

304.15-702 Permitted questioning of life insurance applicant concerning financing of premium payments.

(1) In addition to other questions an insurer may lawfully pose to a life insurance applicant, insurers may inquire in the application for insurance whether the proposed owner intends to pay premiums with the assistance of financing from a lender that will use the policy as collateral to support the financing.

(a) If, as described in KRS 304.15-020(17), the loan provides funds which can be used for a purpose other than paying for the premiums, costs, and expenses associated with obtaining and maintaining the life insurance policy and loan, the application shall be rejected as a violation of the prohibited practices in KRS 304.15-717.

(b) If the financing does not violate KRS 304.15-717 in this manner, the insurer:

1. May make disclosures to the applicant and the insured, either on the application or an amendment to the application to be completed no later than the delivery of the policy, which shall include but not be limited to the following statement or a substantially similar statement:

"If you have entered into a loan arrangement where the policy is used as collateral, and the policy does change ownership at some point in the future in satisfaction of the loan, the following may be true:

- a. A change of ownership could lead to a stranger owning an interest in the insured's life;
- b. A change of ownership could in the future limit your ability to purchase future insurance on the insured's life because there is a limit to how much coverage insurers will issue on one (1) life;
- c. Should there be a change of ownership and you wish to obtain more insurance coverage on the insured's life in the future, the insured's higher issue age, a change in health status, or other factors may reduce the ability to obtain coverage and may result in significantly higher premiums; and
- d. You should consult a professional advisor, since a change in ownership in satisfaction of the loan may result in tax consequences to the owner, depending on the structure of the loan."; and

2. May require certifications from the applicant or the insured or both which shall include but not be limited to the following statement or a substantially similar statement:

"I certify that:

- a. I have not entered into any agreement or arrangement providing for the future sale of this life insurance policy;
- b. My loan arrangement for this policy provides funds sufficient to pay for some or all of the premiums, costs, and expenses associated with obtaining and maintaining my life insurance

policy, but I have not entered into any agreement by which I am to receive consideration in exchange for procuring this policy; and

c. The borrower has an insurable interest in the insured."

Effective: July 15, 2008

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