



**House
Legislative
Analysis
Section**

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ELIMINATE CREDIT LIFE LIMITS

House Bill 4186 (Substitute H-3) **RECEIVED**
First Analysis (12-1-88)

JAN 18 1989

Sponsor: Rep. Lloyd F. Weeks
Committee: Insurance

Mich. State Law Library

THE APPARENT PROBLEM:

When consumers borrow to make large purchases, such as a car or a boat, they often also purchase credit life insurance, which guarantees that the loan will be repaid if they die. Lenders routinely offer group credit life to customers. The Insurance Code limits the amount for which a life can be insured under a group credit life contract based on the size of the group. (Typically, the "group" involved is made up of the customers of a lending institution.) A life can be insured through a group that has at least 100 new entrants each year in an amount up to \$20,000. Smaller groups, with between 50 and 100 new entrants, are limited to \$5,000 per life. (Credit insurance for mortgages is regulated in a different section of the code.) Insurance companies and lenders complain that these limits are too low given the cost of some of the purchases that consumers finance today, and that since the law limits the amount of insurance to the amount of indebtedness, the limits are unnecessary.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code to eliminate the limits on the amount of group credit insurance that can be sold on a single life and to remove the minimum number of new entrants (policyholders) a group must have to be eligible for group credit insurance.

MCL 500.4416

FISCAL IMPLICATIONS:

The Department of Licensing and Regulation reports that the bill has no revenue or budgetary implications. (11-28-88)

ARGUMENTS:

For:

Michigan's limits on the amount of group credit life insurance a borrower can obtain are out-of-date. Some consumer debts (for example for automobiles, vans, and recreational vehicles) these days can easily exceed \$20,000, which is the maximum amount of group credit life insurance that can be acquired under the Insurance Code. (The limit is as low as \$5,000 for small groups.) Since a borrower cannot obtain credit insurance in excess of the amount of debt, no limit is really necessary.

Against:

Consumer advocates for years have said that credit insurance, generally speaking, is a bad buy because it should be cheaper for people to buy extra amounts of term life insurance, the proceeds from which can be used (although they need not) to pay off debts.

Response: Even though it is generally more expensive than other life insurance coverage, credit insurance may be the only option for some borrowers, who cannot easily obtain more ordinary life insurance. Credit insurance

commonly is available regardless of the insured's health and rates do not vary with the insured's age. Consumers should be able to buy credit insurance if they want it, and there should not be unrealistically low limits on the amount available.

POSITIONS:

The Department of Licensing and Regulation, which houses the Insurance Bureau, supports the bill. (11-28-88)

The Michigan Consumers Council does not oppose the substitute bill. (11-29-88)

Representatives of the Alexander Hamilton, League General, Foremost, and Minnesota Mutual insurance companies indicated their support for the bill to the House Insurance Committee. (11-29-88)

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