



IIPRC-L-08-LB-I-CoI

http://www.insurancecompact.org/rulemaking_records/171120_adtl_std change_of_insured_benefit.pdf

**ADDITIONAL STANDARDS FOR CHANGE OF INSURED BENEFIT
(For use with Individual Adjustable Life and Whole Life
Insurance Policies)**

Effective Date: November 20, 2017

Scope: These standards apply to change of insured benefits that are built into individual whole life insurance policies or individual variable or non-variable adjustable life insurance policies or added to such policies by rider, endorsement or amendment. A change of insured benefit allows the owner to exchange the insured covered by the policy, or under a rider, endorsement or amendment attached to the policy, for a new insured in whom the owner has an insurable interest or to exchange the policy for a new policy covering a new insured in whom the owner has an insurable interest. Change of insured benefits are most often used in the business insurance market to exchange insureds in the case of personnel departures, without having to purchase an entirely new policy and without upfront loads and surrender charges, but may also be used in other situations, such as a change in marital status.

Mix and Match: These standards are available to be used in combination with State Product Components as described in § 111(b) of the Operating Procedure for the Filing and Approval of Product Filings (http://www.insurancecompact.org/rulemaking_records/110414_amended_product_filing_app_A.pdf). Please note that this applies to the entire state or Compact approved forms and NOT to particular provisions contained within such forms. Submit the following:

1. STATEMENT OF INTENT indicating the intent to use one or more State Product Components with a Commission Product Component. The Statement of Intent must identify the Compacting State(s) wherein the combined Product Components will be offered or sold, and sufficiently identify for each of such Compacting State(s) the State Component(s) that will be used with the Commission Component by listing the form numbers and Compacting State approval dates; and
2. CERTIFICATION stating that the combination of a Commission Component and a State Component does not contain inconsistent, ambiguous, unfair, inequitable or misleading clauses, or exceptions or conditions that unreasonably affect the risk purported to be assumed. The Certification must be signed by a company officer. This Certification shall not give rise to any presumption that the combination of Product Components, in fact, meets this standard for purposes of any action by the Commissioner of a Compacting State to prohibit the combined use of a Commission Product Component with a State Product Component. http://www.insurancecompact.org/documents/industry_resources_soi_pt1.pdf

Self-Certification: These standards are not available to be filed using the Rule for the Self-Certification of Product Components Filed with the Interstate Insurance Product Regulation Commission. Any deviation from the standards prescribed shall require prior approval.

Filing Information Notice (FIN) 2009-4 provides more guidance regarding the submission of filings using the “Mix and Match” process: <http://www.insurancecompact.org/fin.htm>

As used in these standards the following definitions apply:

“Exchange cost or credit” means an adjustment in the cash value or account value of the policy that may be required to exercise the benefit.

“Benefit form” means the change of insured benefit form.

“Exchange date” means the date the new policy is issued and the existing policy is terminated (or the new insured is added and the existing insured is dropped).

References to the “insured” mean the existing insured, unless specifically referred to as the “new insured.”

References to the “policy” mean the existing policy, unless specifically referred to as the “new policy.”

In addition to the Core Standards requirements for Individual Adjustable Life Policies and Individual Whole Life Insurance Policies, the following standards, as appropriate, apply:

§ 1. ADDITIONAL SUBMISSION REQUIREMENTS

A. GENERAL

YES NA

| | | |
|--|--|--|
| | | (1) The following additional filing submission requirements shall apply: A description of any change of insured benefit limitations (e.g. limiting owners to business entities). |
| | | (2) If the benefit form is issued as an attachment to the policy, a description of the policy forms with which the benefit form can be used and the policy forms that can be exchanged if the benefit form provides for a policy exchange with a policy date prior to the exchange date. The new policy must be in compliance with current Interstate Insurance Product Regulation requirements or current state law, as applicable. Any new policy issued as a result of an exchange of insureds must generate policy values in compliance with requirements in effect at the time of the exchange (e.g. be compliant with the 2001 CSO Mortality Table for exchanges in 2010). |

B. ACTUARIAL MEMORANDUM REQUIREMENTS

YES NA

| | | |
|--|--|---|
| | | (1) Include an actuarial memorandum prepared, dated and signed by the member of the American Academy of Actuaries who provides the following information: |
| | | (a) A numerical demonstration of how the change of insured benefit functions. |
| | | (b) A detailed statement of the method of computing any exchange cost or credit and any premium adjustments. |

C. VARIABILITY OF INFORMATION

YES NA

| | | |
|--|--|---|
| | | (1) The company may identify product specifications that may be changed without prior approval, as long as the Statement of Variability presents reasonable and realistic ranges for the item. These items may include the administrative processing fee or the maximum administrative processing fee for exercising the benefit. |
|--|--|---|

§ 2. GENERAL FORM REQUIREMENTS

A. COVER PAGE

YES NA

| | | |
|--|--|---|
| | | (1) A brief description shall appear in prominent print on the cover page of the policy or benefit form or be visible without opening the policy or benefit form. The brief description shall contain at least the following information: |
| | | (a) A caption of the type of coverage provided; for example, Change of Insured Rider. |

B. SPECIFICATIONS PAGE

YES NA

| | | |
|--|--|--|
| | | (1) The specifications page shall show, if applicable, the administrative processing fee or the maximum administrative processing fee. These items may be considered as variable items and marked to denote variability. |
|--|--|--|

§3. BENEFIT PROVISION

A. BENEFIT

YES NA

| | | |
|--|--|---|
| | | (1) The benefit form shall state that if the benefit is exercised: |
| | | (a) The insured covered by the policy that the benefit form is built into or attached to will be exchanged for a new insured in whom the owner has an insurable interest, or |
| | | (b) The policy that the benefit form is built into or attached to will be exchanged for a new policy covering a new insured in whom the owner has an insurable interest. |
| | | (2) If the benefit provides for a new policy, the benefit form shall state how the policy date of the new policy is determined, including any adjustments to such determination to reflect any minimum age requirements of the new insured. |
| | | (3) The benefit form shall state that the owner must have an insurable interest in the new insured and shall describe any additional conditions that must be met to be able to exercise the benefit. The conditions may include: |
| | | (a) Evidence of insurability under the company’s underwriting guidelines currently in effect. For last to die survivorship policies: |
| | | (i) If the death benefit is increased, evidence of insurability may be required for the existing insured who will continue to be insured under the new policy; or |

| | | |
|--|--|--|
| | | (ii) There may be limitations on the risk class of the new insured to ensure that the combined risk class limits for the new policy are met (e.g. at least one of the insured's must be standard). |
| | | (b) A minimum and maximum age of the existing and new insured, as applicable. |
| | | (c) That the existing and new insured are living on the exchange date. |
| | | (d) That the policy be in force a specified period of time before the benefit can be exercised. |
| | | (e) That the excess of any unpaid policy loan plus accrued interest over the loan value of the new policy be repaid before the change of insured can take effect. |
| | | (f) That if an assignment is in effect under the policy at the time of the exchange, that any assignee gives written consent to the change of insured before the exchange date. |
| | | (g) That the policy may not be in the grace period. |
| | | (h) That any disability benefits available under the policy are not currently in effect. |
| | | (i) That the cash value is not more than the maximum amount to qualify as life insurance under § 7702 of the Internal Revenue Code, as amended. |
| | | (j) That an accelerated death benefit payment has not been made prior to the exchange. |
| | | (4) The benefit form or specifications page shall state that there is no charge for this benefit until it is exercised, at which point there may be an exchange cost or credit, and shall state how it is calculated. The benefit form shall also disclose any administrative processing fee due at the time of the exchange, or alternatively, a maximum administrative processing fee. |
| | | (5) The benefit form shall state how the exchange date will be determined. |
| | | (6) The benefit form shall describe the changes that will be made to the policy after the benefit is exercised, which shall include the following: |
| | | (a) Any limitations on the new face amount or death benefit option. |
| | | (b) The effect of exercising the benefit on any other benefits provided under the policy. |
| | | (c) The basis of the rates for the new policy or the new insured (e.g. those that would have been in effect on the new policy had been issued on the policy date of the existing policy, or those in effect on the exchange date). |
| | | (d) The risk class that will be applicable to the new insured. |
| | | (i) If the policy is an adjustable life policy and monthly deductions on the new policy or for the new insured will be based on the new insured's attained age and risk class, the benefit form shall so state. |

| | | |
|--|--|--|
| | | (ii) If the policy is a last to die survivorship policy, then the risk class applicable to the existing insured (who will continue to be insured under the new policy) will be the existing insured's original risk class if new underwriting is not done, or the risk class determined by the underwriting done at the time of the exchange. |
| | | (e) Any loan indebtedness will remain and will continue to be subject to the conditions of the policy loans section of the policy. |
| | | (f) The benefit form will include any requirements that premiums be payable for a specified period of time after the exchange. |
| | | (7) If there is any difference in the account value or the cash value (e.g. a difference in the cash value for the exchange of a whole life policy where the new insured is a different age or gender from the existing insured), the benefit form shall describe how the exchange cost or credit is calculated. This may include: |
| | | (a) The right of the company to distribute excess amounts in cash, or require an additional payment to be made on or before the exchange date. |
| | | (b) Allowing the company to distribute excess cash value if the cash value is above the maximum amount to qualify as life insurance under § 7702 of the Internal Revenue Code, as amended. |
| | | (8) If the new policy will be limited to the original type of insurance or will be limited to a specified type of insurance or policy form, the benefit form shall so state. |
| | | (9) If the surrender charge schedule of the existing policy will be replaced with a new schedule based on the new insured's age and risk class (if applicable), the benefit form shall so state. If the new policy is a last to die survivorship policy, and the surrender charge schedule will be replaced with a new surrender charge schedule based on the combined ages and risk classes of the two insureds (if applicable), the benefit form shall so state. |
| | | (10) If the surrender charge period begins on the policy date of the existing policy, the benefit form shall so state. |
| | | (11) If any riders attached to the policy terminate on the exchange date, or if riders are permitted to be added to the new policy only with the consent of the company, the benefit form shall so state. |
| | | (12) If the new policy will be subject to any existing assignments, the benefit form shall so state. |
| | | (13) If the change of insured benefit provides for an exchange of insureds under the existing policy form, then the benefit form shall state that new specifications pages will be provided. |

B. INCONTESTABILITY

YES NA

| | | |
|--|--|---|
| | | (1) The benefit form shall state: |
| | | (a) That the maximum two-year contestable period as described in the policy shall be measured from the exchange date; and |
| | | (b) That the minimum amount that will be paid for a contested claim on the new policy will be at least equal to: |
| | | (i) For whole life policies, any premiums paid for the new policy plus any cash value of the existing policy applied under the new policy less any policy loans, partial withdrawals and dividends paid in cash or used to reduce premiums after the exchange date. |

| | | |
|--|--|---|
| | | (ii) For adjustable life policies, any premiums paid for the new policy, the cash value of the existing policy on the exchange date, adjusted for policy loans and partial withdrawals. |
|--|--|---|

C. NONFORFEITURE VALUES

YES NA

| | | |
|--|--|--|
| | | (1) If the benefit form is issued as an attachment to the policy, the benefit form shall state that it does not have cash values or loan values. |
|--|--|--|

D. REINSTATEMENT

YES NA

| | | |
|--|--|---|
| | | (1) The benefit form shall disclose whether the benefit form may be reinstated and under what conditions. |
|--|--|---|

E. SUICIDE

YES NA

| | | |
|--|--|---|
| | | (1) The benefit form shall state: |
| | | (a) That the maximum two-year suicide exclusion period described in the policy shall be measured from the exchange date; and |
| | | (b) That the minimum amount that will be paid for death by suicide on the new policy will be at least equal to: |
| | | (i) For whole life policies, any premiums paid for the new policy plus any cash value of the existing policy applied under the new policy less any policy loans, partial withdrawals and dividends paid in cash or used to reduce premiums after the exchange date. |
| | | (ii) For adjustable life policies, any premiums paid for the new policy, the cash value of the existing policy on the exchange date, adjusted for policy loans and partial withdrawals. |

F. TERMINATION

YES NA

| | | |
|--|--|--|
| | | (1) The benefit form shall include the following termination conditions: |
| | | (a) Upon the exchange date (The benefit form may state that a new benefit form may be added to the new or updated policy at the time of the exchange); |
| | | (b) Upon written request; and |
| | | (c) Upon termination of the policy. |
| | | (2) The benefit form may also include the following termination conditions: |
| | | (a) Upon the existing insured's attainment of a specified age. |
| | | (b) Upon the death of the existing insured. |
| | | (c) Upon the change of ownership to a non-business entity, if use of the benefit form is limited to business entities. |

The Reviewer Checklist is intended for the sole purpose of assisting a company product filer ("User") in understanding the requirements of the applicable Uniform Standard(s) for IIPRC product filings. Users are hereby notified not to rely solely upon the Reviewer Checklist in preparing a product filing or in complying with the IIPRC Uniform Standards, Rules and Operating Procedures. The User also acknowledges there is a possibility of human, mechanical or technical error in the development, presentation or use of the Reviewer Checklist. The Interstate Insurance Product Regulation Commission (Commission) accepts no liability for any loss, cost or damage caused by use of this tool, including without limitation, direct or indirect, incidental, special, consequential or exemplary or punitive damages arising out of the use or inability to use the Reviewer Checklist. There are no warranties either express or implied and User specifically acknowledges the Commission does not warrant the truth, accuracy or completeness of the Reviewer Checklist.