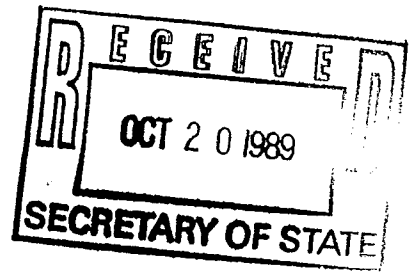


CR 89-129



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STATE OF WISCONSIN )  
OFFICE OF THE COMMISSIONER OF INSURANCE )

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:

I, Robert D. Haase, Commissioner of Insurance and custodian of the official records of said Office, do hereby certify that the annexed order repealing and recreating a rule relating to refunds, prima facie premium rates, reporting of experience data, and financial statement minimum reserves connected with credit life and credit accident and sickness insurance was issued by this Office on October 20, 1989.

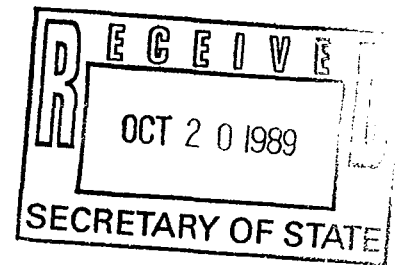
I further certify that said copy has been compared by me with the original on file in this Office and that the same is a true copy thereof, and of the whole of such original.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name in the City of Madison, State of Wisconsin, this 20th day of October, 1989.

Robert D. Haase  
Commissioner of Insurance

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ORDER OF THE COMMISSIONER OF INSURANCE

REPEALING, RENUMBERING, RENUMBERING AND AMENDING, AMENDING,

REPEALING AND RECREATING A RULE

To repeal s. Ins 3.25 (20) (d); to renumber s. Ins 3.25 (20) (e); to renumber and amend ss. Ins 3.25 (20) (f) and (g); to amend ss. Ins 3.25 (13) (b) and (c) (intro.), (14) (d), (19) (intro.), (20) (a), and APPENDIX B, sixth line; and to repeal and recreate s. Ins 3.25 (9) (g), relating to refunds, prima facie premium rates, reporting of experience data, and financial statement minimum reserves connected with credit life and credit accident and sickness insurance.

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ANALYSIS PREPARED BY THE COMMISSIONER OF INSURANCE

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

Statutes interpreted: ss. 424.205, 424.209, 601.01, 601.42, 623.06, 625.03 (7), 625.11, 625.12, 625.34, and 632.44 (3), Stats.

This rule makes several modifications to the credit life and credit accident and sickness rule. These changes were recommended by an advisory

group appointed by the commissioner that studied technical questions raised by the credit life and credit accident and sickness rule.

The modifications are as follows:

1. The rule modifies the schedules for computing refunds in the event of policy cancellation prior to the policy maturity date. The changes provide more equitable refunds to consumers of certain types of credit insurance. The modified refund schedules are based upon the actuarial method rather than the formula known as the "Rule of 78."

2. The rule requires the commissioner to give written notice to insurers specifying prima facia premium rates (rates established by the commissioner that are presumed to be reasonable) on October 1, 1990, rather than October 1, 1989. These rates shall be effective for three years and are based upon experience data for a three-year period. Since the credit insurance rule did not become effective until January 1, 1988, the commissioner will not have by October 1, 1989, the three years of experience needed to establish any new premium rates. Thus, a one-year delay is needed.

3. The rule requires insurers to file with the commissioner experience data information on the date required by the instructions to the annual statement rather than on or before June 30 of each year.

4. The rule removes a requirement that credit insurers maintain active life reserves for credit life insurance at least equal to the unearned premium. This creates unintended and severe surplus and tax consequences for some credit insurers. The rule allows insurers to use mortality table-based reserves rather than reserves based upon unearned premium.

5. If an insurer uses an alternative method of calculating reserves, the rule requires that this alternative method consider all future liabilities.

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SECTION 1. Ins 3.25 (9) (g) is repealed and recreated to read:

Ins 3.25 (9) (g) Schedules for computing refunds in the event of cancellation of credit life or credit accident and sickness insurance prior to the scheduled maturity date of coverage shall meet the following minimum requirements:

1. For the following coverages paid for on a single premium or single charge basis, the refund shall be equal to or greater than the unearned gross premium or charge amount computed by the "sum of the digits" method, commonly referred to as the "Rule of 78":

a. Credit life insurance that decreases by a uniform amount each month until the amount becomes zero;

b. Credit life insurance providing coverage for the full term of an indebtedness that is repayable in substantially equal installments with coverage amounts that equal or approximate the actual or net scheduled amount necessary to liquidate the indebtedness; and

c. Credit accident and sickness insurance with substantially equal monthly benefit amounts and with insurance coverage and maximum benefit periods that are coterminous.

2. For credit life insurance or credit accident and sickness insurance paid for on a monthly outstanding balance basis, the refund shall be equal to or greater than the pro rata unearned gross premium or charge.

3. For all coverages not described in subds. 1 and 2, the refund shall be equal to or greater than that based on the actuarial method, which is the prepaid premium or charge for scheduled benefits subsequent to the actual date of coverage termination computed at the schedule of premium rates or charges applicable to the coverage when it was effected.

NOTE: Examples of these coverages include truncated credit life insurance and floating critical period credit disability insurance.

4. Refunds shall be based on the number of full months prepaid from the actual date of coverage termination to the scheduled maturity date of coverage, counting a fractional month of 16 days or more as a full month.

5. Upon termination of indebtedness repayable in a single sum prior to scheduled maturity date, the refund shall be computed from the date of termination to the maturity date. If less than 16 days of a loan month has been earned, no charge may be made for that loan month, but if 16 days or more has been earned, a full month may be charged.

SECTION 2. Ins 3.25 (13) (b) and (c) (intro.), (14) (d), (19) (intro.), and (20) (a) are amended to read:

Ins 3.25 (13) (b) The initial prima facie premium rates are as shown in subs. (14) and (15) for the plans and benefits described in these subsections and shall remain in effect through December 31, ~~1989~~ 1990.

(13) (c) (intro.) On or before October 1, ~~1989~~ 1990, and each three years after that, 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. These 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:

(14) (d) The prima facie premium rate for credit life insurance providing coverage on two lives with respect to a single indebtedness shall be 150% of the corresponding single life prima facie premium rate until December 31, ~~1989~~ 1990, and shall be 167% of the corresponding single life prima facie premium rate on and after January 1, ~~1990~~ 1991.

(19) (intro.) 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. The experience data for each calendar year shall be submitted ~~on or before June 30 of the next succeeding year~~ as specified in the instructions to the annual statement and shall be accompanied by the following:

(20) (a) Each insurer shall show, as a liability in any financial statement or report required under s. 601.42, Stats., except for the report required to be filed under sub. (19), its policy or unearned premium reserve in an amount not less than as computed in pars. (b) through ~~(f)~~ (e). 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.

SECTION 3. Ins 3.25 (20) (d) is repealed.

SECTION 4. Ins 3.25 (20) (e) is renumbered Ins 3.25 (20) (d).

SECTION 5. Ins 3.25 (20) (f) and (g) are renumbered Ins 3.25 (20) (e) and (f) and, as renumbered, amended to read:

Ins 3.25 (20) (e) With the approval of the commissioner, a company may, for valuation purposes, use any appropriate mortality or morbidity table, in lieu of those specified in pars. (b), (c) and ~~(e)~~ (d), that is based on

credible credit life or disability experience and either explicitly or implicitly has adequate margins for the present value of all future unaccrued liabilities.

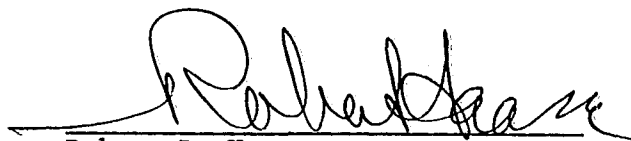
(20) (f) Unearned premium reserve shall be computed according to the method for calculating unearned premiums prescribed in sub. (21) for use in completing Appendix B.

SECTION 6. Ins 3.25 APPENDIX B, sixth line, is amended to read:

Ins 3.25 APPENDIX B, sixth line. To be filed on or before ~~June-30~~ \_\_\_\_\_ (the date required in the instructions to the annual statement).

EFFECTIVE DATE. Pursuant to s. 227.22 (2) (intro.), Stats., SECTIONS 2 through 6 of this rule shall take effect on the first day of the month following publication. Pursuant to s. 227.22 (2) (b), Stats., SECTION 1 of this rule shall take effect on April 1, 1990.

Dated at Madison, Wisconsin, this 20<sup>th</sup> day of October, 1989.



Robert D. Haase  
Commissioner of Insurance