

By: Ellis

S.B. No. 1618

A BILL TO BE ENTITLED

AN ACT

relating to regulation of certain life insurance.

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

SECTION 1. Chapter 1101, Insurance Code, as effective June 1, 2003, 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) This subchapter applies to any individual or group life insurance policy issued in this state, including an industrial insurance policy offered under Chapter 1151. 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. 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) Except as provided by Section 884.302, a life insurance policy with an initial face amount of \$2,000 or less must include an option for the insured to increase the face amount of the policy to not

1 more than \$15,000.

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

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

10 (d) The exercise of an option under Subsection (a) may not
11 result in a reduction of the cash value of the life insurance
12 policy.

13 Sec. 1101.204. PROHIBITION: ISSUANCE OF SUBSEQUENT
14 POLICY. An insurer that issues a life insurance policy that
15 provides an initial face amount of \$2,000 or less and that includes
16 the option to increase coverage required by Section 1101.203 may
17 not issue a subsequent life insurance policy that provides an
18 initial face amount of \$2,000 or less to the same insured.

19 Sec. 1101.205. REQUIRED ALTERNATIVE PAYMENT OPTIONS.

20 (a) Unless otherwise prohibited by law, an insurer that offers a
21 life insurance policy that provides an initial face amount of
22 \$15,000 or less must offer alternative premium payment options to
23 the payment options the insurer would otherwise have offered if, at
24 any point in time over the term of the policy, the cumulative
25 premiums paid, less dividends paid by the insurer, might exceed 250
26 percent of the face amount of the policy.

27 (b) For purposes of this section, the insurer must offer

1 alternative premium payment options that include payment schedules
2 that allow for shorter payment periods and schedules for making
3 payments less often.

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

7 Sec. 1101.206. MINIMUM DISCLOSURE REQUIREMENTS--APPLICANT
8 FOR INSURANCE COVERAGE. (a) At a minimum, an insurer subject to
9 this subchapter shall disclose to an applicant, with respect to a
10 life insurance policy applied for:

11 (1) the initial face amount under the policy;

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

14 (3) if applicable, the fact that the cumulative
15 premiums for the policy may exceed the face amount over the life of
16 the policy; and

17 (4) the possible advantages of coverage under a single
18 policy with a larger face amount rather than several smaller
19 policies.

20 (b) For a guaranteed issue life insurance policy, the
21 insurer shall provide in the disclosure statement, in addition to
22 the information required under Subsection (a), a statement to the
23 applicant regarding the effect of good health on the cost of the
24 coverage provided under the policy and the possible advantages of
25 alternative insurance products.

26 Sec. 1101.207. APPLICANT'S RIGHT TO CANCEL. Each applicant
27 for insurance coverage under a life insurance policy has the right

1 to cancel the policy before the 31st day after the date of delivery
2 of the policy and obtain a refund of any premium paid. The insurer
3 shall provide each applicant for insurance coverage under a life
4 insurance policy written notice of the 30-day right to cancel.

5 Sec. 1101.208. TIMING OF DISCLOSURE TO APPLICANT. An
6 insurer that issues a life insurance policy shall provide the
7 disclosure and notice prescribed by Sections 1101.206 and 1101.207
8 on application for coverage.

9 Sec. 1101.209. MINIMUM DISCLOSURE REQUIREMENTS--POLICY
10 OWNER. At a minimum, an insurer shall disclose to the owner of a
11 life insurance policy, as of the date of the disclosure:

- 12 (1) the face amount under the policy;
13 (2) the premium for the policy by selected payment
14 mode, on an annualized basis;
15 (3) the cumulative premiums paid for the policy;
16 (4) the cash value of the policy, if any; and
17 (5) the year in which cumulative premiums will exceed
18 the face amount.

19 Sec. 1101.210. TIMING OF DISCLOSURE TO POLICYHOLDER.

20 (a) An insurer that issues a life insurance policy shall provide
21 the disclosure prescribed by Section 1101.209 on delivery of the
22 policy, and at the time that, on payment of the next premium under
23 the policy, the cumulative premiums paid will exceed the face
24 amount of the policy.

25 (b) The insurer shall also provide the required disclosure
26 to each policyholder on:

- 27 (1) the fifth anniversary of the date of the initial

1 delivery of the policy; and

2 (2) every subsequent five-year anniversary of the date
3 of the initial delivery of the policy.

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

8 (1) accidental death benefits;

9 (2) permanent disability benefits; and

10 (3) any other benefit similar to accidental death
11 benefits and permanent disability benefits.

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

14 Sec. 1101.212. RULES. (a) The commissioner may adopt
15 rules necessary to implement this subchapter.

16 (b) The commissioner by rule shall require that the
17 disclosure statements required under Sections 1101.206 and
18 1101.209 and the notice required under Section 1101.207 shall be
19 substantially in the form prescribed by the commissioner.

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

23 [Sections 1101.213-1101.250 reserved for expansion]

24 SUBCHAPTER F. UNCLAIMED BENEFITS UNDER CERTAIN POLICIES

25 Sec. 1101.251. APPLICABILITY. (a) This subchapter
26 applies to each insurer authorized to write life insurance in this
27 state operating under Chapter 841, 881, 882, 884, 885, 886, 887,

1 888, or 982, including an insurer exempt under Section 887.102.

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

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

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

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

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

20 (e) Each insurer shall adopt a written claim processing
21 standard and methodology that will allow the insurer to process a
22 death claim, endowment claim, or other claim presented against a
23 life insurance policy or an accidental death or dismemberment
24 policy.

25 (f) The insurer, as a part of the claim processing standard
26 and methodology adopted under Subsection (e), shall inquire, for
27 each claim filed with the insurer for death benefits, about other

1 names by which the insured may have been known, such as a maiden
2 name, a hyphenated name, a nickname, a derivative form of first and
3 middle name, or an alias, and the date of birth of the insured. If
4 the filer of the claim form includes that additional name
5 information on the claim form or if the insurer otherwise knows
6 about other names by which the insured may have been known, the
7 insurer shall include that information and the date of birth, if
8 available, as a part of its search criteria to determine whether
9 additional policies exist.

10 (g) Each insurer shall maintain claim records in a manner
11 that demonstrates that the insurer has followed the written claim
12 processing standard and methodology required by this section.

13 SECTION 2. Not later than January 1, 2004, the commissioner
14 of insurance shall adopt rules as required by Subsection (b),
15 Section 1101.212, Insurance Code, as added by this Act.

16 SECTION 3. This Act takes effect September 1, 2003, and
17 applies only to an insurance policy that is delivered on or after
18 July 1, 2004. A policy that is delivered before July 1, 2004, is
19 governed by the law as it existed immediately before the effective
20 date of this Act, and that law is continued in effect for that
21 purpose.