

**REPORTED  
BY THE  
STATE CORPORATION COMMISSION ON  
PRACTICES EXISTING IN THE LIFE, HEALTH,  
AND ACCIDENT INSURANCE FIELD**

**REPORTED TO  
THE GOVERNOR  
AND  
GENERAL ASSEMBLY OF VIRGINIA**



**HOUSE DOCUMENT NO. 16**

**COMMONWEALTH OF VIRGINIA  
Department of Purchases and Supply  
Richmond  
1976**

COMMONWEALTH OF VIRGINIA



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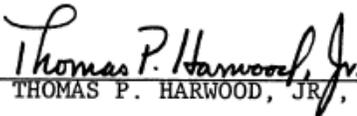
December 12, 1975

TO: The Honorable Mills E. Godwin, Jr.  
Governor of Virginia  
and  
The General Assembly of Virginia

The report contained herein is pursuant to House Joint Resolution No. 181 which was passed by the 1975 session of the General Assembly.

This report comprises the response of the State Corporation Commission to the directive that rules and regulations be promulgated to curb certain harmful practices existing in the life, health and accident insurance fields.

Respectfully submitted,

  
THOMAS P. HARWOOD, JR., CHAIRMAN

  
JUNIE L. BRADSHAW, COMMISSIONER

  
PRESTON C. SHANNON, COMMISSIONER

HOUSE JOINT RESOLUTION NO. 181

Directing the State Corporation Commission to promulgate rules and regulations to curb certain harmful practices existing in the life, health and accident insurance fields.

Agreed to by the House of Delegates, January 30, 1975

Agreed to by the Senate, February 17, 1975

WHEREAS, life, health and accident insurance is purchased by many citizens of the Commonwealth; and

WHEREAS, as a result of consumer complaints, the General Assembly directed the Virginia Advisory Legislative Council to make a study of certain insurance matters; and

WHEREAS, the Virginia Advisory Legislative Council has recommended the promulgation of rules and regulations to help curb harmful practices existing in the insurance marketplace in the Commonwealth; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the State Corporation Commission is hereby directed to promulgate and/or update its rules and regulations governing the business of life, health and accident insurance in the following areas:

1. Unethical sales practices, including required identification of life insurance agents as agents representing a life insurance company and the use of deceptive terminology in oral sales presentations.
2. Deceptive advertising and sales materials.
3. Use of any indication of policy contents or policy provisions which are likely to encourage misrepresentation or are misleading, deceptive or contrary to the public policy of the Commonwealth.
4. All rules and regulations necessary to effectively carry out provisions of §§38.1-49 through 38.1-342.1 of the Code of Virginia.
5. Any additional rules and regulations which the Commission feels will advance the public policy of the Commonwealth is insuring that the consumer is able to purchase protection suitable to his needs and in removing from the market practices and policies which are contrary to the public policy of the Commonwealth.

The State Corporation Commission shall seek the assistance of the insurance consuming public and representatives of the insurance industry in its rule and regulation making procedures

and report back to the General Assembly on or before December one, nineteen hundred seventy-five.

Pursuant to the legislative mandate established by passage of House Joint Resolution No. 181 of the 1975 Session of the Virginia General Assembly, the State Corporation Commission has moved toward updating and further promulgating rules and regulations pertaining to the business of life insurance as well as accident and sickness insurance for the purpose of curbing harmful practices in these fields.

### POLICY FORMS

The initial move by the State Corporation Commission was the establishment through reorganization of the Commission's Bureau of Insurance of a single division dealing with the subjects of policy forms and consumer services. This is now operating as the Life, Accident and Sickness Insurance Division of the Bureau of Insurance. Quite simply, the theory upon which the creation of this division was based is that the input of consumers' problems can more easily go into determining what should be approved or disapproved in policy forms.

The staff of the State Corporation Commission is studying the area of policy forms from four different angles:

- 1) A survey is being made of policy form regulations in use throughout the United States.
- 2) A study is being conducted of consumer complaints received that relate to policy provisions in order to determine patterns of unsatisfactory policy forms and/or the misuse of particular forms.
- 3) A detailed analysis is being made of complaints with regard to the subject matter of complaints, the company involved, and the agent involved.
- 4) Improper sales procedures arising from or related to policy forms are being reviewed.

### ADVERTISEMENT OF ACCIDENT AND SICKNESS INSURANCE

On September 15, 1975, the State Corporation Commission promulgated rules designed to establish, "certain minimum standards of conduct in the advertising of accident and sickness insurance in a manner which prevents unfair competition among insurers and is conducive to the accurate presentation and description to the insurance - buying public of a policy of such insurance offered through various advertising media."

Included at the end of this report is a copy of the Rules.

## ADVERTISEMENT OF LIFE INSURANCE AND ANNUITIES

Rules governing the advertisement of Life Insurance and Annuities are presently in draft form and pending final review. At the completion of the final review a public hearing on their adoption will be scheduled in the near future.

Rules on solicitation of life insurance, annuities, accident and sickness insurance are now in draft form and awaiting final review. A public hearing on the question of their adoption will be scheduled in the near future.

At a December meeting of the National Association of Insurance Commissioners (NAIC), committees will be considering proposals on advertisements of life insurance and annuities and solicitation of life insurance, annuities, accident and sickness insurance. Since uniformity among the States is desirable, final review is being delayed to permit changes that may be necessary for appropriate compatibility with the NAIC's recommendations.

RULES GOVERNING ADVERTISEMENT OF ACCIDENT AND SICKNESS INSURANCE  
EFFECTIVE SEPTEMBER 15, 1975

Section 1. Purpose

The purpose of these rules is to assure truthful and adequate disclosure of all material and relevant information in the advertising of accident and sickness insurance. This purpose is intended to be accomplished by the establishment of, and adherence to, certain minimum standards of conduct in the advertising of accident and sickness insurance in a manner which prevents unfair competition among insurers and is conducive to the accurate presentation and description to the insurance-buying public of a policy of such insurance offered through various advertising media.

Section 2. Applicability

- A. These rules shall apply to any accident and sickness insurance "advertisement", as that term is hereinafter defined, intended for presentation, distribution or dissemination in this State when such presentation, distribution or dissemination is made either directly or indirectly by or on behalf of an insurer, agent, broker or solicitor as those terms are defined in the Insurance Code of this State and these rules.
- B. Every insurer shall establish and at all times maintain a system of control over the content, form and method of dissemination of all advertisements of its policies. All such advertisements, regardless of by whom written, created, designed or presented, shall be the responsibility of the insurer whose policies are so advertised.

Section 3. Definitions

- A. An advertisement for the purpose of these rules shall include:
  - (1) Printed and published material, audio visual material, and descriptive literature of an insurer used in direct mail, newspapers, magazines, radio scripts, TV scripts, billboards and similar displays; and
  - (2) Descriptive literature and sales aids of all kinds issued by an insurer, agent or broker for presentation to members of the insurance-buying public, including but not limited to circulars, leaflets, booklets, depictions, illustrations, and form letters; and
  - (3) Prepared sales talks, presentations and material for use by agents, brokers and solicitors.

- B. "Policy" for the purpose of these rules shall include any policy, plan, certificate, contract, agreement, statement of coverage, rider or endorsement which provides accident or sickness benefits or medical, surgical or hospital expense benefits, whether on an indemnity, reimbursement, service or prepaid basis, except (1) such coverage provided in connection with another kind of insurance other than life; and (2) except disability, waiver of premium, and double indemnity benefits included in life insurance and annuity contracts.
- C. "Insurer" for the purpose of these rules shall include any individual, corporation, association, partnership, reciprocal exchange, inter-insurer, Lloyds, fraternal benefit society, health maintenance organization, and any other legal entity which is defined as an "insurer" in the Insurance Code of this State.
- D. "Exception" for the purpose of these rules shall mean any provision in a policy whereby coverage for specified hazard is entirely eliminated; it is a statement of a risk not assumed under the policy.
- E. "Reduction" for the purpose of these rules shall mean any provision which reduces the amount of the benefit; a risk of loss is assumed but payment upon the occurrence of such loss is limited to some amount or period less than would be otherwise payable had such reduction not been used.
- F. "Limitation" for the purpose of these rules shall mean any provision which restricts coverage under the policy other than an exception or a reduction.

#### Section 4. Method of Disclosure of Required Information

All information required to be disclosed by these rules shall be set out conspicuously and in close conjunction with the statements to which such information relates or under appropriate captions of such prominence that it shall not be minimized, rendered obscure or presented in an ambiguous fashion or intermingled with the context of the advertisement so as to be confusing or misleading.

#### Section 5. Form and Content of Advertisements

- A. The format and content of an advertisement of an accident or sickness insurance policy shall be sufficiently complete and clear to avoid deception or the capacity or tendency to mislead or deceive. Whether an advertisement has a capacity or tendency to mislead or deceive shall be determined by the Commission from the overall impression that the advertisement may be reasonably expected to create upon a person of average education or intelligence, within the segment of the public to which it is directed.

- B. Advertisements shall be truthful and not misleading in fact or in implication. Words or phrases, the meaning of which is clear only by implication or by familiarity with insurance terminology, shall not be used.

Section 6. Advertisements of Benefits Payable, Losses Covered or Premiums Payable

A. Deceptive Words, Phrases or Illustrations Prohibited.

- (1) No advertisement shall omit information or use words, phrases, statements, references or illustrations if the omission of such information or use of such words, phrases, statements, references or illustrations has the capacity, tendency or effect of misleading or deceiving purchasers or prospective purchasers as to the nature or extent of any policy benefit payable, loss covered or premium payable. The fact that the policy offered is made available to a prospective insured for inspection prior to consummation of the sale or an offer is made to refund the premium if the purchaser is not satisfied, does not remedy misleading statements.
- (2) No advertisements shall contain or use words or phrases such as "all"; "full"; "complete"; "comprehensive"; "unlimited"; "up to"; "as high as"; "this policy will help fill some of the gaps that Medicare and your present insurance leave out"; "this policy will help to replace your income" (when used to express loss of time benefits); or similar words and phrases, in a manner which tends to exaggerate any benefits beyond the terms of the policy.
- (3) An advertisement shall not contain descriptions of a policy limitation, exception, or reduction, worded in a positive manner to imply that it is a benefit, such as, describing a waiting period as a "benefit builder", or stating "even pre-existing conditions are covered after two years". Words and phrases used in an advertisement to describe such policy limitations, exceptions and reductions shall fairly and accurately describe the negative features of such limitations, exceptions and reductions.
- (4) No advertisement of a benefit for which payment is conditional upon confinement in a hospital or similar facility shall use words or phrases such as "tax free"; "extra cash"; "extra income"; "extra pay"; or substantially similar words or phrases because such words and phrases have the capacity, tendency or effect of misleading the public into believing that the policy advertised will, in some way, enable them to make a profit from being hospitalized.

- (5) No advertisement of a hospital or other similar facility confinement benefit shall advertise that the amount of the benefit is payable on a monthly or weekly basis when in fact, the amount of the benefit payable is based upon a daily pro rata basis relating to the number of days of confinement. When the policy contains a limit on the number of days of coverage provided, such limit must appear in the advertisement.
- (6) No advertisement of a policy covering only one disease or a list of specified diseases shall imply coverage beyond the terms of the policy. Synonymous terms shall not be used to refer to any disease so as to imply broader coverage than is the fact.
- (7) An advertisement for a policy providing benefits for specified illnesses only, such as cancer, or for specified accidents only, such as automobile accidents, shall clearly and conspicuously in prominent type state the limited nature of the policy. The statement shall be worded in language identical to, or substantially similar to the following:  
  
 "THIS IS A LIMITED POLICY"; "THIS IS A CANCER ONLY POLICY"; "THIS IS AN AUTOMOBILE ACCIDENT ONLY POLICY".
- (8) An advertisement of a direct response insurance product shall not imply that because "no insurance agent will call and no commissions will be paid to agents" that it is "a low cost plan", or use other similar words or phrases because the cost of advertising and servicing such policies is a substantial cost in the marketing of a direct response insurance product.

B. Exceptions, Reductions and Limitations

- (1) When an advertisement refers to either a dollar amount, or a period of time for which any benefit is payable, or the cost of the policy, or specific policy benefit, or the loss for which such benefit is payable, it shall also disclose those exceptions, reductions and limitations affecting the basic provisions of the policy without which the advertisement would have the capacity or tendency to mislead or deceive.
- (2) When a policy contains a waiting, elimination, probationary or similar time period between the effective date of the policy and the effective date of coverage under the policy or at a time period between the date a loss occurs and the date benefits begin to accrue for such loss, an advertisement which is subject to the

requirements of the preceding paragraph shall disclose the existence of such periods.

- (3) An advertisement shall not use the words "only"; "just"; "merely"; "minimum" or similar words or phrases to describe the applicability of any exceptions and reductions, such as: "This policy is subject to the following minimum exceptions and reductions".

C. Pre-Existing Conditions; Application Form Disclosures; Coordination of Benefits

- (1) An advertisement which is subject to the requirements of Section 6B shall, in negative terms, disclose the extent to which any loss is not covered if the cause of such loss is traceable to a condition existing prior to the effective date of the policy. The use of the term "pre-existing condition" without an appropriate definition or description shall not be used.
- (2) When a policy does not cover losses resulting from pre-existing conditions, no advertisement of the policy shall state or imply that the applicant's physical condition or medical history will not affect the issuance of the policy or payment of a claim thereunder. This rule prohibits the use of the phrase "no medical examination required" and phrases of similar import, but does not prohibit explaining "automatic issue". If an insurer requires a medical examination for a specified policy, the advertisement shall disclose that a medical examination is required.
- (3) When an advertisement for a direct-response insurance product contains an application form to be completed by the applicant and returned by mail, or when an applicant has requested and received an application form as the result of the advertisement of a direct-response insurance product, such application form shall contain a question or statement in bold-face type, immediately preceding the signature for the application, which question or statement clearly reflects the contents of all policy provisions regarding:
  - (a) the disallowance of claims based on pre-existing conditions, and
  - (b) any waiting period, elimination period, probation period, or similar lapse of time between the date of the policy and the effective date of coverage, and

- (c) any period of delay between the date a loss occurs and the date upon which benefits or compensation for such loss begin to accrue, and
- (d) reduction in benefits as the result of existence of other similar insurance providing coverage for the same loss.

Such question or statement shall require the applicant's separate response by signature or initials, and such question or statement and its blank space for response shall appear on the form immediately preceding the signature blank for the entire application.

EXAMPLE:

Do you understand that the policy applied for will not pay benefits during the first year from its issuance for any disease or physical condition which you now have or have had in the past, and that benefits for any new illness or disease do not commence until after the policy has been in force for a period of thirty days from its issue date?

[ Yes ] Signature (or initials)

EXAMPLE:

I understand that if I am hospitalized for sickness or injury my policy benefits do not begin until the seventh day of hospitalization.

Signature (or initials)

Section 7. Necessity for Disclosing Policy Provisions Relating to Renewability, Cancellability and Termination

When an advertisement refers to either a dollar amount or a period of time for which any benefit is payable, or the cost of the policy, or specific policy benefit, or the loss for which such benefit is payable, it shall disclose the provisions relating to renewability, cancellability and termination and any modification of benefits, losses covered or premiums because of age or for other reasons, in a manner which shall not minimize or render obscure the qualifying conditions.

## Section 8. Testimonials or Endorsements by Third Parties

- A. Testimonials used in advertisements must be genuine, represent the current opinion of the author, be applicable to the policy advertised and be accurately reproduced. The insurer, in using a testimonial, makes as its own all of the statements contained therein, and the advertisement, including such statement, is subject to all the provisions of these rules.
- B. If the person making a testimonial, an endorsement or an appraisal has a financial interest in the insurer or a related entity as a stockholder, director, officer, employee, or otherwise, such fact shall be disclosed in the advertisement. If a person is compensated for making a testimonial, endorsement or appraisal, such fact shall be disclosed in the advertisement by language substantially as follows: "Paid Endorsement". This rule does not require disclosure of union "scale" wages required by union rules if the payment is actually for such "scale" for TV or radio performances. The payment of substantial amounts, directly or indirectly, for "travel and entertainment" for filming or recording of TV or radio advertisements remove the filming or recording from the category of an unsolicited testimonial and require disclosure of such compensation.
- C. An advertisement shall not state or imply that an insurer or a policy has been approved or endorsed by any individual, group of individuals, society, association or other organizations, unless such is the fact, and unless any proprietary relationship between an organization and the insurer is disclosed. If the entity making the endorsement or testimonial has been formed by the insurer or is owned or controlled by the insurer or the person or persons who own or control the insurer, such fact shall be disclosed in the advertisement.
- D. When a testimonial refers to benefits received under a policy, the specific claim data, including claim number, date of loss, and other pertinent information shall be retained by the insurer for inspection for a period of four years or until the filing of the next regular report on examination of the insurer, whichever is the longer period of time.

## Section 9. Use of Statistics

- A. An advertisement relating to the dollar amount of claims paid, the number of persons insured, or similar statistical information relating to any insurer or policy shall not use irrelevant facts, and shall not be used unless it accurately

reflects all of the relevant facts. Such an advertisement shall not imply that such statistics are derived from the policy advertised unless such is the fact, and when applicable to other policies or plans shall specifically so state.

- B. An advertisement shall not represent or imply that claim settlements by the insurer are "liberal" or generous", or use words of similar import, or that claim settlements are or will be beyond the actual terms of the contract. An unusual amount paid for a unique claim for the policy advertised is misleading and shall not be used.
- C. The source of any statistics used in an advertisement shall be identified in such advertisement.

#### Section 10. Identification of Plan or Number of Policies

- A. When a choice of the amount of benefits is referred to, an advertisement shall disclose that the amount of benefits provided depends upon the plan selected and that the premium will vary with the amount of the benefits selected.
- B. When an advertisement refers to various benefits which may be contained in two or more policies, other than group master policies, the advertisement shall disclose that such benefits are provided only through a combination of such policies.

#### Section 11. Disparaging Comparisons and Statements

An advertisement shall not directly or indirectly make unfair or incomplete comparisons of policies or benefits or comparisons of non-comparable policies of other insurers, and shall not disparage competitors, their policies, services or business methods, and shall not disparage or unfairly minimize competing method of marketing insurance.

#### Section 12. Jurisdictional Licensing and Status of Insurer

- A. An advertisement which is intended to be seen or heard beyond the limits of the jurisdiction in which the insurer is licensed shall not imply licensing beyond those limits.
- B. An advertisement shall not create the impression directly or indirectly that the insurer, its financial condition or status, or the payment of its claims, or the merits, desirability, or advisability of its policy forms or kinds or plans of insurance are approved, endorsed, or accredited by any division or agency of this State or United States Government.

### Section 13. Identity of Insurer

- A. The name of the actual insurer and the form number or numbers of the policies advertised, and, if the application is contained in the advertisement, the form number of the application therefore shall be shown and made clear in all of its advertisements. An advertisement shall not use a trade name, and insurance group designation, name of the parent company of the insurer, name of a particular division of the insurer, service mark, slogan, symbol or other device which without disclosing the name of the actual insurer would have the capacity and tendency to mislead or deceive as to the true identity of the insurer.
- B. An advertisement shall use any combination of words, symbols, or physical materials which by their content, phraseology, shape, color or other characteristics are so similar to combination of words, symbols, or physical materials used by agencies of the federal government or of this State, or otherwise appear to be of such a nature that it tends to confuse or mislead prospective insureds into believing that the solicitation is in some manner connected with an agency of the municipal, state, or federal government.

### Section 14. Group or Quasi-Group Implications

An advertisement of a particular policy shall not state or imply that prospective insureds become group or quasi-group members covered under a group policy and as such enjoy special rates or underwriting privileges, unless such is the fact.

### Section 15. Introductory, Initial or Special Offers

- A. (1) An advertisement of an individual policy shall not directly or by implication represent that a contract or combination of contracts is an introductory, initial or special offer, or that applicants will receive substantial advantages not available at a later date, or that the offer is available only to a specified group of individuals, unless such is the fact. An advertisement shall not contain phrases describing a "time-limited solicitation period" as "special", "limited", or similar words or phrases when the insurer uses such "time-limited solicitation periods" as the usual method of advertising accident and sickness insurance.

- (2) A "time-limited solicitation period" during which a particular insurance product may be purchased on an individual basis shall not be offered within this State unless there has been a lapse of not less than four months between the close of the immediately preceding "time-limited solicitation period" for the same product and the opening of the new such period; provided, however, a particular insurance product may not be offered on a "time-limited solicitation period" basis more than two times during any twelve-month period. The advertisement shall indicate the date by which the applicant must mail the application, which shall not be less than ten days and not more than forty days from the date that such "time-limited solicitation period" is advertised for the first time. This rule applies to all advertising media, i. e., mail, newspapers, radio, television, magazines and periodicals, by any one insurer. It is inapplicable to solicitations of employees or members of a particular group or association which otherwise would be eligible under specific provisions of the Insurance Code for group, blanket or franchise insurance. The phrase "any one insurer" includes all of the affiliated companies of a group of insurance companies under common management or control.
- (3) Use of the words "enrollment" or enrollment period" in connection with a "time-limited solicitation period" is prohibited unless the insurance product offered will be issued automatically as advertised upon receipt of the application and premium by the insurer or its agent.
- (4) This rule prohibits any statement or implication to the effect that only a specific number of policies will be sold, or that a time is fixed for the discontinuance of the sale of the particular policy advertised because of special advantages available in the policy, unless such is the fact.
- (5) The phrase "a particular insurance product" in Paragraph (2) of this Section means an insurance policy which provides substantially different benefits than those contained in any other policy. Different terms of renewability; an increase or decrease in the dollar amounts of benefits; an increase or decrease in any elimination period or waiting period from those available during a "time-limited solicitation period" for another policy shall not be sufficient to constitute the product being offered as a different product eligible for

for concurrent or overlapping "time-limited solicitation periods".

- B. An advertisement shall not offer a policy which utilizes a reduced initial premium rate in a manner which over-emphasizes the availability and the amount of the initial reduced premium. When an insurer charges an initial premium that differs in amount from the amount of the renewal premium payable on the same mode, the advertisement shall not display the amount of the reduced initial premium either more frequently or more prominently than the renewal premium, and both the initial reduced premium and the renewal premium must be stated in juxtaposition in each portion of the advertisement where the initial reduced premium appears.
- C. Special awards, such as a "safe drivers' award", shall not be used in connection with advertisements of accident or accident and sickness insurance.

#### Section 16. Statements About an Insurer

An advertisement shall not contain statements which are untrue in fact, or by implication misleading, with respect to the assets, corporate structure, financial standing, age or relative position of the insurer in the insurance business. An advertisement shall not contain a recommendation by any commercial rating system unless it clearly indicates the purpose of the recommendation and the limitations of the scope and extent of the recommendation.

#### Section 17. Enforcement Procedures

##### A. Advertising File

Each insurer shall maintain at its home or principal office a complete file containing every printed, published or prepared advertisement of its individual policies and typical printed, published or prepared advertisements of its blanket, franchise and group policies hereafter disseminated in this or any other state, whether or not licenses in such other state, with a notation attached to each such advertisement which shall indicate the manner and extent of distribution and the form number of any policy advertised. Such file shall be subject to regular and periodical inspection by the Commission. All such advertisements shall be maintained in said file for a period of either four years or until the filing of the next regular report on examination of the insurer, whichever is the longer period of time.

B. Certificate of Compliance

Each insurer required to file an Annual Statement which is now or which hereafter becomes subject to the provisions of these rules must file with the Commission with its Annual Statement, a Certificate of Compliance executed by an authorized officer of the insurer wherein it is stated that, to the best of his knowledge, information and belief, the advertisements which were disseminated by the insurer during the preceding statement year complied or were made to comply in all respects with the provisions of these rules and the Insurance Laws of this State as implemented and interpreted by these rules.

C. Corrective Advertising

If the Commission finds, after notice and opportunity to be heard, as provided in Section 38.1-54 of the Code of Virginia (1950), as amended, that any advertisement is in violation of the provisions of these rules and that the violation was such as to deceive substantially or to mislead the public, the Commission may, in addition to any other remedy or monetary penalty it may otherwise impose, order the insurer responsible for the dissemination of such advertisement to publish at the insurer's expense a corrective advertisement in a form to be approved by the Commission. Should any insurer fail to publish a corrective advertisement as required by the Commission, the Commission may cause to be published such an advertisement and the insurer shall, in addition to any other penalty which may have been imposed, reimburse the Commission for the expenses incurred in connection with the publication of such advertisement.

Section 18. Severability Provision

If any Section or portion of a Section of these rules, or the applicability thereof to any person or circumstance is held invalid by a court, the remainder of the rules, or the applicability of such provision to other persons or circumstances, shall not be affected thereby.

