SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL:	SB 1170			
SPONSOR:	Senator Silver			
SUBJECT: Industrial Life Ins		urance/Lapse Notice		
DATE:	April 2, 1999	REVISED:		
1. <u>Emric</u> 2 3 4.	ANALYST	STAFF DIRECTOR Deffenbaugh	REFERENCE BI	ACTION Favorable
5.				

I. Summary:

Industrial life insurance is a form of life insurance for which premiums are payable on a monthly or more frequent basis and are collected directly by an insurance agent. The face value of a typical industrial life policy issued today is \$1,000. In recent years, relatively few industrial life policies have been issued in Florida, although nearly 1.2 million industrial life policies are currently in force in Florida that collectively amount to \$901 million of coverage in force.

Under this bill, new industrial life insurance policies would not be able to be written in Florida after October 1, 1999. Industrial life policies that are in force on October 1 would continue to be subject to applicable provisions of the Insurance Code and rules of the Department of Insurance.

Each industrial life insurer would be required annually to provide disclosures to the policyholder or to the person who pays premiums on an industrial life policy. The insurer would be required to disclose the total amount of premiums paid, the cash value of the policy, and the total amount of death benefits payable under the policy.

The bill removes the exemption from the secondary notice requirements for both individual life and industrial life insurance policyholders who are 64 years old or older. The effect of deleting these exemptions would be that insurance companies would have to provide advance notice to individual life and industrial life policyholders of the impending lapse or cancellation of their insurance policies due to nonpayment of premium.

This bill amends the following sections of the Florida Statutes: 627.4555 and 627.5045. This bill creates section 627.5015 of the Florida Statutes.

II. Present Situation:

Industrial life insurance is a form of life insurance for which premiums are payable on a monthly or more frequent basis and are collected directly by an insurance agent (s. 627.502, F.S.). A

typical industrial life policy issued today, according to the Department of Insurance, has a face value of \$1,000 and premiums of \$2.60 per month. Industrial life insurance policies are subject to the requirements of part IV of chapter 627, F.S. (ss. 627.501-627.522, F.S.)

According to the Department of Insurance, as of November 19, 1998 (the most current date available), there were 1,277,169 industrial life policies in force in Florida, with an average face value of \$750. The number of new industrial life policies issued in Florida has declined dramatically in recent years. Fewer than 1,000 industrial life policies were issued in Florida in 1994, 1995, and 1996, combined. In 1996, only three companies issued industrial life policies in Florida, i.e., Conger, Metropolitan and Western & Southern. (On November 18, 1997, Conger Life Ins. Co. went into receivership.) According to the department, no industrial life policies were issued for 1997 (the most current year available). The small number of new industrial life policies issued in Florida in recent years could indicate that other low-cost, low-value life insurance options are widely available.

Industrial life policies are sold primarily to low income families who are elderly, less educated, lack insurance knowledge or sophistication of insurance products and have overall less expendable income. This insurance product, according to the Insurance Consumer Advocate, provides inferior economic value as compared with ordinary life policies and does not provide coverage adequate to cover today's typical funeral expenses. According to the Florida Funeral Directors Association, the national average cost of a funeral in 1998 was \$4,850. Furthermore, the premiums which are paid for industrial life policies often surpass the face amount of the policy. Traditionally, these products involve small face amounts. The lower the face amount of the life insurance policy, the higher the relative cost of the policy.

The Insurance Consumer Advocate offered several examples:

- a 83-year-old man had purchased an industrial life insurance policy with a face amount of \$836 about 10 years ago. As of January 1998, he had paid almost \$2300 on this policy and its cash value is only \$208.14.
- a Pensacola woman took out a \$500 policy in 1925 and paid twice that amount in premiums before her death in 1998, at age 92. Even then, her family did not receive the \$500 because the insurer said the policy had lapsed for nonpayment.
- ♦ a 82-year-old Jacksonville woman was sold 4 small-value policies, with total death benefits of \$1,750. She is still paying the premiums, which to date have amounted to \$4,784. She will keep on paying them until she turns 100.

The Insurance Consumer Advocate has further cited a number of disadvantages of industrial life policies, including:

- Industrial life policies, with its direct servicing approach by agents, cost consumers more because the consumer pays for servicing features, which includes premium collection.
- Under s. 626.790, F.S., persons who sell industrial life policies may sell such policies for 6 months without meeting the full licensure requirements under the Insurance Code,

including examination requirements. These persons receive a *temporary license*, and according to the Insurance Consumer Advocate, may lack sufficient insurance knowledge in dealing with their customers. With whole life and term insurance, agents must meet full licensure requirements.

• Industrial life policies do not allow loans against the policy's cash value.

The states of New York (1980) and Arkansas (1988) have prohibited the sale of industrial life insurance policies.

III. Effect of Proposed Changes:

Section 1. Creates s. 627.5015, F.S., to provide that new industrial life insurance policies would not be allowed to be written in Florida after October 1, 1999. Industrial life policies that are in force on October 1 would continue to be subject to applicable provisions of the Insurance Code and rules of the Department of Insurance. Each industrial life insurer would be required annually to provide disclosures to the policyholder or to the person who pays premiums on an industrial life policy. The insurer would be required to disclose the total amount of premiums paid, the cash value of the policy, and the total amount of death benefits payable under the policy.

Section 2. Amends s. 627.4555, F.S., relating to secondary notice requirements for individual life insurance policies. The bill would *delete* the present exemption provision which relates to policy holders 64 years of age or older which states that the secondary notice provisions do not apply to life insurance contracts under which premiums are payable monthly or more frequently and are regularly collected by a licensed agent or are paid by credit card or any preauthorized check processing or automatic debit service of a financial institution. The effect of removing the exemption would be that insurers would have to provide advance notice to insureds 64 years of age or older of the impending lapse or cancellation of their insurance due to nonpayment of premium.

Section 3. Amends s. 627.5045, F.S., relating to secondary notice requirements for industrial life insurance policies. The bill would *delete* the present exemption provision which applies to policyholders 64 years of age or older which states that the secondary notice provisions do not apply to industrial insurance contracts under which premiums are payable monthly or more frequently and are regularly collected by a licensed agent. The effect of removing the exemption would be that insurers would have to provide advance notice to insureds 64 years of age or older of the impending lapse or cancellation of their insurance due to nonpayment of premium.

Section 4. Provides for an effective date of October 1, 1999.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Policyholders would benefit by being provided full disclosure as to the total premiums paid on their policies, the cash value of such policies, and the amount of death benefits.

The bill would create compliance costs for industrial life insurers who would be required to provide certain annual disclosures to policyholders or premium payers. However, in view of the disadvantages cited by the Insurance Consumer Advocate (see "Present Situation," above), consumers who are interested in low-value, low-cost life insurance options could be more likely to find an appropriate life insurance product if the industrial life policy were not an available option.

Individual life and industrial life policyowners who are 64 years or older would benefit by receiving advance notice from insurers that their policy would be canceled or "lapsed" due to nonpayment of premiums. Additionally, life insurers would have to provide notice of the right of such policyowners to designate a secondary addressee.

C. Government Sector Impact:

The Department of Insurance would be required to ensure that industrial life insurers complied with the provisions of the bill.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.