

LEASING INSURANCE TRACKING & COVID-19

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The COVID19 pandemic has had a detrimental economic effect on a vast majority of businesses. The leasing industry is no exception, and one of the most serious developments is the cancelation of, or reduction of coverage on, your customers' insurance policies.

At LTS we have seen a 40% increase in the number of policy cancellations, most of them due to non-payment of premium, since March of this year. Granted, there are lessees who have consistently received non-pay notices in the past and continue to do so today. What is most concerning is the number of "first timers" who have never received a non-pay cancellation. Each week we see more and more of this. It is true for both commercial and consumer lessees, and it is a strong indicator of the economic effects of COVID19.



Lessees may also reduce their insurance coverage in order to reduce their premiums. This usually entails lower liability limits and increased deductible amounts, and can leave the lessees in default of their lease contracts. We have seen increased deductible amounts of \$5,000 and \$10,000 on leases that require a maximum of \$1,000.

The bottom line is that whoever tracks your lessee policies must be even more diligent now and must communicate these developments with you on a timely basis so that you can make informed business decisions.

Now with that in mind there's the question on who tracks the insurance.

Whether you outsource tracking or keep it in-house, know you are still responsible to comply with the due diligence clause in your contingent liability policy. (You cannot sign this away with a tracking vendor's contract.) Make sure the tracking process, its time frames and interpretation of proof of insurance agrees with what your insurance carrier has defined. If there are questions, run them by your insurance carrier. *And get any agreed adjustment in*



writing! Remember, your policy is a legal contract. The only way to change a legal contract is through another legally accepted document – an insurance endorsement. DO NOT accept a letter from your agent or tracking vendor. Your insurance policy is between you and your carrier – period!

Now, you decide to track in-house. Who do you delegate this function to? If you are like most lessors, you delegate this to a clerical person. This clerical person adds tracking to their already busy desk. Are they insurance qualified? Do they know the due diligence wording on your policy? OR, you have just picked a tracking vendor. And you may have done this looking only at price. What have you just done? You have just given your tracking vendor (or your employee) permission to do whatever they want to do, in whatever time-frames they want *without* once considering your contingent policy wording.



You may think this is an exception to the real story; unfortunately, it is not. Over the years we have performed audits for lessors. The purpose of these audits is to compare the lessor's contingent policy, with its due diligence wording, to what the lessor is actually doing. Or, if this duty is outsourced, what the tracking vendor is doing. The result: I have seen as little as 3% of the lessors' portfolio fulfilling their responsibilities as outlined in their policy wording. This means only 3% of their portfolio would be covered in an event of a loss! (Keep in mind, that the lessor is paying premiums on 100% of his portfolio!) I'm not trying to scare you. But, this is a reality of your business.