

COMMISSIONER OF INSURANCE

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Ins 3

Chapter Ins 3

CASUALTY INSURANCE

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Ins 3.01 Accumulation benefit riders attached to health and accident policies. Except where such rider is used only on a policy replacing the company's own policy, and so recites, no rider providing for accumulations of benefits will be approved for use upon any policy of health and accident insurance, whether it is proposed to issue such rider with or without an additional premium. Such rider operates as an aid to twisting the policies of another company in such manner as to make its use a direct encouragement of this practice.

Ins 3.02 Automobile fleets, vehicles not included in. Individually owned motor vehicles cannot be included or covered by fleet rates. The determining factor for inclusion under fleet coverage must be ownership and not management or use.

Ins 3.04 Dividends not deducted from premiums in computing loss reserves. Premiums returned to policyholders as dividends may not be

deducted from the earned premiums in computing loss reserves under s. 623.04, Stats.

History: 1-2-56; emerg. am. eff. 6-22-76; am. Register, September, 1976, No. 249, eff. 10-1-76.

Ins 3.08 Municipal bond insurance. (1) **PURPOSE.** This section implements and interprets ss. 601.42, 611.19 (1), 618.21, 623.03, 623.04, 627.05, 628.34 (2), 632.14, and 632.17, Stats., for the purpose of establishing minimum requirements for the transaction of a type of surety insurance known as municipal bond insurance.

(2) **SCOPE.** This section shall apply to the underwriting, marketing, rating, accounting and reserving activities of insurers which write municipal bond insurance.

(3) **DEFINITIONS.** (a) "Annual statement" means the fire and casualty annual statement form specified in s. Ins. 7.01 (5) (a).

(b) "Contingency reserve" means a reserve established for the protection of policyholders covered by policies insuring municipal bonds against the effect of excessive losses occurring during adverse economic cycles.

(c) "Cumulative net liability" means one-third of one percent of the insured unpaid principal and insured unpaid interest covered by in-force policies of municipal bond insurance.

(d) "Municipal bonds" means securities which are issued by or on behalf of or are paid or guaranteed by:

1. Any state, territory or possession of the United States of America;
 2. Any political subdivision of any such state, territory or possession;
- or
3. Any agency, authority or corporate or other instrumentality of any one or more of the foregoing, or which are guaranteed by any of the foregoing.

(e) "Municipal bond insurance" means a type of surety insurance authorized by s. Ins 6.75 (2) (g) which is limited to the guaranteeing of the performance and obligations of municipal bonds.

(f) "Municipal bond insurer" means an insurer which issues municipal bond insurance.

(g) "Total net liability" means the average annual amount due, net of reinsurance, for principal and interest on the insured amount of any one issue of municipal bonds.

(h) "Person" means any individual, corporation for profit or not for profit, association, partnership or any other legal entity.

(i) "Policyholders' surplus" means an insurer's net worth, the difference between its assets and liabilities, as reported in its annual statement.

(4) **MINIMUM CAPITAL OR PERMANENT SURPLUS.** The minimum capital or permanent surplus of a municipal bond insurer shall be \$2 million for an insurer first authorized to do business in Wisconsin on or before Janu-

(13) PRIMA FACIE MAXIMUM CREDIT ACCIDENT AND SICKNESS INSURANCE PREMIUM RATE STANDARDS. (a) If premiums are payable in one sum (single premium) for coverage for the entire duration of indebtedness, the premium rate standards for \$100 of initial amount of insured indebtedness repayable in equal monthly instalments are shown below. Premium rate standards for other benefit plans and for indebtedness repayable in instalments other than as shown shall be actuarially consistent with the indicated rate standards, but no individual policy of credit accident and sickness insurance or group policy of credit accident and sickness insurance shall be delivered or issued for delivery if the benefits are payable after a waiting period of less than 14 days, regardless of whether the payment of benefits are retroactive to the first day of disability.

Original Number of Equal Monthly Instalments	14 days Non-Retroactive Elimination Period		30 Days
6	\$1.39	\$.69	
12	1.95	1.18	
18	2.27	1.50	
24	2.52	1.69	
30	2.74	1.82	
36	2.93	1.93	
42	3.10	2.03	
48	3.26	2.12	
54	3.41	2.21	
60	3.55	2.29	
Basic permissible loss ratio	59%	52%	

Original Number of Equal Monthly Instalments	14 Days Retroactive Waiting Period		30 Days
6	\$1.74	\$1.19	
12	2.23	1.68	
18	2.56	1.89	
24	2.81	2.04	
30	3.02	2.17	
36	3.21	2.29	
42	3.39	2.39	
48	3.55	2.48	
54	3.70	2.57	
60	3.84	2.65	
Basic permissible loss ratio	60%	57%	

(b) The rate standards applicable for premiums payable on the basis of monthly outstanding balances shall be computed under the formula described in subd. 1 below except as provided in subd. 2:

1. For credit accident and sickness insurance benefit plans issued on an individual or a group basis the premiums payable shall be computed as follows:

$$p_n = \frac{20 P_n}{n J 1}$$

Where n = *Original* repayment period, in months

p_n = The Monthly Outstanding Balance Premium Rate per \$1,000 for an indebtedness repayable in equal monthly instalments with an *original* repayment period of n months

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P_n = The Single Premium Rate per \$100 initial insured indebtedness with an *original* repayment period of n months, from par. (a) above.

The outstanding balance premium rate for an indebtedness with a given original repayment period is applicable to the outstanding balance of this indebtedness at each month during the period, regardless of the remaining repayment period.

2. For credit accident and sickness insurance benefit plans issued on a group basis, a composite monthly outstanding balance premium rate schedule may be used in lieu of the rate procedure described in subd. 1 above for each benefit plan, to apply to all outstanding balances each month under such plan, irrespective of the type or duration of loan making up such outstanding balances. Such composite monthly outstanding balance premium rate schedule will be approved for use only if the actuarial consistency of such composite rate with the prima facie maximum credit accident and sickness insurance premium rate standards and basic permissible loss ratios in par. (a) above is established, and the reasons for this use in lieu of the rate standard in subd. 1 above are documented.

3. The rate deviation procedure outlined in sub. (14) shall be applied separately to any business written under subd. 2 above, and the insurer shall maintain all pertinent data on such business separately.

(c) The rate standards set forth herein shall be applicable for a plan of benefits which contains:

1. No provision excluding or denying a claim for disability resulting from pre-existing conditions except for those conditions which manifested themselves to the insured debtor by requiring medical diagnosis or treatment or would have caused a reasonably prudent person to have sought the medical diagnosis or treatment, within 6 months preceding the effective date of the debtor's coverage and which caused loss within the 6 months following the effective date of coverage; provided, however, that disability commencing thereafter resulting from such condition shall be covered.

2. No other provision which excludes or restricts liability in the event of disability caused in a certain specified manner except that it may contain provisions excluding or restricting coverage in the event of pregnancy, intentionally self-inflicted injuries, foreign travel or residence, flight in non-scheduled aircraft, war or military service.

3. No age restrictions, or only age restrictions making ineligible for coverage:

- a. Debtors less than age 18 at the time the indebtedness is incurred, or
- b. Debtors age 65 or over at the time the indebtedness is incurred, or
- c. Debtors who will have attained age 66 or over on the maturity date of the indebtedness.

4. Provision for a daily benefit equal in amount to the initial indebtedness divided by the number of days in the period during which the indebtedness is scheduled to be repaid in equal monthly instalments.

5. Provides for benefits to be payable in the event of disability resulting from bodily injury or sickness, which disability commences while the

debtor is insured hereunder and prevents the insured debtor from engaging in any gainful occupation for which he is reasonably qualified by reason of education, training or experience, except that during the initial 12 months of disability the inability of the insured to engage in his own occupation shall be the only test.

Note: This is not intended to preclude calculation of the daily benefit based on a 30 day month.

(d) The rate standards set forth in this subsection shall not apply for a plan of benefits wherein the aggregate of the periodic schedule of unpaid installments of indebtedness payable by credit accident and sickness insurance exceeds \$10,000 or for which the term of the indebtedness insured exceeds 5 years.

(14) DEVIATION PROCEDURE AND CASE RATE DETERMINATION. (a) For cases of less than \$50,000 earned premiums (prima facie basis) the case rates shall be the prima facie rates. For cases of \$50,000 or greater earned premiums (prima facie basis) the actual case ratio shall be calculated as (actual ratio of claims incurred to premiums earned) divided by the basic permissible loss ratio shown in sub. (12) or (13). If the actual case ratio is within the acceptance range shown in the following credibility table, the case rates will be the prima facie rates. If the actual case ratio is outside the acceptance range, the adjusted case ratio will be calculated by adjusting the actual case ratio toward 100% by addition or subtraction of the "adjustment constant", also shown in the credibility table.

CREDIBILITY TABLE
Earned Premium (Prima Facie Basis)

Size Group	Small Loans or Credit Unions	Banks or Sales Finance	Acceptance Range	Adjustment Constant
<u>CREDIT LIFE</u>				
I	50,000-125,000	50,000- 200,000	0.80-1.20	0.15
II	125,000-300,000	200,000- 500,000	0.85-1.15	0.10
III	300,000-650,000	500,000-1,000,000	0.85-1.15	0.05
IV	650,000 or over	1,000,000 or over	0.90-1.10	0.00
<u>CREDIT ACCIDENT AND SICKNESS</u>				
I	50,000- 75,000	50,000- 100,000	0.80-1.20	0.15
II	75,000-125,000	100,000- 175,000	0.85-1.15	0.10
III	125,000-250,000	175,000- 350,000	0.85-1.15	0.05
IV	250,000 or over	350,000 or over	0.90-1.10	0.00

(b) If the adjusted case ratio exceeds 1.00, the case rate is the product of deviation factor f, and the prima facie rate shown in sub. (12) or (13), where

$$f = \frac{[(\text{Adjusted case ratio} - 1) \times 1.25 \times \text{Basic Permissible Loss Ratio}]}{+ 1}$$

(c) If the adjusted case ratio for credit accident and sickness insurance is less than 1.00, but greater than the limits specified in the following table, the case rates are the product of the deviation factor g, and the prima facie rates in sub. (13), where

$$g = 1 - [(1 - \text{adjusted case ratio}) \times 1.25 \times \text{Basic Permissible Loss Ratio}]$$

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<i>Plan of Benefit</i>	<i>Limit</i>
14 days Retroactive Elimination Period -----	.55
14 days Non-Retroactive Elimination Period -----	.59
30 days Retroactive Elimination Period -----	.67
30 days Non-Retroactive Elimination Period -----	.89

$$\text{Limit} = \frac{.5 (1-1.25 \times \text{Basic Permissible Loss Ratio})}{\text{Basic Permissible Loss Ratio} (1-.5 \times 1.25)}$$

(Rounded down)

(d) If the adjusted case ratio for credit accident and sickness insurance is less than 1.00, and less than or equal to the limit specified in the above table, the case rates are the product of the deviation factor h, and the prima facie rate in sub. (13) where

$$h = (\text{Adjusted Case Ratio} \times \text{Basic Permissible Loss Ratio} \times 2)$$

(e) If the adjusted case ratio for credit life insurance is less than 1.00, the case rate is the product of the deviation factor h and the prima facie rate in subsection (12) where

$$h = (\text{Adjusted Case Ratio})$$

(f) If the case rate determined by the above procedures is within 5% of the existing single premium rate per \$100 per year, the existing rate will be the case rate.

(g) The case rate as determined shall continue for a period equal to the experience period on which it was based. Where the case rate applies to a group of accounts, the rate will continue to apply to every account which was grouped for determination of the rate and to only those accounts. The insurer shall annually determine and submit for filing under sub. (8) (a) the applicable case rate calculated as prescribed herein.

(h) As used in this rule the following words mean:

1. Account—The aggregate credit life or credit accident and sickness coverage for a single plan of benefits and class of business written through a single creditor by the insurer, whether coverage is written on a group or individual policy basis.

2. Class of business—Means any of the following:

- a. Credit unions
- b. Commercial and savings banks
- c. Other cash loans (small loans, industrial bank loans, etc.)
- d. Other sales finance (discount transactions, etc.)

3. Experience year—A 12-month period ending on the policy anniversary or renewal date or on a calendar year-end. Experience for a given account or permitted combinations of accounts shall be reported consistently from year to year.

4. Case—*a.* An account, if the earned premium for the account based upon the prima facie premium rates promulgated in sub. (12) or (13) during the most recent 3 experience years has been \$50,000 or more. If the rates applicable to the account are not at the prima facie level or at a uniform percentage of the prima facie rates, the amount of premium

which would have been earned at the prima facie rates shall be approximated by a reasonable method filed with the experience report.

b. A combination of all the insurer's accounts of the same plan of benefits and class of business, excluding all accounts which meet the criterion for inclusion under a. immediately preceding.

5. Experience period—The last 3 experience years unless a lower number of full years produces an earned premium in size group IV as shown in the credibility table.

(j) In determining the case ratios in this subsection for application of the deviation formula, the following rules shall be applied:

1. If the coverage for a single creditor which qualifies for separate consideration under case definition a. above has been in force with the insurer for less than the experience period, the claim experience of the creditor while covered by any prior insurer shall be included to the extent necessary in determining the appropriate case ratios.

2. The case ratios shall be based wholly or partially on the experience of the insurer on the case within the state, or a group of states or on the total United States experience, so long as the insurer reports and files consistently for that case thereafter. An account which qualifies for separate treatment as a case but which provides coverage on a multi-state basis, may be considered in its entirety if the insurer so chooses excluding experience used for deviation purposes in any state, states or group of states.

(15) ACCOUNTING AND UNDERWRITING EXPERIENCE. Each insurer shall maintain records of premiums, losses and expenses of Wisconsin business separately for credit life insurance and credit accident and sickness insurance on a calendar year basis or on a policy year basis. Such underwriting experience shall be maintained for each form of policy, creditor, and class of creditor. This information shall be subject to call annually by the commissioner.

(16) FINANCIAL STATEMENT MINIMUM RESERVES. (a) Each insurer shall show, as a liability in any financial statement or report required under s. 601.42, Stats., its policy or unearned premium reserve in an amount not less than as computed in pars. (b), (c) and (d). If a credit insurance policy provides any combination of life insurance benefits, disability benefits and accident and sickness insurance benefits, a reserve must be established separately for the life insurance benefits, for the disability benefits and for the accident and sickness insurance benefits.

(b) The reserve for individual credit life insurance policies shall be not less than 130% of the Commissioner's 1958 Standard Ordinary Mortality Table at 3½% annual interest.

(c) The reserve for group credit life insurance policies shall be not less than 130% of the Commissioner's 1960 Standard Group Mortality Table at 3½% annual interest.

(d) The reserve for credit accident and sickness insurance policies and for disability benefits in credit life insurance policies shall be not less than the greater of 130% of the Commissioner's 1964 Disability Table at 3½% annual interest or the pro rata unearned premium reserve.

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(17) **SUBMISSION OF POLICY FORMS AND RATE SCHEDULES IN USE.** Each insurer subject to this rule shall file with the commissioner on or before October 1, 1972, a listing of all policy forms, certificates of insurance, notices of proposed insurance, applications for insurance, endorsements and riders and the schedules of premium rates pertaining thereto which have been heretofore approved and which the insurer intends to issue or use in Wisconsin after the effective date of this rule.

(18) **PENALTY.** Violations of this rule shall subject the insurer or agent to s. 601.64, Stats.

Note: It is the intent of this rule that it shall apply prospectively to the review for approval of policy and other forms of credit life and credit accident and sickness insurance and to the rates applicable to such forms that are submitted for filing after the effective date. Individual hearings will be held to consider whether credit life and credit accident and sickness insurance contract forms and rate levels presently in use provide benefits that are reasonable in relation to premium charges.

History: Cr. Register, August, 1972, No. 200, eff. 9-1-72; cr. (2) (c), (6) (h) and (8) (h); am. (4) (b), (5), (8) (f), (12), (13) (a), (14) (e), and r. (17) (a), Register, February, 1973, No. 206, eff. 3-1-73; am. (4), (5), (6) (a) 6, (6) (h), (8) (f), (12) (g) 2, (13) (c) 3, (14) (c) and (d) and cr. (6) (i) and (13) (c) 5, Register, April, 1975, No. 232, eff. 5-1-75; am. (13) (b), Register, June, 1975, No. 234, eff. 7-1-75; emerg. am. (1) and (2), eff. 6-22-76; am. (1) and (2), Register, September, 1976, No. 249, eff. 10-1-76; am. (4) and (11) (d), cr. (12) (h) and (13) (d), Register, March, 1977, No. 255, eff. 4-1-77; am. (1), (2) and (14) (c), Register, March, 1979, No. 279, eff. 4-1-79; am. (12) (b) to (e), Register, September, 1981, No. 309, eff. 10-1-81; r. (19) under s. 13.93 (2m) (b) 16, Stats., Register, December, 1984, No. 348.

Ins 3.26 Unfair trade practices in credit life and credit accident and sickness insurance. (1) **PURPOSE.** The purpose of this rule is to assist in the maintenance of a fair and equitable credit life insurance and credit accident and sickness insurance market. This rule interprets, including but not limited to, the following Wisconsin Statutes: 601.04; 601.01 (3) (a), (b), (c), (g) and (h); 601.41 (1), (2) and (3) and ch. 628.

(2) **SCOPE.** This rule shall apply to the transaction of credit life insurance as defined in s. Ins 6.75 (1) (a) 1. and 632.44 (3), Stats., and the transaction of credit accident and sickness insurance as defined in s. Ins 6.75 (1) (c) 1. or (2) (c) 1.

(3) **UNFAIR TRADE PRACTICES DEFINED.** The following acts, whether done directly or indirectly, in consideration of or in connection with a policy issued or proposed to be issued are defined to be prohibited unfair trade practices in the transaction of insurance described in sub. (2) above:

(a) The offer or grant by an insurer of any special favor or advantage, or any valuable consideration or inducement not set out in the insurance contract. The payment of agents' commissions, reported annually in Schedule 24S, shall not be a violation of this paragraph but the acts cited in pars. (b), (c), (d), (e) and (f) may not in any way be construed as agents' commissions.

(b) The offer to deposit or the deposit with a bank or other financial institution, money or securities of the insurer or of any affiliate of the insurer with the design or intent that the deposit offset or take the place of a deposit of money or securities which otherwise would be required of the creditor by such bank or financial institution as a compensating balance or offsetting deposit for a loan or other advancement.

(c) The deposit with a bank or other financial institution of money or securities without interest or at a lesser rate of interest than is currently Register, December, 1984, No. 348

(a) Reasonable rules governing the equitable distribution of risks by direct insurance, reinsurance or otherwise and their assignment to insurers;

(b) Rates and rate modifications applicable to such risks which shall not be excessive, inadequate or unfairly discriminatory;

(c) The limits of liability which the insurer shall be required to assume;

(d) A method by which an applicant to the Plan denied insurance or an insured under the Plan whose insurance is terminated may request the committee to review such denial or termination and by which an insurer subscribing to the Plan may request the committee to review actions or decisions of the Plan which adversely affect such insurer. The method shall specify that such requests for review must be made in writing to the Plan and that the decision of the committee in regard to such review may be appealed by the applicant, insured, or company to the commissioner of insurance as provided for in ch. Ins 5. A review or appeal does not operate as a stay of termination.

Note: These requirements reflect former s. 204.51 (2), Stats.

(e) The commissioner shall maintain files of the Plan's approved rules, rates, and forms and such documents must be made available for public inspection at the office of the commissioner of insurance.

History: Cr. Register, November, 1984, No. 347, eff. 12-1-84.

*Enay cr. 3,52
12-6-85*