

PROJECT HISTORY – 2002

CREDIT PERSONAL PROPERTY INSURANCE MODEL ACT (#365)

1. Project Description

The National Council of Insurance Legislatures (NCOIL) issued a resolution opposing the inclusion of the 60% loss ratio in the Credit Personal Property Insurance Model Act. The Credit Insurance (D) Working Group reviewed the concerns and determined a drafting note should be added to the model.

2. Group Responsible for Drafting Model and States Participating

The Credit Insurance (D) Working Group of the Market Regulation and Consumer Affairs (D) Committee assumed responsibility for reviewing the NCOIL resolution. Commissioner David Parsons of Alabama and Commissioner Mike Kreidler of Washington co-chaired the working group. The following states are members of the working group: Colorado, District of Columbia, Florida, Illinois, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, North Carolina, Oklahoma, Oregon and Utah.

3. Charge Authorizing Project

The 2002 charge to the working group reads, “Appoint a working group to 1) finalize a bulletin to encourage states to revise prima facie rates and take other steps available under the NAIC credit insurance model acts and regulations and state laws to bring credit insurance rates in line with benchmark loss ratios and to correct other problem areas of credit insurance, 2) coordinate with the Blanks Task Force to revise the credit insurance experience exhibit to better capture information on credit property and new coverages and 3) work with attorneys general and other state and federal regulators to investigate marketing practices in the sale and distribution of credit insurance products and determine whether further action is necessary to address any identified consumer issues. Report by the NAIC 2002 Winter National Meeting.” The Market Regulation and Consumer Affairs (D) Committee asked the Credit Insurance Working Group to review the NCOIL resolution to determine if additional action should be taken regarding the model.

4. General Description of Drafting Process

The drafting process was very open as the Credit Insurance Working Group solicited comments from all interested parties, including interested regulators, funded consumer representatives and industry representatives. The working group also solicited key concerns from interested parties and funded consumer representatives. All of the meetings of the working group were open to all interested parties. All revised language of the drafting note were posted on the NAIC Website and circulated for public comment. The working group received and reviewed numerous comments from interested parties.

5. Significant Issues Raised

The significant issues introduced about the resolution and drafting note revolved around whether a loss ratio requirement should be included in a model act rather than a model regulation. In addition, there was discussion about whether the entire provisions of the model act could be modified for adoption as a regulation versus an act.

6. Other Pertinent Information

NCOIL representatives participated in the review and drafting discussions and did not voice opposition to the inclusion of this new drafting note.

PROJECT HISTORY – 2001

CREDIT PERSONAL PROPERTY INSURANCE MODEL ACT (#365)

1. Project Description

The Credit Personal Property Insurance Model Act provides a recommended statute specifically for the regulation of credit property insurance. This model is designed to complement other credit insurance related models such as the Consumer Credit Insurance Model Act, the Consumer Credit Insurance Model Regulation and the Creditor-Placed Insurance Model Act.

2. Group Responsible for Drafting Model and States Participating

The Credit Property Working Group of the Market Conduct and Consumer Affairs (D) Committee was responsible for drafting the model. Commissioner David Parsons of Alabama chaired the working group. The following states were members of the working group: Colorado, Illinois, Indiana, Kansas, Kentucky, Maryland, Michigan, Minnesota, Missouri, North Carolina, and South Dakota.

3. Charge Authorizing Project

The 2001 charge of the working group is, “Appoint a working group to finalize the credit property model act.” This charge resulted from a previous charge of the Market Conduct and Consumer Affairs (D) Committee in 1999: “Appoint a working group to review existing and proposed state laws and regulations and current regulatory efforts by states addressing credit insurance products offered by insurers in order to assess the overall effectiveness of the existing regulatory framework and to make recommendations for areas needing change or improvement. After completing a study of credit insurance, the D Committee recommended that a model addressing credit property insurance be developed.

4. General Description of Drafting Process

The drafting process was very open as the Credit Property Insurance Working Group solicited comments from all interested parties, including interested regulators, funded consumer representatives and industry representatives. The working group also solicited key concerns from interested parties and funded consumer representatives. All of the meetings of the working group and of the Market Conduct and Consumer Affairs (D) Committee were open to all interested parties. All revised drafts of the paper were posted on the NAIC Website and circulated for public comment. The working group received and reviewed numerous comments from interested parties.

5. Significant Issues Raised

The most significant issues raised and discussed by the working group and interested parties include (1) the definition of credit personal property insurance; and (2); the method of rate supervision that should be in place for credit property insurance. The positions of industry representatives, consumer representatives and regulators were considered while developing the model act.

The controversy surrounding the definition of credit personal property insurance involves the inadvertent inclusion of products not intended to be considered as credit property insurance. After several iterations of the definition, the last debate involved whether the definition should include a reference to security interest. The final definition adopted by the working group reads, “Credit personal property insurance” means a policy, endorsement, rider, binder, certificate or other instrument or evidence of insurance written in connection with a credit transaction that:

- (1) covers perils to the goods purchased through a credit transaction or used as collateral for a credit transaction and that concerns a creditor’s interest in the purchased goods or pledged collateral either in whole or in part; or
- (2) covers perils to goods purchased in connection with an open-end credit transaction.

The second major issue surrounded the best method for regulating credit property insurance rates. The working group decided to use a loss ratio requirement in conjunction with a component rating feature. Once the determination to include a loss ratio requirement was determined, there was extended debate on the language to use with the percentage (e.g. % or such “higher” loss ratio, % or such “other” loss ratio, etc.) The working group determined they would include a 60% loss ratio

requirement, or such “higher” loss ratio as designated by the Commissioner. This issue remained controversial through the adoption of the model act.

Other issues addressed by the working group included phantom coverage (insurance coverage for non-durable goods for which no claim can be made), reverse competition, and creditor compensation limitations. Each of these topics were considered and discussed before reaching agreement on how to incorporate provisions in the model addressing these issues.

6. Other Pertinent Information

The NAIC previously considered development of a credit property insurance model in 1995. A determination was made not to develop a model at that time.