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TO: Mike Chaney, Chair,  
NAIC Property and Casualty Insurance (C) Committee

Sharon P. Clark, Chair  
NAIC, Market Regulation and Consumer Affairs (D) Committee

FROM: Robin Smith Westcott, Esq., Insurance Consumer Advocate

DATE: August 14, 2012

SUBJECT: **Comment to NAIC on Lender Placed Insurance**

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With much of our nation still struggling with a sluggish economy and consumers frantically working to make ends meet, there is a new crisis blocking the path to our economic recovery – lender-placed insurance. The economic impact of this issue is further magnified in Florida by the large number of consumers who are faced with or in the midst of foreclosure.

More than 1.4 million Florida homes are insured by our state's public insurer, Citizens Property Insurance Corporation. I receive numerous complaints from consumers who no longer meet Citizens' underwriting guidelines, as our insurer of last resort has taken actions to depopulate through aggressive underwriting and mitigation inspections. This may push even more consumers into lender-placed insurance, creating new financial hardships.

Further, as private insurance companies continue to pull away from coastal areas and re-evaluate coverage for catastrophic events throughout our country, Floridians already struggling to make mortgage payments may be forced into foreclosure proceedings when faced with the added expense of lender-placed insurance.

Florida already has one of the highest foreclosure rates in the country, and Tampa and Miami are among the leading cities for foreclosures. As of March 31, 2012, Florida ranked first in the country with 271,000 delinquent loans and at the end of 2011, it was taking 806 days, or 2.2 years, for the foreclosure process to be completed once begun.<sup>1</sup>

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<sup>1</sup> FHFA, Foreclosure Prevention Report, First Quarter 2012

That means homeowners who remain in their homes while going through the foreclosure process could be under the pinch of lender-placed mortgages for a substantial amount of time and at great risk. In the event of a hurricane or significant catastrophic event, many of these consumers will be left without important coverage benefits, such as personal property and additional living expense coverage, that they would certainly need to recover.

I believe these are issues that the NAIC must address:

- Investigations in New York and review by other consumer advocates show that the loss ratios for Lender Placed Insurance are extremely low – as low as 22% for some insurers.<sup>2</sup> However, Lender Placed insurers typically file rates that assume loss ratios much greater than historical losses.
- Many insurers pay commissions to the banks and offer servicing activities traditionally performed by the bank/servicer. This creates “reverse competition” where consumers and investors will be charged for the costs of the insurer to secure the bank’s business rather than true competition where the consumer or end user of the product receives the benefit of competitive rates to capture their business.
- The profitability of this product, and the recognition by the banking industry that this profitability can be accessed through intricate contractual relationships with insurance companies, has led to excessive rates and abuses.

Florida consumers’ risk in the lender-placed market has unique characteristics. As few as four companies write lender-placed coverage, which accounts for roughly 10 percent of the gross written premium for personal and commercial residential policies in our state.

It has always been my perspective that the NAIC is a body that works toward making sure there is a level playing field for insurers and a healthy insurance marketplace. I believe the NAIC has the tools available through market conduct reviews to make lender-placed insurance programs more transparent and efficient, to protect our citizens from being improperly placed into lender-placed coverage, and reduce costs and burdens not only to homeowners but our states’ economies.

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<sup>2</sup> New York State Department of Financial Services, Press Release dated April 5, 2012