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Hot Topics in Credit Insurance and Debt Cancellation

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The workshop opened with a discussion of the decline in credit life and disability insurance, both in absolute terms and in relation to the amount of outstanding consumer debt. Bob prepared a set of handouts graphically depicting the decline. However, it was apparent from the emergence of debt protection that the void is being filled by this fledgling line of business.

We also discussed a recent article that indicated that credit life insurance face amounts issued were down by approximately 25 percent on an industry-wide basis. Some attendees were blaming not only debt cancellation, but new HOEPA rules, decreased acceptance and lower installment debt demand. The lower installment debt is particularly strong in the auto dealer segment.

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The attendees agreed that the vast majority of debt cancellation coverage is being written in the credit card sector. The reasons for the conversion from insured products are many. Pricing freedom, benefit freedom, freedom from compensation limitations, better consumer acceptance and lack of licensing requirements all contribute to the relative attractiveness of debt cancellation.

Other market segments were discussed. One particular segment is the credit union market. In the past, this market has been very risk-averse, but debt cancellation programs are particularly attractive due to the freedom in designing benefit packages that suit the membership. The attendees agreed that most credit unions will want to pass off the risk through a contractual liability policy.

The most spirited discussion was about the prospect of class action lawsuits by consumer groups and/or plaintiff's bar, if "loss ratios" on debt cancellation products are low. First, it was pointed out that these charges and losses are not reported separately, so the term "loss ratio" has little meaning. Secondly, since it is a bank service and not an insurance contract, there is no more meaning to "loss ratio" than there is with an ATM fee. This position was contested as unsupportable in today's regulatory and legal climate.

There was a discussion about the effect of the national no-call list on credit card telemarketing efforts. It would appear that some of the current telemarketing practices will have to be revised in order to comply.

The session finished with an update on the status of the credit life and disability reserving standards. The NAIC Model Regulation adopting the 2001 CSO Male Composite Ultimate Table, dynamic valuation interest rates, and CRV method has been exposed for comment. Industry is concerned that active life and perhaps deficiency reserves may be required for "level monthly" coverage if the regulation is adopted as it currently stands. The final pieces of the NAIC adoption of morbidity-based reserves for credit disability insurance are falling into place. It was reported that the necessary revisions to SSAP 59 had stalled at the Emerging Accounting Issues Working Group. However, we have since learned that the changes were enacted at the June NAIC meeting.

In all, the session was lively and informative. The workshop format worked very well for this session. I believe most everyone who attended got some useful information or insight.