nerej
CELEBRATING 55 YEARS

Gaining control of your forced placed insurance program

April 12, 2012 - Front Section

The policies and procedures used in the administration of lenders' forced placed insurance have recently received increased scrutiny by regulators. While most of the attention thus far has been focused on lenders that have subsidiaries that actually underwrite the forced placed coverage, many of the issues (e.g. unreasonably high rates, communication breakdowns with the borrower and incorrect placement issues) could also give rise to additional regulation and lawsuits against lenders that outsource forced placed services. Here are several actions you can take to mitigate potential issues.

1. Coordinate your forced placed policy with all other insurance policies

Many financial institutions will assign an executive to manage their entire insurance program, except for the forced placed insurance, which is typically handled by a member of the lending department. You should make every effort to have your forced placed insurance policy administered by the same employee managing the balance of your program. Consolidating these responsibilities will benefit the bank by, gaining leverage with insurance carriers whenever the program is marketed, and ensuring a consistent risk management and insurance buying philosophy are used.

Specifically, your mortgage impairment policy likely contains a provision that limits the time a property is eligible for coverage if the property is known to be non-compliant with the lender's insurance requirements. Having one person with knowledge of the terms and conditions of both the mortgage impairment and forced placed policies may eliminate gaps in coverage or reduce the chance of properties being simultaneously covered by two policies.

2. Test rates for reasonableness

One of the primary complaints with forced placed insurance programs is the high property premiums charged to the borrowers, which are significantly (sometimes as much as three or four times) higher than what the borrower could procure on their own. While service providers often do more than simply underwrite insurance at predetermined rates, part of your provider selection should be the impact these forced placed insurance charges will have on your borrowers. Even though rates will be higher than those found on traditional policies, they should not be exorbitant. The provider should also be very flexible in cancelling forced placed policies without penalty in the event that the placement was made "in error" and that no gap in coverage ever existed. Evaluating your forced placed arrangements by regularly marketing to several vendors can safeguard against allegations that your forced placed rates are excessive.

3. Avoid conflicts in agreements with forced placed vendors

Agreements with forced placed service vendors should be free of any conflicts of interest. Vendor compensation, and the agreed upon coverage rates, should not be amended based on the volume of business with the vendor. Lenders should always avoid the borrower perception that they prefer to use the forced placed coverage over traditional borrower insurance.

4. Know how the final decision to "force place" is being made

Several notices are typically sent to the borrower prior to commencing a forced placed insurance policy. However, the borrower may ignore notices they believe are inaccurate. For example, flood policies are sometimes placed in instances where a flood zone map is amended, but did not account for the specifics of a particular property. The borrower may realize they are exempt from NFIP requirements, but do you? Verifying that coverage is compliant can be more complex than merely measuring if a policy is effective. In complex or unusual circumstances, an individual qualified and knowledgeable in insurance policy terms and conditions should review the situation prior to a policy being forced placed.

Conclusion

Regulation of forced placed insurance is beginning to increase as are defaults on mortgages arising out of the failure to pay required insurance premiums. Carefully reviewing your institution's policies and procedures now may avoid potentially costly regulatory action, litigation and negative publicity in the future.

Timothy King, MBA, CPCU,ARM is a staff consultant at Albert Risk Management Consultants, Needham, Mass.