



COMMONWEALTH OF PUERTO RICO

OFFICE OF THE COMMISSIONER OF INSURANCE

IN REPLY PLEASE
REFER TO:

Circular letter No. AV-IV-6-846-81
September 28, 1981

TO ALL LIFE INSURANCE COMPANIES AUTHORIZED TO
TRANSACT BUSINESS IN PUERTO RICO

Re: Guidelines for submission and approval
of life insurance policies with pro-
jected indeterminate or adjustable
premium rates less than or equal to
maximum guaranteed premium rates

Dear Sirs:

The Office of the Commissioner of Insurance of Puerto Rico has received for approval life insurance policy forms which provide that the premium at time of issue and subsequent premiums will be established by the insurer based on current projected assumptions for such factors as investment earnings, mortality, persistency and expense, but subject to a maximum guaranteed premium set forth in the policy. The initial premium scale for these new policies, based on current projected assumptions, is generally lower than the premiums which would be charged if the assumptions used were those applicable to a traditional life insurance policy with a fixed guaranteed premium.

Although this Office recognizes that this projected premium approach may be beneficial to policyholders, we feel it is necessary to establish the following guidelines for approval of such policies to prevent possible unfair and deceptive practices:

A. Policy Forms

1. It must be stated in the policy that adjustments in premiums will be by class and based upon changes in future expectations for such factors as investment earnings, mortality, persistency and expenses.
2. The policy must describe the insurer's contractual right to adjust the premiums.
3. The Grace Period provision should refer to the premium due, rather than the premium stated in the policy.

4. The policy shall set forth in equal prominence the initial premium and a maximum guaranteed premium scale.
5. The policy shall describe the frequency with which premiums for in-force policies shall be reviewed to determine whether an adjustment in premiums should be made.

B. Premium rates - Actuarial Memorandum

1. Filing Procedures

The insurer must include with its policy filing a statement similar to the following:

The _____ (Company) of _____ hereby states that:

- a) The initial premium scale is lower than the premium the Company would charge for a policy with fixed premiums having similar benefits and provisions issued at the same time in the same risk class.
- b) The Company will maintain in its home or principal office a complete description of the projected assumptions underlying the initial premium scale and all subsequent revised adjustable premium scales. Such information shall be subject to inspection by the Commissioner.
- c) Changes in the table of premiums for in-force policies do not include an upward change in the maximum guaranteed premium applicable to such policies.

2. General Requirements:

- a) This Office must be notified when any changes in the premium rate scale shall become effective.
- b) The pricing assumptions for in-force policies, unless they are subject to an initial guaranteed period, must be reviewed whenever the premiums for new issues are changed, but in no event more often than once each policy year nor less often than once every five policy years.
- c) Any filing of new plans and/or a change in premiums on in-force policies shall be accompanied by a statement of actuarial opinion stating that the assumptions are reasonable, appear to be self-supporting and for future years on in-force policies such assumptions do not discriminate unfairly between new issues and in-force policies.

- d) An adjustment in premiums cannot distribute past gains or recoup past losses but will be based on changes in future expectations for such factors as: investment earnings, mortality, persistency and expenses. The statement of actuarial opinion shall include a statement that the revised premium scale does not unfairly discriminate among adjustable premium policyholders.
- e) The insurer shall maintain in its home or principal office a complete file containing a description of the projected assumptions underlying the new premium scale as well as the assumptions underlying all previous premium scales for adjustable-premium life insurance policies still in force. Such information shall be subject to inspection by this Office.

C. Non-Forfeiture Values and Reserves.

Policy cash values must be fixed at issue. Minimum cash values required by section 13.280 and minimum reserves required by section 5.100 of the Insurance Code of Puerto Rico, will be determined on the basis of the maximum premium scale.

D. Advertising

Advertising material for the adjustable premium product must be available for our Office review and should include the following:

1. Equal prominence to the initial premium scale and maximum guaranteed premiums.
2. If any non-guaranteed premium rates are shown, prominent disclosure must be given to their non-guaranteed nature and the fact that they may change.

E. Disclosure

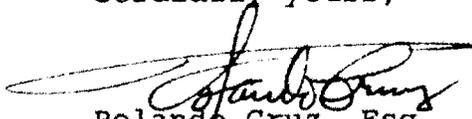
Any Disclosure material for the adjustable premium product should include the following:

1. The information required in D above.
2. The insurer shall disclose to all prospective purchasers of an adjustable-premium life insurance policy, the initial premium scale and, in at least equal prominence, the maximum guaranteed premium scale prior to accepting the applicant's initial premium or premium deposit, unless the purchaser is given an unconditional refund privilege of at least ten days, in which event the foregoing information must be disclosed at or prior to delivery of the policy. The non-guaranteed nature

of the initial premium scale and the fact that the premium may change shall be prominently disclosed. Any cost indexes using the initial premium scale shall be accompanied by prominent disclosure of the effects on the indexes of the difference between the initial premium scale and the maximum guaranteed premium scale.

Failure to comply with these guidelines may be the basis for withdrawal of approval of the insurer's previously approved policy form, as well as the basis for the imposition of any other sanction prescribed by the Insurance Code of Puerto Rico. Strict compliance with the provisions herein stipulated is therefore required.

Cordially yours,

A handwritten signature in cursive script, appearing to read "Rolando Cruz", written in dark ink. The signature is fluid and somewhat stylized, with a long horizontal flourish extending to the left.

Rolando Cruz, Esq.
Commissioner of Insurance