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**DEPARTMENT OF INSURANCE**

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**CHARLES R. COHEN**  
Director of Insurance

Regulatory Bulletin 2002-09\*

**TO:** Credit Unemployment and Credit Property Insurers and Other Interested Parties

**FROM:** Charles R. Cohen  
Director of Insurance

**DATE:** December 30, 2002

**RE:** **Promulgation of loss ratio standards and prima facie rates for Credit Unemployment Insurance and Credit Property Insurance**

The purpose of this regulatory bulletin is to explain the Department's implementation of HB2135 from the 2002 legislative session, which becomes effective on January 1, 2003.

**Loss Ratio Standards and Prima Facie Rates**

A.R.S. § 20-1621.05 requires the Director to establish, by order, loss ratio standards and prima facie rates for credit unemployment and credit property insurance. To accomplish this, the Department issued separate data calls to insurers for experience information related to credit unemployment and credit property insurance. When Department staff completes its analysis of the data received, it will recommend loss ratio standards and prima facie rates to the Director. The Department will make those recommendations available on the Department's web site for informal comment before proceeding with the formal hearing process described below.

After consideration of any informal comments and any appropriate modification of the recommendations, the Department will issue a notice of hearing on a proposed order to establish the recommended loss ratio standards and prima facie rates for credit

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unemployment and credit property insurance. Interested parties will have the right to appear at the hearing, and to provide both oral testimony and formal written comment on the proposed order. The Department expects to issue the notice of hearing before the end of the first quarter of 2003. The Department will conduct the hearing in a manner similar to the proceeding the Department initiated in 2002 to establish prima facie rates for credit life insurance and credit disability insurance. As it becomes available, information regarding this proceeding will be posted on the Department's web site.

### **Interim requirements**

A.R.S. §§20-1610(C) and 20-1621.05(A) require an insurer's credit unemployment and credit property rates to be reasonable in relation to benefits provided, and prohibit rates from being excessive, inadequate, or unfairly discriminatory. As the Department will be unable to establish loss ratio standards and prima facie rates by January 1, 2003, insurers have asked what rates the Department will permit insurers to use prior to the effect of an order establishing loss ratio standards and prima facie rates.

Prior to January 1, 2003, insurers transacting credit unemployment or credit property insurance were required to file rates with the Director pursuant to A.R.S. Title 20, Chapter 2, Article 4.1 (Article 4.1). Until prima facie rates are in effect, insurers may continue to use credit unemployment and credit property insurance rates in use and filed under Article 4.1 prior to January 1, 2003, unless and until the Department affirmatively disapproves the rates as not satisfying A.R.S. § 20-1621.05(A), in accordance with the process required by A.R.S. §§ 20-1610(D) or 20-1621.04(D). Any new credit unemployment or credit property rate filings after January 1, 2003 must be made in accordance with A.R.S. §§20-1610(B) or 20-1621.04(A) and will be reviewed under A.R.S. § 20-1621.05(A).

The Director's final order establishing loss ratio standards and prima facie rates will include a stated future effective date. The Department will expect insurers to duly replace rates that do not comply with the order by the stated effective date. Prior to the effective date of the prima facie rates set forth in the final order, insurers must either certify to the Department that they are using rates that do not exceed the prima facie rates pursuant to A.R.S. §20-1621.05(C) or obtain approval of rates that exceed the prima facie rates. After the effective date of the prima facie rates, the Department will issue cease and desist orders in appropriate cases under A.R.S. §§20-1616 or 20-1621.09 to insurers charging rates that do not comply with applicable standards.

### **Certification**

After the Department establishes prima facie rates, insurers using actual rates that do not exceed prima facie rates are not required to make rate filings. They are, however, required to file a certification stating that the insurer's actual rates then in effect do not exceed the prima facie rates and that the rates are not inadequate or unfairly discriminatory. Insurers using rates that do not exceed the prima facie rates must file this certification prior to the stated effective date of the prima facie rates, and on or before April 1 of each year thereafter. Attached to this document is a form that insurers should use to make the annual certification under A.R.S. § 20-1621.05(C)(1).

### **Form and Disclosure Requirements**

HB 2135 also contains new policy form and disclosure requirements. A.R.S. § 20-1606.01 specifies the minimum benefits that must be provided in a credit unemployment insurance policy, and limitations on certain other provisions. A.R.S. § 20-1608 specifies new disclosure requirements for credit life, credit disability, and credit unemployment insurance. A.R.S. § 20-1621.03 contains similar disclosure requirements for credit property insurance. Insurers should review their policy forms, application forms, and disclosure statements for compliance with these new requirements, and file any required amendments to policy forms.

Insurers should also note that the Department has developed new checklists, specific to credit property and credit unemployment insurance, which are available on the Department's web site. These checklists, together with the appropriate transmittal forms, should accompany all filings.

### **Administrative Rules**

The Department is in the process of drafting rules governing credit unemployment insurance, and will eventually draft and promulgate rules governing credit property insurance. The Department will post information about the rulemaking proceeding, including drafts of the rules, and the proceedings to establish prima facie rates on the Department's web site at [www.state.az.us/id](http://www.state.az.us/id).

Please direct any questions regarding this bulletin to Vista Thompson Brown, Executive Assistant for Policy Affairs, 602-912-8456, [vbrown@id.state.az.us](mailto:vbrown@id.state.az.us).