

BILL ANALYSIS

C.S.S.B. 1618
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Insurance
Committee Report (Substituted)

BACKGROUND 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 provides for the regulation of SFALI policies.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the commissioner of insurance in SECTION 1 (Section 1101.212, Insurance Code) and SECTION 2 of this bill.
of this bill.

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 group life insurance, credit life insurance, term life insurance with a coverage period of 10 years or less, or 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. Provides that 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 FACE AMOUNT.** (a) Provides 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) Provides that the insurer must provide the additional coverage required by this section at the insurer's current applicable underwriting standards, rates, and contestability period for issuance of a same or 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 that provides a face amount of \$2,000 or less to the same insured, with certain exceptions.

Sec. 1101.205. REQUIRED ALTERNATIVE PAYMENT OPTIONS. (a) Provides that an insurer that offers a life insurance policy that provides a face amount of \$15,000 or less, unless otherwise prohibited by law, must offer alternative premium payment options to the payment options than the insurer would otherwise have offered 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) Provides that an insurer must offer alternative premium payment options that include payment schedules that allow for shorter payment periods.

Sec. 1101.206. DISCLOSURE REQUIREMENTS-APPLICANT FOR INSURANCE COVERAGE.

(a) Requires 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 that there may be advantages under alternative insurance policies, including the cost of coverage if the applicant is in good health.

Sec. 1101.207. POLICYOWNER'S RIGHT TO CANCEL. Provides that each policyowner 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 an insurer to provide each policyowner for insurance coverage under such 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 1101.205 and 1101.206 at the time of the application for coverage and the notice prescribed by Section 1101.207 at the time of the delivery of the policy.

Sec. 1101.209. 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. Requires the insurer to give certain prescribed disclosures and notices at the time of delivery of the policy, if the application is received by the insurer directly from the applicant and was not solicited by an agent.

(b) Requires the insurer to also provide the required disclosure to each policyholder in the year in which the estimated cumulative premiums paid will exceed the face amount of the policy and every 5th year thereafter.

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, 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 or credit life insurance policy records for which the insurer does not maintain independent records of the independent 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 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, endowment 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 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 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.

EFFECTIVE DATE

September 1, 2003.

COMPARISON OF ORIGINAL TO SUBSTITUTE

C.S.S.B. 1618 modifies the original by removing group life insurance policies, credit life insurance policies, or term life insurance policies with a coverage period of ten years or less, from policies covered under Subchapter E. The substitute clarifies that the face amount of a policy issued with increasing graded death benefits is the face amount at the end of the graded death benefit period. The substitute adds exceptions to the prohibition against issuing subsequent small face life insurance policies. The substitute removes the requirement that an insurer offer alternative payment options that allow for schedules for making payments less often. The substitute removes the requirement that the alternative payment option be provided before the sale of policy and again not later than the delivery of the policy. The substitute clarifies provisions relating to the time of disclosures and disclosure requirements. The substitute specifies under due diligence standards of Subchapter F that a reasonable search does not require a search of certain group life or credit life insurance policy records.