

INSURANCE
DEPARTMENT OF BANKING AND INSURANCE
DIVISION OF INSURANCE

Life Insurance and Annuities Replacement

Proposed Amendment: N.J.A.C. 11:4-2.1

Authorized By: Steven M. Goldman, Commissioner, Department of Banking and Insurance

Authority: N.J.S.A. 17:1-8.1, 17:1-15e, 17:29B-1 et seq. and 17B:30-1 et seq.

Calendar Reference: See Summary below for explanation to calendar requirement

Proposal Number: PRN 2008-59.

Submit comments by May 16, 2008 to:

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The agency proposal follows:

Summary

The Department of Banking and Insurance is proposing an amendment to N.J.A.C. 11:4-2.1, Life Insurance and Annuities Replacement, to reflect an amendment made by the National Association of Insurance Commissioners (NAIC) to its Life Insurance and Annuities Replacement Model Regulation. The Department's Life Insurance and Annuities Replacement rules, which are based on the NAIC Model, regulate the activities of insurers and producers with respect to the replacement of existing life insurance and annuity contracts. The rules provide for

certain notice and disclosure requirements that apply to the sale of life insurance and annuities where the applicant has existing policies or contracts in force. However, the rules also provide exemptions for certain transactions including intra-affiliate conversions. In 2006, the NAIC determined to also exempt inter-affiliate term conversions in its Life Insurance and Annuities Replacement Model. In order to conform the Department's rules found at N.J.A.C. 11:4-2.1 to the NAIC Model, the Department is proposing to amend N.J.A.C. 11:4-2.1(c)4 by adding the phrase "or, when a term conversion privilege is exercised among corporate affiliates."

By eliminating replacement disclosure requirements from such inter-affiliate transactions, the amendment will allow insurers to streamline term conversions within a corporate family and thereby smooth the transition from term ownership to a permanent policy. It should be noted that in such a conversion there is no surrender charge, no loss of any cash value, no new contestability or suicide exclusion period and no additional underwriting.

A 60-day comment period is provided for this notice of proposal and, therefore, pursuant to N.J.A.C. 1:30-3.3(a)5, the proposal is not subject to the provisions of N.J.A.C. 1:30-3.1 and 3.2, governing rulemaking calendars.

Social Impact

The proposed amendment will have a favorable impact on consumers. Since these are essentially "internal" term conversions, consumers are not disadvantaged by removing the disclosure and paperwork requirements otherwise required by the rules. As noted in the Summary above, such a term conversion involves no surrender charge, loss of any cash value, etc., that might adversely affect the insured. Removing the replacement disclosure requirements

with respect to such conversions will enable insurers to streamline the term conversion process when it occurs within a corporate family.

Economic Impact

The Department does not anticipate that the proposed amendment will have an economic impact on consumers. By eliminating the replacement disclosure requirements otherwise applicable to such transactions, insurers and producers may experience certain cost saving as a result of not having to fulfill recordkeeping or reporting requirements with respect to the notice and disclosure forms.

Federal Standards Statement

A Federal standards analysis is not required because these amendments regulate the business of life insurance and annuities and are not subject to any Federal requirements or standards.

Jobs Impact

The Department does not believe that the proposed amendment will cause any jobs to be generated or lost.

Agriculture Industry Impact

The Department does not expect any impact on the agriculture industry as a result of the proposed amendment.

Regulatory Flexibility Statement

While insurers affected by the proposed amendment typically have a workforce in excess of 100 people, some producers affected by these rules may be considered small businesses as that term is defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq. A regulatory flexibility analysis is not required because the proposed amendment does not impose reporting, recordkeeping or other compliance requirements on small businesses because the amendment will exempt inter-affiliate term conversions from the requirements imposed by N.J.A.C. 11:4-2.

Smart Growth Impact

The proposed amendment will have no impact on the achievement of smart growth and implementation of the State Development and Redevelopment Plan.

Full text of the proposal follows (additions indicated in boldface **thus**):

SUBCHAPTER 2. LIFE INSURANCE AND ANNUITIES REPLACEMENT

11:4-2.1 Purpose and scope

(a) - (b) (No change.)

(c) Unless otherwise specifically included, this subchapter shall not apply to transactions involving:

1. - 3. (No change.)

4. An application to the existing insurer that issued the existing policy or contract when a contractual change or a conversion privilege is being exercised; or when the existing policy or contract is being replaced by the same insurer pursuant to a program filed with and approved by the Commissioner **,or when a term conversion privilege is exercised among corporate affiliates;**

5. - 10. (No change.)

(d) - (e) (No change.)

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