



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

**Bulletin C-3
August 4, 1967**

TO: Companies Licensed in the State of Connecticut Authorized to Write Life and Accident and Health Insurance

**RE: Credit Life and Credit Accident and Health Insurance –
Acceptable Premium Rates**

The above-entitled matter was the subject of a conference held in this Department on July 7, 1967. Notice of the conference was mailed to each insurer authorized to write life and accident and health insurance in Connecticut.

The conference was well attended with written and oral statements presented by representatives of insurers and trade associations.

It is my opinion that all the interested insurers, trade associations, financial institutions and other organizations are completely familiar with the problems that currently exist in the credit insurance field such as "Reverse Competition" and "Excessive Commissions and Experience Refunds". It, therefore, is not necessary to give a history of the credit insurance business nor is it my intent to dwell upon the current abuses.

This Department, in carrying out the responsibilities delegated to it by the 1959 Session of the Connecticut General Assembly, issued on August 17, 1960, a letter containing the maximum rates to be charged in Connecticut for credit life and credit accident and health insurance. The existing rate allowed for credit life insurance, simply stated, is .64 cents per hundred dollars of initial indebtedness for a loan payable in twelve monthly installments.

Experience has now indicated that the .64 cent rate is excessive even though it is substantially below what is charged in most of the other states.

The conference confirmed the existence of two distinct schools of thought on what the maximum permissible charge should be on credit life insurance. One school favors a so-called "50% loss ratio" whereby the premium to be charged is double the actual cost of the death claims. The other school proposes the so-called "decremental scale" whereby the premium to be charged is based upon the amount of credit life insurance a particular lending institution has in force with the insurance company.

In my opinion both theories are deficient in certain areas, particularly so when it must be kept in mind that we are talking about insurance where the borrower pays the entire insurance premium involved in the financial transaction.

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It is obvious that a loss ratio of only 50% produces substantial profits which, historically, have not been retained by insurance companies but rather have been returned to the lending institution or vendor involved in the financial transaction. There is no evidence indicating that future practices would be any different than what has transpired in the past.

It also is a well-known fact that borrowers do not "shop" for credit life insurance but rather it is purchased where the financial transaction occurs. The use of the "decremental scale" in the credit life rate structure discriminates against a borrower simply because he had the misfortune of borrowing from a small financial institution in lieu of a large financial institution. It has not been demonstrated to this Department that there are additional costs involved in issuing credit life insurance policies to small institutions which would require the borrower to pay an additional premium ranging between 45% and 60%.

Therefore, it is my opinion that any premium rate for credit life insurance which exceeds an annual single premium charge of .50 cents per \$100.00 of initial indebtedness is excessive in relation to the benefits provided. This does not apply to insurance for which no charge is made to the debtor, but where there is an interest rate differential between an insured or an uninsured loan, then the difference represents a single premium insurance charge for credit life or credit accident and health insurance. The acceptable rate applies to all credit insurance transactions including those beyond five years, excepting first real estate mortgages.

With the new lower rates, it appears that certain advantages could accrue to larger insurers to the disadvantage of smaller insurers. This Department is cognizant of its responsibilities under Section 38-61(4) concerning "unreasonable restraint of, or monopoly in, the business of insurance". We, therefore, are of the opinion that "Compensating or Special Deposit Accounts", when associated with the issuance of credit insurance policies (either directly or indirectly), are an "Unfair Sales Practice" and such practices shall not be used in Connecticut.

Further, this Department is of the opinion that the existing rates for credit accident and health insurance are reasonable but a modification in the premiums charged is being made when combination credit life and credit accident and health policies are issued, to properly reflect the savings in costs involved in a combination policy.

Attached to this letter are further specific details implementing the intent of this letter.

Please acknowledge receipt of this letter.

Very truly yours,

William R. Cotter
Insurance Commissioner

WRC/lw
Enclosures

CREDIT LINE INSURANCE

Annual single premium rates which do not exceed fifty cents (\$.50) per one hundred dollars (\$100.00) of initial indebtedness will not be considered excessive. Rates which do not exceed a monthly charge of eighty cents (\$.80) per one thousand dollars (\$1,000.00) of outstanding balance of life insurance in force will not be considered excessive if the premium rates do not vary by age.

Premium refunds are to be computed by the "Sum of Digits" formula, commonly known as the "Rule of 78". No refund of less than one dollar (\$1.00) will be required.

The maximum rate applies to all credit transactions entered into in Connecticut whether coverage is provided under a Connecticut policy or under an out-of-state policy and is also applicable to individual contracts. A copy of a group policy of credit life insurance delivered by an insurer in another state, covering residents in Connecticut, must be filed with, and approved by this Department.

The maximum permissible rate assumes a plan of death benefits with or without requirements for evidence of insurability which contains no exclusions except for suicide (six months); and that coverage is offered to all debtors regardless of age, or to all debtors not older than the applicable age limit which shall be not less than 65 at the inception of the indebtedness or 66 at the scheduled maturity date of the transaction. Any other exclusions or modifications must receive the approval of the Department and must reflect an appropriate reduction in the premium to be charged.

The maximum permissible rate does not apply to insurance for which no charge is made to the debtor, but where there is an interest rate differential between an insured or an uninsured loan, then the difference represents a single premium insurance charge for credit life or credit accident and health insurance. The acceptable rate applies to all credit insurance transactions including those beyond five years, excepting first real estate mortgages. Nothing herein shall preclude insurers from using a lower premium rate.

Effective November 1, 1967, all policies, certificates of insurance, notices of proposed insurance, applications for insurance endorsements and riders delivered or issued for delivery in this State, covering Connecticut residents shall comply with the above maximum permissible rate and plan of death benefits.

If any rates in excess of the acceptable rates, as outlined in the August 17, 1960 letter, or combination policies have been previously approved, they must be submitted for reconsideration not later than October 1, 1967. Supporting data must be filed to enable the Department to determine whether or not the rates may still be considered not excessive.

CREDIT ACCIDENT AND HEALTH INSURANCE

Attached to the August 17, 1960 letter were Tables A and B containing the acceptable premium rates and refund factors applicable to credit accident and health insurance sold to Connecticut residents. They have been reproduced and are attached hereto.

The gross single premium rates in Table A are to be applied to the initial indebtedness and will not be regarded as excessive provided refunds are computed by Table B. The rates in Table B are to be applied to the number of dollars in each monthly installment, not to the outstanding indebtedness.

No refund of less than \$1.00 will be required.

The use of the "sum of digits" formula or "Rule of 78" is not an equitable method for computing refunds for accident and health benefits.

Any other method of computing premiums and refunds should meet the test that the total cost to the debtor for any period of time that the insurance is in force should not exceed the amount computed by the use of Table A at the beginning of the period less the amount computed by Table B at the end of the period.

Specifically, if a uniform monthly rate is to be applied to the outstanding balance of indebtedness, the charges in early months will be in excess of the cost of the benefits provided during that period. A company using this method should, therefore, be prepared to hold appropriate additional reserves and to make a proper refund in event of termination of the insurance before the end of the original term.

These rates are for a daily benefit in amount equal to the initial indebtedness divided by the number of days in the period during which the indebtedness is scheduled to be repaid by equal monthly installments. Subject to the waiting period, the indemnity is to be payable for each day of any period of total disability that begins while the insurance is in force, except that benefits shall not be paid for any portion of such period of disability which extends beyond the original date scheduled for the indebtedness to be repaid in full. Disability which begins while the insurance is in force is not excluded from coverage because of pre-existing illness, disease or physical conditions, unless a specific exclusion is provided for by rider or amendment signed by the individual debtor at the time his insurance becomes effective. There may be a general exclusion or restriction of coverage in event of pregnancy, intentionally self-inflicted injuries, foreign travel or residence, travel in non-scheduled aircraft, war or military service.

The acceptable premium rates in Table A assume that coverage for pre-existing conditions is not excluded. A 10% decrease in the acceptable premium rates must be made if pre-existing conditions are not included in coverage.

Nothing herein shall preclude insurers from using lower premium rates.

COMBINATION CREDIT LIFE AND CREDIT ACCIDENT AND HEALTH POLICIES

Premium rates for policies combining credit life and credit accident and health coverage or total and permanent disability benefits in one policy must be consistent with the rates set forth herein and must reflect a 10% decrease in the combined premium to give proper recognition to the administrative savings inherent in a combination policy.

DEVIATIONS

Each insurer shall adhere to the filings made by it. Any insurer may make written application for permission to file a deviation from the maximum acceptable rates or class of risk for credit life and credit accident and health insurance. Such application shall specify the basis for the deviation and the insurer shall file such available statistics applicable to such deviation. Deviations will not be approved if the resulting premiums or plan of benefits would be excessive, inadequate or unfairly discriminatory: Each deviation permitted shall be effective for a period of one year from the date of such approval unless terminated sooner with the approval of the commissioner.

UNFAIR SALES PRACTICES DEFINED

Section 38-61(4) of the Connecticut General Statutes reads as follows: "Boycott, coercion and intimidation, entering into any agreement to commit, or by any concerted action committing, any act of boycott, coercion or intimidation resulting in or tending to result in unreasonable restraint of, or monopoly in, the business of insurance" (Underlining supplied).

With the acceptable maximum rates being reduced to a reasonable level, it is hoped, and expected that free enterprise and competition will tend to produce rates which may be lower than the maximum permitted. In order to prevent a monopoly from developing in the credit insurance field, this Department declares the use of compensating balances or special deposits when associated with the issuance of credit insurance policies (either directly or indirectly) as an "Unfair Sales Practice" and such practices shall neither be permitted in Connecticut nor involve the policies and/or certificates issued covering financial transactions entered into in Connecticut.

TABLE A
CREDIT ACCIDENT AND HEALTH INSURANCE
Connecticut Acceptable Premium Rates
Single Premiums Per \$100 Of Initial Indebtedness

Number of equal monthly installments to repay indebtedness	14 Day waiting period non- retroactive plan	14 Day waiting period retroactive plan	30 Day waiting period non- retroactive plan	30 Day waiting period retroactive plan
1	0.58	0.98		
2	0.80	1.40	0.20	0.63
3	0.97	1.65	0.40	0.98
4	1.11	1.82	0.54	1.19
5	1.22	1.95	0.65	1.35
6	1.32	2.06	0.75	1.47
7	1.40	2.15	0.84	1.58
8	1.48	2.24	0.91	1.67
9	1.54	2.31	0.96	1.73
10	1.61	2.37	1.04	1.82
11	1.66	2.43	1.09	1.88
12	1.71	2.49	1.14	1.94
13	1.76	2.54	1.19	1.99
14	1.80	2.59	1.24	2.04
15	1.85	2.63	1.28	2.09
16	1.89	2.67	1.32	2.13
17	1.93	2.71	1.36	2.18
18	1.96	2.75	1.39	2.21
19	2.00	2.79	1.43	2.25
20	2.03	2.82	1.46	2.29
21	2.07	2.86	1.50	2.33
22	2.10	2.89	1.53	2.36
23	2.13	2.92	1.56	2.39
24	2.16	2.96	1.60	2.43
25	2.19	2.99	1.63	2.46
26	2.22	0.13	1.66	2.49
27	2.26	3.05	1.69	0.12
28	2.28	3.08	1.72	2.55
29	2.32	3.11	1.75	2.59
30	2.34	3.14	1.78	2.62
31	2.37	3.17	1.80	2.65
32	2.40	3.20	1.83	2.67
33	2.43	3.23	1.86	2.70
34	2.46	3.26	1.89	2.73
35	2.49	3.28	1.92	2.76

Number of equal monthly installments to repay indebtedness	14 Day waiting period non-retroactive plan	14 Day waiting period retroactive plan	30 Day waiting period non-retroactive plan	30 Day waiting period retroactive plan
36	2.51	3.31	1.95	2.79
37	2.54	3.34	1.98	2.83
38	2.57	3.37	2.00	2.85
39	0.13	3.40	2.03	2.88
40	2.63	3.43	2.06	2.91
41	2.65	3.45	2.09	2.94
42	2.68	3.48	2.11	2.96
43	2.71	3.51	2.14	2.99
44	2.73	3.53	2.17	3.02
45	2.76	3.56	2.20	3.05
46	2.79	3.59	2.22	3.07
47	2.82	3.63	2.25	3.11
48	2.84	3.65	2.28	3.14
49	2.87	3.68	2.30	3.16
50	2.90	3.71	2.33	3.19
51	2.92	3.73	2.36	3.22
52	2.95	3.76	2.38	3.24
53	2.97	3.78	2.41	3.27
54	3.00	3.81	2.45	3.31
55	3.03	3.84	2.47	3.33
56	3.05	3.86	2.49	3.35
57	3.08	3.89	2.52	3.38
58	3.11	3.92	2.54	3.40
59	3.13	3.94	2.57	3.43
60	3.16	3.97	2.60	3.46

Any rate in this Table A may be replaced by a rate which does not differ from it by more than nine cents per \$100 of initial indebtedness.

TABLE B
CREDIT ACCIDENT AND HEALTH INSURANCE
Connecticut Acceptable Rates For Refunds
Refund Factors Per \$1 Monthly Installment To Be Terminated

Number of months from date of termination to end of original term for repayment	14 Day waiting period non- retroactive plan	14 Day waiting period retroactive plan	30 Day waiting period non- retroactive plan	30 Day waiting period retroactive plan
1	0.00	0.01		
2	0.01	0.02	0.00	0.01
3	0.02	0.04	0.01	0.02
4	0.04	0.07	0.02	0.03
5	0.06	0.09	0.03	0.06
6	0.07	0.12	0.04	0.08
7	0.09	0.15	0.05	0.11
8	0.11	0.17	0.07	0.12
9	0.13	0.20	0.08	0.15
10	0.16	0.23	0.10	0.18
11	0.18	0.26	0.11	0.20
12	0.20	0.29	0.13	0.23
13	0.22	0.33	0.15	0.25
14	0.25	0.36	0.17	0.28
15	0.27	0.39	0.19	0.31
16	0.30	0.42	0.21	0.34
17	0.32	0.46	0.23	0.37
18	0.35	0.49	0.25	0.39
19	0.38	0.53	0.27	0.42
20	0.40	0.56	0.29	0.45
21	0.43	0.60	0.31	0.48
22	0.46	0.63	0.33	0.51
23	0.48	0.67	0.35	0.54
24	0.51	0.71	0.38	0.58
25	0.54	0.74	0.40	0.61
26	0.57	0.78	0.43	0.64
27	0.61	0.82	0.45	0.68
28	0.63	0.86	0.48	0.71
29	0.67	0.90	0.50	0.75
30	0.70	0.94	0.53	0.78
31	0.73	0.98	0.55	0.82
32	0.76	1.02	0.58	0.85
33	0.80	1.06	0.61	0.89

Number of months from date of termination to end of original term for repayment	14 Day waiting period non- retroactive plan	14 Day waiting period retroactive plan	30 Day waiting period non- retroactive plan	30 Day waiting period retroactive plan
34	0.83	1.10	0.64	0.92
35	0.87	1.14	0.67	0.96
36	0.90	1.19	0.70	1.00
37	0.93	1.23	0.73	1.04
38	0.97	1.28	0.76	1.08
39	1.01	1.32	0.79	1.12
40	1.05	1.37	0.82	1.16
41	1.08	1.41	0.85	1.20
42	1.12	1.46	0.88	1.24
43	1.16	1.50	0.92	1.28
44	1.20	1.55	0.95	1.32
45	1.24	1.60	0.99	1.37
46	1.28	1.65	1.02	1.41
47	1.32	1.70	1.05	1.46
48	1.36	1.75	1.09	1.50
49	1.40	1.80	1.12	1.54
50	1.75	1.85	1.16	1.59
51	1.48	1.90	1.20	1.64
52	1.53	1.95	1.23	1.68
53	1.57	2.00	1.27	1.73
54	1.62	2.05	1.32	1.78
55	1.66	2.11	1.35	1.83
56	1.70	2.16	1.39	1.87
57	1.75	2.21	1.43	1.92
58	1.80	2.27	1.47	1.97
59	1.04	2.32	1.51	2.02
60	1.89	2.38	1.56	2.07