

on the basis advocated has been collected and studied. They also advocate that the experience for each state be collected separately. This means that in many instances the experience will be so fragmented that it will take several years at least to obtain meaningful data. The obvious purpose is to delay any reduction of the charges to the public and therefore any reduction of the creditors and insurers profits for as long as possible. Such reductions could and should be accomplished promptly by using the data produced by the NAIC's 1964 Study of credit life insurance experience to establish prima facie maximum rate standards, coupled with deviation procedures for cases with poor experience, which would produce loss ratios of at least 50% when the maximum rates are charged. This is substantially what the NAIC recommended a year ago, but no state has since acted upon that recommendation.¹⁰

HOW MUCH ARE CONSUMERS BEING OVERCHARGED FOR CREDIT INSURANCE?

We have discussed how competitive forces tend to keep premium rates high in credit insurance. What would the savings be if normal competition prevailed? By normal competition we mean the kind of competition found in regular group life insurance of the employer-employee variety where state laws require that the employer pay a portion of the net cost of the insurance and, therefore, he seeks out the insurer with the lowest bid.

A year ago I made the following statement:

"One thing is clear, if normal competition, rather than reverse competition, could exist there would be a tremendous reduction in cost of credit insurance passed on to borrowers. I would estimate that, based on current premium income, savings would exceed \$100,000,000 nationwide annually."

This statement has been criticized as grossly exaggerated and harmful to the credit insurance industry. Therefore, perhaps a new estimate with a few details is in order.

Statistics on credit insurance are hard to come by and one task the Subcommittee should set for itself is to search out all companies writing this business and develop meaningful data.

The best, and latest, source of reasonably complete information is the October 1966 issue of *Spectator* magazine, which contains an article entitled "The Rebirth of Credit Life Insurance". Therein are included statistical tables for both credit life and credit health insurance. The author estimates that the data covers about 85% of the premiums written in the year shown, 1965.

The aggregate figures for items 1, 2 and 3 below come from that magazine and have been divided by .85 as an estimate of the total business in 1965 and then increased by 15% as an approximation to the business being written as of mid-1967. This assumes a growth rate of 10% per annum, a conservative projection as the business has grown faster than that in recent years.

As discussed earlier, commissions and insurer's profit (net gain from operations), items 4 and 5 below, in the case of most companies included in *Spectator's* statistical table, grossly overstate the amounts necessary to conduct the business of credit insurance since the creditor achieves his profit through these sources, as well as from dividends. Therefore, the estimates given are intended to approximate what the commissions and profits would be if the creditor were looking for the lowest premium to pass on to his debtor.

Item 6, compensation to creditor, is arbitrarily set at approximately 10% of the estimated reduced premium volume currently if excess compensation were eliminated. I am confident 10% exceeds the creditor's marginal cost of administering the insurance. Thus, it would not eliminate his profit.

¹⁰ In June, 1966, meeting in Richmond, Virginia, the NAIC passed a resolution recommending among other things enactment of the Model Bill in those states where it has not been enacted and implementation of the requirement that benefits be reasonable in relation to premiums through the promulgation of maximum rate standards by the Commissioners of those states which had not done so.