Massachusetts Division of Insurance
Credit Insurance
For the 2017 Calendar Year

Gary D. Anderson
Commissioner of Insurance

Acknowledgements

The following report was prepared by Niels Puetthoff, Research Analyst of the Health Care Access Bureau ("HCAB") within the Massachusetts Division of Insurance ("Division") with the assistance of Mary Hosford, Chief Actuary, and Hillary Berkowitz of the HCAB, under the supervision of Kevin Beagan, Deputy Commissioner, HCAB. 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 income 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"), 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 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.

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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, §26).

[2] *See* M.G.L. c. 255, §12G; M.G.L. c. 255B, §10; M.G.L. c. 255C, §14A; and M.G.L. c. 255D, §26.

[3] *See* 211 CMR 143.00.

Credit Disability Income Insurance

Credit disability income 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 income insurance may be offered in Massachusetts only 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 income insurance must equal at least 55 percent. An insurer is required to report its credit disability income 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 may be offered in Massachusetts only 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 117D 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. Thus, 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 income insurance offered through the Motor Vehicle Dealers ("MVD") class of business for auto-related loans are set by the Division annually using the last three available years of experience. Division Bulletin 2016-15 identifies the rates applying to 2017 through 2019, based on 2013-2015 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] Pursuant to M.G.L. c.175, s. 117C (b) (c) (q) (iii), the commissioner shall triennially compute the deviated case rates for credit life and credit accident and health insurance sold through motor vehicle dealers. Bulletin 2016-15, issued on November 29, 2016, available at https://www.mass.gov/files/documents/2017/11/21/BULLETIN%202016-15%20Credit%20Ins%202017-2019.pdf, established the rates for 2017-2019.

Section 2: Data and Reporting Requirements

Data Requirements

In accordance with M.G.L. c. 175, §117C(b) 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 income, and credit involuntary unemployment insurance. Within the credit life and credit disability income 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 each 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 15 companies submitting reports for credit life insurance business in force between 2015 and 2017.

Motor Vehicle Dealer (MVD) Class of Business

	2015	*2016*	*2017*	*Total 2015-2017*
Direct Premium Earned	243,578	149,778	91,615	484,971
Direct Losses Incurred	32,048	102,139	27,097	161,284
Loss Ratio	13.16%	68.19%	29.58%	33.26%

All Other Classes of Business

	2015	*2016*	*2017*	*Total 2015-2017*
Direct Premium Earned	2,314,857	2,043,910	1,903,290	6,262,057
Direct Losses Incurred	1,019,931	692,937	576,356	2,289,224
Loss Ratio	44.06%	33.90%	30.28%	36.56%

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

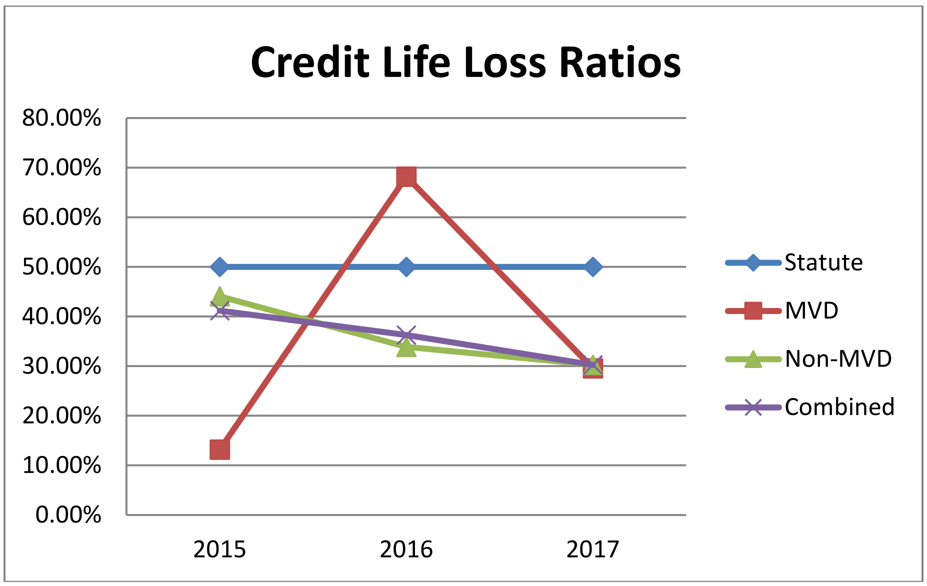
	2015	*2016*	*2017*	*Total 2015-2017*
Direct Premium Earned	2,558,435	2,193,688	1,994,905	6,747,028
Direct Losses Incurred	1,051,979	795,076	603,453	2,450,508
Loss Ratio	41.18%	36.24%	30.25%	36.32%

Analysis of Data

Credit life insurance earned premiums decreased by $198,783, or 9.06%, from 2016 to 2017. Premiums for the MVD class of business decreased by $58,163, and premiums for other credit life insurance business decreased by $140,620. Incurred claims decreased by $191,623 from 2016 to 2017.

Comparison to Statutory Standards

Credit life insurance products are required to be written at the 50% loss ratio. The 2017 aggregate loss ratio was 29.58% for the MVD line of business and 30.28% for the non-MVD line of business.



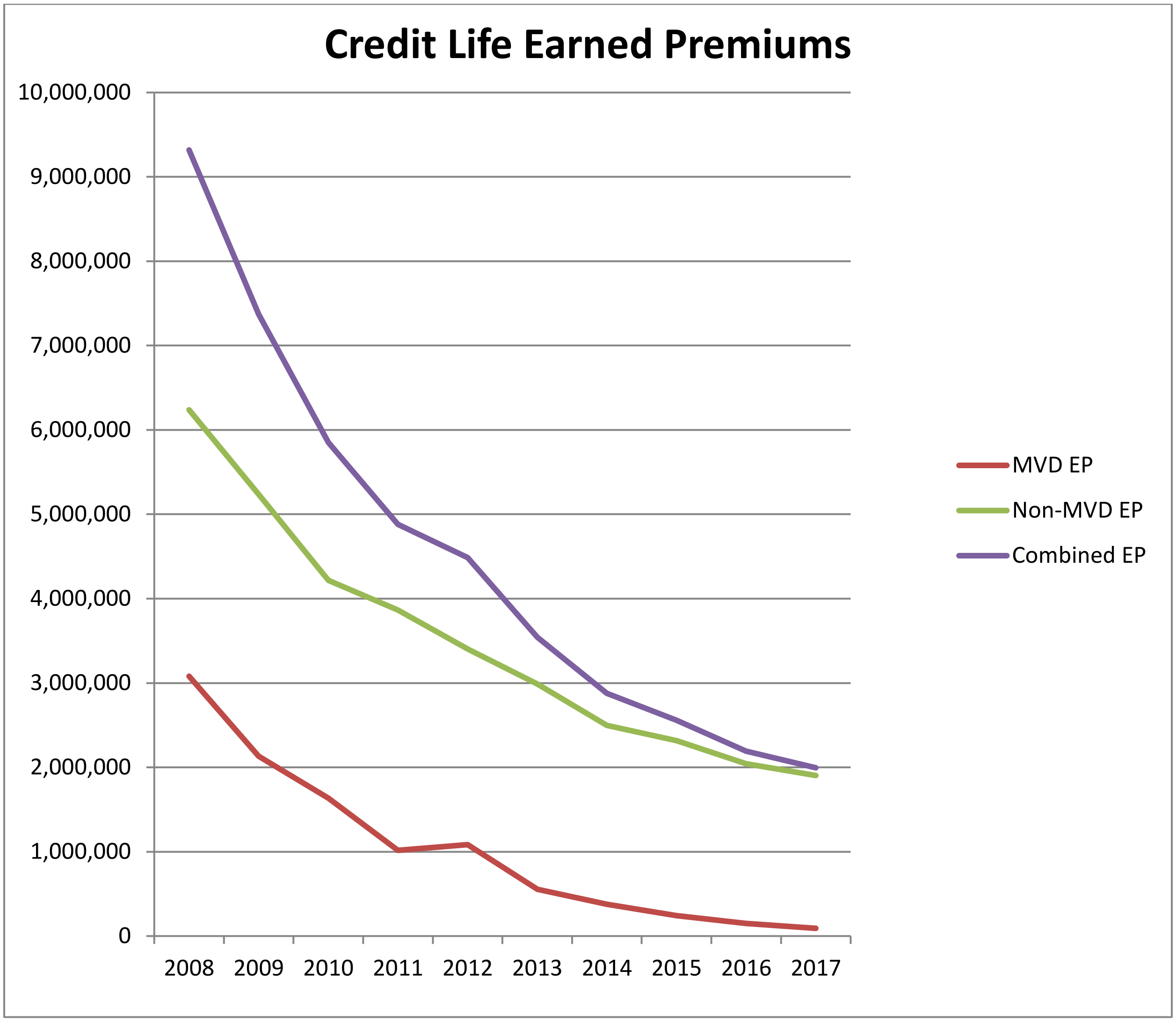
Evaluation of the Loss Ratio Results

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 2016-15 on November 29, 2016 to set the credit life rates for 2017 – 2019.

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. Where any company's loss ratio experience fell below the statutory requirement, companies were instructed to submit rate filings to revise rates to come into compliance with the statutory requirement.

Declining Nature of Credit Life Insurance

The following chart shows credit life insurance earned premiums by calendar year for the period from 2008 through 2017. It indicates the declining nature of credit life insurance.



It is believed that credit life policies that are issued by insurance companies are declining because they are being replaced by debt cancellation products that are offered by banking organizations. Debt cancellation products are not considered to be insurance and are not subject to the Division's oversight.

Section 4: Credit Disability Income Insurance

Reported Experience

The following represents the experience reported by the 16 companies submitting reports for credit disability income insurance business in force between 2015 and 2017:

Motor Vehicle Dealer (MVD) Class of Business

	2015	***2016***	***2017***	***Total 2015-2017***
Direct Premium Earned	368,944	229,040	157,097	755,081
Direct Losses Incurred	77,499	90,087	30,658	198,244
Loss Ratio	20.99%	39.33%	19.52%	26.25%

All Other Classes of Business

	2015	***2016***	***2017***	***Total 2015-2017***
Direct Premium Earned	4,286,782	3,880,461	3,634,393	11,801,636
Direct Losses Incurred	1,977,879	1,516,596	1,602,450	5,096,925
Loss Ratio	46.14%	39.08%	44.09%	43.19%

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

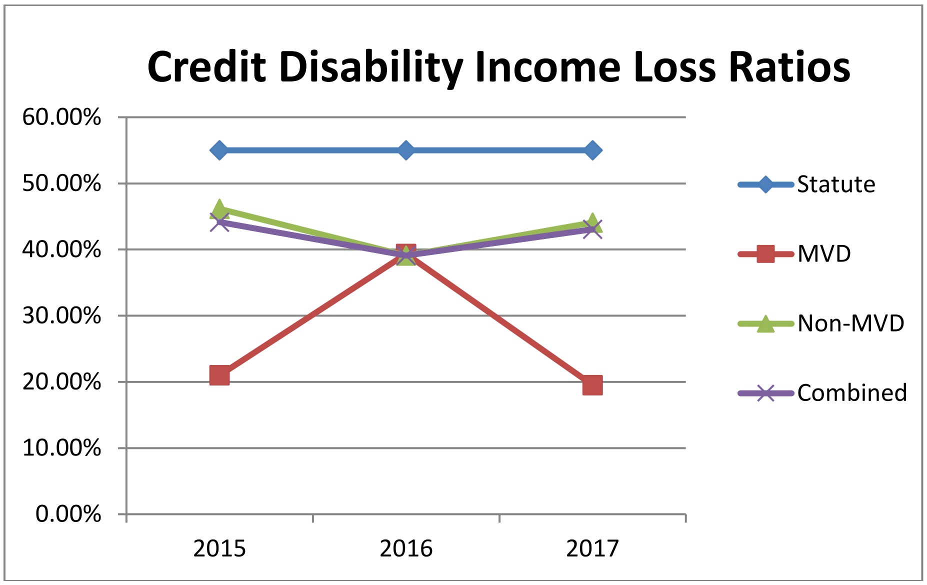
	2015	***2016***	***2017***	***Total 2015-2017***
Direct Premium Earned	4,655,726	4,109,501	3,791,490	12,556,717
Direct Losses Incurred	2,055,378	1,606,683	1,633,108	5,295,169
Loss Ratio	44.15%	39.10%	43.07%	42.17%

Analysis of Data

Credit disability income insurance earned premiums declined by $318,011, or 7.74%, from 2016 to 2017. Premiums for MVD decreased by $71,943, and premiums for all other credit disability income insurance decreased by $246,068. Incurred claims increased by $26,425, or 1.64%. Incurred claims on the MVD class of business decreased by $59,429, while the incurred claims on the other credit disability income insurance increased by $85,854.

Comparison to Statutory Standards

As presented in the following graph, the reported loss ratios for credit disability income insurance in aggregate are below the statutorily required loss ratio standards. Credit disability income insurance products are required to be written at a 55% loss ratio. The 2017 aggregate loss ratio was 19.52% for the MVD line of business and 44.09% for all non-MVD lines of business. Both the MVD class of business and the non-MVD class of business are below the required level.



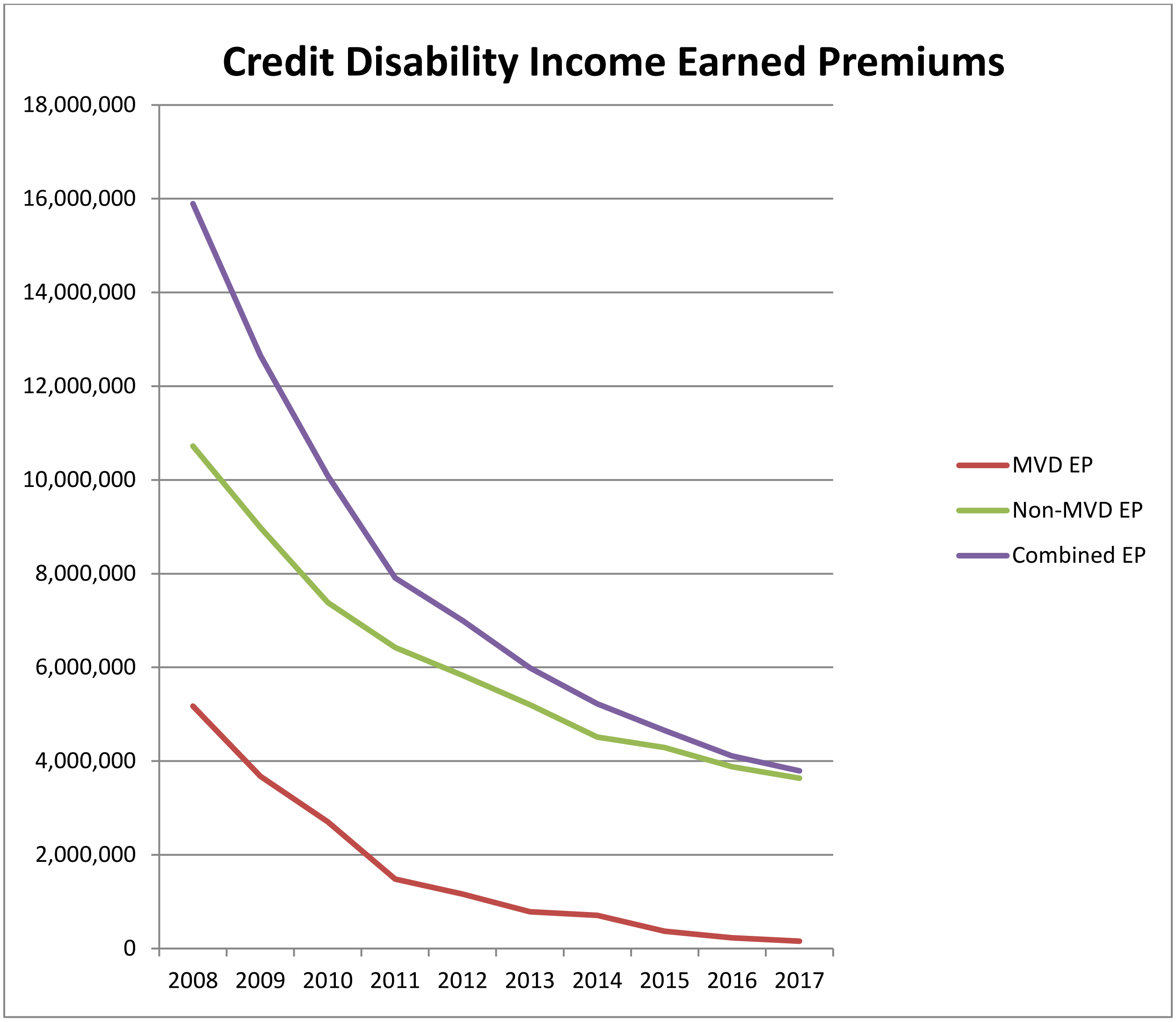
Evaluation of the Loss Ratio Results

As previously noted, the Division develops deviated rates for the MVD line of business every year based on the previous three-year period's experience, and these time lags can affect the loss ratios of this business.

For the non-MVD line of business, each of the companies' submitted earned premium and claims information was reviewed individually to ensure credibility of the reported information. Where any company's loss ratio experience fell below the statutory requirement, companies were instructed to submit rate filings to revise rates to come into compliance with the statutory requirement.

Declining Nature of Credit Disability Income Insurance

The following chart shows credit disability income earned premiums by calendar year for the period from 2008 to 2017. It indicates the declining nature of credit disability income insurance.



It is believed that credit disability income policies that are issued by insurance companies are declining because they are being replaced by debt cancellation and suspension products that are offered by banking organizations. Debt cancellation and suspension products are not considered to be insurance and are not subject to the Division's oversight.

Section 5: Credit Involuntary Unemployment Insurance

Reported Experience

The following represents the experience reported by the 6 companies submitting reports for credit involuntary unemployment insurance business in force between 2015 and 2017. Insurers do not rate or report separately for the MVD class of business and the non-MVD class of business in this line.

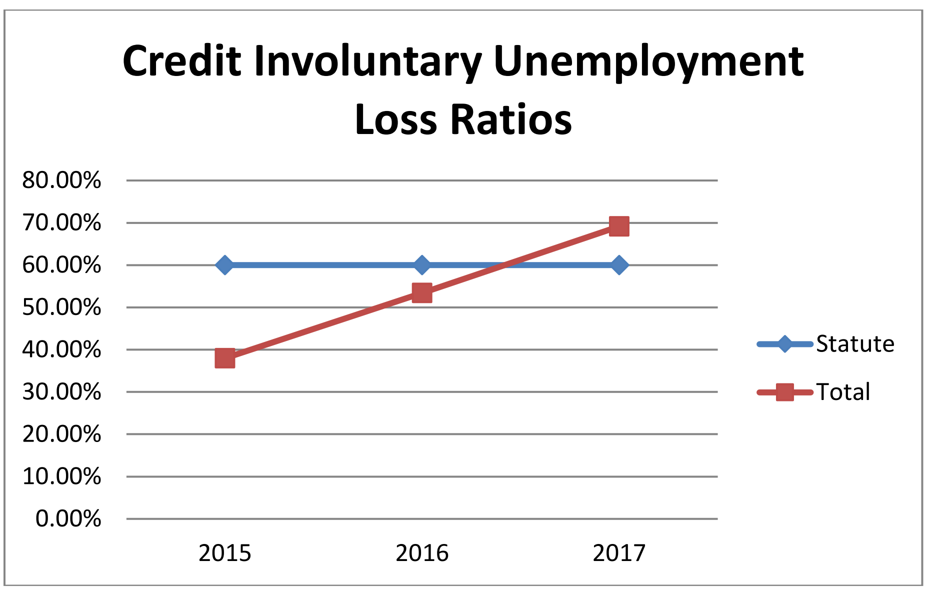
	2015	***2016***	***2017***	***Total 2015-2017***
Direct Premiums Earned	389,688	286,718	183,861	860,267
Direct Losses Incurred	148,028	153,177	127,135	428,340
Loss Ratio	37.99%	53.42%	69.15%	49.79%

Analysis of Data

Credit involuntary unemployment insurance earned premiums declined by $102,857, or 35.87%, from 2016 to 2017. Incurred claims decreased by $26,042 from 2016 to 2017. The loss ratio for credit involuntary unemployment insurance increased from 53.42% to 69.15%.

Comparison to Statutory Standards

Credit involuntary unemployment insurance products are required to be written at the 60% loss ratio. The 2017 aggregate loss ratio was 69.15%, which was above the statutory minimum.

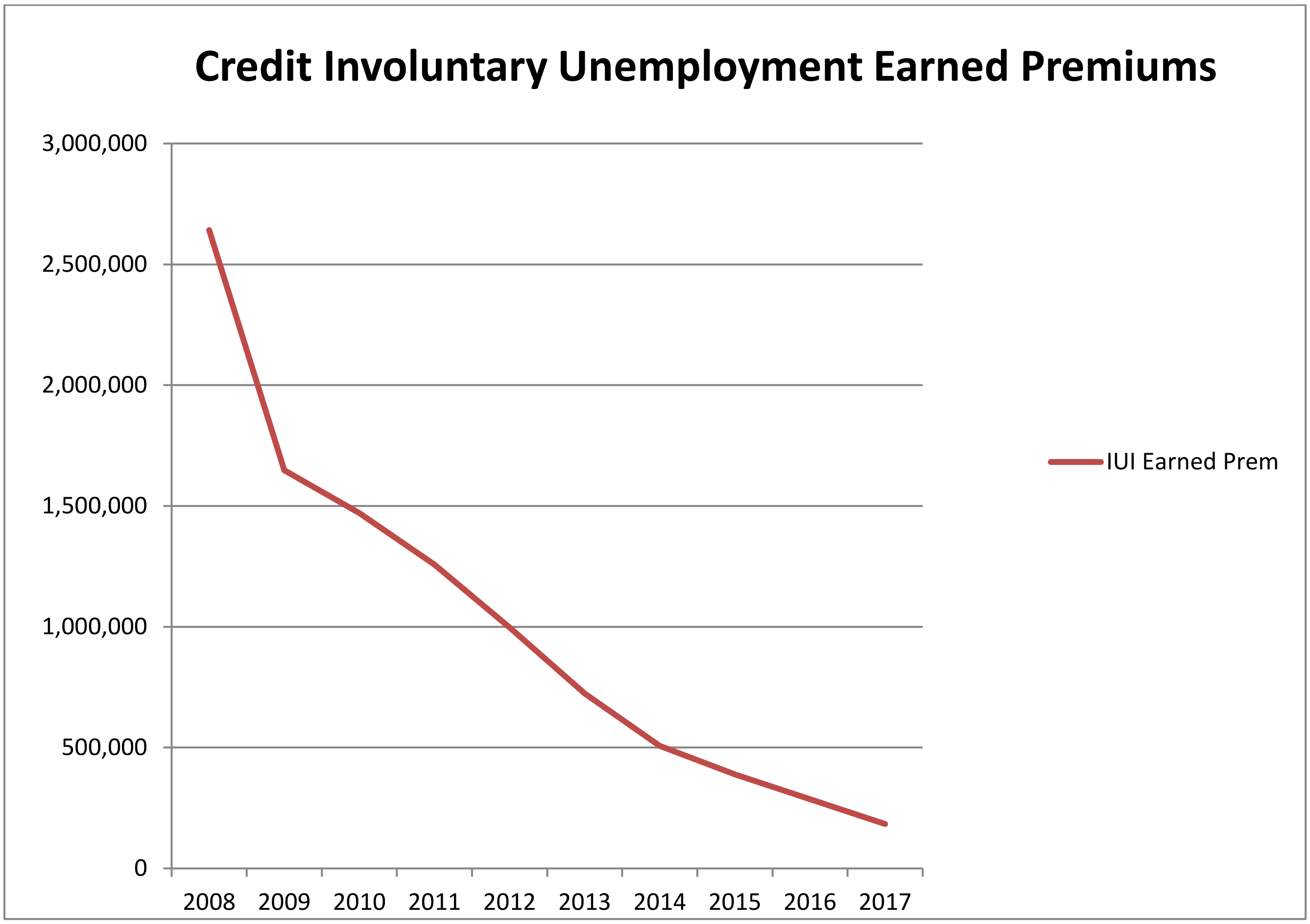


Evaluation of the Loss Ratio Results

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. Where any company's loss ratio experience fell below the statutory requirement, companies were instructed to submit rate filings to revise rates to come into compliance with the statutory requirement.

Declining Nature of Credit Involuntary Unemployment Insurance

The following chart shows credit involuntary unemployment insurance earned premiums by calendar year for the period from 2008 to 2017. It indicates the declining nature of credit involuntary unemployment insurance.



It is believed that credit involuntary unemployment policies that are issued by insurance companies are declining because they are being replaced by debt cancellation and suspension products that are offered by banking organizations. Debt cancellation and suspension products are not considered to be insurance and are not subject to the Division's oversight.