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ARE YOU DELIVERING THE PROMISE OF
A DEBT CANCELLATION BENEFIT?

STUDY CITES FEATURES AND BENEFITS THAT MATTER TO CONSUMERS

Are you delivering the promise of a debt cancellation benefit?

Study cites features and benefits that matter to consumers

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Debt cancellation products have gained popularity among U.S. lenders. At last count, over 200 lenders are now offering some form of a debt cancellation benefit on consumer installment loans, home equity loans, lines of credit and credit card accounts. These debt cancellation products often displace or enhance traditional credit insurance. Debt cancellation is not an insurance product. It is a loan product whereby the loan agreement or credit card agreement is amended to provide certain features and benefits to the consumer.

Debt cancellation differentiates itself from credit insurance through a focus on market-driven design and the ability to tailor benefits that make sense for your specific customer base. You start by learning what your customers really want. With a debt cancellation product, consumer research should and does play a significant role in determining the right offer for your customer.

While designing products and services is not new to lenders, designing this type of a protection benefit is new frontier. Why? Past offerings involved credit insurance which has been sold in the U.S. since 1917. Credit insurance has been routinely offered in conjunction with consumer installment debt, and for decades, credit insurance has also been offered to protect credit card balances. Over time, millions of people have purchased this optional protection from their lender. The product design, price, features and benefits were *manufactured* by an insurance company to meet each state's insurance regulation requirements. In contrast, debt cancellation type prod-

ucts are market-driven, offered by the lender, and regulated by the lender's regulatory body. In short, the regulations promote fair sales practices, disclosure, and require this benefit to be optional. The product design, price, features and benefits can be designed to meet consumer need, and provide value from among a broad list of "life events" that can cause difficult financial times for the customer.

A comprehensive study was recently conducted to get at the heart of what consumers expect in these products, to know what they value, and help lenders deliver it. Using a proven Value Analysis research technique, it was learned that one of two prospects expects that a debt cancellation benefit would provide either an "excellent value" or "good value" to their household or family. It was also learned that consumers *want* their primary bank to have this benefit. The challenge for lenders is to design a product offering that provides this "value" as defined by *their* lending customer base.

For our purposes, respondents to our Value Analysis research study were qualified as current credit card users or loan customers (vehicle loan, first or second mortgage, home equity loan or line of credit) among a nationwide sample. One fourth of respondents were in each of the following income ranges: \$20,000 to \$29,000, \$30,000 to \$39,999, \$40,000 to \$49,999 and \$50,000 to \$59,999, with an average age of 45. While understanding that each customer base is unique, much can be learned from the loan and credit card customers in our nationwide sample.

What is Debt Cancellation?

A debt cancellation agreement may do one or more of the following:

- cancel the debt or monthly payments
- defer payment on existing debt (typically referred to as debt deferment or debt suspension)

Most lenders in the U.S. are authorized to offer a debt cancellation agreement to the lending customer. The three basic components of any such agreement involve: amending the lending agreement, charging a fee, and canceling the debt upon death, disability, involuntary unemployment, or other defined life events.

You will find variations of debt cancellation, which are called debt “deferment” or debt “suspension”. For this document, we will use the term “debt cancellation” to encompass the product variations of debt deferment, debt suspension and the like.

The basic expectations

The first priority in building your debt cancellation product is gaining an understanding of the basic expectations of the prospect. These basic expectations do not really add value for the customer. They are the starting point and are considered the fundamentals for a lender that is offering such a product.

A debt cancellation agreement is expected to deliver “relief” either by canceling debt or canceling payments in time of need. Prospects have basic expectations that a debt cancellation agreement, the actual document or amendment to the loan/credit card agreement, will be easy to understand and arrive promptly for their safe-keeping. They expect customer service will be there when needed. And they also expect to be able to terminate their debt cancellation agreement at any time without penalty. When considering purchasing the optional debt cancellation product, the prospect wants it to be easy to try (i.e. no long forms, difficult steps to buy), yet get a full refund if canceled in 30 days.

Our research also found that many coverage elements offered in debt cancellation products are viewed as “basics”. These coverages focus on death and disability including: accidental death, accidental disability, coverage for disability that prevents you from working and coverage for death by natural causes. While many prospects may view these coverages as important, they do not greatly contribute to the value perception of a debt cancellation agreement. Again, they serve as a starting point or fundamental coverage, and are not going to address what consumers really want.

What really contributes to “value”?

It is commonly said, “Always provide value to the customer”. But what is value when it comes to offering a debt cancellation agreement? What do you provide to prospects that turn them into debt cancellation agreement customers? Prospects tell us they expect the lender to go beyond the basics and provide them something they value. In this case, value is defined as issues that have both a high importance to the consumer

— and — contributes to their value perception (they are willing to purchase or pay for it).

Unfortunately, many lenders have not asked the “value” question. Instead, many have assumed that designing and offering benefits “similar” to traditional credit insurance would provide the value consumers had grown to “expect”. Our research shows this is not the case. It was determined that the “value issues” for debt cancellation are centered on providing coverage for “more serious life events” than typically found in credit insurance products. To convey a high-perceived value among prospects, the lender needs to provide a combined feature, benefit and coverage mix that consumers want and are willing to pay for. For example:

Features that contribute to value:

- coverage that is paid for on a monthly basis with the loan or credit card payment
- being able to enroll by telephone

- having the option to suspend loan/credit card payments for a limited time when a life event occurs

Benefits that contribute to value:

- preserving the customer’s credit rating when they can’t make payments
- helping the customer feel in control of their finances

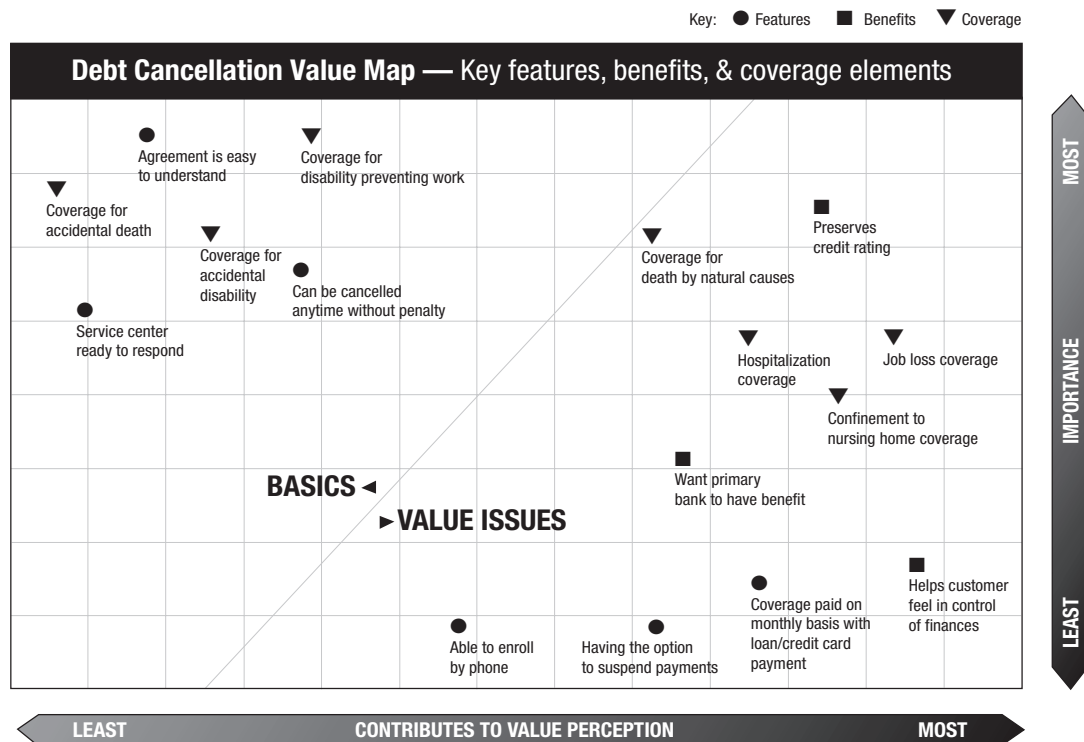
Coverage that contributes to value:

- involuntary job loss protection
- debt relief when hospitalized
- debt relief when confined to a nursing home

It was also learned that within specific segments of the population, certain “family-related” coverage is a value issue such as coverage for birth of a child.

Since value issues ultimately build prospect interest in opting for the debt cancellation agreement, the above should be considered when designing your program.

Your debt cancellation program should focus on offering and communicating the “value issues” to your loan/credit card customer.



The unimportant issues

Some things that are routinely part of offering a debt cancellation agreement are simply unimportant to the prospective buyer — they do not add value and they are not considered basic or fundamental to the product. The prospect is basically saying to the lender, “I don’t care anything about....” The following somewhat novel coverage elements fall into this classification:

- coverage for newly married account holders
- coverage for those going through a divorce
- coverage for an employer-approved leave of absence from work without pay.

Conclusion

Once you have worked through a thorough Value Analysis of your customer base, you will be ready to design and develop your debt cancellation program. We routinely help lenders with this work and have learned that your opportunity with debt cancellation is all about reaching your customer base with a more relevant and valuable product over traditional credit insurance programs. With an appropriate product design deployed, more customers will be interested in protecting their indebtedness with the optional debt cancellation type product over those who considered credit insurance.

The flexibility in debt cancellation product design enables a true market-driven, consumer-focused product to be offered by your organization. You control the features, benefits and pricing that will work best for *your customers*, differentiating yourself in the marketplace and creating value for your customers. More than ever, lenders are moving to a debt cancellation approach and are finding it the preferred choice in consumer lending protection programs.

Bob Reilley, is Senior Vice President, Chief Marketing Officer for Aon Integramark, a company formed in 1998 to assist lenders in transitioning to alternative methods of protecting loans, generating fee income and pleasing customers. More information on debt cancellation product design, risk mitigation and program administration can be found at www.aon.com/integramark or you may contact us at 877-299-0179 or by email at bob_reilley@asg.aon.com.

Contributing to this document was Ty Ragland, founder of Message Factors and Developer of the Value Analysis research technique. Clients of Aon Integramark can benefit from a specifically designed Value Analysis approach to help build debt cancellation type programs that please their customers.

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