SENATE BILL REPORT
SB 6443

As Reported by Senate Committee On:
Financial Institutions, Housing & Insurance, January 31, 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: Senators Haugen and Fain.

Brief History:
Committee Activity: Financial Institutions, Housing & Insurance: 1/25/12, 1/31/12 [DPS].

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Majority Report: That Substitute Senate Bill No. 6443 be substituted therefor, and the substitute bill do pass.
Signed by Senators Hobbs, Chair; Prentice, Vice Chair; Benton, Ranking Minority Member; Fain, Haugen, 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.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

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 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 Substitute): Term life insurance is defined as a life insurance policy that provides coverage for a specific period of time and is exempt from the standard nonforfeiture law for life insurance provisions in statute. Term life insurance policies are exempt from the notification requirements under the Life Settlement Model Act. A term life insurer is not required to notify a policyholder that there may be alternative transactions available.

EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS, HOUSING & INSURANCE COMMITTEE (Recommended Substitute): 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: This bill is in response to input from our customers and is a very small change to SSB 5195 that this Legislature passed in 2009. The notice requirement in that legislation does have value for the policies that it relates to. However, it is creating confusion and giving misleading information to our customers with regards to term life. We made similar changes in other states without opposition. With term life you pay for death protection when you need it most. When you no longer need it, the policy lapses. The problem with the disclosure notice is it describes options that do not exist in the term policy, which is highly misleading.

CON: Coventry believes that seniors do have a right to know what their options are besides lapse. One option is a life settlement, but there are other options besides term coverage. Term policies are assignable and considered property under case law. Term policies should not be treated differently from purposes of notice. The Office of Insurance Commissioner (OIC) opposes the bill as drafted as some of the disclosure notice options could be beneficial to term life holders. OIC thinks the scope of this bill is too broad and should be limited.

Persons Testifying: PRO: Jessica Harbin, Farmers Group, Inc.; Mel Sorenson, American Council of Life Insurance (ACIL), National Assn. of Insurance & Financial Advisors of WA; John Mangan, ACLI.

CON: Carrie Tellefson, Coventry; Drew Bouton, OIC.