The Pitfalls of Force-Placed Coverage

State and federal laws don't require property owners' insurance, but most lenders do. Why? They want to protect their investment.

Force-placed coverage, also known as "lender-placed" and "credit-placed" insurance, is when a mortgage lender or bank purchases coverage for property they own. The most common scenarios where force-placed coverage is applied are when there is a lapse in coverage, insufficient coverage or a cancellation of coverage.

The force-placed insurance policy also helps ensure that there is a policy in place if the property owner fails to show proof of insurance.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

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How do you get force-placed coverage?

A force-placed insurance policy is put in place by the lender to keep the property owner insured when an insurance policy lapses due to failure to pay, failure to pay on time or failure to sign a renewal on time.

Insufficient coverage is another common scenario where force-placed coverage is applied. For example, if the property is in an area prone to flooding, the owner may be required to have flood insurance. By neglecting to get flood coverage for the property, a force-placed flood insurance policy could be put in place by the lender.

If the property owner's insurance is cancelled – either by the insured or by the insurance company – without having another insurance policy in place, then a force-placed policy would be applied.

Pitfalls of force-placed coverage

While having the lender put a policy in place for you may sound like a no-brainer, there are pitfalls to this type of policy, the biggest being the price and lack of adequate coverage.

A force-placed coverage policy can cost up to 10 times more than regular property insurance and most force-placed policies don't take into account whether a property owner has any previous claims, so even owners with no loss history often end up paying a higher premium.

Another reason the cost is so high is that lenders have no incentive to negotiate discounts. Their job is to ensure the property is covered, and in the case of a force-placed policy, that means they will prioritize getting coverage over the finer details.

In addition to the high premium, property owners may not even get the full coverage needed to protect their property and their interests. Oftentimes, force-placed coverage covers only the property itself and excludes personal property as well as additional properties such as detached structures and any liability coverage that may have been included in a previous policy. At the same time, many companies don't consider wildfire or hurricane risks.

How to avoid force-placed coverage

Because force-placed coverage is not something the property owner puts in place, lenders are required by law to notify the owner at least 45 days before moving forward with a new policy. If a property owner receives this notice, it's a good sign that it's time to find another insurance policy and show proof of that new policy as soon as possible.

To get the best bang for their buck, property owners should work with an experienced retail agent – spending the necessary time to shop insurance companies to find the best deal. Be sure to work with your clients to get an accurate estimate of the cost of a rebuild since many lenders require coverage for up to 80% of the replacement cost.

If a force-placed coverage policy has already been put in place, property owners may still be able to purchase insurance on their own. Lenders are legally required to cancel a force-placed policy within 15 days of showing proof of insurance. Property owners are not locked into a force-placed policy as long as they show proof of new insurance.

During this time, property owners should continue to pay their existing mortgage as well as the new policy premium until proof of the new policy can be shown. If the property owner does not continue to pay the force-placed coverage policy, foreclosure can be the next step.

Takeaway

Force-placed coverage policies provide very basic coverage so, essentially, property owners could end up paying more for less coverage. Most force-placed policies also don't provide protection in the event of property damage by a hurricane, tornado, hailstorm or similar disaster. Your Amwins broker can work with you to help educate your clients about how to avoid force-placed coverage and find a coverage solution that meets their needs.