

**CONSUMER ATTITUDES
TOWARD CREDIT INSURANCE**

Innovations in Financial Markets and Institutions

Editors:

Robert Eisenbeis and Richard W. McEnally
University of North Carolina at Chapel Hill
Chapel Hill, North Carolina, U. S. A.

Other books in the series:

England, C. and Huertas, T.:

The Financial Services Revolution

Gup, B.:

Bank Mergers: Current Issues and Perspectives

Kormendi, R., Bernard, V., Pirrong, S., Snyder, E.:

Crises Resolution in the Thrift Industry

Hancock, D.:

A Theory of Production for the Financial Firm

England, C.:

Governing Banking's Future

Kaufman, G.:

Banking Structures in Major Countries

Anderson, S., and Born, J.:

Closed-End Investment Companies

Anderson, S., Beard, T.R., Born, J.:

Initial Public Offerings: Findings and Theories

Cottrell, A.F., Lawlor, M.S., Wood, J.H.:

The Causes and Costs of Depository Institution Failures

CONSUMER ATTITUDES TOWARD CREDIT INSURANCE

John M. Barron

**Department of Economics
Krannert Graduate School of Management
Purdue University**

Michael E. Staten

**Director, Credit Research Center
Krannert Graduate School of Management
Purdue University**



Kluwer Academic Publishers
Boston • Dordrecht • London

Distributors for North America:

Kluwer Academic Publishers
101 Philip Drive
Assinippi Park
Norwell, Massachusetts 02061 USA

Distributors for all other countries:

Kluwer Academic Publishers Group
Distribution Centre
Post Office Box 322
3300 AH Dordrecht, THE NETHERLANDS

Library of Congress Cataloging-in-Publication Data

A C.I.P. Catalogue record for this book is available from the Library of Congress.

ISBN-13: 978-1-4612-8570-0 e-ISBN-13: 978-1-4613-1327-4
DOI: 10.1007/978-1-4613-1327-4

Copyright © 1996 by Kluwer Academic Publishers

Softcover reprint of the hardcover 1st 1996

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, photo-copying, recording, or otherwise, without the prior written permission of the publisher, Kluwer Academic Publishers, 101 Philip Drive, Assinippi Park, Norwell, Massachusetts 02061

Printed on acid-free paper.

CONTENTS

Chapter 1 Introduction 1

Chapter 2 Summary of Prior Research 5

- A. Differences in Survey Universes, Sampling Methods, and Questionnaires 5
- B. Selected Findings of Previous Surveys 9
- C. General Conclusions from Prior Research 14

Chapter 3 1993 CRC Survey Questionnaire and Sample Design 17

- A. Source of Borrower Names 18
- B. Type of Credit Insurance Products and Loans 20
- C. Parameters on Inclusion of Borrowers in Sample 21
- D. Logistics of Survey Distribution 23

Chapter 4 The Credit Insurance Purchase Decision: Who Buys It and Why 27

- A. A Simple Model of the Demand for Credit Insurance 27
- B. The Credit Life Purchase Decision, by Demographics 29
- C. Reasons to Buy Credit Life Insurance 41
- D. Reasons Not to Buy Credit Life Insurance 46
- E. The Purchase of Credit Life Plus Additional Coverage 50
- F. Comparison of Survey Data to Federal Reserve Survey: A Validity Check 53
- G. Summary 55

Chapter 5 Consumer Awareness: Actual Versus Perceived Insurance Purchase Decisions 61

- A. Definition and Frequency of Purchase Perception Errors 61
- B. A Comparison of Perception Errors across Different Surveys 63
- C. Purchase Perception Errors, by Demographics and Creditor Type 67
- D. Two Types of Purchase Perception Errors, by Demographics and Creditor Type 70

- E. A Comparison of the Determinants of Perceived Purchase Versus Actual Purchase 75

Chapter 6 The Marketing of Credit Life Insurance 79

- A. Consumer Satisfaction: Evidence of Second Thoughts 79
- B. Direct Measures of Coercion and Pressure 88
- C. The Effect of Coercion and Sales Pressure on Insurance Purchases 90
- D. Differences in Marketing Practices across Groups 94
- E. Awareness of Cancellation Rights 100

Chapter 7 The Impact of Rate Regulations on Sales Practices 107

- A. Effects of Rate Differences on Offering Credit Insurance, the Timing of the Offer, and Reasons to Buy or Not to Buy 109
- B. Effects of Rate Differences on Purchase Perception Errors 115
- C. Effects of Rate Differences on Consumer Satisfaction and Marketing Practices 115

Chapter 8 Summary 119

- A. Who Buys Credit Insurance and Why? 119
- B. Are Consumers Aware of the Credit Insurance Purchase? 121
- C. Are Consumers Pressured or Coerced? 122
- D. State Regulatory Effects 124
- E. Conclusions 125

Appendix A: Survey Questionnaire and Cover Letter 127

Appendix B: Responses to Open-End Survey Questions 133

References 155

Index 157

EXHIBITS

Chapter 2 Summary of Prior Research

- Exhibit 2.1 Features of Credit Insurance Consumer Surveys 8
- Exhibit 2.2 Willingness to Purchase Credit Life Insurance Again (Percent of Respondents who Actually Purchased or Said They Purchased) 10
- Exhibit 2.3 Reasons for Purchase Decision (Percent of All Respondents) 11
- Exhibit 2.4 Characteristics of Credit Insurance Purchasers (Percent of Borrowers who Purchase) 12
- Exhibit 2.5 Consumer Perception of Recommendations by Creditor about Purchasing Credit Insurance 13

Chapter 3 1993 CRC Survey Questionnaire and Sample Design

- Exhibit 3.1 Target States Based on *Prima facie* Premium Rates 22
- Exhibit 3.2 Comparison of Features of Surveys of Credit Insurance Consumers 24
- Exhibit 3.3 1993 CRC Survey of Borrowers 24
- Exhibit 3.4 Responses to 1993 CRC Survey by Borrower's State of Residence 25
- Exhibit 3.5 Type of Loan for 1993 CRC Survey by Source 25
- Exhibit 3.6 Actual Insurance Purchased for 1993 CRC Survey by Source of Loan 26

Chapter 4 The Credit Insurance Purchase Decision: Who Buys It and Why

- Exhibit 4.1 Empirical Proxies for Demand Determinants 30
- Exhibit 4.2 Description of Demand Equation Variables 32
- Exhibit 4.3 Probit Model of Credit Insurance Actual Purchase 36
- Exhibit 4.4 Credit Life Purchase Decision by Selected Characteristics 37
- Exhibit 4.5 Predicted Probabilities of Credit Life Insurance Purchase 40
- Exhibit 4.6 Reasons for Purchasing Credit Life Insurance 42
- Exhibit 4.7 Probit Models of Reasons for Buying Credit Life Insurance by Demographics 44

- Exhibit 4.8 The Cost of Credit Life Insurance as a Reason for Purchasing (By Source of Loan) 46
- Exhibit 4.9 Reasons for Not Purchasing Credit Life Insurance 47
- Exhibit 4.10 Probit Models of Reasons for Not Buying Credit Life Insurance by Demographics 48
- Exhibit 4.11 Probit Model of Actual Purchase of Life Plus Additional Coverage 52
- Exhibit 4.12 Sample Comparisons of 1993 CRC and 1989 SCF Variables 54

Chapter 5 Consumer Awareness: Actual Versus Perceived Insurance Purchase Decisions

- Exhibit 5.1 Actual vs. Perceived Purchase Decision on Credit Life Insurance 62
- Exhibit 5.2 Distribution of Purchase Perception Errors: Credit Life 62
- Exhibit 5.3 Distribution of Purchase Perception Errors: Insurance Coverage in Addition to Credit Life 63
- Exhibit 5.4 Distribution of Purchase Perception Errors: 1976 CRC Survey, 1970 Ohio University Survey, 1993 CRC Survey 65
- Exhibit 5.5 Effect of Loan Size on Total Perception Errors for 1976 CRC Survey of Retail Credit Customers 66
- Exhibit 5.6 Probit Model of Purchase Perception Errors 68
- Exhibit 5.7 Purchase Perception Errors by Type of Creditor and Loan 70
- Exhibit 5.8 Probit Model of Purchase Perception Errors by Type 72
- Exhibit 5.9 Perception Errors: Respondent Reported No Purchase but Records Indicate a Purchase 74
- Exhibit 5.10 Comparisons of Probit Insurance Demand Models: Actual Purchase Versus Perceived Purchase 76

Chapter 6 The Marketing of Credit Life Insurance

- Exhibit 6.1 Perceptions of Cost of Credit Life Insurance by Purchase Group 81
- Exhibit 6.2 Likelihood of Purchasing Credit Life Insurance Again by Purchase Group 82
- Exhibit 6.3 Percentages Reporting Credit Life Insurance is a “Good Buy” (Very Good Deal, Fairly Good Deal, or Fairly Priced) 84

- Exhibit 6.4 Percentages Reporting “Likely to Buy” Credit Life Insurance in the Future (Definitely Would Buy or Probably Would Buy) 85
- Exhibit 6.5 Probit Models of Consumer Satisfaction 86
- Exhibit 6.6 Perceptions of Marketing Practices 89
- Exhibit 6.7 Coexistence of Impressions of Sales Tactics and Explanation that Insurance was Not Required 92
- Exhibit 6.8 Percentages Who Possibly Experienced Coercive Sales Pressure, by Timing of the Insurance Offer 93
- Exhibit 6.9 Effects of Marketing Practices on Actual Purchases 95
- Exhibit 6.10 Probit Models of Marketing Practices by Purchase Decision, Demographics, and Credit/Loan Type 96
- Exhibit 6.11 Differences in Perception of Sales Pressure by Age, Education and Attitude toward Risk 98
- Exhibit 6.12 Ethnic Differences in Recall of Sales Message 100
- Exhibit 6.13 Perception of Cancellation Rights (Percent of Borrowers Who Reported Buying Insurance) 101
- Exhibit 6.14 Probit Model of Perceptions Concerning Cancellation Rights 103
- Exhibit 6.15 Percentages Who Possibly Experienced Coercive Sales Pressure, by Perception of Cancellation Rights 104

Chapter 7 The Impact of Rate Regulations on Sales Practices

- Exhibit 7.1 *Prima facie* Rates by State and Response Frequency in Sample 108
- Exhibit 7.2 Offer of Credit Insurance by Creditor Type 110
- Exhibit 7.3 Timing of the Credit Life Offer (Percent of Borrowers Who Recall an Offer) 111
- Exhibit 7.4 Probit Models of Whether and When Credit Insurance Is Offered 112
- Exhibit 7.5 Probit Models of Reasons for Buying and for Not Buying Credit Insurance by *Prima facie* Rates 114
- Exhibit 7.6 Probit Models of Two Types of Purchase Perception Errors by *Prima facie* Rates 115
- Exhibit 7.7 Probit Models of Consumer Satisfaction by *Prima facie* Rates 116
- Exhibit 7.8 Probit Models of Marketing Practices by *Prima facie* Rates 117

ACKNOWLEDGEMENT

We are extremely grateful for the numerous comments and suggestions made by the following members of the Credit Insurance Advisory Panel. These comments and suggestions substantially improved this study. Special thanks are also due Judy Hanks and Dana Neary for their technical assistance in producing this document. Naturally, the authors are responsible for any remaining errors.

Kirk Anderson
Senior Vice President
Affiliated Marketing
Alexander Hamilton Life

William F. Burfeind
Executive Vice President
Consumer Credit Insurance Association

Thomas Durkin
Director
Regulatory Planning and Review
Board of Governors of the Federal Reserve

Robert Eisenbeis
Wachovia Professor of Banking
Kenan-Flagler Business School
University of North Carolina at Chapel Hill

Loren V. Geistfeld
Professor
College of Human Ecology
The Ohio State University

James K. Hammond
Vice President
The American Road Insurance Group
Ford Motor Credit Corporation

Don Haasl
Vice President
Product Management
CUNA Mutual Insurance Group

Robert W. Johnosn
Senior Research Associate
Credit Research Center
Purdue University

Gerard Lunemann
Vice President and Actuary
Beneficial Insurance Group

Andrew Poat
Office of the Governor
State of California

David J. Randall
Deputy Director
Ohio Department of Insurance

Ralph J. Rohner
Dean
The Columbus School of Law
The Catholic University of America

William F. Schumann
Senior Vice President
Old Republic International Corporation