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Comments of the Center for Economic Justice

to the Market Conduct Annual Statement Blanks Working Group

Proposed Modification to LPI MCAS to Address Blanket VSI Issues

January 3, 2020

CEJ offers the following proposal to address issues with the LPI MCAS experience reporting and analysis caused by combined reporting of blanket Vendor Single Interest ("VSI") and "traditional" lender-placed insurance ("LPI"). Following the detailed proposal, we discuss the rationale.

1. **Proposed Revision/Additions to LPI MCAS Data Elements, Definitions and Instructions.**

a. Add Interrogatories:

- Were there policies-in-force during the reporting period that provided blanket vendor single interest auto (vehicle) coverage?
- Were there policies-in-force during the reporting period that provided blanket vendor single interest home (residential property) coverage?

b. Add Definition:

Blanket Vendor Single Interest ("VSI"), for purposes of reporting experience in this LPI MCAS, means coverage issued to a lender or servicer to protect a lender's interest and which:

- is provided through a blanket policy covering vehicles or properties servicing as collateral for loans in the lender/servicer's portfolio;
- premium charges to the lender/servicer are based on aggregate exposures insured as opposed to any characteristics specific to any individual vehicle or property;
- has no ongoing tracking of insurance on borrower's loans; and

- does not involve a charge to the borrower or, if there is a charge to the borrower, the charge is made for all borrowers regardless of insurance status.

c. Add Instructions:

- Report **Blanket VSI auto** experience **separately from** Single Interest Auto and Dual Interest Auto.
- Report **Blank VSI home** experience separately all other home coverages.
- Report only the following **Data Elements for VSI:**
  - Claims – data elements 29-51
  - Underwriting data elements 52-55 and 73-80
- Do not report or enter anything for data elements 56 to 72

2. Discussion

a. <u>Background: Why Failing to Separate VSI from "traditional LPI will Skew Ratios</u>

In 2019, CCIA identified the issue of lack of comparability for certain LPI MCAS data elements between "traditional" LPI (which involves insurance tracking and charges only to those consumers for whom evidence of required insurance is not provided) and blanket VSI (which does not involve insurance tracking and whose premium is based on aggregate exposures as opposed to characteristics of a particular vehicle or property). Specifically, blanket VSI is issued as master policy (like traditional LPI) to the lender/servicer, but the coverage:

- is always single interest (meaning only the lender is the named insured despite the borrower owning the vehicle or property);
- no individual policies or individual certificates from the master policy are issued to individual borrowers;
- no insurance tracking (following issuance of the loan) is performed; and
- the lender/servicer's charge to the borrower, if any, is typically made at loan closing and is the same for all borrowers, in contrast to traditional LPI where the lender/servicer will typically charge only those borrowers for whom coverage under the master policy has been issued and such charge is typically equal to the premium charged by the insurer to the lender/servicer for the particular individual coverage

There are a couple of problems with insurers reporting VSI experience as part of other LPI coverage. First, some of the data elements are applicable to VSI, as discussed below. Second, and most important, combined VSI and traditional LPI experience will skew scorecard ratios because of combining different types of coverages. If an insurer writes both "traditional" LPI and VSI – as many insurers do – reporting combined experience for VSI and" traditional" LPI will distort ratios developed from the reported data. For example, any ratios that utilize number of certificates or individual policies will be skewed because all VSI experience would be reported as zero. Even if insurers write only VSI or "traditional" LPI, statewide aggregate results – typically the basis from which significant deviations are noted – will be distorted if VSI experience is reported as zero in existing LPI MCAS coverage categories.

While industry wants to simply exclude VSI from LPI MCAS reporting, that approach will irreparably harm MCAS reporting for two reasons. First, if VSI is excluded from MCAS, then MCAS premium and claim amounts can no longer be reconciled to another financial report by LPI insurers – namely, the Credit Insurance Experience Exhibit. Consequently, there would then be no way for regulators to assess the completeness and accuracy of LPI MCAS reporting.

Second, like other LPI coverages, VSI is a policy issued to a lender/servicer but which involves a borrower's vehicle or real property and for which a borrower is assessed a charge by the lender/servicer. Absent MCAS reporting, there is no feasible way for regulators to routinely monitor a type of insurance for which borrowers are charged but have no market power to discipline the insurer.

b. Data Elements with No Meaning for VSI

Several LPI MCAS data elements have no meaning for blanket VSI including:

- Gross penetration rate (data element 72), because coverage issued is not limited to borrowers who have failed to provide evidence of required insurance, because no tracking is performed and because premium is based on aggregate exposure and not individual coverages issued as a result of insurance tracking.
- Underwriting activity related to individual certificates or policies (data elements 56 to 71) because no individual certificates or policies are issued and, consequently, no flat cancellations of individual certificates or policies can occur.

c. <u>Data Elements with Meaning for VSI and Needed for Interpreting Traditional LPI</u>

The remaining data elements have meaning for blanket VSI including:

- Claims outcomes (data elements 29 to 46) because VSI involves claims just like any other LPI coverage. Claims outcome data are particularly important because the claim involves a borrower's vehicle or property, but for which the borrower has fewer rights than with traditional dual interest LPI. Further, the claims experience for VSI is likely to be significantly different from that for traditional LPI, so it is essential to separate out the claims experience of VSI from that for traditional LPI. In addition, because VSI does not involve individual certificates or policies, it is necessary to separate VSI claim experience from that for traditional VSI to avoid skewed scorecard ratios.

- Suits activity (data elements (data elements 47 to 51) because VSI may involve suits against the insurer by the lender/servicer policyholder. While a borrower's suit regarding VSI is likely to be against the lender/servicer, the insurer may be brought into the borrower's suit. In addition, since the suits activity for VSI is likely to be significantly different from that for traditional LPI, it is essential to separate out the suits experience of VSI from that for traditional LPI.

- Master policy underwriting activity (data elements 52 to 55) because these data elements describe changes in coverage provided during the reporting period

- Gross written, earned premium, claims paid and claims incurred activity (data elements 72 to 78) because these are basic indicators of sales and claims activity and because the loss ratio for VSI is likely to be significantly higher than for traditional LPI, it is essential to separate out the premium and claims experience of VSI from traditional LPI.

- Complaints outcomes (data elements 79-80) because complaints data (not otherwise received by the state DOIs) is important information to monitor markets and because the frequency of the VSI complaint data are likely to be significantly different from that for traditional LPI, it is essential to separate out the complaint experience of VSI from traditional LPI.