

- (c) Disability income benefit.
- (d) Hospital insurance.
- (e) Basic or primary medical insurance.
- (f) Major medical benefit.
- (g) Surgical benefit.

(6) **DISABILITY BENEFITS NOT LISTED.** Disability benefits which are not specifically listed above will be examined at the time of filing to determine whether a separate statement of premium is required.

(7) **RESERVE VALUES.** Reserve values, on account of included provisions, will be based upon the requirements of s. 623.06, Stats., or other applicable statutes or, in the absence of specific requirements, on such additional standards as the commissioner of insurance may prescribe.

(8) **EFFECTIVE DATE.** On or after April 1, 1965, no life insurance policy shall be approved for use and no such policy heretofore approved shall be issued or delivered in this state unless it meets the requirements of this rule.

(9) **SEPARABILITY.** If any provision of this rule shall be held invalid, the remainder of the rule shall not be affected thereby.

**Note:** The repeal of the previous rule and the adoption of this rule was prompted by the inconsistency which existed between the repealed rule and provision 2 of s. 206.18 (1), 1973 Stats. This inconsistency caused an erosion in the application of the old section Ins 2.05 at the point where any of the benefits listed in the new rule were acceptable for inclusion in a life policy without a separate statement—a practice which is in almost complete disagreement with the apparent intent of the statute.

Provision 2 of s. 206.17 (1), 1973 Stats., requires an individual statement of the premium charged for any benefit provided in a life or endowment policy separate from the premium charged for the basic life or endowment coverage which is based on a life contingency table and provided by the policy. The commissioner feels that this full disclosure has strong merit even in the present insurance market. However, in the years since the enactment of this statute in 1909 several changes have taken place in the life insurance industry that necessitate a rule providing standards to determine whether certain disability benefits may be included in a life or endowment insurance policy without a separate statement of the premium charge in line with the original intent of the statute. The principal changes are:

1. The automatic inclusion of some benefits in a policy enables an insurance company to provide some additional disability benefits at a relatively small cost in relation to the charge for the basic life or endowment insurance coverage.
2. Custom of the business through the years has now classed some disability coverages as benefits which are a supplemental policy provision in most life or endowment policies and sometimes needed as an integral part of the policy.

The public interest dictates that it is expedient to recognize these 2 changes when the cost for the disability benefit is low or nominal, the coverage is needed and is easily understood by the applicant or insured. This rule provides criteria to determine disability coverages which may be defined as an integral part of the basic life and endowment insurance and are therefore, benefits which may be included without a separate and distinct statement of premium.

The new rule was developed as a result of the following main considerations:

1. The commissioner has a strong concern for disclosure in situations where intentional or unintentional misrepresentation may be present to mislead or confuse prospective purchasers of life insurance. The statutory basis for this authority is set forth in s. 207.04, 1973 Stats.
2. The disclosure philosophy in Wisconsin in respect to life insurance coverage premiums originated in the year 1909 when the legislature enacted section 1948m (now s. 206.18 (1), provision 2, 1973 Stats.) requiring that a policy of life insurance specify "separately for

premium charged for any benefit promised in the policy other than life or endowment insurance."

The 1908 Wisconsin Insurance Report to the governor stated:

"Notwithstanding the liberal provisions for expenses which are possible under the new laws, several devices for increasing this amount far beyond the proposed benefits have been submitted to this department for its approval. There is an increasing tendency to introduce into contracts for life insurance provisions for additional benefits such as old age, disability and sick benefits. These forms of insurance in many cases are very desirable but it is rarely that the addition of these benefits to policies spring from an honest desire on the part of the companies to furnish the insurance protection. Their addition to policies of life insurance ordinarily only serves as a cloak for the addition of a greatly increased premium. The policyholder should be informed separately of what is charged him for the life insurance and what is charged him for the old age, disability or sick benefit insurance. This information should be contained in the contract of insurance. Policyholders can then judge for themselves whether the additional benefits are worth the charges which it is proposed to exact and both the company and the policyholder can get the resulting economy in agency and medical expenses from writing the two contracts at the same time."

These observations apparently prompted the legislature in the following year to enact section 1948m.

3. Additional insight in respect to the original intent of the disclosure statute is given in Commissioner Cleary's letter on this subject dated October 22, 1916. In this letter the Commissioner has under consideration two filings in which a waiver of premium benefit was included in a policy form previously used. The new coverage with the total and permanent disability benefit was to be sold at the same price previously used only for the basic coverage. Commissioner Cleary indicated the following in respect to liberalization of policies where no direct charge is made for the additional benefit.

"Subdivision 2, of section 1948m, Wisconsin statutes, provided that no policy of insurance (Life) shall be delivered in Wisconsin after the year 1909 unless it contains a table specifying separately the premium charged for any benefit promised in the policy other than life or endowment insurance \* \* \* It is argued that policies such as those proposed by the Prudential are subject to said section, and are required to show in a separate table the charge for such additional benefits.

"I cannot agree with this contention. I do not believe that it was the intention of the legislature, when it enacted this law, to restrict insurance companies in a liberalizing of their policies where no direct charge to the assured was made for the added benefit and where such additional benefit would not endanger the solvency of the company. I conclude after considering the statute carefully, that what the legislature had in mind was rather a situation where the company proposed to give benefits other than death and endowment benefits which involved additional premium charges, in which event the company must specifically state what that additional charge is. I take it that this provision was incorporated so that the assured might know what he was paying for the benefit promised; that the cost should not be concealed in a lump premium charge."

Commissioner Cleary also commented on the fact that even though there is no significant premium charge there is an increased company liability because of the provision and that a limited disclosure was needed to obtain approval. The last paragraph of the letter sets forth this position as follows:

"There can be no question that the added benefits promised in these policies cost the company something. The liability of the company on every outstanding policy containing this provision is greater than it would be if pure life or endowment insurance were the only benefits promised. It will be necessary, therefore, to take this additional benefit into account in valuing these policies. For this reason the policy should, by a printed or stamped provision incorporated in the policy, state the amount estimated as the cost of such benefit. This provision may also state that such sum is included in the premium charged. The sum so stated should be adequate, and will be a guide to actuaries in valuing the policies. The approval hereby given to the policies is subject to the incorporation of such a provision."

The above considerations provide a basis for the standards or criteria adopted in this rule.

**History:** 1-2-56; r. and rec., Register, March, 1966, No. 111, eff. 4-1-66; emerg. am. (1), (2) and (3) (b), eff. 6-22-76; am. (1), (2) and (3) (b), Register, September, 1976, No. 249, eff. 10-1-76; am. (1), (2) and (3) (b), Register, March, 1979, No. 279, eff. 4-1-79.

Register, January, 1982, No. 313

**Ins 2.07 Replacement of life insurance or annuity contracts; disclosure requirements.** (1) **PURPOSE.** The interest of life insurance and annuity policyholders must be protected by establishing minimum standards of conduct to be observed in the replacement or proposed replacement of such policies, by reducing the opportunity for misrepresentation in replacement or possible replacement situations, and by precluding unfair methods of competition and unfair practices in the business of insurance. This section implements and interprets s. 628.34, Stats., by establishing minimum standards for the replacement of life insurance and annuities.

(2) **SCOPE.** This section shall apply to the solicitation of life insurance and annuities authorized by s. Ins 6.75 (1) (a) and (b), Wis. Adm. Code, covering residents of this state, and issued by insurance corporations, fraternal benefit societies, or the State Life Insurance Fund. This section shall not apply credit life insurance; group life insurance or group annuities; contracts issued in connection with employee benefit or welfare plans as defined by Section 3 (3) of the federal employee retirement income security act of 1974 (ERISA) as amended from time to time, except policies or contracts issued in connection with plans providing for purchase of life insurance policies or annuity contracts solely by reason of salary reduction agreements under section 403 (b) of the Internal Revenue Code; to the purchase, within the same insurer, of insurance under a guaranteed insurability option or conversion option; nor to short-term nonrenewable life insurance policies written for periods of 31 days or less.

(3) **DEFINITION.** (a) For the purposes of this section, "replacement" is any transaction in which new life insurance or a new annuity is to be purchased and existing individual life insurance or an annuity has been, may possibly be, or is to be lapsed, surrendered, converted into paid-up insurance, become extended insurance, or the cash or loan value (or a portion thereof) is utilized or contemplated for use in the future in connection with the purchase of new insurance or annuities.

(b) For the purpose of this section, the "Notice" means a document completed by the applicant and the agent or insurer prior to completing a new application for a life insurance or annuity contract, which provides necessary information regarding replacement transactions, in substantially the same format for all insurers, as specified by the commissioner. Appendix I to this section contains the "Notice" to be used when an agent is involved in a solicitation, and Appendix II contains the "Notice" to be used when no agent is involved. Appendix III to this section contains the definitions to be printed on the reverse side of the "Notice".

(4) **DUTIES OF THE AGENT.** (a) The agent shall:

1. Determine prior to completing a new application whether or not replacement is involved.

2. Obtain with or as a part of each application for life insurance or an annuity a statement signed by the applicant as to whether the insurance or annuity will replace existing life insurance or an existing annuity on the same life.

3. Submit to the insurer in connection with each application for life insurance or an annuity the statement obtained under subd. 2 together

with a statement as to whether, to the best of the agent's knowledge, replacement is involved in the transaction.

(b) Where replacement is involved or proposed, the agent shall:

1. Before taking an application for life insurance or an annuity furnish the notice contained in Appendix I to the applicant for review and completion of the applicant's portion of the Notice.

2. Complete the certification statement on the Notice, sign and date the Notice, and list the policy number and name of insurer of each policy which there is reason to think may be replaced.

3. Leave a completed copy of the Notice with the applicant for his or her records prior to completing the application for the new policy.

4. Submit a completed copy of the Notice with the application to the proposed insurer.

5. Maintain a copy of the Notice in the agent's file for that applicant for at least 3 years.

(5) DUTIES OF THE INSURER. (a) If agents are involved with the solicitation of life insurance or annuities on residents of this state, every authorized insurer shall inform its agents of the requirements of this section and:

1. Secure with or as part of each application the statements required by sub. (4) (a) as to whether the new insurance or annuity will replace existing insurance or an annuity on the same life.

2. Review the statements prior to commencing any underwriting, but in no event later than 5 days after receipt of the application, to determine if replacement is involved.

3. Keep a copy of the statements on file with the application for at least 3 years indexed so as to be readily available to the office of the commissioner of insurance.

4. Where a replacement is involved:

a. Secure with the application a completed Notice.

b. Within 5 days of receipt of the application, and prior to commencing any underwriting, send a written notification of the replacement or possible replacement to the home office of each replaced insurer. Notification shall include the applicant's name, the insured's name, the policy number of the policy being replaced, the generic name and face amount of the replacing policy and the legal names of all insurers.

c. Maintain copies of the Notice and notifications for at least three years indexed so as to be readily available to the office of the commissioner of insurance.

d. Guarantee to the policyholder at least a 20-day right to return the policy after delivery for a full refund of premium, and provide a written notice attached to, or as part of, the first page of the policy informing the policyholder of this right.

(b) If agents are not involved with the solicitation of life insurance or annuities on residents of this state, every authorized insurer shall:

1. Provide a copy of the Notice contained in Appendix II with any solicitation material that proposes replacement and contains an application for life insurance or an annuity.

2. Prior to approving or issuing a policy, secure with or as part of the application a statement signed by the applicant as to whether the new insurance or annuity will replace existing insurance or an existing annuity, and the name of every company and every policy number which may be replaced.

3. Review the statement prior to commencing any underwriting, in no event later than 5 days after receipt of the application, to determine if replacement is involved.

4. Keep a copy of the statement on file with the application for at least 3 years indexed so as to be readily available to the office of the commissioner of insurance.

5. Where replacement is involved:

a. Within 5 days of receipt of the application, and prior to commencing any underwriting, send a written notification of the replacement or possible replacement to the home office of each replaced insurer. Notification shall include the applicant's name, the insured's name, the policy number of the policy being replaced, the generic name and face amount of the replacing policy and the legal names of all insurers.

b. Send the applicant a copy of the Notice contained in Appendix II no later than the time the policy is issued.

c. Maintain copies of the Notice and notifications for at least 3 years indexed so as to be readily available to the office of the commissioner of insurance.

d. Guarantee to the policyholder at least a 20-day right to return the policy after delivery for a full refund of premium, and provide a written notice attached to, or as part of, the first page of the policy informing the policyholder of this right.

(6) **CONTENTS OF THE NOTICE.** The Notices contained in the Appendixes to this section shall be reproduced in their entirety on one side of 8½" by 11" plain paper. The definitions in Appendix III shall be printed on the reverse side of the Notice. References to Appendix I, II or III should not be printed on the Notice or Definitions form. The insurer may print its legal name in the space provided.

(7) **VIOLATION.** Any violation of this section shall be deemed to be a misrepresentation for the purpose of inducing a prospect to purchase insurance and any person guilty of such violation shall be subject to s. 601.64, Stats. Failure to comply with the requirements of this section shall not alter the requirements of any insurer with respect to claims.

(8) **SEPARABILITY.** If any provisions of this rule shall be held invalid, the remainder of the rule shall not be affected thereby.

(9) **EFFECTIVE DATE.** This rule shall apply to all solicitations which commence on or after March 1, 1982.

## Appendix I

**IMPORTANT NOTICE  
REQUIRED BY  
WISCONSIN INSURANCE LAW**

**DEFINITION:** REPLACEMENT IS any transaction where, in connection with the purchase of New Insurance or a New Annuity, you LAPSE, SURRENDER, CONVERT to Paid-up Insurance, Place on Extended Term, or BORROW all or part of the policy loan values on an existing insurance policy or an annuity. (See reverse side for DEFINITIONS.)

**IF YOU INTEND TO REPLACE COVERAGE** In connection with the purchase of this insurance or annuity, if you have REPLACED or intend to REPLACE your present life insurance coverage or annuity (ies), you should be certain that you understand all the relevant factors involved.

You should BE AWARE that you may be required to provide Evidence of insurability and

- 1) If your HEALTH condition has CHANGED since the application was taken on your present policies, you may be required to pay ADDITIONAL PREMIUMS under the NEW POLICY, or be DENIED coverage.
- 2) Your present occupation or activities may not be covered or could require additional premiums.
- 3) The INCONTESTABLE and SUICIDE CLAUSE will begin anew in a new policy. This could RESULT in a CLAIM under the new policy BEING DENIED that would otherwise have been paid.
- 4) Current law DOES NOT REQUIRE your present insurer(s) to REFUND any premiums.
- 5) It may be to your advantage to OBTAIN INFORMATION regarding your existing policies from the insurer or agent from whom you purchased the policy.

(If an annuity is being purchased, Items 1, 2 and 3 above would not apply to the new contract).

THE INSURANCE OR ANNUITY (IES) I INTEND TO PURCHASE FROM \_\_\_\_\_ MAY REPLACE OR ALTER EXISTING LIFE INSURANCE OR ANNUITY POLICY (IES).

The following policy (ies) may be replaced as a result of this transaction:

Insurer as it appears on the policy	Insured as it appears on the policy	Policy Number
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

The proposed policy is:

\_\_\_\_\_ \$ \_\_\_\_\_  
 type of policy-generic name face amount

\_\_\_\_\_ date  
 signature of applicant

\_\_\_\_\_ city state  
 address of applicant

I certify that this form was given to and completed by

\_\_\_\_\_  
 (applicant—please print or type)  
 prior to taking an application and that I am leaving a signed copy for the applicant.

\_\_\_\_\_ date  
 agent's signature

\_\_\_\_\_ address

\_\_\_\_\_ state  
 city

## Appendix II

IMPORTANT NOTICE  
REQUIRED BY  
WISCONSIN INSURANCE LAW

**DEFINITION:** REPLACEMENT IS any transaction where, in connection with the purchase of New Insurance or a New Annuity, you LAPSE, SURRENDER, CONVERT to Paid-up Insurance, Place on Extended Term, or BORROW all or part of the policy loan values on an existing insurance policy or an annuity. (See reverse side for DEFINITIONS.)

**IF YOU INTEND TO REPLACE COVERAGE** In connection with the purchase of this insurance or annuity, if you have REPLACED or intend to REPLACE your present life insurance coverage or annuity (ies), you should be certain that you understand all the relevant factors involved.

You should BE AWARE that you may be required to provide Evidence of insurability and

- 1) If your HEALTH condition has CHANGED since the application was taken on your present policies, you may be required to pay ADDITIONAL PREMIUMS under the NEW POLICY, or be DENIED coverage.
- 2) Your present occupation or activities may not be covered or could require additional premiums.
- 3) The INCONTESTABLE and SUICIDE CLAUSE will begin anew in a new policy. This could RESULT in a CLAIM under the new policy BEING DENIED that would otherwise have been paid.
- 4) Current law DOES NOT REQUIRE your present insurer (s) to REFUND any premiums.
- 5) It may be to your advantage to OBTAIN INFORMATION regarding your existing policies from the insurer or agent from whom you purchased the policy.

(If an annuity is being purchased, Items 1, 2 and 3 above would not apply to the new contract).



CAUTION

If after studying the information made available to you, you decide to replace your existing life insurance or annuity with our contract, you are urged not to take action to terminate or alter your existing coverage until after you have been issued the new policy, examined it and found it to be acceptable to you. If you should terminate or otherwise materially alter your existing coverage and fail to qualify for the life insurance for which you have applied, you may find yourself unable to purchase other life insurance or be able to purchase it only at substantially higher rates.

INSURER'S MAILING DATE: \_\_\_\_\_

**Appendix III****DEFINITIONS**

- Premiums:** Premiums are the payments you make in exchange for an insurance or annuity contract. They are unlike deposits in a savings or investment program, because if you drop the policy, you might get back less than you paid in.
- Cash Surrender Value:** This is the amount of money you can get in cash if you surrender your life insurance policy or annuity. If there is a policy loan, the cash surrender value is the difference between the cash value printed in the policy and the loan value. Not all policies have cash surrender values.
- Lapse:** A life insurance policy may lapse when you don't pay the premiums within the grace period. If you had a cash surrender value, the insurer might change your policy to as much extended term insurance or paid-up insurance as the cash surrender value will buy. Sometimes the policy lets the insurer borrow from the cash surrender value to pay the premiums.
- Surrender:** You surrender a life insurance policy when you either let it lapse or tell the company you want to drop it. Whenever a policy has a cash surrender value, you can get it in cash if you return the policy to the company with a written request. Most insurers will also let you exchange the cash value of the policy for paid-up or extended term insurance.
- Convert to Paid-Up Insurance:** This means you use your cash surrender value to change your insurance to a paid-up policy with the same insurer. The death benefit generally will be lower than under the old policy, but you won't have to pay any more premiums.
- Place on Extended Term:** This means you use your cash surrender value to change your insurance to term insurance with the same insurer. In this case, the net death benefit will be the same as before. However, you will only be covered for a specified period of time stated in the policy.
- Borrow Policy Loan Values:** If your life insurance policy has a cash surrender value, you can almost always borrow all or part of it from the insurer. Interest will be charged according to the terms of the policy, and if the loan with unpaid interest ever exceeds the cash surrender value, your policy will be surrendered. If you die, the amount of the loan and any unpaid interest due will be subtracted from the death benefits.
- Evidence of insurability.** This means proof that you are an acceptable risk. You have to meet the insurer's standards regarding age, health, occupation, etc., to be eligible for coverage.
- Incontestable Clause:** This says that after one or two years (depending on the policy or insurer) the life insurer will not resist a claim because you made a false or incomplete statement when you applied for the policy. For the early years, though, if there are wrong answers on the application and the insurer finds out about them, it can deny a claim as if the policy had never existed.

**Suicide Clause:** This says that if you commit suicide after being insured for less than one or two years (depending on the policy and insurer), your beneficiaries will receive only a refund of the premiums that were paid.

**History:** (See also history of Ins 2.065) Cr. Register, March, 1972, No. 195, eff. 6-1-72; emerg. am. (1) and (2) eff. 6-22-76; am. (1) and (2); Register, September, 1976, No. 249, eff. 10-1-76; am. (2), Register, March, 1979, No. 279, eff. 4-1-79; r. and recr. Register, January, 1982, No. 313, eff. 3-1-82.

**Ins 2.08 Special policies and provisions; prohibitions, regulations, and disclosure requirements. (1) PURPOSE.** The interest of the public and the maintenance of a fair and honest life insurance market must be safeguarded by identifying and prohibiting certain types of policy forms and policy provisions and by requiring certain insurance premiums to be separately stated. This rule implements and interprets applicable statutes including ss. 628.34, 631.20, 632.44 (1) and 632.62, Stats.

(2) **SCOPE.** This rule shall apply to the kinds of insurance authorized by s. Ins 6.75 (1) (a), and shall also apply to fraternal benefit societies.

(3) **DEFINITIONS.** For the purpose of this rule certain life insurance policy forms and provisions referred to herein shall have the following meaning:

(a) *Coupon policy* is any policy form which includes a series of coupons prominently and attractively featured in combination with an insurance contract. Such coupons are one-year pure endowments whether or not so identified and whether or not physically attached to the insurance contract. The coupons are devised to give the appearance of the interest coupons that are frequently attached to investment bonds. Although the face amount of the coupon benefit is essentially a refund of premium previously paid by a policyholder, it is frequently represented that it is the earnings or return on the investment of the policyholder in life insurance.

(b) *Charter policy* is a term or name assigned by an insurance company to a policy form. Such a policy is usually issued by a newly organized company and it is sold on the basis that its availability will be limited to a specific predetermined number of units of a fixed dollar amount. Such policies generally provide that the policyholder shall participate in the earnings resulting from either or both participating policies and non-participating policies. It is characteristic of such a policy that in its presentation to the public it is represented that the policyholder will receive a special advantage in any future distribution of earnings, profits, dividends or abatement of premium. It is also represented that such advantage will not be made available to the persons holding other types of policies issued by the company. Other names such as *Founders, President, and Executive Special* are frequently used for policies of the type herein described, and for the purpose of this rule when they are so used they shall be considered as *charter policies*.

(c) A *Profit-sharing policy* is any policy form which contains provisions representing that the policyholder will be eligible to participate, with special advantage not available to the persons holding other types of policies issued by the same company, in any future distribution of general corporate profits. Such policy forms are so drafted that it appears to a prospective policyholder that he is purchasing a preferential

share of the future profit and earnings of the insurance corporation rather than purchasing a life insurance policy which may be subject to refund of excess premium payments. The provisions of the policy may incorrectly represent the amount and source of surplus that will be available for apportionment and return to policyholders in the form of dividends. Policy forms using such terms as *profits*, *surplus*, or *surplus-sharing* in the manner herein described shall, for the purpose of this rule, be considered as *profit-sharing policies*.

(4) PROHIBITIONS, REGULATIONS, AND DISCLOSURE REQUIREMENTS. In accordance with the purpose expressed in sub. (1) of this rule and in consideration of the apparent intent of the legislature, the use in this state of certain types of policy forms and policy provisions shall be subject to the following prohibitions and regulations:

(a) *Coupon policy* forms misrepresent, distort, and disguise the true nature of the insurance purchased. Therefore, no *coupon policy* shall be