

Bulletin 72-1

Life insurance for college students under a premium financing arrangement, advisory bulletin

August 3, 1972

Section 1. Purpose

In many instances, a good life insurance plan represents an important step toward the student establishing a sound financial program. However, inherent in this market are certain potential problems and areas of concern, particularly where the sales presentation envisages a premium financing arrangement to be offered in connection with the sale of a life insurance policy. In order to improve upon this type of marketing and at the same time institute additional safeguards for the protection of this segment of the insurance buying public, the guidelines shown below will be adhered to by all companies and their agents offering this type of financing arrangement in South Dakota.

Section 2. Guidelines

1. If the applicant is a minor and executes a promissory note for the payment of the first year's premium, such note must be co-signed by the applicant's parent, legal guardian, or adult spouse.
2. If a note is taken to finance less than the full first year premium, the balance must be paid by the applicant at the time the application is taken.
3. The giving of a promissory note in connection with the first premium must be set out in the application over the applicant's signature, showing the amount of the note, and the amount of any down payment made to the agent at the time of sale. (Note — It is strongly recommended by this Department that a down payment be required.)
4. The down payment must be paid by the applicant in cash or by a second validly executed note and any payment, reimbursement or other consideration made by the agent under any circumstances, directly or indirectly, shall be construed to be a rebate or an improper inducement.
5. A copy of the note must be attached to the policy, irrespective of whether the policy contains a provision or endorsement which describes such financing arrangement.
6. Upon delivery of the policy, a receipt or acceptance form must be executed which recites that:
 - (a) the policy has been issued as represented, and
 - (b) the insured acknowledges and understands the obligations of financial indebtedness that he has incurred.
7. Such receipt or acceptance form (outlined in Item 6 above) should be registered by number (preferably corresponding to policy number), in the home office.

8. (a) This receipt or acceptance form must be sent with the policy at time of delivery *only*.

(b) Supplies of these receipts or acceptance forms shall *not* be made available to field representatives or agents, but must be furnished from the home office only in transmittal of the policy to the writing agent.

9. Promissory notes should not be sold or otherwise transferred by the payee (agent), nor should any commissions on the sale be paid or credited to the agent until such receipt or acceptance form (outlined in Items 6, 7 and 8 above) has been received in the home office.

10. The note purchaser, assignee, or company shall notify the note maker (insured) and all co-makers regarding the purchase or transfer of the note, *after* such purchase or transfer has been made, inviting any questions relative to the note or to the policy which is used as collateral security for the note.

11. Maximum amount of any such premium financing arrangement will be in accordance with reasonable and sound underwriting practices as determined by the company. (Note — It is recommended by this Department that such a financing arrangement should not be entered into with an undergraduate on a basis where the next premium would come due prior to the anticipated date of graduation of the applicant.)

12. The Commissioner's Regulation No. 5 entitled "Replacement of Life Insurance" will govern as to replacement of applications on permanent insurance.

13. No agent or field representative of the company who is licensed by this State to represent the company as a licensed life agent may represent, refer to or hold himself out to the public under any special title or as a representative of any special policy or company division unless otherwise identified as a licensed life agent of the company.

14. In the case of a request being made by an insured expressing a desire to cancel such a policy and premium financing arrangement, this Department will expect the full cooperation of the company and its agent in bringing such matter to a satisfactory conclusion as expeditiously and amicably as possible.

If, at the time the receipt or acceptance form is presented with the policy to the applicant for his signature, he decides not to proceed with the arrangement, the policy will be returned to the company with his signed request for release. The policy and note will then be cancelled and the applicant released from any liability and a refund made of any down payment.

15. It is recommended that the cash values, shown at the time of presentation, should be specimen values of the policy being offered and not those for a larger policy. For example, if a \$10,000 policy is being sold, the values for this \$10,000 policy (and not the values for a \$50,000 or \$75,000 policy) should be shown the applicant. Otherwise, there is likely to be a misunderstanding on the part of the applicant when he receives the \$10,000 policy and observes the cash values to be lower than those shown to him at the time of sale.

NOTE — If a sales presentation is made for an amount of insurance greater than that actually sold, then an appropriate summary must be given to the applicant for the correct amount of policy sold, not later than the date of delivery.

16. All sales material, notes, receipts, acceptance forms, and other forms used in the sale of such programs must be submitted *in duplicate, with duplicate letters of transmittal*, at the time the policy form is being submitted for approval. If found acceptable, the duplicate copy of such materials will be returned as "filed." No such material may be used until so "filed" with the Department. No materials may be added or amended until they have been submitted and found acceptable, as outlined above.

Section 3. Effective Date

This Advisory Bulletin shall become effective on September 1, 1972.

Ralph A. Nauman
Commissioner of Insurance