

State of Rhode Island and Providence Plantations
DEPARTMENT OF BUSINESS REGULATION
Division of Insurance
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Public Notice of Proposed Rule-Making

Pursuant to the provisions of R.I. Gen. Laws § 27-30-12 and 42-14-17, and in accordance with the Administrative Procedures Act Chapter 42-35 of the General Laws, the Department of Business Regulation hereby gives notice of its intent to amend Insurance Regulation 9 – Consumer Credit Insurance.

The purpose of this amendment is to bring regulation into compliance with the amendments to R.I. Gen. Laws § 27-30-1 *et seq* in 2009. The amendments are based upon the National Association of Insurance Commissioners Model Regulation.

The proposed amended regulation and concise summary of non-technical amendments are available for public inspection at www.dbr.ri.gov, in person at Department of Business Regulation, 1511 Pontiac Avenue, Cranston, Rhode Island 02920, or requested by email edwyer@dbr.state.ri.us or by calling Elizabeth Kelleher Dwyer at (401) 462 9520.

In the development of the proposed [adoption OR amendment OR repeal] consideration was given to: (1) alternative approaches; (2) overlap or duplication with other statutory and regulatory provisions; and (3) significant economic impact on small business. No alternative approach, duplication, or overlap was identified based upon available information.

All interested parties are invited to submit written or oral comments concerning the proposed regulations by April 28, 2010 to Elizabeth Kelleher Dwyer, Department of Business Regulation, 1511 Pontiac Avenue, Cranston, Rhode Island 02920, edwyer@dbr.state.ri.us. A public hearing to consider the proposed amendment shall be held on April 28, 2010 at 10:00 am at 1511 Pontiac Avenue, Cranston, Rhode Island 02920 at which time and place all persons interested therein will be heard.

All are welcome at the Rhode Island Department of Business Regulation ("DBR"). If any reasonable accommodation is needed to ensure equal access, service or participation, please contact DBR at 401-462-9551, RI Relay at 7-1-1, or email directorofficeinquiry@dbr.state.ri.us at least three (3) business days prior to the hearing.

A. Michael Marques
Director, Department of Business Regulation

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Concise Summary of Proposed Non-technical Amendments
to
Insurance Regulation Number 9 – Consumer Credit Insurance

In accordance with the Administrative Procedures Act, Section 42-35-3(a)(1) of the General Laws of Rhode Island, following is a concise summary of proposed non-technical amendments:

1. Section 1 is amended to add the application of the regulation to credit unemployment insurance.
2. Section 2 is amended to add definitions of “affiliate,” “closed-end credit,” “control,” “evidence of individual insurability,” “loss ratio,” “open-ended credit,” “person” and “preexisting condition” and to delete the definitions of “credit accident and health insurance,” “credit insurance,” “credit life insurance,” “gross coverage,” “net coverage,” “net written premium” and “indebtedness.”
3. Section 3 is amended to clarify consumer notifications of multiple plans, eliminate the “Evidence of Coverage” and “Claims Processing” sections, clarify requirements on termination of group coverage, clarify unearned premium requirements, amend maximum aggregate provisions, amend obligations with prepayment of debt and lines of credit. In addition the amendments eliminate provision concerning evidence of coverage, claims processing, and amount to be insured.
4. The amendments eliminate previous section 4 entitled “Policy Forms and Related Material.”
5. Former section 5 (now section 4) entitled “Determination of Reasonableness of Benefits in Relation to Premium Charge” has been expanded to clarify the designated expected loss ratio standard and exceptions for actuarially justified rates.
6. Section 5 has been added to provide for limitations on compensation.
7. Section 6 has been amended to provide new requirements for credit life insurance.
8. Section 7 has been amended to provide new requirements for credit accident and health insurance.
9. Section 8 has been added to provide requirements for credit unemployment insurance.

10. Section 9 has been amended to alter refund formulas.
11. Section 10 has been amended to alter the annual experience reports and adjustment of prima facie rates.
12. Section 11 has been amended to alter the provisions governing rating.
13. Section 13 concerning Prohibited Transactions has been added.
14. Section 14 concerning Readability has been added.
15. Section 15 has been added to provide for effective dates to address implementation issues.
16. The Appendixes have been eliminated.

State of Rhode Island and Providence Plantations
DEPARTMENT OF BUSINESS REGULATION
Division of Insurance

~~233 Richmond Street~~1511 Pontiac Avenue
Providence Cranston, RI 0290302920

INSURANCE REGULATION 9

CONSUMER CREDIT LIFE, ACCIDENT AND HEALTH INSURANCE

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Section 1 *Purpose and Authority*

The purpose of this Regulation is to protect the interests of debtors and the public in this state by providing a system of rate, policy form, and operating standards for the transaction of ~~short term~~ credit life and credit accident and health ~~insurance~~, and credit unemployment insurance, as described in R.I. Gen. Laws §§ 27-30-2 and 27-31-2. This Regulation is promulgated and adopted pursuant to R.I. Gen. Laws §§ 27-30-12, 27-31-13 and it ~~This regulation~~ interprets and implements R.I. Gen. Laws §§ 27-30-1 *et seq.* ~~and 27-31-1 et seq.~~

Section 2 *Definitions*

As used in this Regulation:

- (1) “Affiliate” has the same meaning as defined in § 27-35-1.
- (2) “Closed-end credit” means a credit transaction that does not meet the definition of open-end credit.
- (3) “Control” has the same meaning as defined in § 27-35-1.
- (4) “Evidence of individual insurability” means a statement furnished by the debtor, as a condition of insurance becoming effective that relates specifically to the health status or to the health or medical history of the debtor.
- (5) “Loss ratio” means incurred claims divided by the sum of earned premiums and imputed interest earned on unearned premiums.
- (6) “Open-end credit” means credit extended by a creditor under an agreement in which:
 - (1) The creditor reasonably contemplates repeated transactions;
 - (2) The creditor imposes a finance charge from time to time on an outstanding unpaid balance; and
 - (3) The amount of credit that may be extended to the debtor during the term of the agreement (up to any limit set by the creditor) is generally made available to the extent that any outstanding balance is repaid.
- (7) “Person” has the same meaning as defined in § 27-35-1.
- (8) “Preexisting condition” means any condition for which the insured debtor received medical advice, consultation or treatment within six (6) months before the effective date of the coverage and from which the insured debtor becomes disabled within six (6) months after the effective date of this coverage.
- ~~(1) “Credit accident and health insurance” means insurance as defined in R.I. Gen. Laws § 27-31-3 Laws including loans of unspecified duration, unless it can be shown that such loans can be reasonably expected to have durations in excess of fifteen (15) years.~~
- ~~(2) “Credit insurance” means both credit life insurance and credit accident and health insurance.~~
- ~~(3) “Credit life insurance” means insurance as defined in R.I. Gen. Laws § 27-30-2, including loans of unspecified duration, unless it can be shown that such loans can be reasonably expected to have durations in excess of fifteen (15) years. With respect to lease obligations, “credit life insurance” may cover only those leases by which a successor to the lessee, or his estate, is obligated upon the death of the lessee either to purchase the property subject to the lease or to continue the lease to the end of its term.~~

~~(4) "Gross coverage" means a schedule of uniformly decreasing credit life insurance in which the amount of life insurance at any time shall not exceed the sum of the remaining periodic payments on the debt. If the credit transaction provides for a variable interest rate and premiums are on a single premium basis, the amounts of coverage shall not exceed the greater of~~

~~(a) the amount calculated as if the initial interest rate remained constant, or~~

~~(b) the amount calculated with the actual interest rate(s) in effect.~~

~~(5) "Net coverage" means credit life insurance in which the amount of life insurance during any payment period is not greater than the actual debt less any finance charge remaining unearned at the end of such period, plus an allowance for not more than two months' interest at the contract rate for accrued interest that may be due at death. If the credit transaction provides for a variable interest rate, the amount of coverage shall not exceed the greater of~~

~~(a) the amount calculated as if the initial interest rate remained constant, or~~

~~(b) the amount calculated with the actual interest rate(s) in effect.~~

~~(6) "Net written premium" means gross written premium minus refunds on termination.~~

~~(7) "Indebtedness" means total amount repayable including principal, interest and finance charges. If the credit transaction provides for a variable interest rate, such amount shall not exceed the greater of~~

~~(a) the amount calculated as if the initial interest rate remained constant, or~~

~~(b) the amount calculated with the actual interest rate(s) in effect.~~

Section 3 *Rights and Treatment of Debtors*

(1) Multiple Plans of Insurance. If a creditor makes available to the debtors more than one plan of consumer credit life insurance ~~or more than one plan of credit accident and health insurance, allevy~~ debtors must be informed of such each plans for which the debtor is eligible and of the premium or insurance charge for each.

(2) Substitution. When a creditor requires ~~credit life insurance, credit accident and health insurance, or both,~~ as additional security for an ~~indebtedness~~, the debtor shall be given the option of furnishing the required amount of insurance through existing policies of insurance owned or controlled by the debtor or of procuring and furnishing the required coverage through any insurer authorized to transact insurance business in this state. If this subsection is applicable, the debtor shall be informed by the creditor of the right to provide alternative coverage before the transaction is completed.

~~(3) Evidence of Coverage.~~

~~(a) All credit insurance shall be evidenced by an individual policy, or, in the case of group insurance, by a certificate of insurance. The individual policy or certificate of insurance shall be delivered to the debtor in accordance with R.I. Gen. Laws §§ 27-30-6 and 27-31-7.~~

~~(b) Each individual policy or certificate of insurance shall set forth such information as is required by R.I. Gen. Laws §§ 27-30-6, 27-30-7, 27-30-8, 27-31-7, 27-31-8 and 27-31-9, and any other appropriate sections of the General Laws.~~

~~(4) Claims Processing. All credit insurance claims shall be processed in accord with R.I. Gen. Laws §§ 27-30-10 and 27-31-11.~~

(53) Termination of group consumer credit insurance policy.

(a) If a debtor is covered by a group consumer credit insurance policy providing for the payment of single premiums to the insurer, or any other premium payment method which prepays coverage beyond one month, then provision shall be made by the insurer that in the event of termination of the policy for any reason, insurance coverage with respect to any debtor insured under such policy shall be continued for the entire period for which the single premium has been paid.

(b) If a debtor is covered by a group consumer credit insurance policy providing for the payment of premiums to the insurer on a monthly ~~outstanding balance~~ basis, then the policy shall provide that, in the event of termination of such policy ~~for whatever reason~~, termination notice ~~thereof~~ shall be given to the insured debtor at least thirty (30) days prior to the effective date of termination except where replacement of the coverage by the same or another insurer in the same or greater amount takes place without lapse of coverage. ~~The notice required in this paragraph shall be given by the insurer or, at the option of the insurer, by the creditor. The insurer shall provide or cause to be provided this required information to the debtor.~~

(64) Remittance Interest on Premiums. If the creditor adds identifiable insurance charges or premiums for consumer credit insurance to the ~~indebtedness~~, and any direct or indirect finance, carrying, credit, or service charge is made to the debtor on such insurance charges or premiums, the creditor must remit and the insurer shall collect such the premium within sixty (60) days after it is added to the ~~indebtedness~~.

(75) ~~Renewal or~~ Refinancing of the IndDebtedness. If the ~~indebtedness~~ is discharged due to ~~renewal or~~ refinancing prior to ~~the~~ scheduled maturity ~~date~~, the insurance in force shall be terminated before any new insurance may be issued in connection with the ~~renewed or~~ refinanced ~~indebtedness~~. In all cases of ~~such~~ termination prior to scheduled maturity, a refund of all unearned premium or unearned insurance charges paid by the debtor shall be paid or credited to the debtor as provided in Section 8-9 of this Regulation. In any

~~renewal or~~ refinancing of the ~~indebtedness~~, the effective date of ~~the~~ coverage as respects any policy provision shall be deemed to be the first date on which the debtor became insured under the policy with respect to the debt which was covering the indebtedness which was renewed or refinanced, at least to the extent of the amount and term of the ~~indebtedness~~ outstanding at the time of ~~renewal and~~ refinancing of the debt.

- (86) Maximum Aggregate Provisions. A provision in an individual policy or group certificate that sets a maximum limit on total claim payments must apply only to that individual policy or group certificate; ~~except that a certificate issued under a group policy may contain a notice of a limitation applicable to all insurance covering any one person insured under such group policy.~~
- (97) ~~Voluntary~~ Prepayment of ~~Ind~~Debt~~edness~~. If a debtor prepays the ~~indebtedness in full other than as a result of death or through a lump sum disability payment:~~(a) ~~Any then any consumer~~ credit ~~life~~ insurance covering ~~such the indebtedness~~ shall be terminated and an appropriate refund of the consumer credit ~~life~~ insurance premium shall be paid or credited to the debtor in accordance with Section 89 of this Regulation; ~~and However, if the prepayment is a result of death or any other lump sum consumer credit insurance payment, no refund shall be required for the coverage under which the lump sum was paid.~~ (b) ~~Any credit accident and health insurance covering such indebtedness shall be terminated and an appropriate refund of the credit accident and health insurance premium shall be paid to the debtor in accordance with Section 8 of this Regulation.~~ If a claim under credit accident and health coverage or credit unemployment coverage ~~such coverage~~ is in progress at the time of prepayment, the amount of refund may be determined as if the prepayment did not occur until the payment of benefits terminates. No refund need be paid during any period of disability for which credit accident and health benefits are payable; or during any period of unemployment for which credit unemployment benefits are payable A refund shall be computed as if prepayment occurred at the end of the disability period; or at the end of the unemployment period.
- (10) (a) ~~If there is more than one credit insurance benefit covering one indebtedness and such indebtedness is liquidated through any one of the credit insurance benefits, then the remaining coverages must be terminated as of the date of liquidation and appropriate premium refunds made in accordance with Section 8 of this Regulation; and~~
- (b) ~~If there is any amount of benefits in excess of the amount required to repay the indebtedness after crediting any unearned interest or finance charges, such amount shall be paid or credited.~~

If a claim under credit accident and health coverage or credit unemployment coverage is in progress at the time of prepayment, the amount of refund may be determined as if the prepayment did not occur until the payment of benefits terminates. No refund need be paid during any period of disability for which credit accident and health benefits are payable or during any period of unemployment for which credit unemployment benefits are payable. A refund

~~shall be computed as if prepayment occurred at the end of the disability period or at the end of the unemployment period.~~

- ~~(148) If a creditor has opened a line of credit for a debtor and, under § 27-30-4(a)(5) or (6), is charging for this line of credit rather than the amount of debt in the event of the death of the debtor, the insured amount due is the amount of the established amount of credit against which premium was last charged.~~

Amounts to be Insured:

~~(a) — Credit life insurance may provide gross coverage, or net coverage, at the option of the insurer, for terms not exceeding sixty one (61) months. Credit life insurance may only provide net coverage for terms exceeding sixty one (61) months. Premium charges shall be computed on the same basis as the benefits provided. The amount of credit life insurance provided to cover a lessee shall not exceed the amount or amounts that the lessee's successor, or his estate, becomes obligated to pay, either in one sum or in periodic payments, on the death of the lessee. For leases having terms not exceeding sixty one (61) months, such amount(s) may be increased to include unearned lease charges.~~

~~(b) Credit accident and health insurance may provide benefits not exceeding the amount of outstanding indebtedness inclusive of unearned interest or finance charges, or, with respect to insurance covering a lease, not at any time exceeding the sum of the periodic lease payments remaining due. Credit accident and health insurance may provide for indemnity against all periodic payments or may be limited either in number or amount as defined in the policy.~~

Section 4 — Policy Forms and Related Material

- ~~(1) — Permissible Forms. Credit life and credit accident and health insurance shall be issued only in the forms described in R.I. Gen. Laws §§ 27-30-3, 27-30-6, 27-31-4 and 27-31-7.~~
- ~~(2) — Filing Requirements. All policy forms, certificates of insurance, notices of proposed insurance, applications for insurance, endorsements and riders to be delivered or issued for delivery in this state and the schedules of maximum premium rates pertaining thereto shall be filed with the Commissioner as required by R.I. Gen. Laws §§ 27-30-7 and 27-31-8.~~

Section 54 — Determination of Reasonableness of Benefits in Relation to Premium Charge

- ~~(1) Benefits provided by consumer General Standard. Under R.I. Gen. Laws §§ 27-30-7 and 27-31-8, rates charged for credit insurance policies must appear by be reasonable assumptions not to be excessive in relation to benefits the premiums charged. This requirement is satisfied if the premium rate charged develops or may be reasonably be expected to develop a loss ratio, of not less than sixty percent (60%) for credit life insurance and sixty percent (60%) for credit accident and health insurance. With the~~

exception of deviations approved under Section 11, the rates shown in Sections 6 and 7, as adjusted pursuant to Section 10, shall be presumed to satisfy this standard. Anticipated losses that develop or are expected to develop a loss ratio of not less than sixty percent (60%) shall be presumed reasonable. Any insurer filing a deviation in accordance with Section 11 must satisfy the sixty percent (60%) loss ratio standard on their total consumer credit insurance business, including that of affiliated insurers, for each type of insurance defined in Title 27 Chapter 30 of the Rhode Island General Laws for which the deviation is being filed.

- (2) Nonstandard Coverage. If any insurer files for approval of any form providing coverage ~~more restricted~~different than that described in Sections 6 ~~and through 7~~8 of this Regulation, the insurer shall demonstrate to the satisfaction of the Commissioner that the premium rates to be charged for such ~~restricted~~ coverage ~~are will develop or may be~~(a) reasonably expected to develop a loss ratio not less than sixty percent (60%), or (b) that contemplated for standard coverage at the premium ~~actuarially consistent with the~~ rates described in these sections used for standard coverages.

Section 5 *Limitation on Compensation*

- (1) An insurer shall not pay compensation in excess of thirty percent (30%) of the net written prima facie premium of which not more than twenty-five percent (25%) of net written prima facie premium may be paid to a creditor.
- (2) For the purpose of Section 5(1), prima facie premium means premium using the premium rates set out in Sections 6 and 7, or actuarially consistent premium rates for plans not described in Sections 6 and 7, without any adjustment pursuant to Section 10.

Section 6 *Credit Life Insurance Rates*

- (1) Premium Rate. ~~Credit life insurance premium rates for the insured portion of an indebtedness repayable in equal monthly installments, where the insured portion of the indebtedness decreases uniformly by the amount of the monthly installment paid or decreases on a schedule designed to provide net coverage shall be as set forth in Paragraphs (a) and (b) below. Paragraphs (c), (d), and (e) below, refer to premium rates for other types of benefits either alone or in combination with the type of benefits applicable to (a) and (b). Subject to the conditions and requirements in Section 6(2) and Section 11, the prima facie rates shown below are considered to meet the requirements of Section 4, and may be used without filing additional actuarial support.~~
- (a) Monthly outstanding balance basis: ~~Seventy two~~Sixty six cents (\$.7266) per month per one thousand (\$1,000) of outstanding insured ~~indebtedness on single life and one dollar and five cents (\$1.05) per month per \$1,000 of outstanding insured debt on joint life~~ if premiums are payable on a monthly outstanding balance basis.

- (b) Single premium basis: If the premiums are is payable charged on a single premium basis, the rate shall be computed according to the following formula -or according to a formula approved by the commissioner which produces rates substantially the same as those produced by the following formula: shall be used to develop single premium rates from the outstanding balance rate:

$$Sp = \frac{\sum_{t=1}^n \left(\frac{Op}{10} \times \frac{I_t}{I_i} \times (v^t - 1) \right)}{1 - v^n}$$

$$v = \frac{1}{1 + (dis)}$$

Sp = Single Premium per \$100 of initial consumer credit life insurance coverage.

Op = \$0.66 or \$1.05, the prima facie consumer credit life insurance premium rate for monthly outstanding balance coverage from Section 6(1)(a).

I_t = The scheduled amount of insurance for month t.

I_i = Initial amount of insurance. For a net insurance policy, I_i equals the initial principal balance of the loan.

dis = .0020, representing an annual discount rate of 1.924 percent for interest plus 0.4 percent for mortality.

n = The number of months in the term of the insurance.

~~For gross coverage—~~

~~$SP_n = \frac{(n+1) Op}{20(1+0.0019n)}$ where SP_n is the single premium per one hundred dollars (\$100) of initial gross coverage, n is the credit term in months, and Op is the monthly outstanding balance rate per one thousand dollars (\$1,000) of insured indebtedness.~~

~~For net coverage, actuarial balances—~~

~~$SP_n = \frac{(n - an)}{10 - i - an} (1 + .0021n) Op$ where SP_n is the single premium per one hundred dollars (\$100) of initial net coverage, n is the credit term in months, an] is an annuity at interest rate i, i is the loan contract annual percentage rate divided by twelve (12),~~

and O_p is the monthly outstanding balance rate per one thousand dollars (\$1,000) of outstanding insured indebtedness. The resulting rates may be increased by a factor of $(1+i)$ or $(1+2i)$ if one or two months' accrued interest is included in the schedule of insurance.

For net coverages, rule of 78 balances —

$$SP_n = \frac{n(n-1) + 2an}{60an} (n+2) O_p$$

where SP_n is the single premium per \$100 of initial net coverage, and n , a , n , i , and O_p are as defined above. The resulting rates may be increased by a factor of $(1+i)$ or $(1+2i)$ if one or two months' accrued interest is included in the schedule of insurance.

(c) If the benefits provided are other than those described in the introduction to this subsection, premium rates for such benefits shall be actuarially consistent with the rates provided in Sections 6(1)(a) and (b).

(e) ~~If premiums are payable on a single premium basis when the benefit provided is level term, the following formula shall be used to develop single premium rates from the outstanding balance rate:~~

$$SP_n = \frac{n(O_p)}{10(1+.0027n)}$$

where SP is the single premium per \$100 of initial insured indebtedness, n is the credit term in months, and O_p is the monthly outstanding balance rate per one thousand dollars (\$1,000) of outstanding insured indebtedness.

(d) ~~Joint coverage on any of the bases in (a), (b) or (c) of subsection (1), shall be one hundred and sixty percent (160%) of the specific rate for that type of coverage.~~

(e) ~~A combination of the appropriate rate for level term and the appropriate rate for decreasing term (with equal decrements), if coverage provided is a combination of level term and decreasing term (with equal decrements).~~

(f) ~~If the benefits provided are other than those described in Subsection (1) above, rates for such benefits shall be actuarially consistent with the rates provided in Paragraphs (a), (b), (c), and (d).~~

- (2) The premium rate in Subsection (6)(1) shall apply to policies contracts providing credit life insurance that are offered to all eligible debtors, that do not require to be issued with or without evidence of individual insurability, from any eligible debtor electing to purchase coverage within thirty (30) days of the date the debtor becomes eligible and that to be offered to all debtors, and containing the provisions below:

- (a) ~~No exclusion other than suicide within six months of the incurred indebtedness; and Coverage for death by whatever means caused, except that coverage may exclude death resulting from:~~
- ~~(1) War or any act of war;~~
 - ~~(2) Suicide within six (6) months after the effective date of the coverage; or,~~
 - ~~(3) Subject to the provisions of Section 6(2)(b), a preexisting condition or conditions.~~
- (b) ~~For the purpose of Section 6(2)(a)(3): Either no age restriction or age restrictions making ineligible for coverage debtors 65 or over at the time the indebtedness is incurred or debtors having attained age 66 or over on the maturity date of the indebtedness.~~
- ~~(1) Preexisting condition means any condition for which the debtor received medical advice or treatment within six (6) months preceding the effective date of coverage;~~
 - ~~(2) No preexisting condition exclusion shall apply unless death is caused by or substantially contributed to by the preexisting condition and unless death occurs within six (6) months following the effective date of coverage; and,~~
 - ~~(3) A preexisting condition exclusion shall apply only if and to the extent that the amount of coverage to which it would otherwise apply (in the absence of this limitation) exceeds \$1,000.~~
- (c) ~~For the exclusions listed in Section 6(2)(a) and (b) above, the effective date of coverage for each part of the insurance attributable to a different advance or a charge to the plan account is the date on which the advance or charge occurs.~~
- (d) ~~At the option of the insurer and in lieu of a preexisting condition exclusion on insurance written in connection with open-ended consumer credit, a provision may be included to limit the amount of insurance payable on death due to natural causes to the balance as it existed six (6) months prior to the date of death if there has been one or more increases in the outstanding balance during the six-month period and if evidence of individual insurability has not been required in the six-month period prior to the date of death. This provision applies only if and to the extent that the amount of coverage to which it would otherwise apply (in the absence of this limitation) exceeds \$1,000.~~
- (ee) ~~A revolving credit insurance policy 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 not less than~~

age 65. An age restriction providing that no insurance will become effective on debtors on or after the attainment of age sixty-six (66) and that all insurance will terminate upon attainment by the debtor of age sixty-six (66).

(3) Application of Rates:

- (a) If the insurer, its agent, or the application form for credit life insurance does not request or require that the debtor provide evidence of insurability, then the premium rates deemed reasonable will be the *prima facie* rates in Section 6(1).
 - (b) Except as provided in Section 6(3)(c), if the insurer, its agent, or the application form for credit life insurance requests or requires that the debtor provide evidence of insurability and the initial amount of insurance is \$15,000 or less, then the premium rates deemed reasonable will be the rates in Section 6(1) multiplied by 90 percent (.90).
 - (c) If the insurer, its agent, or the application form for credit life insurance requests or requires that the debtor provide evidence of insurability and the initial amount of insurance is above \$15,000 or the applicant elects to purchase coverage more than thirty (30) days after the date the debtor became eligible under a group plan of insurance, then the premium rates deemed reasonable will be the *prima facie* rates in Section 6(1). For policies insuring open lines of credit, the insurer may require evidence of insurability for advances which increase the outstanding debt above \$15,000.
- (4) Insurers may use the same application forms for credit life insurance whether or not underwriting questions are asked pursuant to Section 6(3). The commissioner will presume that any application form for which all relevant underwriting questions have been left unanswered represents a policy which has not been underwritten and for which *prima facie* rates are permissible. A form for which any relevant underwriting questions have been answered or filled in represents a policy for which premium decreases pursuant to Section 6(3) are required. Insurers should maintain in their files their rules for those circumstances where underwriting questions shall be asked. Those rules shall be communicated to and followed by the insurer's agents or other producers.

Section 7 *Credit Accident and Health Insurance*

- (1) Premium Rate. ~~Credit accident and health insurance premium rates for the insured portion of an indebtedness repayable in equal monthly installments, where the insured portion of the indebtedness decreases uniformly by the amount of the monthly installment paid, shall be as set forth in (a) and (b) below. (c), (d), and (e) below, refer to premium rates for other types of benefits either alone or in combination with the type of benefits applicable to (a) and (b). Subject to the conditions and requirements in Section 6(2) and Section 11, the *prima facie* rates shown below are considered to meet the requirements of Section 4, and may be used without filing additional actuarial support.~~

- (a) ~~As set forth in Appendix II if~~ premiums are payable on a single-premium basis for the duration of the coverage; ~~or the prima facie rate per \$100 of initial insured debt for single accident and health is as set forth in the table below (rates for monthly periods other than those listed shall be interpolated or extrapolated):~~

<u>Original Number of Equal Monthly Installments</u>	<u>14 Day Non-Retroactive Policies</u>	<u>14 Day Retroactive Policies</u>	<u>30 Day Non-Retroactive Policies</u>	<u>30 Day Retroactive Policies</u>
<u>6</u>	<u>0.90</u>	<u>1.32</u>	<u>1.02</u>	<u>1.02</u>
<u>12</u>	<u>1.50</u>	<u>2.19</u>	<u>1.70</u>	<u>1.70</u>
<u>24</u>	<u>1.90</u>	<u>2.61</u>	<u>2.14</u>	<u>2.14</u>
<u>36</u>	<u>2.21</u>	<u>2.91</u>	<u>2.46</u>	<u>2.46</u>
<u>48</u>	<u>2.50</u>	<u>3.22</u>	<u>2.76</u>	<u>2.76</u>
<u>60</u>	<u>2.78</u>	<u>3.50</u>	<u>3.05</u>	<u>3.05</u>
<u>72</u>	<u>*</u>	<u>*</u>	<u>1.02</u>	<u>*</u>
<u>84</u>	<u>*</u>	<u>*</u>	<u>1.70</u>	<u>*</u>
<u>96</u>	<u>*</u>	<u>*</u>	<u>2.14</u>	<u>*</u>
<u>108</u>	<u>*</u>	<u>*</u>	<u>2.46</u>	<u>*</u>
<u>120</u>	<u>*</u>	<u>*</u>	<u>2.76</u>	<u>*</u>

* There are no prima facie rates for these categories nor for loans in excess of one hundred twenty (120) months. Subject to approval by the Commissioner, such loans may be insured on any monthly premium basis that can be actuarially demonstrated to produce an anticipated loss ratio of at least sixty percent (60%).

- (b) If premiums are paid on the basis of a premium rate per month per thousand of outstanding insured ~~gross indebtedness for loans of one hundred twenty one (121) months duration or less~~, these premiums shall be computed according to the following formula or according to a formula approved by the Commissioner which produces rates actuarially ~~equivalent~~ consistent to with the single premium rates in ~~Appendix II; Section 7(1)(a):~~

$$OP_n = \frac{10 SP_n}{\frac{n}{\sum_{t=1}^n (v^{t-1} x (n-t+1))}}$$

where $v = \frac{1}{1 + (dis)}$

Where SP_n = Single Premium Rate per \$100 of initial insured debt repayable in n equal monthly installments as shown in Section 7(1)(a).

$OP_n =$ Monthly Outstanding Balance Premium Rate per \$1,000.

$n =$ The number of months in the term of the insurance.

$dis = .0016$, representing an annual discount rate of 1.924 percent for interest.

$$Opn = \frac{20(1 + .0017n) SPn}{n+1}$$

Where $SPn =$ Single Premium Rate per one hundred dollars (\$100) of initial insured indebtedness repayable in n equal monthly installments (Appendix II).

~~$Opn =$ Monthly Outstanding Balance Premium Rate per \$1,000.~~

~~$n =$ Original repayment period, in months, and is equal to, or less than, 121.~~

- (c) ~~The actuarial equivalent of (a) and (b) above shall be used if~~ If the coverage provided is a constant maximum indemnity for a given period of time, the actuarial equivalent of Section 7(1)(a) and (b) shall be used.
- (d) ~~If the coverage provided is a An appropriate combination of the premium rate for a constant maximum indemnity for a given period of time and the premium rate for after which the maximum indemnity which begins to decreases in even amounts per month, if the coverage provided is a combination of a constant maximum indemnity for a given period of time after which the maximum indemnity begins to decrease in even amounts per month. an appropriate combination of the premium rate for a constant maximum indemnity for a given period of time and the premium rate for a maximum indemnity which decreases in even amounts per month shall be used.~~
- ~~(e) If the benefits provided are other than those described in Section 7(1) of this Regulation above, rates for such benefits shall be actuarially consistent with rates provided in (a), (b), (c), and (d) above.~~
- (fe) The outstanding balance rate for credit accident and health insurance may be either a term specified rate or may be a single composite term outstanding balance rate ~~applicable to all loans.~~
- (2) Subject to the conditions and requirements ~~The premium rates in Section 7(1) above shall apply to policies providing credit accident and health insurance to be issued with or without evidence of insurability, to be offered to all eligible debtors, and containing: and Section 11, the prima facie rates for credit accident and health insurance shown below are considered to meet the requirements of Section 4 in the situation where the insurance is written on an open-end loan. These prima facie rates and the formulae used to calculate~~

them may be used without filing additional actuarial support. Other formulae to convert from a closed-end credit rate to an open-end credit rate may be used if approved by the commissioner.

(a) No provision excluding or denying a claim for disability resulting from pre-existing conditions except for those conditions for which the insured debtor received medical advice, diagnosis, or treatment within six (6) months preceding the effective date of the debtor's coverage and which caused loss within the six months following the effective date of coverage. If the maximum benefit of the insurance equals the net debt on the date of disability, the term of the loan is calculated according to the formula: $1/(\text{minimum payment percent})$. The *prima facie* rate is determined by applying the calculated term to the rates shown in Section 7(1). A composite minimum payment percentage may be used in place of the minimum payment percentage for a specific credit transaction.

(b) No other provision which excludes or restricts liability in the event of disability caused in a specified manner except that it may contain provisions excluding or restricting coverage in the event of normal pregnancy and intentionally self-inflicted injuries. If the maximum benefit of the insurance equals the outstanding balance of the loan on the date of disability plus any interest accruing on that amount during disability, the term of the insurance (n) is estimated by using the following formula:

$$n = \ln\{1 - (1000i/x)\} / \ln(v)$$

where:

i = interest rate on the account or a composite interest rate used for the type of policy;

x = monthly payment per \$1000 of coverage consistent with the term calculated above; and,

$$v = 1/(1 + i).$$

The calculated value of the term is used to look up an initial rate in Section 7(1). The final *prima facie* rate is calculated by multiplying the initial rate by:

the adjustment n/a_n

where:

n is the term calculated above; and

$$a_n = \frac{n}{(1 - v)^i}.$$

(e3) No Actively at Work Test may require that the debtor be employed more than thirty (30) hours per week. If the accident and health coverage is sold on a joint basis (involving two people), the rate for the joint coverage shall be filed with the commissioner prior to use.

- (d4) No age restrictions or only age restrictions making ineligible for coverage debtors sixty five (65) or over at the time the indebtedness is incurred or debtors who will have attained age sixty six (66) or over on the maturity date of the indebtedness. If the benefits provided are other than those described in Section 7(1) or 7(2) above, rates for those benefits shall be actuarially consistent with rates provided in Section 7(1) and 7(2).
- (5) The premium rates in Section 7(1) shall apply to contracts providing credit accident and health insurance that are offered to all eligible debtors, that do not require evidence of individual insurability from any eligible debtor electing to purchase coverage within thirty (30) days of the date the debtor becomes eligible and that contain the provisions below:
- (a) Coverage for disability by whatever means caused, except that coverage may be excluded for disabilities resulting from: (1) normal pregnancy; (2) war or any act of war; (3) elective surgery; (4) intentionally self-inflicted injury; (5) sickness or injury caused by or resulting from the use of alcoholic beverages or narcotics (including hallucinogens) unless they are administered on the advice of and taken as directed, by a licensed physician other than the insured; (6) flight in any aircraft other than a commercial scheduled aircraft; (7) a preexisting condition.
- (b) For the exclusion listed in Section 7(6)(c) above, the effective date of coverage for each part of the insurance attributable to a different advance or a charge to the plan account is the date on which the advance or charge occurs.
- (c) A definition of disability providing that for the first twelve (12) months of disability, total disability shall be defined as the inability to perform the essential functions of the insured's own occupation. Thereafter, it shall mean the inability of the insured to perform the essential functions of any occupation for which he or she is reasonably suited by virtue of education, training or experience.
- (d) No employment requirement more restrictive than one requiring that the debtor be employed full-time on the effective date of coverage and for at least twelve (12) consecutive months prior to the effective date of coverage. "Full time" means a regular work week of not less than thirty (30) hours.
- (e) An age restriction providing that no insurance will become effective on debtors on or after the attainment of age sixty-six (66) and that all insurance will terminate upon attainment by the debtor of age sixty-six (66).
- (f) A daily benefit equal in amount to one-thirtieth (1/30th) of the monthly benefit payable under the policy ~~for the indebtedness.~~

~~(f6) A definition of "disability" which provides that during the first twelve (12) months of disability the insured shall be unable to perform the duties of his occupation at the time the disability occurred, and thereafter, the duties of any occupation for which the insured is reasonably fitted by education, training, or experience. This paragraph shall not apply to lump sum disability coverage. Application of Rates:~~

~~(a) If the insurer, its agent, or the application form for credit life insurance does not request or require that the debtor provide evidence of insurability, then the premium rates deemed reasonable will be the *prima facie* rates in Section 7(1).~~

~~(b) Except as provided in Section 7(2)(f)(3), if the insurer, its agent, or the application form for credit life insurance requests or requires that the debtor provide evidence of insurability and the initial amount of insurance is \$15,000 or less, then the premium rates deemed reasonable will be the rates in Section 7(1) multiplied by 90 percent (.90).~~

~~(c) If the insurer, its agent, or the application form for credit life insurance requests or requires that the debtor provide evidence of insurability and the initial amount of insurance is above \$15,000 or the applicant elects to purchase coverage more than thirty (30) days after the date the debtor became eligible under a group plan of insurance, then the premium rates deemed reasonable will be the *prima facie* rates in Section 7(1). For policies insuring open lines of credit, the insurer may require evidence of insurability for advances which increase the outstanding debt above \$15,000.~~

~~(g7) A revolving credit insurance policy 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 not less than age sixty five (65). Insurers may use the same application forms for credit accident and health insurance whether or not underwriting questions are asked pursuant to Section 7(6). The commissioner will presume that any application form for which all relevant underwriting questions have been left unanswered represents a policy which has not been underwritten and for which *prima facie* rates are permissible. A form for which any relevant underwriting questions have been answered or filled in represents a policy for which premium decreases pursuant to Section 7(6) are required. Insurers should maintain in their files their rules for those circumstances where underwriting questions shall be asked. Those rules shall be communicated to and followed by the insurer's agents or other producers.~~

Section 8 Credit Unemployment Insurance Rates

~~(1) Each insurer filing rates for credit unemployment insurance shall include in its rate filing with the commissioner the appropriate rate formula upon which its rates are based,~~

including a provision for anticipated losses. Anticipated losses that develop or are expected to develop a loss ratio of not less than sixty percent (60%) shall be presumed reasonable. Anticipated losses may include an amount for fluctuation in loss due to catastrophe based on the experience of at least the latest nine (9) policy years or as long as the company has been writing this line of business.

(2) Credit unemployment insurance policies must contain benefits at least as favorable to insureds as the provisions below:

(a) Coverage for unemployment for any reason, except that coverage may be excluded for: (a) voluntary forfeiture of salary, wage or other employment income; (b) resignation; (c) retirement; (d) general strike; (e) illegal walk out; (f) war; (g) separation from the military; (h) willful misconduct or criminal misconduct or unlawful behavior; and (i) disability caused by injury, sickness or pregnancy.

(b) For credit unemployment insurance which provides for a monthly benefit in the event of unemployment, benefits must start after a waiting period of not longer than thirty (30) days but need not be retroactive to the first day of unemployment and must have a maximum benefit period that is no shorter than six (6) months.

(3) Credit unemployment insurance policies may not contain eligibility requirements more restrictive than the restrictions below:

(a) Exclusion from qualification for coverage: (1) self employed individuals; (2) workers in seasonal or temporary jobs, defined as jobs designed to last six (6) consecutive months or less; and, (3) debtors who have been notified either orally or in writing of any layoff or of employment termination either now or within the next sixty (60) days. This exclusion must be disclosed to all prospective insureds.

(b) No employment requirement more restrictive than one requiring that the debtor be employed full-time on the effective date of coverage for at least twelve (12) consecutive months prior to the effective date of coverage. "Full time" means a regular work week of not less than thirty (30) hours.

(c) An age restriction providing that no insurance will become effective on debtors on or after the attainment of age sixty-six (66) and that all insurance will terminate upon attainment by the debtor of age sixty-six (66).

Section 89 **Refund Formulas**

(1) Refund formulas which any insurer desires to use must be filed with and approved by the Commissioner prior to use. The following methods are deemed appropriate for the plans described:

~~(a) — Pro Rata Method. The pro rata unearned gross premium method shall be used for level term credit life insurance, credit accident and health insurance wherein the insured is covered for a constant maximum indemnity for a given period of time, after which the maximum indemnity begins to decrease in even amounts per month (i.e., so-called "critical period" coverage), and for credit insurance coverage under which premiums are collected from the debtor on a basis other than the single premium basis.~~

~~(b) — "Sum of the digits method." The "Rule of 78" or "sum of the digits" unearned premium method may be used for single premium, gross coverage, life insurance.~~

~~(c) — Rule of Anticipation. The Rule of Anticipation may be used for single premium, gross coverage, life insurance and for coverages (including accident and health insurance providing other than so-called "critical period" coverage) other than those described in (a) and (b) above. Under the Rule of Anticipation the refund shall be equal to the premium that would be charged to cover the debt scheduled to be outstanding immediately prior to prepayment, for the remainder of the scheduled term of the debt.~~

~~(21) In the event of termination, no charge for credit insurance may be made for the first fifteen (15) days of a loan-month and full month may be charged for sixteen (16) days or more of a loan-month; except that, in any case where the creditor is permitted to earn a full month's interest on the loan to which credit insurance is subject, when such loan has been terminated after one (1) day or more of a loan-month, then a full month may be charged for credit insurance for one (1) day or more of a loan-month.~~

~~(32) The requirements of the Consumer Credit Insurance Law that refund formulas be filed with the Commissioner shall be considered fulfilled if the refund formulas are set forth in the individual policy or group certificate filed with the Commissioner. If the appropriate refund formula is the "Rule of 78" or the Rule of Anticipation, it shall be sufficient to refer to it by name.~~

~~(43) No refund of three-five dollars (\$35) or less need be made.~~

Section 910 Experience Reports and Adjustment of Prima Facie Rates

(1) Each insurer doing ~~credit~~ insurance business in this state shall ~~annually submit experience reports as provided in this section for the experience period of each class of business. file with the commissioner and the National Association of Insurance Commissioners (NAIC) Support and Services Office a report of consumer credit insurance written on a calendar year basis. The report shall utilize the Credit Insurance Supplement—Annual Statement Blank as approved by the NAIC, and shall contain data separately for each state, rather than an allocation of the company's countrywide experience. The filing shall be made in accordance with and no later than the due date in the Instructions to the Annual Statement.~~

- (2) ~~"Class of business" means any of the following:~~
- ~~(a) — credit unions;~~
 - ~~(b) — commercial and savings banks;~~
 - ~~(c) — finance companies;~~
 - ~~(d) — motor vehicle dealers;~~
 - ~~(e) — other sales finance;~~
 - ~~(f) — production credit associations; bank agricultural loans;~~
 - ~~(g) — all others.~~

~~The commissioner will, on a triennial basis, review the loss ratio standards set forth in Section 4 and the *prima facie* rates set forth in Sections 6 and 7 and determine therefrom the rate of expected claims on a statewide basis, compare such rate of expected claims with the rate of actual claims for the preceding three (3) years determined from the incurred claims and earned premiums at *prima facie* rates reported in the Annual Statement Supplement or other available source, and publish the adjusted actual statewide *prima facie* rates to be used by insurers during the next triennium. The rates will reflect the difference between (a) actual claims based on experience; and (b) expected claims based on the loss ratio standards set forth in Section 4 applied to the *prima facie* rates set forth in Sections 6 and 7.~~

- (3) ~~The reports required by this section shall be submitted in the manner prescribed by Forms A, B, and C in Appendix I. Insurers are expected to reproduce the form for use according to their needs. Such experience reports shall be submitted not later than June 1st of each calendar year following the effective date of this Regulation. The commissioner will, on a triennial basis, review the discount rates for interest included in the formulae in Sections 6(1) and 7(1), and adjust those discount rates to equal the average of the rates being paid at that time on three-year United States Treasury Notes as reported in the Wall Street Journal on the last day of sale in the most recent three (3) calendar years.~~
- (4) ~~The experience reports required by this section shall replace all other annual reports of credit insurance experience except for reports required by the National Association of Insurance Commissioners annual statement. The experience reports required by this section are separate and distinct from the NAIC annual statement and are not used in any manner to determine the financial condition of the company.~~

Section 1011 Use of Rates -- Direct Business Only

~~(see glossary of "terms and definitions" herein)~~

- (1) ~~Minimum Loss Ratio Test~~

- (a) ~~Loss Ratio Test. Benefits will be considered reasonable in relation to the premium charged if the ratio of claims incurred to premium earned (adjusted for investment income in the case of single premium coverage) during the most recent experience period at the rates in use produces a loss ratio that equals or exceeds the Minimum Loss Ratio Standard specified in Section 5 above.~~
- (b) ~~Broad Test. This test will be made separately for:~~
- (i) ~~the total credit life insurance experience of the insurer in this state for all classes of business and plans of insurance combined, and for~~
 - (ii) ~~the total credit accident and health insurance experience of the insurer in this state for all classes of business and plans of insurance combined, provided, however,~~
 - (iii) ~~a separate test is not required for each class of business or plan of insurance therein.~~
- (c) ~~Scope of Test When Deviated Rates are in Use. If an insurer has deviated rates approved under (3)(a) or (3)(b) below, the test will exclude the experience of the accounts for which deviated rates are in use. The reasonableness of rates for those accounts will be determined by subsection (3) below.~~
- (d) ~~Frequency of Test. The test will be made each year when submitting the experience reports required by Section 9 of this Regulation.~~

(21) Use of *Prima Facie* Rates

~~An insurer that has rates on file which are equal to or lower than prima facie rates may retain on file and use those rates without further proof of their reasonableness while the experience of the insurer in this state for the accounts to which they are applied continues to satisfy the Minimum Loss Ratio Test specified (1) above. An insurer may at any time use a rate for an account that is lower than its filed rate without notice to the Commissioner. An insurer that files rates or has rates on file that are equivalent to the *prima facie* rates shown in Sections 6 and 7, to the extent adjusted pursuant to Section 10, may use those rates without further proof of their reasonableness.~~

(2) Use of Rates Higher Than *Prima Facie* Rates.

An insurer may file for approval of and use rates that are higher than the *prima facie* rates shown in Sections 6 and 7, to the extent adjusted pursuant to Section 10, as long as the filed rates are consistent with the provisions of Section 4 of this regulation.

If rates higher than the *prima facie* rates shown in Sections 6 and 7, to the extent adjusted pursuant to Section 10, are filed for approval, the filing shall specify the account or accounts to which the rates apply. The rates may be:

- (a) Applied uniformly to all accounts of the insurer; or
- (b) Applied on an equitable basis approved by the commissioner to only one or more accounts of the insurer for which the experience has been less favorable than expected; or
- (c) Applied according to a case-rating procedure on file with the commissioner.

(3) Approval Period Use of Deviated Rates

(a) ~~Use of Rates Higher Than Prima Facie Rates~~

~~If the Minimum Loss Ratio Test produces a loss ratio that exceeds the Minimum Loss Ratio Standard, the insurer may file for approval and use rates that are higher than prima facie rates if it can be expected that the use of such higher rates will continue to produce a loss ratio for the accounts to which they are applied that will satisfy the Minimum Loss Ratio Test. A deviated rate will be in effect for a period of time not longer than the experience period used to establish the rate (i.e. one year, two years or three years). An insurer may file for a new rate before the end of a rate period, but not more often than once during any twelve-month period.~~

- (b) Notwithstanding the provision of Section 11(1) of this section, if an account changes insurers, the rate approved to be used for the account by the prior insurer is the maximum rate that may be used by the succeeding insurer for the remainder of the rate approval period approved for the prior insurer or until a new rate is approved for use on the account, if sooner.

(~~b4~~) Use of Rates Lower Than ~~Prima Facie~~Filed Rates

An insurer may at any time use a rate for an account that is lower than its filed rate without notice to the commissioner.

~~If the Minimum Loss Ratio Test produces a loss ratio that is lower than the Minimum Loss Ratio Standard, the insurer shall file adjusted rates that can be expected to produce a loss ratio that will satisfy the minimum Loss Ratio Test.~~

(e) — Determination of Deviated Rates

~~If deviated rates are to be filed under (a) or (b) above, the insurer may file rates for approval that will be:~~

- ~~(i) Applied uniformly to all accounts of the insurer.~~
- ~~(ii) Applied according to the Standard Case Rating Procedure specified herein on an equitable basis approved by the Commissioner to only one or more accounts of the insurer for which the experience has been more favorable or less favorable than expected, or~~
- ~~(iii) Applied according to a case rating procedure on file with the Commissioner (an insurer electing to file a case rating procedure may either file its own plan for the approval of the Commissioner or may use the Standard Case Rating Procedure specified herein by notice to him).~~

~~The rate for each account which has been deviated must be redetermined on the same basis thereafter or until the rate for the account is no longer deviated.~~

~~(4) Use of Rates Determined by Standard Case Rating Procedure~~

~~An insurer, by written notice to the Commissioner of its election to do so, may file and use premium rates determined by this Standard Case Rating Procedure. If elected, this procedure will be used by the insurer to rate all of its credit insurance in this state. Once elected, the procedure will remain in effect for the insurer until a different procedure has been filed with the Commissioner and approved by him.~~

~~(a) Determination of Case Rate~~

~~An insurer may use a rate for an account not greater than the case rate for that account as follows:~~

~~(i) Single Account Cases and Multiple Account Cases~~

~~If the account is within the definition of a single account case or of a multiple account case as filed by the insurer, the case rate for the account or for each account comprising the multiple account case will be determined by the formula set forth in (b) below.~~

~~(ii) Pooled Account Cases~~

~~If the account is in a pooled account case, the case rate for each account comprising the case will be the case rate for that pooled account case as determined by the formula set forth in (b) below.~~

~~(iii) New Accounts Without Experience~~

~~If a new account of an insurer has no experience in this state, the case rate for the account will be the prima facie rate under Sections 6 and 7 of this Regulation.~~

~~(b) — Calculation of Case Rate~~

~~(i) — Symbols and Definitions~~

~~NCR = New Case Rate (redefined in (ii) below)~~

~~= PFR (CLR) + AE~~

~~PFR = Prima Facie Rate~~

~~ALR = Actual Loss Ratio for case at Prima Facie Rate Basis~~

~~ELR = Minimum Loss Ratio Required by Section 5~~

~~SLR = The loss ratio at prima facie rates based on the most recent published state experience for the applicable plan of insurance and class of business. If appropriate published experience is not available, then SLR = ELR.~~

~~Z = Credibility Factor for Case~~

~~CLR = Credibility Adjusted Case Loss Ratio at Prima Facie Basis~~

~~= Z(ALR) + (1 - Z)(SLR)~~

~~E = Expense Loading in prima facie rate~~

~~= (1 - ELR) PFR~~

~~AE = Adjusted Expense Loading (defined in (ii) below)~~

~~(ii) — New Case Rate~~

~~((a)) — If CLR is less than ELR for credit life insurance or for credit accident and health insurance.~~

~~AE = E~~

~~NCR = PFR [(1 - (ELR - CLR))]~~

~~((b)) — If CLR is greater than ELR for credit life insurance.~~

~~AE = E + .1(CLR - ELR)~~

~~NCR = PFR [1 + 1.1 (CLR - ELR)]~~

~~((c)) — If CLR is greater than ELR for credit accident and health insurance.~~

~~AE = E + .1(CLR - ELR)~~

~~NCR = PFR [1 + 1.1 (CLR - ELR)]~~

~~(c) — Minimum Changes~~

~~If the new case rate does not differ by more than five percent (5%) from the current case rate, the new case rate will be the current case rate.~~

~~(d) — Case Rate Period~~

~~A case rate will be in effect for a period of time not longer than the experience period used to establish the case rate (i.e., 1 year, 2 years, 3 years). An insurer may file for a new case rate before the end of a case rate period, but not more often than once during any twelve (12) month period.~~

~~(e) — Change of Insurers~~

~~If a creditor changes insurers, the case rate in effect for his account on the date of the change will continue to be in effect for the account with the succeeding insurer for the remainder of the case rate period.~~

~~(5) — Filing of Rates~~

~~When submitting the Experience Reports required by Section 9 of this Regulation an insurer who has elected to file higher rates under (3)(a) above or who is required to file reduced rates under (3)(b) above, or who has elected the Standard Case Rating Procedure for all of his accounts, shall also file a new schedule of rates as determined by those subsections. If the Commissioner does not disapprove the new schedule of rates within thirty (30) days after receipt of the filing, or July 1, whichever is later, rates not higher than the new rates shall be placed in effect on September 1 next following unless a different effective date has been approved by the Commissioner. In no event, however, may a rate increase be placed in effect earlier than the date rate decreases are required to be placed in effect.~~

~~(65) Glossary of Terms and Definitions as Used in Section 1011~~

~~(a) “Experience” means “earned premiums” and “incurred losses during the experience period.~~

~~(b) “Experience period” means the most recent period of time for which earned premiums and incurred losses are reported, but not for a period longer than three (3) full years.~~

~~(c) “Incurred losses” means total claims paid during the experience period, adjusted for the change in claim reserve.~~

~~(a) “Account” means the aggregate credit life insurance or credit accident and health insurance coverage for a single plan of insurance and for a single class of business written through a single creditor by the insurer whether coverage is written on a group or individual policy basis. With the approval of the Commissioner, the account may also mean the credit life insurance or the credit accident and health insurance of two or more plans of insurance or two or more classes of business of a single creditor.~~

~~(b) “Case” means a “Single Account Case” or a “Multiple Account Case” or a “Pooled Account Case” as follows:~~

~~(i) “Single Account Case”, means an account that is at least as credible as the minimum level of credibility elected by the insurer~~

~~for defining a single account case excluding all of these accounts which have been included in multiple account cases.~~

~~An insurer may make this election by notice to the Commissioner, in writing, of the minimum credibility factor it will use to define a "Single Account Case". Once notified, the minimum credibility factor will remain in effect for the insurer until a different factor has been filed by the insurer and approved by the Commissioner. If an insurer makes no written election, its minimum credibility factor will be one hundred percent (100%).~~

~~(ii) "Multiple Account Case" means, with the approval of the Commissioner, two or more accounts of the same insurer having similar underwriting characteristics which are combined by the insurer for premium rating purposes, excluding all cases defined in (i) above and which, when combined, are at least as credible as the minimum level of credibility elected in (i) above.~~

~~(iii) "Pooled Account Case" means a combination of all the insurer's accounts of the same plan of insurance and class of business which combination has experience in this state, excluding all cases defined in (i) and (ii) above.~~

~~(e) "Plan of Insurance" unless otherwise filed and approved means~~

~~(i) credit life insurance on a flat rated basis other than revolving accounts (i.e., including joint and single life coverage, decreasing and level insurance, outstanding balance and single premium);~~

~~(ii) credit life insurance on a revolving account basis;~~

~~(iii) credit life insurance on an age graded basis other than on revolving accounts;~~

~~(iv) credit accident and health insurance other than on revolving accounts combining outstanding balance and single premium but separately for each combination of waiting period and retroactive or nonretroactive.~~

~~(v) credit accident and health insurance on a revolving account basis separately for each combination of waiting period and retroactive or nonretroactive.~~

~~(d) "Experience" means "earned premiums", incurred claims, "incurred claim count", number of life years insured, and "average amount of insurance" during the experience period.~~

~~(e) "State experience" means the most recent published claim rates or loss ratios based on the experience of all insurers in this state for a plan of insurance and class of business. However, if this state enters into agreements with other similar states, the use of the appropriate multi-state experience will be substituted for the experience in this state. If published experience is not available for this state or multi-state region, the claim rates assumed in this state's prima facie rates and the minimum loss ratio required by Section 5 of this Regulation will be used.~~

~~(f) "Experience Period" means the most recent period of time for which experience is reported, but not for a period longer than three (3) full years.~~

~~(i) If a case develops one hundred percent (100%) credibility in less than three (3) years, the experience period for that case will be the number of full years needed to develop credibility.~~

~~(ii) If a case develops the minimum credibility elected by the insurer in less than three years, the experience period for that case, at the option of the insurer, will be the number of full years needed to develop minimum credibility or three full years.~~

~~Experience incurred in the period immediately preceding the effective date of this Regulation may be used to the extent necessary to fill out the experience periods, if it is available in proper form.~~

~~(iii) New Accounts With Experience~~

~~If a new account of an insurer has experience in this state with a prior insurer, the new insurer must use the most recent experience of the account to the extent necessary to fill out an experience period.~~

~~(iv) Accounts with Multi-State Experience~~

~~If an account has experience in more than this state, an insurer may use only the experience of the account in this state to rate the case or with the approval of the Commissioner may use the multi-state experience of the account for this purpose applied on an equitable basis.~~

~~Note — The term "year", as used in this definition, for individual policies means a calendar year and for group policies means either a calendar year or a policy year at the option of the insurer.~~

- (g) ~~"Prima Facie Rates" means those rates shown in Sections 6 and 7 of this Regulation, including the rates in Appendix II.~~
- (h) ~~"Earned premiums at rates in use" means actual earned premiums, that is, the premiums earned at the premium rates actually charged and in force during the experience period in accordance with the instructions and method of calculation for Reporting Form A.~~
- (i) ~~"Earned premium at prima facie rate" means the actual earned premiums adjusted to the amount which would have been earned had the premium rate during the experience period been equal to the current prima facie rate in accordance with instructions and method of calculation for Reporting Form A; if the insurer receives single premiums, such premiums must further be adjusted to recognize investment income at a rate of six percent (6%). Reasonable methods of approximation may be used.~~
- (j) ~~"Incurred Claims" means total claims paid during the experience period, adjusted for the change in the claim reserve.~~
- (k) ~~"Credibility Factor" means the extent to which the past experience of a case can be expected to recur in the future. For the Standard Case Rating Procedure, the credibility factor may be based on either the Number of Claims incurred or on the "Average Number of Life Years" for the case during the experience period using the Credibility Table. The insurer shall notify the Commissioner in advance which method it will use to measure the credibility of all its cases in this state and may not change its method without the prior approval of the Commissioner. If "Claim Count" or "Life Year" data is not available, reasonable methods of approximation approved by the Commissioner may be used until such data is developed.~~
- (l) ~~"Incurred Claim Count" means the number of claims incurred for the case during the experience period. This means the total number of claims reported during the experience period, whether paid or in the process of payment plus any incurred but not reported (IBNR) at the end of the experience period less the number of claims incurred but not reported at the beginning of the experience period. If a debtor has been issued more than one certificate for the same plan of insurance, only one claim is counted. If a debtor receives disability benefits, only the initial claim payment for that period of disability is counted.~~
- (m) ~~"Average Number of Life Years" means the average number of group certificates or individual policies in force during the Experience Period (without regard to multiple coverage) times the number of years in the experience period, or some equivalent calculation.~~

(n) — ~~Credibility Table for Purposes of the Standard Case Rating Procedure~~ means the following table:

CREDIBILITY TABLE

~~Average Number of Life Years
Credit Accident and Health Plans
Retroactive and Nonretroactive~~

<u>Credit Life</u>	<u>Waiting Periods</u>		<u>Incurred Claim Count</u>	<u>Credibility Factor</u>
	<u>14 Day</u>	<u>30 Day</u>		
1	1	1	1	.00
1,800	141	209	9	.25
2,400	188	279	12	.30
3,000	234	349	15	.35
3,600	281	419	18	.40
4,600	359	535	23	.45
5,600	438	651	28	.50
6,600	516	767	33	.55
7,600	594	884	38	.60
9,600	750	1,116	48	.65
11,600	906	1,349	58	.70
14,600	1,141	1,698	73	.75
17,600	1,375	2,047	88	.80
20,600	1,609	2,395	103	.85
25,600	2,000	2,977	128	.90
30,600	2,391	3,558	153	.95
40,000	3,125	4,651	200	1.00

~~The above integral numbers represent the lower end of the bracket for each Z factor. The upper end is 1 less than the lower end for the next higher Z Factor.~~

Section ~~1112~~ Supervision of Consumer Credit Insurance Operations

- (1) Each insurer transacting credit insurance in this state shall be responsible ~~to~~ for conducting a thorough periodic review of creditors with respect to their credit insurance business with such creditors to assure compliance with the insurance laws of this state and the Regulation promulgated by the Commissioner.
- (2) Written records of such reviews shall be maintained by the insurer for review by the Insurance Commissioner. ~~Each such record shall be retained for at least five (5) years.~~ in accordance with Insurance Regulation 67.

Section 13 Prohibited Transactions

The following practices, when engaged in by insurers in connection with the sale or placement of credit insurance, or as an inducement thereto, shall constitute unfair methods of competition and shall be subject to the Unfair Trade Practices Act of this State.

- (1) The offer or grant by an insurer to a creditor of any special advantage or any service not set out in either the group insurance contract or in the agency contract, other than the payment of agent's commissions;
- (2) Agreement by an insurer to deposit with a bank or financial institution money or securities of the insurer with the design or intent that the same shall affect or take the place of a deposit of money or securities which otherwise would be required of the creditor by the bank or financial institution as a compensating balance or offsetting deposit for a loan or other advancement; and
- (3) Deposit by an insurer of money or securities without interest or at a lesser rate of interest than is currently being paid by the creditor, bank or financial institution to other depositors of like amounts for similar durations. This subsection shall not be construed to prohibit the maintenance by an insurer of such demand deposits or premium deposit accounts as are reasonably necessary for use in the ordinary course of the insurer's business.

Section 14 *Readability*

The commissioner shall not approve any form unless the policy or certificate is written in non-technical, readily understandable language, using words of common everyday usage:

- (1) Each insurer is required to test the readability of its policies or certificates by use of the Flesch Readability Formula, as set forth in Rudolf Flesch, *The Art of Readable Writing*, (1949, as revised 1974);
- (2) A total readability score of forty (40) or more on the Flesch scale is required;
- (3) All policies or certificates within the scope of this section shall be filed with the commissioner, accompanied by a certification setting forth the Flesch score and certifying the compliance with the guidelines set forth in this Section.

Section 1214 *Severability*

If any provision or clause of this Regulation or the application thereof to any person or situation is held invalid, such invalidity shall not affect any other provision or application of the Regulation which can be given effect without the invalid provision or application, and to this end the provisions of this Regulation are declared severable.

Section 1315 *Effective Date*

- (1) ~~This Regulation shall take effect immediately as to premium rates filed on or after October 1, 1983. It shall take effect January 1, 1984, with respect to all other~~

~~premium rates. This regulation shall take effect September 1, 2010 as to premium rates.~~

- (2) Approval of all forms not in compliance with this Regulation is hereby withdrawn as of ~~September 1, 2010~~ ~~January 1, 1984~~. No such form may be issued after ~~January 1, 1984~~ said date unless it has been submitted to and approved by the Commissioner subsequent to ~~October 1, 1983~~ June 1, 2010 or unless a rider approved subsequent to such date has been attached bringing such form into compliance with this Regulation.
- (3) Any deviations thought to be appropriate by an insurer as a result of promulgation of this regulation shall be filed in accordance with the provisions of Section 11 no later than July 1, 2010
- (4) Certificates, notices of proposed insurance and premium rates in connection with existing group policies shall conform to the requirements of this regulation not later than the anniversary date of the group policy next following the effective date of this regulation.
- (5) Any group policy issued to replace an existing group policy of consumer credit insurance or an amendment to an existing group policy of consumer credit insurance shall be ignored for the purposes of determining the anniversary date if the change is made on or after May 1, 2010.

EFFECTIVE: August 1, 1963
AMENDED: October 1, 1968
August 4, 1983
REFILED: January 2, 2002
AMENDED: June 1, 2010

APPENDIX I

CREDIT INSURANCE EXPERIENCE REPORT
INSTRUCTIONS TO FORMS A, B AND C

FORM A

The purpose of this form is to provide statewide experience data under various classifications which will permit the review and regulation of premium rates and loss ratios at both company and state level.

A. ~~Class of business means any of the following:~~

- ~~1. credit unions;~~
- ~~2. commercial & savings banks;~~
- ~~3. finance companies;~~
- ~~4. motor vehicle dealers;~~
- ~~5. other sales finance;~~
- ~~6. production credit associations; and bank agricultural loans;~~
- ~~7. all others.~~

B. ~~Earned Premiums:~~

- ~~1. Actual earned premiums (Line 1f) — The total of all premiums earned at the premium rate(s) actually charged and in force during the experience period.~~
- ~~2. Earned premiums at prima facie rate (Line 1g) — Actual earned premiums adjusted (on Form B) to the amount which would have been earned had the premium rate during the experience period been equal to the current prima facie rate. Note that if premiums in force differ from the current prima facie rate, Line 1f will not equal line 1g.~~
- ~~3. Earned premiums at prima facie rate, adjusted for investment income (Form A, line 1, h) — Investment income at six percent (6%) per annum must be imputed to gross premiums (if written on a single premium basis) by a generally accepted actuarial procedure, which procedure must be explained in detail.~~

C. ~~Experience Period:~~

- ~~1. The experience period will consist of a maximum of three calendar years, except that in the first and second years after implementation of this Regulation, the experience period may, at the insurer's option, include only one (1) or two (2) years' experience, respectively. Thereafter, three (3) years' experience will be required.~~
- ~~2. Data included in this report is to be the direct business of the current insurer, only, without adjustment for reinsurance assumed or ceded.~~

FORM B

~~The purpose of this form is to convert actual earned premiums (Form A, Line 1f) to the amount of premiums which would have been earned had all business been written at the current prima facie rate.~~

~~Form B1 is applicable to Credit Life insurance and Form B2 is applicable to Credit Disability insurance.~~

GENERAL

~~A.—— A Form B (Life or Disability Section) must be completed for each Form A where prima facie earned premium differs from actual earned premium. More than one Form B may be required when more than one year's data is presented, due to changes in prima facie rates or other factors.~~

~~B.—— Actual earned premiums are to be converted to prima facie earned premiums by the use of a conversion factor which is the ratio of the prima facie premium rate to the actual premium rate. This conversion must be performed for each premium rate with premiums in force during the experience period.~~

~~C.—— The overall totals presented on Form B (either life or disability) must agree to the appropriate lines on the Form A to which they are attached.~~

~~D.—— Note that both Form B1 and Form B2 include actual earned premium at prima facie rate on Line A. This data is for balancing purposes, only, and in no way indicates that Form B must be completed if actual earned premium is equal to prima facie earned premium.~~

FORM B1—Credit Life Insurance

~~A.—— Prima facie earned premium (Col. 5) is the product of actual earned premium (Col. 1) times the conversion factor (Col. 2—Col. 3).~~

~~B.—— See also General note C.~~

FORM B2—Credit Disability Insurance

~~A.—— The conversion of actual earned premiums to prima facie earned premiums is accomplished in basically the same manner as described in Section IA, above. The conversion factor to be utilized, however, is the average of three (3) ratios taken between prima facie and actual rates for twelve (12), twenty four (24) and thirty six (36) month terms. The sum of these ratios, divided by three (3), becomes the conversion factor.~~

~~B.—— Prima facie premium rates are to be presented on Form B2, Line A, Col. 2-4. All ratios (Line b) are to be calculated by dividing Line A by Line a.~~

~~C. — This form should be reproduced as necessary to present the required conversion for all premium rates in force during the experience period.~~

~~D. — See also General note C.~~

~~FORM C~~

~~The purpose of this form is to present a reconciliation between current year data presented on the various Forms A and the totals presented on Page 46 of the Annual Statement.~~

~~A. — Due to the volume of Forms A which may be filed, each form will be listed by page number only. All Forms A must be included on Form C to insure agreement to Page 46 of the Annual Statement.~~

~~B. — Line references included in column headings refer to Form A.~~

~~C. — This form should be reproduced as necessary to include all Forms A.~~

~~CREDIT LIFE & DISABILITY INSURANCE EXPERIENCE REPORT
STATE OF RHODE ISLAND
CALENDAR YEAR OF 19__~~

~~FORM A~~

~~CLASSES OF BUSINESS:— Check one:~~

- ~~(a) credit unions; (e) other sales finance;
 (b) commercial & savings banks; (f) production credit
associations;
 (c) finance companies; bank agricultural loans;
 (d) motor vehicle dealers; (g) all others.~~

~~Mode of Premium Payment Single Premium Outstanding Balance (Monthly
Premium)~~

~~Plan of Benefits:~~

- ~~Credit Life: Decreasing Single Life Gross
 Level Joint Life Net~~

~~Credit Disability __ Days, Retro Non-Retro~~

~~19__ 19__ 19__ Total~~

~~1. Actual Earned Premiums~~

~~a. Gross premium written
(before deduction for
Dividends and Experience~~

~~Rating Credits) _____~~

~~b. Refunds on terminations _____~~

~~c. Net (a - b) _____~~

~~d. Premium reserve,
beginning of period _____~~

~~e. Premium reserve, end
of period _____~~

~~f. Actual earned premiums
(c + d - e) _____~~

~~g. Earned premiums at prima~~

facie rate (Form B) _____

h. Earned premiums at
prima facie rate,
adjusted for
investment income

(attach explanation) _____

2. Incurred Claims

a. Claims paid _____

b. Unreported claims,
beginning of period _____

c. Unreported claims,
end of period _____

d. Claim Reserve,
beginning of period _____

e. Claim reserve, end
of period _____

f. Incurred Claims
(a - b + c - d + e)

3. Loss Ratio

a. Actual loss ratio
(2f / 1f) _____

b. Loss ratio at prima
facie rate (2f / 1g) _____

c. Adjusted loss ratio
(2f / 1h) _____

(Company)

(Signature)

(Title)

**CREDIT DISABILITY INSURANCE EXPERIENCE REPORT
STATE OF RHODE ISLAND**

PRIMA FACIE EARNED PREMIUM

FORM B-1

Class of Business _____ Calendar Year 19__

Premium Mode _____ Plan of Benefits _____

Credit Life Insurance

		Actual Earned Premiums Col. 1	Prima Facie Rate Col. 2	Actual Premium Rate Col. 3	Prima Facie Earned Premium Col. 4
A	Earned premiums at Prima facie rate	=====	XXX	XXX	=====
B	Earned premiums at Other than prima Facie rates:				
	1.	=====	=====	=====	=====
	2.	=====	=====	=====	=====
	3.	=====	=====	=====	=====
	4.	=====	=====	=====	=====
	5.	=====	=====	=====	=====
	6.	=====	=====	=====	=====
—Totals		=====	XXX	XXX	=====
		To Form A, Line 1f			To Form A, Line 1g

**CREDIT LIFE INSURANCE EXPERIENCE REPORT
STATE OF RHODE ISLAND**

PRIMA FACIE EARNED PREMIUM

FORM B-2

Class of Business _____ Calendar Year 19__

Premium Mode _____ Plan of Benefits _____

		Credit Disability Insurance				Prima Facie Earned Premium Col. 5
		Actual Earned	Premium Rates:			
		Premium	12 mo.	24 mo.	36 mo.	
		Col. 1	Col. 2	Col. 3	Col. 4	
A	Earned premium at prima Facie Rate	_____	_____	_____	_____	_____
B	Earned Premium at other Than prima facie rate:					
	1. a. Actual Rate	XXX	_____	_____	_____	_____
	b. Ratio	XXX	_____	_____	_____	_____
	c. Earned Premium	_____	_____	_____	_____	_____
	2. a. Actual Rate	XXX	_____	_____	_____	XXX
	b. Ratio	XXX	_____	_____	_____	XXX
	c. Earned Premium	_____	_____	_____	_____	_____
	3. a. Actual Rate	XXX	_____	_____	_____	XXX
	b. Ratio	XXX	_____	_____	_____	XXX
	c. Earned Premium	_____	_____	_____	_____	_____
	Totals	_____	XXX	XXX	XXX	_____
		=				=
		To Form A Line if				To Form A, Line 1g

APPENDIX II

CREDIT ACCIDENT AND HEALTH INSURANCE

Single Premium Rates Per \$100 of Initial Indebtedness

Term in Months	14 Day Waiting Period		30 Day Waiting Period	
	Non-retro	Retro	Non-retro	Retro
12	\$ 1.88	\$ 2.74	\$ 1.25	\$ 2.13
24	—2.38	—3.26	—1.76	—2.67
36	—2.76	—3.64	—2.15	—3.07
48	—3.12	—4.02	—2.51	—3.45
60	—3.48	—4.37	—2.86	—3.81
72	*	*	—3.14	*
84	*	*	—3.33	*
96	*	*	—3.49	*
108	*	*	—3.61	*
120	*	*	—3.71	*

Rates or forms that have an exclusion period of less than fourteen (14) days or a retroactive period of less than fourteen (14) days retroactive to the first day shall not be accepted.

*—There are no prima facie rates for these categories nor for loans in excess of one hundred twenty (120) months. Subject to approval by the Commissioner, such loans may be insured on any monthly premium basis that can be actuarially demonstrated to produce an anticipated loss ratio of at least sixty percent (60%).