Note that in a larger case, commissions may well average a fraction on one per cent. Clearly, commission rates of 30%, 40% and more are merely a device to pass on a significant portion of the premium to the creditor.

(2) *Dividends or Retrospective Rate Credits*—A second method, either supplementary or in lieu of commissions, is through the payment of dividends or, as they are often called in group insurance, retrospective rate credits.

These payments are merely the amount left over after paying all necessary expenses and profits of the insurance company including death and disability claims. While the amount of the dividend depends on the mortality or morbidity experience of the group, in larger cases the dividends are predictable within a narrow range.

When I first heard about credit insurance, I naively assumed the dividends were returned to those who paid the insurance premium, the debtors. It came as some surprise to me that the creditor picked them up even though he contributed nothing to the cost.

(In regular employer-employee group life insurance, the dividends are returned to the employer but it is not lawful for him to recoup more than he contributed to the cost of the insurance.)

Some states, including Vermont, passed laws requiring that these dividends be used to reduce the cost to borrowers in the following year. Such laws don't work for they merely serve to increase commissions or can be circumvented by either of the methods below. Vermont repealed this requirement shortly after enacting it.

(3) *Captive Life Insurance Companies—Direct*—Obviously, it is possible for a larger creditor to set up his own insurance company as a subsidiary and thereby capture the profits directly. However, it is time consuming to gain admittance to the states in which the creditor does business and the economies of large scale makes this method too expensive for all but the largest creditors. Further, a modest degree of expertise is required. The reinsurance route is generally preferred.

(4) *Captive Life Insurance Companies—Reinsurance*—While the methods above are rather prosaic, the reinsurance deals which criss-cross the country can be intriguing.

The Subcommittee is undoubtedly aware that reinsurance is a most useful device in the insurance business to spread the risk—laying off the bets, in the bookmaker's parlance. In this way, a company can take on almost any size risk by limiting its exposure to a predetermined amount and reinsuring the balance with one or more reinsurers.

In credit insurance, reinsurance has an entirely different function—to pass profits through to the creditor. Because of the small amounts insured, and the fact that the debtors are well dispersed, it is usually unnecessary to spread the risk.

The creditor merely forms a life insurance subsidiary which need not apply for admission to do business in any state but its own. The subsidiary enters into a "reinsurance treaty", as it is called, with a company licensed to do business in at least those states in which the creditor does business, or reinsurance treaties may be negotiated with more than one company.

Commissioner Fletcher in the Alinco case mentioned earlier describes the arrangement better than I can. Old Republic wrote the credit life insurance covering the debtors of Associates Investment Company, the creditor. Alinco was a life insurance company which was wholly owned by Associates. Alinco's only function was to reinsure a portion of Old Republic's direct writings roughly equivalent in amount to the coverage written by Old Republic on Associates debtors.

"The Alinco-Old Republic reinsurance arrangement was typical of reinsurance arrangements generally in that Old Republic as the primary carrier handled all administrative details of the insurance including the supervision, investigation, defense against and payment of all claims, and thereafter made its claim against Alinco by way of monthly statements for Alinco's share of the losses.

"From birth to liquidation, Alinco's only business consisted of reinsurance under the Old Republic-Alinco treaty. As might be expected from the fact that Old Republic handled the myriad details incident to the insurance contained in the Alinco Reinsurance Pool, Alinco's operations were quite simple and inexpensive. Alinco had no office or salaried employees. An accountant employed by another subsidiary of Associates took care of Alinco's books and records, ex-