

significant. For example, a \$3000 car financed over three years at \$7 per \$100 would call for average \$450 refund, approximately, if death occurred in the first year.

The foregoing is not an academic matter. Even in Vermont, I found one of our largest banks pocketing the difference between the amount of insurance and the net amount necessary to prepay the debt even though the debtor had paid the full insurance premium. As a result, Vermont's finance laws have been amended to make it crystal clear refunds on prepayment by life insurance proceeds are required.

HISTORY OF STATE REGULATION OF CREDIT INSURANCE

The first point to make is that life and health insurance pricing traditionally has been subject to no review⁵ by state authorities, in contrast to fire and casualty insurance where rates have to be just, reasonable, adequate and non-discriminatory. Therefore, state authorities are powerless to deal with excessive premiums for credit insurance absent specific legislation.

In the late 40's and early 50's some of the abuses cited earlier began to gain attention and, in 1954, this Subcommittee conducted an investigation in Kansas into the tie-in sale of credit insurance in connection with small loans and other financial transactions and issued a report threatening federal intervention if corrective action were not taken.

Spurred on by this development and other studies, the National Association of Insurance Commissioners assisted representatives of the industry, worked out a model credit insurance bill which effectively deals with problems such as lack of disclosure, pyramiding of coverage, failure to make refunds of unearned insurance charges and the more flagrant sales of excessive amounts of insurance. The bill also contains a provision allowing the Commissioner to disapprove any policy form in which benefits are not reasonable in relation to premiums.

The model bill is a good one⁶ but, like much legislation, requires implementation and enforcement to be effective. While about 30 states have enacted the model bill, only 16 states, as far as I can determine, have established maximum premium rates.⁷ Even among these states, there is a wide variation in rate standards promulgated ranging from a low of 44¢ per \$100 initial indebtedness repayable in 12 equal monthly installments for larger cases in New York and New Jersey to a high of 90¢ for so-called individual policies in Texas.

In those states which do not regulate credit insurance pricing, \$1 per \$100 is not unusual—in fact, it is frequently the standard rate. Sometimes the rate even runs higher than \$1. These are extraordinary rates when contrasted with the General Motors Acceptance Corporation (GMAC) rate in my state of 37½¢ per \$100 for essentially the same insurance. And you can be sure GMAC receives a modest refund even at this low rate.

Lest it be said that GMAC achieves such a low rate because it is so large, there are several modest-sized banks in Vermont charging about 40¢ per \$100. The prevalent rate of \$1 per \$100 in many parts of the country is shocking—more than twice the amount necessary for those creditors with a respectable volume.

The matter of what constitutes a reasonable relationship between premiums and benefits has been a hot topic in the credit insurance field. The battle got off to a good start when New York promulgated a scale of maximum rates varying by the creditor's volume of insurance. Recognizing that the administrative costs of a group case decline on a per unit basis as the size of the case increases, New

⁵ Except indirectly through New York's Sections 213 and 213a limiting certain expenses of a life insurance company doing business in New York.

⁶ One deficiency of the model bill is that it is limited in scope to credit transactions of 5 years or less. The financing of mobile homes, in particular, as well as other costly items such as garages and home improvement loans, often exceeds 5 years and, even in those states with the model law, the debtor is afforded no protection against excessive charges for the life insurance, as well as some of the other abuses cited. Vermont, at my urging, eliminated the 5 year limitation this year so that our credit insurance law now covers all credit transactions except first real estate mortgages. I would urge other states to make this change for the amounts of insurance and, thereby, the premiums are much larger than in the usual credit transaction.

⁷ In the discussion that follows, it should be understood that the term "maximum rates" means that higher rates may be charged only upon presentation to the insurance commissioner of evidence that a particular creditor's insureds offer a risk significantly higher than normal, presumably due to a higher average age of the group, such that a higher rate is justified. Thus, the rate standards promulgated are "prima facie maximum rates". If a company receives permission to charge a higher rate, that is known as a deviation.