lies in the consummation of the primary transaction of loan (or installment sale), he is not likely to go out 'shopping' elsewhere for a lower premium rate assuming he is interested in acquiring any credit life insurance at all. Thus, it is reasonable to anticipate that, in most instances, a borrower desiring to cover his loan with credit life insurance will consummate the entire transaction with his creditor in preference to making any independent analysis or comparison of credit life premiums available elsewhere."

In other words, the debtors form a captive market for the insurance and have no ability to evaluate the reasonableness of the insurance charge.

But it might be asked, "Does it really matter what the source of the creditor's profit is? What difference is there if he makes it on the insurance, the finance charge, or both?"

The answer is that it usually does matter. First, the states all have various laws to protect borrowers and those who buy on time. These laws—usury laws, small loan acts, installment sales acts, revolving charge account maximums, etc.— are necessary due to the inferior bargaining position of the debtor. It is not at all unusual for small loan companies, finance companies, even banks, to operate at the maximum rates permittd by law. Creditors who charge the maximum rate for the extension of credit and profit in addition on the same transaction from the sale of insurance to their captive debtor are, as a practical matter, circumventing the intent of state's finance laws.[4]

Having explained how overcharging for credit insurance arises and why it is a serious matter, let us examine the manner in which the creditor captures a large share of the credit insurance dollar.

COMMISSIONS, DIVIDENDS, CAPTIVE INSURERS AND REINSURANCE IN CREDIT INSURANCE

There are perhaps four methods by which the creditor gets his "piece of the action". All are quite legal and well-accepted.

(1) *Commissions*—The simplest way to pass on a portion of the insurance premium to the creditor is by paying him a commission rate in excess of that which normally would pertain.

It is, of course, an easy matter to sell the creditor on the need to cover his debtors with life insurance. It is very valuable to him in his operations and, further, he is able to make a profit from its sale far in excess of the marginal expenses of adding the service. In fact, I would argue that the creditor would be quite willing to offer the insurance without any form of compensation whatsoever because it relieves him of the expensive, and sometimes impossible, task of collecting the unpaid balance on death from the debtor's estate. Further, the marginal cost of asking the question about insurance, and of filling in an additional line on the application, is negligible.

Often commissions in credit insurance run to 30%, 40% or higher. That this is far in excess of typical commission rates in group insurance can be seen from the following table:

REPRESENTATIVE GROUP COMMISSION SCHEDULE[1]

[In percent]

Portion of premium	1st year	9 renewals
1st $1,000	20	5
Next $4,000	20	3
Next $5,000	15	1½
Next $10,000	12½	1½
Do	10	1½
Next $20,000	5	1½
Next $50,000	2½	1
Do	1	½
Next $350,000	½	½
Next $500,000	¼	¼
Next $1,000,000 and over	1/20	1/10

[1] Source: Group insurance study notes published by the Education and Examination Committee of the Society of Actuaries.

[4] That insurance profits are hardly insignificant is dramatically illustrated by a careful review of a recent Credithrift Financial prospectus received in our Securities Division. After taxes and preferred dividends, this finance company earned 3.13 million of which about 1.65 million came from writing insurance on their customers. In other words, they made more on the insurance than they did on their basic business. These figures are for the company's fiscal year 1966.