INSTALLMENT PURCHASE ACCIDENT AND HEALTH INSURANCE

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A few years ago when intensive drives on behalf of Liberty Loans were the order of the day, sums totally beyond the comprehension of most were readily referred to on the part of the average individual not so constituted, in a business way, as to be interested in huge sums of money, as being something wonderful, big, but at the same time something that was beyond the understanding of the average person. Such amounts had never been collected in any one year before, and in all probability never would be again, was the feeling of most. But how conditions have changed!

To-day such huge sums no longer appall the average man of the street—in fact, he goes beyond and insists upon being a very important factor in the upbuilding of those huge sums. At this time, the "Poor Man's Credit System," otherwise known as the purchase of articles on one of the many time payment plans in vogue, assumes the proportions of a Liberty Loan in the course of one year. Whether we are in accord with the rapid development of this credit system or not, is not a matter of consequence; I believe that we will all be in accord with the thought that it is here to stay. Present practices are giving way to improvements. Many changes are direly needed at this time. The parasite of this credit system must become a thing of the past, and be replaced by instruments that will protect, that will aid, the installment purchaser, rather than permit of the continuance of the usurious practices only too frequently found to be in effect at this time.

Insurance has played a part in remedying some of the evils of this "Poor Man's Credit." I wonder if the opportunities are understood. Is it appreciated that it is questionable whether there exists a home or a family in the United States to-day that

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is not at this time profiting by the tremendous credit extensions not available a few years ago? The underwriters of the various forms of insurance written, alone can answer that question.

There has recently been introduced in a more or less substantial measure a new form of insurance protection that is destined to play an important part in bringing about an improvement in the installment purchase situation as it exists to-day. This protection is known as "Deferred Payment" insurance. It agrees with the insured institution that in the event of any purchaser of that company's produce on any one of the time payment plans of which use is made on the part of that organization, being accidentally killed, the balance outstanding at the time of death will be immediately paid by the insurance company to the holder of the notes or chattel mortgage, who in turn assign full right and title to the estate of the deceased, without any subrogated rights; in other words, the article is then owned by the estate, and no further payments need be made.

Or, which is perhaps of greater importance, in the event of disability resulting from either injury or sickness, the amount of the note due each month is paid by the insurance company to the holder of the mortgage, and which is also without any subrogated rights. A receipt for the sum involved is then placed in the possession of the disabled individual who is the purchaser of the article.

From time to time we see in the public prints comment which is usually in a humorous vein, on the many subterfuges that are employed to inveigle the purchaser or prospective customer to spend more money than he had contemplated spending, or in fact than he can afford to spend. In the instance of the automobile, it would be found to be the case in the instance of a great many owners, that, in spite of the fact that the car they are driving is perhaps the second, third or fourth car that they have owned, they have not a full realization of the cost of upkeep, with the result that today will be found in many instances individuals who are operating a car that is really one grade beyond their financial strength.

A sales manager of one of the popular cars not so long since told me that one of their greatest problems is to keep the average purchaser from buying their most expensive model of car rather than one that is in keeping with their pocketbook. When you consider that the number of cars replevined is comparatively small, you wonder why such an attitude is assumed.

We will all agree that the vast majority of purchasers on the installment plan are honest individuals. They intend to pay their notes, do pay their notes, but very few have an understanding of the hardships that they frequently encounter in paying those notes. A few years ago, necessities such as homes, real estate, etc., were the only articles purchased on the time payment plan. To-day the average individual is buying not alone the necessity but the luxury as well. Included in this class is to be found perhaps a better type of furniture than was heretofore enjoyed, the automobile, the radio, household utilities, such as washing machines and electrical devices of various kinds, and only too frequently clothing and jewelry come within the list.

The average individual will have no hesitancy in admitting to his friend that he is buying his home on the installment plan, or his automobile; he is reluctant, however, to include in that list his furniture; seldom will he admit the household article, and never clothing or jewelry. Yet this is our friend that we encounter in business daily. His income is mortgaged temporarily to the limit.

What happens if the unexpected arrives in the form of disability on the part of the wage earner? In most instances, he will meet his outstanding notes, but none outside of his immediate family will have any conception of the hardship entailed in doing so. Only too frequently the payment of the note is represented in quantity as well as quality of the food on his table, the clothing for his family. He returns to his business duties in debt. This is the usual, not the unusual case I am citing. With the volume of merchandise purchased on the installment plan today being in excess of $5,000,000,000 annually, and with the morbidity tables available, we have a very definite knowledge of how far real protection such as this could be made to reach.

Group principles are applied to the issuance of this protection. No application is required, and where permitted by law, a group or master contract is placed in the possession of the manufacturer or merchandiser, who in turn acquaints the purchaser of the protection he has secured through the medium of a certificate. Where the group policy is not permitted, an individual form is issued and presented to the purchaser with the usual copy of the sales agreement. The charge may be paid by the merchandiser, or the consumer by adding the small premium to the cost of the article. It is reasonable to assume that this latter method will be followed ultimately, irrespective of whether or not the storekeeper or manufacturer is willing to admit of an adherence to such a plan for the collection of the premium.

The coverage carries with it no protection for a disability less than fourteen days. Protection may be extended on the pro rata basis of the monthly indemnity involved beyond the fourteenth day, or like compensation insurance, if the disability extends to the fifteenth day, coverage becomes retroactive to the beginning.

During the first of three years that one company has experimented in this business, little interest was aroused. During the present year, many requests have daily been received from all types of merchants and manufacturers, direct rather than through the medium of an insurance agency. Economically the plan has been judged sound by reputable concerns on the order of the General Motors, Westinghouse Electric, Federal Electric, as well as by some of the larger banking institutions and bond houses.

While the automobile has been largely used as an example, protection is applied to any article that is purchased on a time payment plan. Automobile premiums have amounted to many hundreds of thousands of dollars, for the reason that that was the line which was followed by the company to which I refer in its original experiments. The household utility is rapidly forging to the front, and recently an increased interest has been evidenced by building and loan organizations, real estate concerns and bond houses selling all forms of bonds and mortgages on a time payment plan; likewise savings accounts.

In connection with the latter, the life insurance companies have for some time past issued a form of life insurance policy that applied to savings accounts, but which was issued in most instances for a definite sum which remained stationary throughout the life of the account. To-day a number of banks are including in their protection this Deferred Payment, which in effect is applied the same as would be true were an individual to purchase an article of merchandise involving the same amount that he agrees in writing to save over a given period with the bank. This involved long term deposits. In the instances where life insurance is today being coupled with the Deferred Payment coverage in the protection of banks and other articles, the amount of life insurance at risk diminishes with the fulfilment of the obligation on the part of the purchaser or depositor.

This insurance is sold, not as first might appear to be the case, as additional collateral, but as a sales augmenter. It is to protect the individual purchasing against the only contingencies utterly beyond his control that will not permit of his meeting his obligation, for which it was necessary for him to mortgage his future income. It has a very definite economic value to a community. Most people are reluctant to purchase on the time payment plan, feeling that if they are disabled as the result of an accident or sickness, the original amount they have invested would be lost to them because the automobile or other article would be replevined when they were unable to meet their subsequent notes. This protection offered by the storekeeper or dealer deletes that particular fear.

A rather interesting statement was made to me the other day by a representative of one of the nationally known houses who have enjoyed this protection for some time past, that this Deferred Payment insurance was bringing to their sales organization a desirable class of people, the socalled white collar class predominating; also the industrial risk of the higher order, which in this particular instance was the class they desired to solicit. They attributed this to the fact that the protection that we are extending had abridged the fear that frequently existed in the minds of the conservative buyers against mortgaging future earnings.

The dealer does not permit his salesmen to sell insurance. The reason for this is, of course, obvious. Salesmen of furniture, for example, are not equipped, nor in most instances have the ability, to sell insurance. In referring to such protection they would be building up a sales resistance against the articles they most desired to dispose of. Reference is to be made to the protection that the dealer extends, after the sale has been consummated; or, if the circumstances warrant it, or in fact make it necessary, reference can be made during the course of the sale, but not to insurance. The salesmen must constantly emphasize the big, whole hearted merchandiser that the individual is going to buy from, and just what he, the merchandiser, does for his customers through protection that he has arranged, in the event that the customers are disabled or accidentally killed.

It would be of interest to know in analyzing the many thousands of claims that have resulted from this insurance so far, that in very few instances are we subject to the "repeated" hazard. By "repeater," I refer to a condition that is frequently found to be true in the instance of individual accident and health policies, where certain holders will be known as chronic claimants. In but the rare instance does the purchaser who presents claim at all ever present but one claim. Of course, this is largely due to the fact that most of the notes we are covering are for a period not in excess of twelve months. However, when you take into consideration the fact that we are including, without examination or application, industrial as well as commercial classes, this particular feature strikes me rather forcefully.

The moral hazard is also worthy of some comment. To safeguard the interests of the insurance carrier, the selection of business in the various states has been such as not to permit of a preponderance of industrial business in large manufacturing centers, such as is to be found in certain sections of Pennsylvania, racial and other characteristics also being taken into consideration. The size of the risk is, of course, governed by the amount of notes outstanding and due monthly. This, in the instance of the individual, is invariably a small amount as compared to the total income of the purchaser, whatever his occupation or profession may be. An underwriting practice that is also to be recommended is that no dealer or merchant be protected unless a guarantee in writing is given that not less than 90% of the merchandise handled under a time payment plan will be covered under the insurance contract. Complete instructions must be furnished the dealer at the time the agreement is entered into, in order that the company's interest may be properly safeguarded.

In the instance of an individual not engaged in some gainful occupation for remuneration or salary, such as a housewife, of course coverage cannot be extended, but it is within their province to name some member of the immediate family upon whom they are wholly or partially dependent for support to be the covered individual under the agreement.

Before the finance company or storekeeper will permit of the article leaving his premises, in other words sell it on a time payment plan, naturally he conducts an investigation that is usual to his business. If, during the course of payment, the purchaser is disabled, the money is paid by the insurance carrier to the finance company or dealer, in keeping with the arrangement entered into, who in turn marks the note paid or furnishes a receipt for the equivalent to the purchaser. This deletes the moral hazard to a material extent. If the actual money found its way into the hands of the purchaser, it could be squandered and the notes still remain unpaid. The receipt has the same collateral value, but in itself will not provide the necessities of life or permit of the individual continuing being disabled for the purpose of merely procuring payments on the article. The disability in addition must be certified to by a regularly licensed medical practitioner.

The interest of the field representatives of some of the more substantial companies engaged in the production of accident and health insurance is found to be quite keen at this time, with the result that the Bureau of Accident and Health Underwriters has appointed a committee to discuss and report upon this subject at length, and in which report undoubtedly will appear the findings of the committee of actuaries who will be called upon to give considerable thought to the all important rate question, so that this subject will undoubtedly again find its way into your discussions.