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 <u>get it right</u> 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)

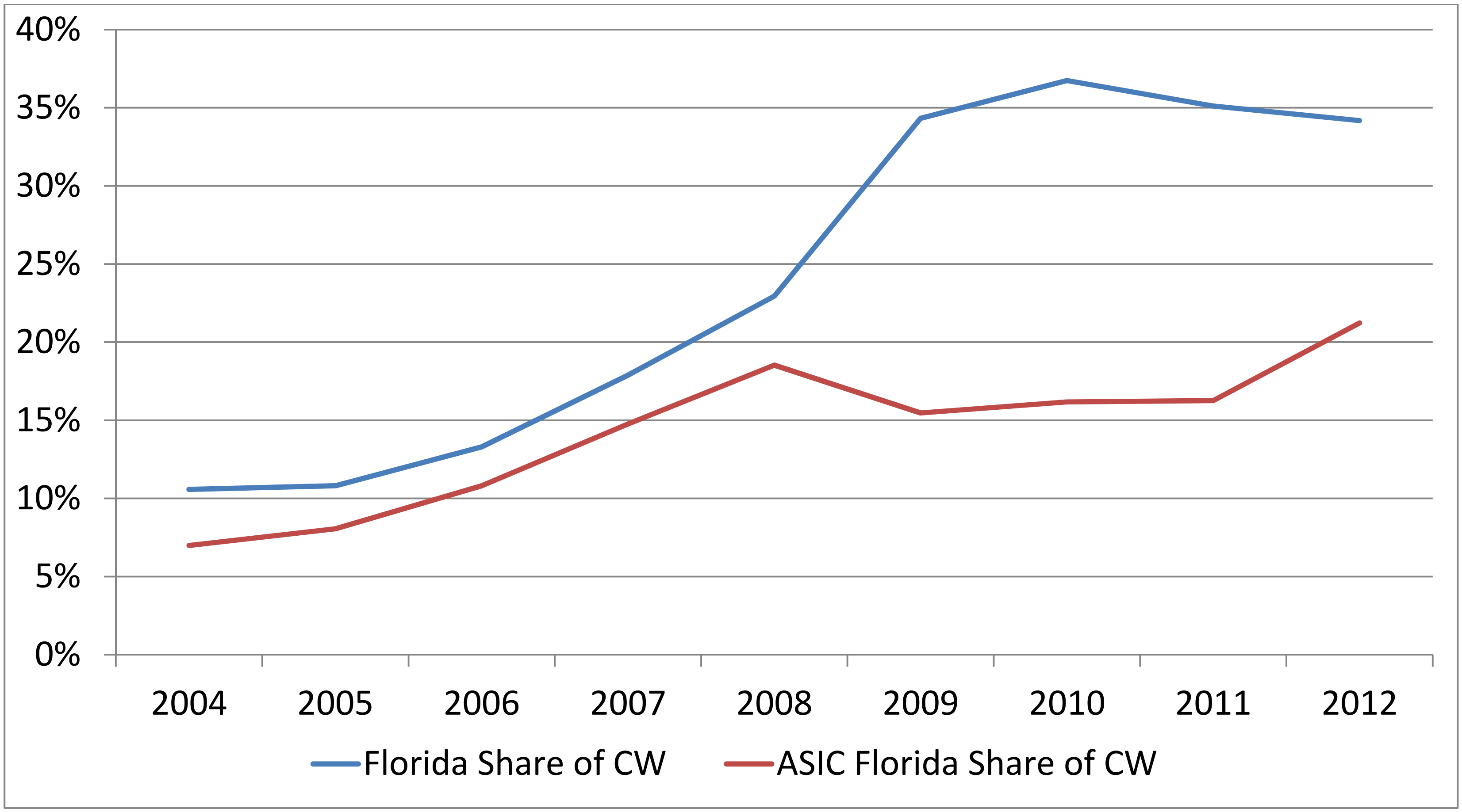
Year	Countrywide All Companies	Florida All Companies	Florida Assurant	Florida ASIC
2004	$796	$84	$56	$56
2005	$919	$99	$74	$74
2006	$1,074	$143	$116	$116
2007	$1,647	$295	$243	$243
2008	$2,209	$507	$409	$409
2009	$3,049	$1,047	$479	$472
2010	$3,223	$1,184	$539	$521
2011	$3,450	$1,211	$585	$561
2012	$2,870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

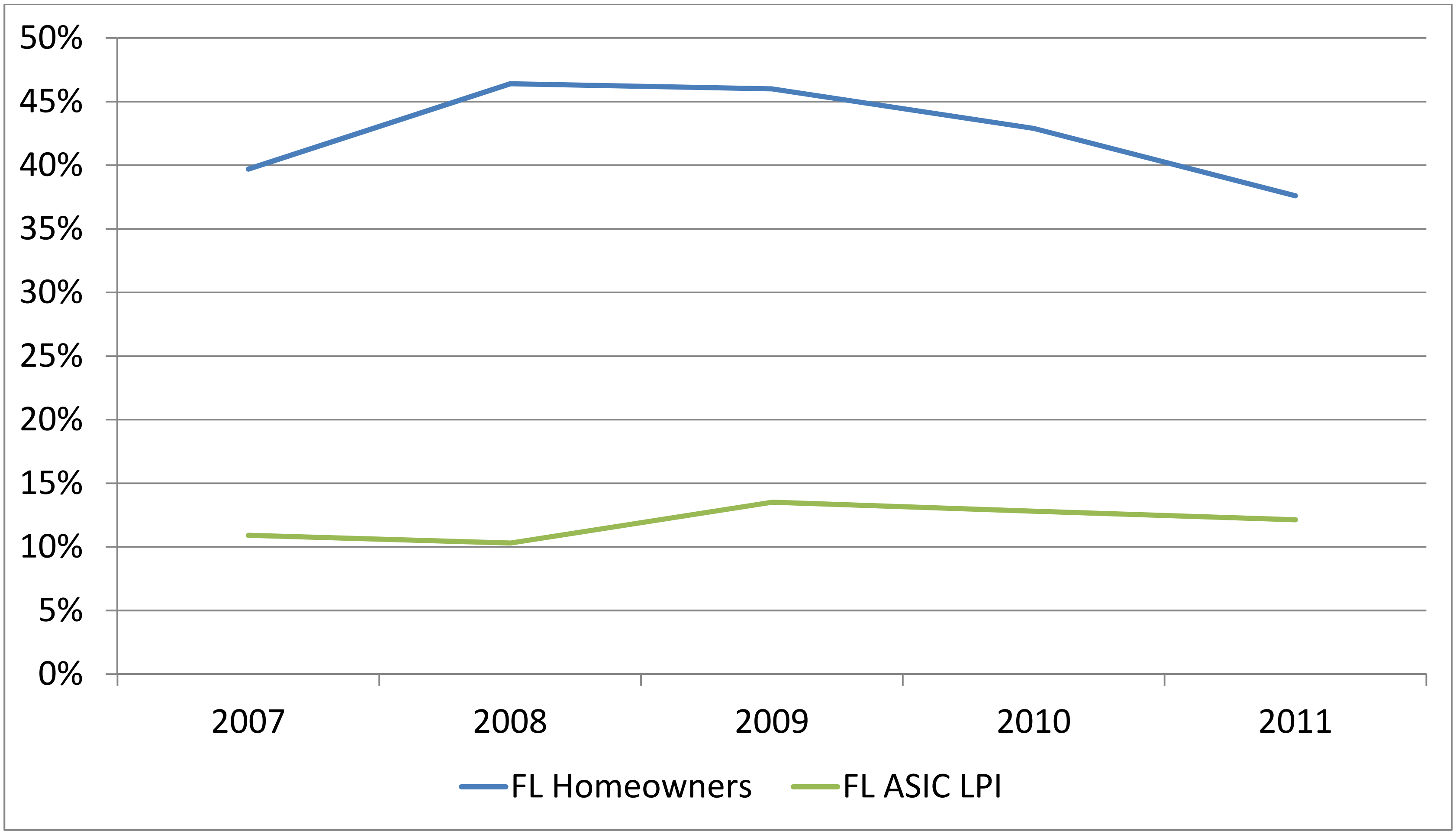
Florida and ASIC Florida Share of Countrywide LPI



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.

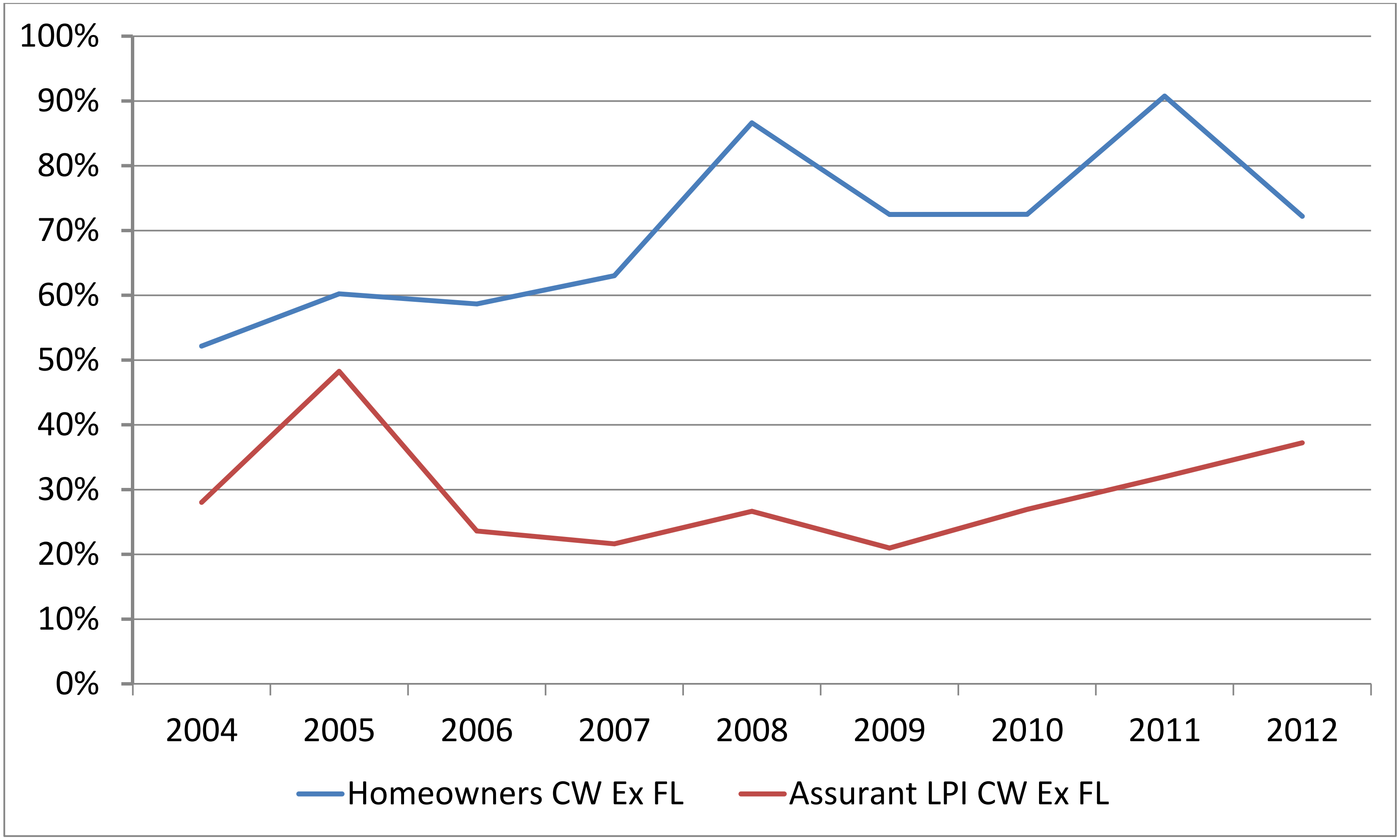
LPI policies provide less coverage than homeowners – no contents or additional living expense – which has a particularly big impact in Florida given that the bulk of the ASIC LPI rate is for cat exposure.

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%

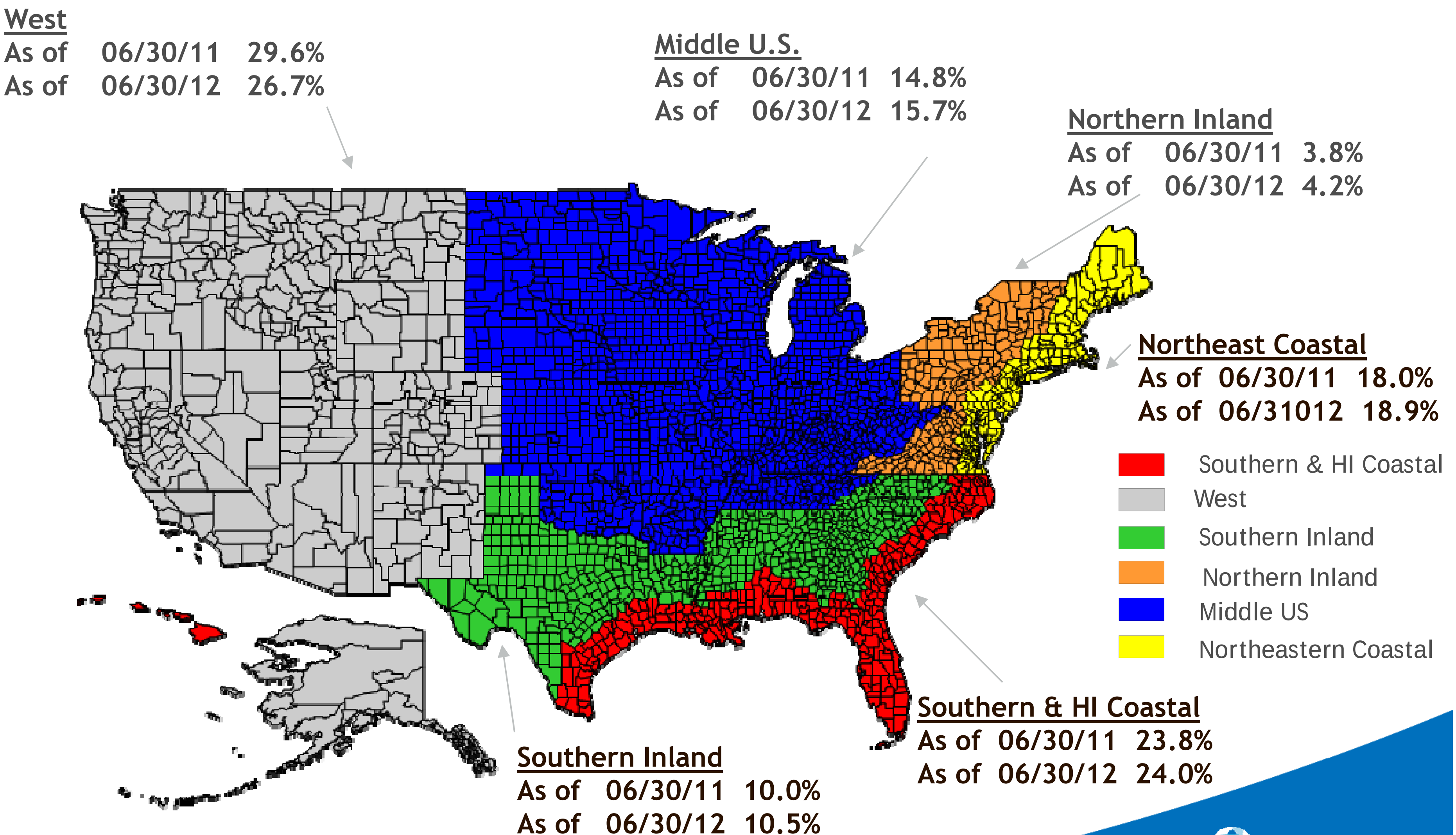
Ex FL Countrywide Homeowners and ASIC LPI Loss Ratios



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.

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.

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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.

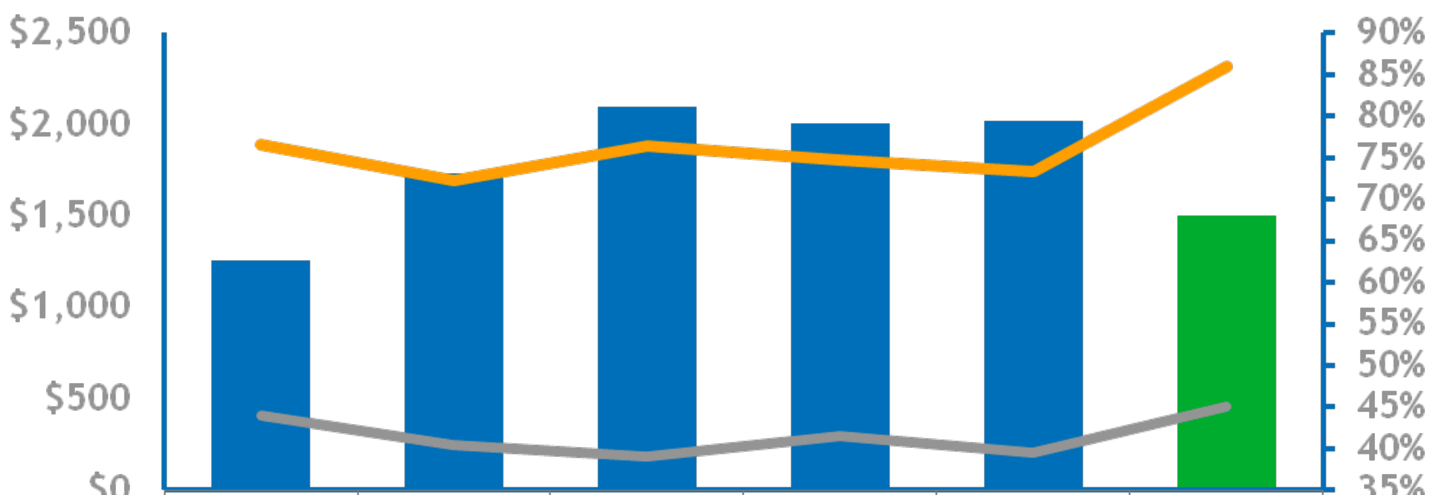
In presentations to investors in 2011 and 2012, Assurant says the target combined ratio for Assurant Specialty Property is 84% to 88%, corresponding to profit provisions of 12% to 16%.

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

INVESTOR DAY

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



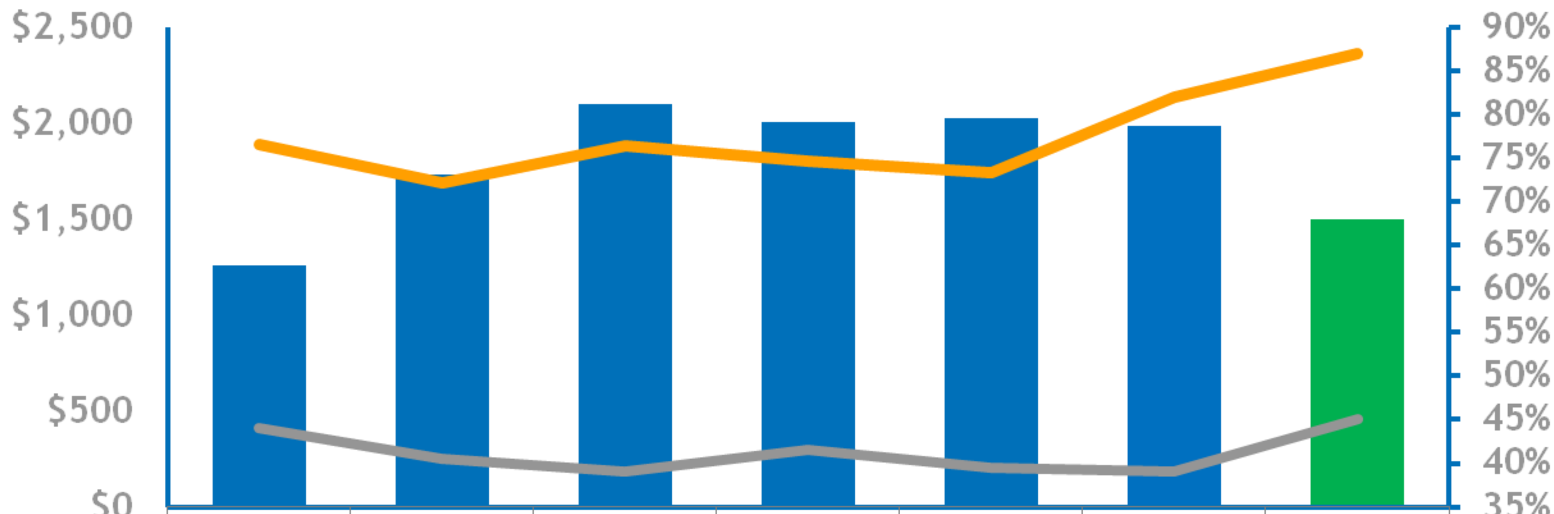
	2006	2007	2008	2009	2010	Steady State Estimate
Total Revenue [1]	$1,258	$1,734	$2,098	$2,004	$2,022	$1,500
Combined Ratio	77%	72%	76%	75%	73%	88 - 84%
Expense Ratio	44%	41%	39%	42%	40%	46 - 44%

[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
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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 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.