DEPARTMENT OF BANKING AND INSURANCE

VERMONT REGULATION I-84-1 (REVISED)

CREDIT LIFE AND CREDIT ACCIDENT AND HEALTH INSURANCE

Table of Contents

Section 1. Purpose and Authority
Section 2. Definitions
Section 3. Rights and Treatment of Debtors
Section 4. Policy Forms and Related Material
Section 5. Determination of Reasonableness of Benefits in Relation to Premium Charge
Section 6. Credit Life Insurance Rates
Section 7. Credit Accident and Health Insurance
Section 8. Refund Formulas
Section 9. Experience Reports
Section 10. Deviation Procedures
Section 11. Supervision of Credit Insurance Operations
Section 12. Prohibited Transactions
Section 13. Disclosure and Readability
Section 14. Severability
Section 15. Effective Date

Appendix I. Credit Accident and Health Premium Rates
Appendix II. Experience Reporting Forms

Section 1. Purpose and Authority

The purpose of this regulation is to protect the interests of debtors and the public in this state by providing a system of rate, policy form, and operating standards for the transaction of credit life and credit accident and health insurance. This rule interprets and implements Title 8, Vermont Statutes Annotated, including but not limited to, Sections 3801 through 3825 (as applicable) and Sections 4101 through 4115, and is issued pursuant to powers granted the Commissioner by 8 V.S.A., Sections 75, 4108(b) and 4113.

Section 2. Definitions

As used in this regulation:

(1) "Credit accident and health insurance" means insurance as defined in Section 4103 of Title 8, Vermont Statutes Annotated.

(2) “Credit Insurance” means both credit life insurance and credit accident and health insurance.

(3) “Non contributory credit insurance” means both credit life and credit accident and health insurance where the debtor does not directly pay for the insurance.

(4) “Credit life insurance” means insurance as defined in Sections 4103 and 3805 of Title 8, Vermont Statutes Annotated.

(5) “Net written premium” means gross written premium minus refunds on termination as defined in Section 8 herein.

(6) “Indebtedness” means the “total amount payable” by a debtor to a creditor in connection with a loan or other transaction.

(7) “Total amount payable” means the total outstanding amount owed by the debtor at the time of the death insured against, excluding any unearned interest or finance charges.

Section 3. Rights and Treatment of Debtors.

(1) Multiple Plans of Insurance. If a creditor makes available to the debtors more than one plan of credit life insurance or more than one plan of credit accident and health insurance, which are applicable to the credit transaction, all debtors must be informed of such plans

(2) Substitution. When a creditor requires credit life insurance, credit accident and health insurance, or both, as additional security for an indebtedness, the debtor shall be given the option of furnishing the required amount of insurance through existing policies of insurance owned or controlled by the debtor or of procuring and furnishing the required coverage through any insurer authorized to transact insurance business in this state. If this subsection is applicable, the debtor shall be informed by the creditor of the right to provide alternative coverage before the transaction is completed.

(3) Evidence of Coverage.

(a) All credit insurance shall be evidenced by an individual policy, or, in the case of group insurance, by a certificate of insurance. The individual policy or certificate of insurance shall be delivered to the debtor in accord with Section 4107 of Title 8, Vermont Statutes Annotated.

(b) Each individual policy or certificate of insurance shall set forth such information as is required by Section 4107 of the Credit Insurance Law and any other appropriate sections of the Vermont Statutes.

(4) Claims Processing. All credit insurance claims shall be processed in accord with Chapters 109 and 129 of Title 8, Vermont Statutes Annotated and with Regulation No. 79-2 as amended.

(5) Termination of group credit insurance policy.

(a) If a debtor is covered by a group credit insurance policy providing for the payment of single premiums to the insurer, then provision shall be made by the insurer that in the event of termination of the policy for any reason, insurance coverage with respect to any debtor insured under such policy shall be continued for the entire period for which the single premium has been paid unless the indebtedness is discharged.

(b) If a debtor is covered by a group credit insurance policy providing for the payment of premiums to the insurer on a monthly outstanding balance basis, then the policy shall provide that, in the event of termination of such policy for whatever reason, termination notice thereof shall be given to the insured debtor by the insurer or by the creditor at least thirty (30) days prior to the effective date of termination except where replacement of the coverage by the same or another insurer in the same or greater amount takes place without lapse of coverage. The notice required in this paragraph shall be given by the insurer or, at the option of the insurer by the creditor.

(6) Renewal or Refinancing of Indebtedness. If the indebtedness is discharged due to renewal or refinancing prior to the scheduled maturity date, the insurance in force shall be terminated before any new insurance may be issued in connection with the renewed or refinanced indebtedness. In all cases of such termination prior to scheduled maturity, a refund shall be paid or credited to the debtor as provided in Section 8. In any renewal or refinancing of the indebtedness, the effective date of the coverage as respects any policy provision shall be deemed to be the first date on which the debtor became insured under the policy covering the indebtedness which was renewed or refinanced, at least to the extent of the amount and term of the indebtedness outstanding at the time of renewal and refinancing of the debt.

(7) Maximum Aggregate Provisions. A provision in a policy or certificate that sets a maximum limit on total payments must apply only to that policy or certificate. The maximum limit on the life of one debtor covered under a group credit life insurance policy shall be $40,000.

(8) Voluntary Prepayment of Indebtedness. If a debtor prepays the indebtedness other than as a result of death or through a lump sum disability payment:

(a) Any credit life insurance covering such indebtedness shall be terminated and an appropriate refund of the credit life insurance premium shall be

paid to the debtor in accordance with Section 8; or paid to the creditor to be credited to the debtors account; and

(b) Any credit accident and health insurance covering such indebtedness shall be terminated and an appropriate refund of the credit accident and health insurance premium shall be paid to the debtor in accordance with Section 8, or paid to the creditor to be credited to the debtors account. If a claim under such coverage is in progress at the time of prepayment, the amount of refund may be determined as if the prepayment did not occur until the payment of benefits terminates. No refund need be paid during any period of disability for which credit accident and health benefits are payable. A refund shall be computed as if prepayment occurred at the end of the disability period.

(9) Involuntary Prepayment of Indebtedness. If an indebtedness is prepaid by the proceeds of a credit life insurance policy covering the debtor or by a lump sum payment of a disability claim under a credit insurance policy covering the debtor, then it shall be the responsibility of the insurer to see that the following are paid to the insured debtor if living or the beneficiary, other than the creditor, named by the debtor or to the debtor's estate:

(a) In the case of prepayment by the proceeds of a credit life insurance policy, or by the proceeds of a lump sum total and permanent disability benefit under credit life coverage, an appropriate refund of the credit accident and health insurance premium in accordance with Section 8;

(b) In the case of prepayment by a lump sum disability claim, an appropriate refund of the credit life insurance premium in accordance with Section 8;

(c) In either case, the amount of the benefits in excess of the amount required to repay the indebtedness after crediting any unearned interest, finance or insurance charges.

(10) Amounts to be Insured:

(a) Credit life insurance may provide benefits for which premiums are computed not exceeding

(i) the total amount payable, as defined in Section 2(6), plus two monthly payments.

(ii) If the type of loan instrument or business practice of a lender renders the amount of credit life insurance not appropriate for a class of loans or a lender, then the insurer may file with the Commissioner an alternate plan providing the appropriate level of credit life insurance benefits in accord with the requirements of

Title 8, Section 4108. The insurer shall demonstrate that the provision of the policy and certificate are fair, just and equitable.

(b) Credit accident and health insurance may provide benefits not exceeding the amount permitted by 8 V.S.A., Section 4105(b).

(11) Ineligible Debtors:

(a) An insurer shall not restrict a debtor's eligibility for credit insurance or cancel coverage because of age, employment status or health condition unless an application containing specific questions relating to those restrictions is filled out and signed by the debtor.

(b) If a debtor, who is eligible for coverage under Group Credit Life Insurance for a closed end loan has incorrectly stated his or her age, employment status or health condition on an application, the insurer may make adjustments to premiums or benefits or both or may cancel the insurance. Notice of such adjustments or cancellation must be mailed by the insurer to the creditor and the debtor at his last known address within seventy-five (75) days of the effective date of coverage. The insurer may comply with the provisions of this Section by requiring the creditor to provide or mail the notices to the debtor. Any adjustments of premiums or benefits shall be effective from the effective date of coverage.

(c) Notwithstanding subsection (11)(b) of this Section, an insurer shall not cancel coverage or deny a claim under a policy of group credit life insurance solely because of the non-fraudulent misstatement of age by a debtor. The group life insurance policy may contain a provision specifying an equitable adjustment of premiums or benefits or both to be made in the event the age has been misstated, such provision to contain a clear statement of the method of adjustment to be used.

(d) Any methods to adjust premiums or benefits must be filed with the Commissioner in accordance with 8 V.S.A., Section 4108.

(e) The Commissioner may waive any of the provisions of this Section as they apply to insurers selling non-contributory credit insurance, if the insurer can demonstrate that it is not necessary for the protection of the public.

Section 4. Policy Forms and Related Material.

(1) Permissible Forms. Credit life and credit accident and health insurance shall be issued only in the forms described in Sections 4104, 4107 and 4108 of Title 8, Vermont Statutes Annotated.

(2) Filing Requirements. All policy forms, certificates of insurance, notices of proposed insurance, applications for insurance, endorsements and riders to be delivered or issued for delivery in this state and the schedules of premium rates pertaining thereto shall be filed with the Commissioner as required by Section 4108 of Title 8, Vermont Statutes Annotated.

Section 5. Determination Of Reasonableness Of Benefits In Relation To Premium Charge.

(1) General Standard. Under Title 8, Vermont Statutes Annotated, benefits provided by credit insurance policies must be reasonable in relation to the premium charged. This requirement is satisfied if the premium rate charged develops or may be reasonably expected to develop a loss ratio of not less than 60% for credit life insurance and not less than 70% for credit accident and health insurance.

(2) Nonstandard Coverage. If any insurer files for approval of any form providing coverage more restrictive than that described in Sections 6 and 7, the insurer shall demonstrate to the satisfaction of the Commissioner that the premium rates to be charged for such restricted coverage will develop or may be reasonably expected to develop a loss ratio not less than that contemplated for standard coverage at the premium rates described in these sections.

(3) Coverage Without Separate Charge. If no specific charge is made to the debtor for credit insurance, the standards of Section 5 are not required to be used but any premium rates resulting from such standards as are used which exceed the premium rate standards set out in Sections 6 and 7 must be filed with the Commissioner. For purposes of this Subsection, it will be considered that the debtor is charged a specific amount for insurance if an identifiable charge for insurance is disclosed in the credit or other instrument furnished the debtor which sets out the financial elements of the credit transactions, or if there is a differential in finance, interest, service or other similar charge made to debtors who are in like circumstances, except for their insured or noninsured status.

Section 6. Credit Life Insurance Rates.

(1) Premium Rate. Credit life insurance premium rates for the insured portion of an indebtedness repayable in equal monthly installments.

(a) $0.55 per month per $1,000 of outstanding insured indebtedness if premiums are payable on a monthly outstanding balance basis.

(b) If premiums are payable on a single premium basis, the following formula or such other formula approved by the Commissioner that produces substantially equivalent premiums shall be used to develop single premium rates from the outstanding balance rate:

$$SP = \sum_{t=1}^{n} \left[\left(\frac{MP}{10} \right) \times \left(\frac{I_t}{I_i} \right) \times \left(\frac{1}{1 + dis} \right)^{t-1} \right]$$

SP = Single Premium per $100 of initial credit life insurance coverage.

MP = $0.55, the prima facie maximum credit life insurance premium rate for monthly outstanding balance coverage, or a different amount calculated in accordance with Section 10.

I_t = The amount of insurance for month t including up to two months for t delinquencies.

I_i = Initial amount of insurance.

dis = .0054, representing annual rate of discount for interest and mortality of 6.48%.

n = The number of months in the term of the debt.

(c) Joint coverage on either of the basis in (a) or (b) of Subsection 1, shall be one hundred and fifty percent of the specific rate for that type of coverage.

(d) If the benefits provided are other than those described in Subsection (1) above, rates for such benefits shall be actuarially consistent with the rates provided in Paragraphs (a), (b) and (c).

(2) The premium rates in Subsection (1) shall apply to policies providing credit life insurance to be issued with or without evidence of insurability, to be offered to all debtors, and containing:

(a) No exclusions other than suicide within six months of the incurred indebtedness.

(b) Either no age restrictions or age restrictions making ineligible for coverage debtors 65 or over at the time the indebtedness is incurred or debtors having attained age 66 or over on the maturity date of the indebtedness. Ages 70 and 71 may be substituted for ages 65 and 66; in which case the prima facie premium rates in this section may be increased by 5%. Rates may be increased by 10% if there is no age limit.

(c) A revolving credit insurance policy may exclude from the classes eligible for insurance, classes of debtors determined by age, and provide for the cessation of insurance or reduction in the amount of insurance upon attainment of not less than age 65.

(d) No actively-at-work condition requiring that the debtor be employed more than thirty (30) hours per week.

(e) The policy and certificate shall have prominently printed a notice of the effect that the insured debtor has at least ten (10) days after his or her receipt of said policy or certificate to write to the insurance company, in the case of a policy, or to the creditor, in the case of a certificate, and request cancellation of the policy or certificate and a full refund of premiums or insurance charges paid.

Section 7. Credit Accident and Health Insurance.

(1) Premium Rate. Credit accident and health insurance premium rates for the insured portion of an indebtedness repayable in equal monthly installments, where the insured portion of the indebtedness decreases uniformly by the amount of the monthly installment paid, shall be as set forth in Paragraphs (a) and (b). Paragraphs (c), (d), and (e) refer to premium rates for other types of benefits either alone or in combination with the type of benefits applicable to (a) and (b).

(a) As set forth in Appendix I if premiums are payable on a single-premium basis for the duration of the coverage; or

(b) If premiums are paid on the basis of a premium rate per month per thousand of outstanding insured indebtedness, these premiums shall be computed according to the following formula or according to a formula approved by the Commissioner which produces rates actuarially equivalent to the single premium rates in Appendix I:

$$OPn = \frac{20 \times (1 + .0019n) \times SPn}{n + 1}$$

Where SPn = Single Premium Rate per $100 of initial insured indebtedness repayable in n equal monthly installments (Appendix I).

OPn = Monthly Outstanding Balance Premium Rate per $1,000.
n = Original repayment period, in months.

(c) The actuarial equivalent of Paragraphs (a) and (b) shall be used if the coverage provided is a constant maximum indemnity for a given period of time.

(d) If the benefits provided are other than those described in Subsection (1) above, rates for such benefits shall be actuarially consistent with rates provided in Paragraphs (a), (b) and (c).

(e) The outstanding balance rate for credit accident and health insurance, may be either a term specified rate or may be a single composite term outstanding balance rate applicable to all loans made under an open-end credit plan.

(2) The premium rates in Subsection (1) shall apply to policies providing credit accident and health insurance to be issued with or without evidence of insurability, to be offered to all eligible debtors, and containing:

(a) No provision excluding or denying a claim for disability resulting from pre-existing conditions except for those conditions for which the insured debtor received medical advice, diagnosis, or treatment within six months preceding the effective date of the debtor's coverage and which caused loss within the six months following the effective date of coverage.

(b) No other provision which excludes or restricts liability in the event of disability caused in a specific manner except that it may contain provisions excluding or restricting coverage in the event of normal pregnancy and intentionally self-inflicted injuries.

(c) No Actively At Work Test may require that the debtor be employed more than thirty (30) hours per week.

(d) No age restrictions or only age restrictions making ineligible for coverage debtors 65 or over at the time the indebtedness is incurred or debtors who will have attained age 66 or over on the maturity date of the indebtedness. Ages 70 and 71 may be substituted for ages 65 and 66, in which case the prima facie rate may be increased by 5%. Rates may be increased 10% if there is no age limit.

(e) A daily benefit equal in amount to one-thirtieth of the monthly benefit payable under the policy for the indebtedness.

(f) A definition of "disability" which provides that during the first 24 months of disability the insured shall be unable to perform the duties of his occupation at the time the disability occurred, and thereafter the duties of any occupation for which the insured is reasonably fitted by education, training, or experience. This paragraph shall not apply to lump sum disability coverage.

(g) A revolving credit insurance policy may exclude from the classes eligible for insurance classes of debtors determined by age, and provide for the cessation of insurance or reduction in the amount of insurance upon attainment of not less than age 65.

Section 8. Refund Formulas.

(1) Refund formulas which any insurer desires to use must be filed with the Commissioner for approval prior to use. The following methods or such other methods approved by the Commissioner that produce substantially equivalent results shall be used:

(a) Pro Rata Method. The pro rata unearned gross premium method shall be used for level term credit life insurance, credit accident and health insurance wherein the insured is covered for a constant maximum indemnity which begins to decrease in even amounts per month, and for credit insurance coverage wherein premiums are collected from the debtor on a basis other than the single premium basis.

(b) Rule of Anticipation. For coverages other than those listed in paragraph (a), the refund shall not be less than the premium that would be charged for the remaining coverage for the remaining term of the indebtedness. An insurer may file other methods if they yield substantial similar results.

(2) In the event of termination, no charge for credit insurance may be made for the first 15 days of a loan month; and a full month may be charged for 16 days or more of a loan month.

(3) The requirements of the Credit Insurance Law that refund formulas be filed with the Commissioner shall be considered fulfilled if the refund formulas are set forth in the individual policy or group certificate filed with the Commissioner.

(4) No refund of $1 or less need be made.

Section 9. Experience Reports.

(1) Each insurer doing credit insurance business in this state shall annually by June 1 submit the experience reports in Appendix II.

Section 10. Use of Rates—Direct Business Only.

(See Glossary of “terms and definitions” herein.)

(1) Minimum Loss Ratio Test.

(a) Loss Ratio Test. Benefits will be considered reasonable in relation to the premium charged if the loss ratio equals or exceeds the Minimum Loss Ratio Standard specified in Section 5.

(b) Scope of Test When Deviated Rates are in Use. If an insurer has deviated rates approved under (3)(a) or (3)(b), the test will exclude the experience of the accounts for which deviated rates are in use. The reasonableness of rates for those accounts will be determined by subsection (3).

(c) Frequency of Test. The test will be made each year when submitting the experience reports required by Section 10.

(2) Use of Prima Facie Rates.

An insurer that has filed rates which are equal to or lower than prima facie rates may retain on file and use those rates without further proof of their reasonableness while the experience of the insurer in this state for the accounts to which they are applied continues to satisfy the Minimum Loss Ratio Test specified in subsection (1).

(3) Use of Deviated Rates.

(a) Use of Rates Higher Than Prima Facie Rates.

If the Minimum Loss Ratio Test produces a loss ratio that exceeds the Minimum Loss Ratio Standard, the insurer may file for approval and use rates that are higher than prima facie rates if it can be expected that the use of such higher rates will continue to produce a loss ratio for the accounts to which they are applied that will satisfy the Minimum Loss Ratio Test.

(b) Use of Rates Lower Than Prima Facie Rates.

If the Minimum Loss Ratio Test produces a loss ratio that is lower than the Minimum Loss Ratio Standard, the insurer shall either file adjusted rates that can be expected to produce a loss ratio that will satisfy the Minimum Loss Ratio Test or submit reasons acceptable to the Commissioner why it should not be required to do so.

(c) Determination of Deviated Rates.

If deviated rates are to be filed under (a) or (b) above, the insurer may file rates for approval that will be:

(i) Applied uniformly to all accounts of the insurer.

(ii) Applied on an equitable basis approved by the Commissioner to only one or more accounts of the insurer for which the experience has been more favorable or less favorable than expected, or

(iii) Applied according to a case rating procedure on file with the Commissioner (an insurer electing to file a case rating procedure may either file its own plan for the approval of the Commissioner or may use the Standard Case Rating Procedure specified herein by notice to him.)

The rate for each account which has been deviated must be redetermined on the same basis thereafter or until the rate for the account is no longer deviated.

(4) Use of Rates Determined by Standard Case Rating Procedure.

An insurer, by written notice to the Commissioner of its election to do so, may file and use premium rates determined by this Standard Case Rating Procedure. If elected, the procedure will be used by the insurer to rate all of its credit insurance in this State. Once elected, the procedure will remain in effect for the insurer until a different procedure has been filed with the Commissioner and approved by him.

(a) Determination of Case Rate.

An insurer may use a rate for an account not greater than the case rate for that account as follows:

(i) Single Account Cases and Multiple Account Cases. If the account is within the definition of a single account case or of a multiple account case as filed by the insurer, the case rate for the account or for each account comprising the multiple account case will be determined by the formula set forth in (b) below.

(ii) Pooled Account Cases.

If the account is in a pooled account case, the case rate for each account comprising the case will be the case rate for that pooled account case as determined by the formula set forth in (b) below.

(iii) New Accounts Without Experience.

If a new account of an insurer has no experience in this State, the case rate for the account will be the prima facie rate under Sections 6 and 7.

(b) Calculation of Case Rate.

(i) Symbols and Definitions.

PFR = Prima Facie Rate
ALR = Actual Loss Ratio for case at Prima Facie Rate Basis
ELR = Minimum Loss Ratio Required by Section 5.
Z = Credibility Factor for Case
CLR = Credibility Adjusted Case Loss Ratio at Prima Facie Basis
= Z(ALR) + (1 – Z) (ELR)
E = Expense Loading in prima facie rate
= (1 – ELR)PFR

(ii) New Case Rate.

NCR = New Case Rate = PFR(CLR) + E

(c) Minimum Changes

If the new case rate does not differ by more than 5% from the current case rate, the new case rate will be the current case rate.

(d) Case Rate Period.

A case rate will be in effect for a period of time not longer than the experience period used to establish the case rate (i.e. 1 year, 2 years, 3 years). An insurer may file for a new case rate before the end of a case rate period, but not more often than once during any 12 month period.

(e) Change of Insurers.

If a creditor changes insurers, the case rate established under this Regulation in effect for his account on the date of the change will continue to be in effect for the account with the succeeding insurer for the remainder of the case rate period or until a new case rate for his account is established if sooner.

(5) Filing of Rates.

When submitting the Experience Reports required by Section 9, an insurer who has elected to file higher rates under (3)(a) above or who is required to file reduced rates under (3)(b) above, shall also file a new schedule of rates as determined by those subsections. If the Commissioner does not disapprove the new schedule of rates within 30 days after receipt of filing, or July 1, whichever is later, rates not higher than the new rates shall be placed in effect on September 1 next following unless a different effective date has been approved by the Commissioner. In no event, however, may a rate increase be placed in effect earlier than the date rate decreases are required to be placed in effect.

(6) Glossary of Terms and Definitions as Used in this Section 11.

(a) "Account" means the aggregate credit life insurance or credit accident and health insurance coverage for a single plan of insurance and for a single class of business written through a single creditor by the insurer whether coverage is written on a group or individual policy basis. With the approval of the Commissioner, the account may also mean the credit life insurance or the credit accident and health insurance of two or more plans of insurance or two or more classes of business of a single creditor.

(b) "Case" means either a "Single Account Case" or a "Multiple Account Case" or a "Pooled Account Case" as follows:

(i) "Single Account Case," means an account that is at least as credible as the minimum level of credibility elected by the insurer for defining a single account case excluding all of these accounts which have been included in multiple account cases. An insurer may make this election by notice of the Commissioner, in writing, of the minimum credibility factor it will use to define a "Single Account Case." Once notified, the minimum credibility factor will remain in effect for the insurer until a different factor has been filed by the insurer and approved by the Commissioner. If an insurer makes no written election, its minimum credibility factor will be 100%.

(ii) "Multiple Account Case" means, with the approval of the Commissioner, two or more accounts of the same insurer having similar underwriting characteristics are combined by the insurer for premium rating purposes, excluding all cases defined in (i) above and which, when combined, are at least as credible as the minimum level of credibility elected in (i) above.

(iii) "Pooled Account Case" means a combination of all the insurer's accounts of the same plan of insurance and class of business which combination has experience in this State, excluding all cases defined in (i) and (ii) above.

(c) "Plan of Insurance" unless otherwise filed and approved means

(i) credit life insurance on a flat rated basis other than revolving accounts (i.e. including joint and single life coverage, decreasing and level insurance, outstanding balance and single premium),

(ii) credit life insurance on a revolving account basis,

(iii) credit life insurance on an age-graded basis,

(iv) credit accident and health insurance other than on revolving accounts combining outstanding balance and single premium but separately for each combination of waiting period and retroactive or non-retroactive.

(v) credit accident and health insurance on a revolving account basis separately for each combination of waiting period and retroactive or non-retroactive.

(d) "Class of business" means a grouping of the classes of business referenced in Section 9 having the same prima facie rate.

(e) "Experience" means "earned premiums," incurred claims "incurred claim count," number of life years insured, and "average amount of insurance" during the experience period.

(f) "State experience" means the most recent published claim rates or loss ratios based on the experience of all insurers in this State for a plan of insurance and class of business. However, if this State enters into agreements with other similar States, the use of the appropriate multi-State experience will be substituted for the experience in this State. If published experience is not available in this State or multi-State region, the claim rates assumed in this State's prima facie rate and the minimum loss ratio required by Section 5 will be used.

(g) "Experience Period" means the most recent period of time for which experience is reported, but not a period longer than three full years.

(i) If a case develops 100% credibility in less than three years, the experience period for that case will be the number of full years needed to develop credibility.

(ii) If a case develops the minimum elected by the insurer in less than three years, the experience period for that case, at the option of the insurer, will be the number of full years needed to develop minimum credibility or three full years.

(iii) New Accounts with Experience.

If a new account of an insurer has experience in this State with a prior insurer, the new insurer must use the most recent experience of the account to the extent necessary to fill out an experience period.

(iv) Accounts with Multi-State Experience.

If an account has experience in more than this State, an insurer may use only the experience of the account in this State to rate the case or with the approval of the Commissioner may use the multi-State experience of the account for this purpose applied on an equitable basis.

(h) "Prima Facie Rates" means those rates shown in Sections 6 and 7.

(i) "Earned premiums at rates in use" means actual earned premiums, that is, the premiums earned at the premium rates actually charged and in force during the experience period in accordance with the instructions and method of calculation in Appendix II.

(j) "Earned premium at prima facie rate" means the actual earned premiums adjusted to the amount which would have been earned had the premium rate during the experience period been equal to the current prima facie rate in accordance with Appendix II. Reasonable methods of approximations may be used.

(k) "Incurred Claims" means total claims paid during the experience period, adjusted for the change in the claim reserve.

(l) "Credibility Factor" means the extent to which the past experience of a case can be expected to recur in the future. For the Standard Case Rating Procedure, the credibility factor may be either the Number of Claims incurred or on the "Average Number of Life Years" for the case during the experience period using the Credibility Table.

The insurer shall notify the Commissioner in advance which method it will use to measure the credibility of all its cases in this State and may not change its method without the prior approval of the Commissioner. If "Claim Count" or "Life Year" data is not available, reasonable methods of approximation approved by the Commissioner may be used until such data is developed.

(m) "Incurred Claim Count" means the number of claims incurred for the case during the experience period. This means the total number of claims reported during the experience period, whether paid or in the process of payment plus any incurred but not reported (IBNR) at the end of the experience period less the number of claims incurred but not reported at the beginning of the experience period. If a debtor has been issued more than one certificate for the same plan of insurance, only one claim is counted. If a debtor receives disability benefits, only the initial claim payment for the period of disability is counted.

(n) "Average Number of Life Years" means the average number of group certificates or individual policies in force during the Experience Period (without regard to multiple coverage) times the number of years in the experience period, or some equivalent calculation.

(o) "Loss Ratio" means, for accounts in which premiums are on the monthly outstanding balance or level premium basis, the ratio of incurred claims to earned premiums at the prima facie rate. For accounts on the single premium basis, it means the ratio of incurred claims to earned premiums at the prima facie rate, where such premiums are augmented by an investment income factor that is actuarially consistent with the interest discounts in Sections 6 and 7.

(p) Credibility Table for Purposes of the Standard Case Rating Procedure means the following table:

CREDIBILITY TABLE

Average Number of Life Years Credit Accident and Health Plans Credit Retroactive and Non-Retroactive				Incurred Claim Count	Credibility Factor
Life	Waiting Periods				
	7 day	14 day	30 days		
1	1	1	1	1	.00
1,800	95	141	209	9	.25
2,400	126	188	279	12	.30
3,000	158	234	349	15	.35
3,600	189	281	419	18	.40
4,600	242	359	535	23	.45
5,600	295	438	651	28	.50
6,600	347	516	767	33	.55
7,600	400	594	884	38	.60
9,600	505	750	1,116	48	.65
11,600	611	906	1,349	58	.70
14,600	768	1,141	1,698	73	.75
17,600	926	1,375	2,047	88	.80
20,600	1,084	1,609	2,395	103	.85
25,600	1,347	2,000	2,977	128	.90
30,600	1,611	2,391	3,558	153	.95
40,000	2,106	3,125	4,651	200	1.00

The above integral numbers represent the lower end of the bracket for each Z factor. The upper end is 1 less than the lower end for the next higher Z factor.

Section 11. Supervision of Credit Insurance Operations.

(1) Each insurer transacting credit insurance in this state shall be responsible to conduct a thorough periodic review of creditors with respect to their credit insurance business with such creditors to assure compliance with the insurance laws of this state and the regulation promulgated by the Commissioner.

(2) Written records of such reviews shall be maintained by the insurer for review by the Insurance Commissioner and retained for a period of at least 5 years.

Section 12. Prohibited Transactions.

The following practices, when engaged in by insurers in connection with the sale or placement of credit insurance, or as an inducement thereto, shall constitute unfair methods of competition and shall be subject to the Unfair Trade Practices Act of this State.

(1) The offer or grant by an insurer to a creditor of any special advantage or any service not set out in either the group insurance contract or in the agency contract, other than the payment of agents' commissions;

(2) Agreement by an insurer to deposit with a bank or financial institution money or securities of the insurer with the design or intent that the same shall affect or take the place of a deposit or 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; and

(3) [This provision has been enjoined by the Vermont Supreme Court.]

Section 13. Disclosure and Readability.

A. Disclosure. When a premium or identifiable charge is payable by a debtor for credit insurance coverage offered by a creditor, at the time such insurance is applied for, disclosures shall be made to the principal debtor and copies given and retained, in accordance with State and Federal law. The creditor shall also disclose the optional nature of the coverage, premium or identifiable charge separately by type of coverage, eligibility requirements, and policy limitations and exclusions. These disclosures shall be made prominently above the space for the signature indicating election to obtain such coverage. These disclosures may be made in conjunction with either (a) the Federal Truth-in-Lending disclosure, or (b) a Notice of Proposed Insurance, or insurance policy or certificate.

B. Readability

The commissioner shall not approve any form unless the policy or certificate is written in non-technical, readily understandable language, using words of common everyday usage:

(1) each insurer is required to test the readability of its policies or certificates by use of the Flesch Readability Formula, as set forth in Rudolf Flesch, The Art of Readable Writing, (1949, as revised 1974);

(2) a total readability score of forty (40) or more on the Flesch scale is required;

(3) all policies or certificates within the scope of this Section shall be filed with the Commissioner accompanied by a certification setting forth the Flesch score and certifying compliance with the guidelines set forth in this Section.

Section 14. Severability.

If any provision or clause of this Regulation or the application thereof to any person or situation is held invalid, such invalidity shall not affect any other provision or application of the regulation which can be given effect without the invalid provision or application, and to this end the provisions of the regulation are declared severable.

Section 15. Effective Date.

(1) This regulation shall take effect January 1, 1987 as to premium rates.

(2) Approval of all forms not in compliance with this regulation are hereby withdrawn as of January 1, 1987. No such form may be issued after January 1, 1987 unless it has been submitted to and approved by the Commissioner subsequent to December 1, 1986 or unless a rider approved subsequent to such date has been attached bringing such form into compliance with this regulation.

(3) Any deviations thought to be appropriate by an insurer as a result of promulgation of this regulation shall be filed in accordance with the provisions of Section 10 no later than January 15, 1987.

(4) Certificates, notices of proposed insurance and premium rates in connection with existing group policies shall conform to the requirements of this regulation not later than December 31, 1987.

(5) Any group policy issued to replace an existing group policy of credit insurance or an amendment to an existing group policy of credit insurance shall be ignored for the purposes of determining the anniversary date if such change is made after October 1, 1986.

APPENDIX I

CREDIT ACCIDENT AND HEALTH PREMIUM RATES

(A) The following table contains prima facie maximum credit accident and health premium rates. The rates in this table are single premium rates applicable to an indebtedness repayable in equal monthly installments.

(B) Prima facie maximum premium rates for terms of coverage not specified in Appendix I shall be actuarially consistent with this table of rates.

SINGLE PREMIUM ACCIDENT AND HEALTH RATES PER $100

INITIAL INSURED INDEBTEDNESS

	Non-Retroactive Basis		Retroactive Basis	
Number of Monthly Installments	14-Day Elimination Period	30-Day Elimination Period	14-Day Waiting Period	30-Day Waiting Period
12	$ 1.44	$ .96	$ 2.01	$ 1.56
24	1.83	1.34	2.41	1.96
36	2.13	1.65	2.72	2.27
48	2.41	1.92	3.00	2.55
60	2.68	2.19	3.27	2.82

APPENDIX II

EXPERIENCE REPORTING FORMS
FORM A INSTRUCTIONS

The purpose of this form is to provide state-wide experience data under various classifications which will permit the review and regulation of premium rates and loss ratios at both company and state level.

A. Class of Business means any of the following:

1. Credit unions;
2. Commercial and savings banks;
3. Finance companies;
4. Motor vehicle dealers;
5. Other sales finance;
6. Production credit associations; and bank agricultural loans;
7. All others.

B. Earned Premiums

1. Actual earned premiums (Line 1f) –
   The total of all premiums earned at the premium rate(s) actually charged and in force during the experience period.

2. Earned premiums at prima facie rate (Line 1g) –
   Actual earned premiums adjusted (on Form B) to the amount which would have been earned had the premium rate during the experience period been equal to the current prima facie rate. Note that if premiums in force differ from the current prima facie rate in force, Line 1f will not equal Line 1g.

3. Earned premiums at prima facie rates, adjusted for investment income (Form A, line 1, h) – Investment income must be imputed to gross premiums at rates specified in Sections 6 and 7 (if written on a single-premium basis) by a generally-accepted actuarial procedure, which procedure must be explained in detail.

C. Experience Period

1. The experience period will consist of a maximum of three calendar years, except that in the first and second years after implementation of this regulation, the experience period may, at the insurers option, include only one or two year's experience, respectively. Thereafter, three years experience will be required.

2. Data included in this report is to be the direct business of the current insurer only, without adjustment for reinsurance assumed or ceded.

CREDIT LIFE OR DISABILITY INSURANCE EXPERIENCE REPORT

STATE OF VERMONT**

CALENDAR YEAR OF 19____

FORM A

CLASSES OF BUSINESS: Check One;

[ ] (a) credit unions
[ ] (b) commercial & savings banks;
[ ] (c) finance companies;
[ ] (d) motor vehicle dealers;
[ ] (e) other sales finance;
[ ] (f) production credit associations; bank agricultural loans;
[ ] (g) all others.

Mode of Premium Payment:

[ ] Single Premium
[ ] Revolving Account
[ ] Outstanding Balance (Monthly Premium)

Plan of Benefits:

[ ] Credit Life [ ] Decreasing [ ] Level [ ] Single Life [ ] Joint Life [ ] Gross [ ] Net
[ ] Credit Disability _____ Days, [ ] Retro [ ] Non-Retro

1. Actual Earned Premiums	**19____**	**19____**	**19____**	**Total**
a. Gross premiums written (before deduction for Dividends and Experience Rating Credits)				
b. Refunds on terminations				
c. Net (a - b)				
d. Premium reserve, beginning of period				
e. Premium reserve, end of period				
f. Actual earned premiums (c + d - e)				
g. Earned premiums at prima facie rate (Form B)				

h. Earned premiums at prima facie rate, adjusted for investment income (attach explanation) ______________________________

2. Incurred Claims

a. Claims Paid ______________________________

*b. Unreported claims, beginning of period ______________________________

*c. Unreported claims, end of period ______________________________

d. Claim reserve, beginning of period ______________________________

e. Claim reserve, end of period ______________________________

f. Incurred claims (a – b + c – d + e) ______________________________

3. Loss Ratio

a. Actual Loss Ratio (2d - 1f) ______________________________

b. Loss ratio at prima facie rate (2f - 1g) ______________________________

c. Adjusted loss ratio (2f / 1h) ______________________________

4. During this reporting period, have you changed the method for calculating premium reserves, unreported claims, claim reserves, or incurred claims? If yes, please explain.

5. What were the company's exposures during the reporting period, expressed per $1,000 per month separately for each class of business defined herein?

* Unreported claims are claims received by the insurer but not yet processed.

**This report shall be completed for each Class, Mode, and Benefit Plan.

FORM B INSTRUCTIONS

The purpose of this form is to convert actual earned premiums (Form A, Line 1f) to the amount of premiums which would have been earned had all business been written at the current prima facie rate.

Form B1 is applicable to Credit Life insurance and Form B2 is applicable to Credit Disability insurance.

GENERAL

A. A Form B (Life or Disability Section) must be completed for each Form A where prima facie earned premium differs from actual earned premium. More than one Form B may be required when more than one year's data is presented, due to changes in prima facie rates or other factors.

B. Actual earned premiums are to be converted to prima facie earned premiums by the use of a conversion factor which is the ratio of the prima facie premium rate to the actual premium rate. This conversion must be performed for each premium rate with premiums in force during the experience period.

C. The overall totals presented on Form B (either life or disability) must agree to the appropriate lines on the Form A to which they are attached.

D. Note that both Form B1 and Form B2 include actual earned premium at prima facie rate on Line A. This data is for balancing purposes only, and in no way indicates that Form B must be completed if actual earned premium is equal to prima facie earned premium.

Form B1 – Credit Life Insurance

A. Prima facie earned premium (Col. 5) is the product of actual earned premium (Col. 1) times the conversion factor (Col. 2 – Col. 3)

B. See also General Note C.

Form B2 -- Credit Disability Insurance

A. The conversion of actual earned premiums to prima facie earned premiums is accomplished in basically the same manner as described in Section 1A above. The conversion factor to be utilized, however, is the average of three ratios taken between prima facie and actual rates from 12, 24 and 36 month terms. The sum of these ratios, divided by three, becomes the conversion factor.

B. Prima facie premium rates are to be presented on Form B2, Appendix II, Line A, Col. 2-4. All ratios (Line b) are to be calculated by dividing Line A by Line a.

C. This form should be reproduced as necessary to present the required conversion for all premium rates in force during the experience period.

D. See also General Note C.

____
Company

____
Signature

____
Title

CREDIT LIFE INSURANCE EXPERIENCE REPORT
STATE OF VERMONT

PRIMA FACIE EARNED PREMIUM
FORM B1

Class of Business________________________________ Calendar Year 19______

Premium Mode _________________________________ Plan of Benefits _______________

Credit Life Insurance

	Actual Earned Premiums Col. 1	Prima Facie Rate Col. 2	Actual Premium Rate Col. 3	Prima Facie Earned Premium Col. 4
A. Earned premiums at prima facie rate	____	XXX	XXX	____
B. Earned premiums at other than prima facie rates:				
1. ____				
2. ____				
3. ____				
4. ____				
5. ____				
6. ____				
Totals	____ To Form A, Line 1f	XXX	XXX	____ To Form A, Line 1g

C. Explain any changes in calculation methods made during this period.

CREDIT DISABILITY INSURANCE EXPERIENCE EXHIBIT
STATE OF VERMONT

PRIMA FACIE EARNED PREMIUM
FORM B2

Class of Business___________________ Calendar Year 19_______

Premium Mode____________________ Plan of Benefits___________________

Credit Disability Insurance

	Actual Earned Premium	Premium Rates: 12 mo	24 mo	36 mo	Prima Facie Earned Premium
	Col. 1	Col. 2	Col. 3	Col. 4	Col. 5
A. Earned Premium at prima facie rate					
B. Earned Premium at other than prima facie rate:					
1. a. Actual Rate	XXX				XXX
b. Ratio	XXX				XXX
c. Earned Premium					
2. a. Actual Rate	XXX				XXX
b. Ratio	XXX				XXX
c. Earned Premium					
3. a. Actual Rate	XXX				XXX
b. Ratio	XXX				XXX
c. Earned Premium					
TOTALS		XXX	XXX	XXX	
	To Form A, Line 1f				To Form A, Line 1g

4. Explain any changes in calculation methods made during this reporting period.

5. What were the company's exposures during the reporting period, expressed per $1,000 per month separately for each class of business defined herein?

FORM C INSTRUCTIONS

The purpose of this form is to present a reconciliation between current year data presented on the various Forms A and the totals presented on Page 46 of the Annual Statement.

A. Due to the volume of Forms A which may be filed, each form will be listed by page number only. All Forms A must be included on Form C to insure agreement to Page 46 of the Annual Statement.

B. Line references included in column headings refer to Form A.

C. This form should be reproduced as necessary to include all Forms A.

CREDIT LIFE INSURANCE EXPERIENCE REPORT

RECONCILIATION TO STATE PAGE

STATE OF VERMONT

FOR THE CURRENT YEAR OF 19_____

FORM C1

	Premiums		Claims	
	Written	Earned	Paid	Incurred
	Line 1c	Line 1f	Line 2a	Line 2f
1. Credit Life				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Total Life				
2. Annual Statement Page 46, Line 28				

3. Explain any differences between "Total Life" and Page 46, Line 28.

4. Explain any changes in calculation methods made during this reporting period.

5. What were the company's exposures during the reporting period, expressed per $1,000 per month separately for each class of business defined herein?

CREDIT DISABILITY INSURANCE EXPERIENCE REPORT

RECONCILIATION TO STATE PAGE

STATE OF VERMONT

FOR THE CURRENT YEAR OF 19_____

FORM C2

	Premiums		Claims	
	Written	Earned	Paid	Incurred
	Line 1c	Line 1f	Line 2a	Line 2f
1. Credit Disability				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Page _____ of _____				
Total Disability				

2. Annual Statement
   Page 46, Line 31 ____

3. Explain any differences between "Total Disability" and Page 46, Line 31.

4. Explain any changes in calculation methods made during this reporting period.

5. What were the company's exposures during the reporting period, expressed per $1,000 per month separately for each class of business defined herein?