



## Memo

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**To: All Distributors and Office Administrators**

**From: Bob Bovaird, Compliance Officer**

**Date: February 27, 2002**

**Subject: Replacements**

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This bulletin replaces all previous bulletins or inter-office memorandums regarding replacements.

Judging by the frequent questions we receive and the follow-up we undertake, this bulletin is intended to assist our distributors, their administrators and their advisors in understanding the replacement requirements that exist throughout the country. Please ensure the appropriate distribution of this bulletin to your administrators and advisors.

### **What is the basic rule?**

Regulations concerning replacement are imposed by provincial governments and not by life insurers. Replacement regulations apply to contracts of life insurance where one life policy is replaced by another life policy. Currently, they do not apply to deferred annuities or segregated fund policies except where an annuity (which includes a deferred annuity or segregated fund) is replaced by a life insurance policy. Replacement is any transaction whereby life insurance is purchased in a single contract or in several related contracts and, **as a consequence**, one or more contracts of life insurance are:

- a) rescinded, lapsed or surrendered;
- b) changed to paid-up insurance or continued as extended term insurance or under automatic premium loan;
- c) changed in any manner so as to effect a reduction in benefits;
- d) changed so that cash values in excess of 50% are released; and/or
- e) subjected to borrowing of any policy loan values, whether in a single loan or under a schedule of borrowing over a period of time, whereby an amount in excess of 50% of the cash value is borrowed.

### **What does this mean in practice?**

In practice, any time you are replacing another's company's policy with a policy through Transamerica (an external replacement) or replacing a Transamerica policy with another Transamerica policy (an internal replacement), Disclosure Forms are required.

Internal replacements also include policy changes that result in the following:

- Basic coverage being reduced on an existing policy and replaced with an application for new coverage.
- A policy change which results in the cancellation of an existing policy and issue of a currently-dated policy. This may include policies that are the subject of a Transamerica Upgrade program.
- An increase in the basic coverage of an existing policy if, as a result, there is cancellation of another Transamerica policy.

The rules covering replacement apply to any life product, **including term products**. Therefore a term policy that is replaced by another term policy requires a Disclosure Form, even if the premium on the new policy is lower.

### **Are there exceptions to the basic rule?**

Yes. The basic rule does **not** apply to:

- a) the exercise of a contractual conversion privilege (such privileges are usually found in term insurance policies only);
- b) the replacement of a life insurance policy by an annuity; or
- c) the replacement of an individual life insurance policy with group insurance.

### **When are replacement forms to be completed?**

All provincial regulations require that replacement forms are to be completed prior to completion of the application and are to be sent to both the new and existing insurers. Transamerica requires that replacement forms be submitted with the life application for new business or the application for policy change. To comply with provincial regulations, Transamerica cannot waive or modify these requirements and cannot issue policies until Disclosure Forms are received.

### **Non-compliance is an offence**

Failure to disclose on the Application and Advisor's Report that the application is intended to replace an existing policy; failure to properly complete the Disclosure Statement required, and/or failure to otherwise comply with provincial replacement regulations, is an offence under provincial Insurance Acts. Transamerica is obligated under provincial regulations and CLHIA Guidelines to report any advisor who fails to comply with these regulations.

Should you have questions in regard to the content of this bulletin they may be referred to Bob Bovaird, Compliance Officer, by email at [bob.bovaird@transamerica.com](mailto:bob.bovaird@transamerica.com) or at 416-290-2873. Day-to-day inquiries in regard to replacements involving specific cases should be referred to Laura Baker, Supervisor, New Business and Policy Change, at [laura.baker@transamerica.com](mailto:laura.baker@transamerica.com) or at 416-290-2849.



