

BILL ANALYSIS

Senate Research Center
78R4959 PB-D

S.B. 1618
By: Ellis, Rodney
State Affairs
4/9/2003
As Filed

DIGEST AND PURPOSE

Small face amount life insurance (SFALI) generally refers to whole life policies with a death benefit of less than \$15,000. The term includes industrial life, home service, burial insurance and similar products which historically have been sold to working-class and poor people. Some SFALI policies are priced so that, over the life of the policy, an insured is likely to pay multiples of the death benefit for the coverage. The SFALI market in Texas has very little regulation. As proposed, S.B. 1618 requires insurers selling policies of less than \$2,000 to offer an option to the policyholder to increase the death benefit to not more than \$15,000. This bill also requires that, for policies where the multiple might be greater than 1.5 over the life of the policy, the insured be given the option of a shorter payment period, after which the policy becomes paid up. In addition, this bill sets requirements for the timing and content of disclosures to both applicants for coverage and to policyholders and insurers.

RULEMAKING AUTHORITY

Rulemaking authority is expressly granted to the commissioner of insurance in SECTION 1 (Sections 1101.205, 1101.214, and 1101.252, Insurance Code) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Chapter 1101, Insurance Code, as effective June 1, 2003, by adding Subchapters E and F, as follows:

SUBCHAPTER E. CERTAIN POLICIES WITH SMALL FACE VALUE

Sec. 1101.201. **APPLICABILITY.** (a) Provides that this subchapter applies to each insurer authorized to write life insurance under Chapter 841, 882, 884, or 982. Provides that this subchapter does not apply to an insurer operating under Chapter 881, 885, 886, 887, or 888 or an insurer exempt under Section 887.102.

(b) Provides that this subchapter applies to any individual or group life insurance policy, other than a term life insurance policy, issued in this state, including an industrial insurance policy offered under Chapter 1151.

Sec. 1101.202. **FACE AMOUNT.** Provides that this subchapter applies only to a life insurance policy issued in this state with an initial face amount of \$15,000 or less.

Sec. 1101.203. **REQUIRED INCREASE IN DEATH BENEFIT.** (a) Requires a life insurance policy that provides a death benefit of \$2,000 or less to include an option for the insured to increase the death benefit to not more than \$15,000.

(b) Requires the insurer to provide the additional death benefit required by this section without evidence of insurability and at the insurer's current applicable rates for issuance of a new policy to the insured at the insured's age at the time the option is exercised.

(c) Prohibits the exercise of an option under Subsection (a) from resulting in a reduction of the cash value of the life insurance policy.

Sec. 1101.204. PROHIBITION: ISSUANCE OF SUBSEQUENT POLICY. Prohibits an insurer that issues a life insurance policy that provides a death benefit of \$2,000 or less and that includes the option to increase coverage required by Section 1101.203 from issuing a subsequent life insurance policy that provides a death benefit of \$2,000 or less to the same insured.

Sec. 1101.205. PAYMENT PERIOD FOR CERTAIN LIFE INSURANCE POLICIES.

(a) Requires the insurer to also offer the applicant for a policy a payment period established by the commissioner of insurance (commissioner) under Subsection (b) for a life insurance policy on which the total amount of premiums paid under payment terms offered for the policy, minus cash dividends received under the policy, could exceed 150 percent of the policy's face value.

(b) Requires the commissioner by rule to establish periods for the payment of premiums on a policy described by Subsection (a) at the end of which the policy is paid up.

Sec. 1101.206. MAXIMUM AMOUNT OF PREMIUMS PAID. (a) Prohibits an insurer from charging or collecting premiums for a life insurance policy that in the aggregate, less dividends paid in cash, exceed the amount computed under this section by multiplying the amount of the maximum death benefit available under the policy by the appropriate numerical factor associated with the age of the insured at the time the policy is issued.

(b) Provides that if the policy is issued before the insured reaches the insured's 21st birthday, the numerical factor is 1.5.

(c) Provides that if the policy is issued on or after the insured's 21st birthday but before the insured reaches the insured's 46th birthday, the numerical factor is computed in a certain manner.

(d) Provides that if the policy is issued on or after the insured's 46th birthday but before the insured reaches the insured's 65th birthday, the numerical factor is computed in a certain manner.

(e) Provides that if the policy is issued on or after the insured's 65th birthday but before the insured reaches the insured's 86th birthday, the numerical factor is 3.5.

(f) Provides that if the policy is issued on or after the insured's 86th birthday but before the insured reaches the insured's 89th birthday, the numerical factor is computed in a certain manner.

(g) Provides that if the policy is issued on or after the insured's 89th birthday but before the insured reaches the insured's 96th birthday, the numerical factor is computed in a certain manner.

(h) Provides that if the policy is issued on or after the insured's 96th birthday but before the insured reaches the insured's 99th birthday, the numerical factor is computed in a certain manner.

(i) Provides that if the policy is issued on or after the insured's 99th birthday, the numerical factor is 1.

Sec. 1101.207. EFFECT OF PAYING MAXIMUM PREMIUMS. Provides that when the aggregate premiums paid for a life insurance policy reach the maximum amount computed under Section 1101.206, the life insurance policy becomes a paid-up policy.

Sec. 1101.208. MINIMUM DISCLOSURE REQUIREMENTS--APPLICANT FOR INSURANCE COVERAGE. (a) Requires, at a minimum, an insurer subject to this subchapter to disclose to an applicant for a life insurance policy certain information.

(b) Requires the insurer to provide in the disclosure statement, in addition to the information required under Subsection (a), a statement to the applicant regarding the effect of good health on the cost of the coverage provided under the policy and the possible advantages of alternative insurance products, for a guaranteed issue life insurance policy.

Sec. 1101.209. **APPLICANT'S RIGHT TO CANCEL.** Provides that each applicant for coverage under a life insurance policy has the right to cancel the policy and obtain a refund of any premium paid before the 31st day after the date of issuance of the policy. Requires an insurer to provide each applicant for insurance coverage under a life insurance policy written notice of the 30-day right to cancel.

Sec. 1101.210. **TIMING OF DISCLOSURE TO APPLICANT.** Requires an insurer that issues a life insurance policy to provide the disclosure and notice prescribed by Sections 1101.208 and 1101.209 on receipt of the application for coverage, and again not later than the date on which the policy is delivered.

Sec. 1101.211. **MINIMUM DISCLOSURE REQUIREMENTS--POLICYHOLDER AND INSURED.** Requires, at a minimum, an insurer to disclose to the holder of a life insurance policy and to each insured under the policy certain information.

Sec. 1101.212. **TIMING OF DISCLOSURE TO POLICYHOLDER AND INSURED.**
(a) Requires an insurer that issues a life insurance policy to provide the disclosure prescribed by Section 1101.211 at the time that, on payment of the next premium under the policy, the cumulative premiums paid will exceed the face amount of the policy.

(b) Requires the insurer to also provide the required disclosure to each policyholder and insured on a certain date.

Sec. 1101.213. **EFFECT OF RIDERS.** Provides that for purposes of Sections 1101.208-1101.212, cumulative premiums include premiums paid for riders. Provides that the face amount of a life insurance policy does not include the benefit attributable to the riders.

Sec. 1101.214. **RULES.** (a) Authorizes the commissioner to adopt rules necessary to implement this subchapter.

(b) Requires the commissioner by rule to prescribe the format of the disclosure statements required under Sections 1101.208 and 1101.211 and the notice required under Section 1101.209.

SUBCHAPTER F. UNCLAIMED BENEFITS UNDER CERTAIN POLICIES

Sec. 1101.251. **APPLICABILITY.** (a) Provides that this subchapter applies to each insurer authorized to write life insurance in this state operating under Chapter 841, 882, 884, or 982. Provides that this subchapter does not apply to an insurer operating under Chapter 881, 885, 886, 887, or 888, or an insurer exempt under Section 887.102.

(b) Provides that this subchapter applies to any individual or group life insurance policy, other than a term life insurance policy, issued in this state, including an industrial insurance policy offered under Chapter 1151.

Sec. 1101.252. **DUE DILIGENCE STANDARDS.** Requires the commissioner to adopt rules as necessary to define minimum standards of due diligence that an insurer must exercise relating to the payment of unclaimed benefits payable on the death of an insured who is covered under more than one life insurance policy issued by the insurer.

SECTION 2. Requires the commissioner of insurance to adopt rules as required by Sections 1101.214(b) and 1101.252, Insurance Code, as added by this Act, not later than January 1, 2004.

SECTION 3. Effective date: September 1, 2003.
Makes application of this Act prospective.