Credit insurance: some more equal than others

Few families can afford the home for life they need without mortgage credit (or a property purchase loan). But increasingly, this type of loan is tied to taking out loan protection insurance (still better than risking foreclosure on a mortgage or contracting a secured loan).

But discrimination in accessing credit is still rife. A 2010 study commissioned by the European Commission's DG EMPL found that health-related factors (i.e., age, gender, disability, etc.) frequently entered into the way financial products were designed and granted. This puts so-called “high-risk” consumers at risk of being excluded from credit. Legislation is therefore needed to prevent a section of the population being shut out of the home ownership market. Some Member States and the European Union have already taken steps to that effect.

Measures implemented to reduce discrimination

1. In Member States

The AERAS scheme (from the French acronym for insurance and borrowing with an increased health risk) introduced in France lets applicants get an assessment of their personal circumstances. But it is only available to some, and then with restrictions as to the maximum term and amount of the loan. There are also age limits. Also, the cost of insurance can remain high and the idea of "increased risk" is widely misunderstood.

Personal microcredit: developed mainly in France and Belgium. It can be used for some home improvements, but subject to conditions like a detailed study of the borrower’s application and the purpose of the loan. There is also a risk of it being seen as a way of solving financial problems for people who really need social assistance.

The Partyka Act: In January 2010 a series of measures were brought onto the Belgian statute books to make it easier for people with higher health risks to access credit. They include the introduction of a code of conduct and a standardized medical questionnaire, allowing borrowers to get a second opinion on their application, the establishment of an insurance rating supervisory office, the creation of a compensation fund financed by insurers and lenders, and the creation of a standardized coverage.
Within the EU, therefore, 13 states have rules governing (limiting?) the use of age and disability as factors in calculating the risk for financial products and 7 Member States have rules governing disability only.

2. At EU level

The principle of non discrimination was first enshrined in the Treaties and then turned into law with Directives 2000/43/EC (equal treatment irrespective of racial or ethnic origin) and 2004/113/EC (equal treatment for men and women in access to goods and services).

**COFACE’s Recommendations**

1) Assess the scale of the problem

COFACE wants the European Commission to collect more statistics on the scale of the problem (overall picture of applications, additional premiums and refusals of credit and credit insurance on the grounds of health, disability or age).

2) Identify existing good practices

COFACE wants the European Commission to have a study done to identify existing good practices in Member States.

3) See that health assessment questionnaires and risk assessment criteria are reviewed and periodically updated

COFACE condemns the fact that some health assessment questionnaires take no account of advances in medical science, and that insurers commonly charge different additional premiums which shows that the risk assessment criteria are not objective.

4) Resolve the deadlock over Directive COM (2008) 426 final

This directive would effectively enshrine the principle of non discrimination in insurance. It could be implemented on the basis of good practices already operating in some Member States.

5) Launch a consultation on discrimination in access to financial services

COFACE suggests that the European Commission put the issue of discrimination in access to financial services out to consultation in order to collect experiences from Member States, private stakeholders and voluntary organizations.

6) Explore other ways of expanding access to credit and credit insurance:

A state-backed insurance scheme for lenders: governments could introduce a state-backed insurance scheme for lenders to offer all customers the same low interest rates.

**Insurers and financial institutions:** could take a cue from the U.S. Community Reinvestment Act introduced in 1977 (requiring banks to show that they are meeting the credit needs and successful development of all segments of the local communities where they operate). Also, “play or pay” schemes would make banks wanting to cater only to lowest-risk customers pay a tax to support other more socially-minded banks.

In conclusion, while COFACE acknowledges that there cannot be an absolute right to access credit, it does want a more humane approach to risk assessment. It believes that financial institutions must be able to offer credit that is appropriate to individuals’ needs and abilities to repay. This means legislating to compensate for the negative impacts of competition and promoting financial management and budgeting education to minimise loan risks.