

SENATE BILL REPORT

HB 2698

As Reported by Senate Committee On:
Financial Institutions, Housing & Insurance, February 22, 2012

Title: An act relating to notice given to owners of life insurance policies about alternative transactions.

Brief Description: Addressing the notice given to owners of life insurance policies about alternative transactions.

Sponsors: Representatives Kelley and Rivers.

Brief History: Passed House: 2/10/12, 97-0.

Committee Activity: Financial Institutions, Housing & Insurance: 2/22/12 [DPA].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: Do pass as amended.

Signed by Senators Hobbs, Chair; Prentice, Vice Chair; Benton, Ranking Minority Member; Fain, Keiser and Litzow.

Staff: Edward Redmond (786-7471)

Background: A life settlement occurs when a policyholder sells their life insurance policy to a third-party. Typically, the seller receives more than the policy's cash surrender value but less than its net death benefit. The purchaser may hold the policies until maturity or when the insured person dies and collect the net death benefits. They may also resell the policies, or they may sell interests in multiple policies to hedge funds or other investors. A lump sum payment is received when a person sell ones policy. The amount of the lump sum varies depending on a range of factors including the person's age, health, and terms and conditions of the life insurance policy. The purchaser agrees to pay any additional premiums required to keep the policy in effect and receives the death benefit when the insured person dies.

In 2009 the Legislature passed SSB 5195 adopting the Life Settlement Model Act (Act). The Act prohibits stranger-originated life insurance and requires life settlement providers and brokers to be licensed before transacting business with a resident of Washington.

The Act also requires notification to holders of life insurance policies under specified circumstances. An insurer must notify a policyholder that is 60 years or older or is known to

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be terminally ill, that there may be alternative transactions available if the owner makes a request to surrender the policy; the owner requests an accelerated life insurance benefit; the insurer is sending out a laps notice; or other times required by rule of the Commissioner.

The insurance industry defines term life insurance as life insurance which provides coverage at a fixed rate of payments for a limited period of time. After that period expires, coverage at the previous rate of premiums is no longer guaranteed and the client must either forgo coverage or potentially obtain further coverage with different payments and/or conditions. If the insured dies during the term, the death benefit will be paid to the beneficiary.

Summary of Bill (Recommended Amendments): Term life insurance policies are exempt from the notification requirements under the Act, except when in the process of converting into a policy other than a term life policy.

Term life insurance is defined as life insurance that provides a death benefit only if the insured dies during the period specified in the policy and that ceases without value if the insured survives until the end of such period.

EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS, HOUSING & INSURANCE COMMITTEE (Recommended Amendments): Defines term life insurance.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: PRO: Three years ago legislation was enacted dealing with life settlements. At the core of that legislation was an issue concerning stranger originated life insurance, or STOLI. A provision in that bill required life insurers to provide notice of policy options in the event a policyholder receives a lapse notice. This requirement was intended for life insurance policies that are investment grade not term life policies. Owners of term life policies do not have cash value, they cannot take loans against the instrument, or gift the instrument. The bill provides an exclusion for term life policies from the notification requirements. Farmers insurance reviewed the definition and compared it to national definitions of term life insurance. The definition is consistent and Farmer's is in support of the amendment adding the definition.

CON: The underlying bill changed a provision that was heavily negotiated in 2009. The public policy issues were to make sure seniors received notice as to what their options are rather than letting their policies lapse. Coventry prefers OIC's recommendation of doing rulemaking instead of legislation. Insurers should still provide notice to seniors providing that their options may be narrower with term life policies. Coventry has no objection to the definition of term life insurance put forth by OIC.

OTHER: OIC believes that that issue can be addressed in rulemaking rather than by statute. The definition for term life insurance was worked on by OIC staff. There is currently no definition for term life insurance in the insurance code. OIC wanted to make sure that this limited application would not end up overwhelming the rest of the code. This definition makes sure that everyone is consistent with what term life insurance means.

Persons Testifying: PRO: Mel Sorensen, American Council of Life Insurers, National Association of Insurance and Financial Advisors; Jessica Harbin, Farmers New World Life;

CON: Carrie Tellefson, Coventry.

OTHER: Drew Bouton, Office of Insurance Commissioner.