

Regulatory Analysis Form

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INDEPENDENT REGULATORY REVIEW COMMISSION

(1) Agency

Insurance Department

(2) I.D. Number (Governor's Office Use)

11-227

IRRC Number: **2517**

(3) Short Title

Credit Life Insurance and Credit Accident and Health Insurance

(4) PA Code Cite

31 Pa. Code, Chapter 73, §73.103 and §73.138

(5) Agency Contacts & Telephone Numbers

Primary Contact: Peter J. Salvatore, Regulatory Coordinator,
1326 Strawberry Square, Harrisburg, PA 17120, (717) 787-4429
Secondary Contact:

(6) Type of Rulemaking (check one)

- Final form Rulemaking
- Final Order Adopting Regulation
- Final Order, Final form Rulemaking Omitted

(7) Is a 120-Day Emergency Certification Attached?

- No
- Yes: By the Attorney General
- Yes: By the Governor

(8) Briefly explain the regulation in clear and nontechnical language.

Chapter 73 establishes requirements for credit life and accident and health insurance including minimum standards for an insurer for calculating credit life and accident and health insurance reserves. The final form rulemaking modifies the mortality standards for calculating minimum reserves for credit life insurance and deletes the standards for calculating minimum reserves for single premium credit accident and health insurance, which standards are being simultaneously submitted in final form for modification and inclusion in 31 Pa. Code, Chapter 84a.

(9) State the statutory authority for the regulation and any relevant state or federal court decision.

Sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P.S. §§ 66, 186, 411 and 412); and Sections 301.1 and 311.1 of The Insurance Department Act (40 P.S. §§ 71.1 and 93).

Regulatory Analysis Form

(10) Is the regulation mandated by any federal or state law or court order, or federal regulation? If yes, cite the specific law, case or regulation, and any deadlines for action.

No.

(11) Explain the compelling public interest that justifies the regulation. What is the problem it addresses?

The purpose of the minimum reserve standards is to establish regulation guidelines for insurers to maintain sufficient funds to pay the future benefits that are guaranteed in an insurance contract. This provides protection to the policyholder in terms of the ability of the insurer to fulfill contractual obligations. The final form rulemaking updates the minimum reserve standards.

(12) State the public health, safety, environmental or general welfare risks associated with nonregulation.

If an insurer was not required to maintain adequate reserves, there would be a risk that the insurer would not have sufficient funds to pay future benefits to policyholders.

(13) Describe who will benefit from the regulation. (Quantify the benefits as completely as possible and approximate the number of people who will benefit.)

Residents of this Commonwealth who purchase credit life insurance and credit accident and health insurance contracts will benefit from the rulemaking. The amendment to Chapter 73 will strengthen the financial soundness of insurers, and their ability to fulfill contractual obligations under credit accident and health and credit life insurance policies issued in the Commonwealth.

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(14) Describe who will be adversely affected by the regulation. (Quantify the adverse effects as completely as possible and approximate the number of people who will be adversely affected.)

The amendment to the minimum morbidity standards will not affect policies issued, or claims incurred, prior to the effective date of this rulemaking. The claims incurred on policies issued on or after the effective date of this rulemaking could potentially exceed an insurer's reserves if this rulemaking was not adopted.

(15) List the persons, groups or entities that will be required to comply with the regulation. (Approximate the number of people who will be required to comply.)

All life insurance companies, property and casualty insurance companies and fraternal benefit societies issuing credit life and credit accident and health insurance policies.

(16) Describe the communications with and input from the public in the development and drafting of the regulation. List the persons and/or groups who were involved, if applicable.

Comments were not solicited from the industry in the drafting of the regulation. However, the regulation had a 30-day public comment period during the final form stage. One comment from the Insurance Federation of Pennsylvania, Inc., indicating no opposition to the regulation, was received.

(17) Provide a specific estimate of the costs and/or savings to the regulated community associated with compliance, including any legal, accounting or consulting procedures which may be required.

The amendment to the minimum mortality standards will have no cost impact on in-force contracts because the amendment does not apply to contracts issued prior to the effective date of this rulemaking. There may be some expense incurred by an insurer in modifying its reserve calculation system to comply with the amended minimum standards.

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(18) Provide a specific estimate of the costs and/or savings to local governments associated with compliance, including any legal, accounting or consulting procedures which may be required.

There are no costs or savings to local governments associated with this rulemaking.

(19) Provide a specific estimate of the costs and/or savings to state government associated with the implementation of the regulation, including any legal, accounting, or consulting procedures which may be required.

There are no costs or savings associated to state government associated with this rulemaking. This rulemaking does not affect the extent of the analysis performed by the Department, but instead modifies the existing standards for calculation reserves.

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(20) In the table below, provide an estimate of the fiscal savings and costs associated with implementation and compliance for the regulated community, local government, and state government for the current year and five subsequent years. N/A

	Current FY Year	FY +1 Year	FY +2 Year	FY +3 Year	FY +4 Year	FY +5 Year
SAVINGS:	\$	\$	\$	\$	\$	\$
Regulated Community						
Local Government						
State Government						
Total Savings						
COSTS:						
Regulated Community						
Local Government						
State Government						
Total Costs						
REVENUE LOSSES:						
Regulated Community						
Local Government						
State Government						
Total Revenue Losses						

(20a) Explain how the cost estimates listed above were derived.

N/A.

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(20b) Provide the past three year expenditure history for programs affected by the regulation.
N/A.

Program	FY -3	FY -2	FY -1	Current FY

(21) Using the cost-benefit information provided above, explain how the benefits of the regulation outweigh the adverse effects and costs.

No costs or adverse effects are anticipated as a result of this regulation.

(22) Describe the nonregulatory alternatives considered and the costs associated with those alternatives. Provide the reasons for their dismissal.

No other nonregulatory alternatives were considered because the standards are currently established by regulation. Therefore, amendment of Chapter 73 is necessary to revise the minimum reserve standards of the chapter and nonregulatory alternatives are not feasible.

(23) Describe alternative regulatory schemes considered and the costs associated with those schemes. Provide the reasons for their dismissal.

No other regulatory schemes were considered. The amendment of Chapter 73 is necessary to revise the minimum reserve standards of the chapter.

Regulatory Analysis Form

(24) Are there any provisions that are more stringent than federal standards? If yes, identify the specific provisions and the compelling Pennsylvania interest that demands stronger regulation.

No.

(25) How does this regulation compare with those of other states? Will the regulation put Pennsylvania at a competitive disadvantage with other states?

The rulemaking will not put Pennsylvania at a competitive disadvantage with other states.

(26) Will the regulation affect existing or final form regulations of the promulgating agency or other state agencies? If yes, explain and provide specific citations.

No.

(27) Will any public hearings or informational meetings be scheduled? Please provide the dates, times, and locations, if available.

No public hearings or informational meetings are anticipated.

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(28) Will the regulation change existing reporting, record keeping, or other paperwork requirements? Describe the changes and attach copies of forms or reports which will be required as a result of implementation, if available.

The rulemaking does not change existing reporting, record keeping or other paperwork requirements.

(29) Please list any special provisions which have been developed to meet the particular needs of affected groups or persons including, but not limited to, minorities, elderly, small businesses, and farmers.

The rulemaking will have no effect on special needs of affected parties.

(30) What is the anticipated effective date of the regulation; the date by which compliance with the regulation will be required; and the date by which any required permits, licenses or other approvals must be obtained?

The rulemaking will take effect upon approval of the final form regulation by the Legislative Standing Committees, the Independent Regulatory Review Commission, the Office of the Attorney General, and upon final publication in the *Pennsylvania Bulletin* with an effective date of January 1, 2007.

(31) Provide the schedule for continual review of the regulation.

The Department reviews each of its regulations for continued effectiveness on a triennial basis.

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INDEPENDENT REGULATORY
REVIEW COMMISSION

CDL-1

FACE SHEET
FOR FILING DOCUMENTS
WITH THE LEGISLATIVE REFERENCE
BUREAU

(Pursuant to Commonwealth Documents Law)

2517

DO NOT WRITE IN THIS SPACE

Copy below is hereby approved as to
form and legality. Attorney General

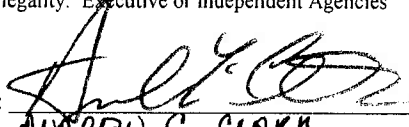
Copy below is hereby certified to be a true and correct
copy of a document issued, prescribed or promulgated
by:

Copy below is hereby approved as to form and
legality. Executive or Independent Agencies

By _____
(Deputy Attorney General)

Insurance Department

(AGENCY)

BY: 
ANDREW C. CLARK

MAY 11 2006

DATE OF APPROVAL

(DEPUTY GENERAL COUNSEL)
(CHIEF COUNSEL, INDEPENDENT AGENCY)
(STRIKE INAPPLICABLE TITLE)

_____ Date of Approval

DOCUMENT/FISCAL NOTE NO. 11-227

DATE OF ADOPTION: _____

BY: 
M. Diane Koken

Insurance Commissioner

TITLE: _____
(EXECUTIVE OFFICER, CHAIRMAN OR
SECRETARY)

→ Check if applicable. No Attorney General
approval or objection within 30 days after
submission.

→ Check if applicable.
Copy not approved. Objections
attached.

NOTICE OF FINAL FORM RULEMAKING

INSURANCE DEPARTMENT

31 Pa. Code Chapter 73
§§73.103 and 73.138

Credit Life Insurance and Credit Accident and Health Insurance

PREAMBLE

The Insurance Department (Department) hereby amends Chapter 73 of the Department's regulations (31 Pa.Code Ch. 73) (relating to credit life insurance and credit accident and health insurance) as set forth in Annex A.

Statutory Authority

The final form regulation is adopted under the authority of Sections 206, 506, 1501 and 1502 of The Administrative Code of 1929 (71 P.S. §§ 66, 186, 411 and 412) and Sections 301.1 and 311.1 of The Insurance Department Act ("Act") (40 P.S. §§ 71.1 and 93).

Comments and Response

Notice of proposed rulemaking was published at 36 Pa.B. 391 (January 28, 2006) with a 30-day comment period. During the 30-day comment period, comment was received from the Insurance Federation of Pennsylvania, Inc. indicating no opposition to the regulation. During its regulatory review, the Independent Regulatory Review Commission (IRRC) did not submit comments to the Department.

Affected Parties

The rulemaking applies to life insurance companies, property and casualty insurance companies and fraternal benefit societies marketing and soliciting the sale of credit life insurance and credit accident and health insurance in this Commonwealth.

Fiscal Impact

State Government

There will be no increase in cost to the Department as a result of the adoption of the amendment to Chapter 73. As part of its solvency monitoring responsibilities, the Department currently reviews the methodology used by an insurer to calculate credit life insurance reserves to ensure that the reserves are adequate and comply with the minimum standard requirements. Thus, this rulemaking will not require any additional staff time or resources to perform the analysis.

General Public

Since the rulemaking concerns the solvency requirements applied to insurers, the public will benefit from a financially sound insurance industry in the ability of insurers to fulfill their

contractual obligations under credit life insurance and credit accident and health insurance policies.

Political Subdivisions

The rulemaking will not impose additional costs on political subdivisions. However, because the rulemaking promotes stability in the Commonwealth's insurance industry, political subdivisions' tax revenues would benefit as a result of fewer insurer insolvencies. Fewer insolvencies would result in less unemployment and would also increase incentives for insurers to market new insurance products in this Commonwealth.

Private Sector

The amendment does not apply to policies issued prior to the adoption of the rulemaking. There may be some expense incurred by an insurer in modifying the reserve calculation system to comply with amended minimum reserve standards.

Paperwork

The adoption of this rulemaking would not impose additional paperwork on the Department or the insurance industry. The amendment to the minimum standards applies to the reserve calculation, but will not result in additional paperwork.

Effectiveness/Sunset Date

The rulemaking will become effective January 1, 2007. The Department continues to monitor the effectiveness of regulations on a triennial basis; therefore, no sunset date has been assigned.

Contact person

Any questions regarding this regulation should be directed to Peter J. Salvatore, Regulatory Coordinator, Office of Special Projects, 1326 Strawberry Square, Harrisburg, PA 17120, phone (717) 787-4429. In addition, questions may be e-mailed to psalvatore@state.pa.us or faxed to (717) 772-1969.

Regulatory review

Under section 5(a) of the Regulatory Review Act, (71 P.S. §745.5(a)), the agency submitted a copy of this regulation on January 13, 2006, to the Independent Regulatory Review Commission and to the Chairmen of the House Insurance Committee and the Senate Banking and Insurance Committee. In addition to the submitted regulation, the agency has provided the Commission

and the Committees with a copy of a detailed Regulatory Analysis Form prepared by the agency in compliance with Executive Order 1996-1, "Regulatory Review and Promulgation." A copy of that material is available to the public upon request.

In preparing this final form regulation, the Department considered all comments received from IRRC, the Committees and the public. This final form regulation was (deemed) approved by the House and Senate Committees on _____. In accordance with section 5a(d) of the Regulatory Review Act (71 P.S. §745.5a(d)), IRRC met on _____ and (deemed) approved the regulation in accordance with section 5a(e) of the Regulatory Review Act (71 P.S. §745.5a(e)).

Findings

The Commissioner finds that:

- (1) Public notice of intention to adopt this rulemaking as amended by this order has been given under sections 201 and 202 of the act of July 31, 1968 (P.L. 769, No240) (45 P.S. §§1201 and 1202) and the regulations thereunder, 1 Pa. Code §§7.1 and 7.2.
- (2) The adoption of this rulemaking in the manner provided in this order is necessary and appropriate for the administration and enforcement of the authorizing statutes.

Order

The Commissioner, acting under the authorizing statutes, orders that:

- (a) The regulations of the Department, 31 Pa. Code, are amended by adopting §§73.103 and 73.138, to read as set forth in Annex A.
- (b) The Commissioner shall submit this order and Annex A to the Office of General Counsel and Office of Attorney General for approval as to form and legality as required by law.
- (c) The Commissioner shall certify this order and Annex A and deposit them with the Legislative Reference Bureau as required by law.
- (d) The regulation adopted by this order shall take effect January 1, 2007.

M. Diane Koken
Insurance Commissioner

CONTINUATION SHEET FOR FILING DOCUMENTS WITH THE
LEGISLATIVE REFERENCE BUREAU
Pursuant to Commonwealth Documents Law

ANNEX A

CHAPTER 73. CREDIT LIFE INSURANCE AND CREDIT ACCIDENT
AND HEALTH INSURANCE

Sec.	
73.103.	Definitions.
73.138.	Financial statement reserves.

§ 73.103. Definitions.

The following words and terms, when used in this chapter, have the following meanings, unless the context clearly indicates otherwise:

2001 CSO Male Composite Ultimate Mortality Table – The ultimate version of the mortality table, consisting of separate rates of mortality for male lives that do not distinguish between smokers and nonsmokers, 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 National Association of Insurance Commissioners in December 2002. The table includes both the age-nearest birthday and age-last birthday version.

§ 73.138. Financial statement reserves.

The following reserves for all credit insurance policies shall be maintained by insurers doing credit life insurance or credit A and H insurance business in this Commonwealth.

(1) The reserves for credit life insurance may not be less than the reserves as computed using the Commissioners 1980 Extended Term Mortality Table, using mortality rates

applicable to male lives for insurance issued prior to [or on or after June 19, 1998] January 1, 2007, with interest at the rate specified in section 301(c) of The Insurance Department Act of 1921 (40 P. S. § 71(c)).

(2) The reserves for credit life insurance may not be less than the reserves as computed using the 2001 CSO Male Composite Ultimate Mortality Table for insurance issued on or after January 1, 2007 with interest at the rate specified in section 301(c) of The Insurance Department Act of 1921 (40 P. S. § 71(c)).

(3) If the credit life insurance policy or certificate insures 2 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.

(4) Chapter 84c (relating to valuation of life insurance policies) shall not apply to credit life insurance.

[2](5) The reserves for single premium credit [A and H insurance or] TPD benefits may not be less than the mean of the amounts of unearned premium calculated from gross premiums in force on the following bases:

(i) The pro rata basis.

(ii) Rule of 78 basis.

(6) The reserves for single premium credit A and H insurance are regulated under 31 Pa. Code Ch. 84a (relating to Minimum Reserve Standards for Individual and Group Health and Accident Insurance Contracts).

[(3)](7) The reserves for monthly premium credit A and H insurance and TPD benefits may not be less than the amount of unearned premium calculated from gross premiums in force on the pro rata basis.

[(4)](8) The claim reserves for monthly premium credit A and H insurance shall be calculated using a generally accepted actuarial method or other reasonable method acceptable to the Commissioner.

The Final Form Regulation listed below has been sent to the following:

<i>Reg #</i>	<i>Regulation Title</i>	<i>Date Sent</i>	<i>05/15/2006</i>
<i>11-227</i>	<i>Credit Life Insurance and Credit Accident and Health Insurance</i>		

Mr. John Doubman
Secretary and Counsel
Insurance Federation of Pennsylvania, Inc.
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Philadelphia, PA 19103
Phone (215) 665-0508 X00000

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**COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT**

SPECIAL PROJECTS OFFICE
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Harrisburg, PA 17120

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Fax: (717) 772-1969
E-mail: psalvatore@state.pa.us

May 15, 2006

Mr. Kim Kaufman
Executive Director
Independent Regulatory Review Comm.
333 Market Street
Harrisburg, PA 17101

Re: Insurance Department Final Form Regulation No. 11-227, Chapter 73, Credit Life Insurance
and Credit Accident and Health Insurance

Dear Mr. Kaufman:

Pursuant to Section 5(a) of the Regulatory Review Act, enclosed for your information and review is final form regulation 31 Pa. Code, Chapter 73.

The purpose of the final form rulemaking is to modify the mortality standards in calculating minimum reserves for credit life insurance and delete the standards for calculating minimum reserves for single premium credit accident and health insurance because these standards will be addressed in amendments to Chapter 84a of the Department's regulations (relating to minimum reserve standards for individual and group health and accident insurance contracts), which are being promulgated in conjunction with these amendments to Chapter 73. The final form rulemaking is patterned after the Determining Reserve Liabilities for Credit Life Insurance Model Regulation adopted by the National Association of Insurance Commissioners (NAIC) in June 2004. A copy of which was delivered to you during the proposed stage of this regulation.

If you have any questions regarding this matter, please contact me at (717) 787-4429.

Sincerely yours,

A handwritten signature in blue ink that reads "Peter J. Salvatore".

Peter J. Salvatore
Regulatory Coordinator

**TRANSMITTAL SHEET FOR REGULATIONS SUBJECT TO THE
REGULATORY REVIEW ACT**

I.D. NUMBER: #11-227
 SUBJECT: Credit Life Insurance and Credit Accident and Health Insurance
 AGENCY: DEPARTMENT OF INSURANCE

TYPE OF REGULATION

- Proposed Regulation
- X Final Regulation
- Final Regulation with Notice of Proposed Rulemaking Omitted
- 120-day Emergency Certification of the Attorney General
- 120-day Emergency Certification of the Governor
- Delivery of Tolled Regulation
 - a. With Revisions
 - b. Without Revisions

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FILING OF REGULATION

DATE	SIGNATURE	DESIGNATION
5/15	<i>Bonnie D'Amico</i>	HOUSE COMMITTEE ON INSURANCE
5/15	<i>[Signature]</i>	
5/15	<i>Ambrose</i>	SENATE COMMITTEE ON BANKING & INSURANCE
5/15/06	<i>Nadine A. Bouley</i>	
5/15/06	<i>Kathy A. Cooper</i>	INDEPENDENT REGULATORY REVIEW COMMISSION
_____	_____	ATTORNEY GENERAL (for Final Omitted only)
_____	_____	LEGISLATIVE REFERENCE BUREAU (for Proposed only)