Comments of the Center for Economic Justice

to the Market Analysis Procedures Working Group

Issues Raised by CCIA Regarding LPI MCAS

October 30, 2019

The Center for Economic Justice (CEJ) writes in response to issues raised by CCIA regarding the Lender Placed Insurance (LPI) Market Conduct Annual Statement (MCAS). CEJ thanks CCIA for bringing reporting issues related to Blanket or Vender Single Interest (VSI) LPI to the attention of regulators.

Recommendation

The nature of VSI requires that VSI experience be broken out as separate coverages from the current coverage categories. The short-term solution is a special data call to insurers reporting LPI MCAS experience to provide VSI Auto and VSI Property experience for the current LPI MCAS data elements. These additional data will enable regulators to exclude VSI experience from previously reported data to recalibrate individual company and statewide aggregate ratios. The permanent solution is to segregate VSI reporting into separate coverages – VSI Auto and VSI Property – in the LPI MCAS.

VSI versus "traditional" LPI

While all (or nearly all) LPI insurance is sold as a commercial policy to lenders or servicers, VSI differs from "traditional" LPI in significant ways. With "traditional" LPI, a master policy is issued by the insurer to the lender/servicer and coverage for individual vehicles or properties are issued from the master policy (as certificates or individual policies, depending on the state) as needed based upon a determination by the lender/servicer (or the lender/servicer's tracking vendor) that evidence of required insurance is missing. The 0premium charge by the insurer to the lender/servicer is based on the specific vehicle or property for which a certificate or individual policy is issued, typically based on the replacement cost of the vehicle or property or the outstanding loan amount. While "traditional" LPI provides coverage for all vehicles or properties in the lender/servicer's portfolio as needed, premiums are charged and certificates/individual policies are issued only when needed due to the missing evidence of required insurance.

With VSI or blanket coverage, the insurer issues a master policy to the lender/servicer which covers all vehicles or properties in the designated loan portfolio. Unlike "traditional" LPI, there is no tracking of required insurance of individual borrowers and premium charges are based on either the number of covered vehicles or properties or the total outstanding loan balance of the covered vehicles or properties.[1]

CCIA is correct that with VSI, no individual certificates or policies to borrowers. However, ***VSI is LPI for which the lender/servicer charges a fee or amount to the borrower***. The premium for LPI – whether "traditional" or VSI – is paid by the policyholder – the lender/servicer – to the insurer. The lender/servicer, in turn, charges a fee or an amount to the borrower to recoup this cost, but the amounts charged by lender/servicers to borrowers for LPI, including VSI, are not premiums. With "traditional" LPI, the amount charged the borrower by the lender/servicer is typically the premium charged by the insurer to the lender/servicer for the specific coverage issued.[2] With VSI, the borrower is typically charged a fee up front as part of the loan.

Implications for MCAS Reporting of Differences between "Traditional" LPI and VSI

CCIA is correct that, as currently defined, a number of underwriting data elements are not applicable to VSI. However, it should be noted that this is also the case for "traditional" LPI. In any particular state, an insurer reporting "traditional" LPI will either report experience with certificates or experience with individual policies.

CCIA's proposal for VSI reporting is flawed. CCIA proposes that 17 underwriting data elements be reported as zero. It is, however, unclear, which data elements CCIA is referring to because there are a total of 20 underwriting data elements (numbers 52 to 71) and four of the data elements relate to master policies for which reporting of VSI experience is meaningful.

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[1] Examples of insurer Blanket/VSI offerings include:
https://www.blanket360.com/
https://www.oiclenderservices.com/web/VSI.aspx
https://www.seattlespecialty.com/Lender_Placed_Insurance/Blanket_Insurance
http://www.vanwagenen.com/products/insurance/blanket-auto-insurance/
https://www.cunamutual.com/products/credit-union-protection/collateral-protection-auto?shortURL=https://www.cunamutual.com/products/credit-union-protection/collateral-protection/auto
https://www.miniter.com/products/blanket-vsi-insurance/

[2] The extensive regulatory investigations and litigation regarding LPI in the aftermath of the financial crisis focused on whether the premium charges by insurers to lender/servicers and the subsequent amounts charged by lender/servicers to borrowers were inflated by kickbacks from the insurer to the lender/servicer.

Including VSI experience with other MCAS LPI coverages will distort the ratios. 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.

The obvious response to the VSI reporting issues raised by CCIA is to separate reporting of VSI as separate coverages in the LPI MCAS. Two additional coverages are needed – VSI Auto and VSI Property. VSI Auto would be defined as Blanket or VSI insurance providing coverage for motor vehicles. VSI Property would be defined as Blanket or VSI insurance providing coverage for real property.

While separate VSI reporting is useful for monitoring that portion of the LPI market, separate reporting is essential to ensure that experience reporting for "traditional" LPI is not distorted by inclusion of VSI experience. Even if regulators have no interest in monitoring VSI markets, separate reporting of VSI is necessary for the accuracy of "traditional" LPI experience reporting.

There is no additional burden for LPI insurers to separate experiencer reporting for "traditional" LPI and VSI. It is clear from the CCIA letter that insurers identify VSI as a separate product from "traditional:" LPI. This fact is confirmed by the insurance vendor websites in footnote 1. CCIA also reports that insurers are reporting VSI experience, but simply including it with other coverage categories. Consequently, separate reporting of VSI presents no additional burden for insurers and will have the benefit of easier data quality review by insurers.

A short-term solution to address the issues raised by CCIA is to issue a special data call to all insurers reporting LPI MCAS experience to provide VSI Auto and VSI Property experience for the current LPI MCAS data elements. These additional data will enable regulators to exclude VSI experience from previously reported data to recalibrate individual company and statewide aggregate ratios. The permanent solution is to segregate VSI reporting into separate coverages in the LPI MCAS.