Field Bulletin

SECURITY MUTUAL LIFE
INSURANCE COMPANY OF NEW YORK
BINGHAMTON • NEW YORK
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December 28, 2012
(Replaces 0011179XX 11/2010)

Replacement of Life Insurance and Annuities in Arkansas

Arkansas has adopted Rule 97 – Life Insurance and Annuities Replacement regulation. (A copy of the law and bulletin 04-2012 may be obtained from the Arkansas Insurance Department website at www.state.ar.us/insurance.) The definitions of "Replacement" and "Financed Purchase" under the rule are printed on the reverse side of this bulletin. In order to comply with this rule, the following procedures must be followed:

A producer must, in connection with each application for individual life insurance or an annuity or for individually solicited group life insurance, submit to the Company a statement signed by both the applicant and the producer as to whether the applicant has existing contracts (Form 10630AR). This form must be presented to the applicant and completed prior to completion of the application. The signed form must be submitted to the Company with the application.

If there is "no existing insurance" or if any "existing insurance" is not being "replaced", there are NO further requirements.

If an existing life insurance policy or annuity contract is being replaced, as defined by the attached definition of "Replacement" and "Financed Purchase", the following steps must be taken:

1. Present and read to the applicant, not later than at the time of taking the application, Form 0010579XX, "Important Notice: Replacement of Life Insurance or Annuities." The Notice must be signed by the producer and the applicant and a copy left with the applicant. The Notice must be read aloud by the producer unless the applicant indicates, by initialing the form, that he or she did not wish the notice to be read aloud. A copy of the Notice must be submitted with the application.

   The Notice must list all existing life insurance or annuities proposed to be replaced, properly identified by name of insurer, insured or annuitant, and policy or contract number, if available, and shall include a statement as to whether each policy or contract will be replaced or whether a policy will be used as a source of financing for the new policy. If a policy or contract number has not been assigned by the existing insurer, alternative identification, such as an application or receipt number, must be listed.
2. Leave with the applicant, at the time of application, the original or a copy of all sales material used for presentation to the applicant. Copies of any electronically presented sales material must be provided to the policyholder in printed form no later than at the time of policy or contract delivery.
3. Complete form 0011805XX, "Producer/Agent Disclosure." You are required to list, by form number, the sales materials used in conjunction with sales of the policy or annuity contract. **Note:** If you did not use any sales materials other than an illustration in the sale of the policy/contract, check the appropriate box on the form and attach the illustration to the form. You are then required to read, sign and date the form and submit to the Company together with the application. Please note that in accordance with Company guidelines, all sales material must be approved prior to use by Security Mutual.
4. The attached Form 0012393AR, "Replacing Your Life Insurance Policy?", must be used whenever an existing life insurance policy or annuity contract may be replaced as part of a purchase of a new life insurance policy or annuity contract. The original copy must be submitted with the application to the Home Office and a copy left with the applicant.

With regard to replacement, each and every transaction must be in the client's best interest and appropriate for the client's needs or financial objectives. Determining if a replacement is appropriate requires an analysis of each client's circumstances, based on relevant information obtained from the client. Producers may effect only those transactions that are in the client's best interest and assist the client in meeting his or her insurable needs or financial objectives.[1]

When we are notified of a pending replacement of an in-force Security Mutual policy, we will be contacting the policyholder. The Free Look Period will be extended to 30 days on replacement policies. Credit will be given for incontestability and suicide period elapsed under the existing policy for internal replacements.

Copies of the replacement forms identified above may be obtained from Librarian.

Frederick L. Wortman, CLU, ChFC, FLMI, RHU, ACS, AIAA, REBC, AIRC, AAPA
Executive Vice President, Administration
and Chief Compliance Officer

APM REFERENCE 260.00

Attachments: 0012393AR; 0011805XX; 0010579XX; 0010630AR

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[1] Company rules and state regulations prohibit the systematic replacement of policies, also known as churning.

Definition of “Replacement” and “Financed Purchase”

The states listed in this Bulletin define “replacement” and “financed purchase” substantially as follows:

“ ‘Replacement’ means a transaction in which a new policy or contract is to be purchased, and it is known or should be known to the proposing producer or to the proposing insurer if there is no producer, that by reason of the transaction, an existing policy or contract has been or is to be:

1. Lapsed, forfeited, surrendered, or partially surrendered, assigned to the replacing insurer, or otherwise terminated;

2. Converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of nonforfeiture benefits or other policy values;

3. Amended so as to effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid;

4. Reissued with any reduction in cash value;

5. Used in a financed purchase.”

“ ‘Financed Purchase’ means the purchase of a new policy involving the actual or intended use of funds obtained by the withdrawal or surrender of, or by borrowing from, values of an existing policy to pay all or part of any premium due on a new policy. For purposes of a regulatory review of an individual transaction only, if a withdrawal, surrender, or borrowing involving the policy values of an existing policy is used to pay premiums on a new policy owned by the same policyholder and issued by the same company within four months before or thirteen months after the effective date of the new policy, it will be deemed *prima facie* evidence of the policyholder’s intent to finance the purchase of the new policy with existing policy values. This *prima facie* standard is not intended to increase or decrease the monitoring obligations contained in Section 5(A)(5) of this rule.”