PRESS RELEASE

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Director of Insurance Orders Lower Rates for Credit Insurance

Will Save Consumers Millions Each Year

On December 24, 2002, Director of Insurance, Charles Cohen, issued an order[1] that will result in lower premiums for most credit life and credit disability insurance products offered to Arizona consumers. The order establishes new *prima facie* rates for credit life and credit disability insurance that could save Arizonans over $19 million annually. Insurers must comply with the new rate requirements by April 1, 2003.

Under rules recently amended by the Department of Insurance, the Director establishes statewide *prima facie* rates for credit life and credit disability insurance. Insurers are permitted to charge the *prima facie* rates or less. Insurers that wish to charge more than the *prima facie* rates must justify their rates and obtain specific approval from the Department.

The Department's rules prescribe minimum loss ratios for credit life and credit disability insurance – that is, how much of each dollar in earned premium should be paid out in benefits. The rules require that for each dollar of premium, the insurer should pay out at least $0.50 in benefits for credit life insurance and at least $0.60 in benefits for credit disability insurance. The *prima facie* rates are legally presumed to comply with the loss ratio standards. To establish the *prima facie* rates, the Department considers the claims incurred and premiums earned in Arizona on credit life and disability insurance

[1] For a copy of the order call the media contact.

during a recent period. If the historical review reveals that less than the target amount has been paid out in benefits, the *prima facie* rates are lowered to the point projected to achieve the target loss ratios.

The Department obtained and reviewed four years worth of loss experience in Arizona from credit life and disability insurers (1998 through 2001). From this review the Department determined that the *prima facie* rates needed to be lowered to achieve compliance with the loss ratio standards. In accordance with the amended rules, the Department then initiated an administrative hearing to receive comment on the proposed revisions to the rates. At the September 25, 2002 hearing, the Center for Economic Justice supported the Department's recommended rates.

"The *prima facie* rates established by my order are an important protection for purchasers of credit insurance. This kind of insurance is sold under conditions that do not always permit consumers to take advantage of competition among insurers. In fact, without regulation, the levels of sales commissions often drive the sale and the price of these insurance products. The *prima facie* rates ensure that a certain amount of the premium dollar is spent on benefits to the policyholder and that therefore the insurance is reasonably priced," said Director Cohen. "The Department has done a tremendous amount of work to develop these revised rates, and to reform the rate-setting process so that the rates can be expediently updated in the future if the loss experience indicates changes are warranted. These are major accomplishments that will save many Arizonans meaningful amounts that add up to a lot of money statewide each year."

Much of the savings to consumers will come from reductions to rates for credit life and credit disability insurance sold through retail stores and other sellers of financed goods including auto, truck, and boat dealers. This business currently accounts for about one-third of the credit insurance premiums in Arizona. For this class of credit insurance business, the rates for life are being reduced by 32% and the rates for disability are being reduced by 48%. The cost savings for transactions that include both credit life and credit disability insurance will average about 42%. Actual savings will vary by transaction. For example, for a $1,500 refrigerator financed for 24 months the cost of insurance will be reduced from about $61 to $35. The insurance savings will be about

$28. For a more expensive item such as an automobile the savings is more substantial. For example, for a $20,000 new car financed for 60 months the cost of insurance will be reduced from about $1,475 to $854. The insurance savings will be about $621.

About credit insurance.

Credit life and credit disability insurance are most commonly sold through lenders such as banks, credit unions, auto dealers, and finance companies in connection with consumer credit transactions. This insurance pays the outstanding balance or a portion of the balance of a loan in the event of the debtor's inability to pay due to death or disability. There are over 100 insurance companies currently writing over $60 million of credit life and credit disability insurance premium in Arizona annually.

Consumers should be aware of the following points about credit insurance:

- Be attentive to solicitations for credit insurance. Lenders generally offer to sell credit insurance at the same time as, and in connection with, a loan or extension of credit for cars, appliances and other consumer purchases. Credit insurance may not be appropriate for all consumers or for all loan transactions. It could duplicate other life and disability coverages consumers already have in effect.
- Credit insurance is virtually always voluntary, and consumers are generally under no obligation to purchase the insurance in order to obtain the loan or extension of credit.
- If consumers choose to purchase credit insurance, they should view it as a separate transaction from the loan or credit transaction, and be as attentive and inquisitive to the terms as they would for any other kind of insurance purchase.
- Consumers should be aware that the premium for the credit insurance is commonly included in the principal of the loan or credit. Therefore, when they purchase the insurance they are increasing the principal amount borrowed and paying interest on the additional amount at the same rate as on the rest of the principal.
- Some lenders offer a product known as a “debt cancellation contract” that functions similarly to credit insurance. However, this is an arrangement solely between the lender and borrower, does not involve an insurance company, and is not subject to regulation by the state insurance department.

Credit property and credit unemployment insurance.

As a result of HB 2135, newly enacted legislation sought by the Department of Insurance in 2002, the Department will soon be establishing loss ratio standards and *prima facie* rates for credit unemployment and credit property insurance as well. Credit unemployment insurance will cover loan payments in the event of inability to pay due to unemployment. Credit property insurance provides coverage on personal property used to secure a loan. Prior to the new law, the rates for these kinds of insurance were not established by the Department. The Department is currently performing a similar historical analysis of Arizona loss experience for credit unemployment and credit property insurance and anticipates establishing loss ratio standards and *prima facie* rates in 2003. The Department recently issued a regulatory bulletin to insurers explaining the implementation of the new law. The bulletin is available on the Department's website at www.state.az.us/id.

Among other things, the new law also requires mandatory policy provisions, requires pre-sale disclosures, prohibits use of any policy form or rate unless it has been filed with and approved by the Director, establishes requirements related to premium refunds to debtors, and gives policyholders a 30-day free look period.

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