

State of Rhode Island and Providence Plantations
DEPARTMENT OF BUSINESS REGULATION
Division of Insurance
233 Richmond Street
Providence, RI 02903

INSURANCE REGULATION 9

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, 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 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) "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 credit life insurance or more than one plan of credit accident and health insurance, all debtors must be informed of such plans.
- (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 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.
- (5) Termination of group credit insurance policy.
 - (a) If a debtor is covered by a group credit insurance policy providing for the payment of single premiums to the insurer, 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 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.

- (6) Interest on Premiums. If the creditor adds identifiable insurance charges or premiums for 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 premium within sixty (60) days after it is added to the indebtedness.
- (7) Renewal or Refinancing of Indebtedness. 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 shall be paid or credited to the debtor as provided in Section 8 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 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.
- (8) Maximum Aggregate Provisions. A provision in a policy or certificate that sets a maximum limit on total payments must apply only to that policy or 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.
- (9) Voluntary Prepayment of Indebtedness. If a debtor prepays the indebtedness other than as a result of death or through a lump sum disability payment:
 - (a) Any credit life insurance covering such indebtedness shall be terminated and an appropriate refund of the credit life insurance premium shall be paid to the debtor in accordance with Section 8 of this Regulation; and
 - (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 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. A refund shall be computed as if prepayment occurred at the end of the disability period.
- (10) Involuntary Prepayment of Indebtedness. If an indebtedness is prepaid by the proceeds of a credit life insurance policy covering the debtor or by a lump sum

payment of a disability claim under a credit insurance policy covering the debtor, then it shall be the responsibility of the insurer to see that the following are paid or credited promptly to the insured debtor if living or the beneficiary, other than the creditor, named by the debtor or to the debtor's estate:

- (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.

(11) 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 5 **Determination of Reasonableness of Benefits in Relation to Premium Charge**

- (1) General Standard. Under R.I. Gen. Laws §§ 27-30-7 and 27-31-8, rates charged for credit insurance policies must appear by reasonable assumptions not to be excessive in relation to benefits. This requirement is satisfied if the premium rate charged develops or may be reasonably 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.
- (2) Nonstandard Coverage. If any insurer files for approval of any form providing coverage more restrictive than that described in Sections 6 and 7 of this Regulation, the insurer shall demonstrate to the satisfaction of the Commissioner that the premium rates to be charged for such restricted coverage will develop or may be reasonably expected to develop a loss ratio not less than that contemplated for standard coverage at the premium rates described in these sections.

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).
 - (a) Seventy two cents (\$.72) per month per one thousand (\$1,000) of outstanding insured indebtedness if premiums are payable on a monthly outstanding balance basis.
 - (b) If premiums are payable on a single premium basis, the following formula shall be used to develop single premium rates from the outstanding balance rate:

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 Op 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 --

$$SP_n = \frac{n(n - 1) + 2an] \ (n + 2)}{60 \ an] \ (1 + .0021n)} Op$$
 where SP_n is the single premium per \$100 of initial net coverage, and n , $an]$, i , and Op 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 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:

$$SP_n = \frac{n \ (Op)}{10 \ (1 + .0027n)}$$
 where SP is the single premium per \$100 of initial insured indebtedness, n is the credit term in months, and Op 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 (1) shall apply to policies providing credit life insurance to be issued with or without evidence of insurability, to be offered to all debtors, and containing:

- (a) No exclusion other than suicide within six months of the incurred indebtedness; and
- (b) 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.
- (c) 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.

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).
 - (a) As set forth in Appendix II if premiums are payable on a single-premium basis for the duration of the coverage; or
 - (b) If premiums are paid on the basis of a premium rate per month per thousand of outstanding insured 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 to the single premium rates in Appendix II:

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

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 the coverage provided is a constant maximum indemnity for a given period of time.

- (d) 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, 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.
 - (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.
 - (f) 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) 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:
- (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.
 - (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.
 - (c) No Actively at Work Test may require that the debtor be employed more than thirty (30) hours per week.
 - (d) 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.
 - (e) A daily benefit equal in amount to one-thirtieth ($1/30^{\text{th}}$) of the monthly benefit payable under the policy for the indebtedness.
 - (f) 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.

- (g) 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).

Section 8 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.
- (2) 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.
- (3) The requirements of the 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.

- (4) No refund of three dollars (\$3) or less need be made.

Section 9 Experience Reports

- (1) Each insurer doing credit insurance business in this state shall submit experience reports as provided in this section for the experience period of each class of business.
- (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.
- (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.
- (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 10 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.
- (2) 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.
- (3) 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.

(b) Use of Rates Lower Than Prima Facie Rates

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.

(c) 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.

(6) Glossary of Terms and Definitions as Used in Section 10

- (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.

(c) "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</u>	<u>Credibility</u>
	<u>14 Day</u>	<u>30 Day</u>	<u>Claim Count</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 11 Supervision of Credit Insurance Operations

- (1) Each insurer transacting credit insurance in this state shall be responsible to conduct 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.

Section 12 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 13 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.
- (2) Approval of all forms not in compliance with this Regulation is hereby withdrawn as of January 1, 1984. No such form may be issued after January 1, 1984 unless it has been submitted to and approved by the Commissioner subsequent to October 1, 1983, or unless a rider approved subsequent to such date has been attached bringing such form into compliance with this Regulation.

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

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:

- | | |
|---|---|
| <input type="checkbox"/> (a) credit unions;
<input type="checkbox"/> (b) commercial & savings banks;
<input type="checkbox"/> (c) finance companies;
<input type="checkbox"/> (d) motor vehicle dealers; | <input type="checkbox"/> (e) other sales finance;
<input type="checkbox"/> (f) production credit associations;
bank agricultural loans;
<input type="checkbox"/> (g) all others. |
|---|---|

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

Plan of Benefits:

<input type="checkbox"/> Credit Life:	<input type="checkbox"/> Decreasing <input type="checkbox"/> Level	<input type="checkbox"/> Single Life <input type="checkbox"/> Joint Life	<input type="checkbox"/> Gross <input type="checkbox"/> Net
---------------------------------------	---	---	--

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

	19__	19__	19__	Total
1. <u>Actual Earned Premiums</u>				
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 <u>prima facie</u> rate, adjusted for investment income (attach explanation)	_____	_____	_____	_____
2.	<u>Incurred Claims</u>				
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.	<u>Loss Ratio</u>				
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

	<u>Actual Earned Premiums Col. 1</u>	<u>Prima Facie Rate Col. 2</u>	<u>Actual Premium Rate Col. 3</u>	<u>Prima Facie Earned Premium Col. 4</u>
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	<u>_____</u> To Form A, Line 1f	XXX	XXX	<u>_____</u> 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

	Actual Earned	Premium Rates:				Prima Facie Earned Premium
	Premium Col. 1	12 mo. Col. 2	24 mo. Col. 3	36 mo. Col. 4	Col. 5	
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	

CREDIT LIFE INSURANCE EXPERIENCE

RECONCILIATION TO STATE PAGE

STATE OF RHODE ISLAND

FOR THE CURRENT YEAR 19 ____

FORM C-1

	<u>Premiums</u>		<u>Claims</u>	
	<u>Written</u>	<u>Earned</u>	<u>Paid</u>	<u>Incurred</u>
	<u>(Line 1c)</u>	<u>(Line 1f)</u>	<u>(Line 2a)</u>	<u>(Line 2f)</u>
<u>Credit Life:</u>				
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Total Life	_____	_____	_____	_____
Annual Statement	_____	_____	_____	_____
Page 46, Line 28	_____	_____	_____	_____

Explain any differences between "Total Life" and Page 46, Line 28.

CREDIT DISABILITY INSURANCE EXPERIENCE

RECONCILIATION TO STATE PAGE

STATE OF RHODE ISLAND

FOR THE CURRENT YEAR 19 ____

FORM C-2

	<u>Premiums</u>		<u>Claims</u>	
	<u>Written</u>	<u>Earned</u>	<u>Paid</u>	<u>Incurred</u>
<u>Credit Disability:</u>	<u>(Line 1c)</u>	<u>(Line 1f)</u>	<u>(Line 2a)</u>	<u>(Line 2f)</u>
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Page ____ of ____	_____	_____	_____	_____
Total Life	_____	_____	_____	_____
Annual Statement	_____	_____	_____	_____
Page 46, Line 31	_____	_____	_____	_____

Explain any differences between "Total Disability" and Page 46, Line 31.

APPENDIX II

CREDIT ACCIDENT AND HEALTH INSURANCE

Single Premium Rates Per \$100 of Initial Indebtedness

<u>Term in Months</u>	<u>14 Day Waiting Period</u>		<u>30 Day Waiting Perion</u>	
	<u>Non-retro</u>	<u>Retro</u>	<u>Non-retro</u>	<u>Retro</u>
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%).