



**ARKANSAS INSURANCE DEPARTMENT
LEGAL DIVISION**

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Rule and Regulation 14

**PREMIUM FINANCING OF LIFE INSURANCE FOR
COLLEGE STUDENTS**

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SECTION 1. AUTHORITY AND SCOPE

1.1 These Rules and Regulations are hereby promulgated and adopted pursuant to the authority provided in Ark. Stat. Ann. §66-2111 and Chapter 30 of the Arkansas Insurance Code (Ark. Stat. Ann. §66-3001 - §66-3028) and are applicable to those companies and agents offering life insurance policies to college students where any premiums are paid under a premium financing arrangement.

SECTION 2. PRINCIPLES OF INSURERS' RESPONSIBILITY

2.1 The type of insurance encompassed by this Regulation shall not be offered to a student, unless it has first been established that such a program is suitable for that student. Financed programs shall not be considered suitable except in cases where there is substantial evidence that the student's income will increase to a level sufficient to accommodate the installment payments under the premium financing plan prior to the due date of the first payment. Such substantial evidence shall be obtained through a reasonable inquiry as to all pertinent and material factors which have some bearing on the suitability of the financed program for the student.

Each insurance company which solicits business of the type described in this Regulation shall establish the factors to be considered in determining suitability. This list of factors shall be filed with the Commissioner for approval by December 1, 1974, or thirty (30 days prior to the solicitation of any sale of insurance covered by this Regulation, whichever occurs later.

2.2 In the case of a request being made by an insured to cancel or change such a policy and premium arrangement, the company and its agents shall cooperate in bringing such matter to a satisfactory conclusion.

2.3 Insurers shall inform insureds of the availability of policy loans as vehicles for reducing interest expense on notes, if policy loans are made at lower interest rates than the notes taken to finance premiums.

2.4 Agents who propose to sell to students shall register with the appropriate student affairs office on that campus.

SECTION 3. DISCLOSURE REQUIREMENTS

3.1 In connection with the selling of life insurance covered by these Rules, and in lieu of the disclosure requirements contained in '4 of Rule and Regulation 17:

- A. An agent shall inform the prospective purchaser that he is acting as an insurance agent and give the prospective purchaser the full name and home address of the insurance company for which he is a licensed agent;
- B. An insurer shall inform the prospective purchaser of its full name and address;
- C. The agent or insurer shall provide to the prospective purchaser, prior to the taking of an application, a dated written proposal describing the elements of the proposed contract, including, but not limited to:
 - (1) The name and home address or business address of the insurance agent, or the name of the employee of the insurer, if no agent is involved, who assumes responsibility for the proposal;
 - (2) The full name and home address of the company with which the life insurance is to be written;
 - (3) The specific type of life insurance coverage proposed, with alternative amounts of coverage, the duration of coverage, the annual premium, the premium payment period, the down payment made to the agent, the balances to be financed, the annual percentage rate (APR), the maturity date of the note, the amount payable at maturity of the note, and any pure endowment available toward payment of the note.
 - (4) The premiums for the life insurance shown separately from the premiums for each additional supplemental benefit provided in the contract and the fact amount of the life insurance shown separately from the amounts of coverage shown for any additional or supplemental benefit provided for in the contract.
 - (5) Representative amounts of coverages and premiums to indicate to the prospective purchaser how such amounts will change, if the amount of coverage or premium for the policy and riders decreases or increases at any time.
 - (6) The amount of cash value for the face amount of insurance illustrated no less frequently than at the end of 5-10-15-20 years and at age 60 and 65. The effect of payment of any pure endowment benefit on subsequent cash values shall be disclosed.

Any cash values shown at the time of presentation should be based on the fact amount of the policy being offered and not for a larger policy.
 - (7) A disclosure that dividends are neither guarantees nor estimates of future results, but that dividends are neither guarantees nor estimates of future results, but that dividend illustrations are based on the company's current experience and may change depending upon such company experience if dividends are illustrated. Any additional policy benefits arising from the use of dividends must be separately disclosed.
 - (8) The interest-adjusted cost indices, as defined in Rule and Regulation 17, assuming (i) that premiums are financed (in which case the down payment is considered as the first premium payment on its due date), and (ii) that no financing is involved.
 - (9) A concise, exact description, set out in contrasting type at least four (4) points larger than that used in the body of the disclosure statement, of the provisions of the note relating to lapse, surrender, or termination of the policy to the maturity of the note.
 - (10) The agent's signed recommendation, in his own handwriting, of the specific plan recommended, with reasons for such recommendation.

3.2 Copies of each such disclosure statement shall be kept by the insurer for at least three (3) years after the policy has been delivered.

SECTION 4. FINANCING ARRANGEMENT

4.1 If the insured is a minor and executes a promissory note for the payment of part or all of the first year's premium, such note must be cosigned by at least one of the insured's parents or his guardian.

- 4.2 The terms of a promissory note offered in connection with the first premium must be set out in the application over the applicant's signature, showing the total first year premium, the down payment made to the agent, the balance to be financed, the annual percentage rate (APR), the maturity date of the note, the amount payable at maturity and the amount, if any, of pure endowment available toward payment of the note.
- 4.3 Any down payment must be paid by the applicant in cash and any payment made, directly or indirectly, by the agent to or for the benefit of the applicant in connection with the sale shall be presumed to be a rebate or special inducement.
- 4.4 If a note is signed to finance less than the first year's premium, the balance must be paid in cash by the applicant at the time the application is taken.
- 4.5 If a promissory note is signed to finance all or part of the first year's premium, said note shall not be negotiated until the policy for which the note is offered has been issued and delivered to the maker of the note unless the coverage is effective prior to approval and issuance of the policy.
- 4.6 A copy of the note must be attached to the policy.
- 4.7 The company shall notify the maker of the note (insured) and all co-signers regarding the sale or transfer of the note within twenty (20) days after such sale or transfer, inviting any questions relative to the note or the policy which is used as collateral security for the note. This notice may be given by the purchaser, transferee or assignee of the note, but the ultimate responsibility to give notice lies with the company.

SECTION 5. RECEIPT

- 5.1 Upon delivery of the policy, a policy receipt must be executed which recites that:
 - (a) The policy has been issued as represented, and
 - (b) The insured acknowledges and understands the provisions and obligations of the financial indebtedness that he has incurred.
- 5.2 The receipt shall be registered by number (preferably corresponding to policy number) in the home office.
 - (a) This receipt shall be sent with the policy at time of delivery *only*.
 - (b) These receipts shall not be made available as supplies to field representatives or agents, but shall be furnished only by the home office in transmittal of the policy to the writing agent.

SECTION 6. DECEPTIVE PRACTICES

- 6.1 The following verbal or written unfair practices and deceptive acts in the selling of the type of insurance described in this Regulation are considered by the Insurance Commissioner as coming within the definition of Arkansas Statutes Annotated § 66-3005, and other applicable Arkansas Statutes, and are prohibited:
 - A. The making of any misrepresentation or false, deceptive, or misleading statement;
 - B. The use of terms such as financial planner, investment adviser, financial consultant, or financial counsellor to imply that the insurance agent is generally engaged in an advisory business in which compensation is unrelated to sales.

Agents or field representatives of the company who are licensed by this State to represent the company as licensed life agents may not represent, refer to, or hold themselves out to the public under any special title or as representative of any special policy or company division unless otherwise identified as a licensed agent of the company for which he holds a license;
 - C. The use of terms such as savings, deposits, investments, etc., in such a way as to mislead the prospective purchaser to believe that the primary purpose of the life insurance solicitation is of an investment nature;
 - D. The use of comparisons or analogies or the manipulation of amounts and numbers in such a way as to mislead the prospective purchaser concerning:

- (1) The cost of insurance protection to be provided by the insurance contract; or
 - (2) Any other significant aspect of the contract, including any proposed benefits to be added by rider;
- E. The use of any system or presentation for comparing cost of life insurance that does not recognize the time value of money;
 - F. In respect to participating policies, a description of the policy dividend as other than a refund or return of part of the premium paid, which is not guaranteed and which is subject to periodic change;
 - G. The making of unfair or misleading comparisons of dissimilar policies or riders. An advertisement shall not directly or indirectly make unfair or incomplete comparisons of policies or benefits or otherwise falsely disparage competitors, their policies, services, or business methods;
 - H. Any indication that cash or loan values are death benefits or that said values are available in addition to the face amount of insurance benefits payable upon death of the insured;
 - I. Any implication that the payment of the financed premium or premiums by the use of pure endowment benefits results in "free" insurance;
 - J. Routine inclusion of supplementary benefits, provided by rider, which are not specifically a solution to a legitimate need of the student, when such riders inflate the premium beyond the point where the pure endowment benefits, which are available to pay the note, are sufficient to do so.

SECTION 7. ADVERTISEMENT OF LIFE INSURANCE

- 7.1 "Advertisement", for the purpose of this Regulation shall be defined in the same manner as in '7 of Rule and Regulation 17.
- 7.2 In addition to the disclosure requirements of '7 (B) of Rule and Regulation 17, an advertisement shall include a statement that the policy contemplates financing of one (or more) premium(s), the annual percentage rate (APR), and a concise, exact description of the provisions of the note relating to lapse, surrender or other termination of the policy prior to the maturity of the note.

SECTION 8. SEVERABILITY PROVISION

- 8.1 If any section or portion of a section of these Rules, or the applicability thereof to any person or circumstances, is held invalid by a court, the remainder of the Rules, or the applicability of such provision to other persons or circumstances shall not be affected thereby.

SECTION 9. EFFECTIVE DATE

- 9.1 These Rules and Regulations shall become effective as of January 1, 1975.