



Consumer Federation of America



CENTER FOR ECONOMIC JUSTICE

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CONSUMER GROUPS CALL ON FLORIDA INSURANCE COMMISSION TO STOP MASSIVE FORCE-PLACED INSURANCE OVERCHARGES

Groups Decry Bogus Rate Filing by Assurant

Washington, D.C. -- At a hearing in Tallahassee today, the Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ) will urge the Florida Insurance Commissioner to stop the huge overcharges of “force-placed” insurance (FPI) that are punishing struggling homeowners.

When consumers get a mortgage loan, the lender requires the borrower to maintain insurance to protect the property. Mortgage servicers track all loans for required insurance and when the required insurance is missing, the servicers “force-place” insurance. Despite the fact that FPI has far less coverage than a homeowners policy – no coverage for contents, liability or additional living expense in the event of a catastrophe forcing the consumer out of the home – the average premium for FPI in Florida is two to three times higher than the average homeowners premium.

FPI has come under criticism from consumer groups, mortgage investors, state attorneys general, federal banking regulators and the Federal Housing Finance Authority, which oversees Fannie Mae and Freddie Mac. The groups complain that FPI charges to borrowers are massively inflated to provide kickbacks from the FPI insurer to the mortgage servicer. The New York Department of Financial Services recently ordered FPI insurers to lower rates, pay refunds to consumers and pay penalties of over \$20 million.

Florida is the epicenter of FPI in the United States with 35% of the countrywide FPI premium. And one company, American Security Insurance Company (ASIC), part of the Assurant Group, writes almost 70% of the Florida FPI premium. (See Tables 2 and 3)

FPI has been hugely profitable for Assurant and mortgage servicers. The massive overcharges of ASIC’s FPI are evidenced by the low loss ratios compared to homeowners insurance. The loss ratio is the dollars of claims divided by dollars of premium: Table 1 shows that for the period 2004 to 2012, ASIC’s FPI loss ratio was only 16.4% compared to the Florida homeowners loss ratio over that period of 71.3%

Today's hearing was called by the Florida Insurance Commissioner for public comment on a recent rate filing by ASIC in which ASIC proposes no rate change

"FPI rates are inflated by reverse competition," said J. Robert Hunter, Director of Insurance for CFA, former Texas Insurance Commissioner and a consulting actuary. "FPI insurers compete for business by larding premiums with expenses to provide kickbacks to mortgage servicers. The mortgage servicer passes the cost of the FPI on to borrowers, but takes a big piece of the premium in cash or subsidized services. The outrageous ASIC filing shows the results of reverse competition – massively excessive rates."

Birny Birnbaum, executive director of the Center for Economic Justice and a national expert on FPI said, "The proposed rates are a sham. ASIC has filed a rate request 25% higher than they actually want so they can "settle" for the 20% rate cut they were ready to accept all along. Consumers in Florida and around the country desperately need the Insurance Commissioner to get it right with FPI rates. Anything less than a rate cut of 50% will be unfair to consumers and a victory for Assurant.

CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.

CEJ is a non-profit organization that works to increase the availability, affordability and accessibility of insurance, credit, utilities, and other economic goods and services for low income and minority consumers.

Table 1
 Loss Ratios for Florida Homeowners Insurance and
 American Security Florida Force-Place Insurance, 2004 to 2012

<u>Year</u>	<u>Homeowners</u>	<u>ASIC LPI</u>
2004	343.3%	83.8%
2005	175.1%	110.7%
2006	38.0%	29.9%
2007	30.3%	11.6%
2008	39.7%	10.9%
2009	46.4%	10.3%
2010	46.0%	13.5%
2011	42.9%	12.8%
2012	37.6%	12.1%
2004-12	71.3%	16.4%

Table 2

Why the OIR Action Means So Much

Florida, Assurant Have the Lion's Share of the Nation's LPI.

Net Written Premium (\$ Millions)

<u>Year</u>	<u>Countrywide All Companies</u>	<u>Florida All Companies</u>	<u>Florida Assurant</u>	<u>Florida ASIC</u>
2004	\$796	\$84	\$56	\$56
2005	\$919	\$99	\$74	\$74
2006	\$1,074	\$143	\$116	\$116
2007	\$1,647	\$295	\$243	\$243
2008	\$2,209	\$507	\$409	\$409
2009	\$3,049	\$1,047	\$479	\$472
2010	\$3,223	\$1,184	\$539	\$521
2011	\$3,450	\$1,211	\$585	\$561
2012	\$2,870	\$981	\$677	\$609
2004-12	\$19,238	\$5,551	\$3,179	\$3,061

Table 3

Florida Accounts for 35% of Countrywide LPI Premium

ASIC Florida Wrote 21% of Countrywide LPI in 2012

<u>Year</u>	<u>Florida</u>	<u>ASIC Florida</u>
2004	10.6%	7.0%
2005	10.8%	8.1%
2006	13.3%	10.8%
2007	17.9%	14.8%
2008	22.9%	18.5%
2009	34.3%	15.5%
2010	36.7%	16.2%
2011	35.1%	16.3%
2012	34.2%	21.2%