

1 HB79  
2 125036-1  
3 By Representatives Wren, Canfield, Brown and Faust  
4 RFD: Insurance  
5 First Read: 01-MAR-11

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8 SYNOPSIS: Under existing law, life insurers are not  
9 required to notify policy owners of the option to  
10 sell their policy instead of allowing it to lapse  
11 without value.

12 This bill would provide that insurance  
13 companies must notify insureds who are 60 years old  
14 and older or individuals suffering from a terminal  
15 or chronic illness of their options regarding a  
16 life insurance policy instead of allowing it to  
17 lapse.

18 This bill would require insurance companies  
19 to provide notice to its insureds of options in  
20 lieu of lapsing including life settlements,  
21 accelerated death benefits, and conversion to  
22 long-term care policies.

23 This bill would provide for a civil penalty  
24 if the notice is not provided.

25  
26 A BILL  
27 TO BE ENTITLED

1 AN ACT

2  
3 To provide that insurance companies must notify  
4 insureds who are 60 years old and older or individuals  
5 suffering from a terminal or chronic illness of their options  
6 regarding a life insurance policy instead of allowing it to  
7 lapse; to require the insurance companies to provide notice to  
8 its insureds of options in lieu of lapsing including life  
9 settlements, accelerated death benefits, and conversion to  
10 long-term care policies; and to provide for a civil penalty if  
11 the notice is not provided.

12 BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

13 Section 1. This act shall be known as the "Life  
14 Insurance Consumer Disclosure Act."

15 Section 2. As used in this act, the following terms  
16 shall have the following meanings:

17 (1) COMMISSIONER. The Commissioner of the Alabama  
18 Department of Insurance.

19 (2) INSURER. The insurance company that issued the  
20 policy.

21 (3) INSURED. An individual covered by a policy.

22 (4) PERSON. An individual or a legal entity.

23 (5) POLICY. An individual life insurance policy  
24 owned by a person who is a resident of this state, regardless  
25 of whether issued, delivered, or renewed in this state.

26 (6) POLICY OWNER. The owner of a policy.

1           Section 3. (a) An insurer shall provide the written  
2 notice required by subsection (b) to a policy owner if an  
3 insured is age 60 or older or is known by the insurer to be  
4 terminally ill or chronically ill and if any of the following  
5 are applicable:

6           (1) The policy owner requests the surrender, in  
7 whole or in part, of a policy.

8           (2) The policy owner requests an accelerated death  
9 benefit under a policy.

10           (3) The insurer sends notice to the policy owner  
11 that the policy may lapse; provided, however, that the insurer  
12 shall not be required to include the notice required by this  
13 paragraph to the policy owner more than one time within a  
14 12-month period from the date of the first notice of lapse of  
15 the policy.

16           (4) At any other time that the commissioner may  
17 prescribe by rule.

18           (b) The commissioner shall develop the written  
19 notice, promulgated by rule, to apprise policy owners of  
20 alternatives to the lapse or surrender of a policy and of the  
21 rights of the policy owner as an owner of a policy related to  
22 the disposition of a policy. The notice shall be developed at  
23 no cost to insurers or other licensees and shall be written in  
24 lay terms.

25           (c) The written notice shall contain the following:

26           (1) A statement explaining that life insurance is a  
27 critical part of a broader financial plan.

1           (2) A statement explaining that there are  
2 alternatives to the lapse or surrender of a policy.

3           (3) A general description of the following  
4 alternatives to the lapse or surrender of a policy.

5           a. Accelerated death benefits available under the  
6 policy or as a rider to the policy.

7           b. The assignment of the policy as a gift.

8           c. The sale of the policy pursuant to a life  
9 settlement contract, including that a life settlement is a  
10 regulated transaction in this state.

11           d. The replacement of the policy pursuant to state  
12 law or rules of this state.

13           e. The maintenance of the policy pursuant to the  
14 terms of the policy or a rider to the policy through life  
15 settlement contract.

16           f. The maintenance of the policy through loans  
17 issued by an insurer or a third party, using the policy or the  
18 cash surrender value of the policy as collateral for the loan.

19           g. Conversion of the policy from a term policy to a  
20 permanent policy.

21           h. Conversion of the policy in order to obtain  
22 long-term care health insurance coverage or a long-term care  
23 benefit plan.

24           (4) A statement explaining that life insurance, life  
25 settlements, or other alternatives to the lapse or surrender  
26 of the policy described in the notice may or may not be  
27 available to a particular policy owner depending on a number

1 of circumstances, including the age and health status of the  
2 insured or the terms of the life insurance policy, and that  
3 policy owners should contact their financial advisor,  
4 insurance agent, broker, or attorney to obtain further advice  
5 and assistance.

6 Section 4. A violation of subsection (a) of Section  
7 3 shall be an unfair trade practice as defined in Chapter 19  
8 of Title 8 of the Code of Alabama 1975, and subject to the  
9 penalties provided by Section 8-19-11 of the Code of Alabama  
10 1975.

11 Section 5. This act shall become effective on the  
12 first day of the third month following its passage and  
13 approval by the Governor, or its otherwise becoming law.