CREDIT LIFE INSURANCE GROWTH IN THE U.S.

Credit *life* insurance which, to repeat, is sold in connection with loans or other credit transactions in order that the debt may be extinguished at the death of the debtor, was first sold with small loans in 1917. Of course, the requirement of life insurance as additional security for a loan goes back much further than 1917, but its systematic application began then.

The growth of credit life was modest until after World War II, when it began to grow rapidly. By 1950, credit life insurance in-force had reached only $4 billion. Today, the in-force figure is somewhere around $65 billion.[1]

Since 1954, when the Senate Antitrust and Monopoly Subcommittee held public hearings in Kansas regarding abuses in credit life insurance, the business has more than quadrupled to cover an estimated 85% of all consumer installment debt (excluding charge accounts, credit cards and residential mortgage debt).

Thus, there is no question that credit life insurance is pervasive in our economy and any inquiry into consumer credit generally must not omit the "hidden insurance, as one writer has labeled credit life.

In addition to small loans and installment purchases of autos, appliances, etc., credit life is also sold in connection with other credit transactions such as:

1. Installment loans by banks;
2. Credit card debts;
3. Revolving charge account balances;
4. Front end load, or contractural plan, mutual fund purchases;
5. Debit balances in margin accounts of brokerage firms;
6. Real estate mortgages;
7. Education loans;
8. Production Credit Association loans to farmers.

The ease with which it is sold, the simplicity of administration, and the large profits to the creditor from its sale have combined to make credit life immensely popular. As there are about 70 million[2] policies or certificates outstanding it is estimated that about 50,000,000 people in the U.S. are covered by credit life insurance in some form.

CREDIT HEALTH INSURANCE GROWTH IN THE UNITED STATES

Credit health insurance, which picks up the debtor's monthly payments during his disability, probably covers only about 10% of consumer installment debt, as opposed to an 85% penetration for credit life. The unit cost is about four times that of credit life which may be a factor in its slower growth. Further, claims administration is considerably more difficult. Also, the disability experience of a group is much less predictable than its mortality experience and insurers have not been as anxious to offer it.

Nevertheless, credit health is now growing rapidly in popularity with creditors and its growth rate in the future will probably exceed credit life.

(From this point on, it will be less confusing to limit the discussion to credit *life* insurance. Whatever remarks are made with respect to credit life will generally apply to credit health unless otherwise stated.)

CREDIT LIFE INSURANCE—HOW IS IT SOLD? WHAT ARE ITS DISTINGUISHING CHARACTERISTICS?

Credit life insurance is offered by life insurance companies to creditors whose job it is to sign up the customer for the insurance as an incidental part of the credit transaction. Often the insurance is required as a condition precedent to the extension of credit, but some states permit the debtor to substitute his own insurance if he requests to do so. As a practical matter, it is not difficult to add the insurance charge for the cost does not appear to be high in relation to the finance charge plus the principal balance.

Credit life insurance is written in two ways: (1) under an individual policy issued to the debtor with the creditor named as beneficiary or (2) under a group policy issued to the creditor who is beneficiary as well. Under the latter plan, the debtor is given a certificate evidencing the insurance. Because mass

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[1] Source: Life Insurance Fact Book 1966 extrapolated.
[2] Source: Life Insurance Fact Book 1966 extrapolated.