A REPORT ON CREDIT INSURANCE IN MASSACHUSETTS 2010

A report to the Joint Committee on Financial Services,
the Senate Committee on Ways and Means, and
House Committee on Ways and Means
of the Massachusetts General Court,
the Attorney General,
and the Secretary of the Commonwealth

As of October 2011

JOSEPH G. MURPHY
COMMISSIONER OF INSURANCE

Acknowledgements

The enclosed report was prepared by the State Rating Bureau staff of the Massachusetts Division of Insurance (“Division”). Chet Lewandowski and Kevin Beagan prepared the report and provided the analysis. The report is based primarily on responses from companies reflecting the experience of companies offering credit insurance in Massachusetts. Unless otherwise noted in the report, references to credit insurance, includes credit life insurance, credit disability insurance and credit involuntary unemployment insurance.

The Division makes all appropriate efforts to check the completeness and consistency of data reported by insurance companies and their statistical agents, but does rely on the insurance companies for the accuracy of all reported information.

Annual Reports

The Division produces an annual report on credit insurance pursuant to M.G.L. c. 175, §117C. .

TABLE OF CONTENTS

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Section 1 Overview of Credit Insurance

Credit insurance is a line of insurance coverage that may be offered to debtors of a lending organization for lines of credit other than a residential first mortgage (also known as "first lien on a residential property")[1]. Depending on what coverage is purchased, credit insurance may pay all of a debt or the required minimum periodic payments. Under Massachusetts law[2], it is illegal for a lender to require a person to buy credit insurance as a condition of obtaining a loan. Potential insureds are required, by regulation[3], to receive certain disclosure materials prior to any such coverage becoming effective.

This report describes credit insurance offered by licensed or authorized insurers and does not address non-insurance banking products - such as debt cancellation or debt suspension products - considered to be bank services. These products are not subject to state insurance laws or regulations.

Types of Credit Insurance

Credit life insurance is designed to pay off a specific debt in the event of the death of the insured. Unlike traditional life insurance, the beneficiary on the credit life insurance policy is the entity who offers the credit (the "creditor"), and not a friend or family member of the insured. Credit life insurance in Massachusetts is governed by the standards described in M.G.L. c. 175, §117C which are as follows:

(1) the death benefit may not be for more than $125,000;
(2) the insurance may not be for more than a 15-year period;
(3) the insurance may only be for the remaining outstanding balance of a debt; and
(4) the coverage ends when the debt is discharged.

By statute, an insurance company's credit life losses in relation to its earned premium – called the loss ratio - must be at least equal to 50%. Per M.G.L. c. 175, §117C, a company is required to report its credit life insurance premium and loss experience annually. Companies whose loss experience is credible and which did not meet the required loss ratio standard are required to file revised rates which meet the statutorily required loss ratio standard

Credit disability insurance, also known as credit accident and sickness insurance, is designed to pay a monthly amount that is never less than the minimum monthly payment required under the debt agreement. Unlike traditional disability insurance, the beneficiary is the creditor and payments are made to the creditor instead of to the covered person. Credit disability insurance may only be offered in Massachusetts in accordance with to the standards set forth under M.G.L. c. 175, §117C that include the following:

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[1] As authorized under Chapter 303 of the Acts of 1988, credit insurance is to be used with a "loan for personal, family or household purpose, except in the case of a loan secured by a first lien on real property" (M.G.L. c. 255, §12G); "retail installment contract" (M.G.L. c. 255B § 10); "premium finance agreement" (M.G.L. c. 255C, §14A); or "retail installment sale agreement or revolving credit agreement (M.G.L. c. 255D, §26C).
[2] Chapter 303 of the Acts of 1988.
[3] 211 CMR 143.00.

(1) the monthly benefit is equal to the loan's minimum monthly payment;
(2) there may be an elimination period before a benefit is paid; and
(3) the benefit may or may not be retroactive.

By statute, an insurance company's loss ratio for credit disability insurance must equal at least 55%. Per M.G.L. c. 175, §117C, a company is required to report its credit disability insurance premiums and claims annually. Companies whose claims experience is credible and which did not meet the required loss ratio standard must file revised rates which meet the statutorily required loss ratio standard.

Credit involuntary unemployment insurance is designed to pay a monthly amount that is never less than the minimum monthly payment under the debt agreement. Unlike traditional involuntary unemployment insurance, the beneficiary is the creditor and payments are made to the creditor instead of the covered person. Credit involuntary unemployment insurance may only be offered in Massachusetts in accordance with the standards set forth under M.G.L. c. 175, §117D that include the following:

(1) the monthly benefit is equal to the loan's minimum monthly payment;
(2) there may be an elimination period before a benefit is paid; and
(3) the benefit may or may not be retroactive.

By statute, an insurance company's loss ratio for credit involuntary unemployment insurance must equal at least 60%. Per M.G.L. c. 175, §117D, a company is required to change its filed rates if its claims experience is credible and did not meet the statutorily required loss ratio standard.

Credit property insurance is designed to pay the outstanding balance under a debt agreement in case the covered property is destroyed by specific named perils such as an accident or theft. Usually this product does not have any upfront deductible.

Although the rates used for credit property insurance are to be actuarially supportable when filed with the Division, there is not a statutorily required loss ratio for this product and this product is not referenced in the data collected for this report.

Reporting by Classes of Business

The rates to be used for credit life and credit disability insurance offered through the Motor Vehicle Dealers ("MVD") class of business – for auto-related loans – are set by the Division triennially using the last three available years of experience. (Bulletin 2010-09 identifies the rates applying to 2011, 2012 and 2013, based on 2007-2009 experience.) For all other classes of business, insurers are to submit rate filings for a specific line that comply with the statutorily defined standards[4]. In order to differentiate MVD credit insurance from all other credit insurance, the Division expects companies to maintain and report the experience of these lines separately.

[4] As defined in M.G.L. c. 175, §117C.

Section 2 Data and Reporting Requirements

Data Requirements

In accordance with M.G.L. c. 175, §117C(b)F each insurer is required to file claims experience and loss ratio data annually. The Commissioner of Insurance, by September 30th of each year, is required to provide a summary of the information reported by companies. When submitting information, insurers are to report claims and premium data and calculate a loss ratio in the following manner:

Incurred Claims = Total credit insurance claims paid during the experience period adjusted for changes to the credit insurance claim reserve.

Earned Premiums = Actual earned premiums

$$\text{Loss Ratio} = \frac{\text{Incurred Claims}}{\text{Earned Premiums}}$$

Reporting Requirements

When submitting credit insurance information, the Division has requested that companies report separately for credit life, credit disability and credit involuntary unemployment insurance. Within the Credit Life and Credit Disability reports, the Division has requested that information be reported separately for the MVD and non-MVD classes of business (this information was not requested for the credit involuntary unemployment insurance because the Division does not set credit involuntary unemployment rates for any class of business). The Division requested that the data be reported for each individual product offered within a line of coverage so that the loss ratio of the individual product may be compared to the statutory loss ratio requirements.

Section 3 Credit Life Insurance

The following represents the experience reported by the 28 companies submitting reports for credit life insurance business in force between 2008 and 2010:

Motor Vehicle Dealer Class of Business

	2008	*2009*	*2010*	*Total 2008-2010*
Direct Premium Earned	3,080,259	2,132,850	1,632,706	6,845,815
Direct Losses Incurred	639,174	548,576	557,885	1,745,635
Loss Ratio	20.75%	25.72%	34.17%	25.50%

All Other Classes of Business

	2008	*2009*	*2010*	*Total 2008-2010*
Direct Premium Earned	6,238,484	5,237,250	4,217,803	15,693,537
Direct Losses Incurred	2,796,656	2,094,400	2,261,568	7,152,624
Loss Ratio	44.83%	39.99%	53.62%	45.58%

Motor Vehicle Dealer Class and All Other Classes Combined

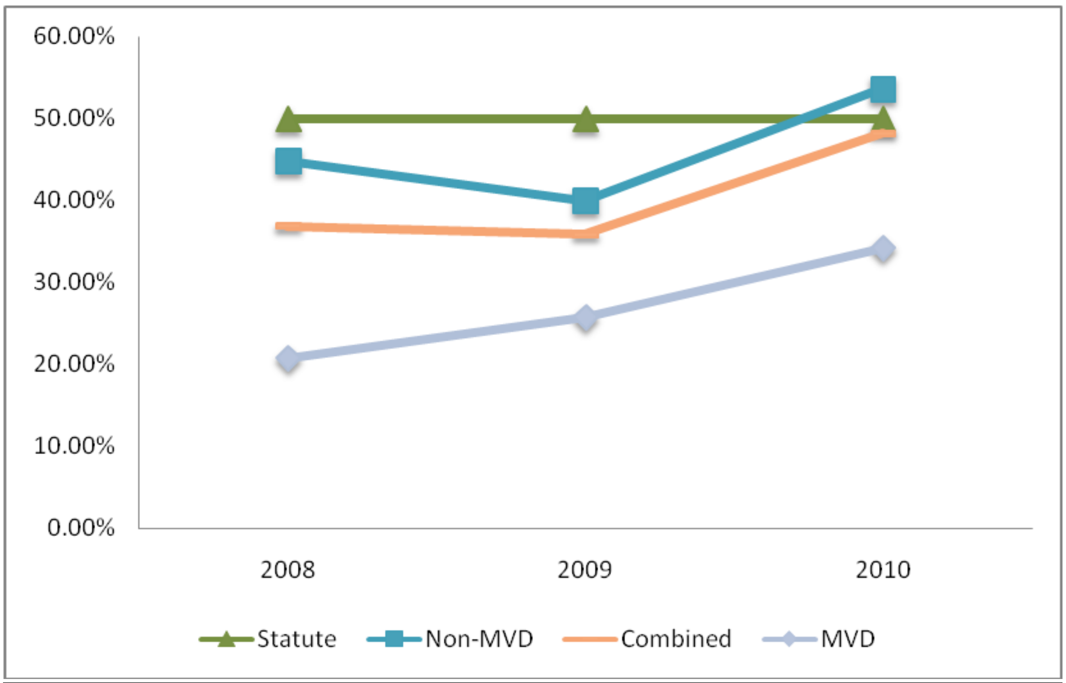
	2008	*2009*	*2010*	*Total 2008-2010*
Direct Premium Earned	9,318,743	7,370,100	5,850,509	22,539,352
Direct Losses Incurred	3,435,830	2,642,976	2,819,453	8,898,259
Loss Ratio	36.87%	35.86%	48.19%	39.48%

Analysis of Data

Credit life insurance earned premiums decreased by $1.5 million or 21% from 2009 to 2010. Premiums for the MVD class of business decreased by $0.5 million, and premiums for other credit life insurance business decreased by $1.0 million. Incurred claims increased by $0.2 million from 2009 to 2010.

Comparison to Statutory Standards

As presented in the following graph, the reported loss ratios for credit life insurance in aggregate are below the statutory required loss ratio standards. Credit life insurance products are required to be written at the 50% loss ratio. The 2010 aggregate loss ratio was 34.17% for the MVD line of business and 53.62% for the non-MVD line of business.



Evaluation of the Loss Ratio Results

As noted previously, the Division develops the deviated rates for the MVD line of business every three years based on the previous three-year period's experience and these time lags can affect the loss ratios of this business. The Division issued Bulletin 2010-09 in 2010 to set the credit life rates for the period between 2011 and 2013 based on reported information from the period between 2007 and 2009.

For the non-MVD line of business, each of the company's submitted earned premium and claims information was individually reviewed for the credibility of the reported information. Six companies were required to submit amended rate filings because their reported loss ratios fell below the statutorily required limits. The average reduction in rates on the amended rate filings was 3.4%.

Section 4 Credit Accident and Sickness Insurance

The following represents the experience reported by the 27 companies submitting reports for credit accident and sickness insurance business in force between 2007 and 2009:

Motor Vehicle Dealer Class of Business

	2008	2009	2010	Total 2008-2010
Direct Premium Earned	*5,173,085*	*3,675,144*	*2,704,277*	*11,552,506*
Direct Losses Incurred	1,516,490	999,762	644,411	3,160,663
Loss Ratio	29.32%	27.20%	23.83%	27.36%

All Other Classes of Business

	2008	2009	2010	Total 2008-2010
Direct Premium Earned	10,721,851	8,979,073	7,386,312	27,087,236
Direct Losses Incurred	5,323,589	4,326,765	3,495,767	13,146,121
Loss Ratio	49.65%	48.19%	47.33%	48.53%

Motor Vehicle Dealer Class and All Other Classes Combined

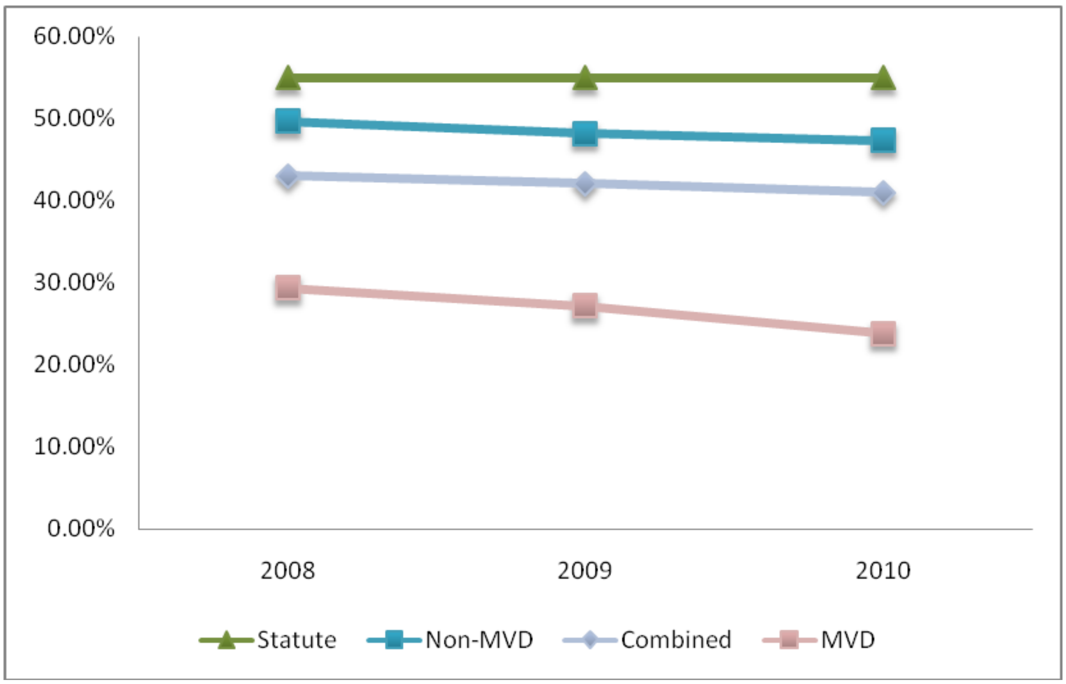
	2008	2009	2010	Total 2008-2010
Direct Premium Earned	15,894,936	12,654,217	10,090,589	38,639,742
Direct Losses Incurred	6,840,079	5,326,527	4,140,178	16,306,784
Loss Ratio	43.03%	42.09%	41.03%	42.20%

Analysis of Data

Credit disability insurance earned premiums declined by $2.6 million or 20% from 2009 to 2010. Among the policies, premiums for MVD declined by $1.0 million and premiums for all other credit disability insurance decreased by $1.6 million. Incurred claims decreased by $1.2 million or 22%. Incurred claims on the MVD class of business decreased by $.4 million while the incurred claims on the other credit disability insurance decreased by $.8 million.

Comparison to Statutory Standards

As presented in the following graph, the reported loss ratios for credit disability insurance in aggregate are below the statutorily required loss ratio standards. Credit disability insurance products are required to be written at a 55% loss ratio. The 2010 aggregate loss ratio was 23.83% for the MVD line of business and 47.33% for all non-MVD lines of business. While the non-MVD class of business is close to the statutory standard, the MVD class of business is significantly below the required level.



Evaluation of the Loss Ratio Results

As noted previously, the Division develops the deviated rates for the MVD line of business every three years based on the previous three-year period's experience and these time lags can affect the loss ratios of this business. The Division issued Bulletin 2010-09 to set the credit disability insurance rates for the period between 2011 and 2013 based on reported information from the period between 2007 and 2009.

For the non-MVD line of business, each of the companies' submitted earned premium and claims information was individually reviewed for the credibility of the reported information.

Five companies were required to submit amended filings to reduce their credit disability rates, because their reported loss ratios fell below the statutorily required loss ratios.

On average rates decreased 16.1% for the companies that submitted amended rate filings.

Section 5 Credit Involuntary Unemployment Insurance

The following represents the experience reported by the eight companies submitting reports for credit involuntary unemployment insurance business in force between 2008 and 2010 (please note that companies do not rate or report separately for the MVD class of business as opposed to the non-MVD class of insurance):

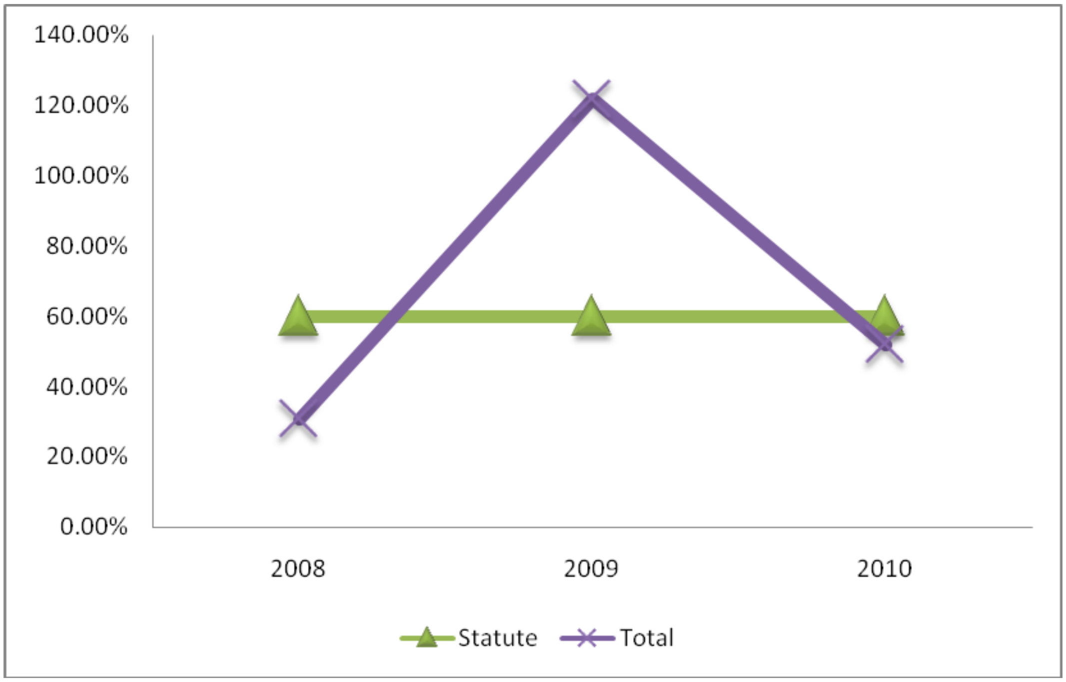
	2008	***2009***	***2010***	***Total 2008-2010***
Direct Premiums Incurred	2,641,613	1,647,243	1,469,767	5,758,623
Direct Losses Earned	814,278	2,006,116	762,955	3,583,349
Loss Ratio	30.83%	121.79%	51.91%	62.23%

Analysis of Data

Credit involuntary unemployment insurance earned premiums declined by $0.2 million or by 11% from 2009 to 2010. Incurred claim losses decreased by $1.2 million from 2009 to 2010. The loss ratio for credit involuntary unemployment insurance decreased significantly from 121.79% to 51.91% and is below the statutory requirement of 60%.

Comparison to Statutory Standards

With the exception of calendar year 2009, the reported IUI loss ratio has been significantly less than the statutory minimum loss ratio of 60%. Over time the Credit IUI block has declined significantly. In 2010, the line’s earned premiums were $1.5 million. As this block continues to decline its reported loss ratio will be volatile. One major Credit IUI writer, Triton Insurer Company, had a 2010 loss ratio of 121%. Eliminating Triton, the reported loss ratio would decline to 33% which is significantly less than the minimum statutory loss ratio.



Evaluation of the Loss Ratio Results

Each of the companies submitting earned premium and claims information was individually reviewed for the credibility of the reported information. Three companies were required to submit amended filings to reduce their credit unemployment insurance rates. On average, rates decreased by 38.8% for companies submitting amended filings.