

GUIDELINES FOR
CONVERTING CUSTOMERS FROM
LEGACY CREDIT INSURANCE
TO DEBT CANCELLATION



AON *Integramark*

REALIZING THE POWER OF DEBT CANCELLATION

Guidelines for Converting Customers from Legacy Credit Insurance to Debt Cancellation

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If you are no longer offering yet maintaining legacy credit insurance programs, it can be a costly endeavor with diminishing returns and added compliance risk. You may wish to consider an option to convert those credit card customers currently covered by one or another credit insurance programs to a debt cancellation program.

A conversion creates a customized debt cancellation program platform that ensures all converted customers receive at minimum, near equivalent protection and most likely will receive more protection, less limitations or exclusions at the same price.

Once decided, a detailed plan is created and deployed to affect a positive change for the customer and your bank. This guideline document is intended to summarize the many topics that are reviewed in determining your “authority pathway” to convert and the legal and regulatory construct. It is not intended to serve as your specific plan or legal advice given each bank, credit card and credit insurance situation will vary.

Start by reviewing your legacy credit insurance programs

Over the years, you have likely sold programs from a variety of insurers and have customer representation in many states. You will take an inventory of the programs that remain on the books and secure copies of:

- Group master policies or certificates where applicable
- Compile a list of protection benefits (coverages) from each policy sold in each state
- Compile a list of all rates being deployed for each policy in each state.

A key facet of your legacy credit insurance situation is that each customer received at the time of purchasing the optional program:

- Program disclosures in the sales materials
- They made a voluntary purchase
- The insurance premium was disclosed
- The customer affirmed their enrollment (i.e. signature)
- A certificate/policy was provided to the customer.

Consider the outcome of the conversion

Once the conversion is complete, your legacy credit insureds will have a Debt Cancellation Agreement (DCA) that begins with “like-for-like” protections and price. The goal is to provide customers with the functional equivalent of what they previously had as an insured, yet in all cases, our experience shows the resulting design for each customer should improve the value for each customer. In constructing your conversion debt cancellation program platform be sure to:

- Have no degradation in coverage/protection or increase in cost to the customer
- Look for enhancements in design that add value, increase utility or eliminate involuntary terminations such as eliminating certain credit insurance provisions like age in/out
- Add value added debt cancellation “trigger events” not formally available under the credit insurance program in a given state or even nationally
- Clearly inform the customer of the change and make it easy for all to compare what they had with the credit insurance and what they have with the debt cancellation program. The process used and compliant in most states is a “negative enrollment” method that advises customers of the change and

allows customers to take action if they wish to terminate the action (i.e. easily via telephone or in writing)

- In some states, a positive election or “positive enrollment” method will be needed for compliance. At this time, customers in three (3) states would be sent communication on the termination of their group master policy/credit insurance program and opportunity to enroll in the new debt cancellation program.

Applicable rules and regulations that apply to a conversion

As you begin planning your conversion, you’ll need to first determine the “authority pathway” that enables your organization to complete a conversion. It begins with an understanding of the applicable credit insurance regulations and debt cancellation regulation(s) and concludes with written notification to your financial institution authority such as the OCC for national banks, OTS for thrifts and NCUA for credit unions of your intent to convert and conveying your plan.

Truth In Lending Act

The Truth In Lending Act (TILA) states specific requirements for disclosure content for credit insurance disclosures and for debt cancellation agreement disclosures:

- *Required TILA credit insurance disclosure/signature*
12 C.F.R. § 226.4(d)(1) Voluntary credit insurance premiums. Premiums for credit life, accident, health or loss-of-income insurance may be excluded from the finance charge if the following conditions are met: (i) The insurance coverage is not required by the creditor, and this fact is disclosed in writing. (ii) The premium for the initial term of insurance coverage is disclosed. If the term of insurance is less than the term of the transaction, the term of insurance also shall be disclosed *** (iii) The consumer signs or initials an affirmative written request for the insurance after receiving the disclosures specified in this paragraph. ***
- *Required TILA debt cancellation agreement disclosure/signature*
12 C.F.R. § 226.4(d)(3) Voluntary debt cancellation

fees. (i) Charges *** paid for debt cancellation coverage of the type specified in paragraph (d)(3)(ii) of this section may be excluded from the finance charge, *** if the following conditions are met: (A) the debt cancellation agreement or coverage is not required by the creditor, and this fact is disclosed in writing; (B) The fee *** for the initial term of coverage is disclosed. If the term of coverage is less than the term of the credit transaction, the term of coverage also shall be disclosed. *** (C) The consumer signs or initials an affirmative written request for coverage after receiving the disclosures specified in this paragraph. *** (ii) Paragraph (d)(3)(i) of this section applies to fees paid for debt cancellation coverage that provides for cancellation of all or part of the debtor’s liability for amounts exceeding the value of the collateral securing the obligation, or in the event of the loss of life, health, or income or in case of accident.

Note: Above paragraphs contain underlining that was added for emphasis.

OCC Regulation On Debt Cancellation — Suspension

On June 16, 2003, the Office of the Comptroller of the Currency (OCC) provided its benchmark regulation on debt cancellation – suspension agreements. One needs to review the OCC regulation and note the specific disclosure and signature requirements.

- This product is optional
 - Amount of fee
 - Use of card or credit line restricted
 - Termination of product and events that can cause termination
 - Eligibility requirements, conditions, and exclusions
- Concerning signatures, the OCC regulation states:
- 12 C.F.R. § 37.7(a) Affirmative election and acknowledgement of receipt of disclosures. Before entering into a contract the bank must obtain a customer’s written affirmative election to purchase a contract and written acknowledgement of receipt of the disclosures required by 12 C.F.R. § 37.6(b). ***

The chart on the following page summarizes the disclosure and signature requirements under TILA and the OCC regulation.

	Truth In Lending Act		OCC Rule
	Credit Insurance	Debt Cancellation	Debt Cancellation
Sale of Product	Not required by Creditor	Not required by Creditor	Optional
Cost Disclosure	Premium	Fee	Fee
Disclosures and Affirmation	Signature/initials following disclosures	Signature/initials following disclosures	Written election/ acknowledgement Use of card restricted Termination rights Eligibility requirements, conditions and exclusions

As shown above, credit insurance and debt cancellation core disclosures are the same regarding the sale, cost, disclosure and signature requirements. Specific to debt cancellation, the OCC rule requires additional topics that will be addressed in the potential conversion communication and DCA sent to the converted customer. And if they exist via the credit insurance certificate held by customer, the comparative information would also be provided.

The terms of the credit insurance certificate and debt cancellation agreement (use of card/termination rights/eligibility requirements, conditions and exclusions) are the same between the product types.

Regulation Z

Your conversion plan will need to satisfy the requirements of the change in insurance provider section of Reg. Z. The change from a credit insurance certificate to a debt cancellation agreement provided by a lender is in effect the same kind of change in provider addressed in 12 C.F.R. § 226.9(f) of Reg. Z.

- 12 C.F.R. § 226.9(f) Change in credit card account insurance provided — (1) Notice prior to change. If a credit card issuer plans to change the provider of insurance for repayment of all or part of the outstanding balance of an open-end credit card account *** the card issuer shall mail or deliver the cardholder written notice of the change not less than 30 days before the change in providers occurs. The notice shall also include the following items, to the extent applicable: (i) Any increase in the rate that will result from the change; (ii) Any substantial

decrease in coverage that will result from the change; and (iii) A statement that the cardholder may discontinue the insurance. (2) Notice when change in provider occurs. *** The card issuer shall provide the cardholder with a written notice *** including the following items, *** : (i) The name and address of the new insurance provider; (ii) A copy of the new policy or group certificate containing the basic terms of the insurance, including the rate to be charged; and (iii) A statement that the cardholder may discontinue the insurance.

Note: Above paragraph contains underlining that was added for emphasis.

Debt Cancellation Agreement Modifications

Your conversion plan will need to satisfy the requirements of modification to a debt cancellation agreement section of the OCC regulation.

- 12 C.F.R. § 37.3(c) Prohibited contract terms. A national bank may not offer debt cancellation contracts or debt suspension agreements that contain terms: (1) Giving the bank the right unilaterally to modify the contract unless: (i) the modification is favorable to the customer and is made without additional charge to the customer; or (ii) the customer is notified of any proposed change and is provided a reasonable opportunity to cancel the contract without penalty before the change goes into effect.

Note: Above paragraph contains underlining that was added for emphasis.

A conversion plan must satisfy both exceptions to the OCC Rule regarding the prohibition of unilateral modifications to a debt cancellation agreement.

The Credit Card Agreement

Your conversion plan will need to satisfy the common credit card agreement language regarding Notice to Cardholder of New Term. Most credit card agreements provide that the lender may change any term of the agreement or add a new term at any time and, when required by law, will provide written notification on the notice of the change.

A conversion plan and its notification to affected customers will advise of replacement of credit insurance with a debt cancellation agreement term which is consistent with language of most credit card agreements. And, consistent with an optional program, the customer may terminate the protection provided via the DCA at any time.

Required disclosure and customer signature

Given the voluntary or optional nature of credit insurance and debt cancellation agreements, there are regulations specific to disclosure and signatures that need to be considered in a conversion plan. The following provides the reasoning behind such requirements:

*Requiring a consumer's written signature or initials is intended to evidence that the consumer is purchasing the product voluntarily; *** The fee will also appear on the first monthly periodic statement after the purchase, and, as applicable, thereafter. Consumer testing conducted for the Board suggests that consumers review the transactions on their statements carefully. *** Consumers who are billed for insurance or coverage they did not purchase may dispute the charge as a billing error. These safeguards are expected to ensure that purchases of credit insurance or debt cancellation or suspension coverage *** are voluntary.*

FRI comments to 12 C.F.R. § 226.4(d)(4), 72 Fed.Reg. No. 114 (6/14/2007)

**** Through disclosure, consumers have the broadest access to products and services, and also have the information necessary to make rational decisions in their economic self-interest; in other words, to protect themselves. This avoids the government stepping into a role of dictating prices and terms of financial products and preserves the healthy effects of competition, choice and the*

*operations of free markets. *** It is important that disclosures work to effectively inform consumers of what they want to know. *** It's reached {a} point {of disclosures being ineffective} not because consumers are getting too little information, but because they are getting too much information that's not what they're really after; and because the volume of information presented may not be informing consumers, but rather obscuring what's most helpful to their understanding of financial choices."*

Remarks by Julie L. Williams, Acting Comptroller of the Currency, Before Women in Housing and Finance and the Exchequer Club, Washington DC, January 12, 2005

In summary, OCC commentary on requirements for customer signature show its intent is to:

1. Prevent packing
2. Prevent tying extension of credit to purchase of DCA
3. Assure an informed purchase of protection by customers

Reviewing your "authority pathway"

It is critically important that your conversion plan address all applicable regulatory issues to ensure a safe, sound and compliant process. The following is a summary of the topics that lead to your authority pathway to convert.

- Ensure **regulatory issues are satisfied** under the Conversion Plan.
 1. Customer received Reg. Z disclosures
 2. Customer elected credit insurance and signed up
 3. Customer previously qualified for credit (no tying concern)
 4. Conversion debt cancellation agreement(s) to be provided in conversion if equal in price and protection
- Confirm that credit insurance coverage provided and the debt cancellation agreement(s) to be provided with the conversion are **functional equivalents** to a customer.
 1. Protection against inability to repay
 2. Customer has previously given consent to obtain the same protection at the same price
 3. End result after conversion is the same with the debt cancellation agreement satisfying the customer's intent
- **Recognize risk** between creditor cancellation versus credit insurer payment

Cancellation of debt by lender vs. affirmative payment by insurer involve fundamental differences between a 2 party (bank/customer) and 3 party (bank/insurance company/customer) relationship. The third party insurer has the right to terminate its group master policy and end coverage to customers for reasons that are their own and possibly not in the bank's or customer's best interest. In proceeding with a conversion, you'll establish an already existing 2 party relationship between the bank and customer.

- Make certain the disclosure and signature requirements are satisfied

Communicating with customers

Once all is ready to convert, make sure your communication to the customer is well-written, easy to understand and provides a comparison of before/after conversion.

<p style="text-align: center;">NEGATIVE ENROLLMENT</p> <p style="text-align: center;">[BANK STATIONERY]</p> <p>[Month Day], 2007</p> <p>Dear Cardholder:</p> <p>The Credit Insurance Program, underwritten by [Credit Insurer], that you are currently enrolled in will be terminated as of [Month Day], 2007. In its place, a comprehensive debt management plan, which we call [Plan Name] Plan, will be substituted through your [Bank] credit card. The [Plan Name] Plan provides the same benefits that you currently have under the [Credit Insurance] program: life, disability, involuntary unemployment, and family leave. [plus we have added new benefits: family leave of absence (new coverage for residents of AK, HI, IL, IN, LA, MI, MN, NM, NC, OR, SC, and VT), dismemberment, accelerated living benefit and hospitalization - all at the same rate you paid for [Credit Insurance].]</p> <p>You do not have to respond to this letter to receive the [Plan Name] benefits. Your current coverage will be automatically covered to the [Plan Name] Plan. PLEASE READ THE PROVISIONS OF THE ENCLOSED [Plan Name] PLAN CAREFULLY SO THAT YOU WILL BE AWARE OF COVERAGES, LIMITATIONS, EXCLUSIONS AND REQUIRED PROCEDURES. This [Plan Name] Plan is not insurance. The [Plan Name] Plan is an amendment to the [Bank] Credit Card Agreement.</p> <p>The [Plan Name] Plan benefits are effective [Month Day], 2007 and your account will continue to be billed at the same rate per \$100 of your monthly outstanding balance. Claims arising on or before [Month Day], 2007, will continue to be the responsibility of your current insurer. Claims arising on or after [Month Day], 2007, will be processed by our Plan Administrator which can be reached at the address and telephone number listed below.</p> <p>The [Credit Insurance] Program is regulated entirely by your state department of insurance. The [Plan Name] Plan is regulated by the [state/territory] regulator [and the underlying contractual liability policy is regulated by your state insurance department].</p> <p>With debt management, the cancellation of your debt obligation as a result of death under the [Plan Name] Plan may be taxable as income, and you should contact a qualified tax advisor concerning any tax impact of this coverage.</p> <p>We trust you will enjoy the new benefits of our [Plan Name] Plan. If you do not want the [Plan Name] Plan, you need to cancel before [Month Day], 2007 by calling our Plan Administrator, toll free at [Telephone # of Plan Administrator] or send a letter, including your name, address, phone number and account number to [Address of Plan Administrator]. We believe our new [Plan Name] Plan will bring peace of mind to you and your loved ones.</p> <p>Sincerely,</p> <p>Signatory</p>	<p style="text-align: center;">AFFIRMATIVE ENROLLMENT (for residents AZ, MO & NE)</p> <p style="text-align: center;">[BANK STATIONERY]</p> <p>[Month Day], 2007</p> <p>Dear Cardholder:</p> <p>The Credit Insurance Program, underwritten by [Credit Insurer], that you are currently enrolled in will no longer be offered and your coverage will be terminated as of [Month Day], 2007. In its place, a comprehensive debt management plan, which we call [Plan Name] Plan, is offered through your [Bank] credit card. The [Plan Name] Plan provides the same benefits that you currently have under the [Credit Insurance] program: life, disability, involuntary unemployment, and family leave. [plus new benefits: family leave (new coverage for residents of NE), dismemberment, accelerated living benefit and hospitalization - all at the same rate you paid for [Credit Insurance]]. For a complete explanation of the [Plan Name] Plan, please read the enclosed [Plan Name] Plan summary. To sign up for the [Plan Name] Plan, simply complete the enclosed form and return it in the enclosed postage paid envelope.</p> <p>With debt management, the cancellation of your debt obligation as a result of death under the [Plan Name] Plan may be taxable as income, and you should contact a qualified tax advisor concerning any tax impact of this coverage. This [Plan Name] Plan is not insurance. The [Plan Name] Plan is an optional provision of your [Bank] Credit Card Agreement.</p> <p>COVERAGE UNDER THE [PLAN NAME] PLAN IS NOT TRANSFERRED AUTOMATICALLY. TO CONTINUE PROTECTING YOUR ACCOUNT WITH THE [PLAN NAME] PLAN, YOU MUST COMPLETE AND RETURN THE ENCLOSED FORM BY [MONTH DAY], 2007. IF YOU CHOOSE NOT TO CONTINUE YOUR ACCOUNT PROTECTION, YOUR CURRENT COVERAGE WILL BE TERMINATED EFFECTIVE [MONTH DAY], 2007. YOU ARE STILL COVERED FOR ANY LOSSES THAT OCCUR ON OR BEFORE THAT DATE ACCORDING TO THE TERMS OF YOUR EXISTING INSURANCE COVERAGE.</p> <p>The Credit Insurance Program is regulated entirely by your state department of insurance. The [Plan Name] Plan is regulated by the [state/territory] regulator [and the underlying contractual liability policy is regulated by your state insurance department].</p> <p>If you have any questions, please contact our Plan Administrator, toll free at [Telephone # of Plan Administrator] or send a letter [Address of Plan Administrator].</p> <p>Sincerely,</p> <p>Signatory</p>
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The majority of customers will receive a notice concerning the conversion with no action required. Those in 3 states will be required to take action. No action is required because customers originally received the required disclosures and made an affirmative election. A subsequent amendment of the loan term with no increase in the fee and no degradation in existing protection should not require new disclosures and a new written affirmative election when the consumers receive written notice of the amendment and the opportunity to terminate protection in compliance with the open end credit agreement.

You'll principally use a "Negative Enrollment" methodology whereby the customer's positive enrollment is not required (i.e. no action needed). The reason your communication will use this methodology is to protect the customer. For example, if customers were required to sign and return the disclosure, customers who signed up for credit insurance, paid premium, wanted DCA protection but failed to sign and return the disclosure (positive enrollment method) would be unprotected. Response rates for positive enrollment are quite low. The goal is to enable the continuation of the same protection originally requested by customer with no interruption.

There will be cases whereby you will need to communicate using a "Positive Enrollment" methodology. At this time, certain states statutes regarding replacement of Life/Credit Policies/Insurers require such communication. While arguably not applicable to debt cancellation, using the Positive Enrollment method will comply with insurance law. Those states requiring borrower/insured prior approval (positive enrollment) are:

- AZ, Circular Letter 87-6
- MO, Bulletin 86-7
- NE, Bulletin CC-64

Conclusion

Converting customers requires thorough planning and detailed execution. It requires creation of a unique debt cancellation product platform to support the conversion of credit insureds. It is a one-time event that reduces long term expenses, risk and provides more value to customers.

Tom Ostenson, Senior Vice President, General Counsel leads the regulatory and compliance function at Aon Integramark. Among 12 services offered by Aon Integramark, its conversion services provide detailed planning and advice on the feasibility of conducting a conversion from legacy credit insurance to debt cancellation. To date, the organization has helped to convert over one million customers.

The guidelines contained in this document are not to be considered legal advice given that each lender's situation and authority to do a conversion may vary.



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