DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

INSURANCE BUREAU

# LOSS RATIOS APPLICABLE TO INDIVIDUAL OR FAMILY EXPENSE COVERAGE

(By authority conferred on the commissioner of insurance by sections 210 and 2242 of Act No. 218 of the Public Acts of 1956, as amended, being SS500.210 and 500.2242 of the Michigan Compiled Laws)

R 500.801 Applicability.

Rule 1. These rules apply to individual policies of disability insurance as defined in section 3400 of the act and family expense insurance policies as defined in section 3620 of the act. These rules do not apply to credit accident and health policies as defined in section 3 of Act No. 173 of the Public Acts of 1958, being S550.603 of the Michigan Compiled Laws, or a policy of insurance with an annual premium of $7.50 or less. Where a policy covers a contingency for a period of coverage less than a year, the premium for that period is considered the annual premium.

History: 1979 AC.

R 500.802 Definitions.

Rule 2. (1) "Act" means Act No. 218 of the Public Acts of 1956, as amended, being SS500.100 to 500.8302 of the Michigan Compiled Laws.

(2) "Anticipated loss ratio" means the ratio at the time of policy filing, or at a time of subsequent rate revisions, of the present value of all expected future benefits, excluding dividends, to the present value of all future premiums, less dividends, based on a credible premium volume over a reasonable period of time with proper weight given to trends and other relevant factors. Statistical data relating to expected future benefits shall be obtained from policies of insurance sold or to be sold in this state when available.

(3) "Collectively renewable insurance" means all insurance which is made available on an individual basis under mass enrollment procedures to groups of persons under a plan sponsored by an employer, an association or a union or affiliated associations or unions or a group of individuals supplying materials to a central point of collection or handling a common product or commodity, under which the insurer has agreed that renewal will not be refused, subject to any specified age limit, while the insured remains a member of the group specified in the agreement unless the insurer simultaneously refuses renewal to all other policies in the same group, or all policies bearing the same form number.

(4) "Guaranteed renewable insurance" means all individual insurance which grants an insured the right to continue the policy in force by the timely payment of premiums until at least age 50, or in the case of a policy issued after age 44, for at least 5 years from the date of issue of the policy, during which period the insurer has no right to make unilaterally any change in any provision of the policy while the policy is in force, except that the insurer may make changes in premium rates by classes.

(5) "Individual accident insurance" means all insurance which covers such losses as are due to accident only.

(6) "Noncancellable insurance" or "noncancellable and guaranteed renewable insurance" means all insurance which gives the insured the right to continue the insurance in force by the timely payment of premiums set forth in the policy until at least age 50, or in the case of a policy issued after age 44, for at least 5 years from its date of issue, during which period the insurer has no right to make unilaterally any change in any provision of the policy while it is in force.

(7) "Nonrenewable for stated reasons only insurance" means all individual insurance which limits the insurer's right of nonrenewal to stated reasons other than deterioration of health.

(8) "Optionally renewable insurance: means all individual insurance which allows the insurer unhampered right of nonrenewal.

(9) "Rated by age insurance" means all individual insurance where the issue age is 65 years or more.

History: 1979 AC.

R 500.803 Benefits unreasonable in relation to premiums.

Rule 3. (1) The policy or rate filings shall include an actuarial certification that the benefits provided are reasonable in relation to the premium charged and shall show the anticipated loss ratio. The benefits provided are presumed unreasonable in relation to the premiums charged if the anticipated loss ratio does not equal or exceed the following standards:

(a) Sixty-five percent for rated by age insurance.

(b) Sixty percent for collectively renewable insurance or optionally renewable insurance.

(c) Fifty-five percent for guaranteed renewable insurance or nonrenewable for stated reasons only insurance.

(d) Fifty percent for noncancellable insurance, noncancellable and guaranteed renewable insurance or individual accident insurance.

(e) Fifty-five percent for all other insurance.

(2) The presumption of unreasonableness which exists where anticipated loss ratios are lower than those indicated in subrule (1) may be rebutted pursuant to the provisions of R 500.805.

History: 1979 AC.

R 500.804 Actuarial certification.

Rule 4. The actuarial certification shall include a description of the gross premiums, the anticipated loss ratios and certification that, to the best of the actuary's knowledge and belief, the benefits provided are reasonable in relation to the premiums charged. The information used to support the certification should include the following and shall be available on request:

(a) The specific formula and assumptions used in calculating gross premiums.

(b) The expected claim costs.

(c) Identification of morbidity and mortality tables or experience studies used, sufficient explanation for evaluation of their validity, including copies of such tables if they are not currently published.

(d) The experience of the insurer on similar coverages or on the same policy if the policy is in effect on the date these rules take effect.

(e) The applicability of the filing to in-force business on substantially similar forms.

(f) Lapse rate experience.

History: 1979 AC.

R 500.805 Withdrawal and withholding of approval.

Rule 5. (1) Approval is withdrawn on September 30, 1974, from policies of individual insurance which bear an approval date prior to the effective date of these rules, where the anticipated loss ratio percentage of such insurance policies does not satisfy requirements stated in R 500.804 or where the anticipated loss ratio percentage of such insurance policies satisfies the requirement stated in R 500.804 but the loss ratio experience indicates to the insurance bureau that the minimum anticipated loss ratio required by R 500.804 will not be achieved.

(2) Approval will not be granted for new policies of individual insurance which are submitted to the insurance bureau for approval after the effective date of these rules where the anticipated loss ratio percentage of the policies is not at least equal to the minimum loss ratio percentage stated in R 500.804.

(3) Approval shall be withdrawn from such policies of insurance which are submitted to the insurance bureau for approval after the effective date of these rules where experience data show the insurance does not appear capable of developing the anticipated loss ratio projected in the actuarial certification filed.

(4) Approval shall not be withdrawn or withheld where it has been demonstrated to the satisfaction of the insurance bureau that the benefits of the insurance are reasonable in relation to the premiums charged even though the anticipated loss ratio for the insurance does not equal the minimum loss ratio percentage stated in R 500.804. The insurance bureau's decision to withdraw or withhold approval may be contested pursuant to the administrative procedures act, Act No. 306 of the Public Acts of 1969, as amended, being SS24.201 to 24.328 of the Michigan Compiled Laws.

History: 1979 AC.

R 500.806 Identification of policies.

Rule 6. To record whether or not approval has been withdrawn by these rules each insurer shall identify for the insurance bureau before September 30, 1974, all policies of individual insurance which have been previously approved by the insurance bureau and which meet the standards set forth in R 500.804 and shall furnish the bureau with an actuarial certification and experience data for all such policies. Experience data shall relate to policies of insurance in force in this state when possible.

History: 1979 AC.