

Company Memorandum 2023-001

Date: Jan. 3, 2023

<input checked="" type="checkbox"/>	Massachusetts Mutual Life Insurance Company
<input checked="" type="checkbox"/>	C.M. Life Insurance Company
<input checked="" type="checkbox"/>	MML Bay State Life Insurance Company
<input type="checkbox"/>	MML Investors Services

TO: All representatives

FROM: MassMutual Financial Advisors

TOPIC: Personal Banking Strategies to Promote Whole Life Insurance

EFFECTIVE: Immediately

REPLACES: Not applicable

DISCARD AFTER: Hold indefinitely

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Summary MassMutual does not support concepts that promote or position the purchase or sale of whole life insurance as a **personal banking** or similar concept focused on maximizing policy cash value and immediate and regular access through policy loans.

Overview

Using strategies that position whole life insurance as a personal banking or similar concept is inconsistent with MassMutual's policy because these strategies often:

- Are misleading to customers, in violation of insurance laws and regulations, by positioning the policy as a checking, savings, or retirement vehicle and something other than life insurance.
- Violate life insurance illustration regulations by creating personal financial plans using policy values without providing the supporting basic life insurance illustration with corresponding guaranteed values and required disclosures.
- Promote large deposits and then early or immediate access through policy loans that are typical red flags for money laundering.
- Are used with younger customers who have less disposable income or investment sophistication and often have no dependents and, hence, no insurance need.
- Result in policies having a higher lapse risk if customers do not fully understand the impacts of policy loans, interest accrual, and the likelihood that repayment will be required, especially in rising interest rate environments.

Background

Life insurance products have traditionally been afforded favorable tax treatment for both the death benefit and cash value accumulation because of the valuable societal benefits life insurance provides. MassMutual has strongly objected, and taken decisive action, in circumstances where the benefits of life insurance are abused. For example, the company was a strong industry advocate against Stranger Originated Life Insurance (STOLI) in the mid-2000s when investment firms, hedge funds, and other institutions

promoted life insurance sales solely intended for purchase by newly created investment pools. These transactions lacked insurable interest at the outset, were contrary to any societal benefit, and potentially risked the favorable tax preferences afforded life insurance.

Similarly, MassMutual is aware of numerous strategies that position life insurance as a type of personal banking arrangement. These strategies have many names, including *Be Your Own Banker*, *Infinite Banking*, *Your Personal Banker*, *Bankonyourself.com*, and many others. These designs typically disregard the protection elements of life insurance and focus solely on maximizing cash value, and the early—and often immediate—access to cash values through policy loans.

“Personal banking” concepts overly-emphasize access to cash values

MassMutual participating whole life insurance offers a combination of life insurance protection, cash value accumulation, guarantees and income tax advantages. One important feature of whole life is that the policy owner may access the policy’s cash value through policy loans to help meet future major expenses or emergencies.

Personal banking and similar concepts are inconsistent with MassMutual company policy, however, because they focus primarily on accessing the cash value above all else, often minimizing or disregarding whether the client needs or can afford the insurance. Instead, cases are designed to generate a significant amount of cash value in the policy, particularly in the early years, with the client often accessing the policy’s cash value almost immediately after issue – such as to meet the client’s daily expenses or even for other investment purposes – essentially likening the policy to the client’s own personal “bank.”

Personal banking sales strategies are high risk

Our experience has shown that strategies that promote whole life insurance using “personal banking” concepts often violate state insurance laws, can lead to allegations of inappropriate sales practices and often result in customer complaints and unwinding of the policy. Key risk areas include:

Unfair trade practices. Positioning life insurance as a savings, checking, or retirement vehicle, and something other than life insurance violates state unfair insurance trade practices laws and regulations. The materials used in “personal banking” sales, such as personal “illustrations,” advertisements, testimonials, presentations, white papers, and books—often do not identify that life insurance—in most cases, whole life—is fundamental to the strategy. Or, if life insurance is mentioned, the reference is not prominent and an unlikely focus for a client.

Non-compliant illustrations. The promoters or users of these strategies might create personal illustrations or financial plans that use the whole life policy’s underlying non-guaranteed values and dividends drawn from a basic illustration for the client. However, in many cases, the underlying basic illustration, with its required disclosures and presentation of guaranteed values (without dividends), is not included, which is contrary to state illustration regulations.

Money laundering. Many of these strategies use case designs that are marketed to “deposit” as much money as possible up to the maximum limits without becoming a modified endowment contract (MEC), using some combination of base whole life and paid-up additions riders. Once the policy is placed, the customer takes an immediate cash withdrawal up to the maximum loan available. These transactions generally are red flags for potential money laundering activity, requiring investigation and, in some cases, filings of suspicious activity reports.

No insurance need. Prime “targets” for this type of strategy are often younger clients being pitched this concept as an alternative to a savings or checking account, or sometimes as an alternative to contributing to a retirement plan. Customers are sometimes encouraged to transfer a large portion of their savings into the whole life policy, and then access that cash through borrowing. These

customers may not have the investment experience or sophistication to understand the nuances of using whole life as part of their overall investment program. And being younger, they may not have dependents who will suffer a loss in the event of their death, and, thus, life insurance may not be an appropriate product. As a result, these types of sales can result in customer complaints and refunding premiums.

Lapse risk. Customers who borrow against their policies must understand that, if the loans are not repaid, interest will accrue and over time reduce the available cash value and death benefit payout. And, should dividends go down or interest rates rise, there is an increased risk of the policy lapsing due to an overloan.

Right to act if identified

MassMutual believes that marketing or promoting whole life insurance based on a personal banking strategy is not in a customer's best interest. The company reserves the right to take any appropriate action if such a strategy is identified, including the following:

- Disapprove any public communications, marketing materials, websites, etc., promoting the concept.
- Request that producers, including unaffiliated brokers, refrain from using MassMutual's products, name, or logo in connection with such a concept or strategy.
- Take any necessary action to prevent future marketing of MassMutual's products with such a concept, up to and including terminating a producer's contract and/or appointment with MassMutual.
- Reject any application determined to be inappropriate, unsuitable, or not in a customer's best interest because the sale is based on such a concept or strategy.

Questions

Refer questions about this company memorandum or whether sales strategies you encounter constitute a "personal banking" or similar concept to your regional supervisory director or to MMFA Field Compliance.