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Credit Insurance and HR10, Financial Services Reform

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Summary: The panel provides background on the impact of the passage of HR10 in November 1999, on the future of credit insurance, as well as the life insurance industry in general. Debt cancellation agreements are replacing the pure insurance product credit life and credit disability. Besides the historical risks of death and disability, now banks will be able to cover such risks as unemployment, hospitalization, family leave, and divorce, as well as any other risks they might choose.

At issue for actuaries and insurance companies is the lack of state insurance department regulation and protections provided by historical insurance policy provisions. Lacking guidance from state maximum rates and minimum reserves, actuaries are forced to balance professional responsibility to protect policyholders with marketing pressure to maximize profits.

The panel demonstrates ways to price these new risks, how to adapt current data to experience underlying a bank's customer base, and where to find appropriate statistics to develop rates.

Mr. T. Michael Presley: One can tell how fast things are moving in this world, because HR 10 is now known as the Gramm-Leach-Bliley Act (GLBA). The passage of GLBA has caused a flurry of activity as the financial services industry struggles to react to this legislation's far-reaching effects on credit-related products.

We are indeed fortunate to have two panelists who are on the forefront of aiding in our understanding as actuaries of the opportunities brought about by this landmark legislation. First we will hear from Hugh Alexander, an AV-rated lawyer and industry consultant who's devoted his professional career to the insurance industry. Beginning in 1971, he served the Nebraska Department of Insurance as general counsel. Hugh continued to gain a broad range of insurance skills and experience in the insurance industry by working in legal and management positions in leading property & casualty (P&C) and life insurance companies until 1985. In that year, he

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relocated to Denver, Colorado to start his own AV-rated insurance law firm and insurance consulting company.

Some of you may be like me and not know exactly what an AV-rated lawyer is, but I found out that that is a category assigned by Martindale-Hubbell that rates attorneys. This particular category is the firm's top rating category, meaning very high to preeminent.

Combining his regulatory, corporate, and legal skills, Hugh focuses his energy on four distinct areas: legal counsel and consultant to insurance companies in the field of corporate law, including acquisitions, reorganizations, and divestitures; legal advice and counsel to banking and financial companies entering the insurance marketplace and debt cancellation programs; administrative and regulatory law for insurance companies, agents, brokers and agencies; and legal advice and counsel on policy coverage issues, and bad-faith issues, as coverage counsel and as an expert witness.

Hugh will tell us how GLBA has changed the landscape for credit insurance and other credit-related products sold through financial institutions. He is going to give us some of the practical implications of the law, who can take advantage of it, who cannot, and some of the pitfalls for those who chose to take advantage of the legislation's far-reaching provisions.

Mr. Hugh Alexander: Gary and I are going to try to bring you up to speed on what is happening in credit insurance and how credit insurance is going to be suffering as a result of the changes in financial reform that have occurred. Some people say, "times are changing"; well, it's really, "times have changed."

National financial institutions are going to be changing, as you all know. You're going to see a redesign of their products not only from the banks, but also from the insurance companies. Insurance companies are going to be providers of product, and they're going to be looking for different distribution channels to make that new design work. So they're also going to be designing distribution channels. With banks now being able to sell insurance, that's a big marketing arm that's now available for the insurance industry to go out and partnership with and sell different products. As a result, the insurance companies are going to have a new, viable alternative to increase their capacity to market their insurance products.

Also, we're going to see a redesign of business models. Maybe you have heard something about this in the last couple days in your different meetings. As expenses are squeezed down, more and more of the stock entities play to the analysts—it's not the policyholders anymore, it's the analysts on Wall Street who work for nice smooth earnings on a quarterly basis constantly going up, but never going down. And so, as the managers of the insurance entities start looking at those numbers, they're going to see business models changing; they're going to have to find ways to bring product out that's less expensive and to manage that product so that there's a profit at the end of the day. And to build new relationships, insurers go into a bank. The banks have not been available. Prior attempts to sell insurance to the banks in the late 1970s and early 1980s were dismal failures; now there's the opportunity to market. And it seems that the mindset amongst all the financial institutions is to partner in ways that will bring product in an easy and identifiable method to the customer. So the customer has a lot of opportunities to be introduced to new products.

The future of financial institutions. Times are changing. Well, times have changed with the passage of GLBA. A lot of you have been impacted already by acquisitions and mergers, and you're going to be impacted in the future. Here's a statistic—70% of the bank and insurance sector assets are held by 25 companies, and those are foreign companies and U.S. companies. So there's already a significant concentration of assets in the marketplace, and that's just going to get bigger.

But what you're going to see with GLBA as it occurs is that banks are not going to be buying insurance companies. Why would a bank go out and buy an insurance company? A life insurance company? Ten percent ROE. Why would a bank do that? A bank makes 18% ROE already generally across the country. So why would they go out and do it and cause their ROE to decrease? They have to show that constantly increasing profitability to Wall Street on a quarterly basis. And if you bring down your assets by a 10% paying asset, what happens? Think about it, that's just life coverage. If you were a P&C company and you're generating 4–5%, maybe it's going to even constrict down to even closer to 2–3%. So I don't think you'll see a lot of banks buy insurance companies. It might be the other way around, where insurance companies can go out and buy a bank and increase their earnings by buying an 18% ROE. But what you'll see is a lot of insurance companies creating banks.

So far this year 19 banks have been created by the insurance industry. Last year 32 banks were created by the insurance industry. Maybe that's the way it's going to go. Most of them probably aren't going to be brick-and-mortar banks; they're going to be virtual banks, and we'll see what happens. We'll be talking in terms of universal, global, and regional and domestic institutions; it won't be local institutions like we're used to.

Think of it this way. The Euro is now getting started. In a year it's going to be the dominant currency of the European market because all the deutschmarks and francs are all going to be gone. So you have the Euro being used by all the countries in the European sector. In the Asian sector you have the yen as the dominant currency, and of course you have the U.S. currency. So you have three primary segments of currency. A lot of companies will buy in those three segments so that they have a balancing through the economic ups and downs of the worldwide economy. So you have to start thinking on a worldwide basis.

And then, of course, there is the issue of the credit insurance. How many of you are in the credit insurance business now? A lot of you are. Well, you're going to be impacted by what's happening with the market; it's hard to sell. More and more of your marketers are saying, This is really hard to sell. People don't like it. It has a negative connotation. Consumer groups say it's priced too high; there's no value.

That's a constant thing that's out there all the time. It's a very difficult product to sell.

So along comes GLBA. It passed both houses of Congress on November 4, 1999. Bill Clinton signed it on November 12, and it became law. There are different implementation dates over the next three years. It's the law of the land now. What does GLBA do? There are seven titles, but Title III deals with insurance. As for the insurance industry, the law provides for functional regulation. The Federal Reserve Board sits on top and rules the world, but then underneath the Federal Reserve Board are the different functions. So you have the SEC regulating securities. You have the insurance commissioners and the NAIC regulating the insurance industry. And you have the Office of the Comptroller Currency (OCC) and the Treasury Department regulating banks and other financial institutions. There's Farmer's Home Loan Board and some others, but those are the three primary ones. Everybody is supposed to stay within these nice little boundaries, and it's called functional regulation.

Title III, Subtitle A, State Regulation and Insurance. States are going to regulate insurance, subject to a few preemptions that GLBA takes care of. Section 301, Functional Regulation of Insurance, states, "Insurance activities of any person shall be functionally regulated by the states." What they're really going to be doing is looking at holding companies, financial examinations, investments of insurers, producer licensing, agency law, and market conduct examinations. We have three years to come up with a unified system under National Association of Registered Agents and Brokers (NARAB). Those are the functional areas that have been designated under GLBA to the insurance industry.

Section 302, Insurance Underwriting in National Banks. National banks cannot be underwriters of insurance products. They're specifically excluded; they cannot underwrite products, except for authorized products. "Authorized products is a defined term. As of January 1, 1999, the OCC had determined in writing that national banks may provide products. The OCC has a laundry list of products. Today we're only going to be talking about debt cancellation products. Such products were already, in fact, lawfully provided by banks as principals. The bank had to be the principal and the underwriter of the program. And no court of relevant jurisdiction had by final judgment overturned the determination of the OCC. The OCC won all but two cases since 1966, and during that time they allowed the banks to get in the insurance business, losing only two cases. So there are a lot of good court decisions which allowed the OCC to do a lot of things. And the products were not title insurance or annuity products, so they got a special exclusion for the insurance industry.

Any product regulated as insurance as of January 1, 1999 by a state and provided in that state, is defined as insurance. What this means is from January 1 forward, if the state insurance commission said "this product is insurance," then it's going to be insurance. It's typical standard language in the insurance codes for what an insurance product is. The National Banking Act's been around since the 1850s. It states that insurance is a necessary and incidental part of banking. That is the coverall, and then we have such activities as lending money, home securities, and being a trust company. A loan, then, is part of banking. So anything that is necessary and incidental to a loan is a product that the bank can offer in the future, if it was not specifically provided as an authorized product prior to January 1. And there's the good case law that I mentioned earlier. Since 1966 the OCC has lost only two cases, and all the cases deal with what is necessary and incidental. The National Bank Act allows the OCC to say what a bank, in protecting itself and its loans, can do. Offering debt cancellation is one of those products.

So what is a debt cancellation product? Well, it's very simple—it cancels a debt. But there are only two real products that are out there right now where banks have agreed to cancel the debt. What the banks are primarily doing—and this is all because it came about prior to the passage of GLBA, is that the next payment of an existing debt does not have to be paid if a protected event occurs. Or it defers payment for a period of time, usually 24 months. Some debt cancellation agreements (DCA) suspend the collection of the existing debt. This is similar to deferral, but the customer doesn't have to pay the debt. It freezes the existing debt. Again, terms are very similar. Gary will talk to you about some of the distinctions between these last three terms: defer, suspend, and freeze.

There's another product that's now out that pays the interest on the loan but does not pay the principal on the loan. So the customer has an event, and the interest is paid during the period of time that there's protection. That's the term. Gary started the trend for its usage, and we've amplified upon it. We all thought prior to passage of GLBA that we needed to have a new vocabulary that kept insurance regulators at bay, because we didn't know what GLBA was really going to do. Consequently, we decided that we should not use such terms as policy, benefit, premium, insured, and premium income. One should speak of such products as debt protection or event protection, fee rate instead of premium rate, fee income instead of premium income. Use the terms loss of life protection, disability protection, or involuntary unemployment protection. We are still working on trying to have debt cancellation have its own terminology, just because it's going to be a better way to sell the product and differentiate it from credit insurance.

What events can be covered by debt cancellation? Death. Just like credit insurance. If you die and you're a debtor, your debt can be paid off. Disability. If you become disabled, after a period of time during your disability your credit obligation is paid. Hospitalization. You go into the hospital, and your debt is deferred or paid off, depending on whether it's debt deferment or debt cancellation. Involuntary unemployment. Don't these four just look like what you offer now as credit insurance? Well, they basically are, because that's where the market was. They took existing products and wrote them over to debt cancellation products. But now they're going to add the opportunity to do some new things. And family leave came just at the end. So family leave, especially with the President promoting the concept, is a big product of credit insurers, and now it's going to be a big product for debt cancellation as well.

Gary and I set up the Target Corporation accounts, so if you have Target credit cards or Marshall Fields or Dayton or Hudsons, you can go in and get a debt cancellation contract if you have one of their credit cards. And we did family leave. Now, Target had family leave credit programs before, and two claims were particularly interesting. The average debt at a Target store is $500 on their finance transaction. These two claimants on family leave were very smart people. They were going to have families; they had the protection. They went in and bought all the baby goods that they possibly could. One spent about $3,200, and they both bought about $3,800 worth of goods. They went out and took family leave, and guess who paid? The credit insurer that had the account at that time paid. But Target can provide the program now.

Long-term care (LTC). Statistically speaking, baby boomers are now about 53. January 1, 1936 is the beginning of the baby boom era. The leading cusp is now 53. Their parents are in their 70s. As that generation heads toward retirement, retirement is going to be either early or late, depending upon which demographic expert you listen to. But they are going to take their same buying habits with them. My grandparents retired 35 years ago in Sun City, Arizona. They retired, they bought a house, they bought a nice car. They drove that car for 15 or 20 years until they died. When you go down there, you see all these big old cars sitting around that have 6,000–7,000 miles on them. My parents went down to take care of my grandparents, and they didn't buy just one car; they bought several other cars over time. Just as the baby boom generation does, we will go in and buy more things. We're used to managing debt. We're used to taking a monthly income, so we have all our retirement programs giving us monthly income. And every once in a while we're going to have to go out and borrow money. So we're going to take those buying patterns with us. That's an opportunity for LTC because disability at that age doesn't have replacement of income. Since older people fall and get hurt, they have a need for disability. So LTC products are going to sell well.

Guaranteed Automobile Protection (GAP) insurance is already a debt cancellation product approved by the OCC. Gary Fagg created divorce protection. He listened to what the banks said. He asked what the most critical times were when the accounts were in a delinquent status. Well, when the couple splits up and neither spouse says that they're responsible for the credit card debt, so the financial institution doesn't get paid for 90 or 120 days while the lawyers sort out in divorce court who's going to be responsible. So Gary created a product that will provide the banks with divorce protection.

Credit card banks will be the first, followed by open and closed lending. The credit card banks are already out there: Citibank, Advanta, Providian, Target. They are all coming out now with debt cancellation- and debt deferment-type programs. There are a couple that are out selling now. Big banks are also considering DCA for open and closed lending. One that we are familiar with had $115,000 in debt cancelled. That's a pretty significant amount of coverage that they're just cancelling. And they also offer plans with 24 months of disability coverage.

Community banks. As insurance people we think we know things, but sometimes we really get into it and we don't. For example, I had some experience with Texas community banks when we tried to sell debt cancellation programs in Texas but did not succeed because it's personal lending. So we went to Colorado and did a presentation to a bankers' bank, in the intermountain region, where their business is commercial with very little personal lending. You're going to have to learn which type of banks in different regions have different types of customers. Then we have states like Texas that lower the credit rates down so significantly that it's depriving the insurance companies of their revenue. These banks make an ideal candidate for debt cancellation products. A state where credit rates and commission levels are too low describes the Texas situation.

Second mortgages provide an ideal opportunity for debt cancellation for a period of time. Currently in front of the Congress is a bill that will restrict predatory lending and debt cancellation, so it may be prohibited in the future. But you have to remember the banks are very strong when it comes to Congress, and they tend to have their way. And I'll give you an example of that very shortly. So, at least for the time being, a second home mortgage is going to be a good product for debt cancellation.

Debt cancellations can be paid for in two ways: as part of the finance charge (no one's going to do that) and as an identified separate charge covered under Regulation Z. You can have it as a separate charge and charge your customer for it. You must also offer full disclosure of the program. It has to be an opt-in, just the same as credit insurance. You can't force your customer to do it, and the loan document has to have full disclosure.

DCAs do not have to eliminate the entire debt; they can provide a set amount. You could have truncated approaches and age limits, especially when you get into second home mortgages and open and closed lending. So you can do all kinds of combinations, depending upon what the debtor profile is of a particular bank. You can custom-make it. Because the nice thing about it is, and we have not mentioned this yet, there are no filing departments; you don't file with anybody. There are no state regulatory departments to deal with, and there are no licensing requirements. None of the regulatory activity that a credit life insurer has to go through is in debt cancellation agreements (DCAs). So there's lots of flexibility and creativity. The only thing you have to do is convince a lot of banks that this is really what they need to look at.

Underwriting. There's an FCC discussion on underwriting. There's one bank that's now out that has the open and closed program, the one that goes up to $115,000 in debt cancelled, and they asked health questions. After research, bank counsel advised them that health questions were allowed, as were health restrictions and age limits.

Disadvantages to the banks. Here's where the insurance industry has an opportunity. The insurance industry, not needed as the underwriter and having their capital risk, can become an administrator and enter into the fee business.

That's part of the reason that times are changing, and the demographics and markets are going to be changing. Here's an opportunity for credit insurers to get involved and become an administrator. Bank culture and prior experience to sell insurance by the bank has failed. They're actually dismal at selling product. Either way they tried it, they can't do it. So what better place for the insurance company to go and take over all the marketing of not only credit insurance products but also other insurance products? Create a partnership relationship between the bank and the insurer to sell insurance at the institution.

The bank's capital is at risk under DCAs. Some of the banks don't care, but you have to reserve it just as you would for credit insurance products. And the SEC has regulations on reserving, so it's going to have to be reserved. Another opportunity for the insurance industry is to provide protection on those reserves.

Lastly, a separation buffer between claims administration and the bank customer. How many of you think your banks treat you fairly? Do you like going to your bank to talk to them? Let's see your show of hands. When I ask the same question of the bankers, they all raise their hands. Anywhere else I get silence, because no one thinks the bank can really do it. At claim time the bank is going to be saying to the customer, "No, you don't qualify. We have restrictions on this claim that you're submitting." You can imagine what that negative perception is going to do to the bank. It's going to perpetuate and continue that negative image. This is a great place for the insurance industry to come in and take over the claims administration.

DCAs require the use of bank capital to establish reserves for the bank. Again, those reserving rules are already required, and the banks have to establish those reserves.

Cost of calculating reserves for the board and the examiners. You could have an actuary come in and certify that the appropriate reserves are there. If a bank doesn't have an insurance company partner, they must go out and hire somebody to come in and do it. And then, just like the insurance company actuarial reserves, the board ultimately has to approve it. So you have to take it through, and the actuary needs to come in and make the presentation from the bank board and the bank examiners. So that's all an added expense. Again, this is something that the insurance industry can do, on a fee basis, to provide service to the banks.

Additional accounting activities. You have to account for debt cancellation programs. Prior to this year, with Y2K issues, no bank could do anything, and we had to wait. Now that Y2K's over with, the banks are starting to look at the issues. But the bank accounting system is still as arcane, in some institutions, as some of your insurance companies' accounting systems and information systems. And as you know, it is sometimes very hard to make changes in your own institution. Since you have the same issues, you could take in your corporation and sell that operation to the banks.

Lack of actuarial insurance principles. They don't know what they're doing. The one bank that came out with the open and closed lending up to $115,000 had 5

MBAs sit down, and it became a project to see how they would price the business and what risks they were going to take. They went and looked in insurance books; they looked at actuarial books. And after six months of operation, they're out taking bids from the insurance industry to come in and help them manage that book of business. They ultimately realized that what they did they had no business doing, and was going to cost them. So, they will now be an example that we can all use of getting the insurance industry in at the right time to help make those decisions. This is another good opportunity.

1099s. The insurance industry used the threat of sending out 1099s to their benefit. Prior to GLBA the banks didn't want to do that task. Let's say a customer has a $15,000 car loan and dies. The wife gets a bill, a 1099, for $15,000, and that's a heck of an explanation. The bank that was doing up to a maximum of $115,000 could send out a 1099 for $115,000. The question is whether or not they even have to report it. The IRS came out with a new regulation which changed an existing definition of a bank. Some tax lawyers say that the ruling really didn't mean that a debt that's being paid off is going to require a 1099. A couple of the banks that we deal with went to their tax counsel, and their tax counsel came out with rulings for which they did not have to provide 1099s. Some banks are issuing 1099s, and if they do it's a service for the insurance companies to provide the 1099 service. Some say cancellation of the debt is income. Well, this is not cancellation of a debt because there's a separate fee that's charged for the coverage. And since there's a fee charged, it's not forgiveness of debt under the definition. Therefore, a 1099 does not have to be sent out. Where that issue will go is up to the tax people, and someone will eventually ask the IRS for an opinion.

Insurance company opportunities. First, credit insurance products and practices. You people know that we're a business. You can take what you know to the banks and say, "We've been doing this for years, and we can protect your interest. Let us be your partner in this."

Underwriting studies and debtor analysis. You'd be surprised at how much information you have that you could take to your bank customers and say, "We really can help you identify who your customer is and develop a program for you. Because, remember, we don't have to file, and we don't have to get any products or rates approved. So we can create a program just for your bank clientele."

Insurance risk-sharing programs. They have a reserve. OK. Risk sharing. It can be as simple as coming in and giving the bank a commission, a fee, for the production of that business. They transmit funds just the way they do now to the insurance company for the reserves, and the insurance company holds the reserves and pays them back. But the nice thing about it, instead of planning that way, is to go in and say, "Remember, you have Wall Street in New York that watches your quarterly performance, and you want smooth earnings and to maximize your earnings potential. So we'll sell you a contract which ties us in for a long period of time with you, and we'll take care of those up and down spikes over the years, and we'll give you that nice smooth earnings curve for the next five to ten years." What a great opportunity that is to get a partnership for the long term with a bank.

Contractual loss products. Life insurance companies, some states say, can't sell stop-loss policies anymore, especially after Unicover. And so you have to maybe sell them a contractual loss product, which means you may need a P&C company. That question's up in the air. I take the position that even though we're at the NAIC with the Unicover issue we're talking only workers' compensation. The life industry is opposed to the casualty industry, and they are trying very hard to keep the flexibility that currently exists for life insurers to write stop loss and other coverages on property and casualty risk, other than workers' compensation. But Unicover opened up a can of worms, and we're going to have to see where that one comes out.

Insurance company opportunities. Everybody here has products that they sell besides their credit products. So you go in. Market research shows people do not buy life insurance because they do not understand it. They think it's unaffordable and do not have a ready access to a distribution channel. Start off with the loan business—the debtor business at the bank. Develop that relationship with the bank's customers. Then start introducing your own products into the partnership.

So you bring in your expertise as a marketer of insurance products, and you sell not only your own administration for the debt cancellation program but also your other insurance products. And you can do the whole administration function—claims, underwriting, call centers, cancellations—in addition to a lot of opportunity to go out and sell. You have access to the bank's customers. You have access because you're a direct contractor, and you can go out and sell other products to the bank's customers for insurance.

Systems. Customer service. Again, banks are lousy at customer service. Take your expertise as good quality customer service departments and go out and sell that to the banks. You'll take over that responsibility and perform that service for the bank for a fee. Insurance company opportunity offers bottom-line profit by use of competitive third-party bidding. That's what you sell to the banks. Competitive bidding brings in the lowest price, and then you can sell them on how much better you are than anyone else. You provide a good quality service for a reasonable price in a competitive situation. You can provide new products and training of the bank personnel to sell the insurance products.

That's a quick run-through so that Gary can take you through the pricing of the different types of contracts. Prior to GLBA, there were a number of insurance departments that said debt cancellation was insurance, and the states were going to regulate it. Now, the only way the insurance department can come after a bank is to bring an action in the local court against the bank. As soon as that happens, you get it removed to federal court, and the federal courts don't have any problem getting rid of the case.

The last and best example is San Francisco, about the same time GLBA came out. If you remember last year, they had a referendum that the people of San Francisco passed that prohibited banks from charging fees on ATM machines. Another municipality near San Francisco had the same thing. Again, the population, not the San Francisco City Council, voted and passed it. The bankers waited until the effective date and got an enforcement action from the City of San Francisco. They removed that action to federal court, and within two days a stay was issued by the federal court, and that's the last of that case.

Mr. Presley: Our second panelist is Gary Fagg, a consulting actuary and principal of Credit Re Corporation. Credit Re provides actuarial, accounting, and management consulting services to producers, insurers, and reinsurers of credit-related products, and offers high-quality training materials and seminars about these insurance products. Gary, as you've heard already this morning, has been at the forefront of debt cancellation and the debt deferment program development.

He's provided actuarial support for many of these programs that are either on the street today or currently under development. Gary has been a consultant or a senior executive in the insurance business since 1972. Before 1978, he served as consulting actuary to ordinary life insurance companies and is a lecturer in the actuarial consulting firm of Book and Company. Following 12 years of association with the Credit Life Insurance Company of Springfield, Ohio, he formed Credit Re Corporation in October, 1990. From 1982 to 1988 he operated a successful Arizona reinsurance company, and now operates an offshore reinsurer.

Gary is an FSA A and a member of the Academy, and has published four books on credit-related insurance and the methods to compensate the producers of these products. Gary is going to introduce the product innovations brought about by GLBA. Then he will outline some of the techniques actuaries can use in their examination of these products.

Mr. Gary T. Fagg: If you're here for professional education hours, Hugh's presentation just qualified for a two-hour credit. That was a lot in a short time.

I'm glad to be here. I think I've made 500 public presentations in my life, but I've never spoken to so many actuaries at one time. I definitely live in a nontraditional market. I'm definitely a nontraditional actuary. And, as you'll probably figure out, I'm a nontraditional speaker also.

So, what I want to do is take you through a couple of things that Hugh talked about, really from a different perspective, trying to differentiate from a pure actuarial perspective. Around 1980 I had a visitor at Credit Life of Springfield and he said, "How big is your product development department?" And I said, "Product development? What are you talking about? This is a credit insurance company. We don't have a product development department." Then virtually everything already had been invented. It's like 1895 when the head of the patent office said he wanted to close the office because everything you needed had already been invented.

Well, by 1980 everything credit insurers needed had just about been invented. In the 1930s we did credit life and credit disability. In the early 1950s we added credit property. In the 1960s we added critical period coverage. In the 1970s we added truncated life protection. But by 1980, we had basically boxed in credit life and credit disability insurance. It was highly defined, highly regulated, and if you weren't in that box, there just wasn't much else you could do.

In the 1980s we added involuntary unemployment, and we came up with the credit card package of life, disability, and unemployment. And then in the 1990s we added family leave to that package. And it's just beginning, really, to hit the marketplace. And that's it. In 70 years we've come up with 5 or 6 products in 2 or 3 variations.

All of a sudden, with debt cancellation, we have the opportunity to do anything. It is awesome what freedom, real freedom, is. I go into groups, and we start saying that we can do this and we can do that. And all of a sudden somebody will be sitting there and say, "Can I do that?" And, yes, you can do that. Literally, you can agree to cancel the debt if the sun comes up tomorrow. There is no limit to the contingencies that we can protect under debt cancellation.

And so we started, of course, with the things that started in credit life insurance. Unfortunately, I don't think we can call this life protection. Somewhere about 1840 somebody created a job for all of us because they were all sitting around and saying, "What are we going to do? Well, we're going to pay a benefit if somebody dies. Well, what are we going to call it?" And of course the other actuary said, "Let's call it death insurance." And fortunately somebody in marketing said, "Are you kidding? Let's call it life insurance."

I don't think when we get to debt cancellation I should use the word "death." You know it is death protection. But then a lot of people really don't want to talk about death. Hugh was talking about Target. It had death protection in four or five drafts, but in the end it switched to loss of life. It's a tough word.

But then we did disability, unemployment, and family leave. We're sitting around talking with the lenders and we asked, "What about bankruptcy?" And, of course, the worst is bad money management. We haven't quite figured out how to protect that. So with the flexibility here, we've been able to add a divorce coverage. Well, we didn't really want to be one-sided about it, so we actually got a little marriage protection too. You know, it's basically a payment holiday if you get married. You get married, and we'll cancel your payment for three months, as long as you don't get divorced within the next six months.

It's amazing. You start sitting in these meetings and people say, "Well, can we do credit property? Can we agree that if the debt that the money was used for was damaged, can we protect it?" And the answer was, "Yes, we can do that." Can we actually protect against bad money management? If you realize that that is basically private mortgage insurance, it is that type of protection. You can do anything you want to do. You can protect any event that you can qualify and measure. And so out of that we just had great fun. It's great to literally wake up in the middle of the night and think, "God, I can do that, and I can do this."

Not only that, you can expand the breadth of it. Under credit insurance we always have to cover the entire debt from any event. But now you can have an accidental death program if you want it. Now, if you want, you can have an accidental disability program. Suddenly you're not constrained. You can cover the term of the debt; you can cover a critical period of the debt. You can cover the whole debt; you can cover part of it. Suddenly you truly have freedom. Those of us, particularly in the credit insurance world, who really grew up in a box are excited as we begin to see that box expand and grow.

What is our only limitation? We can only cancel a debt. A big part of the reason and the rationale that this product should not be regulated by an insurance department is because there are no solvency issues. Any bank, even if there's no money at all in the vault, can honor its obligation to the borrower to cancel the debt. As an insurance company, when a benefit comes, we have to pull money out of our pocket and pay it. And so we have to have regulation to make sure that that money is there. But the bank doesn't need any money to cancel the debt. The bank can always fulfill its obligation to the borrower, regardless of its financial position. That's the rationale of a lot of the lack of need for regulation.

The same rationale could be applied to the direct response business. It sometimes invades the so-called privacy of your house, and it can only get to you through the mail or through the phone. It's basically something that's being offered to you. You know it's not a condition of credit; you've already got your credit, you're already using your credit, and it's coming every week in the mail. So you can easily just throw it away. You don't have to answer the phone, or you can quickly hang up.

So that's a lot of the logic of why the industry does not need the regulation that possibly is associated with credit insurance.

I do think you need to start with a new terminology. A lot of it is to keep that mental delineation between the two products—between insurance and between protection. So the basic benefit is cancellation. If you die, we cancel your debt. If you become disabled, we cancel your entire monthly payment. And so, obviously, in cancelling that monthly payment, we're cancelling both the interest and principal, and, of course, we are fulfilling your obligation to make that monthly payment.

Then we have a class which I've been calling debt suspension, or debt freeze. We simply tell the borrower, "If you become disabled, we will freeze your account. You don't have to make a payment, and we will waive the interest." In an insurance mentality, the benefit is the interest that would be due each month. We tell the borrower, "We're freezing your account. When you come back from disability or unemployment you're going to have the exact same balance that you had before."

And then, lastly, we have debt deferment, where we tell the borrower, "The interest will keep accruing, but you don't have to make a payment. We waive the requirement to make a payment."

The biggest thing to realize, of course, in terms of terminology, is that we don't pay anything. We cancel a debt; we waive a payment. So we waive and cancel; we don't pay. We don't collect a premium; we collect a fee. We don't have an insurance policy or an insurance certificate. What we have is debt cancellation contracts. I started using the term DCA. I really wanted to use the word debt cancellation addenda because that's what it is. This is an addendum to your lending agreement. This is not an insurance contract; it's a part of your lending agreement. That brings you some good news and bad news. The good news is now you are only constrained as you would be in writing a lending agreement. You can change the terms on the same basis as if you were changing the other parts of your lending agreement.

But there's a downside to it. Suddenly you are not protected as you are in insurance. You know the basic laws of this country are not against discrimination—they're against unfair discrimination. And of course it's been found that many things such as age is fair to discriminate in an insurance policy. Suddenly you're in a lending agreement. And now is it possible or legal to discriminate on the basis of age in a lending agreement. The OCC says you can. But the OCC is not the Supreme Court. And so there are definite issues about whether you can have age limitations. There are also issues about underwriting. You can probably ask health questions, but then there are some issues about disabled people and their rights under the Equal Opportunity Lending Act.

While there are some definite issues, the people who have done debt cancellation so far have basically skirted them. That mostly has been involving credit cards. And so if you look at a credit card solicitation today, there's a reasonable chance that when you turn it over you're actually looking at a debt cancellation product.

How did they get around some of these possible problems? One is they took the age cap off. When you read the DCA, it says that if you qualify for this card, you qualify for this product. There are no age limitations, and of course there are no underwriting questions. How can they do it? Well, basically, they're going up to somewhere around $10,000 per card. So they have a definite limitation on the risk. Do people take advantage of it? Absolutely. I've done the continuance studies off of credit card programs, and a lot of claims come in really fast. There are a lot of people who are getting a solicitation every week or every two weeks. And even if they have an existing card, they're soliciting every three to six months. All of a sudden something happens to the customer, and he or she decides to sign up. So antiselection is a definite factor. It's a manageable problem in the credit card market. It's going to be a lot tougher when we take this to installment lending and begin to talk about $50,000- or $100,000-type loans.

So we have some interesting questions to deal with. The tax issue is an interesting question. There are some interesting words in the Internal Revenue Code. It says that the benefits of a life insurance policy are excludable from gross income. Likewise, payments made under a contract in the event of death are also excluded. Wait a minute. We have a death, we have a contract, what don't we have? We don't have a payment. We have a cancellation. It's very similar to a payment. But, as you know, the IRS has been known to hang their hat on a word and the meaning of a word. Likewise, in the A&H section, the code says benefits paid under an A&H policy are excludable from gross income. It actually says amounts received under an A&H policy or a contract providing similar protection. We have protection; we have A&H. What don't we have? We don't have amounts received. We have a cancellation. And so those are some of the things that we deal with in trying to do it.

A short history about who's done this. In 1964 the comptroller of the currency, in response to an inquiry, wrote a letter. A bank had asked to have the right to cancel any of its debts and, further, to have the right to amend its lending agreement and tell the borrower that if you die, we will cancel your debt. The OCC wrote back and said the bank does have that power, and that power is the magical words "incidental to banking."

Once the OCC found that power to be incidental to banking, the federal preemption over any state activity was immediately created. But nothing happened. I came into the credit insurance world in 1978, but no one certainly used that power. Somewhere around 1985 Providian Bank began to do probably the first debt suspension program. No death benefit was provided. If the debtor became disabled or unemployed, the interest would be waived and no payment would have to be made. The account would just be frozen.

But then we had the situation in Arkansas. Arkansas had a credit insurance regulation, and it changed it. It apparently was going to hurt the compensation of a banker in Forest City, Arkansas. He wrote the department and said, "I'm upset, I'm going to quit selling credit life insurance, and I'm going to sell debt cancellation. Are you going to enforce it? To treat it as insurance?" The insurance department wrote back and said no. So the guy got all set to do it, and all of a sudden the credit insurers in Arkansas got wind of it. And they called the department and said, "No, that's the wrong answer. We'll be out of business." The department wrote him back and said, "Well, we've reviewed it and we think it is insurance, and we'll stop you from doing it." He sued them and won in circuit court. It went to the Eighth Circuit Court of Appeals, and it was a resounding victory for federal preemption.

Even at that, nothing really happened. A few DCAs dribbled down to Oklahoma and a little bit in Texas, mostly on installment lending. DCA didn't go anywhere until Advanta, in late 1994, suddenly wrote debt cancellation on their credit card business. They wrote initially in 12 states, and they went right into the teeth of the credit insurance regulation, particularly relative to open-end lending. They wrote it in New York, Texas, and Pennsylvania. That was the first time we really saw it. I was sitting in Texas and bam, here comes an Advanta solicitation. I signed up and started calling their hotline and started asking a lot of questions few had ever asked before. I asked them if it was taxable. They said it was not. "Really", I said, "that's good; that's interesting." I learned by dealing with them as a debt cancellation cardholder.

Then we had the other expansions, mostly the card issuers. Fleet bought the Advanta card business, and they carried on the program. Capital One began to do it, but we didn't have much until early 1998 when we began hearing the worst-kept rumor in the industry that Citicorp's going to do it. Finally in January of 1999 Citicorp rolls out Credit Protector in 49 of the 51 jurisdictions. By such a large rollout they were basically saying, "We're not going to do credit insurance anymore; we're going to do a debt-freeze-type program."

That, of course, got everybody excited, and from that day forward my life changed dramatically in terms of our client base. We are a small eight-person consulting firm, and our client list is five of the top ten banks, two or three of the major national retailers, and three or four of the major finance companies. It's just awesome the people who we've had the opportunity to work with over the last few years.

And it's continuing to grow. On May 1 Target Stores rolled its program out. We will see more and more programs come out the rest of this year. And it will become just part of life. It's definitely going to substantially replace credit insurance in the credit card market. Whether it rolls into the installment lending market is hard to say.

From an actuarial standpoint, we ran into some interesting issues. Relative to death, credit insurance has always had one rate for all ages and both sexes. For 20 years I've been giving these lectures and saying, "Regardless of the price, for males over 50, credit insurance is a good buy in every state." And now since I passed into that category last year, that speech has gotten a lot harder to give. Credit insurance offers one rate for all ages and both sexes. There are restrictions as capping the amount and the age of eligibility. Now with DCAs, the amount cap is going up, and the age cap is coming off. The same product is being offered at one rate for all ages, all the way through the age spectrum.

That's a tricky little actuarial problem to try to project. You have to estimate how many of the new base is going to be over 65 and how will it trend. Because the more people who find out about the product, the more you're going to have in the older age range.

Now we can do accidental death under DCAs. People under 30 don't think they're ever going to die. But they will admit they might die accidentally. This product is trying to reach a younger market. I'm currently working with one of the major computer manufacturers on this product. They have an average age around 33. You can't go around touting life insurance to people with an average age of 33. What do you talk about? You really look at almost the other end of the spectrum. For those of us who grew up in credit insurance, what did we sell? Life, disability, unemployment, family leave. If you ask a consumer, probably unemployment is the most important, followed by family leave. Disability. Oh, yes, I might die, too, by the way. That benefit really has a very low perception of value.

Suddenly now, instead of us telling the customer what we want to sell them, i.e., credit life and credit disability, which we primarily sold because that's what we were allowed to sell and was protected from agent licensing and other issues, now you can offer the customer anything. You can truly do marketing. You can truly do marketing research. With disability, the same thing is true. You can now just offer accidental disability. You must adequately disclose it, and you have to be very careful with either of the accidental programs, but it offers you the opportunity to provide some protection.

For involuntary unemployment insurance (IUI) the biggest actuarial pricing problem is we are basically at historical lows for unemployment. We know two things about the unemployment rates: they are volatile and they can change quickly. They can literally double in a 24-month period. We have observed several trends in the last 20 or 30 years where literally the involuntary unemployment rate has doubled within 24 months. We know unemployment is not going to be this good forever. It is difficult to predict how much it's going to change and how much you want to build into the rate. Should we look at a 5-year spectrum, a 10-year spectrum, or a 20-year spectrum of time? A 20-year spectrum takes you back to the recession of 1981 and 1982. Another period takes you back all the way to the 1940s.

Family leave. President Clinton is out there talking about this thing about every other week. That exposure is definitely putting it on people's agenda and making people think about it.

Divorce. Working on a divorce product was fun because I got to price an entirely new benefit. How do you calculate the probability of divorce? Well, my favorite actuarial tool is, of course, the statistical abstract in the U.S. The book tabulates a count of the number of people who are divorced. This isn't tough. The text also gives a count of the number of people who are married. Now just get a frequency rate. Well, there's a little problem. One of the students working for me asked which number to use for the number of married people. I asked what the problem was. He said the statistics say that there are 51 million married women in this country and there are 50 million married men. Which one should he use? I don't know where those million are, but there are a million men who just don't think they're married. Or it may be the other way around. I don't know which way it is. But literally, there's a million difference between the reported number of married men and married women.

There are other times debt cancellation benefits could be offered such as at marriage or maybe even planned leave, something like summer leave, where you truly expect a frequency rate of 80% or 90% or even 100%. But basically you're just not giving them that much of a benefit. You give them a payment holiday for three months or something like that.

And finally skilled nursing home (NH) or LTC. You know that's expensive. You know that LTC has all kinds of problems in terms of pricing and cost. But that's because most of us wait until we're 55 or 60 or 65 to start buying it. If you take the cost of LTC and a skilled NH spread across the entire age spectrum and across all the credit card buyers, for instance, it's actually a relatively inexpensive benefit.

So you run into a lot of interesting things. Now you have 20 different pieces and can start building packages. You can have a full bore package that fully protects people. You can also have a downscale-type product. If a customer says they cannot afford the full bore package, you now have an opportunity to back it off and sell them less. Because the one thing consumers know today is one of their most important possessions is their credit rating. People in America totally understand that after their health, their credit rating comes next. Good credit is a very important thing to Americans today. And so every one of these programs will emphasize protecting your credit rating. That's what's being sold. That is the event people are really willing to pay to protect. And so the response rates have been quite good.

Mr. Stephen L. Pontecorvo: I have a question on the very last point you just made. Wouldn't it come to pass that credit reports would not only show whether someone's delinquent on payments, but whether they actually received one of these benefits on their debt? In other words, if I never missed a payment, but I've deferred my debt for five months that's not good credit.

Mr. Fagg: So the question is, if I could paraphrase your question, how are the financial institutions going to create or treat a cancellation, relative to its credit reporting? And that's a good question because they have to think about this a lot. First of all, they have a lot of rules that say if there's no payment for 90 days, then that has to be called a delinquency. They have delinquency rates that are publicly reportable. And they're very concerned about anything that takes them out of that loop. They could be accused of falsely doing their daily delinquency rate. Most of the banks are going to treat this the same way as a credit insurance benefit. The debt cancellation payments basically just show up as a reduction in your credit card balance. I don't think it would be reported or monitored in that manner within their credit system.

Mr. Alexander: The OCC has come out with part of their regulations stating that's the reason debt deferment has caught on. Another one of the reasons is that an individual who has a debt deferment or a debt cancellation program, even though there's not going to be a benefit for 90 days, will have a loan that is not moved from a category of an active loan to a delinquent loan. It stays on the books as an active loan. So they don't have to reserve for it. That's the reason the banks love it, even though the interest still accrues while the debt's in deferment on some of the programs. So the debt deferment issue has a lot of negative connotations to it that the OCC one of these days is going to have to address. Consumerists are already after debt deferment. And Bob Hunter filed a letter with the OCC by its March 24 deadline when it asked for comments on debt deferment. For the banks it's a very good product because that loan stays active and it's not in a delinquent status.

Mr. Presley: We'll be happy to take questions.

Mr. Eddie A. Mire: I have two questions. When you're talking about how taxable this is, I was a little confused as to what, if anything, would be taxable? If we're only cancelling the payment, is the concept that the payment would then be reported as gross income?

Mr. Alexander: Yes, that's it.

Mr. Fagg: There's a part of the tax code that says a forgiveness of debt is a taxable event.

Mr. Mire: OK.

Mr. Fagg: So that's another reason people went with the debt deferment—if all they're doing is basically granting a payment holiday and waiving the interest for that month, that is not a taxable event. One of the reasons of using debt freeze, or debt suspension, is that it only takes care of the interest. Once you get the principle, though, you have a forgiveness of debt, so now you have to get out of the "forgiveness of debt" question.

Mr. Mire: Conversely, if it were a payment from an insurance contract, that would still pay off some principal. Would that be tax deductible because of the way the code is written?

Mr. Fagg: Yes. The code is basically silent on unemployment, though we have a poor private letter ruling that came out 10 or 12 years ago that IUI benefits are taxable. So we have life insurance, A&H insurance, being declared nontaxable, but involuntary unemployment being declared taxable.

Mr. Mire: My other question is could you expand a little bit on your thoughts on whether this product will expand into the general installment debt market? You said you don't know whether it will or not. What have you seen so far? And do you think it will go that way?

Mr. Fagg: Well, we have two medium-sized banks that have done it or are doing it. There are, I'm sure, 10 or 20 Oklahoma or Texas banks that have been doing it for years. In Alabama I know of a bank that has been doing it for probably ten years. But I don't have any question that it will continue to expand unless there's a regulatory hurdle.

Mr. Alexander: One of the big banks is TCF out of Minneapolis. They have a brick-and-mortar bank in the Minneapolis/St. Paul area, but the rest of their banks are in supermarkets across seven or eight upper midwest states. And that's the program that goes up to $150,000 in life coverage in 24 months. But it also provides that once you get to age 66 your coverage is terminated. It requires health evidence questions, so it's underwritten in order to try to protect the program. But everybody knows about it, so I expect to see a lot more installment lending applications.

Banks are kind of strange. They're all interested, but none of them want to be the first. And then when they're not the first, they jump on it. But then again, there are still some states that are saying that it's still insurance. Some banks will hold off until that's clarified. Now everybody's waiting for the OCC's debt cancellation letter or regulation.

Mr. Fagg: The OCC at the end of March asked for public comment on whether it should regulate and, if so, how. And so those comments have been there for a couple of months. I haven't heard anything further.

Mr. Pontecorvo: This question relates to the gentleman's question a little earlier. And I guess it's probably a question more for the IRS than you gentlemen. But if an individual is given a DCA, I wonder why the IRS thinks that if the individual couldn't afford that payment, that the individual will be able to afford taxes on it that next year (30% of the payment).

Mr. Alexander: If there were no payment, then I think everybody agrees it's going to be a taxable, ordinary income event to the debtor. But since there's a payment under a contract, that takes it out of the definitions in the code for income. It's not an income item. So, where that'll end up, who knows? There's also a definition in the code on who has to report under 1099s. The code change changed the definition of back-up reporting. There are two issues. One is just the taxable income event. The second issue is the code change which required financial institutions to issue 1099s on taxable events. And so the question from the tax lawyers is whether the IRS, when that code change was made several years ago, really wanted to include banks in this type of situation. The banks are saying no. I'm just reporting what they say.

Mr. Presley: I'd like to ask a question. We've been talking about debt cancellation and debt deferment programs. Are these programs only available to national banks? I'll let either of you respond.

Mr. Alexander: The answer is no. They're available to more. Debt cancellation programs are available to national banks obviously because of GLBA and the National Banking Act. Then you have wild-card or reciprocity statutes, which let state-chartered banks do whatever the federal banks can do without having to go to their state banking institution for approval. So if a national bank starts selling, for example in South Dakota, a debt cancellation product, a state bank in South Dakota does not have to go to the South Dakota Banking Department and ask for permission. The reason I picked South Dakota is because we just got a letter from the South Dakota Banking Department that just said that.

So state banks with reciprocity statutes and wild-card statutes are going to be covered. Then you have the issue of federal credit unions. One of the written opinions from the Federal Credit Union Administrator (FCUA) was that they would follow the lead of the OCC. Now the question is, under GLBA, whether that's the FCUA's written opinion. Following the lead of the OCC is really what GLBA was talking about, thereby taking the position that it is. So federal credit unions apply. And then you fall back to state credit unions. And, again, a lot of state credit unions have reciprocity or wild-card provisions, which say that they can do the same thing. The next institution is finance companies, and they for the most part are state-chartered instead of federally-chartered. There are a few federally-chartered finance companies, so they don't know what they're going to do.

But a lot of them scrambled prior to the end of 1999 to Utah. Utah had a unitary bank charter that expired, and they bought a Utah bank charter. So a lot of the finance companies have Utah unitary bank charters, but Utah unitary bank charters are regulated by the OCC and not the Utah State Banking Association. So the finance companies are starting to work their loan operations through that because the Utah charter gives them nationwide penetration on their marketing. That gives them a "national bank charter" that they need in order to write debt cancellation. So it's a mixed bag, but that's kind of the general trend of where we're headed.

Mr. Fagg: And of course we should include the retailers who own a national bank or state bank. I'm also working with a utility, and utilities are becoming deregulated. If you don't like all the phone company solicitations, wait a couple years until the utilities get deregulated. The utilities want to discuss whether they could use this. And I said, "Well, you can't cancel a debt until you have a debt." But they're thinking that you're putting your utility bill on a credit card, and once that bill goes on the card it becomes a debt. And, of course, once it becomes a debt, now you could sell debt cancellation-type protection.

Every time my phone rings, somebody's thinking about something different.

Mr. E. Perry Kupferman: On the programs that you've seen so far, how does the cost to the consumer compare with what the consumer would have paid had it been sold under standard credit insurance?

Mr. Fagg: Well, the bottom line is that there is no way to compare it. Because what do you have? In credit life insurance you have 51 jurisdictions that have issued a maximum rate that you can charge in each state. For credit disability, you have 51 jurisdictions that have issued maximum rates that can be charged. What's the rate for family leave? There's not a national rate. What's the rate for unemployment? There isn't a national rate. What's the rate for divorce? There's no divorce rate regulation. So what you have here is a package of protections at a unified rate, so it's really impossible to compare that to what you call the credit insurance cost.

Mr. Alexander: Perry, Gary's right in what he says. But at Target, the average rate across the country was $1.98 for four products in the package. Now it's at

0.99 cents and probably should be just a little bit above $1, but they wanted it to be less than $1. So that's what you pay.

Mr. Fagg: And with no age limit.

Mr. Alexander: Yes, with no age limit. But it doesn't have any older customers, yet.

Mr. Kupferman: Are your clients giving you Target profit margin objectives for you to price under?

Mr. Alexander: Most of my work is telling them what the options will cost. They usually don't ask my opinion about what they should charge for it.

Mr. Fagg: When I do the seminars in front of the banks, it's very simple. You start at the bottom. What's your return? What do you want? That's the bottom line. You go to an actuary and you say, OK, here's my pure risk cost. And then you factor in the administration costs, and those three components make up the rate.

Mr. Kupferman: You talked earlier about, I think, OCC regulation of what the banks need to establish as a liability. Can you tell us how that compares with what we need to hold, by way of mortality reserve or unearned premium?

Mr. Fagg: Yes, I can. This is where we're going. Maybe you heard a little bit about this here because the Academy has been very active. I may digress a little bit. Insurance companies are pigeonholed, you know. They do everything by statute and by regulation one, two, three. If you get out of the norms, then you're in trouble.

The banking regulators' mentality is they don't care what you do, but you have to put together a plan. And they want to address risk in that plan. And that will have to stand the scrutiny of an examination. We actuaries aren't going to come in and count the dollars in trust accounts, and we're not going to count the dollars in assets. That's for your auditors and outside auditors to do. The only thing that we're going to do, as part of the examination process, is look at how you have addressed the risk that you've assumed. And so the OCC statement on reserving is that the banks have to develop a risk plan. They're going to look at a lot of things that you would do from an actuarial standpoint from the insurance company, but it's going to depend on the size, the credit volume that they have, and the size of the assets. Then the management team puts together a discussion on how they're managing that risk. So the mentality is a lot different.

Mr. Alexander: But on the installment question, one of the banks I'm working with is facing this predatory lending issue. And basically single premium credit insurance associated with real-estate-secured lending has a fairly short future lifetime. I don't think there's any question that single premium credit life insurance on real-estate-secured lending is going away within the next five to ten years. So here's a bank that is proactively going to change today. And it is going to go to monthly premium, instead of single premium. It is now going to take the other step and go to debt cancellation at the same time that it makes the transition.

Mr. Alexander: Here's one final comment. Gary emphasized thinking out of the box. One of the most exciting things about this is you can throw out your boxes that you've been living in and do exactly what you want to do. It really is an exciting time to get in front of groups and have them start thinking about what they want to do. It takes a little bit of effort to work through that process of getting people to start thinking, "Can we do this?" And as Gary says, the answer is yes. For the insurance industry, for all the times that you're put in straitjackets and have to live in boxes, they can get into a debt cancellation program with your bank customers and be creative. It's just an absolutely wonderful opportunity for the insurance industry to shine with its expertise in this area.

Mr. Fagg: I wish, of course, when I had come through the exams that I'd been taught a few P&C principles a little stronger. And it's a very interesting actuarial position, because it's a combination of life insurance, with its death protection, and P&C coverages involved in this work. It begins to meld both sides of actuarial training and experience together.