

**BULLETIN 2002-02****CREDIT ACCIDENT AND HEALTH INSURANCE PRIMA FACIE RATES  
FOR OPEN-END LOANS**

TO: All Credit Accident and Health Insurers

FROM: Utah State Insurance Department

DATE: March 13, 2002

**SUBJECT: Credit Accident and Health Insurance Prima Facie Rates for Open-End Loans**

The purpose of this Bulletin is to clarify the calculation of the credit accident and health insurance prima facie monthly rates for open-end loans. Section 7 of the Credit Life Insurance and Credit Accident and Health Insurance Rule R590-91 specifies formulas to be used to convert published credit accident and health single premium prima facie rates to monthly outstanding balance rates. The special case of open-end loans is addressed in Subsection R590-91-7.A.(7)(a) and (b).

The following two examples illustrate the calculation of the prima facie rate for a particular plan of insurance written on an open-end loan.

Example 1. Suppose that credit accident and health insurance is offered on an open-end loan with an APR of 18%. Let the monthly indemnity benefit be 5% of the outstanding principal balance as of the day of the disability and be retroactive to the first day of disability following the 30-day elimination period. Because 24 monthly payments are required to completely pay off the loan, the applicable single premium prima facie rate is \$2.41 per \$100 of indebtedness. The prima facie monthly rate per \$1,000 of principal outstanding balance is

$$OP = 20 \times SP / (n + 1) = 20 \times 2.41 / (24 + 1) = \$1.928$$

Example 2. Suppose that the credit accident and health insurance policy from Example 1 limits the number of monthly payments to 12. The corresponding critical period factor based on the 1968 Credit A&H Two Composite Tables published by the NAIC (Proceedings – 1968 Vol. II) is 0.7894. The prima facie monthly rate per \$1,000 of principal outstanding balance is

$$1.928 \times 0.7894 = \$1.522$$

Insurers writing credit accident and health insurance on open end loans are advised to review their rates to ensure compliance with the Rule R590-91. Use of premium rates in excess of the prima facie rates calculated in accordance with the rule is prohibited.

Insurers currently writing credit accident and health insurance on open end loans at rates lower than the prima facie rates may not deviate their rates upward without the Department's prior approval. Insurers currently writing credit accident and health insurance on open end loans at rates higher than prima facie rates shall file new compliant rates within 30 days of the effective date of this Bulletin.

DATED this 13th day of March, 2002

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MERWIN U. STEWART  
Insurance Commissioner

[\[Back to Top\]](#)