CCIA
CONSUMER CREDIT INDUSTRY ASSOCIATION

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Kiplinger Washington Editors
1100 13th Street, NW, Suite 750
Washington, D.C. 20005

Re: Kiplinger August 2013 Article

Dear Editors,

I am writing to you today on behalf of the Consumer Credit Industry Association (CCIA). CCIA is a national trade association of insurance companies and other financial service providers selling or servicing consumer credit insurance, debt protection, and guaranteed asset protection (GAP) products. Our member insurance companies account for more than 80% of the national credit insurance premium volume nationally. In addition, our members administer approximately 85% of the debt cancellation programs in the United States. CCIA has been dedicated to preserving and enhancing the availability, utility, and integrity of credit insurance and related products for more than 60 years. As such, CCIA is compelled to dispel the inaccuracies and misleading statements relied upon in Kimberly Lankford's article in the July 2013 *Kiplinger's Personal Finance Magazine* entitled, "5 Insurance Policies You Don't Need."

We support *Kiplinger's* intentions to advise their readers of financial products and services which are personally beneficial and add value. Hence our surprise over your article's rather negative analysis of the value of payment protection programs such as credit life and disability insurance, mortgage life insurance and guaranteed asset protection (GAP). These payment protection programs are lending-related products designed to provide a "bridge over troubled water" or safety-net for borrowers should the unexpected occur: loss of life, sickness or injury, job loss, or other unforeseen events. However, your article concludes these programs are not needed regardless of the consumer's financial or health condition, and goes so far as to compare them to "alien abduction" protection to add shock value in order to scare consumers into avoiding otherwise valuable protection products.

These credit insurance and payment protection programs cancel or make monthly payments for or pay off the loan, keeping borrowers current with their loan payments, reducing their delinquencies and foreclosures, and ensuring they have one less thing to worry about during a time typically fraught with emotional and economic stress.

What happens to loan payments or balances when the average person experiences a sudden loss of income? Personal savings, government benefits, employee benefits, and private insurance are usually not enough or not available to cover every expense. U.S. Senator Elizabeth Warren (D-MA) stated, "Tens of millions of once-secure middle class families now live paycheck to paycheck, watching as their debts pile up and worrying about whether a pink slip or a bad diagnosis will send them hurtling over an economic cliff."[1]
Loss of income is not always measured as one family at a time either. Catastrophic events such as hurricanes devastating homes and businesses on a massive scale can immediately lead to tens of thousands of families unexpectedly losing jobs, savings, and property. Thousands of families in the Gulf region

[1] Warren, E. (2009 December 2) America Without a Middle Class. The Huffington Post. http://www.huffingtonpost.com

affected by Hurricane Katrina in 2005, which killed almost 2,000 people and caused billions in personal and business losses, experienced loss of life or income when it was needed most to deal with their personal disasters. Credit insurance coverage provided much needed help for loss of life and protection against unemployment or disability, as recognized by Mississippi State Representative Alex Mansour in an April, 2013 floor debate over Senate Bill 2571 when he praised the $66 million in credit insurance coverage relief provided affected families.[2]

Your article claims that credit life and disability coverage for credit cards and consumer loans provides skimpy coverage because it only pays the loan balance. Yet, this can be substantial, in that, credit life pays the balance of a loan that often can be in the tens of thousands of dollars. Credit life coverage was created so a consumer could preserve any other life insurance coverage to take care of the bills other than those left behind from a credit transaction. Most consumers have little or no life insurance. It allows for the family to use the other life insurance, if any, to pay for final expenses such as a funeral or medical costs or to leave an estate for the family or their heirs. In this way, credit life coverage allows the insured to preserve the estate or life insurance for its otherwise intended purpose.

Credit disability coverage is not intended to cover the amount necessary for a consumer to pay all their living expenses when disabled. However, it does allow the consumer to maintain the family car, refrigerator or any other item for which they have loan coverage. In fact, credit life and disability products, often bundled together with credit involuntary unemployment and credit property products for comprehensive coverage, have paid out billions in benefits, including $2 billion in 2010 alone.[3] Credit involuntary unemployment insurance or coverage is unique and is not available to the general insurance market. These coverages form a safety net for consumers so they (or their family) can weather the storm created when an injury, illness or death occurs.

Your article would also advise the reader that disability insurance through one's employer and the life insurance benefit provided should be sufficient to pay all expenses. Yet, 67% of Americans working in the private sector have no long term disability insurance[4] and 41% of American adults, 95 million in total, have no life insurance.[5]

Perhaps this lack of coverage may be related to consumers often finding the purchase of life or disability insurance a daunting task. Unlike the process for purchasing credit insurance coverage, or even mortgage life insurance, there often are requirements to arrange an appointment with an insurance agent and to go for a physical examination or meet a paramedic to qualify for coverage. There may be a few health questions to answer and an obvious requirement for disability coverage that the debtor be actively working, but your rates are the same as a younger, healthy person. Unlike term insurance, your premium will not be increased as you age. Therefore, for many who cannot afford term coverage due to age, or whole life insurance or individual disability insurance because of health conditions, smoking habits or dangerous occupations, these coverages may be the best or only option.

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[2] See Mississippi College School of Law Archives http://law.mc.edu/legislature/bill_details.php?id=1438&session=2013
[3] NAIC 2010 Credit Insurance Experience Exhibit
[4] The Council for Disability Awareness, "Disability Facts You Should Know," http://www.disabilitycanhappen.org/docs/disability_stats.pdf (Dec. 2011) (citing Social Security Administration, Fact Sheet March 18, 2011).
[5] LIMRA, "The Facts of Life and Annuities," (Sept. 2011); LIMRA, "Facts About Life 2011," (Sept. 2011).

Credit insurance products are also easily obtainable at the time credit is extended, and their suitability quite evident, especially those coverages tailored specifically for loans and available nowhere else in the market place, such as for involuntary unemployment, unpaid family leave, military deployment, relocation, marriage or birth or adoption of children. These coverages are also priced competitively with other products, such as term life insurance. An $8,000.00 credit life insurance policy costs less than an ordinary term life insurance policy for the same amount.[6]

GAP waivers are purchased by consumers who are concerned that they do not have the ability to pay off the balance of a loan if there is a "gap," or difference between the amount of the loan or lease and the amount the automobile insurer will cover after the total loss of a vehicle. Often consumers will not become aware of this "gap" until a loss actually occurs as a vehicle's value can fluctuate over the life of a loan. Since GAP waivers extinguish the loan debt remaining after automobile insurance is exhausted, consumers benefit by not having to make continued loan payments on a vehicle they either cannot drive or that cannot be located. Further, consumers are more readily able to get their next vehicle with the higher likelihood of stronger equity in the loan (if applicable), since they do not carry over negative equity from the prior loan.

The need for the financial safety net afforded by these credit insurance and payment protection products is especially relevant to today's economy and the financial plight of Americans considering that 71% of Americans would find it difficult or somewhat difficult to meet their current financial obligations if their paycheck was delayed for one week,[7] 67% of U. S. families have $10,000 or less in savings[8] in today's slow growth economy, and 37% of adult Americans have no saving earmarked for emergencies[9]. Indeed, the need Americans feel to protect their income is apparent when unemployment today is 50% higher than in 2008 and a recent poll finds 39% of Americans rank unemployment as the biggest problem in the country and 30% of Americans employed indicate that they have a fear of being laid off.[10]

That Americans consistently recognize the financial safety net provided by credit protection products and want to purchase the products is found in studies over the past 30 years[11], including an October 23, 2012 Study by Thomas A. Durkin (retired) and Gregory Elliehausen of the Federal Reserve Board's Division of Research and Statistics, that was also published in the Federal Reserve Bulletin, December 2012, Vol.98, No. 9. That survey included 1,006 interviews conducted in January and March 2012 by the Survey Research Center (SRC) of the University of Michigan of consumers' experiences in the contiguous 48 states with credit insurance and other payment protection products.

Consumers who purchased a credit insurance or a payment protection product for closed-end consumer credit, such as auto and retail installment loans, and considered the purchase "good" or "good with some degree of satisfaction" exceeded 85% not only in the 2012 survey, but also in the 1977, 1985, and 2001 surveys. Of those consumers in the 2012 survey who purchased protection on mortgage credit, 82% had a favorable attitude to their protection. The favorable attitude among open-end credit card holders who

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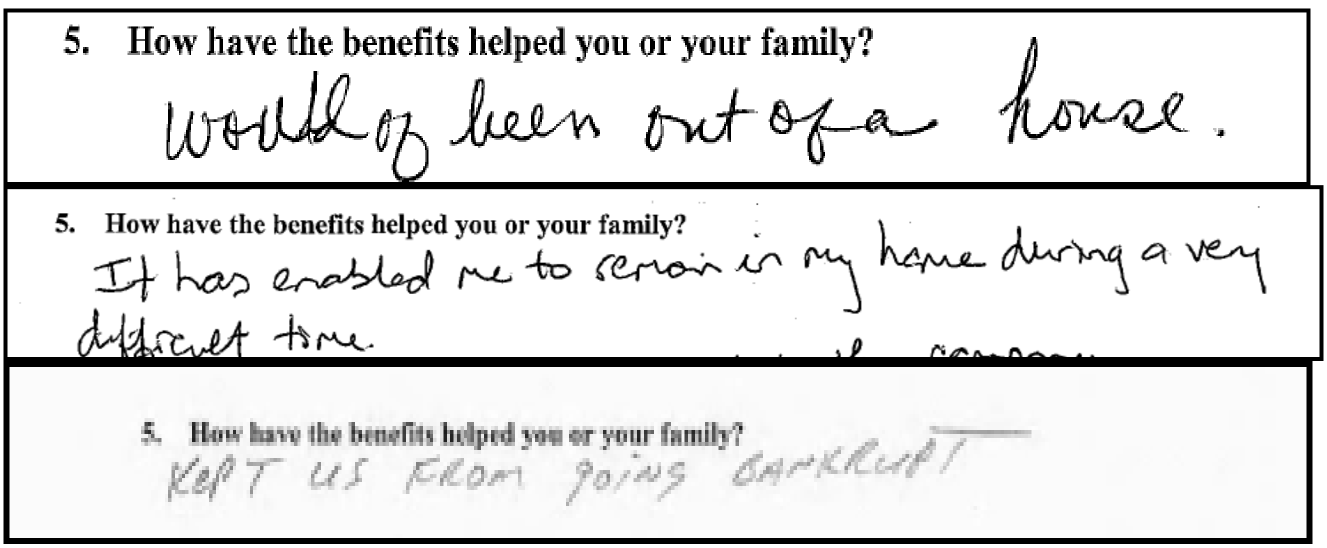
[6] Christopher H. Hause, FSA, "Term Insurance Versus Credit Life: Which Rates are Lower?" (June 23, 2010)
[7] American Payroll Association, "Getting Paid in America" Survey, (2011).
[8] USA Today, "More Families Have No Savings," (May 14, 2012)
[9] Consumer Federation of America, "2012 Household Financial Planning Survey: A Summary of Key Findings," (July 23, 2012).
[10] Gallup Poll (August 2011) *Gallup*," Work and Education Poll"
[11] Thomas A. Durkin and Gregory Elliehausen, The 1977 Consumer Credit Survey (Washington: Board of Governors of the Federal Reserve System, 1978); Barron, John M., Ph.D., and Michael E. Staten, PH.D.; Credit Life Insurance Rhetoric and Reality, Monograph 30, The Credit Research Center, Krannert Graduate School of Management Purdue University, West Lafayette, Ind, 1994 (Note: The Credit Research Center has relocated to Georgetown University); Thomas A.Durkin, Consumers and Credit Disclosures: Credit Cards and Credit Insurance, Federal Reserve Bulletin (2002)

purchased protection was 77%. Finally, more than 70% of purchasers of credit or payment protection products said that they would purchase the protection again on both installment and mortgage credit. Clearly, these nationwide surveys indicate that purchasers of credit insurance and payment protection products are overwhelmingly satisfied with their purchase and would do so again in a future loan or credit transaction.

Consumers recognize the value of credit insurance and payment protection products and the unique and valuable benefits they provide to consumers despite the opinions to the contrary of others who would claim to speak for the consumer. These products, regulated in many states in this country, are tailored to meet specific consumer needs without requiring the purchase of policies that require more substantial underwriting or seeking out an agent or broker. They protect consumers who generally lack sufficient financial resources to protect against unexpected life events which may prevent them from meeting their debt obligations, especially in the current weakened economy.

Our members receive correspondence from consumers every week thanking them for providing an opportunity to protect them and loved ones from losses they never anticipated. How do consumers who use the coverage feel about the value of these products? The following are just a few of the responses our member companies have received.


5. How have the benefits helped you or your family?
would of been out of a house.

5. How have the benefits helped you or your family?
It has enabled me to remain in my home during a very difficult time.

5. How have the benefits helped you or your family?
KEPT US FROM going BANKRUPT

We recognize that these products are not the best choice for all consumers. However, we would welcome contact from you in the future so we can provide you with the facts and reasons that support the value propositions for these coverages, which very likely would have lead you to provide a more balanced analysis regarding the appropriate consumer fit for these coverages and a likely recommendation for their purchase by consumers. And while we are happy to provide these value propositions to you in this letter, we would also welcome the opportunity to discuss them with you and your editors and, perhaps, to your readers through a further article in your publication.

Thank you for your time and consideration.

Sincerely,

Scott Cipinko