

## BILL ANALYSIS

Senate Research Center  
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S.B. 12  
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### DIGEST AND PURPOSE

Small face amount life insurance (SFALI) generally refers to whole life policies with a death benefit of less than \$15,000, that includes industrial life, home service, burial insurance and similar products which historically have been sold to working class and poor people. According to the commissioner of insurance, SFALI policies are frequently marketed to the most vulnerable Texans, primarily the poor, uneducated, and the elderly, who have been abused by some insurers' practices. As proposed, S.B. 12 sets forth reforms in the field of small face amount life insurance.

### 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, is amended 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. 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) Establishes that except as otherwise provided by this subchapter, this subchapter applies to any individual life insurance policy issued in this state, including an industrial insurance policy offered under Chapter 1151. Provides that this subchapter does not apply to certain insurance policies.

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

(b) Establishes for the purposes of this subchapter, the face amount of a policy issued with an increasing graded death benefit is the face amount at the end of the graded death benefit period.

Sec. 1101.203. **REQUIRED INCREASE IN COVERAGE.** (a) Establishes that except as provided by Section 884.302, a life insurance policy with a face amount of \$2,000 or less must include an option for the insured to increase the coverage under 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 coverage required by this section at the insurer's current applicable underwriting standards, rates, and contestability period for issuance of the same or a similar 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 face amount 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 of the same type that provides a face amount of \$2,000 or less to the same insured unless the insured has exercised the option required by Section 1101.203 and has increased the coverage under the insured's life insurance policy to \$15,000 or more or the policy owner rejects in writing additional coverage under the original policy and opts for a different policy type.

Sec. 1101.205. REQUIRED ALTERNATIVE PREMIUM PAYMENT OPTIONS. (a) Provides that unless otherwise prohibited by law, an insurer that offers a life insurance policy that provides a face amount of \$15,000 or less must offer the applicant alternative premium payment options if, at any point in time over the term of the policy, the cumulative premiums paid, less estimated dividends, might exceed 250 percent of the face amount of the policy.

(b) Requires the insurer, for purposes of this section, to offer alternative premium payment options that include a payment schedule that allows for shorter payment periods.

Sec. 1101.206. DISCLOSURE REQUIREMENTS--APPLICANT FOR INSURANCE COVERAGE. (a) Requires an insurer subject to this subchapter to disclose certain information to the applicant, with respect to a life insurance policy applied for.

(b) Requires the insurer, for a guaranteed issue life insurance policy, to provide in the disclosure statement, in addition to the information required under Subsection (a), a statement to the applicant that there may be advantages under alternative insurance policies, including the cost of coverage, if the applicant is in good health.

Sec. 1101.207. POLICYHOLDER'S RIGHT TO CANCEL. Provides that each policyholder of a life insurance policy has the right to cancel the policy before the 31st day after the date of delivery of the policy and obtain a refund of any premium paid. Requires the insurer to provide each policyholder under such a life insurance policy written notice of the 30-day right to cancel.

Sec. 1101.208. TIMING OF DISCLOSURES. Requires an insurer that issues a life insurance policy to provide the options, disclosures, and notice prescribed by Sections 1101.205 and 1101.206 at the time of the application for coverage, and the notice prescribed by Section 1101.207 at the time of delivery of the policy. Requires the insurer, if the application is received by the insurer directly from the applicant and was not solicited by an agent, to give the options, disclosures, and notices prescribed by Sections 1101.205, 1101.206, and 1101.207 at the time of delivery of the policy.

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

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

(b) Requires that, in the year in which the estimated cumulative premiums paid will exceed the face amount of the policy, and every fifth year thereafter, the same disclosure be provided to the policy owner of each policy for which premium is then being paid.

Sec. 1101.211. EFFECT OF RIDERS. (a) Provides that for purposes of this subchapter, cumulative premiums include premiums paid for riders that increase the face amount of the policy for the insured but do not include premiums for riders issued to the insured for accidental death benefits; permanent disability benefits; and any other benefit similar to accidental death benefits and permanent disability benefits.

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

Sec. 1101.212. RULES. (a) Authorizes the commissioner of insurance (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 shall 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 Section 1101.213-1101.250 for expansion.]

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 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 policy, to conduct a reasonable search for other policies on the decedent's life. Provides that for purposes of this subsection, a reasonable search does not require a search of group life insurance policy records or credit life insurance policy records for which the insurer does not maintain identification records of the individual certificate holders.

(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 an 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, endowment claim, or other claim presented against a life insurance policy or an accidental death or dismemberment policy.

(f) Requires the insurer, as a part of the claim processing standard and methodology adopted under Subsection (e), to inquire, for each claim filed with the insurer for death benefits, about other names by which the insured may have been known, such as a maiden name, a hyphenated name, a nickname, a derivative form of first and middle name, or an alias, and the date of birth of the insured. Requires an insurer, if the filer of the claim form includes that additional name information on the claim form or if the insurer otherwise knows about other names by which the insured may have been known, the insurer shall include that information and the date of birth, if available, as a part of its search criteria to determine 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, not later than February 1, 2004, to adopt rules as required by Section 1101.212(b), Transportation Code, as added by this Act.

SECTION 3. Effective date: November 1, 2003.

Makes application of this Act prospective to July 1, 2004.