State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tommy G. Thompson
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January 11, 1996

STATE OF WISCONSIN | SS
OFFICE OF THE COMMISSIONER OF INSURANCE |

I, Josephine W. Musser, Commissioner of Insurance and custodian of the official records, certify that the annexed rule affecting Section Ins 3.25, Wis. Adm. Code, relating to credit insurance rates and underwriting, is duly approved and adopted by this Office on January 11, 1996.

I further certify that I have compared this copy with the original on file in this Office and that it is a true copy of the original, and the whole of the original.

IN TESTIMONY WHEREOF, I have hereunto set my hand at 121 East Wilson Street, Madison, Wisconsin, on January 11, 1996.

Josephine W. Musser

Josephine W. Musser
Commissioner of Insurance

4-1-96
95-154

ORDER OF THE OFFICE OF THE COMMISSIONER OF INSURANCE

REPEALING, AMENDING, REPEALING AND RECREATING, AND CREATING A RULE

To repeal ss. Ins 3.25 (19) (a) and (b), (21), and 3.25 Appendix B; to amend ss. Ins 3.25 (13) (c) (intro.), 1. and 4.c., 6. (Intro.), d. (Intro.), (14) (e) 1. and 2.b., (15) (b) 2.b., (17) (d) (worksheet), and (19); to repeal and recreate s. Ins 3.25 (20) (f); and to create ss. Ins 3.25 (13) (bm) and (c) 4.d., and (14) (e) 3., relating to prima facie premium rates, basic loss ratios, guaranteed issue amounts of life insurance coverage, maximum age limitations, and reporting of experience data connected with credit life and credit accident and sickness insurance.

ANALYSIS PREPARED BY THE COMMISSIONER OF INSURANCE

Statutory authority: ss. 424.602, 601.41 (3), and 601.415 (9), Stats.

Statutes interpreted: ss. 424.209, 601.01, 601.42, 623.06, 625.03 (7), 625.11, 625.12, and 625.34, Stats.

This proposed rule makes several modifications to the credit life and credit accident and sickness rule. The primary reason for these changes was/is to reflect the changes made to s. 424.209.1, Stats., by 1993 Act 325. As stated in the analysis by the Legislative Reference Bureau, this Act extends to credit life insurance the commissioner's ability to designate a lower loss ratio than the 50% specified in the statute, making allowance for expenses, that fulfills the presumption that benefits are reasonable in relation to the premiums to be charged. The proponents of this legislation advised the legislature that the revised method of computing credit life rates would cause the current rates to increase, but this method would also assist in making this coverage available to more Wisconsin residents as insurers would have a reasonable expense allowance.

We have been provided with an analysis of expense components that has been reviewed for reasonableness. Unless we receive conflicting evidence as a result of this hearing, it is our intention to adopt these proposed expense factors. This will result in a new credit life basic loss ratio of 41.8% and a prima facie single premium uniformly decreasing single life credit life rate of \$.39 per \$100 of initial indebtedness per year. This rate would be used until January 1, 2000.

The proposed expense factors, some expressed in cents and others as a percentage of premium, are the basis of the development of the prima facie premium for single premium decreasing gross life coverage. The standard conversion factors in the rule are used to develop level life and monthly outstanding balance rates. Net decreasing life rates would continue to be developed by the filed conversion formulas. The "cents" components are claim costs, general insurer expenses and compensation. The percentage of premium components are premium and miscellaneous taxes, investment income and return on equity. The formula to be used is:

$$\text{Prima Facie Rate} = \frac{\text{(claim costs)} + \text{(general insurer expenses)} + \text{(compensation)}}{1 + \text{(investment income)} - \text{(taxes \& assessments)} - \text{(return on equity)}}$$

Assumptions used:
Claims cost = 16.3¢/\$100/year (3 years WI data)
General insurer expenses = 8.0¢/\$100/year (1993 industry study)
Compensation = 11.6¢/\$100/year (current WI marketplace level)
Value of investment income (single premium only) = 5% of premium
Premium taxes, misc. taxes, and guaranty fund assessments = 3% of premium
Return on required equity = 5% of premium
Return on equity to support surplus strain = 5% of premium (single premium only)

Result:

$$\text{Prima Facie Rate} = \frac{16.3¢ + 8.0¢ + 11.6¢}{1 + .05 - .03 - .05 - .05} = \frac{35.9¢}{.92} = 39.0¢/\$100/\text{year}$$

The initial expense allowances, other than claim costs, are to be unchanged for a 10-year period beginning January 1, 1996. In the interim, beginning on January 1, 2000, the rate will be subject to adjustment on a three-year basis only for differences in claim costs.

The formula to adjust the rate and the method of calculating claim costs will appear in sub. (13) (c) 4.d.

As insurers have tightened underwriting requirements as the credit life insurance prima facie rates have decreased and as one of the arguments made to the legislature for the adoption of AB 960 was to make coverage available to more Wisconsin debtors, sub. (14) has been expanded to require that credit life insurance for initial amounts of coverage of $15,000, or less, be provided on a guaranteed issue basis, subject only to any maximum age limitations and the opportunity for an insurer to use the preexisting conditions and suicide exclusions permitted in subs. 14 (e) 1. and 2. a., respectively.

The changes in the maximum age provisions are being made to clarify that maximum age limits higher than age 65 or 66 are permitted. We have allowed this under the "no more restrictive" language in sub. (12) and the logic that if an insurer can use prima facie rates with no age limits or an age 65 limitation, use of a higher minimum age of greater than 65 would also be permissible. However, a few insurers have told Wisconsin accounts and consumers that they would like to use higher maximums such as age 70, but the current rule language does not permit it. They have held this position after discussions with this office. Section (20)(f) is based on the existing Ins 3.25 (21).

The changes involving repeal of APPENDIX B are to recognize that the current version of the annual statement Credit Insurance Experience Exhibit has changed. Current APPENDIX B is the same as the annual statement form in use at the time the appendix was created. The current annual statement form has been expanded to collect additional information in addition to the data collected on APPENDIX B. The rule is being changed to repeal Appendix B and instead incorporate the use of the annual statement Credit Insurance Exhibit to avoid the necessity of future rule changes whenever this form is revised.

SECTION 1. Ins 3.25 (13) (bm) is created to read:

Ins 3.25 (13) (bm) 1. The initial basic loss ratio for credit life insurance, as shown in subd. (d), shall remain in effect through December 31, 1995. Effective January 1, 1996, the commissioner shall adopt a basic loss ratio for credit life insurance that reflects a specific allowance for expenses. The expense factor adopted effective January 1, 1996, shall remain effective for a period of ten (10) years. At the end of ten (10) years the factor will be reviewed for possible adjustment.

2. This new loss ratio and the resultant new prima facie credit life premium rates shall remain effective until December 31, 1999. Effective January 1, 2000, the credit life premium rates shall be subject to adjustment every three years as outlined in subd. (c). These periodic adjustments of the credit life premium rates shall only be based on differences in claim costs. Any new basic loss ratio resulting from a change in claim costs will be provided with the written notice of the prima facie premium rates to be used for the next three-year period.

SECTION 2. Ins 3.25 (13) (c) (intro.), (c) 1. And 4.c. are amended to read:

Ins 3.25 (13) (c) (intro.) On or before October 1, 1990, and each three years after that, except that the initial prima facie credit life rates adopted under subd. (bm) above shall remain effective until December 31, 1999, the commissioner shall give written notice to all authorized insurers specifying the prima facie premium rates to be effective for the three-year period beginning on the next January 1. Such rates shall be determined based on experience data submitted by all insurers pursuant to sub. (19) for the immediately preceding 3 calendar years and shall be calculated as follows:

1. For each category of coverage specified in ~~Appendix B~~ subd. (d) or (e), total prima facia earned premium and total incurred claims shall be calculated for each year for all insurers.

4. c. Prior to January 1, 1996, the ~~The~~ credit life insurance loss ratio at prima facie rates is divided by the basic loss ratio for credit life insurance. The quotient, rounded to 2 decimal places, is the credit life insurance adjustment factor; and

SECTION 3. Ins 3.25 (13) (c) 4.d. is created to read:

Ins 3.25 (13) (c) 4.d. Effective January 1, 1996, and thereafter, the single premium uniformly decreasing single life credit life insurance prima facie rate is the quotient of the following formula rounded to 2 decimal places:

$$\text{Prima Facie Rate} = \frac{\text{Claim Costs} + .196}{.92}$$

where Claim Costs are calculated by dividing total credit life insurance incurred claims by total credit life insurance prima facie earned premiums and multiplying the result by the current prima facie rate, rounded to 3 decimal places, and the other factors in the formula remain fixed until changed as outlined in subd. (bm).

SECTION 4. Ins 3.25 (13) (c) 6. (intro.), (d) (intro.), (14) (e) 1. and 2.b. are amended to read:

Ins 3.25 (13) (c) 6. Prior to January 1, 1996, for ~~For~~ single premium uniformly decreasing single life credit life insurance coverage, the new prima facie premium rate per $100 of initial indebtedness per year equals the prima facie premium rate then in effect multiplied by the credit life insurance adjustment factor, rounded to the nearest cent. Effective January 1, 1996, this rate will be the rate calculated under subd. 4.D. above. This new prima facie premium rate is then multiplied by the following factors to derive the new prima facie premium rate for the indicated plan:

(13) (d) The initial basis loss ratio for credit life insurance shall be .50. The basic loss ratio for credit accident and sickness insurance shall vary by plan as follows:

(14) (e) 1. ~~If~~ For initial amounts of credit life insurance in excess of $15,000, if evidence of individual insurability is not

required, the policy shall contain no exclusion for pre-existing conditions except for those conditions which manifested themselves to the insured debtor by requiring medical advice, diagnosis, consultation or treatment, or would have caused a reasonably prudent person to have sought medical advice, diagnosis, consultation or treatment, within 6 months preceding the effective date of coverage and which causes loss within 6 months following the effective date of coverage. Under open-end credit plans, the effective date of coverage applies separately with respect to each purchase or loan to which the coverage relates.

(14) (e) 2.b. Either no age restrictions, or age restrictions making ineligible for coverage debtors <u>not less than age</u> 65 or over at the time the indebtedness is incurred, or debtors who will have attained <u>at least</u> age 66 on the maturity date of the indebtedness. Insurance written in connection with an open-end credit plan may exclude from the classes eligible for insurance, classes of debtors determined by age, and may provide for the cessation of the insurance or a reduction in the amount of insurance upon attainment of not less than age 65.

SECTION 5. Ins 3.25 (14) (e) 3. Is created to read:

Ins 3.25 (14) (e) 3. Credit life insurance provided on debts where the initial amount of credit life insurance would be $15,000, or less, shall be provided on a guaranteed issue basis, provided that the debtor is not ineligible for coverage due to age. The insurer may also use the preexisting conditions and suicide exclusions appearing in (e) 1. and 2. a, respectively.

SECTION 6. Ins 3.25 (15) (b) 2.b., (17) (d) (worksheet) and (19) are amended to read:

Ins 3.25 (15) (b) 2.b. Either no age restrictions, or age restrictions making ineligible for coverage debtors <u>not less than age</u> 65 or over at the time the indebtedness is incurred, or debtors who will have attained <u>at least</u> age 66 on the maturity date of the indebtedness. Insurance written in connection with an open-end credit plan may exclude from the classes eligible for insurance classes of debtors determined by age, and may provide for the cessation of the insurance or a reduction in the amount of insurance upon attainment of not less than age 65.

(17) (d) Worksheet heading for basis loss ratio column is amended to read:

<u>Initial</u> Basis Loss Ratio

(19) FILING OF EXPERIENCE INFORMATION. Every insurer having credit life insurance or credit accident and sickness insurance in force in this state shall report Wisconsin experience data annually ~~in the form of Appendix B~~ <u>on the annual statement Credit Insurance Experience Exhibit form (available at no charge from the Commissioner</u>. The experience data for each calendar year shall be submitted as specified in the instructions to the annual statement ~~and shall be accompanied by the following:~~ <u>and according to the requirements of sub. 20.</u>

SECTION 7. Ins 3.25 (19) (a) and (b) are repealed.

SECTION 8. Ins 3.25 (20) (f) is repealed and created to read:

Ins 3.25 (20) (f) Unearned premium reserves shall be computed as follows:

1. Unearned premiums shall be reported consistently as of the beginning and the end of each year, and shall be based on the premium that would be charged for the remaining amount and term of coverage using the premium rate or schedule of premium rates in effect at the time the coverage became effective. The following calculation bases shall be deemed to comply with this requirement in lieu of a precise calculation:

a. For single premium uniformly decreasing credit life insurance coverage, the "sum of the digits" method, commonly known as the "Rule of 78";

b. For single premium credit accident and sickness coverage with substantially equal monthly benefits and with conterminous coverage and benefit periods, the arithmetic mean of the unearned premium calculated according to the "sum of the digits" method and the pro rata unearned premium calculated as the original premium multiplied by the ratio of the remaining coverage term to the original coverage term;

c. For premiums payable on a monthly outstanding balance basis, single premium level life coverage or any other coverage where the benefit amount remains constant throughout the remaining coverage period, the pro rata unearned premium calculated as the original premium multiplied by the ratio of the remaining coverage term to the original coverage term;

d. For decreasing credit life insurance coverage provided for the full term of the indebtedness where the benefit is equal to the actual or scheduled net amount necessary to liquidate the indebtedness, the unearned premium calculated as the original premiums multiplied by the ratio of the scheduled remaining dollar-months of coverage to the scheduled initial dollar-months of coverage. Dollar-months of coverage may be approximated using an assumed interest rate that is reasonably representative of the interest rates applicable to all indebtedness with respect to which coverage is provided on this basis;

e. For credit life insurance coverage providing a combination of level and decreasing benefits, or providing a truncated coverage period or providing full-term coverage of an indebtedness that requires a balloon payment, an appropriate combination of methods described in this paragraph; or

f. Any other reasonable approximation method approved by the commissioner.

g. In this paragraph, a "dollar-month of coverage" means one dollar of coverage for one month.

2. Unearned premium for partial months may be calculated on an exact daily basis, on a basis assuming that the valuation date occurs in the middle of each installment period or using the method commonly known as the "15 day 16 day rule" in which the value at the beginning of the month is used if less than 16 days have elapsed in the current month and the value at the end of the month is used if more than 15 days have

elapsed in the current month. For the purpose of the "15 day-16 day rule," the current month shall be deemed to begin on the day following the most recent payment due date of the indebtedness and end on the next succeeding payment due date. The valuation date shall be counted as a full day.

3. Claim reserves and liabilities shall be reported on a consistent basis from year to year. Any change in the basis of calculation shall be disclosed, together with a recalculation of all items as of the end of the preceding calendar year according to the revised basis.

SECTION 9. Ins 3.25 (21) and APPENDIX B are repealed.

SECTION 10. EFFECTIVE DATE: Pursuant to s. 227.22 (2) (b), Stats., this rule shall take effect on January 1, 1996.

Dated at Madison, Wisconsin, this 11th day of January, 1996.

Josephine W. Musser

Josephine W. Musser
Commissioner of Insurance

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