Comments of the Center or Economic Justice

To the NAIC Market Analysis Procedures Working Group

April 3, 2017

The Center for Economic Justice (CEJ) writes in response to the CCIA opposition to CEJ’s proposal to add credit life insurance for Market Conduct Annual Statement reporting.

CCIA states its opposition based on three claims:

1. Credit Life is a small line with small insurers.
2. There is no compelling reason to collect further Credit Life data.
3. Credit Life is sold as a group policy.

None of these arguments has merit. In fact, the characteristics of Credit Life make it a particularly relevant line of insurance for MCAS. MCAS is critically important for smaller lines of insurance, like Credit Life, because MCAS allows regulators to perform routine and cost-effective market analysis of these lines. In the absence of MCAS for smaller lines of insurance, these lines will likely go unmonitored.

We start with the argument that “there is no compelling reason to collect further Credit Life data”. CCIA argues that complaints for Credit Life are low and data are already reported in the Credit Insurance Experience Exhibit (CIEE). First, CCIA continues to mischaracterize the purpose of MCAS. MCAS is not intended as a response to market problems, but a tool to monitor markets. If complaint data were sufficient for market analysis, there would be no MCAS reporting for any line of business. Second, the CIEE is not a substitute for MCAS. The CIEE contains information about dollar amounts of premium, claims and lender/producer compensation. The CIEE contains none of the information contained in the MCAS – certificates sold or cancelled, number of claims, time to settle a claim, claims denied, claims paid, complaints reported directly to the insurer or lawsuits. Third, the reverse-competitive nature of credit insurance markets puts consumers in more vulnerable situations than other lines and has resulted in a disproportionate amount of regulatory action over the years.
We next address the argument that Credit Life is a mall line with many small insurers. Presumably, CCIA is arguing that MCAS would not be cost effective given relatively small premium and relatively small insurers. **In fact, Credit Life is precisely the type of line of insurance for which MCAS is the most cost-effective.**

In the absence of MCAS, how will regulators monitor credit life insurance markets? One option would be routine market conduct examinations of credit life insurers. Given the small premium for the line and “many small” insurers, such routine market conduct exams are highly unlikely. Stated differently, in the absence of MCAS for credit life, there will be little or no monitoring of Credit Life insurance markets and insurers absent a well-publicized consumer abuse.

**MCAS is particularly cost-effective for small lines of insurance because MCAS reporting will allow regulators to quickly and efficiently monitor these markets without resorting to market conduct examinations for such monitoring.** Even in the absence of MCAS, regulators will monitor large insurers’ market conduct and consumer market outcomes for major lines of insurance. But in the absence of MCAS, regulators’ limited resources means that routine market analysis of smaller lines of insurance will likely not occur. **MCAS is particularly suited to and important for small lines of insurance to allow regulators to monitor the markets for these smaller lines of insurance in the most cost-effective manner for regulators and insurers.**

MCAS not only represents a very cost-effective method for regulators to monitor small lines of insurance like Credit Life, but is also cost-effective for Credit Life insurers. It is far less costly for Credit Life insurers to report MCAS data than to host a market conduct examination. If credit life insurers produce the positive consumer outcomes claimed by CCIA, then MCAS reporting will eliminate market conduct examinations for most or all Credit Life insurers.

CCIA further argues against MCAS for Credit Life claiming the line should be exempt because Credit Life is sold as a group policy, claiming that group life products pose problems for MCAS reporting and further claiming that Credit Life should be exempt from MCAS because the NCOIL Unclaimed Life Insurance Benefits model act exempts credit life. The second argument is a non-sequitur – the fact that credit life is exempted from an NCOIL or an NAIC model for specific consumer protections has no bearing on whether Credit Life consumer market outcomes should be monitored by regulators. The history of credit life abuses, including abusive sales of financed single premium credit life, is clear evidence that credit life group policy sales or claim settlements are not immune to problems requiring regulatory scrutiny.
The CCIA argument that MCAS reporting poses unique hardships on Credit Life insurers selling group policies is also without merit. The MCAS reporting consists generally of number of certificates sold and canceled, number of claims and claim settlement metrics, complaints to the insurer and lawsuits. It is certainly not unreasonable or burdensome to ask an insurer to report how Credit Life coverages were issued and canceled during the reporting period, how many claims it received and paid or denied, how many complaints it received directly and how many lawsuits it participated in. If credit life insurers are unable to report this basic information about the operations, then there are even more significant issues with Credit Life.

We close by repeating our most important point – MCAS is critically important for smaller lines of insurance, like Credit Life, because MCAS allows regulators to perform routine and cost-effective market analysis of these lines. In the absence of MCAS for smaller lines of insurance, these lines will likely go unmonitored.