Comments from the Center for Economic Justice

To the NAIC Market Conduct Annual Statement Blanks Working Group

Regarding Proposed Changes to Lender-Place Insurance Definitions and Data Elements

March 31, 2025

These comments provide background on the reasons for the proposed changes and respond to the comment letter of the insurer trade associations.

<u>Reporting Problems Identified</u>

At the December 5, 2024 meeting of the working, a regulator stated that one or more LPI insurers were treating the expiration of LPI coverage at the end of coverage term as a cancellation. In addition, when new coverage was issued on the same property or vehicle, the insurer was treating the new coverage as a renewal. The regulator noted that MCAS ratios were skewed in error. The minutes of the meeting include:

> Werbeloff stated that Rhode Island followed up with an insurer regarding outlying lender-placed insurance (LPI) MCAS ratios. It was brought to Rhode Island's attention that an issue may be skewing most of the ratios involving certificates. The insurer stated these reissued certificates are renewals with new certificate numbers. When reporting MCAS, the company marks these expirations as cancellations and reissues or renews them as new certificates written.

The issue was discussed at length during the December 5, 2024 working group meeting and a tentative solution was proposed to modify definitions to make clear that LPI coverage reaching the end of coverage term is <u>not</u> a cancellation. The tentative solution also included a new data element to identify repeat coverages on the same property to both distinguish these from other new LPI coverage placements and identify market availability and affordability issues if borrowers are continuously using LPI coverage / not obtaining voluntary or residual market coverage.

Based on the tentative solution developed at the December 5, 2024 working group meeting, CEJ developed the proposal, submitted prior to the March 6 working meeting and attached to these comments, to implement the solution. In developing the proposal, CEJ worked with regulators to provide the background and context for the changes and the specific definitions and data elements.

The first part of the proposal explains how LPI is placed. Among other things, there are no individual coverage renewals with LPI. Once coverage meets the end of the coverage term, the certificate or individual policy expires. If new coverage is placed because the borrower still has not provided evidence of required insurance, a new certificate or individual policy is issued.

Comment Letter from CCIA and APCIA

Insurer trade associations representing insurers writing LPI sent a comment letter dated March 19, 2025 with two comments.

The trades first question the "necessity" of addressing the problem and raise the specter of costs and efforts by insurers and other parties providing data elements to the insurer.

The proposed changes are necessary to address reporting errors that have caused multiple key ratios involving coverages issued and cancellations to be false and in error. Changes to reporting instructions and the addition of a data element that remedy a flaw in insurer reporting that significantly compromises the usefulness of the MCAS are clearly necessary.

The benefits of the proposed changes far outweigh any additional costs to insurers. The changes do not involve any new data collection by the insurers because the insurers currently have the information to determine whether any new coverage issued is a replacement for coverage that had reached the end of the term. Insurers know this because the insurers, who provide insurance tracking services for lenders and services, issue letters to borrowers if evidence of required insurance is missing. Insurers know when coverage they have issued starts and ends and they know the specific property for which coverage has been issued.

Any costs to insurers should be minimal to correct any current programming errors (e.g., that mischaracterize a coverage reaching end of term as a cancellation) and adding a new data element with information at hand. To the extent that an insurer experiences a cost to remedy erroneous data reporting, the insurer caused the expense and not the MCAS proposal.

The benefits are clear and significant – the MCAS data become more reliable for market analysis and, consequently, lead to less cost on insurers for outlier ratios resulting from incorrect data reporting. Stated differently, **faulty data reporting based on misunderstandings by insurers about what to report thwarts the entire purpose of MCAS.** The benefits extend beyond greater ability by regulators to use MCAS for market analysis of individual insurers and include a new ability by regulators to identify market availability and affordability problems that result in consumers relying upon LPI instead of voluntary or residual market coverage.

The trades' letter states "segmenting 'renewal' of placed coverage does not seem particularly helpful." Ironically, the trades' explanation makes the precise case for the proposed changes!

> **Whether a LPI certificate or policy was cancelled or expired during a reporting year,** which the proposed "renewal" data elements allegedly intend to identify, **may be understood differently by reporting parties** and a distinction without a difference for MCAS purposes.

The purpose of providing explicit data definitions and reporting instructions is to ensure that all insurer have the same understanding of what data to report in what categories. As the trades explain, the proposed changes are necessary to ensure that difference between cancellations and expiration of coverage are understood in the same way by all reporting parties.

Proposal from the Center for Economic Justice to

Address End of Coverage Issues on the Lender-Placed MCAS

February 28, 2025

Background

LPI coverage typically comes in two forms. One form of LPI is a blanket group policy issued to a lender or loan servicer providing coverage for all vehicles or properties in the loan portfolio. Under a blanket policy, the premium charged to the lender / loan servicer is based on the total number of vehicles or properties insured or the total amount of outstanding debt on the loans in the covered loan portfolio. If there are LPI charges by the lender or loan servicer to individual borrowers, it would typically be the same amount across borrowers at the loan issuance.

The second form is the more common method used for LPI home insurance in which coverage is issued under the group policy if the lender / loan servicer identifies a lapse in coverage. (Note: the lender / loan servicer often hires the LPI insurer or affiliate of the LPI insurer for insurance tracking services. While the LPI insurer or its affiliate may perform the loan tracking, including sending letters to borrowers regarding missing evidence of insurance and issuance of LPI coverage, the responsibility remains with the lender / loan servicer and the insurance tracking correspondence contains the name of the lender / loan servicer and not the LPI insurer or affiliate performing the tracking services.)

With the second form of LPI, if the borrower fails to provide evidence of required insurance, the lender / loan servicer directs the LPI insurer to issue coverage (e.g. a certificate) under the group policy. The LPI insurer than charges the lender / loan servicer a premium based on the rating factors filed in a rate filing by the LPI insurer. Such rating factors are typically limited to amount of coverage and any additional coverages offered to and selected by the lender / loan servicer or the borrower. The lender / loan servicer then makes a charge to the affected borrower styled as insurance typically in the same amount charged by the LPI insurer to the lender / loan servicer.

Coverage Cancellation and New Coverage Issuance

The typical home certificate under this individualized premium charge form of LPI has a coverage term of 12 months. The majority of such certificates are cancelled by the lender / loan servicer and LPI insurer before the end of the term of coverage due to insurance being falsely force-placed due to tracking records (a “flat cancel”) or because the borrower obtains voluntary market insurance before the end of the 12-month term of the LPI.

In some markets and some situations, individualized premium LPI coverage extends beyond the initial 12-month term of coverage because the borrower either cannot obtain voluntary coverage or simply fails to take action to obtain voluntary market coverage. In these types of situations, the initial LPI coverage ends at the end of coverage term and another LPI coverage (certificate) is issued by the LPI insurer.

The MCAS blank includes data elements and interrogatories in three categories of policy types – group policy, certificates under group policies and individual policies. In a few states, individualized premium LPI is provided through an individual policy and not as a certificate under a group policy. For purposes of MCAS analysis, individual policies and certificates under group policies are comparable.

Based on the above, we offer the following definitions and additional data elements for the LPI MCAS:

Proposed New or Revised Definitions

Cancellations – Includes all cancellations of the policies/certificates where the cancellation was executed during the reporting year regardless of the date of placement of the coverage. Coverage under an individual policy or a certificate under a group policy ending at the end of the term of coverage is not a cancellation, even if the coverage is renewed through a subsequent individual policy or certificate. See also Flat Cancellation

Coverage Renewed – Includes only those new coverage individual policies and certificates issued for the same property at the end of the term of coverage for the prior individual policy or certificate on that property. Include Coverage Renewed individual policies and certificates in individual policies written and certificates written during the period, respectively.

Term of Coverage Completed – Include individual policies and certificates for which the term of coverage was completed and ended during the period.

Individual Policies Written During the Period – Include all individual policies issued during the period before any flat or other cancellations, even if issued in error. Include all individual policies with Coverage Renewed.

Certificates Written During the Period – Include all certificates issued during the period before any flat or other cancellations, even if issued in error. Include all certificates with Coverage Renewed.

Proposed New Data Elements

3-59A Number of certificates for which Term of Coverage Completed during the period

3-59B Number of certificates issued for Coverage Renewed during the period

3-67A Number of individual policies for which Term of Coverage Completed during the period

3-67B Number of individual policies issued for Coverage Renewed during the period