Conversion Factors for 2020 NAIC Credit Insurance Experience Exhibit (CIEE) Reporting

This paper contains conversion factors that can be used to make approximate adjustments from *actual earned premiums* to *earned premiums at current prima facie rate* for the reporting of 2020 data in the Credit Insurance Experience Exhibit. The instructions to this exhibit dictate that earned premiums be adjusted to the prima facie rate that existed on December 31 of the reporting year.

When analyzing loss ratio experience to determine the reasonableness of current prima facie premium rates, a qualified actuary should use the loss ratio at the current prima facie rate, which is derived using the earned premium at the current prima facie rate. Using a loss ratio derived from earned premium without conversion to earned premium at the current prima facie rate does not consider the rate basis the premium was earned upon. This error in actuarial judgement results in an evaluation that potentially includes the effect of former prima facie rates, which may have already been adjusted using either actuarial techniques or current state law.

To assist state regulators in making prima facie rate changes, it is imperative that all carriers reporting earned premium on the CIEE take measures to ensure that earned premium at the prima facie rate is reported using a conversion in states that have made recent prima facie rate changes. A conversion is also necessary in states where deviations from prima facie were either implemented at the option of the company or mandated by the state. The conversion factors presented in this analysis are based solely on changes in published prima facie rates. Responsibility for conversion factors due to premium that has been written at any other rate than the then-current prima facie rate is placed upon the reporting entity.

Credit Life and Disability Insurance

For monthly outstanding balance business, factors are only provided for states where the prima facie rate changes were effective in the current year and on a day later than January 1. Multiply the factor by actual earned premiums to obtain 2020 earned premiums at current prima facie rates.

For single premium business, factors were developed for 24, 36, 48, and 60-month original terms. Select the term that best represents your average original term. Select the Earnings Basis that best represents the coverage whose earned premiums are being converted. The chart below shows how each coverage's premiums are earned in a typical accounting system.

Coverage	Earnings Basis
Credit Life Gross Decreasing	Rule of 78
Credit Life Level	Pro Rata
Credit Life Net Decreasing	Rule of 78
Credit Disability	Mean

The selected factors are to be used where all business is written at prima facie rates. Multiply them by actual earned premiums to obtain 2020 earned premiums at current prima facie rates in effect at the end of the current year.

A conversion is always necessary for the mandatory rerating states of New York, Maryland, and other states; and when an insurer chooses to charge rates other than published prima facie rates, because the actual rates vary by case, class, or other insurer-specific groupings. Since the actual rates in these states are insurer-specific, approximate statewide conversion factors cannot be developed. Underwritten business that requires mandatory adjustments in various states are other examples where individual insurer adjustment is dictated.

A Texas adjustment will be necessary if you are charging rates in accordance with the law permitting a deviation of ± 30% from the state published rates. Insurer-specific factors must be developed, depending on the implementation date and the percentage adjustment used.

P&C Products

For credit property products, the only reasonable method is to report earned premiums at prima facie equal to actual earned premiums. There are less than 15 states that have adopted prima facie rates for Involuntary Unemployment, and to this point no adjustment factors have been developed. If you would like to see this report contain recommended IU adjustment factors, please let us know and we will include it in future reports.

Assumptions and Methods

All contracts were assumed to be effective mid-year, which approximates an even distribution of certificates within each year. The amount of written premium was assumed to be equal for each prior year. Lapses were assumed to be 2% per month, which is typical.

Based on these assumptions, we modeled credit insurance premium earnings using Rule of 78, Pro Rata, and Mean methodologies. We used these projections to create earned premium factors that represent the percentage of inforce business being earned for each previous year's business.

For example, an average contract of 24 months is modeled using three contracts that were issued 6, 18, and 30 months before the valuation date. The premium that is earned based on the Rule of 78 in the 12 months preceding the valuation date is based on the following distribution –

- 47.57% is earned on the average prima facie rate in effect for the current year
- 46.97% is earned on the average prima facie rate in effect for the year that is one year prior
- 5.46% is earned on the average prima facie rate in effect for the year that is two years prior

Summary

In my opinion, the application of the earned premium conversion factors presented in Exhibit 1 are an appropriate actuarial method for approximating earned premium at prima facie when a seriatim method is not available.
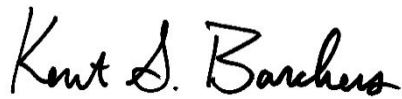
Actuarial Qualifications

I, Kent S. Barchers, FSA, MAAA, am a consulting actuary for Hause Actuarial Solutions, Inc. I am a member of the Society of Actuaries and American Academy of Actuaries, and I meet the Qualification Standards of the American Academy of Actuaries to render the rate filing actuarial memorandum contained herein. I

am familiar with the subject matter of this report and I am qualified by education and experience to render the opinions and findings communicated herein.

Actuarial Attestation

Appropriate Actuarial Standards of Practice have been followed in this analysis. This actuarial evaluation conforms to applicable Actuarial Standards of Practice as promulgated by the Actuarial Standards Board of the American Academy of Actuaries, except as noted herein.

This document constitutes the entire report. It is the work product of the undersigned, which is responsible for the findings communicated herein. I hereby state that I have no conflict of interest in performing this assignment and issuing this report.

Kent S. Barchers, FSA, MAAA

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December 23, 2020

Exhibit 1

2020 NAIC CIEE Conversion Factors
Credit Life Premium Earned on a Rule of 78 Basis

State	Last Rate Change	MOB Business	Single Premium Business			
			24-Month Average Term	36-Month Average Term	48-Month Average Term	60-Month Average Term
CO	2/1/2016	1.0000	1.0000	1.0000	1.0001	1.0008
IN	1/1/2019	1.0000	1.0048	1.0176	1.0240	1.0341
NE	3/1/2016	1.0000	1.0000	1.0000	0.9999	0.9987
NH	1/30/2018	1.0000	0.9999	0.9988	0.9968	0.9941
NM*	4/1/2020	0.9804	0.9511	0.9448	0.9456	0.9377
OH	1/1/2017	1.0000	1.0000	1.0000	0.9994	0.9963
VA	1/1/2019	1.0000	0.9980	0.9927	0.9902	0.9867
WI	1/1/2018	1.0000	1.0000	0.9990	0.9958	0.9918

Credit Life Premium Earned on a Pro Rata Basis

State	Last Rate Change	MOB Business	Single Premium Business			
			24-Month Average Term	36-Month Average Term	48-Month Average Term	60-Month Average Term
CO	2/1/2016	1.0000	1.0000	1.0000	1.0005	1.0060
IN	1/1/2019	1.0000	1.0183	1.0370	1.0395	1.0518
NE	3/1/2016	1.0000	1.0000	1.0000	0.9989	0.9924
NH	1/30/2018	1.0000	0.9995	0.9953	0.9920	0.9880
NM*	4/1/2020	0.9804	0.9415	0.9374	0.9400	0.9257
OH	1/1/2017	1.0000	1.0000	1.0000	0.9951	0.9866
VA	1/1/2019	1.0000	0.9925	0.9852	0.9842	0.9838
WI	1/1/2018	1.0000	1.0000	0.9940	0.9886	0.9827

Credit Disability Premium Earned on a Mean Basis

State	Last Rate Change	MOB Business	Single Premium Business			
			24-Month Average Term	36-Month Average Term	48-Month Average Term	60-Month Average Term
FL	1/1/2020	1.0000	0.8658	0.8479	0.8566	0.8336
IN	1/1/2019	1.0000	0.9783	0.9507	0.9422	0.9222
NE	3/1/2016	1.0000	1.0000	1.0000	0.9980	0.9866
NH CU	1/30/2018	1.0000	0.9974	0.9787	0.9594	0.9371
NH Banks	1/30/2018	1.0000	1.0005	1.0045	1.0087	1.0139
NH Dealers	1/30/2018	1.0000	0.9974	0.9788	0.9595	0.9372
NH Other	1/30/2018	1.0000	0.9974	0.9785	0.9590	0.9364
NM*	4/1/2020	0.9744	0.9307	0.9181	0.9128	0.8922
OH	1/1/2020	1.0000	0.9425	0.9340	0.9315	0.9074
VA	1/1/2019	1.0000	0.9869	0.9698	0.9650	0.9513
WI	1/1/2018	1.0000	1.0000	0.9841	0.9648	0.9436

The NH rates for Finance Companies did not change in 2018

*NM Bulletin dated 12/30/19 stated implementation date of 1/1/20, but companies were allowed to delay implementation. The above factors assume an implementation date of 4/1/20