SECTION 1A
THERE ARE NO VIDEOS RELATED TO THIS SECTION
HAWAII LIFE INSURANCE LAW

A. Marketing Methods and Practices

1. Policy Replacement - Replacement is a transaction where, in connection with the purchase of a new life insurance policy or annuity, the client lapses, surrenders, converts, places on extended term or borrows all or part of the old policy's cash value in order to purchase a new policy (a financed purchase)

   a. Replacement is not illegal if replacement regulations are followed
      1. Replacement to the detriment of your client is illegal because
         a. The new policy may require evidence of insurability
         b. If health has changed, the new policy may be denied or surcharged by the replacing company
         c. Present occupations or hobbies may not be covered on the new policy or could require additional premium
         d. The incontestability and suicide clause start over on the new policy
         e. The existing (or replaced) insurer is not required to refund unearned premium payments
         f. The existing insurer may require evidence of insurability (physical exam) in order to reinstate coverage
   b. Definitions
      1. The “existing insurer” is the insurance company whose policy is being replaced
      2. The “replacing insurer” is the insurance company that issues a new policy to replace an existing policy
   c. Replacement regulations do not apply if the policy being replaced is:
      1. Group life, group annuity, or credit life
      2. A contract issued in connection with an employee benefit plan
      3. Being converted to purchase additional insurance under an existing contractual right with the same insurer
      4. Non-convertible term which will expire in 5 years or less and cannot be renewed
         a. Most term life insurance is subject to the replacement rules
   d. Replacement regulations do not apply if the client is buying a life policy and has no existing insurance or is buying a new life policy but intends to keep his prior policy in force as well
   e. If the applicant indicates to the producer that he intends to replace existing coverage and no exemptions apply, the producer must:
      1. No later than at the time of taking the new application, furnish the "Notice Regarding Replacement" to the applicant for review, completion and signature
         a. In addition to a policy summary and illustration
      2. Complete the certification statement on the "Notice", sign and date it and list the policy number and name of each policy to be replaced

3. Submit a completed copy of the "Notice" with the new application to the new insurer along with copies of all sales materials utilized in the transaction
f. Every replacing life or annuity insurer must:
   1. Inform its producers of the requirements regarding replacement
   2. Review all new applications to see if replacement is involved, and
      a. Maintain a system of supervision and control to insure compliance with the replacement regulations, and
         1. Keep track of their producer's life insurance replacements
   3. If replacement is involved, the replacing insurer must secure, along with the application, a completed "Notice", along with copies of sales material
      a. Notify the existing insurer within 5 business days of receiving an application indicating a replacement
      b. Send copies of the "Notice", if requested
   4. Maintain copies of all replacement forms for at least 5 years
   5. Provide at least a 30 day free look on their new policy
      a. Starting at the time of policy delivery
g. The existing insurer must be able to produce all replacement notifications received from replacing insurers for 5 years, and must
   1. Send a letter to their policy holder within 5 business days of receipt of a notice that their policy is being replaced disclosing the policy holders right to receive information regarding their existing policy

B. Variable Contracts

1. Must contain a formula to determine the amount of variable benefits
   a. Variable benefits are not guaranteed

2. Regulated by both State and Federal Law
   a. Hawaii Life License required
   b. FINRA (NASD) License also required
      1. FINRA is the Financial Industry Regulatory Authority
      2. FINRA regulates its own member firms
      3. FINRA Series 6 or Series 7 license required to sell variables
   c. The SEC (Securities and Exchange Commission) enforces Federal Securities Laws
      1. Has ultimate jurisdiction

3. Not covered by the Life and Health Insurance Guaranty Association

4. Domestic life insurance companies may establish one or more separate accounts
   a. And may allocate premiums to provide for life insurance and annuity benefits that are payable in
      1. Fixed or variable amounts

C. Life Insurance Policy Clauses and Provisions

1. Protection of Beneficiaries from Creditors

   a. Spend Thrift Clause
      1. Death proceeds and cash values payable to:
         a. Spouses
         b. Children, or

            c. Parents of the Insured
        2. May not be attached by the creditors of the insured
    b. If there is no beneficiary and benefits are payable to the insured's estate
        1. Benefits may be attached by the insured's creditors
    c. Life insurance proceeds that are payable according to a settlement plan selected by the insured prior to death that are payable to the insured's spouse, child, parent or other person dependent upon the insured
        1. May not be attached by the creditors of the beneficiary

2. Policy Loan Interest Rates

    a. Maximum annual fixed interest rate is 8%
    b. Adjustable interest rates are permitted
        1. If insurer also has fixed rates available
    c. Adjustable interest rates cannot exceed
        1. Moodys Monthly Corporate Bond average, or
        2. The interest rate paid to the client on cash value accumulation
            a. Whichever is highest
        3. Adjustable rates must be recalculated at least once a year
    d. The amount of any loan, plus accrued interest, may be subtracted from the policy proceeds upon death
        1. Loans do not have to be paid back while the insured is still alive
            a. But interest will continue to accrue

D. Group Life Insurance - must include the following provisions, or provisions which are more favorable to insureds, although the standard provisions required for individual life policies do not apply to group. Most groups are employer groups, where the employer is the master policy holder and the employees receive certificates of insurance, summarizing their coverage

1. Required group life policy provisions include:

    a. A 30-day grace period, during which coverage continues in force
        1. If an insured dies in the grace period, the insurer is entitled to collect a pro-rata premium from the group policy holder up to the date of death
    b. A contestability period of 2 years, after which the policy is totally incontestable
    c. All statements made by person insured shall be considered to be representations, not warranties
        1. A representation is the truth to the best of your knowledge
        2. A warranty is something you guarantee to be true
    d. The conditions, if any, under which the insurer may require an eligible person to furnish evidence of insurability
        1. Physical exams are not usually required to enroll in a group life policy, although some insurers require persons eligible to enroll during an "open enrollment" period
    e. A misstatement of age provision allowing the insurer to adjust benefits if the person enrolled lies about their age
        1. Premiums are not adjusted, but benefits are reduced to what the premium paid would have purchased if the correct age had been stated
    f. Any person insured under a group life policy may make to any person, other than the group policy holder
        1. An assignment of all or any part of the incidents of ownership, including the right to exercise the conversion privilege and the right to name a beneficiary

- a. When group life insurance is pledged to a bank
  - 1. It is known as an “assignment”

g. Spouses Rights
- 1. Group life coverage may be extended to spouses and
  - a. Dependent children
    - 1. Under 18
    - 2. Under 23 and in college
    - 3. Retarded or handicapped children regardless of age, if dependent
- 2. Maximum coverage for spouses may be the same as for the insured
  - a. Premiums may be “contributory” or “non-contributory”

h. A Certificate of Insurance issued to the person insured stating the amount of coverage, to which benefits are payable and other rights and conditions of the policy
- 1. The group policyholder is the employer
- 2. The employee is the insured, but does not own the policy
- 3. The contract is between the employer and the insurer

i. The right of conversion to an individual policy within 30 days of termination of employment
- 1. Conversion does not require evidence of insurability
- 2. Converted policy may not be term insurance
  - a. Most group life is annual renewable term (ART)
  - b. If converted, must be converted to a more expensive type of insurance, usually to whole life
- 3. Conversion is based upon attained (current) age
- 4. Cannot convert to more coverage than was provided by the group life policy

j. Coverage applies during the 30 day conversion period
- 1. To those who die, but had not yet exercised their conversion privilege
- 2. A group life policy may not be sold UNLESS the group was formed for purposes other than obtaining insurance
- 3. Group life policies must cover at least 10 individuals at date of issue
  - a. Group life policies also contain "participation requirements" to prevent "adverse selection"
    - 1. 100% of those eligible must enroll on noncontributory plans
    - 2. 75% of those eligible must enroll on contributory plans
- 4. Group life often utilizes "experience rating", where rates on based on the overall claims experience of a large group
- 5. Group life rates are low due to the low cost of administration
- 6. All persons eligible are subject to the same uniformly applied underwriting standards
- 7. Producers need not comply with the regulations regarding replacement when replacing group life coverage or group annuities

E. Participation in Surplus

1. On participating policies issued by Mutual insurers

   a. Insurers must determine and distribute (apportion) the divisible surplus (profits) as dividends
   - 1. At least once a year
     - a. Beginning no later than the end of the 3rd policy year

F. Credit Life

1. Policies written in connection with consumer loans

   a. Usually written <u>to insure a debtor's unpaid installment loan balances</u>
2. Usually written as group coverage
   a. The creditor (lender) is the group policyholder and the debtor (borrower) is the insured
3. Face amount <u>cannot</u> exceed the amount of the loan
4. Term of coverage expires no more than 15 days after loan maturity
5. If loan paid off early,
   a. Refund must be made
6. Lender cannot require coverage to be purchased from a certain producer or insurer
   a. <u>Coercion</u>
7. The creditor (lender) is both the policy holder and the beneficiary
   a. Proceeds are used to pay off loan
8. Usually written as a type of decreasing term life insurance
9. Producers <u>need not comply with the rules regarding replacement when replacing credit life insurance</u>

HAWAII LIFE INSURANCE REGULATIONS

Key Facts

- The life insurance suicide clause is 2 years. Suicide is covered after that regardless.
- Replacing insurers must keep records regarding replacement for 5 years.
- Replacing insurers must provide customers with a 30 day free look.
- Replacing insurers must monitor their producer's life insurance replacements.
- Replacement is not illegal if done in accordance with state law.
- Replacement to the detriment of a client is called "twisting".
- The rules regarding replacement DO NOT apply to replacing group life, credit life, or group annuities.
- When replacing, a producer must give their client a copy of the "Notice" along with a policy illustration and policy summary.
- The rules regarding replacement apply when replacing most types of term life insurance.
- Upon replacement, the incontestability and suicide clauses start over.
- When an existing policy is replaced, the existing insurer must notify their policy holder within 5 business days that they have the right to receive information about their policy.
- Group life must cover at least 10 individuals as of date of issue.
- The grace period on group life is 30 days, during which time coverage still applies.
- If an insured on group life dies during the grace period, the claim will be paid, but the employer may be liable to the insurer for the pro-rata premium up to the time of death.
- Group life polices have a 2 year incontestability clause.
- Group life policies have a misstatement of age clause that permits the insurer to adjust benefits if age has been misstated.
- Group life is convertible into an individual whole life policy for 30 days after termination of employment regardless of health, but at current age.

- Groups MAY NOT be formed just to buy insurance.
- The employer is the group policyholder. The employee is the insured, receiving a Certificate of Insurance summarizing their coverage, beneficiary designation, etc.
- 75% must enroll in a contributory group (premiums shared by employer/employee).
- 100% must enroll in a noncontributory group (entire premium paid by employer).
- Group "participation" requirements prevent adverse selection.
- Group life is usually annual renewable term (very low rates).
- The cost of administration is lower on group policies (versus individual).
- On replacement, the "Notice Regarding Replacement" must be given out at the time of application.
- The "Notice" states that the new replacing policy may be subject to evidence of insurability.
- The replacing insurer must notify the existing insurer within 5 business days when replacing.
- Replacement regulations apply even when the client is borrowing all or part of his cash value on an existing policy in order to purchase a new policy (known as a "financed" purchased).
- Replacement regulations apply to both individual life insurance and annuities (not group).
- If the policy being replaced is non-convertible term which will expire in 5 years or less and cannot be renewed, the replacement rules do not apply.
- Any attempt by a producer to influence the applicant's response as to whether or not he plans to replace is a violation.
- Life and annuity insurers must review all new applications prior to underwriting, to determine if replacement is involved.
- Group life may be extended to insure dependents.
- A group life policy is between the employer and the insurer - the employee is merely the "insured".
- All individuals eligible for group life must be subject to the same uniformly applied standards of underwriting.
- All statements made by persons insured under group life shall be considered to be representations, not warranties.
- Group life may not be converted to term insurance (it is usually converted to whole life).
- Group life rates are often based upon past claims experience (experience rating).

- Group life policies need not contain the same standard provisions that are required for individual life insurance policies (although many are the same).

- Generally, if an insured dies by suicide in the first 2 years of a new policy, the insurer will refund all premiums to the beneficiary (less any outstanding loans).

- If group life did not have "participation" requirements, then only the sick employees would enroll, creating an adverse selection situation for the insurer.

- Life insurance proceeds payable to a spouse, children or the parents of an insured cannot be attached by creditors.

- If no beneficiary has been designated, life insurance proceeds will be payable to the insured’s estate, which may be attached be creditors.

- Credit life insurance is written on the life of a borrower to cover his unpaid installment loan balances.

- When a group life policy is pledged to a bank, it is known as an “assignment”. An employee may convert his group life coverage to an individual policy, without a physical exam, for up to 30 days after termination of employment.

- The Life and Health Guaranty Association covers life insurance and fixed annuities issued by insolvent (bankrupt) insurers. It does not cover guaranteed investment contracts (GICs), bank certificates of deposits (CDs) or self-funded benefit plans.

- Domestic insurers may establish one or more separate accounts for life insurance or annuity benefits that are payable in fixed or variable amounts.

- Interest rates on policy loans may be fixed or variable.

- The maximum fixed, annual interest rate on policy loans is 8%.

HAWAII LIFE INSURANCE LAW

Practice Exam

1. In which of the following situations has replacement occurred?

   A. A policy owner borrows 25% of their cash value to buy a new policy
   B. A client buys life insurance for the very first time
   C. A client buys a new policy but intends to keep his old policy in force
   D. A client lapses his group coverage in order to buy whole life

2. The regulations regarding replacement apply to which of the following?

   A. Credit life
   B. Group life
   C. Renewable term
   D. Additional coverage purchased under the guaranteed insurability rider

3. If replacement is involved, the replacing insurer must do all of the following EXCEPT:

   A. Make sure they receive a copy of the "Notice Regarding Replacement" along with the application
   B. Provide a 10 day free look to the applicant on the new policy
   C. Keeps records regarding replacement for at least 5 years
   D. Notify the existing insurer within 5 business days of receiving the replacement application

4. When replacement is involved, the existing insurer must send a notification to:

   A. The Commissioner
   B. The policyholder
   C. The National Association of Insurance Commissioners
   D. The replacing insurer

5. If suicide is the cause of death, an insurer may deny payment if the insured:

   A. Lied about any material fact on the application
   B. Commits suicide during the 1st 2 years of the policy
   C. Is proven to be insane at the time of the suicide
   D. Commits suicide after the policy has been in force for 2 years

6. As of the date of issue, group life policies must cover at least how many?

A. 3
B. 5
C. 10
D. 20

7. All group life policies issued in Hawaii must contain all of the following EXCEPT:

A. A misstatement of age provision
B. A 30 day grace period during which coverage remains in force
C. Incontestability after 1 year in force
D. Coverage for at least 10 individuals as of date of issue

8. On life insurance, all are true about insurable interest EXCEPT:

A. It may be based upon friendship
B. It may be based upon family relationships or kinship
C. It may be based upon economic circumstances
D. It must exist at the time of application, but need not exist at the time of claim

9. All of the following are true about group life EXCEPT:

A. There is usually little or no underwriting
B. The grace period is 30 days
C. Employees receive certificates of insurance
D. Employees are considered to be policyholders

10. Replacement regulations apply to sales of all of the following life insurance and annuity contracts EXCEPT:

A. Group term life
B. Whole life
C. 5 year renewable term
D. Universal life

11. All are true regarding the replacement of existing life insurance EXCEPT:

A. The new policy must have a free look
B. A replacement notice must be given out before taking the application
C. The existing company must be notified
D. Policy illustrations and policy summaries are not required

12. All of the following are true regarding credit life insurance EXCEPT:

A. It is written on the life of the lender
B. It is written to cover unpaid installment balances
C. It is usually written as group decreasing term coverage
D. It is exempt from the rules regarding replacement

13. All of the following are true about conversion under group life EXCEPT:

    A. Conversion must be applied for within 30 days
    B. The new policy will be issued without evidence of insurability
    C. The new policy may be term insurance
    D. Conversion is based upon attained age

14. The maximum fixed interest rate on life insurance policy loans is:

    A. 4%
    B. 6%
    C. 8%
    D. 10%

15. All of the following are true regarding replacement EXCEPT:

    A. The suicide clause starts over
    B. The incontestability clause starts over
    C. The new policy may cost more and won't have an initial cash value
    D. Replacement is unlawful

16. All are true about the "Notice" regarding replacement of life insurance EXCEPT:

    A. It states the new policy may be subject to evidence of insurability
    B. It states that the suicide and incontestability clause start over
    C. It must be given to the applicant at the time of application
    D. It must be given out on every life insurance sale

17. Which of the following is not true regarding the "Notice":

    A. A copy must be sent to the existing insurer
    B. It must be given out when replacing all term life insurance
    C. It requires the signatures of both the producer and the applicant
    D. It must be accompanied by a policy illustration and summary

18. Advising a customer that he is buying $100,000 of permanent life insurance when $50,000 is whole life and $50,000 is a term rider would be:

    A. Coercion
    B. False advertising
    C. Misrepresentation
    D. Rebating

19. All of the following are true about group life insurance EXCEPT:

    A. It must have a 30 day grace period
    B. It may not cover dependents
    C. It may be converted to any type of life insurance except term
    D. Conversion is based on current age, but without a physical exam

20. Lump-sum life insurance proceeds payable to which of the following may be attached by the insured's creditors:

A. Parents
B. Children
C. Estate
D. Spouse

21. If life insurance proceeds are payable to the spouse of the insured, or a child, parent or other person dependent upon the insured under a settlement plan selected by the insured prior to death, the proceeds may be attached to satisfy the beneficiaries debts:

A. If the proceeds exceed $100,000
B. Only if the beneficiary commutes future payments to a lump-sum settlement
C. With the consent of the Commissioner
D. Under no circumstances

22. With regard to participating policies, insurers may periodically apportion any divisible surplus to their policy holders as:

A. Rebates
B. Dividends
C. Reductions
D. Discounts

23. The annual interest rate that insurer's charge on policy loans:

A. Is set by the Federal Reserve Board (FRB)
B. May be fixed or variable
C. May not exceed a variable rate of 8%
D. Need not be disclosed in the contract

24. When an insured pledges their group life benefits to a bank, it is known as:

A. An assignment
B. A designation
C. A lien
D. A collateralization

25. Insurance on the life of a debtor in connection with a specific loan or other credit transaction is known as

A. Credit life insurance
B. Credit disability insurance
C. Key person insurance
D. Limited-pay life insurance

HAWAII LIFE INSURANCE LAW

Practice Exams Answers & Rationales

1. **A** Replacement occurs when a client lapses, surrenders, converts, places on extended term or borrows all or part of his old policy's cash value in order to purchase a new policy.

2. **C** Most term life insurance is subject to the rules regarding replacement, except for non-convertible term which will expire in 5 years or less and cannot be renewed.

3. **B** Replacing insurers must give customers at least a 30 day free look, starting at the time the new policy is delivered.

4. **B** Existing insurers must notify their policy holder that they have the right to receive information regarding their existing policy within 5 business days after they receive notice that their policy is being replaced.

5. **B** State law allows life insurers to exclude death due to suicide for up to 2 years after a new policy is issued. After that, suicide must be covered, regardless.

6. **C** State law requires that a group life policy insure a minimum of 10 on date of issue.

7. **C** Like individual life insurance policies, group life policies are "contestable" for material misrepresentation for the first 2 years. After that, they are "incontestable".

8. **A** On life insurance, insurable interest must exist at the time of application and may be based upon economics (like a key person policy) or family relationships (like a policy on your spouse or children). However, it need not exist at the time of claim.

9. **D** Most group life is employer group, where the employer is considered to be the master policyholder and the employees are the insureds, who receive certificates of insurance summarizing their coverage.

10. **A** Most term life is subject to the rules regarding replacement.

11. **D** Producers must give clients both a policy summary and policy illustration when selling virtually all types of life insurance. If replacement is involved, they must also give out the Notice Regarding Replacement.

12. **A** Credit life is usually a type of decreasing term life insurance written on a group basis, where the creditor (lender) is the master policy holder and the debtor (borrower) is the insured who receives only a certificate of insurance. If the insured debtor dies, the proceeds are payable to the creditor to extinguish the debt, so the lender is both the policy holder and the beneficiary.

13. **C** Most group life insurance is term insurance, so when converting, the insured must convert from term to whole life, although no physical exam is required.

14. **C** Although some older policies were written with lower rates, the maximum fixed interest rate that an insurer may charge on a policy loan is an annual rate of 8%.

15. **D** The rules regarding replacement are designed to protect customers, since replacement of an existing policy may be detrimental. However, replacement is perfectly legal as long as all the rules are followed.

16. **D** Remember, some types of insurance are exempt from the rules regarding replacement, such as credit life, group life and group annuities, so a "Notice" is not always required.

17. **B** Although the replacement rules apply when replacing most types of term life insurance, they do not apply when replacing non-convertible term which will expire in 5 years of less and cannot be renewed.

18. **C** Misrepresentation includes misstating the terms or benefits of any policy of insurance and is considered to be an Unfair Trade Practice.

19. **B** Group life insurance coverage may be extended to cover spouses and dependent children under 18 (under 23 if in college) and handicapped dependent children, regardless of age.

20. **C** All proceeds payable because of the death of the insured to a spouse of the insured, or to a child, parent or other person dependent upon the insured are exempt from the debts of the insured. However, amount payable to others, including the insured's estate, may be subject to attachment by the creditors of the insured.

21. **D** If the insured, while living, specifies that his future death benefits be paid out over a period of time to his spouse, children, parents or other persons dependent upon the insured as beneficiary, their interests are exempt from attachment by their creditors.

22. **B** Mutual insurers issue "participating" policies, which means that their policy holders might participate in the insurer's profits in the form of dividends, which may be apportioned (distributed) by the insurer periodically. However, dividends may never be guaranteed. To do so would constitute misrepresentation.

23. **B** Insurers may charge either a fixed maximum interest rate of 8% on policy loans or a variable interest rate that is usually tied to the performance of a bond interest rate index.

24. **A** Any person insured on a group life policy may make an "assignment" of all or any part of their incidents of ownership to any person, including the right to exercise the conversion privilege and the right to name a beneficiary. For example, a group life insured might pledge his group life coverage to a bank as collateral for a loan, so if he dies with a loan outstanding, the insurer will pay off the loan.

25. **A** Credit life is usually sold on a group basis. The creditor (often a bank) is the master policyholder and their debtors (borrowers) are the insureds. The coverage is usually limited to the amount and the term of the loan. If the insured dies during the term, the insurer will pay the creditor an amount sufficient to pay off the debtor's unpaid installment balances. Although the creditor

receives a commission from the insurer for enrolling debtors in the program, the premium is actually paid by the debtor and is often added to his loan balance. Credit disability insurance will make your car payments if you become disabled due to sickness or accident. It does not cover death.