PROPOSED REGULATION OF THE

COMMISSIONER OF INSURANCE

LCB File No. R131-05

September 21, 2005

EXPLANATION – Matter in ***italics*** is new; matter in brackets **[~~omitted material~~]** is material to be omitted.

AUTHORITY: §§1-14 and 16, NRS 679B.130 and sections 110, 110.7 and 114 of Assembly Bill No. 338 of the 73rd Session of the Nevada Legislature, chapter 456, Statutes of Nevada 2005, at pages 2142 and 2143; §15, sections 110.7 and 114 of Assembly Bill No. 338 of the 73rd Session of the Nevada Legislature, chapter 456, Statutes of Nevada 2005, at pages 2142 and 2143.

A REGULATION relating to insurance; adopting approved rates, policy and operating standards for consumer credit insurance; setting the amount of unearned premium that must be refunded to a debtor upon cancellation of a policy of consumer credit insurance; and providing other matters properly relating thereto.

Section 1. Chapter 690A of NAC is hereby amended by adding thereto the provisions set forth as sections 2 to 16, inclusive of this regulation.

Sec. 2. ***As used in this chapter, unless the context otherwise requires, the words and terms defined in sections 3 to 10, inclusive, have the meanings ascribed to them in those sections.***

Sec. 3. ***"Composite percentage" means an average of all percentages offered by creditors of an insurer.***

Sec. 4. ***"Composite rate" means an average of all premium rates offered by creditors of an insurer.***

Sec. 5. ***"Full time" means a workweek of 30 hours or more.***

Sec. 6. ***"Joint life insurance" means credit life insurance issued to two debtors who are jointly and severally liable for the debt.***

Sec. 7. ***"Outstanding balance insurance" means insurance to cover the outstanding balance of a mortgage or installment loan.***

Sec. 8. ***"Prima facie rates" means premium rates which are presumed to be reasonable in relation to the benefits provided without filing additional actuarial support.***

Sec. 9. ***"Single life insurance" means credit life insurance issued to one debtor who is liable for the debt.***

Sec. 10. ***"Single premium basis" means the present value of the monthly premiums that would be assessed over the term of insurance.***

Sec. 11. ***1. If a debtor is covered by a group policy of consumer credit insurance that requires the payment of single premiums to the insurer, or any other premium payment method that prepays coverage beyond 1 month, the insurer shall provide that in the event of termination of the policy for any reason, insurance coverage with respect to any debtor insured under the policy continues for the entire period for which the premium has been paid.***

2. If a debt that is covered by a policy of consumer credit insurance is refinanced, the effective date of the coverage by any provision of the policy shall be deemed to be the first date on which the debtor became insured under the policy with respect to the debt which was refinanced, at least to the extent of the amount and term of the debt outstanding at the time the debt was refinanced.

3. If a debt is prepaid in full as the result of death or any other lump-sum payment under a policy of consumer credit insurance:

(a) No refund of a premium paid by the debtor for coverage of the debt is required.

(b) If a claim under credit accident and health coverage or credit unemployment coverage is in progress at the time of prepayment, the refund of a premium paid by the debtor may be determined as if the prepayment did not occur until the payment of benefits terminates.

(c) No refund of a premium paid by a debtor is required for any period of disability for which credit accident and health benefits are payable or during any period of unemployment for which credit unemployment benefits are payable. A refund of a premium paid by a debtor must be computed as if prepayment occurred at the end of the period of disability or unemployment.

Sec. 12. *1. Except as otherwise provided in subsection 2 and section 16 of this regulation, the following formula and rates are the prima facie rates for credit life insurance:*

(a) For a premium that is assessed on a monthly outstanding balance basis, 65 cents per month per $1,000 of outstanding insured debt on single life insurance and $1 per month per $1,000 of outstanding insured debt on joint life insurance.

(b) For a premium that is assessed on a single premium basis, the premium rate must be calculated according to the following formula or according to a formula approved by the Commissioner which produces rates substantially the same as those produced by the following formula:

$$S_p = \sum_{t=1}^{n} \left(\frac{O_p}{10} x \frac{I_t}{I_i} \right)$$

where

S_p = Single premium per $100 of initial consumer credit life insurance coverage.

O_p = 65 cents or $1, the prima facie consumer credit life insurance premium rate set forth in paragraph (a).

I_t = The scheduled amount of insurance for month t.

I_i = Initial amount of insurance. For a net insurance policy, I_i equals the initial principal balance of the loan.

n = The number of months in the term of the insurance.

(c) If the benefits provided under a policy of credit life insurance are other than those described in this subsection, the premium rates for such benefits must be actuarially consistent with the rates set forth in paragraphs (a) and (b).

2. Each contract for credit life insurance must, in substance, provide:

(a) Coverage for death, except that coverage may exclude:

(1) Death that results from a war or act of war;

(2) Death that results from suicide within 2 years after the effective date of the coverage; or

(3) Death that is caused by or substantially contributed to by a preexisting condition and which occurs within 6 months after the effective date of coverage.

(b) For the exclusions set forth in paragraph (a), that the effective date of coverage for each part of the insurance attributable to a different advance or charge to the plan account is the date on which the advance or charge occurs.

(c) That no insurance will become effective on debtors on or after the debtor attains 66 years of age and that all insurance will terminate at the time the debtor attains 70 years of age.

Sec. 13. ***1. Except as otherwise provided in section 16 of this regulation, the following formula and rates are the prima facie rates for credit accident and health insurance:***

(a) For a premium that is assessed on a single-premium basis:

Term of Loan in Months	*Prospective Benefits*		*Retroactive Benefits*		
	14-Day	*30-Day*	*7-Day*	*14-Day*	*30-Day*
1 to 12	*.61*	*0.35*	*1.30*	*.95*	*.74*
13 to 24	*.95*	*0.69*	*1.73*	*1.30*	*1.08*
25 to 36	*1.30*	*1.04*	*2.17*	*1.65*	*1.43*
37 to 48	*1.52*	*1.26*	*2.60*	*1.86*	*1.65*
49 to 60	*1.69*	*1.43*	*3.04*	*2.04*	*1.82*
61 to 72	*1.86*	*1.60*	*3.47*	*2.21*	*1.99*
73 to 84	*2.04*	*1.78*	*3.90*	*2.38*	*2.17*
85 to 96	*2.21*	*1.95*	*4.34*	*2.56*	*2.34*
97 to 108	*2.38*	*2.12*	*4.77*	*2.73*	*2.52*
109 to 120	*2.56*	*2.30*	*5.20*	*2.91*	*2.69*
121 to 132	*2.73*	*2.47*	*5.64*	*3.08*	*2.86*
133 to 144	*2.91*	*2.65*	*6.07*	*3.25*	*3.04*
145 to 156	*3.08*	*2.82*	*6.50*	*3.43*	*3.21*
157 to 168	*3.25*	*2.99*	*6.94*	*3.60*	*3.43*
169 to 180	*3.43*	*3.08*	*7.37*	*3.82*	*3.60*

These rates are for $100 of initial insured debt. Rates for monthly periods other than those set forth in the table above must be interpolated or extrapolated. As used in this paragraph:

(1) "Prospective" refers to a method of paying benefits for credit accident and health insurance in which the benefits are payable only after the person has been disabled a minimum number of days as designated in the contract of insurance.

(2) "Retroactive" refers to a method of paying benefits for credit accident and health insurance in which the benefits are paid from the date the disability occurs but only after the person has been disabled a minimum number of days as designated in the contract of insurance.

(b) For a premium that is assessed on a monthly basis per $1000 of outstanding insured gross debt, the premium rate must be calculated according to the following formula or according to a formula approved by the Commissioner which produces rates actuarially consistent with the single premium rates set forth in paragraph (a):

$$OP_n = \frac{10\,SP_n}{\left(\sum_{t=1}^{n}(n-t+1)\right)}$$

where

SP_n = Single premium rate per $100 of initial insured debt repayable in n equal monthly installments as set forth in paragraph (a).

OP_n = Monthly outstanding balance premium rate per $1,000.

n = The number of months in the term of the insurance.

(c) If the coverage provided by the policy is a constant maximum indemnity for a specified period, the actuarial equivalent of paragraph (a) or (b) must be used to calculate premium rates.

(d) If the coverage provided by the policy is a combination of a constant maximum indemnity for a specified period, after which the maximum indemnity begins to decrease in even amounts on a monthly basis, an appropriate combination of the premium rate for a constant maximum indemnity for a specified period and the premium rate for a maximum indemnity which decreases in even amounts on a monthly basis must be used to calculate premium rates.

(e) For an outstanding balance rate, the premium rate may be either a term-specified rate or may be a single composite term outstanding balance rate.

2. Except as otherwise provided in subsection 3, the formulae and rates set forth below are the prima facie rates for credit accident and health insurance for a policy that is written on an open-end loan:

(a) If the maximum benefit of the insurance equals the net debt on the date of disability, the term of the loan is calculated according to the formula:

1/(minimum payment percent)

The rate is determined by applying the calculated term to the rates set forth in subsection 1. A composite minimum payment percentage may be used in place of the minimum payment percentage for a specific credit transaction.

(b) If the maximum benefit of the insurance equals the outstanding balance of the loan on the date of disability plus any interest accruing on that amount during disability, the term of the insurance (n) is calculated by using the following formula:

$$n = \ln\{1 - (1000i / x)\} / \ln(v)$$

where

i = Interest rate on the account or a composite interest rate used for the type of policy.

x = Monthly payment per $1000 of coverage consistent with the term calculated according to the formula set forth above.

$v = 1/(1 + i)$.

The calculated value of the term is used to look up an initial rate in subsection 1. The final prima facie rate is calculated by multiplying the initial rate by the adjustment:

$$\frac{n}{a_n}$$

where

n is the term calculated above.

$a_n = (1 - v^n)/i$.

(c) If approved by the Commissioner, other formulae to convert from a closed-end credit rate to an open-end credit rate may be used to calculate premium rates.

3. If the accident and health coverage is sold on a joint basis, the rate for the joint coverage must be calculated by multiplying the corresponding single coverage rate by 1.54.

4. If the benefits provided are other than those described in subsection 1 or 2, premium rates for those benefits must be actuarially consistent with the rates set forth in those subsections.

5. The premium rates set forth in subsection 1 apply to each contract for credit accident and health insurance offered to eligible persons. Such contracts may not contain an employment requirement more restrictive than one requiring that the debtor be employed full time on the effective date of coverage and for at least 12 consecutive months before the effective date of coverage. Such a contract must, in substance, provide:

(a) Coverage for disability, except that coverage may be excluded for disabilities resulting from:

(1) Normal pregnancy;

(2) War or any act of war;

(3) Elective surgery;

(4) Intentionally self-inflicted injury;

(5) Illness or injury caused by or resulting from the use of alcoholic beverages or narcotics unless administered on the advice of and taken as directed by a licensed physician other than the insured;

(6) Flight in any aircraft other than on a commercially scheduled flight; and

(7) A preexisting condition.

(b) For the exclusions set forth in subparagraph (7) of paragraph (a) of subsection 5, that the effective date of coverage for each part of the insurance attributable to a different advance or charge to the plan account is the date on which the advance or charge occurs.

(c) A definition of disability such that for the first 12 months of disability, total disability is defined as the inability to perform the essential functions of the insured's own occupation and thereafter, the inability of the insured to perform the essential functions of any occupation for which the insured is reasonably suited by virtue of education, training or experience.

(d) That no insurance may become effective on debtors on or after the debtor attains 66 years of age, and that all insurance will terminate at the time the debtor attains 70 years of age.

(e) A daily benefit of not less than one-thirtieth of the monthly benefit payable under the policy.

Sec. 14. *1. Each insurer filing premium rates for credit unemployment insurance shall include in its rate filing with the Commissioner the appropriate formula upon which its rates are based. Rates will be presumed reasonable if they do not exceed $1.10 for $100 of insurance per annum, paid on a single premium basis.*

2. Credit unemployment insurance policies must contain benefits at least as favorable to insureds as the following provisions:

(a) A provision for coverage for unemployment for any reason, except that coverage may be excluded for:

(1) Voluntary forfeiture of salary, wage or other employment income;

(2) Resignation;

(3) Retirement;

(4) General strike;

(5) Illegal walk out;

(6) War;

(7) Separation from the military;

(8) Willful misconduct or criminal misconduct or unlawful behavior; and

(9) Disability caused by injury, illness or pregnancy.

(b) For credit unemployment insurance which provides for a monthly benefit in the event of unemployment, a provision that benefits will be payable after a waiting period of not longer than 30 days, but need not be retroactive to the first day of unemployment, and that the maximum benefit period is 6 months or longer.

3. Credit unemployment insurance policies may not contain eligibility requirements more restrictive than the following provisions:

(a) Exclusion of the following persons from qualification for coverage:

(1) Self-employed individuals;

(2) Workers in seasonal or temporary jobs, defined as jobs designed to last not longer than 6 months; and

(3) Debtors who have been notified either orally or in writing of any layoff or employment termination immediately or within 60 days after such notification. This exclusion must be disclosed to all prospective insureds.

(b) A requirement that the debtor be employed full time on the effective date of coverage and for at least 12 consecutive months before the effective date of coverage.

(c) No insurance will become effective on debtors on or after the attainment of the age of 66 years, and all insurance will terminate upon attainment by the debtor of the age of 70 years.

Sec. 15. *A person is entitled to a refund of any unearned premium of $5 or more if his policy or contract is cancelled for any reason before the scheduled date of termination.*

Sec. 16. *1. An insurer may file for approval by the Commissioner a schedule of rates that are higher than the prima facie rates set forth in sections 12 and 13 of this regulation if the rates filed are reasonable in relation to the premium charged. If a schedule of rates higher than the prima facie rates set forth in sections 12 and 13 of this regulation is filed for approval, the filing must specify the account or accounts to which the schedule applies. The schedule of rates must be:*

(a) Applied uniformly to all accounts of the insurer;

(b) Applied on an equitable basis approved by the Commissioner to one or more accounts of the insurer for which the experience has been less favorable than expected; or

(c) Applied according to a case-rating procedure on file with the Commissioner.

2. A rate approved by the Commissioner pursuant to subsection 1 may be in effect for a period not longer than the experience period used to establish the rate. An insurer may file for a new rate before the end of a rate period, but not more often than once during any 12-month period.

3. Notwithstanding the provisions of subsection 1, if an account changes insurers, the rate approved to be used for the account by the prior insurer is the maximum rate that may be used by the succeeding insurer for the remainder of the period approved for the prior insurer or until a new rate is approved for use on the account, if sooner.

4. An insurer may at any time use a rate for an account that is lower than its filed rate without notice to the Commissioner.