



STATE OF NEBRASKA

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BULLETIN

TO: All Companies Licensed To Write Insurance In State of Nebraska

FROM: Michael J. Dugan
Director of Insurance

SUBJECT: Credit Insurance

It has come to the attention of the Nebraska Department of Insurance that there exists a practice of effecting the transfer of group credit insurance without prior consent and re-enrollment of the individual debtor - certificate holders and often times with an incomplete comparison of the policy terms, conditions and benefits. The purpose of this bulletin is to advise all insurance companies issuing credit insurance that the Department considers such practices to be in violation of Nebraska insurance law.

In particular, this practice has developed relative to group credit insurance issued to bank credit card holders. In these instances, the group insurance policy issued by the existing insurer is cancelled and a new group credit insurance policy issued by a different insurer automatically replaces the existing policy. This transfer of insurance coverage to the new insurer is completed by an agreement between the bank - creditor, which is also the master policyholder and the new insurer without providing the individual card holder with any prior notice and without obtaining prior written consent from the card holder. The usual practice has been for the bank, which also serves as the agent of the new insurer, to give the individual card holder notice after the transfer has been completed. Typically, the bank, which is the creditor and also the master policyholder, advises the individual card holders that their credit insurance coverage is no longer provided through the existing or original insurance carrier and that comparable coverage at the same total premium with no new waiting or incontestable periods and no interruption of coverage has been arranged with a different insurance carrier. The notice then advises the individual card holders to notify the bank if they do not wish to continue coverage with the new insurance carrier.

These practices are contrary to Nebraska insurance law in two ways. First, in accordance with Neb.Rev.Stat. §44-1707(4), the new insurance carrier must obtain a signed application or an appropriate notice of proposed insurance signed by the debtor on or before the date the coverage becomes effective. Shifting the obligation to the debtor-card holder to affirmatively reject the coverage after the transfer has been made is in violation of Nebraska insurance law. Prior to transferring coverage, the new carrier must re-enroll individual credit card holders with either an application or a notice of proposed insurance signed by the individual insured. Although failure to do so will be considered a violation of Nebraska insurance law and treated as such, such failure will not necessarily nullify the transfer of the insurance coverage.

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Secondly, statements to the effect that the new insurance carrier is providing "comparable coverage" without a listing of all the material terms and conditions of each policy coverage, constitutes an incomplete comparison in violation of Neb.Rev.Stat. §44-362. This practice may also constitute a violation of The Unfair Competition and Trade Practices Act. See Neb.Rev.Stat. §§44-1524 et. seq.

The Department of Insurance does not question the right of the master policyholder to cancel its existing group credit insurance contract. In this bulletin, the Department is merely advising insurance companies writing group credit insurance to adhere to the appropriate procedures in accepting the transfer of coverage from an existing insurance carrier. Failure to properly re-enroll individual debtor - insureds will be considered a violation of Nebraska insurance laws and will be treated as such by the Department of Insurance. However, it should be understood that this required re-enrollment does not mean that the replacing insurer is required to have a new waiting period, incontestable period or interruption of coverage.

Nebraska law affords the Department of Insurance broad jurisdiction and control over the issuance of credit insurance coverage in Nebraska. Section 44-1708 provides that credit insurance policies as well as certificates of credit insurance and the benefits provided therein are subject to regulation by the Department of Insurance. Accordingly, group credit insurance transactions involving or affecting Nebraska insureds will be expected to conform to the position of the Department of Insurance as stated in this bulletin at least with regard to Nebraska policy or certificate holders. Thus the requirements of this bulletin are also applicable to group policies issued to banks or lending institutions in states other than Nebraska to that extent.