

**CREDIT LIFE
AND
CREDIT DISABILITY
INSURANCE
IN HAWAII**

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FOREWORD

This report on credit life and credit disability insurance in Hawaii has been prepared in response to Senate Resolution No. 101 of the 1968 Budget Session which directed the Legislative Reference Bureau to research the problem of protection of the debtor as well as the creditor in credit transactions and to draft legislation designed to alleviate the problems in the credit life and credit disability insurance field.

The completion of this report would not have been possible without the assistance of representatives of the insurance industry, credit industry, and governmental agencies who gave so generously of their time in reviewing and commenting on the preliminary draft of the report.

We are especially appreciative of the aid and advice of the Insurance Division, Department of Regulatory Agencies, in the preparation of the report, and a special note of thanks is extended to Miss Ritsuyo Matsui of the Insurance Division who tabulated much of the statistical data used in this report.

Herman S. Doi
Director

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DEFINITIONS

Definitions of the two types of insurance as used in the report are:

1. Credit life insurance - Term life insurance where the life of a borrower (debtor) of money or purchaser of goods is insured through the lender or lending agency (creditor) to cover payment of a loan, installment purchase or other obligation in case of death.¹
2. Credit disability insurance - (also called "credit accident and health insurance") Insurance under which the insurer will pay the creditor the amount of the debtor's monthly installments in the event the debtor becomes disabled due to sickness or accident.²

Chapter I

INTRODUCTION

The Growth of Credit Insurance

Credit life insurance has been one of the fastest growing forms of life insurance in the United States. During 1967, the amount of credit life in force increased 6.8 per cent over 1966 totalling \$67.0 billion or approximately 7 per cent of all life insurance underwritten nationally.¹ The growth of credit life insurance in Hawaii parallels the national trend. In the ten-year period 1958-67, gross premiums received for group and individual credit life insurance and the amount of credit life in force more than tripled in size. The increase has also been great in the field of credit disability insurance. Premiums received for credit disability insurance which totalled \$225,840 in 1958 more than doubled to \$635,799 in 1967.²

Table 1

HAWAII CREDIT LIFE BUSINESS

Year	Premiums Received (Group & Individual Combined)	Insurance in Force At End of the Year
1958	\$ 903,279	\$ 86,637,481
1963	1,908,928	181,731,905
1967	3,041,315	288,647,932

Source: Report of the Insurance Commissioner of Hawaii
for the years 1959 and 1964. Preliminary figures
for 1967 provided by the Insurance Division,
Department of Regulatory Agencies.

Reasons for Growth

The great increase in credit life and credit disability insurance coverage can largely be attributed to the rapid growth in installment buying and expansion of the consumer credit business in the country. The types of indebtedness which are insured vary greatly and include not only unsecured personal loans but purchases of consumer durables like appliances, revolving credit and credit card charges, and real estate mortgages.³

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In principle, the attractions of credit insurance are many since there are advantages for both the creditor and the debtor. For the creditor, the most important benefit is that credit insurance assures the payment of all or part of the outstanding loan if the debtor dies or becomes disabled. It also eliminates the trouble and expense of collecting payment from the deceased's family or endorsers or of repossessing the collateral. The advantages to the debtor or borrower are obvious. His family will not have to pay his debt in case of his death or illness, and it is a plan of life insurance tailored to reducing the indebtedness. An insured loan also may make it easier for the debtor to obtain endorsers or co-signers when necessary.⁴

What started out as a beneficial transaction for all parties, however, has increasingly posed problems relating to the protection of the consumer (debtor), thus necessitating legislative attention.

Need for Regulation

The primary problem facing the legislature is whether or not regulation of the credit insurance premium rates and policies is necessary to protect the consumer (debtor). The need for regulation has arisen because in the field of credit life and disability insurance a situation called "reverse competition" prevails. In some instances, creditors pass on the premium cost to the debtor and make an additional profit by way of compensation included in the high cost of the premium. Theoretically, where price competition exists, the results are better service and a reduction of cost in insuring the policyholder, but in the credit insurance field the reverse is true. Creditors often overcharge for credit insurance coverage and do business with an insurer who charges the highest, rather than the lowest, premium rate. The creditor gains from the arrangement through compensation in the forms of commissions, experience dividends, or "servicing fees". In order to stay competitive, the insurer must offer to pay the creditor a high return and must charge high premium rates. The lack of regulation has produced other abuses and unfair practices which will be discussed in the text of the report.

Legislative Request

This report was requested by the legislature in Senate Resolution No. 101 in the 1968 Budget Session. Hearings were held by both houses of the legislature in early 1968 on laws designed to regulate

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credit life and credit disability insurance in the public interest, and the need for legislation appears to have been recognized at that time.

Thirty-three states, the District of Columbia and Puerto Rico now have statutes which regulate credit insurance premium rates or the activities of insurers in the credit insurance field. A number of the remaining seventeen states have considered legislation of this nature, Hawaii being among them. In addition, the federal government has shown a growing concern with the absence of adequate state laws which would minimize abuses in the credit insurance field. Extensive hearings on the consumer credit insurance industry were conducted in 1967 by the Subcommittee on Antitrust and Monopoly of the Senate Judiciary Committee. The conclusion clearly indicated a need for further state action.

Organization of the Report

This report focuses upon the major problem areas in the subject of regulatory legislation.

Chapter II deals with credit insurance policy forms, coverage and rates, giving attention to the types of plans available, how premium rates are determined, and who bears the cost for such insurance.

Chapter III summarizes credit insurance experience for Hawaii and reports the findings of statistical studies based on information from the Insurance Division, Department of Regulatory Agencies.

Chapter IV reviews the abuses which have resulted from unregulated credit insurance transactions both generally and in Hawaii.

The recommended legislation is attached as Appendix F of this report.

Chapter II

CREDIT POLICY FORMS AND RATES

Policy Forms

Credit life insurance can be written on a group policy or individual policy plan. Credit insurance in the United States as a whole and in Hawaii is written primarily on a group basis.¹ Group policy premiums received amounted to 95 per cent of the total credit life premiums received in Hawaii during 1967. Because of the preponderance of group plans in Hawaii, this discussion is largely concerned with group credit insurance.

Group Credit Life

A group policy of credit life insurance is issued to the creditor (or lender, e.g., banks, finance companies, retailers) under a master policy to cover a group of debtors who may have borrowed money from a financial institution or purchased goods under a conditional sales contract from a retailer. Group credit life insurance differs according to who makes the payments for the insurance. It can be written either on a contributory basis where the debtor pays a part or all of the insurance premium or on a non-contributory basis where the creditor pays the premium.² Group credit life premiums received in Hawaii amounted to \$2,895,383 during 1967.

Individual Credit Life

Individual policies of credit life insurance are sold through the creditor to the debtor on an individual basis. The insurance covers debtors in amounts which approximate the loan balance which is payable to the creditor. Both individual and group forms of credit life are similar in terms of coverage, cost, and administration.³ Individual credit life premiums received totalled \$145,932 in Hawaii during 1967.

Credit Disability Insurance

Credit disability insurance also can be written on either the group or individual plan, but 91 per cent of the credit disability premiums received during 1967 in Hawaii were on group policies.

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Credit disability insurance business in Hawaii amounted to 17 per cent of the total credit insurance (credit life and disability combined) premiums written in 1967 and totalled \$635,799.⁴

Group Policies

The Insurers

Insurance companies which write credit insurance fall into two categories. The first group includes the more conventional companies which write all forms of life and health insurance. These companies, which include the nation's oldest and largest life insurance companies, have added credit insurance as part of their expanded coverage. Some write group credit life policies but not individual credit life policies. The second group of insurers includes companies which specialize mainly in writing credit insurance, primarily individual policies.⁵

In 1967, there were eight domestic (Hawaiian-based) insurance companies which wrote credit life insurance, four of which also wrote credit disability insurance. In addition, there were thirty-seven foreign (mainland-based) insurance companies doing credit life business in Hawaii, thirteen of which also did credit disability. There were two additional foreign insurers which limited their credit insurance business in Hawaii to disability only.⁶ In 1967, the domestic companies accounted for 40 per cent of the premiums received on credit life and over 64 per cent of the premiums on credit disability.⁷

The Creditors

Originally, credit insurance was underwritten on unsecured personal loans made by commercial banks. Although a large proportion of credit insurance is still concentrated in the personal loan field, the list of eligible creditors has been expanded greatly and now includes savings and loan associations, trust companies, sales finance companies, dealers, retail vendors, small loan companies, mutual funds, production credit associations, memorial parks and federal land banks.

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Master Policy

Under a group credit life policy, a master contract is issued to the creditor and covers the lives of his debtors on a group basis. Most types of installment financing normally transacted by these creditors are eligible for group coverage, but only indebtedness made by natural persons are eligible, i.e., partnership, corporation or association indebtedness are not eligible. The creditor is the policyholder and beneficiary and the contract provides that the insurer will pay to the creditor the unpaid balance of the indebtedness in the event of the death of the debtor. The creditor is obligated to apply the benefits paid by the insurer to discharge the insured indebtedness.⁸

Each debtor is covered for an amount of life insurance equal to the amount of his indebtedness to the creditor. The form of insurance is decreasing term insurance and as the debtor makes his installment repayments and reduces his indebtedness, the amount of insurance reduces correspondingly. When an insured debtor dies, the outstanding amount of credit insurance is automatically payable to the creditor to discharge the debt.⁹

There are various restrictions on the contract, the maximum amount being limited either by law or insurance company practice.¹⁰ If the unpaid balance exceeds the maximum amount of insurance provided in the master contract, the debtor ordinarily is insured for the maximum permitted under the policy until his indebtedness is reduced to the point at which the unpaid balance equals the maximum. Thereafter, the insurance is reduced according to the reduction in the outstanding balance.¹¹

Some contracts provide that where the debt is greater than the maximum amount limit, the benefit is paid in the proportion that the original amount of indebtedness bears to the maximum amount of insurance. For example, if a man borrows \$4,000 and is covered under a policy providing a \$3,000 maximum, his amount of insurance will always equal three-fourths of his outstanding indebtedness. The amount of coverage is thus reduced continually.¹² Other restrictions may include a limit on the duration of eligible indebtedness (usually five years) and that the group must meet certain minimum size requirements in terms of a minimum number of new debtors per year (usually 100) and a minimum outstanding volume of insured loans each year.¹³

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A master contract may be terminated: (1) at the request of the creditor, (2) for nonpayment of the premium, (3) for failure to obtain a minimum number of new debtors in each policy year, or (4) for failure to maintain a minimum volume of insurance.¹⁴

Death claims are paid to the creditor by the insurer upon proper notice from the creditor and proof of death. In order to reduce expenses in processing claims, however, some insurance companies allow the larger creditors to use a net-accounting system by offsetting claims against monthly premiums, only indicating how many debtors died during the month and the amounts for which they were insured.¹⁵

Who Pays for Group Insurance

Noncontributory Plan

It was pointed out earlier that group credit insurance differs according to who pays for it. In the noncontributory plan, the creditor absorbs the entire cost of the policy. The plan covers all debtors and avoids the trouble and expense of making the plan available to each individual debtor. For most creditors, this is not an attractive plan since it constitutes an additional cost. General estimates (for banks) are that the cost will run one-half of one per cent of the initial amount of the loan for each year.¹⁶ Where the creditor pays all costs, it is generally required that 100 per cent of all eligible borrowers be insured. Most states, however, permit a minimum participation of 75 per cent of eligible debtors if the plan is a contributory one where a specific charge is made to the borrower.¹⁷

Credit unions are an example of noncontributory group insurance creditors. In a credit union each eligible borrower is automatically insured in the amount of his loan up to a certain limit (usually \$10,000). The credit union pays the premium out of its own earnings; the monthly premium per \$1,000 of outstanding loan balance differing according to the type of plan a credit union chooses.¹⁸ In a strict definition of terms, there is no "free" credit insurance even in a noncontributory plan, but costs to the creditors are low and almost inconsequential to the borrower. Credit unions generally place their insurance with C.U.N.A. (Credit Union National Association) Mutual Insurance Society, a nonprofit insurance company which serves credit unions in the United States. In terms of volume of credit insurance, C.U.N.A. led all companies in Hawaii with \$692,285 worth of premiums received in 1967.¹⁹

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Contributory Plan

The practice which dominates in Hawaii is the other method of financing a group credit insurance plan where the entire cost of the insurance is passed on to the debtor through a specific identifiable charge included in the credit transaction by the creditor. The plan must be made available to each debtor (rather than automatically covering every debtor as in the noncontributory plan), and the creditor gains the obvious advantage of economy since he bears only the expense of administering the plan.²⁰

In the contributory plan, insurance laws usually require the creditors to turn over to the insurance company all the premiums which come from the debtors. In normal practice, the creditor's insurance charge to the debtor will not exceed the premium which it pays to the insurance company. Most creditors as policyholders issue a certificate of coverage to the individual debtors although it is usually done only where it is required by state laws. This document is called a "statement of insurance", and it describes the nature of the insurance protection, the conditions of the coverage, and the refund formula to be used in case the indebtedness is repaid before the scheduled maturity date. The individual debtor's insurance is terminated if: (1) the master policy is terminated, (2) the indebtedness is discharged, (3) the indebtedness is transferred to another creditor, or (4) the debtor fails to make installment repayments when due.²¹

Premium Rates

The premium rate charged is based upon the volume of indebtedness to be insured expressed usually as an amount per \$1,000 per month of outstanding balance, or an amount per \$100 per year of initial insured indebtedness. For example, if the volume of insurance on a group policy is less than \$250,000, the initial rate may be \$.75 per month per \$1,000 of outstanding balance, \$.60 per month per \$1,000 for \$500,000 or more, and the rate might be prorated between \$.75 and \$.60 for a volume between \$250,000 and \$500,000.²²

Premium Payment

A common premium payment method on group policies is the "outstanding balance method" which bases the premium on the amount

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of insurance outstanding on loans or debts on each monthly premium due date. For example, if a creditor has an outstanding volume of insured loans of \$500,000 and the applicable rate is \$.60 per month per \$1,000 of outstanding balance, the total premium due for the month from the creditor is \$300.

A second method is the "single premium method" where the full premium (expressed as, e.g., \$.60 per \$100 per year) which is based on the initial amount of indebtedness and its anticipated decrease over the repayment period is immediately turned over to the insurer by the creditor.²³

Disability Rates

The payment of premium rates for credit disability insurance is more complicated than that of credit life since plans vary not only according to waiting periods of fourteen to thirty days but also whether benefits are paid retroactively to the first day of disability. Premiums are expressed usually per \$100 of insured indebtedness as in credit life.²⁴

Creditor Compensation

The creditors often receive compensation in the form of a refund in connection with the insurance coverage. While this practice in itself is not detrimental in most group insurance plans, it is often abused in a contributory plan when the cost of insurance is borne entirely by the borrower since the creditor is interested in the highest available insurance rate rather than the lowest in order to receive a higher proportion of compensation.

Experience Dividends and Rate Credits

Profits by creditors on group credit life policies generally flow from the retention of dividends or experience rate credits. Where abuses in the credit field are prevalent, these experience rate credits result from rates which are excessive, a favorable loss experience (loss ratio, discussed in next chapter) and the failure to provide refunds upon prepayment and cancellation by the borrower. Depending on the experience dividends or retrospective rate credits, the gross cost of group credit insurance is subject

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to reductions and these are paid to the creditor by the insurance company. The creditor retains these as compensation for expenses incurred in administering the plan.²⁵

Commissions

In a competitive situation, the purpose of commissions paid to insurance agents is to provide an incentive to agents to expend their efforts in generating business. The amount of commission which the agent commands is in direct proportion to the buyer's freedom of choice as to whether he will buy the insurance and from whom.²⁶

A number of arrangements have developed in relation to commissions. It should be noted that high commission rates in the credit insurance field are made possible by the favorable experience on risks. On group coverage, commissions are normally paid to full-time agents as compensation for the sale of the group contract to the creditor rather than a commission being paid to the creditor. This practice does not always prevail, however, and commissions are paid to the creditor as a rebate in many cases. While Hawaii laws prevent this practice requiring commissions to be paid only to licensed insurance agents (creditors rarely are licensed insurance agents acting only as middlemen in selling group insurance), other states do not.²⁷ In its application, however, the Hawaii law is vague. Some finance companies go through the unusual procedure of having their loan officers trained and examined as licensed insurance agents although they write only credit insurance. Other creditors receive compensation through one form or another, the law notwithstanding.

How a Group Plan Works

In order to illustrate and review the factors and details discussed above, it would be useful if a hypothetical contributory credit group life plan with rates similar to those prevailing among the largest number of creditors in Hawaii is presented as an example.

A life insurance company (insurer) issues a group life insurance policy to a finance company (creditor). The finance company, which is the group policyholder, is not required by Hawaii law to license its agents if it merely issues the certificates

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on a group policy, handling the transaction indirectly. Under a single premium payment system, the charge, which is paid by the debtor, is \$1 per \$100 of initial indebtedness repayable in twelve substantially equal monthly installments. How much of the premium the finance company returns to the insurance company depends on the degree of bargaining.

If 50 per cent of the premium was agreed upon as the compensation to the policyholder (the finance company), the company remits only \$.50 to the insurance company which books the premium as \$1 and pays premium taxes on the \$1 amount, not \$.50. The finance company, then makes \$.50 on the premium in addition to the interest it charges on the loan. Unless the issuer of a certificate is a licensed agent, no commission is allowed but experience credits or "servicing fees" take the place of the commission. The \$.50 which the insurance company receives may be the amount necessary to support its risk, but it must charge the \$1 rate in order to remain in the market and to pay the high compensation to the creditors.²⁸

Individual Policies

Individual policies account for a small share (5 per cent) of total credit life premiums received in Hawaii in 1967, yet it is an area where in countrywide experience, the greatest abuses have occurred. The creditor, directly or indirectly, acts as the agent of an insurance company and issues an individual policy to each of the debtors, receiving compensation to reimburse him for expenses incurred in his credit insurance operation. The creditor turns the premium over to the insurance company after his compensation is deducted. If the policy is individual decreasing term insurance, the insurance company pays the unpaid loan balance of any borrower who dies during the loan period. In the case of individual level term insurance, the insurance remains equal to the original amount of the loan throughout the loan period. The amount equalling the loan balance, goes to the creditor and the remainder to the debtor's estate. For example, if a debtor borrows \$400 and dies after repaying \$150, the insurance company pays the loan balance of \$250 to the creditor and \$150 to the debtor's estate.²⁹

Chapter III

CREDIT INSURANCE STATISTICS FOR HAWAII

Any detailed study of credit insurance requires a collection of data and an analysis of credit insurance experience, yet the obstacles are considerable. There is no standard form for collecting statistical information among states, and the opportunity or facilities to compile and analyze a large volume of data are not available in Hawaii. In order to reveal characteristics of the experience which are present generally and to avoid errors of a study limited to a single state, the data here include countrywide experience as well. The findings are only summarized in this chapter, but statistical tables are reproduced in the Appendices.

Problem

The most common rate quoted in Hawaii for group credit life insurance is \$1 per year for each \$100 of indebtedness. This is the charge made to borrowers by the great majority of loan companies in the state. Insurance companies which sell credit insurance to the creditors charge varying rates, but the \$1 rate seems to be general.¹ It should be pointed out, nevertheless, that in terms of volume, the insurers like C.U.N.A. which do not charge the \$1 rate handle much of the credit business in Hawaii.

Whether the \$1 rate is reasonable is a problem which faces those who attempt to regulate the premium charges on credit life. To establish an objective standard by which to measure the fairness of rates, the National Association of Insurance Commissioners (hereafter N.A.I.C.) recommended the use of a minimum loss ratio "bench mark", which is generally acknowledged as a fair standard.

Loss Ratio

The loss ratio measures the percentage of every premium rate or dollar that the insurance company pays out in benefits. The N.A.I.C. recommended a minimum 50 per cent loss ratio, or that at least one-half of the premium rate should be used to pay claims. Translated into terms of the consumer-borrower, it means people paying for the insurance should be getting back a minimum percentage of 50 per cent of the premiums paid in terms of benefits. Any percentage less than a 50 per cent loss ratio would indicate that the debtor was getting less than is deemed reasonable by N.A.I.C.

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standards. Based on the loss ratio, a premium rate which is substantially in excess of twice the claim rate would also be considered unreasonable. At the present time, nineteen states use the 50 per cent loss ratio in their insurance regulations while three others, use the "bench mark" to approve or disapprove rate filings although the "bench mark" is not set forth in the regulation.²

Hawaii's Loss Ratio

Hawaii's 1967 ratio (credit life insurance claims and benefits paid to premiums received) amounted to only 37 per cent; the loss ratio for the five-year period 1963-67 averaged less than 38 per cent. (See Appendix A.) This meant that for every \$1 of credit life insurance premiums collected, the insurance companies paid out approximately \$.38 in benefits for the past five years. For every \$1 of credit disability insurance premiums collected, the companies paid out approximately \$.22 in benefits. Both rates are well below the N.A.I.C. 50 per cent "bench mark", indicating that people were getting a smaller percentage back than in areas where a "bench mark" ratio is established by law.

Hawaii experience statistics also show difference in loss ratios between domestic and foreign insurers. (See Appendix B.) In the five-year period 1963-67, domestic credit life insurers showed a loss ratio of 26 per cent against 43 per cent for foreign credit life insurers. In addition, domestic credit disability insurers showed a loss ratio of 17 per cent against 24 per cent for foreign credit disability insurers.

This is not to say, however, that all domestic insurance companies are profiting in excess of \$.70 on every dollar in Hawaii, as other costs are involved in administering the plans, and different rates prevail for group and individual policies. The difference in loss ratios can also be partially attributed to lower premium rates charged by foreign companies, many of which are large companies operating on a countrywide basis.

It should also be added that Appendices A and B give loss ratios based on premiums received and losses paid. They represent only a general indication of the trend in credit insurance for a given period, because the premiums received on credit life in any one year may be premiums for two or three years paid in advance while the losses indicated are for only one year. While a more

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accurate representation would be to use the premiums earned over losses incurred, a comparison of both methods in Appendix C representing all domestic insurers and C.U.N.A. indicates that the differences are minimal and the loss ratios for the premiums earned over losses incurred are only slightly higher. The loss ratio for Hawaii discussed in this report then is subject to slight variations on a premiums earned over losses incurred basis.

Countrywide Loss Ratio

A N.A.I.C. study done in 1964 on countrywide loss ratio experience indicated loss ratios of 30 and 32 per cent on credit life and credit disability insurance respectively on individual policies and 58 and 47 per cent respectively on group policies.³ Hawaii experience also indicates a lower loss ratio on credit life and credit disability insurance on individual policies. Thus, not only is an excessive rate indicated on credit insurance in general in Hawaii, but it is more excessive on individual rather than group policies. In 1967, for example, credit life business in Hawaii indicated a loss ratio of 27 per cent on individual policies and 37 per cent on group policies.

The reader is cautioned that only averages are indicated in this summary and that there are variations of companies around these averages. At least 20 per cent of the companies surveyed in the N.A.I.C. study showed average loss ratios between 80 and 90 per cent. Significantly, only one per cent of the total individual policy premiums were written by companies with a loss ratio of more than 40 per cent. Similar variations were found for credit disability insurance. One of the reasons for the difference in loss ratios is the level of premium rates charged, the countrywide average being \$.54 per \$100 of initial indebtedness repayable in twelve monthly installments on the average for group life policies and \$1.11 per \$100 for individual policies.⁴

Determination of a Reasonable Rate

The simplest method to translate a loss ratio into the dollars and cents of a premium rate is to multiply the death claims of a group of borrowers on which figures on past experience are available by two. This does not, however, take into account a number of variables since future benefit payments may not always correspond

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to past experience, and loss ratios vary widely according to creditor accounts and the average age of borrowers. There is also a problem in determining a rate for new creditor accounts for which no past experience statistics are available.⁵

N.A.I.C. Recommendation

It was recommended by the N.A.I.C. in 1966 that each state adopt a 50 per cent loss ratio "bench mark" which would in turn serve as the basis for establishing a prima facie rate. On the basis of the 1964 N.A.I.C. study described above, a prima facie rate of \$.60 per \$100 per year of initial indebtedness repayable in monthly installments was found to be consistent with a 50 per cent loss ratio "bench mark" although no recommendation was made. This figure was determined by multiplying the average death benefits per \$100 on a twelve-month loan (which amounted to about \$.30) by two.

Rates in Hawaii and Other States

In Hawaii, where no regulation exists on premium rates, it was noted that the prevailing rate is \$1 per \$100 per year. Of the thirty-five jurisdictions which have regulatory legislation in force, eight have established the prima facie rate at \$.60 per \$100 or less. Three states have adopted decremental scales of rates, fifteen states and Puerto Rico have prima facie rates more than \$.60 per \$100 per year while eight states have adopted no prima facie rates. (See Appendix D.)

The N.A.I.C. prima facie rate procedure does not prevent any insurer from applying for authority to charge a higher rate if its loss ratio exceeds the 50 per cent "bench mark". It merely establishes the standard by which the commissioner will accept a premium charge as being reasonable in relationship to benefits.

Commissions and Other Creditor Compensation

Commissions are traditionally paid to the creditors to reimburse them for expenses incurred in their credit operations. The 1964 N.A.I.C. study on countrywide experience shows that the average commission rate for individual policy coverage was 38 per

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cent for credit life insurance and 45 per cent for credit disability. This indicates the profit of the creditor in the transaction above and beyond the interest he receives from the borrower. In contrast, the average group dividend rate or experience credits were 10 per cent for credit life and 5 per cent for credit disability.

The N.A.I.C. findings are significant in that they show that all other expense items (loss expenses, service fees, and other allowances, general insurance expenses, taxes, licenses and fees) are comparable for group and individual policies on credit life (9 to 10 per cent) and for group and individual policies on credit disability (11 to 12 per cent). It is obvious then that the higher costs involved the compensation paid to creditors for handling individual policies. It is necessary to add, however, that creditors incur expenses also and that all commissions do not represent profits. The study also showed that 53 per cent of the companies writing 35 per cent of the individual credit life coverage were paying commissions in excess of 50 per cent of the premiums.⁶

A composite compilation of countrywide data of foreign insurance companies that wrote group credit life insurance in Hawaii in 1966, as reported to the Insurance Division, showed that the commissions averaged slightly over 10 per cent and retrospective rate credits of 14.2 per cent. These figures do not deviate greatly from those of the N.A.I.C. study. (See Appendix E.) The experience by companies varied widely but the tabulation may not be representative of Hawaii's experience because the figures were based on the total business of the foreign companies and no breakdowns for Hawaii were available. In addition, because Hawaii laws prohibit the paying of such commissions to unlicensed agents, the figures may be disguised as "servicing fees", or experience rate credits and are listed in other categories which present obstacles in drawing meaningful conclusions.

Nevertheless, the ratio based on total direct experience from domestic insurers contrasts with foreign insurers showing the commissions to average slightly over 43 per cent in 1966 on Hawaii business. (See Appendix E.) The wide differences in loss ratios, commissions, and other expense ratios may be partially attributed to the differences in the level of premium rates charged and the reader is again cautioned that individual company experience differs.⁷

Chapter IV

ABUSES IN THE CREDIT INSURANCE BUSINESS

The relative absence of complaints in Hawaii against credit life and credit disability insurers reported to the Insurance Commissioner would seem to indicate that abuses are not present.¹ Certainly, there has been no public outcry or extended press coverage against questionable practices in the field which have been characteristic of other states where certain abuses dealing with small loans and credit insurance have been linked. But this is not to say that potential problems do not exist in the face of unregulated activity.

Excessive Rates

The statistics reviewed in the previous chapter indicate that by the standards of measure specified by the N.A.I.C. the \$1 per \$100 per year premium rate on credit life insurance is excessive. It is the highest rate generally used in areas where there is no rate regulation and the rationale advanced by some insurers in Hawaii which use the rate that it was long in existence before they entered the field cannot be used in justification of the high charge. Neither the loss ratio experience locally nor on a countrywide basis justifies the \$1 rate.

In fairness to many insurers, however, it must be mentioned that a number do charge less than the \$1 rate, and on a combined package of credit life and credit disability insurance, the charge broken down into its two components would total less than \$1 per \$100. It was reported in the legislative hearings held on January 3, 1968 that the Prudential Insurance Company felt a charge of \$.44 per \$100 would provide an adequate profit, but it must be borne in mind that this is a large insurance company whose experience may differ from many domestic companies.²

Reverse Competition, the Creditor and Excessive Compensation

In many cases, the fault does not lie with the insurance companies. Most insurance companies could easily underwrite credit life at a lower premium charge because of favorable experience in Hawaii. However, when the insurance companies attempt to sell or place this insurance, the creditor may ask for the highest rate in order to increase the amount to be divided between himself and

CREDIT LIFE AND CREDIT DISABILITY INSURANCE

the insurance company. Since the debtor pays for the high premium, the creditor is not overly concerned with the cost. It was reported that one local insurance company could not sell insurance at \$.35 per \$100 per year because the profit to the creditor would be more with an insurer that had a higher premium rate.³

It is customary for the premiums to be divided equally between a merchandise store and the insurer, and where commission fees cannot be paid legally, the creditor receives some of the premiums back in other forms. In Hawaii the excessive premiums are in direct relation to high commissions. If a commission of 60 per cent is demanded by a creditor, it can only be covered by an insurance company by charging the \$1 rate.⁴ In this case, the insurance company, willingly or unwillingly, must be flexible enough in order not to lose business.

Uninformed Debtor

One of the problems of credit insurance is that the debtor is not informed fully of his coverage and may be a captive of the creditor. Although he is charged for the insurance, it is the creditor who chooses the insurer and these insurers, as was indicated before, must vie among themselves for the favor of the creditor by increasing rates to make possible a high commission payment. While it is difficult to justify the right of a creditor to derive profit from an insurance transaction it is even more questionable how much protection the debtor actually gains through the transactions.

The link between consumer credit and credit insurance is obvious. In most cases, the cost of credit insurance to the debtor on his installment purchase does not seem to be great and he is not greatly concerned with the charge. Because the maximum line of credit (revolving credit) is usually set at \$500, the insurance can extinguish the debt. Under Hawaii law, any insurance charge on retail installment sales contract must be disclosed,⁵ but the debtor is often unaware of how much these costs really add up to, or that the insurance rate is really excessive.

Coercion and intimidation do not appear to be factors in the Hawaii credit insurance field although loan companies generally require credit insurance to be underwritten for each debtor on unsecured personal loans. Some companies allow credit insurance to be voluntary, or allow a choice of insurers.⁶

ABUSES IN THE CREDIT INSURANCE BUSINESS

Credit Abuses

Because the Insurance Commissioner has neither the authority nor the facilities to conduct periodic investigations of the activities of credit insurers, it is not known what other questionable practices relating to the underwriting of such insurance exist in Hawaii. In order, however, that the legislators be aware of problems which have occurred in other states where activity was not regulated, a few other abuses are listed.

1. Failure to Refund the Unearned Insurance Premium on Refinancing or Repayment of the Debt. In most credit insurance plans, the insurance premium is paid in advance to cover the debt over a given period. If the debtor pre-pays the debt, he is entitled to a refund on his prepaid insurance prorated according to his prepayment schedule. In many cases, however, this insurance refund which is made to the creditor (as the group policyholder) is not returned to the debtor. Instead, the unearned portion of the insurance is kept by the creditor. While many state laws require the refund of unearned finance charges on prepayment by the debtor, many do not require refund of the insurance charges to which the debtor is entitled.
2. Pyramiding of Policies. In many instances, it becomes necessary for a debtor to refinance or renew his debt before the maturity date. Although the debtor may have had an insurance policy on the original debt, a new insurance policy is issued and charged to him often without canceling the old policy and making a refund on the original policy. As happens in many cases, the debtor is then burdened with two or more policies covering amounts in excess of his debt. A related practice is to break up the loan amount into separate packages and insure these debts at high rates with separate policies rather than with one policy.
3. Excessive Coverage Sold at the Inception of the Credit Transaction. Depending on the type of policy, the debtor may be overcharged for unnecessary coverage. In a decreasing term policy, for example, the premium rates are lower and are reduced as the debt is reduced. In a level term policy, however, the insurance remains equal to the original amount of the loan throughout the period, and rates on level term policies are higher than on decreasing term insurance. While decreasing term insurance is adequate for most coverage,

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debtors may be induced to take a level term policy without any need and are charged the higher premium rate.⁷

Although the above abuses have been primarily those committed by creditors rather than insurers, such practices can be stopped indirectly through credit insurance legislation as evidenced in those states where effective laws are in force. While the profits at the present time are going, in a large measure, to the creditors rather than the insurers, many insurers may also be profiting excessively. Thus, it appears that effective credit legislation is the key to correcting the abuses by the insurer and the creditor against the consumer-debtor.

No one questions the beneficial purpose of credit insurance in providing the debtor with protection. But in reviewing the credit insurance business in Hawaii, the benefits provided by the insurance companies do not appear to be reasonable in relation to the premiums charged. It has been the recommendation of some insurance commissions in other states that \$.60 per \$100 per year for credit life insurance be established as a prima facie rate and a minimum 50 per cent loss ratio "bench mark" be used as a standard. On the basis of countrywide experience as reported by N.A.I.C. and the tabulations of the Insurance Division in Hawaii, this appears to be reasonable.

The questions which must be resolved in any legislation must be based on these facts. The recommended legislation based on the N.A.I.C. Model Act is attached as Appendix F.

FOOTNOTES

Definitions

1. Institute of Life Insurance, Life Insurance Fact Book 1968 (New York: 1968), p. 114.
2. Robert D. Eilers and Robert M. Crowe (eds.), Group Insurance Handbook (Homewood, Ill.: Richard D. Irwin, 1965), p. 668. Benefit payments continue for the duration of the disability but not beyond the point the indebtedness is extinguished or its maturity date is reached. A disabled debtor generally must complete a waiting period (14-30 days) before benefits commence. Some plans provide that benefits are paid retroactive to the first day of disability if the waiting period requirement is satisfactory.

Chapter I

1. Institute of Life Insurance, Life Insurance Fact Book 1968 (New York: 1968), p. 32.
For figures on credit life in force nationally, see p. 33 of this source.
2. Report of the Insurance Commissioner of Hawaii 1959; Summary of Insurance Business in Hawaii for the year 1958 (Honolulu: 1959), p. 38.
Report of the Insurance Commissioner of Hawaii 1964; Summary of Insurance Business in Hawaii for the year 1963 (Honolulu: 1964), p. 53.
Preliminary figures for 1967 from the Insurance Division, Department of Regulatory Agencies.
3. Robert D. Eilers and Robert M. Crowe (eds.), Group Insurance Handbook (Homewood, Ill.: Richard D. Irwin, 1965), p. 123.
4. Davis W. Gregg, Group Life Insurance (3d ed. Homewood, Ill.: Richard D. Irwin, 1962), p. 123.

Chapter II

1. About 86 per cent of credit life insurance in force in the United States at the end of 1967 was group insurance. The total volume amounting to \$57.7 billion was divided among 63.2 million certificates issued under 62,000 master contracts. In addition, \$9.3 billion was in force under 8.0 million individual policies. Institute of Life Insurance, Life Insurance Fact Book 1968 (New York: 1968), p. 114.
2. Robert D. Eilers and Robert M. Crowe (eds.), Group Insurance Handbook (Homewood, Ill.: Richard D. Irwin, 1965), p. 122.
3. Davis W. Gregg, Group Life Insurance (3d ed. Homewood, Ill.: Richard D. Irwin, 1962), p. 126.
4. Preliminary figures for 1967 from the Insurance Division.
5. U.S., Congress, Senate, Subcommittee on Anti-trust and Monopoly of the Committee on the Judiciary, Consumer Credit Industry, Hearings, 90th Cong., 1st Sess., 1967, Part I, p. 889.
6. The domestic insurance companies are: American Pacific Life, Financial Security Life, Grand Pacific Life, Hawaiian Life, Island Insurance, Pacific Guardian Life, Pacific Insurance, and Provident Alliance. The four companies which

also write credit disability are: American Pacific Life, Grand Pacific Life, Hawaiian Life and Pacific Insurance.

Foreign companies (credit life): Admiral Life, Aetna Life, American National, Atlas Life, Automobile Owners Life, Bankers Security Life, Beneficial Standard Life, Capitol Life, Central National Life, Connecticut General Life, Continental Assurance, Credit Life, CUNA Mutual Insurance Society, Federal Life & Casualty Govt. Employees Life, Great Southern Life, Ideal National, Industrial Life, John Hancock Mutual Life, Lincoln National Life, Manhattan Life, Massachusetts Mutual Life, Midland National Life, Minnesota Mutual Life, National Fidelity Life, Occidental Life, Old Republic Life, Old Security Life, Pacific National Life, Pacific Standard Life, Prudential Insurance, Republic National Life, Resolute Credit Life, United States Life of N.Y., Valley Forge Life, Woodmen Accident & Life, and World Insurance.

Foreign companies (credit disability): Admiral Life, American Casualty, American National, Automobile Owners Life, Beneficial Standard Life, Capitol Life, Central National Life, Continental Assurance, Continental Casualty, Ideal National, Old Security Life, Republic National Life, Resolute Credit Life, United States Life of N.Y., and World Insurance.

7. Total 1967 premiums (individual and group policies combined) were:

Credit Life	- Domestic companies	\$1,202,931
	Foreign companies	1,838,384
	Total	\$3,041,315
Credit Disability	- Domestic companies	\$ 410,003
	Foreign companies	225,796
	Total	\$ 635,799

Preliminary figures for 1967 from the Insurance Division, Department of Regulatory Agencies.

8. Eilers and Crowe (eds.), p. 667.
9. Ibid., pp. 122-23.
10. The schedule of maximum amounts of insurance on individual debtors varies somewhat by company. A total of 36 jurisdictions (states) limit the maximum amount of insurance per life, the most common (26 states) specified amount being \$10,000. The average amount of credit group life insurance per certificate at the end of 1967 was \$912. Gregg, p. 132.

ILLUSTRATIVE SCHEDULE OF MAXIMUM AMOUNT
OF CREDIT GROUP INSURANCE ON
INDIVIDUAL DEBTOR LIVES

Outstanding Indebtedness on Classes to be Insured			Max. Amt. of Ins. on Life of Any Debtor
	Less than \$	100,000	\$ 1,500
\$ 100,000 but less than	250,000		2,500
250,000 "	"	400,000	3,000
400,000 "	"	550,000	4,000
550,000 "	"	700,000	6,000
700,000 "	"	850,000	7,500
850,000 "	"	1,000,000	8,500
1,000,000 "	"	1,150,000	9,000
1,150,000 "	"	1,300,000	9,500
1,300,000 "	"	1,450,000	10,000

Gregg, p. 132.

11. Eilers and Crowe (eds.), pp. 122-23.
12. Gregg, p. 132.
13. The generally required outstanding volume of insured loans each year is \$25,000 but can rise to \$100,000 on certain classes of indebtedness. These minimums are necessary to reduce the expense burden per \$1,000 of insurance. Ibid., p. 130.
14. Ibid., p. 134. A 31-day grace period is generally allowed the creditor for payment of each monthly premium except the first.
15. Ibid., p. 132.
16. Ibid., p. 133. Where the creditor pays all the cost he is eligible to receive experience refunds and the net cost to him may be considerably less than the gross premiums. However, most creditors will not furnish credit life at no extra cost because of the expense involved. In some cases where credit life was written at no extra cost, interest rates on loans were raised to cover insurance costs resulting in no real benefit to the borrower.
17. Ibid., p. 131.
18. C.U.N.A. rates are computed on a monthly "pooling" basis covering large groups of loan. The average rate per \$100 per month is 6.5 cents, but can range between 3.8 cents and 13 cents. Honolulu Star-Bulletin, September 21, 1967.
19. Preliminary figures from the Insurance Division. Because of the nonprofit nature of the C.U.N.A., it gives back in premium refunds when there is an excess. It operates at a low cost, high volume level.
20. Gregg, p. 133. Although the administration of a plan can be simple, a creditor generally must (1) issue a certificate, (2) receive the premium and send it to the insurance company, (3) handle claims of customers by sending forms to the insurance company, and (4) see that the claim is paid and make a refund of the premium in the event the debt is paid.
21. Eilers and Crowe (eds.), p. 124.
22. Ibid., p. 125. The figures are representative of most premium rate scales but actual rates may deviate somewhat.
23. Ibid., p. 125.
24. The following table on credit disability rates is taken from Indiana is not meant to be representative but to illustrate what scales another state has adopted. (See following page)

Credit Accident and Health Insurance Premium Rates (Regulation No. 5, Department of Insurance, State of Indiana).

25. Eilers and Crowe (eds.), p. 668.
26. U.S., Congress, Senate, Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary Consumer Credit Industry, Hearings, 90th Cong., 1st Sess., 1967, Part I, p. 23.
27. Rev. Laws of Hawaii, sec. 181-365 (1955). Suggestions for a limited licensing of creditors who write only credit insurance have been proposed. Such procedures exist in a number of states.
28. Based on a policy of Lincoln National Life Insurance Company in South Carolina in 1966. The essential features are the same for Hawaii for many insurance companies.
29. U.S., Congress, Senate, Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, Consumer Credit Industry, Hearings, 90th Cong., 1st Sess., 1967, Part I, p. 668.

Chapter III

1. Honolulu Star-Bulletin, September 16, 1967. Rates charged in Hawaii were filed in 1968 by a number of insurance companies on business for 1965, 1966 in response to questionnaires sent out by the Insurance Division. The information was voluntary, however, since the Insurance Commissioner has no authority to require the filing of such rates.
2. The following states use the 50 per cent loss ratio:

Arizona, Arkansas, California, Florida, Illinois, Indiana, Michigan, Minnesota, Montana, Nebraska, Nevada, New Mexico, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Washington, Wisconsin, and Wyoming.
3. U.S., Congress, Senate, Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, Consumer Credit Industry, Hearings, 90th Cong., 1st Sess., 1967, Part I, pp. 774-775.
4. Ibid., N.A.I.C. findings were that 55 per cent of companies (representing 51 per cent of premium volume) had loss ratios higher than 50 per cent, 21.5 per cent had an average loss ratio between 80-90 per cent for group credit life. For individual credit life policies, 63 per cent of the companies (representing 49 per cent of the premium volume) showed loss ratios of less than 30 per cent.

In credit disability insurance, 39 per cent of the group writing companies (representing 29 per cent of the premiums) had loss ratios higher than 50 per cent, while only 16 per cent of the individual disability companies (representing 4 per cent of the premiums) had loss ratios in excess of 50 per cent.

If premiums are payable in one sum in advance for the entire duration of the indebtedness, the premium rate schedules per \$100 of initial amount indebtedness for each of the following plans of 14-day and 30-day waiting periods with and without retroactive benefits are:

No. of Months in which Indebtedness is Repayable	Single Premium Rate per \$100 of Initial Amount of Insured Indebtedness				
	<u>Nonretroactive Benefits</u>		<u>Retroactive Benefits</u>		
	Waiting Periods -	<u>14-day</u>	<u>30-day</u>	<u>14-day</u>	<u>30-day</u>
1 - 6 mos.		\$.95	\$.75	\$1.50	\$1.00
7 - 12 "		1.50	1.15	2.20	1.50
13 - 18 "		1.85	1.30	2.60	1.80
19 - 24 "		2.15	1.50	3.00	2.15
25 - 30 "		2.50	1.75	3.40	2.50
31 - 36 "		2.90	2.05	3.80	2.85
37 - 48 "		3.25	2.35	4.15	3.20
49 - 60 "		3.60	2.70	4.50	3.55

The rate schedules set forth above shall be applicable for contracts which contain a provision excluding or denying claim for disability resulting from pre-existing illness, disease or physical condition (whether or not by name or specific description) which disabled the debtor at any time during the twelve (12) month period immediately preceding the effective date of the debtor's coverage, but contains no other provision which excludes or restricts liability in the event of disability caused in a certain specified manner, except that it may contain provisions excluding or restricting coverage in the event of pregnancy, intentionally self-inflicted injuries, foreign travel or residence, flights in nonscheduled aircraft, war or military service.

- . Much of the material in this section concerning the determination of rates has been taken from the testimony presented by Mr. Sidney Hashimoto representing The Life Insurance Association of America before the Consumer Protection Committee of the Legislature on January 3, 1968.
- . U.S., Congress, Senate, Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, Consumer Credit Industry, Hearings, 90th Cong., 1st Sess., 1967, Part I, p. 775.
- . Compilations were made by the Insurance Division Department of Regulatory Agencies. In 1967, questionnaires were sent by the Insurance Division to all insurers writing group credit life and group credit disability insurance in which the companies were asked if a cost study for the handling of group credit business by an insured group policyholder had been made. The replies indicated that no such studies had been made.

Chapter IV

- . Complaints appear to be based primarily on misunderstanding over the coverage period on credit disability which varies considerably according to the plan.
- . Honolulu Advertiser, January 4, 1968.
- . Ibid.
- . Honolulu Star-Bulletin, September 22, 1967. Mr. Donald Collins, representing Pacific Standard Life Insurance Company, stated his insurance was sold on a commission basis often by members of car dealer firms who were licensed under the law to sell insurance. While the general commission split on the mainland was 60 per cent for the firm and 40 per cent for the car dealer, Collins reported that some dealers in Hawaii demanded a 60 per cent commission.
- . Rev. Laws of Hawaii, sec. 201A-3(d), (1965 Suppl.).
- . Finance Factors reported that credit life insurance was voluntary and that only 25 per cent of its loan portfolio was covered by credit life. Honolulu Star-Bulletin, September 17, 1968. Seaboard Finance also allows insurance to be voluntary.
- . U.S., Congress, Senate, Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, Consumer Credit Industry, Hearings, 90th Cong., 1st Sess., 1967, Part I, p. 63.

Appendix A

HAWAII EXPERIENCE CREDIT LIFE AND CREDIT DISABILITY INSURANCE COMBINED SUMMARY

Credit Life Insurance - Domestic and Foreign¹

<u>Year</u>	<u>Premiums Received</u>	<u>Losses Paid</u>	<u>Loss Ratio</u>
1963	\$ 1,908,928	\$ 745,496	.39053
1964	2,162,011	819,673	.37912
1965	2,522,646	913,864	.36226
1966	2,829,925	1,076,636	.38044
1967	3,041,315	1,123,426	.36938
Total	\$12,464,825	\$4,679,095	.37538

Credit Disability Insurance - Domestic and Foreign

<u>Year</u>	<u>Premiums Received</u>	<u>Losses Paid</u>	<u>Loss Ratio</u>
1963	\$ 346,934	\$ 93,070	.26826
1964	703,789	108,439	.15407
1965	753,955	169,634	.22502
1966	741,927	151,073	.20362
1967	635,799	169,759	.26700
Total	\$3,182,404	\$691,975	.21744

¹Foreign Companies include alien (non-U.S.) Companies.

Source: Report of the Insurance Commissioner of Hawaii for the years 1964, 1965, 1966, and 1967. The 1967 figures are from the Insurance Division but were not in published form when this report was being prepared.

Appendix B

HAWAII EXPERIENCE CREDIT LIFE AND CREDIT DISABILITY INSURANCE BY TYPE OF INSURER

Credit Life Insurance¹

Domestic Companies

<u>Year</u>	<u>Premiums Received</u>	<u>Losses Paid</u>	<u>Loss Ratio</u>
1963	\$ 309,501	\$ 159,370	.51492
1964	621,629	106,244	.17019
1965	1,033,526	203,741	.19713
1966	1,055,286	251,745	.23855
1967	1,202,931	382,513	.31798
Total	\$4,222,873	\$1,103,613	.26134

Foreign Companies²

1963	\$1,599,427	\$ 586,126	.36645
1964	1,540,382	713,429	.46315
1965	1,489,120	710,123	.47687
1966	1,774,639	824,891	.46482
1967	1,838,384	740,913	.40302
Total	\$8,241,952	\$3,575,482	.43381

Credit Disability Insurance

Domestic Companies

1963	\$ 57,638	\$ 16,525	.28670
1964	137,585	14,268	.10370
1965	220,402	30,163	.13685
1966	326,463	54,892	.16814
1967	410,003	82,361	.20087
Total	\$1,152,091	\$ 198,209	.17204

Appendix B (continued)

Foreign Companies

<u>Year</u>	<u>Premiums Received</u>	<u>Losses Paid</u>	<u>Loss Ratio</u>
1963	\$ 289,296	\$ 76,545	.26459
1964	566,204	94,171	.16631
1965	533,553	139,471	.26140
1966	415,464	96,181	.23150
1967	225,796	87,398	.38706
Total	\$2,030,313	\$493,766	.24319

¹Figures are for group and individual policies combined for both life and credit disability categories.

²Foreign companies include alien (non-U.S.) companies.

Source: Report of the Insurance Commissioner of Hawaii for the years 1964, 1965, 1966, and 1967. The 1967 figures are from the Insurance Division, Department of Regulatory Agencies but were not in published form when this report was being prepared.

Appendix C

CREDIT LIFE INSURANCE (GROUP AND INDIVIDUAL POLICIES) - COMPARISON OF STATE OF
HAWAII PREMIUMS, LOSSES AND LOSS RATIOS ON RECEIVED/PAID AND EARNED/INCURRED BASES
FOR ALL DOMESTIC INSURERS AND CUNA MUTUAL INSURANCE SOCIETY, 1963 THROUGH 1967

Year		Received/Paid Basis			Earned/Incurred Basis		
		Premiums Received	Losses Paid	Loss Ratio	Premiums Earned	Losses Incurred	Loss Ratio
1963	Total - Domestic and CUNA	790,333	479,330	60.6	758,275	495,148	65.3
	Domestics	309,501	159,370	51.5	277,443	169,427	61.1
	CUNA	480,832	319,960	66.5	480,832	325,721	67.7
1964	Total - Domestic and CUNA	1,127,457	448,334	39.8	1,045,374	456,984	43.7
	Domestics	621,629	106,244	17.1	539,546	94,227	17.5
	CUNA	505,828	342,090	67.6	505,828	362,757	71.7
1965	Total - Domestic and CUNA	1,610,618	589,589	36.6	1,533,055	562,682	36.7
	Domestics	1,033,526	203,741	19.7	955,963	207,387	21.7
	CUNA	577,092	385,848	66.9	577,092	355,295	61.6
1966	Total - Domestic and CUNA	1,701,885	651,673	38.3	1,726,941	685,532	39.7
	Domestics	1,055,286	251,745	23.9	1,080,342	263,637	24.4
	CUNA	646,599	399,928	61.9	646,599	421,895	65.2
1967	Total - Domestic and CUNA	1,895,216	808,350	42.7	1,871,547	798,345	42.7
	Domestics	1,202,931	382,513	31.8	1,179,262	395,746	33.6
	CUNA	692,285	425,837	61.5	692,285	402,599	58.2
	Total 1963-1967 Domestic and CUNA	7,125,509	2,977,276	41.8	6,935,192	2,998,691	43.2
	Domestics	4,222,873	1,103,613	26.1	4,032,556	1,130,424	28.0
	CUNA (1)	2,902,636	1,873,663	64.6	2,902,636	1,868,267	64.4
	Grand Total - 1963-1967 All Insurers	12,464,825	4,679,095	37.5	(2)	(2)	(2)

(1) CUNA issued only group policies.

(2) Data not readily available; review of approximately 160 individual company annual statements is required.

Source: Insurance Division, Department of Regulatory Agencies.

Appendix D

SUMMARY OF PREMIUM RATES CONSUMER CREDIT INSURANCE LAWS

Thirty-five jurisdictions have laws regulating (in varying degrees) the sale of credit insurance by all (or many) types of creditors.

A

Thirty-one of these laws are substantially similar to the NAIC Model Bill:

	Summary of Credit Life Regulations	Summary of Credit Accident and Health Regulations
		(M) indicates rates vary in monthly brackets depending upon maturity; (S) ditto - semiannual brackets; (A) ditto - annual brackets; (C) rates for maturities other than those stated must be "consistent" with bracketed rates.
Statutory Provisions (See Footnotes)		(Dollar figures are rates for 12-24-36 months)

29 Alaska⁵

Arizona⁴

Arkansas²

75¢ subject to 50% loss ratio and
37-1/2% compensation top

50% loss ratio and 37-1/2% compensation top

Law limits compensation to 50¢ per
annum (reducing term) \$1.00 per annum
(level term)

Law limits compensation to 60¢ per annum

California¹

50% loss ratio (by Statute) "based on
the actual experience" of the creditor

50% loss ratio (by Statute) "based on the actual
experience" of the creditor

Connecticut^{2&6}

50¢ (less 10% for combination Life
and A&H policy)

14-day retro: (M) \$2.49 - \$2.96 - \$3.31--
subject to 50% loss ratio and subject to 10%
reduction if pre-existing conditions are
excluded, plus additional 10% reduction if both
Life and A&H are combined in one policy

District of Columbia²

Florida¹

Not to exceed rates filed with
Commissioner

Not to exceed rates filed with Commissioner

Statutory Provisions (See Footnotes)		Summary of Credit Life Regulations		Summary of Credit Accident and Health Regulations (M) indicates rates vary in monthly brackets depending upon maturity; (S) ditto - semiannual brackets; (A) ditto - annual brackets; (C) rates for maturities other than those stated must be "consistent" with bracketed rates. (Dollar figures are rates for 12-24-36 months)	
Georgia ¹					
Idaho ¹					
Illinois ¹		65¢ subject to 50% loss ratio		14-day retro: (A) \$2.20 - \$2.80 - \$3.35-- subject to 50% loss ratio	
Indiana ¹		75¢ (reducing term) \$1.40 (level term) subject to 50% loss ratio		14-day retro: (S) \$2.20 - \$3.00 - \$3.80-- subject to 50% loss ratio	
Maine ¹		50¢		14-day retro: (C) \$2.37 - \$2.84 - \$3.20	
Michigan ¹		60¢ subject to 50% loss ratio and 40% compensation top		14-day retro: (C) \$2.20--subject to 50% loss ratio and 40% compensation top	
Minnesota ⁵		75¢ (reducing term) \$1.40 (level term) subject to 50% loss ratio		14-day retro: (C) \$2.37 - \$2.84 - \$3.20-- subject to 50% loss ratio	
Montana ²		75¢ subject to 50% loss ratio		14-day retro: (M) \$2.20 - \$3.00 - \$3.80-- subject to 50% loss ratio	
Nebraska ¹		64¢ subject to 50% loss ratio and 33-1/3% compensation top, \$1.18 for level term		14-day retro: (A) \$2.00 - \$2.70 - \$3.40-- subject to 50% loss ratio and 33-1/3% compensation top	
Nevada ²		(Two laws) 75¢ subject to 50% loss ratio and 40% compensation top		(Two laws) 14-day retro: (A) \$2.20 - \$3.00 - \$3.80--subject to 50% loss ratio and 40% compensation top	
New Hampshire ²		50¢		14-day retro: (C) \$2.37 - \$2.84 - \$3.20	
New Jersey ¹		"D" (see below) 64 ¢ - 44¢		14-day retro: (C) \$1.80 - \$2.16 - \$2.38-- subject to 50% loss ratio	

Appendix D (continued)

Statutory Provisions (See Footnotes)		Summary of Credit Life Regulations	Summary of Credit Accident and Health Regulations (M) indicates rates vary in monthly brackets depending upon maturity; (S) ditto - semiannual brackets; (A) ditto - annual brackets; (C) rates for maturities other than those stated must be "consistent" with bracketed rates. (Dollar figures are rates for 12-24-36 months)
New Mexico ¹		65¢ subject to 50% loss ratio	14-day retro: (A) \$2.35 - \$3.25 - \$4.15-- subject to 50% loss ratio
Ohio ²		75¢ subject to 50% loss ratio and 35% compensation top	14-day retro: (C) \$2.20 - \$2.60 - \$2.80-- subject to 50% loss ratio and 35% compensation top
Oregon ¹		.05¢ per month	14-day retro: (C) \$2.20 - \$3.00 - \$3.80
Pennsylvania ²		60¢ (75¢ if individual policy)	14-day retro: (C) \$2.37 - \$2.84 - \$3.20
Puerto Rico ¹		75¢	
Rhode Island ²		(Two laws) 75¢	(Two laws) 14-day retro: (C) \$2.49 - \$2.96 - \$3.51
South Dakota ²			
Texas ¹		Single premium: 75¢ (decreasing term), \$1.50 (level term) Outstanding balance: 65¢ (decreasing term), \$1.25 (level term)--all subject to 50% loss ratio and compensation top of 35%	Single premium: \$0-\$700: 14-day retro: (A) \$2.25 - \$3.00 - \$3.80 In excess of \$700: 14-day retro: (A) \$1.95 - \$2.60 - \$3.30 Outstanding balance: 14-day retro: (A) \$1.75 - \$2.35 - \$2.95--all subject to 50% loss ratio and compensation of 35%
Utah ¹		75¢ subject to 50% loss ratio	14-day retro: (A) \$2.20 - \$3.00 - \$3.80-- subject to 50% loss ratio
Vermont ^{1& 6}		"D" (see below) 70¢-44¢	"D" (see below) 14-day retro: (A) \$2.37 - \$2.84 - \$3.20--subject to maximum reduction of 35%

Appendix D (continued)

Statutory Provisions (See Footnotes)	Summary of Credit Life Regulations	Summary of Credit Accident and Health Regulations (M) indicates rates vary in monthly brackets de- pending upon maturity; (S) ditto - semiannual brackets; (A) ditto - annual brackets; (C) rates for maturities other than those stated must be "consistent" with bracketed rates. (Dollar figures are rates for 12-24-36 months)
Washington ^{1&6}	60¢ subject to 50% loss ratio and 40% compensation top	14-day retro: (M) \$2.20 - \$3.00 - \$3.80-- subject to 50% loss ratio and 40% compensation top
Wyoming ⁵		

B

Three of these laws are dissimilar to NAIC Model Bill but have been interpreted by Insurance Commissioner to authorize disapproval of premium rates determined to be not "reasonable":

32

Statutory Provisions (See Footnotes)	Summary of Credit Life Regulations	Summary of Credit Accident and Health Regulations (M) indicates rates vary in monthly brackets de- pending upon maturity; (S) ditto - semiannual brackets; (A) ditto - annual brackets; (C) rates for maturities other than those stated must be "consistent" with bracketed rates. (Dollar figures are rates for 12-24-36 months)
New York ³	"D" (see below) 64¢-44¢	"D" (see below) 14-day retro: \$2.00 - \$2.40 - \$2.65--subject to maximum reduction of 20%
West Virginia	Regulations are similar to NAIC Model Bill	
Wisconsin	"Rate schedule shall be subject to approval by Commissioner"	"Rate schedule shall be subject to approval by Commissioner"

C

One state has law similar to NAIC Model Bill except for Section 7B and thus Insurance Commissioner has no power to disapprove policy forms because of disparity between premiums and benefits:

Virginia

Virginia

FOOTNOTES

"p" indicates so-called decremental scale of charges whereby annual charge decreases as lender's insurance in force (or annual premium volume) increases.

"p" indicates so-called decremental scale of charges whereby annual charge decreases as lender's insurance in force (or annual premium volume) increases.

1 The Commissioner has power to disapprove policy forms "if the benefits provided therein are not reasonable in relation to premium charge". This is the original NAIC language.

2 The Commissioner has power to disapprove policy forms "if the table of premium rates charged or to be charged appears by reasonable assumptions to be excessive in relation to benefits". This language was proposed by ALC-HIAA-LIAA in substitution of original NAIC wording.

3 The Commissioner shall not approve policy forms "if such premium rates are unreasonable in relation to the benefits provided".

4 The Commissioner has power to disapprove schedule of premium rates "if in his opinion the premium rates charged or to be charged are excessive in relation to benefits that may be awarded".

5 The Commissioner shall disapprove policy forms "if the premium rates charged or to be charged are excessive in relation to benefits".

6 Local change in Sec. 2, A, (2), i.e., five-year limitation. In Connecticut and Vermont it is eliminated; in Washington it is 7 years.

Appendix D (continued)

NAIC - National Association of Insurance Commissioners
ALC - American Life Convention
HIAA - Health Insurance Association of America
LIAA - Life Insurance Association of America

Source: N.C.F.A. Law Forum, Subcommittee on Consumer Credit Insurance, Summary of Consumer Credit Insurance Legislation, April 1, 1968.

Appendix E

COMPOSITE DATA OF INSURERS FOREIGN AND DOMESTIC

Composite countrywide data of foreign mainland based companies that wrote group credit life insurance in Hawaii in 1966¹ are shown by the following ratios:

Foreign Companies²

Group Credit Life Insurance - Direct Business

	<u>Percentage</u>
Earned Premiums	100.0
Other Income	.8
Losses - Deaths, Other Benefits	61.2
Loss Expenses	.4
Commissions	10.0
General Insurance Expenses	3.9
Taxes, Licenses and Fees	2.1
Other Expenses	.4
Dividends, Retrospective Rate Credits	14.2
Net Gain from Operation after Dividends and Retrospective Rate Credits	8.6

Domestic Companies³

Group Credit Life Insurance - Direct Buiness⁴

	<u>Percentage</u>
Earned Premiums	100.0
Losses - Deaths and Other Benefits	21.1
Loss Expenses	.1
Commissions	43.8
General Insurance Expenses	4.4
Taxes, Licenses, Fees	1.1
Dividends, Retrospective Rate Credits	4.9
Net Gain from Operations after Dividends and Retrospective Rate Credits	24.6

¹The tabulation represents countrywide business of foreign companies which wrote credit insurance in Hawaii in 1966. Figures for 1967 were not available.

Appendix E (continued)

²Breakdowns for Hawaii business only of these foreign companies were not available.

³Domestic insurers were primarily concerned with Hawaii business in contrast to the foreign insurers.

Source: Insurance Division, Department of Regulatory Agencies.

Note: Questionnaires were sent by the Insurance Division in 1967 to all insurers writing group credit life and group credit disability insurance in which the companies were asked if a cost study for the handling of group credit business by a group policyholder had been made. The replies received seem to indicate that no such studies have been made.

FIFTH LEGISLATURE, 1969
STATE OF HAWAII

A BILL FOR AN ACT

RELATING TO CREDIT LIFE INSURANCE AND CREDIT DISABILITY
INSURANCE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The Revised Laws of Hawaii 1955 is amended by
2 adding a new chapter to be appropriately designated and to read
3 as follows:

"CHAPTER

CREDIT LIFE INSURANCE AND CREDIT DISABILITY INSURANCE

6 Sec. -1. Purpose; construction. The purpose of this
7 chapter is to promote the public welfare by regulating credit life
8 insurance and credit disability insurance. Nothing in this chapter
9 is intended to prohibit or discourage reasonable competition. The
provisions of this chapter shall be liberally construed.

10 Sec. -2. Citation, scope, and definitions.

11 (a) Citation and scope.

12 (1) This chapter may be cited as "The Model Act for the Regulation
13 of Credit Life Insurance and Credit Disability Insurance".

14 (2) All life insurance and all disability insurance in connection
15 with loans or other credit transactions shall be subject to this
16 chapter, except such insurance in connection with a loan or other
17 credit transaction of more than five years' duration; nor shall
18 insurance be subject to this chapter where the issuance of such
19 insurance is an isolated transaction on the part of the insurer not
related to an agreement or a plan for insuring debtors of the creditor.
Nothing in this chapter shall be construed to relieve any person

1 from compliance with any other applicable law.

2 (b) Definitions. For the purpose of this chapter:

3 (1) "Commissioner" means the director of regulatory agencies
4 in his capacity as insurance commissioner;

5 (2) "Credit life insurance" means insurance on the life of a
6 debtor pursuant to or in connection with a specific loan or other
7 credit transaction;

8 (3) "Credit disability insurance" means insurance on a debtor
9 to provide indemnity for payments becoming due on a specific loan
10 or other credit transaction while the debtor is disabled as defined
11 in the policy;

12 (4) "Creditor" means the lender of money or vendor or lessor
13 of goods, services, or property, rights or privileges, for which
14 payment is arranged through a credit transaction, or any successor
15 to the right, title, or interest of any such lender, vendor, or
16 lessor, and an affiliate, associate, or subsidiary of any of them
17 or any director, officer, or employee of any of them or any other
18 person in any way associated with any of them;

19 (5) "Debtor" means a borrower of money or a purchaser or
20 lessee of goods, services, property, rights or privileges for which
21 payment is arranged through a credit transaction;

22 (6) "Indebtedness" means the total amount payable by a debtor
23 to a creditor in connection with a loan or other credit transaction.

24 Sec. -3. Forms of credit life insurance and credit dis-
25 ability insurance. Credit life insurance and credit disability
insurance shall be issued only in the following forms:

(1) Individual policies of life insurance issued to debtors
on the term plan;

1 (2) Individual policies of disability insurance issued to
2 debtors on a term plan or disability benefit provisions in
3 individual policies of credit life insurance;

4 (3) Group policies of life insurance issued to creditors
5 pursuant to section 181-563 providing insurance upon the lives of
6 debtors on the term plan;

7 (4) Group policies of disability insurance issued to creditors
8 on a term plan insuring debtors or disability benefit provisions in
9 group credit life insurance policies to provide such coverage.

10 Sec. -4. Maximum amount of credit life insurance and credit
11 disability insurance.

12 (a) Credit life insurance. The initial amount of credit life
13 insurance shall not exceed the total amount repayable under the
14 contract of indebtedness and, where an indebtedness is repayable
15 in substantially equal installments, the amount of insurance shall
16 at no time exceed the scheduled or actual amount of unpaid indebted-
17 ness, whichever is greater. In the case of revolving loan or
18 revolving charge accounts, the insurance shall at no time exceed the
19 unpaid indebtedness.

20 (b) Credit disability insurance. The total amount of periodic
21 indemnity payable by credit disability insurance in the event of
22 disability, as defined in the policy, shall not exceed the aggregate
23 of the periodic scheduled unpaid installments of the indebtedness;
24 and the amount of each periodic indemnity payment shall not exceed
25 the original indebtedness divided by the number of periodic install-
ments.

26 Sec. -5. Term of credit life and credit disability
27 insurance. The term of any credit life insurance or credit dis-
28 ability insurance shall, subject to acceptance by the insurer,

1 commence on the date when the debtor becomes obligated to the
2 creditor, except that, where a group policy provides coverage with
3 respect to existing obligations, the insurance on a debtor with
4 respect to the indebtedness shall commence on the effective date
5 of the policy. Where evidence of insurability is required and the
6 evidence is furnished more than thirty days after the date when the
7 debtor becomes obligated to the creditor, the term of the insurance
8 may commence on the date on which the insurer determines the evidence
9 to be satisfactory, and in such event there shall be an appropriate
10 refund or adjustment of any charge to the debtor for insurance. The
11 term of such insurance shall not extend more than fifteen days beyond
12 the scheduled maturity date of the indebtedness except when extended
13 without additional cost to the debtor. If the indebtedness is dis-
14 charged due to renewal or refinancing prior to the scheduled maturity
15 date, the insurance in force shall be terminated before any new
16 insurance may be issued in connection with the renewed or refinanced
17 indebtedness. In all cases of termination prior to scheduled maturity,
18 a refund shall be paid or credited as provided in section -8.

16 Sec. -6. Provisions of policies and certificates of
17 insurance; disclosure to debtors. (a) All credit life insurance
18 and credit disability insurance subject to this chapter shall be
19 evidenced by an individual policy, or in the case of group insurance
20 by a certificate of insurance, which individual policy or group
21 certificate of insurance shall be delivered to the debtor.

22 (b) Each individual policy or group certificate of credit life
23 insurance or credit disability insurance or any combination thereof
24 shall, in addition to other requirements of law, set forth the name
25 and home office address of the insurer, the name or names of the
debtor or in the case of a certificate under a group policy, the

1 identity by name or otherwise of the debtor, the premium or amount
2 of payment, if any, by the debtor separately for credit life
3 insurance and credit disability insurance, a description of the
4 coverage including the amount and term thereof, and any exceptions,
5 limitations, and restrictions, and shall state that the benefits shall
6 be paid to the creditor to reduce or extinguish the unpaid indebted-
7 ness and, wherever the amount of insurance may exceed the unpaid
8 indebtedness, that any such excess shall be payable to a beneficiary,
other than the creditor, named by the debtor or to his estate.

9 (c) Notwithstanding subsection (b), a certificate issued under
10 a group policy where the debtor obligated himself to pay the
11 insurance premium or payment periodically with the debt payments
12 on the decreasing amount of the insurance or where the indebtedness
13 is a revolving loan or revolving charge account, the rate of
14 insurance premium or payment per unit of coverage may be set forth
instead of the premium or amount of payment, if any, by the debtor.

15 (d) Each such individual policy or group certificate of
16 insurance shall be delivered to the insured debtor at the time the
indebtedness is incurred except as hereinafter provided.

17 (e) If an individual policy or group certificate of insurance
18 is not delivered to the debtor at the time the indebtedness is
19 incurred, a copy of the application for the policy or a notice of
20 proposed insurance, signed by the debtor and setting forth the
21 name and home office address of the insurer, the name or names
22 of the debtor, the premium or amount of payment by the debtor, if
23 any, separately for credit life insurance and credit disability
24 insurance, the amount, term, and a brief description of the coverage
25 provided, shall be delivered to the debtor at the time the indebted-
ness is incurred. The copy of the application for, or notice of

1 proposed insurance, shall also refer exclusively to insurance
2 coverage and shall be separate and apart from the loan, sale, or
3 other credit statement of account, instrument, or agreement,
4 unless the information required by this subsection is prominently
5 set forth therein. Upon acceptance of the insurance by the insurer
6 and within thirty days of the date upon which the indebtedness is
7 incurred, the insurer shall cause the individual policy or group
8 certificate of insurance to be delivered to the debtor. The applica-
9 tion or notice of proposed insurance shall state that upon acceptance
by the insurer, the insurance shall become effective as provided in
section -5.

10 (f) If the named insurer does not accept the risk, the debtor
11 shall receive a policy or certificate of insurance setting forth
12 the name and home office address of the substituted insurer and the
13 amount of the premium to be charged, and if the amount of premium
14 is less than that set forth in the notice of proposed insurance,
15 an appropriate refund shall be made.

16 Sec. -7. Filing, approval and withdrawal of forms and
17 premium rates. (a) All policies, certificates of insurance, notices
18 of proposed insurance, applications for insurance, endorsements,
19 and riders delivered or issued for delivery in this State and the
20 schedules of premium rates pertaining thereto shall be filed with
21 the commissioner for approval. Forms and rates so filed shall be
22 approved at the expiration of thirty days after filing, unless
23 earlier approved or disapproved by the commissioner. The commissioner
24 by written notice to the insurer may, within the thirty-day period,
25 extend the period for approval or disapproval for an additional
thirty days.

1 (b) The commissioner shall, within the waiting period or any
2 extension thereof after the filing of any such policies, certificates
3 of insurance, notices of proposed insurance, applications for
4 insurance, endorsements, and riders and premium rates, disapprove any
5 such form or any premium rates if the benefits provided are not
6 reasonable in relation to the premium charge, or if the form con-
7 tains provisions which are unjust, unfair, inequitable, misleading,
8 deceptive, or encourage misrepresentation of the coverage, or are
9 contrary to any provision of chapter 181, or of any rule or regula-
tion promulgated thereunder.

10 (c) The benefits provided by any such policy form shall not be
11 deemed reasonable in relation to the premium charged or to be
12 charged if the ratio of losses incurred to premiums earned is not
13 at least fifty per cent or may not reasonably be expected to be at
14 least fifty per cent. In the determination of the reasonableness
15 of the relation of benefits and premiums consistent with a fifty
16 per cent loss ratio, the commissioner may establish a common author-
17 ized premium rate for similar or substantially similar coverage by
18 class of creditor. The commissioner may approve a higher rate than
19 such common rate where a creditor's experience under a specific
20 policy form reasonably indicates an ultimate loss ratio higher
21 than fifty per cent, but the commissioner shall limit the use of
22 such higher rate to those creditors whose experience was the basis
23 of the approval of such higher rates. The commissioner shall require
24 insurers to file such information as he deems necessary to determine
25 that this standard is met each two years, or more often in his dis-
cretion, on forms recommended by the National Association of
Insurance Commissioners for that purpose. Upon giving such notice
as is required by law, the commissioner may withdraw approval of

1 any such form including the rate set forth therein, on the ground
2 that a reasonable relation of benefits to premiums no longer
3 exists or may approve a higher or lower rate if justified by
4 experience.

5 The commissioner shall promulgate a rate that shall be deemed
6 acceptable as satisfying this standard without any actuarial or
7 statistical filing; provided that for a one-year period, or for
8 such longer period as the commissioner feels is required to produce
9 credible mortality and morbidity data, a creditor may make an
10 identifiable charge to a debtor not to exceed the following:

11 (1) Life: (declining balance term) 60 cents per year per \$100
12 of initial insured indebtedness to be paid in equal installments
13 over a one-year period. If premiums or identifiable charges are
14 calculated on other than an advance single premium basis, they shall
15 not exceed the actuarial equivalent of the foregoing.

16 If premiums are payable on other than a single premium basis,
17 they shall not exceed the substantial actuarial equivalent of the
18 foregoing 60 cent rate.

19 Premiums and premium rates for insurance covering obligations
20 payable in other than substantially equal monthly installments
21 during the period of coverage shall be determined in a manner
22 resulting in a rate not exceeding the substantial actuarial equivalent
23 of the foregoing 60 cent rate.

24 (2) Disability: The disability rates as set forth below shall
25 be the maximum rates applicable to policies which exclude disabilities
resulting from intentional self-inflicted injury, pregnancy,
foreign residence, flights in non-scheduled aircraft, and pre-
existing illness, disease, or physical condition for which the
debtor received or was professionally advised to obtain, medical

advice, consultation, or treatment during the six-month period preceding the effective date of the debtor's coverage. Premiums or identifiable charges for maturities or waiting periods other than those shown below, which shall be the maxima, must be actuarially consistent with those shown.

No. of Months in Which Indebted- ness is Repayable	Non-Retroactive Benefits			Retroactive Benefits		
	30-day	14-day	7-day	30-day	14-day	7-day
0-12	.80	1.50	2.30	1.70	2.20	3.00
13-24	1.60	2.00	3.20	2.50	3.00	4.00
25-36	2.30	2.50	4.15	3.30	3.80	5.00
37-48	2.90	3.00	4.70	3.80	4.30	6.00
49-60	3.30	3.50	5.15	4.30	4.70	7.00

A credit insurance policy issued under the above life and disability may exclude from the classes eligible for insurance, classes of debtors determined by age and provide for the cessation of insurance or reduction in the amount of insurance upon attainment of specified ages.

In order to determine whether or not the benefits provided in a particular policy form submitted by an insurer are reasonable in relation to the premium charge for the policy and to facilitate the submission and approval of policy forms and premium rates to be used in connection therewith, the commissioner shall give full consideration and make reasonable allowances for mortality cost or morbidity cost and other relevant factors and trends. Any such changed maximum rate of premium or identifiable charge shall not affect any insurance then in force on debtors.

(d) After the one-year period, or such longer period deemed necessary by the commissioner as provided in subsection (c), the commissioner shall by regulation establish prima facie acceptable premium rates, except as set forth below, which shall be usable

1 without statistical justification when filed together with an
2 otherwise acceptable policy form submission. The rates shall pro-
3 duce or shall reasonably be expected to produce a ratio of losses
4 incurred to premiums earned of at least fifty per cent. The regula-
5 tion shall specify the plans of benefits to which the premium rates
6 apply.

7 The commissioner shall approve deviations to rates higher than
8 the prima facie acceptable rates upon filing of reasonable evidence
9 that loss experience for a creditor or a class of creditors exceeds
10 the average loss experience used to determine the established rate
11 and shall base his determination on the fifty per cent loss ratio
12 standard, except where the deviated rate exceeds 60 cents per \$100
13 initial insurance per year for reducing term credit life insurance,
14 and its actuarial equivalent for other forms of credit life insurance,
15 a reasonable variance from the fifty per cent loss ratio standard
16 may be required. Such deviation may be limited to the debtors or
17 creditors whose experience was the statistical basis for the filing.

18 Credit life insurance policies for which premium rates vary
19 by individual ages or by age brackets shall be filed as provided
20 in this section and the commissioner shall approve or disapprove such
21 filings in accordance with the fifty per cent loss ratio standard
22 and the other applicable provisions of law.

23 (e) If the commissioner notifies the insurer that the form or
24 premium rate is disapproved, it shall be unlawful thereafter for the
25 insurer to issue or use the form or premium rate. In the notice
the commissioner shall specify the reason for his disapproval and
state that a hearing will be granted within twenty days after request
in writing by the insurer. No such policy, certificate of insurance,
notice of proposed insurance, nor any application, endorsement, or

1 rider or premium rate, shall be issued or used until the expiration
2 of thirty days after it has been so filed, unless the commissioner
3 gives his prior written approval.

4 (f) The commissioner may, at any time after a hearing held
5 not less than twenty days after written notice to the insurer,
6 withdraw his approval of any such form or premium rate on any
7 ground set forth in subsection (b). The written notice of the
8 hearing shall state the reason for the proposed withdrawal.

9 (g) It shall be unlawful for the insurer to issue or use forms
10 or premium rates after the effective date of their withdrawal.

11 (h) If a group policy of credit life insurance or credit dis-
12 ability insurance (1) has been delivered in this State before the
13 effective date of this chapter, or (2) has been or is delivered in
14 another state before or after the effective date of this chapter,
15 the insurer shall be required to file only the group certificate
16 and notice of proposed insurance delivered or issued for delivery
17 in this State as specified in subsections (b) and (e) of section

18 -6 and these forms shall be approved by the commissioner if
19 (1) they conform with the requirements specified in said sub-
20 sections; (2) they are accompanied by a certification in a form
21 satisfactory to the commissioner that the substance of the forms
22 are in substantial conformity with the master policy; and (3) the
23 schedules of premium rates applicable to the insurance evidenced
24 by the certificate or notice are not in excess of the insurer's
25 schedules of premium rates filed with and approved by the commis-
sioner; provided the premium rate in effect on existing group
policies may be continued until the first policy anniversary date
following the effective date of this chapter.

(i) Any order or final determination of the commissioner under
this section shall be subject to chapter 6C.

1 Sec. -8. Premiums and refunds. (a) Any insurer may revise
2 its schedules of premium rates from time to time, and shall file
3 the revised schedules for approval with the commissioner. No
4 insurer shall issue any credit life insurance policy or credit dis-
5 ability insurance policy for which the premium rate exceeds that
6 determined by the schedules of the insurer as then on file with and
approved by the commissioner.

7 (b) Each individual policy, group certificate, or notice of
8 proposed insurance shall provide that in the event of termination
9 of the insurance prior to the scheduled maturity date of the indebted-
10 ness, any refund of an amount paid by the debtor for the insurance
11 shall be paid or credited promptly to the person entitled thereto;
12 provided that the commissioner by rules and regulations shall
13 prescribe a minimum refund and no refund which would be less than
14 the minimum need be made. The formula to be used in computing the
refund shall be filed with and approved by the commissioner.

15 (c) If a creditor requires a debtor to make any payment for
16 credit life insurance or credit disability insurance and an individual
17 policy or group certificate of insurance is not issued, the creditor
18 shall immediately give written notice to the debtor and shall promptly
make an appropriate credit to the next payment due on the account.

19 (d) The amount charged to a debtor for any credit life or credit
20 disability insurance shall not exceed the premium rates filed with
21 and approved by the commissioner for the coverage provided or the
22 premium charged by the insurer, as computed at the time the charge
to the debtor is determined, whichever is less.

23 (e) Nothing in this chapter shall be construed to authorize any
24 payments for insurance now prohibited under any statute, or rule
25 thereunder, governing credit transactions.

1 Sec. -9. Issuance of policies. (a) All policies of credit
2 life insurance and credit disability insurance shall be delivered
3 or issued for delivery in this State only by an admitted insurer
4 and shall be issued only through holders of certificates, licenses,
5 or authorizations issued by the commissioner.

6 (b) The enrolling of debtors under a group creditor policy
7 and the issuance of certificates of insurance pursuant thereto or
8 the issuing of individual policies by a creditor shall not be
9 considered a sale or solicitation of insurance or the transaction
10 of an insurance business and an agent's or broker's license shall
11 not be required for such acts, except for a limited license issued
12 under section 181-379.

13 Sec. -10. Claims. (a) All claims shall be promptly reported
14 to the insurer or its designated claim representative, and the
15 insurer shall maintain adequate claim files. All claims shall be
16 settled as soon as possible and in accordance with the terms of the
17 insurance contract.

18 (b) All claims shall be paid either by draft drawn upon the
19 insurer or by check of the insurer to the order of the claimant
20 to whom payment of the claim is due pursuant to the policy pro-
21 visions, or upon direction of the claimant to one specified.

22 (c) No plan or arrangement shall be used whereby any person,
23 firm, or corporation other than the insurer or its designated
24 claim representative shall be authorized to settle or adjust claims.
25 The creditor shall not be designated as claims representative for
the insurer in adjusting claims; provided that a group policyholder
may, by arrangement with the group insurer, draw drafts or checks
in payment of claims due to the group policyholder subject to
audit and review by the insurer.

1 Sec. -11. Existing insurance; choice of insurer. When
2 credit life insurance or credit disability insurance is required
3 as additional security for any indebtedness, the creditor shall
4 give the debtor written notice that he is free to procure the
5 required insurance from any insurance company authorized to trans-

6 Sec. -12. Enforcement. The commissioner may, after notice
7 and hearing and as provided in chapter 6C, issue such rules and
8 regulations as he deems appropriate for the supervision of this
9 chapter. Whenever the commissioner finds that there has been a
10 violation of this chapter or of any rules or regulations issued
11 pursuant thereto, and after written notice thereof and hearing given
12 to the insurer or other person authorized or licensed by the com-
13 missioner, he shall set forth the details of his findings together
14 with an order for compliance by a specified date. The order shall
15 be binding on the insurer and any other person authorized or
16 licensed by the commissioner on the date specified unless sooner
17 withdrawn by the commissioner or a stay thereof has been ordered by
18 a court of competent jurisdiction.

19 Sec. -13. Penalties. In addition to any other penalty
20 provided by law, any person, firm, or corporation which violates an
21 order of the commissioner after it has become final, and while the
22 order is in effect, shall, upon proof thereof to the satisfaction
23 of the court, forfeit and pay to this State a sum not to exceed
24 \$250 which may be recovered in a civil action, except that if the
25 violation is found to be wilful, the amount of the penalty shall
be a sum not to exceed \$1,000. The commissioner, in his discretion,
may revoke or suspend the license or certificate of authority of

1 the person, firm, or corporation guilty of the violation. An order
2 for suspension or revocation shall be upon notice and hearing, and
3 shall be subject to judicial review."

4 SECTION 2. Section 190A-1, Revised Laws of Hawaii 1955, is
5 amended to delete therefrom the words "provided that this chapter
6 shall not apply to group insurance under a policy issued to a
7 creditor insuring debtors of the creditor pursuant to section
8 181-563".

9 SECTION 3. Section 181-379, Revised Laws of Hawaii 1955, is
10 amended by adding a new subsection to be appropriately designated
11 and to read as follows:

12 "() The commissioner may issue a like limited license to
13 creditors for the purposes of enrolling debtors under a group
14 credit life insurance or group credit disability insurance policy,
15 issuing certificates of insurance pursuant thereto, or issuing
16 individual credit life insurance or credit disability insurance
17 policies to debtors."

18 SECTION 4. Subsection 181-570(a), Revised Laws of Hawaii 1955,
19 is amended to read as follows:

20 "(a) Provisions set forth in sections 181-576 to 181-580 shall
21 not apply to policies issued to a credit union to insure its members,
22 and provisions set forth in sections 181-576, and 181-578 to
23 181-580 shall not apply to policies issued to a creditor to insure
24 its debtors."

25 SECTION 5. Separability provision. If any provision of this
Act, or the application thereof to any person or circumstances is
held invalid, the invalidity does not affect other provisions or
applications of this Act, which can be given effect without the
invalid provision or application, and to this end the provisions of
this Act are severable.

1 SECTION 6. There is appropriated out of the general revenues
2 of the State the sum of \$16,000, or so much thereof as may be
3 necessary, to be expended by the director of regulatory agencies
4 for actuarial and other services necessary for the purposes of this
Act.

5 SECTION 7. Notwithstanding the adoption of Act 16, Session
6 Laws of Hawaii 1968, this Act shall have full force according to
7 its intent. Upon the taking effect of this Act or the Hawaii
8 Revised Statutes, whichever occurs later, this Act shall be con-
9 strued to be in amendment of or in addition to the Hawaii Revised
10 Statutes, all references in this Act being construed to refer to the
applicable or corresponding provisions of the Hawaii Revised Statutes.

11 The Revisor of Statutes may reword and renumber the references
12 in this Act and make such other formal or verbal changes as may be
13 necessary to conform with the Hawaii Revised Statutes.

14 SECTION 8. This Act shall take effect upon its approval.

15 INTRODUCED BY: _____
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