

DATE: March 23, 2007
TO: IIPRC Management Committee
FROM: IIPRC Industry Advisory Committee
SUBJECT: Individual Term Life Insurance Policy
(Draft Dated January 19, 2007)

Scope

We suggest that the Committee change the definition of “cash surrender value” to replace “debt” with “indebtedness”. Note that “indebtedness” is the term used in the LOANS provision. We have provided this comment for other standards and the change was adopted.

We have also requested to add the following under the Drafting Notes:

“Other terms may be used in the policy provided that they are used consistently.”

We have provided this comment for other standards and the change was adopted.

COVER PAGE, Item (1)

Item (7) on page 5 includes the definition of “prominent print”, but we suggest that the Committee move the definition to the end of item (1).

We have provided this comment for other standards and the change was adopted.

ASSIGNMENT, Items (1) and (2)

Item (1)

The proposed changes would inadvertently allow a company to omit the provision. In some situations. We believe the intent was to require that a provision be included in all situations, and that the provision would prohibit any restriction of an assignment other than for tax qualification purposes, or for purposes of satisfying applicable laws or regulations.

We do not understand why the exception for “laws or regulations” was omitted – in previous discussions of this provision we had given various examples of assignments that would be prohibited by law, such as an assignment to a fictitious trust or to an animal. ***If the “law or regulation” exception language is not reinstated, the current language would put companies in the untenable position of either violating the law or the contract and risking potential litigation.*** For example, if a company receives a court order to restrict assignment and the company fails to honor the court order, the company may be sued by the beneficiary of the order. On the other hand, if the company honors the court order, the owner may sue the company for breach of contract.

We believe that restrictions that may affect the owner’s rights should be specified in the contract, and that for consumers, companies and regulators this should be the preferred way to let owners know their right may be restricted by a party other than the company. We just can’t believe that anyone would advocate that it is better to let the owner know about a restriction at the time that he or she requests to assign the policy.

For all of the reasons detailed above, we suggest that the language be changed as follows (we are using the OWNERSHIP format which makes it clear that the provision needs to be included in all policies):

“The policy shall contain an assignment provision. The policy shall not include any restrictions, except in situations where restrictions are required for tax qualification purposes, or for purposes of satisfying applicable laws or regulations.”

New Item (2)

We have reconsidered the alternative language that we had previously suggested, as reflected in the comments that we had provided for the 3 Single Premium/Joint Term standards and the 4 Whole Life standards that also included this language.

First, we believe that the right of first refusal issue is a distraction, and that to continue to belabor the issue would delay the adoption process for this standard. Our industry has determined that we have more important IIPRC issues that need our focus and attention.

Second, we believe that the right of first refusal issue is related to the viatical settlement issues currently under the jurisdiction of the NAIC (A) Committee, and that the NAIC Viatical Settlement Model Act may define how we should address the issue. The bulk of the product standards that we have developed to date rely on NAIC models, and we fully expect that when the NAIC Viatical Settlement Model Act is adopted, we will review the final language and determine if any product standards need to be changed to reflect the Model. ***The fact is that the life settlement market is still evolving, some if not most regulators are still debating how to regulate various aspects of the life settlement market, and our companies are also still evaluating what options they have to compete with the life settlement companies.***

We believe that it may be premature to determine if a right of first refusal should be prohibited or not (many if not most state laws are silent about this), and there is no urgent need to use the product standards process to draw that line in the sand.

In the life application standards, we believe that it was important to allow companies to ask about agreements to buy or sell an interest in the policy being applied for, because insurable interest and premium financing issues at application time may pose potential legal impediments to issuing coverage, and no other language in the application addressed these issues. In the Term Life policy standards, item (1) of the ASSIGNMENT provision, as per the changes we have suggested (which in part reinstated earlier draft language) would already prohibit what is described in this proposed new item (2).

So we question why item (2) is needed. If the Compacting States feel that it is important to provide examples of what type of restrictions would be prohibited, why are not other examples included (assignment to animals, assignment to fictitious entities)?

We strongly suggest that the item be deleted.

BENEFICIARY, Item (1)

We believe that the original intent of the language in the ASSIGNMENT, BENEFICIARY and OWNERSHIP provisions was to refer to all laws and regulations, federal or state, and we suggest that the word “federal” be deleted. We note that the current language in the OWNERSHIP provision omits “federal”.

We do not understand how anyone today can predict how future federal and state laws and regulations may impact these provisions, and we believe that it should be harmless to include language that would accommodate all future contingencies.

DEATH BENEFIT PROCEEDS, Item (2)(b)

We note that the reference to “Two Year Constant Maturity Rate as published by the Federal Reserve” is missing the word “Treasury” which needs to be inserted before “Constant”. This was our error in the last set of comments that we provided.

We have reconsidered the alternative language that we had suggested for the “parking of claims” issue as reflected in the comments that we had provided for the 3 Single Premium/Joint Term standards and the 4 Whole Life standards. Our companies have reported that there are claims situations where “parking” is problematic, but the incidence is not such that warrants adding language to the standards. Accordingly, we have no further comments on this provision.

OWNERSHIP, Items (1) and (2)

We would make similar comment as provided for the ASSIGNMENT provision.

We believe that leaving “federal” in the draft was an error on the part of the Product Standards Committee, and they may be asking to correct this. Our preference is that the ASSIGNMENT, BENEFICIARY and OWNERSHIP provisions revert back to the original draft that said “applicable laws or regulations.”

REINSTATEMENT, Item (6)(a)

In the last sentence, it states “only when permitted by applicable law...”. Why was it necessary to add “only”? “Only” is not used in the INCONTESTABILITY provision, and we don’t believe that it is needed here. Accordingly, we suggest that the word be deleted.

Submitted by:

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