

Taking credit life and credit health together, we arrive at the following estimates for 1967:

1. Premiums Earned.....	
2. Losses including expenses of adjusting losses.....	\$750,000,000
3. Expenses of Insurer other than Commissions, Profit and Dividends to Creditor (Note A).....	400,000,000
4. Commissions (3%).....	70,000,000
5. Profit to Insurer (3%) (Note B).....	22,500,000
6. Compensation to Creditor.....	22,500,000
	60,000,000
7. Balance	175,000,000

NOTE A.—Some of the larger companies have aggregate commission ratios on Group Life as follows: Aetna, 2%; Allstate, 0%; Metropolitan, 1%; New York Life, 2%; Occidental of California, 2%; Prudential, 1½%; Travelers, 2%. Thus, 3% has been taken as an approximation to the average true selling expense. While the smaller companies would necessarily have higher ratios, they would not exert much effect on the average—thus 3% seems reasonable.

NOTE B.—Similarly for profit, here are a few margins for larger companies: Aetna, 0%; Allstate, 1½%; Continental Assurance, 2%; Occidental of California, 1½%; Old Republic, 0%; Travelers, 2%. A source of important additional profit to the insurer is investment income which explains why a company can operate on a 0% profit margin. Again 3% does not seem unreasonable.

If, somehow, creditors were prevented from profiting *excessively* on the insurance, annual savings of perhaps \$175 million would be possible. My estimate of \$100,000,000 of a year ago was timid.

Actually, the analysis above may even understate the facts because:

a.) At least one company, Old Republic, reports to Spectator on a premium basis net of dividends. Their annual financial statement reveals they paid dividends of \$5,856,000 which do not show up in Spectator; rather their premiums have been reduced by that amount.

b.) The analysis assumes the companies *not* reporting to Spectator—about 15% of the business—have a loss ratio of about 50%. Most likely it is close to 25%.

c.) The analysis omits credit property insurance.

THE DILEMMA OF THE RESPONSIBLE INSURER

As evidenced by the New York Life incident related earlier, where that company lost a case because they refused to raise their premium to “meet the competition”, companies which pride themselves on low cost service to the public are on the horns of a dilemma—either they play the game, or they lose the business.

Many such companies are reluctant to be a party to gouging the public and are not aggressively seeking business. Some of our largest group life companies—very efficient operators due to the economies of large scale—are only modest participants in credit insurance.

Of itself, this is a serious indictment of the credit insurance industry for it tends to breed a myriad of inefficient companies whose administrative and other expenses would choke them if they had to compete on a price basis.

CONCLUSION

These central facts seem to emerge from a review of the credit insurance industry:

(1) Fantastic profits are being made from the incidental sale of insurance in connection with loans and other credit transactions.

(2) In large measure, these profits are being captured by the finance industry, directly and indirectly, not the insurance industry, although many insurers are doing right well.

(3) They are made possible because competition works against the debtor to raise his cost.

(4) Someone must protect the debtor, who is in an inferior position to the creditor.

(5) This protection must come from government but state governments have been slow to act. This is not necessarily the fault of the insurance commissioner because he may be unable to secure legislation due to pressure exerted by creditors. Maryland and Iowa were unable to pass the model credit life bill this year for this reason, I understand.

(6) The citizens of many of our states need help.