The Center for Economic Justice

Objection to Approval of

American Security Insurance Company

Lender-Placed Insurance Rate Filing

OIR Filing No. 13-04125

Submitted May 29, 2013

The Center for Economic Justice (CEJ) renews our objection to the approval of the American Security Insurance Company (ASIC) lender-placed insurance (LPI) rate filing. These comments expand upon the presentation CEJ made at the May 13, 2013 public hearing regarding the filing and respond to additional submissions by ASIC since May 13, 2013. In these comments, CEJ will refer to specific slides in our May 13, 2013 presentation ("May 13 presentation").

1. Nature of LPI and Reverse Competition in LPI Markets

LPI is a group master policy issued to mortgage servicers and which provides automatic coverage in the event the voluntary insurance on a property serving as collateral for a mortgage loan in the mortgage servicer's portfolio lapses or otherwise fails to meet the insurance requirements of the loan. The March 1, 2013 cover letter for the ASIC filing explains the product and the method of issuing coverage from the master policy.

> Any type of real estate loan involving a commercial or residential structure requires the borrower to keep sufficient insurance coverage in force to satisfy the lender's interest should the structure (collateral) be destroyed or damaged. In order to make sure this requirement is met, most lenders have a department which keeps track of all the insurance policies covering properties for outstanding loans. If borrower provided coverage is cancelled or expired, the lender begins sending a series of follow-up letters to the borrower reminding the borrower of his obligation to keep insurance in force. If the borrower fails to comply, the lender will request issuance of the policy.

On its face, this product – a group master policy with coverage issued on individual properties as directed by the mortgage servicer – should have modest expenses compared to voluntary homeowners insurance. Unlike voluntary homeowners insurance, LPI has no underwriting of individual properties, no collection of data from homeowners about their property, property contents, credit history, loss history or almost any of the other information used by voluntary insurers to underwrite and rate the voluntary policy. Unlike a voluntary homeowners insurance policy, LPI has no marketing to individual consumers and no advertising expenses. ASIC has dozens of mortgage servicer clients, as opposed to the many hundreds of thousands of clients served by an insurer writing the same amount of premium as ASIC.

We would expect that expenses – commissions, other acquisition and general expenses – for LPI would be much less in dollars per property covered than for homeowners and much, much less as a percentage of premium.

On its face, LPI premiums should not be significantly greater than homeowners premiums for the same property, let alone two to three times greater on average. While we expect that the lack of underwriting of individual properties means greater risk exposure than a voluntary policy, this potential for greater risk exposure is offset to some extent by lesser coverage. The absence of coverage for contents and additional living expense are particularly meaningful for evaluating catastrophe exposure. In terms of premium charges, offsetting the potentially greater risk due to lack of underwriting are lesser coverage and expenses for LPI than for homeowners insurance.

ASIC claims that the high rates for LPI are justified by greater risk exposure is utterly refuted by the actual loss ratios of Florida homeowners insurance and ASIC LPI in Florida. If LPI exposures were so much riskier than voluntary homeowners exposures, we would expect to see higher loss ratios for LPI than for homeowners. And if the cat exposure for LPI was so much greater than the cat exposure for homeowners, we would expect to see much higher LPI loss ratios than homeowners loss ratios in those years with catastrophe events. In fact, as slide 7 or the May 13 presentation shows, ASIC LPI loss ratios have been far lower than homeowners loss ratios in Florida in every year since 2004.[1] In recent years – years without a catastrophe event – the ASIC Florida LPI loss ratios have been in the 11% to 13% range while Florida homeowners loss ratios have been in 30% to 46% range. In non-cat years, ASIC Florida LPI loss ratios have been one-third to one-fourth of Florida homeowners loss ratios. In the cat years of 2004 and 2005, ASIC Florida LPI loss ratios were also far below Florida homeowners loss ratios.

Slide 10 of the our May 13 presentation shows the same relationship between Assurant LPI loss ratios and homeowners loss ratios outside of Florida. The ASIC LPI loss ratios for all states other than Florida are far below the homeowners loss ratios for all states other than Florida in all years – whether there were major catastrophe events in the year or not. The years 2011 and 2012 are particularly instructive. In 2011, the homeowners loss ratio outside of Florida spiked because of numerous catastrophe events, but ASIC's LPI loss ratio outside of Florida barely ticked up. In 2012, the year of Superstorm Sandy, ASIC's LPI loss ratio outside of Florida increased to only half of the homeowners loss ratio outside of Florida – despite the fact that flood is excluded from homeowners policies but not from LPI. If the "greater cat exposure" of LPI were to ever manifest itself, surely it would be in a year of massive flood losses which should impact LPI far more than homeowners insurance. The evidence completely refutes the ASIC claim.

The evidence and common sense shows that the higher rates for LPI than for homeowners insurance are not driven by legitimate expenses or higher claims. The higher and massively excessive rates for LPI are driven by reverse competition. Reverse competition is a well-accepted concept in insurance regulation and refers to a market dynamic in which the insurers

[1] The homeowners data comes from the NAIC Report on Profitability for 2004 through 2011. The homeowners 2012 data comes from preliminary annual statement state page data for insurers writing in Florida. The ASIC LPI data comes from the Credit Insurance Experience Exhibit supplement to the statutory annual statement.

compete for the lenders' or servicers' business because the lender or servicer has the market power to refer the ultimate consumer to the insurer. In LPI markets, the two dominant LPI insurers/vendors writing almost all the LPI premium compete by offering considerations to the mortgage servicers. These considerations take the form of:

- Commissions to servicer-affiliated agents
- Captive reinsurance schemes
- Cash payments for "administrative services" or "system integration"
- Free or below-cost non-LPI servicers, the expense for which is built into the LPI rates

The fact that LPI insurer engage in kickbacks to mortgage servicers and that such kickbacks are paid for by borrowers and investors through inflated LPI rates is evident – not just from regulatory settlements like the recent settlements between LPI insurers and the New York Department of Financial Servicers – but from a simple thought exercise. If servicers were simply a commercial policyholder and had an interest in keeping their LPI premium costs as low as possible, would this commercial policyholder pay inflated LPI premiums so an affiliated agent could receive a commission? Or so an affiliated reinsurance company could incur the administrative expenses of a captive reinsurance agreement? The answer is no.

Questions and answers during the May 13 public hearing demonstrated the fiction of LPI commissions to servicer-affiliated agents or brokers as legitimate payment for service provided to the insurer and the reality that such commissions are simply a kickback from the LPI insurer to the servicer. When asked what these servicer-affiliated agents do to earn this commission, ASIC representatives muttered some generic activities. Yet, when confronted with the fact that ASIC's two largest clients – Wells Fargo and Chase – had stopped accepting agent commissions, the ASIC representatives could not explain whether the agents continued to provide those services without compensation or whether those services were even still performed.

CEJ cannot overstate how important it is for LPI consumers in Florida and around the country for the Office of Insurance Regulation (OIR) to get it right with ASIC's LPI rates. ASIC's Florida LPI business accounted for almost 22% of the entire countrywide LPI premiums in 2012 – a massive share of countrywide premium for a single company in a single state. Thus, OIR's action to reduce LPI rates will impact a large number of Florida consumers and a major portion of countrywide LPI premium. Florida's mortgage borrowers are in great need for regulatory action to address excessive LPI rates. Borrowers already stressed by the collapse of real estate values and high unemployment are pushed toward financial and economic catastrophe when overpriced LPI is added to their loans. OIR is one of the few state insurance departments with the resources and skills to understand the role of LPI in the broader mortgage servicing system and to truly examine the expenses of LPI insurers like ASIC. Other states look to OIR for insight into understanding and stopping the unreasonable expenses embedded in LPI rates.

2. Trade Secret Claims

ASIC has claimed many of the exhibits supporting the proposed rates as trade secret, including exhibits routinely considered public information. These overbroad trade secret claims by ASIC are an abuse of public information law exceptions to public disclosure. Following the hearing, CEJ followed up by email on May 14 with ASIC representatives to discuss ASIC withdrawing the trade secret claims on some or all of the relevant exhibits. On May 16, 2013 ASIC representative Harry Bassett responded:

> As you can appreciate we are thoroughly discussing your proposal and are giving it serious contemplation. Being a large company, we have quite a few traps to run and I anticipate getting back to you next week. Thanks for your patience as I believe it is in our mutual best interests.

As of May 29, 2013, ASIC has not otherwise responded to CEJ's May 14 e-mail. However, in ASIC's May 28, 2013 response to the CEJ presentation, ASIC indicates it will maintain all its trade secret claims and states:

> ASIC's trade-secret exhibits could be subject to misinterpretation and misuse if the party requesting special access to proprietary information is not willing to properly interpret and analyze the information.

The test of whether a document meets the standard for trade secret exception to public disclosure has nothing to do with whether the requesting party may "misinterpret" or fail to "properly interpret and analyze the information."

ASIC has claimed trade secret on a variety exhibits that have historically been recognized as clearly-public information, including support for rating factors and expense provisions. ASIC's abuse of the trade secret designation is further evidenced by its claim of trade secret on the documents providing the justification for trade secret designation of other documents. ASIC is not only claiming trade secret on exhibits routinely available to the public, but claiming trade secret on the justification for the trade secret claim.

CEJ asks for OIR's assistance to stop this abuse of trade secret claims by ASIC. CEJ requests that OIR support public disclosure of the clearly-public exhibits when the issue goes before the District Court. CEJ also requests that OIR take no action to approve the ASIC LPI filing until there has been judicial review of the ASIC trade secret claims. The purpose of public records laws is, among other things, to inform the public so the public can hold regulators accountable for regulatory actions. OIR has long acknowledged the role of public information in empowering consumers to assist OIR in its mission to protect insurance consumers.

3. Non-Catastrophe Loss Trend

In our May 13 presentation, CEJ pointed out that ASIC experience, reported in the Credit Insurance Experience Exhibit, was inconsistent with a non-cat loss trend of around 20% annually. CEJ pointed out that ASIC's flat or declining loss ratios (slide 36) were inconsistent with annual claim cost increases of greater than 21.2% which is the pure premium loss trend selected by ASIC.

In its May 28, 2013 submission, exhibit 4.2, ASIC provides additional loss trend data through fourth quarter 2012. ASIC's trend data show 26 quarters of data from 2006 q3 through 2012 q4. ASIC calculates a four-quarter average of frequency and severity (except for the first data point which is a three-quarter average) and then fits an exponential curve to the data points. The result is an indicated annual severity trend of -7.2% and indicated annual frequency trend of 25.3%. Taken together, the indicated pure premium loss trend is 16.3%. In exhibit 4.1, ASIC provides another trend analysis based on annual data with a pure premium loss trend of 14.7%.

The new loss trend analyses do not support the original ASIC loss trend selection. However, the ASIC loss trend analysis is flawed in several ways and a reasonable pure premium loss trend is zero.

The loss trend data cover a period in which earned exposures grew 11,961 per quarter to 44,941 per quarter – a near 400% increase. The trend analysis relies on paid claims and earned exposures. Given the lag between earned exposures and claims, a trend analysis based on paid claims and earned exposures during a period in which exposures are growing dramatically will be unreliable.

The ASIC fitted trend line does not fit the data well, particularly for frequency. The ASIC frequency trend shows fitted frequency values of 5.5%, 5.8% and 6.2% for the most recent three quarters – values that are far greater than the reported actual frequency values of 4.9%, 5.2% and 5.1%. The ASIC frequency trend indicates rapidly rising frequency during a period of stable frequency. Extrapolating this trend curve into the future will further exaggerate expected claims.

The ASIC trend data do not make sense. The data show that severity declined from by 40% from $11,281 for the four quarters ending 2007 q4 to $6,787 for the four quarters ending 2012 q4. The ASIC data show that frequency increased by over 300% from 1.58% to 5.11% for the same two four quarters ending. These odd results suggest that some other factors are reflected in the loss trend data besides any underlying loss cost trend. For example, the trend data may be skewed by new loan portfolios added to the LPI portfolio or by changes in the mix of LPI and REO business. ***CEJ requests that OIR obtain additional loss trend data from ASIC broken out by mortgage servicer portfolio and by LPI vs. REO. CEJ also requests that OIR obtain an explanation for the increase in exposures from 2009 through 2012 as a means to better understand what factors are impacting the trend data***.

ASIC's approach to calculating trend based on four-quarter averages has the impact of giving more weight to the middle quarters of experience and less weight to the first and last three quarters. ASIC's approach of using a very long trend period also skews the trend analysis. Below we show the results of severity, frequency and pure premium trend analyses based on different periods of time – from 26 quarters to 8 quarters. Each data point in the analysis is the experience for that quarter. Putting aside the problems with the trend data, discussed above, the trend analysis for shorter periods than 26 quarters does not support a selected pure premium trend anywhere near 22.3%. If the period analyzed is three years (12 points), the indicated pure premium trend is 1.0%. If the period analyzed is four years (16 points), the indicated pure premium trend 5.4%.

Analysis of ASIC Trend Data

	Values			Trends			
Period	**Severity**	**Frequency**	**Pure Premium**	**Points**	**Severity**	**Frequency**	**Pure Premium**
2006-3	$9,563	1.79%	$171.10				
2006-4	$13,265	1.50%	$198.48				
2007-1	$10,498	1.43%	$149.63				
2007-2	$11,654	1.62%	$188.70				
2007-3	$10,168	2.13%	$216.47				
2007-4	$8,500	1.93%	$163.70				
2008-1	$13,952	2.06%	$287.66				
2008-2	$9,459	2.23%	$211.02	26	-7.3%	24.0%	14.9%
2008-3	$9,546	2.91%	$278.02	25	-7.9%	24.3%	14.6%
2008-4	$6,876	3.11%	$214.03	24	-7.1%	23.6%	14.8%
2009-1	$9,001	3.49%	$313.71	23	-7.2%	22.0%	13.3%
2009-2	$7,685	3.75%	$288.50	22	-6.6%	20.5%	12.5%
2009-3	$7,381	3.59%	$264.84	21	-6.5%	20.0%	12.2%
2009-4	$10,476	3.56%	$373.32	20	-7.3%	18.3%	9.7%
2010-1	$7,145	3.32%	$237.50	19	-5.0%	16.3%	10.4%
2010-2	$8,309	4.42%	$367.15	18	-4.7%	14.0%	8.6%
2010-3	$8,686	4.78%	$415.12	17	-4.0%	13.1%	8.5%
2010-4	$8,668	5.01%	$434.03	16	-6.0%	12.2%	5.4%
2011-1	$9,050	4.43%	$401.15	15	-5.9%	12.0%	5.4%
2011-2	$9,086	4.61%	$418.79	14	-7.5%	12.5%	4.0%
2011-3	$7,909	4.55%	$360.22	13	-10.2%	11.8%	0.4%
2011-4	$7,406	5.00%	$370.07	12	-8.3%	10.1%	1.0%
2012-1	$6,929	4.80%	$332.35	11	-12.2%	5.2%	-7.6%
2012-2	$6,775	5.32%	$360.56	10	-14.4%	4.5%	-10.6%
2012-3	$6,846	5.71%	$390.65	9	-16.1%	5.5%	-11.5%
2012-4	$6,614	4.66%	$308.02	8	-17.9%	9.2%	-10.4%

Given the questions about the data, the problems with trend analysis on a rapidly growing book of business and the pure premium trend indications for more reasonable analytic time frames, no loss trend should be allowed for non-cat claims.

4. ASIC Response to Issues Raised in CEJ's May 13 Presentation

ASIC's Response to the May 13, 2013 CEJ Presentation is an agglomeration of talking points devoid of any evidence to support ASICs' proposed rates. ASIC relies on statements made at an NAIC public hearing on LPI by consultants hired by ASIC – Rollins and Scott – and by an industry public relations flack – Hartwig. These cited commenters provide no insight into LPI rates generally nor the proposed ASIC LPI rates specifically.

On pages 1-2 of the response, ASIC again insinuates that greater cat exposure for LPI justifies higher LPI rates than for homeowners insurance, but again provides no evidence to support this proposition. The discussion above shows that actual loss results completely refute this claim.

On page 2-3, ASIC attempts to deny that servicer-affiliated LPI commissions are kickbacks to the mortgage servicer and to defend the payment of commissions to servicer affiliated agents. ASIC claims that that the "lender-affiliated agent is the interface and liaison between the carrier (ASIC) and the mortgage lender or servicer, as the policyholder." ASIC claims that the affiliated agency is similar to any other agent because the affiliated agent works with the policyholder to "assure that American Security adheres to and meets its obligation under the terms of the insurance policy." ASIC then goes on to list a number of alleged activities performed by the lender-affiliated agent. Noticeably missing from the list are the core activities of an agent for a typical personal lines or commercial lines insurer – procuring, underwriting and issuing new business. Rather, the list of activities by ASIC are activities which are the responsibility of the mortgage servicer as manager of vendor relationship between the mortgage servicer and the provider of insurance tracking and LPI services.

The ASIC arguments are refuted by common sense and available evidence. Most of the activities cited by ASIC as the valuable contribution of the lender-affiliated agent are performed on behalf of the mortgage servicer and not the insurer. It makes no sense for an insurer to pay a commission to an agent who provides no substantial service to the insurer, but only services to the policyholder. The "value" of the alleged services is refuted by the fact that ASIC's two largest servicer clients, who likely comprise over half of ASIC's LPI business, no longer collect servicer-affiliated LPI commissions. This means that either the servicer-affiliated agent would provide those services whether or not the agent was compensated for the activities or that the activities are not essential and no longer carried out. In either case, the fact that servicers no longer accept LPI commissions refutes the ASIC claim that such commissions are needed or justified.

ASIC cites Scott's testimony from the NAIC in which Scott claims that servicer-affiliated LPI agents "creates and maintains specialized computer systems to extract the required information from the lenders/servicers' systems to assist the insurance company with policy issuance and administration." The agents performing such functions are managing agents – like QBE First or SWBC – who actually administer the LPI program and are not servicer-affiliated agents. Moreover, the function cited is clearly the responsibility of the insurance company and the mortgage servicer and not an activity to be compensated with a servicer-affiliated agent commission.

ASIC cites Scott as saying that the LPI national commission rate of 9% was lower than the national homeowners commission rate and ASIC states, "it is difficult to reach a conclusion that commissions are unjustified and unreasonable using these facts." Scott and ASIC's comparison of LPI commission percentages to those of homeowners insurance fails to consider a critical issue – the difference in activities performed by a servicer-affiliated agent and by a homeowners agent. The evidence shows that the ASIC statement – LPI commissions are reasonable because they compare favorably with homeowners commission – is nonsense. By ASIC's logic, lines of business with high-than-average commission levels are including too much in commissions. Clearly, the reasonableness of a commission provision in rates must be based on the actual services, if any, provided by the agent receiving the commission and whether compensation for those activities are related to and reasonable to include in the insurance rates.

ASIC then cites Rollins as support for the proposition that all applicable expenses should be included in the LPI rates. By this logic, kickbacks to servicers to secure business should be allowed in the rates because they are "applicable expenses." Rollins is quoted as stating ratemaking actuaries should incorporate and properly measure the insurance-related expenses in the development of rates." Precisely. The LPI rates are inflated because they include expenses for activities unrelated to provision of LPI insurance. OIR must understand what expenses are included in LPI rates and exclude those expenses unrelated to the provision of LPI and which are kickbacks to the mortgage servicer.

ASIC concludes this section by arguing that their proposed rates allow the policyholder to decide if it wants to collect a commission and that the rates will be adjusted accordingly. ASIC's final point is yet further evidence that the proposed rates are unfairly discriminatory and that servicer-affiliated LPI commissions are an illegal and unreasonable kickback. What normal commercial policyholder would ask an insurer to increase the rates so the insurer could give back a "commission" to the policyholder? Of course, no normal commercial policyholder would do this – at best it would be a zero sum game. But in the world of LPI, the servicer policyholder has an incentive to ask for higher rates with a commission because the servicer is passing on the LPI charges to borrowers and investors. It is now painfully obvious that servicer-affiliated LPI

commissions are kickbacks to mortgage servicers. It is unclear why state insurance regulators have allowed and continue to allow these kickbacks to be built into LPI rates.

On pages 3-4, ASIC's next response is to defend its captive reinsurance agreements as legal and that it has no provision in its rates for the presence or absence of quota share insurance – except for altering the expense structure of the rates if a client has a quota share agreement!

Assurant provides a variety of services to mortgage servicer clients in connection with LPI. These "insurance outsourcing" services include:[2]

- "Document tracking and follow-up" These are insurance tracking activities on behalf of the mortgage servicer.
- "Inbound and outbound insurance customer service" This is mostly insurance tracking-related activities on behalf of the mortgage servicer.
- "Escrow administration" This is disbursing payments from borrowers' escrow accounts for voluntary insurance and may also include establishing escrow accounts for LPI on behalf of the mortgage servicer.
- "Loss draft administration" This is monitoring the payment of claims on voluntary policies on behalf of the mortgage servicer.
- "Hazard insurance line set up" This is capturing data about insurance on new loans and entering the data in the mortgage servicer's system of record.

These activities are clearly the responsibility of the mortgage servicer and activities for which the mortgage servicer is paid by mortgage owners and investors. These activities are also clearly unrelated to the provision of LPI – which consist of issuing a master policy to the servicer, issuing coverage under the master policy when directed by the servicer and settling claims under the master policy.

The expenses associated with these non-LPI activities are incurred by Assurant insurance companies – including ASIC – and are reported in the statutory annual statements. Consequently, the expenses reported in the ASIC annual statement are not suitable for use in evaluating the reasonable expenses associated with the provision of LPI.

ASIC has provided no public information to support its commission, other acquisition and general expense provisions. There are two ways for OIR to determine the reasonable expense provisions for LPI. The first is a common-sense evaluation of the activities associated with the provision for LPI, as explained in more detail below. The second is for OIR to direct ASIC to submit an itemized list of every expenditure included in its annual statement state page categories for commissions, other acquisition and general expenses for the lines of business that include LPI. By obtaining a complete list of expenditures in these categories, with a description of the payee and the expense item activity, OIR can audit the applicability of these expenses to LPI.

---

[2] See http://www.assurantspecialtyproperty.com/lendingsolutions/Mortgage_InsOutsourcing.html

Reasonable expense provisions are those for which the activities are clearly related to the transfer of risk with LPI insurance and for which ASIC can demonstrate it will incur that expense. In the event ASIC is unable to document the expenses associated with specific LPI activities and demonstrate that those expenses are reasonably included in LPI rates, common-sense expense provisions for LPI are:

Commissions	0% to 2%
Other Acquisition Expense	2% to 3%
General Expense	3% to 4%
Total	5% to 9%

No provision for commissions is warranted for insurer-affiliated and servicer-affiliated producers. Commissions for non-affiliated producers should be documented and, if legitimate, a commission provision based on a premium-weighted average actual non-affiliated producer commissions and zero for affiliated producers. Many servicer-affiliated producers have already stopped accepting commissions on LPI because of the new Fannie Mae policy and other servicer-affiliated producers will soon stop accepting commissions on LPI insurance. Industry testimony about the activities of servicer-affiliated producers indicates the activities of these producers are really vendor management oversight by the servicers. The costs of these vendor management activities are servicer responsibilities and not a reasonable LPI insurance expense.

Absent any concrete evidence to the contrary, a range of 2% to 3% is a maximum provision for other acquisition expense. Unlike personal lines insurance, there is no advertising to consumers (borrowers). Many mortgage servicers – and certainly the larger mortgage servicers – operate in many or all states. Given that there are only two national LPI insurers and servicers know who these insurers are, the LPI insurers do not require significant expense to solicit business; rather, the LPI insurers will typically respond to solicitations.

To put this in perspective, a 2% provision for other acquisition provides $12 million annually for $600 million in annual premium. This is a significant amount of money for other acquisition for LPI in Florida. On a countrywide basis, a 2% other acquisition expense for ASIC's $2 billion in annual premium would provide $40 million. As stated above, the following activities, present for homeowners insurance, are not found for LPI.

- Development of complex underwriting and rating models
- Development of complex premium calculation models and software
- Underwriting of individual properties and policyholders, including credit reports, credit scores, claims history reports and other property-or-consumer specific data
- Interaction with individual policyholders to determine appropriate coverage amount and coverages for the policy
- Sales and underwriting activity not resulting in a policy, including, for example, obtaining credit scores and loss history reports for applicants who do not purchase a policy.

Absent any concrete evidence to the contrary, a range of 3% to 4% is a maximum for general and administrative expense. As discussed above, the general and administrative expenses associated with a non-underwritten group blanket policy must be significantly less than general and administrative expenses associated with homeowners insurance. The following expenses for homeowners insurance are not found for LPI:

- Maintenance of detailed underwriting, rating and coverage information on individual policyholders
- Billing of individual policyholders

Returning to the issue of captive reinsurance, ASIC administers the captive reinsurance programs for servicers and incurs expenses for such administration. These expenses – and any expenses associated with captive reinsurance – should be excluded from LPI rates because these expenses are incurred for the benefit of servicers and provide no benefit to borrows or investors who ultimately pay for the LPI.

To finish the response on captive reinsurance, ASIC cites Hartwig who claims that various factors – including "concentration of catastrophic risk" – "exert upward pressure on [LPI] pricing." Hartwig's claims are unsupported by any evidence and thoroughly refuted by LPI loss ratios far lower than homeowners loss ratios. As regulators have been asking since the NAIC public hearing, how can it be that LPI is so much riskier than homeowners insurance, but the LPI loss ratios are far, far lower than homeowners loss ratios? The answer has not been forthcoming from ASIC or any of its hired contractors because the answer is that the evidence refutes the industry claims.

On pages 4 – 5 of ASIC's response, ASIC responds to the slides showing ASIC LPI loss ratios at very low levels – far below ASIC's expected loss ratios and far below homeowners loss ratios. ASIC defends its very low loss ratios by saying that recent experience has been favorable because of the absence of catastrophe events. This response fails to explain why ASIC LPI loss ratios are so far below homeowners loss ratios when homeowners insurance have also had favorable experience because of an absence of cat events. ASIC's response also includes the discredited canard about greater cat risk for LPI than homeowners.

ASIC then cites Miller for the non-sequitur that very low historical LPI loss ratios are not a sound actuarial basis for ratemaking. ASIC's own history in Florida and New York refute the ASIC argument that historical loss ratios are yesterday's news and not relevant. In both Florida, after the cat events of 2004 and 2005 and New York just a year or two after introducing its LPI program, ASIC quickly filed for higher rates when loss ratios exceeded the expected loss ratio. Had ASIC responded with the same alacrity to low loss ratios as it did to loss ratios exceeding the expected loss ratio, ASIC would have long ago filed for lower rates. Instead, ASIC continued to charge excessive rates while reaping windfall profits and funneling kickbacks to mortgage servicers, as evidenced by slides 32 to 34 of the May 13 presentation.

On pages 6 – 9 of the response, ASIC attempts to defend its expense provisions. As with ASIC's other responses, ASIC provides no evidence of actual expenses incurred related to the provision of LPI. Instead, ASIC provides a list of general and administrative expense activities. ASIC provides no explanation why the expenses associated with a group master policy with coverage issued at the direction of the servicer justifies a combined other acquisition and general expense provision of 15.4%. Assuming $2 billion in annual premium, the combined other acquisition and general expense provision would produce $308 million. It defies logic and common sense that the other acquisition and general expenses associated with group master policy for a few dozen clients could require over $300 million.

ASIC next argues that insurance tracking expenses are reasonably included in LPI rates. **It is vital that OIR get this part of the LPI rate review right and exclude tracking expenses from LPI rates.** The exclusion of tracking expenses from LPI rates is simple to explain. A servicer is responsible for ensuring continuous insurance coverage and is paid by mortgage owners and investors to track loans for required insurance. If there was not a single instance of a borrower failing to maintain required insurance – and consequently not s single placement of LPI – the servicer would still be required to and incur the costs of insurance tracking.

Further, the ASIC argument that insurance tracking is necessary for ASIC exposure and risk management is without merit. ASIC sells blanket LPI policies for certain types of loans for which the servicer does not track insurance. These blanket policies provide the same automatic coverage in the event of a lapse of voluntary coverage, but there is no individual loan insurance tracking and the servicer pays a premium based on the number of loans in the portfolio. If tracking were essential to ASIC exposure management, there could never be such a blanket LPI product.

Moreover, ASIC does not need to perform the insurance tracking to manage its risk and exposure. ASIC knows when coverage is issued, independent of tracking, and knows the exposures it has issued coverage for. This is evident from ASIC's filing which shows analyses based on exposures and location of exposures. In addition, ASIC and other LPI insurers evaluate individual client portfolios based on characteristics of the loan portfolio – as illustrated by the scheduled rating factors – without any insurance tracking information.

ASIC argues that it must quantify risk characteristics such as construction, location and insured amount to determine various risk, reinsurance and capital requirements. It is obvious that these characteristics – information on coverage issued under the LPI master policy – are a function of properties actually insured at the direction of the servicer. If the servicer were to decide overnight that it no longer wanted ASIC to perform insurance tracking and, instead, were to perform insurance tracking in-house, ASIC would have the exact same information available to it. The exposure information needed by ASIC is produced from information about coverages actually issued and is not dependent on ASIC performing insurance tracking. **Insurance tracking is not related to the provision of LPI and must be excluded from LPI rates.**

ASIC next explains the various activities included in insurance tracking. It should be obvious to OIR that these activities are not related to the provision of LPI, but related to the outsourced services provided to the mortgage servicer. For example, the expenses associated with ASIC sending a series of letters to borrowers regarding evidence of insurance – letters sent on the servicers' letterhead – have nothing to do with issuing coverage under the master policy. Rather, the letter cycle is part of the servicer's responsibility to track loans for continuous insurance coverage and, if evidence of required insurance is missing, direct the LPI insurer to issue coverage.

On page 10 of the response, ASIC gives a non-response to the issue raised on slides 24 to 27 of the May 13, presentation that the target loss ratio, target combined ratio and target profit provision in the current and prior LPI rate filings were far different than the corresponding targets presented by Assurant to investors. The point of these slides is that when Assurant is telling investors it expects to realize an underwriting profit of 14% to 18%, the expected underwriting profit of about 4% presented in rate filings to OIR appears to be a misrepresentation of ASIC's true expectation. The point is not the straw man argument put forth by ASIC that CEJ is contesting ASIC's profit provision. The point is that ASIC actually expects its filed rates to produce a far higher profit than the provision included in the filing – a profit result consistent with the profit target Assurant presents to investors. **CEJ urges OIR to direct Assurant to disclose to OIR its internal loss ratio and profit targets for LPI by servicer client to enable OIR to determine if ASIC's rate filing truly reflects ASIC's expected losses and profitability from the proposed rates.**

On page 11 of the response, ASIC gives another non-response to the issues raised regarding loss trends. The problems with ASIC's non-cat loss trends are discussed above.

On page 11 of the response, ASIC gives another non-response to the issues raised regarding schedule rating. Schedule rating is a common practice for certain types of commercial insurance in which important risk characteristics of the insured are not susceptible to treatment as rating factors. While schedule rating may make sense for some types of commercial insurance products, it is inappropriate for LPI. With schedule rating, ASIC can modify the filed rates by + / - 25% based on general characteristics – quality of loan underwriting, quality of loan portfolio, transactional efficiency and management experience. With the reverse-competitive market structure of LPI, servicers have an incentive to pay inflated LPI premiums – and pass those amounts onto borrowers and investors – in order to receive kickbacks and considerations from the LPI insurer. With an ordinary commercial policyholder, there would an incentive to take actions to receive schedule rating discounts. With an LPI policyholder, the servicer has the opposite incentive. Consequently, schedule rating for LPI is an invitation to the servicer seeking kickbacks from the LPI insurer.

Under the ASIC plan, ASIC could raise rates through schedule rating for an inefficient and poorly managed servicer. The result is that a servicer could extract greater considerations from ASIC because of higher LPI rates by being inefficient and poorly managed. This illustrates why schedule rating is inappropriate for LPI.

In addition, the schedule rating factors listed by ASIC will produce unfairly discriminatory rates. There is no guaranty that these factors will be interpreted and applied in a uniform fashion and, because of reverse competition, ASIC has incentive for inconsistent application. CEJ requests that, to the extent any of these characteristics are objective measures of risk associated with LPI, the characteristics be utilized as objective rating factors or otherwise not permitted.

5. Contingency Factor

ASIC provided no response to CEJ's criticism of ASIC's contingency factor. ASIC misapplied the concept of contingency in rates to a premium trend issue ASIC claims it cannot otherwise include in rates. The purpose of a contingency provision is to recognize a systematic bias in the ratemaking process. The actuarial standard of practice states:

> While the estimated costs are intended to equal the average actual costs over time, differences between the estimated and actual costs of the risk transfer are to be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision.

ASIC should be including a contingency provision of -18% to reflect the persistent and systematic difference between its expected non-cat loss ratio of 30% and its actual non-cat loss ratio of 12%.

6. Reinsurance and Catastrophe Load

The ASIC filing states that hurricane losses are modeled from RiskLink v 11.0 SP2. CEJ requests that OIR direct ASIC to confirm that the modeled hurricane losses reflect the absence of coverage for contents and additional living expense in LPI policies.

Page 3 of the actuarial memorandum states that reinsurance program costs used in the filing are for contracts dated January 2012 through January 2013 and June 2012 through June 2013. We understand that property catastrophe reinsurance rates are declining for mid-year renewals and request that OIR require ASIC to submit evidence of current and prospective reinsurance costs expected during the period the LPI rates will be in effect. It is unclear why ASIC is relying on reinsurance costs for the 2012 period when the LPI rates will be in effect primarily in 2014.

The ASIC filing states that catastrophe reinsurance costs were allocated to the Florida LPI program based on countrywide modeled results from RiskLink v 11.0. CEJ requests that OIR direct ASIC to confirm that the cat model used for modeling hurricane losses is same as the cat model used to allocate reinsurance costs to Florida LPI. CEJ expects to comment on this reinsurance allocation once the supporting analysis is available to the public.

7. Net Loan Balance Factor

The net loan balance rating factor is unfair and should be disapproved. The actuarial memorandum explains:

> This program will offer flexibility for the Insurable Interest to be determined by the lender based on the borrower's interest in the property, usually represented by the last known coverage amount on the borrower's property (Option A), or the lesser of the last known coverage amount and the lender's interest in the property, as represented by the borrower's net loan balance (Option B). The risk potential differs between these two Insurable Interest options because Option B will offer less coverage for less premium, but the expected loss characteristics between the two options do not share the same relationship. The vast majority of claim payments are for repairs and replacements that are a fraction of the insured's full Insurable Interest. Given a typical property claim, the paid loss amount will be a higher percentage of Option B's Insurable Interest than Option A's Insurable Interest.

The proposed rates include a set of factors that would increase the amount of coverage based on the ratio of net loan balance to last known coverage amount. The smaller the ratio of net loan balance to last known coverage amount, the greater the factor applied to the loan balance. The proposed factors stop at 1.0 when net loan balance is equal to **or greater than** last known coverage amount. The same logic that states that the same claim will be a larger percentage of coverage if net loan balance is less than last known coverage amount would mean that the same claim will be a smaller percentage of coverage if the net loan balance is greater than the last known coverage amount. Given the large percentage of underwater mortgages in which the net loan balance exceeds the last known coverage amount, any net loan balance rating factor should have factors less than 1.0 for situations in which in the net loan balance exceeds the last known coverage amount.

8. REO vs. LPI Rates

The proposed rates provide base rates by territory for five types of property – commercial, condo common area, condo unit owner, mobile home and 1-4 family residence. There are no separate base rates or rating factors for REO properties versus non-REO properties. REO properties are bank-owned properties that have gone through the foreclosure process. REO properties are far more likely to be vacant and, consequently, pose greater risk exposure than properties inhabited by borrowers who still have a mortgage.

In addition, there is no support for the different base rate categories. In an earlier interrogatory response, ASIC explains that base rates for mobile home, commercial and condo were all based on judgment. For example, ASIC states, "The Mobile Home rate factor of 1.65 was determined by selecting a rate factor similar to those utilized by the RMSP program in most states. Although the Mobile Home factor for the RMSP program in Florida is 1.80, it is expected that the proposed Mobile Home rates will result in an adequate rate level for this rate class." This statement is clearly insufficient justification for mobile home rates.

CEJ requests that OIR direct ASIC to submit its exposure and loss experience broken out by REO and non-REO to ensure that the premium charges for REO and non-REO reflect their respective loss experience and risk profile. CEJ also requests that OIR direct ASIC to provide its Florida and countrywide experience for the LPI rate categories of mobile home, commercial and condo.

9. Base Rate Offset for New Rating Factors

The rate filing includes a variety of new rating factors, but CEJ did not find any analysis of the overall premium impact of the new rating factors and any associated offset in base rates. Consequently, there is no evidence to support the claim that the proposed rates are revenue neutral.

10. Prohibition against Kickbacks to Mortgage Servicers

CEJ urges OIR to direct ASIC and other Florida LPI insurers to stop offering any consideration to mortgage servicer clients for the purchase of LPI other than protection of the property serving as collateral for loans in the servicer's covered portfolio. This general prohibition includes, but is not limited to, the following:

a. LPI insurers and their affiliates are prohibited from offering or giving a mortgage servicer or any of its affiliates any "commissions" or "administrative fees" in connection with the placement of LPI;

b. LPI insurers and their affiliates are prohibited from entering into any LPI reinsurance agreement with the servicer-affiliated insurance company;

c. LPI insurers and their affiliates are prohibited from offering or giving a mortgage servicer or any of its affiliates any cash payment.

d. LPI insurers and their affiliates are prohibited from offering or giving a mortgage servicer or any of its affiliates free or below cost insurance tracking, hazard outsourcing or other services from the LPI insurer or LPI vendor. Examples of hazard outsourcing services provided to servicers by LPI insurers and LPI vendors include, but are not limited to, new loan boarding, loss drafts and escrow administration.

e. LPI insurers are prohibited from issuing LPI on loans serviced by an affiliate of the LPI insurer.

12. Conclusion

For the reasons states in our May 13 presentation and in these comments, CEJ objects to the approval of the ASIC LPI Rate Filing. CEJ expects to identify additional aspects with the rate filing which support the disapproval of the rate filing when exhibits currently claimed as trade secret are made public.

Presentation of the Center for Economic Justice

Before the Florida Office of Insurance Regulation

Regarding the Lender-Placed Insurance Rate Filing of

American Security Insurance Company

May 13, 2013

Revised

Consumers Relying On Office of Insurance Regulation

Consumers in Florida and across the Nation are relying on the OIR to get it right on the ASIC filing. OIR's actions will have a huge impact on hundreds of thousands of struggling Floridian homeowners and the Florida economy. Insurance regulators in other states will be looking to Florida's action to see how to protect hundreds of thousands of homeowners outside of Florida

OIR Must Do a Better Job Than It Has To Date

Consumers need more from OIR than an insurance company coming in with a rate request 25% higher than they actually want, followed by a public grilling by OIR and then a settlement for the 20% rate cut that the company was expecting all along. This is a <u>bogus</u> rate filing.

Why the OIR Action Means So Much

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

Net Written Premium ($ Millions)

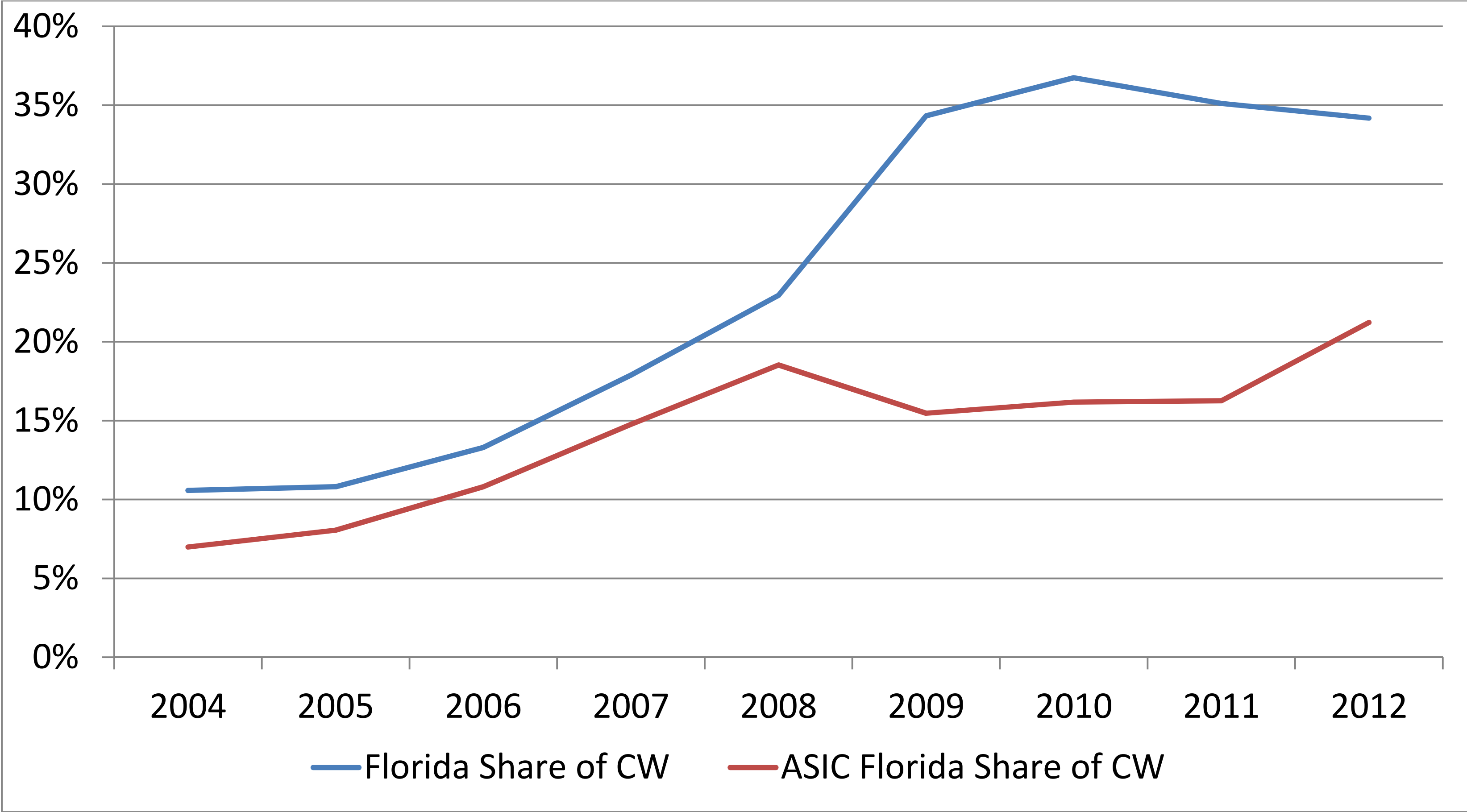
Year	Countrywide All Companies	Florida All Companies	Florida Assurant	Florida ASIC
2004	$796	$84	$56	$56
2005	$919	$99	$74	$74
2006	$1,074	$143	$116	$116
2007	$1,647	$295	$243	$243
2008	$2,209	$507	$409	$409
2009	$3,049	$1,047	$479	$472
2010	$3,223	$1,184	$539	$521
2011	$3,450	$1,211	$585	$561
2012	$2,870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

Florida Accounts for 35% of Countrywide LPI Premium

ASIC Florida Wrote 21% of Countrywide LPI in 2012

Year	Florida	ASIC Florida
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%

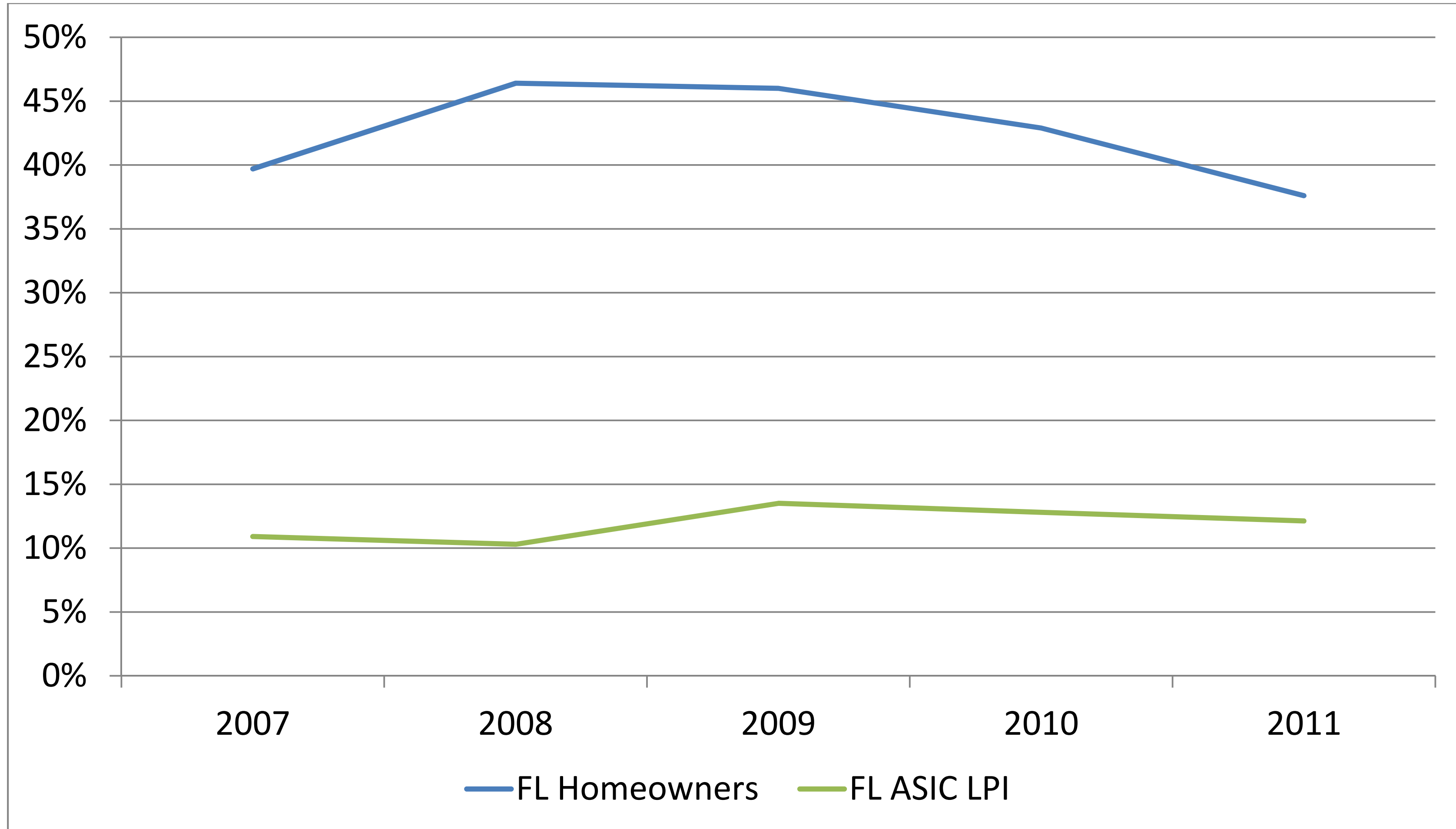
Florida and ASIC Florida Share of Countrywide LPI



Florida LPI Loss Ratios Are Unconscionably Low, Far Lower Than Florida Homeowner Loss Ratios

Year	Homeowners	ASIC LPI
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%

Florida Homeowners and ASIC Florida LPI Loss Ratios



Lack of Individual Underwriting, Cat Exposure No Excuse

Lack of underwriting individual properties and cat exposure do not justify Florida LPI premiums two to three times higher on average than Florida homeowner's premium for the same property.

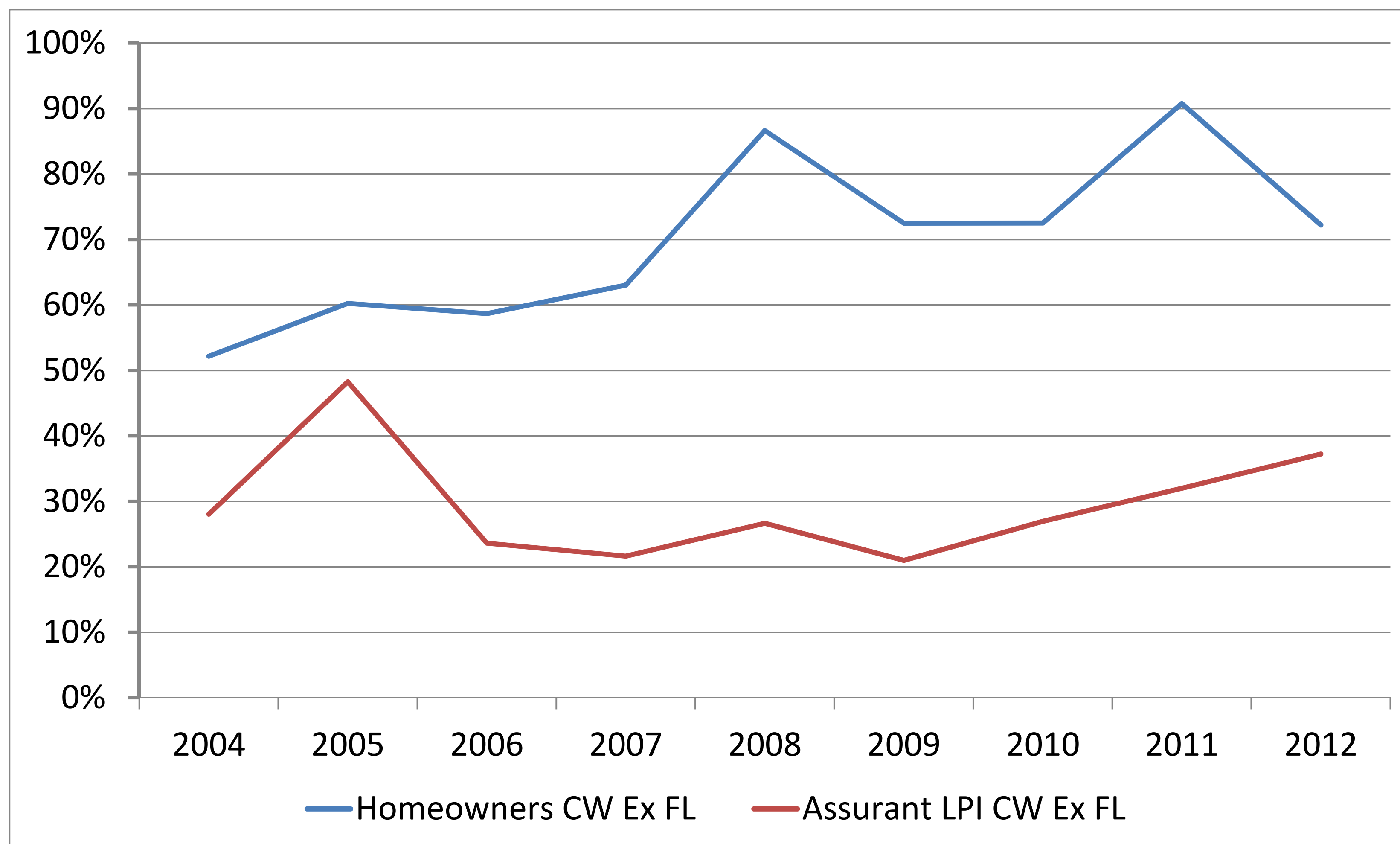
LPI policies provide less coverage than homeowners – no contents or additional living expense – which has a particularly big impact in Florida given that the bulk of the ASIC LPI rate is for cat exposure.

ASIC's LPI loss ratios outside of Florida are also far below homeowners loss ratios outside of Florida, refuting the argument that cat exposure is the cause of higher LPI rates.

Outside of Florida, ASIC LPI Loss Ratios are Far Less than Homeowners Loss Ratios

Year	Homeowners	Assurant LPI
2004	52.2%	28.0%
2005	60.2%	48.3%
2006	58.7%	23.6%
2007	63.0%	21.6%
2008	86.6%	26.7%
2009	72.5%	21.0%
2010	72.5%	27.0%
2011	90.8%	32.0%
2012	72.2%	37.2%
2004-12	70.9%	29.1%

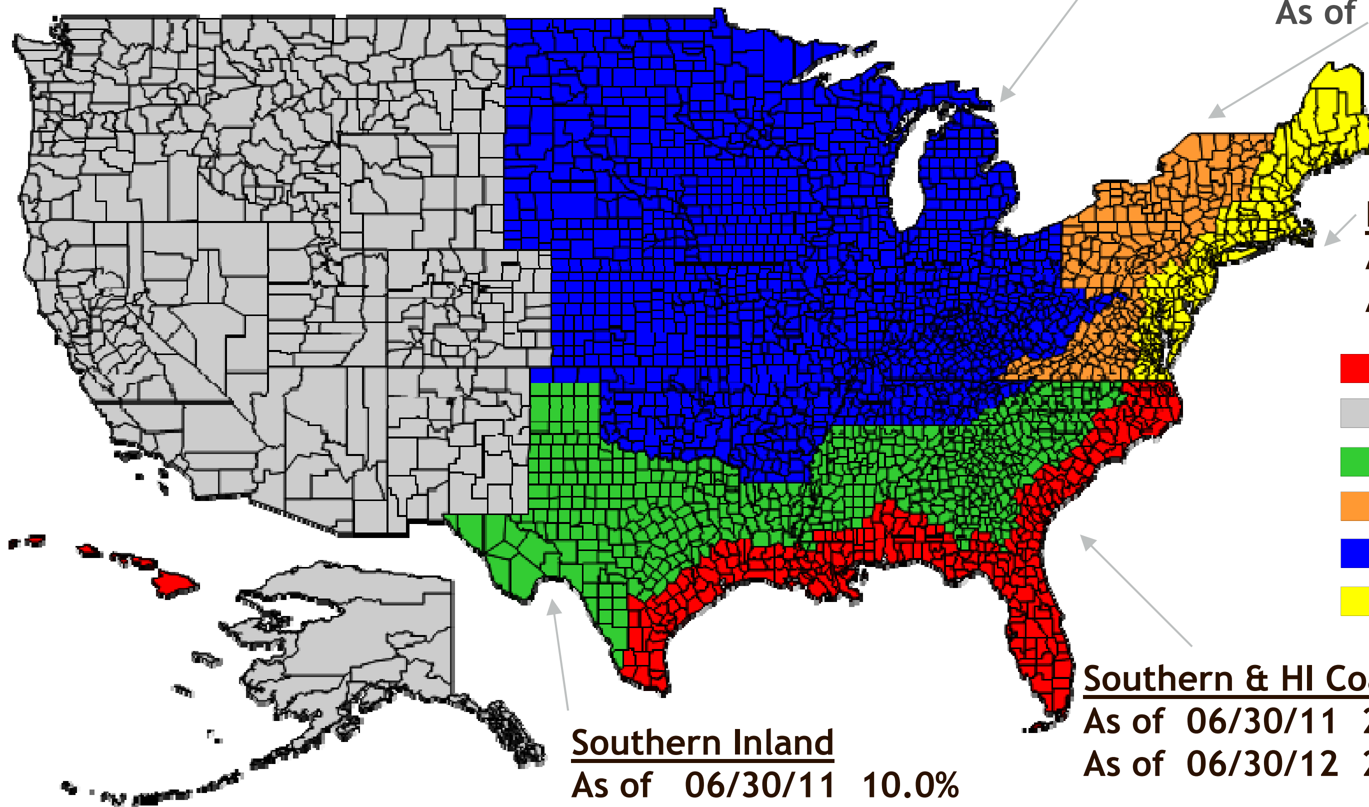
Ex FL Countrywide Homeowners and ASIC LPI Loss Ratios



Assurant: "Balanced Geographic Spread of Risk"

In presentations to investors, Assurant says its LPI business has a balanced geographic spread of risk. Florida accounted for 31% of 2012 LPI Net Written Premium. Yet, Florida **and the entire Gulf and Southeast Coastal Areas** comprise only 24% of Assurant exposures.

Specialty Property: Balanced Geographic Spread of Risk



Geographic spread of exposure based on Company's assessment of total insured value for all of Specialty Property.

ASSURANT® On your terms.®

Changes to National Flood Insurance Program Will Significantly Increase LPI Flood Placement

With the Biggart-Waters Act, NFIP rates will increase for millions of consumers and millions more will be newly required to purchase flood insurance because of new flood maps.

With new and higher flood insurance premiums affecting many consumers, it is critical that OIR get it right on ASIC LPI Flood rates.

Review of LPI Filings Requires Understanding of Mortgage Servicing and Responsibilities of Servicers

Mortgage Servicers, for a fee, service mortgages for the owners of the mortgages.

One requirement of mortgage servicers by the mortgage owners is to ensure continuous insurance coverage to protect the collateral supporting the mortgage loan.

The servicer is responsible for tracking loans to ensure voluntary insurance is in place and to place insurance when required insurance is not in place.

In practice, the servicer contracts out both these functions – and others – to vendors like Assurant.

Ensuring Continuous Insurance Coverage: Mortgage Servicer vs. Insurer Responsibilities

Activity	Servicer vs. Insurer
Tracking Insurance	
Loading Insurance Information into Database	Servicer
Maintaining/Monitoring Insurance Tracking Database	Servicer
Contacting Borrowers, Problems with Insurance	Servicer
Customer Service Borrowers Insurance Evidence	Servicer
Contacting Insurers/Agents Insurance Evidence	Servicer
Placing Insurance	
Notifying Insurer to Issue Binder or Policy	Servicer
Issuing Temporary Binder	**Insurer**
Determining Coverage Amount	Servicer
Servicer Payment to Insurer	Servicer/**Insurer**
Billing Borrower for LPI Premium	Servicer
Setting up Escrow when necessary for LPI	Servicer
Refunds to Servicer	**Insurer**
Refunds to Borrower	Servicer
Issuing Permanent Policy	**Insurer**
Customer Service about Insurance Placement	Servicer
Customer Service about Borrower Refunds	Servicer
Customer Service about LPI Claims	**Insurer**

LPI Rates Should Include Only Those Expected Costs Associated with the Provision of Insurance, But Have Wrongly Included Non-LPI Expenses

- Servicer-Affiliated Agent Commissions
- Service-Affiliated Reinsurance Schemes
- Cash Payments from Insurer to Servicer
- Free or Below-Cost Tracking and Other Non-LPI Services

ASIC Filing Cover Letter:

Insurance Tracking is Lender Responsibility

Any type of real estate loan involving a commercial or residential structure requires the borrower to keep sufficient insurance coverage in force to satisfy the lender's interest should the structure (collateral) be destroyed or damaged. In order to make sure this requirement is met, most **lenders** have a department which keeps track of all the insurance policies covering properties for outstanding loans. If borrower provided coverage is cancelled or expired, the **lender** begins sending a series of follow-up letters to the borrower reminding the borrower of his obligation to keep insurance in force. If the borrower fails to comply, the **lender** will request issuance of the policy.

ASIC Filing Actuarial Memorandum: Insurance Tracking Expenses Included in Rates

The confirmation and establishment of the existence of underlying cover is uniquely important to a lender placed carrier. It is one of the key expense differentiators between voluntary and lender placed carriers . . .,

Communications are another process intricately tied to the above functions. To this end, ASIC placed or received mails and telephone calls numbering 17.2 million last year on a countrywide basis.

(con't)

Then as above, a considerable amount of coverage information is provided via electronic data interfaces, with an equally large amount of information delivered through the US postal service and other providers. Last year, 37.1 million pieces of mail were received, and an additional 36.4 million documents were received via EDI, for a total number of 73.5 million documents processed.

These processes are resource intensive, but are nevertheless reflective of the commitment ASIC has made to provide high quality and timely service, and properly manage the functions described above.

Reform of LPI Insurance Market:

Prohibit Mortgage Servicers from Financial Interest in LPI Other Than Protection of Properties

Insurance Regulators Should Prohibit the Following Activities and Exclude Any Related Expenses from LPI Rates:

- Commissions to Servicer-Affiliated Agents/Brokers
- Contingent Commission Based on Profitability
- Captive Reinsurance Agreements
- Free or Below-Cost Outsourced Services to Servicer, Lenders or Their Affiliates
- Payments to Servicer, Lender or Their Affiliates in Connection With Securing Business

Problems With The ASIC Filing:

- Frivolous Trade Secret Claims
- Representations to Investors vs. to Regulators
- No 2012 Experience in a Filing in May 2013
- Absurd Loss Trend
- No Support Commission Expense
- Servicer Affiliated Agent Commission Included
- General Administrative Expense Includes Non-LPI
- Other Acquisition – What's Included?
- Profit Provisions – No Support
- Contingency Provision Not Justified
- Servicer-Affiliated Reinsurance Expenses Included
- Scheduled Rating – Not in Reverse Competitive Market
- Blatant Misrepresentations Despite Actuarial Certification

ASIC Has Claimed Trade Secret on Filing Exhibits That Are Routinely Public Information. .

Ex 7: Permissible Loss Ratio

Ex 7.2 Commission

Ex 7.3 Expenses

Ex 8: Cat Reinsurance Costs

Ex 9: Contingency Factor

Ex 10 MIP and RMSP Premium Comparison

Ex 12 Territorial Rate Derivation

Ex 13: Wind, Wind X Credits

Ex 14 Amount of Insurance Relativity Curve Support

What Assurant Tells Investors vs.

What Assurant Tells Insurance Regulators

In Rate Filings to OIR, Assurant's expected profit provisions in 2009 and 2013 were 3.7% and 4.1%, corresponding to combined ratios of 96.3% and 95.9%, respectively.

In presentations to investors in 2011 and 2012, Assurant says the target combined ratio for Assurant Specialty Property is 84% to 88%, corresponding to profit provisions of 12% to 16%.

From 2006 to 2011, ASP combined ratios were 72% to 82%. Assurant routinely exceeded its forecasts to investors.

Strong Results When Placement Rates Return to Lower Levels

- Targeted long-term Operating ROE of 20-25%

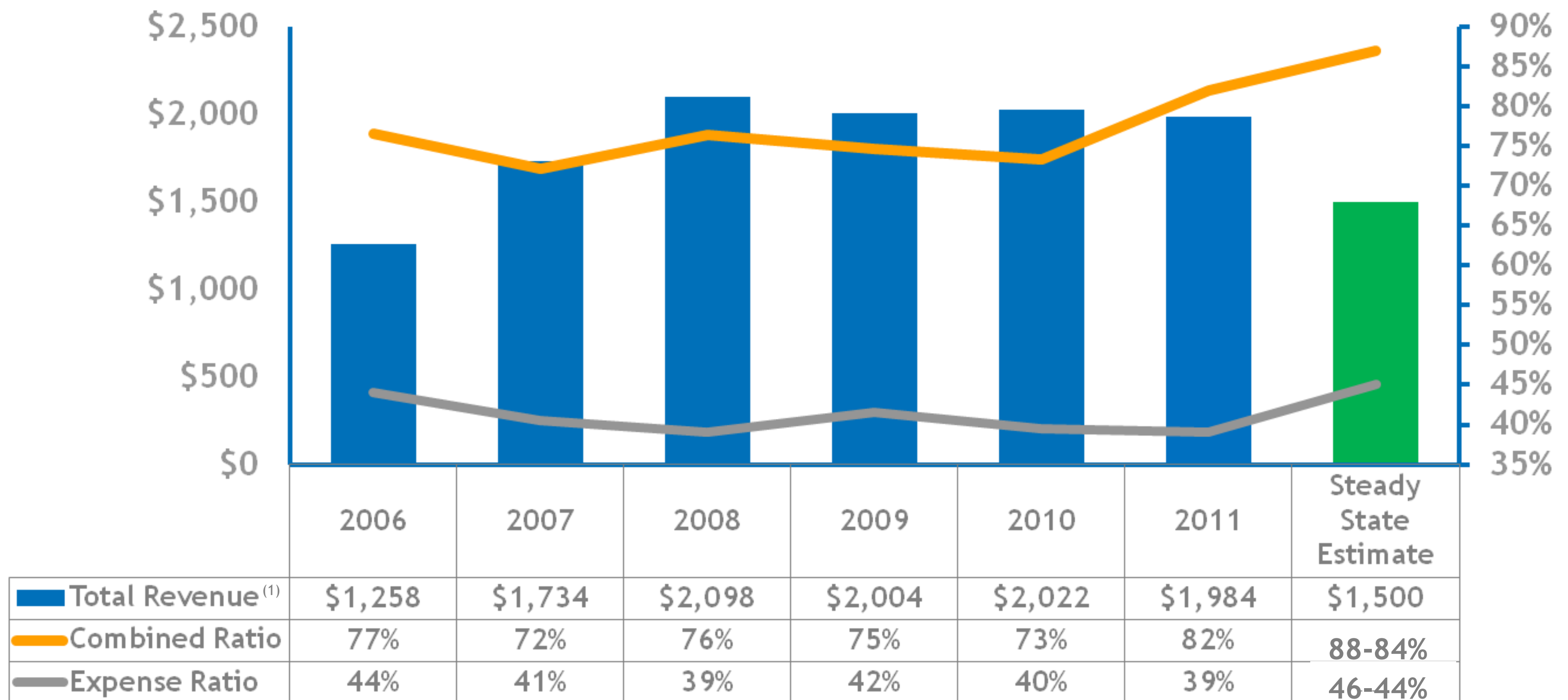
	2006	2007	2008	2009	2010	Steady State Estimate
Total Revenue [1]	$1,258	$1,734	$2,098	$2,004	$2,022	$1,500
Combined Ratio	77%	72%	76%	75%	73%	88 - 84%
Expense Ratio	44%	41%	39%	42%	40%	46 - 44%

[1] Total revenue includes net earned premiums and fee income for all of Assurant Specialty Property in millions.

ASSURANT®

Specialty Property: Strong Results When Placement Rates Return to Lower Levels

Targeted long-term Operating ROE of 20-25%



	2006	2007	2008	2009	2010	2011	Steady State Estimate
Total Revenue [(1)]	$1,258	$1,734	$2,098	$2,004	$2,022	$1,984	$1,500
Combined Ratio	77%	72%	76%	75%	73%	82%	88-84%
Expense Ratio	44%	41%	39%	42%	40%	39%	46-44%

[(1)] Total revenue includes net earned premiums and fee income for all of Assurant Specialty Property in millions.

ASSURANT®
On your terms.®

Assurant 10K SEC Filing for 2012

"Lender-placed insurance products accounted for approximately 71% of Assurant Specialty Property's (ASP) net earned premiums for full year 2012 and 70% for full year 2011. The approximate corresponding contributions to segment net income in these periods were 90% and 100%, respectively."

ASP accounted for 28.4% and 26.7% of all Assurant revenue in 2012 and 2011, but 56.6% and 58.0% of all Assurant net income, respectively. The ASP return on equity was 25.4% and 27.8% in 2012 and 2011, respectively.

LPI Expenses:

What Expenses Should There Be with a Group Master Policy Product with No Individual Property Underwriting Issued to a Few Dozen Clients with Average Premium Per Insured Property Two to Three Times Greater Than Homeowners Average Premium?

Much Less than Homeowners in Dollars per Property and Much, Much Less than Homeowners as a Percentage of Premium.

LPI Expenses Compared to Homeowners

- Commissions?
  - Servicer Affiliated Commission?
  - No Individual Underwriting by Agent
- Other Acquisition
  - Marketing?
  - Advertising?
  - Underwriting?
- General Expenses?
  - Captive Reinsurance Expenses?

ASIC's Selected Expense Provisions Bear No Relation to Historical Expenses

2012 Data, **Which ASIC Omitted**, Show Result of Big Servicers No Longer Accepting Commissions.

Year	Commissions	Other Acq	General
2007	19.3%	2.7%	17.6%
2008	13.1%	1.9%	15.4%
2009	15.0%	1.9%	15.1%
2010	9.9%	2.0%	16.4%
2011	8.6%	1.9%	15.5%
2012	6.1%	2.1%	17.3%
Selected	10.0%	4.6%	10.8%

Think About The Nature of the LPI Product:

If all that was involved was ASIC charging a premium to a mortgage servicer who paid the premium, we wouldn't be here. But the mortgage servicers pass the charges on to borrowers and have a financial interest – beyond the protection of collateralized property – in the placement of the coverage. The have an interest in paying inflated premiums – which they, in turn, recoup from borrowers or investors when properties go into default – and Assurant is in the business of maximizing the income to servicers from excessive LPI charges passed on to borrowers.

Captive Reinsurance

Assurant 10K:

Segment Client Risk and Profit Sharing

The Assurant Solutions and Assurant Specialty Property segments write business produced by their clients, such as mortgage lenders and servicers, financial institutions and reinsures all or a portion of such business to insurance subsidiaries of some clients. Such arrangements allow significant flexibility in structuring the sharing of risks and profits on the underlying business.

Captive Reinsurance

The captive reinsurance schemes are not a risk management tool for Assurant – they are a profit-sharing mechanism for the mortgage servicer. It is unfair for borrowers to pay any of the expenses associated with these reinsurance agreements because the borrowers receive no benefit from the schemes. The captive reinsurance schemes should be stopped – as they were for title insurance and mortgage guaranty insurance – and no expenses associated with the schemes should be included in the premiums passed on to borrowers.

Assurant 10K:

The Company utilizes ceded reinsurance for loss protection and capital management, business dispositions, and in the Assurant Solutions and Assurant Specialty Property segments, for client risk and profit sharing.
($ Thousands)

	2012	2011	2010	Total
Premiums Ceded	$2,011,211	$2,002,304	$1,882,233	$5,895,748
Policyholder Benefits Ceded	$1,025,890	$501,411	$410,654	$1,937,955
Gain to Policyholders	$985,321	$1,500,893	$1,471,579	$3,957,793

Loss Trends Are Flawed:

The filing includes a Loss Trend of 21.3% based on evaluation of the period 2007 through 2011. This is how ASIC takes a non-cat loss ratio of 12% and produces an expected non-cat loss ratio of 30%. Loss Trends are skewed by increasing exposures and the omission of 2012 Data. Even the 2007 to 2011 data show no loss trend:

	Earned Premium	Incurred LLAE	Loss Ratio
2007	$153,475,471	$18,750,538	12.2%
2008	$296,155,904	$36,886,743	12.5%
2009	$377,334,661	$48,445,970	12.8%
2010	$422,726,383	$61,804,132	14.6%
2011	$455,334,841	$55,033,738	12.1%
Total	$1,705,027,260	$220,921,121	13.0%

Experience from 2012 Shows Loss Trend is Absurd

Credit Insurance Experience Exhibit Data through 2012 show stable or declining loss ratios – a result inconsistent with a 21% loss trends

Year	NWP $ Millions	Incurred LR	Rate Change	
2004	$56	83.8%		
2005	$74	110.7%		
2006	$116	29.9%		
2007	$243	11.6%	44.0%	5/1/2007
2008	$409	10.9%		
2009	$472	10.3%		
2010	$521	13.5%	4.6%	12/1/2010
2011	$561	12.8%		
2012	$609	12.1%		

Scheduled Rating: Wrong for LPI

a) Quality of Loan Underwriting + 20% to - 20%
 (1) Quality of Underwriting
 (2) Source of Real Estate Loans – Direct and Indirect
 (3) Overall Delinquency Ratio
 (4) Average Loan to Value

b) Quality of Loan Portfolio +15% to -15%
 (1) Mix - Government and Conventional
 (2) Mix – Fixed and Variable
 (3) Escrowed for Payment of Insurance

c) Transactional Efficiency + 10% to - 10%
 Systems Compatibility, Data Quality/Accuracy, Automation, Reconciliation Capabilities, Service Standards

d) Management Experience +10% to -10%

Contingency Chutzpah

Filing: **"**A 2.5% contingency provision is included to recognize the significant uncertainty of expected experience resulting from a large portion of ASIC's portfolio consisting of seriously delinquent loans as these loans move through the foreclosure process."

Actuarial Standard of Practice: While the estimated costs are intended to equal the average actual costs over time, differences between the estimated and actual costs of the risk transfer are to be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision.

ASIC's contingency provision should be -18% since the company systematically and persistently experiences actual non-cat loss ratios 18 points below its estimated loss ratio.