

**Meeting between Federal Reserve Bank Staff
and Representatives of Securian Financial Group
January 28, 2011**

Participants: James Lyon, Niel Willardson and James Colwell
(Federal Reserve Bank of Minneapolis)

Robert L. Senkler, Dwayne Radel and Catherine Klimek
(Securian Financial Group)

Summary: Staff of the Federal Reserve Bank of Minneapolis met with representatives of Securian Financial Group (“Securian”) to discuss proposed changes to the Federal Reserve Board’s Regulation Z (Docket No. R-1390). Using prepared materials, representatives from Securian provided an overview of the company, the credit insurance market, current required disclosures, along with other aspects of the company’s products and markets for these products. Securian representatives then detailed concerns regarding the proposed credit protection rules and provided proposed alternative language to the disclosures in the Board’s proposal.

A copy of the materials distributed at the meeting is attached.

Securian Financial Group

Credit Protection Proposed Rules (Docket No. R-1390)

Federal Reserve Bank:

James Lyon, First Vice President & COO

Niel Willardson, Senior Vice President, General Counsel & Corporate Secretary

Securian:

✓ **Robert L. Senkler**, Chairman & CEO

✓ **Dwayne Radel**, Senior Vice President & General Counsel

✓ **Catherine Klimek**, Counsel

January 28, 2011

Financial security
for the long run.



Securian Financial Group, Inc. & the Marketplace Today

- In operation since 1880 – Insure 9 million people
- Writing credit-related insurance for over 50 years:
 - #1 writer of mortgage life insurance in the country
 - #3 writer of credit insurance in the country
 - Offering debt cancellation/suspension products since 2002
- Among the 20 most highly-rated insurance companies
- Good corporate neighbor: over \$28 million contributed in the past 10 years through cash, in-kind gifts, and employee volunteer hours
- Impeccable compliance record. Our motto is “Do the Right Thing”.

Consumers Need Credit Protection Products Now More Than Ever

- Percentage of U.S. households with life insurance coverage is at its lowest in 50 years.
- Only 44% of households have an individual life insurance policy.
- 30% have no individual or employer-provided life insurance.
- 11 million households with kids under 18 — viewed as families with the greatest need for coverage — have no life insurance.
- At the same time, 40% of families with children under age 18 said they would have immediate trouble paying expenses if the primary breadwinner died.

* “Households with life insurance hits lowest level in 50 years” by Sandra Block, USA Today, 12/3/10

Consumers understand and want the products – *FRB's own research:*

- Only 1 in 20 purchasers felt that they were led to believe that purchase was required.
- Favorable Attitude:
 - More than 90% of installment credit users indicated a favorable attitude toward the product.
 - 95% indicated that they would purchase it again.
 - 75% of first-mortgage borrowers indicated a favorable attitude toward the product.
 - 90% of junior-lien mortgage borrowers indicated a favorable attitude toward the product.
- Favorable attitudes have not changed over the past 35 years.

* Thomas A. Durkin, *Consumers and Credit Disclosures: Credit Cards and Credit Insurance*, Federal Reserve Bulletin (2002)

Securian Financial Group & the Marketplace Today

- Who do we do business through?
 - Credit Unions (second leading writer of credit insurance)
 - Banks
 - Finance Companies

Securian Financial Group, Inc. & the Marketplace Today (cont'd)

- The credit insurance business has changed dramatically over the years:
 - Much more rate regulation (has eliminated reverse competition)
 - Less single premium (of Securian's business, 80% is MOB; 20% SP; no SP on mortgage loans)
 - Penetration rates have dropped from 60% in 1985 to less than 20% now

Consumers understand and want the products – *National Association of Insurance Commissioners:*

- Number of complaints re: credit insurance each year:
 - 1 in 41,814 credit insurance certificates issued
 - a percentage of 0.00239%
 - 3 times *less* than complaints re: individual insurance

*Source : NAIC Closed Complaint Summary Index Reports (2005-2009)

Securian Financial Group, Inc. & the Marketplace Today (cont'd)

- We provide the Reg Z disclosures for the products that we offer
 - loan documents
 - credit insurance applications and certificates
 - debt cancellation applications and loan addendums.
- Since we are at risk, we make sure the laws are followed.
- We err on the side of disclosure and always want our clients, and their borrowers, to understand their loan terms and the credit protection products that they purchase.

Concerns with Proposed Credit Protection Rules:

1. Disclosures are inaccurate and misleading, and harmful to consumers
2. More disclosures are not necessary or helpful

Concern #1: Disclosures are inaccurate, misleading, and biased

- Disclosures are inaccurate and misleading
- Disclosures tell consumers to not buy the product
- Examples and arguments fully detailed in three separate comment letters submitted to Board by Securian

OPTIONAL COSTS
Option to Purchase Credit Life Insurance

STOP. You do **not** have to buy Credit Life Insurance to get this loan. Go to www.frb.gov/creditprotectionproducts to learn more about this product.

Do I need this product?	If you already have enough insurance or savings to pay off this loan if you die, you may not need this product. Other types of insurance can give you similar benefits and are often less expensive.
How much does it cost?	This product will cost up to \$118 per month . The Cost depends on your loan balance.
What is the maximum benefit amount?	This product will only covers the first \$150,000 of the outstanding balance on your loan. You will be responsible for any balance due above \$150,000.
Can I receive benefits?	<u>You may not receive any benefits even if you buy this product.</u> You meet the age eligibility requirements, but there are other requirements that you must meet. If you do not meet these requirements, you will not receive any benefits even if you buy this product and pay the monthly premium.
How long does the coverage last?	This product provides coverage for the first 10 years of your loan or until you reach age 70, whichever comes first.

Yes, I want to purchase optional Credit Life Insurance at a cost of up to \$118 per month. _____ Signature

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Concern #2: More disclosures are not necessary or helpful

- No objection to accurate, objective, useful disclosures. BUT -
 - Board cites bad actors – “Packing”
 - Stewart Financial
 - Providian
 - Consumers already understand that the products are optional
 - Board’s own research show this

Concern #2: More disclosures are not necessary or helpful (cont'd)

- In 2002, FRB study showed overwhelmingly that consumers liked and understood the products and would purchase them again
- In 2009, the Board tested disclosures that satisfy the current disclosure requirements:
 - ***“Almost all interview participants understood from their reading of this section of the form that credit life insurance is not required.”***

**Summary of Findings, R-1366, Federal Reserve Board, July 2009*

Alternative to Proposed Disclosures – CCIA’s Study

- In November 2010, the Consumer Credit Industry Association drafted alternative disclosures and tested them.
- Tested 3 versions of disclosures with 3 groups of 400 individuals.
- Each group looked at one of the following:
 - (1) disclosures currently mandated under Reg Z;
 - (2) the Board’s proposed disclosures; and
 - (3) the CCIA’s proposed alternative disclosures.
- **“Clear and easy to understand?” CCIA: 66% versus Board’s 49%**

Products Must Not Be Eliminated: Credit Protection Provides Value to Consumers

- In 2009, the industry paid out \$2 billion to consumers*
- Number of claims paid by Securian in 2010:
 - Short-term credit: 16,364 (nearly 45 real people helped per day)
 - Debt Protection: 4,126
 - Mortgage Life: 744
- For many consumers, only insurance protection they can get (age, health, occupation)
- If consumer already has insurance, credit protection supplements and complements that coverage

*2009 NAIC Credit Insurance Experience Exhibit

Conclusion: A Solution in Search of a Problem

- Current disclosures are effective
- Proposed disclosures are inaccurate, biased, and confusing to consumers
- More disclosures will not make bad actors into model citizens
- More disclosures will only drive good guys out of the market
- This only harms consumers and the good guys; bad actors would have free reign

Appendix: Disclosure Documents Tested

PROPOSED CCIA DISCLOSURE

The proposed CCIA disclosure was developed by members the CCIA's Federal Affairs Sub Committee.

OPTIONAL CREDIT LIFE INSURANCE

PLEASE READ THESE IMPORTANT DISCLOSURES

THIS PRODUCT IS OPTIONAL. You do not have to buy credit life insurance to get this loan.

What is it?	Credit life insurance provides protection for borrowers who take out loans. It is designed to reduce or pay off the outstanding balance on this loan (up to the maximum benefit amount) if you die during the term of the insurance.
Do I need this product?	Credit life insurance supplements any existing life insurance you may have by providing protection for this loan. You may wish to speak with your insurance agent about your insurance needs.
How much does it cost?	Based on your initial loan amount, the cost of this product will be \$72.00 in the first month, and is scheduled to decrease each month as your loan balance decreases.
What is the maximum benefit amount?	This product will pay the insured outstanding balance as of the date of your death, up to \$100,000. You will be responsible for any loan balance that remains after the benefit has been applied to your loan.
Are benefits always payable?	You meet the initial age eligibility requirement. However, there are other eligibility requirements, conditions, and exclusions that could prevent you from receiving benefits under this product. For example, benefits would not be paid if your death is a result of suicide within the first two years of coverage. You should carefully read the product contract for details.
How long does the coverage last?	This product provides coverage for the first 10 years of your loan or until you reach age 70, whichever comes first.

Yes, I want to buy optional credit life insurance.

No, do not want to buy optional credit life insurance.

X _____
Signature

Date

EXISTING DISCLOSURE

The existing disclosure mimics language of an existing disclosure provided to consumers by a company currently selling credit life insurance.

OPTIONAL CREDIT INSURANCE DISCLOSURE

Credit Insurance is NOT required to obtain this loan. Lender's decision to grant credit will not be affected by Borrower's decision to purchase or not to purchase this optional insurance.

Coverage will not be provided unless Borrower signs and agrees to pay the applicable monthly premium in addition to the monthly loan payment required.

I request the following insurance:

<u>Insurance Type</u>	<u>1st Month Premium</u>	<u>1st Year's Premium*</u>
Single Credit Life	\$72.00	\$861.34

* Calculated assuming monthly loan payments are made on time.

Coverage will continue for the first 10 years of your loan or until you reach age of 70, whichever comes first.

If Coverage is selected and you are eligible, you will be charged a premium and given a Certificate of Insurance from the Insurance Company, which provides the important terms of this coverage. Read it carefully.

Proposed Insured Signature

Date

PROPOSED FRB DISCLOSURE

The proposed FRB disclosure tested mimics a proposed model form resulting from the findings of the qualitative research commissioned by the FRB earlier in 2010.

OPTIONAL COSTS

Option to Purchase Credit Life Insurance

STOP. You do **not** have to buy Credit Life Insurance to get this loan. Go to www.frb.gov/ ___ to learn more about this product.

Do I need this product?	If you already have enough insurance or savings to pay off this loan if you die, you may not need this product. Other types of insurance can give you similar benefits and are often less expensive.
How much does it cost?	This product will cost up to \$72 per month . The cost depends on your loan balance.
What is the maximum benefit amount?	This product only covers the first \$100,000 of the outstanding balance on your loan. You will be responsible for any balance due above \$100,000.
Can I receive benefits?	You may not receive any benefits even if you buy this product. You meet the age eligibility requirements, but there are other requirements that you must meet. If you do not meet these requirements, you will not receive any benefits even if you buy this product and pay the monthly premium.
How long does the coverage last?	This product provides coverage for the first 10 years of your loan or until you reach age 70, whichever comes first.

Yes, I want to purchase optional Credit Life Insurance at a cost of up to \$72 per month.

Signature