NEW REPORT CHALLENGES VALUE OF CREDIT INSURANCE SOLD WITH CONSUMER INSTALLMENT LOANS

The evidence should compel state insurance commissioners to apply greater scrutiny to these products.

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(Durham, NC): A new report shows that consumers of credit insurance are receiving far too little in benefits in exchange for their premium payments.

In "**Credit Insurance Sold with Consumer Installment Loans: A Case Where the Rate Does Not Reflect the Risk,**" Reinvestment Partners presents findings from research that show how little consumers benefit from these products.

The paper compares the cost of premiums with the value of claims paid and concludes that the implicit value is in many cases too low. In the period from 2004 to 2013, credit life insurance policies paid benefits with a value equal to only 44.4 percent of earned premiums. For credit accident and health policies, the value returned was even less (42.4 percent). By contrast, benefits for payouts on individual health policies purchased as a part of a group plan were equivalent to 84.1 percent of earned premium payments.

Credit insurance contracts can cover some or all of the debt service on loans if the borrower passes away or if an event such as the involuntary loss of employment or a new disability prevents the borrower from making payments. Unlike the case with most insurances, the beneficiary is not the consumer but the lender.

Insurers often pay large commissions to consumer-facing lenders in exchange for the right to be the exclusive insurance providers to borrowers. In some cases, commission payouts are larger than benefits payouts. With a system where commissions are a common practice, installment lenders can extract revenue not just from interest and financing fees but also from commissions. This practice raises the cost of the product.

The report uses data supplied by the National Association of Insurance Commissioners, the North Carolina Commissioner of Banks, bankruptcy court filings via PACER, and from the Securities and Exchange Commission.

“Most consumers should set aside a portion of their budget to buy insurance products, but given the evidence that benefits are so much lower with credit insurance that with health or property casualty, consumers should view these products through a more skeptical lens.”

Credit insurance, while a relatively unknown product in most circles, is used by many consumers. In North Carolina alone, borrowers of loans regulated by the Consumer Finance Act purchased 623,545 credit insurance policies in 2015. In doing so, they paid $58.5 million in premiums. In that year, North Carolina lenders sold 1.53 policies, on average, for each regulated installment loan that they originated. In 2014, US consumers paid approximately $733 million for credit life insurance premiums and $838 million for credit accident and health insurance premiums

“Many people may not realize the extent to which consumers use these policies,” said Adam Rust, Director of Research for Reinvestment Partners, “even though the evidence shows that they are over-priced. That record makes it incumbent upon state insurance commissioners to put more attention on these products.”

The report is available at http://www.reinvestmentpartners.org/credit-insurance/

Reinvestment Partners’ mission is to advocate for economic justice and opportunity. We strive to put an end to predatory lending practices that strip wealth. We work to improve peoples, places, and policy by providing direct service, by community economic development, and through policy advocacy.