

BILL ANALYSIS

Senate Research Center

C.S.S.B. 1618
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State Affairs
4/28/2003
Committee Report (Substituted)

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. C.S.S.B. 1618 requires insurers selling policies of less than \$2,000 to offer an option to the policyholder to increase the face amount of the policy to not more than \$15,000. This bill also requires an insurer offering a life insurance policy that provides an initial face amount of \$15,000 or less to offer alternative premium payment options if the cumulative premiums paid might exceed 250 percent of the face amount of the policy. 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 (Section 1101.212, 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 AMOUNT

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 issued in this state, including an industrial insurance policy offered under Chapter 1151. Provides that this subchapter does not apply to a life insurance policy issued to fund prepaid funeral benefits as defined in Section 154.002(9), Finance Code.

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 FACE AMOUNT.** (a) Requires except as provided by Section 884.302, a life insurance policy with an initial face amount of \$2,000 or less to include an option for the insured to increase the face amount of the policy to not more than \$15,000.

(b) Authorizes the insurer to require that the insured meet the insurer's current evidence of insurability for the same or similar policy forms the insurer currently offers in the market.

(c) Requires the insurer to provide the additional face amount required by this section at the insurer's current applicable underwriting standards, rates, and contestability period for issuance of a new policy to the insured at the insured's age at the time the option is exercised.

(d) 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. REQUIRED ALTERNATIVE PAYMENT OPTIONS. (a) Requires an insurer that offers a life insurance policy that provides an initial face amount of \$15,000 or less, unless otherwise prohibited by law, to offer alternative premium payment options to the payment options the insurer would otherwise have offered if, at any point in time over the term of the policy, the cumulative premiums paid, less dividends paid by the insurer, might exceed 250 percent of the face amount of the policy.

(b) Requires the insurer to offer alternative premium payment options that include payment schedules that allow for shorter payment periods and schedules for making payments less often.

(c) Requires the alternative payment option information to be provided to the policyholder before the sale of the policy, and again not later than the day on which the policy is delivered.

Sec. 1101.206. 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. 1101.207. 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 delivery 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. 1101.208. TIMING OF DISCLOSURE TO APPLICANT. Requires an insurer that issues a life insurance policy to provide the disclosure and notice prescribed by Sections 1101.206 and 1101.207 on application for coverage.

Sec. 1101.209. MINIMUM DISCLOSURE REQUIREMENTS--POLICY OWNER. Requires, at a minimum, an insurer to disclose to the owner of a life insurance policy, as of the date of the disclosure, certain information.

Sec. 1101.210. TIMING OF DISCLOSURE TO POLICYHOLDER. (a) Requires an insurer that issues a life insurance policy to provide the disclosure prescribed by Section 1101.209 on delivery of the policy and 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 certain dates.

Sec. 1101.211. EFFECT OF RIDERS. (a) Provides that for purposes of this subchapter, cumulative premiums include premiums paid for certain riders but not for others.

b) Provides that cumulative premiums do not include premiums paid for riders on persons other than the insured.

Sec. 1101.212. RULES. (a) Authorizes the commissioner to adopt rules necessary to implement this subchapter.

(b) Requires the commissioner by rule to require that the disclosure statements required under Sections 1101.206 and 1101.209 and the notice required under Section 1101.207 be substantially in the form prescribed by the commissioner.

(c) Authorizes the commissioner to adopt rules to allow an insurer to include the disclosure statement required under Section 1101.209 with any other mailing to the policy owner.

[Reserves Sections 1101.213-1101.250 for expansion.]

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, 881, 882, 884, 885, 886, 887, 888, or 982, including 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. (a) Requires an insurer, as provided by this section, to exercise due diligence relating to the payment of unclaimed benefits payable on the death of an insured who may be covered under more than one life insurance policy issued by the insurer.

(b) Requires an insurer, on submission of a death claim form under an insurance contract, to conduct a reasonable search for other policies on the decedent's life.

(c) Requires the insurer to investigate additional policy files identified by the search, for which liability is not immediately verified, and complete a determination of liability not later than the 180th day after the date on which the claim is filed.

(d) Requires the insurer, if other policies exist, to notify the policy owner, if different than the insured, and the beneficiary and arrange for payment under the policies.

(e) Requires each insurer to adopt a written claim processing standard and methodology that will allow the insurer to process a death claim, or other claim presented against a life insurance policy or an accidental death or dismemberment policy.

(f) Requires the insurer, as part of the claim processing standard and methodology to inquire for each claim filed with the insurer for death benefits, about other names by which the insured may have been known and the date of birth of the insured. Requires the insurer to include this information in the determination of whether additional policies exist.

(g) Requires each insurer to maintain claim records in a manner that demonstrates that the insurer has followed the written claim processing standard and methodology required by this section.

SECTION 2. Requires the commissioner of insurance to adopt rules as required by Subsection (b), Section 1101.212, 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 to July 1, 2004.