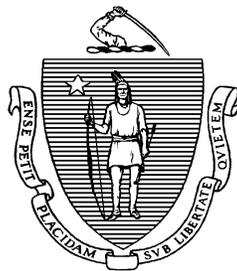


ANNUAL REPORT ON CREDIT INSURANCE IN MASSACHUSETTS

2011

*Report to the Joint Committee on Financial Services
Pursuant to M.G.L. c. 175, § 117C*



Joseph G. Murphy
Commissioner of Insurance

Acknowledgements

The following report was prepared by staff of the State Rating Bureau within the Massachusetts Division of Insurance (“Division”). Chet Lewandowski, State Rating Bureau Actuary, and Kevin Beagan, State Rating Bureau Director, provided the analysis and prepared the report. The report is primarily based on responses from insurance companies reflecting the experience of insurers offering credit insurance in Massachusetts. Unless otherwise noted in the report, references to credit insurance include 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 relies on insurers to ensure the accuracy of all reported information.

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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 the coverage purchased, credit insurance may pay all of a debt or the required minimum periodic payments. Under Massachusetts law, it is illegal for a lender to require a person to buy credit insurance as a condition of obtaining a loan.² Potential insureds are required, by regulation, to receive certain disclosure materials prior to any such coverage becoming effective.³

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, which are considered to be bank services.

Types of Credit Insurance

Credit Life 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 following standards set forth in M.G.L. c. 175, §117C:

- (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 equal to at least 50 percent. Pursuant to M.G.L. c. 175, §117C, an insurer is required to report its credit life insurance premium and loss experience annually. Companies whose loss experience is credible but did not meet the statutorily required loss ratio are required to file revised rates which meet the 50 percent standard.

Credit Disability Insurance

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

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 See M.G.L. c. 255, § 12G, M.G.L. c. 255B, § 10, M.G.L. c. 255C, §14A and 255D, § 26.

³ 211 CMR 143.00.

payments are made to the creditor instead of to the covered person. Credit disability insurance only may be offered in Massachusetts in accordance with the following standards set forth in M.G.L. c. 175, § 117C:

- (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.

Pursuant to Section 117C, an insurance company's loss ratio for credit disability insurance must equal at least 55 percent. An insurer is required to report its credit disability insurance premiums and claims annually. Companies whose claims experience is credible but did not meet the statutorily required loss ratio must file revised rates which meet the 55 percent standard.

Credit Involuntary Unemployment Insurance

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 to the covered person. Credit involuntary unemployment insurance only may be offered in Massachusetts in accordance with the following standards set forth in M.G.L. c. 175, §117D:

- (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.

Section 117C requires that an insurance company's loss ratio for credit involuntary unemployment insurance must equal at least 60 percent. An insurer is required to report its credit involuntary unemployment insurance premiums and claims annually. Companies whose claims experience is credible but did not meet the statutorily required loss ratio must file revised rates which meet the 60 percent standard.

Credit Property Insurance

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

Although the rates used for credit property insurance must be actuarially supportable when filed with the Division, there is no statutorily required loss ratio for this product. This, there is no data collected on this product 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. Division Bulletin 2010-09 identifies

the rates applying to 2011, 2012 and 2013, based on 2007-2009 experience.⁴ For all other classes of business, insurers must submit rate filings to the Division for a specific line that comply with the statutorily defined loss ratio standards, as described above. In order to differentiate MVD credit insurance from all other credit insurance, the Division requires insurers to maintain and report the experience of these lines separately.

⁴ See Bulletin 2010-09, issued on October 1, 2010, <http://www.mass.gov/ocabr/business/insurance/doi-regulatory-info/doi-regulatory-bulletins/2010-doi-bulletins/bulletin-2010-09-2011-2013-deviated-case.html>.

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 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

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

Reporting Requirements

The Division has requested that companies submitting credit insurance information report separately for credit life, credit disability and credit involuntary unemployment insurance. Within the credit life and credit disability reports, the Division further has requested that information be reported separately for the MVD and non-MVD classes of business.⁵ The Division also requested that companies report data for each individual product offered within a line of coverage so that the loss ratio of the individual product may be compared to the applicable statutory loss ratio requirement.

⁵ This information was not requested for credit involuntary unemployment insurance because the Division does not set rates for any class of business within that line.

Section 3: Credit Life Insurance

Reported Experience

The following represents the experience reported by the 28 companies submitting reports for credit life insurance business in force between 2009 and 2011.

Motor Vehicle Dealer (MVD) Class of Business

	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>Total 2009-2011</i>
Direct Premium Earned	2,132,850	1,632,706	1,015,761	4,781,317
Direct Losses Incurred	548,576	557,885	373,054	1,479,515
Loss Ratio	25.72%	34.17%	36.73%	30.94%

All Other Classes of Business

	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>Total 2009-2011</i>
Direct Premium Earned	5,237,250	4,217,803	3,864,125	13,319,178
Direct Losses Incurred	2,094,400	2,261,568	1,564,734	5,920,702
Loss Ratio	39.99%	53.62%	40.49%	44.45%

Motor Vehicle Dealer (MVD) Class and All Other Classes Combined

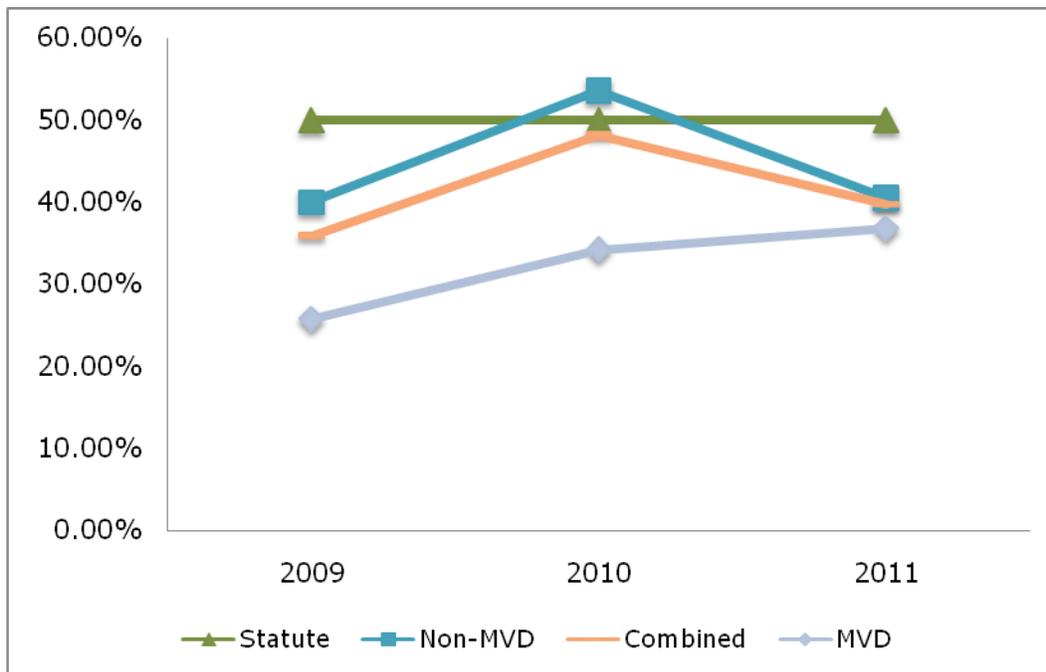
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>Total 2009-2011</i>
Direct Premium Earned	7,370,100	5,850,509	4,879,886	18,100,495
Direct Losses Incurred	2,642,976	2,819,453	1,937,788	7,400,217
Loss Ratio	35.86%	48.19%	39.71%	40.88%

Analysis of Data

Credit life insurance earned premiums decreased by \$1.0 million, or 17%, from 2010 to 2011. Premiums for the MVD class of business decreased by \$0.6 million, and premiums for other credit life insurance business decreased by \$0.4 million. Incurred claims decreased by \$0.9 million from 2010 to 2011.

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 50.00% loss ratio. The 2011 aggregate loss ratio was 36.73% for the MVD line of business and 40.49% for the non-MVD line of business.



Evaluation of the Loss Ratio Results

As previously noted, the Division develops 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 on October 1, 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 reviewed individually to ensure credibility of the reported information. Thereafter, four companies were required to submit amended rate filings to the Division to reduce their credit life insurance rates because their reported loss ratios fell below statutorily required standards. The average reduction in rates on the amended rate filings was 3.7%.

Section 4: Credit Accident and Sickness Insurance

Reported Experience

The following represents the experience reported by the 26 companies submitting reports for credit accident and sickness insurance business in force between 2009 and 2011:

Motor Vehicle Dealer (MVD) Class of Business

	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>Total 2009-2011</i>
Direct Premium Earned	3,675,144	2,704,277	1,482,466	7,861,887
Direct Losses Incurred	999,762	644,411	753,421	2,397,594
Loss Ratio	27.20%	23.83%	50.82%	30.50%

All Other Classes of Business

	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>Total 2009-2011</i>
Direct Premium Earned	8,979,073	7,386,312	6,423,971	22,789,356
Direct Losses Incurred	4,326,765	3,495,767	2,465,076	10,287,608
Loss Ratio	48.19%	47.33%	38.37%	45.14%

Motor Vehicle Dealer (MVD) Class and All Other Classes Combined

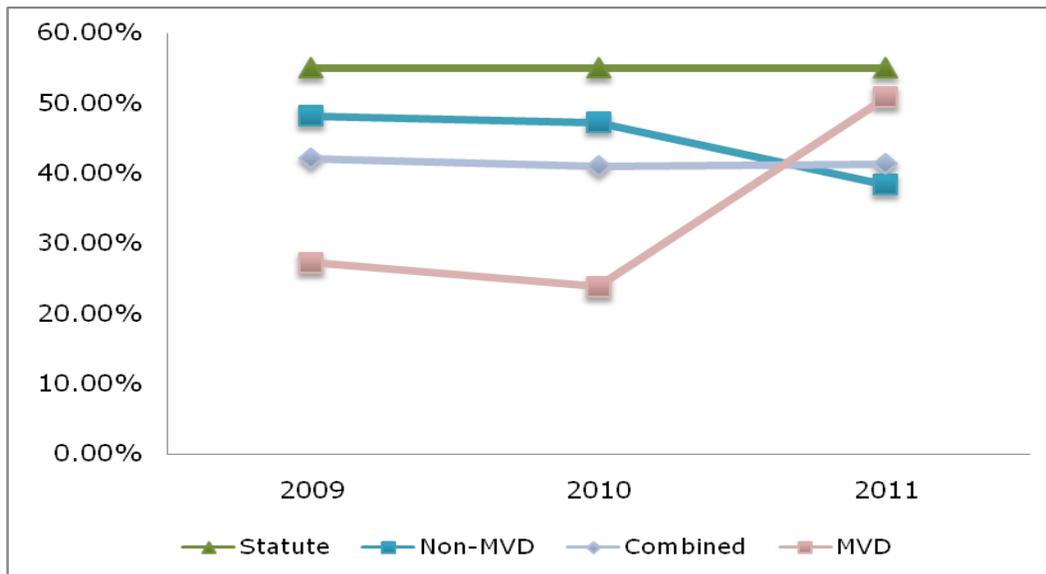
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>Total 2009-2011</i>
Direct Premium Earned	12,654,217	10,090,589	7,906,437	30,651,243
Direct Losses Incurred	5,326,527	4,140,178	3,218,497	12,685,202
Loss Ratio	42.09%	41.03%	40.71%	41.39%

Analysis of Data

Credit disability insurance earned premiums declined by \$2.2 million, or 22%, from 2010 to 2011. Among the policies, premiums for MVD declined by \$1.2 million and premiums for all other credit disability insurance decreased by \$1.0 million. Incurred claims decreased by \$0.9 million, or 22%. Incurred claims on the MVD class of business increased by \$0.1 million while the incurred claims on the other credit disability insurance decreased by \$1.0 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 55.00% loss ratio. The 2011 aggregate loss ratio was 50.82% for the MVD line of business and 38.37% for all non-MVD lines of business. Although the MVD class of business is close to the statutory standard, the non-MVD class of business is significantly below the required level.



Evaluation of the Loss Ratio Results

As previously noted, the Division develops 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 reviewed individual to ensure credibility of the reported information. Thereafter, four companies were required to submit amended filings to the Division to reduce their credit disability rates, because their reported loss ratios fell below statutorily required standards. The average reduction in rates on the amended rate filings was 6.2%.

Section 5: Credit Involuntary Unemployment Insurance

Reported Experience

The following represents the experience reported by the nine companies submitting reports for credit involuntary unemployment insurance business in force between 2009 and 2011. Insurers do not rate or report separately for the MVD class of business and the non-MVD class of business in this line.

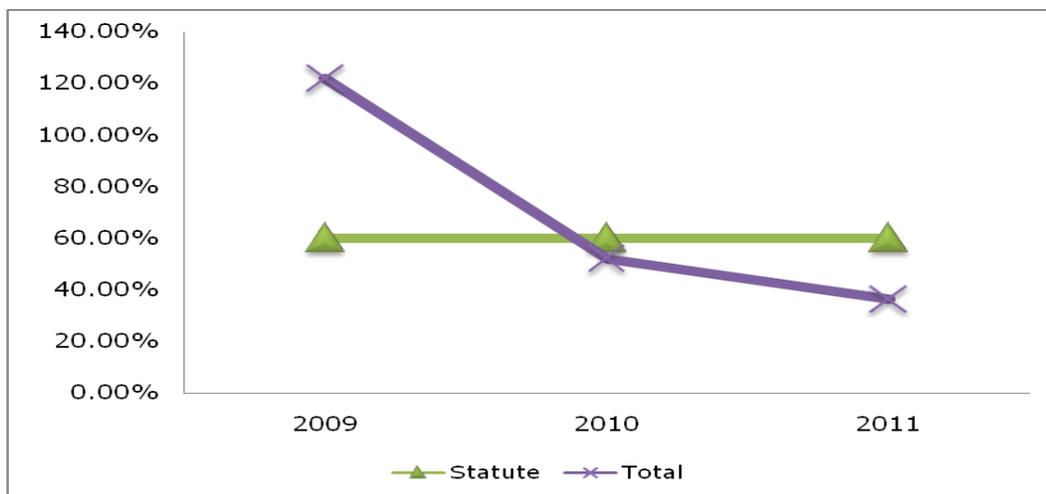
	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>Total 2009-2011</i>
Direct Premiums Incurred	1,647,243	1,469,767	1,257,191	4,374,201
Direct Losses Earned	2,006,116	762,955	454,465	3,223,536
Loss Ratio	121.79%	51.91%	36.15%	73.69%

Analysis of Data

Credit involuntary unemployment insurance earned premiums declined by \$0.2 million, or 14%, from 2010 to 2011. Incurred claim losses decreased by \$.3 million from 2010 to 2011. The loss ratio for credit involuntary unemployment insurance decreased from 51.91% to 36.15%.

Comparison to Statutory Standards

As presented in the following graph, with the exception of calendar year 2009, the reported credit involuntary unemployment insurance loss ratio has been less than the statutory minimum loss ratio of 60%. Moreover, this block of business has declined significantly over time. In 2011, the earned premiums for credit involuntary unemployment insurance were \$1.3 million. The Division anticipates that this reported loss ratio will remain volatile as the block continues to decline.



Evaluation of the Loss Ratio Results

Each of the companies submitting earned premium and claims information for credit involuntary unemployment insurance was reviewed individually to ensure credibility of the reported information. Thereafter, two companies were required to submit amended filings to the Division to reduce their credit unemployment insurance rates because their reported loss ratios fell below statutorily required standards. The average reduction in rates on the amended rate filings was 21.7%.