National Conference of Insurance Guaranty Funds NCIGF℠

Backgrounder

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Guaranty Associations' Approach to Unearned Premium Claims Puts Payment on the Fast Track for Homeowners, Auto Policyholders

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In our daily lives, there are few things more indispensable than our cars and homes.

So imagine the policyholder trauma in July 2006 when a Texas court cancelled thousands of policies across the nation as part of liquidating The Vesta Companies: Shelby Insurance Company, Shelby Casualty Insurance Company, Vesta Fire Insurance Company and Texas Select Lloyds Insurance Company. The personal line companies, which wrote considerable auto and homeowners business, failed August 1, 2006.

The court's cancellations voided tens of thousands of policies nationwide, creating a groundswell of unearned premium (UEP) claims.

Coverage cut for thousands

In one fell swoop, the cancellations cut coverage for thousands of average policyholders, said Steve Perrone, executive director, Pennsylvania Property & Casualty Insurance Guaranty Association. His organization managed about 12,000 UEP auto claims related to the insolvency.

Unearned premium claims are claims that cover the unearned portion of premium remaining on a policy term. For example, with a six-month premium, at the end of the first month of the premium period, five-sixths of the premium is unearned by the insurance company. At the time of an insolvency, virtually all policyholders covered by the failed insurer will have an outstanding unearned premium claim. Not surprisingly, UEP claims generate significant work for the liquidator and involved guaranty associations, not to mention stress for the policyholder.

This is because many policyholders do not have the financial resources to buy policies to replace those cancelled by an insolvency.

"These people had to go out and replace their policies, and many did not have the cash," Perrone said. "It's a difficult situation for them because some are living paycheck-to-paycheck. They've paid for one policy and now are forced to go out and pay for a second one."

In some cases, the lack of coverage brought about dire consequences for policyholders, says Perrone.

"There were a lot of emergency situations… We'd heard some real horror stories: widows with no money not being able to drive without insurance. We had great compassion and concern for these policyholders. And we thought it was our obligation to get this money back into their hands as soon as possible."

Pennsylvania guaranty association springs into action

Sensing the enormity of the impact on policyholders, Perrone and his staff went into action. Even before the data was available to clear the way for paying the UEP claims, the Pennsylvania fund had taken a number of preparatory steps that would enable the organization to pay the claims quickly.

First, Perrone installed accounting manager, Pat Ettore, on the Vesta Coordinating Committee's unearned premium subcommittee.

"Pat was really on top of the deliberations and discussions and all the meetings," Perrone said, adding that her work on the front lines did much to prepare the fund for paying the claims quickly.

"We wanted to do everything we could to help policyholders; we tried to think of everything we needed to do in advance, for example ordering check stock for 12,000 checks, obtaining sufficient postage, and even envelopes. We had to get those things in place in advance so we were ready to roll. As soon as the data was available we wanted to make sure that we were in a position to respond to the needs of the Pennsylvania policyholders."

The preparation paid off. As soon as the Pennsylvania fund received data from the liquidator and checked it for accuracy and completeness, Perrone and his staff were in the check printing business to the tune of 1,000 to 1,500 checks a day through a 10-day period. In all, the fund processed 12,077 checks with a total value of $1,963, 888.

"Looking back on it, I can't think of anything else we could have done to get the job done sooner, better or quicker," Perrone said. "We're all proud of the job we did here. Every single claim was important to us and we wanted to make sure that anyone who was entitled to anything received their money."

New Jersey ramps up to meet the challenge

Meanwhile, in New Jersey Joe DellaFera, chief executive officer of the New Jersey Property-Liability Insurance Guaranty Association was also ramping up, preparing his organization to meet the challenge of managing the wave of UEP claims related to the sudden cancellation of 18,000 homeowners policies in the state.

"We had a lot of people calling up saying, 'I just spent $500 on my homeowner's coverage, and they tell me I have to get new coverage and I don't have the $500; how am I going to do that?'" DellaFera said. "We felt it was extremely important to turn around these refund checks just as quickly as possible."

Like Pennsylvania, the New Jersey fund set out to do just that. The organization instituted a phone tree system to accommodate the more than 2,000 calls that began flowing into the fund almost immediately.

Two staff members were assigned to the key role of liquidator communications. Almost overnight DellaFera redeployed his resources and refocused staff to enable the association to handle the substantial check printing, mailing and other administrative tasks that would be required when data from the liquidator would allow the association to process the payments.

Some staff even volunteered to come in over the weekend to see to it that the claims were paid quickly.

"We refocused the organization on what was important at the time," said DellaFera. "I told the staff, 'We're all going to do what we have to do to get those checks out. If examiners or others have to sit and stuff envelopes, we will. The entire organization's focus was on getting those checks out as quickly as possible: from the guys in the mailroom all the way up to senior management."

The New Jersey fund became a well-oiled machine, one that delivered.

"We got the information late on a Friday. By Tuesday morning 17,556 unearned premium checks totaling $5.6 million were in the mail," DellaFera said. "We were very proud of our response. We accomplished a lot of volume quickly and focused the organization on delivering on our mission."

DellaFera says the performance, while challenging, merely reflects how seriously his organization takes delivering on its mission.

"Our mission is short and sweet, and that is to handle property and casualty claims in a professional and timely manner, and according to our statutes," he said.

"But 'timely' is in there for a reason. The New Jersey legislature created this fund to pay covered claims and avoid excessive delay of paying those claims. We pulled the organization together and said, 'This is what we're here for: we're part of a safety net."

Deep in the heart of Texas UEP claims

When Texas Select Lloyds Insurance Company failed August 1, 2006, the Texas Property & Casualty Insurance Guaranty Association joined funds in Pennsylvania and New Jersey and a growing list of other states such as California, Ohio and West Virginia that were seeing the number of UEP claims skyrocket due to insolvencies.

In all, the Texas fund paid about 142,000 UEP claims totaling $62,428,071 related to homeowner's policies cancelled as part of the Texas Select Lloyds failure. Texas Select was the sixth largest writer of homeowners premiums in the state the year before; and the massive cancellations occurred prior to the most active part of hurricane season for many coastal residents.

Laura Cox, claims supervisor for the Texas fund, was on the frontlines. And if the thick flurry of UEP claims wasn't enough, Cox also was charged with handling all the estate's loss claims in the state, 7,000 in all. Cox soon learned what "busy" meant; from the time the Texas policies were cancelled August 24, 2006 to January 2007, Cox worked 12 hours a day, seven days a week.

Cox knew if she were going to be able to stay on top of the claims, she was going to have to make planning, organization and working smart her top priorities.

Even before the company was impaired, she began working closely with the special deputy receiver and the Texas Department of Insurance to iron out programming issues and educate their staff on the handling of unearned premium claims under the Guaranty Act. After impairment, she worked with these parties and the Independent Insurance Agents Association to update websites with the current status of Unearned Premium claims.

To field the thousands of calls that begin hitting the fund like an onslaught, the association added four customer service representatives, and realigned other staff to handle the overflow of calls. Additional adjusters were added to process the 7,000 other non-UEP claims associated with the estate.

"I wrote a business plan," she recalls. "We'd started to work out a plan with the receiver when we heard the company might be impaired. I had my game plan ready to go. We lined up a company that could print our checks. Our mail room couldn't handle mailing out 10,000 checks a day, so we arranged for the company to print the check, attach a letter of explanation and mail the check."

100,000 checks in seven days

Thanks to the advance preparations the fund was able to process 100,000 checks in seven days—about 10,000 to 20,000 checks a day, Cox said. Cox additionally stated the fund received data October 7. By October 24 it had 110,000 checks out. Distribution of checks in additional batches quickly followed.

"I had never seen a receivership that affected insureds so significantly," she recalls. "We were fielding phone calls from insureds with UEP and homeowner claims. We refunded 142,000 UEP claims and I think they all called. It was crazy."

Early in the insolvency, Texas chaired the Shelby/Vesta/Texas Select Lloyds Unearned Premium subcommittee. Pennsylvania, Ohio, West Virginia, California and Texas were represented on the committee – states with the largest volume of UEP claims.

This committee had weekly conference calls that included special deputy receiver (SDR) staff and various staff from Texas Department of Insurance. During the calls, the SDR would update the committee with the current status of when it could expect the UEP data so it could begin refunding UEP to the insureds.

The Texas association staff also offered its assistance to the SDR and their IT staff, checking the data the programmers extracted and auditing test batches of UEP calculations for accuracy. Texas, like many other guaranty associations, deals with large unearned premiums more frequently than many receivers; because of this it often is a beneficial resource in such instances.

"I had previously requested access to the Shelby/Vesta accounting system when I was working with the SDR's IT staff early on, and I requested that the other members of the committee also be given access to this system," Cox said. "This helped immensely when we were auditing the SDR's test batch of UEP."

Pre-audit of several test batches of UEP calculation assured the committee that the UEP information sent to the Texas association would be accurate and calculated correctly. The committee then relayed that information to the other state associations to validate the data and expedite the UDS data through their systems without the need to double check each refund.

Challenges presented themselves, but Texas met them one-by-one.

"I was able to convince the SDR to allow the funds to recalculate the UEP using the correct date of cancellation as long as we obtained the supporting data needed to prove the insured had other coverage. This sped up the process for the funds, and enabled us to quickly issue supplemental checks," Cox said.

"Overall, though, we were just glad we were able to get these people their checks, because their stories were just horrible. People would tell us, 'I'm going to have to go without insurance until you get me my check. It was bad… These are people, not companies. A company can afford to wait for its refund; an individual may not be able to afford to purchase a new policy without their refund."

For several funds across the nation, the UEP activity of 2006 posed huge challenges. The receiver's latest financials reflect that the guaranty associations have paid $74 million in unearned premium claims in the four Texas-based liquidations of Vesta Group insurers. The lion's share of these payments occurred within a few months of the date of liquidation.

In the end, however, the quick response that guaranty associations marshaled in the wake of the insolvencies showed the value of the safety net the guaranty fund system was originally created to deliver.

“The situation showed that the guaranty funds serve the people they were traditionally meant to serve,” Perrone said. “We’ve seen some huge insolvencies lately and a lot of commercial insureds, but in this case we had the moms and pops: the ordinary people who can least afford an insolvency. We certainly wanted them to know there was someone out there who is actually looking after them and on their side.

“We wanted to make sure they got what they were entitled to.”

DellaFera puts it even more succinctly.

“This is what the funds do.”