Consumer Federation of America

Center for Economic Justice

Credit Insurance Overcharges Hit $2.5 Billion Annually

A Report by

The Consumer Federation of America and

The Center for Economic Justice

November 2001

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Premiums Paid by Consumers Excessive by 75%
As Most States Fail to Enforce Existing Laws

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1. What is Credit Insurance?

Credit insurance is big business. For each of the past six years, consumers paid about $6 billion for credit insurance in the United States.

Credit insurance refers to a group of insurance coverages sold in connection with a loan, credit agreement or credit card account. Credit insurance generally makes payments for the consumer *to the lender* for a specific loan or credit agreement in particular circumstances. Credit insurance *protects the lender's loan* in the event something happens to impair the consumer's ability to pay. The common types of credit insurance sold include:

- *Credit Life*, which pays off the consumer's remaining debt on a specific loan or credit card account if the borrower dies during the term of the coverage.
- *Credit Accident and Health, also known as Credit Disability,* which makes monthly payments on a specific loan or credit card account if the borrower becomes disabled during the term of coverage.
- *Credit Involuntary Unemployment*, which makes monthly payments, often limited in number, on a specific loan or credit card account if the borrower becomes involuntarily unemployed during the term of coverage.
- *Credit Leave of Absence*, which makes a limited number of monthly payments on a specific loan or credit card if the borrower takes an unpaid family leave from work for specific reasons, including care for a newborn or care for a seriously ill family member.
- *Credit Property*, which pays to repair or replace personal property purchased with the loan or credit proceeds and/or serving as collateral for the credit if the property is lost or damaged. Unlike the first four credit insurance coverages, credit property insurance is not directly related to an event affecting a consumer's ability to pay his or her debt.

Credit insurance is regulated by the states through state insurance departments. This report updates our earlier reports[2] and reviews the performance of state insurance regulation in protecting the consumers of credit insurance.

Our analysis shows that ineffective regulation has caused consumers to overpay for credit insurance by $2.5 billion a year in 2000 – up from $2.0 billion in 1997. The premiums paid by credit insurance consumers were excessive by 75% – that is, for every dollar that consumers should have paid for fair value, consumers actually paid $1.75.

Our review of state activities shows that while a handful of states have taken steps to improve the situation for credit insurance consumers, about half of the state insurance regulators have failed to take the most basic of steps to protect credit insurance consumers – simply enforcing existing consumer protection laws.

2. Credit Insurance Consumers Overcharged by $2.5 Billion a Year

The single most important measure of the reasonableness of credit insurance benefits in comparison to the cost of the insurance is the *loss ratio*. The loss ratio is the ratio of benefits (also known as claims) paid by credit insurers to the premiums paid by consumers for the product.[3] The National Association of Insurance Commissioners (NAIC)[4] model statutes and regulations for credit insurance specify a 60% loss ratio as the *minimum* reasonable benefit consumers should expect in relation to premiums paid.[5] One of the NAIC's recent actions on credit insurance was to establish a model law for the regulation of credit property insurance and that model reinforces the use of loss ratio as the best measure of the value of credit insurance to consumers.[6]

The 60% loss ratio standard for credit life and disability insurance is a modest one. Actual historical loss ratios for group life insurance and group accident and health insurance exceed 85% and 75%, respectively. Historical loss ratios for private passenger automobile insurance are over 65%.[7]

Our review of actual credit insurance loss ratios shows that state legislatures and/or state insurance regulators, with only a very few exceptions, have failed to protect credit insurance consumers from excessive premium charges. Actual historical credit insurance loss ratios are far below even the NAIC models' modest 60% loss ratio standard. These overall loss ratios are far below any reasonable measure of benefit in relation to the premium charged to consumers.

Table 1 shows countrywide credit insurance experience for the years 1995 to 2000, including premiums, loss ratios and overcharges by coverage. The 2000 credit insurance loss ratios ranged from 5.8% to 46.1%, depending upon the coverage. Overall, less than 35 cents on the premium dollar was paid out in claims on behalf of consumers. This is decline from 42.5 cents on the dollar in 1995.

If credit insurance had been priced to provide even minimum reasonable benefits to consumers in relation to premiums paid, consumers would have paid $2.5 billion less in premium for credit insurance in 2000.[8] Overall the premiums paid by credit insurance consumers were excessive by 75% in 2000.[9] For credit unemployment, premiums were excessive by more than 1,000%.[10]

Table 1
Countrywide Credit Insurance Experience, 1995-2000

Earned Premium ($ Millions)

Coverage	1995	1996	1997	1998	1999	2000
Life	$2,242	$2,147	$2,167	$2,194	$2,247	$2,082
Disability	$2,443	$2,322	$2,190	$2,312	$2,442	$2,286
Unemployment	$596	$713	$763	$1,095	$1,143	$1,102
Property	$523	$462	$503	$528	$510	$491
Total	**$5,804**	**$5,644**	**$5,624**	**$6,129**	**$6,341**	**$5,962**

Loss Ratio

Coverage	1995	1996	1997	1998	1999	2000
Life	42.4%	42.3%	41.6%	41.2%	41.4%	40.7%
Disability	50.6%	49.4%	48.6%	46.7%	44.2%	46.1%
Unemployment	18.2%	14.6%	12.6%	10.3%	7.6%	5.8%
Property	32.4%	32.0%	23.3%	20.3%	22.5%	14.7%
Total	**42.5%**	**40.9%**	**38.7%**	**36.0%**	**34.9%**	**34.2%**

Overcharges based on 60% Loss Ratio Standard ($ Millions)

Coverage	1995	1996	1997	1998	1999	2000
Life	$657	$634	$665	$687	$696	$670
Disability	$382	$411	$416	$514	$644	$530
Unemployment	$415	$539	$603	$906	$998	$996
Property	$241	$216	$308	$349	$318	$371
Total	**$1,695**	**$1,800**	**$1,992**	**$2,456**	**$2,655**	**$2,567**

The very low credit involuntary unemployment and credit property loss ratios are particularly egregious.[11] It is difficult to comprehend why the vast majority of insurance regulators have failed to lower credit unemployment rates when loss ratios are so far below even the most modest standard year after year after year – and when these regulators have clear authority to disapprove excessive credit unemployment insurance rates.

Nor does the recent increase in unemployment rate begin to justify the current excessive rates. Even if we assume the credit unemployment claims will double, then the necessary rate reduction is still 80%. Moreover, increased claim benefits in the future do not make up for almost $1 billion a year in overcharges in the past.

Compelling insurers to lower credit unemployment rates is a relatively easy task for most insurance regulators. The Texas Department of Insurance sent letters to insurers in 1999 challenging the insurers to justify their credit unemployment rates or submit lower rates. One insurer responded within three weeks by lowering rates by over 70%.[12] Through 1999 and 2000, the Texas Department caused virtually every writer of credit unemployment insurance to dramatically lower rates and/or increase benefits. American Bankers lowered the rates for one form of credit unemployment insurance by almost 40% while increasing the benefits by 50% to 300% depending upon the term of coverage.[13]

The data analyzed in this report come from the NAIC Credit Insurance Experience Exhibit (CIEE). The CIEE does not currently require separate reporting for credit family leave insurance – a coverage introduced within the past ten years. We expect that credit family leave experience for other companies is also included in the credit unemployment data.

For example, one of the three largest writers of credit family leave has separately identified their credit family leave experience on the CIEE credit unemployment page. For the year 2000, Central States Indemnity (a subsidiary of Warren Buffett's Berkshire Hathaway) paid family leave claims of $132,652 while collecting $16, 432, 983 in premium – a ratio of less than 1%.[14]

Credit family leave has received very little scrutiny by insurance regulators. Yet, claim payments appear to be miniscule. For example, in a letter to the Maryland Insurance Administration, American Bankers stated that its credit family leave claim payments were only 2% to 6% of its credit unemployment claim payments.[15]

Credit insurance is targeted towards low-income consumers – the very consumers who are most vulnerable to sales pressure tactics by lenders and who most need enforcement of consumer protection laws. One credit insurance industry spokesman says:

> *The people who tend to use it [credit insurance] are people who earn a lower income and don't have other insurance. It tends to be more attractive to minorities and the less educated.*[16]

Despite their pledge that, "Our primary goal to protect insurance consumers, which we must do proactively and aggressively,"[17] insurance regulators have failed to protect the vulnerable consumers of credit insurance.

3. Most States Fail to Protect Credit Insurance Consumers

Table 2 shows credit insurance experience by state for the period 1998-2000. Loss ratios for each of the major coverages and for all coverages combined are shown along with dollar overcharge and percentage overcharge.[18] The overcharge percentages are the amounts consumers paid in excess of what they should have paid had rates been set at levels to produce 60% or greater loss ratios. An overcharge percentage of 146% means that consumers paid $2.46 for credit insurance when they should have paid $1.00.

Table 2 shows how the majority of states have failed to prevent massive overcharges of credit insurance consumers. In 15 states, consumers were charged more than *twice* as much as they should have been charged for the credit insurance. The states with the worst overall percentage overcharges were Nevada, Alaska, Louisiana, New Mexico, Utah, Nebraska, Kansas and the District of Columbia. Of these states, only Alaska has recently reduced credit life and credit disability rates.

The overall percentage overcharge is a function of how low the loss ratios for various coverages are and how much premium was written for each coverage. Thus, while Nevada has a much higher credit life loss ratio (41%) than North Dakota (30%), relatively more credit unemployment was sold in Nevada. Thus, the very low credit unemployment loss ratios had more weight in the overall overcharge percentage in Nevada than in North Dakota. While the District of Columbia is 12th best among the states for credit life and disability loss ratios, the credit unemployment and credit property loss ratios of 4% and 3%, respectively, make the District of Columbia the 10th **worst** state for overall loss ratio.

Table 3 shows overcharge calculations by state for credit life and credit disability only. We show these two coverages alone because most states regulate credit life and disability separately and differently from credit unemployment and credit property insurance. Credit life and disability coverages – and the regulation of these coverages – have been around the longest time.

While Nevada tops the list of percentage overcharge for all coverages combined, it is eleventh on the credit life and disability list. This means that the insurance regulator has taken a bad situation – the Nevada legislature established excessive rates by statute – and made it worse by doing a grossly ineffective job regulating credit unemployment and credit property rates.

Table 2
Credit Insurance Overcharges by State, 1998-2000

State	Life	Disability	*Loss Ratios* IUI	Property	Total	Overcharge to Consumers ($ Millions)	Overcharge Percentage
Nevada	41%	30%	6%	7%	24%	$69	**146%**
North Dakota	30%	31%	5%	29%	25%	$26	**138%**
Alaska	34%	35%	8%	6%	25%	$22	**137%**
Louisiana	25%	41%	6%	12%	26%	$298	**135%**
Virgin Islands	26%	29%	6%	14%	26%	$10	**127%**
New Mexico	30%	36%	7%	25%	27%	$86	**122%**
Utah	41%	33%	6%	10%	28%	$66	**118%**
Nebraska	29%	38%	6%	9%	28%	$72	**113%**
Kansas	31%	35%	6%	30%	28%	$110	**113%**
Dist Columbia	56%	43%	4%	3%	28%	$17	**112%**
Colorado	32%	35%	10%	21%	28%	$120	**111%**
Hawaii	47%	41%	9%	4%	29%	$43	**109%**
California	49%	45%	8%	18%	29%	$670	**109%**
Arizona	48%	32%	4%	14%	29%	$141	**104%**
Illinois	39%	37%	7%	8%	30%	$409	**102%**
Arkansas	34%	46%	5%	24%	30%	$85	**99%**
Mississippi	31%	39%	8%	24%	30%	$155	**98%**
Kentucky	30%	43%	7%	22%	30%	$183	**97%**
Massachusetts	34%	39%	7%	9%	31%	$93	**96%**
Delaware	39%	39%	5%	22%	31%	$32	**96%**
Oklahoma	40%	38%	8%	18%	31%	$116	**93%**
Iowa	33%	38%	5%	9%	31%	$105	**92%**
Minnesota	37%	30%	14%	13%	31%	$125	**91%**
Montana	37%	42%	8%	13%	32%	$29	**89%**
Idaho	35%	42%	7%	21%	32%	$42	**89%**
Rhode Island	48%	42%	9%	9%	32%	$22	**89%**
Georgia	49%	37%	5%	13%	32%	$357	**89%**
Connecticut	36%	40%	10%	12%	32%	$64	**87%**
South Dakota	40%	31%	12%	11%	32%	$37	**87%**
Florida	48%	41%	7%	11%	33%	$485	**81%**
Ohio	42%	44%	6%	6%	34%	$410	**79%**
Wyoming	42%	44%	5%	6%	34%	$16	**77%**
New Hampshire	37%	44%	4%	12%	34%	$31	**74%**
Indiana	34%	45%	6%	9%	34%	$209	**74%**
Puerto Rico	28%	48%	9%	2%	35%	$139	**72%**
Wisconsin	37%	47%	6%	6%	35%	$162	**71%**
Tennessee	38%	48%	8%	27%	35%	$263	**70%**
New Jersey	51%	64%	8%	7%	37%	$166	**70%**
Texas	37%	44%	13%	17%	36%	$541	**68%**
Maryland	55%	52%	5%	5%	36%	$129	**67%**
Washington	51%	44%	10%	13%	37%	$146	**64%**
Oregon	53%	43%	8%	6%	37%	$89	**64%**
Missouri	44%	42%	9%	23%	38%	$137	**59%**
West Virginia	37%	80%	10%	18%	44%	$66	**59%**
Michigan	43%	49%	6%	17%	38%	$299	**56%**
South Carolina	39%	60%	8%	21%	39%	$174	**56%**
Alabama	38%	51%	14%	42%	41%	$95	**46%**
North Carolina	38%	47%	8%	59%	41%	$241	**46%**
Virginia	59%	58%	4%	20%	42%	$135	**41%**
Vermont	56%	52%	3%	11%	48%	$6	**26%**
New York	66%	59%	21%	10%	51%	$89	**22%**
Maine	54%	78%	5%	20%	61%	$9	**17%**
Pennsylvania	54%	63%	23%	19%	54%	$86	**14%**

Table 3
Credit Life and Disability Insurance Overcharges by State, 1998-2000

State	Life	***Loss Ratio*** Disability	Combined	Earned *Premium* ($ Millions)	Overcharge to Consumers ($ Millions)	Overcharge Percentage
Virgin Islands	26%	29%	27%	$17	$9	**122%**
North Dakota	30%	31%	30%	$35	$17	**98%**
Louisiana	25%	41%	32%	$377	$178	**90%**
Minnesota	37%	30%	33%	$243	$111	**83%**
New Mexico	30%	36%	33%	$107	$48	**83%**
Kansas	31%	35%	33%	$164	$74	**82%**
Nebraska	29%	38%	34%	$109	$48	**78%**
Colorado	32%	35%	34%	$169	$73	**77%**
Mississippi	31%	39%	34%	$242	$104	**76%**
Alaska	34%	35%	34%	$26	$11	**74%**
Nevada	41%	30%	35%	$73	$31	**73%**
Puerto Rico	28%	48%	35%	$329	$137	**71%**
South Dakota	40%	31%	36%	$68	$27	**68%**
Iowa	33%	38%	36%	$184	$74	**67%**
Kentucky	30%	43%	36%	$280	$111	**66%**
Utah	41%	33%	37%	$85	$33	**64%**
Massachusetts	34%	39%	37%	$148	$56	**61%**
Illinois	39%	37%	38%	$594	$220	**59%**
Connecticut	36%	40%	38%	$106	$38	**57%**
Arkansas	34%	46%	39%	$120	$43	**55%**
Idaho	35%	42%	39%	$68	$24	**55%**
Oklahoma	40%	38%	39%	$176	$61	**54%**
Delaware	39%	39%	39%	$46	$16	**54%**
Montana	37%	42%	39%	$45	$16	**52%**
Indiana	34%	45%	40%	$412	$138	**51%**
Arizona	48%	32%	40%	$187	$61	**49%**
Texas	37%	44%	41%	$1,085	$349	**48%**
New Hampshire	37%	44%	41%	$60	$19	**47%**
Tennessee	38%	48%	42%	$465	$137	**42%**
Georgia	49%	37%	42%	$521	$153	**42%**
Hawaii	47%	41%	43%	$49	$14	**41%**
Wisconsin	37%	47%	43%	$310	$89	**40%**
North Carolina	38%	47%	43%	$555	$157	**39%**
Missouri	44%	42%	43%	$302	$84	**39%**
Wyoming	42%	44%	43%	$28	$8	**39%**
Ohio	42%	44%	43%	$684	$190	**39%**
Alabama	38%	51%	45%	$247	$64	**35%**
Rhode Island	48%	42%	45%	$30	$8	**35%**
Florida	48%	41%	45%	$739	$187	**34%**
California	49%	45%	46%	$656	$151	**30%**
Michigan	43%	49%	46%	$662	$152	**30%**
Dist Columbia	56%	43%	47%	$18	$4	**27%**
Oregon	53%	43%	47%	$166	$35	**27%**
Washington	51%	44%	47%	$264	$56	**27%**
West Virginia	37%	80%	57%	$129	$27	**26%**
South Carolina	39%	60%	49%	$339	$63	**23%**
Maryland	55%	52%	54%	$204	$22	**12%**
Vermont	56%	52%	54%	$24	$3	**12%**
New Jersey	51%	64%	59%	$231	$14	**7%**
Pennsylvania	54%	63%	59%	$596	$25	**4%**
Maine	54%	78%	69%	$57	$2	**4%**
Virginia	59%	58%	59%	$311	$7	**2%**
New York	66%	59%	62%	$385	$5	**1%**

Almost Every State Fails on Credit Unemployment and Credit Property

Table 2 shows that not one state is doing a good job regulating credit unemployment insurance. The best states are New York and Pennsylvania with three-year loss ratios of only 21% and 23%, respectively. Texas and Virginia should show some improvement with recent enforcement actions. For credit property insurance, only two states break 40% on credit property loss ratios – North Carolina with 59% and Alabama with 42%. The remaining states show credit property loss ratios of 30% or less, including a number of states with single digit loss ratios.

Legislatures to Blame in Several States

Although we are critical of most state insurance regulators, *state legislators* bear the responsibility for credit insurance abuses in many states. In a number of states, the legislature has established either excessive rates or very low loss ratio standards by statute. In these states, the insurance regulator does not have the authority to effectively protect insurance consumers. These statutory abuses of consumers typically arise because of the lobbying efforts of lenders, auto dealers and others who profit mightily from the sale of credit insurance.

A recent example of a state legislature preventing an insurance regulator from protecting credit insurance consumers occurred this year in Texas. In 2000, Texas Insurance Commissioner Jose Montemayor lowered credit life and credit disability rates by 15% to 25%, depending upon the coverage. The Commissioner sought to bring the loss ratios up from about 40% to 50% for credit life and from about 49% to 60% for credit disability. In an effort led by auto dealers, lobbyists convinced State Representative Senfronia Thomson of Houston to sponsor a bill that allowed credit insurers to charge a rate 30% above the prima facie rates established by the Commissioner.[19] Incredibly, the largest writer of credit life insurance in Texas – Service Life – argued that the Commissioner's rate reduction would put the company out of business, even though the company's credit life loss ratio after the rate reduction would be only 24%. Service Life writes credit insurance through auto dealers.[20] The bill passed and is now the law in Texas.

Many of the states with the very highest credit insurance rates and lowest loss ratios are also the states where the legislature – and not the insurance commissioner – establishes the rates. These states include Louisiana, Alabama, Nevada, Kentucky and Mississippi. See Table 4, below, for a listing of credit life costs by state.

4. Ranking the Effectiveness of States' Regulation of Credit Life and Disability

One way to rank the states in their effectiveness at controlling credit insurance rates is by the credit life charges, shown in Table 4[21]. Table 4 shows the rates and premium charges for an illustrative loan with single premium credit decreasing life insurance coverage. The disparity in premium charges across the states is striking – with Mississippi and Louisiana almost four times greater than Maine.

Because credit disability is also important, a second way to rank the states is by combined life and disability loss ratios in recent years, as shown in Table 3, above. This method, however, fails to recognize some of the key differences among states that can dramatically affect the cost of credit life and credit disability insurance and, consequently, the dollars that consumers spend on the insurance. That difference is whether the premium is based upon gross debt (principal plus all scheduled interest payments) or net debt (roughly equal to remaining principal).

The importance of net debt calculations and the limitations of ranking by loss ratios for credit life and credit disability can be seen in this example comparing Minnesota, whose combined life and disability loss ratio for 1998 through 2000 was 33%, with Tennessee, whose combined loss ratio was 42%. With a much higher pay-out ratio, one might rank Tennessee above Minnesota, but a closer look shows the opposite. In the following, we chose what should be close to a typical credit extension -- a $5,000 loan at 12% APR repayable in 36 equal monthly installments.[22]

	Minnesota	Tennessee
1. Loan	$5,000.00	$5,000.00
2. Credit Life Single Premium	$71.56	$126.97
3. Credit Disability Single Premium	$222.84	$236.64
4. Amount Financed	$5,294.40	$5,363.61
5. Finance Charges:		
a. Loan	$978.58	$978.29
b. Life Premium	$14.01	$24.84
c. Disability Premium	$43.61	$46.30
6. Total Repayable	$6,330.60	$6,413.04
7. Claims Incurred:		
a. Life Insurance	$26.26	$48.25
b. Disability Insurance	$66.85	$113.11
8. Net Cost of Credit Insurance (2 + 3 + 5b + 5c -7a -7b)	$258.91	$273.39
9. Combined Loss Ratio	32.7%	42.3%

Table 4
Credit Life Insurance Charges By State for an Illustrative Loan
$10,000 Loan at 12% APR Repayable in 48 Months

	Credit Life Charges			*Claims as % of*		Rate/$100	Change
State	Single Premium	Finance Charge	Total Charge	Single Premium	Total Charge	Initial. Ins. Per Year	Since 1998
Maine (Net Only)	$123	$32	$155	54%	43%	$0.28	
Mass Auto Dealer (Net Only)	123	32	155	34%	27%	0.28	
Vermont (Net Only)	135	36	171	56%	44%	0.31	
New York (Net Only)	137	37	174	60%	47%	0.32	Increase
Alaska (Net Only)	141	38	179	46%	36%	0.32	Decrease
California (Net Only)	165	43	208	49%	38%	0.38	
Virginia	175	46	221	60%	48%	0.35	Decrease
Minnesota (Net + 1)	183	48	231	37%	29%	0.42	
New Jersey	183	48	231	51%	41%	0.35	
Texas	184	49	233	37%	29%	0.36	Decr/Incr
Massachusetts (Net Only)	186	49	235	34%	27%	0.42	
Wisconsin	191	50	241	39%	31%	0.37	Incr/Decr
New Hampshire	193	50	243	37%	29%	0.37	Incr/Decr
Utah	205	55	260	41%	32%	0.40	
Hawaii	206	55	261	47%	37%	0.40	
North Dakota	206	55	261	30%	24%	0.40	
Rhode Island	209	55	264	48%	38%	0.40	
Pennsylvania	209	56	265	54%	43%	0.41	
Oregon	217	57	274	53%	42%	0.42	
Maryland	222	59	281	72%	57%	0.43	Decrease
Arizona	228	60	288	48%	38%	0.44	
Georgia	233	61	294	49%	39%	0.45	
Iowa	233	61	294	35%	28%	0.45	Decrease
Illinois	243	64	307	39%	31%	0.47	
Ohio	244	64	308	42%	33%	0.47	
Michigan	249	65	314	43%	34%	0.48	
North Carolina (Net + 3)	252	67	319	38%	30%	0.50	
Colorado	254	67	321	32%	26%	0.49	
District of Columbia	254	67	321	56%	44%	0.49	
Montana	259	68	327	37%	29%	0.50	
Connecticut	259	69	328	36%	28%	0.50	
Florida	259	69	328	48%	38%	0.50	
Wyoming	259	69	328	42%	33%	0.50	
New Mexico	270	71	341	33%	26%	0.52	Decrease
Idaho	281	74	355	35%	28%	0.54	
Missouri	286	76	362	44%	35%	0.55	
Nebraska	286	76	362	29%	23%	0.55	
South Dakota	291	77	368	42%	33%	0.56	Decrease
South Carolina	297	78	375	44%	35%	0.57	Decrease
Kentucky	313	82	395	30%	24%	0.60	
Washington	313	82	395	51%	40%	0.60	
West Virginia	325	86	411	37%	29%	0.62	
Arkansas	340	90	430	34%	27%	0.65	
Delaware	340	90	430	39%	31%	0.65	
Indiana	340	90	430	34%	27%	0.65	
Kansas	340	90	430	31%	25%	0.65	
Nevada	340	90	430	41%	32%	0.65	
Puerto Rico	340	90	430	28%	22%	0.65	
Tennessee	343	90	433	38%	30%	0.66	
Oklahoma	356	94	450	40%	31%	0.68	
Alabama (Net + 1)	374	99	473	38%	30%	0.75	
Louisiana	422	111	533	27%	21%	0.80	Decrease
Mississippi	422	111	533	31%	25%	0.80	
LA, with dismemberment	561	148	709	25%	20%	1.05	

We see then that despite a significantly higher ratio of claims payments to premiums in Tennessee than Minnesota, the cost of credit insurance to the debtor is slightly higher in Tennessee than in Minnesota.

We used this "Net Cost of Credit Insurance" method to rank the states in Table 5[23]. Massachusetts is another example of the difference between relative loss ratio among the states and relative cost of credit life and credit disability among states. Massachusetts, where credit insurance rules are found in statutes, ranked 30th in Table 3 (loss ratio) but 5th in Table 5 – net cost of credit life and credit disability to consumers.

There are several reasons why the relative ranking by net cost to consumers varies from the relative ranking by loss ratios among the states. In Massachusetts, we factored in the very low, experience-rated rates for auto dealers, whose finance customers tend to be younger than average; only pure net coverage is permitted; and, the only disability coverage allowed is "30-day non-retro," which has the lowest premiums of the (usually) four coverage plans permitted in other states except Maine, which allows "30-day-retro". The predominant form of disability coverage in other states is "14-day-retro," meaning that one must be sick and out-of work at least 14 days, after which coverage applies retroactively to the first day; premiums for 14-day retro are high, very high in some states. In Massachusetts, one must be sick 30 days or more and no benefit is paid for the first 30 days. Limiting coverage to more serious illnesses not only limits the disability premium but also finance charges on it.

Examining the preceding tables and the statistical detail by individual insurers (not shown), we can make the following observations:

- If we exclude CUNA Mutual, which writes credit union business at generally lower rates or higher pay-out ratios, the countrywide credit life and disability loss ratio for 1998-2000 reduces from 43.5% to 40.2%. The CUNA Mutual credit life and credit disability loss ratio over the period was 64.0%

- The ten states with the lowest combined life and disability loss ratios in 1998-2000 were North Dakota (the lowest at 30.3%), Louisiana, Minnesota, New Mexico, Kansas, Nebraska, Colorado, Minnesota, Alaska and Nevada (the highest of the ten at 34.6%). Their weighted average loss ratio was 33.0%, which reduces to well below 30% when finance charges are factored in. Alaska, Iowa, New Mexico and South Dakota lowered rates during the period, but the reductions in Iowa and South Dakota were very small and will likely not bring these two states out of the bottom ten. New Mexico lowered credit life and credit disability rates in 1998 by 20%, yet credit life loss ratios increased by a percentage point or two, while credit disability loss ratios decreased by over five percentage points. Alaska's 2001 rate reductions were substantial.

- The most effective regulation is in the Northeast – New England plus New York and New Jersey, which hold 6 of the first 10 positions in Table 5. Connecticut, which has not changed its *prima facie* rates for three decades or more and Rhode Island, which has made no changes for nearly 20 years, need to catch up with the other states.

- The Mid-Atlantic States of Maryland and Virginia have made great strides in recent years. Delaware, however, is a conspicuous exception, ranking 46th.

- The worst states tend to be in the South. But note the huge disparity between Texas and neighboring states. Louisiana would drop to last if its virtually worthless dismemberment insurance were factored in.

- The North Central states need badly to lower credit disability rates. Minnesota, which has done a reasonably good job in regulating credit life, is an embarrassment when one looks at credit disability results.

- Alaska has taken note of very low claim ratios in recent years and has lowered both credit life and disability rates substantially.

- Tables 2 and 3 show that the United States territories have a generally poor record, especially Puerto Rico where the volume of credit insurance is high and the combined life and disability loss ratio is just 35.0%.

Table 5
Net Cost of Credit Life and Credit Disability Insurance by State
Based upon $5,000 Loan, 36-Month, 12% Loan

State	(1) Credit Life Charge	(2) Credit Disability Charge	(3) Finance Charge on Insurance	(4) Total Insurance Charge	(5) *Expected Claims* Life	(6) *Expected Claims* Disability	**(7) Net Cost to Consumer (4) - (5) - (6)**
Maine	51.36	197.71	48.75	297.82	27.63	153.41	**116.78**
New Jersey	65.48	149.66	42.11	257.25	33.70	96.36	**127.19**
Maryland	80.98	168.86	48.90	298.74	58.34	112.01	**128.38**
Alaska	76.28	120.55	38.52	235.35	34.86	53.42	**147.07**
Vermont	56.25	169.98	44.28	270.51	31.38	89.04	**150.08**
Massachusetts	62.71	120.23	35.80	218.74	21.42	46.94	**150.38**
New York	53.87	205.65	50.79	310.31	32.33	120.90	**157.08**
Wisconsin	69.27	149.77	42.87	261.91	26.81	75.99	**159.11**
New Hampshire	71.86	153.70	44.15	269.71	26.72	70.79	**172.20**
Virginia	65.78	209.41	53.86	329.05	39.78	116.29	**172.98**
Pennsylvania	79.94	225.85	59.85	365.64	43.40	141.23	**181.01**
South Carolina	108.19	183.48	57.08	348.75	47.90	109.66	**191.19**
Hawaii	75.35	175.81	49.16	300.32	35.26	71.56	**193.49**
West Virginia	119.27	243.68	71.03	433.98	44.19	195.34	**194.46**
Dist Columbia	92.89	192.11	55.78	340.78	51.66	82.61	**206.52**
Oregon	79.54	200.12	54.73	334.39	41.90	85.19	**207.31**
Texas	69.14	211.20	54.87	335.21	25.45	93.62	**216.14**
Florida	94.83	192.18	56.17	343.18	45.56	78.09	**219.53**
Connecticut	85.12	187.89	53.43	326.44	30.48	75.05	**220.91**
California	67.42	241.21	60.40	369.03	32.76	107.89	**228.38**
Iowa	85.27	197.06	55.26	337.59	29.71	78.62	**229.25**
Utah	75.85	199.32	53.85	329.02	30.94	65.21	**232.88**
Rhode Island	79.05	231.12	60.70	370.87	37.78	97.57	**235.52**
North Dakota	75.55	189.49	51.87	316.91	22.48	58.32	**236.11**
Arizona	83.46	204.22	56.30	343.98	40.21	65.72	**238.06**
New Mexico	98.63	189.04	56.30	343.97	32.07	73.17	**238.74**
Ohio	90.45	226.32	62.00	378.77	37.82	100.64	**240.31**
Michigan	91.85	242.37	65.41	399.63	39.10	118.67	**241.86**
Illinois	89.39	212.37	59.06	360.82	34.54	78.79	**247.49**
North Carolina	100.13	232.75	65.15	398.03	38.46	109.77	**249.80**
Montana	95.44	225.87	62.89	384.20	35.11	94.23	**254.85**
Wyoming	95.75	242.56	66.21	404.52	40.49	106.68	**257.35**
Minnesota	71.56	222.86	57.62	352.04	26.27	66.80	**258.97**
Georgia	86.01	242.09	64.21	392.31	42.54	88.94	**260.83**
Washington	115.33	243.48	70.22	429.03	58.76	107.81	**262.46**
Colorado	93.99	217.19	60.90	372.08	30.43	77.03	**264.62**
Missouri	105.52	243.01	68.21	416.74	46.57	102.44	**267.73**
Nebraska	104.98	216.33	62.89	384.20	30.50	82.40	**271.30**
Tennessee	126.97	236.44	71.12	434.53	48.20	113.00	**273.33**
South Dakota	106.93	216.41	63.28	386.62	44.81	67.09	**274.73**
Idaho	101.67	242.83	67.42	411.92	35.93	100.82	**275.18**
Arkansas	125.01	236.56	70.76	432.33	43.06	108.86	**280.41**
Nevada	124.34	208.51	65.14	397.99	50.81	61.52	**285.67**
Indiana	125.19	243.95	72.25	441.39	42.70	110.11	**288.57**
Delaware	125.19	243.95	72.25	441.39	49.27	94.29	**297.83**
Alabama	138.76	278.53	81.67	498.96	53.41	142.39	**303.16**
Oklahoma	131.12	244.24	73.46	448.82	51.91	92.95	**303.96**
Kansas	125.19	243.95	72.25	441.39	39.11	84.61	**317.66**
Louisiana	154.97	245.36	78.35	478.68	41.39	101.11	**336.18**
Kentucky	117.34	335.09	88.55	540.98	35.35	142.42	**363.21**
Mississippi	156.59	300.13	89.39	546.11	48.51	116.35	**381.24**

5. Many States Fail to Even Enforce Existing Laws

Our research has shown that insurance regulators in over 20 states have failed to protect insurance consumers by the simplest possible action – enforcing existing laws. It should be noted that many of these laws provide inadequate consumer protections, such as loss ratio standards that are too low. Yet, many insurance regulators have failed to enforce even these minimal consumer protections.

5.1 States Violating Loss Ratio Standards

The majority of states have loss ratio standards for credit life and/or credit disability insurance. These standards are found in either statute or regulation. Table 6 lists the states failing to enforce loss ratio standards found in statute or regulation.

Although many states can be cited for failing to enforce existing credit insurance statutes or regulations, Ohio and California stand out for their woeful performance.

Ohio

Ohio Insurance Regulations 3901-1-14 require the Director of Insurance to adjust credit life and credit accident and health rates annually to produce industry wide loss ratios of 50% and 60%, respectively.[24] Yet, no adjustment to prima facie rates has occurred since 1985. CEJ wrote to the Ohio Insurance Director in December 2000 pointing out:

- The Ohio Department's failure to enforce its own regulation for credit life and credit disability;
- That Ohio consumers had been overcharged $50 million a year just for credit life and credit disability;
- That Ohio credit life and credit disability rates needed to be reduced by 17% and 27%, respectively, to meet the requirements of Ohio law;
- That Ohio consumers had been overcharged by another $60 million a year for credit unemployment and credit property;
- That Ohio credit unemployment and credit property rates needed to be reduced by over 80%; and
- That other states had succeeded in lowering credit unemployment and credit property rates simply by contacting insurers and asking them to review their experience.

Despite the legal requirement to lower credit insurance rates, Ohio Insurance Director Lee Covington has failed to act, even after being apprised of the situation in December 2000. In response to several follow-up letters from CEJ, Director Covington justified the failure to stop over $110 million a year in overcharges to Ohio consumers by claiming that other issues were more important. Although Director Covington did not have the time to enforce his own laws to protect Ohio credit insurance consumers, somehow he found the time to promote deregulation of insurance rates across the country and earn the praise of insurance industry trade groups.

Table 6
States Failing to Enforce Credit Life and Credit Disability Loss Ratio Legal Requirements

State	Citation	Legal Requirement	1998-00 Loss Ratio
Arizona	Reg. 20-6-604 (D)(1)	50% loss ratio for credit life 60% loss ratio for credit disability	48% Life 32% Disability
Arkansas	Reg. 12 § 4.2	50% loss ratio for credit life and disability	34% Life 36% Disability
California	Reg. §2248.32 (a)	55% loss ratio for credit life 60% loss ratio for credit disability	49% Life 45% Disability
Colorado	Stat. §10-10-109(b)	40% loss ratio for credit life and disability	32% Life 35% Disability
Delaware	Reg. No. 5 Art. I	50% loss ratio for credit disability	39% Disability
Florida	Reg. §4-163.009(1)	55% loss ratio for credit life 50% loss ratio for credit disability	48% Life 41% Disability
Hawaii	Stat. §431:10B-108(c)	60% loss ratio for credit life and disability	47% Life 41% Disability
Idaho	Reg. §18.01.61.013	50% loss ratio for credit life and disability	35% Life 42% Disability
Illinois	Reg. §50/952.10	60% loss ratio for credit disability	37% Disability
Indiana	Reg. §760/1-5-2	50% loss ratio for credit life	34% Life
Kansas	Reg. §40-5-107 (a)	50% loss ratio for credit life and disability	31% Life 35% Disability
Massachusetts	Stat. Ch 175 §117C(b)A(1)(i) §117C(b)A(1)(ii)	50% loss ratio for credit life 55% loss ratio for credit disability	34% Life 39% Disability

Table 6
States Failing to Enforce Credit Life and Credit Disability Loss Ratio Legal Requirements

Minnesota	Reg. §2760.0200	50% loss ratio for credit life and disability	37% Life 30% Disability
New Hampshire	Ins 1201.10(m)(4)(f)	Requires commissioner to adjust rates to meet target loss ratio of 50% life and 60% disability	37% Life 44% Disability
New Mexico	Reg. 13 NMAC §18.2.17.2.1 §18.2.17.2.2	55% loss ratio for credit life 55% loss ratio for credit disability	30% Life 36% Disability
Ohio	Reg. §3901-1- 14(C)(1)(k) 14 (C) (2) (a)	50% loss ratio for credit life 60% loss ratio for credit disability	42% Life 44% Disability
Oregon	Reg. §836-060-0021 (1)	60% loss ratio for credit life and disability	53% Life 43% Disability
Rhode Island	Reg. R27-9-005 (1)	60% loss ratio for credit life and disability	48% Life 42% Disability
South Dakota	Reg. §20:06:06:01	50% loss ratio for credit life and disability	40% Life 31% Disability
Tennessee	Reg. §0780-1-4-.06(1)	50% Single Life and Disability 66 2/3% Joint Life and Disability	38% Life 48% Disability
Utah	Stat. §31A-22-807(3)	50% loss ratio for credit life 55% loss ratio for credit disability	41% Life 33% Disability
Vermont	Reg. §I-84-1 S 5 (1)	60% loss ratio for credit life 70% loss ratio for credit disability	56% Life 52% Disability
Wisconsin	Reg. §3.25(13)(d) Oct. 21, 1999 bul.	50% loss ratio for credit life 52%-60% loss ratio for credit disability 39% loss ratio for credit life, 59% for credit disability	37% Life 39% Disability

California

In September 1999, the California Legislature passed AB 1456 in response to our March 1999 credit insurance report, requiring the Commissioner of Insurance to promulgate new, lower rates for credit life, disability, unemployment and property insurance *no later than January 1, 2001*. Despite California Department of Insurance estimates that consumers are being overcharged by $230 million annually, the Commissioner has failed to lower rates and does not expect to comply with the law until April 2002.

The California Department of Insurance issued Notices of Proposed Actions on July 17, 2000 for credit life and credit disability rates and on November 6, 2000 for credit unemployment and credit property rates.[25] In those notices, the Department proposed new rates and regulations and estimated savings to consumers of $50 million annually for life and disability and $180 million annually for unemployment and property. The Department held public hearings on September 6, 2000 for the proposed life and disability rates and on January 10, 2001 for the proposed unemployment and property rates. Instead of adopting the proposed rates, the Department issued a call for credit unemployment and credit property data in July 2001 – eight months after issuing proposed regulations and six months after the public hearing.

The cost of delay to credit insurance consumers – who are typically low-income consumers – is staggering. The loss ratios for these credit insurance coverages have been far below the legislative standard of 60%. In 2000, the actual loss ratios for credit life, disability, unemployment and property were 45.1%, 43.8%, 5.1% and 7.8%. Rate reductions of 25% to 90% are indicated.

The credit insurance industry itself acknowledged that rates are excessive. At the January 10, 2001 hearing, American Bankers – the largest writer of credit unemployment and credit property insurance in California -- testified that reasonable rates for a credit unemployment coverage would be $0.18 per $100 of debt. Yet, American Bankers was charging – and continues to charge – a rate of $0.31 for that coverage. By the insurers' own testimony, they are charging a rate that is 72% excessive. By the Department's estimate, the $0.31 rate is 500% excessive. Yet, the Department has not acted to protect consumers.

CEJ has contacted a number of other states with particularly low loss ratios and where the Commissioner has the authority and responsibility to protect consumers, including New Mexico, Kansas, Nebraska, Indiana, Utah and Delaware. None of these states have taken any action to lower credit insurance rates, with the exception of Indiana, which issued a draft regulation for comment.

5.3 States Doing A Good Job

Although most states are failing to protect credit insurance consumers, there are some states that have consistently done a better job of protecting credit insurance consumers or have, at least, made an effort in recent years to improve the treatment of consumers.

Table 7 lists the few states enforcing or nearly enforcing credit life and credit disability loss ratio legal requirements. As noted above, no state has yet to establish fair and reasonable credit unemployment rates. New York, Minnesota and Pennsylvania have done the best job among the states in regulating credit unemployment insurance, although rates even in these states are still considerably excessive.

We include West Virginia in this group even though the credit life loss ratio of 37% is far below the 50% standard because the credit disability loss ratio is far above the standard and the combined life and disability loss ratio exceeds the 50% standard.

The insurance departments in Maine, New York and Pennsylvania have historically done a good job among the states in regulating credit life and credit disability insurance rates. However, the New York department recently increased credit life rates and loss ratios have declined significantly over the past few years. Also of concern in New York is the recent elimination of the requirement for mandatory downward deviations for auto dealer business. This means that auto dealers can use the prima facie rates even if the loss experience indicates that a lower rate should be used. This is significant because credit insurance sold through auto dealers typically has the lowest claim costs due to the relatively younger clientele. We are concerned that New York is quickly slipping from among the leaders in credit insurance regulation to inadequate protection of credit insurance consumers.

In recent years, the Virginia and Maryland insurance departments have taken new steps to lower credit insurance rates. Virginia is among the very top states in regulating credit unemployment and credit property insurance rates, aided by a new law. Maryland lowered credit life and disability rates this year and is in the process of promulgating a new regulation that will dramatically lower credit unemployment rates.

Alaska significantly reduced credit life and disability insurance rates in 2001.

New Jersey also deserves recognition for the combined credit life and disability loss ratio for 1998-2000 of 59%. New Jersey law provides that rates charged may not be excessive in relation to premium and the insurance commissioner has generally enforced this standard. Offsetting the good work on life and disability was a poor job on credit unemployment and credit property. The loss ratios for credit unemployment and credit property in New Jersey for the period were only 8% and 7%, respectively – resulting in an overall credit insurance loss ratio of only 37%.

Table 7
States Enforcing Credit Life and/or Credit Disability Loss Ratio Standards

State	**Citation**	**Legal Requirement**	**1998-00 Loss Ratio**
Maryland	Reg. §31.13.01.05	55% loss ratio for credit life and disability	55% Life 52% Disability
New York	Reg. 11NYCRR §185.7(d) §185.7(e)	 Various, all > 65% loss ratio for credit life Various, all > 65% loss ratio for credit disability	 66% Life 59% Disability
Pennsylvania	Reg. §73.123	55% loss ratio for credit life 60-65% loss ratio for credit disability	54% Life 63% Disability
South Carolina	§ 37-4-203(4)	50% loss ratio for credit disability	60% Disability
Virginia	Stat. § 38.2-3725(D) Stat. § 38.2-3725(E)	60% loss ratio for credit life 60% loss ratio for credit disability	59% Life 58% Disability
West Virginia	Reg. §114-6-1(1.1)	50% loss ratio for credit life and disability	37% Life 80% Disability 57% Combined

The New Jersey experience is a graphic example of how the failure of state regulators to effectively regulate credit unemployment and credit property insurance rates undermines the regulators' efforts to regulate credit life and disability rates. Credit life, disability and unemployment are typically sold as a package. In New Jersey, the amount of credit unemployment insurance sold in 2000 ($52 million) was almost as much as the amount of credit life and credit disability insurance combined ($62 million).

North Carolina is the leader among the states in addressing problems with single premium credit insurance and predatory lending because the North Carolina Legislature passed a law prohibiting the sale of single premium credit insurance with real-estate secured loans. However, single premium credit insurance may still be sold with other types of loans.

The Texas Department of Insurance has done a number of good things. Commissioner Montemayor lowered credit life and credit disability rates this year and his Department has worked hard since 1999 to lower credit unemployment and credit property rates in Texas with considerable success. However, Commissioner Montemayor has failed to hold a rate hearing to establish new credit life and credit disability rates following the passage of new legislation in 2001. The Commissioner's delay is causing Texas credit insurance consumers to pay rates that are excessive by at least 30%.

Vermont has historically done a better job than most states in ensuring fair rates for credit life and disability insurance. For the 1998-2000 period, Vermont's credit life and disability loss ratios were 56% and 52%, respectively. Although Vermont's loss ratios for life and disability are among the five or six best states, Vermont has relatively high standards – 60% for life and 70% for disability. Our commendation of Vermont is tempered by the fact that credit life loss ratios declined dramatically from 1998 to 2000.

South Dakota reduced credit life and credit disability rates in 2001, but the rate reductions were far too small. Instead of relying upon the most recent three years of experience – as indicated by the NAIC model regulation – to determine whether rates need to be adjusted, the South Dakota department utilized over twenty years of experience. By not relying upon the most recent experience, the Department failed to recognize how claim costs have dropped. Consequently, the loss ratios for credit life and credit disability will be little changed from the historical ratios of 40% and 31%, respectively.

Iowa reduced credit life rates in 2001, but even after the reductions, the expected loss ratio is only 35.5%. Iowa has a credit life loss ratio standard of 50%, but that standard is applied to expenses! The Iowa regulation provides that credit life rates will always contain 50% of the 1991 life rate of $0.58 – or $0.29 – as expenses. The recent claim cost is about $0.16. To arrive at the 2001 rates, 50% of the $0.58 rate – $0.29 – is added to the $0.16 claim cost to arrive at the new prima facie rate of $0.45. Thus, the expected loss ratio is $0.16 / $0.45 or about 35.5%. Although Iowa is enforcing its regulation, the regulation does not give real meaning to the loss ratio standard.

Iowa has also contacted insurers about credit unemployment and credit property rates. After some confusion over whether the Department of Insurance or the Attorney General had jurisdiction over credit unemployment rates and with the passage of new legislation regarding credit property insurance, rates for credit unemployment and credit property should be declining in the very near future in Iowa.

In Massachusetts "case rating" is employed. This method, even if accurately enforced, could produce loss ratios below the loss ratio standards in Massachusetts law. Case rating requires rates to be adjusted periodically for various classes of business or specific insurers based upon recent experience – typically no less than once every three years. Massachusetts law defines a "nominal" credit life maximum rate (monthly outstanding balance) of $0.690/month/$1,000 and a loss ratio target of 50%. Their effect, however, is to produce an expense component of $0.345 to which is added the death claim rate based on experience. Insurers of Massachusetts auto dealers submit claims experience to the state every three years, and the state promulgates a new auto dealer rate for the next three year period. The death claim rate most recently observed was $0.115, so the current auto dealer rate is $0.115 + $0.345 or $.460. This implies current loss ratios of 25% (0.115/0.460). We know that Massachusetts is enforcing the law that applies to auto dealers, but we believe it is not doing so for non-auto dealers.

Arizona has published a proposed regulation that will dramatically reduce credit life and credit disability, if adopted.

5.4 NAIC Activities

The NAIC has worked on credit insurance issues since 1948. The first model regulations were adopted in 1954. In the early 1990's, the NAIC revised the credit insurance model law and regulation extensively during a time when there seemed to be a greater consensus among the regulators to address problems in credit insurance markets. By the mid-1990's some of the on-going efforts had fizzled and the NAIC's principal activities in 1995 and 1996 were to adopt an industry proposal for a component rating alternative to loss ratio standards, abandon the development of a credit property model and adopt a creditor-placed insurance model that was denounced by consumer organizations as being profoundly anti-consumer.

In the period following the CEJ/CU report in March 1999, the NAIC again began to formally consider credit insurance issues. By December 1999, the NAIC had adopted a credit insurance agenda with four tasks:

- Develop a credit property model law;
- Encourage states via education and bulletins to revise prima facie rates and take other steps available under the NAIC credit insurance model acts and regulations and state law to bring credit insurance rates in line with benchmark loss ratios and to correct other problem areas of credit insurance;
- Revise the credit insurance experience exhibit to better capture information on credit property and new coverages; and
- Coordinate with NAIC legal staff to clarify if debt cancellation agreements are subject to state regulation. Report by the NAIC Winter National Meeting.

The NAIC has taken some significant actions to promote better regulation of credit insurance in the last year. These actions include:

- Adoption of A Credit Personal Property Model Law. The model law adopted by the NAIC includes some important consumer protections and, if adopted by the states, will dramatically improve the treatment of credit property insurance consumers. One of the more notable items in the credit property model is the 60% minimum loss ratio standard. Despite great opposition from the credit insurance industry to a loss ratio standard, the NAIC adopted the model by a unanimous vote.
- Communication with the Comptroller of the Currency on Debt Cancellation Contracts. Debt Cancellation Contracts and Debt Suspension Agreements (DCC/DSA) are credit insurance substitutes. At their best, DCC/DSAs provide the same benefits as credit insurance – eliminating the debt in the event of death or eliminating monthly payments in the event of disability or unemployment. With credit insurance, the insurer pays off the lender. With DCC, the lender simply cancels the debt or monthly payment. Although DCC/DSAs are nearly identical to credit insurance, the Comptroller of the Currency has determined that DCC/DSAs are bank products and, consequently, not subject to state insurance regulation. In 1999 and 2000, the NAIC was unable to develop a consensus among the regulators for an NAIC position on DCC/DSAs. But, in 2001 and in response to proposed DCC/DSA regulations by the OCC, the NAIC developed and delivered a strong consumer protection message to the OCC: the failure to regulate DCC/DSAs in a manner consistent with state regulation of credit insurance will undermine the regulation of credit insurance and provide inadequate consumer protections for DCC/DSAs.

The NAIC's performance on credit insurance in recent years is, however, decidedly mixed. The NAIC's failures include:

- Failure to Address Problems with Single Premium Credit Insurance. The problems with single premium credit insurance have been well-documented. In 2000, the United States Departments of Housing and Urban Development and Treasury jointly issued a report on predatory lending practices.[26] The report concluded that, "the charging and financing of single premiums is unfair, abusive, and deceptive . . .." In 2000, Fannie Mae and Freddie Mac – the largest purchasers of mortgage loans – announced policies in response to the problems with the sale of single premium credit life insurance. Both organizations will no longer purchase mortgages or other loans with which single premium credit life insurance was sold. In response to complaints from fair housing and consumer groups over several years, the major sub-prime lenders, including Citicorp, Beneficial and American General, announced in 2001 that they would stop selling single premium credit life insurance with real-estate secured loans.

  Despite constant pleas for insurance regulators to address problems with single premium credit insurance, the NAIC has done nothing on this issue. Moreover, in the development of a model regulation for suitability of life insurance products – requirements that the insurer take certain steps to ensure that the product is not harmful to the consumer – the NAIC working group recently voted to exempt credit insurance from suitability requirements! Many consumer groups were in disbelief over this action and pointed to single premium credit insurance as the poster child for a product that demanded suitability protections for consumers.

  After years of inactivity on the issue of single premium credit insurance, the NAIC Credit Insurance Working Group added a new activity in late 2001 – to examine issues surrounding single premium credit insurance! Instead of acting to protect consumers of credit insurance – by applying suitability requirements to sales of single premium credit insurance, for example – the NAIC will learn from banking regulators in December 2001 about the problems with single premium credit insurance. The NAIC's – and individual state insurance regulators' – inaction in addressing the problems of single premium credit insurance was and is a major failure.

- Failure to Encourage States to Enforce Credit Insurance Laws. As noted above, in December 1999, the NAIC announced it would develop a bulletin to send to state insurance regulators encouraging states to do a better job enforcing existing laws and regulations on credit insurance and to do a better job protecting credit insurance consumers. Almost two years later, no bulletin has been issued.

- Failure to Develop Necessary Data Collection for Effective State Regulation of Credit Insurance. As noted above, in December 1999, the NAIC announced it would revise data collection for credit insurance to better capture information on credit property and new coverages. The collection of accurate and relevant data is critical for the effective regulation of credit insurance. The availability of such data enables regulators and the public to regularly review the reasonableness of rates for various coverages. As with the bulletin to the states, the NAIC has made no progress on improving data collection activities and has delayed implementation until at least 2004.

- Failure to Complete Market Conduct Examination of American Bankers. In November of 1998, over 30 states concluded a market conduct examination of American Bankers – then the largest writer of credit insurance in the country. The market conduct exam found so many violations that American Bankers agreed to a $12 million fine and to improve its business practices. The consent order between the states and American Bankers also provided for an additional $3 million fine, but the fine would be waived if, by November 1999, American Bankers had substantially eliminated its illegal practices. As of November 2001 – two years later – American Bankers has not paid the additional $3 million and no follow-up report has been issued by the states. In response to public information requests to a number of states in June of this year, the states refused to confirm whether American Bankers had cleaned up its act or paid the $3 million fine by claiming that the matter was an ongoing investigation.

Although the NAIC has made some progress on credit insurance, much work still needs to be done.

6. Consumer Credit Insurance: Boon or Bane? by James H. Hunt, FSA

6.1 A Short History of Credit Insurance and Credit Insurance Regulation

The controversial history of insurance sold in connection with extensions of credit in the United States dates back to 1917, when life insurance was first added to a loan so the "debt would die with the debtor." Such insurance was of obvious value to the debtor, but it was also important to the creditor who avoided the unpleasant task of collecting a debt from (usually) a widow. Some have argued that creditors value credit insurance so highly for this reason that they would offer it at cost, but in the last fifty years, at least, the main issue for consumers, creditors and insurance regulators has been whether premium rates include excessive commissions or other compensation for lenders. Although the phrase has not been heard in recent years, critics have called credit insurance "the tail that wags the dog," implying that creditors make loans more for the insurance profits than the financing profits. At certain times and in certain states, this may have been true. It may still be true in a state like Louisiana, where financial interests outgun insurance regulators, but it has been many decades since such a statement could be made in, say, New York State, which has been a model of good regulation. It is regrettable for debtors nationwide that the anomalous state regulation of insurance, obviously an interstate business that should be regulated by the federal government, has remained the law of the land.

There is one point at which federal regulation touches credit insurance -- the Truth-in-Lending Act. That act, which requires systematic disclosure of credit costs, including Annual Percentage Rates, or APR's, dealt gingerly with credit insurance by excluding credit insurance premiums from finance charges used to compute APR's provided the insurance is voluntary. The test of voluntariness is minimal -- if the debtor signs, it is voluntary. If one agrees that credit insurance costs in certain states are excessive, then it is clear that APR's are understated in those states, which frustrates the spirit of the Act's purpose in facilitating comparison shopping for credit. A finance company that sells high-priced credit insurance could post the same APR as a credit union that limits insurance charges, yet the credit is more costly in the finance company. For decades going back at least into the 1960's, General Motors Acceptance Corporation (GMAC) offered credit life insurance at a very low rate, presumably wishing to be seen as a consumer-oriented financer of automobiles, but eventually the dealers chose to offer GMAC (or other) loans with high-priced credit life insurance and the GMAC business low-priced credit life insurance business died. Much of the controversy that surrounds credit insurance could be eliminated if the Truth-in-Lending Act were amended to require the excessive portion of a credit life and/or credit disability premium, however determined (and it is not impossible), to be included in the finance charge before the APR is calculated.

Why don't consumers rebel at excessive charges and reject credit insurance? In part because they are captive customers anxious to complete a loan transaction or get behind the wheel of a car. Even an assiduous comparison shopper, however, would find it impossible to compare prices. Credit life insurance, for example, is (usually) uniformly declining, single premium term insurance for a short time, such as 3 or 4 years; such policies can't be obtained from a life insurance agent. The credit insurance phenomenon by which creditors can pass along excessive charges to their loan customers has been called "reverse competition:" insurers offering this coverage in the absence of maximum rates compete with one another to offer ever higher rates that include ever higher commissions (or other forms of creditor compensation) that creditors bargain for.

The credit insurance business caught the attention of the U.S. Congress in the 1950's when hearings were held into abuses in credit insurance. Out of those hearings grew model legislation that most states adopted conferring on insurance commissioners the right to set maximum rates as well as setting other rules that dealt with the abuses Congress had identified. For better or for worse, credit insurance rates are now subject to limitations in all states, usually at the discretion of the insurance commissioner; in a few states, legislatures have set rates.

By the 1950's, credit disability insurance was routinely offered in addition to credit life insurance. Disability coverage reimburses the creditor for the monthly payment due when a debtor is out of work due to sickness or injury that has lasted (typically)14 days. The unit costs of disability insurance are much higher than credit life insurance except in high-rate credit life states. Accordingly, the "penetration rate" – the percentage of loans with insurance – is higher for credit life. Premiums nationally for credit life and credit disability insurance are about the same.

In light of the recent controversy over "predatory lending," in which single premium credit life insurance is included in long-term, mortgage loans at high APR's, two historical notes. In 1967, the writer was Vermont's Commissioner of Banking and Insurance and one of two insurance commissioners to lead off Senator Philip Hart's hearings into credit insurance. One of the examples given of how credit life insurance could become abusive was to show a 12-year mortgage loan that included single premium credit life insurance. More than 30 years have passed since that testimony, yet the states have not dealt with the problem. Of more interest perhaps is the early history of Household Finance (now Household International, the parent of subsidiaries offering loans and credit insurance). Household, in early July 2001, responded to the news that CitiCorp had renounced the sale of single premium credit life insurance with mortgages by saying it had no intention of doing the same thing. (In a telling and accurate aside, its spokesperson suggested that the problem lay not with Household but with insurance commissioners of the several states.) A short time later, Household changed its position; perhaps someone acquainted current management with its history.

During the 1920's, the Russell Sage Foundation sponsored studies into the loan sharking business, out of which grew the small loan acts in the United States. This was a time in which the usury laws of many states made it impossible to make small unsecured loans, which due to their disproportionate administrative costs and higher risks required much higher effective interest rates. The solution was state-supervised lending of small amounts at APR's reflecting the realities of such loans. One of the rules that applied to a firm setting up a small loan office was that it could not combine that office with another business, such as trinkets or jewelry, whose profit margins would allow the firm to evade the lending limits. Household Finance was the last small-loan lender to depart from this rule and offer credit life insurance at a profit to itself.

6.2 The CUNA Mutual Report on Credit Life and Disability Insurance

Although the writer and the consumer organizations he has been affiliated with have been stern critics of consumer credit insurance over more than three decades, it has always been in the context of seeking to improve its regulation. Thus, in CFA's 1997 report, this quote is found:

> Where regulated to the NAIC [National Association of Insurance Commissioners] standard of returning at least 60% of premiums in claims, consumer credit insurance serves the public well -- it is often the only life and disability insurance many consumers have. Unfortunately, the business is poorly regulated in most states.

CUNA Mutual provides most of the credit life and disability insurance that is sold through credit unions in the United States. About the time of CFA's 1997 report, CUNA Mutual released an excellent document entitled, "Credit Insurance: Believe in its Value," written by Rich Fischer. Its subtitle was, "Let's tip the scale in favor of Credit Insurance." Therein, CUNA at some length demonstrated that its credit life and disability insurance provided excellent value when compared with available competing individual insurance policies. It began its report with this statement:

> Today, a large percentage of American workers are either uninsured or under insured. Credit insurance, or payment protection, provides a valuable short-term safety net for these people. Each year insurance pays off loans for thousands of borrowing customers who unexpectedly die or become disabled.

This is an unassailable statement. Much of the CUNA study shows that CUNA insurance is lower in cost than individual policies. Because CUNA is a non-profit organization serving non-profit credit unions, one is not surprised at the study's results. During 1998-2000, CUNA returned 64% of credit life and credit disability premiums in claim payments to credit union members who selected the insurance. This is far above the national average for other insurers, which is 40%, and far above the worst regulatory states, whose claim ratios are in the low 30's, facts CUNA's study omits.

Furthermore, CUNA does not generally engage in certain practices that add substantially and unnecessarily to consumer credit insurance costs. In states with high maximum credit life rates, CUNA limits its charges to levels below maximum. It does not sell excessive amounts of credit life insurance, as explained later. Most of its credit life insurance is on the monthly premium basis, in contrast with the typical industry practice of adding finance charges to single premium charges that cover multiple-year loans. It does not use unfair methods of refunding unearned credit insurance premiums when a debt is paid off or refinanced.

Accordingly, CUNA's study can't be generalized as a defense of credit insurance charges and practices throughout the United States. We would not disagree, however, that credit insurance where reasonably regulated provides reasonably priced insurance for the average buyer. Even in the best regulatory states, however, credit insurance may provide poor value for younger buyers.

Credit insurance is sold at the same rate regardless of age up to a limiting age that is often 65 but is sometimes higher. This fact is not disclosed to prospective borrowers, of course. It is often available without health questions, and premium rates do not vary by smoking status. Both these factors tend to make credit insurance attractive to older borrowers, especially those who smoke and/or have medical impairments. The corollary is of course that younger borrowers, especially women who don't smoke, pay far more than their actuarial risks would require. In high rate states, younger borrowers receive particularly poor value for their premiums. The one-rate-for-all system of credit insurance charges is not an administrative necessity: group mortgage life and disability insurance has been sold for decades using age-bracketed rates. But it is the system that credit insurers know maximizes the profits for creditors, as younger borrowers are not able to understand that the system works against their interests. Credit insurers argue that young borrowers eventually become older borrowers, so in the long run the system does not disfavor younger borrowers. While there is some truth in this, not all individual borrowers who are young continue to borrow as they age. Nor does this industry rationalization take into account the time value of money over several decades of one's potential borrowing lifetime.

6.3 Credit Life Charges by State

In Table 4 we used an illustrative loan to show the array of credit life charges permitted by state regulatory authorities (usually insurance commissioners). The amount of the loan illustrated, $10,000, is significantly higher than average, and the loan term of four years may be slightly longer than average. In 1999, the average face amount of a credit life insurance policy purchased was $6,955.[27] If we allow for growth of the business since then, exclude lower amounts of credit card credit insurance (a segment of the business that can be studied separately) and take into account that in most loans the initial amount of life insurance exceeds the amount borrowed, we can judge the typical "closed-end" credit life transaction (credit cards provide open-end credit) to involve a loan of perhaps $5,000 in 2001.

The controversy over credit insurance would be reduced if all loans were close to the average loan and term. The charges and practices in the business become most abusive when the loans are larger than average and the terms longer than average, not just because the dollars are larger but due to technical factors we will describe below. This is why we have used the illustrative loan and term shown in the table.

The purpose of Table 4 is to show the astonishing range of charges among the states. One has to see it to believe it: from $123 in Maine to $422 in Mississippi and Louisiana, much worse in Louisiana if the virtually worthless "dismemberment" coverage is added. If we exclude the states that limit the amount of credit life insurance to net balances, explained below, the range is $147 to $422, the latter being nearly three times the former.

Table 4 also shows claims as a percent of premiums, known as the loss ratio. These ratios may be compared to the 60% standard espoused by the National Association of Insurance Commissioners. The individual commissioners who comprise this association routinely sign on to this standard, for public relations purposes one supposes, but rarely enforce it in practice.

Table 4 shows claims as a percent of the *sum of the one-time credit life charge (single premium) and the finance charges added to that premium.* This is the true measure of the relationship between claims paid and charges to the borrower. Note how many states fall below 30% on this test of consumer value.

6.4 Excessive Amounts of Credit Life are Sold in Most States

About two-thirds of the states limit credit life rates to $.50 per $100 of Initial Indebtedness (the sum of the monthly payments) per year in the term of the debt, or a lower rate. If the typical loan is $5,000 repayable over 42 months at 15% APR, we can construct this display of a loan transaction at the $.50 rate:

1. Loan Advanced	$5,000.00
2. Credit Life Charge	115.61
3. Amount Financed (1. + 2.)	5,115.61
4. Finance Charge	
a. Loan	1,457.29
b. Life Insurance	33.70
5. Total Repayable (3. + 4.a. + 4.b.)	6,606.60
6. Monthly Payment (5./42)	157.30
7. Monthly Payment for life insurance ((2. + 4.b.)/42)	3.55

The initial insurance amount of $6,606.60 (157.30 x 42), the "gross amount," exceeds the amount due at death in the first month, $5,115.61, the "net amount," by a significant amount; this excess drops to zero in the last month of the debt.

Although assumed credit life charges in the example above are higher than average and the loan rate of 15% also rather high, the credit life insurance costs just $3.55/month. As a practical matter, one can not buy an individual life insurance policy for as little as this -- the fixed charges are too high. From this example, we can conclude that for typical credit transactions more insurance is sold than necessary but that the dollar impact is not large on the borrower. At least for those borrowers without any life insurance, the sale of more insurance than needed to cover the typical debt may not be abusive. The argument against this (paternalistic?) conclusion may be that something like 997 of every 1000 borrowers with credit life insurance won't die in any year.

Now let us take a 10-year loan of $20,000 at 12% APR and see what a similar calculation produces.

1. Loan Advanced	$20,000.00
2. Credit Life Charge	1,883.76
3. Amount Financed (1. + 2.)	21,883.76
4. Finance Charge	
a. Loan	14,432.11
b. Life Insurance	1,359.33
5. Total Repayable (3. + 4.a. + 4.b.)	37,675.20
6. Monthly Payment (5./42)	313.96
7. Monthly Payment for life insurance ((2. + 4.b.)/42)	27.02

The initial insurance amount of $37,675.20 (313.96 x 120), the "gross" amount," exceeds the amount due at death in the first month, $21,883.76, the "net amount," by an amount that is grossly excessive and remains so until the last year of the loan or so.

The insurance coverage in this example begins at $37,675 and reduces by $313.96 each month, reaching zero at the end of the 120th month. The average age of credit life buyers is probably in the low 40's. For $27.03 per month, a non-smoking, 42-year old female in excellent health could buy upwards of $500,000 of ten-year coverage that does not reduce monthly; a similar male could buy as much as $350,000 of level premium non-reducing term life. Only someone who is virtually uninsurable or is much older than 42 would find this deal attractive.

We see in this example how credit life can become a "predatory" coverage when single premiums are financed over long terms, especially when APR's are high. What is particularly distressing is how, after more than 30 years since the sale of excessive amounts of credit life insurance was highlighted in Congressional testimony, nearly 40 states permit the sale of grossly excessive amounts of credit life insurance. It is observations like these that make it difficult to avoid trotting out the epithet, "rip-off," when advising consumers about credit insurance.

6.5 Most States Permit Unfair Refunds of Credit Disability Premiums

The claims data show increasing profitability from credit disability sales in recent years. In the 10 years ending in 1996, the average loss ratio (ratio of incurred claims to earned premiums) was 52.4%.[28] The ratios for 1996-2000 were 49.4%, 48.6%, 46.7%, 44.2% and 46.1%. Contributing to this trend are rules in at least 30 states and possibly as many as 40 states that allow the "Rule of 78" to be used in refunding unearned credit disability single premiums when debts are prepaid. The Rule of 78 has neither actuarial nor practical application to credit disability; it is an appropriate refund method only when used to refund unearned credit life single premiums written to cover the gross indebtedness.

The technical reason the Rule of 78 is appropriate for gross credit life but not credit disability is that the amount payable on death is the sum of the remaining monthly payments, whereas disability claim payments continue only as long as the debtor remains out of work, typically 5 or 6 months. Thus, the insurer's exposure to risk in, say, the last year of disability coverage is a large fraction of what it was in the first year, unlike gross credit life insurance. Use of the Rule of 78 to refund disability premiums always results in inadequate refunds. That the differences are not insignificant may be seen in this example from Georgia, whose disability rate table is also used in several other states.

$5,000 Loan at 15% APR Repayable in 36 Months

1. Loan	$5,000.00
2. Credit Life Premium	90.02
3. Credit Disability Premium	253.39
4. Amount Financed (1.+ 2.+ 3.)	5,343.41
5. Finance Charge	1,324.87
6. Total Amount Repayable	6,668.28
7. Monthly Payment (6./36)	$185.23

The appropriate refund formula is often called the Rule of Anticipation. It requires, logically, that the refund be the premium that would be charged for the remaining debt for the remaining term. Thus, for a 3-year loan repayable $100/month, the remaining debt (sum of the remaining payments) after 12 months is $2,400 and the remaining term is 24 months. From Georgia's rate table, one easily computes the appropriate refund for the credit disability premium. Here is a table showing the two refund percentages every 6 months for the loan example just above.

Refund Percentages

Months Left	Rule of Anticipation	Rule of 78	Difference	Refund Error
30	74.56 %	69.82 %	4.74 %	$ 12.01
24	52.63	45.05	7.58	19.21
18	34.21	25.68	8.53	21.61
12	19.30	11.71	7.59	19.23
6	6.01	3.15	2.86	7.25

When the credit insurer under-refunds, it increases its earned premiums and in turn lowers its loss ratio. Credit insurers sometimes try to rationalize under-refunds by arguing that when a debt is prepaid there are administrative expenses incurred in the accounting for and paying of the refunds. This argument has some merit when the debt is paid in full, although the pattern of refund errors shown above makes no financial or theoretical sense. Most debts that result in refund calculations arise from refinanced debts, especially in the consumer finance business: a small loan customer needs more cash so the original remaining debt is paid off by the proceeds of the new debt. (When such refinancing is done repeatedly, some call it "flipping.") Obviously, in a refinancing there is no creditor or credit insurer expense of *crediting* a refund to the debtor as part of the refinanced loan. While there is a need for the creditor to communicate with the credit insurer, so there would be with a new credit extension, and of course the creditor extends new credit only on its terms.

That so many states allow the Rule of 78 to be used in refunding credit disability insurance demonstrates the degree to which creditors and credit insurers dominate the regulation of this business. (A more charitable comment might be that many departments do not have the technical resources to understand why Rule of 78 refunds of credit disability insurance premiums are unfair.)

6.6 Unfair Premium Calculations Are Allowed in Most States

As illustrated in Section 6.4, closed-end credit transactions almost always include single premiums that themselves become part of the loan and accrue finance charges, which can expand to large amounts when the APR is high and, particularly, when the term of the loan extends over many years. Financed credit insurance single premiums obviously add significantly to a creditor's earnings. Suppose the creditor receives a 40% commission, probably a typical creditor commission; it then levies finance charges on 100% of the premium(s) while incurring a cash outlay to the credit insurer of just 60% of the premium.

In the calculation of a one-time premium to cover a loan extending over multiple years, not infrequently 10 years or more, one would assume that some interest rate is used to discount future mortality costs into a present value. One could argue that the rate of discount ought to be the same as the rate of finance charge, since there are significant administrative benefits to the creditor and insurer in the use of single premiums. Not only is this not the case anywhere in the United States, but only 11 states require any discount at all. It gets worse.

More than 30 states use a rate schedule expressed in cents per $100 of Initial Indebtedness per year in the term of the debt. Florida, for example, allows $.50/$100/year. Using this rate, we can see in the table below how much extra it costs consumers when this kind of rate schedule, completely lacking in actuarial rationale, is permitted. An actuarial calculation uses a summation formula to determine the aggregate insurance to be provided over the months in the loan term, multiplies this sum by the applicable monthly rate in that state, then by an exact or approximate technique discounts the aggregate monthly premiums to a present value. The highest discount rate used by any state is about 6%, which of course is lower, often far lower, than typical loan APR's (except perhaps auto finance, where to get a low APR one pays more for the car.)

In the table below, we show how applying appropriate premium calculation methods progressively reduces the rate as the term of the debt lengthens. We use a monthly rate of $.769 per $1,000 of monthly outstanding balance, which is the one-year equivalent of $.50/$100/year, an interest discount of approximately 6% per year, and a further discount of .4% per year to recognize that at death no refund is made of the unearned credit life single premium.

Impact of Correct Premium Calculation Method

(1) Months in Term of Loan	(2) Cents/$100 Rate	(3) Undiscounted Actuarial Rate	(4) Discounted Actuarial Rate
12	$0.50	$0.50	$0.49
24	1.00	.96	.92
36	1.50	1.42	1.33
48	2.00	1.88	1.73
60	2.50	2.35	2.11
120	5.00	4.65	3.80

As is evident in Col. (4), when the loan term expands the combination of an accurate calculation of risk amounts and a reasonable interest discount makes a very substantial difference. The discounted actuarial rate for a ten-year loan is 24% below what more than 30 states permit. (Three or four of these states have prohibited the sale of gross debt coverage for terms exceeding five years, so the 120 months example is not applicable in these states.)

Credit insurers might respond to these comments by arguing that a particular debtor ages during the term of a loan, that if an increasing monthly rate were applied to later years in the debt's term, the table above would look quite different. This is true, of course, but the argument is spurious. In credit insurance, rates are the same for all ages. Credit insurers can't have it both ways: if they wish to use the lucrative technique of selling credit insurance at one rate regardless of age, they are not entitled to employ a selective use of age rating in defending the actuarially unsound rate scheme in use in these 30 or more states.

6.7 Credit Insurance on Open-End Loans

About 1980, credit insurers began to offer Involuntary Unemployment Insurance (IUI) that would make monthly payments for a laid-off worker for a limited term, such as 9 or 12 months. This coverage provided a neat complement to credit card life and disability insurance that had been growing slowly, and the three coverages are now almost always sold as a package, typically for about $.75 per $100 of outstanding debt per month. This is like adding 9 percentage points to the credit card rate, so the insurance charges add up to substantial amounts.

In past reports, we focussed on life and disability insurance sold in connection with closed-end credit transactions. But in the seven years ending in 1999, open-end, or credit card, credit insurance premiums have more than doubled. Meanwhile the loss ratio on credit card insurance has fallen steadily from 53% in 1992 to 33% in 1999, mainly due to a five-fold rise in the unemployment component of the package of life, disability and unemployment coverages that is typically sold. Clearly open-end credit insurance has changed rather abruptly from offering reasonable value – the 53% loss ratio in 1992 was not that far from the National Association of Insurance Commissioners 60% standard – to providing significantly worse returns than closed-end credit insurance, whose overall loss ratio is just above 40%.

In general, insurance commissioners have failed to keep pace with rapidly growing credit card insurance, particularly the IUI component. As an example to the contrary, however, the Maryland Insurance Department recently proposed an 85%, repeat 85%, reduction in IUI premiums in that state. We call on other state insurance commissioners to follow Maryland's example.

6.8 Conclusion

State regulation of consumer credit insurance is perhaps the best argument for federal regulation of the insurance business. A small minority of states does a good job of regulating credit insurance, a larger minority does a bad job, and the rest are inadequate. High rate states need simply to lower rates, but many states could make incremental improvements that would not unduly alter the profitability of credit insurance to lenders. (It is the lenders who make the money on credit insurance, not the insurers, except where lenders own the insurers.) Accurate refunds could be required for disability insurance. Accurate premium calculations, even if undiscounted for interest, could be specified. The credit insurance laws of most states give the insurance commissioner power to disapprove credit insurance filings if the result would be unfair or deceptive, which the sale of gross debt credit life is when terms exceed, say, five years. Three or four states have so used this power.

We encourage state insurance commissioners, particularly those recently appointed or elected, to revisit their credit insurance rules and regulations. Credit insurers do not operate in a vacuum; when confronted with a determined commissioner or legislature, they will deal. Furthermore, their clients, the banks, finance companies and auto dealers, have a recourse when credit insurance profits are lowered: they can raise prices or APR's. In either event, the consumer is provided with disclosures much easier to understand than are credit insurance premiums and undisclosed finance charges on them.

Endnotes

[1] CFA is a non-profit association of more than 280 organizations that, since 1968, has sought to advance the consumer interest through advocacy and education. CEJ is a non-profit organization that advocates on behalf of low-income consumers before administrative agencies on credit, insurance and utility issues. CFA Life Insurance Actuary James Hunt and CEJ Executive Director Birny Birnbaum wrote this report. Hunt is a Fellow of the Society of Actuaries and a former Insurance Commissioner in Vermont. Hunt has worked on credit insurance issues for over three decades, including work as an expert and consultant to state insurance departments. Birnbaum has worked on credit insurance issues for over a decade, including a stint as Associate Commissioner and Chief Economist at the Texas Department of Insurance. Birnbaum serves as one of the designated consumer advocates at the National Association of Insurance Commissioners and, in his work as a consulting economist, has testified about credit insurance before administrative, legislative and judicial bodies.

[2] *Most Credit Life Insurance Still a Ripoff* by the Consumer Federation of America and U.S. Public Interest Research Group, January 1997 and *Credit Insurance: The $2 Billion A Year Ripoff*, by Consumers Union and the Center for Economic Justice, March 1999, http://www.consumersunion.org/pdf/credit.pdf . The 1999 report provides more discussion of the structure of credit insurance markets, reverse competition, high commissions to lenders, unfair and coercive sales practices and other problems with credit insurance, generally. See also Section 6 of this report for a detailed discussion of regulatory problems and solutions.

[3] The loss ratios discussed are incurred losses to earned premiums. Earned premiums are the portion of premium for the policies attributable to a period of coverage. Incurred losses are claims paid less changes in claim reserves.

[4] The NAIC is a trade association of state insurance regulators. The purpose of the NAIC is assist state insurance regulators in their efforts. The NAIC provides technical assistance to state insurance regulators. For example, the NAIC collects extensive financial data from insurers to help state regulators with monitoring insurer solvency. Another major activity of the NAIC is the development of model laws and model regulations. These models theoretically represent consensus among insurance regulators regarding minimum statutory and regulatory standards. We discuss the recent actions of the NAIC regarding credit insurance in Section 5.4, below.

[5] NAIC Model # 370, Consumer Credit Insurance Model Regulation (covering credit life, disability and involuntary unemployment), Section 4A states, "Benefits provided by consumer credit insurance policies must be reasonable in relation to the premium charged. This requirement is satisfied if the premium rate charged develops or may reasonably be expected to develop a loss ratio of not less than sixty percent (60%)." Section 8A, dealing further with credit unemployment states,

"Each insurer filing rates for credit unemployment insurance shall include in its rate filing with the commissioner the appropriate rate formula upon which its rates are based, including a provision for anticipated losses. Anticipated losses that develop or are expected to develop a loss ratio of not less than sixty percent (60%) shall be presumed reasonable." See note 6 for credit property rate standard.

[6] NAIC Model Law #365, Credit Personal Property Insurance Model Act, Section 7B states, "Benefits provided by credit personal property insurance policies shall be reasonable in relation to the premium charged. This requirement is satisfied if the premium rate charged develops or may reasonably be expected to develop a loss ratio of not less than sixty percent (60%) or such higher loss ratio as designated by the commissioner to afford a reasonable allowance for actual and expected loss experience, including reasonable catastrophe provision, general and administrative expenses, reasonable acquisition expenses, reasonable creditor compensation, investment income, premium taxes, licenses, fees, assessments and reasonable insurer profit."

[7] See Best's Aggregates and Averages, 2001 Life Health Edition, page 64-65 for 1991-2000 experience for group life and group accident and health and Best's Aggregate and Averages, 2001 Property Casualty Edition, page 276 for 1991-2000 experience for private passenger automobile liability and physical damage experience.

[8] Excess Premiums were calculated using 60% as a minimum reasonable loss ratio for all coverages. The 60% standard is modest for credit unemployment and credit property – in our earlier report, we used 75% as the standard for these two coverages.

[9] Calculated from Table 1 as $2,567 / ($5,962-$2,567)

[10] Calculated from Table 1 as $996 / ($1,102-$996)

[11] The data source for all tables in this report the NAIC Credit Insurance Experience Exhibit. The NAIC does not endorse any calculation based upon these data. Credit Property consists of the Fire and Extended Coverage and Other Columns on the Credit Property page of the CIEE.

[12] American General Indemnity Company fax to Texas Department of Insurance, August 23, 1999, requesting a reduction in rates from $0.200 per $100 of outstanding balance to $0.057.

[13] Texas Department of Insurance Filing # 9212380203 for single premium credit unemployment insurance. Single premium credit insurance is typically sold in connection with installment loans while monthly outstanding balance insurance is typically sold in connection with credit card credit insurance or other revolving credit accounts. American Bankers lowered its rates from $4.00 per $100 of initial

debt to $2.75 per $100 and increased the maximum number of monthly benefits from four (4) to twelve (12) for loans with a term between 12 and 15 months. For loans with a term of 60 months, the maximum number of monthly benefits went from 12 to 18. CEJ challenged even these lower rates as excessive and American Bankers agreed to further reduce the rate to $2.45 per $100.

14 This experience was reported in the "Other" Column on the CIEE credit unemployment page and was identified as family leave by the company. The $132,652 are claims paid in 2000. Incurred claims are claims plus changes in claim reserves. Central States Indemnity reported incurred claims of $1.2 million, which yields a loss ratio of less than 8%. However, we expect that the incurred claims are overstated because of the overstated reserves.

15 July 24, 2001 letter from Karen Barrett Daley of Assurant Group to Bruce Grammer of the Maryland Insurance Administration regarding proposed credit involuntary unemployment regulation.

16 Walter Runkle of the Consumer Credit Insurance Association in "Credit Insurance Worth It?" *Bank Rate Monitor*, February 15, 1999.

17 NAIC *Statement of Intent: The Future of Insurance Regulation*, http://www.naic.org/GLBA/Final_Statement_of_Intent.pdf.

18 Appendix 1 provides detailed premium, loss ratio and lender compensation results by state and by year.

19 House Bill 2159, 77th Legislative Session

20 Service Life & Casualty Insurance Company v. Jose Montemayor, Commissioner of Insurance, Cause No. 99-14213 in the 126th District Court, Travis County, Texas

21 Data sources for Table 4 include *Cost of Personal Borrowing in the United States*, 2001 Edition, *2001 Fact Book of Credit-Related Insurance* and telephone and internet research for particular states. Rates effective in September 2001. Column (4) shows estimated death claims as a percent of the one-time premium (single premium) that is made part of the loan. Column (5) adds to the single premium the portion of the finance charge attributable to the premium; the latter loss ratio reflects the full cost of the credit life insurance for the 48-month period. The latter reflects the full cost of the life insurance for the 48-month period. Death claims based upon historical 1998-2000 loss ratios adjusted for recent rate changes.

22 Tennessee provides a greater amount of death benefit (gross coverage) than does Minnesota (net coverage). In the first month, the death benefit is $6,413 for Tennessee and $5,294 for Minnesota. This difference diminishes to zero (effectively) in the last month. The value of the extra coverage not taken into account in the claims on line 7a is less than $10 during the life of the loan. When

the premium calculation (and amount of coverage) is based upon gross debt, the consumer is sold more life insurance than necessary to pay off the debt in the event of death.

[23] Data sources for Table 5 include *Cost of Personal Borrowing in the United States*, 2001 Edition, *2001 Fact Book of Credit-Related Insurance* and telephone and internet research for particular states. Rates effective in September 2001. Columns (5) and (6) show estimated death and disability claims, respectively, based upon the historical 1998-2000 loss ratio, adjusted for recent rate changes.

[24] 3901-1-14 (C) (1) (k) for credit life and 3901-1-14 (C) (2) (a) for credit accident and health.

[25] RH 389 for credit life and disability and RH 386 for credit unemployment and property.

[26] Page 7 of the Joint Report by the United States Departments of Housing and Urban Development and Treasury detailing the agencies' recommendations on legislative, regulatory and other steps to curb predatory and abusive home mortgage lending. Issued June 20, 2000.

[27] *Life Insurers Fact Book 2000*, American Council of Life Insurers, Table 1.1

[28] Calculations based upon data in Chart 5 of *The 2001 Fact Book of Credit –Related Insurance* by Gary Fagg of CreditRe Corporation, www.creditre.net\2001%20Fact%20Book.pdf.

Credit Insurance Overcharges Hit $2.5 Billion Annually

Premiums Paid by Consumers Excessive by 75%
As Most States Fail to Enforce Existing Laws

A Report by
The Consumer Federation of America and
The Center for Economic Justice

November 2001

Appendix 1

Premiums, Loss Ratio and Lender Compensation
by State and by Coverage, 1998-2000

Credit Life Insurance Experience By State, 1998-2000

	Earned Premium ($ Millions)			*Loss Ratio*			*Lender Compensation*		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Alaska	$4.3	$4.7	$4.1	36.3%	28.9%	37.5%	39.5%	43.3%	51.6%
Alabama	$43.4	$43.7	$41.5	39.0%	37.6%	38.9%	33.0%	34.4%	32.7%
Arkansas	$28.2	$24.9	$24.1	30.0%	34.8%	39.3%	35.0%	43.2%	40.8%
Arizona	$31.3	$32.8	$30.3	52.4%	43.4%	49.0%	32.2%	32.0%	34.7%
California	$89.3	$83.3	$72.9	51.4%	48.7%	45.1%	17.9%	18.9%	20.0%
Colorado	$29.8	$28.1	$26.8	29.5%	33.8%	34.0%	28.0%	28.6%	31.2%
Connecticut	$14.0	$14.4	$14.1	39.5%	33.0%	35.0%	36.9%	-6.4%	35.9%
Dist Columbia	$2.2	$2.0	$1.9	57.6%	70.2%	38.2%	27.5%	25.5%	25.0%
Delaware	$7.8	$8.5	$7.9	42.6%	41.3%	34.0%	28.8%	29.3%	25.7%
Florida	$143.2	$143.1	$129.3	47.3%	47.7%	49.3%	35.8%	31.5%	35.4%
Georgia	$73.0	$78.7	$78.5	49.3%	48.9%	50.2%	34.3%	31.9%	32.3%
Hawaii	$6.0	$5.5	$4.0	45.7%	45.9%	49.6%	15.5%	13.8%	16.7%
Iowa	$29.1	$30.1	$25.0	28.6%	33.2%	39.0%	44.1%	48.4%	42.9%
Idaho	$11.1	$10.4	$10.3	35.0%	35.9%	35.2%	31.9%	36.8%	26.4%
Illinois	$86.1	$89.2	$81.9	39.6%	39.8%	36.4%	33.5%	33.8%	30.7%
Indiana	$66.6	$67.7	$62.9	34.4%	32.1%	35.9%	30.3%	28.8%	25.7%
Kansas	$26.4	$27.2	$26.9	29.4%	34.9%	29.4%	44.5%	45.2%	42.7%
Kentucky	$40.1	$54.8	$49.6	30.9%	31.6%	27.8%	40.6%	46.0%	52.0%
Louisiana	$74.3	$73.2	$71.6	23.5%	25.7%	25.0%	46.5%	42.5%	45.8%
Massachusetts	$18.6	$18.5	$18.5	35.7%	36.9%	29.9%	31.3%	28.4%	31.6%
Maryland	$35.7	$35.9	$33.6	55.4%	52.3%	58.5%	22.8%	23.1%	23.4%
Maine	$7.3	$7.2	$6.8	57.0%	51.1%	53.2%	14.5%	14.5%	14.6%
Michigan	$100.0	$93.8	$91.2	43.8%	43.3%	40.5%	39.5%	42.4%	37.9%
Minnesota	$32.6	$35.2	$31.3	36.8%	37.1%	36.1%	41.3%	43.2%	47.3%
Missouri	$55.9	$55.8	$53.4	41.3%	49.4%	41.6%	37.1%	37.0%	31.9%
Mississippi	$48.9	$48.5	$45.6	31.2%	30.8%	30.9%	34.7%	30.4%	28.8%
Montana	$7.5	$7.1	$6.6	32.7%	37.7%	40.4%	28.7%	27.7%	30.8%

Credit Life Insurance Experience By State, 1998-2000

	Earned Premium ($ Millions)			*Loss Ratio*			*Lender Compensation*		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
North Carolina	$83.5	$88.5	$88.2	37.4%	40.0%	37.7%	44.8%	40.7%	35.8%
North Dakota	$5.9	$5.9	$6.0	31.5%	33.5%	24.4%	45.1%	42.2%	39.5%
Nebraska	$17.7	$18.3	$17.9	30.7%	27.3%	29.2%	34.5%	33.4%	30.0%
New Hampshire	$8.8	$8.7	$7.8	36.2%	38.5%	36.9%	39.7%	36.6%	39.7%
New Jersey	$36.2	$35.2	$29.7	54.3%	49.4%	50.5%	29.8%	27.5%	33.1%
New Mexico	$21.0	$20.6	$19.0	25.6%	31.3%	33.8%	34.5%	28.3%	29.6%
Nevada	$11.4	$10.7	$11.0	40.6%	41.5%	40.5%	25.1%	18.5%	29.2%
New York	$51.9	$48.9	$44.2	68.2%	69.5%	59.6%	13.0%	8.9%	10.3%
Ohio	$103.5	$105.1	$90.7	42.9%	40.9%	41.6%	28.7%	25.8%	27.7%
Oklahoma	$36.2	$37.0	$35.9	38.4%	40.0%	40.4%	37.4%	35.3%	32.6%
Oregon	$29.2	$23.7	$24.0	51.1%	56.2%	51.1%	29.9%	31.4%	24.7%
Pennsylvania	$93.7	$96.4	$76.8	53.0%	54.5%	55.6%	28.8%	24.4%	24.2%
Puerto Rico	$75.2	$77.7	$64.5	23.5%	30.2%	31.6%	21.6%	26.0%	21.7%
Rhode Island	$4.8	$4.4	$3.5	41.7%	55.7%	46.3%	26.8%	24.6%	32.3%
South Carolina	$57.9	$61.1	$59.0	39.4%	40.9%	36.1%	42.8%	39.2%	36.0%
South Dakota	$13.2	$14.0	$12.1	36.7%	39.9%	42.3%	29.4%	28.6%	28.1%
Tennessee	$75.8	$94.2	$87.3	38.7%	37.7%	37.6%	37.8%	35.6%	30.2%
Texas	$167.8	$185.0	$174.4	37.9%	35.7%	36.9%	44.3%	40.7%	36.6%
Utah	$14.2	$13.4	$12.6	39.2%	38.9%	44.7%	28.9%	29.2%	27.5%
Virginia	$48.5	$49.7	$45.9	57.1%	58.5%	61.3%	39.3%	38.1%	38.7%
Virgin Island	$3.9	$4.1	$3.5	21.2%	27.1%	30.5%	24.7%	25.8%	23.5%
Vermont	$2.9	$2.8	$2.9	64.2%	56.5%	46.7%	35.4%	31.7%	33.2%
Washington	$42.5	$41.3	$36.3	51.2%	51.0%	50.7%	24.4%	28.1%	24.5%
Wisconsin	$45.1	$46.2	$33.5	38.6%	36.9%	36.4%	38.5%	41.7%	39.2%
West Virginia	$24.4	$23.1	$21.9	35.2%	39.1%	36.9%	37.3%	41.0%	35.3%
Wyoming	$4.0	$4.2	$4.0	38.8%	43.5%	44.5%	30.1%	27.7%	25.0%

Credit Disability Insurance Experience By State, 1998-2000

	Earned Premium ($ Millions)			*Loss Ratio*			*Lender Compensation*		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Alaska	$4.1	$4.5	$4.1	31.6%	30.8%	42.4%	38.0%	39.8%	42.2%
Alabama	$40.1	$39.5	$38.7	53.8%	48.8%	50.8%	25.7%	25.4%	27.3%
Arkansas	$14.8	$14.2	$14.1	50.2%	45.1%	42.6%	29.6%	33.5%	32.2%
Arizona	$29.3	$31.9	$31.2	29.6%	32.0%	34.7%	25.5%	33.9%	33.1%
California	$147.0	$138.3	$125.2	44.8%	45.5%	43.8%	16.4%	15.9%	15.2%
Colorado	$26.7	$29.6	$28.0	38.3%	36.1%	32.1%	28.5%	32.5%	34.6%
Connecticut	$19.9	$22.4	$21.4	44.3%	33.9%	42.2%	29.7%	30.5%	33.5%
Dist Columbia	$3.8	$4.4	$4.2	42.6%	39.0%	47.6%	25.0%	26.8%	28.6%
Delaware	$6.1	$8.2	$7.6	37.1%	31.9%	47.2%	25.4%	28.8%	25.3%
Florida	$112.9	$109.4	$100.9	43.5%	39.6%	38.5%	29.6%	32.5%	31.9%
Georgia	$91.3	$100.1	$99.8	38.4%	35.6%	36.3%	34.9%	35.5%	35.6%
Hawaii	$11.3	$11.1	$11.1	44.0%	33.4%	44.6%	21.4%	24.0%	23.7%
Iowa	$34.1	$36.7	$29.2	37.9%	37.3%	39.7%	38.6%	43.2%	41.2%
Idaho	$12.3	$11.6	$12.2	40.3%	38.4%	45.7%	32.0%	34.8%	30.2%
Illinois	$102.5	$122.3	$111.6	39.7%	36.0%	35.8%	31.4%	36.1%	33.8%
Indiana	$66.9	$74.5	$73.1	49.1%	42.4%	44.3%	25.1%	28.9%	28.0%
Kansas	$26.6	$28.9	$28.3	35.3%	34.4%	34.4%	39.8%	40.8%	40.0%
Kentucky	$36.4	$52.6	$46.7	46.9%	39.1%	42.9%	28.6%	37.0%	39.4%
Louisiana	$50.4	$54.2	$53.6	40.5%	41.2%	41.9%	37.8%	40.0%	39.7%
Massachusetts	$30.9	$31.3	$30.0	40.8%	37.9%	38.5%	29.3%	27.8%	30.2%
Maryland	$35.5	$33.2	$30.4	51.7%	49.3%	54.4%	17.0%	20.4%	19.0%
Maine	$11.2	$12.2	$11.9	86.3%	74.3%	72.7%	14.2%	15.1%	15.6%
Michigan	$123.1	$130.0	$124.0	47.6%	49.2%	50.1%	30.0%	40.8%	38.5%
Minnesota	$45.7	$51.3	$47.2	28.9%	30.1%	30.9%	37.0%	38.7%	40.7%
Missouri	$43.8	$48.8	$44.5	42.2%	41.9%	42.5%	29.7%	30.6%	28.9%
Mississippi	$31.3	$34.1	$33.1	36.2%	39.8%	40.2%	29.7%	29.0%	28.9%
Montana	$8.2	$8.2	$7.7	41.2%	36.9%	47.4%	25.0%	28.9%	29.8%

Credit Disability Insurance Experience By State, 1998-2000

	Earned Premium ($ Millions)			*Loss Ratio*			*Lender Compensation*		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
North Carolina	$94.4	$96.5	$104.1	45.7%	45.1%	50.3%	30.4%	31.8%	33.9%
North Dakota	$5.6	$5.6	$5.7	31.9%	27.0%	33.4%	40.8%	41.6%	38.7%
Nebraska	$16.1	$18.8	$20.1	36.8%	34.5%	42.5%	29.3%	31.5%	29.1%
New Hampshire	$10.8	$12.1	$11.6	48.4%	39.6%	43.1%	35.9%	35.6%	40.3%
New Jersey	$50.6	$47.0	$32.1	61.0%	60.8%	75.0%	24.7%	28.5%	41.0%
New Mexico	$16.7	$15.6	$13.8	37.2%	33.4%	38.7%	28.7%	29.0%	29.4%
Nevada	$13.3	$13.1	$13.7	28.7%	30.9%	29.0%	24.1%	30.6%	28.2%
New York	$86.3	$80.7	$72.6	61.3%	58.7%	55.8%	11.4%	10.4%	11.7%
Ohio	$126.3	$138.0	$120.4	43.5%	42.7%	47.6%	31.5%	30.5%	31.2%
Oklahoma	$22.0	$22.8	$21.9	40.2%	39.0%	34.9%	29.2%	31.1%	29.2%
Oregon	$30.2	$29.3	$29.1	45.1%	38.5%	44.0%	28.0%	29.1%	24.6%
Pennsylvania	$107.0	$120.5	$101.4	63.9%	61.2%	62.7%	16.0%	17.7%	17.4%
Puerto Rico	$39.0	$36.5	$35.8	52.3%	39.8%	52.1%	17.1%	16.4%	20.1%
Rhode Island	$5.7	$6.0	$5.8	41.6%	33.7%	51.7%	30.3%	34.2%	38.9%
South Carolina	$51.2	$54.9	$55.1	63.4%	55.6%	60.6%	28.9%	30.9%	31.0%
South Dakota	$9.3	$10.2	$8.9	30.5%	27.3%	34.5%	32.8%	36.6%	33.3%
Tennessee	$65.1	$73.9	$68.3	48.3%	46.8%	48.3%	29.1%	31.1%	26.3%
Texas	$181.8	$191.5	$184.3	45.5%	43.5%	44.0%	32.6%	34.3%	32.6%
Utah	$15.1	$15.7	$14.5	30.5%	31.0%	36.9%	28.2%	34.1%	31.3%
Virginia	$52.7	$58.1	$56.0	59.3%	58.3%	57.3%	27.9%	31.5%	30.5%
Virgin Island	$2.0	$1.9	$1.6	30.7%	22.3%	35.0%	29.7%	23.1%	26.8%
Vermont	$5.0	$5.1	$5.2	58.4%	51.5%	47.4%	28.2%	27.7%	27.4%
Washington	$50.1	$49.9	$44.2	47.6%	40.8%	44.5%	24.2%	26.4%	26.1%
Wisconsin	$63.6	$68.7	$52.9	45.1%	43.6%	52.0%	31.1%	37.3%	36.0%
West Virginia	$20.0	$20.3	$18.9	75.1%	83.6%	81.8%	22.7%	26.5%	21.8%
Wyoming	$5.2	$5.3	$5.1	56.3%	37.7%	38.0%	28.4%	27.4%	23.1%

Credit Involuntary Unemployment Insurance Experience By State, 1998-2000

	Earned Premium ($ Millions)			*Loss Ratio*			*Lender Compensation*		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Alaska	$3.6	$3.9	$3.8	11.4%	7.1%	4.4%	46.7%	40.2%	35.5%
Alabama	$11.9	$11.1	$10.6	16.5%	13.4%	12.0%	58.3%	50.1%	37.9%
Arkansas	$12.0	$12.8	$12.4	8.7%	4.6%	2.6%	55.7%	45.1%	46.2%
Arizona	$22.7	$23.3	$23.0	6.3%	4.0%	2.5%	55.2%	46.7%	47.9%
California	$150.5	$159.8	$151.4	11.4%	7.8%	5.1%	43.8%	39.8%	42.8%
Colorado	$16.7	$15.1	$14.3	14.4%	12.0%	3.9%	37.1%	43.2%	46.0%
Connecticut	$8.2	$8.5	$8.1	13.0%	10.7%	6.3%	50.2%	46.6%	47.5%
Dist Columbia	$4.3	$4.5	$4.3	7.3%	2.2%	3.5%	54.7%	45.7%	48.3%
Delaware	$3.9	$4.1	$4.9	7.3%	4.1%	4.3%	51.3%	56.4%	46.2%
Florida	$78.3	$78.6	$76.4	7.9%	6.8%	4.9%	47.8%	47.7%	50.9%
Georgia	$41.2	$43.8	$45.3	6.8%	4.6%	3.9%	54.6%	50.8%	49.2%
Hawaii	$8.5	$9.2	$9.0	14.6%	8.2%	3.4%	48.1%	45.6%	46.7%
Iowa	$9.3	$10.0	$10.4	6.6%	5.4%	4.6%	57.5%	49.5%	50.2%
Idaho	$5.7	$6.1	$5.9	11.1%	6.3%	4.7%	56.9%	50.6%	48.6%
Illinois	$59.6	$60.1	$57.3	9.9%	6.9%	4.3%	52.5%	49.5%	50.7%
Indiana	$27.5	$30.8	$5.9	6.8%	4.0%	15.7%	55.3%	41.1%	232.8%
Kansas	$11.7	$12.0	$11.6	6.6%	5.7%	4.5%	55.4%	47.6%	47.0%
Kentucky	$17.8	$18.5	$18.0	9.9%	6.0%	5.3%	51.3%	47.7%	45.5%
Louisiana	$22.4	$22.4	$21.8	9.0%	6.1%	4.0%	55.9%	48.6%	47.6%
Massachusetts	$10.4	$9.8	$10.5	10.9%	5.4%	4.8%	53.0%	45.5%	46.9%
Maryland	$27.5	$28.4	$28.9	6.4%	5.1%	4.9%	47.1%	34.4%	32.4%
Maine	$2.2	$1.9	$2.3	7.6%	3.7%	3.4%	61.3%	60.1%	59.2%
Michigan	$47.9	$46.7	$46.2	8.6%	4.7%	3.2%	53.9%	51.8%	47.8%
Minnesota	$3.6	$3.9	$5.0	13.2%	15.0%	14.7%	30.7%	28.1%	33.4%
Missouri	$16.9	$16.4	$16.7	10.0%	8.2%	8.7%	37.8%	38.2%	35.6%
Mississippi	$9.0	$8.7	$9.2	12.0%	5.8%	5.1%	48.9%	44.5%	45.8%
Montana	$4.1	$4.3	$4.2	11.8%	6.2%	5.6%	50.8%	43.9%	46.1%

Credit Involuntary Unemployment Insurance Experience By State, 1998-2000

	Earned Premium ($ Millions)			*Loss Ratio*			*Lender Compensation*		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
North Carolina	$29.1	$32.2	$32.4	9.4%	8.1%	6.3%	46.6%	40.6%	41.5%
North Dakota	$3.0	$3.0	$2.9	5.2%	5.7%	4.2%	53.8%	46.9%	46.9%
Nebraska	$7.5	$7.5	$7.6	7.0%	4.6%	5.5%	52.6%	45.5%	44.6%
New Hampshire	$3.2	$3.7	$3.4	8.5%	2.4%	1.4%	55.5%	11.7%	52.1%
New Jersey	$45.5	$51.0	$52.3	10.9%	7.2%	5.1%	47.4%	42.9%	44.6%
New Mexico	$9.4	$9.5	$9.5	9.0%	6.9%	4.7%	43.3%	40.7%	42.1%
Nevada	$10.7	$11.1	$10.4	9.2%	5.6%	3.9%	37.0%	35.7%	38.3%
New York	$23.1	$26.4	$26.4	27.3%	24.3%	12.0%	36.9%	33.6%	36.0%
Ohio	$59.3	$64.6	$64.1	8.3%	6.3%	4.5%	47.2%	40.1%	39.5%
Oklahoma	$17.4	$16.0	$15.5	16.1%	4.0%	2.2%	44.8%	40.9%	41.8%
Oregon	$17.0	$17.8	$16.9	11.3%	7.0%	7.2%	52.1%	43.1%	45.4%
Pennsylvania	$16.5	$18.9	$20.1	27.9%	22.1%	20.9%	31.0%	26.7%	22.3%
Puerto Rico	$0.6	$0.6	$0.6	12.7%	11.9%	3.7%	59.8%	53.2%	30.4%
Rhode Island	$4.6	$5.1	$5.2	9.1%	12.0%	5.0%	53.0%	46.4%	44.9%
South Carolina	$20.6	$22.6	$22.9	10.3%	8.1%	6.2%	50.4%	42.7%	41.9%
South Dakota	$3.1	$4.1	$4.2	9.0%	17.6%	8.6%	43.7%	41.2%	41.1%
Tennessee	$31.7	$33.3	$32.3	10.3%	6.8%	6.3%	51.1%	41.6%	44.3%
Texas	$48.1	$46.3	$45.2	12.3%	12.9%	12.5%	51.0%	43.4%	44.4%
Utah	$9.7	$9.6	$9.5	8.2%	4.5%	4.6%	54.6%	47.5%	53.3%
Virginia	$33.0	$35.7	$34.2	5.9%	3.8%	3.5%	61.8%	51.1%	43.1%
Virgin Island	$0.2	$0.2	$0.2	13.8%	1.0%	4.2%	71.4%	49.4%	52.9%
Vermont	$0.8	$0.8	$0.8	6.7%	2.4%	0.7%	58.8%	50.6%	51.5%
Washington	$27.0	$27.9	$28.4	11.2%	10.7%	7.1%	53.4%	41.5%	43.6%
Wisconsin	$22.3	$25.6	$25.3	8.0%	5.7%	3.7%	56.7%	50.4%	48.3%
West Virginia	$11.3	$12.0	$12.0	13.1%	11.6%	6.4%	50.9%	44.8%	45.5%
Wyoming	$2.9	$2.8	$2.5	7.3%	3.7%	3.6%	50.3%	44.4%	45.4%

Credit Property Experience By State, 1998-2000

	Earned Premium ($ Millions)			*Loss Ratio*			*Lender Compensation*		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Alaska	$0.4	$0.6	$0.8	9.8%	2.7%	7%	41.4%	40.0%	26%
Alabama	$6.6	$6.0	$5.9	54.4%	39.3%	32%	19.0%	23.9%	23%
Arkansas	$4.3	$4.5	$4.5	21.5%	23.5%	28%	42.5%	38.0%	39%
Arizona	$6.1	$7.1	$7.3	15.6%	13.4%	14%	51.9%	46.0%	45%
California	$64.0	$54.2	$51.3	31.3%	11.3%	8%	29.8%	31.8%	30%
Colorado	$3.8	$3.9	$4.6	20.4%	21.1%	21%	24.0%	33.4%	24%
Connecticut	$2.2	$1.8	$1.7	12.7%	6.2%	18%	36.3%	40.1%	30%
Dist Columbia	$0.5	$0.4	$0.4	2.8%	3.6%	1%	28.1%	30.3%	26%
Delaware	$2.2	$2.1	$2.1	30.9%	18.2%	16%	24.6%	26.5%	23%
Florida	$39.8	$35.3	$35.2	14.8%	8.1%	9%	31.5%	35.0%	34%
Georgia	$36.7	$36.7	$34.6	14.9%	11.7%	13%	47.4%	51.8%	61%
Hawaii	$2.0	$2.0	$2.1	7.3%	2.1%	2.3%	37.6%	32.3%	30%
Iowa	$1.8	$1.6	$1.6	13.4%	5.6%	6.1%	44.6%	49.1%	51%
Idaho	$1.0	$1.1	$1.1	22.4%	11.6%	27.9%	33.5%	46.9%	26%
Illinois	$13.8	$12.6	$12.3	8.3%	9.1%	6.7%	33.8%	37.3%	24%
Indiana	$5.1	$5.0	$5.4	11.2%	8.6%	7.6%	37.0%	38.3%	35%
Kansas	$2.4	$2.6	$2.8	32.8%	45.1%	12.6%	39.9%	42.3%	39%
Kentucky	$12.9	$12.9	$11.7	21.9%	23.3%	20.3%	26.8%	28.3%	35%
Louisiana	$20.1	$27.1	$28.3	13.1%	12.7%	10.9%	50.4%	54.6%	50%
Massachusetts	$4.6	$3.8	$3.4	12.1%	8.9%	6.5%	38.2%	32.1%	33%
Maryland	$11.0	$10.7	$10.6	6.1%	5.1%	3.9%	23.9%	36.0%	31%
Maine	$0.6	$0.6	$0.6	24.6%	18.6%	15.7%	50.8%	61.5%	56%
Michigan	$9.7	$8.5	$8.6	16.7%	18.1%	14.7%	39.0%	44.3%	44%
Minnesota	$2.1	$1.9	$1.8	13.2%	9.2%	15.9%	20.1%	20.8%	16%
Missouri	$4.6	$5.4	$5.6	28.3%	21.6%	19.8%	31.4%	37.7%	30%
Mississippi	$16.3	$16.6	$12.0	27.3%	23.6%	18.6%	33.8%	26.8%	35%
Montana	$0.8	$0.9	$0.9	7.4%	10.7%	21.8%	32.4%	44.5%	25%

Credit Property Experience By State, 1998-2000

	Earned Premium ($ Millions)			*Loss Ratio*			*Lender Compensation*		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
North Carolina	$34.5	$40.5	$40.2	36.0%	105.5%	31.0%	30.5%	33.3%	38%
North Dakota	$0.3	$0.3	$0.3	14.5%	60.9%	15.5%	36.3%	41.4%	36%
Nebraska	$1.3	$1.6	$1.7	15.8%	7.9%	5.8%	50.3%	55.0%	64%
New Hampshire	$1.1	$0.9	$0.8	11.0%	14.6%	10.1%	25.8%	37.0%	24%
New Jersey	$8.7	$7.5	$8.0	9.5%	7.4%	3.9%	19.7%	38.7%	27%
New Mexico	$6.6	$7.4	$7.1	27.7%	27.9%	19.3%	27.0%	31.6%	30%
Nevada	$3.0	$3.3	$3.7	10.3%	4.8%	5.8%	33.3%	40.0%	43%
New York	$13.4	$14.3	$14.6	14.6%	8.7%	7.5%	61.7%	43.0%	29%
Ohio	$20.2	$18.2	$18.6	1.0%	9.3%	8.8%	28.9%	29.9%	29%
Oklahoma	$5.1	$6.0	$6.4	15.6%	22.9%	14.6%	39.5%	35.5%	31%
Oregon	$3.6	$3.3	$3.4	6.6%	6.9%	4.8%	32.3%	41.5%	21%
Pennsylvania	$12.4	$13.7	$13.1	22.3%	21.0%	14.4%	33.2%	30.8%	31%
Puerto Rico	$0.4	$0.4	$0.2	5.7%	1.5%	-3.7%	47.8%	44.6%	26%
Rhode Island	$0.6	$0.6	$0.6	7.2%	11.4%	7.5%	44.1%	48.3%	34%
South Carolina	$29.1	$28.0	$25.7	21.5%	22.3%	19.1%	28.3%	30.4%	24%
South Dakota	$0.4	$0.4	$0.5	7.4%	23.6%	3.8%	34.3%	81.1%	38%
Tennessee	$24.8	$26.1	$26.2	31.8%	23.1%	27.2%	35.4%	37.5%	38%
Texas	$49.3	$35.9	$28.9	17.2%	18.3%	15.0%	23.9%	22.2%	25%
Utah	$3.0	$2.1	$2.8	11.6%	12.9%	6.5%	30.8%	36.0%	42%
Virginia	$16.7	$16.1	$15.2	20.4%	20.2%	18.8%	27.8%	28.3%	23%
Virgin Island	$0.0	$0.0	$0.0	4.2%	27.9%	-10.7%	6.9%	6.6%	15%
Vermont	$0.3	$0.3	$0.3	24.7%	4.3%	5.2%	46.5%	48.7%	48%
Washington	$8.9	$8.4	$8.8	9.9%	20.4%	8.9%	36.5%	39.9%	37%
Wisconsin	$2.9	$2.9	$2.5	10.8%	2.5%	5.5%	35.1%	38.0%	39%
West Virginia	$5.4	$5.1	$4.6	26.2%	15.3%	12.7%	26.3%	29.0%	29%
Wyoming	$0.2	$0.3	$0.3	3.2%	11.3%	2.7%	45.6%	53.6%	36%