

(Hon. Jonathan B. Bingham, member of the Consumer Affairs Subcommittee, submitted the following statement of James H. Hunt, commissioner of banking and insurance for the State of Vermont, before the Senate Antitrust and Monopoly Subcommittee, on the subject of credit life and health insurance:)

STATEMENT TO THE SENATE ANTITRUST AND MONOPOLY SUBCOMMITTEE REGARDING CREDIT LIFE AND HEALTH INSURANCE BY JAMES H. HUNT, FELLOW, SOCIETY OF ACTUARIES, COMMISSIONER OF BANKING AND INSURANCE, STATE OF VERMONT

As the only Commissioner of Insurance in the United States who is a life insurance actuary, I am possibly well situated to comment on credit insurance. Equally important, I am also the Banking Commissioner and this responsibility includes supervision of sales finance and small loan companies. It is the combination of actuary, insurance commissioner and consumer credit administrator that compels me to appear before this distinguished committee today.

My task will be to bring before the Subcommittee certain background information concerning credit insurance which is necessary to an understanding of the need for effective regulation.

In addition, this statement will reveal my own view of credit insurance, which might be summarized at this point by saying that, in *most* states, the debtor is paying excessive premiums and needs help.

Since my remarks will include rather serious allegations about the credit insurance business, I wish at this point to place them in better perspective.

First, I have spent my working life in the life insurance business prior to becoming Commissioner and have great respect for the contributions it makes to the economic security of millions of Americans. Moreover, the tremendous capital formation provided by the life insurance industry (but not the credit insurance industry) is a vital factor in our steadily increasing standard of living. Thus, my statement should not be interpreted as a criticism of the life and health insurance business generally but only a specialized segment of it.

Secondly, since my comments are mainly directed to excessive premium rates, I wish to make it clear that I am not one who thinks profit is a dirty word. In Vermont, we have had some serious pressures on automobile rates and I have taken a strong position that the auto insurance companies must have adequate rates, rates which give them a reasonable chance to make a profit, in order that they can bring good service to our residents. This strong support of the need for higher auto insurance premiums in my state nearly cost me my job, for the Senate confirmed my appointment by the Governor last February only after much debate and a close vote.

My position has been, is, and will continue to be that where plenty of competition exists among insurance companies for the premium dollar, the insurance commissioner has little business interfering in the rate-setting process. However, such is not the case in credit insurance and that is why I am here.

CREDIT INSURANCE—WHAT IS IT?

Credit insurance is that form of insurance sold in connection with loans or other credit transactions generally providing, in the case of credit life insurance, a death benefit at least large enough to prepay the outstanding balance of the loan at the time of death of the debtor and, in the case of health insurance, a periodic benefit (almost always monthly)—equal to the periodic installment payment on the debt—for as long as the debtor is disabled or until the maturity date of the debt.

The sale of fire and casualty insurance in connection with credit transactions is known as credit property insurance. As credit property insurance is not sold in Vermont, I will leave discussion of this topic to other witnesses.

The insuring of accounts receivable by a merchant against extraordinary losses due to business failure of his customer is also referred to as credit insurance. This hearing is not concerned with that specialized field.

Throughout this statement, the term "creditor" will be understood to mean a lender, in the case of a loan of money, or the holder of an installment sales agreement, in the case of a time sale transaction. The term "debtor" will include the borrower or the buyer as the case may be.