

**REPORT OF THE  
CREDIT INSURANCE  
and  
INTEREST RATES STUDY COMMISSION**



**REPORT TO THE  
1985 GENERAL ASSEMBLY  
OF NORTH CAROLINA**



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February 15, 1985

TO THE MEMBERS OF THE 1985 GENERAL ASSEMBLY:

The Credit Insurance and Interest Rates Study Commission herewith reports to the 1985 General Assembly under the authority of Chapter 1112 of the 1983 Session Laws (House Bill 738).

Respectfully submitted,

James H. Edwards

Harry E. Payne

Cochairmen

Credit Insurance and Interest Rates Study Commission



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## INTRODUCTION



## INTRODUCTION

North Carolina regulates credit insurance pursuant to Article 32 of Chapter 58 of the General Statutes, the "North Carolina Act for Regulation of Credit Life Insurance and Credit Accident and Health Insurance." Passed in 1975 and amended in 1981, this Act sets maximum rates for credit insurance and regulates its sale and provision.

In 1982, the Legislative Research Commission's Insurance Study Committee studied credit insurance loss ratios for the years 1977 through 1981. A loss ratio is the percentage of insurance premiums earned that are payed out as direct losses. The Insurance Study Committee concluded that, because the 1981 amendments to the Credit Insurance Act might have a major impact on the cost of selling and providing credit insurance, more time was needed to gather data on post-1981 loss ratios before considering further legislation.

In 1984, Chapter 1112 of the 1983 Session Laws (House Bill 738) created the Credit Insurance and Interest Rates Study Commission and authorized it to study marketing practices by which credit insurance is sold; whether the loss ratio for credit insurance is appropriate; the interrelationship of credit insurance and interest rates; and the need for legislation affecting credit insurance.



COMMITTEE PROCEEDINGS



## COMMITTEE PROCEEDINGS

The Credit Insurance and Interest Rates Study Commission met twice in Raleigh: on October 12, 1984, and on November 19, 1984. At the first meeting, the Commission heard testimony from two proponents of further regulation of credit insurance rates, Mr. Michael Calhoun of Legal Services of North Carolina, and Mr. William Winn of the North Carolina Consumers Council, Inc. Their remarks concerning the need for credit insurance reform are attached as Appendices C and D.

At its second meeting, the Committee heard from speakers opposed to changing the current law. The speakers included Mr. Murle L. Vaughan of Beneficial Management Corporation, Mr. Dan C. Boney, Jr., of Durham Life Insurance Company, Mr. Norwood Bryan, a Fayetteville automobile dealer, Mr. Bill Rustin of the North Carolina Merchants Association, and Mr. Sam Johnson of the North Carolina Auto Dealers Association. See Appendix E. The Committee also received a written report from the Department of Insurance, part of which appears as Appendix F.





FINDINGS AND RECOMMENDATIONS



## FINDINGS AND RECOMMENDATIONS

### I. Background

Credit insurance is insurance sold through banks, automobile dealers, and other lenders in connection with cash loans and installment sales. There are three kinds of credit insurance: (1) credit life insurance; (2) credit accident and health insurance; and (3) credit property insurance.

Credit life insurance is written to pay the balance due to the lender when the purchaser dies. Credit accident and health insurance is written to make periodic payments due to the lender during the disability of the purchaser. Credit property insurance pays benefits if the insured property - be it the property financed by and securing the loan or the property put up as collateral for the loan - is stolen, damaged, lost, or destroyed.

### II. Marketing Practices

The Commission found no evidence of any problems or abuses in the marketing practices by which credit insurance is sold.

### III. Loss Ratios

The loss ratio for credit insurance is the ratio of the total premiums paid in by the consumer compared to the total direct losses paid out by the insurer. G.S. 58-349 and 58-350 set the maximum rates which may be charged for credit life and credit accident and health insurance premiums. G.S. 58-359 sets the maximum rate for credit property insurance premiums.

North Carolina does not regulate loss ratios directly. Loss ratios are affected by the premium rates charged and the amount of losses paid.

The Study Commission received a statement from the Department of Insurance showing that the loss ratio for Credit Life and Credit Accident and Health Insurance in North Carolina was 29.67 in 1983 (Appendix F). This means that for every dollar received, credit insurance companies paid out 29.67 cents in losses. Commissions paid to banks, automobile dealers, and other agents selling credit insurance account for approximately another 50 cents. North Carolina credit insurance loss ratios have not changed significantly since 1981.

Although North Carolina's loss ratio is lower than loss ratios of most other states, according to the Department of Insurance, it is roughly equivalent to those of other southeastern states: Alabama, 30.65; Georgia, 33.18; Louisiana, 32.37; Mississippi, 29.75; and South Carolina, 29.67. Virginia is an exception; its loss ratio is 41.52.

North Carolina's credit insurance loss claims rate among the lowest in the nation. The high loss ratios experienced in other states are, therefore, attributable to lower premium rates charged in those states.

North Carolina consumers are not required to buy credit insurance in connection with their loans. Credit insurance is a valuable service for consumers and most consumers find it desirable. In addition, most consumers do not believe that credit insurance premiums are excessive. The Truth in Lending Act requires credit insurance rates to be stated clearly and

separately from finance charges. The consumer must sign a separate statement, aside from the loan form, in order to elect credit insurance.

Because credit insurance provides a substantial benefit to North Carolina consumers and lenders, the Commission felt that its sale should not be discouraged. Reduction of the premium rates charged for credit insurance would reduce the commissions paid to sellers of credit insurance, rather than the amounts received by insurance companies. The Commission received testimony for and against the proposition that a reduction of the agents' commissions would cause agents to stop selling credit insurance.

#### IV. Credit Insurance and Interest Rates

If a creditor requires a consumer to purchase credit insurance, the creditor must include the premium as part of the interest rate charged on the loan. When credit insurance is sold as an option, it is a separate charge paid by the consumer in addition to the interest rate. The two charges are inter-related. The fact that North Carolina's credit insurance premiums are higher than those in some other states must not be viewed in a vacuum. Those other states may be allowing higher interest rates, resulting in a total charge to the consumer that may be the same as in North Carolina. Reducing the credit insurance charge without considering the significance of current limits on interest rates might reduce profits for lenders.

## V. Conclusion

The Commission concluded that there was no need for further legislation regulating credit insurance. The current law sets maximum rates and regulates credit insurance in other ways. Although North Carolina may have higher premium rates than most other states, those other states may compensate by allowing higher interest rates. Furthermore, North Carolina's 1983 loss ratio for credit life and accident and health insurance is in line with loss ratios of other southeastern states. Consumers are not required to buy credit insurance. If they find it too expensive, they may refuse it. The Credit Insurance and Interest Rates Study Commission therefore recommends that the 1985 General Assembly make no changes in the current law regulating credit insurance and interest rates.

APPENDICES





## GENERAL ASSEMBLY OF NORTH CAROLINA

1983 SESSION (REGULAR SESSION, 1984)

## RATIFIED BILL

CHAPTER 1112  
HOUSE BILL 738

AN ACT AUTHORIZING STUDIES BY THE LEGISLATIVE RESEARCH COMMISSION, AUTHORIZING ADDITIONAL STUDIES, AND MAKING VARIOUS APPROPRIATIONS FOR STUDIES.

The General Assembly of North Carolina enacts:

Section 1. In addition to the subjects authorized by Chapter 905 of the 1983 Session Laws (1983 Regular Session), the Legislative Research Commission may study the topics listed below. Listed with each topic is the 1983 bill or resolution that originally proposed the study and the name of the sponsor. The Commission may consider the original bill or resolution in determining the nature, scope and aspects of the study. The topics are:

- (1) Hazardous Wastes Strict Liability (H.B. 738-Clark);
- and
- (2) Legislative Office Building (H.B. 250-Miller).

Sec. 2. Bills and Resolution References. The listing of the original bill or resolution in Section 1 of this act is for reference purposes only and shall not be deemed to have incorporated by reference any of the substantive provisions contained in the original bill or resolution.

Sec. 3. Coastal Submerged Lands. The Legislative Research Commission is authorized to study (i) the existing statutes concerning the ownership of the submerged lands and coastal waters within the counties designated in G.S. 113-205; (ii) the existing decisions by the Supreme Court of North Carolina concerning the ownership of said lands and waters; (iii) the nature of the claims and the impact that recognition of the claims would have on existing public uses of the submerged lands and coastal waters; (iv) the need for additional laws to address the claims and facilitate resolution of the claims; (v) the existing statutes concerning management of the submerged lands by the State; (vi) the need for additional laws to revise the management system in place for submerged lands held by the State; and (vii) such other matters relating to the private claims and management of State held submerged lands as it deems important.

Sec. 4. For each of the topics the Legislative Research Commission decides to study, the Commission may report its findings, together with any recommended legislation, to the 1985 General Assembly.

Sec. 5. Disability Review Commission Continuation. Section 8 of Chapter 880 of the 1983 Session Laws (1983 Regular Session) is rewritten to read:

"Sec. 8. The Commission may report to the General Assembly the results of its investigation and study, and its recommendations on or before February 15, 1985."

Sec. 6. Legislative Commission on Medical Cost Containment Appropriation. There is appropriated from the General Fund to the General Assembly for the work of the

Legislative Commission on Medical Cost Containment the sum of five thousand dollars (\$5,000) for fiscal year 1984-85.

Sec. 7. Administrative Procedure Act Study Commission Appropriation. In addition to any funds allocated under authority of Section 4 of Resolution 51 of the 1983 Session Laws (1983 Regular Session), there is appropriated from the General Fund to the General Assembly for the work of the Administrative Procedure Act Study Commission the sum of one hundred thousand dollars (\$100,000) for fiscal year 1984-85.

Sec. 8. Public Education Policy Council Appropriation. In addition to any funds allocated under authority of Section 2 of Chapter 860 of the 1983 Session Laws (1983 Regular Session), there is appropriated from the General Fund to the General Assembly for the work of the Public Education Policy Council the sum of thirty-six thousand dollars (\$36,000) for fiscal year 1984-85.

Sec. 9. Criminal Justice Information System and Computerized Records Study Commission Appropriation. In addition to any funds allocated under authority of Section 2 of Chapter 935 of the 1983 Session Laws (1983 Regular Session), there is appropriated from the General Fund to the General Assembly for the work of the Criminal Justice Information System and Computerized Records Study Commission the sum of five thousand dollars (\$5,000) for fiscal year 1984-85.

Sec. 10. Credit Insurance and Interest Rate Study Commission. (a) The Credit Insurance and Interest Rates Study Commission is hereby created.

(b) The Credit Insurance and Interest Rates Study Commission shall study credit insurance and interest rates in North Carolina, including but not limited to: marketing practices by which credit insurance is sold; whether the payback ratio for credit insurance is appropriate; the need for amendment of existing statutes concerning credit insurance; the interrelationship of credit insurance and interest rates; and such other matters relating to credit insurance and interest rates as the Commission deems appropriate.

(c) The Commission shall consist of eight members to be appointed as follows:

- (1) four members of the House of Representatives appointed by the Speaker of the House of Representatives;
- (2) four members of the Senate appointed by the President Pro Tempore;
- (3) all appointments shall be made no later than August 1, 1984;
- (4) the Speaker and the President Pro Tempore shall each choose a cochairman from the membership of the Commission no later than September 15, 1984;
- (5) either cochairman may call the first meeting of the Commission; and
- (6) all vacancies shall be filled by the appointing officer.

(d) The Legislative Services Commission shall provide staff assistance to the Commission. The Commission may hold its meetings in the legislative buildings.

(e) Members of the Commission shall be paid subsistence and travel expenses at the rate set forth in G.S. 120-3.1.

(f) The Commission shall make a report to the General Assembly on or before February 15, 1985, containing the recommendations of the Commission as to the need, if any, for changes in existing statutes or the need for new statutes. The Commission shall terminate upon submission of its report.

(g) There is appropriated from the General Fund to the General Assembly for the work of the Credit Insurance and Interest Rates Study Commission the sum of ten thousand dollars (\$10,000) for fiscal year 1984-85 to cover all expenses of the Commission.

(h) The Commissioners of Insurance and Banks shall collect and compile all data requested by the Credit Insurance and Interest Rates Study Commission and return said data to the Commission no later than 30 days after said request.

Sec. 11. State Parks Study Commission. (a) There is created a State Parks Study Commission to be composed of nine members, three to be appointed by the President Pro Tempore, three to be appointed by the Speaker of the House, and three to be appointed by the Governor. Appointments shall be made before August 1, 1984. The President Pro Tempore and the Speaker shall each appoint a cochairman from the membership of the Committee. Either cochairman may call the first meeting of the Committee. The Commission may hold its meetings in the legislative buildings.

(b) (1) The Commission shall have as its purpose the study and formulation of recommendations for administrative and legislative action concerning the system of State Parks and recreation areas. The Commission shall give highest priority to the following issues:

a. The need for funds for land acquisition and development of new and existing facilities; and

b. The need for additional personnel and for better salary levels for parks personnel.

(2) In addition to the above issues, the Commission shall, to the extent feasible, study and formulate recommendations concerning any other issues pertinent to the future of our State parks and recreation system including efforts to increase public awareness, financing alternatives for park lands and operation of recreational facilities, use of volunteers, and support for natural heritage, rivers and trails, and public access programs.

(c) The Commission shall consult with the Department of Natural Resources and Community Development about and may request from the Department, such information concerning parks and recreational areas as it deems necessary to achieve its purposes; and the Department shall make available such information and expertise as it possesses or is reasonably able to obtain.

(d) The Commission shall file a written report of its findings and recommendations with the presiding officer of the



House of Representatives and the Senate on or before February 15, 1985. Upon the filing of the report, the Commission shall terminate.

(e) Members of the Commission who are legislators, if any, shall be reimbursed for travel and subsistence expenses in accordance with G.S. 120-3.1. Members of the Commission who are not officers and employees of the State, if any, shall receive per diem and necessary travel and subsistence expenses in accordance with G.S. 138-5. Members of the Commission who are officers or employees of the State shall receive travel reimbursement and subsistence in accordance with G.S. 138-6.

(f) There is appropriated from the General Fund to the General Assembly for the work of the State Parks Study Commission the sum of ten thousand dollars (\$10,000) for the fiscal year 1984-85.

Sec. 12. Commission on a Cafeteria-Style Benefits Program for Teachers and State Employees (H. J. R. 1032-Hayden).

(a) The Commission on a Cafeteria-Style Benefits Program for Teachers and State Employees is hereby created.

(b) The Commission on a Cafeteria-Style Benefits Program for Teachers and State Employees shall study the feasibility of establishing a cafeteria-style benefits program for all teachers and State employees. The Commission shall study the current benefits offered by the State to determine which, if any, of these benefits could be incorporated into a cafeteria-style benefits program and shall also study benefits not offered by the State to determine whether additional benefits could be offered through a cafeteria-style benefits program. The Commission shall determine the dollar amount of benefits that could be allocated to each employee under a cafeteria-style benefits program and the cost to the employee of each benefit that could be included in this type program. The Commission shall consider whether any restrictions, such as a specified waiting period or a physical examination, should apply to the selection of any benefits.

(c) The Commission shall be composed of the following 10 members:

(1) five Representatives appointed by the Speaker of the House;

(2) five Senators appointed by the President Pro Tempore.

(d) All appointments shall be made not later than August 1, 1984. All vacancies shall be filled by the appointing officer. The Speaker and the President Pro Tempore shall each choose a cochairman from the membership of the Commission. Either cochairman may call the first meeting of the Commission.

(e) Members of the Commission shall receive subsistence and travel allowances at the rate set forth in G.S. 120-3.1.

(f) The Legislative Services Commission shall provide staff assistance to the Commission. The Commission may hold its meetings in the legislative buildings.

(g) The Commission shall make a report to the General Assembly on or before February 15, 1985, containing the recommendations of the Commission as to the need, if any, for

changes in existing statutes or the need for new statutes. The Commission shall terminate upon submission of its report.

(h) There is appropriated from the General Fund to the General Assembly the sum of ten thousand dollars (\$10,000) for the 1984-85 fiscal year to implement the provisions of this section.

Sec. 13. This act is effective upon ratification.

In the General Assembly read three times and ratified, this the 7th day of July, 1984.

JAMES C. GREEN

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James C. Green  
President of the Senate

LISTON B. RAMSEY

---

Liston B. Ramsey  
Speaker of the House of Representatives



CREDIT INSURANCE AND INTEREST RATES STUDY COMMISSION

Members appointed by Senate President Pro Tempore:

Senator James H. Edwards, Cochairman  
P. O. Box 524  
Granite Falls, NC 28630

Senator Cecil R. Jenkins, Jr.  
P. O. Box 65  
Kannapolis, NC 28081

Senator Donald R. Kincaid  
P. O. Box 988  
Lenoir, NC 28645

Senator Robert S. Swain  
612 Northwestern Bank Building  
Asheville, NC 28801

Members appointed by Speaker of House of Representatives:

Representative Harry E. Payne, Jr., Cochairman  
P. O. Box 1147  
Wilmington, NC 28402

Representative George M. Holmes  
P. O. Box 217  
Yadkinville, NC 27055

Representative Robert L. Slaughter  
P. O. Drawer 700  
Albemarle, NC 28001

Representative Margaret Tennille  
P. O. Box 5988  
Winston-Salem, NC 27103





THE NEED FOR CREDIT INSURANCE REFORM

Credit insurance is sold in connection with loans or installment sales to cover the life, health or collateral of the debtor. The policy lasts only for the term of the loan. Any policy benefits go first to the creditor to pay off the debt. These policies were originally designed to reduce creditor risk; they are now big business in their own right.

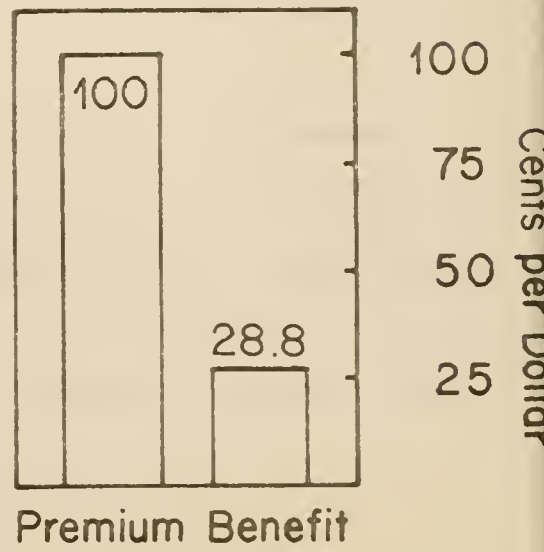
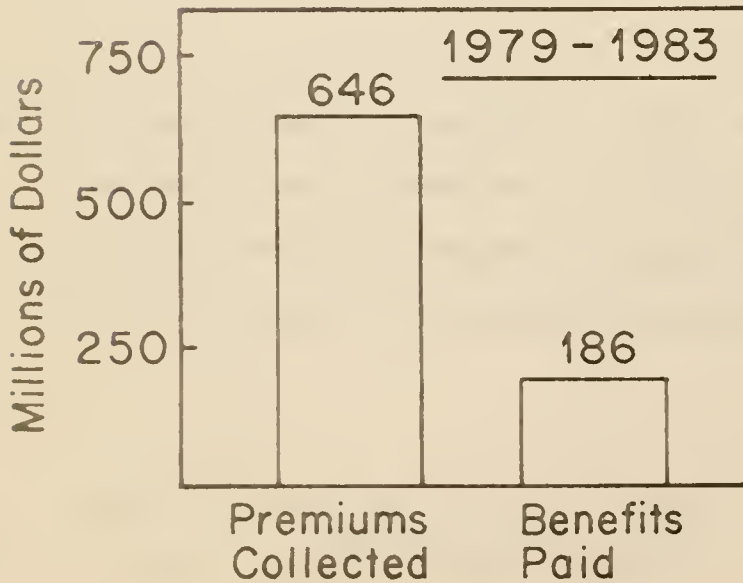
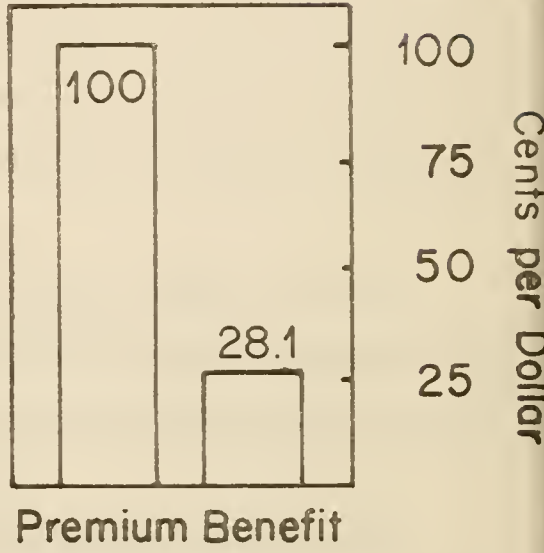
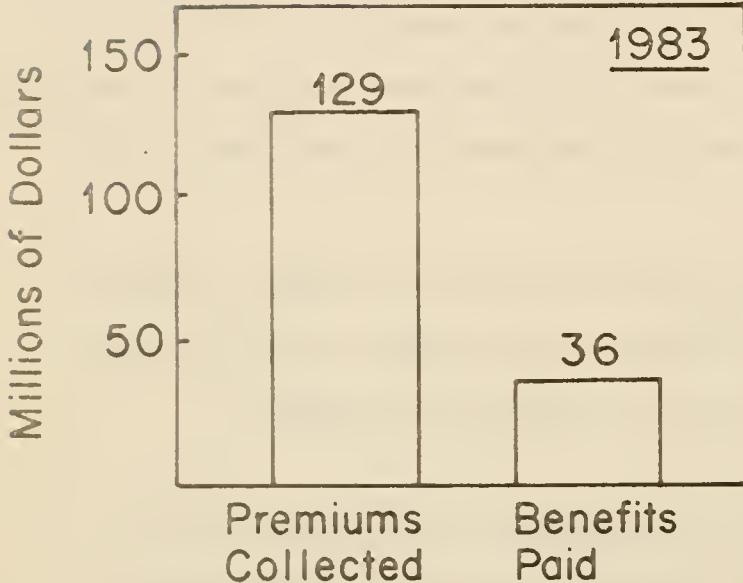
In 1983, North Carolinians paid \$129 million for credit insurance yet received only \$36 million in benefits. This means that for every premium dollar collected only 28 cents in benefits were paid.

This 28 cent payback figure is the lowest in the country. The recognized standard for fair credit insurance payback (promulgated by the National Association of Insurance Commissioners) is that a minimum of 60 cents in benefits should be paid for every premium dollar collected. Adopting this standard in North Carolina would save our consumers over \$60 million each year.

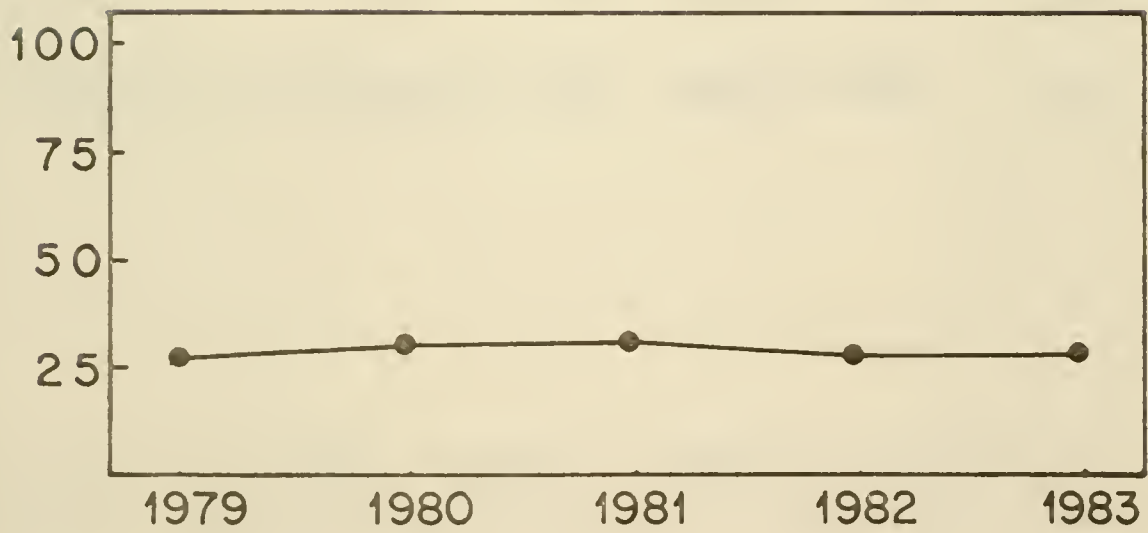
Insurance is affected with the public interest. A seller of insurance is entitled to a reasonable profit just as a consumer is entitled to a good product at a fair price. The issue is whether a payback of only 28 cents in benefits for each premium dollar collected is a fair return to North Carolina consumers.

Legal Services of North Carolina  
Post Office Box 1658  
Raleigh, North Carolina 27602

# CREDIT INSURANCE - PAYBACK RATIOS



CREDIT INSURANCE – PAYBACK RATIOS  
BY YEAR



CREDIT INSURANCE PAYBACK RATIOS

1983:

\$128,963,767            Premiums Collected

36,293,217            Benefits Paid

Payback ratio:    28.1 cents in benefits for each  
premium dollar paid

1979-1983:

\$646,467,531           Premiums Collected

186,035,960            Benefits Paid

Payback ratio:    28.8 cents in benefits for each  
premium dollar collected

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Source: North Carolina Department of Insurance summaries of companies annual reports, 1979-1983; and North Carolina Commissioner of Banks annual reports on consumer finance licensees, 1979-1983.

Credit Insurance Payback Ratios by Year and Type

Payback ratio = the number of cents paid in benefits for each premium dollar collected.

<u>Year</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1979-83</u>
<u>Life</u>	26.4	28.1	29.0	26.7	28.7	27.64
<u>Accident &amp; Health</u>	32.3	35.2	35.5	33.4	31.0	33.49
<u>Property</u>	12.8	20.2	19.8	16.1	13.7	16.15
<u>TOTAL</u>	<u>28.6</u>	<u>30.1</u>	<u>30.6</u>	<u>27.9</u>	<u>28.1</u>	<u>28.8</u>

CREDIT INSURANCE EXAMPLES

1. Credit life insurance on \$10,000.00 car loan for four (4) years at fifteen percent (15%) interest rate:

credit life insurance premium	\$446.66	(50% commission to seller equals \$223.33)
extra interest charged on credit insurance premium	<u>149.99</u>	
total additional charge for credit life insurance	<u><u>\$591.65</u></u>	

2. Credit insurance charges on three (3) year, \$3,000.00 loan at twenty-one (21%) interest rate:

credit insurance premiums		
--life	\$114.93	(50% commission to creditor equals \$265.29)
--accident & health	200.16	
--property	<u>215.48</u>	
	<u>\$530.57</u>	
extra interest on credit insurance premium	<u>\$189.04</u>	
total additional charge for credit insurance	<u><u>\$719.61</u></u>	

My name is William "Bill" Winn. I'm from Scotland County, and I'm here as a representative of the North Carolina Consumers Council, Inc.

The Consumers Council was founded in 1968 and is a coalition of private citizens, concerned civic groups, academic and lay individuals who provide a voice for the state's consumers. The Council is affiliated with the Consumer Federation of America. Because of perceived abuses in the current procedures, the Council for several years has had credit insurance reform as a major concern. Consequently, we are pleased that the General Assembly has created this commission to gather information and to make recommendations. We are delighted to have this opportunity to be represented here.

The Consumers Council recognizes the importance of credit insurance as a means for the paying of obligations when the events insured against occur and as an instrument for the protection of the borrower and of his or her heirs.

Of particular concern is that in the case of this form of insurance the free market system does not operate to the advantage of the buyer. Insurance companies offer high commissions to the lenders in order to get them to handle their particular policies. The result is a form of reverse competition.

Credit life, accident and health policies ought to return to policyholders reasonable benefits, but in our state credit insurance rates are among the highest in the nation. It is esti-



mated that North Carolinians pay over 125 million dollars for credit insurance but get back only 30 cents in return for each dollar paid. The return to the buyer is far below the nationally recognized standard for credit insurance rates set forth by the National Association of Insurance Commissioners. The N.A.I.C. standard requires that at least 60 cents in benefits be returned to purchasers. I understand that insurers in North Carolina frequently use the same forms as those used in several other states to charge premiums much higher than those in the same states.

For the members of the Consumers Council, regulation is not an end in itself, but we are convinced that regulation in this instance is needed that would require the Commissioner of Insurance to set credit insurance rates at a level close to those promulgated by the National Association of Insurance Commissioners. This study commission has an opportunity to suggest changes in our credit insurance procedures that could bring much needed balance in the relationship of borrowers and lenders. I urge you to make your recommendations on the basis of such a fair balance rather than on the basis of the quantity of representation before you. In 1979 there was approximately 125 million dollars in direct earned premiums on credit insurance in this state, and such a lucrative business is certain to be well represented. On the other hand, those persons who pay the current high rates frequently are unsophisticated, are unorganized and



are unable to present their case before you.

If reasonable protection is not given to borrowers this is a matter of public interest that will not disappear. Because of the high costs of credit insurance in some states, including North Carolina, vigorous efforts are beginning already to bring about reform at the national level. For example, Consumer Federation of America, the country's largest consumer organization, has recommended that Congress empower the Federal Trade Commission to enforce standards in credit insurance that require at least an 80 percent benefit/cost ration.

We have an opportunity to demonstrate that state government is willing to guarantee that the buyer of credit insurance is entitled to a good product while the lender is still enabled to earn a reasonable profit.

I appreciate having this opportunity to present this testimony on behalf of the North Carolina Consumers Council.

12 October 1984



## CREDIT INSURANCE

## ENACTMENT -1975

The North Carolina Act for the regulation of credit life insurance and credit accident insurance appears in G.S. 58-341 through G.S. 58-358, and was enacted in 1975. The Act regulates all credit life insurance and all credit accident and health insurance written in connection with loans and installment sales.

## AMENDMENTS - 1981

In 1981 SB 402 and HB 1156 (later Ch 759, 1981 Session Laws) were introduced to further regulate credit life insurance and credit accident and health insurance.

There were numerous meetings among proponents and opponents and there were numerous hearings before legislative committees.

On April 28, 1981 at a final hearing before a Senate committee, a compromise was reached on SB 402 and these provisions were incorporated into HB 1156 which was introduced on June 5, 1981 and enacted as Chapter 759. The compromise and numerous changes to the credit insurance law were finally supported by all parties in order to reform credit insurance practices.

These amendments were very substantial and are summarized below:

(HB 1156 - Ch 759, 1981 Session)

<u>STATUTE</u>	<u>ACTION TAKEN</u>
(1) G.S. 58-344(a)(1) - Approved	Limits the amount of credit life insurance coverage to "decreasing term" for loans of not more than sixty (60) months and "net debit" for loans of more than sixty (60) months.
(2) G.S. 58-350(c) - Approved	Permits retired persons and other persons not employed to be eligible for credit accident and health insurance.

- (3) G.S. 58-346(c)(2) - Approved Prevents denial of benefits for over age when the borrower does not write in the age on the policy. Also provides that in the case of refinancing, incontestable periods are retroactive to the date of the loan refinanced.
- (4) G.S. 58-350(a) - Approved Provides that in the case of refinancing, for pre-existing condition periods the original date of the loan refinanced applies.
- (5) G.S. 58-350(a) - Approved Conforms age restrictions for credit accident and health insurance to the same as those for credit life insurance.
- (6) G.S. 58-350(a) - Approved Rewrites the definition of "disability" to conform to the NAIC model act and allows retired persons and other persons not employed to be eligible for benefits when disabled.
- (7) G.S. 58-359 - Approved Sets credit property insurance rates at the level currently charged and directs the Department of Insurance to collect data on credit property insurance.
- (8) G.S. 58-351(b & c) - Approved Rewrites law on credit insurance rebates to be consistent with the coverage requirements in Section (1) and reduces the penalty charged borrowers under current rebate formulas.
- (9) G.S. 58-350(d) - Approved Requires credit accident and health insurance premiums for terms of other than even years to be

pro-rated, as is the current practice with credit life insurance.

(10) G.S. 53-189 -

Rewrites formula for refund of premium.

(SB 402, 1981 Session)

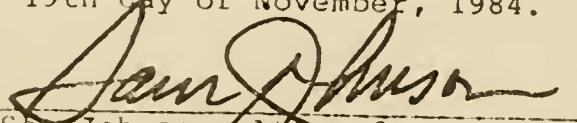
- (1) G.S. 58-349 (f & g) - Rejected Rate limit.
- (2) G.S. 58-350(d) - Rejected Rate limit.
- (3) G.S. 58-344(a)(1) - Approved See above (1) Re: Limits of Amounts.
- (4) G.S. 58-344(b) - Approved as Revised See above (1) Re: Limits of Amounts.
- (5) G.S. 58-346(c)(2) - Approved as Revised See above (4) relating to refinancing.
- (6) G.S. 58-352 - Rejected Review by insurer.
- (7) G.S. 58-350(a) - Approved See above (4) relating to refinancing.
- (8) G.S. 58-359 - Approved as Revised See above (7) relating to property insurance.
- (9) G.S. 58-351(b & c) - Approved as Revised See above (8) relating to rebate.

CONCLUSIONS

The above comparison of sections approved and disapproved makes it clear that the insurers and the agents have supported necessary reforms to protect the insured. Other testimony will support the justification for the present rate. These type of policies are generally small and are not available through traditional insurance sources, and a sufficient premium must be paid to enable the agents to stay in business and render a service for their protection and the protection of the insured.

No change in North Carolina law is justified or needed at this time.

Respectfully submitted this 19th day of November, 1984.

  
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 Sam Johnson, Atty. for  
 N.C. Auto Dealers  
 P. O. Box 1776  
 Raleigh, NC 27602  
 919/832-8396



## NORTH CAROLINA DEPARTMENT OF INSURANCE

November 19, 1984

M E M O R A N D U M

TO: Neal Smith  
FROM: Bobby W. Gray *BWG*  
RE: Credit Insurance and Interest Rates Study Commission

Responsive to your memorandum to Thomas Sawyer and that of Thomas Sawyer to me both dated October 26, 1984 relative to the above captioned matter, I will respond in the following fashion:

1. Whether the loss ratio for credit insurance is appropriate.

Attached is a copy of the 1983 Credit Life and Accident and Health Profitability Reports. An analysis of this report indicates that North Carolina and South Carolina have the lowest loss ratios in the United States at 29.67%.

2. Whether the marketing practices by which credit insurance is sold are acceptable.

The best response to this question would come from a qualified actuary, Jim Hunt, who has previously spoken to the committee.

3. Whether there is a need to amend existing statutes or pass new legislation concerning credit insurance.

I would assume that the Commissioner would be desirous of new legislation that would be aimed at increasing the loss ratios on credit insurance in North Carolina.

4. How credit insurance and interest rates are interrelated.

This question would need to be referred to a qualified life actuary for response.

BWG/ks/hjp

Attachment

1983 CREDIT LIFE & ACCIDENT & HEALTH PROFITABILITY REPORT

<u>State</u>	<u>Loss Ratio</u>	<u>State</u>	<u>Loss Ratio</u>
Alabama	30.65	Missouri	39.64
Alaska	34.92	Montana	46.39
Arizona	44.99	Nebraska	37.85
Arkansas	31.72	Nevada	48.68
California	57.39	New Hampshire	42.94
Colorado	36.83	New Jersey	53.06
Connecticut	46.25	New Mexico	40.64
Delaware	37.21	New York	65.77
District of Columbia	58.19	North Carolina	29.67
Florida	39.33	North Dakota	32.97
Georgia	33.18	Ohio	49.51
Hawaii	39.47	Oklahoma	32.78
Idaho	48.54	Oregon	51.29
Illinois	45.02	Pennsylvania	56.30
Indiana	45.47	Rhode Island	51.27
Iowa	42.36	South Carolina	29.67
Kansas	39.19	South Dakota	32.39
Kentucky	43.95	Tennessee	38.14
Louisiana	32.37	Texas	42.76
Maine	70.02	Utah	40.19
Maryland	52.78	Vermont	51.88
Massachusetts	46.66	Virginia	41.52
Michigan	52.02	Washington	44.31
Minnesota	30.41	West Virginia	60.43
Mississippi	29.75	Wisconsin	43.90
		Wyoming	45.89
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Guam	21.66		
Puerto Rico	25.86		
U.S. Virgin Islands	20.99		





