is calculated on the whole loan and must be paid at the outset. This can add up: A Washington finance company recently quoted a price of $30 for insurance on a three-year, $3,000 loan.

Credit life is a relatively small part of the insurance industry, but it is the fastest growing. The business is lucrative because costs are low, and borrowers seldom howl. Once in the hands of a finance company they are too beaten down to figure out the different charges which frequently are hidden. Last year 63 million borrowers paid insurance companies $590 million in premiums for credit life. The major costs to the insurer are death payments, but they only came to $280 million. James H. Hunt, Vermont's insurance commissioner, and one of the people concerned about the high cost of this insurance, said recently that actuarial studies showed the cost of a claim to be only 30 cents per $100 borrowed. The insurance companies themselves have said that administrative expenses run a bit under 5 cents per $100. This brings total cost to 35 cents. So, if a company charges the usual $1 per $100 rate, it comes out with a profit of 65 cents.

This system can result in rosy profits. For example, Old Republic Life Insurance Co. of Chicago is one of the biggest firms specializing in credit life and writes little else. In 1965 Old Republic reported premiums of $62.6 million and paid out death benefits of $23.3 million. This suggests a gross profit of 63 percent.

The interests of the finance and insurance companies frequently coincide. The insurance company pays the finance firm a commission on the credit life sold and, of course, the more made in premiums, the higher the commission. At the end of a good year, it is common practice for the insurance company to kick back profits to the finance company. This is known in the trade as the retrospective rate credit. Thus, competition works in reverse. Instead of looking around for the cheapest insurance for its borrowers, it is very much in the interest of the finance company to work the rates as high as possible.

Moreover, some of the biggest finance companies own the insurance companies that write policies on their loans. Under this double-headed arrangement, the parent finance company makes money on interest as well as from premiums, and it can charge the insurance subsidiary management fees for handling the records.

There are even more subtle renderings. "In examining the statement of a very large and well-regarded stock insurance company," Commissioner Hunt has said, "I noticed that most of their credit life business was being reinsured. There was no actuarial reason for this, so I made some inquiries. It turned out that this company wrote credit insurance for a large finance company. The deal was that the insurance company reinsured over 95 percent of the incoming credit business with an insurance company controlled by the finance company. About 45 percent of the premium was profit, and, of course, all but a prenegotiated part of this went to the wholly-owned subsidiary of the finance company. For a price, then, the finance company bought the good name of the insurance company and, to boot, avoided the appearance of controlling the business, whereas, in fact, they did."

Mr. Hunt makes this seem all rather conspiratorial. But there are no laws prohibiting finance companies from owning insurance companies; nor in most places are there any restrictions on their dealings with insurance companies. These transactions are in the open and apparently regarded as a common business practice, as the following examples suggest:

CIT Finance Corp., second biggest finance company in the country, buys credit life from Connecticut General which then reinsures these policies with a wholly-owned subsidiary of CIT called North American Co. (Figures for North American were not readily available. But Connecticut General says that it took in $13.5 million in credit life premiums in 1965 and paid out $6.7 million in death benefits for a gross profit of 50 percent. As a reinsurer North American shared in the risks and the profits.)

Associates Investment Co., another of the largest finance companies, also owns an insurance subsidiary which writes some of the credit life on its loans. The way it got into the business is interesting. In 1953, Associates wanted to move into the insurance field. At the time, Old Republic was issing credit life policies for the finance company. Associates then set up an insurance subsidiary called Alinco. Old Republic reinsured Associates' business with Alinco and handled the administrative details. Alinco had no office or any salaried employees. An accountant employed by another of Associates' subsidiaries spent one day a month taking care of the books. Despite the simplicity of its operation between 1953 and 1959. Alinco's financial success was striking. Its net gain from operations during that period, before federal income taxes but after paying its expenses and share of death benefits, was in excess of $28.5 million. In 1957 Associates