



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Bulletin S-1

FINANCING OF LIFE INSURANCE PREMIUMS

November 1, 1965

This Department has been concerned about the arrangements certain life insurance companies have adopted for the financing of premiums for policies issued to doctors, dentists, veterinarians, college students, etc., which insure them during their period of internship, residency, or the beginning years of private practice. In some cases this program applies while the insured is still a student in school.

The entire concept of this program involves the establishment of an immediate estate based upon whole life policies which would be commensurate with the insured's anticipated future economic status when engaged in the practice of this profession.

The financing arrangements as reviewed by this Department usually involve banks or finance companies not connected or related to the issuing insurance company. The notes signed by the insured and generally endorsed by the agent or general agent have the effect of deferring the greatest portion of the annual premiums some five, six, or seven years in the future when it is presumed the insured will be in a position to meet these obligations. There are some slight variations by the companies on these plans, but for the most part, they follow the same general pattern.

Our concern has been whether these financing arrangements were in violation of Sec. 38-59 of the Connecticut General Statutes which reads as follows:

Sec. 38-59. Premium rebate or other special favor. No insurance company doing business in this state, or attorney, agent, sub-agent, broker or any other person shall pay or allow, or offer to pay or allow, as inducement to insurance, any rebate of premium payable on the policy, or any special favor or advantage in the dividends or other benefits to accrue thereon, or any valuable consideration or inducement not specified in the policy of insurance. No person shall receive or accept from any company, or attorney, agent, sub-agent, broker or any other person, as inducement to insurance, any such rebate of premium payable on the policy, or any special favor or advantage in the dividends or other benefit to accrue thereon, or any valuable consideration or inducement not specified in the policy of insurance. No person shall be excused from testifying or from producing any books, papers, contracts, agreements or documents, at the trial of any other person charged with the violation of any provision of this section or of section 38-149, on the ground that such testimony or evidence may tend to incriminate him, but no person shall be prosecuted for any act concerning which he shall be compelled to so testify or produce documentary or other evidence, except for perjury committed in so testifying.

We have come to the conclusion that these financing plans contain "inducements not specified in the policy of insurance," and all life insurance companies licensed to do business in Connecticut are advised not to sell life insurance policies in the State based upon the financing of premiums in banks, loan companies, or other sources unless the premium finance plan or other details thereof are specified in or made part of the policy or contract of insurance.

It is also advised that companies desiring to incorporate into their policies any special premium financing arrangement should be prepared to demonstrate that the proposal does not constitute a prohibited, unfair discrimination as outlined in Sec. 38-149 of the Connecticut General Statutes, which reads as follows:

Sec. 38-149. Discrimination in favor of individuals prohibited. No life insurance company doing business in this state shall make or permit any distinction or discrimination in favor of individuals between insureds of the same class and expectation of life in the amount or payment of premiums or rates charged for policies of life or endowment insurance, or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of the contracts it makes; nor shall any such company or agent, sub-agent, broker or other person make any contract of insurance or agreement as to such contract other than is plainly expressed in the policy issued thereon.

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