

## DETERMINING RESERVE LIABILITIES FOR CREDIT LIFE INSURANCE MODEL REGULATION

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### Section 1. Authority

This rule is promulgated by the Commissioner of Insurance pursuant to Section [insert applicable reference to the Standard Valuation Law] of the [insert state] Insurance Statute.

### Section 2. Scope

This rule applies to credit life insurance policies and certificates, and those similar policies and certificates where there is no identifiable charge made to the debtor.

### Section 3. Purpose

The purpose of this rule is to:

- A. Recognize the 2001 CSO Male Composite Ultimate Mortality Table for use in determining the minimum standard of valuation.
- B. Specify the interest rate and method to be used in determining the minimum standard of valuation.

### Section 4. Definitions

- A. “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.
- B. “Composite mortality tables” means mortality tables with rates of mortality that do not distinguish between smokers and nonsmokers.
- C. “Credit life insurance” means life insurance as defined in [insert applicable reference to definition] of the [insert state] Insurance Statute.

**Drafting Note:** If existing definitions are not sufficiently precise to define Credit Life Insurance, some or all of the following definition may be added to the regulation:

“Credit life insurance” means insurance on a debtor or debtors, pursuant to or in connection with a specific loan or other credit transaction, to provide for satisfaction of a debt, in whole or in part, upon the death of an insured debtor.

Credit life insurance does NOT include:

- (a) Insurance written in connection with a credit transaction that is:
  - (i) Secured by a first mortgage or deed of trust; and
  - (ii) Made to finance the purchase of real property or the construction of a dwelling thereon, or to refinance a prior credit transaction made for such a purpose;

- (b) Insurance sold as an isolated transaction on the part of the insurer and not related to an agreement or a plan for insuring debtors of the creditor.
- (c) Insurance for which no identifiable charge is made to the debtor.
- (d) Insurance on accounts receivable.

**Section 5. 2001 CSO Male Composite Ultimate Mortality Table**

- A. The minimum standard for both male and female insureds shall be 2001 CSO Male Composite Ultimate Mortality Table.
- B. Where the 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.

**Section 6. Minimum Standards**

- A. [Insert applicable reference to the Valuation of Life Insurance Policies Model Regulation] shall not apply to credit life insurance.
- B. The interest rates used in determining the minimum standard for valuation shall be the calendar year statutory valuation interest rates as defined in [insert applicable reference to Section 4b of the Standard Valuation Law].
- C. The method used in determining the minimum standard for valuation shall be the commissioners reserve valuation method as defined in [insert applicable reference to Section 5 of the Standard Valuation Law].

**Drafting Note:**

- 1) Section 6 may not be appropriate or necessary for some states because of specific language in their versions of the Standard Valuation Law, the Valuation of Life Insurance Policies Model Regulation, or their specific statutes on credit insurance.
- 2) States should be aware that there may be requirements elsewhere in statutory accounting to test reserves against the premium refund net liability.
- 3) In applying the commissioners reserve valuation method, consideration should be given to the period of time for 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 premium “paid-to” date.
- 4) The Standard Valuation Law contains language permitting the use of “group methods and approximate averages for fractions of a year or otherwise.” Such methods may be appropriate in those situations where individual certificate data is not readily available to the insurer. This is especially common in monthly payment programs, with frequent remittance of small premiums.

**Section 7. Effective Date**

This rule is applicable to credit life policies and certificates issued on or after January 1, 200[ ] [insert January 1 of the year next following or coincident with the effective date of the state’s version of the Recognition of the 2001 CSO Mortality Table for Use in Determining Minimum Reserve Liabilities and Nonforfeiture Benefits Model Regulation].

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*Chronological Summary of Actions (all references are to the Proceedings of the NAIC)*

*2004 Proc. 1<sup>st</sup> Quarter 331, 1668, 1988-1991 (adopted by parent committee).*

*2004 Proc. 2<sup>nd</sup> Quarter 50 (adopted by Plenary).*