CHAIRMAN'S REPORT OF THE
ACTIVITY OF THE
FINANCIAL INSTITUTIONS SUBCOMMITTEE
OF THE
STANDING COMMITTEES ON COMMERCE

The areas of study conducted by this Subcommittee were the operations and administration of financial institutions governed by the State of Iowa.

In general, the committee considered the possibility of a single supervisory agency to administer all financial institutions; uniform taxation of all financial institutions; allocation of revenue from the taxing of this type of business and the possibility distribution of revenue to local governing bodies; the relationship of and comparison of administration of the state agencies when similar state and federal institutions are functioning in the state; exemption of federal lending agencies from state law; supervision of revolving credit accounts; and supervision of credit cards and credit card vendors.

The committee concluded after two meetings unanimously that taxation, revenue allocation from taxing financial institutions were the business of the Ways and Means Committee.

In addition, there was a close parallel in the study by the Subcommittee on the Uniform Consumer Credit Code in the areas of revolving credit accounts and credit card and credit card supervision. In addition, the Subcommittee on Insurance had as an agenda item the supervision of credit life, health and accident insurance.

The Subcommittee unanimously agreed that any further action taken be taken jointly with the Subcommittee on the Uniform Consumer Credit Code, for joint consideration of the control of financial institutions since the proposed Code would entail a single adminstrator of financial institutions, supervision of vendors using revolving credit accounts, issuance of credit life insurance, and rates to be applied to consumer financing by the financial institutions.

This Subcommittee did meet jointly with the Subcommittee on the Uniform Consumer Credit Code and the conclusion of the joint meeting unanimously suggests that the Code and the provisions therein be given further consideration by the full Commerce Committees of the House and Senate and that the assignment of any further Subcommittees at the discretion of the Committee Chairmen be members of the interim Subcommittees to implement continuity of the study.

During the study of all of the foregoing, this Subcommittee Chairman also personally would note that in the area of credit life, health and accident insurance there are many unanswered questions concerning present law and proposed legislation. Some of the areas that I have been unable to bring to conclusion presently that have not been answered are:

1. Why the differential in the rates charged by the same company when the sale is made through various vendors?

2. Should large volume vendors have preferential rates for their customers on an actuarial rate basis? If so, what is the actuarial background for differential in the rates?

3. Is the large volume vendor of credit life, health and accident insurance that remits his premium on an average monthly balance basis to be considered as having paid the total premium tax on his total charges to the borrower for the insurance? If not, how should this computation be changed?

4. As proposed by the Insurance Commissioner in an opinion issued in his hearing that the insurance charge be made on the basis of a percentage benchmark, I would ask whether this might not tend to increase the rate since the company having the highest loss ratio would not be able to prove a necessary increase in the rate with the unscrupulous vendor changing to the higher rate company for the purpose of making additional commissions?

5. Should there be a rate differential for the issuance of a certificate on a so-called group policy vs the issuance of individual policies?

6. With the use of a group policy by the financial institution/vendor, are the so-called dividends a commission or a true insurance dividend? If they are a dividend should the return of these dividends be paid to the borrower rather than to the financial institution/vendor? If they are a true dividend, should they continue to be paid on a variable scale based on the loss-ratio as at present which is similar to and may be easily compared to a reciprocal commission paid on and for the sale of casualty insurance?

7. Should a maximum rate charge allowable for the companies be established rather than a stated rate since competition might establish a rate lower than the set rate which would be of advantage to the general public?

For the reason that there are still the foregoing questions that have been unanswered by the insurance companies and the vendors/financial institutions, I would recommend that prior to the passage of what I consider necessary legislation in this area, that the full Commerce Committees chairmen give full consideration to the establishment of joint committee study of this area of insurance legislation. At the suggestion of the Council or the chairmen of the respective Commerce Committees, I will furnish all of the background information in this area that I presently have and any continuing information that I receive in answer to my outstanding inquiries.

/s/ Edgar J. Koch,
Subcommittee Chairman