

Credit Life and Disability Reserve Requirements

Reserves for insurance contracts meeting the definition of credit life and credit disability insurance in VM-2 of this Manual must comply with these requirements.

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Deleted: Reserves for insurance contracts meeting the definition of credit life and credit disability in Appendix C must comply with these requirements.¶

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I. Definitions

1. "2001 CSO Mortality Table" means that mortality table, consisting of separate rates of mortality for male and female lives, developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in the *Proceedings of the NAIC (2nd Quarter 2002)*. Unless the context indicates otherwise, the "2001 CSO Mortality Table" includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables.
2. "Composite mortality tables" means mortality tables with rates of mortality that do not distinguish between smokers and nonsmokers.

II. Minimum standard for valuation of credit life insurance

1. If separate benefits are included in a credit life insurance contract, the reserve for each benefit must comply with these requirements.
2. Reserves must be based on actuarial assumptions that produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions.
3. Reserves must be established for all unmatured contractual obligations of the company arising out of the provisions of the credit life insurance contract and must be computed in accordance with presently accepted Actuarial Standards of Practice.
4. The reserve method for use in determining the minimum standard for valuation of credit life insurance is the commissioner's reserve valuation method specified in Section 5 of the Standard Valuation Law. In applying the commissioner's reserve valuation method, consideration should be given to the period of time during which renewability of benefits are guaranteed under the contract. If benefits are guaranteed for less than one year, the method produces a reserve equal to the mortality cost from the valuation date to the "paid-to" date.
5. The interest rates for use in determining the minimum standard for valuation of credit life insurance are the calendar year statutory valuation interest rates specified in Section 4b of the Standard Valuation Law.
6. The minimum mortality assumptions for use in determining the minimum standard for valuation of credit life insurance for both male and female insureds is the 2001 CSO Male Composite Ultimate Mortality Table. If a credit life insurance policy or certificate insures two lives, the minimum standard shall be twice the mortality in the 2001 CSO Male Composite Ultimate Mortality Table based on the age of the older insured.
7. The use of group methods and approximate averages for fractions of a year or otherwise are permitted in the valuation of liabilities.

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III. Minimum standard for valuation of credit disability insurance

1. Claim Reserves
 - a. A company shall hold claim reserves for all incurred but unpaid claims on all credit disability insurance policies, which is measured as the present value of future benefits or amounts not yet due as of the valuation date that are expected to arise under claims that have been incurred as of the valuation

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date, and shall hold appropriate claim expense reserves for the estimated expense of settlement of all incurred but unpaid claims.

- b. A company shall test all claim reserves for prior valuation years for adequacy and reasonableness using claim runoff schedules in accordance with the statutory financial statement including consideration of any residual unpaid liability.
 - c. The maximum interest rate for use in determining the minimum standard for valuation of credit disability insurance claim reserves is the maximum rate allowed in Section 4b of the Standard Valuation Law in the valuation of whole life insurance issued on the same date as the credit disability claim incurral date.
 - d. The morbidity assumption for use in determining the minimum standard for valuation of credit disability insurance must be based on the company's experience, if such experience is credible, or upon other assumptions designed to place a sound value on the liabilities. For claim liabilities and claim reserves to reflect "sound values" and/or reasonable margins, valuation tables based on credible experience should be adjusted regularly to maintain reasonable margins.
 - e. A generally accepted actuarial reserving method or other reasonable method or a combination of methods may be used to estimate credit disability insurance claim liabilities. The methods used for estimating liabilities generally may be aggregate methods, or various reserve items may be separately valued. Approximations based on groupings and averages may also be employed. Adequacy of the claim reserves must be determined in the aggregate.
2. Contract Reserves
- a. Contract reserves are required for all unmatured contractual obligations of a company arising out of the provisions of a credit disability insurance contract consistent with claim reserves and unearned premium reserve, if any, held for their respective obligations.
 - b. The methods and procedures for determining contract reserves for credit disability insurance must be consistent with the methods and procedures for claim reserves for any contract, unless appropriate adjustment is made to assure provision for the aggregate liability. The definition of the date of incurral must be the same in both determinations.
 - c. The morbidity assumptions for use in determining the minimum standard for valuation of single premium credit disability insurance contract reserves are:
 - i. For plans having less than a thirty-day elimination period, the 1985 Commissioners Individual Disability Table A (85CIDA) with claim incidence rates increased by twelve percent (12%).
 - ii. For plans having a thirty-day and greater elimination period, the 85CIDA for a fourteen-day elimination period with claim incidence rates increased by twelve percent (12%).
 - d. The minimum contract reserve for credit disability insurance, other than single premium credit disability insurance, is the gross pro-rata unearned premium reserve.
 - e. The maximum interest rate for use in determining the minimum standard for valuation of single premium credit disability insurance contract reserves is the maximum rate allowed in Section 4b of the Standard Valuation Law in the valuation of whole life insurance issued on the same date as the credit disability insurance contract.
 - f. A company shall not use a separate mortality assumption for valuation of single premium credit disability insurance contract reserves.
 - g. Negative reserves on any benefit may be offset against positive reserves for other benefits in the same contract, but the total contract reserve with respect to all benefits combined may not be less than zero.
 - h. Use of approximations, such as those involving age groupings, average amounts of indemnity, grouping of similar contract forms; the computation of the reserve for one contract benefit as a percentage of, or by other relation to, the aggregate contract reserves exclusive of the benefit or benefits so valued, are permitted.

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- i. Annually, a company shall conduct a review of prospective contract liabilities on contracts valued by tabular reserves, to determine the continuing adequacy and reasonableness of the tabular reserves giving consideration to future gross premiums. The company shall make appropriate increments to such tabular reserves if such tests indicate that the basis of such reserves is not adequate.

IV. Additional reserves for credit insurance

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- 1. For all credit life and disability contracts in the aggregate, if the net premium refund liability exceeds the aggregate recorded contract reserve, the company must establish an additional reserve liability. This additional liability is equal to the excess of the net refund liability over the contract reserve recorded. The net refund liability may include consideration of commission, premium tax, and other expenses recoverable.
- 2. A company must establish a premium deficiency reserve if anticipated benefits, expected dividends to policyholders and maintenance costs exceed the recorded contract reserves. Commissions and other acquisition costs that have already been expensed need not be considered in determining the premium deficiency reserve.

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V. Reinsurance

Increases to, or credits against, reserves carried, arising because of reinsurance assumed or reinsurance ceded, must be determined in a manner consistent with these minimum reserve standards and with all applicable provisions of the reinsurance contracts that affect the company's liabilities.