

Vermont Insurance Division

BULLETIN 71 Lienholder Interest Coverage Loss Payable Clause Fraud

August 10, 1983

Attached please find a copy of a recent communication distributed by this Department to Lending Institutions authorized to do business in the State of Vermont. We believe that this communication is self-explanatory but should you have any questions or wish to discuss this item further, please contact Donald A.Kifer,

Deputy Commissioner of Insurance at this Department (802-828-3301).

George A. Chaffee

COMMISSIONER OF BANKING AND INSURANCE

MEMO TO: The Chief Executive Officer of the Financial Institution Addressed

FROM: Donald A.Kifer, Deputy Commissioner of Insurance, Dennis R.Ellingson,
Deputy Commissioner of Banking

DATE: August 10, 1983

SUBJECT: LIENHOLDER INTEREST COVERAGE -- LOSS PAYABLE CLAUSE --
PERSONAL AUTO POLICY/FRAUDULENT ACTS OF THE INSURED/OWNER

In early 1979 the Department of Banking and Insurance approved a filing submitted by the Insurance Services Office on behalf of its member and subscriber insurance companies. This product was officially referred to as the Personal Automobile Policy and represented a simplification of its predecessor product, the Family Automobile Policy. The thrust of this filing was represented as one of simplification of contract language and clarification, with no intended changes in coverage or benefits unless so identified.

One of the endorsement forms that was changed was the Loss Payable Clause (identified as endorsement PP 03 05) which is normally attached to the contract to protect the interest of a lienholder-ordinarily for the balance of the owner's loan.

Prior to 1979 there was no question that should an owner purposely damage, destroy, or lose his automobile the lienholder's financial interest was recoverable under the terms of the Family Automobile Policy. However, after the introduction of the Personal Automobile Policy we were informed that some insurance companies were no longer protecting or covering the lienholder's interest if the loss resulted from the owner's fraudulent acts. Such denial of coverage for the protection of the lienholder's interest is

completely contrary to the representations given this Department by the Insurance Services Office.

As a result, this Department requested that the Insurance Services Office amend the Loss Payable Clause endorsement to further clarify that its 1979 filing did not contemplate any change in the manner in which the lienholder's interests would be protected in the event of a fraudulent act(s) of the insured/owner of the automobile covered by the Personal Automobile Policy. This action has been taken by the Insurance Services Office on behalf of its member and subscriber companies and this revision has been approved by this Department. The purpose of this communication is to alert all lienholders that may have been denied the proceeds on any claim resulting from an insured's/owner's fraudulent acts under the terms of a Personal Automobile Policy.

Similarly, this Department is notifying the member and subscriber companies of the Insurance Services Office that any claims which were denied on the basis of the insured's/owner's fraudulent acts are to be reopened and adjusted and paid on the basis of the representations made by their official filing agent, the Insurance Services Office.

Should you have any questions regarding any of the above, please feel free to contact this Department.