

II. Present Situation:

Industrial Life Insurance

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 \$727 and premiums of \$2.60 per month. It is typically sold to consumers as a way to cover burial expenses. An insured is allowed a 30-day grace period for the payment of premiums and may name a beneficiary. Industrial life insurance policies are subject to the requirements of part IV of chapter 627, F.S. (ss. 627.501-627.522, F.S.)

Insurers that issue this type of insurance must report to the Department of Insurance all annual statement data regarding industrial life insurance. Under s. 627.522(2), F.S., the price of an industrial life insurance policy must be set forth in a “clear, conspicuous, and understandable manner.”

There are differences between “term” insurance, which is life insurance purchased for a specific period; “whole life” insurance, which is coverage effective for life; and “industrial life” insurance.¹ Some of these differences include:

- ◆ Under s. 626.790, F.S., insurance agents who sell industrial life policies may work for up to 6 months without meeting full licensure 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.²
- ◆ Unlike whole life or term insurance, an industrial life policyholder may not borrow against the cash value of the policy. Under s. 627.458, F.S., whole life or term insurance policyholders may do so.³
- ◆ Section 625.121, F.S., requires that the price of industrial life insurance policies be based on the 1961 Mortality Table, while whole life and term insurance are priced according to the 1980 Mortality Table. Using an older mortality table may result in higher rates because life expectancies were not as long. (A mortality table is a statistical table used by the industry to identify death probabilities by age.)

¹ Whole life insurance also includes monthly ordinary debit insurance which is similar to industrial life, except a minimum face amount of \$1,000 is required for monthly ordinary debit insurance according to the Department of Insurance.

²However, if an insurance company offers industrial as well as whole or term life insurance, a temporary agent representing the insurer may sell whole or term life products.

³Under a term insurance policy, cash value must accrue before a policyholder may borrow against the policy (s. 627.458, F.S.).

According to the Department of Insurance, as of December 31, 1998 (the most current date available), there were 1,203,575 industrial life policies in force in Florida, that collectively amounts to \$856,168,985 of coverage in force. 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 in the state for 1997 or 1998. 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 National Funeral Directors Association, the national average cost of a funeral in 1999 was \$5,778.⁴ 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 woman from Miami in her sixties purchased four small-value policies of \$1,000 each and has paid a total of \$7,754 in premiums, although the death benefit is only \$4,000. She is still paying the premiums, however the death benefit will remain the same. Her husband has also been sold similar policies with a significant outlay of premiums.
- ◆ 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 four small-value policies, with total death benefits of \$1,750. She is still paying the premiums, which to date have amounted to \$5,656. She will keep on paying them until she turns 100.

In October 1999, representatives with the Department of Insurance stated the department is investigating possible "deceptive practices" by insurance companies that have targeted minority and low-income consumers in the sale of industrial or "so-called burial insurance." The department issued subpoenas to five insurers that hold the majority of the \$856 million in industrial life insurance currently in force in this state.

⁴This price does not include cemetery charges, such as grave space, opening/closing grave, crypts/mausoleum, monument or marker.

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

Secondary Notice Requirements

Under s. 627.5045, F.S., industrial life insurance policies issued on or after October 1, 1997, for which premiums are paid monthly, which have been in force for at least 1 year, and that cover or are owned by persons 64 years of age or older, may not be lapsed for nonpayment of premium, unless, after expiration of the grace period (30 days), and at least 21 days before the effective date of such lapse, the insurer has mailed a notice of impending lapse in coverage to the policyowner and to a specified secondary addressee designated by the policyowner. Consumers who apply for, or are covered under industrial life policies, provided such policies are issued or renewed on or after October 1, 1997, must be notified by the insurer of the option to designate a secondary addressee at the time of application. However, this section further prohibits the above provisions from applying to any life insurance contract under which premiums are payable monthly or more frequently and are regularly collected by a licensed agent. This last provision appears to, in effect, repeal the secondary notice requirements for industrial life insurance since such insurance is defined as that form of life insurance for which premiums are payable monthly or more often, bearing the words "industrial policy" or "weekly premium policy," and issued under a system of debit collection by an agent (s. 627.502, F.S.).

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 issued in Florida on or after October 1, 2000. Industrial life policies that are in force before 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. 627.5045, F.S., relating to secondary notice requirements for industrial life insurance policies. The bill would *delete* the present exemption provision which relates to policyholders 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. By removing this exemption, insurers would have to provide advance notice to insureds 64 years of age or older, and to a secondary addressee that has been designated by the policyholder, of the impending lapse or cancellation of their insurance due to nonpayment of premium. However, this provision would have *no effect* because it would only apply to industrial life policies issued on or after the effective date of the bill (October 1, 2000). Because the first section of this bill prohibits new industrial life policies from being issued on or after October 1, 2000, the secondary notice provision has no force or effect.

Section 3. Provides that the act will take effect October 1, 2000.

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.

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 may be more likely to find an appropriate life insurance product if the industrial life policy were not an available option.

C. Government Sector Impact:

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

VI. Technical Deficiencies:

See discussion under Effect of Proposed Changes regarding Section 2 of the bill which would have no effect.

VII. Related Issues:

None.

VIII. Amendments:

#1 by Banking and Insurance:

This amendment removes Section 2 of the bill which applies to the secondary notice provision. This provision would have *no effect* because it would only apply to industrial life policies issued on or after the effective date of the bill (October 1, 2000). Because the first section of this bill prohibits new industrial life policies from being issued on or after October 1, 2000, the secondary notice provision has no force or effect.

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