NAIC
National Association of Insurance Commissioners

Journal of Insurance Regulation

Cassandra Cole and Kathleen McCullough
Co-Editors

Vol. 37, No. 9

New Evidence on an Old Unanswered Question: The Decision to Purchase Credit Insurance and Other Debt Protection Products

Thomas A. Durkin
Gregory Elliehausen

JIR-ZA-37-09

The NAIC is the authoritative source for insurance industry information. Our expert solutions support the efforts of regulators, insurers and researchers by providing detailed and comprehensive insurance information. The NAIC offers a wide range of publications in the following categories:

Accounting & Reporting
Information about statutory accounting principles and the procedures necessary for filing financial annual statements and conducting risk-based capital calculations.

Consumer Information
Important answers to common questions about auto, home, health and life insurance — as well as buyer's guides on annuities, long-term care insurance and Medicare supplement plans.

Financial Regulation
Useful handbooks, compliance guides and reports on financial analysis, company licensing, state audit requirements and receiverships.

Legal
Comprehensive collection of NAIC model laws, regulations and guidelines; state laws on insurance topics; and other regulatory guidance on antifraud and consumer privacy.

Market Regulation
Regulatory and industry guidance on market-related issues, including antifraud, product fi ling requirements, producer licensing and market analysis.

NAIC Activities
NAIC member directories, in-depth reporting of state regulatory activities and official historical records of NAIC national meetings and other activities.

Special Studies
Studies, reports, handbooks and regulatory research conducted by NAIC members on a variety of insurance related topics.

Statistical Reports
Valuable and in-demand insurance industry-wide statistical data for various lines of business, including auto, home, health and life insurance.

Supplementary Products
Guidance manuals, handbooks, surveys and research on a wide variety of issues.

Capital Markets & Investment Analysis
Information regarding portfolio values and procedures for complying with NAIC reporting requirements.

White Papers
Relevant studies, guidance and NAIC policy positions on a variety of insurance topics.

For more information about NAIC publications, visit us at:

http://www.naic.org//prod_serv_home.htm

© 2018 National Association of Insurance Commissioners. All rights reserved.

Printed in the United States of America

No part of this book may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or any storage or retrieval system, without written permission from the NAIC.

NAIC Executive Office
444 North Capitol Street, NW
Suite 700
Washington, DC 20001
202.471.3990

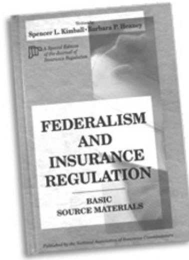
NAIC Central Office
1100 Walnut Street
Suite 1500
Kansas City, MO 64106
816.842.3600

NAIC Capital Markets
& Investment Analysis Office
One New York Plaza, Suite 4210
New York, NY 10004
212.398.9000

NAIC
National Association of Insurance Commissioners

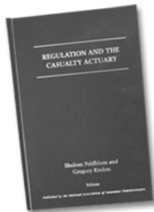
Companion Products

The following companion products provide additional information on the same or similar subject matter. Many customers who purchase the ***Journal of Insurance Regulation*** also purchase one or more of the following products:



Federalism and Insurance Regulation

This publication presents a factual historical account of the development of the framework for insurance regulation in the United States. It does so in part by using illustrative early statutes, presenting them chronologically, and in part by using cases that illustrate the interpretation of the crucial later statutes. Copyright 1995.



Regulation and the Casualty Actuary

This anthology reprints 20 important papers from past issues of the Journal of Insurance Regulation that are most relevant for practicing actuaries and state insurance regulators. It covers a wide range of issues, such as ratemaking, auto insurance pricing, residual markets, reserving and solvency monitoring. This invaluable reference explains these complex topics in straightforward, non-technical language. Copyright 1996.

How to Order

International orders must be prepaid, including shipping charges. Please contact an NAIC Customer Service Representative, Monday - Friday, 8:30 am - 5 pm CT.

Editorial Staff of the *Journal of Insurance Regulation*

Co-Editors
Cassandra Cole and Kathleen McCullough
Florida State University
Tallahassee, FL

Case Law Review Editor
Jennifer McAdam, J.D.
NAIC Legal Counsel II

Editorial Review Board

Cassandra Cole, Florida State University, Tallahassee, FL

Lee Covington, Insured Retirement Institute, Arlington, VA

Brenda Cude, University of Georgia, Athens, GA

Robert Detlefsen, National Association of Mutual Insurance Companies, Indianapolis, IN

Bruce Ferguson, American Council of Life Insurers, Washington, DC

Stephen Fier, University of Mississippi, University, MS

Kevin Fitzgerald, Foley & Lardner, Milwaukee, WI

Robert Hoyt, University of Georgia, Athens, GA

Alessandro Iuppa, Zurich North America, Washington, DC

Robert Klein, Georgia State University, Atlanta, GA

J. Tyler Leverty, University of Iowa, Iowa City, IA

Andre Liebenberg, University of Mississippi, Oxford, MS

David Marlett, Appalachian State University, Boone, NC

Kathleen McCullough, Florida State University, Tallahassee, FL

Charles Nyce, Florida State University, Tallahassee, FL

Mike Pickens, The Goldwater Taplin Group, Little Rock, AR

David Sommer, St. Mary's University, San Antonio, TX

Sharon Tennyson, Cornell University, Ithaca, NY

Charles C. Yang, Florida Atlantic University, Boca Raton, FL

Purpose

The *Journal of Insurance Regulation* is sponsored by the National Association of Insurance Commissioners. The objectives of the NAIC in sponsoring the *Journal of Insurance Regulation* are:

1. To provide a forum for opinion and discussion on major insurance regulatory issues;

2. To provide wide distribution of rigorous, high-quality research regarding insurance regulatory issues;

3. To make state insurance departments more aware of insurance regulatory research efforts;

4. To increase the rigor, quality and quantity of the research efforts on insurance regulatory issues; and

5. To be an important force for the overall improvement of insurance regulation.

To meet these objectives, the NAIC will provide an open forum for the discussion of a broad spectrum of ideas. However, the ideas expressed in the *Journal* are not endorsed by the NAIC, the *Journal's* editorial staff, or the *Journal's* board.

New Evidence on an Old Unanswered Question: The Decision to Purchase Credit Insurance and Other Debt Protection Products

Thomas A. Durkin*
Gregory Elliehausen**

Abstract

Credit-related insurance and other debt protection are products sold in conjunction with credit that extinguish a consumer's debt or suspends its periodic payments if events like death, disability or involuntary unemployment occur. High sales penetration rates observed in the 1950s and 1960s raised concerns about coercion in the sale of credit insurance. This study presents evidence on credit insurance purchase and debt protection decisions from a new survey. The findings provide little evidence of widespread or systematic coercion in purchases. Instead, findings suggest that risk aversion and health or financial concerns motivate consumers to purchase credit insurance and debt protection, just as these concerns also motivate purchases of other types of insurance.

* Senior Economist (Retired), Division of Research and Statistics, Board of Governors of the Federal Reserve System.
** Principal Economist, Division of Research and Statistics, Board of Governors of the Federal Reserve System.

© 2018 National Association of Insurance Commissioners

In an environment where unfortunate consequences are possible but timing is unpredictable, both consumers facing risks and entrepreneurs looking for productive opportunities have searched for and engineered ways of spreading and mitigating those risks. Life insurance is well-known for mitigating financial risks to a family concerned about the unpredictable timing of death of a breadwinner and is often available through employers as an employee benefit. Likewise, casualty insurance like fire insurance and automobile/truck operating coverages are also well-known and even mandatory in many circumstances and jurisdictions. Many states require automobile casualty insurance with auto and truck registrations, for instance. But these are not the only areas where insurance and other risk-spreading techniques have arisen for individuals; consumer borrowing and lending is another. On consumer loans, taking on a stream of monthly installment payments can be risky for individuals, even though overall expected performance of an insurance policy portfolio usually is predictable for insurers. This property makes consumer borrowing another candidate for insurance products.

Since invention of the product in 1919, many installment lenders have made available to their borrowers insurance and insurance-like products that extinguish a consumer's debt or suspend periodic payments on it if unfortunate events like death or temporary disability occur. In effect, for borrowers these products spread the financial risks of unfortunate occurrences like death, disability, involuntary employment loss and loss to security property across all purchasers using actuarial principles and methodologies. While these products have never been of interest to all borrowers, evidence of demand for them among borrowers concerned about these financial risks has long been available. Such events could easily lead to considerable unpleasantness for families of deceased debtors or to the debtors themselves unable to work and make their periodic payments on schedule. Beyond just an impact on credit scores of consumers facing these events, in some cases they could lead to negative estates for heirs and even to repossession of critical assets like the family car for debtors or their families at the worst possible moment. Such situations can be unpleasant for creditors, as well as for borrowers.

Over the years, several academic studies have investigated debt protection at the consumer level, long known as "credit insurance" but also including "debt cancellation or suspension products" that are not legally insurance products. The number of such analyses has been small, however, at least in comparison to studies of other kinds of insurance. Most studies have focused on the public policy question whether debtors have been "coerced" to purchase credit insurance by self-interested lenders. These studies began after some observers contended in the 1950s and 1960s that monopoly position of lenders enabled them to take advantage of borrowers by coercing them to take and pay for unneeded life and casualty insurance to cover the debts.[1] Attention to such concerns led to regulations on sales practices until there is

1. For example, see Subcommittee on Antitrust and Monopoly of the Senate Committee on the Judiciary, 83rd Congress, 2nd Session, *Report on the Tie-In Sale of Credit Insurance in Connection with Small Loans and Other Transactions (Committee Print* 1955).

© 2018 National Association of Insurance Commissioners

now an extensive legal structure discouraging coercive sales activity in the area of debt protection. There are special provisions covering debt protection sales in the federal Truth in Lending Act (TILA) of 1968 and also federal and state prohibitions on unfair, deceptive or abusive acts and practices (UDAAP). Further, there are federal and state chartering and licensing requirements for lenders with various levels of examination procedures and enforcement possibilities beyond those for other sorts of businesses. States also regulate actions of insurance companies, including contract inclusions, policy forms and pricing. An ongoing question over the period of these regulatory changes has been how they might have changed marketplace conditions.

Related consumer surveys of debt protection began with a 1973 Ohio University study (referred to below) and have continued with a list of further studies on the same general topic in the decades since. They include four Federal Reserve System reports between 1977 and 2012. Despite relevant findings from these studies, previous studies have not conducted an extended multivariate analysis of factors influencing consumers' decision to purchase these insurance and insurance-like products.

The purpose of this study is twofold: 1) to update the periodic Federal Reserve studies of these products focusing on these long-standing policy issues; and 2) to use new consumer survey data to look at aspects of demand for these products among current users.[2] Data are from a new nationally representative survey of consumers undertaken during March and April 2017 by the Survey Research Center (SRC) of the University of Michigan. The SRC is the same survey organization that provided the data examined previously in the four Federal Reserve analyses. To ensure continuity and comparability, the new study used the same questions and methodology as previously, with some new questions this time concerning product demand elements and a new simple question that helps address the coercion supposition noted earlier. The first part of this report provides updated discussion and tables based upon those in the 2012 and earlier Federal Reserve efforts, and the second part employs univariate and multivariate statistical evidence to look at aspects of demand for credit insurance and related products.

New Survey

Authors have extensively described credit insurance and other debt protection products before, including product features, costs and controversies, and it seems

2. Despite past studies spurred by regulatory activity that have developed relevant research evidence, these products have remained controversial among some advocates. See, for example, Carolyn Carter, et al., "Installment Loans: Will States Protect Borrowers from a New Wave of Predatory Lending?" (Boston: National Consumer Law Center, July 2015) and Pew Charitable Trusts, "State Laws Put Installment Loan Borrowers at Risk" (Pew Charitable Trusts, October 2018).

© 2018 National Association of Insurance Commissioners

redundant to do so at any length again.[3] Basically, credit insurance products consist foremost of credit life insurance, which repays the debt in the event of the debtor's death, and credit casualty insurance, which continues the payments in the event of the debtor's incapacity due to covered conditions (typically, accidents and health-related incapacities, involuntary loss of employment, or loss to property securing a loan). These products have been around since 1919, and millions of borrowers have purchased them over the decades.

Related products called "debt cancellation contracts" and "debt suspension agreements," both developed decades ago, do the same things from the consumer's viewpoint. They are two-party loan agreements between the borrower and the lender for the lender to cancel the debt, in a lump sum or through a series of loan payments (debt cancellation agreements), or suspend loan payments for covered events (debt suspension agreements). As two-party loan agreements, these products are not insurance products and are regulated under federal and state banking laws. Since they are similar looking to insurance from the debtor's standpoint, they are considered here together with traditional credit insurance.

In March and April 2017, the SRC conducted 1,205 nationally-representative interviews with consumers. The SRC asked those consumers who had closed-end consumer installment loans or credit cards about their experiences with credit insurance and other debt protection products.[4] One part of the survey was based explicitly upon the 2012 survey project in order to provide evidence of similarities and trends. Indeed, some of the questions were unchanged from the 1977 Federal Reserve survey and used unchanged in 2017 for the fifth time overall. A second part asked consumers using closed-end installment credit (29% of all respondents) some new questions on other insurance coverage, health, financial concerns and risk aversion, which may help explain borrowers' credit protection decisions. The SRC's research approach produced a nationwide probability sample of respondents that is representative of the contiguous 48 states within statistical confidence limits. The SRC coded the interview results and provided a machine-readable data set in SAS format. The authors wrote the SAS computer program to produce the tables reported here.

3. See Thomas A. Durkin and Gregory Elliehausen, "Consumers and Debt Protection Products: Results of a New Survey of Borrowers," *Federal Reserve Bulletin*, December 2012. For extended discussion of features, costs and controversies associated with credit insurance and other debt protections, see Thomas A. Durkin, Gregory Elliehausen, Michael E. Staten, and Todd J. Zywicki, *Consumer Credit and the American Economy* (New York: Oxford University Press, 2014, Chapter 12).

4. The interviews were representative of the contiguous 48 states and did not include Alaska and Hawaii. The authors thank the SRC and the Consumer Credit Industries Association (CCIA) for making the data available. The analysis and views expressed here are those of the authors and not those of either of these organizations.

© 2018 National Association of Insurance Commissioners

Survey Findings

For purchase coercion to exist, there must be some sort of coercive activity by the seller and actual purchase by a buyer. If a potential purchaser does not buy a product, this is per se evidence that a coercive sale did not take place, even if the seller attempted some sort of coercive action. And so, one goal of the survey was to observe again the long-term trends in the purchase of these insurance and insurance-like products following years of implementation of regulations.

A population survey design over time is the only way to determine such trends. Examining evidence from insurance companies would not be revelatory because it would contain information only on those who purchase the products from them and not on those who purchase from others or do not purchase. Likewise, insurance companies would not have information about debt cancellation agreements and debt suspension agreements because these are issued by the potentially thousands of lenders and creditors that might provide such products in the marketplace.

Survey evidence from SRC on prevalence of debt protection has previously been available for 1977, 1985, 2001, 2012 and now also for 2017.[5] The results show that frequency of purchase of debt protection products on consumer installment credit was much higher in 1977 and 1985 than in later years. In the earlier years when the "coercion" issue became a public-policy concern in some quarters, purchase prevalence on consumer installment credit (frequently called the "penetration rate") exceeded 60 percent. (See Table 1 on page 6.) The penetration rate has dropped by almost two-thirds since then, to measurements in the 22% to 26% range. The decline in the penetration rate after 1985 seems to have brought it well under the early range that triggered concerns of systematic purchase "coercion" in earlier times.[6]

---

5. The earlier survey results are in Thomas A. Durkin and Gregory E. Elliehausen, *The 1977 Consumer Credit Survey* (Washington: Board of Governors of the Federal Reserve System, 1978); Anthony W. Cyrnak and Glenn B. Canner, "Consumer Experiences with Credit Insurance: Some New Evidence," Federal Reserve Bank of San Francisco *Economic Review*, Summer 1986; Thomas A. Durkin, "Consumers and Credit Disclosures: Credit Cards and Credit Insurance," *Federal Reserve Bulletin*, April, 2002; and Durkin and Elliehausen, "Consumers and Debt Protection Products: Results of a New Survey of Borrowers" (2012), referenced in footnote 2. Also discussing these survey results are Robert A. Eisenbeis and Paul R. Schweitzer, *Tie-Ins Between the Granting of Credit and Sales of Insurance By Bank Holding Companies and Other Lenders* (Washington: Board of Governors of the Federal Reserve System, Staff Study 101, 1979); and Durkin, Elliehausen, Staten, and Zywicki, *Consumer Credit and the American Economy* (2014), referenced in footnote 2, Chapter 12.

Other survey findings and discussion of credit insurance are in Charles L. Hubbard, ed., *Consumer Credit Life and Disability Insurance* (Athens, Ohio: College of Business Administration, Ohio University, 1973); Joel Huber, *Consumer Perceptions of Credit Insurance on Retail Purchases* (West Lafayette, Indiana: Purdue University Credit Research Center, 1976); and John M. Barron and Michael E. Staten, *Consumer Attitudes Toward Credit Insurance* (Norwell, Massachusetts: Kluwer Academic Publishers, 1996).

6. The three latter measurements for the penetration rate reported here are within normal statistical sampling range for being three measurements from the sampling frame. So, statistically,

© 2018 National Association of Insurance Commissioners

Table 1:
Debt Protection Penetration Rates, 1977–2017
(Percentage Distributions Within Groups of Credit Users)

	1977 Install Credit	1985 Install Credit	2001 Install Credit	2012 Install Credit	2017 Install Credit	2001 Credit Card	2012 Credit Card	2017 Credit Card
Have	63.9	64.7	22.7	22.0	26.0	20.1	14.0	19.2
Do not have	30.1	33.1	74.4	75.6	70.6	73.9	82.0	75.4
Do not know/ refuse	6.0	2.2	2.9	2.4	3.4	6.0	4.0	5.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memo: Number of observations using type of credit	1165	NA	171	222	349	724	775	976

Notes:
NA: Not available.
Columns may not sum to totals because of rounding.

To examine the coercion issue more fully, all the SRC surveys also have included specific questions about sales practices. As in earlier years of this series of survey projects, the first approach in 2017 was to question respondents directly about their experiences at the point of sale.[7] Consumers with common closed-end consumer installment credit outstanding were asked whether they had purchased any debt protection products and about the debt protection offering experience at the point of sale. It appears that experience here has also changed sharply over the decades since 1977.

In 1977, the majority (72%) of closed-end consumer installment credit users who had purchased debt protection reported that the lender had either recommended the purchase of the protection or recommended it strongly. (See Table 2.) This proportion fell to under 20% in 2017.

That the penetration rate was also much lower in the more recent years is worth noting again. This decrease in the penetration rate means that among closed-end installment credit users, the proportion who both purchased and who noted receiving a recommendation to that effect fell sharply after 1977 due to both lower penetration rates and fewer experiences of a recommendation.

---

they may be considered close to identical, and no strong conclusions should be drawn from the small differences among the three more recent surveys.

Table 1 also reports penetration rates for debt protection products for consumers with credit card accounts. As discussed more fully by Durkin and Elliehausen in 2012, these rates measure proportion of respondents having any card account with debt protection. Since consumers may individually have many credit cards, penetration rates for any one kind of account or brand would be lower. (See Durkin and Elliehausen, "Consumers and Debt Protection Products: Results of a New Survey of Borrowers" (2012), referenced in footnote 2.)

7. The next few paragraphs draw upon the outline of similar discussion in Durkin and Elliehausen, "Consumers and Debt Protection Products: Results of a New Survey of Borrowers" (2012), referenced in footnote 2.

© 2018 National Association of Insurance Commissioners

Table 2:
Recommendations Concerning Debt Protection Purchase at Point of Sale on Installment Credit, 1977–2017
(Percentage Distributions Within Groups of Users and Non-Users of Installment Credit, With and Without Debt Protection)

	1977 Protection		1985 Protection		2001 Protection		2012 Protection		2017 Protection	
	Have	Not Have	Have	Not Have	Have	Not Have	Have	Not Have	Have	Not Have
Recommendation:										
Never mentioned	10.6	52.2	14.8	45.2	15.4	53.3	18.7	62.7	30.0	67.4
Offered	15.0	22.6	44.7	35.5	53.2	33.9	43.5	29.5	42.9	21.3
Recommended	33.1	17.0	16.4	12.9	12.2	4.1	17.6	0.5	9.6	1.6
Strongly recommended/ required	39.3	2.3	20.1	2.6	16.6	3.4	20.1	0.9	10.1	0.3
Do not know/refuse	2.1	5.9	3.9	3.9	2.6	5.3	*	6.5	7.4	9.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memo: Number of observations purchasing/not purchasing credit insurance	744	421	NA	NA	41	130	56	166	88	261

Notes:
* Less than one-half of 1%.
NA: Not available.
Columns may not sum to totals because of rounding.

Specifically, in 1977 about 46% of closed-end installment credit users reported that they purchased and received a purchase recommendation from the creditor of varying intensity (that is, the 72.4% who said that debt protection was "recommended" or strongly "recommended/required" (Table 2) of the 63.9% who purchased (Table 1)). These percentages compare to only about 5% percent in 2017 (19.7% of the purchasers who said that debt protection was "recommended" or "strongly recommended/required" (Table 2) of the 26% percent who purchased (Table 1)). This decline is substantial and suggests that even if some providers are attempting widespread aggressive sales, they are not very successful.[8]

To look at experience at the point of sale more directly, respondents who either did or did not purchase debt protection but indicated that protection was offered or recommended to them were then asked directly about their understanding of whether the offered or recommended product was voluntary. Significantly, not one respondent in either the purchasers or non-purchasers groupings reported belief the purchase decision was not voluntary. Among purchasers who indicated recollection of the circumstance (96%), almost all (again 96%) also reported the lender had explained the terms. The proportion was almost as high among non-purchasers

8. In each survey year, some purchasers indicated the lender did not mention the product at point of sale, which must mean either they purchased it after some kind of follow-up after the fact by telephone or mail, or they brought it up themselves at the point of sale before mention by the lender. If somehow it were to indicate that the lender just placed it in the contract, then it seems there would also be evidence that the attitude of these buyers toward the product would not be very good. In fact, a look at attitudes of the individuals in this relatively small group whether the insurance/protection product is good or bad, discussed next in more detail for the larger sample size of respondents as a whole, does not suggest this possibility.

© 2018 National Association of Insurance Commissioners

(89%), even if a lot of explanation to them would seem unimportant as soon as they indicated they were not purchasing.

It is worth repeating that many respondents were not even offered these products. In each of the survey years except 1985, more than half of those who did not purchase a protection product on closed-end consumer credit reported that the lender did not mention protection products. Even in the exception year 1985, the proportion not hearing any mention was about 45%. It is difficult for people to be pushed into buying an add-on or ancillary product to a credit transaction if it is not even mentioned to them at the point of sale. The proportion of non-purchasers who said the products were not mentioned reached two-thirds (67%) in 2017.[9]

Along with the likelihood that if coercion is widespread, then evidence of it should show up in direct questioning of product purchasers, consumers who felt pressured to buy an add-on or ancillary product they did not want would probably not be very favorably inclined toward the add-on or ancillary product. To examine this possibility, consumers over the years with and without debt protection were also asked about their feelings toward buying the protection, specifically whether such purchase is "a good idea or a bad idea."

Experience in 2017 confirms prior findings that most purchasers of debt protection on closed-end consumer credit consider its purchase to be a good idea. The proportion answering good or good with some degree of qualification exceeded 85% percent in each of the interview years. (See Table 3.) In contrast, the proportion responding "bad" was less than 10% in all but the 2012 survey, in which it reached 11%. Although the proportion in 2012 is not statistically significantly different from 2017, the slightly higher incidence of this response in 2012 may be an artifact of the lengthy prior recession that had recently ended. It seems possible in any year, but maybe more so in worse economic times, that if consumers find themselves in a situation where they realize after the fact that an expenditure on insurance or an insurance-like substitute did not result in a payoff, they may to some degree regret the expenditure at a time when budgets are tight. Of course, they did not suffer the loss they insured against either, and the peace of mind entailed with the protection purchase may still resonate with many of them.

Table 3 also demonstrates that attitudes are much different between purchasers and non-purchasers of the protection products. For the non-purchasers, attitudes toward the protection products are decidedly less favorable than among purchasers, but most non-purchasers still expressed a favorable view anyway in every survey year except 2001. Nonetheless, a somewhat higher portion of non-purchasers with an unfavorable attitude toward the protection products is consistent with their choices not to purchase.

---

9. A consumer survey cannot address why sellers offer or chose not to offer products, but profitability undoubtedly has something to do with it. For example, anecdotal evidence from industry observers suggests that auto dealers prefer to concentrate their sales efforts on auto product features, extended warranty products, and ease and convenience of reaching their repair facilities rather than on debt protection products.

© 2018 National Association of Insurance Commissioners

Table 3:
Attitude Toward Debt Protection Among Users of Installment Credit, 1977–2017
(Percentage Distributions Within Groups of Users and Non-Users of Installment Credit, With and Without Debt Protection)

	1977 Protection		1985 Protection		2001 Protection		2012 Protection		2017 Protection	
	Have	Not Have	Have	Not Have	Have	Not Have	Have	Not Have	Have	Not Have
Attitude:										
Good	86.7	59.8	89.9	56.4	88.5	32.3	85.5	53.8	84.4	53.6
Good with qualifications	8.6	18.9	2.9	8.3	3.8	6.1	*	3.2	2.6	*
Neither good nor bad	2.1	9.1	1.9	6.4	3.2	13.9	3.1	1.8	4.1	5.8
Bad with qualifications	*	2.7	*	2.6	*	1.6	*	6.5	*	*
Bad	2.2	9.5	5.2	26.3	4.5	46.0	11.4	40.5	8.8	40.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memo: Number of observations purchasing/not purchasing credit insurance	744	421	NA	NA	41	130	56	166	88	261

Notes:
* Less than one-half of 1%.
NA: Not available.
Columns may not sum to totals because of rounding.

Attitudes were also measured in a related but somewhat different manner. Specifically, purchasers of debt protection were asked directly about their satisfaction with the protection product purchased. Obviously, this view could not be asked of non-purchasers. Again, using this measurement, purchasers of debt protection expressed favorable views. Approximately four-fifths of purchasers suggested satisfaction in each of the years when measurements were undertaken—2001, 2012 and 2017. (See Table 4 on page 10.) Although in each survey year that included this question some respondents appeared indifferent, relatively few expressed dissatisfaction. For this reason, it appears important to remember the views of users as well as non-users in any discussion of regulatory changes affecting availability of debt protection products.

Purchasers also expressed a high degree of willingness to purchase debt protection on future credit use. More than 70% of purchasers indicated willingness to purchase again on installment credit in each survey year. (See Table 5 on page 11.) While a favorable attitude now does not necessarily translate directly into a purchase later, it is also possible that actual purchases later could be higher than the attitude expressed now. When entering into the next credit contract, financial anxieties may surface again, and purchasing debt protection may again produce the peace of mind that it apparently did in many cases in the past. In any case, the favorable proportion on this measurement appears to have settled in the 70% to three-quarters range, down a bit from the extremely high measurement in 2001. (The measured difference between 2012 and 2017 is not statistically significantly different.) Thus, neither direct nor indirect findings about possible coercion in purchase of debt protection suggest the kind of unhappiness with a product that

© 2018 National Association of Insurance Commissioners

might arise if purchasers felt that they were being pushed into the purchase or that the product itself was not very useful.[10]

Table 4:
Satisfaction With Purchase of Debt Protection on Installment Credit, 2001–2007
(Percentage Distributions Within Groups of Installment Credit Users)

Satisfied with Purchase?	2001 Installment Credit	2012 Installment Credit	2017 Installment Credit
Very	27.8	38.2	29.6
Somewhat	65.6	40.9	43.3
Subtotal: Satisfied	93.4	79.1	72.9
Neither satisfied nor dissatisfied	3.9	20.9	17.5
Somewhat dissatisfied	2.7	*	4.7
Very dissatisfied	*	*	5.0
Total	100.0	100.0	100.0
Memo: Number of observations using type of credit	171	222	349

Notes:
* Less than one half of 1%.
NA: Not available.
Columns may not sum exactly to totals because of rounding.

Evidence on Potential Factors Associated with Willingness to Purchase Debt Protection

If coercion is not the explanation for the decision to purchase debt protection by users of installment credit, then what other factors are possibly explanatory? As it turns out, an examination of demand for credit insurance beyond cautions among some observers about possible coercion is almost unprecedented. The primary exception is the 2012 paper by Colquitt, *et al*.[11] They presented a demand model for

10. Design of the surveys does not permit further, detailed exploration of respondents' underlying reasoning for their responses to these attitude questions. The most interesting aspect of these satisfaction measurements still seems to be their relatively high levels. This is true, even after the extensive criticism of all sorts of financial institutions and products in recent years subsequent to the "Great Recession" and continuing complaints by advocates. (See references in footnote 2.) What appears to be a downward trend in satisfaction after 2001 may simply reflect comparison to an extremely high measurement level in an earlier era of respect for financial institutions generally and not likely ever to be repeated. It is interesting to note that measurement of the proportion indicating "very satisfied" actually rose after 2001. (See Table 4.)

11. L. Lee Colquitt, Stephen G. Fier, Robert E. Hoyt, and Andre P. Liebenberg, "Adverse Selection in the Credit Life Insurance Market," *Journal of Insurance Regulation*, Winter 2012.

© 2018 National Association of Insurance Commissioners

credit life insurance and some empirical tests using mostly using statewide aggregate variables. In the absence of micro data, they necessarily had to use proxy variables from statewide data.

Table 5:
Willingness to Purchase Debt Protection Again Among Users of Installment Credit
(Percentage Distribution Within Groups of Credit Users)

Purchase again?	2001 Installment Credit	2012 Installment Credit	2017 Installment Credit
Yes	94.2	74.6	70.2
No	5.8	24.4	29.7
Total	100.0	100.0	100.0
Memo: Number of observations using type of credit	171	222	349

Notes:
* Less than one half of 1%.
NA: Not available.
Columns may not sum exactly to totals because of rounding.

Their model suggests that demand for credit life insurance (proxied by the natural logarithm of the dollar amount, a variable also used in studies of demand for common life insurance) is a function of adverse selection (proxied by the state-specific death rate) and other homogeneity variables. They suggested that adverse selection could arise from absence of underwriting on credit life (ultimately due to small size of the policies and state requirements that do not permit underwriting) and the presence of higher risk individuals in the state who died during the policy period.

Other variables in their estimating equation included frequency of other life insurance in the state, state price and a group of state demographic variables. We employ an approach that is basically similar but expanded to include some other considerations known to affect buyer behavior in general ways. We also use micro variables from individuals' personal buying situations and do not need proxy variables.

Although there do not appear to be any other studies specifically of credit insurance demand elements, there have been quite a few other studies of life insurance demand that have focused on economic considerations. Zeitz has provided a lengthy review of much of this literature and established relevant categories of variables employed, which she presents in eight tables.[12] They include: Personal and Demographic Determinants (her Table 2); Financial and Economic Determinants (Table 3); Risk Aversion (Table 5); and other considerations that might be less relevant for credit insurance demand than for other life insurance (Deductible Levels

Their study necessarily had to rely upon state-wide averages for most of its demand-related variables because of unavailability of micro data.

12. Emily Norman Zeitz, "An Examination of the Demand for Life Insurance," *Risk Management and Insurance Review* (Volume 6, Number 2, 2003).

© 2018 National Association of Insurance Commissioners

and Loading, Table 6; Inflation, Table 7 [see page 15]; and Wealth and Bequest Motives, Table 8 [see page 16]).

We model the demand for credit insurance as a function of: 1) standard economic variables such as substitutes (other life insurance), price (prima facie rates in individual states) and income; 2) risk aversion; and 3) situation. The latter consideration arises from a rendition of the buyer behavior approach of marketing literature where product buying is more than a function of economics alone. Psychological considerations have become more important in economics recently with the growth of "behavioral economics," but including psychological aspects as an element of buying is not a new idea.[13]

Based on these ideas, it is easy enough to hypothesize quite a few factors that might affect the purchase of credit insurance and to ask survey questions about them. The 2017 survey did this, and they are summarized in Table 6. The table contains five groupings of possible underlying reasons that might be associated with purchase of debt protection:

- Current perceptions of "underinsurance" in other areas by some purchasers who, therefore, might believe that debt protection is a means of managing this concern in at least one area of their lives.
- Specific aspects of risk aversion, including current health issues, that might make some individuals more concerned over their financial future than other individuals.
- Financial risk concerns that might make scheduled repayments potentially more problematic for some individuals than for others. These concerns could include the desire to build or protect a credit reputation as evidenced in a credit score.
- Differences in basic risk aversion among segments of the population. Some individuals may simply be more risk-averse than others, apart from specific health or financial concerns. The survey also examined this possibility.
- Difference in demographic/economic status, including income, assets, age, life cycle stage and others that indicate differences in the underlying current situation.

---

13. For extensive discussion of the buyer behavior approach, see Roger D. Blackwell, Paul W. Miniard, and James F. Engel, *Consumer Behavior*, 10th edition (Stamford, CT: Thompson South Western, 2006). For discussion of the beginnings of study of the psychological approach to consumer buying, see George Katona and Eva Mueller, "A Study of Purchase Decisions," L. H. Clark, ed., *Consumer Behavior: The Dynamics of Consumer Reaction* (New York: New York University Press, 1954) and George Katona, *Psychological Economics* (New York: Elsevier Scientific Publishing, 1975).

© 2018 National Association of Insurance Commissioners

**Table 6:
Factors That May Be Associated With Installment Credit Users' Willingness to Purchase Debt Protection**

Factor	Proportion among *non*-purchasers of debt protection (Percent)	Proportion among purchasers of debt protection (Percent)	Hypothesized to be greater for non-purchasers?	Actual percentage points by which non-purchasers exceed purchasers[1]
Other insurance				
1. Other life insurance	76.8	78.0	yes	-1.2
2. Other life insurance of $50,000 or more	65.3	59.5	yes	5.8
3. Health insurance	95.0	94.5	yes	0.5
4. Disability insurance from employer	49.7	47.8	yes	1.9
5. Long-term care insurance	20.5	38.2	uncertain	-17.7 ***
Health concerns				
6. Respondent has bad health	13.2	22.7	no	-9.5
7. Spouse has bad health	10.4	16.9	no	-6.5
8. Respondent or spouse has bad health	15.4	29.4	no	-14.0 **
9. Respondent smokes	15.2	13.9	no	1.3
10. Spouse smokes	11.5	20.7	no	-9.2
11. Respondent or spouse smokes	18.0	22.4	no	-4.4
Financial concerns				
12. Respondent or spouse has very good credit	61.4	42.5	yes	21.9 ***
13. Has reserve funds of $400 or more	83.7	76.4	yes	7.3 **
14. Could cover living expenses for 90 days	81.3	62.9	yes	18.4 ***
15. Respondent and spouse not worried about job security	71.8	63.8	yes	8.0 *
Basic risk aversion				
16. Unwilling to take above-average risks	67.6	88.2	no	-20.6 ***
Demographic characteristics				
17. Age				
Less than 35	22.0	27.2		-5.2
34-44	19.0	18.8		-0.2
55 and older	40.0	35.2		4.8
18. Married	73.9	63.8		10.1 **
19. Children	33.6	34.1		-0.5
20. Education				
High school diploma or less	15.2	18.5		-3.3
Some college	17.1	25.9		-8.8
College degree	67.7	55.6		12.1 ***
21. Income quintile				
Lowest	16.4	25.3		-8.9 ***
Second	25.0	26.9		-1.9
Third	20.9	25.3		-4.4
Highest	37.8	22.6		15.2 **
22. Home owner	73.1	65.0		8.1 *

Significance levels: *** 1%, ** 5%, * 10%.
Note:
[1] Actual percentage point difference measured by the survey by which frequency of purchase of debt protection (Column 2) exceeds non-purchase (Column 1) for those meeting the line criterion.

Univariate display of relevant variables in Table 6 looks at each of these areas individually before passing to multivariate review. The table consists of five columns for each of 22 separate measurements, plus some sub measurements listed

© 2018 National Association of Insurance Commissioners

in column 1. Multivariate review involves looking at the same factors but accounting for (holding constant) the simultaneous effects of the others in a statistical equation.

The table is read as follows: The first column notes possible characteristics of surveyed individuals with installment credit outstanding that might be related to demand for debt protection. The second column is the percent of surveyed debtors *who did not purchase debt protection* who had this characteristic. The third is the percent of debtors who *did purchase* protection who had this characteristic.

For instance, looking at the first row, other life insurance, the second column shows that 76.8% of surveyed individuals with installment credit and who *had not* purchased debt protection had other life insurance. Still looking at this row, the third column shows that 78% of those with installment credit and *had* purchased debt protection had other life insurance.

The other rows of the table work the same way. For example, the second row shows that among borrowers with installment credit and other life insurance, 65% of non-purchasers of debt protection had other life insurance of $50,000 or more while only 59% of debt protection purchasers had this much other life insurance.

The fourth column of the table then indicates the prior hypothesis whether the row criterion is more likely for non-purchasers of debt protection. “Yes” indicates the hypothesis that likelihood is greater for non-purchasers of protection than for purchasers. For instance, the first row indicates the expectation that non-purchasers of protection would be *more likely* to have other life insurance than purchasers (“Yes” hypothesis). (As it turns out, column 5 shows that the evidence does not support this first hypothesis, although the univariate evidence is consistent with most of the other hypotheses.)

Column 5 then shows, row by row, the relationship of actual survey results to the relevant expectations. The findings are presented with the positive or negative sign of the actual relationship of column 1 (non-purchasers of protection) to column 2 (purchasers) for each characteristic.

As indicated, survey results are consistent with expectations of differences in hypothesized demand-related criteria in almost every case where there is an expectation. The first grouping of variables involves evidence of other insurance holdings. The general contention here is that if some debtors have less other insurance, they may feel underinsured when taking on more installment debt, and so they purchase debt protection as at least a partial remedy for this concern. Life, health and disability insurance can provide benefits similar in some ways to common forms of debt protection. Thus, not having these types of insurance likely stimulates demand for debt protection.

In general, Table 6 shows consistency with the hypothesized relations, although holdings of other insurance seem less important as a univariate explanation of debt protection demand than other classes of borrower criteria. For example, life insurance holding is quite widespread among both non-purchasers and purchasers of debt protection but slightly more common among debt protection buyers. (See line 1 of the table.) And so, life insurance demand already seems strong in the experience of debt protection users.

© 2018 National Association of Insurance Commissioners

Table 7:
Logistic Regression of Factors Associated With Installment Credit Users' Willingness to Purchase Debt Protection (Model 1)

	Model 1		
Variable	Coefficient estimate	Standard error	Odds ratio
Other insurance			
Other life insurance of $50,000 or more	-0.376	0.404	0.686
Health insurance	0.415	0.735	1.515
Long-term care insurance	0.800 ***	0.295	2.226
Health concerns			
Respondent or spouse has bad health	0.664 **	0.344	1.942
Respondent or spouse smokes	0.216	0.341	1.241
Financial concerns			
Respondent or spouse has very good credit	-0.430	0.333	0.651
Has reserve funds of $400 or more	-0.045	0.428	0.956
Could cover living expenses for 90 days	-0.166	0.423	0.847
Respondent and spouse not worried about job security	-0.062	0.310	0.939
Basic risk aversion			
Unwilling to take Above-average risks	0.542	0.381	1.720
Demographic characteristics			
Less than 35	0.232	0.374	1.262
55 and older	-0.458	0.337	0.632
Married	-0.398	0.349	0.671
Children	0.011	0.319	0.989
Some college	-0.036	0.420	0.965
College degree	-0.416	0.373	0.660
Lowest income quartile	0.075	0.521	1.078
Second income quartile	0.019	0.408	1.019
Third income quartile	0.634 *	0.354	1.885
Home owner	0.303	0.339	1.354
Price			
State prima facie credit life rate	-0.187	1.231	0.829
Intercept	-1.164	1.137	
Likelihood ratio	42.348 ***		
McFadden's R-squared	14.3		
Number of observations	336		

Significance levels: *** 1%, ** 5%, * 10%.

© 2018 National Association of Insurance Commissioners

Table 8:
Logistic Regression of Factors Associated With Installment Credit Users' Willingness to Purchase Debt Protection (Model 2)

	Model 2 Coefficient Estimates			
Variable	Variation 1	Variation 2	Variation 3	Variation 4
Other insurance				
Long-term care insurance	0.833 ***	0.851 ***	0.843 ***	0.892 ***
Health concerns				
Respondent or spouse has bad health	0.601 *	0.592 *	0.550 *	0.614 *
Financial concerns				
Respondent or spouse has very good credit	-0.683 **			
Has reserve funds of $400 or more		-0.546 *		
Could cover living expenses for 90 days			-0.621 **	
Respondent and spouse not worried about job security				-0.209
Basic risk aversion				
Unwilling to take Above-average risks	0.657 *	0.644 *	0.059	0.650 *
Demographic characteristics				
Third income quartile	0.541 *	0.577 *	0.579 *	0.524 *
College degree	-0.428	-0.485 *	-0.510 *	-0.553 *
Home owner	0.016	-0.108	-0.057	0.171
Intercept	-1.521 ***	-1.310 ***	-1.268 ***	-1.53 ***
Likelihood ratio	35.234	32.433	33.570	29.755
McFadden's R-squared	9.66	8.89	9.20	8.16
Number of observations	336	336	336	336

Significance levels: *** 1%, ** 5%, * 10%.

Debt protection purchasers are more likely to have smaller *amounts* of life insurance (line 2), however, and those with small amounts of life may feel underinsured. Survey results summarized in column 5 show that those with small amounts of life insurance are more likely to purchase debt protection than consumers with life insurance of $50,000 or more. Holding of health insurance and disability insurance also have the expected relationships between non-purchasers and purchasers of debt protection, although the differences are neither large nor statistically significant.

The most sizable difference in the insurance area concerns the question about holding of long-term care insurance (LTCI). LTCI covers a distant large expense, whereas credit insurance involves a relatively small amount limited to the amount of debt over a relatively short period of time. As such, these products would not seem to be substitutes, but the difference between purchasers and non-purchasers of debt protection is large and statistically significant, with purchaser of debt protection more likely also to have long-term care (LTC) coverage. (Frequency of this sort of insurance is lower both with purchasers and non-purchasers of debt protection compared to other kinds of insurance.) There may be an explanation, however. One possibility is that in purchasing LTCI, installment credit users, who are mostly young or middle aged, exhibit foresight for future large risks. In this case, the purchase of LTCI seems more a reflection of these consumers' risk aversion than concern that one is underinsured for an immediate shorter-term risk.

© 2018 National Association of Insurance Commissioners

A different explanation involves non-financial considerations. In discussion with the authors, one knowledgeable insurance specialist suggested that purchase of LTCI for many purchasers does not solely involve financial concerns like other insurance. In his words, LTC is also "dignity insurance" and so involves elements of a different nature. In this view, it potentially saves the dignity of elderly individuals and so it may be relatively more important to those with fewer other resources, possibly including debt protection purchasers, for protecting dignity in old age. Whatever the specifics of this relationship that ultimately might involve psychological elements as well as financial, more extensive buying of LTC coverage by purchasers of debt protection does not seem like this purchase solely involves a financial decision. Both potential explanations seem plausible and are not mutually exclusive.

In the second grouping in Table 6, health concerns, survey measurements of a group of possible health concerns among non-purchasers and purchasers of debt protection are consistent with hypotheses (lines 6 through 11 in the table). In general, the finding is that those with health concerns are more likely to purchase debt protection, consistent with reasonable expectations in this area. In particular, the survey provides evidence of adverse selection arising because of only limited underwriting allowable for debt protection but where there is asymmetric information (i.e., consumers have better private information on their health than the insurers). This makes debt protection more attractive to higher-risk consumers. The idea is that consumers having bad health will disproportionately choose debt protection. This, of course, results in a worsening of the risk pool. The worsening of the risk pool can then lead to higher prices, causing lower-risk consumers to leave the market and produce an upward spiral of risk and price.

The findings in the health area provide evidence supporting the adverse selection hypothesis, and the differences are mostly larger than for the mainstream insurance-holding measures. The exception is whether the respondent is a smoker, but this difference disappears when whether the spouse or partner (or either individual in the relationship) is a smoker is also considered. Immediate health issues over the near term seem to be relevant to the decision to purchase debt protection for installment credit.

The third grouping of factors that might be relevant is financial concerns. Again, the survey measures in Table 6 are consistent with hypotheses, and the differences are statistically significant and mostly large (lines 12–15). Especially large is the difference in whether the respondent rates credit history for self (and spouse, if any) as "very good," with debt protection users considerably less likely to indicate "very good" credit history (line 12). This result suggests a strong possibility that protecting credit history is associated with purchasing debt protection. Since a very good credit history can lower the cost of credit arrangements by considerably more than the cost of debt protection lowers it, this is not especially surprising.[14]

---

14. For further discussion of this point, see Durkin, Elliehausen, Staten, and Zywicki, *Consumer Credit and the American Economy*, referenced in footnote 2, Chapter 12.

© 2018 National Association of Insurance Commissioners

Other measured relevant financial concerns include two measures of ability to meet financial emergencies, with limitations on financial reserves directly associated with the likelihood of purchasing debt protection (lines 13–14). Finally, in this litany of financial matters, current job security also apparently enters into the demand for debt protection. Those not worried over job security are less likely to be purchasers of debt protection than non-purchasers (line 15).

These factors taken one at a time on a univariate basis may well come together in a question on overall risk aversion (line 16). In this case, those who do not have debt protection are considerably more likely to express they are willing to take financial risks than those who have debt protection. A lot of the background for this willingness to take financial risks may well rise from their greater financial ability to take on such risks. Those with a bit less insurance, but sometimes with greater health or financial concerns, may well be looking for ways to reduce risks rather than take on more.

Finally, a series of demographic variables also collected with the rest of the survey information offers some more description of debtors who purchase debt protection relative to those who do not. For instance, purchasers of debt protection are less likely to be married (line18) than non-purchasers. This suggests they are more likely to be facing risks alone, probably with lower family income. This income description is borne out with direct family income measurement where installment debtors with debt protection are considerably less likely in the highest income quintile (line 21). They also are less likely to be home owners (a measure of asset holding, line 22) and holders of credit cards (not in the table).

A multivariate logistic regression analysis of the debt protection choice supports the findings suggested by the univariate analysis. The dependent variable is whether the consumer purchased debt protection for an installment loan. Explanatory variables include the sets of variables reflecting other insurance coverage, health concerns, financial concerns, basic risk aversion and demographic characteristics discussed in Table 6. Some categories have been combined in slightly different ways. (See Table 7.) Explanatory variables also include a price, the state prima facie rate for credit life insurance, stated as dollars per $100 per year.[15] Credit insurers generally charge this rate in each state.[16]

Table 7 presents estimation results for Model 1, which includes the extended set of explanatory variables considered in Table 6. Several additional models are reported in Table 8. These models consider a smaller set of variables because correlations among explanatory variables may hamper the ability to detect factors influencing choice.

The estimated regression for Model 1 is statistically significant at the 1% level. Some of the variables identified as statistically related to the purchase of debt

---

15. Source: *Fact Book of Credit-Related Insurance* (Atlanta: Consumer Credit Industry Association, 2016). The *Fact Book* also reports state prima facie rates for credit disability insurance, but the reference version of this product is not offered in several states. For the states that offer the reference version, prima facie rates for credit disability and credit life are strongly positively correlated.

16. See Gary Fagg, *Credit-Related Insurance* (Hurst, Texas: CreditRe, 2004).

© 2018 National Association of Insurance Commissioners

protection when examined individually remain important when multiple variables are considered simultaneously. For instance, having LTCI is statistically significant and positive. The odds ratio, which measures the size of an explanatory variable's effect on the dependent variable, indicates that the odds of purchasing debt protection for consumers having LTCI are 2.226 times that for consumers not having LTCI.[17]

Having bad health is also statistically significant and positively related to purchasing debt protection. The odds ratio shows that consumers who have bad health are about twice as likely as healthy consumers to purchase debt protection. This finding suggests the possibility of adverse selection in debt protection markets. That is, an unfavorable risk pool that contains more with poor health can lead to higher prices, which then can cause healthy consumers to avoid debt protection products. Among the demographic characteristics, consumers in the third income quartile were significantly more likely than consumers in other income groupings to purchase debt protection.

But correlations among explanatory variables may hamper the ability to detect factors influencing choice, and this may be especially likely for the financial concern variables. For example, consumers who have very good credit histories may also be able to borrow needed funds in an emergency. Also, the ability to borrow may enable a consumer to cover expenses if income is lost. In such cases, having at least $400 in liquid assets also may help cover expenses. Statistical analysis shows high correlations between variables in this category, providing evidence supporting this possibility.

Variations of Model 2 in Table 8 include variables found to be significantly related to the purchase of debt protection in Table 6, with each variation of the model using a single variable to reflect the financial concerns category. As in Model 1, having LTCI is positively associated with debt protection purchases and is statistically significant. Bad health is also significant and positive, supporting the adverse selection hypothesis for debt protection products.

Model 2 provides evidence that financial concerns and risk aversion both are generally associated with purchase decisions for debt protection in multivariate equations, consistent with the univariate findings. Each of the financial concerns variables except job security is statistically significant. Unwillingness to take on financial risks is also statistically significant in three of the four variations and associated with greater likelihood of purchasing debt protection. The odds ratio estimate indicates that risk-averse consumers are about two times more likely to purchase debt protection than consumers who are willing to take financial risks (not shown in the table).

---

17. Odds are the ratio of the probability of x (purchasing debt protection, for example) to the probability of not x (i.e., not purchasing debt protection) for a given indicator variable (e.g., for those purchasing long-term care insurance). The odds ratio can be calculated by exponentiating the coefficient for having long-term care insurance from the logistic regression (here exp(0.800)=2.226).

© 2018 National Association of Insurance Commissioners

Thus, the multivariate examination also finds a profile for debt protection purchasers of individuals with health and financial concerns, and who are not in the highest income or education groupings. A general measure also often finds them individually risk-averse. Ultimately, this describes a likely prospect to purchase insurance for perceived risks. That they sometimes do so when entering into consumer credit arrangements is not surprising.

Conclusion

And so, survey research suggests other reasons for purchasing debt protection than the old argument that purchase reflects lack of understanding or even widespread coercion at the point of sale. Direct questioning again shows a long-term decline in purchase penetration rate and in the frequency and strength of offers to the point where only about 5% of installment credit users reported both that the creditor had recommended the product and that they had bought it. Furthermore, not one respondent reported feeling that debt protection was other than a voluntary option. In contrast, a substantial majority of purchasers believed that purchase was voluntary and that they would do it again.

Rather, survey evidence shows that debt protection amounts to an add-on in credit arrangements preferred by some but not by others. Over the longer term, its prevalence as part of installment credit arrangements has declined, probably reflecting long-term growth in employment, income and assets that have permitted more consumers to self-insure themselves in the marketplace. Evidence suggests it is useful to many consumers, however, and is much more than a niche product. Installment debtors who purchase debt protection are somewhat otherwise less insured than product purchasers and more frequently have either health, financial or possibly both kinds of concerns. They generally are not among the financially elite, and they tend to be quite risk-averse. Their wealthier brethren who are similarly risk-averse may often be candidates for purchase of other specialized insurance products like trip-cancellation insurance.

© 2018 National Association of Insurance Commissioners

References

Barron, J.M., and M.E. Staten, 1996. *Consumer Attitudes Toward Credit Insurance,* Norwell, MA: Kluwer Academic Publishers.

Blackwell, R.D., P.W. Miniard, and J.F. Engel, 2006. *Consumer Behavior*, *10th Edition*, Stamford, CT: Thompson South Western.

Carter, C., et al, 2015. *Installment Loans: Will States Protect Borrowers from a New Wave of Predatory Lending?,* Boston, MA: National Consumer Law Center (NCLC).

Colquitt, L.L., S.G. Fier, R.E. Hoyt, and A.P. Liebenberg, 2012. "Adverse Selection in the Credit Life Insurance Market," *Journal of Insurance Regulation*.

Consumer Credit Industry Association (CCIA), 2016. *Fact Book of Credit-Related Insurance,* Atlanta, GA.

Cyrnak, A.W., and G.B. Canner, 1986. "Consumer Experiences with Credit Insurance: Some New Evidence," Federal Reserve Bank of San Francisco *Economic Review*: 5–20.

Durkin, T.A., 2002. "Consumers and Credit Disclosures: Credit Cards and Credit Insurance," *Federal Reserve Bulletin*.

Durkin, T.A., and G.E. Elliehausen, 1978. *The 1977 Consumer Credit Survey,* Washington: Board of Governors of the Federal Reserve System.

Durkin, T.A., and G. Elliehausen, 2012. "Consumers and Debt Protection Products: Results of a New Survey of Borrowers," *Federal Reserve Bulletin*.

Durkin, T.A., G. Elliehausen, M.E. Staten, and T.J. Zywicki, 2014. *Consumer Credit and the American Economy*, New York: Oxford University Press.

Eisenbeis, R. A., and P.R. Schweitzer, 1979. *Tie-Ins Between the Granting of Credit and Sales of Insurance by Bank Holding Companies and Other Lenders,* Washington: Board of Governors of the Federal Reserve System, Staff Study 101.

Fagg, G., 2004. *Credit-Related Insurance,* Hurst, TX: CreditRe, 2004.

Hubbard, C.L., ed., 1973. *Consumer Credit Life and Disability Insurance,* Athens, OH: College of Business Administration, Ohio University.

Huber, J, 1976. *Consumer Perceptions of Credit Insurance on Retail Purchases,* West Lafayette, IN: Purdue University Credit Research Center.

Katona, G., 1975. *Psychological Economics,* New York: Elsevier Scientific Publishing.

Katona, G., and E. Mueller, 1954. "A Study of Purchase Decisions," L. H. Clark, ed., *Consumer Behavior: The Dynamics of Consumer Reaction* (New York: New York University Press, 1954)

Pew Charitable Trusts, 2018. "State Laws Put Installment Loan Borrowers at Risk."

Subcommittee on Antitrust and Monopoly of the Senate Committee on the Judiciary, 83rd Congress, 2nd Session, 1955. *Report on the Tie-In Sale of Credit Insurance in Connection with Small Loans and Other Transactions: Committee Print*.

© 2018 National Association of Insurance Commissioners

Zeitz, E.N., 2003. "An Examination of the Demand for Life Insurance," *Risk Management and Insurance Review,* 6(2): 159–191.

© 2018 National Association of Insurance Commissioners

Journal of Insurance Regulation

Guidelines for Authors

Submissions should relate to the regulation of insurance. They may include empirical work, theory, and institutional or policy analysis. We seek papers that advance research or analytical techniques, particularly papers that make new research more understandable to regulators.

Submissions must be original work and not being considered for publication elsewhere; papers from presentations should note the meeting. Discussion, opinions, and controversial matters are welcome, provided the paper clearly documents the sources of information and distinguishes opinions or judgment from empirical or factual information. The paper should recognize contrary views, rebuttals, and opposing positions.

References to published literature should be inserted into the text using the "author, date" format. Examples are: (1) "Manders et al. (1994) have shown. . ." and (2) "Interstate compacts have been researched extensively (Manders et al., 1994)." Cited literature should be shown in a "References" section, containing an alphabetical list of authors as shown below.

Cummins, J. David and Richard A. Derrig, eds., 1989. *Financial Models of Insurance Solvency*, Norwell, Mass.: Kluwer Academic Publishers.

Manders, John M., Therese M. Vaughan and Robert H. Myers, Jr., 1994. "Insurance Regulation in the Public Interest: Where Do We Go from Here?" *Journal of Insurance Regulation*, 12: 285.

National Association of Insurance Commissioners, 1992. *An Update of the NAIC Solvency Agenda*, Jan. 7, Kansas City, Mo.: NAIC.

"Spreading Disaster Risk," 1994. *Business Insurance,* Feb. 28, p. 1.

Footnotes should be used to supply useful background or technical information that might distract or disinterest the general readership of insurance professionals. Footnotes should not simply cite published literature — use instead the "author, date" format above.

Tables and charts should be used only if needed to *directly support* the thesis of the paper. They should have descriptive titles and helpful explanatory notes included at the foot of the exhibit.

Papers, including exhibits and appendices, should be limited to 45 double-spaced pages. Manuscripts are sent to reviewers anonymously; author(s) and affiliation(s) should appear only on a separate title page. The first page should include an abstract of no more than 200 words. Manuscripts should be sent by email in a Microsoft Word file to:

Cassandra Cole and Kathleen McCullough
jireditor@gmail.com

The first named author will receive acknowledgement of receipt and the editor's decision on whether the document will be accepted for further review. If declined for review, the manuscript will be destroyed. For reviewed manuscripts, the process will generally be completed and the first named author notified in eight to 10 weeks of receipt.

Published papers will become the copyrighted property of the *Journal of Insurance Regulation*. It is the author's responsibility to secure permission to reprint copyrighted material contained in the manuscript and make the proper acknowledgement.

NAIC publications are subject to copyright protection. If you would like to reprint an NAIC publication, please submit a request for permission via the NAIC Web site at www.naic.org. (Click on the "Copyright & Reprint Info" link at the bottom of the home page.) The NAIC will review your request.