

**Bulletin 48**

**THE USE OF EXOTIC REINSURANCE PROGRAMS IN THE MARKETING OF CREDIT LIFE  
AND CREDIT ACCIDENT AND SICKNESS INSURANCE**

August 28, 1984

It has been brought to the attention of this Department that a number of insurers authorized to write credit life and credit accident and sickness insurance in this state have either developed, or are participating in, exotic reinsurance programs, whereby a creditor is receiving compensation on the basis of the experience of the block of credit insurance business the creditor has written. More specifically, the exotic reinsurance programs in question are ones in which a creditor is permitted to buy a certain class of shares of stock, usually preferred stock, in a reinsurer in which the authorized insurer has agreed to reinsure that creditor's block of business and which the reinsurer will pay a dividend to the creditor based upon the experience of that particular block of business rather than a dividend based upon the total profitability of the reinsurer.

This Department is concerned that such programs have the potential to violate Indiana Department of Insurance Rule 760 IAC 1-14, which sets the maximum level of compensation that a creditor may receive. If a creditor receives the maximum commission for the sale of credit insurance, and in turn receives additional income based upon the experience of the particular block of business it has placed with the company, this Department views the transaction as violating Indiana Department of Insurance Rule 760 IAC 1-14 and, thus, makes the parties to said transaction, i.e. the creditor and the authorized insurer, subject to any disciplinary actions by the Department.

This position does not apply to credit reinsurance transactions whereby creditors make an investment in a reinsurer and share the profits or losses of said reinsurer based upon the number of shares held rather than the particular experience of their own block of business placed with a reinsurer, nor does it apply to the creditor who fully capitalizes an insurance company to accept reinsurance. Both of these situations would be viewed as being legitimate investments.

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