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STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

June 20, 1984

ADMINISTRATIVE
LETTER 1984-4

TO: All Companies Licensed to Sell Credit Life Insurance and/or Credit Accident and Sickness Insurance in Virginia

RE: Insurance in Connection with Variable Rate Loans

This administrative letter supersedes and replaces Administrative Letter 1983-11 on this subject. On April 8, 1984, Governor Robb signed House Bill 860 which provided that credit life and credit accident and sickness insurance could be written on variable interest rate loans. This bill had been designated as emergency legislation, and therefore became effective upon the Governor's signature. House Bill 860 added Section 38.1-482.4:1 to the Virginia Insurance Code, and sets forth the authority to write this insurance as well as providing the criteria under which it must be written.

Subsection B of this new statute provides that each individual policy, group certificate, or statement of credit insurance must include a conspicuous disclosure that the amount of insurance coverage provided may differ from the amount of the total indebtedness under the transaction due to a variation in the interest rate. It is the position of the Bureau of Insurance that this disclosure must be printed on the individual policy or certificate itself, and, in order to be considered conspicuous, must be on the front page of the certificate or policy. Each submission will be judged on its individual merits as to whether or not the disclosure meets the requirement of being conspicuous within the parameters noted above.

Subsection C requires the policy or certificate forms to provide that in the event variations in the interest rate lead to a net reduction in the amount of indebtedness, refunds of premiums for the excess insurance shall be paid or credited promptly to the person entitled thereto, following the satisfaction of the credit contract.

Subsection D allows the policy or certificate forms to provide that, in the event variations in the interest rate lead to a net increase in the amount of indebtedness during the term of the contract, an additional premium for the additional insurance necessary to match the insurance to the actual indebtedness may be allowed. Such additional charge, however, may only be added to the final payment or payments in the contract, or charged against unearned premium refunds due to any person entitled to them. Subsection D further requires that any such additional premiums may not exceed the rate on which the insurance premium was originally calculated on a single premium basis, and prohibits charging such additional premium to the debtor's estate or beneficiary in the event the insured debtor dies before the final due date under the credit contract.

The Bureau of Insurance will, for policies and certificates filed to comply with the requirements of Subsections C and D, accept policy provisions providing methodology based upon the following formula: The refund or additional premium due will equal the single premium charged at the initial interest rate charged minus or plus the sum of the premium charges of each lower or higher interest rate in effect during the term of the contract. If other methodology is to be used, it must be disclosed in the policy or certificate in terminology readily understandable to the debtor, and must be no less favorable to the insured than the method outlined above.

In order to facilitate the issuance of this type of insurance, the Bureau of Insurance will allow the individual policies and certificates presently in use to continue to be used for a period of 90 days from the date of this letter. They must, however, be issued with an appropriate sticker or cover sheet setting forth the material required to be disclosed in Subsection B of Section 38.1-482.4:1 of the Insurance Code. Subsequent to expiration of this 90 day period, the individual policies or certificates must have the disclosure included in them and must contain provisions addressing refunds of premiums and, if applicable, additional premiums as required by Paragraphs C and D of 38.1-482.4:1. These forms will need to be filed with the Bureau of Insurance and approved pursuant to 38.1-482.7:1 of the Insurance Code prior to use.

Any questions or comments regarding the contents of this letter should be addressed, **IN WRITING**, to Robert L. Wright, CLU, Supervisor of the Forms and Rate Section, Life and Health Division.

James M. Thomson
Commissioner of Insurance

By P A Synnott, Jr.
P. A. Synnott, Jr., CPCU, CLU
Deputy Commissioner
Market Regulation

JMT/pasjr./ds