



Credit Insurance: Regulated Coverage for Consumer's Debt Colorado February 2024

Optional credit insurance pays off the loan balance in the case of death, or monthly loan payments in the event of disability or involuntary unemployment.

Consumers Enjoy the Benefits of Ample Regulation

- Federal law provides that optional credit insurance comply with **Truth-In-Lending Act (15 U.S. Code § 1601) (TILA)** and **Regulation Z (12 CFR Part 1026.4)**:
 - optional credit insurance is not a cost of credit or included as a fee or finance charge in the calculation of the APR
 - consumer disclosures on the insurance application must include that the purchase of credit insurance is not required to obtain credit, and that the borrower must make an affirmative written election.
- Insurers, producers, and their credit insurance product(s) also must comply with **3 CCR 702-4 Series 4-9 and Colorado Code § 10-10-101 and regulatory approvals of the Colorado Division of Insurance** which provide:
 - “Premium for insurance or its sale shall not be deemed to be an additional or further interest, discount or charge” (**Colorado Code § 10-10-117**)
 - Premiums are subject to rate filings with the Division of Insurance and must demonstrate compliance with a loss ratio of 40% (**3 CCR 702-4 Series 4-9-2 Section 12. D.**)
 - All insurance policies, applications, and rates or prices are certified and filed with the Colorado Division of Insurance. The Division may audit for insurers and producers’ compliance.
 - Employees of lenders must be licensed as producers (**Colorado Code § 10-2-401**)
 - The enrollment/application for insurance must be separate from loan agreement and includes mandatory disclosures (includes Regulation Z requirements)
 - Purchase of insurance is voluntary and not a requirement to obtain credit
 - Insurance may be canceled at any time at no cost (**3 CCR 702-4 Series 4-9-2 § 6 C.**)
 - Price of insurance
 - Borrower may decline purchase and use or buy insurance coverage elsewhere
 - Borrower must sign the application separately from the loan agreement
 - Purchaser of insurance receives a policy or certificate of insurance with all terms, conditions, claims information, and cancelation rights.

Credit Insurance is Accessible and Affordable

- Premium rate in Colorado is 40 cents per \$100 per year for single premium gross decreasing term coverage

Credit insurance and GAP help U.S. households withstand financial shocks

- Over \$1.9 billion in U.S. household debt was relieved by some form of credit insurance in 2022¹
- At the end of 2022, over \$9.5M in credit insurance and GAP claims paid to Colorado borrowers²

¹ NAIC Credit Insurance Experience Exhibit, Paid Claims.

² Ibid.

³ Complaint data is reported to the National Association of Insurance Commissioners (NAIC).[link](#)

⁴ Durkin, Thomas A., and Gregory Elliehausen (2017). "New Evidence on an Old Unanswered Question: Why Some Borrowers Purchase Credit Insurance and Other Debt Protection and Some Do Not," Finance and Economics Discussion Series 2017-122. Washington: Board of Governors of the Federal Reserve System, <https://doi.org/10.17016/FEDS.2017.122>. Four similar Federal Reserve System reports have been published from 1977 to 2012.

⁵ Ibid.

⁶ Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2022, May 2023 [link](#)

⁷ Ibid.

⁸ Ibid.

⁹ Bankrate, "2023 Annual Emergency Savings Report 2023,"[link](#)

¹⁰ Ibid.

¹¹ American Payroll Association, "Getting Paid in America" Survey, 2022, [link](#)

¹² LIMRA, 2023 Insurance Barometer Study, [link](#)

¹³ Social Security Basic Fact 2023s, [link](#)

¹⁴ Ibid

¹⁵ Council for Disability Awareness, Disability Statistics, Last updated 9.20.21, [link](#)