

NORTH CAROLINA GENERAL ASSEMBLY
1975 SESSION

CHAPTER 660
SENATE BILL 660

AN ACT TO REGULATE THE SALE OF CREDIT LIFE AND CREDIT ACCIDENT AND
HEALTH INSURANCE AND TO ESTABLISH PREMIUM RATES THEREFOR.

The General Assembly of North Carolina enacts:

Section 1. A new Subchapter and Article are added to Chapter 58 of the General Statutes, to read as follows:

"SUBCHAPTER VIII.

**"CREDIT LIFE INSURANCE AND CREDIT ACCIDENT AND HEALTH
INSURANCE.**

"ARTICLE 32.

**"THE NORTH CAROLINA ACT FOR THE REGULATION OF CREDIT LIFE
INSURANCE AND CREDIT ACCIDENT AND HEALTH INSURANCE.**

"§ 58-341. Application of Article. — All credit life insurance and all credit accident and health insurance as defined herein and written in connection with direct loans, consumer credit installment sale contracts of whatever term permitted by G.S. 25A-33 or other credit transactions, shall be subject to the provisions of this Article, except credit insurance written in connection with direct loans of more than 10 years duration. The provisions of this Article shall be controlling as to such insurance and no other provisions of this Chapter shall be applicable unless otherwise specifically provided; nor shall such insurance be subject to the provisions of this Article where the issuance of such insurance is an isolated transaction on the part of the insurer not related to an agreement or a plan for insuring debtors of the creditor.

This act may be cited as 'The North Carolina Act for the Regulation of Credit Life Insurance and Credit Accident and Health Insurance.'

"§ 58-342. Definitions. — As used in this Article, unless the context requires otherwise, the following words or terms shall have the meanings herein ascribed to them, respectively:

(a) 'Credit life insurance' means insurance on the life of a debtor pursuant to or in connection with a specific loan or other credit transaction as defined in G.S. 58-195.2;

(b) 'Credit accident and health insurance' means insurance on a debtor to provide indemnity for payments becoming due on a specific loan or other credit transaction as defined in G.S. 58-254.8;

(c) 'Creditor' means the lender of money or vendor or lessor of goods, services, property, rights or privileges, for which payment is arranged through a credit transaction or any successor to the right, title or interest of any such lender, vendor, or lessor, and an affiliate, associate or subsidiary of any of them or any director, officer or employee of any of them or any other person in any way associated with any of them;

(d) 'Debtor' means 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;

(e) 'Indebtedness' means the total amount payable for the term of the loan by debtor to creditor in connection with a loan or other credit transaction, including principal, interest, allowable charges, and any premiums authorized hereunder.

(f) 'Credit life insurance agent' means an agent of an insurance company licensed in this State, who is authorized to solicit, negotiate or effect credit life insurance or accident and health insurance, or both, but only to the extent as is authorized and limited in this Article;

(g) 'Commissioner' means the Commissioner of Insurance;

(h) 'Joint life coverage' means credit life insurance covering two or more lives, the entire amount of insurance being payable upon the death of the first insured debtor to die.

"§ 58-343. Forms of insurance which are authorized. — Credit life insurance and credit accident and health insurance shall be issued only in the following forms:

(a) Individual policies of life insurance issued to debtors on the term plan;

(b) Individual policies of accident and health insurance issued to debtors on a term plan or disability benefit provisions in individual policies of credit life insurance;

(c) Group policies of life insurance issued to creditors providing insurance upon the lives of debtors on the term plan;

(d) Group policies of accident and health insurance issued to creditors on a term plan insuring debtors or disability benefit provisions in group credit life insurance policies to provide such coverage.

"§ 58-344. Amount. — (a) Credit Life Insurance.

(1) Credit life insurance may be written on either a level term or decreasing term plan for an initial amount not in excess of the total amount repayable under the contract of indebtedness. When decreasing term coverage is written in connection with indebtedness repayable on an installment basis, the amount of insurance shall at no time exceed the scheduled or actual amount of unpaid indebtedness, whichever is greater.

(2) Notwithstanding the provisions of the above paragraph, insurance on seasonal credit line commitments (such as may be found in agricultural credit transactions) not exceeding one year in duration may be written up to the amount of the loan commitment, whether or not the full amount of the commitment has been advanced by the creditor, on a nondecreasing or level term plan.

(3) Notwithstanding the provisions of Paragraph (a)(1) of this or any other section, insurance on education credit transaction commitments may be written for the amount of such commitment whether or not the full amount of the commitment has been advanced by the creditor.

(b) Credit Accident and Health Insurance. The total amount of indemnity payable by credit accident and health insurance in the event of disability, as defined in the policy, shall not exceed the indebtedness; and the amount of each monthly benefit shall not exceed the indebtedness divided by the number of months in the term of the loan. A daily benefit equal in amount to one-thirtieth of the scheduled monthly payment is permissible.

"§ 58-345. Term; termination prior to scheduled maturity. — The term of any credit life insurance or credit accident and health insurance shall, subject to acceptance by the insurer, commence on the date when the debtor becomes obligated to the creditor, except that, where a group policy provides coverage with respect to existing obligations, the insurance on a debtor with respect to such indebtedness shall commence on the effective date of the policy. The term of such insurance shall not extend more than 15 days beyond the maturity date of the indebtedness or final installment thereof. If the indebtedness is discharged due to prepayment, the insurance in force shall be terminated unless otherwise requested by the insured in writing. If the indebtedness is discharged due to renewal or refinancing prior to such maturity date, the insurance in force shall be terminated before any new insurance may be issued in connection with the renewed or refinanced indebtedness. In all cases of termination prior to scheduled maturity, a refund shall be paid or credited as provided in G.S. 58-351.

"§ 58-346. Insurance to be evidenced by individual policy-notice of proposed insurance or certificate; required and prohibited provisions; when debtor to receive copy. — (a) All individual credit life insurance and credit accident and health insurance sold shall be evidenced by an individual policy. All group insurance sold where any part of the premium is paid by the debtors or by the creditors from identifiable charges collected from the insured debtors shall be evidenced by a certificate of insurance.

(b) Each individual policy or certificate of credit life insurance, and/or credit accident and health insurance shall set forth the name and home office address of the insurer, the identity of the insured debtor by name or otherwise, the premium or amount of payment, if any, by the debtor separately for credit life insurance and credit accident and health insurance if not disclosed in other documents furnished to the debtor, a description of the coverage including the amount and term thereof, and any exceptions, limitations or restrictions, and shall state that the benefits shall be paid to the creditor to reduce or extinguish the unpaid indebtedness, and wherever the amount of insurance may exceed the unpaid indebtedness, that any such excess shall be payable to a beneficiary other than the creditor named by the debtor, or to his estate.

(c) No individual policy of credit life insurance or credit accident and health insurance and no group policy of credit life insurance or credit accident and health insurance shall be delivered or issued for delivery in this State, unless each contains in substance all of the following provisions:

- (1) In each policy there shall be a provision that the policy, or the policy and application therefor, if any, or if a copy of the application is endorsed upon or attached to the policy when issued, shall constitute the entire insurance contract between the parties, and that all statements made by the creditor or by the individual debtors shall, in the absence of fraud, be deemed representations and not warranties.
- (2) In each such policy there shall be 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 his insurability shall be used in contesting the validity of the insurance with respect to which such statement was made after such insurance has been in force on such insured for a period of two years during such person's lifetime, and prior to the date on which the claim thereunder arose.
- (3) In each such policy there shall be a provision that when a claim for the death or disability of the insured arises thereunder, settlement shall be made upon receipt of due proof of such death or such disability.
- (4) On the face of each such policy there shall be placed a title which shall briefly and accurately describe the nature and form of the policy.
- (5) Each such policy, including rider and endorsement, shall be identified by a form number in the lower left-hand corner of the first page thereof, and no restriction, condition or provision in or endorsed on such policy shall be valid unless such provision or condition is printed in type as large as eight-point type.
- (6) In each such policy there shall be a provision that the insured debtor shall have the right to rescind the insurance policy or certificate of insurance upon giving written notice to the insurer within 15 days from the date the insured debtor received such policy or certificate.

(d) No individual policy of credit life insurance or credit accident and health insurance, no group policy of credit life insurance or credit accident and health insurance shall be delivered or issued for delivery in this State if it contains any provision:

- (1) Limiting the time within which any action at law or in equity may be commenced to less than three years after the cause of action accrues; or
- (2) To the effect that the agent soliciting the insurance is the agent of the person insured under the policy, or making the acts or representations of such agent binding upon the person so insured under the policy.

(e) If said individual policy or certificate of group insurance is not delivered to the debtor at the time the indebtedness is incurred or mailed to the debtor within 30 days thereafter, a written notification must be furnished to the debtor within the 30-day period, which notification shall set forth the following:

- (1) The name and home office address of the insurer;
- (2) The identity of the debtor, by name or otherwise;
- (3) The premium or identifiable charge to the debtor, if any, separately in connection with credit life insurance and credit accident and health insurance;
- (4) The amount and term of the coverage provided, if possible, otherwise a clear description of the means of determining the amount and time of expiry;
- (5) A brief description of the coverage provided;
- (6) A statement that, if the insurance is declined by the insurer or otherwise does not become effective, any premium or identifiable charge will be refunded or credited to the debtor; and
- (7) A statement that, upon acceptance by the insurer, the insurance coverage provided shall become effective as specified in G.S. 58-345.

Any portion of the information required in said notification may be furnished by other documents, if copies of such documents are attached to said notification. If an insurance policy or certificate of insurance is not delivered to the insured debtor at the time the indebtedness is incurred, he shall be furnished at the time the indebtedness is incurred written notice that he shall have the right to rescind the insurance policy or certificate of insurance upon giving written notice to the insurer within 15 days from the date the insured debtor receives such policy or certificate.

"§ 58-347. Forms to be filed with commissioner, approval or disapproval by commissioner. — (a) All forms of policies, certificates of insurance, notices of proposed insurance, endorsements and riders intended for use in this State shall be filed with the commissioner.

(b) The commissioner shall, within 30 days after the filing of any such policies, certificates of insurance, notices of proposed insurance, endorsements and riders, disapprove any such form if it contains provisions which are contrary to, or not in accordance with, any provision of this Article or of any rule or regulation promulgated thereunder. Unless disapproved in writing within such 30 days, a form shall be deemed approved.

(c) If the commissioner notifies the insurer that the form is disapproved, it is unlawful thereafter for such insurer to issue or use such form for a period of 60 days, or until the commissioner has issued a final order after hearing, whichever is earlier. In such notice, the commissioner shall specify the reason for his disapproval and state that a hearing will be granted within 20 days after request in writing by the insurer. No such policy, certificate of insurance, notice of proposed insurance, endorsement or rider shall be issued or used until the expiration of 30 days after it has been so filed, unless the commissioner shall give his prior written approval thereto.

(d) The commissioner may, at any time after a hearing held not less than 20 days after written notice to the insurer, withdraw his approval of any such form on any ground set forth in subsection (b) above. The written notice of such hearing shall state the reason for the proposed withdrawal.

(e) No insurer shall issue such forms or use them after the effective date of such withdrawal.

"§ 58-348. General premium rate standard — (a) Benefits provided by credit life and credit accident and health insurance written under this Article shall be reasonable in relation to the premium charge. This requirement is satisfied if the premium rates to be charged are no greater than those premium rates set forth in G.S. 58-349 and G.S. 58-350 of this Article for benefits as described in those sections. The amount charged to a debtor for any credit life or credit accident and health insurance shall not exceed the premiums charged by the insurer, as computed at the time the charge to the debtor is determined.

(b) The premium or cost of credit life or disability insurance, when written by or through any lender or other creditor, its affiliate, associate or subsidiary shall not be deemed as interest or charges or consideration or an amount in excess of permitted charges in connection with the loan or credit transaction and any gain or advantage to any lender or other creditor, its affiliate, associate or subsidiary, arising out of the premium or commission or dividend from the sale or provision of such insurance shall not be deemed a violation of any other law general or special, civil or criminal of this State, or of any rule, regulation or order issued by any regulatory authority of this State.

(c) If premiums are to be determined according to the age of the insured debtor or by age brackets, an insurer may determine premium rates on a basis actuarially consistent with the rates provided in G.S. 58-348, but such rates shall be filed with and approved by the commissioner.

"§ 58-349. Credit life insurance rate standards. — (a) The premium rate standards set forth below are applicable to plans of credit life insurance with or without requirements for evidence of insurability:

- (1) Which contain no exclusions or no exclusions other than suicide; and
- (2) Which contain no age restrictions, or only age restrictions not making ineligible for the coverage
 - (i) debtors under 65 at the time the indebtedness is incurred; or
 - (ii) debtors who will not have attained age 66 on the maturity date of the indebtedness.

(b) Rates for use with forms which are more restrictive in any material respect shall reflect such variations in the form or lower rates to the extent that a significant difference in claim cost can reasonably be anticipated unless the insurer demonstrates that such lower rate is not appropriate.

(c) If premiums are payable in one sum in advance, for decreasing term life insurance on indebtedness repayable in substantially equal monthly installments, a premium not exceeding eighty cents (80¢) per one hundred dollars (\$100.00) of initial insured indebtedness per year is authorized.

(d) The premium rate of joint life insurance coverage shall not exceed one and two-thirds (1-2/3) the permitted single life rate.

(e) For level term life insurance, a premium rate of one dollar and fifty cents (\$1.50) per one hundred dollars (\$100.00) per year is authorized.

(f) For policies for which monthly premiums are charged on a basis of the then outstanding balances, a monthly premium per one thousand dollars (\$1,000) of outstanding balances is authorized, based on the following formula:

$$\text{Opn} = \frac{20}{n+1} \text{SPn}$$

where SPn = Single Premium Rate per \$100 of initial insured indebtedness repayable in n equal monthly installments.

Opn = Monthly Outstanding Balance Premium Rate per \$1,000

n = Original repayment period, in months.

(g) For credit life insurance on a basis other than the foregoing, premiums charged shall be actuarially equivalent.

"§ 58-350. **Credit accident and health insurance rate standards.** — (a) The rate standards set forth below shall be applicable for contracts which contain a provision excluding or denying claim for disability resulting from pre-existing illness, disease or physical condition, for which the debtor received medical advice, consultation, or treatment within the six-month period immediately preceding the effective date of the debtor's coverage and if said disability occurs within the six-month period immediately following such date, but contain no other provision which excludes or restricts liability in the event of disability caused in a certain specified manner, except that they may contain provisions excluding or restricting coverage in the event of pregnancy; intentionally self-inflicted injuries; sickness resulting from intoxication, addiction to alcohol or narcotics, or from the use thereof unless administered on the advice of a physician; flight in non-scheduled aircraft, war, military service; and may contain age restrictions similar to those mentioned for credit life insurance in G.S. 58-349.

(b) A policy of credit accident and health insurance may not define 'disability' any more restrictively than the inability of the insured to perform his occupation or any occupation for which he is qualified by education, training or experience.

(c) Any policy to which the rates below apply may require the debtor to be gainfully employed on the effective date of the insurance.

(d) If premiums are payable in one sum in advance for the entire duration of the indebtedness, for insurance with a pre-existing exclusion as defined above, the following premiums are authorized:

No. of Months in which Indebtedness is Repayable	Single Premium Rates Per \$100 of Initial Insured Indebtedness					
	Nonretroactive Benefits			Retroactive Benefits		
	14-Day Wait	30-Day Wait	7-Day Wait	14-Day Wait	30-Day Wait	
1-12	\$1.65	\$1.10	\$3.00	\$2.42	\$1.65	
13-24	2.20	1.65	4.00	3.30	2.20	
25-36	2.75	2.20	5.00	4.18	2.75	
37-48	3.30	2.75	6.00	5.06	3.30	
49-60	3.85	3.30	7.00	5.94	3.85	
61-72	4.40	3.85		6.82	4.40	
73-84	4.95	4.40		7.70	4.95	
85-96	5.50	4.95		8.58	5.50	
97-108	6.05	5.50		9.46	6.05	
109-120	6.60	6.05		10.34	6.60	

(e) For policies for which monthly premiums are charged on a basis of the then outstanding balances, a monthly premium per one thousand dollars (\$1,000) of outstanding balances is authorized, based on the following formula.

$$\text{Opn} = \frac{20 \text{ SPn}}{n+1}$$

where SPn=Single Premium Rate per one hundred dollars, (\$100.00)
of initial indebtedness repayable in n equal monthly installments

Opn = Monthly Outstanding Balance Premium Rate
per \$1,000

n = Original repayment period, in months.

(f) Premium rate standards for other benefit plans and for indebtedness repayable installments other than as indicated above shall be actuarially consistent with the above rate standards.

"§ 58 351. **Premium refunds or credits.** — (a) Each individual policy or group certificate shall provide that in the event of termination of the insurance prior of the scheduled maturity date of indebtedness, any refund of an amount paid by the debtor for insurance shall be paid or credited promptly to the person entitled thereto.

(b) Except as provided in subsection (c) of this section, the refund of premiums in the case of reducing term credit life insurance or credit accident and health insurance shall be equal to the amount computed by the sum-of-digits formula commonly known as the 'Rule of 78'; and the refund of premium in the case of level term credit life insurance shall be equal to the pro rata unearned gross premium.

(c) With respect to insurance written pursuant to G.S. 53-189, the refund of premiums in the case of credit life insurance or credit accident insurance shall be equal to the pro rata unearned gross premiums if refunded during the first 60 days of the policy, and equal to the sum-of-digits formula known as the 'Rule of 78' method if refunded thereafter.

(d) No refund need be made if the amount thereof is less than one dollar.

(e) If a creditor requires a debtor to make any payment for credit life insurance or credit accident and health insurance and an individual policy or group certificate of insurance is not issued, the creditor shall immediately give written notice to such debtor and shall promptly make an appropriate credit to the account.

"§ 58-352. **Issuance of policies.** — All policies of credit life accident and health insurance shall be delivered or issued for delivery in this State only by an insurer authorized to do an insurance business therein, and shall be issued only through holders of licenses or authorizations issued by the commissioner. The enrollment of debtors under a group policy issued to a creditor and authorized under this Article shall not constitute the issuance of a policy of insurance.

"§ 58-353. **Claims.** — (a) 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 possible and in accordance with the terms of the insurance contract.

(b) All claims shall be paid either by draft drawn upon the : insurer or by check of the insurer or be paid by such other specified method upon the direction of the beneficiary who is entitled thereto pursuant to the policy provisions.

(c) 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 or checks in payment of claims due to the group policyholder subject to audit and review by the insurer.

"§ 58-354. **Existing insurance - choice of insurer.** — When credit life insurance or credit accident and health insurance is required for any indebtedness, the debtor shall, upon request to the creditor, have the option of furnishing the required amount of insurance through existing policies of insurance owned or controlled by him or of procuring and furnishing the required coverage through any insurer authorized to transact an insurance business within this State.

"§ 58-355. **Enforcement.** — The commissioner may, after notice and hearing, issue rules and regulations necessary for the implementation of this act. Whenever the commissioner finds that there has been a violation of this act or any rules or regulations issued pursuant thereto, and after written notice thereof and hearing given to the insurer or other person authorized or licensed by the commissioner, he shall set forth the details of his findings together with an order for compliance by a specified date. Such order shall be binding on the insurer and other person authorized or licensed by the commissioner on the date specified unless sooner withdrawn by the commissioner or a stay thereof has been ordered by a court of competent jurisdiction. The provisions of G.S. 58-345, 346, 347, 348, 349, 350, and 351 shall not be operative until 90 days after the effective date of this act, and the commissioner in his

discretion may extend by not more than an additional 90 days the initial period within which the provisions of said sections shall not be operative.

"§ 58-356. **Judicial review.** — Any party to the proceeding affected by an order of the commissioner shall be entitled to judicial review by following the procedure set forth in Sections 58-9.3 to 58-9.6 of the General Statutes.

"§ 58-357. **Penalties.** — In addition to any other penalty provided by law, any person, firm or corporation which willfully violates an order of the commissioner after it has become final, and while such order is in effect, shall, upon proof thereof to the satisfaction of the court, forfeit and pay to the State of North Carolina a sum not to exceed two hundred fifty dollars (\$250.00) which may be recovered in a civil action, except that if such violation is found to be willful, the amount of such penalty shall be a sum not to exceed one thousand dollars (\$1,000). The commissioner, in his discretion, may revoke or suspend the license or certificate of authority of the person, firm or corporation guilty of such willful violation. Such order for suspension or revocation shall be upon notice and hearing, and shall be subject to judicial review as provided in G.S. 58-356. Any creditor who requires credit life insurance or credit accident and health insurance, or both, in excess of the amounts set forth in G.S. 58-344 or who violates the provisions of G.S. 58-354 shall be guilty of a misdemeanor, the penalty for which shall be a fine of five hundred dollars (\$500.00) for each such occurrence or violation.

"§ 58-358. **Reinsurance.** — Any insurance company writing credit life or credit accident and health insurance subject to the provisions of this Article may reinsure its liability under any or all of such insurance with any domestic or foreign life insurance company; provided, that in the event such reinsurance is with a company not authorized to do business within this State and such company does not meet the statutory requirements for admission, the direct writing company shall, notwithstanding such reinsurance, maintain all of the reserves required by the commissioner of such line of business as if such reinsurance contract or treaty had not been entered into and shall continue primarily responsible for such insurance."

Sec. 2. Section 53-189 of the General Statutes of North Carolina is rewritten to read as follows:

"**Insurance.** — (a) Credit life and credit accident and health insurance may be written in accordance with the provisions of 'The North Carolina Act for the Regulation of Credit Life Insurance and Credit Accident and Health Insurance.'

(b) The premium or cost of credit life, credit accident and health or property insurance, when written by or through any lender or other creditor, its affiliate, associate or subsidiary shall not be deemed as interest or charges or consideration or an amount in excess of permitted charges in connection with the loan or credit transaction and any gain or advantage to any lender or other creditor, its affiliate, associate or subsidiary, arising out of the premium or commission or dividend from the sale or provision of such insurance shall not be deemed a violation of any other law general or special, civil or criminal of this State, or of any rule, regulation or order issued by any regulatory authority of this State."

Sec. 3. If any provision of this act, or the application of such provision to any person or circumstances, shall be held invalid, the remainder of this act, and the application of such provision to any person or circumstances other than those as to which it is held invalid, shall not be affected thereby.

Sec. 4. G.S. 58-210(2)(d) and (e), and G.S. 58-260.2 are repealed.

Sec. 5. The effective date of this act shall be 90 days after ratification. All credit life and credit accident and health insurance policies, delivered or issued for delivery on or after the effective date of this act shall conform to the provisions of this act. With regard to existing group credit insurance policies, the rates and forms shall be amended to conform to the requirements of this act, or be terminated, not later than the anniversary of the date of issue of the contract next following the effective date of this act.

In the General Assembly read three times and ratified, this the 18th day of June, 1975.