

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 111

(Chair, Finance Committee)(By Request - Departmental -
Maryland Insurance Administration)

Finance

Health and Government Operations

Insurance - Universal and Variable Life Insurance - Notice

This departmental bill requires universal and variable life insurers to provide written notice to a policyholder if a policy allows the policyholder to reduce the face amount of the policy (*i.e.*, the payable benefits). **The bill takes effect January 1, 2021.**

Fiscal Summary

State Effect: The bill does not directly affect State operations or finances.

Local Effect: The bill does not directly affect local governmental operations or finances.

Small Business Effect: The Maryland Insurance Administration (MIA) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The notice sent to policyholders must state (1) that the policy allows for a reduction of the face amount of the policy as an option to retain coverage; (2) the amount that must be paid to prevent the policy from lapsing; and (3) the insurer's customer service telephone number. The notice must be sent to a policyholder's last known address at the beginning of the grace period required for payment of premiums for life insurance policies and at least 30 days before termination of coverage.

Current Law: Every life insurance policy must contain a provision that allows a grace period beyond the due date during which a policyholder can pay the premium. In most

cases, the grace period must be 30 days, one month of not less than 30 days, or four weeks for a policy of industrial life insurance with payments more frequent than monthly. The policy must continue in full force during the grace period; however, if a claim arises under the policy during the grace period, the amount of any premium due or overdue may be deducted from the policy proceeds.

Insurers must send notice to policyholders for a variety of reasons. For example, a life insurer must send notice at least 30 days before the termination of a policy and, if requested, notify the policyholder each year of the cash value of the policy for the current policy year.

Background: Universal life insurance and variable life insurance are permanent insurance, meaning they provide long-term financial protection when purchased. Both types of insurance include a death benefit and require payment of ongoing premiums.

MIA advises that universal and variable life insurance policyholders who are not able to pay their premiums frequently allow their policies to lapse. Many of these policies contain a provision that would allow the policyholder to reduce benefits (and in turn reduce the premium owed), which would allow maintenance of the policy at a reduced face amount and payment of a more affordable premium. However, the provision tends to be buried in a lengthy policy and go unnoticed by the policyholder. The bill requires insurers to inform policyholders in a more conspicuous manner when this option is available.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Maryland Insurance Administration; Department of Legislative Services

Fiscal Note History: First Reader - January 10, 2020
rh/jc Third Reader - March 15, 2020
Revised - Amendment(s) - March 15, 2020

Analysis by: Richard L. Duncan

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Insurance – Universal and Variable Life Insurance - Notice

BILL NUMBER: SB 111

PREPARED BY:
(Dept./Agency) Maryland Insurance Administration

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

 X WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

 WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

There is no fiscal impact on small business associated with this proposal.