

HOUSE BILL REPORT

ESHB 1899

As Amended by the Senate

Title: An act relating to life insurance illustrations.

Brief Description: Providing standards for life insurance policy illustrations.

Sponsors: By House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Zellinsky, L. Thomas, Carrell, Wolfe, Grant and Sullivan).

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/20/97, 2/24/97 [DPS].

Floor Activity:

Passed House: 3/11/97, 97-0.

Senate Amended.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives L. Thomas, Chairman; Smith, Vice Chairman; Zellinsky, Vice Chairman; Wolfe, Ranking Minority Member; Benson; Constantine; Keiser; Sullivan and Wensman.

Staff: Charlie Gavigan (786-7340).

Background: Life insurance is regulated by statute and through the Office of the Insurance Commissioner. Generally, life insurance provides benefits to a beneficiary upon the death of the insured. There are a variety of life insurance products; these products include term, whole life, universal life and other investment or interest sensitive products, endowments, and annuities.

Current statutes provide a variety of consumer protection provisions including, listing standard provisions that life insurance contracts must contain; providing that the contract is incontestible after two years, establishing provisions regarding policy loans, providing a period for reinstatement of the policy, and specifying minimum cash surrender benefits. In addition to regulating life insurance companies, the insurance commissioner has adopted rules regarding life insurance and annuities. These rules address advertising and disclosure requirements, marketing requirements,

dissemination of information on purchasing life insurance, and disclosures that must be provided when existing policies are being replaced.

Summary of Bill: Standards and requirements for life insurance policy illustrations are established. Insurers must notify the insurance commissioner regarding what life insurance policy forms the insurer is using and whether illustrations are used when marketing these products. If illustrations are not being used, the insurer cannot start using illustrations without notifying the insurance commissioner. If illustrations are used, a basic illustration must be used for most products. An illustration used to sell life insurance must be clearly labeled, contain specified information, avoid using footnotes and caveats, use clear definitions, and comply with other provisions and prohibitions. Basic illustrations must describe the policy, premium outlays, and guaranteed and nonguaranteed benefits; must provide a narrative summary and numeric summary of benefits, and must provide certain disclosures. Supplemental illustrations can be used in conjunction with basic illustrations provided they meet certain requirements. If an illustration is used in the sale of a life insurance policy, the insurer must provide the policyholder an annual update on the status of the policy.

Insurers must appoint one or more illustration actuaries. An actuary must certify that the scale used in illustrations conforms to actuarial standards. A violation of the life insurer policy illustration provisions is an unfair practice.

EFFECT OF SENATE AMENDMENT(S): Provides a system for allowing the use of lap-top computers to provide illustrations even if they don't have printing capability, so long as the person purchasing the policy is provided a copy of the illustration by the time the policy is issued.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on January 1, 1998.

Testimony For: This bill will result in clearer and more accurate information being provided to consumers when they are being offered life insurance. Illustrations used to sell life insurance will not be misleading and will be more understandable.

Testimony Against: None.

Testified: John Rathbun, Washington State Association of Life Underwriters (supports); and Basil Badley, American Council of Life Insurers (supports).