StateNational

Is It Collateral Protection Insurance or Consumer Protection?

HOW ABOUT BOTH?

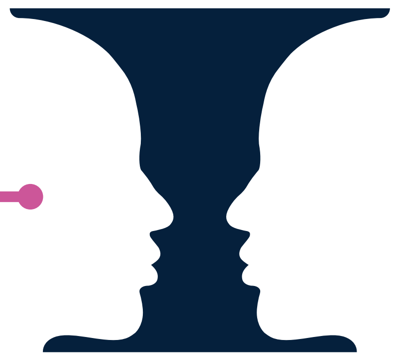
"There are often multiple ways of seeing the exact same thing."

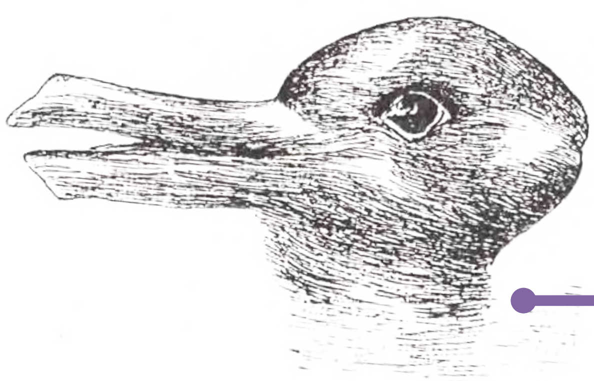
ArtOfPlay.com, *Fun with Ambiguous Images*

Things Aren't Always What They Seem

SOMETIMES WHAT LOOKS "OBVIOUS" ON THE SURFACE — ISN'T

We've all seen famous optical illusions (known as "ambiguous illusions") that look like one object when viewed a certain way and a completely different thing when looked at differently. Some of the most well-known look like either a vase vs. a silhouette of two faces, or a duck vs. a rabbit.





So what is reality? Is the first picture a vase or two faces? Is the second "really" a duck or a rabbit?

The answer, of course, is that both are true — and which one is seen depends on the viewer's perspective.

Human brains are wired to give us helpful shortcuts that help us navigate our world. And that's a good thing, usually — think of how exhausting it would be to have to try to figure out everything in your life all over again every day! Just as with optical illusions, what we see in our everyday lives is often colored by what we look for and what we think we know, based on the information that has previously been presented to us.

What Does This Have to Do With CPI?

It's fair to say that your average credit union member is not intimately familiar with CPI. After all, it's not a product most people ever use. Really, the only time it penetrates a typical consumer's consciousness is if they're sent a notice for not maintaining proper insurance, or when it's talked about in the news — and the only time it makes the news is when it goes wrong.

That is to say, the average person's view of CPI generally sees one perspective only — the one that's shown to them most often. Not to mention the one that reinforces the human brain's inherent hard-wired negativity bias.

The First View

At State National we're all about transparency, and we'll be the first to admit that CPI has, at times and under certain circumstances, had a problematic reputation — and with good reason. Actually, several quite understandable reasons:

- Prior technology was not precise enough
- Non-expert, non-specialized providers were not up to the task of administering CPI correctly
- Unethical providers took advantage of consumers
- CPI was not properly explained to borrowers, so they didn't understand it and thought they were being ripped off instead of helped

In addition, because CPI is a complex product, those without a comprehensive understanding of how it works and what it takes to administer it correctly have erroneously perceived it as benefiting only the lender, provider, and insurance company. The fact that it provides consumer protections, too, is rarely understood or talked about.

These factors, particularly high-profile examples of unethical and/or incompetent application, have at times led regulators to put an eagle eye on CPI. This, in turn, has engendered more unwarranted negativity around the product, because the fact that regulators expressed concerns about problematic CPI unfortunately impacted people's impressions of all CPI. (Another funny thing about the human brain is that it's hardwired to pay attention to what's novel, unusual, and threatening — while things that go off without a hitch a million times daily are overlooked.)

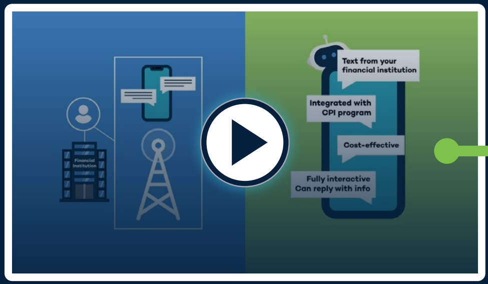
Flipping the Script

In keeping with our focus on transparency, we'll let you in on a little-known secret: Not only does a well-run CPI program not exploit consumers, it PROTECTS them, in multiple ways.

Although a member who has a CPI policy placed on their loan is most likely not happy about it in the moment, they'll be a lot UNhappier in the event of adverse circumstances that damage their vehicle while it is uninsured or underinsured. This is especially the case for financially vulnerable members who are most in need of protection.

The key to making sure a CPI program is protecting your members all comes down to the provider and the way their programs are run. Is the technology cutting-edge, with advanced automation? Are insurance updates made in real time or is there a lag between receipt of insurance and when it gets entered in the system? Are programs continually monitored? Is the provider obsessive about compliance?

For more about these indicators of quality and other important questions to ask before choosing a CPI provider, watch our animated explainer video "The Difference Is in the Details."



> THE CREDIT SCORE IS SO FUNDAMENTAL BECAUSE IF SOMETHING HAPPENS TO YOUR CAR AND THEN YOU RUIN YOUR CREDIT SCORE AT THE SAME TIME, THERE'S REALLY NOWHERE YOU CAN GO. AND SO BY KEEPING A MEMBER IN THEIR CAR, THE POWER OF HELPING SOMEBODY ELIMINATE THAT DOWNWARD SPIRAL IS SO MEANINGFUL."
>
> **- CHRISTIE KIMBELL,**
> CXO
> *Filene Research Institute*

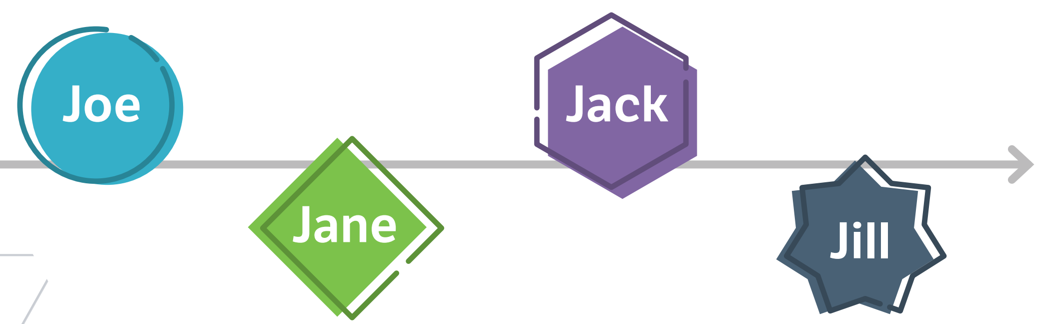
Four Members … Four Outcomes

HOW A “MINOR” CHOICE CAN HAVE MAJOR CONSEQUENCES

Even the biggest fan of CPI has to admit that it’s not the most exciting topic in the world to spend hours reading about. A detailed, thorough explanation of exactly how a high-quality program is genuinely a consumer protection would be absolutely true — and, for most people not in the CPI business, unlikely to even be finished before the reader’s eyes begin to glaze over. It’s a detailed, nuanced product that can sometimes challenge the attention span.

So let’s approach it in a way that takes advantage of another one of our uniquely human brain traits — a love of storytelling and an increased ability to understand complex topics through real-world examples and the ability to figuratively put ourselves in others’ shoes.

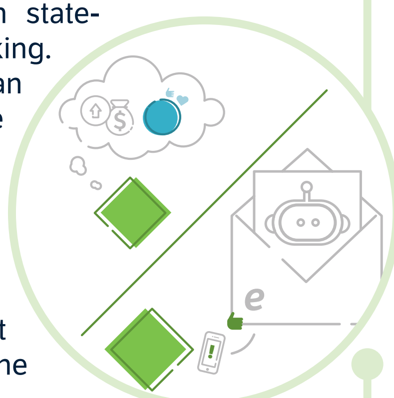
Learn from Joe, Jane, Jack, and Jill by taking a look at how different portfolio protection programs — the good, the bad, and the ugly — can impact members:

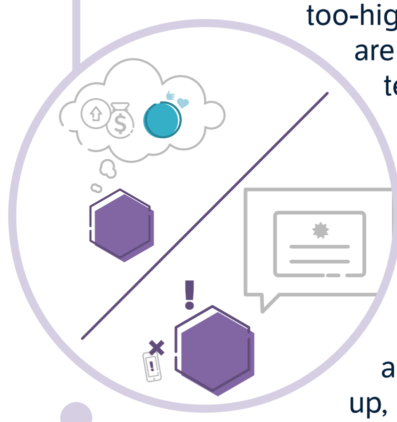


A TALE OF 4 COWORKERS

Joe, cash-strapped and still paying on his auto loan, raises his deductible, doubling the amount, to save a few dollars each month on insurance. His credit union uses a blanket portfolio protection product instead of CPI, so they're not tracking Joe's insurance and have no idea his deductible amount is out of compliance with his loan agreement. He's not worried — he's a good driver who has never been in a wreck and assumes he won't crash. He tells several people at work how raising his deductible has freed up a little extra cash that helps his monthly budget.

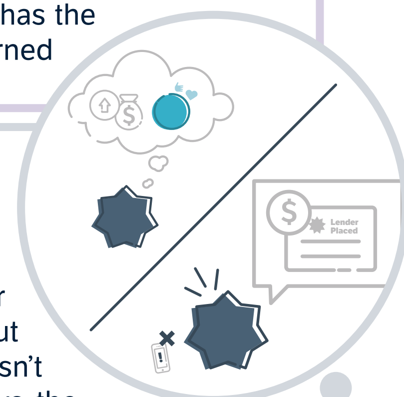
Joe's colleague **Jane** likes Joe's idea — she's struggling a bit financially and could also use some extra cash flow, so she raises her deductible, too. However, her credit union is covered by a high-quality CPI program with state-of-the-art insurance tracking. Jane quickly receives an email and a text message reminding her that her loan agreement requires her deductible be no higher than a certain amount. She grumbles a little, but calls her agent back and restores the previous deductible.





Two other colleagues, **Jack** and **Jill**, are also having some trouble making ends meet and try Joe's idea. They run into the same situation as Jane — their credit unions use the same high-quality CPI provider, who starts notifying them to correct their too-high deductibles. Although they are both contacted by email and text and with multiple mailed notices over a period of time, both Jack and Jill make the choice to ignore them — so they each have a CPI policy placed on their loan.

Short-tempered Jack is irate about his loan payment going up, and calls to find out what's going on. When he realizes he's going to have to pay for the proper coverage one way or the other, he shops around for private insurance he can afford that will still keep him in compliance — and after a couple months has the CPI policy removed and unearned premium amount refunded.



Jill isn't happy about her payment going up either, but she's working two jobs and she's exhausted and busy, plus insurance confuses her and she hates thinking about it. Besides, the extra amount isn't all that much, so she just pays the additional amount for her lender-placed certificate each month, figuring her loan will be paid off soon enough and then it will all go away.

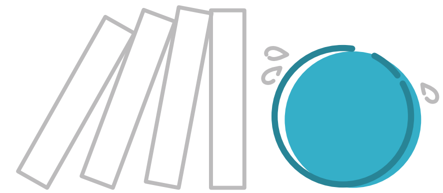
One day while the four friends are at work, a huge storm rips through town and several large trees in the parking lot are knocked down by the wind, damaging dozens of employees' cars — Joe's, Jane's, Jack's, and Jill's among them. Each requires thousands of dollars in repairs to be drivable.

Studies have shown that the average American would be hard-pressed to come up with $400 in an emergency. This group falls in that category, and covering double the compliant deductible amounts would be nearly impossible for each of them. So although all four take a financial hit from the incident, Jane, Jack, and Jill can scrape up enough money to cover their deductible. Barely.

Poor Joe

Joe, unfortunately, isn't so lucky. He raised his deductible and all of a sudden those few extra bucks every month don't seem so important. How is he going to come up with $1000 or more to get his car fixed so he can keep going to work?

Unfortunately for Joe, he can't come up with the money — he's one of those Americans with less than $400 in savings. There's no public transportation near him, his colleagues don't always work the same shift he does, and it's far too long of a commute to ride his bike to work. He does his best to beg rides from relatives when he can, but despite his best efforts he isn't able to save enough money fast enough to get his car repaired before it starts affecting his work attendance and he is fired from his job.



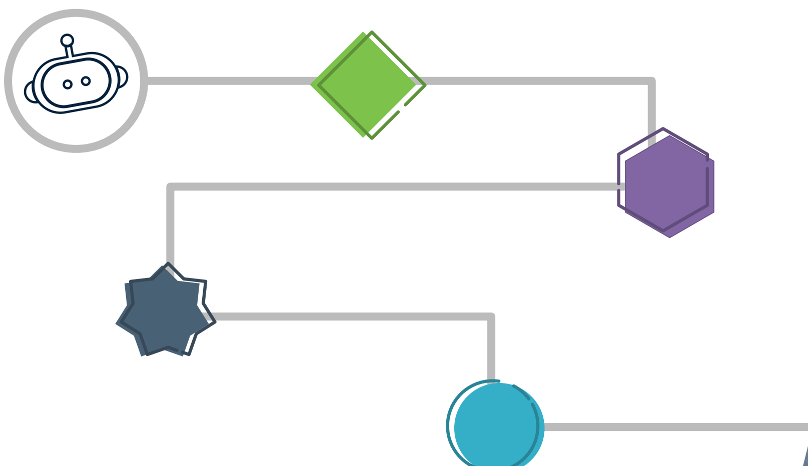
This leads to a whole cascading set of consequences for poor Joe, because without a paycheck he's now unable to afford his rent or car payment, and he's in real financial trouble. After a couple months he ends up walking away from his car loan because he just can't make the payments. (For the sake of a happy ending, let's assume Joe gets a lucky break finds another job near public transportation, and finally gets back on his feet. Still, his credit score is now in the subprime category and he has to finance his next car at more than double his old rate. Realistically, it will take him years to really dig out and even get back to his previously already-precarious financial situation.)

Dodging a bullet

Jane, Jack, and Jill still struggled somewhat to come up with the money to pay their deductibles, but they all managed to scrape up the lower amount needed. So, while the storm damage to their vehicles did give them a financial hit, it was just that — a hit, and not a devastating blow.

Jill is an especially interesting case. While her credit union is not required to allow her to use the CPI policy to fix her car, they do. They know it's a smart decision for them, because if Jill can keep driving her car she can keep going to work and keep making her loan payments. They also think it's the right thing to do because they care about their members' livelihoods and financial well-being.

Ironically, Jane, Jack, and Jill may never be cheerleaders for CPI — to them it was an insurance hassle they fixed but never wanted to think about in the first place. Jack even makes a snide comment about CPI now and then, talking about "what a rip-off" it is. None of the three may ever even fully realize the devastating financial fate it helped them avoid.



The Things You Look at Change When You Change the Way You Look at Things

Let's finish with one final, famous ambiguous illusion. In the picture below, do you see a young woman or an older woman?

Most people (about 8 in 10) see the younger woman's face first. However, if you study the image more closely (begin by looking at the younger woman's chin as the older woman's nose) you can eventually see the alternate view.

Perspectives guide what we see and often what we think we see corresponds to a picture or idea we already have in our head. But as the optical illusion website www.ArtOfPlay.com points out: "You just have to remember that sometimes, there are often multiple ways of seeing the exact same thing."

That is certainly true with CPI. While conventional wisdom may see it as a lender-only benefit (or even a consumer threat when executed poorly), when you study it more closely, its consumer protections come much more clearly and sharply into view.

ALTHOUGH THEY MAY BE IN A
DIFFICULT SITUATION
AND ADDING INSURANCE IS TYPICALLY LOOKED AT AS A NEGATIVE, WE ALWAYS WANT OUR MEMBERS TO KNOW THAT IT'S THERE NOT ONLY TO PROTECT THE CREDIT UNION, IT'S ALSO THERE TO
PROTECT THEM."

- KITTY GUST,
AVP Collections
Black Hills Federal Credit Union, Rapid City, SD

The Difference Is in the Details

YOU'VE WORKED HARD TO BUILD YOUR PORTFOLIO. LET STATE NATIONAL HELP YOU MINIMIZE YOUR RISK, MAXIMIZE YOUR BOTTOM LINE, AND PROVIDE A PREMIUM EXPERIENCE FOR YOUR MEMBERS.

Your credit union deserves the best in portfolio protection, and State National's unique business model means we can partner with you to provide it like nobody else can. As the only dedicated CPI provider who is also the underwriter, we offer cost-effective, tailored risk mitigation solutions with less paperwork, less time and effort required, and greater transparency — all while delivering more in claim dollars. With the most advanced technology innovations and an unrelenting drive for continuous improvement, we deliver the ultimate in service and comprehensive protection for you and your members.

Since 1973, State National has offered proven portfolio protection solutions. As the nation's premier portfolio protection specialist, we are the provider of choice for lenders nationwide. To learn more: info@statenational.com

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