INSURANCE: Group creditors policy is valid where the insurance is limited to the first five years of loans—even though entire life of loans is twenty years.

September 29, 1941.

Mr. John D. Cramer,
Deputy Insurance Commissioner,
Insurance Department,
Indianapolis, Indiana.

Dear Mr. Cramer:

I have before me your request that an official opinion issue in response to the following inquiry:

"We desire an opinion as to the legality of the following plan for insurance of a Group Creditors Policy:

"The creditor is a Loan Association loaning money on a twenty-year basis repayable in equal monthly installments. Coverage is to be limited to the first five years of the loan and to an amount equal to one year's installment payments (but never to exceed the outstanding indebtedness). The Association is to pay the premium and to be the beneficiary as creditors of the insured individual. For example, a $10,000 loan repayable over twenty years would probably require a monthly installment payment of approximately $65. Installment payments for one year would equal $780. The individual would be covered during the first five years of the loan for $780 and thereafter there would be no coverage."

I am of the opinion that the proposed plan outlined above is in conformity with the Indiana Insurance Code.

Section 166 (b) (4) of Chapter 162 of the Indiana Acts of 1935 (at pages 698 and 699) reads:

"(b) The following forms of life insurance are hereby declared to be group life insurance within the meaning of this act: * * * (4) life insurance covering only the lives of all members of a group of persons for not more than five thousand dollars on any one life, numbering not less than one hundred new entrants to the group yearly, who become borrowers from one financial institution, including subsidiary or affiliated
companies, or who become purchasers of securities, merchandise or other property from one vendor under agreement to repay the sum borrowed or to pay the balance of the price of the securities, merchandise or other property purchased in installments over a period of not more than ten years, to the extent of their indebtedness to said financial institution or vendor but not to exceed five thousand dollars on any one life, written under a policy which may be issued upon the application of and made payable to the financial institution or vendor or other creditor to whom such vendor may have transferred title to the indebtedness, as beneficiary, the premium on such policy to be payable by the financial institution, vendor or other creditor: * * *”

8 Burns’ Indiana Statutes Annotated (1940 Replacement) 39-4221.

It must be recognized, of course, that the formal loan agreements themselves provide for installment payments over a period of more than ten years. However, the section of the statute reproduced above is a part of the Insurance Code so that its provisions must be construed as affecting insurance. From an insurance standpoint it is patent that the purpose of the ten-year limitation is to require a gradual reduction in the insurance risk over a limited period. Applying this test to the proposed plan, the portion of the loan with which the insurance is concerned continues for but five years. The liability covered never exceeds the monthly payments for one year and entirely terminates at the end of the fifth year.

It is my considered opinion that the proposed plan for a Group Creditors Policy conforms with the Indiana Insurance Code.