PRESS RELEASE

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Department of Insurance Establishes Rate Limits for Credit Property and Credit Unemployment Insurance

On October 15, 2003, Director of Insurance, Charles Cohen[1], issued an order[2] that establishes loss ratio standards and rate limits for credit property and credit unemployment insurance products offered to Arizona consumers. Insurers must comply with the new requirements by Jan 15, 2004. Newly established *prima facie* rates for credit property and credit unemployment will result in a reduction of approximately 75% in rates on new sales. The new rate limits and loss ratio standards will save consumers at least $10 million annually in lower premiums.

The Department's action is authorized by a new law resulting from 2002 legislation sought by the Department. Prior to the new law, rates for these kinds of insurance were established by the insurers themselves.

The order prescribes minimum loss ratios for credit property and credit unemployment insurance – that is, how much of each dollar in earned premium insurers should pay out in benefits. The rules require that for each dollar of premium, an insurer should pay out at least $0.50 in benefits. The order also prescribes *prima facie* rates which are legally presumed to comply with the loss ratio standards.[3]

To establish the *prima facie* rates, the Department considered the claims incurred and premiums earned in Arizona on credit property and credit unemployment insurance during a recent period, in light of the new target loss ratios. There are 8 insurance companies currently writing approximately $3 million of total credit property insurance premium in Arizona annually, and 17 insurers writing approximately $20 million per year in total credit unemployment premiums annually. Prior to the effect of these new prima facie rates, the insurers were only paying out approximately $1 million a year in claims.

In accordance with Department rules, the Department initiated an administrative proceeding to receive comment on the newly proposed rates. At the July 24, 2003 hearing, the Center for Economic Justice supported the Department's recommended rate limits.

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[1] Director Charles Cohen announced his resignation effective October 24, 2003. For more information, see the Press Release dated August 7, 2003.
[2] For a copy of the order call the media contact.
[3] Credit 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 in accordance with the loss ratio standard and obtain specific approval from the Department.

"The *prima facie* rates established by this 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.

Earlier this year, the Department amended the loss ratio standards and reduced the *prima facie* rates for credit life and credit disability insurance products. It was estimated that the new *prima facie* rates for credit life and credit disability insurance would save Arizonans over $19 million annually (see January 2, 2003 Press Release at www.id.state.az.us/press/press03-01.pdf).

About Credit Insurance

There are several different kinds of credit insurance that are sold in varying finance settings.

Credit unemployment insurance will cover loan or credit card payments (for certain periods of time) in the event the debtor is unable to pay due to involuntary unemployment. This type of credit insurance is typically sold together with credit life and/or credit disability 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.

Credit property insurance provides coverage on personal property (e.g., furniture, electronics, appliances; not cars) used to secure a loan. For example, if you financed the purchase of a refrigerator, you may wish to purchase credit property insurance to protect against the refrigerator being damaged or destroyed. This insurance could be duplicative of renters or homeowners insurance.

Consumer Protection Tips

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, disability or property 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.

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