

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

INSURANCE BUREAU

LIFE INSURANCE CONTRACTS ON VARIABLE BASIS

(By authority conferred on the commissioner of insurance by section 210 of Act No. 218 of the Public Acts of 1956, as amended, being S500.210 of the Michigan Compiled Laws)

R 500.841 Definitions.

Rule 1. As used in these rules:

(a) "Affiliate" of an insurer means any of the following:

- (i) Any person, directly or indirectly, controlling, controlled by, or under common control with, such insurer.
- (ii) Any person who regularly furnishes investment advice to an insurer with respect to its variable life insurance separate accounts for which a specific fee or commission is charged.
- (iii) Any person who is a director, officer, partner, or employee, or a member of the immediate family of any person who is a director, officer, partner or employee of any person described in paragraph (i) or (ii) of this subdivision.

(b) "Agent" means any person, corporation, partnership, or other legal entity which is licensed by this state as a life insurance agent.

(c) "Assumed investment rate" means the rate of investment return which would be required to be credited to a variable life insurance policy, after deduction of charges for taxes, investment expenses, and mortality and expense guarantees, to maintain the variable death benefit equal, at all times, to the amount of the death benefit, other than incidental insurance benefits, which would be payable under the plan of insurance if the death benefit did not vary according to the investment experience of the separate account.

(d) "Benefit base" means the amount to which the net investment return is applied.

(e) "Control," including the terms "controlling," "controlled by," and "under common control with," means the possession, direct or indirect, of the power to direct, or cause the direction of, the management and policies of a person, whether through the ownership of voting securities, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position with, or corporate office held by, the person. Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing more than 10% of the voting securities of any other person. This presumption may be rebutted by a showing, to the satisfaction of the commissioner, that control does not exist in fact. The commissioner may determine, after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support such determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

(f) "Flexible premium policy" means any variable life insurance policy other than a scheduled premium policy as specified in subdivision (1) of this rule.

(g) "General account" means all assets of the insurer other than assets in separate accounts established pursuant to section 925 of Act No. 218 of the Public Acts of 1956, as amended, being S500.925 of the Michigan Compiled Laws, or pursuant to the corresponding section of the insurance law of the state of domicile of a foreign or alien insurer, whether or not for variable life insurance.

(h) "Incidental insurance benefit" means all insurance benefits in a variable life insurance policy, other than the variable death benefit and the minimum death benefit, including, but not limited to, any of the following:

- (i) Accidental death and dismemberment benefits.
- (ii) Disability benefits.
- (iii) Guaranteed insurability options.
- (iv) Family income.
- (v) Term riders.

(i) "Minimum death benefit" means the amount of the guaranteed death benefit, other than incidental insurance benefits, payable under a variable life insurance policy regardless of the investment performance of the separate account.

(j) "Net investment return" means the rate of investment return actually credited to a variable life insurance policy, after deduction of any charges in accordance with the terms of the policy.

(k) "Policy processing day" means the day on which charges authorized in the policy are deducted from the policy's cash value.

(l) "Scheduled premium policy" means any variable life insurance policy under which both the amount and timing of premium payments are fixed by the insurer.

(m) "Separate account" means a separate account for variable life insurance established under section 925 of Act No. 218 of the Public Acts of 1956, as amended, being S500.925 of the Michigan Compiled Laws, or pursuant to the corresponding section of the insurance law of the state of domicile of a foreign or alien insurer.

(n) "Variable death benefit" means the amount of the death benefit, other than incidental insurance benefits, which is payable under a variable life insurance policy dependent on the investment performance of the separate account and which the insurer would have to pay in the absence of the minimum death benefit.

(o) "Variable life insurance policy" means any individual policy which provides for life insurance with the amount or duration of the death benefit varying according to the investment experience of any separate account or accounts established and maintained by the insurer as to such policy, as provided for in section 925 of Act No. 218 of the Public Acts of 1956, as amended, being S500.925 of the Michigan Compiled Laws, or pursuant to the corresponding section of the insurance law of the state of domicile of a foreign or alien insurer.

History: 1979 AC; 1988 AACS.

R 500.843 Qualification of insurer to issue life insurance contracts on variable basis.

Rule 3. All of the following requirements are applicable to all insurers that are seeking authority to issue variable life insurance in this state or that have authority to issue variable life insurance in this state:

(a) An insurer shall not deliver or issue for delivery in this state any variable life insurance policy unless both of the following requirements are satisfied:

(i) The insurer has a certificate of authority to engage in the life insurance business in this state.

(ii) The insurer has obtained the written approval of the commissioner for the issuance of variable life insurance policies in this state.

(b) The commissioner shall grant written approval for the issuance of variable life insurance only after he or she has found that all of the following requirements are satisfied:

(i) The plan of operation for the issuance of variable life insurance policies is not unsound.

(ii) The general character, reputation, and experience of the management and those persons or firms proposed to supply consulting, investment, administrative, or custodial services to the insurer are such as to reasonably assure competent operation of the variable life insurance business of the insurer in this state.

(iii) The present and foreseeable future financial condition of the insurer and its method of operation in connection with the issuance of such policies are not likely to render its operation hazardous to the public or its policyholders in this state. The commissioner shall consider all of the following factors:

(A) The history of operation and financial condition of the insurer.

(B) The qualifications, fitness, character, responsibility, reputation, and experience of the officers and directors and other management of the insurer and those persons or firms proposed to supply consulting, investment, administrative, or custodial services to the insurer.

(C) The applicable law and regulations under which the insurer is authorized in its state of domicile to issue variable life insurance policies. The state of entry of an alien insurer shall be deemed its state of domicile for this purpose.

(D) If the insurer is a subsidiary of, or is affiliated by common management or ownership with, another company, its relationship to such other company and the degree to which the requesting insurer, as well as the other company, meets these standards.

(E) Other relevant information.

(c) Before any insurer shall deliver or issue for delivery any variable life insurance policy in this state, it shall submit all of the following information for the consideration of the commissioner in making the determination required by subdivision (b) of this rule:

(i) Copies and a general description of the variable life insurance policies it intends to issue.

(ii) A general description of the methods of operation of the variable life insurance business of the insurer, including methods of distribution of policies, and the names of those persons or firms proposed to supply consulting, investment, administrative, distributive, or custodial services to the insurer.

(iii) With respect to any separate account maintained by an insurer for any variable life insurance policy, a statement of the investment policy the insurer intends to follow for the investment of the assets held in such separate account. The statement shall include a description of the investment objective and orientation intended for the separate account.

(iv) A description of any investment advisory services contemplated as required by R 500.862.

(v) If requested by the commissioner, a copy of the statutes and regulations of the state of domicile of the insurer under which it is authorized to issue variable life insurance policies.

(vi) A certification by the domiciliary regulatory authority that the insurer is in compliance with the laws and regulations applicable to variable life insurance.

(vii) If requested by the commissioner, biographical data of officers and directors of the insurer, which shall be submitted on the national association of insurance commissioners uniform biographical data form.

(viii) A statement describing the procedures for changing the investment policy of any separate account maintained by an insurer for any variable life insurance policy.

(ix) A statement of the insurer's actuary describing the mortality and expense risks which the insurer will bear under the policy.

(x) Such additional information as the commissioner may require.

(d) After the commissioner finds that the law or regulation in the place of domicile of a foreign company provides protection to the policyholders and the public which is substantially equal to that provided by these rules, the commissioner may determine that compliance with such law or regulation of the domiciliary constitutes compliance with these rules.

History: 1979 AC; 1988 AACS.

#### R 500.844 Standards of suitability.

Rule 4. (1) Every insurer seeking approval to enter into the variable life insurance business in this state shall establish, maintain, and file with the commissioner a written statement specifying the standards of suitability to be used by the insurer. Such standards of suitability shall be binding on the insurer and those to whom the standards of suitability refer and shall specify that no recommendation shall be made to an applicant to purchase a variable life insurance policy and that no variable life insurance policy shall be issued in the absence of reasonable grounds to believe that the purchase of such policy is suitable for such applicant on the basis of information furnished after reasonable inquiry of such applicant concerning the applicant's insurance and investment objectives, financial situation and needs, and any other information known to the insurer or to the agent making the recommendation.

(2) "Suitability" means the likelihood that the purchase of variable life insurance is reasonably consistent with all of the following:

(a) The expressed insurance objectives and needs as perceived by the prospective insured.

(b) The reasonable objectives and needs of the prospective insured as determined objectively by a professional agent after a diligent reasonable inquiry into relevant financial, family, and other background information concerning the prospective insured.

(c) The potential that the prospective insured will persist with the policy for such a period of time that the insurer's acquisition costs are amortized over a reasonable period of time.

(3) All pertinent factors, including, but not limited, to all of the following shall be considered when determining suitability:

(a) Age.

(b) Earnings.

(c) Marital status.

(d) Number and age of dependents.

(e) The value of savings and other assets.

(f) And current life insurance program.

History: 1979 AC; 1988 AACS.

R 500.845 Rescinded.

History: 1979 AC; 1997 AACS

R 500.845a Sales illustrations.

Rule 5a. Any sales illustration shown or furnished in connection with the sale of variable life insurance shall conform to all of the following requirements:

(a) All of the following requirements apply only to the variable portion of contracts with fixed and variable funding options:

(i) The hypothetical interest rates used to illustrate accumulated policy values shall be the rates which would actually be credited to the policy after deduction for taxes, management fees, and any other contract charges.

(ii) Illustrations of accumulated policy values shall include 1 illustration based solely on the policy contract guarantees. Such illustration shall include, among other guarantees, the effect of the maximum mortality and administrative charges specified in the contract.

(iii) Except for illustrations contained in the prospectus, the pattern of premium payments used in an illustration shall be the initial pattern requested by the proposed policyholder at inception or upon changes in fact amount requested by the policyholder.

(iv) If the illustrated policy contract provides for a variety of investment options, the illustration may use an asset charge which is reasonably representative of a typical blend of such options or it may use the asset charge of a particular option.

(v) The illustration shall disclose the transaction charges which will be levied against the contract because of transactions requested in accordance with rights and privileges specified in the policy contract. Any charge for the exercise of a right or privilege upon which the illustration is based shall be reflected in the illustrated values. The nature of any such charges shall be disclosed in a clear statement accompanying such illustrations.

(vi) A clear statement shall be made following the table of illustrated accumulated policy values that use of hypothetical investment results does not in any way represent actual results or suggest that such results will be achieved and shall indicate that the policy values which actually arise will differ from those shown when the actual investment results differ from the hypothetical rates illustrated. Assumptions upon which illustrations are based shall be clearly disclosed.

(vii) Any sales illustration to a prospective policyholder shall accurately reflect the policy being presented. Misleading statements or captions or other misrepresentations are prohibited.

(viii) The requested sales illustration shall be printed clearly and legibly on hard paper copy. An illustration displayed on a computer screen may be used in addition to, but not as a substitute for, hard paper copy.

(b) All of the following requirements apply to variable life insurance contracts offering both fixed and variable funding options:

(i) An illustration of the variable funding option shall comply with these rules.

(ii) If an illustration of the fixed funding option is shown, accumulated policy values shall be shown on the basis of guaranteed rates. One or more additional rates may also be shown, but such rates shall not exceed current rates.

(iii) A summary illustration may be given in which results from comparable illustrated and hypothetical interest rates are combined. Such summary shall cross-reference to the accompanying separate illustrations of the fixed and variable funding options.

(c) Nothing in this rule shall prohibit the distribution, to the prospective policyholder, of illustrations in addition to those required by R 500.863 if, except for the requirements of subdivision (a)(iii) of this rule which apply to required illustrations under R 500.863, such additional illustrations comply with the standards set forth in these rules.

History: 1988 MR 7, Eff.

R 500.846 Service contracts between insurer and supplier; requirements.

Rule 6. Any contract between an insurer and suppliers of consulting, investment, administrative, sales, marketing, custodial, or other services which are material with respect to variable life insurance operations shall be in writing and provide that the supplier of such services shall furnish the commissioner with any

information or reports in connection with such services which the commissioner may request in order to ascertain whether the variable life insurance operations of the insurer are being conducted in a manner consistent with these rules and any other applicable law or regulations; shall be fair and equitable to all policyholders of the insurer in this state; shall not relieve the insurer from any responsibilities or obligations imposed upon the operations of its variable life insurance business by this rule or any law or regulation.

History: 1979 AC.

R 500.847 Reports to the commissioner.

Rule 7. (1) Any insurer authorized to transact the business of variable life insurance in this state shall submit to the commissioner, in addition to any other materials which may be required by this rule or any other applicable laws or regulations, all of the following:

(a) An annual statement of the business of its variable life insurance separate account or accounts in such form as shall be prescribed by the commissioner.

(b) Prior to the use in this state, a copy of any information furnished to applicants as provided for in R 500.863.

(c) Prior to the use in this state, a copy of any of the forms required by subdivision (a) of R 500.865 and a copy of any of the reports to policyholders as used to satisfy subdivision (b) of R 500.865.

(d) Such additional information concerning its variable life insurance operations or its variable life insurance separate accounts as the commissioner shall deem necessary.

(2) Any material submitted to the commissioner under this rule shall be disapproved if it is found to be false, misleading, incomplete, deceptive, or inaccurate in any material respect and, if previously distributed, the commissioner shall require the distribution of an amended report, which shall previously have been approved after submission pursuant to this subrule.

(3) Any material required to be filed with the commissioner, or approved by him, shall be subject to disapproval if at any time it is found by him not to comply with the standards established by this rule.

History: 1979 AC.

R 500.848 Variable life insurance policies and related documents; forms; filing and approval; exception.

Rule 8. (1) All forms of variable life insurance policies, riders, endorsements, applications, and other related documents which are to be attached to and made a part of the policy shall be filed with the commissioner and shall be subject to approval before delivery or issuance for delivery in this state. The procedures and requirements for filing and approval shall be, to the extent appropriate and not inconsistent with this rule, the same as those otherwise applicable to other life insurance policies.

(2) The commissioner may approve variable life insurance policies and related forms with provisions the commissioner deems to be not less favorable to the policyholder and the beneficiary than those required by this rule.

(3) The requirements of R 500.849(a) do not apply to variable life insurance policies and related forms issued in connection with corporate pension and profit-sharing plans and retirement income plans which are exempt pursuant to section 3(c)(11) of the investment company act of 1940, 15 U.S.C. §80a-3(c)(11), and, where applicable, other provisions of the federal securities laws because of their tax qualified status.

History: 1979 AC; 1988 AACS.

R 500.849 Variable life insurance policy; benefit and design requirements.

Rule 9. Variable life insurance policies delivered or issued for delivery in this state shall comply with all of the following minimum requirements:

(a) The mortality and expense risk shall be borne by the insurer. The mortality and expense charges shall be subject to the maximums stated in the contract. If mortality and expense charges are lower than the guaranteed maximums, the difference shall be credited to the policy account at least annually.

(b) For scheduled premium policies, a minimum death benefit shall be provided in an amount at least equal to the initial face amount of the policy if premiums are paid when due, subject to the provisions of R 500.851(b).

(c) The policy shall reflect the investment experience of the 1 or more variable life insurance separate accounts established and maintained by the insurer. The insurer shall demonstrate that the reflection of investment experience in the variable life insurance policy is actuarially sound.

(d) Each variable life insurance policy shall be credited with the full amount of the net investment return applied to the benefit base.

(e) Changes in variable death benefits of each variable life insurance policy shall be determined at least annually.

(f) The policy value and the cash surrender value of each variable life insurance policy shall be determined at least monthly. The method of computation of cash values and other nonforfeiture benefits, as described either in the policy or in a statement filed with the commissioner, shall be in accordance with actuarial procedures that recognize the variable nature of the policy. The method of computation shall be such that, if the net investment return credited to the policy at all times from the date of issue is equal to the assumed investment rate with premiums and benefits determined accordingly under the terms of the policy, then the resulting cash values and other nonforfeiture benefits shall be at least equal to the minimum values required by section 4060 of Act No. 218 of the Public Acts of 1956, as amended, being S500.4060 of the Michigan Compiled Laws, for a general account policy with such premiums and benefits. The assumed investment rate shall not exceed the maximum interest rate permitted under the standard nonforfeiture law of this state. The method of computation may disregard incidental minimum guarantees as to the dollar amounts payable. Incidental minimum guarantees include, for example, but are not to be limited to, a guarantee that the amount payable at death or maturity shall be at least equal to the amount that otherwise would have been payable if the net investment return credited to the policy at all times from the date of issue had been equal to the assumed investment rate.

(g) The policy value, cash value, and other nonforfeiture benefits of each variable life insurance policy shall be determined in accordance with the provisions of R 500.849a.

(h) The computation of values required for each variable life insurance policy may be based upon such reasonable and necessary approximations as are approved by the commissioner.

History: 1979 AC; 1988 AACS.

R 500.849a Variable life nonforfeiture values.

Rule 9a. (1) Minimum cash surrender values for variable life insurance policies shall be determined separately for the basic policy and any benefits and riders for which premiums are paid separately. The methods pertain to a basic policy and any benefits and riders for which premiums are not paid separately.

(2) The method of computation of minimum cash surrender values for variable life policies shall be determined using the retrospective method, the prospective method, or the maximum charge method.

(a) When variable life policy funds are solely in 1 or more separate accounts, the retrospective method or the maximum charge method may be used to compute minimum cash surrender values.

(b) In case of a combination general account and separate account product providing for 1 basic amount of insurance but with the policy value allocated among the general account and 1 or more separate accounts and with mortality charges applicable to the difference between the death benefit and the policy value, the applicable cash surrender value procedures used may be either the maximum charge method or the retrospective method. The method used shall be applicable to both the general account and the separate account portions and all of the following provisions shall apply:

(i) The policy shall specify a guaranteed rate of interest for the portion of the fund accumulated in the general account.

(ii) Additions or amounts derived from more favorable interest, mortality, and expense than those guaranteed in the policy on the general account fund and credited within 12 months before surrender may be subject to forfeiture upon surrender.

(iii) At least once each year the insured has the option to transfer all separate account funds to the general account and apply his or her cash surrender value to purchase a guaranteed fixed paid-up benefit.

(iv) Any amount of paid-up whole life insurance provided under paragraph

(iii) of this subdivision shall be at least as great as that computed using the mortality table on which the maximum mortality charges have been calculated and the interest rate guaranteed in the policy. Any period of extended term insurance provided under paragraph (iii) of this subdivision shall be at least as long as that using an extended term insurance mortality table appropriate to the mortality table for the maximum mortality charges and the interest rate guaranteed in the policy.

(v) The annual report shall note the availability of the option under paragraph (iii) of this subdivision.

(3) As used in this rule:

(a) "Accumulation rate" means the net investment return or any interest credits applied towards the policy value.

(b) "Cash surrender value" means the net cash surrender value plus any amounts outstanding as policy loans.

(c) "Net cash surrender value" means the maximum amount payable to the policy owner upon surrender.

(d) "Policy value" means the amount to which separately identified interest credits or investment return and mortality, expense, or other charges are made under a variable life insurance policy.

(e) "Valuation rate" means the higher of the assumed investment rate (AIR) or guaranteed interest included in the policy, if any, otherwise the highest valuation interest rate allowed under the standard nonforfeiture law.

(4) All of the following provisions apply to use of the retrospective method:

(a) The minimum cash surrender value before adjustment for indebtedness and dividend credits, available on a valuation date shall be equal to the value using the accumulation rate through that date of the premiums paid minus the accumulation through that date of all of the following:

(i) The benefit charges.

(ii) The averaged administrative expense charges for the first policy year and any insurance increase years.

(iii) Actual administrative expense charges for other years.

(iv) Initial and additional acquisition expense charges not exceeding the initial or additional expense allowances respectively.

(v) Any service charges actually made, excluding charges for cash surrender or election of a paid-up nonforfeiture benefit.

(vi) Any deductions made for partial withdrawals.

(vii) All accumulations being at the accumulation rate at which changes in policy values have been made unconditionally to the policy or have been made conditionally, but for which the conditions have since been met, and minus any unamortized, unused initial and additional expense allowance.

(b) Accumulation for the premiums and for all charges referred to in subdivision (a)(i) to (vi) of this subrule shall be based on the accumulation rate for the applicable account or accounts from and to such dates as are consistent with the manner in which such accumulation rate is credited in determining the policy value.

(c) The benefit charges shall include the charges made for mortality and any charges made for riders or supplementary benefits for which premiums are not paid separately. If benefit charges are substantially level by duration and develop low or no cash values, then the commissioner shall have the right to require higher cash values unless the insurer provides adequate justification that the cash values are appropriate in relation to the policy's other characteristics.

(d) The administrative expense charges shall include all of the following:

(i) Charges per premium payment.

(ii) Charges per dollar of premium paid.

(iii) Periodic charges per thousand dollars of insurance.

(iv) Periodic per policy charges.

(v) Any other charges permitted by the policy to be imposed without regard to the policyowner's request for services.

(e) The averaged administrative expense charges for any year shall be those which would have been imposed in the year if the charge rate or rates for each transaction or period within the year had been equal to the arithmetic average of the corresponding charge rates which the policy states will be imposed in policy years 2 through 20 in determining the policy value.

(f) The initial acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in the first policy year over the averaged administrative expense charges for that year. Additional acquisition expense charges shall be the excess of the expense charges, other than service charges, actually made in an insurance increase year over the averaged administrative expense charges for that year. An insurance increase year shall be the year beginning on the date of increase in the amount of insurance by policyowner request or by the terms of the policy.

(g) Service charges shall include charges permitted by the policy to be imposed as a result of a policyowner's request for a service by the insurer, such as the furnishing of future benefit illustrations or of special transactions.

(h) The initial expense allowance shall be the allowance provided by items (ii), (iii), and (iv) of paragraph 1 of subsection (5), or by items (ii) and (iii) of paragraph 9 of subsection (5), as applicable, of section 4060 of Act No. 218 of the Public Acts of 1956, as amended, being S500.4060(5)(1)(ii),(iii), and (iv) or (5)(9)(ii) and (iii) of the Michigan Compiled Laws, for a fixed premium, fixed benefit endowment policy with a face amount equal to the initial face amount of the variable life insurance policy, with level premiums paid annually until the highest attained age at which a premium may be paid under the variable life insurance policy and maturing on the latest maturity date permitted under the policy, if any, otherwise at the highest age in the valuation mortality table. The unused initial expense allowance shall be the excess, if any, of the initial allowance over the initial acquisition expense charge as defined in this subrule.

(i) If the amount of insurance is subsequently increased upon request of the policyowner or by the terms of the policy, an additional expense allowance and an unused additional expense allowance shall be determined on a basis consistent with subdivision (h) of this subrule and with paragraph 13 of subsection (5) of section 4060 of Act No. 218 of the Public Acts of 1956, as amended, being S500.4060(5)(13) of the Michigan Compiled Laws, using the face amount and the latest maturity date permitted at that time under the policy.

(j) The unamortized, unused initial expense allowance during the policy year beginning on the policy anniversary at age  $x+t$ , where "x" is the issue age, shall be the unused initial expense allowance multiplied by  $\frac{x+t}{x}$  where " $x+t$ " and "x" are present value of an annuity of 1 per year payable on policy anniversaries beginning at ages  $x+t$  and  $x$ , respectively, and continuing until the highest attained age at which a premium may be paid under the policy, both on the mortality guaranteed in the policy and the valuation rate for the policy. An unamortized, unused additional expense allowance shall be the unused additional expense allowance multiplied by a similar ratio of annuities, with  $x$  replaced by an annuity beginning on the date as of which the additional expense allowance was determined.

(5) All of the following provisions apply to the use of the prospective method:

(a) The minimum cash surrender value before adjustment for indebtedness and dividend credits which is available on a date as of which interest is credited to the policy shall be equal to (A)-(B)-(C)-(D). "A" means the present value of all future benefits. "B" means the present value of future adjusted premiums. The adjusted premiums are calculated as described in paragraphs 1 to 6 and 9 of subsection (5), as applicable, of section 4060 of Act No. 218 of the Public Acts of 1956, as amended, being S500.4060(5)(1) to (6) and (9) of the Michigan Compiled Laws. If paragraph 9 of subsection (5) is applicable, the nonforfeiture net level premium is equal to the quantity  $PVFB/x$ , where "PVFB" is the present value of all benefits at issue assuming future premiums are paid by the policy owner, assuming all guarantees contained in the policy or declared by the insurer, and using the valuation rate.  $x$  is the present value of an annuity of 1 per year payable on policy anniversaries beginning at age  $x$  and continuing until the highest attained age at which a premium may be paid under the policy. "C" means the present value of any quantities analogous to the nonforfeiture net level premium which arise because of guarantees declared by the insurer after the issue date of the policy.  $x$  shall be replaced by an annuity beginning on the date the declaration became effective and payable until the end of the period covered by the declaration. The types of quantities included are increased current interest rate credits guaranteed for a future period, decreased current mortality rate charges guaranteed for a future period, or decreased current expense charges guaranteed for a future period. "D" means the sum of any quantities analogous to "B" which arise because of structural changes in the policy. Structural changes are those changes which are separate from the automatic workings of the policy. Such structural changes usually would be initiated by the policy owner and include changes in the guaranteed benefits, changes in latest maturity date, or changes in allowable premium payment period.

(b) Future benefits are determined by both of the following:

(i) Projecting the policy value, taking into account future premiums, if any, and using the guaranteed interest rate, if any; otherwise, the lesser of the air, if any, or the highest state-approved nonforfeiture interest rate, and using the mortality, expense deductions, and other provisions contained in the policy or declared by the insurer.

(ii) Taking into account any benefits guaranteed in the policy or by declaration which do not depend on the policy value.

(c) All present values shall be determined using an interest rate or rates specified by section 4060 of Act No. 218 of the Public Acts of 1956, as amended, being S500.4060 of the Michigan Compiled Laws, for policies issued in the same year, and the mortality rates specified by section 4060 of Act No. 218 of the Public Acts of 1956,



as amended, for policies issued in the same year or contained in such other table as may be approved by the commissioner for this purpose.

(6) All of the following provisions apply to the maximum charge method:

(a) As used in this subrule:

(i) "Acquisition and other charges" means charges deducted from gross premiums before they are credited to policy value or made to the policy value. They may be expressed as a percentage of premium or a dollar amount per \$1,000.00 of insurance or a dollar amount per premium payment or a per policy charge other than the administrative charge. They do not include charges made as a reduction in investment return. These charges may vary by premium size, policy size, and policy year.

(ii) "Administrative charge" means a per policy charge made regularly to the policy value or deducted from premiums on scheduled premium policies for the cost of administration. This charge shall not be more than \$5.00 per month in 1986. In subsequent years, the limit for any new or in-force policy shall be the product of \$5.00 and the ratio, not to be more than 2.00 of the consumer price index for all urban households for the September preceding the year for which the determination is being made to the consumer price index for September, 1985. The commissioner may allow a higher charge upon an insurer demonstrating justification.

(iii) "Benefit charges made to the policy value" means the mortality charges made for life insurance on the insured person or persons and any charge made for riders and supplementary benefits.

(iv) "Cash surrender value" means the policy value, less any surrender charge, before reduction for outstanding loans or other amounts due under the policy.

(v) "Deferred acquisition and other charges" means acquisition and other charges deducted from the policy value after the first policy year.

(vi) "Excess acquisition and other charges for a face amount increase" means the maximum excess of "A" over "B" based on the assumption that the net level whole life annual premium for the increase as defined in paragraph (x) of this subdivision applies throughout the remaining premium paying period. "A" is the acquisition and other charge for the increase and "B" is the arithmetic average of the corresponding charges which the policy states would be made in the 19 policy years following the increase.

(vii) "Excess first-year acquisition and other charges" means the maximum excess of "A" over "B" based on the assumption that any premium, other than a single premium, payable in the first policy year is also payable during the entire premium paying period. "A" is the acquisition and other charge made in the first policy year and "B" is the arithmetic average of the corresponding charges which the policy states would be made in policy years 2 through 20.

(viii) "Net investment return" means the actual amount credited to policy value net of investment expenses or other charges made as a reduction in investment return.

(ix) "Net level whole life annual premium at issue" is based on the assumption of level insurance and level annual premium for life, the mortality table rate used to calculate the maximum mortality charges, and an interest rate based on the higher of 4% or that specified in the policy.

(x) "Net level whole life annual premium for an increase in the face amount of insurance" shall be determined as of the date of the increase as though such increase were a separate policy under paragraph (ix) of this subdivision. Only increases in the face amount requested by the policy owner and increases in the face amount pursuant to the terms of the policy, such as an option to purchase or a cost-of-living increase, shall give rise to such a premium and the associated excess acquisition and other charges for a face amount increase. Increases for this purpose shall not include increases in face amount resulting from a change in the death benefit option or changes in the death benefit pursuant to policy terms that do not affect the face amount. Increases for this purpose shall be reduced by the amounts of any earlier decreases that have not been offset against an earlier increase. Such decreases shall include a decrease by reason of a partial withdrawal, but not a decrease resulting from a change in the death benefit option.

(xi) "Policy value" means gross premiums paid, excluding separate identified premiums for riders or supplementary benefits which are not credited to policy value, plus net investment income, which may be positive or negative and may vary based on policy loans, less the following as specified in the policy:

(A) Administrative charges, which may be taken in part from premiums and in part from policy value.

(B) Acquisition and other charges.

(C) Deferred acquisition and other charges.

(D) Benefit charges.

(E) Service charges.

(F) Partial withdrawals.

(G) Partial surrender charges.

(xii) "Service charges made to the policy value" are charges for transactional costs, such as partial withdrawals, reallocations of policy values, and benefit illustrations. Transactional charges shall not be assessed unless specifically permitted by law or regulation for transactions made under mandatory policy provisions.

(xiii) "Surrender charge" is a deferred charge made to the policy value in the event of a full or partial surrender of the policy, reduction in the face amount of insurance or premium, or a lapse.

(b) If cash surrender values are determined in accordance with this subrule, then such cash surrender values shall be considered to have satisfied the requirements for minimum cash surrender values as provided in section 4060 of Act No. 218 of the Public Acts of 1956, as amended, being S500.4060 of the Michigan Compiled Laws.

(i) Acquisition and other charges shall not exceed the sum of all of the following:

(A) 90% of premiums received up to the net level whole life annual premium at issue, regardless of when received.

(B) 10% of all other premiums received.

(C) 90% of the net level whole life annual premium for increases in the face amount of insurance as defined in subdivision (a)(x).

(D) \$10.00 per \$1,000.00 of initial face amount in the first policy year.

(E) \$1.00 per \$1,000.00 of face amount in subsequent policy years.

(F) \$10.00 per \$1,000.00 of any increase in the face amount of insurance other than an increase resulting from a change in the death benefit option. Increases up to the amount of earlier decreases are included here but not in subparagraph (c) of this paragraph.

(G) \$200.00 per policy in the first year.

(ii) A surrender charge may be established if the initial surrender charge and the actual acquisition and other charges made in the first policy year, and the actual acquisition and other charges on premiums up to the net level whole life annual premium if received after the first year, do not exceed the sum of subparagraph (A), subparagraph (B) in the first year, subparagraph (D), and subparagraph (G) of paragraph (i) of this subdivision. Additional surrender charges may be established after issue in connection with an increase in the face amount if any such additional surrender charge and any acquisition and other charges made in connection with such increase do not exceed the sum of subparagraphs (C) and (F) of paragraph (i) of this subdivision.

(iii) A deferred acquisition and other charge may be charged against the policy value in any policy after the first such that the total of all such charges imposed to date plus the surrender charge for that year does not exceed the maximum initial surrender charge. The deferred acquisition and other charge in any 1 year shall not exceed the maximum allowable surrender charge for that year. Similar deferred acquisition and other charges may be imposed with respect to an increase in the face amount.

(iv) The maximum allowable surrender charge for any year shall be the maximum initial surrender charge multiplied by  $x+t/x$ , where "x" is the issue age and "t" is the number of years since issue. Similar maximums shall be determined with respect to any additional surrender charges, with x and t based on the date of increase.

(7) All of the following provisions apply to minimum paid-up nonforfeiture benefits:

(a) If a variable life insurance policy provides for the optional election of a paid-up nonforfeiture benefit, it shall be such that its present value shall be at least equal to the cash surrender value provided by the policy on the effective date of the election. The present value shall be based on mortality and interest standards at least as favorable to the policy owner as the mortality and interest basis, if any, specified in the policy for determining the policy value or the mortality and interest standards permitted for paid-up nonforfeiture benefits by section 4060 of Act No. 218 of the Public Acts of 1956, as amended, being S500.4060 of the Michigan Compiled Laws. In place of the paid-up nonforfeiture benefit, the insurer may substitute, upon a proper request made not later than 60 days after the due date of the premium in default, an actuarially equivalent alternative paid-up nonforfeiture benefit which provides a greater amount or longer period of death benefits or, if applicable, a greater amount or earlier payment of endowment benefits.

(b) Any secondary guarantees in a policy shall be taken into consideration when computing minimum paid-up nonforfeiture benefits.

(c) A charge may be made at the surrender of the policy if the result after the deduction of the charge is not less than the minimum cash surrender value required by this subrule.

(8) An insurer may use different methods to compute minimum cash surrender values for different variable life policies, but for any 1 policy form, an insurer shall use the same method for all issue ages. An insurer may revise its method for new issues.

History: 1979 AC; 1988 AACS.

R 500.850 Variable life insurance policy; mandatory provisions.

Rule 10. Every variable life insurance policy delivered or issued for delivery in this state shall contain, at a minimum, all of the following:

(a) A cover page or pages corresponding to the cover page of each policy which shall contain all of the following items:

(i) A prominent statement, either in contrasting color or in boldface type, that the amount or duration of death benefit may be variable or fixed under specified conditions and that cash values may increase or decrease in accordance with the experience of the separate account, subject to any specified minimum guarantees.

(ii) A statement describing the minimum death benefit required pursuant to R 500.849(b).

(iii) The method, or a reference to the policy provision which describes the method, for determining the amount of insurance payable at death.

(iv) A captioned provision which provides that the policyholder may return the variable life insurance policy to the insurer or agent within 45 days of the date of the execution of the application or within 10 days of receipt of the policy by the policyholder, whichever is later, and receive a refund of all premium payments for such policy.

(v) Such other items as are currently required for fixed benefit life insurance policies and which are not inconsistent with this rule.

(b) For scheduled premium policies, a provision for a grace period of not less than 31 days from the premium due date, which shall provide that when the premium is paid within the grace period, policy values shall be the same, except for the deduction of any overdue premium, as if the premium were paid on or before the due date.

(c) For scheduled premium policies, a provision that the policy shall be reinstated at any time within 2 years from the date of default, unless the cash surrender value has been paid or the period of extended insurance has expired. Reinstatement shall be upon the written application of the insured with evidence of insurability, including good health, which satisfies the insurer, the payment of any outstanding indebtedness arising subsequent to the end of the grace period following the date of default together with accrued interest thereon to the date of reinstatement, and payment of an amount not exceeding the greater of either of the following:

(i) All overdue premiums and any other indebtedness in effect at the end of the grace period following the date of default, with interest at a rate not exceeding the rate charged on comparable fixed benefit policies.

(ii) 110% of the increase in cash surrender value resulting from reinstatement.

(d) A full description of the benefit base and of the method of calculation and application of any factors used to adjust variable benefits under the policy.

(e) A provision designating the separate account to be used and stating all of the following:

(i) Such separate account shall be used to fund only variable life insurance benefits, except to the extent permitted by R 500.852(c)(vi).

(ii) The assets of such separate account shall be available to cover the liabilities of the general account of the insurer only to the extent that the assets of the separate account exceed the liabilities of the separate account arising under the variable life insurance policies supported by the separate account.

(iii) The assets of such separate account shall be valued as often as any policy benefits vary, but at least monthly.

(f) For scheduled premium policies, a provision that at any time during the first 18 months of the variable life insurance policy, so long as premiums are duly paid, the owner may exchange the policy for a policy of permanent fixed benefit life insurance on the life of the insured for the same initial amount of insurance as the variable life insurance policy. The insurer shall not require evidence of insurability for this exchange and the new policy shall satisfy all of the following requirements:

(i) Bear the same date of issue and age as the original variable life insurance policy.

(ii) Be issued on a substantially comparable plan of permanent insurance offered in the state by the insurer or an affiliate on the date of issue and at the premium rates in effect on that date for the same class of insureds.

(iii) Include such riders and incidental insurance benefits as were included in the original policy if such riders and incidental insurance benefits are issued with the fixed benefit policy.

(iv) Be issued subject to an equitable premium or cash value adjustment that takes appropriate account of the premiums and cash values under the original and new policies. A detailed statement of the method of computing such adjustment shall be filed with, and subject to the approval of, the commissioner.

(g) A provision that the policy and any papers attached thereto by the insurer, including the application, if attached, constitute the entire insurance contract.

(h) A designation of the officers of the insurer who are empowered to make an agreement or representation on behalf of the insurer and an indication that statements by the insured, or on his or her behalf, shall be considered as representations and not as warranties.

(i) An identification of the owner of the insurance contract.

(j) A provision setting forth conditions or requirements as to the designation, or change of designation, of a beneficiary and a provision for disbursement of benefits in the absence of a beneficiary designation.

(k) A statement of any conditions or requirements concerning the assignment of the policy.

(l) A description of any adjustments in policy values to be made in the event of misstatement of the age or sex of the insured.

(m) A provision that the policy shall be incontestable by the insurer after it has been in force for 2 years during the lifetime of the insured. However, any increase in the amount of the policy's death benefits subsequent to the policy issue date, which increase occurred upon a new application or request of the owner and was subject to satisfactory proof of the insured's insurability, shall be incontestable after any such increase has been in force, during the lifetime of the insured, for 2 years from the date of issue of such increase.

(n) A provision stating that in the event of a material change of investment policy of the separate account, any policyholder who objects to such change shall have the option to convert, without providing evidence of insurability, to a fixed benefit life insurance policy and that the insurer shall give proper notification of the options available to such objecting policyholder. The conversion options shall be equivalent to those provided by R 500.859(5)(b).

(o) A provision that payment of variable death benefits in excess of the minimum death benefits, cash values, policy loans, or partial withdrawals, except when used to pay premiums or partial surrenders, may be deferred as follows:

(i) For up to 6 months from the date of request if such payments are based on policy values which do not depend on the performance of the separate account.

(ii) For any period during which the New York stock exchange is closed for trading, except for normal holiday closings, or when the securities and exchange commission has determined that a state of emergency exists which may make such payment impractical.

(p) A description of the basis for computing the cash value and the surrender value under the policy. In scheduled premium policies, such surrender value may be expressed as either of the following:

(i) A schedule of cash value amounts per \$1,000.00 of variable face amount at each attained age or policy year for not less than 20 years from issue or for the premium paying period if less than 20 years.

(ii) One cash value schedule, as described in paragraph (i) of this subdivision, for the death benefit, or for each \$1,000.00 of death benefit, which would be in effect if the net investment return is always equal to the assumed investment rate, and a second schedule applicable to any adjustments to the death benefit, disregarding the minimum death benefit guarantee and term insurance amounts, if the net investment return does not equal the assumed investment rate at each age for not less than 20 years from issue or for the premium paying period if it is less than 20 years.

(q) Premiums or charges for incidental insurance benefits shall be stated separately.

(r) For flexible premium policies, a provision for a grace period beginning on the policy processing day when the total charges authorized by the policy that are necessary to keep the policy in force until the next policy processing day exceed the amounts available under the policy to pay such charges in accordance with the terms of the policy. Such grace period shall end on a date not less than 61 days after the mailing date of the report to policyholders required by R 500.865(d). The death benefit payable during the grace period will equal the death benefit in effect immediately before such period, less any overdue charges. If the policy processing days occur monthly, the insurer may require the payment of not more than 3 times the charges which were due on the policy processing day on which the amounts available under the policy were insufficient to pay all charges authorized by the policy that are necessary to keep such policy in force until the next policy processing day.

(s) If settlement options are provided, at least 1 such option shall be provided on a fixed benefit basis only.

(t) For scheduled premium policies which permit the insurer to adjust premiums, a provision stating the frequency with which premium will be reviewed to determine whether an adjustment should be made. Such frequency shall be at least once every 3 policy years.

(u) The policy shall describe how loans are charged against separate accounts and the effect on such accounts when a loan is made or repaid.

(v) Any other required provisions, including other items currently required for fixed benefit life insurance policies which are not inconsistent with this rule.

History: 1979 AC; 1988 AACS.

R 500.851 Variable life insurance policy; nonforfeiture, partial withdrawal, policy loan, and partial surrender provisions.

Rule 11. Every variable life insurance policy delivered or issued for delivery in this state shall contain all of the following provisions:

(a) A provision for nonforfeiture insurance benefits, so that at least 1 such benefit is offered on a fixed basis from the due date of the premium in default. Variable extended term insurance shall not be offered. A given nonforfeiture option need not be offered on both a fixed and a variable basis. The insurer may establish a reasonable minimum cash surrender value below which any nonforfeiture insurance options will not be available.

(b) A provision for policy loans after the policy has been in force for 3 full years. Such provision shall be not less favorable to the policyholder than any of the following provisions:

(i) The policyholder may borrow at least 75% of the cash surrender value.

(ii) The amount borrowed shall bear interest at a rate not to exceed the rate charged on comparable fixed benefit policies.

(iii) Any indebtedness shall be deducted from the proceeds payable on death.

(iv) Any indebtedness shall be deducted from the cash surrender value upon surrender or in determining any nonforfeiture benefit.

(v) For scheduled premium policies, when the indebtedness exceeds the cash surrender value, the insurer shall give notice of intent to cancel the policy if the excess indebtedness is not repaid within 31 days after the date of mailing of such notice, by registered mail, return receipt requested, to the last known address of the policyholder.

(vi) For flexible premium policies, when the total charges authorized by the policy that are necessary to keep the policy in force until the next following policy processing day exceed the amounts available under the policy to pay such charges, a report shall be sent to the policyholder containing the information specified by R 500.865(d).

(vii) The policy may provide that if, at any time, so long as premiums are duly paid, the variable death benefit is less than it would have been if no loan or withdrawal had ever been made, the policyholder may increase such variable death benefit up to what it would have been if there had been no loan or withdrawal by paying an amount not exceeding 110% of the corresponding increase in cash value and by furnishing such evidence of insurability as the insurer may request.

(viii) The policy may specify a reasonable minimum amount which may be borrowed at any time, but such minimum shall not apply to any automatic premium loan provision.

(ix) A policy loan provision is not required if the policy is under the extended insurance nonforfeiture option.

(c) In addition to the provisions specified in subdivisions (a) and (b) of this rule, the policy may contain a partial surrender provision; however, any such provision shall provide that the policyholder may request part of the cash value and both the variable and minimum death benefits shall be reduced in proportion to the percentage of the cash value received by the policyholder and the premium for the remaining amount of insurance shall also be reduced to the appropriate rates for the reduced amount of insurance. The policy may provide that a partial surrender provision shall not require the insurer to reduce the amount of the minimum death benefit to less than the lowest amount of minimum death benefit which would have been issued to the insured under the insurance plans of the insurer at the time the policy was issued. The policy shall clearly provide that the policyholder has the option of electing to exercise the cash value privileges of the policy loan provision rather than the partial surrender or partial withdrawal provision.

(d) All policy loan, partial withdrawal, or partial surrender provisions shall be constructed so that variable life insurance policyholders who have not exercised such provision are not disadvantaged by the exercise thereof.

(e) Monies paid to the policyholders upon the exercise of any policy loan, partial withdrawal, or partial surrender provision shall be withdrawn from the separate account and shall be returned to the separate

account upon repayment, except that a stock insurer may provide the monies for policy loans from the general account.

History: 1979 AC; 1988 AACS.

R 500.852 Variable life insurance policy; suicide exclusion; incidental insurance benefits on fixed basis; dividends; election of automatic premium loan.

Rule 12. Any of the following provisions may in substance be included in a variable life insurance policy or related form delivered or issued for delivery in this state:

(a) An exclusion for suicide committed within 2 years of the policy issue date. However, to the extent of the increased death benefits only, the policy may provide an exclusion for suicide within 2 years of any increase in death benefits which result from an application of the owner subsequent to the policy issue date.

(b) Incidental insurance benefits may be offered on a fixed basis or variable basis.

(c) Policies issued on a participating basis shall offer to pay dividend amounts in cash. In addition, such policies may offer the following dividend options:

(i) The amount of the dividend may be credited against premium payments.

(ii) The amount of the dividend may be applied to provide amounts of additional fixed benefit life insurance.

(iii) The amount of the dividend may be applied to provide amounts of additional variable life insurance.

(iv) The amount of the dividend may be deposited in the general account at a specified minimum rate of interest.

(v) The amount of the dividend may be applied to provide paid-up amounts of fixed-benefit, 1-year term insurance.

(vi) The amount of the dividend may be deposited as a variable deposit in a separate account.

(d) A provision allowing the policyholder to elect, in writing, in the application for the policy or thereafter, an automatic premium loan on a basis not less favorable than that required of policy loans under R 500.851, except that a restriction that not more than 2 consecutive premiums shall be paid under this provision may be imposed.

(e) A provision allowing the policyholder to make partial withdrawals.

(f) Any other policy provision approved in writing by the commissioner.

History: 1979 AC; 1988 AACS.

R 500.853 Reserve liabilities.

Rule 13. All of the following provisions are applicable to reserve liabilities for variable life insurance:

(a) Reserve liabilities for variable life insurance policies shall be established pursuant to section 834 of Act No. 218 of the Public Acts of 1956, as amended, being S500.834 of the Michigan Compiled Laws, in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.

(b) For scheduled premium policies, reserve liabilities for the guaranteed minimum death benefit shall be the reserve needed to provide for the contingency of death occurring when the guaranteed minimum death benefit exceeds the death benefit that would be paid in the absence of the guarantee, shall be maintained in the general account of the insurer, and shall be not less than the greater of either of the following minimum reserves:

(i) The aggregate total of the term costs, if any, covering a period of 1 full year from the valuation date, of the guarantee on each variable life insurance contract, assuming an immediate 1/3 depreciation in the current value of the assets of the separate account followed by a net investment return equal to the assumed investment rate.

(ii) The aggregate total of the attained age level reserves on each variable life insurance contract. The attained age level reserve on each variable life insurance contract shall not be less than zero and shall equal the residue, as described in subparagraph (A) of this paragraph, of the prior year's attained age level reserve on the contract, with any such residue increased or decreased by a payment computed on an attained age basis as described in subparagraph (B) of this paragraph. Subparagraphs (A) and (B) read as follows:

(A) The residue of the prior year's attained age level reserve on each variable life insurance contract shall not be less than zero and shall be determined by adding interest at the valuation interest rate to such prior year's reserve, deducting the tabular claims based on the excess, if any, of the guaranteed minimum death benefit over the

death benefit that would be payable in the absence of such guarantee, and dividing the net result by the tabular probability of survival. The excess referred to in the preceding sentence shall be based on the actual level of death benefits that would have been in effect during the preceding year in the absence of the guarantee, taking appropriate account of the reserve assumptions regarding the distributions of death claim payments over the year.

(B) The payment referred to in paragraph (ii) of this subdivision shall be computed so that the present value of a level payment of that amount each year over the future premium paying period of the contract is equal to  $A$  minus  $B$  minus  $C$ , where " $A$ " is the present value of the future guaranteed minimum death benefits, " $B$ " is the present value of the future death benefits that would be payable in the absence of such guarantee, and " $C$ " is any residue, as described in subparagraph (A) of this paragraph, of the prior year's attained age level reserve on such variable life insurance contract. The amounts of future death benefits referred to in  $B$  shall be computed assuming a net investment return of the separate account, which may differ from the assumed investment rate or the valuation interest rate, or both, but shall not exceed the maximum interest rate permitted for the valuation of life insurance contracts; however, if the contract is paid up, the payment shall equal  $A$  minus  $B$  minus  $C$ .

(c) The valuation interest rate and mortality table used in computing the 2 minimum reserves described in subdivision (b)(i) and (ii) shall conform to permissible standards for the valuation of life insurance contracts. In determining such minimum reserve, the company may employ approximations and estimates acceptable to the commissioner, including, but not limited to, groupings and averages.

(d) For flexible premium policies, reserve liabilities for any guaranteed minimum death benefit shall be maintained in the general account of the insurer and shall not be less than the aggregate total of the term costs, if any, covering the period in the guarantee not otherwise provided for by the reserves held in the separate account assuming an immediate 1/3 depreciation in the current value of the assets of the separate account followed by a net investment return equal to the valuation interest rate. The valuation interest rate and mortality table used in computing this additional reserve, if any, shall conform to permissible standards for the valuation of life insurance contracts. In determining such minimum reserve, the company may employ suitable approximations and estimates, including, but not limited to, groupings and averages.

(e) Reserve liabilities for all fixed incidental insurance benefits and any guarantees associated with variable incidental insurance benefits shall be maintained in the general account and reserve liabilities for all variable aspects of the variable incidental insurance benefits shall be maintained in a separate account in amounts determined in accordance with the actuarial procedures appropriate to such benefit.

History: 1979 AC; 1988 AACS.

R 500.854 Separate accounts generally.

Rule 14. The following apply to separate accounts for variable life insurance:

(a) An insurer issuing variable life insurance in this state shall establish 1 or more separate accounts pursuant to section 925 of the insurance code of 1956, as amended, being S500.925 of the Michigan Compiled Laws.

(b) An insurer shall not, without the prior written approval of the commissioner, employ, in any material connection with the handling of separate account assets, any person, who:

(i) Within the last 10 years, has been convicted of any felony or a misdemeanor arising out of such person's conduct involving embezzlement, fraudulent conversion, or misappropriation of funds or securities or involving violation of 18 U.S.C. SS1341, 1342, or 1343; or

(ii) Within the last 10 years, has been found by any state regulatory authority to have violated, or has acknowledged violation of, any provision of any state insurance law involving fraud, deceit, or knowing misrepresentation; or

(iii) Within the last 10 years, has been found by federal or state regulatory authorities to have violated, or has acknowledged violation of, any provision of federal or state securities laws involving fraud, deceit, or knowing misrepresentation.

(c) If the commissioner determines not to grant prior written approval to any person described in subdivisions (b)(i), (ii), and (iii), that decision may be considered a decision not to license an individual, and a person so affected may exercise his right for an appropriate hearing pursuant to Act No. 306 of the Public Acts of 1969, as amended, being S24.201 et seq. of the Michigan Compiled Laws.

(d) All persons with access to the cash, securities, or other assets of the separate account shall be under bond in an amount of not less than \$250,000.00 or 1/2 of 1% of assets, whichever is greater, but in any event not more than 100% of assets.

(e) If an insurer establishes more than 1 separate account for variable life insurance, justification for the establishment of each additional separate account shall also be filed with the commissioner and shall be subject to his approval. The creation of additional separate accounts to avoid lower maximum charges against the separate account is prohibited.

(f) The assets of separate accounts established for variable life insurance policies shall be valued as often as variable benefits are determined, but in any event at least monthly.

(g) A separate account exempt pursuant to section 3(c)(11) of the investment company act of 1940 because of the tax qualified status of the policies funded thereby shall not be used to fund other variable life insurance policies.

(h) Except for separate accounts exempt pursuant to section 3(c)(11) of the investment company act of 1940, variable life insurance separate accounts shall not be used for variable annuities or for the investment of funds corresponding to dividend accumulations or other policyholder liabilities not involving life contingencies.

History: 1979 AC.

#### R 500.855 Separate accounts; assets.

Rule 15. The insurer shall maintain, in each variable life insurance separate account, assets with a fair market value at least equal to the greater of the valuation reserves for the variable portion of the variable life insurance policies or the benefit base for such policies.

History: 1979 AC; 1988 AACS.

#### R 500.856 Separate accounts; investments.

Rule 16. All of the following provisions apply to investments of separate accounts of variable life insurance:

(a) A sale, exchange, or other transfer of assets shall not be made by an insurer or any of its affiliates between any of its separate accounts or between any other investment account and 1 or more of its separate accounts unless both of the following requirements are satisfied:

(i) In case of a transfer into a separate account, such transfer is made solely to establish the account or to support the operation of the policies with respect to the separate account to which the transfer is made.

(ii) Such transfer, whether into or from a separate account, is made by a transfer of cash; but other assets may be transferred if approved by the commissioner in advance.

(b) Assets allocated to a variable life insurance separate account shall be held in cash or investments having a reasonably ascertainable market price. For purposes of this subdivision, only the following shall be considered investments having a reasonably ascertainable market price:

(i) Liens in favor of the insurer against separate account policy reserves resulting from use by policyholders of cash values.

(ii) Securities listed and traded on the New York stock exchange, the American stock exchange, or regional stock exchanges or successors to such exchanges having the same or similar qualifications.

(iii) Securities listed on the national association of securities dealers automated quotations system.

(iv) Shares of an investment company registered pursuant to the provisions of 15 U.S.C. S80a-1 et seq. Where such an investment company issues book shares instead of share certificates, such book shares shall be deemed to be adequate evidence of ownership.

(v) Obligations of, or guaranteed by, the United States government, the Canadian government, any state, or any municipality or governmental subdivision of a state.

(vi) Commercial paper issued by business corporations when the total of such paper issued by the corporation does not exceed in value a guaranteed short line of credit by a bank.

(vii) Certificates of deposit issued by financial institutions, the deposits of which are insured by the federal deposit insurance corporation or the federal savings and loan insurance corporation.

(viii) New bond or debt issues which may reasonably be expected to be listed on an exchange regulated by the securities exchange act of 1934, 15 U.S.C. S78a et seq.



(ix) Financial futures contracts issued under terms and conditions regulated by a federal regulatory agency and in compliance with the requirements of section 943 of Act No. 218 of the Public Acts of 1956, as amended, being S500.943 of the Michigan Compiled Laws.

(c) Assets allocated to a variable life insurance separate account shall not be invested in any of the following:

(i) Letter or restricted stock, except through shares of an investment company registered under the provisions of 15 U.S.C. S80a-1 et seq.

(ii) Units or other evidences of ownership or a separate account of another insurer, except those registered under the provisions of 15 U.S.C.S80a-1 et seq.

(iii) Real estate other than shares of a real estate investment trust listed as described in subdivision (b)(ii) of this rule.

(d) The separate account shall have sufficient net investment income and readily marketable assets to meet anticipated withdrawals under policies funded by the account.

History: 1979 AC; 1988 AACS.

R 500.857 Separate accounts; limitations on ownership of securities.

Rule 17. The following apply to limitations on ownership by a separate account for variable life insurance:

(a) A variable life insurance separate account shall not purchase or otherwise acquire the securities of any issuer, other than securities issued or guaranteed as to principal and interest by the United States, if immediately after such purchase or acquisition the value of such investment, together with prior investments of such separate account in such security valued as required by these rules, would exceed 10% of the value of the assets of the separate account. The commissioner may waive this limitation in writing if he believes such waiver will not render the operation of the separate account hazardous to the public or the policyholders in this state.

(b) No separate account shall purchase or otherwise acquire the voting securities of any issuer if as a result of such acquisition the insurer and its separate accounts, in the aggregate, will own more than 10% of the total issued and outstanding voting securities of such issuer. The commissioner may waive this limitation in writing if he believes such waiver will not render the operation of the separate account hazardous to the public or the policyholders in this state or jeopardize the independent operation of the issuer of such securities.

(c) The percentage limitation specified in subdivision (a) of this rule shall not be construed to preclude the investment of the assets of separate accounts in shares of investment companies registered pursuant to the investment company act of 1940 if the investments and investment policies of such investment companies comply substantially with the provisions of R 500.856 and other applicable rules.

History: 1979 AC.

R 500.858 Separate accounts; valuation of assets.

Rule 18. The following apply to valuation of assets of a separate account for variable life insurance:

(a) Investments of the separate account shall be valued at their market value on the date of valuation. Market value for investments traded on the recognized exchanges means the last reported sale price on the date of valuation. If there has been no sale on that date, the market value means the last reported bid quotation on the date of valuation. Market value for investments listed on the NASDAQ system means the last representative bid quotation on the valuation date. If an investment ceases to be listed but continues to be traded over the counter, it shall be valued at the lowest bid quotation as it appears on the national quotation bureau sheets.

(b) If the valuation date referred to in subdivision (a) above is a day when the exchange or the NASDAQ system is not open for business, the valuation date shall be the last date when the exchange or the NASDAQ system was open for business.

(c) If an investment ceases to be traded, it shall be valued at fair value as determined in good faith by, or at the direction of, the committee of the separate account, or if there is no such committee, the board of directors of the insurer, but not in excess of the last reported bid quotation. Within 30 days notification of cessation of trading of any investment shall be reported by the insurer to the commissioner of the state of domicile of the

insurer, who shall within a reasonable period of time determine the method of valuation or disposition of such investment.

History: 1979 AC.

R 500.859 Separate accounts; material change in investment policy.

Rule 19. (1) The investment policies of a separate account for variable life insurance operated by insurers authorized under R 500.843 shall not be changed without first filing such change with the insurance commissioner.

(2) A material change in the investment policy of a separate account operated by a domestic insurer or an alien insurer entering the United States through this state and filed under R 500.843(c)(iii) shall not be made without first filing such change with the commissioner not less than 60 days before the effective date of the change.

(3) A material change in the investment policy of a separate account operated by a foreign insurer or an alien insurer not entering the United States through this state, pursuant to the section of the insurance law of the insurer's state of domicile which corresponds to R 500.843(c)(iii), shall not be made without first filing such change with the commissioner not less than 60 days before the effective date of the change.

(4) Any change filed pursuant to this rule shall be effective 60 days after the date it was filed with the commissioner, unless the commissioner notifies the insurer before the end of such 60-day period of his or her disapproval of the proposed change. At any time the commissioner may, after notice and public hearing, disapprove any change that has become effective pursuant to this rule if he or she determines that the change would be detrimental to the interests of the policyholders participating in such separate accounts.

(5) If any policyholder objects to a proposed material change in the investment policy of a separate account and the change becomes effective, the objecting policyholder shall be given the option of converting, within 60 days after the effective date of the change or the receipt of a notice of the options available, whichever is later, without evidence of insurability, under 1 of the following options, to a fixed benefit life insurance policy issued by the insurer or an affiliate:

(a) If the policy is a scheduled premium policy, as defined by R 500.841 and is in force on a premium paying basis, an insurer shall offer either or both of the following options:

(i) A conversion as of the original issue age to a substantially comparable form of general account life insurance, based on the insurer's premium rates for a general account life insurance policy at the original issue age, for an amount of insurance not exceeding the death benefit of the variable life insurance policy on the date of conversion. If the cash value of the variable life insurance policy exceeds the cash value of the general account life insurance policy, the difference shall be paid to the policyholder. If the cash value of the general account life insurance policy exceeds the cash value of the variable life insurance policy, the difference shall be paid by the policyholder.

(ii) Conversion as of the attained age to a substantially comparable form of general account life insurance for an amount of insurance not exceeding the excess of the death benefit of the variable life insurance policy on the date of conversion over either of the following:

(A) Its net cash surrender value on the date of conversion if the withdrawing policyholder elects to surrender the variable life policy for its net cash surrender value.

(B) The death benefit payable under any paid-up insurance option if the withdrawing policyholder elects such nonforfeiture option under the variable life policy.

(b) If the policy is in force as paid-up variable life insurance, then conversion shall be to a substantially comparable paid-up general account life insurance policy for an amount of insurance not exceeding the death benefit of the variable life insurance policy on the date of conversion.

(c) If the policy is a flexible premium policy, as defined by R 500.841 and is in force, an insurer shall offer a conversion to a substantially comparable flexible premium general account life insurance policy for an amount of insurance not exceeding the death benefit of the variable life insurance policy on the date of conversion. If the cash value of the variable life insurance policy exceeds the cash value of the general account life insurance policy, the difference shall be paid to the policyholder. If the cash value of the general account life insurance policy exceeds the cash value of the variable life insurance policy, the difference shall be paid by the policyholder.

History: 1979 AC; 1988 AACS.

R 500.860 Separate accounts; allowable charges.

Rule 20. The insurer shall disclose, in writing, before or at the time of delivery of the policy, all charges that may be made against the variable life insurance separate account, including, but not limited to, all of the following:

- (a) Taxes or reserves for taxes attributable to investment gains and income of the separate account.
- (b) Actual cost of reasonable brokerage fees and similar direct acquisition and sales costs incurred in the purchase or sale of separate account assets.
- (c) Actuarially determined costs of insurance (tabular costs) and the release of reserves and benefit base consistent with the release of separate account liabilities.
- (d) Charges for administrative expenses and investment management expenses, including internal costs attributable to the investment management of assets of the separate account.
- (e) A charge for mortality and expense guarantees at a rate specified in the policy.
- (f) Any amount in excess of those required to be held in the separate account.
- (g) Any charges for incidental insurance benefits.

History: 1979 AC; 1988 AACS.

R 500.861 Standards of conduct and conflicts of interest.

Rule 21. The following apply to standards of conduct and conflict of interest:

(a) Every insurer seeking approval to enter into the variable life insurance business in this state, shall adopt by formal action of its board of directors, and file with the commissioner, a written statement specifying the standards of conduct of the insurer, its officers, directors, employees, and affiliates with respect to investments of variable life insurance separate accounts and variable life insurance operations. Such standards of conduct shall be binding on the insurer and those to whom it refers and shall contain at a minimum the items contained in subdivision (c) of this rule.

(b) Rules under any provisions of the insurance laws of this state or any regulation applicable to the officers and directors of insurance companies with respect to conflicts of interest shall also apply to members of any separate account's committee or other similar body. No officer or director of such company nor any member of any managing committee or body of separate account shall receive, directly or indirectly, any commission or any other compensation with respect to the purchase or sale of assets of such separate account. The board of directors of the insurer is responsible for all acts concerning the separate account, except to the extent that authority must be exercised by a separate account committee established pursuant to section 925(3) of the insurance code of 1956, as amended, being S500.925(3) of the Michigan Compiled Laws.

(c) Unless otherwise approved in writing by the commissioner in advance of the transaction, with respect to variable life insurance separate accounts, an insurer or affiliate thereof shall not:

(i) Sell to, or purchase from, any such separate account established by the insurer any securities or other property, other than variable life insurance policies.

(ii) Purchase, or allow to be purchased, for any such separate account, any securities of which the insurer or an affiliate is the issuer.

(iii) Accept any compensation, other than a regular salary or wages from such insurer or affiliate, for the sale or purchase of securities to or from any such separate account other than as provided in subdivision (d)(iii) of R 500.861.

(iv) Engage in any joint transaction, participation, or common undertaking whereby such insurer or an affiliate participates with such a separate account in any transaction in which an insurer or any of its affiliates obtains an advantage in the price or quality of the item purchased, in the service received, or in the cost of such service and the insurer or any of its other affiliates is disadvantaged in any of these respects by the same transaction.

(v) Borrow money or securities from any such separate account other than under a policy loan provision.

(d) No provision of this rule shall be construed to prohibit any of the following:

(i) The investment of separate account assets in securities issued by 1 or more investment companies registered pursuant to the investment company act of 1940 which is sponsored or managed by the insurer or an affiliate, and the payment of investment management or advisory fees on such assets.

(ii) The combination of orders for the purchase or sale of securities for the insurer, an affiliate thereof, any separate accounts, or any 1 or more of them, which is for their mutual benefit or convenience so long as any securities so purchased or the proceeds of any sale thereof are allocated among the participants on some predetermined basis expressed in writing which is designed to assure the equitable treatment of all participants.

(iii) An insurer or an affiliate to act as a broker or dealer in connection with the sale of securities to or by such separate account; however, any commission fee or remuneration charged therefor shall not exceed minimum broker's commission established for any such transaction by any national securities exchange through which such transaction could be effected or such charges prevailing for arm's length transactions in the ordinary course of business in the community where such transaction is effected.

(iv) The rendering of investment management or investment advisory services by an insurer or affiliate, for a fee, subject to the provisions of this rule and R 500.862.

(e) The commissioner may, upon the written request of an insurer or an affiliate, approve a particular transaction or series of proposed transactions which would otherwise be prohibited under subdivision (c) if he determines such transaction is not unfair or inequitable to persons affected under the circumstances of such transactions.

History: 1979 AC.

#### R 500.862 Investment advisory contracts.

Rule 22. (1) An insurer shall not enter into a contract under which any person undertakes, for a fee, to regularly furnish investment advice to such insurer with respect to its separate accounts maintained for variable life insurance policies unless:

(a) The person providing such advice is registered as an investment adviser under the investment advisors act of 1940;

(b) The person providing such advice is an investment manager under the employee retirement income security act of 1974, 88 Stat. 829, with respect to the assets of each employee benefit plan allocated to the separate account; or

(c) The insurer has filed with the commissioner and continues to file annually the following information and statements concerning the proposed adviser:

(i) The name and form of organization, state of organization, and its principal place of business.

(ii) The names and addresses of its partners, officers, directors, and persons performing similar functions or, if such an investment adviser be an individual, or such individual.

(iii) A written standard of conduct complying in substance with the requirements of subdivision (a) of R 500.861 which has been adopted by the investment adviser and is applicable to the investment adviser, its officers, directors, and affiliates; and any other persons or entities performing similar functions.

(iv) A statement provided by the proposed adviser as to whether the adviser or any person associated therewith:

(A) Has been convicted within 10 years of any felony or misdemeanor arising out of such person's conduct as an employee, salesman, officer or director of an insurance company, a bank, an insurance agent, a securities broker, or an investment adviser; involving embezzlement, fraudulent conversion, or misappropriation of funds or securities, or involving the violation of 18 U.S.C. SS1341, 1342, and 1343.

(B) Has been permanently or temporarily enjoined by order, judgment, or decree of any court of competent jurisdiction from acting as an investment adviser, underwriter, broker, or dealer, or as an affiliated person or as an employee of any investment company, bank, or insurance company, or from engaging in, or continuing any conduct or practice in connection with, any such activity.

(C) Has been found by federal or state regulatory authorities to have willfully violated, or has acknowledged willful violation of, any provision of federal or state securities laws or state insurance laws or of any rule or regulation under any such laws.

(D) Has been censured, denied an investment adviser registration, had a registration as an investment adviser revoked or suspended from being associated with an investment adviser by order of federal or state regulatory authorities.

(2) Such investment advisory contract shall be in writing and provide that it may be terminated by the insurer without penalty to the insurer or the separate account upon not more than 60 days' written notice to the investment adviser.

(3) The commissioner, after notice and opportunity for hearing, may by order prohibit execution of such contract, or require such investment advisory contract to be terminated, if he deems continued operation thereunder to be hazardous to the public or the insurer's policyholders.

(4) If the commissioner finds that the public safety or welfare requires emergency action, and incorporates the finding in his orders, he may summarily suspend an investment advisory contract.

History: 1979 AC.

R 500.863 Information required to be delivered to policy applicant.

Rule 23. The requirements of this rule shall be deemed to have been satisfied by the delivery to the applicant of a prospectus included in a registration statement which satisfies the requirements of the securities act of 1933, 15 U.S.C. S77A et seq., and which was declared effective by the securities and exchange commission to the extent that the prospectus contains the information required by this rule. An insurer delivering or issuing for delivery in this state any variable life insurance policies shall deliver to the applicant for the policy, and obtain a written acknowledgment of receipt from such applicant coincident with, or before, the execution of the application, the following information:

(a) A summary explanation, in nontechnical terms, of the principal features of the policy, including a description of the manner in which the variable benefits will reflect the investment experience of the separate account and the factors which affect such variation. Such explanation shall include notices of the provisions required by R 500.850(a)(iv) and (f). (b) A statement of the investment policy of the separate account, including both of the following:

(i) A description of the investment objective and orientation intended for the separate account and the principal types of investments intended to be made as required by R 500.843(c)(iii).

(ii) Any restriction or limitations on the manner in which the operations of the separate account are intended to be conducted.

(c) A statement of the net investment return of the separate account for each of the last 10 years for which the separate account was in existence.

(d) A statement of the annual taxes, brokerage fees, and all other costs, including all allowable charges whether expressed as an annual percentage or otherwise, levied against the separate account during the previous year.

(e) A summary of the method to be used in valuing assets held by the separate account.

(f) A summary of the federal income tax liabilities of the policy applicable to the insured, the policy owner, and the beneficiary.

(g) Illustrations of benefits payable under any variable life insurance contract shall be prepared by the insurer and shall not include projections of past investment experience into the future or attempted predictions of future investment experience; however, nothing contained in this subdivision shall be construed to prohibit the use of hypothetical assumed rates of return to illustrate possible levels of benefits if it is made clear that such assumed rates are hypothetical only.

History: 1979 AC; 1988 AACS.

R 500.864 Policy application.

Rule 24. The application for a variable life insurance policy shall contain all of the following statements and questions:

(a) A prominent statement that the death benefit may be variable or fixed under specified conditions.

(b) A prominent statement that cash values may increase or decrease in accordance with the experience of the separate account, subject to any specified minimum guarantees.

(c) Questions designed to elicit information which enables the insurer to determine the suitability of variable life insurance for the applicant.

(d) A prominent statement that, in the case of a variable endowment policy, the amount of the endowment payable at maturity is not guaranteed, but is dependent upon the then cash surrender value, subject to any specified minimum guarantees.

History: 1979 AC; 1988 AACS.

R 500.865 Reports to policyholders.

Rule 25. Any insurer delivering or issuing for delivery in this state any variable life insurance policies shall mail to each variable life insurance policyholder, at his or her last known address, all of the following statements, notice, report, and information:

(a) Within 30 days after each anniversary of the policy, a statement or statements of all of the following:

(i) The cash surrender value.

(ii) Death benefit.

(iii) Any partial withdrawal.

(iv) Any policy loan.

(v) Any interest charge.

(vi) Any optional payments allowed under the policy pursuant to R 500.851 computed as of the policy anniversary date. Such statement may be furnished within 30 days after a specified date in each policy year if the information contained therein is computed as of a date not more than 65 days before the mailing of such notice. This statement shall state that, in accordance with the investment experience of the separate account, the cash values and the variable death benefit may increase or decrease and the statement shall prominently identify any value described therein which may be recomputed before the next statement required by this rule. If the policy guarantees that the variable death benefit on the next policy anniversary date will not be less than the variable death benefit specified in such statement, the statement shall be modified to so indicate. For flexible premium policies, the statement shall contain a reconciliation of the change since the previous statement in cash value and cash surrender value, if different, because of payments made, less deductions for expense charges; withdrawals; investment experience; insurance charges; and any other charges made against the cash value. In addition, the statement shall show the projected cash value and cash surrender value, if different, as of 1 year from the end of the period covered by the statement assuming that planned periodic premiums, if any, are paid as scheduled, guaranteed costs of insurance are deducted, and the net return is equal to the guaranteed rate or, in the absence of a guaranteed rate, is not more than zero. If the projected value is less than zero, a warning message shall be included that states that the policy may be in danger of terminating without value in the next 12 months unless additional premium is paid.

(b) Annually, a statement or statements including all of the following information:

(i) A summary of the financial statement of the separate account, including a calculation of the net investment return, based on the annual statement last filed with the commissioner.

(ii) The net investment return of the separate account for the most recent year and, for each year after the first, a comparison of the investment rate of the separate account during the most recent year with the investment rate during prior years, up to a total of 5 years, when available.

(iii) A list of investments held by the separate account as of a date not earlier than the end of the last year for which an annual statement was filed with the commissioner.

(iv) Any charges, taxes, and brokerage fees determined on an accrual basis payable by the separate account during the previous year, each expressed as a dollar amount and a percentage and the total expressed as a dollar amount and as a percentage of the assets of the separate account.

(v) A statement of any change in any of the following since the last statement:

(A) The investment objective and orientation of the separate account.

(B) Any investment restriction or material quantitative or qualitative investment requirement applicable to the separate account.

(C) The investment adviser of the separate account.

(vi) The name of each broker or dealer handling portfolio transactions on behalf of the separate account in which the insurer or an affiliate has any material interest, directly or indirectly, and the nature of such transactions and the amount of compensation received by each such broker or dealer from business originating with the separate account during the preceding fiscal year.

(vii) The names and principal occupations of each principal executive officer and each director of the insurer.

(viii) The names of all parents of the insurer and the basis of control of the insurer, and the name of any person who is known to own, of record or beneficially, 10% or more of the outstanding voting securities of the company.

(c) Notwithstanding the requirements in subdivision (b) of this rule, a notice of any change in investment policy of the separate account, pursuant to R 500.859, shall be provided not later than 6 months from the effective date of that change. This requirement shall be considered satisfied if an annual report containing such notice is provided not later than 6 months from the effective date of the change or if a substantially similar notice is made pursuant to any federal securities laws not later than 6 months from the effective date.

(d) For flexible premium policies, a statement shall be sent to the policyholder if the amounts available under the policy, on any policy processing day, to pay the charges authorized by the policy are less than the amount necessary to keep the policy in force until the next following policy processing day. The statement shall indicate the minimum payment required under the terms of the policy to keep it in force and the length of the grace period for payment of such amount.

(e) Such additional information concerning the variable life insurance operations or the variable life insurance separate accounts as the commissioner shall deem appropriate.

History: 1979 AC; 1988 AACS.

R 500.866 Qualification of agents for the sale of variable life insurance.

Rule 26. The following apply to qualifications of agents for the sale of variable life insurance:

(a) No person shall sell or offer for sale in this state any variable life insurance policy unless such person is an agent and has filed with the commissioner, in a form satisfactory to the commissioner, evidence that such person holds any license or authorization which may be required for the solicitation or sale of variable life insurance by any federal or state securities law.

(b) Any examination conducted by the commissioner for the purpose of determining the eligibility of any person for licensing as an agent shall, after the effective date of these rules, include such questions concerning the history, purpose, regulation, and sale of variable life insurance as the commissioner deems appropriate.

(c) Any person qualified in this state under this rule to sell or offer to sell variable life insurance shall immediately report to the commissioner all of the following:

(i) Any suspension or revocation of his agent's license in any other state or territory of the United States.

(ii) The imposition of any disciplinary sanction, including suspension, or revocation of or denial of registration, imposed upon him by any national securities exchange, or national securities association, or any federal, state, or territorial agency with jurisdiction over securities or variable life insurance.

(iii) Any judgment or injunction entered against him on the basis of conduct deemed to have involved fraud, deceit, misrepresentation, or violation of any insurance or securities law or regulation.

(d) The commissioner may reject any application or suspend or revoke or refuse to renew any agent's qualification under this rule to sell or offer to sell variable life insurance upon any ground that would bar such applicant or such agent from being licensed to sell other life insurance contracts in this state. The rules governing any proceeding relating to the suspension or revocation of an agent's license shall also govern any proceeding for suspension or revocation of an agent's qualification to sell or offer to sell variable life insurance.

History: 1979 AC.