

# Credit Life and Disability

## **Credit Life**

Credit Life Insurance is simply Term Life Insurance purchased in conjunction with a consumer credit transaction which provides a death benefit to pay off or reduce the credit obligation in the event of an Insured's death during the term of the coverage.

## **Types of Coverage**

*Single Life:* Covers the primary debtor listed on the instrument of indebtedness.

*Joint Life:* Covers the primary debtor and co-debtor. The co-debtor typically must be a spouse or business partner and severally liable for repayment or the indebtedness.

## **Description of Benefits**

*Decreasing Term Life:* Initial amount of insurance shown in the schedule reduces during the term according to the amortization schedule in the policy.

*Level Life:* Initial amount shown in the schedule, remains level for the term of the coverage.

Depending upon the carrier certain exclusions will apply normally within the first two (2) years of the effective date of the policy. Some examples of these could be:

- Suicide
- War, declared or undeclared
- Flight in a non scheduled aircraft

## **Credit Accident and Health Insurance (Disability)**

Insurance purchased in conjunction with a consumer credit transaction which provides monthly benefit payments to the creditor beneficiary, while the insured is disabled as a result of sickness or injury, during the term of the coverage.

## **Types of Coverage**

Although this varies with carriers, the most common is a Retroactive benefit. In Texas you typically will see a 14 day retro period that provides a benefit from the first day of disability once the claimant has been injured or sick for 14 days.

## **Description of Benefits**

Provides a daily benefit equal to 1/30<sup>th</sup> of the scheduled monthly payments on the contract of indebtedness.

Credit Disability also has certain exclusions that would normally apply. Depending upon carrier these are normal examples:

- Elective abortion
- Normal pregnancy
- Self-inflicted injury
- Foreign travel or residence
- Suicide
- War, declared or undeclared
- Flight in nonscheduled aircraft
- Preexisting illness, disease or conditions for which medical diagnosis or treatment within the 6 months preceding the effective date as shown in the schedule, and which causes loss within 6 months following the effective date as shown in the schedule.

There are numerous advantages and benefits of Credit Insurance. To a Financial Institution these are fee income, reduces charge-offs, and reduces or avoids costly debt – collections.

Bank employee should feel the satisfaction that they are providing a valuable service to your customers and in many cases, loan officers receive an incentive to sell Credit Insurance.

To the bank customer, Credit Life is designed to pay the customers loan balance in case of death. Credit Disability is designed to make the loan payments due to disability from sickness or accident.

There are various methods to determine a banks production selling Credit Insurance. Bankers Insurance Agency utilizes the “Premium to Loan Volume Ratio” as the best method to determine how a Bank and its Loan Officers are performing.

Several key factors should be considered in determining who best to choose as a carrier for Credit Insurance. These are noted below.

- Financial Stability
- Position in the Financial Institutional market place
- Underwriting Guidelines
- Training capabilities
- Claim handling expertise