Consumer Federation of America

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July 26, 2010

CONSUMERS SHOULD BE CAUTIOUS ABOUT BUYING “ADD-ON” INSURANCE

Consumers Across America Buying Overpriced and Often Unneeded Insurance

Washington D.C. – The Consumer Federation of America (CFA) today urged consumers to be cautious about buying insurance from those selling products -- such as cars, homes, furniture, electronics, and travel --who also try to sell you a related insurance product.

PAY FOR INSURANCE, NOT FOR KICKBACKS TO THE SELLER

“In our experience, insurance offered to you in conjunction with the sale of other products is often not needed or, if needed, can be purchased much less expensively from other sources,” said J. Robert Hunter, CFA’s director of Insurance and former Texas Insurance Commissioner and Federal Insurance Administrator. “When you find yourself buying insurance you did not plan to buy, watch out! The person selling the insurance usually is being paid a commission or other financial inducement which drives up the price, making the insurance relatively expensive.”

The CFA executive said that “reverse competition” exists in such sales. Here, the seller of the primary product, such as a car or camera, has insurance companies compete to give them the biggest kickback. This drives up the price of the insurance as sellers opt for the highest kickbacks. “In some instances, reverse competition can more than double the price of the insurance,” warned Hunter.

THREE KEY QUESTIONS WHEN CONSIDERING 'ADD-ON' INSURANCE

CFA advised consumers not to buy insurance from sellers of other products without first asking three questions:

1. Do I really need this insurance?
2. If so, do I already have coverage in my normal insurance policies, like life, health, disability, home and auto insurance?

3. If the answer is “no,” then ask, are there other less expensive options? An insurance company or agent may be able to identify these options.

TYPES OF INSURANCE YOU MAY WANT TO AVOID

Here are some examples of types of insurance that may not be necessary or might be too costly because of large kickbacks to the seller:

- CREDIT INSURANCE OR DEBT CANCELLATION INSURANCE sold in conjunction with the purchase of a car, a home, furniture or some other product requiring a loan to fund. Credit insurance can cover death (credit life insurance or mortgage life insurance when it is covering a home), illness or injury (credit A&H – accident and health – insurance and credit disability insurance), loss of job (credit involuntary unemployment insurance) and credit family leave insurance. These policies usually pay very low benefits to people with claims –on average less than 40¢ of each premium dollar -though this payout ratio is much higher in states like New York and Vermont and on most policies sold by credit unions. Hunter said that he once heard a large life insurance company executive testify in a state insurance hearing that they did not sell much credit insurance, “because we are not competitive, our rates are too low!” (In other words, they were not able to pay the big kickbacks required to induce the salespeople to sell the insurance.) [1] So, if you are offered credit insurance, you may not need it because you may have adequate insurance protection or financial assets to pay off a loan. And even if you do need the coverage, you should think twice before purchasing credit insurance that returns less than half of policyholder premiums as benefits.

- TITLE INSURANCE sold at the closing of a home. There are two types of title insurance policies -- a lenders policy and an owner’s policy. The lender’s policy – required by mortgage lenders – is paid by the buyer but protects the lender for the loan amount. An owner’s policy protects the buyer up to the purchase price of the property. Title insurers guarantee that the title ownership is sound, defend the buyer against challenges to their title, and compensate the buyer and the lender if there is a problem with the clear ownership of the title. Numerous studies over the past thirty years have documented how inefficiencies in the title insurance market have harmed consumers through excessive premium prices. Title insurers market their products to real estate professionals – real estate agents, mortgage lenders, mortgage brokers, homebuilders – who often are able to steer consumers to a particular title agent or title insurer, which then usually richly compensates the professional for the referral. In this relationship, title agents and title insurers often compete for the business of real estate professionals by offering them higher

[1] An excellent detailed discussion of credit insurance can be found at: http://www.cej-online.org/2001credit.pdf

compensation and other considerations, driving up prices.[2] For this reason, it is important for home purchasers to shop for title insurance.

- <u>TRAVEL INSURANCE</u> sold in conjunction with making travel plans. Travel agents often try to sell travel insurance when a consumer is making travel plans. They receive a commission on this sale, which often drives the payout ratio below 50% of premium. So before your purchase this insurance, ask yourself exactly what it is that you fear about travel. Some of your fears may already be covered – fear of death by life insurance and fear of lost luggage by home insurance, as examples. Also, check the price quoted by a travel agent by calling an insurance agent and asking for another quote. Finally, understand that many travel insurance policies don't allow for cancellation at will, usually have very complicated procedures for getting your money back, and have significant limitations on what qualifies as a covered claim.

- <u>INSURANCE, SUCH AS COLLISION DAMAGE WAIVERS, FROM CAR RENTAL COMPANIES.</u> These high-priced policies – sometimes more than ten times the cost of regular insurance -- are often not needed. Sixty percent of normal auto insurance policies delivered in America cover you when you drive a rental car if you have collision on your own vehicle. Further, credit cards often cover this.[3] If you regularly rent a car, be sure your auto policy covers rental cars.

IF YOU FEEL YOU MUST BUY, CONSIDER THIS

When offered insurance when purchasing an unrelated product, beware! Before buying consider the following tips:

1. Be cautious and take your time. Do not succumb to pressure to buy the insurance right away. Ask for information to take home with you, including a copy of the policy describing what's covered and the price they want for it.

2. Once home, decide if you even need the insurance. Ask yourself what is it that you want to protect. If it is not serious economic consequences of some event, do not buy it. Then read the policy and see if it would protect you from that. Finally ask yourself if you already have the protection in another policy, like life or health or disability or home or auto insurance. Remember, you cannot collect twice for the same claim from two policies since insurers will coordinate only one payment.

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[2] For an in-depth analysis of title insurance see: http://www.consumerfed.org/elements/www.consumerfed.org/file/finance/Title_Insurance_Testimony042606.pdf

[3] See, for example: http://usa.visa.com/personal/cards/benefits/bft_dmg_waiver_personal.html

3. If you decide you need the protection, shop for a policy from an insurance company. For instance, if you fear death while traveling or wonder who would pay the mortgage if you died, the best choice is likely to get a good term life insurance policy that would not only cover those things but also would meet the food, housing, education, and other important needs of dependents. The insurance will usually cost much less and cover much more than if you bought pieces of life insurance in different places. Always compare prices by searching Internet sources and/or calling an insurance company or agent.

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The Consumer Federation of America is an association of nearly 300 non-profit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.