

SUBJECT: Setting a 10 percent annual cap on life insurance premium increases

COMMITTEE: Insurance — committee substitute recommended

VOTE: 9 ayes — Phillips, Muñoz, R. Anderson, Gooden, Oliverson, Paul, Sanford, Turner, Vo
0 nays

WITNESSES: For — None
Against — None
On — (*Registered, but did not testify*: Jan Graeber and Philip Reyna, Texas Department of Insurance)

DIGEST: CSHB 3370 would prohibit insurers from increasing a premium, cost, charge, administrative expense, or fee related to a life insurance policy by more than 10 percent during any year. This prohibition would not apply if the provider disclosed the schedule and amount of the increase to the policyholder at the time the policy was issued.

The bill would take effect September 1, 2017, and would apply only to a policy delivered, issued, or renewed on or after January 1, 2018.

SUPPORTERS SAY: CSHB 3370 would increase the transparency of life insurance transactions and protect policyholders from unexpected large premium increases. Because life insurance companies need some policyholders to drop their policies to generate revenue, many have begun to sharply increase premium rates on elderly universal life insurance policyholders in the hopes that they will drop their policies. Elderly policyholders who do not wish to comply with suddenly raised premiums have limited options in the life insurance market and may have to significantly reduce the duration or amount of their coverage.

The bill would not negatively impact carrier flexibility. It would not

prevent insurance carriers from issuing any policy at any rate, provided premium increases were disclosed in advance. Market fluctuations would be unlikely to require such drastic, unplanned rate increases, and the disclosure option would encourage companies to plan for smaller and more frequent premium increases. Policyholders would be better off paying these small incremental increases than a sudden, undisclosed rate hike in the future because they would be better able to budget and plan around smaller rate increases.

OPPONENTS
SAY:

CSHB 3370 would hinder the flexibility of insurance carriers to respond to changing market conditions. Factors such as lapse rates, mortality trends, interest rates, and administrative expenses can affect the rates insurers must charge policyholders in order to remain sound. Current policies are already subject to a maximum premium amount, and setting a 10 percent cap on increases likely would result in immediate rate hikes for initial insurance policies, harming policyholders who must pay more and carriers who would face lower demand.