loyal listener of the Real Estate Syndication Show. Please subscribe and like the show, share it with your friends so we can help them as well. Don't forget, go to the LifeBridgeCapital.com where you can sign up and start investing in real estate today. Have a blessed day.

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