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Meeting Notes from San Francisco

Give Me Some Credit! The 50-Year History of Credit Regulation

by Bob Butler

Editor's Note: This lively panel discussion at the 1999 SOA Annual Meeting was sponsored by your Nontraditional Marketing Section. Attendance has been dropping at the SOA sessions on credit insurance in recent years, which coincides with the recent consolidation that has occurred in this segment of our industry. Our session was no exception, which was unfortunate because it was a very good session. Below are a few excerpts from the comments made by our three expert speakers. Their full presentations will be published in the* Record *on the SOA Website.

Gary Fagg, president of CreditRe Corp., began the discussion by recounting the history of credit insurance. It began with Arthur Morris, a lawyer who developed franchise banks in 1915 to lend money to people of good character and ability to pay. He became concerned about events that would prevent borrowers from repaying loans and asked Metropolitan Life Insurance Company and Prudential Insurance Company of America to insure the debtors. After being turned down, he founded the Morris Plan Insurance Society in New York in 1917 to protect against death and total and permanent disability.

One of the Morris franchise banks was in Springfield, Ohio. In 1917 they literally began protecting their borrowers through a shoebox. Whenever they made a loan, they deposited $1 into the shoebox. When there was a death of a borrower, they paid off the loan from the money in the shoebox. In 1926, a bank examiner noted the coverage was insurance and outside the authority of the bank. This led to the formation of Credit Life of Springfield. Isn't it ironic that this is in direct conflict with today's issue of debt cancellation and debt deferment?

A year later Prudential entered the credit insurance market by insuring the borrowers of General Motors Acceptance Corporation. For 30 or 40 years, this was the largest group contract in the world. Gary also discussed the pressure on profits from the producers, which has led to producer-owned captive insurance companies. This same evolution is occurring in other countries.

The Six Periods of Credit Insurance

Bill Burfeind, chief executive officer of the Consumer Credit Insurance Association (CCIA), split our history into six periods beginning with the "Awakening" from 1944 to 1954. During this period, the government began to see the need for regulation and the first credit laws were enacted. Also during this period, the CCIA was formed, and they too will celebrate their 50th anniversary soon.

The next period was from 1954 to 1964 that Bill named "Diplomacy" because of the negotiations between regulators and insurance people. During this period, the 50% loss ratio benchmark was established.

From 1965 to 1980 was the "Consumerism" period. The Truth in Lending Act was adopted, and the National Insurance Consumers Organization put in their first appearance.

The next period, 1981 to 1989, is named "Survival" because the recession (stagflation as I recall it) took its toll on lending.

Next came "Revelation" which lasted to 1995. Regulators moved away from merely setting a prima facie loss ratio. A consumer group filed action against the Illinois Insurance Department to enforce the prima facie loss ratio. Rather than fight the issue Illinois re-wrote the regulation to replace loss ratio with the earliest form of what has become known as component rating.

The last period is named "New Direction." We are in the midst of new product development and new direction in rate regulation.

Today's 3 Challenges

Bruce Camacho, executive vice president and chief marketing officer of the Assurant Group spoke on the three main challenges facing us today.

The first issue we need to resolve is the current burdensome licensing laws. The lending industry is becoming global and new ways of marketing are evolving such as e-commerce. Licensing laws have not kept pace. The Texas Insurance Commissioner discovered his state had 64 different licenses, and he is trying to get this number down to seven. Florida has recognized their licensing laws needed changing and now require only an entity license for each location of a retailer. Any employee can procure credit insurance. This change will soon occur in Kentucky, California, and other states. The agents associations have come to realize we are not taking business away from them since this business does not come through them today.

The second issue is pricing. The credit insurers operate on slim margins. Much of the business is on credit cards that is sold through direct mail and telemarketing solicitation. Penetration rates are low. There are price points where the consumer will buy that keep the product we offer competitive. There are not the sales abuses we all hear about. The 1994 Purdue University study called "Rhetoric and Reality" showed that over 78% of the

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The 21st Century Insurance Market Panel at 50th SOA Meeting

by Jay M. Jaffe

The Nontraditional Marketing Section sponsored a session at SOA 50th Anniversary Meeting featuring a look into the marketing of insurance for the next 50 years. Realistically, the panelist's perspective is probably no more than the first 10 to 20 years of the 21st century because of the rapidity of change which is occurring in the financial services industry. Trying to predict just a few years into the future is difficult.

The three panelists each have extensive insurance background:

- John Andiletti is the chief marketing officer for Civil Service Employees Insurance Company which direct-markets personal lines P&C products.
- Walt Roder is a consultant who is developing insurance and noninsurance programs for financial institutions.
- Dan Snyder is a former insurance company executive, who is now president of Abacus, which is an organization providing marketing information to catalog marketers.

Being an informal session with active audience participation, the panel almost immediately was asked to discuss matters relating to the Internet and the distribution of insurance. Here are a few of the interesting topics covered in the discussion:

- Differentiation will be required to separate both products and companies on the Internet.
- Immediate interaction with Internet customers will be necessary to complete sales.
- Insurance auctions might even become possible on the Internet.
- Applicants who want to read detailed contract language will find the Internet an ideal distribution system.

Privacy will become a more important consideration as a factor pertaining to the sale of insurance and other financial services products. Privacy and data sharing will also be topics raised by individuals, consumer advocates, and legislators. The ability to know about customers and how to properly use this information will be an increasingly important skill in the next few years.

The increasing possibility of the delivery of insurance as an integral part of other transactions was raised. Just consider buying an automobile or a home and receiving several months of insurance automatically included in the purchase price. This insurance distribution method could easily become a reality in the next several years.

The probability of greater presence of manufacturers marketing insurance can be seen by the recent announcement by Ford Motor and Hartford of a joint agreement to market automobile insurance and General Motors ownership of a personal lines P&C company. If manufacturers were to become primary insurance marketers, it is likely that many consumers would opt for the convenience of continuing insurance once the initial coverage period has expired.

More banks are adopting "insurance" programs without the participation of insurance companies. Several banks have recently initiated debt deferment programs rather than use formal credit insurance programs. Debt deferment is a program that can be written by a bank as part of a customer loan transaction and provides essentially the same benefits as credit insurance. If banks become comfortable without insurance companies and there are no future regulatory barriers, it is possible that the insurance companies will no longer be considered as needed to provide insurance products for bank customers. In other words, bancassurance would be a reality but without the participation of traditional insurance companies.

With all the changes likely to occur in the distribution and marketing of insurance in the next several years, the role of the actuary will change. Our employers might change with more of us working for nontraditional employers such as banks, mutual funds, home builders, automobile manufacturers, and other employers yet to be named.

The role of actuaries might also change. We would need to interact with nontraditional users of our services. Are we prepared to address even the need to actively work with individuals who have immediate access to a company's actuary through the Internet?

Many thanks to all those who attended the session and the panelists. Your active participation in the program was appreciated.

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debtors when questioned would buy credit life insurance again.

The third issue is privacy. There is no problem when you use the loan information to extend credit insurance but when you try to cross-sell term life insurance, for example, you have a problem with privacy. To survive, however, Bruce noted you must cross-sell to your clients' customer base. The Assurant Group is looking into this privacy issue very carefully. Two future growth areas he identified are margin accounts and loans on 401(k) pension accounts.

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