

**CREDIT LIFE AND ACCIDENT AND HEALTH RATES**

This Bulletin is directed to all insurers engaged in the business of selling credit insurance in the state of Indiana. Pursuant to 760 IAC 1-5.1-9, the Commissioner will, on a triennial basis, review the loss ratio standards and the prima facie rates contained in Rule 5.1.

In the review of the loss ratio standards, the Commissioner shall:

- (1) determine the rate of expected claims on a statewide basis;
- (2) compare such rate of expected claims with the rate of actual claims for the preceding three (3) years determined from the incurred claims and earned premiums at prima facie rates reported in the annual statement supplement or other available source; and
- (3) publish in the Indiana Register the adjusted actual statewide prima facie rates to be used by insurers during the next triennium.

The rates will reflect the difference between actual claims based on experience and expected claims based on the loss ratio standards set forth 760 IAC 1-5.1-4 applied to the prima facie rates set forth in 760 IAC 1-5.1-6 and 760 IAC 1-5.1-7. If the Commissioner determines, at the conclusion of the triennial review, that the rate adjustment is *de minimis* then the statewide prima facie rate will not be changed. The Commissioner will publish a statement that the rate will not change and the results of the rate review.

In regard to discount rates, the Commissioner shall, on a triennial basis, review the discount rates for interest included in the formulae in 760 IAC 1-5.1-6 and 760 IAC 1-5.1-7. There shall be an adjustment to those discount rates to equal the average of the rates being paid at that time on three (3) year United States Treasury notes as reported in the Wall Street Journal on the last day of sale in the most recent three (3) calendar years. The Commissioner shall publish the revised discount rates in the Indiana Register. If the Commissioner determines, at the conclusion of the triennial review, that the rate adjustment is *de minimis* then the discount rate will not be changed.

The applicable provisions of 760 IAC 1-5.1 were effective January 1, 2003, and rates were reviewed in 2006 (see Bulletin 144). As of December 31, 2008, three new years of experience became available. Accordingly, the Department's triennial review is below.

## Actual Experience

### Life

Based on data received from the National Association of Insurance Commissioners, credit life insurance has generated the following loss ratios over the last three (3) calendar years:

| Calendar Year         | Loss Ratio |
|-----------------------|------------|
| 2006                  | 45.4       |
| 2007                  | 53.5       |
| 2008                  | 54.8       |
| Aggregate for 3 years | 50.8       |

However, the revised rates of Bulletin 144 were effective on June 1, 2007. Adjusting the above Loss Ratios for the adjustment to prima facie rates would result in the following loss ratios.

| Calendar Year         | Loss Ratio |
|-----------------------|------------|
| 2006                  | 52.2       |
| 2007                  | 56.9       |
| 2008                  | 54.8       |
| Aggregate for 3 years | 54.6       |

Pursuant to 760 IAC 1-5.1-4, the objective is to achieve a 55% loss ratio. While the loss ratio for credit life has been slightly below the 55%, any change would clearly be *de minimis*.

### Accident and Health

Based on data received from the National Association of Insurance Commissioners, credit accident and health insurance has generated the following loss ratios over the last three calendar years:

| Calendar Year         | Loss Ratio |
|-----------------------|------------|
| 2006                  | 46.8       |
| 2007                  | 47.5       |
| 2008                  | 54.7       |
| Aggregate for 3 years | 49.3       |

However, the revised rates of Bulletin 144 were effective on June 1, 2007. Adjusting the above Loss Ratios for the adjustment to prima facie rates would result in the following loss ratios.

| <b>Calendar Year</b>  | <b>Loss Ratio</b> |
|-----------------------|-------------------|
| 2006                  | 52.0              |
| 2007                  | 49.7              |
| 2008                  | 54.7              |
| Aggregate for 3 years | 52.0              |

Pursuant to 760 IAC 1-5.1-4, the objective is to achieve a 55% loss ratio. While this loss ratio is below the statutory target of 55%, the reduction to the rates would only be 3%. Furthermore, this 3% reduction in prima facie rate would be partially offset by the change in discount rate.

### **Discount Rate**

Pursuant to 760 IAC 1-5.1-9, every three (3) years the discount rate is to be adjusted based on the sales of the three (3) year Treasury Notes on the last day of the last three (3) calendar years. The rates paid at the last day of 2006, 2007, and 2008 are listed below:

| <b>Calendar Year</b> | <b>3 Year Treasury Rate</b> |
|----------------------|-----------------------------|
| 2006                 | 4.74                        |
| 2007                 | 3.07                        |
| 2008                 | 1.00                        |
| Average for 3 years  | 2.94                        |

Based upon this information the discount rate would reduce slightly. A reduced discount rate results in larger single premiums being collected for credit insurance coverages.

### **Conclusion**

Based on the above information, the Commissioner has determined that, pursuant to Rule 5.1, the aggregate rate adjustment indicated is *de minimis*. Thus, the rates below remain unchanged from those established by Bulletin 144.

### Life Prima Facie Rates

The credit life prima facie rates originally announced in Bulletin 144 are:

For monthly outstanding balance basis, sixty cents (\$0.60) per month per one thousand dollars (\$1,000) of outstanding insured debt on single life and one dollar (\$1.00) per month per one thousand dollars (\$1,000) of outstanding insured debt on joint life if premiums are payable on a monthly outstanding balance basis.

### Disability Prima Facie Rates

The credit accident and health prima facie rates are single premium rates based on type of coverage (14 day retro and non retro and 30 day retro and non retro) and length of loan.

| Original Number of<br>Equal<br>Monthly<br>Installments | 14 Day<br>Retroactive<br>Policy | 14 Day<br>Nonretroactive<br>Policies | 30 Day<br>Retroactive<br>Policies | 30 Day<br>Nonretroactive<br>Policies |
|--|---------------------------------|--------------------------------------|-----------------------------------|--------------------------------------|
| 6  | 1.39                            | 0.91                                 | 0.94                              | 0.71                                 |
| 12   | 1.85                            | 1.29                                 | 1.27                              | 0.95                                 |
| 24   | 2.49                            | 1.79                                 | 1.79                              | 1.25                                 |
| 36   | 3.07                            | 2.35                                 | 2.32                              | 1.68                                 |
| 48   | 3.41                            | 2.70                                 | 2.66                              | 1.99                                 |
| 60   | 3.70                            | 2.98                                 | 2.95                              | 2.26                                 |
| 72   | 3.97                            | 3.23                                 | 3.21                              | 2.50                                 |
| 84   | 4.20                            | 3.47                                 | 3.44                              | 2.74                                 |
| 96   | 4.42                            | 3.69                                 | 3.65                              | 2.96                                 |
| 108  | 4.65                            | 3.90                                 | 3.87                              | 3.17                                 |
| 120  | 4.86                            | 4.10                                 | 4.07                              | 3.37                                 |

### **Discount Rate**

The discount rates currently being used are 3.7% for life and 3.3% for accident and health. The life discount rate includes 0.4% for mortality.

INDIANA DEPARTMENT OF INSURANCE



\_\_\_\_\_  
Carol Cutter, Commissioner