
March 2011

CREDIT CARDS

Consumer Costs for
Debt Protection
Products Can Be
Substantial Relative to
Benefits but Are Not a
Focus of Regulatory
Oversight



Why GAO Did This Study

Debt protection and credit insurance products can cancel or suspend part or all of a credit card debt under specific circumstances, such as loss of life, disability, or involuntary unemployment. In response to a mandate in the Credit Card Accountability Responsibility and Disclosure Act of 2009, this report reviews these products' market share and characteristics, federal and state oversight, and advantages and disadvantages to consumers. For this report, GAO analyzed data it had requested on these products from three major credit insurers and the nine largest credit card issuers. These nine issuers represented 85 percent of the credit card market. GAO also reviewed the products' terms and conditions, related marketing materials, and applicable federal and state regulations.

What GAO Recommends

GAO recommends that the Bureau of Consumer Financial Protection (1) factor into its oversight of credit card debt protection products, including its rulemaking and examination process, a consideration of the financial benefits and costs to consumers, and (2) incorporate into its financial education efforts ways to improve consumers' ability to understand and assess these products. The bureau agreed with GAO's recommendations.

View GAO-11-311 for key components. For more information, contact Alicia Puente Cackley at (202) 512-8678 or cackleya@gao.gov.

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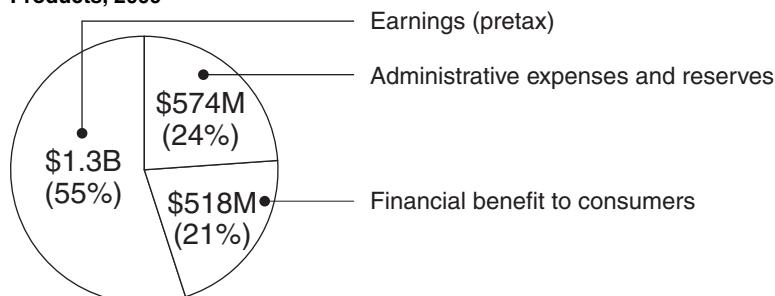
What GAO Found

In 2009, consumers paid about \$2.4 billion on 24 million accounts for debt protection products, according to data from the nine largest credit card issuers. Debt protection products have largely displaced credit insurance in the credit card market, although the two products are similar from a consumer's perspective. Issuers market debt protection products when consumers call their customer services lines, by direct mail, e-mail, and telemarketing, and with new credit card applications, and market the products broadly rather than to specific subpopulations.

Debt protection products are banking products that are largely federally regulated, while credit insurance is an insurance product regulated by the states. Unlike state oversight of credit insurance, federal banking oversight of debt protection products does not directly address the relative financial benefits and costs of the products to consumers; instead, it focuses on compliance with disclosure requirements and prohibitions of unfair or deceptive acts or practices. The new Bureau of Consumer Financial Protection will soon assume supervisory and enforcement authority for financial products, including credit card debt protection products. Ensuring that these products represent a fair value to consumers would be consistent with the new agency's mission.

Debt protection products and credit insurance can offer consumers several advantages. The products can protect a cardholder's credit rating in times of financial distress, can provide peace of mind, and are widely available and easy to purchase. Regulators have reported relatively few consumer complaints and have cited few formal violations related to debt protection products. However, fees for these products can be substantial, with the annual cost often exceeding 10 percent of the cardholder's average monthly balance. In the aggregate, cardholders received 21 cents in tangible financial benefits for every dollar spent in debt protection product fees among the nine largest issuers in 2009 (see fig.). These products can be difficult for consumers to understand, but federal agencies offer few educational resources to aid consumers in assessing them.

Allocation of Fees Collected by the Nine Largest Credit Card Issuers for Their Debt Protection Products, 2009



Total debt protection product fees: \$2.4 billion

Source: GAO analysis of nine largest credit card issuers' data.

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Abbreviations

FDIC	Federal Deposit Insurance Corporation
FTC	Federal Trade Commission
NAIC	National Association of Insurance Commissioners
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OTS	Office of Thrift Supervision
TILA	Truth in Lending Act

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United States Government Accountability Office
Washington, DC 20548

March 25, 2011

The Honorable Tim Johnson
Chairman
The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate

The Honorable Spencer Bachus
Chairman
The Honorable Barney Frank
Ranking Member
Committee on Financial Services
House of Representatives

Credit card issuers often offer debt protection products or, less frequently, credit insurance to their customers as protection against unexpected financial hardship that could make meeting monthly payments difficult. These products may cancel, pay off, or suspend part or all of a consumer's credit card debt under specific circumstances. According to industry estimates, in 2009 consumers paid at least \$2.4 billion in fees for debt protection products and \$186 million in premiums for credit insurance on at least 25 million cards. But publicly available information about these products is scarce, in part because federal regulators do not routinely require credit card issuers to report detailed information about the products and the revenues associated with them.

A mandate in the Credit Card Accountability Responsibility and Disclosure Act of 2009 required us to conduct a study of the terms, conditions, and marketing of debt protection products and credit insurance for credit cards and the value they provide to consumers.¹ In December 2010, we provided a briefing to you on these issues, and we are subsequently providing this full report, which addresses (1) the market for and key characteristics of debt protection products and credit insurance for credit

¹Pub. L. No. 111-24, § 509 (2009).

cards, (2) federal and state regulation of these products, and (3) the advantages and disadvantages of these products for consumers.²

To address these objectives, we obtained data and interviewed representatives from the nine largest credit card issuers, all of which offered debt protection products. These nine issuers represented about 85 percent of the general purpose credit card market by outstanding volume as of December 2010, according to *The Nilson Report*.³ We also obtained data and interviewed representatives from three major insurance companies that represented approximately 30 percent of the credit insurance market for open-end credit, which includes credit cards and home equity and personal lines of credit.⁴ We obtained proprietary data from the issuers and insurers about their credit card-related debt protection and credit insurance products and had a third-party financial information services provider collect and aggregate the information.⁵ We also examined marketing materials and terms and conditions for the products and analyzed the fees charged to consumers and the financial benefits provided. We compared the fees for debt protection products with those for comparable products offered by credit unions and the loss ratios—the relationship of benefits provided to consumers to premiums earned—for credit insurance to loss ratios for alternative types of insurance, such as term life and disability. Further, we reviewed applicable federal and state laws and regulations and the roles of regulatory agencies in overseeing these products.

We interviewed representatives of, and collected documents and data from, the Federal Trade Commission (FTC), National Association of Insurance Commissioners (NAIC), and the federal banking regulators—

²Debt protection products and credit insurance may be offered on loans other than credit cards, including mortgages, auto loans, and home equity lines of credit, but our report generally covers only products associated with general purpose credit cards. In addition, private label cards for use at specific retailers and small business credit cards were not included in our review.

³HSN Consultants Inc., *The Nilson Report*, vol. 966 (February 2011); 8-9. We did not identify comprehensive data on the size of the total credit card-related debt protection product market.

⁴All data presented in this report from the three insurance companies are solely for credit card-related credit insurance.

⁵We could not fully assess the reliability of the aggregated data or the systems used to access them and as a result consider the data to be representations that the issuers and insurers made to us.

Board of Governors of the Federal Reserve System (Federal Reserve), Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), Office of the Comptroller of the Currency (OCC), and Office of Thrift Supervision (OTS).⁶ We gathered data on consumer complaints about these products, reviewed the results of regulators' examinations of credit card issuers, and identified related violations and enforcement activities. We also collected information on credit insurance from representatives of insurance departments in three states—California, Maine, and New York—that were selected to represent differing sizes and regulatory approaches. Finally, we reviewed studies and reports from trade associations and consumer organizations and interviewed representatives of these organizations.

We conducted this performance audit from January 2010 through March 2011, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. See appendix I for a more detailed description of our scope and methodology.

Background

Credit cards are widely used in the United States. Seventy-eight percent of consumers had a credit card in 2008.⁷ As of 2009, credit cardholders had more than \$800 billion in outstanding debt on roughly 600 million credit cards, according to Federal Reserve estimates.⁸ More than 6,000 depository institutions issued credit cards as of 2009. However, as seen in table 1, the great majority of credit cards are concentrated among nine issuers. These issuers accounted for approximately 85 percent of outstanding general purpose credit card balances nationwide in 2010. As of 2010, each of these nine issuers offered debt protection products.

⁶This report uses the term “federal banking regulators” to refer collectively to the Federal Reserve, FDIC, NCUA, OCC, and OTS.

⁷Kevin Foster, Erik Meijer, Scott Schuh, and Michael A. Zabek, “The 2008 Survey of Consumer Payment Choice,” Public Policy Discussion Papers, Federal Reserve Bank of Boston, No. 09-10.

⁸Federal Reserve’s November 2010 G.19 release on consumer credit, which includes 2009 data.

Table 1: Credit Card Issuers by Outstanding General Purpose Credit Card Balances, Year Ending 2010

(Dollars in billions)

Card issuer	Outstanding balance	Percentage of total market
JPMorgan Chase & Co.	\$133	19
Bank of America Corporation	122	17
Citigroup Inc.	95	13
American Express Company	80	11
Capital One Financial Corporation	53	7
Discover Financial Services	45	6
Wells Fargo & Company	33	5
U.S. Bancorp	22	3
HSBC North America Holdings Inc.	19	3
Total	\$602	85

Source: *The Nilson Report*.

Note: Because of rounding numbers may not exactly sum to total.

Debt Protection Products

Debt protection products suspend or cancel all or part of a consumer's obligation to repay an outstanding credit card balance when a qualifying event occurs. These events may vary across products but generally include disability or death of the cardholder and may include events such as unemployment.⁹ Depending on the product's terms and conditions, a qualifying event may trigger cancellation of the total balance or the minimum monthly payment, or it may simply suspend the minimum monthly payment for a period of time. Debt protection products are banking products that are directly sold by credit card issuers to consumers who hold a credit card with them. The issuer charges fees for the debt protection product, typically on a monthly basis. Consumers may buy the product when they apply for a new credit card or can add it to an existing credit card account. New credit card applications often contain a box that consumers can initial or insert a checkmark in if they want debt protection, and existing account holders can typically purchase the product by telephone, mail, or through the issuer's Web site.

⁹These products are individually called debt suspension agreements and debt cancellation contracts, but for the purposes of this report we refer to them collectively as debt protection products.

Because most major credit card issuers are structured as depository institutions, federal banking regulators oversee their activities, including those related to debt protection products.¹⁰ As the national bank regulator, OCC oversees seven of the largest nine issuers offering debt protection products—Citibank (South Dakota), N.A.; Bank of America; Chase Bank USA, N.A.; Capital One; HSBC; Wells Fargo Bank, N.A.; and U.S. Bancorp.¹¹ FDIC oversees Discover, which operates as a state-chartered bank.

American Express has two bank subsidiaries that offer debt protection products to consumers—American Express Centurion Bank, which is a state-chartered bank and is therefore regulated by FDIC, and American Express Bank, FSB, which is a federal savings association and is therefore regulated by OTS. Public information about the debt protection product industry is relatively scarce. Credit card issuers are not required to report information about these products in Call Reports and Thrift Financial Reports, which serve as the primary publicly available sources of financial information regarding the status of the U.S. banking system.¹²

Credit Insurance

Credit insurance is insurance coverage sold in connection with a loan, credit agreement, or credit card account.¹³ Credit insurance products typically bundle together several individual forms of credit insurance, such as credit life, credit disability, and credit involuntary unemployment

¹⁰State-chartered banks that are members of the Federal Reserve System are subject to supervision by the Federal Reserve; insured nonmember banks are subject to FDIC supervision. Both state and federal banking regulators review those institutions' compliance with federal lending laws and other requirements applicable to debt protection products.

¹¹Citibank (South Dakota), N.A., is a subsidiary of Citigroup Inc. Chase Bank USA, N.A., is a subsidiary of JPMorgan Chase & Co. Wells Fargo Bank, N.A., is a subsidiary of Wells Fargo & Company. For the purposes of this report, bank representatives asked us to refer to "Citibank (South Dakota), N.A.," "Chase Bank USA, N.A.," and "Wells Fargo Bank, N.A." when referencing debt protection products.

¹²FDIC-insured national and state nonmember commercial banks and state-chartered savings banks are required to file financial data quarterly reports, often known as Call Reports for banks and Thrift Financial Reports for savings associations. NCUA's Call Report does contain a field that captures whether federally chartered credit unions have a debt cancellation/suspension program on any type of loan, not solely credit cards. A recent description of information required in Call Reports is set forth in the federal banking agencies' publication of information collection activities and joint comment request at 75 Fed. Reg. 68856 (Nov. 9, 2010).

¹³For the purposes of this report, we use the term "credit insurance" to refer to credit insurance sold specifically in connection with a credit card account, unless otherwise noted.

insurance. Unlike debt protection products, which are two-party arrangements between a credit card issuer and a consumer, credit insurance is a three-party arrangement involving an insurance company, a credit card issuer, and a consumer. An insurance company generally sells credit insurance as a group policy to the credit card company, which in turn offers the product to its cardholders. A cardholder who enrolls in credit insurance typically receives a certificate of insurance, which provides evidence of coverage, rather than an insurance policy. The consumer typically pays monthly premiums to the insurance company, and if a covered event occurs, the insurance company takes over the consumer's credit card payments for a specific period of time, or if the cardholder dies, pays part or all of the outstanding credit card balance. Like other forms of insurance, credit insurance is primarily overseen by state insurance regulators, and regulations governing it may differ across states.

Debt Protection Products Have Displaced Credit Insurance, although the Products Are Similar for Consumers

In recent years, debt protection products sold in conjunction with credit cards have largely displaced credit card credit insurance. The two products tend to offer consumers the same benefits, however, canceling or taking over credit card payments during qualified events such as disability.

Debt Protection Products Have Largely Displaced Credit Insurance

Ten years ago, the largest credit card issuers rarely offered debt protection products and instead offered credit insurance, but today most issuers sell primarily debt protection products and rarely offer credit insurance to new customers.¹⁴ In 2009, cardholders paid approximately \$2.4 billion in fees for debt protection products, according to data from the nine largest credit card issuers. The products were associated with approximately 24 million credit card accounts with an estimated \$42 billion in outstanding debt. Overall, about 7 percent of the nine issuers' credit card accounts

¹⁴Although the top nine issuers no longer market credit insurance policies or packages in connection with credit cards, some credit unions and other financial institutions continue to do so.

were covered by debt protection products. In 2009, consumers bought approximately 6 million new debt protection products, 73 percent of them for existing credit card accounts and 27 percent for newly opened accounts.

The three insurance companies that provided us with data on credit insurance represented about 30 percent of the open-end credit insurance market and maintained approximately 2.7 million credit card credit insurance packages in 2009.¹⁵ These three companies reported to us that they sold 44,114 *new* packages in 2009—about 1 percent of the total. All other packages were originally sold in earlier years. The three insurers told us that their earned premiums for credit insurance had declined from \$757 million to \$186 million, or by 75 percent, between 2001 and 2009.

Credit card issuers have shifted from credit insurance to debt protection products largely as a result of differences in the way the two products are regulated. Federal regulations for debt protection products apply nationwide, while state laws governing credit insurance can differ across states. According to representatives of credit card issuers, the credit insurance industry, some consumer organizations, and two government regulatory agencies, federal regulation allows for the following:

- *Uniform regulation and marketing efficiency.* Federal regulations for debt protection products apply nationwide, while credit insurance, like other insurance products, can be subject to different state regulatory regimes. As a result, one debt protection product can be offered nationwide, which issuers' representatives told us allows the issuers to offer uniform pricing, terms, and conditions. In addition, the representatives told us that issuers can offer their products to consumers through multiple marketing channels more efficiently than they could for credit insurance.
- *Flexibility.* Issuers can generally structure debt protection products more easily, consistently, and quickly than they can state-regulated credit insurance, and can offer a broader array of products. Issuer

¹⁵Credit insurance sold to consumers in connection with credit cards is typically referred to as a credit insurance package because it covers a variety of individual events (e.g., loss of life, disability, and involuntary unemployment) that are bundled together into a single product. The three insurance companies (Aegon USA, Assurant Solutions, and Central States Indemnity) were estimated to represent about 30 percent of the open-end credit insurance market in 2009, according to NAIC data. We did not identify any available data on the size of the total credit card-related credit insurance market.

representatives cited the desire for more flexible products that meet cardholder needs as a reason for their decision to shift from credit insurance to debt protection products.

- *Potentially higher earnings.* Representatives of regulators and one consumer group noted that debt protection products offer more potential for earnings than credit insurance. This may be in part because of the absence of price controls that states generally impose on credit insurance rates and the nonuniformity of state regulation. In addition, because credit card issuers sell their debt protection products directly to cardholders, they do not have to share product earnings with an insurance company and can retain more of the fees.

Debt Protection Products Cancel or Suspend Part or All of a Debt when Specific Events Occur

Debt protection products cancel or suspend some or all of a cardholder's debt after the occurrence of certain qualifying events (see fig. 1). All of the nine largest issuers' primary debt protection products include a cancellation benefit, and four of these products also include a suspension benefit:¹⁶

- *Cancellation benefits* forgive some or all of a cardholder's debt. These benefits may cancel the total credit card balance if the cardholder dies or may cancel the minimum monthly payment for a specific time during a period of unemployment, for example. As a result, debt cancellation benefits reduce the cardholder's account balance by the amount of debt being canceled.
- *Suspension benefits* allow a cardholder to skip the minimum monthly payment without penalty and without accruing interest for a specified time period. Debt suspension does not reduce the cardholder's account balance.

¹⁶While issuers may offer several different debt protection products, 84 percent of the nine largest issuers' debt protection products consist of primary, or core, products that offer a package of benefits. In addition to their primary products, credit card issuers also may offer alternative products that are usually less expensive and have fewer benefits. These products are typically offered to consumers enrolled in a primary product who seek to cancel their enrollment. Information provided in this report about issuers' debt protection products generally refers to their primary products.

Figure 1: Description of Debt Cancellation and Suspension Benefits

Debt cancellation benefits		Debt suspension benefits
Balance cancellation	Payment cancellation	Payment suspension
 Cancels a cardholder's total credit card balance, up to a maximum amount for some products.	 Cancels a cardholder's minimum monthly payment and reduces a cardholder's balance by that amount.	 Suspends a cardholder's minimum monthly payment and waives interest.

Source: GAO.

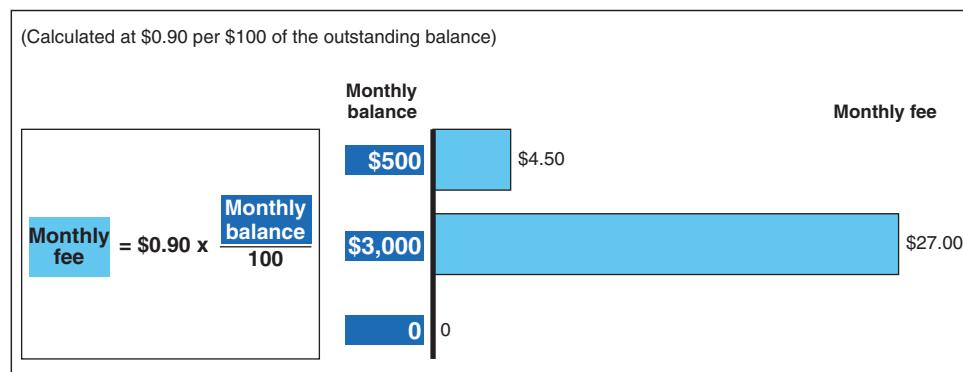
These cancellation and suspension benefits are triggered by certain events. Benefits vary among products, with most debt protection products covering loss of life, disability, involuntary unemployment, and leave of absence from employment. Some products also cover other events, such as the birth or adoption of a child, marriage, relocation, divorce, hospitalization, call to active U.S. military duty, retirement, loss of a spouse or child, or natural disaster. At least one issuer also includes an emergency payment benefit, which cancels the minimum monthly payment once per year for any reason. Another issuer includes a benefit that allows cardholders to suspend one monthly payment per year in months that include specific federal holidays. Each product offered by the nine issuers covers a different number of events, ranging from 4 to 21 events. Some products allow benefits to be triggered by events affecting individuals other than the primary cardholder, such as the cardholder's spouse or domestic partner, other authorized users of the card, or the highest wage earner in the cardholder's household. For example, benefits could be triggered by the involuntary unemployment of the cardholder's spouse.

Debt protection product fees are generally charged monthly and are based on the cardholder's outstanding balance.¹⁷ Fees for the nine largest credit card issuers' debt protection products range from \$0.85 to \$1.35 per month for every \$100 of the outstanding balance. For example, if the product fee was \$0.90 per \$100 of the outstanding balance, a cardholder with an outstanding balance of \$500 in a given month would pay \$4.50 (\$0.90 x

¹⁷One credit card issuer we reviewed offers one product with a different pricing structure—a flat fee of \$19.99 per month regardless of the cardholder's monthly outstanding balance.

\$500/\$100) for the debt protection product that month. Because the fee depends on the card balance, the fee for the product can vary from month to month (see fig. 2). The debt protection product fee is charged whether or not the cardholder pays the card balance in full, but accounts with a zero balance are not charged a fee.

Figure 2: Illustrative Example of the Monthly Fee for a Debt Protection Product



Source: GAO.

As seen in figure 3, debt protection product fees appear as itemized charges on monthly credit card statements and are added to the new balance due each month. Debt protection product fees are typically identified in the account statement using the issuer's branded product name in a transaction line item listed in the section labeled "fees." The amount of the fee is one component of the "fees/interest charges" category that appears in a credit card statement.

Figure 3: Illustrative Example of Credit Card Monthly Billing Statement with Debt Protection Product Fee

FICTIONAL*CREDIT*USA OCTOBER ACCOUNT STATEMENT																																				
<p>Joe Cardholder Account: xxxx-xxxx-5555 Closing date: 09/21/2010</p>																																				
Previous balance \$	Payments/Credits \$	Fees/Interest Charges \$	Transactions \$	New Balance \$	Minimum Amount Due \$																															
905.00	- 35.00	+ 27.66	+ 150.00	= 1,047.66	15.00																															
					Payment due date 10/15/2010																															
<p>TRANSACTIONS</p> <p>PAYMENTS, CREDITS, & ADJUSTMENTS FOR ACCOUNT xxxx-xxxx-5555</p> <table border="1"> <tr> <td>09/17/10</td> <td>PAYMENT RECEIVED</td> <td>-\$35.00</td> </tr> </table> <p>TRANSACTIONS FOR ACCOUNT xxxx-xxxx-5555</p> <table border="1"> <tr> <td>09/16/10</td> <td>PHARMACY PRESCRIPTION</td> <td>\$18.00</td> </tr> <tr> <td>09/19/10</td> <td>GROCERY STORE USA</td> <td>\$97.00</td> </tr> <tr> <td>09/20/10</td> <td>GASOLINE FILLUP</td> <td>\$35.00</td> </tr> <tr> <td colspan="2">Total Transactions This Period</td> <td>\$150.00</td> </tr> </table> <p>FEES</p> <table border="1"> <tr> <td>09/21/10</td> <td>FICTIONAL*CREDIT*USA ACCOUNT PROTECTION FEE</td> <td>\$9.34</td> </tr> <tr> <td colspan="2">Total Fees This Period</td> <td>\$9.34</td> </tr> </table> <p>INTEREST CHARGED</p> <table border="1"> <tr> <td>09/21/10</td> <td>INTEREST CHARGED ON CURRENT BALANCE</td> <td>\$18.32</td> </tr> <tr> <td colspan="2">Total Interest This Period</td> <td>\$18.32</td> </tr> </table> <p>2010 TOTALS YEAR-TO-DATE</p> <table border="1"> <tr> <td>Total fees charged in 2010</td> <td>\$78.12</td> </tr> <tr> <td>Total interest charged in 2010</td> <td>\$109.17</td> </tr> </table>						09/17/10	PAYMENT RECEIVED	-\$35.00	09/16/10	PHARMACY PRESCRIPTION	\$18.00	09/19/10	GROCERY STORE USA	\$97.00	09/20/10	GASOLINE FILLUP	\$35.00	Total Transactions This Period		\$150.00	09/21/10	FICTIONAL*CREDIT*USA ACCOUNT PROTECTION FEE	\$9.34	Total Fees This Period		\$9.34	09/21/10	INTEREST CHARGED ON CURRENT BALANCE	\$18.32	Total Interest This Period		\$18.32	Total fees charged in 2010	\$78.12	Total interest charged in 2010	\$109.17
09/17/10	PAYMENT RECEIVED	-\$35.00																																		
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Total interest charged in 2010	\$109.17																																			

Source: GAO example based on sample credit card statements.

Cardholders who experience a triggering event can request benefits by informing the issuer and submitting any necessary information or documentation. For example, cardholders experiencing involuntary unemployment may be required to submit evidence that they are registered for state unemployment benefits. According to data from the

nine largest issuers, approximately 70 percent of all benefit requests were approved in 2009, while about 24 percent were denied. More than half of these denials occurred because the cardholder did not provide adequate documentation of the triggering event. The remainder of requests were still pending at the end of 2009. Issuers sometimes contract with a third-party administrator to manage their debt protection programs, and in these cases the administrators interact with cardholders to approve and process benefits.

The terms and conditions of debt protection products include various eligibility requirements and may include certain exclusions or restrictions, which may differ based on the triggering event. For example, some products restrict hospitalization or disability benefits for customers with preexisting health conditions. They may also exclude from unemployment coverage cardholders who are employed part time or seasonally. None of the debt protection products that we reviewed had maximum age limits. A few debt protection products require a general waiting period, such as 30 days after enrollment, before customers can request any type of benefit. Some triggering events may also have specific waiting periods—for example, a cardholder may need to be unemployed for 30 days before applying for an unemployment benefit, although the benefit may be applied retroactively. Debt protection products typically allow one benefit per billing period, may limit the number of triggering events per year, and may impose waiting times between benefits for similar events.

Some debt protection products that we reviewed placed a cap on the total dollar amount cardholders can receive per benefit—from \$500 to \$25,000. For example, three of the largest nine issuers limited their loss-of-life balance cancellation benefit to \$10,000 and three limited it to \$25,000; the remaining three had no limit. The products may also place caps on the duration of the benefit. For example, one issuer's product suspends payments for up to 24 billing periods for involuntary unemployment and temporary disability and for up to 1 billing period for other events, such as marriage. Three issuers restricted how much cardholders could charge and the type of transactions they could make during benefit periods, but the other six large issuers did not. For example, one issuer limited available credit to \$1,500 and prohibited cash advances and balance transfers when cardholders were receiving debt suspension benefits.

Debt Protection Products Are Marketed Broadly

Credit card issuers market debt protection products to individuals applying for new credit cards, as well as to existing cardholders. According to representatives of the largest credit card issuers and our analysis of their marketing materials, issuers generally do not target specific demographic groups when marketing these products but advertise them broadly to all new and existing cardholders. Issuers indicated that they sometimes focus marketing efforts on cardholders with certain characteristics that might make them more likely to enroll in the product, such as consumers who routinely carry a balance. The characteristics of cardholders who enrolled in debt protection products in 2009 were similar to those of cardholders in general, according to issuer representatives.

Credit card issuers promote debt protection products in a variety of ways, according to issuer representatives and aggregate data provided to us by the nine largest issuers. Customer service representatives responding to inquiries or requests via issuers' toll-free telephone numbers often also promote ancillary credit card products, and such calls accounted for nearly half of the nine largest issuers' debt protection product sales in 2009. Most issuers also market debt protection products at bank branches, through telemarketing, and via direct mail, methods that collectively accounted for more than 40 percent of product enrollments that year. Telemarketing calls can be conducted by the issuers themselves or by third-party contractors. Mail marketing can include mailings aimed solely at marketing debt protection products or promotional inserts included with cardholders' statements or new credit cards. Internet marketing accounted for another 4 percent of product sales in 2009, according to issuer data. Our review of marketing materials found that they typically highlighted the products' ability to potentially protect a cardholder's credit rating and provide relief during life-changing events. Some issuers also offered a gift card or cash-back certificate to customers as an incentive for enrolling in debt protection products. Purchasers receive a packet of product information, known as a welcome or fulfillment kit, which usually includes a letter to the consumer, the product's terms and conditions, instructions on how to request benefits, and cancellation information stating that cardholders can cancel the debt protection product at any time. New enrollees have at least 30 days to review the product information mailed to them and cancel for a full refund.

Credit Insurance and Debt Protection Products Function Similarly from a Consumer's Perspective

Credit card credit insurance and debt protection products are largely similar from the perspective of the consumer, although, as discussed later in this report, the two products are regulated differently. Both products cover similar events, offer like benefits for consumers, and assess fees in a similar manner, monthly based on account balance. The three insurance companies that provided us with data reported that the majority of the credit insurance packages in 2009 included credit life, disability, and involuntary unemployment insurance coverage (94, 91, and 95 percent, respectively), and 17 percent also covered credit leave of absence. With credit insurance, the insurance company makes the cardholder's monthly payments or pays off the entire balance. Premiums for credit insurance, like fees for debt protection products, are assessed monthly based on the outstanding balance and appear as a separate line item on cardholders' monthly statements. Consumers covered by either debt protection products or credit insurance must meet certain eligibility requirements and may be excluded from coverage under specific conditions. As with debt protection products, credit insurance products typically provide a review period that allows the cardholder to cancel with a full refund, and cardholders can cancel at any time. Further, the processes for making a claim for credit insurance and for requesting a benefit from a debt protection product are generally similar.

Credit insurance and debt protection products do differ in some respects. First, debt protection products are nationwide products with uniform pricing, terms, and conditions, while credit insurance products vary across states because of differences in insurance regulation among states. Second, credit insurance does not cover certain events that debt protection products may allow, such as marriage, relocation, or birth of a child. Third, credit insurance products only include debt cancellation, whereas some debt protection products include both debt cancellation and suspension. Fourth, credit insurers may restrict coverage for cardholders who are over a certain age, in accordance with state regulations, whereas few, if any, debt protection products have age limitations. Finally, the disclosures for the two types of products differ as a result of differing regulatory requirements.

Debt Protection Products Are Regulated Primarily at the Federal Level, and Credit Insurance Is Regulated by the States

Although no federal law governs debt protection products specifically, they are subject to federal regulation and are primarily overseen by the federal banking regulators. In contrast, credit insurance, like most insurance products, is generally regulated at the state level, and is primarily overseen by state regulators.

Several Federal Regulations Apply to Debt Protection Products

Regulation Z

The generally applicable federal law that pertains to debt protection products is the Truth in Lending Act (TILA), which covers the extension of consumer credit.¹⁸ The Federal Reserve, under TILA, is responsible for prescribing regulations relating to the disclosure of terms and conditions of consumer credit, including those applicable to credit cards and ancillary credit card products such as debt protection products. The regulation that implements TILA's requirements is the Federal Reserve's Regulation Z, several provisions of which apply to debt protection products.¹⁹

Regulation Z includes disclosure requirements for several types of loan products, including credit card debt protection products, and all creditors must comply with these requirements. The five federal banking regulators assess the institutions they supervise for compliance with Regulation Z's disclosure requirements. According to Federal Reserve staff, Regulation Z focuses on ensuring that debt protection product disclosures are clear and

¹⁸Pub. L. No. 90-321, 15 U.S.C. §§ 1601-1666.

¹⁹Regulation Z is set forth at 12 CFR Part 226. As discussed later in this report, Regulation Z also applies to credit insurance.

understandable to consumers. For voluntary debt protection products, creditors must²⁰

- disclose in writing that the protection is optional;
- disclose in writing the fee for the initial term of coverage, and thereafter on the periodic statement;
- explain, if the product includes debt suspension benefits, that interest will continue to accrue during the suspension period;²¹ and
- obtain the consumer's initials or signature on a written affirmative request for the product after providing the required disclosures.

The regulation does not require that fees for voluntary debt protection products be included with the credit card application or account-opening documents, although some issuers do include fee information within these documents. The regulation permits telephone sales of credit card debt protection products. Oral disclosures are permitted for telephone purchases, but a written disclosure must be mailed within 3 business days after the product is purchased. For telephone sales, the creditor must maintain evidence that the consumer affirmatively elected to purchase the product after the disclosures were provided orally, so credit card issuers typically record telephone purchases.

In September 2010, the Federal Reserve proposed several revisions to Regulation Z that it said were intended to improve disclosures and help consumers decide whether they can afford a debt protection product.²² In February 2011, the Federal Reserve announced that it does not expect to finalize the pending rule prior to the transfer of authority for these rulemakings to the new Bureau of Consumer Financial Protection. Under the proposed rule, all disclosures would have to be in 10-point or larger

²⁰Regulation Z also has rules for nonvoluntary products—that is, debt protection products that are required as part of the loan. For example, for required products, a creditor must disclose the fee or premium on or with a solicitation or the application and the account-opening statement.

²¹Regulation Z requires disclosure if interest will accrue during the suspension, but does not require a disclosure if interest does not accrue during the suspension period.

²²75 Fed. Reg. 58539 (Sept. 24, 2010). The Federal Reserve first proposed changes to Regulation Z for debt protection and credit insurance disclosures in 2009. 74 Fed. Reg. 43232 (Aug. 26, 2009). The 2010 proposal incorporates the 2009 proposal.

font, grouped together under appropriate headings, and, in some cases, presented in question-and-answer format. The proposed rule also includes model forms and samples for the new disclosure requirements.

Additionally, creditors offering voluntary products would be required to determine that consumers met any applicable age or employment criteria before enrolling them in the products. For example, a creditor would not be permitted to enroll a jobless consumer for protection that requires employment as a condition of coverage. Creditors offering voluntary products would also have to disclose the maximum fees charged for the product, although the proposed regulation would not otherwise regulate such fees. For example, according to the model forms, the creditor would have to state as follows: “This product will cost up to (maximum amount per month) if you borrow the entire credit limit. The cost depends on your balance and interest rate.”

OCC Regulation

OCC has a rule specific to debt protection products that applies to all national banks.²³ The rule establishes standards governing debt protection products and seeks to ensure appropriate consumer protections. It includes disclosure requirements that supplement Regulation Z’s requirements. These include mandatory “short-form” disclosures—which may be provided orally at the time of solicitation, including telephone sales—and “long-form” disclosures, which are generally provided in writing before the consumer completes the purchase. The short-form disclosures must state that consumers will receive additional information before they pay for the product and that certain eligibility requirements, conditions, and exclusions may apply. The long-form disclosures must provide further information regarding these requirements, conditions, and exclusions and state, among other things, that consumers have the right to cancel the product. OCC’s rule includes two samples for the short- and long-form disclosures.

OCC’s rule also includes a ban on misleading advertisements or practices. In addition, it prohibits credit card issuers from modifying product features unilaterally unless the modification benefits the consumer without additional charge, or the consumer is allowed to cancel the

²³12 C.F.R. Part 37. The rule covers debt protection products offered in connection with credit cards as well as other loans. State-chartered banks offering debt protection products may be required to follow the OCC rule as required by the state’s parity law. Representatives from some non-OCC-supervised institutions told us their institution used OCC’s regulation as a form of best practice guidance. In a May 2003 letter to federal credit unions, NCUA stated that credit unions should review OCC’s rule as best practice guidance.

product without a penalty. The rule also prohibits national banks from tying the approval of an extension of credit to the consumer's purchase of a debt protection product. That is, a national bank cannot make its approval of a credit card application contingent upon a consumer's purchase of a debt protection product.²⁴

Other Applicable Laws and Regulations

Other federal laws and regulations may apply to debt protection products. The Federal Trade Commission Act prohibits unfair or deceptive acts or practices—for example, engaging in deceptive marketing practices.²⁵ The act applies to financial institutions, and federal banking regulators have the authority to issue and enforce additional rules of their own.²⁶

Under title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the primary rulemaking authority and some enforcement authority will shift from the federal banking regulators to the newly created Bureau of Consumer Financial Protection.²⁷ Some of these authorities are newly created by the Dodd-Frank Act, while others are to be transferred from other federal regulators to the new bureau. For example, the Dodd-Frank Act transfers to the bureau the rulemaking authority for TILA. Additionally, the new bureau will be the primary rulemaker, supervisor, and enforcer of consumer protection laws and regulations for depository institutions with more than \$10 billion in assets. As a result, the Bureau of Consumer Financial Protection will have a role in overseeing credit cards and their ancillary products, including debt

²⁴These provisions are contained in 12 C.F.R. § 37.3.

²⁵See Federal Trade Commission Act, 15 U.S.C. §§ 45, 57a. State-chartered banks and credit unions may be subject to state laws and regulations governing debt protection products, but state oversight of debt protection products was beyond the scope of this report.

²⁶15 U.S.C. §§ 45 (a)(2), 57a(f). The Federal Reserve's Regulation AA (Unfair or Deceptive Acts or Practices), and comparable OTS regulations, do not specifically govern disclosures related to debt protection products. See 12 CFR Parts 227 and 535.

²⁷Pub. L. No. 111-203 (2010). The Bureau of Consumer Financial Protection has supervisory and enforcement authority over depository institutions holding more than \$10 billion in assets. Pub. L. No. 111-203 § 1025. The primary consumer protection supervisory and enforcement powers over banks, thrifts, and credit unions with \$10 billion or less in assets largely remain with those institutions' prudential regulators. Pub. L. No. 111-203 § 1026. The bureau is the primary supervisor and enforcer for nondepository entities if certain statutory criteria are met. Pub. L. No. 111-203 § 1024.

protection products. The date for transferring consumer protection functions to the new bureau is July 21, 2011.²⁸

Bank Examiners Review Issuers' Compliance with Disclosure Requirements but Do Not Address Costs and Benefits to Consumers

Federal banking regulators told us that their examinations could include, as necessary, a review of an institution's debt protection products.²⁹ The regulators said that such a review could be triggered by, among other things, consumer complaints. In addition, OCC's examination procedures note that OCC examiners should review debt protection products if the volume of such products is significant or has grown substantially. According to the federal banking regulators, between 2006 and 2010 approximately 24 bank examinations included specific reviews of institutions' credit card debt protection products—23 by OCC and 1 by the Federal Reserve.³⁰ OCC is the only federal banking regulator that has supplemental examination procedures specific to debt protection products, and these procedures focus on compliance with OCC's rule about these products.³¹ The other federal banking regulators' examinations include procedures for a review of the products under Regulation Z and the Federal Trade Commission Act.

²⁸ See Designated Transfer Date. 75 Fed. Reg. 57252 (Sept. 20, 2010).

²⁹ Banks, thrifts, and credit unions are subject to regular examinations to assess institutions' financial condition and ensure compliance with consumer protection and other laws. All depository institutions generally must be examined at least once every 18 months, but the scope and timing of examinations varies. Federal banking regulators have a full range of strong and flexible enforcement tools, such as formal and informal enforcement actions, when they find noncompliance with laws and regulations.

³⁰ OCC told us it supervised, at a minimum, 14 institutions offering credit card debt protection products. The Federal Reserve told us it supervised 4 institutions offering credit card debt protection products and provided the examination for the 1 institution that had been reviewed within the specified time period. FDIC officials told us the agency supervised 3 institutions offering these products and provided narrative and descriptive comments about these institutions' products, but had not conducted an examination specific to the institutions' credit card debt protection products. According to OTS, three of the six largest credit card issuers it supervises currently offer debt protection products to new customers. OTS staff said the agency had not specifically reviewed any of its credit card issuers' debt protection products in the past 5 years. NCUA staff said that the exact number of credit unions offering credit card debt protection products was unknown, as was whether there had been any examinations specific to credit card debt protection products. NCUA estimated less than 5 percent of credit unions offered such products in 2009.

³¹ While NCUA does not have procedures specific to credit card debt protection products, NCUA staff told us that NCUA examiners may refer to a questionnaire that was developed to help examiners review debt protection products offered in connection with any type of loan.

The primary focus of federal bank examiners' reviews of debt protection products is ensuring that the products comply with disclosure requirements and that no unfair or deceptive acts or practices are being used to offer or market them. OCC's supplemental examination procedures direct examiners to also review the products' features and terms and conditions and the accuracy of the issuers' marketing materials. For example, OCC examinations may review telemarketing scripts to determine whether they are fair, objective, and free of undue pressure. The examinations also seek to determine whether the institution may be engaging in prohibited practices, such as requiring consumers to purchase the products. Further, OCC examiners review the adequacy of issuers' internal policies and processes for offering and administering the debt protection products to consumers. Examiners may sample canceled accounts to ensure that banks correctly follow their own internal policies in refunding fees to consumers. In addition, examiners look at any potential impact of the products on institutional safety and soundness, including whether issuers maintain adequate reserves to cover potential losses associated with benefit payouts. The examiners evaluate the accounting and profitability of debt protection products compared with the banks' total income to evaluate the products' income sustainability in view of program volume, number of benefit requests, and cancellation rates.

Federal regulators' reviews have generally not addressed the reasonableness of the pricing of debt protection products, although we did identify two cases in which regulators commented on the price. In one case, the regulator noted that debt protection product fees appeared high and recommended that the bank continue reviewing the appropriateness of the fees it charged. Because no regulatory guidance existed on the appropriateness of prices, no formal violations could be cited. In the second case, the regulator noted that the debt protection products' payout rate to consumers was low compared with the fees collected, but no formal violation was cited.

Banking regulators noted to us that no laws or regulations set the price of debt protection products or govern the costs relative to the benefits for these products.³² The regulators said that for this reason their examinations of these products focused on compliance with applicable

³²There are no price controls for debt protection products, although OCC's rules (12 C.F.R § 7.4002) apply to the fees charged by national banks for these products. Under rule 7.4002, national banks are to establish noninterest charges and fees "according to sound banking judgment and safe and sound banking principles."

laws and regulations, such as those related to disclosure requirements, and did not address the costs and benefits of the products from a consumer's perspective. Our review of 24 completed examinations of debt protection products confirmed that the products' price was generally considered in relation to safety and soundness issues. The Dodd-Frank Act requires that the new Bureau of Consumer Financial Protection's disclosure rules shall contemplate consumer awareness and understanding of, and the risks, costs, and benefits of, financial products and services.³³ Also under the Dodd-Frank Act, the bureau may find a practice to be unfair under the conditions set forth in the act.³⁴ The increased popularity of debt protection products raises the importance of effective regulatory oversight of these products.

State Regulation of Credit Insurance Takes Steps to Establish a Relationship between Consumer Costs and Benefits

As an insurance product, credit insurance that is offered in connection with credit cards is largely regulated under state insurance law, as shown in table 2. As with other types of insurance, state insurance regulators generally approve credit insurance products and premium rates and examine insurance companies' financial solvency and market conduct. Because state laws and regulations governing credit insurance differ, the products vary across states. Most states include chapters in their insurance codes devoted specifically to credit insurance. Many states have adopted the Consumer Credit Insurance Model Act and the Consumer Credit Insurance Model Regulation, both of which were initially adopted by NAIC in 1958 and 1973, respectively. Additionally, according to NAIC, state laws about disclosure requirements and laws prohibiting unfair or deceptive acts or practices concerning insurance apply to credit insurance.³⁵ For example, many states have adopted some version of an "unfair trade practices act" that addresses marketing abuses involved in the sale of insurance products, including credit insurance. State insurance regulators may carry out examinations to investigate complaints or review insurance company practices, including credit insurance practices. As with other insurance products, attorneys general may take action in cases where insurance companies violate state laws and regulations regarding credit insurance.

³³Pub. L. No. 111-203 § 1032(c).

³⁴Pub. L. No. 111-203 § 1031(c).

³⁵In contrast, with respect to noninsurance credit card debt protection products, state laws prohibiting unfair or deceptive acts or practices are preempted by TILA to the extent that they are inconsistent with TILA and Regulation Z. See, e.g., 12 C.F.R. §§ 226.28, 226.29.

Table 2: Regulatory Differences between Debt Protection Products and Credit Insurance

	Debt protection products	Credit insurance
Type of product	Banking product	Insurance product
Regulatory regime	Primarily federal laws and regulations	Primarily state laws and regulations, also Regulation Z
Regulator	Primarily federal banking regulators	Each state's department of insurance
Structure	Two-party agreement between the credit card issuer and consumer	Three-party arrangement among insurance company, credit card issuer, and consumer
Product design	One product offered nationwide	Varies by state
Price of product	Not subject to price controls ^a	Premiums defined by state regulation and may require state approval

Source: GAO.

^aAs noted previously, although debt protection products are not subject to price controls, under OCC rule 7.4002, fees charged by a national bank for debt protection products must be established “according to sound banking judgment and safe and sound banking principles.”

Although credit insurance is primarily regulated at the state level, federal laws and regulations also can apply. Creditors offering credit insurance must comply with applicable federal regulations, such as Regulation Z. In addition, the Federal Trade Commission Act’s prohibition of unfair or deceptive acts or practices also can apply to credit insurance. Further, as part of their examination and oversight activities, federal banking regulators can review credit insurance products that an institution may offer in connection with credit cards.

In contrast to requirements for debt protection products, state insurance regulations establish a reasonable relationship between the premiums that consumers pay and the benefits they receive and govern the design and structure of the products. For instance, states set the premium rates by law or regulation that insurance companies can charge for credit insurance. Additionally, states can establish limits on components of premium rates, such as compensation that insurers may pay third parties, including credit card issuers, in exchange for services related to credit insurance. Further, some states establish a loss ratio—that is, the ratio of benefits paid out divided by premiums collected. NAIC’s Consumer Credit Insurance Model Regulation specifies that benefits provided must be

reasonable in relation to the premiums charged and notes that the requirement is met if the loss ratio is 60 percent or more.³⁶ Because states set rates, price components differently, and establish loss ratios, the premiums consumers pay for credit insurance vary depending on their state of residence. Additionally, NAIC's model regulation states that companies offering credit insurance are required to submit "experience reports" documenting written and earned premiums. In contrast, federal agencies do not routinely require credit card issuers to report detailed information about debt protection products.

In regulating credit insurance, some states take into account the potential for a concept that has been referred to as "reverse competition."³⁷ With credit insurance, the credit card issuer, rather than the consumer, selects the insurance company providing the insurance. The credit card company receives a commission from the insurance company that may be based in part on the premiums that consumers pay. According to representatives from NAIC, the New York State Insurance Department, and three consumer organizations, the result of this is that credit card issuers may have an incentive to select insurance companies that charge consumers higher prices for credit insurance in order to earn larger commissions. Representatives of the credit insurance industry told us that they believe that the concept of "reverse competition" is speculative and is not a factor in a credit card issuer's selection of a carrier for credit insurance.

Debt Protection Products and Credit Insurance May Offer Some Advantages, but Fees Can Be Substantial

Debt protection products and credit insurance may provide several advantages, including protection of cardholders' credit ratings and peace of mind. Few complaints have been reported about these products, although federal regulators have identified some areas of concern. However, fees for the products can be substantial in relation to the aggregate financial benefits consumers receive, and consumers may have trouble evaluating different products and deciding whether the product is best for them.

³⁶ According to NAIC's Consumer Credit Insurance Model Regulation, "loss ratio" is defined as incurred claims divided by the sum of earned premiums and imputed interest earned on unearned premiums.

³⁷ Reverse competition can be a feature of certain other insurance transactions as well, not just credit card-related credit insurance.

Debt Protection Products and Credit Insurance May Offer Certain Advantages

Debt protection products and credit insurance may offer several advantages for cardholders seeking to manage the risk associated with credit card debt, according to credit card issuers, insurance companies, and some government agencies. The potential advantages of these products include the following:

- *Credit rating protection.* Missing credit card payments, making payments late, or otherwise becoming delinquent on credit card debt can damage consumers' credit ratings.³⁸ Because debt protection products and credit insurance may cover payments that consumers might not otherwise make, these products can help avoid negative impact on their credit ratings.
- *Peace of mind.* The product may provide cardholders with a sense of security and comfort because they know that the product can protect them or their next of kin in the event of certain hardships, disability, or death. Even if cardholders never experience a protected event, they may value the security and peace of mind the product can provide.
- *Ease of purchase.* Debt protection products are easy for consumers to purchase. For example, consumers can typically purchase them when applying for a new credit card, with no separate application process. Existing cardholders can readily enroll by telephone or via the issuer's Web site. In contrast, purchasing a traditional term life or disability insurance policy entails a more detailed application process, often including a medical examination for large amounts of coverage.
- *Availability to most cardholders.* Debt protection products are generally available to all consumers holding credit cards, according to industry representatives. Credit card issuers generally do not exclude consumers from purchasing these products based on their credit history, age, health, or other criteria.³⁹
- *Coverage of events not available in other products.* Many credit card-related debt protection and some credit insurance products cover events for which coverage is not available through traditional insurance

³⁸ Credit card issuers typically report consumer information to credit reporting agencies. This information factors into the overall credit rating, which is used, among other ways, by lenders when deciding whether to offer credit and determining interest rates and terms.

³⁹ At least one issuer we spoke with did note that it screens for unemployed cardholders during telephone sales of its debt protection product, because individuals who are already unemployed are not eligible for involuntary unemployment benefits.

products—for example, involuntary unemployment, hospitalization, military duty, and life events such as marriage, divorce, or birth or adoption of a child. A single debt protection or credit insurance product offers benefits for several events, while some traditional insurance products, such as life and disability, protect only against one type of event.

- *Coverage for small amounts.* Debt protection products and credit insurance cover a cardholder's credit card balance, no matter how small. Cardholder balances in 2009 averaged about \$2,500, and many were much smaller. In contrast, term life insurance is often not available for coverage of less than \$25,000. In addition, the amount a consumer pays in fees for debt protection products or premiums for credit insurance directly corresponds to the credit card account outstanding balance and adjusts with the balance.

Representatives of a few credit card issuers provided us with the results of consumer feedback surveys, which the representatives said indicated that consumers appeared to be satisfied with these products. For example, one issuer told us that customer feedback surveys indicated a satisfaction rate for these products of more than 80 percent. This rate climbed to 90 percent for cardholders who had received a benefit. Another issuer said that, in commenting on their satisfaction with these products, consumers often cited the credit rating protection and peace of mind the products can provide.

Regulators Have Reported Relatively Few Complaints and Cited Few Formal Violations

Federal agencies have received relatively few complaints related to debt protection products. As shown in table 3, FDIC, Federal Reserve, FTC, OCC, and OTS collectively received 245 consumer complaints related to credit card debt protection products in 2009.⁴⁰ This figure represents approximately 1 complaint for every 100,000 of these products that consumers held and approximately 0.3 percent of the complaints about credit cards in general that the agencies received that year. Most of the complaints asserted either that the consumer had not knowingly enrolled in the product or that requests for benefits had been denied.

⁴⁰We did not collect complaint data from NCUA because officials told us that credit unions represent a very small share of the credit card debt protection product market.

Table 3: Complaints Received by Federal Agencies Related to Credit Card Debt Protection Products, 2009

Regulator	Debt protection product complaints	Total credit card complaints
FTC	113	45,203
OCC	94	26,165
FDIC	20	4,226
Federal Reserve	16	928
OTS	2	2,263
Total	245	78,785

Sources: FDIC, Federal Reserve, FTC, OCC, and OTS.

Credit card issuers, which track consumer complaints they receive, also reported receiving relatively few complaints about debt protection products. According to the aggregated data we received from the nine largest issuers, in 2009 the issuers received 2,045 complaints about debt protection products out of the roughly 24 million accounts with these products. About 40 percent of these complaints were from customers who claimed they had not knowingly enrolled in the product and 29 percent related to denial of benefits; the remaining complaints related to a variety of other issues. The three insurance companies that provided us with data reported 361 complaints related to credit insurance for credit cards out of 2.7 million accounts with this type of insurance. Thirty-four percent of these complaints were classified as “affordability/does not want to pay fee,” 14 percent as “claim unapproved,” 7 percent as “customer stated/claimed they were unaware of product terms/conditions,” and the remaining 45 percent of complaints were related to other issues. While consumer complaint data can be a useful tool for assessing the extent of problems, these data also have limitations because consumers may not always know how to report complaints, the complaints related may not always be properly recorded, and some complaints may not be valid.

Federal banking regulators identified relatively few violations related to debt protection products in recent years, none of which resulted in a formal enforcement action.⁴¹ Among the 24 bank examinations conducted by

⁴¹We did not comprehensively review enforcement activity related to debt protection products that may have occurred by regulators and enforcement authorities at the state level. The Minnesota Attorney General filed a lawsuit in December 2010 alleging that a bank and its affiliated processing company made aggressive, misleading, and deceptive telemarketing calls to sign individuals up for debt protection products.

federal banking regulators between 2006 and 2010 that included reviews of debt protection products, three formal violations involving two banks were reported. Two violations were related to inadequate disclosures. One involved a violation of the Federal Trade Commission Act's prohibition of unfair or deceptive acts or practices. There, rather than automatically refunding fees to consumers who canceled the product within their 30-day trial period, the issuer required the customer to request the refund—a practice that contradicted the process set forth in the long-form disclosures and that was deemed to be deceptive. In each of these three cases, the bank was required to take action to remediate these violations.

Regulators also have taken some informal enforcement actions after identifying areas of concern related to credit card debt protection products.⁴² For example, a federal banking regulator noted that consumers complained that they were unaware they had purchased a debt protection product, and the bank's files did not always properly document consumers' authorization to purchase the product. The bank took action by changing its telemarketing scripts and training materials to ensure that consumers authorized the purchases.

Our review of the 24 bank examinations that had addressed debt protection products did not find evidence that issuers engaged in predatory practices with regard to these products. While there is no universally accepted definition, "predatory" practices typically characterize a range of activities, including deception, fraud, or manipulation. Predatory practices also often involve targeting particular vulnerable demographic groups. As noted earlier, issuers market these products to all cardholders and did not target specific demographic groups.

Fees for Debt Protection Products Can Be Substantial

The fees that major credit card issuers charge for debt protection products can be substantial. Fees for the primary debt protection product of the nine largest issuers ranged from \$0.85 to \$1.35 per month for every \$100 in outstanding balance, with a median fee of \$0.89. With this median fee, a cardholder would pay, on an annual basis, more than 10 percent of his or her average monthly balance in fees for the product.⁴³ According to the

⁴²Informal enforcement actions are typically noted within supervisory letters or other communications to the credit card issuers and still require corrective action.

⁴³The median fee of \$0.89 cents per month for \$100 in outstanding balance represents 0.89 percent of the balance. Multiplied by 12 months, that would represent fees totaling 10.68 percent of the cardholder's average monthly balance over the course of that year.

aggregated data we received from these issuers, the average monthly fee paid for a debt protection product in 2009 among cardholders with a nonzero balance was \$16.49, and the median fee was \$9.27.⁴⁴ This extrapolates into average fees of about \$200 annually in 2009 for debt protection products.⁴⁵

In general, credit unions charge significantly lower fees than banks for these products. CUNA Mutual, which administers debt protection products for many credit unions, provided us with aggregate data for 179 credit unions, which represent approximately 51 percent of the credit unions offering these products. These data show that the credit unions charged fees of between \$0.30 and \$0.67 per month per \$100 in outstanding balance in 2010, with a median fee of \$0.45—about half the median fee of \$0.89 charged by the nine banks we reviewed. The credit union debt protection products were very similar, although not identical, to the products offered by banks, typically including coverage for loss of life and disability, often including coverage for involuntary unemployment, and sometimes including coverage for leave of absence. Several credit union industry representatives we spoke with said that because credit unions are nonprofit entities, their prices are not set at levels intended to maximize profits. Representatives of the large banks told us that credit unions' debt protection product prices were lower because credit unions have different business models, tax obligations, and customer bases than banks. In addition, they noted that banks' debt protection products may cover more events—such as marriage and hospitalization—and that the terms and conditions of the products might vary.

We did not identify comprehensive data on the price of credit card credit insurance. One actuarial expert estimated that credit card credit insurance premiums averaged roughly \$0.65 to \$0.75 per \$100 of the monthly outstanding balance for products that covered loss of life, disability, and involuntary unemployment, which is somewhat lower than the cost of debt protection products. However, this expert told us that comparing the costs of the two products could be problematic because the products were not

⁴⁴These data exclude cardholders who were enrolled in a debt protection product plan but had a zero balance during the previous billing period and thus paid no fee (31 percent of accounts). Fees for debt protection products are paid monthly and vary based on the outstanding balance.

⁴⁵We calculated average annual fees by multiplying the average monthly fee in 2009 by 12, resulting in \$197.88.

fully comparable. For instance, the benefits offered could vary, with debt protection products typically covering a wider range of events than credit insurance. In addition, “average” premium rates for credit card credit insurance can be misleading because prices can vary significantly state by state.

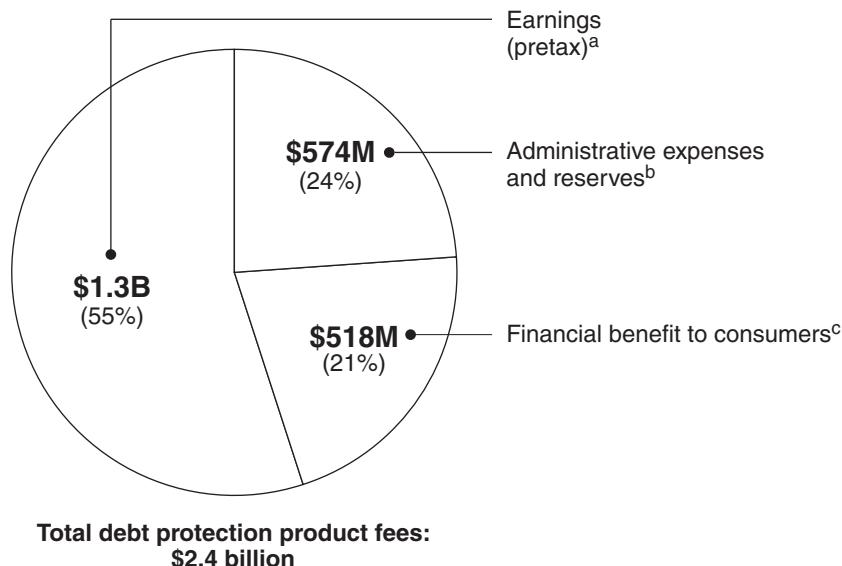
Financial Benefits to Consumers May Be Limited

In the aggregate, a relatively small proportion of the fees consumers pay for debt protection products is returned to them in tangible financial benefits. As seen in figure 4, in 2009 the largest nine issuers reported that they collected \$2.4 billion in fees for debt protection products and provided back to consumers \$518 million in monetary benefits. Thus, consumers received 21 cents in tangible financial benefits for every dollar paid in fees—that is, a payout ratio of 21 percent. These issuers reported that the administrative costs and reserves associated with these products were \$574 million, accounting for 24 cents for every dollar in fees collected.⁴⁶ The issuers reported that pretax earnings in 2009 for debt protection products totaled \$1.3 billion, or 55 cents of every dollar in fees paid. An estimated 5.3 percent of cardholders with a debt protection product and a nonzero balance received a benefit in 2009.⁴⁷ The average direct financial value of this benefit was \$607.

⁴⁶ Representatives from the nine issuers said they believe the administrative expense data they provided may be understated because debt protection products are not always managed as stand-alone products, and thus some expenses could not be directly allocated to these products. As a result, they said they believe that earnings potentially may be overstated as well.

⁴⁷ This estimate was derived by dividing the number of enrolled cardholders who received a benefit at any point in 2009 by the total number of enrolled cardholders with a nonzero balance in December 2009. Data were not available for the number of such cardholders for the full calendar year 2009. If enrolled cardholders who had a zero balance in December 2009 are included in the total, the proportion of cardholders who received a benefit in 2009 is 3.6 percent.

Figure 4: Allocation of Fees Collected by the Nine Largest Credit Card Issuers for Their Debt Protection Products, 2009



Source: GAO analysis of nine largest credit card issuers' data.

^aEarnings is defined as debt protection product fees collected (revenue) less administrative expenses, company representative incentives, benefits, and increases in reserves, before taxes.

^bAdministrative expenses and reserves include costs related to administering the product, incentives paid to issuer representatives for enrolling and retaining customers, and the change in reserve requirements between 2008 and 2009. Institutions may be required to establish and maintain appropriate reserves to cover anticipated losses in connection with lending activities.

^cFinancial benefits to consumers derive from monthly balances, payments, interest, or fees that were canceled for consumers with debt protection products.

The direct monetary value to a cardholder who does receive a debt protection product benefit can be modest, for a number of reasons:

- *Cancellation of minimum monthly payment.* A credit card's minimum monthly payment is typically between 1 and 2 percent of the outstanding credit card balance. As a result, canceling the minimum payment on a \$2,500 balance would save the cardholder only between \$25 and \$50. Further, the cardholder's remaining card balance continues to accrue interest during the benefit period.
- *Suspension of minimum monthly payment.* Allowing cardholders to skip payments can serve to protect their credit ratings and alleviate a cash flow crisis, but may have limited direct monetary value because it does not pay down any of the cardholder's balance. Suspension benefits waive accrual

of interest during the benefit period, and the monetary value of the benefit in this case varies depending on the cardholder's balance and interest rate.

- *Duration of benefits.* Most benefits have time limitations. For example, benefits triggered by involuntary unemployment are usually limited to between 6 and 24 months, and benefits triggered by life events such as the birth or adoption of a child, or marriage, typically allow suspension or cancellation of between one and four minimum monthly payments.

Two issuers' debt protection products cap the amount of debt that is canceled but do not cap the fee accordingly. For example, one product caps loss-of-life coverage at \$10,000, but the fees charged for the product (\$0.85 per \$100 in outstanding monthly balance) are not similarly capped.⁴⁸ As a result, a cardholder with a balance of \$20,000 would pay the fee based on that amount even though only \$10,000 would be canceled in the event of the cardholder's death.⁴⁹ Four other issuers cap their fees according to the maximum amount of debt that is canceled by the product. Two issuers do not cap benefits or fees and one issuer did not provide us information on whether it caps fees.

Further, the "bundling" that is characteristic of debt protection products—wrapping together in one product coverage for multiple events—can result in cardholders purchasing coverage not always applicable or valuable to them. For example, when a cardholder dies and leaves no net assets, the cardholder's heirs do not automatically become personally liable for any outstanding credit card debt. Thus, the loss-of-life benefit of a debt protection product may be of limited value to cardholders with no net assets. Similarly, cardholders with certain disabilities would not benefit from the disability coverage bundled into a product because of the exclusions in most products' terms and conditions. Industry representatives told us they believe consumers can benefit from bundled products because they cover some events not covered by other products, are offered to a wider range of customers, and can be priced less than

⁴⁸In contrast, premiums for credit insurance are not assessed on debt that exceeds the maximum benefit amount, according to the Consumer Credit Industry Association.

⁴⁹These circumstances may affect relatively few cardholders with a debt protection product because only 1.2 percent of them had a balance of \$10,000 or more as of December 2009, according to data we received from the nine largest issuers.

unbundled products because of economies of scale and reduced administrative expenses.⁵⁰

Credit card credit insurance typically has lower loss ratios—that is, the benefits paid out to consumers divided by the premiums collected—than more traditional forms of insurance, such as group life or individual disability insurance. In 2009, the aggregate loss ratios for credit card credit life and credit disability insurance were 61 percent and 24 percent, respectively, for the three insurance companies that provided us with data. In contrast, the 2009 aggregate loss ratios for group life insurance and individual disability insurance among U.S. insurance companies overall were 83 percent and 51 percent in 2009, according to SNL Financial and NAIC, respectively. However, there can be significant limitations to making such comparisons. First, credit insurance and other forms of insurance are not fully comparable products because their benefit amounts and coverage terms may differ significantly. Second, the cost of administering these products may vary, and may be proportionally higher for credit insurance, which typically covers relatively small loan amounts. Finally, loss ratios do not incorporate the nonquantifiable benefits of an insurance product, such as peace of mind.

Representatives from consumer organizations and some government agencies have advised consumers to consider alternatives to purchasing debt protection products or credit insurance. They note that consumers considering purchasing these products might be better off using the amount they would pay in monthly fees toward paying down their credit card balance, particularly if they are accruing significant interest. Another alternative to paying a debt protection product fee can be to accumulate personal savings that could be used to make credit card payments in the event of job loss or other unforeseen circumstances. Some consumer and insurance experts also advise that, in general, insurance is intended to provide broad financial protection, while these products just cover a single credit card debt. NAIC representatives told us that term life insurance was a more cost-effective way to protect one's heirs because the cost per unit of coverage for term life insurance is generally much lower than the cost

⁵⁰Christopher H. Hause and Robert W. Busby, "Study of Claim Costs by Age and the Effect of Bundling On Credit Card Debt Protection Products," prepared for the Consumer Credit Industry Association, by Hause Actuarial Solutions, Inc. (Dec. 13, 2010).

per unit of coverage for debt protection products or credit insurance.⁵¹ Moreover, a consumer can comparison shop among traditional insurance products to seek the best price. In contrast, a consumer holding a specific credit card can purchase a debt protection product only through the issuer of that credit card.

Consumers May Face Challenges in Evaluating Debt Protection Products

Financial markets function best when consumers have information sufficient to understand and assess financial services and products.⁵² Yet consumer testing conducted by the Federal Reserve suggests that at least some consumers may be confused about some aspects of debt protection products. In connection with proposed changes to Regulation Z in 2009, the Federal Reserve commissioned a private firm to conduct consumer testing of disclosures for credit insurance and debt protection products offered in connection with home equity lines of credit. Consumers in these testing sessions could not correctly calculate the monthly total fee for the product when given the unit cost per \$100 of monthly outstanding balance. In addition, participants were surprised to learn that, in some cases, they might not receive certain benefits because of eligibility requirements and exclusions. Federal Reserve officials told us that although this research was focused on home equity lines of credit, the findings were applicable to credit card-related debt protection and credit insurance products. However, industry representatives have expressed concerns with the small number of consumers polled and the applicability of the research to credit card products.

Our analysis of bank examinations that included a review of debt protection products found that regulators did not identify widespread problems related to marketing and disclosure materials. However, we found two cases related to confusing or incomplete disclosures. In one case, the debt protection product marketing materials contained language consumers could wrongly interpret to mean that no fee would be charged when the previous month's balance was paid in full. In the second case, the bank's welcome kit information was not sufficiently understandable

⁵¹ Industry representatives have noted, however, that consumers who are older or who have health conditions may face higher costs for term life coverage or may find it difficult to obtain such coverage.

⁵² GAO, *Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System*, GAO-09-216 (Washington, D.C.: Jan. 8, 2009).

and the product terms and conditions did not include complete eligibility information.

Further, the full terms and conditions of a debt protection product may be difficult for consumers to obtain and review prior to purchasing the product. We called customer service representatives of the nine largest issuers and requested that the issuers mail us copies of the full terms and conditions of their credit card debt protection products. The customer service representatives of seven of the nine issuers told us they would not provide the terms and conditions unless we enrolled in the product. Federal regulations do not require full terms and conditions to be provided prior to purchase in every type of sale. For instance, short-form (oral) disclosures for telephone sales must include the product's fee and the fact that it is optional and require that additional written disclosures be mailed within 3 business days of purchase. Representatives of the credit card companies provided a variety of reasons for declining to provide the full terms and conditions to consumers until after consumers purchased the product. One issuer stated that providing the full terms and conditions was impractical in connection with certain marketing channels, such as telephone calls, and another stated that it could be confusing to provide the information in advance because consumers might believe they had already purchased the product. Several issuers also noted to us that consumers could obtain the information on their Web sites. We reviewed the nine largest issuers' Web sites and found that seven included the full terms and conditions for their debt protection products, while the remaining two did not.

In general, government agencies have a wide variety of consumer information that addresses credit insurance—which, as we have seen, is no longer widely offered with credit cards—but do not have such materials specifically for debt protection products. At least 10 state insurance regulators and NAIC have taken steps to educate consumers about credit insurance, through consumer alerts, press releases, reports, or Web sites. FTC and the federal banking regulators do not have consumer education materials specific to debt protection products, although the Federal Reserve stated in its proposed revisions to Regulation Z that it planned to dedicate a Web site for consumers about debt protection products. OCC staff told us that their consumer education efforts have not focused on debt protection products because these products have not been a source of significant complaints. The new Bureau of Consumer Financial Protection will have the authority to improve consumer financial literacy through its Office of Financial Education, which is charged with developing and implementing initiatives

to educate and empower consumers to make better informed decisions about financial products. Without good information about debt protection products, it may be difficult for consumers to assess this product and determine whether it represents a good value for them.

Conclusions

Debt protection products sold in conjunction with credit cards can provide consumers with certain advantages, most notably by potentially helping to protect a cardholder's credit rating and providing peace of mind. Regulators have reported relatively few consumer complaints and have cited few formal violations related to these products as a result of bank examinations. But, as we have seen, the fees associated with these products can be substantial, with the annual cost often exceeding 10 percent of the cardholder's average monthly balance. Moreover, among the nine largest issuers in 2009, consumers got back 21 cents in tangible financial benefits for every dollar they paid in fees for these products. In recent years, the debt protection products sold in conjunction with credit cards have largely displaced credit insurance. In contrast to state regulation of credit insurance, which seeks to establish a reasonable relationship between the tangible financial costs and benefits of the product, federal regulation of debt protection products generally has not addressed the costs and benefits to consumers. The Dodd-Frank Act, however, transfers supervisory and enforcement authority for credit card debt protection products—among other consumer financial products and services—from the federal banking regulators to the new Bureau of Consumer Financial Protection. The bureau is specifically charged with considering consumer awareness and understanding of a product's or service's benefits and costs when making rules concerning disclosure. Taking such steps for credit card debt protection products would be consistent with the bureau's mission and would help ensure that the products represented a fair value to consumers.

Credit card debt protection products can be difficult for consumers to assess. Federal agencies offer relatively little consumer information specific to debt protection products, in part because they have received few complaints about them and as a result have not focused on these products in their educational efforts. The new Bureau of Consumer Financial Protection will also include an Office of Financial Education that is charged with improving consumers' financial literacy and providing them with information that will help them evaluate credit products. Consumers would benefit from information from the bureau to help them assess whether or not credit card debt protection products represented a good choice for them.

Recommendations for Executive Action

We recommend that the Bureau of Consumer Financial Protection take the following two actions:

- factor into its oversight and regulation of credit card debt protection products, including its rulemaking and examination processes, a consideration of the financial benefits and costs to consumers, and
- incorporate in its consumer financial education efforts ways to improve consumers' understanding of credit card debt protection products and their ability to assess whether or not the products represent a good choice for them.

Agency Comments

We provided a draft of this report to the Bureau of Consumer Financial Protection, FDIC, Federal Reserve, FTC, NAIC, NCUA, OCC, and OTS for comment and we incorporated technical comments received from these agencies as appropriate. In addition, the Bureau of Consumer Financial Protection provided a written response, which is reprinted in appendix II. The bureau said that it agreed with our recommendations and intended to implement them. The bureau noted the new authorities granted to it under the Dodd-Frank Act to oversee credit card debt protection products and educate and empower consumers. NCUA also provided a written response, which is reprinted in appendix III. NCUA said it believed our conclusions were reasonable and consistent with our findings. It noted that it was pleased that our report found that the few credit unions electing to offer credit card debt protection products generally did so at rates comparatively favorable to consumers. Finally, NAIC provided a written response, reprinted in appendix IV, in which it noted that state insurance regulators monitor the relationship of benefits provided and premiums charged to evaluate the suitability of credit insurance.

We are sending copies of this report to the appropriate congressional committees, the five federal banking regulators, Bureau of Consumer Financial Protection, FTC, NAIC, and other interested parties. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If your offices have any questions about this report, please contact me at (202) 512-8678 or cackleya@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.



Alicia Puente Cackley
Director, Financial Markets
and Community Investment

Appendix I: Objectives, Scope, and Methodology

Our reporting objectives were to review (1) the market for and key characteristics of debt protection products and credit insurance for credit cards, (2) federal and state regulation of these products, and (3) the advantages and disadvantages of these products for consumers. The focus of our report was on debt protection products and credit insurance for credit cards, although such products may be offered with other types of loans, including mortgages, auto loans, and home equity lines of credit. The report addresses only general purpose credit cards and not small business or private label cards used at specific retail stores.

To address our first objective, we obtained data from and interviewed representatives of the nine largest credit card issuers as of December 31, 2010, as measured by outstanding balances on general purpose credit cards.¹ These issuers, which represented about 85 percent of the general purpose credit card market, were American Express; Bank of America; Capital One; Citibank (South Dakota), N.A.; Discover; Chase Bank USA, N.A.; HSBC; U.S. Bancorp; and Wells Fargo Bank, N.A. We also obtained data from and interviewed representatives of three major insurance companies that offer credit card credit insurance—Aegon USA, Assurant Solutions, and Central States Indemnity—which were estimated to represent about 30 percent of the open-end credit insurance market in 2009, according to data from the National Association of Insurance Commissioners (NAIC). We also interviewed representatives of the law firms representing the Debt Cancellation Coalition, a coalition of credit card issuers and insurance companies that offer and administer debt protection products.

The Debt Cancellation Coalition engaged Argus Information and Advisory Services, LLC, a third-party analytics firm, to collect and aggregate proprietary data that we requested related to debt protection and credit insurance products from the nine credit card issuers and three credit insurance companies noted above. We developed separate questionnaires for credit card issuers that provide debt protection products and for insurance companies that provide credit insurance products. The questionnaires collected information on product sales, fees, financial benefits, administrative expenses, earnings, complaints, cancellations, incentives and commissions, the marketing of these products, and characteristics of consumers who purchase them. We received comments

¹HSN Consultants Inc., *The Nilson Report*, vol. 966 (February 2011); 8-9. *The Nilson Report* is a publication covering news and proprietary research on consumer payment systems.

and technical corrections on drafts of the questionnaires from the companies that would be completing them, as well as representatives of the Debt Cancellation Coalition, Argus, and an actuarial firm, and incorporated changes as appropriate. The third-party provider, Argus, distributed the questionnaires we developed and asked the companies to submit their responses within approximately 3 weeks. We discussed with Argus and with representatives of the companies steps that were being taken to ensure that the data were accurate and complete, and Argus provided us with documentation of these steps. However, we did not have access to the issuers' or insurance companies' systems to fully assess the reliability of the data they provided or the systems themselves, which house the data. Therefore, we present these data in our report only as representations made to us by these companies.

Additionally, we gathered information on the characteristics of the nine issuers' primary debt protection products by having three analysts independently review the products' terms and conditions. Any discrepancies among the three analysts about the products' features, terms, or conditions were identified, discussed, and resolved by referring to the source documents provided by the nine issuers. In some instances, we contacted issuers to confirm or clarify certain aspects of the products. In coordination with the Debt Cancellation Coalition, the nine issuers and three insurance companies also provided us with sample marketing materials, including telephone scripts used by their representatives to sell the products, product brochures, promotional e-mail messages, screen shots of product Web sites, direct mail materials sent to consumers, and new card applications that include the option to purchase the products.

To address our second objective, we reviewed applicable federal laws and regulations related to debt protection products, including Regulation Z, which implements the Truth in Lending Act, Section 5 of the Federal Trade Commission Act, and a rule from the Office of the Comptroller of the Currency (OCC) that specifically addresses debt protection products.² We reviewed the compliance examination handbooks and procedures of the five federal banking regulators—Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System (Federal Reserve), National Credit Union Administration (NCUA), OCC, and the Office of Thrift Supervision (OTS)—and identified procedures and activities specific to debt protection products. We also obtained and

²12 C.F.R Part 37.

reviewed 24 compliance examination reports (representing 13 unique institutions) completed by the Federal Reserve and OCC between 2006 and 2010 that included a review of a supervised institution's debt protection products. In addition, we conducted interviews with the federal banking regulators and the Federal Trade Commission (FTC) on their roles in overseeing debt protection products.

We also reviewed model laws and regulations developed by NAIC related to credit insurance, as well as summaries of credit insurance case law in various states. Additionally, we interviewed representatives of NAIC, three credit insurance companies, and two consumer organizations for their perspectives on state regulatory oversight of credit insurance. In addition, we obtained more detailed information on credit insurance regulation in three states—California, Maine, and New York. We selected these states because they represented a range of market sizes for open-end credit insurance, use different regulatory models, and have taken a proactive regulatory oversight approach to credit insurance, according to insurance experts and consumer advocates. For each of these states, we reviewed the state laws and regulations related to credit insurance and obtained information from representatives of the state's insurance department.

To address our third objective, we reviewed reports and studies by consumer organizations and trade groups that addressed the advantages and disadvantages of debt protection products and credit insurance. We also addressed these issues in interviews with representatives of individual credit card and credit insurance companies, as well as with the American Bankers Association, Consumer Credit Industry Association, Debt Cancellation Coalition, Center for Economic Justice, and Consumer Federation of America. We also interviewed staff at and received materials from CreditRe and Hause Actuarial Solutions, Inc., independent actuarial firms with expertise in credit insurance and debt protection products, and spoke with representatives of the American Academy of Actuaries. In addition, we evaluated the terms and conditions of selected debt protection and credit insurance products and analyzed aggregated data that we received from the nine largest issuers and three credit insurance companies. For comparative purposes, we also gathered data on the debt protection products offered by credit unions. We obtained pricing data from CUNA Mutual, a provider of financial products and insurance to credit unions, for 179 credit unions offering debt protection products in 2009. According to CUNA Mutual, these 179 credit unions represented roughly 51 percent of the credit union debt protection market for credit

cards (as measured by number of credit unions).³ We analyzed aggregated loss ratio data from three credit insurance companies and, for comparative purposes, reviewed comparable ratios for group life insurance and individual disability insurance in 2009. We obtained average group life insurance loss ratios from SNL Financial, a data source that collects, standardizes, and disseminates corporate, financial, and market data. The average group life insurance loss ratio data covered all companies offering group life insurance in the United States in 2009. We obtained average disability insurance loss ratios from NAIC, which covered the top 125 insurance companies that offered accident and health insurance in the United States in 2009. We determined that these data from SNL Financial and NAIC were sufficiently reliable for the purposes of our study.

In addition, we collected consumer complaint data for calendar years 2005 through 2009 from FDIC's Specialized Tracking and Reporting System, the Federal Reserve's CAESAR consumer complaint database, FTC's Consumer Sentinel database, OCC's Remedy consumer complaint database, and OTS's consumer complaint database. To assess the reliability of data from the regulators' databases, we reviewed documentation about these databases and interviewed agency staff who managed them. We determined that these data were sufficiently reliable for use in our report. We also reviewed data on consumer complaints obtained, in aggregated form, from our questionnaires to the nine issuers and three insurance companies. We obtained information from each of the federal banking regulators on violations and enforcement actions related to debt protection products that resulted from examinations conducted between 2006 and 2010. We also gathered information on consumer education resources related to debt protection and credit insurance products by reviewing the Web sites of the 50 state insurance departments, five federal banking regulators, FTC, and nine credit card issuers.

We conducted this performance audit from January 2010 through March 2011, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

³NCUA data indicate that in 2009 fewer than 350 credit unions offered debt protection products on any type of loan, including credit cards.

Appendix II: Comments from the Bureau of Consumer Financial Protection



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Ms. Alicia Puente Cackley
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street N.W.
Washington, D.C. 20548

Dear Ms. Cackley:

Thank you for the opportunity to comment on the GAO's draft report entitled *Credit Cards: Consumer Costs for Debt Protection Products Can Be Substantial Relative to Benefits, but Are Not a Focus of Regulatory Oversight.*

The CFPB welcomes this study as an important contribution to understanding the dynamics of a significant consumer financial product market. The report finds, based on industry data from the top nine general purpose credit card issuers, that consumers are spending \$2.4 billion on debt protection products but receiving only \$518 million in monetary benefits. The report raises important questions as to how well consumers understand the products they are purchasing and their value since, as the report observes, these products "can be difficult for consumers to assess."

The report highlights the important role the new Consumer Financial Protection Bureau can play in markets like these. The Dodd-Frank Act grants important new authorities to the Bureau to ensure that the terms and features of consumer financial products and services are "fully, accurately and effectively disclosed to consumers in a manner that permits consumers to understand the costs, benefits, and risks" and also to protect consumers from "unfair, deceptive and abusive practices."

The CFPB agrees with the report's conclusion that it would be "consistent with the bureau's mission" to "consider[] consumer awareness and understanding of the costs ... and benefits" of credit protection products in evaluating the existing disclosures rules with respect to these products. The CFPB intends, as the report recommends, to "factor into its oversight and regulation" of these products considerations of this sort.

**Appendix II: Comments from the Bureau of
Consumer Financial Protection**

The report also finds that “federal agencies offer relatively little consumer information specific to debt protection products.” Under the Dodd-Frank Act, the CFPB will be creating an Office of Financial Education to develop initiatives “to educate and empower consumers to make better informed financial decisions.” The CFPB will, as the report also recommends, explore ways to “improve consumers’ understanding” of debt protection products in connection with our financial education efforts.

Sincerely yours,



Rajeev Date
Associate Director
Research, Markets & Regulations
Consumer Financial Protection Bureau

Appendix III: Comments from the National Credit Union Administration



Executive Director

National Credit Union Administration

March 15, 2011

Ms. Alicia Puente Cackley
Director, Financial Markets and Community Investment
United States Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Ms. Cackley:

Thank you for the opportunity to comment on the draft report *Credit Cards: Consumer Costs for Debt Protection Products Can be Substantial Relative to Benefits, but Are Not a Focus of Regulatory Oversight* (GAO-11-311). In your report you recommend that the Consumer Financial Protection Bureau (CFPB), once operational, should consider the costs and benefits of credit card debt protection products as a part of its supervision and rulemaking responsibilities. You also recommend that the CFPB should incorporate information about credit card debt protection products, from a consumer's perspective, as a part of its financial literacy efforts.

At the National Credit Union Administration (NCUA), we believe your conclusions are reasonable and consistent with your findings. As the CFPB develops its structure, it would be appropriate to evaluate the quality of disclosures associated with credit card debt protection products. Over the long run, this will allow consumers to understand the total costs of these products and make valid comparisons. Moreover, since credit card debt protection products are relatively new and typically have higher costs when compared to comparable credit insurance products, a focus on consumer educational initiatives is also prudent.

As you note in your report, credit unions do not have a significant share of the overall market for credit card debt protection products. However, we are pleased your report notes the few credit unions electing to offer these types of products generally do so at rates comparatively favorable to consumers.

As NCUA advances consumer protection goals through our Office of Consumer Protection, we will continue to encourage credit unions to consistently demonstrate best practices in offering consumer products, and support financial education initiatives. We will use your report as a benchmark when assessing trends associated with newer financial products.

1775 Duke Street - Alexandria, VA 22314-3428 - 703-518-6320

**Appendix III: Comments from the National
Credit Union Administration**

Ms. Alicia Puente Cackley
March 15, 2011
Page 2

We appreciate the opportunity to comment and commend the professionalism of your staff throughout the audit process.

Sincerely,



Dave Marquis
Executive Director

Appendix IV: Comments from the National Association of Insurance Commissioners



March 15, 2011

Alicia Puente Cackley
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G. Street, NW
Washington, DC 20548

Dear Ms. Puente Cackley:

Thank you for the opportunity to comment on the GAO's draft report titled "Consumer Costs for Debt Protection Products Can Be Substantial Relative to Benefits, But Are Not a Focus of Regulatory Oversight" (GAO-11-311).

As you noted in your report, debt protection products are generally subject to federal regulation while credit insurance is primarily regulated by the states. We agree that state regulation of consumer insurance is enhanced with tools such as financial examinations, market conduct examinations and states' adoption of the NAIC's Consumer Credit Insurance Model Act and Regulation. The Models in particular allow state Departments of Insurance to monitor the relationship of benefits provided and premiums charged to evaluate the suitability of these products.

The NAIC and its members share the GAO's concern that consumers receive significant protection for premiums they pay for credit insurance. Again, we appreciate the opportunity to review this report and submit comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew J. Beal".

Andrew J. Beal
Chief Operating Officer and
Chief Legal Officer

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GAO-11-311

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Alicia Puente Cackley, (202) 512-8678 or cackleya@gao.gov.

Staff Acknowledgments

In addition to the contact named above, Jason Bromberg (Assistant Director), Emily Chalmers, Beth Ann Faraguna, Catherine Gelb, Jamila Jones Kennedy, Michelle Liberatore, Yesook Merrill, Marc Molino, Susan Offutt, Andrew Stavisky, and Paul Thompson made key contributions to this report.

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