

Bulletin 22 Supplement

CREDITOR COMPENSATION CONTRACTS IN EXCESS OF 40%

July 25, 1968

As a result of several meetings and conferences, this Department can now report that the leading life insurance companies writing credit insurance in Indiana and the leading Indiana finance companies have pledged cooperation and support of the Insurance Department's position opposing commission or compensation contracts in excess of 40%.

When our present Credit Insurance Act was passed and the supporting 760 IAC 1-5-1 to 760 IAC 1-5-6 adopted, they were passed on the theory that if losses amounted to 50% of the premium dollar, and administrative expenses 10%, it would necessarily leave only 40% or less for compensation to the creditor. The Department still supports that premise and it stands to reason if a company is paying more than 40% compensation and 10% administrative expenses, then its loss ratio must be less than 50%, and the savings, if any, should go back to the insured or remain with the company as a reserve fund to meet the loss ratio in years when it might exceed 50%. Either that or the rate should be reduced, but in any event the savings, if any, were never intended to be a prize or bonus for the creditor.

Therefore, the Department hereby reaffirms Bulletin No. 22, and any compensation contract hereafter in excess of 40% will be the subject of investigation and hearing, as stated in Bulletin No. 22. Compensation is defined in Bulletin No. 22 as "commissions, fees, experience refunds, dividends, expense allowances, and every other form of credit" and this is meant to include any monies or compensation or expenditures in any form whatsoever, direct or indirect, paid to or withheld by the group policyholder or other agent. This ruling applies to any group compensation contracts hereafter entered into, renewed, or continued in force beyond the next anniversary date and to any individual policy contracts immediately.

With the support and cooperation of the people in the industry and the finance companies, which the Department appreciates very much, our credit insurance situation in Indiana should get to the point where it is fair to the public and to all competitors in the business.

Joseph G. Wood
Insurance Commissioner