

# STATE OF ALASKA

WALTER J. HICKEL, GOVERNOR

## DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

P.O. BOX 110805  
JUNEAU, ALASKA 99811-0805  
PHONE: (907) 465-2515

DIVISION OF INSURANCE


### ORDER R93-03 AMENDING REGULATIONS OF THE DIVISION OF INSURANCE

The attached 20 pages of regulations, dealing with credit life and disability insurance are hereby adopted and certified to be a correct copy of the regulations that the Division of Insurance amends under authority of AS 21.06.090 and after compliance with the Administrative Procedure Act (AS 44.62), specifically including notice under AS 44.62.190 and 44.62.200 and opportunity for public comment under AS 44.62.210.

This action is not expected to require an increased appropriation.

This order takes effect on the 30th day after it has been filed by the Lieutenant Governor, as provided in AS 44.62.180.

DATE: May 3, 1993  
Juneau, Alaska

  
David J. Walsh  
Director of Insurance

### FILING CERTIFICATION

I, John B. Coghill, Lieutenant Governor for the State of Alaska, certify that on May 7th, 1993, at 3:50 P.m., I filed the attached regulations according to the provisions of AS 44.62.040 -- 44.62.180.

  
Lieutenant Governor

Effective June 6, 1993.

Register 126, July, 1993.

JB/go7621c  
050393b

TITLE 3. COMMERCE AND ECONOMIC DEVELOPMENT

PART 2. DIVISION OF INSURANCE

CHAPTER 28. LIFE, DISABILITY, VARIABLE AND  
RELATED INSURANCE

**Article 4. Credit Life Insurance and Credit Disability Insurance**

**Section**

--

- 320. Rights and treatment of debtors
- 330. Determination of reasonableness of benefits in relation to premium charge
- 340. Credit life insurance rates
- 350. Credit disability insurance rates
- 355. Limitations on compensation
- 360. Refunds
- 370. Filing of experience information
- 380. Deviations from prima facie [acceptable credit insurance] rates
- 390. Prohibited transactions
- 395. Review
- 400. Effective date
- 405. Definitions

3 AAC 28.320(c) and (e) are amended to read:

(c) Any group credit insurance policy under which a debtor pays charges on a monthly outstanding-balance basis must provide that, if the group policy is terminated for any reason, the insured debtor will be notified that coverage will be discontinued after [CONTINUE FOR] 30 days from the date the notice is mailed, except when [where] replacement coverage is provided by the same or another insurer in the same or greater amount without lapse of coverage. The notice required in this subsection must be given by the insurer or, at the option of the insurer, by the creditor.

...

(e) If a debtor prepays the indebtedness by the proceeds of a credit life insurance policy covering that debtor or by a lump sum payment of a disability claim under a credit disability [life] insurance policy covering that debtor, the insurer shall pay to the debtor, beneficiary named by the debtor, other than the creditor, or to the debtor's estate

(1) the credit disability insurance premium in accordance with 3 AAC 28.360 if the prepayment is from the proceeds of a credit life insurance policy; or

(2) the credit life insurance premium in accordance with 3 AAC 28.360 if the prepayment is from the proceeds of a credit disability policy; and

(3) the amount of the benefits in excess of the amount required to repay the indebtedness after crediting any unearned interest or finance charges.

(Eff. 3/29/81, Register 77; am 6/6/93, Register 126)

Authority: AS 21.06.090

AS 21.57.090

AS 21.57.130

3 AAC 28.320 is amended by adding new subsections to read:

(f) If the creditor adds insurance charges or premiums for credit insurance to the indebtedness, and the creditor makes any direct or indirect finance, carrying credit, or service charge to the debtor on those insurance charges or premiums, the creditor must remit and the insurer shall collect those insurance charges or premiums within 60 days after they are added to the indebtedness.

(g) If creditor discharges the indebtedness due to renewal or refinancing before the scheduled maturity date, the insurance in force shall be terminated before any new insurance may be issued in connection with the renewal or refinanced indebtedness. In all cases of such termination before scheduled maturity, a refund shall be paid or credited to the debtor as provided in 3 AAC 28.360. In any renewal or refinancing of the indebtedness, the effective date of the insurance coverage 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, to the extent of the amount and term of the indebtedness outstanding at the time of renewal and refinancing of the debt.

(h) A provision in a policy or certificate that sets a maximum limit on total payments must apply only to that policy or certificate. (Eff. 6/6/93, Register 126)

Authority: AS 21.06.090

AS 21.57.090

AS 21.57.130

3 AAC 28.330 is repealed and readopted to read:

3 AAC 28.330. DETERMINATION OF REASONABLENESS OF BENEFITS IN RELATION TO PREMIUM CHARGE. (a) Benefits provided by credit life and credit disability insurance policies must be reasonable in relation to the premium charged. This requirement is satisfied if the premium rate charged is in accordance with 3 AAC 28.340 -- 3 AAC 28.350. With the exception of deviations approved under 3 AAC 28.380, the rates shown in 3 AAC 28.340 -- 3 AAC 28.350 shall be conclusively presumed to satisfy this requirement.

(b) If an insurer files for approval of any form providing coverage more restrictive than that described in 3 AAC 28.340 -- 3 AAC 28.350, the insurer shall demonstrate to the satisfaction of the director that the premium rates to be charged will not be excessive in relation to the benefit. The insurer shall file information in accordance with 3 AAC 28.330(c) and any other information the director may require in determining the premium to be charged.

(c) Each filing of a schedule of premium rates, and each filing of a policy, endorsement, or rider which extends or restricts coverage, shall include supporting information that demonstrates to the satisfaction of the director that the premium

rates charged or to be charged are not excessive in relation to the benefit.

Supporting information includes

- (1) the relevant experience of the insurer and any other insurers relied upon;
- (2) all relevant statistical data relied upon by the insurer;
- (3) the descriptions of methods used in making the rates; and
- (4) any other information that may be required by the director including past, present, or prospective loss experience and expenses for this state and countrywide, as well as a reasonable margin for underwriting profit and contingencies calculated in accordance with accepted actuarial principles and practices.

(d) If no specific charge is made to the debtor for credit insurance, the standards in (a) - (c) of this section do not apply; however, any premium rates resulting from such standards as are used which exceed the premium rates set out in 3 AAC 28.340 or 3 AAC 28.350 must be filed with the director. For purposes of this section, the debtor is assumed to have been 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 transaction, or if there is a differential in finance, interest, service, or similar charge, by whatever name called, made to debtors who are in like circumstances, except for their insured or non-insured status. (Eff. 3/29/81, Register 77; am 6/6/93, Register 126)

Authority: AS 21.06.090

AS 21.57.080

AS 21.57.130

3 AAC 28.340 is repealed and readopted to read:

3 AAC 28.340. CREDIT LIFE INSURANCE RATES. (a) A credit life insurance premium rate for the insured portion of an indebtedness repayable in equal monthly installments, when the insured portion of the indebtedness decreases uniformly by the amount of the monthly installment, is as follows:

(1) \$.75 per month per \$1000 of outstanding insured indebtedness if the premium is payable on a monthly outstanding balance basis;

(2) \$.49 per \$100 for the premium payable on a single premium basis when the amount of insurance decreases in 12 equal monthly amounts; if the term of the loan is other than 12 months, the following formula shall be used to develop the single premium rate from the outstanding balance rate:

$$S_p = \frac{(N + 1) O_p}{20} ,$$

where  $S_p$  is the single premium rate per \$100 of initial insured indebtedness repayable in equal monthly installments;  $N$  is the term of the loan in months; and  $O_p$  is the monthly outstanding balance premium rate per \$1000 of outstanding insured indebtedness; or

(3) \$.90 per \$100 for premiums payable on a single premium basis when the benefit provided is level term for a period of 12 months; the following

formula shall be used to develop single premium rates from the outstanding balance rate for level term benefits for a period other than 12 months:

$$Sp = \frac{(N) Op}{10},$$

where Sp is the single premium rate per \$100 of initial insured indebtedness; N is the term of the loan in months; and Op is the monthly outstanding balance premium rate per \$1000 of outstanding insured indebtedness.

(b) Joint coverage on any of the bases in (a)(1), (a)(2), or (a)(3) of this section is 165 percent of the single rate for that type of coverage.

(c) If the benefits provided are other than those described in (d) of this section, premium rates for those benefits shall be actuarially consistent with the rates provided in (a)(1), (a)(2), or (a)(3) of this section, or demonstrated in accordance with 3 AAC 28.330(c).

(d) The premium rates in (a) of this section apply to policies providing credit life insurance to be issued with or without evidence of insurability, to be offered to all debtors, and containing

(1) no exclusions other than suicide within twelve months of the incurred indebtedness;

(2) either no age restrictions or age restrictions making ineligible for coverage of a debtor aged 65 or over at the time the indebtedness is incurred or a debtor aged 66 or over on the maturity date of the indebtedness;

(3) insurance written in connection with an open-end credit plan may exclude from the classes eligible for insurance debtors aged 65 or older, or may



provide for the cessation of insurance or reduction in the amount of insurance upon the debtor's attainment of not less than age 65; and

(4) on insurance written in connection with closed-end credit plans and open-end credit plans when the amount of insurance is based on or limited to the outstanding unpaid balance, no provision excluding or denying a claim for death resulting from a preexisting condition except for those conditions for which the insured debtor received medical diagnosis or treatment within six months before the effective date of coverage and which caused or contributed to the death of the insured debtor within six months following the effective date of coverage; the effective date of coverage for each part of the insurance attributable to a different advance or charge to the plan account is the date on which the advance or charge is posted to the plan account; other more restrictive provisions may be used subject to rate adjustment approved by the director. (Eff. 3/29/81, Register 77; am 6/6/93, Register 126)

Authority: AS 21.06.090  
AS 21.57.080(b)  
AS 21.57.130

3 AAC 28.350 is repealed and readopted to read:

3 AAC 28.350. CREDIT DISABILITY INSURANCE RATES. (a) The prima facie rate for the insured portion of an indebtedness repayable in equal monthly

installments, when the insured portion of the indebtedness decreases uniformly by the amount of the monthly installment paid, is as follows:

(1) if premiums are paid on a single premium basis, the following table of rates is applicable per \$100 of initial insured indebtedness:

Original Number of Equal Monthly Installments	14 Day retroactive policies	14 Day non-retroactive policies	30 Day retroactive policies	30 Day non-retroactive policies
6	\$1.17	\$1.04	\$1.05	\$0.96
12	1.43	1.27	1.28	1.17
24	1.94	1.73	1.74	1.59
36	2.47	2.20	2.21	2.02
48	2.79	2.48	2.50	2.28
60	3.06	2.72	2.74	2.50
72	3.26	2.90	2.92	2.67
84	3.41	3.04	3.06	2.79
96	3.53	3.14	3.16	2.89
108	3.61	3.22	3.24	2.96
120	3.69	3.28	3.30	3.02

(2) if premiums are paid on the basis of a premium rate per month, they shall be computed per \$1000 of outstanding insured indebtedness according to the following formula:

$$Op = \frac{20}{N+1} Sp$$

where Op is the monthly outstanding balance premium rate per \$1000 of outstanding insured indebtedness; Sp is the single premium rate per \$100 of initial insured indebtedness repayable in equal monthly installments; and N is the term of the loan in months;

(3) if the benefits provided are other than those described in (b) of this section, the rate for those benefits shall be actuarially consistent with the rates provided in (a)(1) or (a)(2) of this section or demonstrated in accordance with 3 AAC 28.330 (c).

(b) The premium rates in (a)(1) and (a)(2) of this section apply to policies providing credit disability insurance to be issued with or without evidence of insurability, to be offered to all eligible debtors, and containing

(1) no provision excluding or denying a claim for disability resulting from preexisting conditions except for those conditions for which the insured debtor received medical advice, diagnosis, or treatment within six months before the effective date of the debtor's coverage and which caused loss within six months following the effective date of coverage; the effective date of coverage for each part of the insurance attributable to a different advance or charge to the plan account is the date on which the advance or charge is posted to the plan account;

(2) 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; intentionally self-inflicted injuries; war, whether declared or not; or any act of war;

(3) no actively-at-work requirement more restrictive than one requiring that the debtor be actively at work at a full-time gainful occupation on the effective date of coverage; a debtor is deemed to be actively at work if absent from work due solely to a regular day off, holiday, or paid vacation; for the purposes of this paragraph, "full time" means a regular work week of not less than 30 hours;

(4) either no age restrictions or age restrictions making ineligible for coverage debtors aged 65 or over at the time the indebtedness is incurred or debtors age 66 or over on the maturity date of the indebtedness; and

(5) a definition of "disability" which provides that during the first 12 months of disability that the insured shall be unable to perform the duties of the insured's occupation at the time that the disability occurred, and thereafter the duties of any occupation for which the insured is reasonably suited by education, training or experience.

(c) Other more restrictive provisions may be used subject to rate adjustment approved by the director. (Eff. 3/29/81, Register 77; am 6/6/93, Register 126)

Authority: AS 21.06.090  
AS 21.57.080(b)  
AS 21.57.130

3 AAC 28.355 is amended by adding a new section to read:

3 AAC 28.355. LIMITATIONS ON COMPENSATION. (a) Any insurer selling a policy which has been filed and approved at rates higher than the prima facie rates may not pay compensation in excess of 30 percent of the net written prima facie premium established in 3 AAC 28.340 for credit life insurance. There

is no limitation on compensation paid on policies written at or below the prima facie rate.

(b) Any insurer selling a policy which has been filed and approved at rates higher than the prima facie rates may not pay compensation in excess of the prima facie rates multiplied by the percentages given in the table below. There is no limitation on compensation paid on policies written at or below the prima facie rate.

<b>Type of Plan</b>	<b>Percent of Prima Facie Premium</b>
14-day retroactive	27
14-day non-retroactive	30
30-day retroactive	30
30-day non-retroactive	33

(Eff. 6/6/93, Register 126)

Authority: AS 21.06.090  
AS 21.57.080(b)  
AS 21.57.130

3 AAC 28.360 is repealed and readopted to read:

3 AAC 28.360. REFUNDS. (a) Refund formulas which an insurer desires to use must develop a refund which is at least as favorable to the debtor as a refund based on the actuarial method. The actuarial method will result in refunds equal

to the premium cost of scheduled benefits after the date of cancellation or termination and computed at the schedule of premium rates in effect on the date of issue. Except as provided in (c) of this section, refund formulas must be filed with and approved by the director before use.

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

(c) The requirement of (a) of this section that refund formulas be filed with the director is met if the refund formulas are set out in the individual policy or group certificate filed with the director.

(d) No refund of \$5 or less is required to be made. (Eff. 3/29/81, Register 77; am 6/6/93, Register 126)

Authority: AS 21.06.090  
AS 21.57.090  
AS 21.57.130

3 AAC 28.370 is repealed and readopted to read:

3 AAC 28.370. FILING OF EXPERIENCE INFORMATION. (a) An insurer doing business in this state shall annually file with the director and the National Association of Insurance Commissioners (NAIC), Support and Services Office, a report of its credit life and credit accident and health business written on a

calendar year basis. The report shall utilize the Credit Insurance Supplement--Annual Statement Blank as prescribed by the NAIC. Filing of the report shall be made in accordance with and no later than the due date in the Instructions to the Annual Statement prepared by the NAIC. (Eff. 3/29/81, Register 77; am 6/6/93, Register 126)

Authority: AS 21.06.090  
AS 21.57.130

3 AAC 28.380 is repealed and readopted to read:

3 AAC 28.380. DEVIATIONS FROM PRIMA FACIE RATES. An insurer may request a premium rate or schedule of rates that is greater than the prima facie rates for credit life insurance or credit disability insurance. The insurer shall file for the deviated rate using the form described in 3 AAC 28.330 (c). (Eff. 3/29/81, Register 77; am 6/6/93, Register 126)

Authority: AS 21.06.090  
AS 21.57.080  
AS 21.57.090  
AS 21.57.130

3 AAC 28.390 is repealed and readopted to read:

3 AAC 28.390. PROHIBITED TRANSACTIONS. (a) No credit insurer may

(1) offer or grant any special favor or advantage, or any valuable consideration or inducement not set out in the insurance contract other than the payment of producers' commissions;

(2) offer to deposit or deposit with a bank or other financial institution, money or securities of the insurer or of any affiliate of the insurer with the design or intent that the deposit of money or securities serve as a compensating balance or offsetting deposit for a loan or other advance;

(3) deposit money or securities with a bank or financial institution without interest or at a lesser rate of interest than is currently being paid other depositors on similar deposits with the bank or financial institutions; however, the insurer may maintain demand deposits which are reasonably necessary for use in the ordinary course of business;

(4) sell or offer to sell any capital stock or other security or certificate of indebtedness of the insurer, employee of the insurer, or stockholder of the insurer as an inducement to the sale or placement of credit insurance;

(5) pay or offer to pay any part of the premium for any insurance on the life, health, or property of the creditor, an employee of the creditor or stockholder of the creditor as an inducement to the sale or placement of credit insurance;



(6) extend credit to the creditor by remitting premiums after the grace period of a group policy or beyond 45 days after the effective date of an individual policy;

(7) engage in any other practices which involve the use of the resources of the insurer for the benefit of the creditor.

(b) No creditor may collect the insurance premium from the debtor on a single-premium basis and remit that premium to the insurer on any basis other than a single-premium basis. (Eff. 3/29/81, Register 77; am 6/6/93, Register 126)

Authority: AS 21.06.090

AS 21.36.100

AS 21.57.130

3 AAC 28 is amended by adding a new section to read:

3 AAC 28.395. REVIEW. The prima facie rates determined under 3 AAC 28.340 and 3 AAC 28.350 will be reviewed by the division of insurance after two full years of experience under these rates has been completed and reported to the division. (Eff. 6/6/93, Register 126)

Authority: AS 21.06.090

AS 21.57.130

3 AAC 28.400 is repealed and readopted to read:

3 AAC 28.400. EFFECTIVE DATE. (a) All individual policies of credit life insurance or credit disability insurance issued or delivered beyond 90 days after 6/6/93 must comply with the requirements of 3 AAC 28.320 -- 3 AAC 28.405[415] as amended as of 6/6/93.

(b) Certificates, notices of proposed insurance, and premium rates of existing group credit insurance policies must comply with the requirements of 3 AAC 28.320 -- 3 AAC 28.405[415], as amended as of 6/6/93, by the next anniversary date of the group credit insurance policy occurring at least 90 days after 6/6/93.

(c) A group credit insurance policy issued to replace an existing group credit insurance policy or an amendment to an existing group credit insurance policy issued after 6/6/93 must comply with the requirements of 3 AAC 28.320 -- 3 AAC 28.405[415], as amended as of 6/6/93.

(d) No later than August 1, 1993, an insurer that intends to continue to use premium rates filed on or before 6/6/93 shall notify the director and provide information in the form described in 3 AAC 28.330 supporting the continued use of the premium rates. (Eff. 3/29/81, Register 77; am 6/6/93, Register 126)

Authority: AS 21.06.090

AS 21.57.130

3 AAC 28 is amended by adding a new section to read:

3 AAC 28.405. DEFINITIONS. In 3 AAC 28.310 -- 3 AAC 28.405, unless the context requires otherwise,

(1) "compensation" means commissions, retrospective rate credits, service fees, expense allowances or reimbursements, gifts, furnishing equipment, facilities, goods or services, or any other form of remuneration resulting directly from the sale of credit insurance;

(2) "credit transaction" means a transaction by the terms of which the repayment of money loaned or loan commitment made, or payment for goods, services or properties sold or leased, is to be made at a future date;

(3) "director" means the director of the division of insurance;

(4) "division" means the division of insurance, Department of Commerce and Economic Development;

(5) "identifiable charge" means the amount that a creditor charges a debtor or collects for insurance, in addition to any other stated charges, including interest or discount, permitted by the laws of this state;

(6) "NAIC" means the National Association of Insurance Commissioners;

(7) "open-end credit" means credit extended by a creditor under an agreement in which:

(A) the creditor reasonably contemplates repeated transactions;

(B) the creditor imposes a finance charge from time to time on an outstanding unpaid balance; and

(C) the amount of credit that may be extended to the debtor during the term of the agreement, up to any limit set by the creditor, is generally made available to the extent that any outstanding balance is repaid.

(Eff. 6/6/93, Register 126)

Authority: AS 21.06.090

AS 21.57.130

AS 21.57.160

Editor's Note:      See AS 21.57.160 for additional definitions that apply to this chapter.