

York limited charges to 64¢ per \$100 for the smallest creditors reducing to 44¢ per \$100 for the largest cases (over \$5,000,000). New Jersey adopted the same scale and, currently, Vermont and California are considering similar regulations.

Five other states setting maximum rates have adopted the 50% loss ratio test recommended by the National Association of Insurance Commissioners in 1959 as a guideline to state insurance commissioners. By loss ratio we mean the ratio of benefits incurred to gross premiums earned. The resolution adopted says:

"The Committee in executive session recommends to all insurance supervisors that a rate for Credit Life or Credit Accident and Health producing a loss ratio of under 50% should be considered to be excessive."

As the underlying mortality cost in Credit Life averages about 30¢, this implies a maximum rate of about 60¢, although three of the five states mentioned above use 64¢. (Michigan and Pennsylvania are at 60¢; Connecticut, Maine and New Hampshire permit 64¢.)

The other states which have promulgated maximum rates adopted 75¢ which should produce a loss ratio of just in excess of 40%, thereby excessive according to the NAIC recommendation.

Thirty-four states, of course, have no rate standards. Undoubtedly investigation would show that a tremendous volume of credit insurance is being written at loss ratios under 40%.

WHAT IS A FAIR LOSS RATIO?

Virtually the whole credit insurance industry has embraced the 50% minimum loss ratio principle; at least that is their public position. Two questions are pertinent: first, is this a fair return and, second, is it being achieved?

To a life insurance actuary, familiar with the efficiency of group life insurance, the suggestion that 50% is an appropriate loss ratio is upsetting. I know perfectly well that loss ratios can run as high as 80%, perhaps 85%,⁸ in credit insurance and still allow the creditor to receive a modest dividend and the insurer to make a profit. There are a number of companies who achieve such loss ratios—Aetna Life, to name one.

Further, the credit insurance business in Vermont is written at premium levels producing a loss ratio in total averaging 65% to 70%.

Thus, I am unable to conclude that 50% of the premium is reasonable. It seems to me that a rate producing a minimum return to the consumer of something like 65¢ of each \$1 is more appropriate. This ties in with the loss ratios expected in auto insurance where policies are distributed one-by-one without any of the group insurance efficiencies. A minimum 65% loss ratio still leaves plenty for the creditor. For these reasons Vermont will adopt the New York/New Jersey concept which produces an average loss ratio of something like 65% for those creditors charging the maximums.

Even assuming the 50% principle is a good one, and it sure is better than anything lower than 50%, a tremendous volume of business is being written at rates producing loss ratios of 40%, 30%, 25% and probably lower. In other words, the 50% principle is not being achieved except in a handful of states cited earlier.

There is a running tug of war in the industry between those who feel the consumer needs protection and favor the adopting of a set of maximum rates—rates which, at the minimum, will achieve the 50% loss ratio test meaning a rate of about 60¢—and, lead by the Consumer Credit Insurance Ass'n.,⁹ those who are fighting to preserve the status quo, meaning no maximum rate standards or a 75¢ rate.

Those who resist meaningful rate standards tend to suggest that the 50% minimum loss ratio test should be applied on a company by company, policy form, class of business, class of creditor, or a case by case basis and that no prima facie maximum rates should be promulgated by the Commissioner until experience

⁸ It is interesting to consider that when the Internal Revenue Service requested the life insurance industry to provide the Service with a schedule of rates for group life insurance in order to establish the economic value for tax purposes of this coverage when provided free of charge by an employer for his employees, an 85% loss ratio was assumed.

⁹ That is not their public position for this trade association has endorsed the 50% loss ratio principle. However, a reading of their counsel's testimony in Wisconsin in 1966 leads me to conclude that they are primarily devoted to resisting attempts to establish maximum rate standards.