

ALABAMA DEPARTMENT OF INSURANCE  
ADMINISTRATIVE CODECHAPTER 482-1-117  
CREDIT LIFE AND DISABILITY INSURANCE

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**482-1-117-.01      Authority And Short Title.**

This chapter is adopted pursuant to Section 27-2-17, Code of Ala. 1975. This chapter shall be known and may be cited as the Alabama Credit Life and Disability Insurance Regulation.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

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**482-1-117-.02      Purpose.**

The purpose of this chapter is to: establish guidelines for insurers and creditors that offer credit life insurance and credit

disability insurance, as defined in this chapter, provided by the creditors to debtors; and interpret and implement certain Alabama statutes, including, but not limited to, the Alabama Consumer Credit Act and the Alabama Small Loan Act, with respect to credit life and disability insurance provided under those statutes. It is acknowledged that other types of credit insurance may be issued or sold, for example, credit property insurance; however, those other types of credit insurance are not covered by this chapter. Nothing in this chapter is intended to prohibit or discourage reasonable competition.

**Author:** Reyn Norman, Associate Counsel

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#### 482-1-117-.03      Applicability And Scope.

(1) All credit life insurance and credit disability insurance issued or sold in connection with credit transactions primarily for personal, family or household purposes shall be subject to the provisions of this chapter, except:

(a) 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.

(b) Insurance for which no identifiable charge is made to the debtor.

(2) It is acknowledged that various forms of decreasing term life insurance sold in connection with real estate loans, or other types of insurance where the rate is determined by age of the insured, could be construed as credit life insurance although the insurer did not intend that the insurance constitute credit life insurance. Therefore, the purpose and use of the insurance contract and all other factors tending to show the intent of the insurer in the issuance of the policy, will be taken into consideration in a determination of the applicability and scope of this chapter to the insurance products sold.

**Author:** Reyn Norman, Associate Counsel

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**482-1-117-.04      Definitions.**

The following definitions shall apply for purposes of this chapter:

(a) Affiliate. As defined in Section 27-29-1, Code of Ala. 1975.

(b) Closed-end credit. A credit transaction that does not meet the definition of open-end credit.

(c) Commissioner. The Alabama Commissioner of Insurance.

(d) Compensation. Commissions, dividends, retrospective rate credits, service fees, expense allowances or reimbursements, gifts, furnishing of equipment, facilities, goods or services, or any other form of remuneration resulting directly from the sale of consumer credit insurance.

(e) Consumer credit insurance. Refers to "credit life insurance" and "credit disability insurance" as defined in this rule.

(f) Control. As defined in Section 27-29-1, Code of Ala. 1975.

(g) Credit disability insurance. Insurance on a debtor or debtors to provide indemnity for payments or debt becoming due on a specific credit transaction, in whole or in part, while the debtor is disabled as defined in the policy, and which precludes debtor selection of primary beneficiary.

(h) Credit life insurance. Insurance on a debtor or debtors, in connection with a specific credit transaction, to provide for satisfaction of a debt, in whole or in part, upon the death of an insured debtor, and which precludes debtor selection as to primary beneficiary.

(i) Credit transaction. Any transaction by the terms of which the repayment of money loaned or loan commitment made, or payment for goods, services or properties sold or leased, is to be made at a future date or dates. It is acknowledged that the Alabama Consumer Credit Act does not apply to true leases; however, it is intended that consumer credit insurance issued or sold in connection with true leases be subject to this chapter to the extent provided herein.

(j) Creditor. A person who regularly extends or arranges for the extension of credit for which the payment of a finance charge is required, whether in connection with loans, sales of property or services, or otherwise, and, for purposes of this

chapter, "creditor" also includes a lessor, and any successor of the foregoing.

(k) Debtor. A borrower of money or a purchaser or lessee of goods, services, property, rights or privileges for which payment is arranged through a credit transaction.

(l) Evidence of individual insurability. A statement furnished by the debtor, as a condition of insurance becoming effective, that relates specifically to the health status or to the health or medical history of the debtor, or to the occupation of the insured debtor or other information related to the insured debtor. This definition specifically excludes information related to the eligibility of the debtor for coverage.

(m) Gross debt. The sum of the remaining payments, including principal, interest, and other lawful charges, owed to the creditor by the debtor. For leases, "gross debt" means the sum of the remaining lease payments plus any residual payments, whether optional or mandatory.

(n) Identifiable charge. A charge for a type of consumer credit insurance that is made to insured debtors and not made to uninsured debtors; it includes a charge for insurance that is disclosed in the credit or other instrument furnished to the debtor which sets out the financial elements of the credit transaction and any difference in the finance, interest, service or other similar charge made to debtors who are in like circumstances except for the insured or non-insured status of the debtor or the insured or non-insured status of the property used as security for the credit transaction.

(o) Insurer. As defined in Section 27-1-2, Code of Ala. 1975.

(p) Open-end credit. A plan prescribing the terms of credit transactions which may be made thereunder from time to time and under the terms of which a finance charge may be charged from time to time on an outstanding unpaid balance.

(q) Person. An individual, a corporation, a partnership, a limited partnership, an association, a joint-stock company, an unincorporated organization, a limited liability company, or any similar entity or any combination of the foregoing acting in concert.

(r) Superintendent. The Superintendent of Banks of the Alabama State Banking Department.

**Author:** Reyn Norman, Associate Counsel

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**482-1-117-.05      Types Of Consumer Credit Insurance.**

(1) The types of consumer credit insurance defined in Rule 482-1-117-.04 may each be written separately, jointly, or in combination with other types of credit insurance on an individual policy or group policy basis, whether or not the other types of credit insurance are subject to this chapter.

(2) There are two categories of credit life insurance:

(a) Group Credit Life Insurance. A policy of credit life insurance issued to a creditor, who shall be deemed the policyholder, to insure debtors of the creditor, subject to the following requirements:

1. The debtors eligible for insurance under the policy shall be all of the debtors of the creditor or all of any class or classes thereof. The policy may provide that the term "debtors" shall include the debtors of one or more affiliates.

2. The premium for the policy shall be paid by the policyholder, either from the creditor's funds or from charges collected from the insured debtors, or from both.

3. A policy may reserve to the insurer the right to require evidence of individual insurability.

4. The insurance shall be payable to the policyholder. Such payment shall reduce or extinguish the unpaid indebtedness of the debtor to the extent of such payment.

(b) Individual Credit Life Insurance. A policy of credit life insurance issued to a debtor in favor of a creditor.

(3) There are two categories of credit disability insurance:

(a) Group Credit Disability Insurance. A policy of credit disability insurance issued to a creditor, who shall be deemed to be the policyholder, to insure debtors of the creditor, subject to the following requirements:

1. The debtors eligible for such insurance under the policy shall be all of the debtors of the creditor, or all of any class or classes thereof. The policy may provide that the term "debtors" shall include the debtors of one or more affiliates.

2. The policy may reserve to the insurer the right to require evidence of individual insurability.

(b) Individual Credit Disability Insurance. A policy of credit disability insurance issued to a debtor in favor of a creditor.

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**482-1-117-.06      Amount Of Consumer Credit Insurance.**

(1) Credit Life Insurance.

(a) The maximum amount of credit life insurance that may be written in connection with a consumer loan or consumer credit sale which is to be repaid in substantially equal installments shall at no time exceed the greater of the following:

1. The approximate unpaid balance of the debt, excluding unearned finance charges, if any.

2. The approximate unpaid scheduled balance of the debt, excluding unearned finance charges, if any, plus the amount of one scheduled payment.

(b) For a lease transaction payable in substantially equal monthly payments plus a residual payment (whether optional or mandatory), uniform decreasing credit life insurance benefits may be provided in an amount not exceeding the sum of the remaining monthly payments and the residual amount of a lease transaction may be insured on a level term basis.

(c) The amount of credit life insurance on single principal payment consumer credit transactions, irrespective of the scheduled interest payments, shall not exceed the approximate amount of the gross debt.

(d) If a premium is assessed to the debtor on a monthly basis and is based on the approximate amount of the outstanding unpaid balance of the debt, then the amount payable at the time of loss shall be the approximate unpaid balance of the debt on the date of death.

(e) Notwithstanding the provisions of Subparagraph (a), (b), (c) and (d) of this Paragraph (1), the amount of the premium and the corresponding amount of the death benefit may be subject to policy limits.

(f) A single policy or group certificate may provide for joint credit life insurance coverage on both the principal debtor and one co-debtor to the consumer credit transaction.

(2) Credit Disability Insurance.

(a) For closed-end credit transactions, the total amount of periodic indemnity benefit payable by credit disability insurance in the event of disability as defined in the policy shall not exceed the approximate amount of the gross debt. The amount of each periodic indemnity benefit payment shall not exceed the approximate amount of the gross debt divided by the number of scheduled periodic installments.

(b) The amount of insurance written in connection with an open-end credit plan shall not exceed the approximate unpaid balance of the debt from time to time using the periodic indemnity benefit payment as the amount of each payment. Subject to any policy maximums, the periodic indemnity benefit must not be less than the creditor's minimum repayment schedule.

(c) Credit disability insurance may be subject to a limitation on the total number of monthly indemnity payments that could result in the indemnity payments terminating prior to the end of the term of insurance.

(d) For a lease transaction payable in substantially equal monthly payments plus a residual payment (whether optional or mandatory), the monthly disability benefit shall not exceed the amount of each monthly lease payment. No credit disability coverage shall be provided on the residual amount.

(e) Except to the extent prohibited by regulation of the Superintendent, a single policy or group certificate may provide for joint disability insurance coverage on both the principal debtor and one co-debtor to the consumer credit transaction.

(3) General Provisions.

(a) Consumer credit insurance coverages may be written for any amount equal to or less than the maximum amount specified in Paragraphs (1) and (2) of this rule and for any term consistent with the provisions in Rule 482-1-117-.07.

(b) Consumer credit insurance coverages may be written on lease transactions, variable rate credit transactions, balloon loans, or any other credit transaction in any combination of decreasing or level amounts of insurance which are not inconsistent with this chapter.

**Author:** Reyn Norman, Associate Counsel

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**482-1-117-.07      Term Of Consumer Credit Insurance.**

(1) Effective Date of Coverage.

(a) For consumer credit insurance made available to and elected by the debtor before or contemporaneous with a credit transaction to which the insurance relates, the term of the insurance shall, subject to acceptance by the insurer, commence on the date when the debtor becomes obligated to the creditor, except that when evidence of individual insurability is required and such evidence is received by the insurer more than thirty (30) days after the date when the debtor becomes obligated to the creditor, the term of the credit insurance may commence on the date on which the insurance company determines the evidence to be satisfactory.

(b) For insurance coverage made available to and elected by the debtor on a date subsequent to the date of the consumer credit transaction to which the insurance relates, the insurance shall, subject to acceptance by the insurer, commence on a date not earlier than the date the election is made by the debtor nor later than thirty (30) days following the date on which the insurance company accepts the risk for coverage, according to an objective method such as one related to a particular date within a billing or repayment cycle or a calendar month.

(c) Notwithstanding the provisions of Subparagraphs (a) and (b) of this Paragraph (1), when a group policy provides coverage with respect to debts existing on the policy effective date, the insurance relating to the debt shall not commence before the effective date of the group policy.

(d) No charge for insurance shall be retained with respect to any time prior to commencement of the consumer credit insurance to which the charge is related. If a charge is made and the debtor's application for insurance is subsequently rejected or delayed, an appropriate refund of the premium charge shall be made to the debtor within thirty (30) days after a determination that the refund is due.

(2) Termination Date of Coverage.

(a) The term of any consumer credit insurance shall not extend beyond the termination date specified in the policy. The termination date of insurance may precede, coincide with or



follow the scheduled maturity date of the debt to which it relates, subject to any other requirements and restrictions of this chapter.

(b) The term of any consumer credit insurance shall not extend more than fifteen (15) days beyond the scheduled maturity date of the debt except when extended without additional cost to the debtor or except when extended pursuant to a written agreement, signed by the debtor, in connection with a variable interest rate credit transaction or a deferral, renewal, refinancing or consolidation of debt. Notwithstanding the foregoing sentence, no insurer shall be bound to offer such extensions unless required by provisions of previously-issued policies or certificates.

(c) If the debt is renewed, refinanced or consolidated prior to the scheduled termination date of the insurance, any insurance in force shall be terminated before any new insurance may be written in connection with the renewed, refinanced, or consolidated debt.

(d) In all cases of termination of insurance prior to the scheduled termination of the insurance, an appropriate refund or credit to the debtor shall be made of any unearned insurance premium or charge paid by the debtor for a term of insurance after the date of the termination, except that no refund is required of a premium or charge made for insurance if the insurance is terminated by performance of the insurer's obligation with respect to the insurance. For purposes of this provision, payment of a credit life insurance benefit does not constitute performance of the insurer's obligation with respect to credit disability insurance insuring the same debt.

(e) If a claim under credit disability coverage is in progress at the time of prepayment, the amount of refund may be determined as if the prepayment did not occur until the payment of benefits terminates. No refund is required to be paid during any period of disability for which credit disability benefits are payable.

(f) An insured debtor may terminate consumer credit insurance at any time by providing advance request made in accordance with the provisions of the individual policy or group certificate of insurance. The individual policy or group certificate may require that the request be in writing or that the debtor surrender the individual policy or group certificate, or both. The debtor's right to terminate coverage may also be subject to the terms of the credit transaction contract.

(3) Premiums may be assessed for credit insurance for the entire term of the related credit transaction, periodically over the scheduled terms of the credit transaction, periodically with

respect to open-end credit, or for a shorter period than the scheduled maturity of the credit transaction.

**Author:** Reyn Norman, Associate Counsel

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**482-1-117-.08      Provisions Of Policies And Certificates Of Insurance.**

(1) All consumer credit insurance shall be evidenced by an individual policy or a group certificate of insurance which shall be delivered to the debtor.

(2) The individual policy or group certificate shall, in addition to other requirements of law, set forth all of the following:

(a) The name and home office address of the insurer.

(b) The name or names of the debtor or debtors, or in the case of a group certificate, the identity by name or otherwise (e.g., loan number) of the debtor or debtors.

(c) The premium rate and basis of calculation or the premium or amount of payment to be paid by the debtor, separately for each kind of coverage or for all coverages in a package.

(d) A full description of the coverage or coverages including the amount and term thereof, and any exceptions, limitation and exclusions.

(e) A statement that the benefits shall be paid to the creditor to reduce or extinguish the unpaid debt and, whenever the amount of insurance benefit exceeds the unpaid debt that any such excess shall be payable to a beneficiary, other than the creditor, named by the debtor, or to the debtor's estate.

(3)(a) At the time the debt is incurred, or at such other time that the debtor elects to purchase coverage, one of the following shall be delivered to the debtor:

1. The individual policy or group certificate of insurance.

2. A copy of the application for insurance.

3. A notice of proposed insurance setting forth the name and home office address of the insurer, the name or names of the debtor, the premium rate or amount of payment by

the debtor for the insurance, and the amount, term (if fixed) and type of coverage provided.

(b) An individual policy or group certificate delivered in conjunction with an open-end credit plan or any consumer credit insurance requested by the debtor after the date of the debt, or by telephone, electronic terminal or other remote means, shall be deemed to be delivered at the time the debt is incurred or election to purchase coverage is made if the delivery occurs within thirty (30) days of the date the insurance is effective.

(c) The application for insurance or notice of proposed insurance shall be distinct from the basic credit transaction agreement, or statement of account in the case of an open-end credit, which requirement may be satisfied if such information is prominently set forth by typeface, in graphics or otherwise.

(d) Within thirty (30) days of receipt by the insurer of all information required for a determination of insurability, and upon acceptance of the insurance by the insurer, the insurer shall cause the individual policy or group certificate of insurance to be delivered to the debtor.

(e) The application for insurance or notice of proposed insurance shall state that upon acceptance by the insurer the insurance shall become effective as provided in Rule 482-1-117-.07.

(4) The debtor has thirty (30) days from the date that he or she receives either the individual policy or the group certificate to review the coverage purchased. At any time within the thirty (30) day period, the debtor may contact the creditor or insurer as provided for in the individual policy or group certificate and request that the coverage be canceled. The individual policy or group certificate may require the request to be in writing or that the policy or certificate be returned to the insurer, or both. The debtor shall, within fifteen (15) days after the request, receive a full refund or credit of all premiums or insurance charges paid by or charged to the debtor, provided no loss has occurred and no claim has been made.

(5) An individual policy or group certificate delivered in conjunction with an open-end credit agreement shall continue from its effective date through the term of the agreement unless the individual policy or group certificate is terminated in accordance with its terms at an earlier date.

**Author:** Reyn Norman, Associate Counsel

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**482-1-117-.09      Filing, Approval And Withdrawal Of Forms.**

(1) All policies, certificates of insurance, notices of proposed insurance, applications for insurance, endorsements and riders delivered or issued for delivery in this state, and the schedules of premium rates pertaining thereto, shall be filed with the Commissioner before being used. It is not necessary to file for approval any form of election of coverage contained in or constituting a part of the documents evidencing the credit transaction. In addition to bearing the designations of Group Credit or Individual Credit, the description "Creditor-Debtor Insurance Only" shall also be placed on the face of each such policy or group certificate.

(2) The Commissioner shall within thirty (30) days after the filing of any such policies, certificates of insurance, notices of proposed insurance, applications for insurance, endorsements and riders, disapprove any such form if it is determined that the benefits provided are not consistent with the provisions of this chapter, or if the form contains provisions which are unjust, unfair, inequitable, misleading, deceptive or encourage misrepresentation of the coverage, or are contrary to any provision of the Insurance Code or of any rule or regulation promulgated thereunder or of the provisions of Section 5-19-20(b) (2), Code of Alabama 1975. If the Commissioner does not disapprove a filing within thirty (30) days, it shall be deemed approved.

(3) If the Commissioner disapproves the form in accordance with Paragraph (2), the Commissioner shall promptly notify the insurer in writing of the disapproval, and it is unlawful for the insurer to issue or use the form. In the notice, the Commissioner shall specify the reasons for disapproval and state that a hearing will be granted upon written request by the insurer.

(4) The Commissioner may withdraw approval of any approved form when the Commissioner would be required to disapprove the form if it were filed at the time of the action of withdrawal. The withdrawal shall be in writing and shall specify the reasons for the withdrawal and the effective date of the withdrawal. Any insurer adversely affected by such withdrawal may, within thirty (30) days after receiving the written notification of the withdrawal, request a hearing to determine whether the withdrawal should be annulled, modified, or confirmed. Unless the Commissioner, in writing in the withdrawal or subsequent thereto, grants an extension, the withdrawal shall, in the absence of a request for a hearing, become effective, prospectively and not retroactively, on the ninety-first (91st) day following the delivery of the notice of withdrawal, and, if request for hearing

is filed, on the ninety-first (91st) day following delivery of written notice of the Commissioner's determination. Policies and group certificates issued prior to the effective date of the withdrawal shall continue in force and effect and shall not be affected by the withdrawal.

(5) It is not lawful for the insurer to issue forms or use them after the effective date of such withdrawal.

(6) The Commissioner's approval of any consumer credit insurance form prior to the effective date of this chapter remains valid notwithstanding the provisions of this rule, except to the extent such form is not in compliance with this chapter, in which case the approval shall be deemed withdrawn as of one hundred eighty (180) days following the effective date of this chapter.

(7) Forms filed and approved in accordance with this rule shall be deemed to be in compliance in all respects with the laws of this state.

**Author:** Reyn Norman, Associate Counsel

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#### **482-1-117-.10      Premiums.**

(1) All schedules of rates, premiums or identifiable charges on all consumer credit insurance issued and sold in this State shall be filed for informational purposes with the Commissioner by the concerned insurer. An insurer may revise its schedules of rates or premiums from time to time, and shall file the revised schedules with the Commissioner. No insurer shall issue any consumer credit insurance policy for which the rate or premium exceeds that determined by the schedules of the insurer as then on file with the Commissioner.

(2) The Superintendent promulgates maximum rates for credit life insurance for consumer loans and consumer credit sales. The rates for credit life insurance for lease transactions shall be the rates filed with the Commissioner pursuant to Rule 482-1-117-.09 unless disapproved by the Commissioner. The maximum rates shall apply to a plan of credit life insurance offered to all eligible debtors, with or without evidence of individual insurability, which provides the following:

(a) No exclusions or limitations other than the following:

1. An exclusion for death due to suicide within one year after the effective date of coverage.

2. In a group policy, an exclusion for death due to a condition for which the insured debtor received consultation, diagnosis or treatment from a doctor within six months before the effective date of coverage and from which death occurs within six months after the effective date of coverage, but only if and to the extent that the amount of coverage to which it would otherwise apply in the absence of this limitation exceeds \$1,000.00; provided, however, that no such exclusion shall apply to any insurance that becomes effective within six (6) months following the debtor's having furnished evidence of individual insurability to the insurer.

3. For the purposes of the exclusions, the effective date of coverage for each part of the insurance attributable to a different advance under an open-end credit plan is the date on which the advance occurs.

(b) An age restriction or restrictions not less favorable to debtors than any of the following:

1. A restriction making debtors who have attained 65 years of age at the time the indebtedness is incurred ineligible for coverage.

2. A restriction making debtors who will have attained 66 years of age on the scheduled maturity date of the indebtedness ineligible for coverage.

3. A provision for coverage to terminate when the debtor attains a specified age not less than 66 years.

(c)1. In an individual policy, a provision that the policy shall not be contested, except for nonpayment of premiums, after the policy has been in force during the lifetime of the insured for a period of one year from its date of issue; provided, however, that if the balance owing on the account to which the insurance relates, exclusive of interest and other charges, is less than \$1,000.00, the time period during which such a contest may be commenced is ninety (90) days instead of one year.

3. In a group policy, a provision that the validity of the policy shall not be contested, except for nonpayment of premiums, after it has been in force for two years from its date of issue and that no statement made by any person insured under the policy relating to insurability shall be used in contesting the validity of the insurance with respect to which the statement was made after the insurance has been in force prior to the contest for a period of one year during the person's lifetime; provided, however, that if the balance owing on the account to which the insurance relates, exclusive of

interest and other charges, is \$1,000 or less, the time period during which such a contest may be commenced is ninety (90) days instead of one year. Any such statement must be contained in a written instrument signed by person insured.

(3) The Superintendent promulgates maximum rates for credit disability insurance for consumer loans and consumer credit sales and may, upon request of an insurer, approve rates that are higher than the maximum rates as indicated in Paragraph (2) of Rule 482-1-117-.18. The rates for credit disability insurance for lease transactions shall be the rates filed with the Commissioner pursuant to Rule 482-1-117-.09 unless disapproved by the Commissioner. The maximum rates shall apply to plans of credit disability benefits offered to all eligible debtors, with or without evidence of individual insurability, which provide the following:

(a) A waiting period of either 7 days, 14 days or 30 days following the onset of disability, with benefits becoming payable on either a retroactive or non-retroactive basis.

(b) A definition of disability providing that, during the first twelve months of disability, the debtor is unable to perform the important or significant duties of his occupation at the time disability commences and that, thereafter, the debtor is unable to perform the duties of any gainful occupation for which the debtor is reasonably suited by education, training or experience.

(c) An exclusion not less favorable to debtors than one for disability that commences no later than six months following the effective date of coverage and is the result of an illness, disease or physical condition for which the debtor received consultation, diagnosis or treatment from a doctor within six months immediately preceding the effective date of coverage. The effective date of coverage for each part of the insurance attributable to a different advance under an open-end credit plan is the date on which the advance occurs.

(d) No other provision which excludes or restricts liability in the event of disability caused in a specified manner, except for provisions excluding or restricting benefits for disabilities due to war or act of war, normal pregnancy, intentionally self-inflicted injury, or flight in non-scheduled aircraft. Benefits shall not be excluded or restricted for disability due to complications of pregnancy.

(e)1. In an individual policy, a provision that after one year from the date of issuance of the policy, no misstatements, except fraudulent misstatements, made by the applicant in the application for the policy shall be used to void the policy or to deny a claim for disability (as defined in the policy)

commencing after the expiration of such one year period; and that no claim for disability (as defined in the policy) commencing after one year from the date of issuance of the policy shall be reduced or denied on the ground that a disease or physical condition not excluded from coverage by name or specific description effective on the date of loss had existed prior to the effective date of coverage of the policy.

2. In a group policy, a provision that, in the absence of fraud, all statements made by applicants, or the policyholders or by an insured person shall be deemed representations and not warranties and that, after the group certificate or individual policy has been in force during the lifetime of the debtor for one year from the date of issue thereof, no statement made for the purpose of effecting insurance on a person eligible for insurance shall void such insurance or reduce benefits unless contained in a written instrument signed by the policyholder or insured person, a copy of which has been furnished to such policyholder or to such person or to his beneficiary.

3. If the balance owing on the account to which the insurance relates, exclusive of interest and other charges, is less than \$1,000.00, the time periods referred to in this subdivision are ninety (90) days instead of one year.

(f) A requirement not less favorable to debtors than one requiring that the debtor be gainfully employed and actively at work in the full performance of all duties of the debtor's employment for at least a minimum of thirty (30) hours per week for the four (4) weeks prior to and on the effective date of coverage. An insurer may place reasonable restrictions on what constitutes employment for purposes of this provision. A creditor and an insurer may rely on the debtor's written certification of the number of hours the debtor is employed per week at the time the insurance is sold and actively at work in the full performance of all duties of the debtor's employment for at least a minimum of thirty (30) hours per week for the four (4) weeks prior to and on the effective date of coverage.

(g) An age restriction or restrictions not less favorable to debtors than any of the following:

1. A restriction making debtors who have attained 65 years of age at the time the indebtedness is incurred ineligible for coverage.

2. A restriction making debtors who will have attained 66 years of age on the scheduled maturity date of the indebtedness ineligible for coverage.



3. A provision for coverage to terminate when the debtor attains 66 years of age.

(4) Insurers may offer benefit plans which differ from those described in Paragraphs (2) and (3). Premium rates for use with benefits that are substantially different in any material respect from those described in Paragraphs (2) and (3) shall be actuarially consistent with the maximum rates promulgated or approved by the Superintendent.

(5) Each insurer doing insurance business in the state shall annually file with the Commissioner and the National Association of Insurance Commissioners (NAIC) a report of consumer credit insurance written in the state. The report shall utilize the Credit Insurance Experience Exhibit approved by the NAIC and shall be made in accordance with and no later than the due date in the Instructions to the Annual Statement. For the purposes of completing this form, maximum rates promulgated by the Superintendent shall be considered prima facie rates for consumer loans and consumer credit sale transactions, and the rates filed pursuant to Rule 482-1-117-.09 shall be considered prima facie rates for leases.

(6) Consumer Credit Insurance on Open-End Credit Plans.

(a) Consumer credit insurance may be provided in connection with open-end credit plans. Subject to any maximum dollar amount of coverage specified in the group certificate or individual policy, uniformly applied, the insurance is provided on the approximate outstanding balance of the indebtedness. If no indebtedness exists, the insurance amount is zero and remains so until an advance occurs under the plan.

(b) The death benefit shall equal the lesser of:

1. The amount of the actual unpaid indebtedness at the time of death.

2. The maximum dollar amount of coverage specified in the group certificate or individual policy.

(c) The monthly disability benefit shall equal the lesser of:

1. The monthly amount specified in or determined according to the provisions of the group certificate or individual policy, but not less than the minimum monthly payment required when disability commences pursuant to the open-end credit plan.

2. The maximum dollar amount of monthly benefit specified in the group certificate or individual policy.

(d) For any compensable period of disability, the amount of monthly disability benefit shall remain constant except that the final benefit payment may be such smaller amount necessary for the aggregate benefit payment to equal the maximum aggregate amount of disability benefit provided according to Subparagraph (e) below.

(e) The maximum aggregate amount of disability benefit payable for one continuous period of compensable disability shall equal the least of the following:

1. The amount of the actual unpaid indebtedness on the date from which disability benefits initially become payable in connection with such disability plus the amount of any charges thereafter accruing on such actual unpaid indebtedness during the continuance of such disability.
2. The amount of the monthly disability benefit times the maximum number of monthly benefits specified in the group certificate or individual policy, if any is so specified.
3. The maximum dollar amount of aggregate benefit specified in the group certificate or individual policy.
4. The amount required to pay the monthly disability benefit from the date from which the monthly benefit initially becomes payable until the date specified in the group certificate or individual policy for benefits to terminate (e.g., when disability no longer exists).
5. The amount required to pay the monthly disability benefit from the date from which the monthly benefit becomes payable until the date on which coverage terminates as specified in the group certificate or individual policy.

(f) A lump-sum disability benefit shall not exceed the amount of outstanding indebtedness at the time the disability commences, less any periodic or monthly disability benefits paid under the policy for the same instance of disability.

(g) Any form or forms (e.g., group certificate, individual policy, notice of proposed insurance) required to be furnished to a debtor as evidence of coverage need be furnished only once for each open-end credit transaction and may remain in force until terminated according to its provisions.

(7) The premium charged to a debtor for any consumer credit insurance shall not exceed the premiums charged by the insurer (inclusive of commissions), as computed at the time the charge to the debtor is determined.

(8) The insurance premium for credit life or credit disability insurance may be collected from the insured debtor or included in the amount financed of any credit transaction at the time the credit transaction is effected or charged to the debtor's account on a monthly or periodic basis.

(9) The premium for credit life or credit disability insurance when issued through any creditor shall not be deemed interest or finance charges, or consideration, or an amount in excess of permitted charges in connection with the credit transaction, and any gain or advantage to the creditor arising out of the premium, including any commission received or retained therefrom or any dividend from the issuance of such insurance, is not required to be disclosed as an item separate from the amount of the premium or charge and shall not be deemed a violation of any other law, general or special, civil or criminal of the State.

(10) Insurers may underwrite applications for insurance on credit transactions with a balance of \$1,000.00 or more, exclusive of interest or other carrying charges, but this underwriting must be completed within a ninety day period from the date of the application. Underwriting by the insurer on insurance written for credit transactions with a balance of under \$1,000.00, exclusive of interest and other charges, is prohibited. This prohibition does not restrict underwriting by the writing agent at the time the application is being prepared.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

**History: New Rule:** October 14, 1999; effective November 1, 1999. Filed for codification in the Alabama Administrative Code by the Department of Insurance on January 17, 2003, pursuant to the Code of Ala. 1975, §27-7-43.

#### **482-1-117-.11      Refunds.**

(1) The requirements of the consumer credit insurance law that refund formulas be filed with the Commissioner shall be considered fulfilled if the refund formulas are set forth in the individual policy or group certificate filed with the Commissioner.

(2) Each individual policy or group certificate shall provide for a refund in the event of termination of the insurance prior to the scheduled maturity date of the insurance and upon notice to the insurer. The refund of an amount paid by or charged to the debtor for insurance shall be paid or credited promptly to the person entitled thereto; provided, however, that no refund need be made which would be less than that established by the Superintendent, or with respect to leases, less than \$1.00. The formula to be used in computing the refund shall be filed with and approved by the Commissioner. A formula filed and approved in accordance with this

rule shall be deemed to be in compliance in all respects with the laws of this State.

(3) The refund of the premium or the amount charged to the debtor for insurance provided on a single premium basis shall be calculated by multiplying the original single premium, charge or periodic payment by the appropriate refund factor.

(a) In determining the refund, if less than 15 days of insurance coverage have been provided during the credit transaction month, no charge shall be made for that month. If 15 or more days of coverage have been provided during the credit transaction month, a full month may be charged.

(b) For level term credit life insurance, the refund shall be no less than the refund computed based on a pro rata basis.

(c) For decreasing term credit life insurance and credit disability insurance provided on the single premium basis, the refund shall be no less than the refund computed, in the discretion of the insurer, either on the basis of the Rule of 78s or an actuarial basis.

(d) For any plans not listed above, the refund method shall be the "Actuarial Method" and the formula shall be filed with the Commissioner.

(4) The Commissioner's approval of any consumer credit insurance refund formula prior to the effective date of this chapter remains valid notwithstanding the provisions of this rule, except to the extent such formula is not in compliance with this chapter, in which case the approval shall be deemed withdrawn as of one hundred eighty (180) days following the effective date of this chapter.

(5) A refund may be effected through cash payment to the debtor, or credit to the account of debtor with respect to any of principal, outstanding interest or other fees, as determined by the insurer or creditor, or as otherwise provided in the agreement relating to the credit transaction.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

**History: New Rule:** October 14, 1999; effective November 1, 1999. Filed for codification in the Alabama Administrative Code by the Department of Insurance on January 17, 2003, pursuant to the Code of Ala. 1975, §27-7-43.

#### 482-1-117-.12

#### Issuance Of Policies.

(1) All policies of consumer credit insurance shall be delivered or issued for delivery in this state only by an insurer authorized

to engage in the business of insurance in this state. Only a life insurer authorized for life insurance in this state can issue credit life insurance policies, whereas credit disability insurance policies can be issued by life insurers authorized for disability insurance or by casualty insurers also authorized for disability insurance.

(2) Each policy of insurance must contain a provision allowing a thirty-one (31) day grace period within which to pay the premium.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

**History: New Rule:** October 14, 1999; effective November 1, 1999. Filed for codification in the Alabama Administrative Code by the Department of Insurance on January 17, 2003, pursuant to the Code of Ala. 1975, §27-7-43.

#### **482-1-117-.13      Claims.**

(1) All claims shall be promptly reported to the insurer or its designated claim representative, and the insurer shall maintain adequate claim files. All claims shall be settled as soon as reasonably possible and in accordance with the terms of the insurance contract.

(2) All claims shall be paid either by draft drawn upon the insurer, by electronic funds transfer, or by check of the insurer to the order of the claimant to whom payment of the claim is due pursuant to the policy provisions, or upon direction of such claimant to one specified.

(3) No plan or arrangement shall be used whereby any person, firm or corporation other than the insurer or its designated claim representative shall be authorized to settle or adjust claims. The creditor shall not be designated as claim representative for the insurer in adjusting claims; provided, that a group policyholder may, by arrangement with the group insurer, draw drafts, checks, or electronic transfers in payment of claims due to the group policyholder subject to audit and review by the insurer.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

**History: New Rule:** October 14, 1999; effective November 1, 1999. Filed for codification in the Alabama Administrative Code by the Department of Insurance on January 17, 2003, pursuant to the Code of Ala. 1975, §27-7-43.

#### **482-1-117-.14      Duties Of An Insurer.**

Except as otherwise prohibited by law, duties imposed upon an insurer within this chapter may be carried out by a creditor if

the creditor is acting on behalf of the insurer, but nothing herein shall be deemed to require a creditor to carry out a duty imposed upon an insurer or to absolve an insurer of its obligations.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

**History: New Rule:** October 14, 1999; effective November 1, 1999. Filed for codification in the Alabama Administrative Code by the Department of Insurance on January 17, 2003, pursuant to the Code of Ala. 1975, §27-7-43.

#### **482-1-117-.15      Licensed Insurance Agent.**

(1) All policies of consumer credit insurance shall be solicited, negotiated and effectuated by duly licensed agents and no commission or other compensation shall be paid in connection with such insurance to any person other than such licensed agent.

(2) As used in this rule, the term agent shall not include persons who secure and furnish information for the purpose of group life insurance, group or blanket health insurance or for enrolling individuals in such plans, or issuing certificates thereunder or otherwise assisting in administering such plans where no commission is paid to such person for such services. These persons may enroll debtors without any license; however, commissions may be paid on this business only to licensed agents or agencies.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

**History: New Rule:** October 14, 1999; effective November 1, 1999. Filed for codification in the Alabama Administrative Code by the Department of Insurance on January 17, 2003, pursuant to the Code of Ala. 1975, §27-7-43.

#### **482-1-117-.16      Rights And Treatment Of Debtors.**

(1) Termination of Group Consumer Credit Insurance Policy.

(a) If a debtor is covered by a group consumer credit insurance policy providing for the payment of single premiums to the insurer, or any other premium payment method which prepays coverage beyond one month, then provision shall be made by the insurer that in the event of termination of the policy without replacement of coverage, insurance coverage with respect to any debtor insured under the policy shall be continued for the entire period for which the premium has been paid or the premium shall be refunded as provided herein after at least thirty (30) days' notice of termination.

(b) If a debtor is covered by a group consumer credit insurance policy providing for the payment of premiums to the insurer on a monthly basis, then the policy shall provide that, in the event of termination of the policy, termination notice shall be given to the insured debtor at least thirty (30) days prior to the effective date of termination except where replacement of the coverage by the same or another insurer in the same or greater amount takes place without lapse of coverage. The insurer shall provide or cause to be provided this required information to the debtor.

(2) Remittance of Premiums. If the creditor adds identifiable insurance charges or premiums for consumer credit insurance to the debt, and any direct or indirect finance, carrying, credit or service charge is made to the debtor on the insurance charges or premiums, the creditor must remit and the insurer shall collect the premium within sixty (60) days after it is added to the debt; provided that any commissions or other compensation payable to the creditor or its licensed insurance agent employee or affiliate may be retained and shall have been deemed to have been remitted to the insurer.

(3) Refinancing of the Debt. If the debt is refinanced prior to the scheduled maturity date, the insurance in force shall be terminated before any new insurance may be issued in connection with the refinanced debt. In all cases of termination prior to scheduled maturity, a refund of all unearned premium or unearned insurance charges paid by the debtor shall be paid or credited to the debtor as provided in Rule 482-1-117-.11. In any refinancing of the debt, the effective date of the coverage as respects any policy provision shall be deemed to be the first date on which the debtor became insured under the policy with respect to the original debt which was refinanced, at least to the extent of the amount and remaining term of the insurance in effect at the time of refinancing of the debt.

(4) Maximum Aggregate Provisions. A provision in an individual policy or group certificate that sets a maximum limit on total claim payments must apply only to that individual policy or group certificate.

(5) Prepayment of Debt. If a debtor prepays the debt in full, then any consumer credit insurance covering the debt shall be terminated and an appropriate refund of the consumer credit insurance premium shall be paid or credited to the debtor in accordance with Rule 482-1-117-.11. However, if the prepayment is a result of death or any other lump sum consumer credit insurance payment, no refund shall be required for the coverage under which the lump sum was paid. If a claim under credit disability coverage is in progress at the time of prepayment, the amount of refund may be determined as if the prepayment did not occur until the payment of benefits terminates. No refund need be paid during any period of disability for which credit disability benefits are payable. A

refund shall be computed as if prepayment occurred at the end of the disability period.

(6) Age Restrictions.

(a) The provisions of this Paragraph (6) apply whenever a debtor's age information is correctly stated on an application for insurance, and the insurer has received a premium for coverage with respect to which the debtor is ineligible due to an age restriction or for a period beyond which coverage has terminated due to an age restriction.

(b) The age restriction shall not be used as a basis for denying a claim for a loss that has occurred prior to the time that the insurer has notified the debtor in accordance with Subparagraphs (c), (d) or (e) of this Paragraph (6).

(c) To cancel coverage due to an age restriction making a debtor ineligible for coverage if the debtor has attained a specified age at the time the indebtedness is incurred or will attain a specified age by the scheduled maturity date of the indebtedness or by the end of the term of insurance, the insurer must so notify the debtor within ninety (90) days following the effective date of the coverage and promptly refund the premium.

(e) To reduce the term of insurance coverage, through endorsement of the insurance contract, due to an age restriction making a debtor ineligible for coverage if the debtor will attain a specified age by the end of the term of insurance, the insurer must so notify the debtor within ninety (90) days following the effective date of the coverage and promptly refund the difference in premium between the amount originally charged and the appropriate amount for the reduced insurance term.

(f) To cancel coverage for a period with respect to which a premium has been received despite an age restriction providing that coverage will terminate when the debtor attains a specified age, the insurer must so notify the debtor within ninety (90) days following the date that the premium was received and promptly refund the premium.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

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**482-1-117-.17      Credit Disability Insurance Rates.**

(1) Premium rates for Credit Disability Insurance shall be filed with the Commissioner and the creditor (person, firm or corporation) shall not add any additional charge to the premium set by the insurance company and on file with the Commissioner, for coverage to the insured borrower or purchaser.

(2) In the case of group Credit Disability Insurance, the amounts paid by the insured borrower or purchaser for the insurance shall be consistent with the premium set by the insurance company.

(3) In the case of individual Credit Disability Insurance, the premium paid by the insured borrower or purchaser shall not exceed the premium rate filed by the insurance company with the Commissioner.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

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**482-1-117-.18      Use Of Rates.**

(1) Use of Maximum Rates. An insurer that files rates or has rates on file that are equivalent to the maximum rates promulgated by the Superintendent may use those rates without further proof of their reasonableness.

(2) Use of Rates Higher Than Maximum Rates. In accordance with the rules adopted by the Superintendent, an insurer may file for approval of and use rates for credit disability insurance that are higher than the maximum rates promulgated by the Superintendent, as long as the benefits provided by the policy is reasonable in relation to the rate requested. This requirement is satisfied if the premium rate charged develops or may reasonably be expected to develop a loss ratio that affords a reasonable allowance for actual and expected loss experience, general and administrative expenses, reasonable creditor compensation, investment income, the manner in which premiums are charged and other acquisition costs, reserves, taxes, regulatory license fees and fund assessments, reasonable insurer profit and other relevant actuarial data.

(3) A filing for approval of rates higher than the maximum rate promulgated by the Superintendent shall specify the account or accounts to which the rates apply. The rates may be applied in any one of the following ways:

- (a) Uniformly to all accounts of the insurer.
  - (b) On an equitable basis approved by the Commissioner to only one or more accounts of the insurer for which the experience has been less favorable than expected.
  - (c) According to a case-rating procedure on file with the Commissioner.
- (4) Approval Period of Deviated Rates.
- (a) A deviated rate will be in effect for a period of time not longer than the experience period used to establish the rate (i.e. one year, two years or three years). An insurer may file for a new rate before the end of a rate period, but not more often than once during any twelve-month period.
  - (b) A deviated rate approved in accordance with this Paragraph (4) may be used only by the insurer filing the rate. If an account changes insurers, the rate approved to be used for the account by the prior insurer may not be used by the succeeding insurer.
  - (c) The approval of any deviated rate issued prior to the effective date of this chapter is hereby amended to be subject to the limitations set forth in this Paragraph (4). Notwithstanding this amendment, any previously approved deviated rate may continue to be used for a period of one hundred eighty (180) days following the effective date of this chapter, unless the previous approval was due to expire prior to the 180 day period.
- (5) Use of Rates Lower than Filed Rates. An insurer may at any time use a rate for an account that is lower than its filed rate without notice to the Commissioner.
- (6) As used in this rule, the following terms shall have the following meanings:
- (a) Experience. "Earned premiums" and "incurred losses" during the experience period.
  - (b) Experience period. The most recent period of time for which earned premiums and incurred losses are reported, but not for a period longer than three (3) full years.
  - (c) Incurred losses. Total claims paid during the experience period, adjusted for the change in claim reserve.
- Author:** Reyn Norman, Associate Counsel  
**Statutory Authority:** Code of Ala. 1975, §27-2-17.  
**History: New Rule:** October 14, 1999; effective November 1, 1999.  
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**482-1-117-.19      Separability.**

If any provision of this chapter or the application thereof to any person or circumstances is for any reason held to be invalid, the remainder of the chapter and the application of its provisions to other persons or circumstances shall not be affected thereby.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

**History: New Rule:** October 14, 1999; effective November 1, 1999. Filed for codification in the Alabama Administrative Code by the Department of Insurance on January 17, 2003, pursuant to the Code of Ala. 1975, §27-7-43.

**482-1-117-.20      Effective Date.**

This chapter shall be effective on November 1, 1999, upon its approval by the Commissioner of Insurance, and upon its having been on file as a public document in the office of the Secretary of State for ten days; provided, however, that, to the extent not otherwise addressed in this chapter, insurers and creditors offering consumer credit insurance on the effective date of this chapter shall be granted a period of ninety (90) days following the effective date of this chapter to comply with its terms.

**Author:** Reyn Norman, Associate Counsel

**Statutory Authority:** Code of Ala. 1975, §27-2-17.

**History: New Rule:** October 14, 1999; effective November 1, 1999. Filed for codification in the Alabama Administrative Code by the Department of Insurance on January 17, 2003, pursuant to the Code of Ala. 1975, §27-7-43.