



White Paper

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Quick Guide to Insurance Tracking

Your financial institution needs to have a true sense of lending risk. Monitoring borrowers' insurance on your collateral can provide a risk gauge for potential exposure.

The guide will break down what insurance tracking (or monitoring) is, who it benefits from it, regulations involved, and how to get started with a comprehensive program to protect your portfolio.

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What is Insurance Tracking?

The cost of buying a car is rising. As purchasing becomes more expensive, monthly loan payments plus insurance premiums can place financial strain on borrowers. As a result, many borrowers are neglecting to protect **collateral** with adequate insurance. A borrower's personal choice to accept the financial risk of potential loss can also have consequences for the lender.

Is your financial institution prepared to absorb the risk of uninsured collateral?

Insurance tracking (also known as insurance monitoring) is the process of gathering, analyzing, and storing borrower insurance information. Insurance tracking allows you to monitor borrowers' insurance information, and the risk associated, to ensure your loan collateral remains adequately protected.

By failing to track insurance on your auto loan collateral you risk:

- Financial loss due to lack of insurance coverage
- Increased deficiency balances
- Liability exposure on lease portfolios
- Increased unmitigated exposure during natural catastrophes such as hurricanes, flooding, and wildfires
- Being unprepared for a shift in economic conditions that increase uninsured rate



How Insurance Tracking Works

There are multiple layers to insurance tracking and each program may have a different focus. A comprehensive insurance tracking program that protects both borrower and lender focuses on these five steps:



1. Gather

The first step of insurance tracking is to gather insurance information. Insurance information includes coverage type, policy number, effective date, lienholder, and both borrower and agent contact information. This step is the most arduous in the tracking process because insurance information exists in – and must be gathered from – thousands of sources. Some of these sources are:

- Insurance carriers' websites
- Borrower-verified insurance
- Letters mailed into your mailroom

Some insurance sources are sufficient to verify adequate insurance, but others may not include necessary historical data.



2. Verify

Once gathered, insurance information (essentially, data) is organized and cataloged, for both historical reference and immediate verification purposes. Previously, data organization was done manually but now, robotics processes and **optical character recognition** (OCR) can organize data more efficiently and with more cost savings than previous manual processes. Once insurance information is gathered and organized it is then verified if collateral has adequate coverage. If insurance coverage could not be verified with robotic processes, this triggers a borrower communication strategy.



3. Communicate

If automated processes cannot verify adequate coverage for borrowers' insurance status, a borrower communication strategy is initiated. Borrower communication can take on many forms, but the goal is to remind the borrower of their insurance requirements and ultimately encourage them to provide proof of auto insurance. If the borrower does not respond to notifications, the final steps of the process are enacted.



4. Protect

When borrower-held insurance coverage cannot be found, insurance coverage held by the lender is placed. **Lender-placed insurance**, also known as CPI (**Collateral Protection Insurance**) is a last resort to protect uninsured collateral. This coverage is held by the financial institution and the premium is paid by the insured lender, who may in turn bill the borrower for the coverage.



5. Recover

Insurance tracking can be combined with comprehensive recovery solutions like license plate recognition, diminished value exposure and collection services (like **REPO Plus®**), and vehicle protection product refunds to further mitigate portfolio risk and optimize recovery.

To summarize: a robust insurance tracking program collects insurance information from multiple sources and initiates borrower communication when automation cannot find insurance coverage. This is done by leveraging data to monitor borrowers' insurance policies and ensure they don't lapse in coverage. If they do, the lender will be notified and appropriate next steps can be taken. Having a comprehensive, borrower-centric insurance tracking program in place empowers borrowers to take action and maintain adequate coverage on their vehicles.

Keeping Your Program Borrower Centric

During the information gathering process, it may be discovered that collateral does not have adequate insurance. This can trigger communication with the borrower. Communicating with the borrower about their insurance status usually includes reminders to provide proof of physical coverage on the collateral. The third step in the insurance tracking process (communicate) is a critical component to managing portfolio risk while keeping your program borrower centric. A borrower communication strategy for insurance reminders meets borrowers on their preferred channel. Print notices are included to ensure regulatory compliance, and complimentary digital notices may include text and email communications.

These channels can be enhanced with dynamic, personalized video and a self-service platform to upload proof of insurance. A borrower communication strategy not only protects your portfolio it also protects borrower relationships and creates a seamless insurance verification journey.

Delayed Billing for Borrower Support

Delayed billing is another key feature to keeping insurance tracking centered on borrower support. If a borrower does not respond to print and digital notices reminding them of their insurance requirements, a final notification coupled with a lender-placed certificate of insurance can prompt borrower action. Delaying the billing cycle of lender-placed coverage 14-28 days can reduce unnecessary premium billings by upwards of 35%. The minimum delayed billing of 14 days also safeguards compliance for any delayed CPI charging requirements a state may impose.

How Does Insurance Tracking Mitigate Portfolio Risk?

On average, only 8% of an auto loan portfolio will not have provided proof of coverage. It may mean that coverage on this percentage of collateral does not exist, or it may mean that it simply hasn't been provided.

In the insurance tracking process, if insurance cannot be verified via any insurance data sources utilized in the program the borrower becomes involved in the process. At this phase, the omnichannel communication strategy is initiated.

Once reminded of their requirement to maintain insurance on their collateral, only a small percentage (1-3%) will remain uninsured. Lender-placed coverage exists to protect this portion of the lender's portfolio.

Leveraging Data

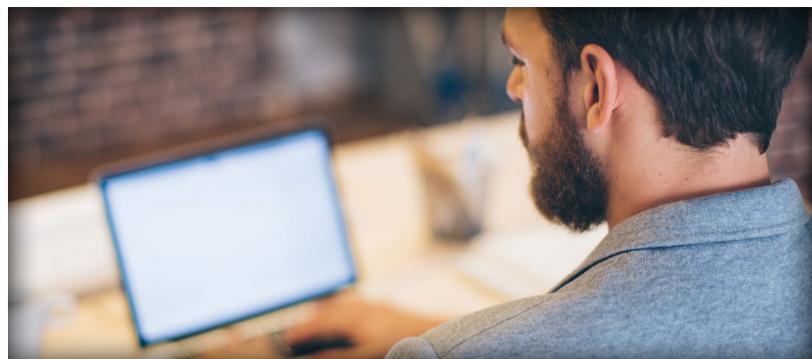
Leveraging numerous data sources such as EDI, carrier notifications, carrier policy data, and third-party policy data services can limit false placement, reduce borrower interaction, and dramatically improve the borrower experience.

Layers of Protection

Various recovery services can be layered with insurance monitoring to maximize portfolio protection and ultimately reduce loss ratios. For example, with location tracking, vehicles can be found earlier in the recovery process. This additional step goes beyond tracking just insurance and pins down the collateral's location to minimize damage and potentially decrease further depreciation on collateral. Insurance tracking can also be combined with skip recovery (**Pre SKIP**[®]), repossession, remarketing, and product refund services.



On average, only 1-3% will remain inactive when reminded of their requirement to maintain coverage.



Maintaining Regulatory Compliance

Regulatory requirements surrounding lending and servicing are complex. Having a tracking program that helps maintain compliance with state and Federal regulations is another way that insurance tracking reduces risk.

While no laws explicitly require lenders to implement insurance tracking on their auto loan collateral, it is possible for a regulator to consider a tracking program in the context of the safety and soundness of a lending institution. Additionally, state laws vary on a borrower's insurance requirement.

An effective insurance tracking program ensures the terms of the loan agreement are uniformly applied to all borrowers and guarantees the lender is fulfilling its duties. Implementing an insurance tracking program also supports public policy and personal responsibility by promoting an increase in liability insurance, in addition to the comprehensive and collision coverages required by the loan agreement. Choosing not to employ an insurance tracking program may lead to inconsistent enforcement of the insurance requirement under the loan contract.

Something to Consider: Potential Legal Concerns

What happens if a claim is made that the requirement to maintain insurance coverage is not enforced fairly among borrowers? Contractually, the borrower is obligated to provide and maintain adequate insurance on the collateral and the lender should be ensuring that all their borrowers abide by those terms. If a lender "picks and chooses" when to enforce the insurance requirement this may have an unequal impact on a class of borrowers, which could expose the lender to potential legal liability.

Choosing not to employ an insurance tracking program may lead to inconsistent enforcement of the insurance requirement under the loan contract.

Why Pay for It? The Benefits of Outsourcing Insurance Tracking

Tracking insurance with various in-house tools may be possible. However, it is a cumbersome, time-consuming, and expensive process. On average, each vehicle loan will result in about 3 insurance policy mailings received by your financial institution's mailroom every year. That means, for a portfolio of 100,000 loans, nearly 300,000 pieces of insurance mail need to be opened, sorted, and processed, and that effort can cost upwards to \$150,000.

When insurance tracking technology is leveraged, the volume of insurance mail and the corresponding costs can be reduced by 80-90%.

Comprehensive insurance tracking measures come with an investment cost- and the opportunity for a much greater return on investment. Opting for an outsourced insurance monitoring program allows you as a lender to accurately assess real time exposure in your portfolio and reduce the number of unprotected losses in the loan portfolio without expanding internal staff.

*When insurance tracking technology is leveraged, the volume of insurance mail and the corresponding costs can be reduced by **80-90%**.*

Allied Solutions has been providing insurance solutions to financial institutions since 1978, and since then we've tracked nearly 22 million auto loans. Here's an example of what insurance tracking with Allied can do:

- Monitor insurance policies to ensure no lapse in coverage
- Strategically communicate with borrowers to encourage self-verification
- Aggregate data insights with multiple technology integrations to lessen the burden of manual verifications
- Leverage historical data to better aid the borrower in recovery
- Maximize dollars received in insurance claims on a total loss
- Increase claim recoveries
- Reduce uninsured borrowers to 1 in 100

Our economy is rapidly shifting. As it does, collateral values, uninsured rates, and delinquencies are increasing lenders' risk exposure. Knowing the insured rate of loan collateral gives lenders the power to make sound decisions and act to mitigate potential financial loss before it happens. Start working with an insurance tracking partner to help prevent and manage risk on your portfolio.

Glossary

Collateral: Can include any cars, motorcycles, RVs, and powersports vehicles used to secure the loan.

Delayed Billing: An insurance tracking feature that prolongs the time between when the borrower receives a notice of CPI placement and when the financial institution is billed for the coverage.

Insurance Tracking: The process that includes gathering, organizing, processing and verifying collateral's insurance status. Also known as insurance monitoring.

Insurance Verification: Obtaining the status of collateral's insurance and authenticating that the coverage is adequate.

Lender-Placed Insurance: Also known as Collateral Protection Insurance (CPI) or force-placed insurance.

Optical Character Recognition (OCR): An electronic process by which words are scanned, translated, and stored as data. As known as text recognition.

Pre SKIP®: Allied Solutions' proprietary service that manages location, liquidation, compliance and performance for vehicles with skip coverage

REPO Plus®: Allied Solutions' proprietary service that settles repossessed collateral damage claims.

About Allied Solutions

Allied Solutions is one of the largest providers of insurance, lending, risk management, and data-driven solutions to financial institutions in the US. Allied Solutions uses technology-based solutions customized to meet the needs of 4,000 banks and credit unions, along with a portfolio of innovative products and services from a wide variety of providers. Allied Solutions is headquartered in Carmel, Indiana and maintains several offices strategically located across the country. Allied Solutions is a wholly owned and independently operated subsidiary of Securian Financial Group.



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