

Credit Crisis Comfort

from Credit Insurance

Over the last 30 years I have watched, from the viewpoint of a banker and as an insurer, the cycles of lending and the impact of insurance on financial institutions. The banking and insurance businesses are closely connected in many ways.

Obviously, insurance is a fundamental loss mitigation technique that has considerable benefits for banks and their customers. Community banks specifically have benefited from insurance claims proceeds on many occasions. Bank customers virtually always transfer risks of personal and small business perils to insurers. Likewise banks routinely move risks off their balance sheets using insurance.

No community bank wants to get into repossessions or foreclosures, especially in instances where customers are delinquent on their payments, not because they are irresponsible, but because they have been unable to work due to injury or sickness.

Credit insurance offers banks protection from charge-offs by paying the loan for customers and transferring risk from the borrower and his or her lender to the insurer. Thus a reduction of credit risk occurs when a borrower elects credit life or credit disability insurance from the lender. This election costs the bank virtually nothing, in fact most banks earn fee income from enrolling borrowers into these group plans.

In Pennsylvania, Guarantee Trust Life have experienced a number of changes in credit-related insurance. Over the years life insurance rates have decreased as promulgated by the Pennsylvania Insurance

Department. Additionally, lending legislation such as Pennsylvania Act 55 and HOEPA have influenced credit life and credit disability product designs away from single premium plans. In fact, monthly pay options play as large a roll now as they did 40 years ago when computerization was in its early evolution. The beneficial outcomes to date have been lower monthly loan payments.

Local licensed lenders welcome credit insurance service fees. In fact, as monthly pay group plans mature credit insurance is re-emerging as a solid income producing opportunity for certain community banks.

Single premium group credit life and credit disability insurance continues to be used on non-real estate secured loans. Closed end monthly outstanding balance products are used for closed end home equity loans. Group monthly pay life plans meet the needs of line of credit borrowers, while group mortgage products are now appearing with critical period benefits to keep premiums low and enrollment increasing.

Consumer satisfaction, when last surveyed by the Fed, reported a favorable opinion of credit life and credit disability insurance. Historically, over one half of group premiums earned by insurers operating in Pennsylvania were paid out to Pennsylvania lenders as claim payments on loans. This equates to multi-millions of dollars in charge-offs that were avoided.

The reality is that credit insurance decreases credit risk, offers a service to borrowers who usually are underin-

sured and earns fee income for community banks. It certainly appears to be an appropriate approach to comfort consumers and bankers alike during this time of credit crisis. ■

ON THE WEB: www.icbareinsurance.com

CALL US: (888) 790-6625

*By Bob Joyce, regional manager,
Guarantee Trust Life Insurance
Company*

G.T.L.

Guarantee Trust Life Insurance Company

Guarantee Trust Life Insurance Company (GTL) is an underwriter for ICBA Reinsurance. The mutual insurance company was incorporated in 1936 in the state of Illinois, and is currently licensed in all states (except New York), as well as the District of Columbia and Puerto Rico. GTL specializes in markets, including credit insurance, debt protection, student life, accident and health, individual and group accident and health, senior life products, Medicare supplement insurance, term life, and many other programs.