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MEMORANDUM

TO: IIPRC Management Committee

FROM: Product Standards Committee

DATE: May 2, 2016

SUBJECT: Amendment to Remove Section (1)(a)(ii) of the general War Exclusion Provision under the Exclusion Section of the applicable Uniform Standards for individual and group Life Insurance Policies

The Product Standards Committee (PSC) of the Interstate Insurance Product Regulation Commission (Commission) brings forth a recommendation to amend the Uniform Standards listed in Appendix A to remove Section (1)(a)(ii) of the general War Exclusion provision under the Exclusion Section. At the joint meeting of the Management Committee and Commission held on April 2, 2016, the Management Committee approved a motion requesting the Product Standards Committee review the concerns expressed by the Connecticut Insurance Department regarding the likelihood that this provision could lead to a war exclusion for a known member of military and provide feedback to the Management Committee within the next 30 days on whether clarifying changes should be made to ensure the prohibition on the war exclusion for applicants that are military service members is not overridden.

On March 1, 2016, Connecticut Commissioner Wade requested the Commission consider removing Section (1)(a)(ii) of the war exclusion provision across several Uniform Standards for individual and group Life Insurance Policies. The Connecticut Insurance Department and Connecticut state legislators had a serious concern that the current wording, specifically Section (1)(a)(i) and (1)(a)(ii), could conflict in a way that insureds known to be members of the armed forces could be precluded from receiving the death benefit of a policy due to the Compact's war exclusion provision.

The Product Standards Committee, after notice and opportunity for written comment, held a public conference call to receive comments from regulators, interested parties as well as members of the Legislative Committee, Consumer Advisory Committee and Industry Advisory Committee. During this public call, no comments were received in opposition to making this change for purposes of clarification.

Upon review of the general war exclusion provision that is found in all Uniform Standards for individual and group Life Insurance Policies (see Appendix A), the current provision, specifically Section (1)(a)(i), provides an unequivocal prohibition excluding the risk of death as a result not only of war but of any act related to military service if the proposed insured represents at the time of application that he or she is a member of the military, military reserves or the National Guard notwithstanding whether they are active or inactive. The PSC notes the confusion with the meaning and applicability of Section (1)(a)(ii) may arise because this subsection was taken from a 1950s NAIC model where war exclusion was permissible for what is referred to as combatants but really was a permissible exclusion for military service members. The drafters of this provision within the Uniform Standards added an opening clause to this provision “Other than as described in (1)(i) above” to indicate the war exclusion cannot apply in a life insurance policy that is delivered or issued for delivery to any individual known to be a member of the armed forces.¹

The PSC did not receive comments or hear concerns that eliminating Section (1)(a)(ii) to avoid confusion would change the meaning or application of Section (1)(a)(i), which prohibits a war exclusion. The PSC recommends removing Section (1)(a)(ii) to clarify that Section (1)(a)(i) governs the prohibition to exclude the risk of death as a result not only of war but of any act related to military service if proposed insured represents at the time of application that he or she is a member of the military, military reserves or the National Guard notwithstanding whether they are active or inactive. The PSC recommends adding the term “United States” to Section (1)(a)(i) to clarify this prohibited war exclusion only applies to members of the United States military, military reserves or the National Guard and not members of the military of another nation.

The Product Standards Committee therefore brings forth a recommendation to amend the Uniform Standards listed in Appendix A in a manner provided in Appendix B.

¹ By way of background, Connecticut has a statute, CGS §38a-430(b), that provides: *(b) No life insurance or annuity policy or contract shall be delivered or issued for delivery to any individual in this state known to be an active member of the armed forces, as defined in section 27-103, or of the National Guard, nor shall any application, rider or endorsement be used in connection therewith, that excludes coverage if the insured's death is related to war, declared or undeclared, or any act related to military service except for an accidental death coverage such as double indemnity, which may be excluded.*

Appendix A

INDIVIDUAL TERM LIFE PRODUCT LINE

Individual Term Life Insurance Policy Standards
Individual Single Premium Term Life Insurance Policy Standards
Individual Joint Last to Die Survivorship Term Life Insurance Policy Standards
Individual Single Premium Joint Last to Die Survivorship Term Life Insurance Policy Standards

INDIVIDUAL WHOLE LIFE PRODUCT LINE

Individual Whole Life Insurance Policy Standards
Individual Single Premium Whole Life Insurance Policy Standards
Individual Joint Last to Die Survivorship Whole Life Insurance Policy Standards
Individual Single Premium Joint Last to Die Survivorship Whole Life Insurance Policy Standards
Individual Current Assumption Whole Life Insurance Policy Standards

INDIVIDUAL ENDOWMENT INSURANCE PRODUCT LINE

Individual Endowment Insurance Policy Standards
Individual Single Premium Endowment Insurance Policy Standards
Individual Joint Last to Die Survivorship Endowment Insurance Policy Standards
Individual Single Premium Joint Last to Die Survivorship Endowment Insurance Policy Standards

INDIVIDUAL NON-VARIABLE ADJUSTABLE LIFE INSURANCE PRODUCT LINE

Individual Flexible Premium Adjustable Life Insurance Policy Standards (Universal Life)
Individual Joint Last to Die Survivorship Flexible Premium Adjustable Life Insurance Policy Standards
Individual Modified Single Premium Adjustable Life Insurance Policy Standards

INDIVIDUAL VARIABLE ADJUSTABLE LIFE INSURANCE PRODUCT LINE

Individual Modified Single Premium Variable Life Insurance Policy Standards
Individual Modified Single Premium Joint First to Die Variable Life Insurance Policy Standards
Individual Flexible Premium Variable Adjustable Life Insurance Policy Standards
Individual Joint Last to Die Survivorship Flexible Premium Variable Adjustable Life Insurance Policy Standards

GROUP TERM LIFE PRODUCT LINE

Group Term Life Insurance Policy and Certificate Standards for Employer Groups

J. EXCLUSIONS

- (1) Any exclusion applied to the death benefit of the policy, except for accidental death benefits, shall be limited to the following:
 - (a) War
 - (i) If in the application the proposed insured represents that he or she is a member of the **United States** military, military reserves, or the National Guard, whether active or inactive, risk of death as a result of war or any act related to military service shall not be excluded from the death benefit of the policy.
 - ~~(ii) Other than as described in (i) above, risk of death as a result of war or act of war may be excluded from the death benefit of the policy under the following conditions:
 - ~~(A) As a result of war or act of war, if the cause of death occurs while the insured is serving in the military, naval or air forces of any country, combination of countries or international organization, provided such death occurs while in such forces or within six months after termination of service in such forces; or~~
 - ~~(B) As a result of the special hazards incident to service in the military, naval or air forces of any country, combination of countries or international organization, if the cause of death occurs while the insured is serving in such forces and is outside the home area, provided such death occurs outside the home area or within six months after the insured's return to the home area or area in such forces or within six months after the termination of service in such forces, whichever is earlier.~~~~
 - ~~(ii)~~ Regarding non-combatant civilian exclusions, risk of death may be excluded under the following conditions:
 - (A) As a result of war or an act of war while the insured is serving in any civilian non-combatant unit serving with such forces, provided such death occurs while serving in such units or within six months after termination of service in such units, whichever is earlier.
 - (B) As a result of the special hazards incident to service in any civilian non-combatant unit serving with such forces, if the cause of death occurs while the insured is serving in such units and is outside the home area, provided such death occurs outside the home area or

within six months after the insured's return to the home area while serving in such units or within six months after the termination of service in such units, whichever is earlier.

(iii) Regarding civilian exclusions, risk of death may be excluded under the following conditions:

(A) As a result of war or an act of war, within two years from the date of issue of the policy, while the insured is not serving in such forces or units, if the cause of death occurs while the insured is outside the home area, provided such death occurs outside the home area or within six months after the insured's return to the home area.

(iv) "Home area" is defined to include at least the 50 states of the United States and its territories, the District of Columbia and Canada. "War" includes, but is not limited to, declared war, and armed aggression by one or more countries resisted on orders of any other country, combination of countries or international organization. "Act of war" means any act peculiar to military, naval or air operations in time of war