

Bulletin 19

**I -- TERMINATION OF CREDIT LIFE AND CREDIT ACCIDENT AND HEALTH
INSURANCE UPON DISCHARGE OF INDEBTEDNESS, AND
II -- REFUND OF UNEARNED PREMIUM**

January 4, 1965

- I. Since the effective date of the "Model Act for the Regulation of Credit Life & Credit A & H Insurance," Acts 1961, Chapter 47, this Department has consistently interpreted such law to require that all insurance issued in connection with loans or other credit transactions must be terminated upon discharge of such loan or other credit transaction. This pertains to discharge of indebtedness for any cause, including discharge due to renewal or refinancing or repayment prior to the scheduled maturity date.

The Department's interpretation was and is based, in part, upon the following wording of the Act:

Indiana Code 27-8-4-4(A) ". . . the amount of insurance shall at no time exceed the scheduled or actual amount of unpaid indebtedness." (similar meaning conveyed in Indiana Code 27-8-4-4(B). . .

Sec. 5 ". . . 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 refinanced indebtedness."

(See also, Indiana Insurance Code, 27-8-4-4(A), 27-8-4-4(B) and 27-8-4-5.)

This Bulletin is issued to clarify any misunderstanding which may otherwise exist.

- II. The requirements for the refund of unearned premium are set forth in Sec. 8 of the Act and Part III of Regulation No. 5.

However, this Department has received numerous inquiries --

(1) as to what portion of a month shall qualify as a full month in computing a refund under the "Rule of 78" when insurance is terminated other than on the monthly anniversary date, and

(2) from which date earned premium may be deemed to commence in the event a selected repayment or due date is later than the monthly anniversary of the date of loan (contract date) and the insurance is effective from the date of loan rather than a selected repayment or due date.

In these matters the Department makes the following rulings and recommendations:

(1) A full month will be deemed "earned" if insurance is terminated, at the instigation of the insured, at any time during the first month of insurance; after the first month of insurance, a full month will only be deemed "earned" if insurance is terminated on or after the 16th day of such month. Any portion of a month less than 16 days shall be disregarded in calculating earned premium under the "Rule of 78."

(2) The calculation of earned premium shall be made from the effective date of the insurance policy or certificate.

Harry E. McClain
Insurance Commissioner

Withdrawn