

RULES AND REGULATIONS

Title 31—INSURANCE

INSURANCE DEPARTMENT

[31 PA. CODE CHS. 71 AND 73]

Credit Insurance

The Insurance Department (Department) hereby deletes Chapter 71 (relating to general provisions) and amends Chapter 73 (relating to credit life insurance and credit accident and health insurance) to read as set forth in Annex A. These final-form regulations are promulgated under the authority of sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P. S. §§ 66, 186, 411 and 412). The amendments to Chapter 73 are made under the authority of section 12 of the Model Act for the Regulation of Credit Life Insurance and Credit Accident and Health Insurance (act) (40 P. S. § 1007.12). Additional authority is found under section 649 of The Insurance Department Act of 1921 as renumbered and amended by the act of June 25, 1997 (40 P. S. § 289).

Purpose

The purpose of this final rulemaking is to interpret and implement the provisions of the act and section 641 of The Insurance Department Act of 1921 (40 P. S. § 281), as the latter relates to credit insurance, both of which authorize the Department to promulgate regulations.

Credit life insurance and credit accident and health insurance are presently regulated under Chapters 71 and 73. As the nature and type of credit transactions and resulting credit insurance coverages have evolved, Chapters 71 and 73 have become outdated and incomplete. Numerous notices and directives have been developed by the Department in an effort to keep credit insurance regulations current and to provide direction to the credit insurance industry. This final rulemaking incorporates and codifies these notices and directives. In addition, section 641 of The Insurance Department Act of 1921 was amended in 1994 to provide for the regulation of credit unemployment insurance under the act. This final rulemaking expands credit insurance regulations to now cover credit involuntary unemployment insurance and credit voluntary unemployment insurance.

The credit insurance industry has expressed a desire that the credit insurance premium rates provide for adequate expense and profit margins and that the prima facie premiums be periodically reviewed and updated, if necessary, based on claim experience. To ensure that prima facie rates continue to be based on current claim experience, this rulemaking makes the Department responsible for periodically reviewing loss experience and insurer expenses, and making appropriate adjustments in prima facie rates and loss ratio standards.

In developing the rulemaking, Department staff worked with an industry advisory group comprised of Pennsylvania credit insurers that write all types of credit insurance.

Comments

Notice of proposed rulemaking was published at 27 Pa.B. 3796 (August 2, 1997) with a 30-day public comment period.

During the 30-day comment period, comments were received from Protective Life Insurance Company (Protec-

tive Life), Universal Underwriters Group (Universal Underwriters), American Bankers Insurance Group (American Bankers), Consumer Credit Insurance Association (CCIA) and Cuna Mutual Group (CUNA). After the 30-day comment period, comments were received from the Insurance Federation of Pennsylvania (IFP). On October 2, 1997, comments were received from the Independent Regulatory Review Commission (IRRC).

Protective Life noted an inconsistency in certain terminology used in the proposed rulemaking; "medical doctor" was used in § 73.104(a)(4) (relating to life insurance and life insurance with TPD benefit), while "physician" was used in § 73.115(1)(iii) (relating to benefit exclusions). IRRC raised the same issue. Protective Life noted that the inconsistency in terminology raised an issue as to whether a doctor of osteopathy would qualify as a "physician." The Department agrees with the expressed concern and has amended §§ 73.104(a)(4) and 73.115(1)(iii) to reference "physician and podiatrist," and has added to § 73.103 (relating to definitions) a definition of "physician," which includes a doctor of osteopathy.

Additionally, Protective Life requested clarification as to whether the formula contained in § 73.106(g) (relating to life insurance rate standards) or in § 73.106(i) should be used to calculate net rates for credit life insurance. Section 73.106(i) is an alternative formula, is captioned as such, and may be used in lieu of the formula in § 73.106(g). The Department believes that a change is unnecessary as the language of § 73.106(g) is clear.

Universal Underwriters suggested that the definition of "simple interest loan" be deleted from § 73.103 as the terminology is not used in the rulemaking. The Department agrees that the definition is unnecessary and has addressed the concern by amending § 73.103 to omit reference to "simple interest loan."

Additionally, Universal Underwriters requested clarification as to whether the 5% discount provided for by § 73.119 (relating to combination coverage rate) would be required when an insurer makes credit disability insurance available only in conjunction with credit life insurance. Whenever any credit insurance coverages (life, accident and health, and unemployment) are provided under separate and distinct policies and only a package of the coverages is made available to the debtor for purchase, the 5% discount applies. The Department agrees that clarification was necessary and has amended § 73.119 to provide clarification as to the types of credit insurance that are affected by the discount.

Universal Underwriters also suggested that the language of § 73.134(c)(12) (relating to compensation of producers and creditors) be revised due to the use of double negatives. The Department is in agreement and has addressed this concern by amending the language of § 73.134(c)(12).

Finally, Universal Underwriters suggested that the reference to "reasonable return" in § 73.134(c)(12) leaves the section open to question and interpretation. The Department believes that the use of the term "reasonable return" is a viable way to identify reinsurance arrangements that are designed primarily to provide compensation to producers of credit insurance. Section 73.134(c)(12) of the rulemaking has not been modified.

Sections 73.106(l) and (m), 73.109(l) and (m), 73.112(i) and (j) and 73.113(f) provide that if a change in the

nonclaim elements of the premium rates is necessary, the Department will propose amendments to the loss ratio standards. American Bankers expressed concern that the loss ratio standards in § 73.123 (relating to loss ratio standards) would be implemented without the formal process required by the Regulatory Review Act (71 P. S. §§ 745.1—745.15). The Department had contemplated that the regulatory procedures of the Regulatory Review Act would be followed. IIRC suggested that the rulemaking clarify that amendments to the loss ratio standards of § 73.123 be made through the regulatory review process. The Department has provided such clarification in §§ 73.106(l) and (m), 73.109(l) and (m), 73.112(i) and (j) and 73.113(f) of the final rulemaking so that the procedures set forth in the Regulatory Review Act will be used to amend the loss ratio standards of § 73.123.

The CCIA, CUNA and Insurance Federation of Pennsylvania (IFP) expressed concern with the requirement in § 73.120(2) (relating to composite term premium rate) that a composite term premium rate not exceed by more than 5% any term specific rate within the composite term period. The commentators believe that a single term rate for all term periods should be permitted and requested deletion of the 5% limitation. The Department is not persuaded by the assertions that inequity in the premium rates is an acceptable tradeoff for premium rate structure simplification. Additionally, the parties point out that historically one rate has been used for all ages and for both males and females. The Department maintains that the historical practice of not differentiating in premium rates by age and gender, does not justify charging the same rate for all periods of coverage. It is appropriate to have some limitation which ensures that rates are not excessive for insured debtors. IIRC expressed its agreement that some limitation ensures that rates will not be excessive for insured debtors. Recognizing the concern with the number of term specific rates when imposing a 5% limitation, § 73.120(2) has been modified by changing the 5% limitation contained in the proposed rulemaking to now reflect 10%. The Department is of the opinion that a 10% limitation will maintain equity in the premium rate structure.

CUNA noted that the 5% limit in § 73.120(2) is inconsistent with the definition of "composite term premium rate" in § 73.103. The Department is in agreement. The statutory citation referenced in the definition of "composite term premium rate" should correctly reference § 73.120, not § 73.121 (relating to maximum rates). The Department has amended the definition of composite term premium rate in § 73.103.

CUNA suggested that § 73.115 (relating to benefit exclusions) be modified to clearly disclose that the exclusions and limitations of this section are intended to be in addition to those of §§ 73.104(a), 73.107(a) and 73.110(a) (relating to life insurance and life insurance with TPD benefit; accident and health insurance benefits; and involuntary unemployment insurance benefits). The Department agrees that clarification is necessary and has amended § 73.115 of the rulemaking accordingly.

CUNA noted concern with the Department's use of the term "application," as opposed to CUNA's preferred "written instrument," in various sections of the rulemaking. With respect to the issues of age, employment and contestability referenced in §§ 73.105 (3), (4), (6) and (7), 73.108 (4)—(6), (8) and (9) and 73.111 (4)—(6), (8) and (9), the Department believes that the use of the term "application" is correct and that it is important that the instrument on which the company would rely upon to

invoke these sections be an application. While it is true that section 6 of Group Life Insurance Law (40 P. S. § 532.6) does speak to "written instrument," that reference in the statute has long been interpreted by the Department to mean an insurance application. Accordingly, the Department did not modify the sections of the rulemaking which refer to "written application."

Both the CCIA and CUNA indicated that §§ 73.105(9), 73.108(10) and 73.111(10) did not clearly enunciate the effect on changes in the amount and term of the indebtedness that occur after the renewal or refinancing of an existing insured indebtedness. The Department agrees that clarification is needed. Accordingly §§ 73.105(9), 73.108(10) and 73.111(10) have been modified to clarify the effective date for renewed or refinanced indebtedness.

CUNA also commented on the provision in §§ 73.105(7), 73.108(9) and 73.111(9) which requires the presence of a fraudulent misstatement of age prior to allowing a premium or benefit adjustment. CUNA would prefer to eliminate the referenced fraud component during the initial 2-year contestability period of the contract. The Department maintains that the contestability provisions and the adjustment provisions of the rulemaking are unrelated. Hence, the contestability provisions do not apply to the adjustment of premiums or benefits. The contestability provisions allow a company to void coverage as if the coverage never existed. The adjustment provisions allow the company to adjust premiums, benefits, or both as necessary and permissible. There is no overlap between the contestability and adjustment provisions; each of the provisions have a separate and distinct applicability. The Department strongly believes that it is appropriate to require that a misstatement be fraudulent for the misstatement to result in an adjustment of the benefits, premiums, or both. The adjustment sections of the rulemaking have therefore not been modified.

CUNA noted concern with the requirement in § 73.105(8)(ii) that the life insurance certificate disclose the annual percentage rate (APR). CUNA is of the opinion that the disclosure is not applicable to monthly premium group certificates. For single premium certificates, CUNA expressed that the disclosure would be burdensome and unnecessary because the APR is disclosed in the loan document. The Department agrees that it is unnecessary to disclose the annual percentage rate in monthly premium group certificates or individual policies. However, the annual percentage rate is necessary in single premium group certificates or individual policies for the Department to verify that the single premium rate, and any refund applicable to an insured, are calculated correctly. The Department has amended § 73.105(8)(ii) to clarify that the requirement pertains only to single premium certificates and policies.

CUNA suggested that the definition of "initial insured indebtedness" in § 73.103 recognize that the insured indebtedness may be subject to a policy maximum. The Department is in agreement and has amended the definition.

CUNA questioned whether the conditions of § 73.107(7) under which payment of an A and H benefit terminates should be expanded. The Department did not modify § 73.107(7) because it is reasonable to assume that an insurer would not continue benefit payments on the other occasions (for example, death, recovery) mentioned by CUNA.

CUNA expressed concern that the reference to outstanding balance in § 73.109(b)(2) (relating to A and H

insurance rate standards) is unclear. The Department is in agreement and has amended the definition of the monthly prima facie premium rate in this section. Due to this change, the Department also amended §§ 73.108(6), 73.109(g)—(i), 73.111(6), 73.112(e) and (f), 73.139(g)(1)(i), 73.140(d) and (e).

CUNA suggested that the reference to “or limited” in §§ 73.109(f) and 73.112(i) (relating to involuntary unemployment insurance rate standards) is unnecessary. The Department believes the reference is necessary to clarify that the requirements apply to both full term and limited term periods. Therefore, the Department has not amended §§ 73.109(f) and 73.112(i).

CUNA also suggested that §§ 73.106(l), 73.109(l) and 73.112(i) include a description of a formula for adjusting the loss ratio standards. The Department believes that the determination of an adjusted loss ratio standard should be based on the information and data available and on the methodologies in use at the time of the adjustment. Therefore, the Department has not amended § 73.106(l), § 73.109(l) or § 73.112(i).

CUNA expressed concern with the proposed disclosure requirements of § 73.116(a)(2)(i) and (ii) (relating to age requirements). CUNA believes that the disclosure of (1) the term of insurance coverage and, (2) the termination prior to the scheduled maturity date of the indebtedness, is inapplicable to open end loans and is unnecessary for closed end loans. CUNA suggested generally that it would be more appropriate to disclose only that the coverage will terminate when the insured reaches a certain age. CUNA also expressed concern as to whether the Department has the authority to mandate the disclosures. The Department is clearly authorized to require reasonable disclosure when it is in the public interest. The rulemaking has been modified, as suggested by CUNA, to require a disclosure of the age of the debtor at which the insurance will terminate. Accordingly, § 73.116(a)(2)(i) and (ii) have been amended.

CUNA suggested that § 73.130(c) (relating to election of coverage and disclosure requirements) clarify that both debtors agree on which one of the debtors will be selected as the insured. The Department believes that this clarification is unnecessary as it is obvious that agreement must be reached among the debtors prior to electing the coverage.

CUNA also suggested that the last sentence of § 73.139(f)(1) (relating to credit insurance on open end loans) be deleted because the minimum loan payment on open end loans is not always determined as a percentage of the loan balance. The Department is in agreement and § 73.139(f)(1) has been amended. For clarification, § 73.139(g)(1) and (i) have also been amended to provide that the premium rate methodology in § 73.139(g)(1)(i) applies when the benefit amount is expressed as a percentage of the loan balance.

CUNA suggested restricting the applicability of § 73.140(b) (relating to credit insurance on closed end variable interest loans) to single premium plans, contending that monthly premium plans do not require separate forms for different loan types. In certain cases, however, separate monthly premium forms would be required for use with variable interest loans. Additionally, the nature of the plan shall be identified in the filing so that the Department can determine whether the filed description of the monthly premium calculation is consistent with the requirement in § 73.140(d). Thus, § 73.140(b) has not been modified.

IRRC recommended that § 73.126 (relating to voluntary unemployment experience reports) be clarified as to the minimum advance notice required for filing voluntary unemployment insurance experience reports with the Department. The Department has now incorporated a period of 6 months as the minimum advance notice for § 73.126.

Sections 73.105(3), 73.106(5) and 73.111(5) concern the outright voiding of coverage within a certain period of time from issuance of the contract. Sections 73.105(4), 73.106(6) and 73.111(6) concern the termination of coverage at the end of each period for which a premium was collected. IRRC expressed concern that the distinction between §§ 73.105(3), 73.106(5) and 73.111(5) and §§ 73.105(4), 73.106(6) and 73.111(6) is unclear. Sections 73.105(4), 73.106(6) and 73.111(6) apply only in situations where premiums are payable monthly based on the actual monthly outstanding balance. Sections 73.105(3), 73.106(5) and 73.111(5) apply notwithstanding the manner in which the premium calculation is developed. Due to the inherent distinction between voiding and terminating coverage, the Department believes that the language of the rulemaking is sufficiently clear and has chosen not to modify these sections.

IRRC also expressed concern that § 73.104(a) is unclear as to whether all of the conditions of paragraphs (1)—(4) must be met in order for the prima facie premium rates to apply. The Department agrees that clarification is necessary. Accordingly, § 73.104(a) has been appropriately modified.

IRRC suggested that the term “excess benefits,” as used in § 73.105(1)(iii), be defined. The Department has incorporated a definition of “excess benefits” in § 73.103.

Sections 73.139(a), 73.140(a), 73.141(a), 73.142(a) and 73.143(a) provide requirements applicable specifically to credit insurance on open end loans, closed end variable interest loans, lease transactions, fixed residual loans and balloon loans, respectively. IRRC recommended deleting the phrase “to the extent that they are inconsistent” as that appeared in each of these sections of the proposal. The Department is in agreement that the requirements of §§ 73.139(a), 73.140(a), 73.141(a), 73.142(a) and 73.143(a) are not necessarily “inconsistent” with other provisions of the rulemaking. Rather, in certain situations, some provisions simply are not applicable. Sections 73.139(a), 73.140(a), 73.141(a), 73.142(a) and 73.143(a) have been modified to delete the phrase “to the extent that they are inconsistent.”

Editorial changes have been made to: (1) § 73.106(l) by adding the word “will”; (2) to § 73.109(g)—(i) and § 73.112(e) and (f) by adding the word “premium”; (3) to § 73.130(a) by deleting “to”; (4) to § 73.130(b) by substituting the words “signed for” with “authorized” and “signing” with “authorizing”; (5) § 73.130(b)(2) by relocating the word “credit”; and (6) to § 73.137(b) by clarifying a violation.

Affected Parties

This final rulemaking applies to life insurance companies and casualty insurance companies marketing credit life, accident and health, and unemployment insurance in this Commonwealth.

Fiscal Impact

State Government

The Department anticipates that there will be a substantial reduction in Department staff time which is presently devoted to the regulation of credit insurance

due to amendment to the rate adjustment procedure. Insurers are no longer required to file annually for rate adjustments for each of their creditor accounts. Last year alone, for example, rate adjustment filings numbered 8,000. Under the rulemaking, the Department will review only those rate filings which insurers choose to file for upward deviations. In addition, Department personnel will no longer need to review experience reports for each creditor account. The rulemaking will result in an estimated annual savings of \$50,000.

General Public

The Department anticipates that a greater number of insurers will be inclined to enter the credit insurance marketplace in this Commonwealth due to the elimination of compliance with the previously imposed burdensome rate adjustment system. A greater number of insurers should result in increased competition and resulting lower credit insurance rates and improved benefits.

Creditors' compensation will not be affected by the premium rates charged by the insurer. Therefore, creditors may be more likely to select, for their debtors, insurers offering lower credit insurance rates.

Political Subdivisions

Implementation of this final rulemaking will not impose additional costs on political subdivisions. However, because insurers and creditors may need to employ fewer individuals to administer their credit insurance programs, there could be a slight increase in unemployment and a slight decrease in the income tax base for certain subdivisions. If a greater number of insurers and creditors offer credit insurance, those effects could be offset.

Private Sector

This final rulemaking is anticipated to have a positive fiscal impact on insurers. Once implemented, it will be less costly for insurers to perform the administrative functions necessary to provide credit insurance coverage in this Commonwealth. There will be a substantial reduction in the number of deviation filings that insurers will need to prepare. It is estimated that the total cost savings will be \$300,000.

The Department is also of the opinion that this final rulemaking may have the effect of opening a new market for insurers who have not previously participated in the credit insurance market due primarily to the administrative difficulties connected with the prior regulations.

This rulemaking will impact creditors fiscally to the extent that creditors will have to implement in their premium calculation systems substantially fewer rate changes. It is estimated that the total cost savings in that regard will be \$100,000.

Paperwork

The adoption of this final rulemaking will reduce the amount of paperwork that insurers will have to maintain and file with the Department. Insurers will no longer need to submit to the Department annual rate adjustment filings for their accounts, or to notify the Department when changes of insurers occur. Insurers will be able to use an NAIC experience report, thereby reducing the need to prepare special reports for this Commonwealth. Additionally, the reduction in insurers' filings with the Department will result in a substantial reduction in the paperwork that the Department will have to process and maintain.

Effectiveness/Sunset Date

This rulemaking becomes effective July 20, 1998. No sunset date has been assigned.

Contact Person

Questions or comments concerning this final rulemaking should be addressed to Peter J. Salvatore, Regulatory Coordinator, 1326 Strawberry Square, Harrisburg, PA 17120, (717) 787-4429.

Regulatory Review

Under section 5(a) of the Regulatory Review Act (71 P. S. § 745.5(a)) on July 23, 1997, the Department submitted a copy of the proposed rulemaking to IRRC and to the Chairpersons of the House Insurance Committee and the Senate Banking and Insurance Committee. In addition to the submitted final-form regulations, the Department has provided IRRC and the Committees with a copy of a detailed Regulatory Analysis Form prepared by the Department in compliance with Executive Order 1996-1, "Regulatory Review and Promulgation." In compliance with section 5(c) of the Regulatory Review Act, the Department also provided IRRC and the Committees with copies of the comments received. A copy of that material is available to the public upon request.

These final-form regulations were approved by the House Committee and by the Senate Committee on January 25, 1998, in accordance with section 5.1(d) of the Regulatory Review Act (71 P. S. § 745.5a(d)). IRRC met on January 29, 1998, and approved the final-form regulations in accordance with section 5.1(e) of the Regulatory Review Act.

Findings

The Insurance Commissioner finds that:

(1) Public notice of intention to adopt this rulemaking as amended by this order has been given under sections 201 and 202 of the act of July 31, 1968 (P. L. 769, No. 240) (45 P. S. §§ 1201 and 1202) and the regulations thereunder, 1 Pa. Code §§ 7.1 and 7.2.

(2) The adoption of this rulemaking in the manner provided for in this order is necessary and appropriate for the administration and enforcement of the authorizing statutes.

Order

The Insurance Commissioner, acting under the authorizing statutes, orders that:

(a) The regulations of the Insurance Department, 31 Pa. Code Chapters 71 and 73, are amended by deleting §§ 71.1—71.4, 73.1—73.5, 73.11—73.13, 73.21—73.29, 73.31—73.43 and 73.51 and Appendices A—D and by adding §§ 73.101, 73.102, 73.107, 73.110, 73.114, 73.117, 73.118, 73.121—73.125, 73.127—73.129, 73.131—73.133, 73.135 and 73.136 to read as set forth at 27 Pa.B. 3796 (August 2, 1997) and by adding §§ 73.103—73.106, 73.108, 73.109, 73.111—73.113, 73.115, 73.116, 73.119, 73.120, 73.126, 73.130, 73.134, 73.137—73.143 to read as set forth in Annex A.

(b) The Commissioner shall submit this order, 27 Pa.B. 3796 and Annex A to the Office of General Counsel and Office of Attorney General for approval as to form and legality as required by law.

(c) The Commissioner shall certify this order, 27 Pa.B. 3796 and Annex A and deposit them with the Legislative Reference Bureau as required by law.

(d) The regulations adopted by this order shall take effect July 20, 1998.

M. DIANE KOKEN,
Insurance Commissioner

(Editor's Note: For the text of the order of the Independent Regulatory Review Commission relating to this document, see 28 Pa.B. 859 (February 14, 1998).)

Fiscal Note: Fiscal Note 11-148 remains valid for the final adoption of the subject regulations.

Annex A

TITLE 31. INSURANCE

PART III. CREDIT INSURANCE

CHAPTER 73. CREDIT LIFE INSURANCE, CREDIT ACCIDENT AND HEALTH INSURANCE AND CREDIT UNEMPLOYMENT INSURANCE

§ 73.103. Definitions.

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

A and H—Accident and health insurance.

Account—The coverage for a single line of insurance offered to a single type of business by one creditor. The term includes coverage written on a group or individual policy.

Act—The Model Act for the Regulation of Credit Life Insurance and Credit Accident and Health Insurance (40 P. S. §§ 1007.1—1007.15).

Agent—A person defined in section 601 of The Insurance Department Act of 1921 (40 P. S. § 231).

Amount financed—The amount on which interest charges are calculated.

Amount of level lease insurance—In connection with a lease transaction, the amount of death benefit equal to the residual payment, plus any applicable taxes on the residual payment.

Balloon amount—The excess of the final payment on a balloon loan over the amount of one periodic installment payment.

Balloon loan—A loan which provides for periodic installment payments of a stated amount during the term of the indebtedness and for a final payment at the end of the term of the indebtedness which is substantially more than the amount of one periodic installment payment and less than the initial net unpaid indebtedness.

Broker—A person defined in section 621 of The Insurance Department Act of 1921 (40 P. S. § 251).

Closed end loan—Indebtedness which is not an open end loan or a lease.

Commissioner—The Insurance Commissioner of the Commonwealth.

Composite term period—The installment periods for which composite term premium rates will be charged.

Composite term premium rate—Premium rates which do not vary based on the number of monthly installments and which meet the requirements of § 73.120 (Relating to composite term premium rate).

Contributory insurance—Insurance for which the debtor is charged an identifiable charge.

Credit accident and health insurance—Insurance as defined in section 2(b)(2) of the act (40 P. S. § 1007.2(b)(2)).

Credit instrument—A loan or sales instrument or agreement.

Credit insurance—Insurance subject to the act and section 641 of The Insurance Department Act of 1921 (40 P. S. § 281).

Credit involuntary unemployment insurance—Credit unemployment insurance paid in the event of the debtor's unemployment due to no choice of the debtor.

Credit life insurance—Insurance as defined in section 2(b)(1) of the act.

Credit life insurance with TPD—Insurance on the life of a debtor paid under or in connection with a specific loan or other credit transaction in the event of the debtor's death or total and permanent disability.

Credit unemployment insurance—Insurance on a debtor to provide indemnity for payments becoming due on a specific loan or other credit transaction while the debtor is unemployed as defined in the group certificate or individual policy.

Credit voluntary unemployment insurance—Credit unemployment insurance paid in the event of the debtor's unemployment due to a choice made by the debtor.

Creditor—As defined in section 2(b)(3) of the act.

Debtor—As defined in section 2(b)(4) of the act.

Decreasing term lease insurance amount—The amount required to liquidate the lease obligation excluding the amount of any monthly lease payments paid at the beginning of a lease and excluding the residual value.

Department—The Insurance Department of the Commonwealth.

Electronic rate book—An electronic data system programmed and used solely for the calculation and computation of installment loans and calculation and computation of insurance amount, premium rates and refunds.

Excess benefits—The portion of the insurance benefit that exceeds the outstanding indebtedness.

Fixed residual value financing—The manner of financing a motor vehicle purchase whereby a buyer, who is listed as the owner on the title of a motor vehicle, agrees to select and perform one of the following options, at the conclusion of a predetermined schedule of installment payments made in substantially equal periods and in substantially equal amounts:

(i) Satisfying the balance of the contractual amount owing.

(ii) Refinancing any balance owing on the terms previously agreed upon at the original execution of the installment sales contract.

(iii) Surrendering the motor vehicle as agreed upon at the original execution of the installment sale contract.

Full benefit period coverage—Insurance coverage which provides protection for a benefit period equal to the shorter of the duration of disability or unemployment minus any elimination period and the full term of coverage remaining when the disability or unemployment benefits first become payable.

Full term insurance coverage—Insurance coverage for a benefit period equal to the term of the indebtedness remaining at the time coverage is elected.

Grace period—The period during which a premium may be paid after the premium due date.

Identifiable charge—The amount a creditor charges a debtor specifically for credit insurance. A differential in finance, interest, service or similar charges made to debtors who are in like circumstances, except for their insured or noninsured status, is considered an identifiable charge.

Indebtedness—The total amount payable by a debtor to a creditor in connection with a loan or other credit transaction.

(i) *Actual gross unpaid indebtedness*. The scheduled gross unpaid indebtedness plus any past-due installment payments and minus any prepaid installment payments.

(ii) *Actual net unpaid indebtedness*. The amount necessary to liquidate the actual unpaid indebtedness in a single sum excluding unearned interest, but including any prepayment penalty.

(iii) *Initial insured indebtedness*.

(A) If coverage is provided on a gross indebtedness basis, the sum of the installment payments under the contract of indebtedness as of the date the indebtedness is incurred, subject to any maximum dollar amount of coverage specified in the group policy and group certificate or individual policy.

(B) If coverage is provided on a net indebtedness basis, the amount of the indebtedness excluding the unearned interest under the contract of indebtedness as of the date the indebtedness is incurred, subject to any maximum dollar amount of coverage specified in the group policy and group certificate or individual policy.

(iv) *Scheduled gross unpaid indebtedness*. The sum of the scheduled remaining installment payments under the contract of indebtedness, including unearned interest.

(v) *Scheduled net unpaid indebtedness*. The amount necessary to liquidate the scheduled unpaid indebtedness in a single sum excluding unearned interest but including any prepayment penalty.

Initial amount of decreasing lease insurance—The excess of the amount of death benefit payable in the event of death of the lessee during the first month of the lease, over the amount of level lease insurance, as defined in this section. The term does not include the amount of the monthly lease payment paid at the beginning of the lease.

Joint coverage—Credit insurance coverage on any two or more persons who are jointly liable for repayment of an indebtedness or fulfillment of a lease obligation.

Limited benefit period coverage—Insurance coverage which provides protection for a benefit period equal to the shorter of the duration of disability or unemployment minus any elimination period and a period less than the full term of coverage remaining when the disability or unemployment benefits first become payable.

Limited term insurance coverage—Insurance coverage for a benefit period less than the term of the indebtedness remaining at the time coverage is elected. Insurance coverage terminates at the insured debtor's attained age as set forth in the group certificate or individual policy or when the truncated coverage terminates.

Lockout—The discharge of employes by their employer due to a labor dispute, including discharge as a result of an employer's dislike of employes' activities as a union, or the temporary closing of the place of employment by an employer without formally discharging the employes in

an effort to discourage union activities, gain acceptance of the employer's view or effect a labor compromise which is more favorable to the employer in comparison to the demands made by the employes.

Loss ratio—The incurred claims during the experience period divided by the actual earned premium during the experience period.

Open end loan—A credit plan which may be drawn upon by a debtor without renegotiating with the creditor.

Physician—A medical doctor, chiropractor or doctor of osteopathy.

Prima facie premium rates—The premium rates established by the Department and published in the *Pennsylvania Bulletin*. Prima facie premium rates shall be published in the *Pennsylvania Bulletin* by July 29, 1998, and thereafter as established by and referenced in §§ 73.106, 73.109 and 73.112 (relating to life insurance rate standards; accident and health insurance rate standards; and involuntary unemployment insurance rate standards).

Prominent type—Font or formatting techniques which differentiate selected text from other text. The term includes, for example, capital letters, contrasting color and underscoring.

Producer—An agent or broker.

Residual payment—The amount that shall be paid by the lessee at the end of the lease term if the lessee elects to purchase the property that is the subject of the lease.

Single coverage—Credit insurance coverage on one person who is liable for repayment of an indebtedness or fulfillment of a lease obligation.

TPD—Total and permanent disability.

Term of insurance coverage—The period during which a group certificate or individual policy is effective.

Truncated coverage—Credit insurance coverage as defined in this section that meets the requirements in §§ 73.106(11), 73.109(10) and 73.112(10), and provides a term of insurance coverage for a period that is shorter than the full term of the indebtedness remaining at the time the insurance coverage is elected. The term does not include credit insurance coverage which terminates on attainment of a specific age.

Variable interest loan—A loan which has an interest rate that may change during the term of the loan which causes a change in either the amount of the installment payment or the term of the loan.

§ 73.104. Life insurance and life insurance with TPD benefit.

(a) *Life benefit plan*. The prima facie premium rate standards referenced in § 73.106 (relating to life insurance rate standards) apply to a plan of credit life insurance benefits, if the plan provides the features in paragraphs (1)—(3) and, if applicable, paragraph (4). This plan shall be described in a group policy and group certificate or in an individual policy.

(1) Single life coverage or joint life coverage for all eligible debtors.

(2) A benefit payable upon death or upon TPD, if TPD coverage applies, subject to any maximum dollar amount of coverage specified in the group policy and group certificate or individual policy, equal to any of the following:

(i) The actual gross or net unpaid indebtedness at the time of death or commencement of TPD, in the case of a closed end loan for a group policy of credit life insurance or credit life insurance with a TPD benefit.

(ii) The greater of the scheduled gross or net unpaid indebtedness, or the actual gross or net unpaid indebtedness, at the time of death or commencement of TPD, in the case of a closed end loan for an individual policy of credit life insurance or credit life insurance with a TPD benefit.

(iii) The actual net unpaid indebtedness at the time of death or commencement of TPD, in the case of an open end loan .

(3) A coverage period equal to the lesser of the following:

(i) The term of the indebtedness remaining at the time coverage is elected.

(ii) The term of the indebtedness remaining at the time coverage is elected to the time the insured debtor attains an age at which the group policy and group certificate or individual policy provides for coverage to terminate.

(iii) The term of the indebtedness remaining at the time coverage is elected until truncated coverage terminates.

(4) If TPD coverage is provided, a definition of TPD requiring that the debtor be totally and permanently and continuously unable to engage in any occupation, employment or activity for compensation or profit, for which the debtor is suited by education, training or experience, according to the certification of a physician or podiatrist. The physician or podiatrist's certification may be waived by the insurer if the debtor has suffered the permanent loss of sight of both eyes, or the severance of both hands, both feet or of one hand and one foot.

(b) *Alternate benefit plans.* Insurers may offer credit life insurance benefit plans and credit life insurance with TPD benefit plans that differ from the plan described in subsection (a). An alternate plan shall be described in a group policy and group certificate, or in an individual policy, and shall conform to the standards of section 7(b) of the act (40 P.S. § 1007.7(b)) and the applicable standards of section 6 of the Group Life Insurance Law (40 P.S. § 532.6). The premium rate standards of § 73.106 apply to alternate benefit plans.

§ 73.105. Life insurance and life insurance with TPD benefit requirements.

A plan of credit life insurance or credit life insurance with TPD benefit and a group policy and group certificate or an individual policy describing the plan, shall comply with the following:

(1) *Joint coverage.*

(i) If joint life coverage with or without TPD benefit is provided, a group certificate or individual policy providing joint life coverage with or without TPD coverage shall be issued. Insurers shall not issue two single life coverage group certificates or two single life individual policies.

(ii) The benefit payable in the case of simultaneous death or TPD of both insureds shall not exceed the benefit that would be payable if coverage were provided on only one debtor.

(iii) The group policy and group certificate or individual policy shall make provision for whom any excess benefit will be paid in the event of the simultaneous death of the joint insureds.

(2) *Continuation of coverage.* If joint life coverage with or without TPD benefit is provided, and coverage on one of the insured debtors is terminated or voided, or a death claim is denied, for any reason other than for the termination of the indebtedness, any remaining eligible debtor's coverage shall continue and an equitable adjustment of premium shall be made. The remaining eligible debtor's coverage shall continue under a single life coverage group certificate or individual policy.

(3) *Voiding coverage for ineligible age.* If a debtor exceeds the eligibility age for coverage and has correctly stated age information in an application signed by the debtor, and if a group certificate or individual policy is issued, the insurer has the right during the debtor's lifetime to void coverage on the debtor, but only within 60 days from the date of issue of the group certificate or individual policy.

(4) *Terminating coverage for ineligible age.* When premiums are payable monthly based on the actual monthly outstanding balance, if a debtor who exceeds the age at which coverage is to terminate under a group certificate or individual policy has correctly stated age information in an application signed by the debtor, and premiums continue to be erroneously charged to the debtor, the insurer has the right to terminate coverage as of the next billing date.

(5) *Reducing excess coverage.* If an identifiable charge is erroneously made to a debtor for an amount of coverage that exceeds the maximum dollar amount of coverage specified in the group policy and group certificate or individual policy, the insurer has the right to reduce the amount of coverage to the appropriate amount specified in the group policy and group certificate or individual policy during the debtor's lifetime but only within 60 days from the date the identifiable charge is made to the debtor. If coverage is reduced, a refund shall be made of the difference between the actual amount charged and the appropriate amount that should have been charged.

(6) *Contestability.* A contestability provision may not be more restrictive than to provide that coverage on a debtor shall be incontestable after the group certificate or individual policy has been in force during the lifetime of the debtor for 2 years from the date of issue. Coverage shall be contested based only upon information contained in an insurance application signed by the debtor, a copy of which is furnished, not later than when coverage is contested, to the debtor, a secondary beneficiary or other claimant.

(7) *Equitable premium or benefit adjustment.* A provision specifying an adjustment of premiums or of benefits, or both, to be made if information relating to the age of a debtor has been fraudulently misstated shall be considered to be equitable if it places the debtor and the insurer in the position they would have been in had the age information been correctly stated. Adjustment may not be made unless the age information is contained in an application signed by the debtor, a copy of which is furnished, not later than the time the adjustment is made, to the debtor, a secondary beneficiary or other claimant.

(8) *Premium payment basis.*

(i) Premiums shall be payable by the debtor either on a monthly outstanding balance basis or on a single premium basis at issue. Single premium coverage may be written on closed end loans only if at least one of the following conditions applies:

(A) The term of the coverage is 75 months or less. However coverage written on lease transactions may exceed 75 months.

(B) The coverage is provided on a net unpaid indebtedness basis.

(ii) A group certificate or individual policy providing credit life insurance or credit life insurance with TPD benefit on a single premium net unpaid indebtedness basis shall contain a disclosure of the annual percentage rate used in the calculation of the insured indebtedness.

(9) *Renewal or refinancing.* With respect to the renewal or refinancing of an existing insured indebtedness, the effective date of coverage on the renewed or refinanced indebtedness shall be the date on which the insurer originally insured the debtor with respect to the indebtedness that is renewed or refinanced, to the extent of the amount and term of the indebtedness outstanding at the time of renewal or refinancing.

(10) *Truncated life coverage.*

(i) Truncated credit life insurance and truncated credit life insurance with TPD benefit may be provided only in connection with loans or credit transactions that are for a term greater than 60 months.

(ii) The truncated coverage period shall be at least 60 months.

(iii) If truncated coverage is elected by a debtor, at the time of election of the insurance coverage, the debtor shall be informed in writing of the term of the insurance coverage and that the coverage will terminate prior to the scheduled maturity date of the indebtedness.

(iv) A group certificate or individual policy providing truncated credit insurance coverage shall disclose both the term of the truncated insurance coverage and that the term of insurance coverage will terminate prior to the scheduled maturity date of the indebtedness. The termination disclosure shall appear in prominent print on the first page of the group certificate or individual policy.

(11) *Preexisting exclusion disclosure.* A group certificate or individual policy providing for a preexisting condition exclusion shall disclose the exclusion and its effects upon benefit payments. The preexisting condition exclusion disclosure shall appear in prominent type on the first page of the group certificate or individual policy.

§ 73.106. Life insurance rate standards.

(a) *Prima facie rates.* Premium rates for credit life insurance and credit life insurance with TPD benefit, as described in § 73.104(a) (relating to life insurance and life insurance with TPD benefit), may not exceed the prima facie premium rates referenced in this section and published in the *Pennsylvania Bulletin*, unless higher premium rates are approved under § 73.122 (relating to deviated rates). Premium rates for benefits that differ from those benefits described in § 73.104(a) may not exceed premium rates that are actuarially consistent with the prima facie premium rates referenced in this section and published in the *Pennsylvania Bulletin*.

(b) *Symbols.* The symbols used in this section shall have the following meanings.

(1) E_t = amount at risk in month t per \$1 of initial insured indebtedness.

(2) i = 4.5%, consisting of an interest discount of 4% and a mortality discount of .5%.

(3) LSP_n = single premium prima facie premium rate per \$100 of a level amount of insured indebtedness.

(4) n = coverage period in months.

(5) O_p = monthly outstanding balance prima facie premium rate per \$1,000 of outstanding balance.

(6) SP_n = single premium prima facie premium rate per \$100 of initial insured gross indebtedness, as defined in § 73.103 (relating to definitions), repayable in n equal monthly installments.

(7) NSP_n = single premium prima facie premium rate per \$100 of initial insured net indebtedness, as defined in § 73.103, repayable in n equal monthly installments.

(c) *Debtor insurance charge.* The amount charged a debtor by a creditor for credit life insurance or credit life with TPD benefit may not exceed the premium amount charged by the insurer, as computed at the time the charge to the debtor is determined.

(d) *Monthly outstanding balance rates.* If premiums are payable on a monthly outstanding balance basis, the monthly prima facie premium rate for credit life insurance on a single life shall be \$.705 per \$1,000 of outstanding balance, and shall be \$.844 per \$1,000 of outstanding balance for credit life insurance with TPD benefit on a single life.

(e) *Gross single premium rates for full term coverage period.*

(1) If premiums for decreasing insurance on the gross unpaid indebtedness for a full term coverage period are payable on a single premium basis, the single premium prima facie premium rates for credit life insurance on a single life and for credit life insurance with TPD benefit on a single life shall be calculated, except as provided in subsection (i), in accordance with the following formula:

$$SP_n = \frac{n + 1}{20 \left(1 + \frac{.032n}{24} \right)} O_p$$

(2) Gross single premium rates for full term coverage period calculated in accordance with the formula in paragraph (1) are published in the *Pennsylvania Bulletin*, for single life coverage and for single life coverage with TPD benefit.

(f) *Gross single premium rates for limited term coverage period.* If premiums for decreasing insurance on the gross unpaid indebtedness for a limited term coverage period are payable on a single premium basis, the single premium rates for credit life insurance on a single life and for credit life insurance with TPD benefit on a single life may not exceed premium rates that are actuarially consistent with the single premium prima facie premium rates published in the *Pennsylvania Bulletin*, except as provided in subsection (i).

(g) *Net single premium rates.* If premiums for decreasing insurance on the net unpaid indebtedness for a full term or limited period coverage period are payable on a single premium basis, the single premium prima facie premium rates for credit life insurance on a single life and for credit life insurance with TPD benefit on a single life shall be calculated, except as provided in subsection (i), in accordance with the following formula:

$$NSP_n = \frac{1}{10 \left(1 + \frac{.032n}{24} \right)} O_p \sum_{t=1}^n E_t$$

(h) *Level single premium rates.* If premiums are payable on a single premium basis for level term insurance, the single premium prima facie premium rates for credit life insurance on a single life shall be calculated, except as provided in subsection (i), in accordance with the following formula:

$$LSP_n = \frac{n}{10 \left(1 + \frac{.048n}{24} \right)} Op$$

(i) *Alternative single premium formula.* Prima facie premium rates may be calculated for credit life insurance and credit life insurance with TPD benefit in accordance with the following formula:

$$SP_n = Op(1/10) \sum_{t=1}^{t=n} \left(\frac{1.0}{1 + \frac{i}{12}} \right)^{t-1} (E_t)$$

(j) *Joint rates.* Prima facie premium rates for credit life insurance on a joint life with or without TPD benefit shall equal 175% of the prima facie premium rates for a single life benefit plan which is identical to the joint life benefit plan.

(k) *Actuarially consistent rates.* For credit life insurance or credit life insurance with TPD benefit offered on any other basis, prima facie premium rates shall be actuarially consistent with the rate standards of subsections (d)—(i).

(l) *The adjustment of prima facie rates and loss ratio standards.* By July 20, 2001, and at least every 3 years thereafter, the Department will review the appropriateness of the prima facie premium rates referenced in this section based upon Commonwealth experience data for the preceding 3-calendar years. The nonclaim element of the prima facie premium rates will not be adjusted unless an adjustment is necessary under subsection (m). An adjustment to the prima facie premium rates will not be made if the change in prima facie premium rates so determined would be less than 5%. If an adjustment to the prima facie premium rates is indicated, the Department will publish the new prima facie premium rates in the *Pennsylvania Bulletin*. If an adjustment to the loss ratio standards is indicated, the Department will propose regulatory amendment to § 73.123 (relating to loss ratio standards) to reflect the change.

(m) *Review of non-claim elements.* By July 20, 2007, and at least every 9 years thereafter, the Department will review the changes in the average term and amount of coverage, the changes in the fixed and variable expenses and the reasonable profit margin for insurance companies writing credit life insurance in this Commonwealth. If this review indicates that a change in the nonclaim elements of the premium rates is necessary, the Department will propose a regulatory amendment to the loss ratio standards in § 73.123 and thereafter publish new prima facie premium rates in the *Pennsylvania Bulletin*.

§ 73.108. A and H insurance requirements.

A plan of credit A and H insurance and a group policy and group certificate or an individual policy describing such plan, shall comply with the following:

(1) *Joint coverage basis.* If joint A and H coverage is provided, it shall be provided either on the basis of each debtor being insured for 100% of the monthly disability

payment, or on the basis of each debtor being insured for a specified portion of the amount of the monthly disability payment, with the total of the portions equal to 100% of the monthly disability payment.

(2) *Joint contract.*

(i) If joint A and H coverage is provided, a group certificate or individual policy providing joint A and H coverage shall be issued. Insurers may not issue two single A and H coverage group certificates or two single individual policies.

(ii) The benefit payable in the case of simultaneous disability of both insureds may not exceed the benefit that would be payable if coverage were provided on only one debtor.

(3) *Continuation of coverage.* If joint A and H coverage is provided, and coverage on one of the insured debtors is terminated or voided for any reason other than for termination of the indebtedness, any remaining eligible debtor's coverage shall continue and an equitable adjustment of premium shall be made. The remaining eligible debtor's coverage shall continue under a single A and H coverage group certificate or individual policy.

(4) *Voiding coverage for ineligible employment.* If a gainful employment requirement is applicable, and a debtor who is not gainfully employed correctly stated employment status information in an application signed by the debtor, and if a group certificate or individual policy is issued, the insurer has the right to void coverage on the debtor, but only within 60 days from the date of issue of the group certificate or individual policy. This action shall be without prejudice to any claim for a disability that commenced before the termination date.

(5) *Voiding coverage for ineligible age.* If a debtor exceeds the eligibility age for coverage and has correctly stated age information in an application signed by the debtor, and if a group certificate or individual policy is issued, the insurer has the right to void coverage on the debtor, but only within 60 days from the date of issue of the group certificate or individual policy. This action shall be without prejudice to any claim for a disability that commenced before the termination date.

(6) *Terminating coverage for ineligible age.* When premiums are payable monthly based on the actual gross unpaid indebtedness, if a debtor who exceeds the age at which coverage is to terminate under a group certificate or individual policy has correctly stated age information in an application signed by the debtor, and premiums continue to be erroneously charged to the debtor, the insurer has the right to terminate coverage as of the next billing date. This action shall be without prejudice to any claim for a disability that commenced before the termination date.

(7) *Reducing excess coverage.* If an identifiable charge is erroneously made to a debtor for an amount of coverage that exceeds the maximum dollar amount of coverage specified in the group policy and group certificate or individual policy, the insurer has the right to reduce the amount of coverage to the appropriate amount specified in the group policy and group certificate or individual policy, but only within 60 days from the date the identifiable charge is made to the debtor. If coverage is reduced, a refund shall be made of the difference between the actual amount charged and the appropriate amount that should have been charged.

(8) *Contestability.* A contestability provision may not be more restrictive than to provide that coverage on a debtor

shall be incontestable after the group certificate or individual policy has been in force during the lifetime of the debtor for 2 years from the date of issue. Coverage shall be contested only based upon information contained in an insurance application signed by the debtor, a copy of which is furnished, not later than when coverage is contested, to the debtor, a secondary beneficiary or other claimant.

(9) *Equitable premium or benefit adjustment.* A provision specifying an adjustment of premiums or of benefits, or both, to be made if information relating to the age of a debtor has been fraudulently misstated shall be considered to be equitable if it places the debtor and the insurer in the position they would have been in had the age information been correctly stated. An adjustment may not be made unless the age information is contained in an application signed by the debtor, a copy of which is furnished, not later than the time the adjustment is made, to the debtor, a secondary beneficiary or other claimant.

(10) *Renewal or refinancing.* With respect to the renewal or refinancing of an existing insured indebtedness, the effective date of coverage on the renewed or refinanced indebtedness shall be the date on which the insurer originally insured the debtor with respect to the indebtedness that is renewed or refinanced, to the extent of the amount and term of the indebtedness outstanding at the time of renewal or refinancing.

(11) *Truncated A and H coverage.*

(i) Truncated credit A and H insurance may be provided only in connection with loans or credit transactions that are for a term greater than 60 months.

(ii) The truncated coverage period shall be at least 60 months.

(iii) If truncated coverage is elected by a debtor, at the time of the election of the insurance coverage, the debtor shall be informed in writing of the term of the insurance coverage and that the coverage will terminate prior to the scheduled maturity date of the indebtedness.

(iv) A group certificate or individual policy providing truncated credit insurance coverage shall disclose both the term of the truncated insurance coverage and that the term of insurance coverage will terminate prior to the scheduled maturity date of the indebtedness. The termination disclosure shall appear in prominent type on the first page of the group certificate or individual policy.

(12) *Preexisting exclusion disclosure.* A group certificate or individual policy providing for a preexisting condition exclusion shall disclose the exclusion and its effects upon benefit payments. The preexisting condition exclusion disclosure shall appear in prominent type on the first page of the group certificate or individual policy.

§ 73.109. A and H insurance rate standards.

(a) *Prima facie A&H rates.* Premium rates for credit A and H insurance benefits, as described in § 73.107(a) (relating to A and H insurance benefits), may not exceed the prima facie premium rates referenced in this section and published in the *Pennsylvania Bulletin*, unless higher premium rates are approved under § 73.122 (relating to deviated rates). Premium rates for benefits that differ from those benefits described in § 73.107(a) may not exceed premium rates that are actuarially consistent with the prima facie premium rates referenced in this section and published in the *Pennsylvania Bulletin*.

(b) *Symbols.* The symbols used in this section shall have the following meanings:

(1) n = coverage period in months.

(2) Op_n = monthly prima facie premium rate per \$1,000 of gross unpaid indebtedness.

(3) SP_n = single premium prima facie premium rate per \$100 of initial insured gross indebtedness, as defined in § 73.103 (relating to definitions), repayable in n equal monthly installments.

(c) *Debtor insurance charge.* The amount charged a debtor by a creditor for credit A and H insurance may not exceed the premium amount charged by the insurer, as computed at the time the charge to the debtor is determined.

(d) *Single premium rates for full benefit and full term periods.* If premiums are payable on a single premium basis for insurance with a full benefit period and a full term coverage period, the single premium prima facie premium rates for credit A and H insurance on a single life shall be as published in the *Pennsylvania Bulletin*.

(e) *Single premium rates for limited benefit and limited term periods.* If premiums are payable on a single premium basis for insurance with a limited term coverage period and a benefit period equal to the limited term coverage period, the prima facie premium rates shall be as published in the *Pennsylvania Bulletin*, for an installment period equal to the number of monthly installment payments in the limited term coverage period. The premium shall be determined by multiplying the prima facie premium rate by the monthly installment payment, by the number of months in the limited term coverage period, divided by 100.

(f) *Single premium rates for limited benefit and full or limited term periods.* If premiums are payable on a single premium basis for insurance with a limited benefit period for a full term or limited term coverage period, the single premium rates for credit A and H insurance on a single life may not exceed premium rates that are actuarially consistent with the single premium prima facie premium rates published in the *Pennsylvania Bulletin*.

(g) *Monthly balance premium rates for full benefit and full term periods.* If premiums are payable on a monthly basis for insurance with a full balance benefit period for a full term coverage period, the monthly prima facie premium rates for credit A and H insurance on a single life shall be as published in the *Pennsylvania Bulletin*. The monthly prima facie premium rates shall be calculated in accordance with the following formula:

$$Op_n = \frac{20 \left(1 + \frac{.032n}{24} \right) SP_n}{n + 1}$$

(h) *Monthly premium rates for limited benefit period and limited term periods.* If premiums are payable on a monthly basis for insurance with a limited term coverage period and a benefit period equal to the limited term coverage period, the monthly prima facie premium rates shall be as published in the *Pennsylvania Bulletin* for an installment period equal to the number of monthly installment payments in the limited term coverage period. The monthly premium shall be determined by multiplying the prima facie premium rate by the monthly loan payment, by the remaining number of months in the limited term coverage period, divided by 1,000.

(i) *Monthly premium rates for limited benefit and full or limited term periods.* If premiums are payable on a

monthly basis for insurance with a limited benefit period for a full term or limited term coverage period, the monthly premium rates for credit A and H insurance on a single life may not exceed premium rates that are actuarially consistent with the monthly prima facie premium rates published in the *Pennsylvania Bulletin*

(j) *Joint rates.*

(1) When each debtor is insured for 100% of the monthly A and H payment, the prima facie premium rates for joint credit A and H insurance shall equal 180% of the prima facie premium rates for single A and H coverage.

(2) When each debtor is insured for a specific portion of the monthly disability payment, the prima facie premium rates for joint credit A and H insurance shall equal 100% of the prima facie premium rates for single A and H coverage.

(k) *Actuarially consistent rates.* For credit A and H insurance offered on any other basis, prima facie premium rates shall be actuarially consistent with the rate standards of subsections (d)—(i).

(l) *Adjustment of prima facie rates and loss ratio standards.* By July 20, 2001, and at least every 3 years thereafter, the Department will review the appropriateness of the prima facie premium rates referenced in this section based upon Commonwealth experience data for the preceding 3-calendar years. The nonclaim element of the prima facie premium rates may not be adjusted unless an adjustment is necessary under subsection (m). An adjustment to the prima facie premium rates will not be made if the change in prima facie premium rates so determined would be less than 5%. If an adjustment to the prima facie premium rates is indicated, the Department will publish the new prima facie premium rates in the *Pennsylvania Bulletin*. If an adjustment to the loss ratio standards is indicated, the Department will propose a regulatory amendment to § 73.123 (relating to loss ratio standards) to reflect the change.

(m) *Review of nonclaim elements.* By July 20, 2007, and at least every 9 years thereafter, the Department will review the changes in the average term and amount of coverage, the changes in fixed and variable expenses and the reasonable profit margin for insurance companies writing credit A and H insurance in this Commonwealth. If this review indicates that a change in the nonclaim elements of the premium rates is necessary, the Department will propose a regulatory amendment to the loss ratio standards in § 73.123 and thereafter publish new prima facie premium rates in the *Pennsylvania Bulletin*.

§ 73.111. Involuntary and voluntary unemployment insurance requirements.

A plan of credit involuntary unemployment insurance and a group policy and group certificate or an individual policy describing the plan shall comply with the following:

(1) *Joint coverage basis.* If joint unemployment coverage is provided, it shall be provided either on the basis of each debtor being insured for 100% of the monthly unemployment payment or on the basis of each debtor being insured for a specified portion of the monthly unemployment payment, with the total of these portions equal to 100% of the monthly unemployment payment.

(2) *Joint contract.*

(i) If joint unemployment coverage is provided, a group certificate or individual policy providing joint unemployment coverage shall be issued. Insurers may not issue

two single unemployment coverage group certificates or two single individual policies.

(ii) The benefit payable in the case of simultaneous unemployment of both insureds may not exceed the benefit that would be payable if coverage were provided on only one debtor.

(3) *Continuation of coverage.* If joint unemployment coverage is provided and coverage on one of the insured debtors is terminated or voided for any reason other than for termination of the indebtedness, any remaining eligible debtor's coverage shall continue and an equitable adjustment of premium shall be made. The remaining eligible debtor's coverage shall continue under a single unemployment coverage group certificate or individual policy.

(4) *Voiding coverage for ineligible employment.* If a debtor who is not gainfully employed correctly stated employment status information in an application signed by the debtor, and if a group certificate or individual policy is issued, the insurer has the right to void coverage on the debtor, but only within 60 days from the date of issue of the group certificate or individual policy. This action shall be without prejudice to any claim for unemployment that commenced before the termination date.

(5) *Voiding coverage for ineligible age.* If a debtor exceeds the eligibility age for coverage and has correctly stated age information in an application signed by the debtor, and if a group certificate or individual policy is issued, the insurer has the right to void coverage on the debtor, but only within 60 days from the date of issue of the group certificate or individual policy. This action shall be without prejudice to any claim for unemployment that commenced before the termination date.

(6) *Terminating coverage for ineligible age.* When premiums are payable monthly based on the actual gross unpaid indebtedness, if a debtor who exceeds the age at which coverage is to terminate under a group certificate or individual policy has correctly stated age information in an application signed by the debtor, and premiums continue to be erroneously charged to the debtor, the insurer has the right to terminate coverage as of the next billing date. This action shall be without prejudice to any claim for unemployment that commenced before the termination date.

(7) *Reducing excess coverage.* If an identifiable charge is erroneously made to a debtor for an amount of coverage that exceeds the maximum dollar amount of coverage specified in the group policy and group certificate or individual policy, the insurer has the right to reduce the amount of coverage to the appropriate amount specified in the group policy and group certificate or individual policy, but only within 60 days from the date the identifiable charge is made to the debtor. If coverage is reduced, a refund shall be made of the difference between the actual amount charged and the appropriate amount that should have been charged.

(8) *Contestability.* A contestability provision may not be more restrictive than to provide that coverage on a debtor shall be incontestable after the group certificate or individual policy has been in force during the lifetime of the debtor for 2 years from the date of issue. Coverage shall be contested only based upon information contained in an insurance application signed by the debtor, a copy of which is furnished, not later than when coverage is contested, to the debtor, a secondary beneficiary or other claimant.

(9) *Equitable premium or benefit adjustment.* A provision specifying an adjustment of premiums or of benefits, or both, to be made if information relating to the age of a debtor has been fraudulently misstated shall be considered to be equitable if it places the debtor and the insurer in the position they would have been in had the age information been correctly stated. An adjustment may not be made unless the age information is contained in an application signed by the debtor, a copy of which is furnished, not later than the time the adjustment is made, to the debtor, a secondary beneficiary or other claimant.

(10) *Renewal or refinancing.* With respect to the renewal or refinancing of an existing insured indebtedness, the effective date of coverage on the renewed or refinanced indebtedness shall be the date on which the insurer originally insured the debtor with respect to the indebtedness that is renewed or refinanced, to the extent of the amount and term of the indebtedness outstanding at the time of renewal or refinancing.

(11) *Truncated unemployment coverage.*

(i) Truncated credit unemployment insurance may be provided only in connection with loans or credit transactions that are for a term greater than 60 months.

(ii) The truncated coverage period shall be at least 60 months.

(iii) If truncated coverage is elected by a debtor, at the time of the election of the insurance coverage, the debtor shall be informed in writing of the term of the insurance coverage and that the coverage will terminate prior to the scheduled maturity date of the indebtedness.

(iv) A group certificate or individual policy providing truncated credit insurance coverage shall disclose both the term of the truncated insurance coverage and that the term of insurance coverage will terminate prior to the scheduled maturity date of the indebtedness. The termination disclosure shall appear in prominent type on the first page of the group certificate or individual policy.

(12) *Cancellation notice.* A group certificate or individual policy providing involuntary unemployment or voluntary unemployment insurance shall contain a disclosure that the benefit provided by the group certificate or individual policy is related to unemployment and that if the insured debtor retires or no longer plans to work, the insured debtor has the right to contact the insurer or creditor to cancel the insurance coverage. This disclosure shall appear in prominent type on the first page of the group certificate or individual policy.

(13) *Proof of unemployment.* For involuntary unemployment coverage, proof of involuntary unemployment may not be limited to eligibility for unemployment compensation benefits.

§ 73.112. Involuntary unemployment insurance rate standards.

(a) *Prima facie involuntary unemployment rates.* Premium rates for credit involuntary unemployment insurance benefits, as described in § 73.110(a) (relating to involuntary unemployment insurance benefits), may not exceed the prima facie premium rates referenced in this section and published in the *Pennsylvania Bulletin*, unless higher premium rates are approved under § 73.122 (relating to deviated rates). Premium rates for benefits that differ from those benefits described in § 73.110(a) may not exceed premium rates that are actuarially consistent with the prima facie premium rates referenced in this section and published in the *Pennsylvania Bulletin*.

(b) *Debtor insurance charge.* The amount charged a debtor by a creditor for credit involuntary unemployment insurance may not exceed the premium amount charged by the insurer, as computed at the time the charge to the debtor is determined.

(c) *Single premium rates for a 12-month benefit period and a full term coverage period.* If premiums are payable on a single premium basis for insurance with a 12-month benefit period for a full term coverage period, the single premium prima facie premium rates for credit involuntary unemployment insurance on a single life shall be as published in the *Pennsylvania Bulletin*.

(d) *Single premium rates for a 12-month benefit period and a limited term coverage period.* For insurance with a limited term coverage period and a 12-month benefit period, the single premium prima facie premium rates shall be the prima facie premium rates published in the *Pennsylvania Bulletin*, for an installment period equal to the number of monthly installment payments in the limited term coverage period. The single premium shall be determined by multiplying the prima facie rate by the monthly installment payment, by the number of months in the limited term coverage period, divided by 1,000.

(e) *Monthly premium rates for a 12-month benefit period and a full term coverage period.* If premiums are payable on a monthly basis for insurance with a 12-month benefit period for a full term coverage period, the monthly prima facie premium rates for credit involuntary unemployment insurance on a single life shall be as published in the *Pennsylvania Bulletin*.

(f) *Monthly premium rates for a 12-month benefit period and a limited term coverage period.* For insurance with a limited term coverage period and a 12-month benefit period, the monthly prima facie premium rates shall be as published in the *Pennsylvania Bulletin*, for an installment period equal to the number of monthly installment payments in the limited term coverage period. The monthly premium shall be determined by multiplying the prima facie rate by the monthly installment payment, by the remaining number of months in the limited term period, divided by 1,000.

(g) *Joint rates.*

(1) When each debtor is insured for 100% of the monthly unemployment payment, the prima facie premium rates for joint credit involuntary unemployment insurance shall equal 180% of the prima facie premium rates for single involuntary unemployment coverage.

(2) When each debtor is insured for a specific portion of the monthly unemployment payment, the prima facie premium rates for joint credit involuntary unemployment insurance shall equal 100% of the prima facie premium rates for single involuntary unemployment coverage.

(h) *Actuarially consistent rates.* For credit involuntary unemployment insurance on any other basis, prima facie premium rates shall be actuarially consistent with the rate standards of subsections (c)—(f).

(i) *Adjustment of prima facie rates and loss ratio standards.* By July 20, 2001, and at least every 3 years thereafter, the Department will review the appropriateness of the prima facie premium rates referenced in this section based upon Commonwealth experience data for the preceding 3-calendar years. The nonclaim element of the prima facie premium rates may not be adjusted unless an adjustment is necessary under subsection (j). No adjustment to the prima facie premium rates will be made if the change in prima facie premium rates so

determined would be less than 5%. If an adjustment to the prima facie premium rates is indicated, the Department will publish the new prima facie premium rates in the *Pennsylvania Bulletin*. If an adjustment to the loss ratio standards is indicated, the Department will propose a regulatory amendment to § 73.123 (relating to loss ratio standards) to reflect the change.

(j) *Review of nonclaim elements.* By July 20, 2007, and at least every 9 years thereafter, the Department will review the changes in the average term and amount of coverage, the changes in fixed and variable expenses, and the reasonable profit margin for insurance companies writing credit involuntary unemployment insurance in this Commonwealth. If this review indicates that a change in the nonclaim elements of the premium rates is necessary, the Department will propose a regulatory amendment to the loss ratio standards in § 73.123 and thereafter publish new prima facie premium rates in the *Pennsylvania Bulletin*.

§ 73.113. Voluntary unemployment insurance rate standards.

(a) *Debtor insurance charge.* The amount charged a debtor by a creditor for credit voluntary unemployment insurance may not exceed the premiums charged by the insurer, as computed at the time the charge to the debtor is determined.

(b) *Premium rates based on loss ratio.* The premium rates shall be based on a loss ratio not less than the loss ratio standard in § 73.123 (relating to loss ratio standards).

(c) *Actuarial memorandum filing.* The insurer shall include, with the rate filing made under § 73.136(a) (relating to filing of forms and rates), an actuarial memorandum which contains the basis of the claim costs used in computing the premium rates.

(d) *Joint rates.*

(1) When each debtor is insured for 100% of the monthly unemployment benefit, the premium rates for joint credit voluntary unemployment insurance shall equal 180% of the premium rates for single voluntary unemployment coverage.

(2) When each debtor is insured for a specific portion of the monthly unemployment benefit, the premium rates for joint credit voluntary unemployment insurance shall equal 100% of the premium rates for single voluntary unemployment coverage.

(e) *Adoption of prima facie rates.* If, in the opinion of the Commissioner, there is sufficient credit voluntary unemployment insurance experience data in this Commonwealth, the Commissioner may establish and adopt prima facie premium rates for voluntary unemployment and procedures for adjusting the prima facie premium rates.

(f) *Review of nonclaim elements.* By July 20, 1997, and at least every 9 years thereafter, the Department will review the changes in the average term and amount of coverage, changes in fixed and variable expenses, and the reasonable profit margin for insurers writing credit voluntary unemployment insurance in this Commonwealth. If this review indicates that a change in the loss ratio standard is necessary, the Department will propose an appropriate regulatory amendment to § 73.123 to reflect the change.

§ 73.115. Benefit exclusions.

Exclusions may be contained in a credit insurance plan as provided in §§ 73.104(a), 73.107(a) and 73.110(a) (relating to life insurance and life insurance with TPD benefit; A and H insurance benefits; and involuntary unemployment insurance benefits).

(1) The following exclusions may also be contained in a life insurance plan or a life insurance with TPD benefit plan:

(i) Death due to suicide within 1 year of the effective date of coverage.

(ii) TPD due to intentionally self-inflicted injury.

(iii) A preexisting conditions exclusion due to a condition for which the insured debtor received medical advice, consultation, diagnosis or treatment from a physician or podiatrist within 6 months before the effective date of coverage and due to which death occurs or TPD commences within 6 months after the effective date of coverage. This exclusion applies only if and to the extent that the total amount of all insurance that would otherwise be subject to the preexisting conditions exclusion exceeds \$1,000.

(iv) For the application of the exclusions contained in subparagraphs (i)—(iii), the effective date of coverage for each portion of the insurance attributable to a different advance under an open end loan, is the date on which the advance or charge occurs, or if later, the date on which coverage is elected.

(2) The following exclusions may also be contained in an A and H insurance plan:

(i) Normal pregnancy.

(ii) Intentionally self-inflicted injury.

(iii) Nonscheduled aircraft flight.

(3) The following exclusions may also be contained in an involuntary unemployment insurance plan:

(i) Voluntary resignation of employment.

(ii) Voluntary leave of absence.

(iii) Voluntary forfeiture of salary, wages or income.

(iv) Retirement.

(v) Injury or disease.

(vi) Disability.

(vii) Strike or unionized labor dispute.

(viii) Discharge by employer for cause.

(ix) Involuntary unemployment for which severance pay is received by the debtor.

§ 73.116. Age requirements.

(a) *Debtor age provisions.* Plans of credit insurance as provided in §§ 73.104(a), 73.107(a) and 73.110(a) (relating to life insurance and life insurance with TPD benefit; A and H insurance benefits; involuntary unemployment insurance benefits) may provide for debtor age provisions not less favorable than any of the following:

(1) An age restriction making the debtor ineligible for coverage when one of the following applies:

(i) The debtor will have attained 65 years of age at the time the indebtedness is incurred.

(ii) The debtor will have attained 66 years of age on the scheduled maturity date of the indebtedness.

(2) A provision for coverage to terminate when the debtor attains a specified age not less than 66 years. If coverage is written on a single premium basis, the term of the insurance coverage on which the premium is based may not extend beyond the termination age.

(i) A debtor electing coverage that terminates when a specified age is attained shall be provided, at the time of election of insurance coverage, with a written disclosure specifying the age of the debtor at which the insurance will terminate.

(ii) A group certificate or individual policy providing coverage that terminates when a specified age is attained shall disclose the age of the debtor at which the insurance will terminate. The termination disclosure shall appear in prominent print on the first page of the group certificate or individual policy.

(b) *Eligibility determination using age.* An age restriction shall be used only to determine initial eligibility for coverage and may not be used as a basis for denying claims or terminating existing coverage, except as provided in subsection (a)(2) and in § 73.105 (3) and (4), § 73.108 (5) and (6) or § 73.111 (5) and (6).

§ 73.119. Combination coverage rate.

If an insurer combines two or more credit life, Credit A and H or credit unemployment insurance coverages which are provided under separate and distinct policy forms, and if the debtor may purchase only a package of these insurance coverages, the premium rate for the package shall be the sum of the separate approved premium rates for the applicable insurance coverages less a discount of 5% of the sum of the separate approved premium rates.

§ 73.120. Composite term premium rate.

Composite term premium rates may be used under the following conditions:

(1) The insurer shall include in the filing of the composite term premium rates a demonstration that the expected total premium to be collected by the insurer will not exceed the total premium that would be collected if term specific rates were charged.

(2) The composite term premium rates may not exceed by more than 10% any term specific rates within the composite term period.

§ 73.126. Voluntary unemployment experience reports.

The Commissioner may require, with a minimum of 6 months advance notice, that each insurer doing credit voluntary unemployment insurance business in this Commonwealth file a report of credit voluntary unemployment insurance written on a calendar year basis. The report shall follow the format specified for credit unemployment insurance of the Credit Insurance Experience Exhibit as required by the annual statement instructions and shall contain separate specific data for this Commonwealth, rather than an allocation of the company's countrywide experience.

§ 73.130. Election of coverage and disclosure requirements.

(a) *Separate purchase of coverages.* If more than one type of credit insurance coverage is offered for purchase in connection with an indebtedness and each coverage is provided under separate and distinct policy forms, the debtor shall be allowed to separately purchase each credit insurance coverage, unless the premium rate for a package policy is provided under § 73.119 (relating to combination coverage rate).

(b) *Election of coverage.* If an identifiable charge is made to the debtor for credit insurance coverage, no coverage may be provided unless the debtor is liable under the credit agreement and the coverage is elected and authorized by the proposed insured debtor in the insurance application. If joint life, joint life with TPD benefit, joint A and H, joint involuntary unemployment or joint voluntary unemployment coverage is offered, and an identifiable charge is made for the joint coverage, each proposed insured debtor shall be liable under the credit agreement, and shall elect the coverage by authorizing the insurance application. An insurer may require that only one of the joint debtors elect the credit insurance coverage if the following exist:

(1) The insurance application is mailed or electronically transmitted to the debtor and returned to the insurer or creditor by mail or electronically.

(2) The credit insurance application is completed after the application for the indebtedness is completed.

(c) *Single life designation.* In situations where two debtors are each liable for repayment of an indebtedness and insurance coverage on only one life is offered, both debtors shall be provided with the option to elect the coverage, if there is an identifiable charge to the debtor for the coverage. Only one of the debtors shall be provided with the opportunity to elect the single coverage if the following conditions are met:

(1) The insurance application is mailed or electronically transmitted to the debtor and returned to the insurer or creditor by mail or electronically.

(2) The credit insurance election is completed after the application for the indebtedness is completed.

(d) *Notice of proposed insurance.* With respect to section 6(4) of the act (40 P. S. § 1007.6(4)), the application and notice of proposed insurance shall be deemed to be prominently set forth in the financial instrument if set forth in a separate provision on the face or reverse side of the financial instrument in type at least equal in size and prominence to the type used for other provisions of the financial instrument.

§ 73.134. Compensation of producers and creditors.

(a) *Compensation limits.* Premium rates shall be presumed to be excessive if the compensation for writing and handling credit insurance paid to a creditor, producer or any affiliate, associate, subsidiary, director, officer, employe or other representative of the creditor or producer, exceeds:

(1) For credit life insurance and credit life insurance with TPD benefit, 27% of the prima facie premium rates referenced in § 73.106 (relating to life insurance rate standards) or 27% of the actuarially consistent premium rates for insurance for which prima facie rates are not published in the *Pennsylvania Bulletin*.

(2) For credit A&H insurance or involuntary unemployment insurance, 21% of the prima facie premium rates referenced in §§ 73.109 and 73.112 (relating to A&H insurance rate standards; and involuntary unemployment insurance rates standards) or 21% of the actuarially consistent premium rates for insurance for which prima facie rates are not published in the *Pennsylvania Bulletin*.

(b) *Additional compensation.* When a licensed producer, general producer, general agency or home office producer, having no direct or indirect affiliation or connection with the creditor, is involved in the solicitation of a credit

insurance policy, the compensation of 27% as provided in subsection (a) shall be increased to 30% and the compensation of 21% as provided by subsection (b) shall be increased to 25% provided that the entire amount or any part of additional compensation shall be used solely as commission for the licensed producer, general producer, general agency or home office producer involved in the solicitation. The creditor is prohibited from receiving indirectly or directly all or any portion of the additional 3% or 4% commission.

(c) *Compensation defined.* For purposes of this chapter, "compensation" means money or anything else of value paid or credited to or on behalf of any group policyholder, producer, or general producer or withheld by any group policyholder producer, broker or general producer within or outside this Commonwealth in relation to business produced or to be produced or written or to be written in this Commonwealth and paid or credited by or on behalf of the insurer or by any affiliate of the insurer or by another person. Compensation includes the following:

- (1) Commissions.
- (2) Fees, including administrative fees, service fees, consulting fees and expense fees.
- (3) Electronic data processing equipment used for purposes other than electronic rate books.
- (4) Electronic data processing services other than the programming of existing electronic data processing equipment used in lieu of rate books or charts.
- (5) Supplies, other than forms approved by the Commissioner and usual and customary claims and reporting forms and envelopes.
- (6) Rental equipment of any type provided by an insurer, its agent or any related person without charge of actual cost or at a charge less than the usual cost.
- (7) Advertising provided by an insurer, its agent or a related person without charge of actual cost or at a charge less than the usual cost.
- (8) Communication devices provided by an insurer, its agent or a related person without charge of actual cost or at a charge less than the usual cost.
- (9) Profit sharing plans.
- (10) Experience rating refunds and credits.
- (11) Dividends as provided in § 73.129 (relating to dividends).
- (12) Dividends received by a producer of credit insurance business who owns in part or whole a reinsurance company which assumes the credit insurance business from the direct insurer, if any of the following criteria are met:
 - (i) The dividend payment on each share of stock represents more than a reasonable return on the producer's capital investment.
 - (ii) The direct insurer has contractually guaranteed to reassume any losses sustained by the reinsurer on the ceded business.
- (13) Expense allowances or reimbursement.
- (14) Stock plans and bonuses.
- (15) Extension of credit.
- (16) Reimbursement for expenditures.

§ 73.137. Compensating balances or special deposits.

(a) *Definition.* Compensating balances or special deposit accounts shall include the following:

(1) The deposit of premiums or money to the account of the insurer or an affiliate of the insurer when the account is either noninterest bearing or bearing interest at a rate less than the current market rate. The rate of interest will be considered less than usual if a higher rate of interest could be earned by combining the account with one or more other accounts, unless there is a business reason unrelated to the credit insurance program for maintaining separate accounts.

(2) The remittance of premiums to the insurer after the expiration of the grace period, except as provided in § 73.132(b) (relating to collection of premiums), on a regular basis thereby resulting in an arrearage period which is constant.

(3) The retention of premiums by a producer to whom the financial institution remits premiums beyond a reasonable period of time needed for the producer to remit premiums to an insurer, if the delay is a continuing practice in the premium paying process.

(4) Any other practice which unduly delays receipt of premiums by the insurer on a regular basis, or which involves the use of the financial resources of an insurer for the benefit of a financial institution.

(b) *Illegal inducement.* The use of compensating balances or special deposit accounts in connection with a credit insurance program constitutes a violation of section 635 of The Insurance Department Act of 1921 (40 P. S. § 271), section 346 of The Insurance Company Law of 1921 (40 P. S. § 471) and section 5(a)(4) of the Unfair Insurance Practices Act (40 P. S. § 1171.5(a)(4)).

(c) *Premium basis.* The prohibition on compensating balances and special deposits applies regardless of whether premiums are due the insurer on the single premium basis or on the monthly outstanding balance premium basis.

(d) *Nonapplicability.* This section does not prevent an insurer from making deposits in a financial institution which deposits are not related to a credit insurance program.

§ 73.138. Financial statement reserves.

The following reserves for all credit insurance policies shall be maintained by insurers doing credit life insurance or credit A and H insurance business in this Commonwealth.

(1) The reserves for credit life insurance may not be less than the reserves as computed using the Commissioners 1980 Extended Term Mortality Table, using mortality rates applicable to male lives for insurance issued prior to or on or after July 20, 1998, with interest at the rate specified in section 301(c) of The Insurance Department Act of 1921 (40 P. S. § 7(c)).

(2) The reserves for single premium credit A and H insurance or TPD benefits may not be less than the mean of the amounts of unearned premium calculated from gross premiums in force on the following bases:

- (i) The pro rata basis.
- (ii) Rule of 78 basis.

(3) The reserves for monthly premium credit A and H insurance and TPD benefits may not be less than the amount of unearned premium calculated from gross premiums in force on the pro rata basis.

(4) The claim reserves for credit A and H insurance shall be calculated using a generally accepted actuarial method or other reasonable method acceptable to the Commissioner.

§ 73.139. Credit insurance on open end loans.

(a) *General requirements.* Credit insurance may be provided in connection with open end loans. This insurance is provided on the outstanding balance of the indebtedness, subject to any maximum dollar amount of coverage or limited benefit period specified in the group certificate or individual policy. If no indebtedness exists, the insurance amount shall be zero and shall remain so until an advance or charge occurs under the plan. This section supersedes other provisions of this chapter to the extent that the provisions would otherwise relate to credit insurance on open end loans.

(b) *Identification.* A credit insurance program designed for use with open end loans shall be identified as such when filed with the Department in accordance with § 73.136 (relating to filing of forms and rates).

(c) *Symbols.* The symbols used in this section shall have the following meaning:

(1) i = actual monthly interest rate (APR/12).

(2) i' = $(i + .0025)$.

(3) n = $\log(z/(z-i))/\log(1+i)$ rounded up to an integer.

(4) NFC = gross/net conversion rate for an open end loan with the monthly benefit equal to a minimum monthly payment that is based on a percentage of the current month's balance.

(5) z = minimum monthly payment expressed as a decimal fraction.

(d) *Life benefit.* The credit life insurance benefit shall be equal to the lesser of:

(1) The amount of the outstanding balance of the indebtedness at the time of death.

(2) The maximum dollar amount of coverage specified in the group certificate or individual policy.

(e) *TPD benefit.* The TPD benefit shall be equal to the lesser of:

(1) The amount of the outstanding balance of the indebtedness at the commencement of the TPD plus the amount any monthly interest accruing on the net unpaid indebtedness from the date TPD commences until the date the TPD benefit is paid.

(2) The maximum dollar amount of coverage specified in the group certificate or individual policy.

(f) *A and H and involuntary unemployment benefit.* The minimum monthly insurance benefit for A and H insurance and involuntary unemployment insurance shall be equal to the lesser of:

(1) The minimum loan payment for the month in which disability or unemployment commences, excluding indebtedness incurred after the disability or unemployment commences and repayments made during the month in which disability or unemployment commences.

(2) The maximum monthly dollar amount of coverage specified in the group certificate or individual policy.

(g) *A and H and involuntary unemployment premium rates.* If the A and H and involuntary unemployment premium rates are based on the net outstanding balance, the premium rates shall be determined as follows:

(1) If the benefit amount is based on a percentage of the current month's balance and the benefit is paid until the indebtedness existing at the time of disability or involuntary unemployment, including accrued interest, is repaid, the following adjustment shall be made:

(i) The monthly outstanding balance prima facie rates published in the *Pennsylvania Bulletin* shall be converted from rates to be applied to gross monthly outstanding balance, to rates to be applied to the net monthly outstanding balance. The following formula may be used:

$$NFC = (n/a_{ni'}) (Op_n)$$

(ii) Each creditor shall have its A and H and involuntary unemployment rate based on the creditor's minimum repayment schedule and current annual percentage rate. The insurer shall review the minimum monthly installment and annual percentage rate of each creditor at least annually. If there is a change in the minimum repayment percentage or the annual percentage rate, and the resulting premium rate is greater than the current premium rate, the insurer may adjust the rate. If the resulting rate is lower than the current premium rate, the insurer shall adjust the rate if the change results in a rate reduction of greater than 5%.

(iii) Either the actual interest rate used in calculating the loan or interest rate intervals may be used when converting the gross premium prima facie rates published in the *Pennsylvania Bulletin* in accordance with subparagraphs (i) and (ii). When interest intervals are used, the monthly interest rate "i" shall be set equal to the midpoint of the range. The interest rate intervals shall be set so as to include all interest rates that produce the same loan duration for a specified playback percentage. The insurer shall include with the premium rate filing, required by § 73.136, a complete description of the method and formulas used to determine the interest rate intervals.

(2) For a benefit plan that is different than the plan described in paragraph (1), the insurer shall include with the premium rate filing, a description of the method and formulas used to determine the coverage period and benefit period, and a description of the method and formulas used to adjust the gross outstanding balance rates for a full coverage period and a full benefit period to net outstanding balance rates for the appropriate coverage period and benefit period. The insurer shall include the actuarial justification of the method.

(h) *Furnishing of forms.* Forms required to be furnished to a debtor as evidence of coverage need be furnished only once for each open end loan and may remain in force until terminated.

(i) *Assumption of coverage.* If an existing group policy providing insurance coverage in connection with open end loans is assumed by another insurer, the assuming insurer shall issue a replacement certificate to each existing certificate holder.

(j) *Premium refund.* Refund of premiums is not required in the event of termination of the coverage, except with respect to the termination of credit A and H, credit involuntary unemployment or credit voluntary unemployment insurance as provided in § 73.127(a)(2) (relating to refunds).

§ 73.140. Credit insurance on closed end variable interest loans.

(a) *General requirements.* Credit insurance may be provided in connection with closed end variable interest loans. This section supersedes other provisions of this

chapter to the extent that the provisions would otherwise relate to credit insurance on closed end variable interest loans.

(b) *Identification.* A credit insurance program designed for use with closed end variable interest loans shall be identified as such when filed with the Department in accordance with § 73.136 (relating to filing of forms and rates).

(c) *Disclosure.* If premiums are payable on a single premium basis and life insurance coverage is provided, the individual policy or group certificate shall contain a disclosure that the insurance benefit may end prior to the maturity date of the loan. If premiums are payable on a single premium basis and A and H, involuntary unemployment or voluntary unemployment insurance coverage is provided, the individual policy or group certificate shall contain a disclosure that the insurance benefits may not be sufficient to pay the entire amount of the periodic loan payment or may end prior to the maturity date of the loan. The disclosure shall appear in prominent type on the first page of the individual policy or group certificate.

(d) *Benefit amount.* Subject to any policy limitations, if premiums are payable on a single premium basis, the monthly A and H insurance benefit and the involuntary unemployment insurance benefit shall equal the amount of the original monthly installment payment. Subject to any policy limitations, if premiums are payable on a monthly outstanding balance basis, the monthly A and H and involuntary unemployment insurance benefits shall equal the amount of the monthly installment payment amount on the day disability or unemployment began.

(e) *Coverage term.* If premiums are payable on a single premium basis, the term of the insurance shall extend until the original scheduled maturity date of the indebtedness, unless coverage terminates earlier in accordance with the policy or certificate provisions. If the term of the insurance extends to the original scheduled maturity date of the indebtedness, it may be extended for an additional 2 months to cover delinquencies or extensions due to increased interest rates. If premiums are payable on a monthly basis, the term of the insurance shall extend until the loan is repaid, unless coverage terminates earlier in accordance with the policy or certificate provisions.

(f) *Refund.* A refund of any unearned premiums shall be made as provided in § 73.127 (relating to refunds) if the indebtedness is prepaid prior to the original scheduled maturity date of the indebtedness as a result of a decline in interest rates. The refund shall be based on the term and interest rate applicable at the inception of the loan and the actual elapsed term.

(g) *Premium determination.* If premiums are payable on a single premium basis, the premium shall be based on the expected amount and term of coverage, in consideration of the amount financed, the expected loan term and the interest rate applicable to the loan at the time the insurance is elected.

§ 73.141. Credit insurance on lease transactions.

(a) *General requirements.* Credit insurance may be provided in connection with lease transactions. This section supersedes other provisions of this chapter to the extent that the provisions would otherwise relate to credit insurance on lease transactions.

(b) *Identification.* Any credit insurance program designed for use with lease transactions shall be identified as such when filed with the Department in accordance with § 73.136 (relating to filing of forms and rates).

(c) *Lease filing.* Insurers shall file a lease form and lease worksheet for each total monthly lease payment calculation method. An insurer, which has received approval of filed insurance forms, premiums and refund calculations for use with a particular monthly lease payment calculation method, may use the approved forms, premiums and refund calculations with any lease form providing for the same method. Approved insurance forms may be used with a different total monthly lease payment calculation method if the insurer files the lease form and receives approval of premium and refund calculations. The premium and refund calculations shall be consistent with the manner in which the newly filed total monthly lease payment is calculated.

(d) *Lease payment methodology.* Insurers shall include with the premium rate filing the methodology for calculating the actual monthly lease payment, including factors such as taxes, depreciation, interest, insurance premiums and service fees.

(e) *Coverage basis.* The decreasing credit life insurance benefit or credit life insurance with TPD benefit shall equal the decreasing term lease insurance amount, as defined in § 73.103 (relating to definitions). If the residual amount of a lease transaction is insured, the insurance shall be provided on a level term basis.

(f) *Benefit amount.* The monthly A and H insurance benefit and the involuntary unemployment insurance benefit shall equal the amount of each monthly lease payment, subject to any maximum monthly benefit specified in the group policy and group certificate or individual policy. No credit A and H or involuntary unemployment insurance may be provided on the residual amount.

(g) *Payment to beneficiary.* If the credit life or TPD proceeds are applied to continue lease payments, the difference between the sum of the remaining payments plus the amount of level insurance, if applicable, and the sum of the present value of the remaining payments plus the present value of the residual payment, if applicable, shall be paid to the named beneficiary or the estate of the debtor regardless of whether the benefit is paid to the creditor as a lump sum or in installments. The present value shall be calculated using an interest rate not less than 5%.

(h) *Single premium calculation.* If premiums for credit life insurance or credit life insurance with TPD benefit are payable on a single premium basis, the single premium shall equal the sum of the following:

(1) The single premium for decreasing insurance with an amount of initial insured indebtedness equal to the initial amount of decreasing lease insurance, as defined in § 73.103, and with a number of equal monthly installments equal to the number of months in the lease term, less the number of monthly installments paid at the beginning of the lease.

(2) The single premium for level insurance with an amount of insurance equal to the amount of level lease insurance, as defined in § 73.103, and with a number of monthly installments equal to the number of months in the lease term.

(i) *Single premium formula filing.* Every insurer shall submit its formula for calculating the single premiums for the life, life with TPD, A and H, involuntary unemployment and voluntary unemployment insurance coverages consistent with the calculation of the monthly lease payment.

§ 73.142. Credit insurance on fixed residual loans.

(a) *General requirements.* Credit insurance may be provided in connection with motor vehicle fixed residual value financing. This section supersedes other provisions of this chapter to the extent that the provisions would otherwise relate to credit insurance on fixed residual loans.

(b) *Identification.* A credit insurance program designed for use with fixed residual value financing shall be identified as such when filed with the Department in accordance with § 73.136 (relating to filing of forms and rates).

(c) *Filing requirement.* Every insurer shall file a fixed residual value financing loan form and the formula demonstrating the manner in which the actual installment payment will be calculated for each installment payment calculation method.

(d) *Level life coverage.* If the fixed residual value amount is insured, life insurance coverage shall be provided on a level term basis.

(e) *A and H and involuntary unemployment coverage.* The monthly A and H insurance benefit and the involuntary unemployment insurance benefit may not exceed the amount of each monthly installment payment. No credit A and H or involuntary unemployment insurance may be provided on the residual amount.

(f) *Single premium gross calculation.* If premiums for credit life insurance or credit life insurance with TPD benefit are payable on a single premium basis, when the benefit is the gross unpaid indebtedness, the single premium shall equal the sum of the single premium for decreasing insurance with an amount of initial insured gross unpaid indebtedness equal to the sum of the schedule of installment payments and the single premium for level insurance with an amount of insurance equal to the fixed residual value.

(g) *Single premium net calculation.* If premiums for credit life insurance or credit life insurance with TPD benefit are payable on a single premium basis, when the benefit is the net unpaid indebtedness, the single premium shall equal the sum of the single premium for decreasing insurance based on an initial amount financed minus an amount equal to the fixed residual value, and the single premium for level insurance with an amount of insurance equal to the fixed residual value.

(h) *Payment to beneficiary.* If the insurance benefit is the gross unpaid indebtedness, and if the life insurance or TPD proceeds are applied to continue the installment, the group policy and group certificate or individual policy providing the coverage shall provide that the difference between the sum of the remaining payments plus the amount of level insurance, if applicable, and the sum of the present value of the remaining payments plus the present value of the fixed residual value payment, if applicable, shall be paid to the named beneficiary or the estate of the debtor, regardless of whether the benefit is paid to the creditor as a lump sum or in installments. The present value shall be calculated using an interest rate of at least 5%.

§ 73.143. Credit insurance on balloon loans.

(a) *General requirements.* Credit insurance may be provided in connection with balloon loans. This section supersedes other provisions of this chapter to the extent that the provisions would otherwise relate to credit insurance on balloon loans.

(b) *Identification.* Any credit insurance program designed for use with balloon loans shall be identified as such when filed with the Department in accordance with § 73.136 (relating to filing for forms and rates).

(c) *Disclosure.* Every individual policy or group certificate shall contain a disclosure that neither the A and H nor the involuntary unemployment insurance benefit is provided on the balloon amount of the loan. The disclosure shall appear in prominent type on the first page of the individual policy or group certificate.

(d) *Benefit amount.*

(1) For credit life insurance or credit life insurance with TPD benefit, the balloon amount shall be included in determining the amount of gross unpaid indebtedness or net unpaid indebtedness.

(2) For credit A and H, involuntary unemployment or voluntary unemployment insurance, no monthly benefit may be provided on the balloon amount.

(e) *Life insurance single premium gross calculation.* If premiums for credit life insurance or credit life insurance with TPD benefit are payable on a single premium basis when the benefit is the gross unpaid indebtedness, the single premium shall equal the sum of the single premium for the decreasing insurance with an amount of initial insured gross unpaid indebtedness equal to the actual amount of initial insured gross unpaid indebtedness minus the balloon amount and the single premium for level insurance with an amount of insurance equal to the balloon amount.

(f) *Life insurance single premium net calculation.* If premiums for credit life insurance or credit life insurance with TPD benefit are payable on a single premium basis when the benefit is the net unpaid indebtedness, the single premium shall equal the sum of the single premium for the decreasing insurance based on the initial amount financed minus the balloon amount and the single premium for level insurance with an amount of insurance equal to the balloon amount.

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Title 40—LIQUOR

LIQUOR CONTROL BOARD

[40 PA. CODE CHS. 3, 5, 13 AND 15]

License Applications; Duties and Rights of Licensees; Promotion; Special Rules of Administrative Practice and Procedure Regarding Matters Before the Office of Administrative Law Judge

The Liquor Control Board (Board) under the authority of section 207(i) of the Pennsylvania Liquor Code (47 P. S. § 2-207(i)), adopts amendments to §§ 3.52, 5.91, 13.102 and 15.42.

The Board's regulations amended by this order will achieve the following:

Section 3.52 (relating to connection with other business) will prohibit licensees from conducting another business on the licensed premises without Board approval.

Section 5.91 (relating to required report) will require clubs to report a change of officers only at license renewal and a change of manager or steward on an annual basis at license renewal and at license validation.

Section 13.102 (relating to discount pricing practices) will delete the meal package exception to the "happy hour" restrictions and shorten the time frame for restaurants and hotels making arrangements for catered events to 24 hours from 48 hours.

Section 15.42 (relating to waiver of hearing or appeal) will eliminate the need for clubs and corporations to file a resolution with a waiver of hearing in citation cases.

Comments

Notice of proposed rulemaking was published at 27 Pa.B. 5430 (October 18, 1997), with a 30 day written public comment period. Written comments were received from the Independent Regulatory Review Commission (IRRC) and from two attorneys relative to the proposed addition of subsection (c) to § 7.7(c) (relating to approval of a transfer of license). The purpose of subsection (c) was to fix responsibility for violations occurring after the Board grants the license transfer but before actual conveyance of the business has taken place at settlement. As proposed, once the Board granted the license transfer, the conduct of the licensed establishment became the responsibility of the new licensee.

The attorneys expressed concerns regarding the operation of the licensed establishment having to cease while a hurried settlement was arranged. An argument was made that time was needed for adequate preparation for a closing, including funding for the transaction. A second argument was made relative to financing of the transaction not being approved before approval of the license transfer thereby making the proposed regulation "... inconvenient and impractical and not in the best interests of the parties involved in the transfer."

The Board responded that the expeditious approval of a license transfer and subsequent timely settlement has always been the expressed desire of licensees and applicants. Furthermore, although sales of alcoholic beverages by the party selling the licensed business must cease, the operation of a restaurant, hotel or golf course as the case might be, could continue. Moreover, the Board does not approve the transfer of a license unless it can be demonstrated to its Bureau of Licensing that proper financing is available to complete the transaction. Existing Board regulations require that the transferee exhibit a deed, lease or bill of sale for the premises and that the purchase price of the business, either in the form of cash or legal obligation as security for the purchase price, shall be held in escrow by an attorney or financial institution. (40 Pa. Code § 7.2).

IRRC agreed that the proposed language in § 7.7(c) is consistent with the Board's statutory authority and the Board's position that there can be only one licensee. IRRC expressed concern that the proposed subsection will cause unnecessary and unreasonable disruptions in the services that licensed businesses provide to their customers and that it may also place unreasonable responsibility on a

new licensee for Liquor Code violations at a business that it does not yet own or operate.

IRRC recommended that the Board revise the subsection and related provisions in the same chapter to allow for greater flexibility in license transfers. IRRC offered an example and encouraged an examination of alternatives that would provide for a smoother transition between old and new licensees.

After considering the recommendations of IRRC, the Board decided that the proposal to add § 7.7(c) should be withdrawn.

No other comments either in support of or in opposition to the proposed regulations were received by the Board during the public comment period.

Fiscal Impact

These final-form regulations will not impose additional costs on the regulated community, State or local governments.

Regulatory Review

Under section 5(a) of the Regulatory Review Act (71 P. S. § 745.5(a)), on October 6, 1997, the Board submitted a copy of the notice of proposed rulemaking to IRRC and the Chairpersons of the House Committee on Liquor Control and the Senate Committee on Law and Justice for review and comment. These final-form regulations were submitted to the Chairpersons of the Senate Committee on Law and Justice and the House Committee on Liquor Control and IRRC on January 16, 1998.

These final-form regulations were deemed approved by the House Committee on Liquor Control and the Senate Committee on Law and Justice on February 5, 1998, and were approved by IRRC on February 13, 1998, in accordance with section 5.1(c) of the Regulatory Review Act.

Contact Person

Persons requiring an explanation of the final-form regulations, or information related thereto should contact Jerry Danyluk, Liquor Control Board, Room 401, North-west Office Building, Harrisburg, PA 17124-0001.

Findings

The Board finds that:

(1) Public notice of intention to adopt amendments to the administrative regulations as amended by this order has been given under sections 201 and 202 of the act of July 31, 1968 (P. L. 769, No. 240) (45 P. S. §§ 1201 and 1202) and the regulations thereunder, 1 Pa. Code §§ 7.1 and 7.2.

(2) The adoption of the final-form regulations set forth in this order is necessary and appropriate for the administration and enforcement of the authorizing statute.

Order

The Board, acting under the enabling statute, orders that:

(a) The regulations of the Board, 40 Pa. Code Chapters 3, 5, 13 and 15, are amended by amending §§ 3.52, 5.91, 13.102 and 15.42 to read as set forth at 27 Pa.B. 5430.

(Editor's Note: The proposal to amend § 7.7 has been withdrawn by the Board).

(b) The Board shall submit this order and 27 Pa.B. 5430 to the Office of the Attorney General for approval as to form and legality as required by law.

(c) The Board shall certify this order and 27 Pa.B. 5430 and deposit them with the Legislative Reference Bureau as required by law.

(d) This order shall take effect upon publication in the *Pennsylvania Bulletin*.

JOHN E. JONES, III,
Chairperson

(Editor's Note: For the text of the order of the Independent Regulatory Review Commission relating to this document, see 28 Pa.B. 1185 (February 28, 1998).)

Fiscal Note: Fiscal Note 54-51 remains valid for the final adoption of the subject regulations.

[Pa.B. Doc. No. 98-448. Filed for public inspection March 20, 1998, 9:00 a.m.]
