

By: Ellis

S.B. No. 12

A BILL TO BE ENTITLED

AN ACT

relating to the regulation of certain life insurance.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Chapter 1101, Insurance Code, is amended by adding Subchapters E and F to read as follows:

SUBCHAPTER E. CERTAIN POLICIES WITH SMALL FACE AMOUNT

Sec. 1101.201. APPLICABILITY. (a) 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) 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. This subchapter does not apply to:

(1) group life insurance;

(2) credit life insurance;

(3) term life insurance with a coverage period of 10 years or less; or

(4) a life insurance policy issued to fund prepaid funeral benefits as defined in Section 154.002(9), Finance Code.

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

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

4       Sec. 1101.203. REQUIRED INCREASE IN COVERAGE. (a) Except  
5 as provided by Section 884.302, a life insurance policy with a face  
6 amount of \$2,000 or less must include an option for the insured to  
7 increase the coverage under the policy to not more than \$15,000.

8       (b) The insurer may require that the insured meet the  
9 insurer's current evidence of insurability for the same or similar  
10 policy forms the insurer currently offers in the market.

11       (c) The insurer must provide the additional coverage  
12 required by this section at the insurer's current applicable  
13 underwriting standards, rates, and contestability period for  
14 issuance of the same or a similar policy to the insured at the  
15 insured's age at the time the option is exercised.

16       (d) The exercise of an option under Subsection (a) may not  
17 result in a reduction of the cash value of the life insurance  
18 policy.

19       Sec. 1101.204. PROHIBITION: ISSUANCE OF SUBSEQUENT  
20 POLICY. An insurer that issues a life insurance policy that  
21 provides a face amount of \$2,000 or less and that includes the  
22 option to increase coverage required by Section 1101.203 may not  
23 issue a subsequent life insurance policy of the same type that  
24 provides a face amount of \$2,000 or less to the same insured unless:

25       (1) the insured has exercised the option required by  
26 Section 1101.203 and has increased the coverage under the insured's  
27 life insurance policy to \$15,000 or more; or

1           (2) the policy owner rejects in writing additional  
2 coverage under the original policy and opts for a different policy  
3 type.

4           Sec. 1101.205. REQUIRED ALTERNATIVE PREMIUM PAYMENT  
5 OPTIONS. (a) Unless otherwise prohibited by law, an insurer that  
6 offers a life insurance policy that provides a face amount of  
7 \$15,000 or less must offer the applicant alternative premium  
8 payment options if, at any point in time over the term of the  
9 policy, the cumulative premiums paid, less estimated dividends,  
10 might exceed 250 percent of the face amount of the policy.

11           (b) For purposes of this section, the insurer must offer  
12 alternative premium payment options that include a payment schedule  
13 that allows for shorter payment periods.

14           Sec. 1101.206. DISCLOSURE REQUIREMENTS--APPLICANT FOR  
15 INSURANCE COVERAGE. (a) An insurer subject to this subchapter  
16 shall disclose to an applicant, with respect to a life insurance  
17 policy applied for:

18                   (1) the face amount under the policy;

19                   (2) the premium for the policy by selected mode of  
20 payment, on an annualized basis;

21                   (3) if applicable, the fact that the cumulative  
22 premiums for the policy may exceed the face amount over the life of  
23 the policy; and

24                   (4) the fact that there may be advantages to a single  
25 policy with a larger face amount rather than several policies with  
26 lesser face amounts.

27           (b) For a guaranteed issue life insurance policy, the

1 insurer shall provide in the disclosure statement, in addition to  
2 the information required under Subsection (a), a statement to the  
3 applicant that there may be advantages under alternative insurance  
4 policies, including the cost of coverage, if the applicant is in  
5 good health.

6 Sec. 1101.207. POLICYHOLDER'S RIGHT TO CANCEL. Each  
7 policyholder of a life insurance policy has the right to cancel the  
8 policy before the 31st day after the date of delivery of the policy  
9 and obtain a refund of any premium paid. The insurer shall provide  
10 each policyholder under such a life insurance policy written notice  
11 of the 30-day right to cancel.

12 Sec. 1101.208. TIMING OF DISCLOSURES. An insurer that  
13 issues a life insurance policy shall provide the options,  
14 disclosures, and notice prescribed by Sections 1101.205 and  
15 1101.206 at the time of the application for coverage, and the notice  
16 prescribed by Section 1101.207 at the time of delivery of the  
17 policy. If the application is received by the insurer directly from  
18 the applicant and was not solicited by an agent, the insurer shall  
19 give the options, disclosures, and notices prescribed by Sections  
20 1101.205, 1101.206, and 1101.207 at the time of delivery of the  
21 policy.

22 Sec. 1101.209. DISCLOSURE REQUIREMENTS--POLICY OWNER. At a  
23 minimum, an insurer shall disclose to the owner of a life insurance  
24 policy, as of the date the policy is issued:

- 25 (1) the face amount under the policy;  
26 (2) the premium for the policy by selected payment  
27 mode, on an annualized basis;

1           (3) the estimated cumulative premiums to be paid for  
2 the policy as of the fifth, 10th, 15th, and 25th anniversary of the  
3 date the policy is issued;

4           (4) the estimated cash value of the policy, if any, as  
5 of the fifth, 10th, 15th, and 25th anniversary of the date the  
6 policy is issued; and

7           (5) the year in which it is estimated that cumulative  
8 premiums will exceed the face amount.

9           Sec. 1101.210. TIMING OF DISCLOSURE TO POLICY OWNER. (a)  
10 An insurer that issues a life insurance policy shall provide the  
11 disclosure prescribed by Section 1101.209 on delivery of the  
12 policy.

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

17           Sec. 1101.211. EFFECT OF RIDERS. (a) For purposes of this  
18 subchapter, cumulative premiums include premiums paid for riders  
19 that increase the face amount of the policy for the insured but do  
20 not include premiums for riders issued to the insured for:

21                   (1) accidental death benefits;  
22                   (2) permanent disability benefits; and  
23                   (3) any other benefit similar to accidental death  
24 benefits and permanent disability benefits.

25           (b) Cumulative premiums do not include premiums paid for  
26 riders on persons other than the insured.

27           Sec. 1101.212. RULES. (a) The commissioner may adopt

1 rules necessary to implement this subchapter.

2 (b) The commissioner by rule shall require that the  
3 disclosure statements required under Sections 1101.206 and  
4 1101.209 and the notice required under Section 1101.207 shall be  
5 substantially in the form prescribed by the commissioner.

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

9 [Sections 1101.213-1101.250 reserved for expansion]

10 SUBCHAPTER F. UNCLAIMED BENEFITS UNDER CERTAIN POLICIES

11 Sec. 1101.251. APPLICABILITY. (a) This subchapter  
12 applies to each insurer authorized to write life insurance in this  
13 state operating under Chapter 841, 881, 882, 884, 885, 886, 887,  
14 888, or 982, including an insurer exempt under Section 887.102.

15 (b) This subchapter applies to any individual or group life  
16 insurance policy issued in this state, including an industrial  
17 insurance policy offered under Chapter 1151.

18 Sec. 1101.252. DUE DILIGENCE STANDARDS. (a) As provided  
19 by this section, an insurer shall exercise due diligence relating  
20 to the payment of unclaimed benefits payable on the death of an  
21 insured who may be covered under more than one life insurance policy  
22 issued by the insurer.

23 (b) On submission of a death claim form under an insurance  
24 policy, an insurer shall conduct a reasonable search for other  
25 policies on the decedent's life. For purposes of this subsection, a  
26 reasonable search does not require a search of group life insurance  
27 policy records or credit life insurance policy records for which

1 the insurer does not maintain identification records of the  
2 individual certificate holders.

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

7 (d) If other policies exist, the insurer shall notify the  
8 policy owner, if different than the insured, and the beneficiary  
9 and shall arrange for payment under the policies.

10 (e) Each insurer shall adopt a written claim processing  
11 standard and methodology that will allow the insurer to process a  
12 death claim, endowment claim, or other claim presented against a  
13 life insurance policy or an accidental death or dismemberment  
14 policy.

15 (f) The insurer, as a part of the claim processing standard  
16 and methodology adopted under Subsection (e), shall inquire, for  
17 each claim filed with the insurer for death benefits, about other  
18 names by which the insured may have been known, such as a maiden  
19 name, a hyphenated name, a nickname, a derivative form of first and  
20 middle name, or an alias, and the date of birth of the insured. If  
21 the filer of the claim form includes that additional name  
22 information on the claim form or if the insurer otherwise knows  
23 about other names by which the insured may have been known, the  
24 insurer shall include that information and the date of birth, if  
25 available, as a part of its search criteria to determine whether  
26 additional policies exist.

27 (g) Each insurer shall maintain claim records in a manner

1 that demonstrates that the insurer has followed the written claim  
2 processing standard and methodology required by this section.

3 SECTION 2. Not later than February 1, 2004, the  
4 commissioner of insurance shall adopt rules as required by  
5 Subsection (b), Section 1101.212, Insurance Code, as added by this  
6 Act.

7 SECTION 3. This Act takes effect November 1, 2003, and  
8 applies only to an insurance policy that is delivered on or after  
9 July 1, 2004. A policy that is delivered before July 1, 2004, is  
10 governed by the law as it existed immediately before the effective  
11 date of this Act, and that law is continued in effect for that  
12 purpose.