

Credit Insurance Update

By: Bob Butler

Assurant
Assurance

Impacts To Credit Insurance

- Debt Protection
- Predatory Lending
- Prima Facie Rate Changes
- New Valuation Tables

Debt Protection

- Addendum to lender's agreement modifying loan terms, under which lender agrees to "cancel" or "suspend" all or part of customer's obligation to repay that extension of credit upon the occurrence of specified event
- Non-insurance, banking product serving as substitution product for credit insurance

Types of Debt Protection

- **Debt Cancellation Contract (DCC)**
 - Cancels debt for # of payments, or in entirety
 - Cancels payment, interest, and some principal
- **Debt Suspension Agreement (DSA)**
 - Waives payment and interest
 - No principal
 - Some lenders “freeze” use of card/line
- **Hybrids (combination)**

History

1964

1986

1990

1997

1999

- 1964 OCC (Office of the Controller of the Currency) authorizes

History

1964

1986

1990

1997

1999

- **1986-90 Debt cancellation resurfaces**
- **FNB of Easter, AR**
 - **Sues AR Insurance Department**
 - **Wins**
 - **Affirmed by U.S. Court of Appeals**

History

1964

1986

1990

1997

1999

- **Early 1990's - Providian, then Advanta**

History

1964

1986

1990

1997 1999

- **1997 - Citibank begins researching**

History

1964

1986

1990

1997

1999

- **1999 - Citibank launch/
turning point**

History

1999

2000

2001

- **1999 - Retailers**
 - **Metris & Target**
 - **Follow Citi's lead**

History

1999

2000

2001

- 2000 - MBNA, Discover, Chase follow

History

1999

2000

2001

- 2001 - All top 10 bank credit card issuers
- 2001 - Bank of America becomes first large bank to offer on loans & mortgages

Debt Protection Expansion

- Driven initially by national banks in credit card arena (bank & retail)
- Expanding beyond credit card into installment, mortgages, and auto lending



Assurant

Debt Protection Expansion

- Moving to other lending entities: federal thrifts & credit unions, state banks



Why So Successful in U.S.?

- Significant incremental revenue & profits
- Flexibility
 - Product & rate
- Simplicity
 - National vs. State program
- Timing
 - Credit insurance rates declining rapidly
 - Licensing/regulation increasing
 - Eroding compensation margins
- Citibank embraced it
 - The market followed

Predatory Lending

- Name given to deceptive lending practices in primarily sub prime real estate market.
 1. Flipping
 2. High fees that strip equity
 3. Financed insurance premiums

Effective Consumerists

- **ACORN (Association of Community Organization for Reform Now)**
- **AARP**

History

- **7/1/2000 NC prohibits financing credit insurance premiums on residential real estate loans**
- **During 2001 HFC and CitiBank announce they will only offer MOB for real estate loans**
- **Effective 10/1/2002 FRB lowers triggers on HOEPA Loans**

Current State Regulation On Real Estate Loans

- 11 prohibit financing premium (CA, CO, GA, IL, MA, NJ, NM, NY, NC, OH, WA)
- 4 require MOB option (CT, ME, PA, TX)
- 9 have pending laws prohibiting financed premium (AZ, HI, LA, MA, NV, TN, SC, TX, VT)

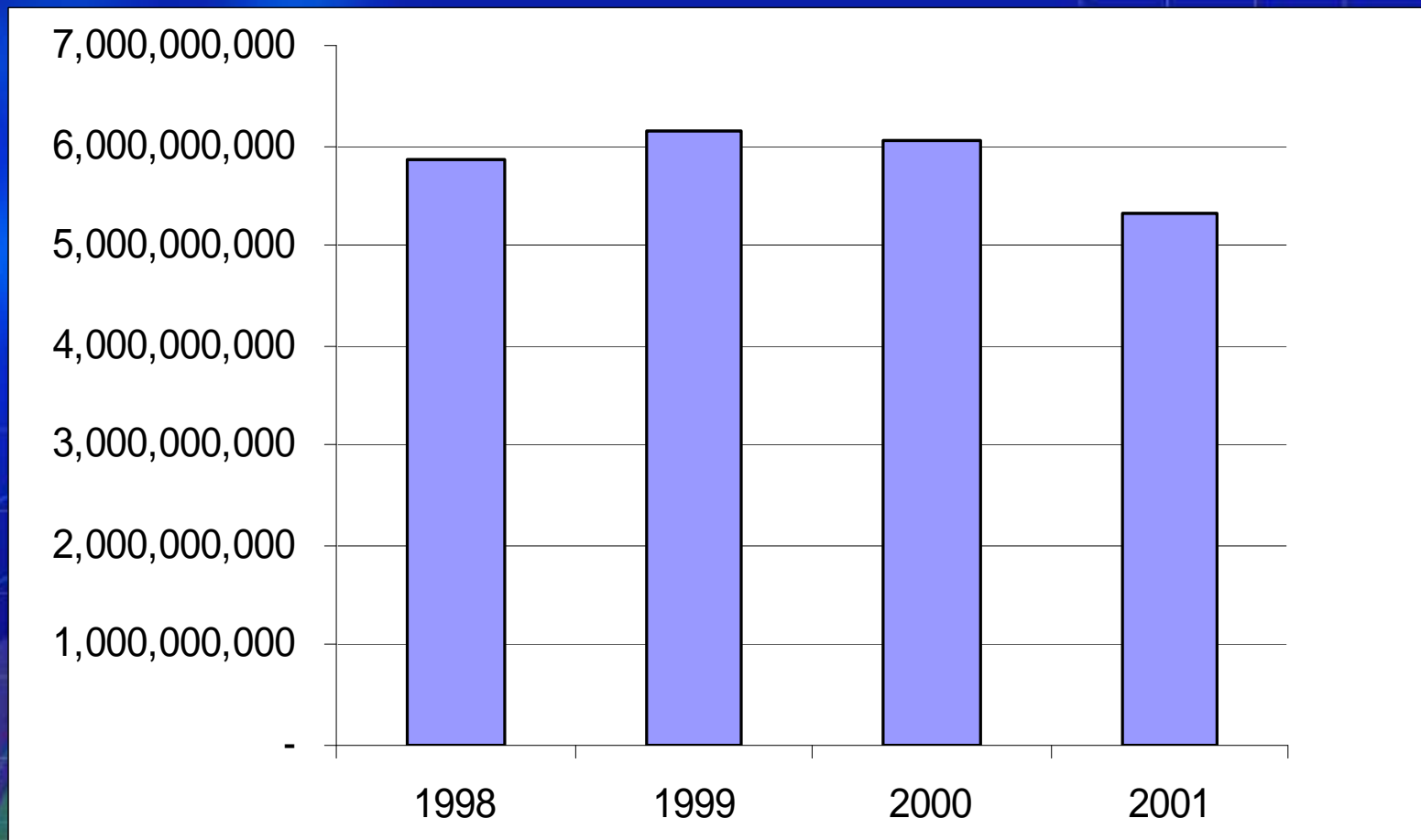
Current Market

- Major banks have either stopped writing credit insurance or gone to MOB
- Some suspended until MOB debt protection alternative available

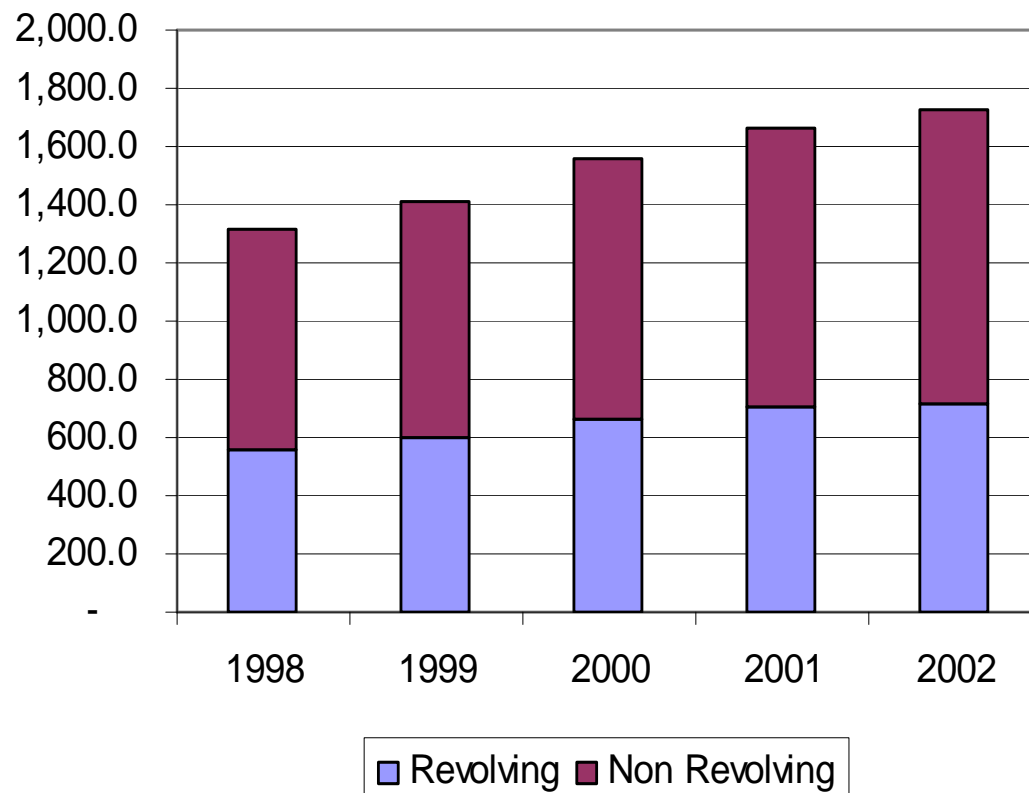
Prima Facie Rate Changes 1998 To 2002

- NAIC pressuring states to actively review rates & experience
- Credit life rates lowered in 16 for overall 6% drop
- Credit disability rates lowered in 11 for overall 4% drop despite increased unemployment
- Source: Gary Fagg's 2003 Fact Book of Credit Related Insurance

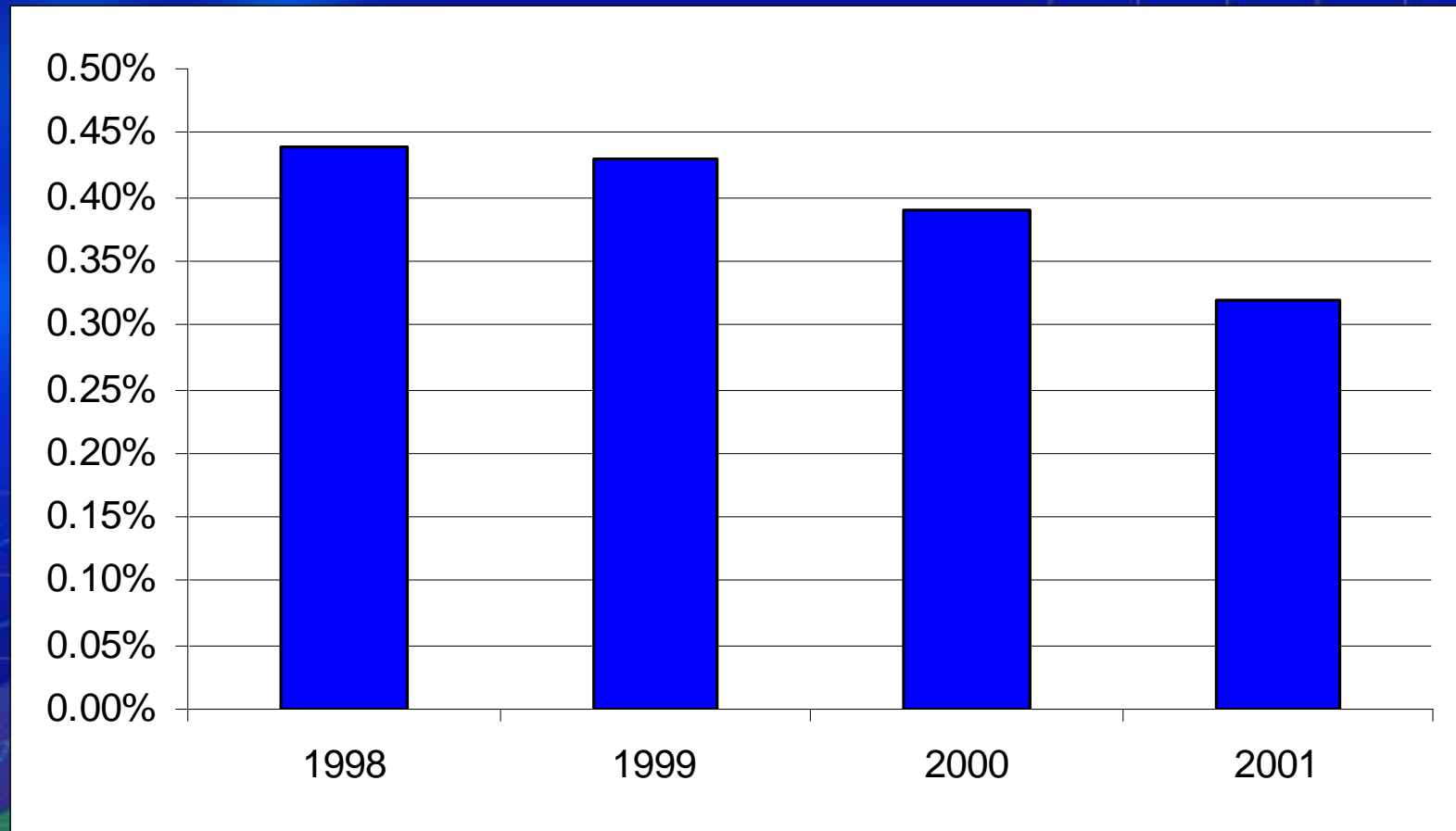
Credit Insurance Net Written Premium - Life, Disability & Unemployment



Consumer Debt In Billions



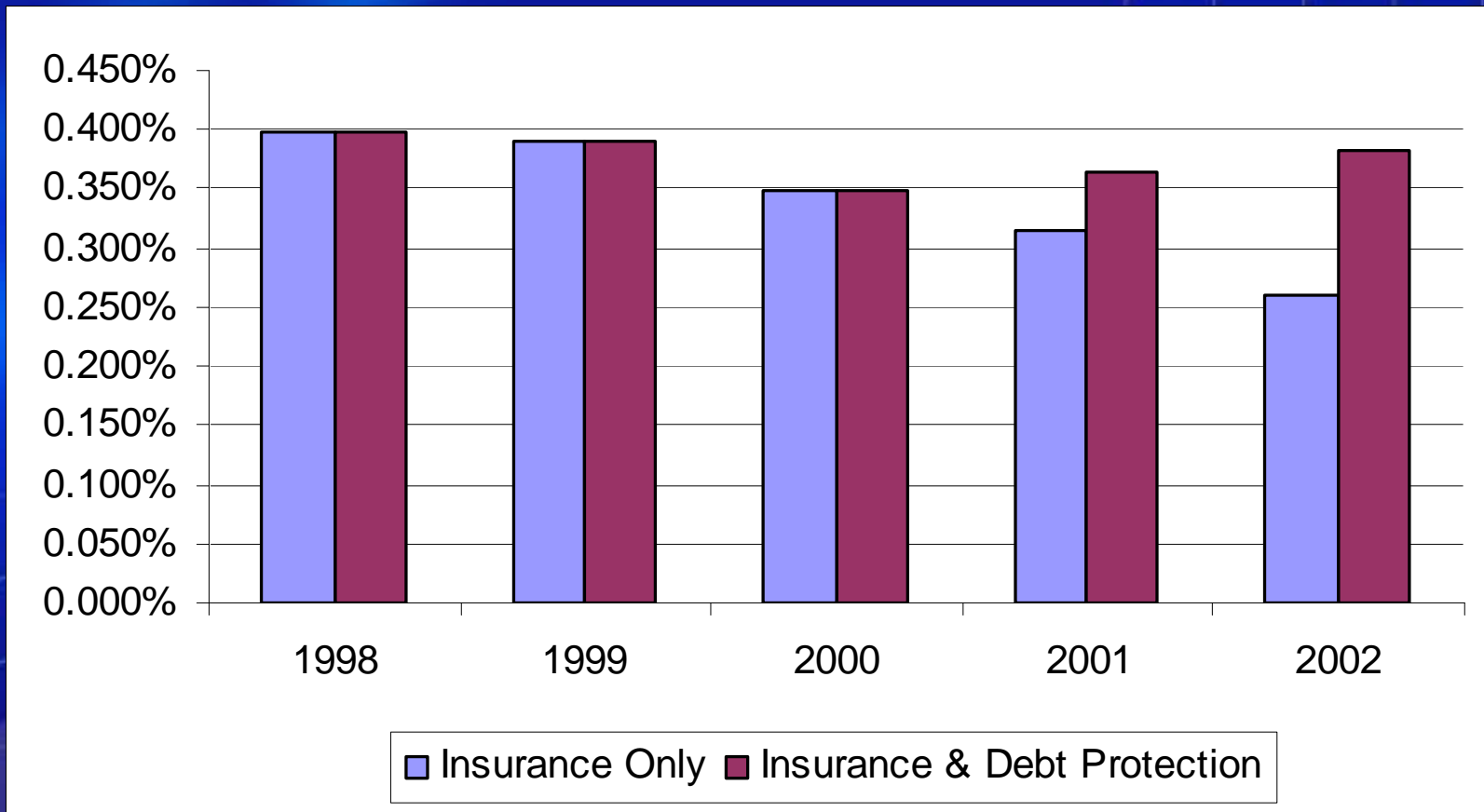
Ratio Of Insurance Premium To Consumer Debt



Credit Life, Disability & Unemployment Insurance On Revolving Debt In Millions

Year	Industry	Assurant Group	Market Share
1998	2,241	1,077	48%
1999	2,332	1,200	51%
2000	2,328	1,180	51%
2001	2,215	1,059	48%
2002	N/A	888	

Ratio To Consumer Revolving Debt



Credit Disability Valuation

- New table based on 1985 CIDA
- 30% less than unearned premium reserve
- NAIC Model Health Valuation law amended September 2002
- One flaw, reserve not less than modal pro rata unearned
- NAIC to review June 20, 2003
- Adopted NY, pending OH and NM

Credit Life Valuation

- Most states do not have formal basis in law or regulation
- NAIC considering model regulation
- Proposal is 2001 CSO male ultimate
- NAIC to review June 20, 2003

Summary

- Will credit insurance exist in 5 years?
- Will OCC be precursor to Federally chartered life companies?
- OCC prohibits single premium debt protection on real estate
- OCC requires for other single premium a bona fide periodic payment option