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Credit Insurance In Connection With Real Estate Loans

by Bill Burfeind

The Consumer Credit Insurance Association (CCIA) is a national trade association of insurance companies engaged in the business of insuring consumer credit transactions. Our members account for more than 80% of the national premium volume written for these lines of insurance. Since its incorporation in 1951 as an Illinois corporation, CCIA has been dedicated to preserving and enhancing the availability, utility, and integrity of insurance and insurance-related products delivered through financial institutions or in connection with financial transactions.

CCIA shares the concern over marketplace practices that have brought about an unprecedented level of home mortgage foreclosures. Collectively, the practices are referred to as predatory and are said to include financed single premium credit insurance. But keeping the whole picture in perspective, the heart of the matter is how loans are

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Chairperson's Corner

Negative Discoveries

by James B. Smith, Jr.

Have you ever encountered a negative discovery? In the 1700s people thought that a great continent existed between Antarctica and Southeast Asia, making the Indian Ocean a lake. The legendary continent was thought to be a promising empire with natural wealth of incalculable size. When Captain James Cook proved that Great South Land did not exist, he experienced one of the greatest negative discoveries of all times.

A negative discovery is much less welcomed than an affirmative discovery. It is far easier to enjoy an affirmative discovery than to prove that some long-admired fixture of the imagination does not exist. Moreover, we are inclined to forget or underestimate the difficulty of a negative discovery.

Isn't this also true in the world of business? Negative discoveries in the insurance industry waste time when poorly designed products or ill-conceived distribution decisions are pursued. Popular opinions and good intentions may ultimately lead to a negative discovery.

What are some examples of negative discoveries in a nontraditional distribution insurance channel such as bancassurance?

- Negative Discovery #1: Due to financial modernization legislation, banks will acquire insurance companies. Banks certainly have the financial resources to purchase insurance companies, but they may not have the financial incentives. The chairman of a mega-bank has said that the returns from insurance companies do not

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meet the minimum hurdle requirements for his bank. However, he said that the lack of a desire to buy an insurer should not be interpreted as a disinterest in insurance because his bank is earning substantial commissions as a distributor of annuities.

- Negative Discovery #2: Banks will sell insurance for a lower commission. Consequently, the product will create higher profits for the insurer and/or the product will offer greater value to the insured. The negative discovery occurs when it is realized that banks are just as eager for commissions as any other distribution channel. If the bank's market share is huge, the bank may even prefer a product that has less value to the consumer — but not embarrassingly uncompetitive.

- Negative Discovery #3: It's easy to sell insurance through banks. Banks have access to many customers, and it will be easy to sell insurance to them. However, if bank platform personnel are utilized in the sale of the insurance, the negative discovery may be languishing sales because the insurance product is competing with a large number of other financial products. The average bank employee may be required to promote 40-50 financial products. Success may be found once it is discovered that bank employees may need to serve as a referral source, rather than as insurance agents.

- Negative Discovery #4: Banks have an in-depth understanding of their customers. Banks have a wealth of information about their customers, but they do not necessarily have a wealth of knowledge. Within current legal guidelines, banks can generally access information on deposits, loans, and credit card transactions. Using demographic and psyhcographic information, the buying habits of their customers can be gleaned. Unfortunately, banks have had a poor record of consolidating and interpreting customer data.

I'm certain that you can think of many more examples of negative discovery, but let's move on.

Sometimes we do not want to recognize that our current path is leading to a negative discovery because we feel uncomfortable with such thoughts. Further, other people in our companies may resist the discussion because of the momentum of the current path.

John Donne articulated such thinking in the following poem:

"As I was going up the stair,
I met a man who wasn't there.
He wasn't there again today.
I wish, I wish he'd go away."

Often the menace to progress is less the result of ignorance than illusionary wisdom. Let's identify the negative discoveries that may appear at the end of our current path, and solve for a way to overcome them. This may require courage, as well as critical thinking skills.

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