



STATE OF KANSAS

KANSAS INSURANCE DEPARTMENT

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Consumer Assistance
Division calls only

FLETCHER BELL
Commissioner

Bulletin 1987-10

TO: All Insurers Authorized to Write Life Insurance

IMPORTANT: For Distribution to Supervisor(s) of Kansas Operations

FROM: Fletcher Bell
Commissioner of Insurance

SUBJECT: Disclosure of Surrender & Expense Charges to Interest
Sensitive Products

DATE: April 22, 1987

This department has encountered complaints and received numerous indications that some companies and agents in Kansas may be failing to adequately describe or disclose pertinent information regarding expense and/or surrender charges associated with Universal Life products as defined by K.A.R. 40-15b-1. Policies included are Single Premium Excess Interest Life, Flexible Premium Adjustable Whole Life Policies, Interest Sensitive Life and other similar terms.


The use of illustrations in sales presentations or advertisements in which these costs are not disclosed has a tendency and capacity to mislead or deceive purchasers or prospective purchasers as to the nature or extent of policy benefits. Purchasers should be clearly advised of the effect of expense and surrender charges on all premium payments made or anticipated through roll-over or lump sum additional payments.

The purpose of this Bulletin is to advise all life insurance companies to immediately notify their agents and personnel that inadequate disclosure practices may constitute violations of Kansas statutes and regulations specifically, K.S.A. 40-2404(1)(a) and (f), K.A.R. 40-9-121(b) and K.A.R. 40-2-14(c)(1) and (2). This department will take administrative actions against any company or agent failing to act in compliance with such laws and regulations.

INSURANCE DEPARTMENT

TOPEKA

We request that you immediately notify all of your agents licensed in the state of Kansas as to the contents of this Bulletin and, furthermore, request that you acknowledge your receipt and understanding of this Bulletin no later than May 4, 1987.


Fletcher Bell
Commissioner of Insurance

FB:mkb,res

M E M O R A N D U M

TO: Fletcher Bell
Commissioner of Insurance

FROM: John H. Reimer, Representative
Life/Accident & Health Unit
Consumer Assistance Division

SUBJECT: Universal Life Surrender Charge Complaints

DATE: March 16, 1987

I would like to call to your attention a matter which appears to have become a major problem in the Universal Life/Adjustable Premium Whole Life policies.

The problem arises from the surrender charges applicable to these type policies particularly when an exchange or rollover from the cash values of existing policies has occurred.

There appears to be a substantial lack of disclosure of surrender or withdrawal charges applicable to the funds which have been rolled over from other policies or lump sum premium payments made on these type policies. I do not object to the use of surrender charges, but do object to the apparent lack of disclosure of those charges.

In my opinion the department should consider revising the Notice of Replacement to Applicants to provide for the disclosure of surrender charges which may be applicable or issue a department bulletin which would specify that the applicable surrender charges on the amount of any rollover must be disclosed and considered as an essential element of the replacing policy and violations would be subject to K.A.R. 40-2-14(b)(c)(1).

The following are taken from our Consumer Assistance files which are examples of the common complaint of the surrender charges were not disclosed or explained properly by the replacing company.

File No. 006602825
The Union Central Life Insurance Company
Gary R. Shull, Insured
Amount of Rollover \$1,364.99
Amount of Surrender Charge \$1,300

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File No. 02600681
Cimarron Life Insurance Company
Leland Nuss, Insured
Amount of Rollover \$9,149.63
Amount of Surrender Charge \$1,765

File No. 08604303
American Family Life Insurance Company
Gregory T. Fagan, Insured
Amount of Lump Sum Payment \$6,000
Amount of Surrender Charge \$1,129.86

File No. 05602180
Farmland Insurance Company
Thomas J. Spies, Insured
Amount of Rollover \$1,000
Amount of Surrender Charge \$813

File No. 08603911
Modern American Life Insurance Company
James H. Shaw, Insured
Amount of Rollover \$2,000, plus monthly premium
Amount of Surrender Charge \$978

File No. 08604202
American Republic Life Insurance Company
Joseph C. Collins, Insured
Accumulation Account Value \$1,241.81
Amount of Surrender Charge \$874.40

File No. 10605451
Midland National Life Insurance Company
Gregory Davis, Insured
Amount of Rollover \$1,100
Policy Surrender Charge \$1,900
Deborah Davis, Insured
Amount of Rollover \$600
Amount of Surrender Charge \$450

File No. 10605440
John Hancock Mutual Life Insurance Company
Winfred D. Hicks, Insured
Amount of Rollover \$8,332.42
Amount of Surrender Charge \$1,612.80

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File No. 1120606369
Ohio National Life Insurance Company
Marion Thul, Insured
Amount of Rollover \$6,326.71
Amount of Surrender Charge \$2,709.71

These examples are illustrative of the types of problems which are being dealt with regarding problems where agents have failed to disclose surrender charges clearly to the applicants when recommending the rollover or lump sum contributions to a universal life policy when they are replacing an existing policy. It is my opinion that the number of complaints will continue to increase in this area and I believe that the department should take some type of action to insure policyholders of this state that they will have adequate disclosure and explanation of the type and amount of surrender charges which may be applied against their new policy.

Respectfully submitted,

John H. Reimer

JHR:lbca
5405
cc: Frank A. Caro, Jr.
Donald W. Bond
✓ Marlyn Burch