

January 24, 2007

Bulletin 144

Credit Life and Accident and Health Rates

This Bulletin is directed to all insurers engaged in the business of selling credit insurance 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 required by this subsection.

In regards 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. With the conclusion of the calendar year 2005, there are three (3) years of experience available and the triennial review is due.

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
2003	40.2%
2004	42.2%
2005	45.5%
Aggregate for 3 years	42.5%

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 increasing over the last three years, the loss ratio is below the statutory target of 55%.

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
2003	45.3%
2004	44.6%
2005	45.6%
Aggregate for 3 years	45.1%

Pursuant to 760 IAC 1-5.1-4, the objective is to achieve a 55% loss ratio. The loss ratio for credit accident and health has been fairly stable over the last three (3) years. This loss ratio is below the statutory target of 55%.

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 2003, 2004, and 2005 are listed below:

Calendar Year	3 Year Treasury Rate
2003	2.37%
2004	3.25%
2005	4.37%
Average for 3 years	3.33%

Based upon this information the following prima facie rates and discount rate apply for business written on or after **June 1, 2007**.

Life Prima Facie Rates

The credit life prima facie rates are defined by 760 IAC 1-5.1-6(a)(1) to be:

For monthly outstanding balance basis, sixty-nine cents (\$0.69) per month per one thousand dollars (\$1,000) of outstanding insured debt on single life and one dollar and fifteen cents (\$1.15) 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.

Based on experience from the last three (3) years, these rates must be reduced to 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. The average loss ratio over the last three (3) years for credit life has been 42.5%. Therefore, the rates should be redetermined by multiplying existing rates by $(1 - (.55 - .425))$. This means that the rate of \$0.69 should be reduced to \$0.60 and the \$1.15 should be reduced to \$1.00.

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. These rates need two adjustments. The first is to adjust the rates to 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. The second adjustment is to adjust for the reduction of the discount rate which is built into the single premiums.


Incorporating both of these adjustments results in rates that are detailed below:

Original Number of Equal Monthly Installments	14 Day Retroactive Policy	14 Day Nonretroactive Policies	30 Day Retroactive Policies	30 Day Nonretroactive 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 5.4% for life and 5.0% for accident and health. The life discount rate includes 0.4% for mortality. Based on the three (3) year Treasury Note over the last three (3) years, these annualized discount rates should be adjusted to 3.7% for life and 3.3% for accident and health. The monthly discount rate for life should be reduced to 0.0030 (from 0.0044) and for accident and health should be reduced to 0.0027 (from 0.0041).

INDIANA DEPARTMENT OF INSURANCE



Jim Atterholt, Commissioner