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What You Should Know Before You Purchase Credit Insurance

Many consumers purchase items using credit. In the case of some of the larger items, including, for example, automobiles, furniture or major appliances, the consumer may obtain a loan. For smaller items, such as clothing, televisions, etc., the consumer may use a credit card. With either of these types of "loans/debts," you may be asked whether you want to purchase an insurance policy to cover the debt in the event of death, disability or involuntary loss of employment. Before you decide to purchase this type of insurance, it is important that you understand what it covers and whether the policy is right for you.

What is Credit Insurance?

Credit insurance is an insurance policy that is directly connected to a loan, credit card, retail purchase that is financed, or other debt. This insurance policy pays all or a portion (i.e. monthly payment) of the outstanding debt if an event that is named in the policy occurs (i.e. death, disability or involuntary unemployment of the insured). The insurance company usually pays the money directly to the creditor or lender.

Types of Credit Insurance

Credit Life Insurance – This policy will pay off all or a portion of the loan if the insured dies during the term of coverage. The amount paid depends upon the policy's limits. Some of these policies have a maximum amount that they will pay, which may be less than the amount of the loan.

Credit Disability/Credit Health Insurance – This policy will pay all or part of the insured's monthly payment amount in the event that the insured becomes disabled, as defined by the policy, during the term of coverage. Typically credit disability policies require that you be disabled for a period of time (generally 7, 14 or 30 days) before you are entitled to receive benefits under the policy. Some policies will retroactively pay you for the waiting period and some will not. The policy must clearly indicate whether it will retroactively pay for this waiting period.

Credit Involuntary Unemployment Benefit Insurance – This policy will pay all or part of the monthly bill if the insured becomes involuntarily unemployed due to a cause defined (or specified) in the policy during the term of coverage. The policies usually require that you be unemployed for a specific amount of time (usually 30 days) before the benefit is paid. Some policies are retroactive and will pay for the waiting period.

How Much Will The Policy Cost?

The price of the policy is dependent upon a number of factors including the amount of the loan or debt, the type of credit and the type of policy. Companies will charge premiums by either using a single premium method or a monthly outstanding balance method.

Single Premium Method – The insurance premium is calculated at the time of the loan, and added to the amount of your loan. Therefore, you become responsible for the entire premium at the time you purchase the policy. Your monthly loan payment includes a portion of the initial loan, a portion of the insurance premium, and the interest charge for the month.

Monthly Outstanding Balance Method – This method is generally used for credit cards, revolving home equity loans or other similar debts.

a. For open end accounts, such as credit cards where the amount of the debt may increase over time, the amount of insurance may vary from month to month. As a result, the premium is charged to the insured monthly and is based on the monthly debt either by using the end of the month balance or the average daily balance depending upon the terms of the policy. This amount will appear as a separate charge on the statement from the lender. The monthly insurance premium is part of each month's required minimum payment.

b. The closed end account method has fixed terms at the time of the original debt. The amount of the debt may not change and the insured has a fixed amount that is due every month. It is important to note that failure to pay this amount on time every month could result in cancellation of the policy or that an additional balance will be due at the loan maturity date. Read the details of your payment agreement carefully so that you understand the terms of repayment.

May I Cancel My Policy?

Yes, you can cancel your credit insurance policy. You should check the terms of your policy to find out how to cancel it. If you have a single premium method policy, you will be entitled to a refund for the unused months of insurance. Your policy should explain how the refund is calculated. It is important to understand that the single premium method refund will be paid to your lender to reduce your loan balance. The amount of your monthly payment will not change; however, your loan will be paid off earlier than the loan maturity date if your monthly loan payments are paid as scheduled. If you have a monthly outstanding balance method policy you may not be entitled to a refund. Since the insurance premium is charged to you just one month at a time, generally there will not be any months of unused insurance coverage. Also, you should be aware that many policies give the insured a “free look” period, typically 10 days, during which they can cancel the policy without penalty. Remember, it is important that you read the terms of your policy so that you understand how to cancel your policy.

Where Can I Purchase Credit Insurance?

Credit insurance is underwritten by insurance companies and is available through lenders and financing companies (i.e. banks, finance companies, credit unions, credit card companies) as well as retail outlets (automobile dealers, appliance stores, furniture stores, etc.) You may also receive information in the mail or along with your credit card bills offering you this coverage. Before you sign any agreement to purchase a credit insurance policy, make certain that you fully understand the terms and the cost of the policy. Credit insurance policies must be approved by the Maryland Insurance Administration before they are sold. If you have questions, contact us at (800) 492-6116 or (410) 468-2000.

May I Be Turned Down For Credit Insurance?

Although most policies are guaranteed issue, some may deny coverage based on the applicant’s health, age or employment status and history.

Things You Should Consider BEFORE Buying Credit Insurance

1. Do you have another insurance policy, savings, investment or other funds to pay this debt in the event of your death, disability or loss of job?

2. How much will the policy cost?

3. Would it be preferable to buy a term life insurance or disability insurance policy?

4. Do you pay the premium monthly or will it be financed and added to the total amount of the loan?

5. Will the credit insurance cover the entire amount of the loan?

6. If you are purchasing either credit disability or credit involuntary unemployment insurance, you should determine the length of the waiting period before you are entitled to the benefit and whether the benefit is retroactive.

7. What are the limits or exclusions?

8. Are there limits on the amount the policy pays?

9. What if you have a co-borrower? Does that impact payment? If so, how?

10. If I cancel, what type of refund will I receive?

Contact the Maryland Insurance Administration at (410) 468-2000 or (800) 492-6116 if you have questions regarding an insurance policy or insurance company.