

1 IN THE HOUSE

BY THE COMMERCE AND
LABOR COMMITTEE

2 CS FOR HOUSE BILL NO. 307 -

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIRST LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the regulation of credit
7 life insurance and credit accident and
8 health insurance."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 Section 1. PURPOSE. The purpose of this Act is to promote
11 the public welfare by regulating credit life insurance and credit
12 accident and health insurance. Nothing in this Act is intended to
13 prohibit or discourage reasonable competition. The provisions of
14 this Act shall be liberally construed.

15 Sec. 2. SCOPE AND DEFINITIONS. a. All life insurance and
16 all accident and health insurance in connection with loans or
17 other credit transactions of less than five years duration shall
18 be subject to the provisions of this Act. Insurance in connection
19 with a loan or other credit transaction of five years duration or
20 more shall not be subject to the provisions of this Act, nor shall
21 insurance be subject to the provisions of this Act where the
22 issuance of such insurance is an isolated transaction on the part
23 of the insurer not related to an agreement or a plan for insuring
24 debtors of the creditor.

25 b. For the purposes of this Act:

26 (1) "credit life insurance" means insurance on the life
27 of a debtor pursuant to or in connection with a specific loan or
28 other credit transaction;

29 (2) "credit accident and health insurance" means

1 insurance on a debtor to provide indemnity for payments becoming
2 due on a specific loan or other credit transaction while the
3 debtor is disabled as defined in the policy;

4 (3) "creditor" means the lender of money or vendor of
5 goods, services or property, including a lessor under a lease in-
6 tended as a security, rights or privileges, for which payment is
7 arranged through a credit transaction, or any successor to the
8 right, title or interest of any such lender or vendor, and an
9 affiliate, associate or subsidiary of any of them or any director,
10 officer or employee of any of them or any other person in any way
11 associated with any of them;

12 (4) "debtor" means a borrower of money or a purchaser
13 or lessee of goods, services, property, rights or privileges for
14 which payment is arranged through a credit transaction;

15 (5) "indebtedness" means the total amount payable by a
16 debtor to a creditor in connection with a loan or other credit
17 transaction;

18 (6) "director" means the director of the division of
19 insurance, Department of Commerce.

20 Sec. 3. FORMS OF CREDIT LIFE INSURANCE AND CREDIT ACCIDENT
21 AND HEALTH INSURANCE. Credit life insurance and credit accident
22 and health insurance shall be issued only in the following forms:

23 (1) individual policies of life insurance issued to
24 debtors on the term plan;

25 (2) individual policies of accident and health in-
26 surance issued to debtors on a term plan or disability benefit
27 provisions in individual policies of credit life insurance;

28 (3) group policies of life insurance issued to credi-
29 tors providing insurance upon the lives of debtors on the term

1 plan;

2 (4) group policies of accident and health insurance
3 issued to creditors on a term plan insuring debtors or disability
4 benefit provisions in group credit life insurance policies to
5 provide such coverage.

6 Sec. 4. AMOUNT OF CREDIT LIFE INSURANCE AND CREDIT ACCIDENT
7 AND HEALTH INSURANCE. a. The amount of credit life insurance
8 shall not exceed the initial indebtedness, however the indebted-
9 ness may be repayable. In cases where an indebtedness is repay-
10 able in substantially equal installments, the amount of insurance
11 shall at no time exceed the scheduled or actual amount of unpaid
12 indebtedness, whichever is greater. Notwithstanding the above
13 provisions, insurance on agricultural credit transactions not
14 exceeding one year in duration may be written up to the amount of
15 the loan or other commitment on a non-decreasing or level term
16 plan.

17 b. The total amount of indemnity payable by credit accident
18 and health insurance in the event of disability, as defined in the
19 policy, shall not exceed the aggregate of the periodic scheduled
20 unpaid installments of the indebtedness; and the amount of each
21 periodic indemnity payment shall not exceed the original indebted-
22 ness divided by the number of periodic installments.

23 Sec. 5. TERM OF CREDIT LIFE INSURANCE AND CREDIT ACCIDENT
24 AND HEALTH INSURANCE. The term of any credit life insurance or
25 credit accident and health insurance shall, subject to acceptance
26 by the insurer, commence on the date when the debtor becomes
27 obligated to the creditor, except that, where a group policy pro-
28 vides coverage with respect to existing obligations, the insurance
29 on a debtor with respect to such indebtedness shall commence on

1 the effective date of the policy. Where evidence of insurability
2 is required and such evidence is furnished more than 30 days after
3 the date when the debtor becomes obligated to the creditor, the
4 term of the insurance may commence on the date on which the in-
5 surer determines the evidence to be satisfactory, and in such event
6 there shall be an appropriate refund or adjustment of any charge
7 to the debtor for insurance. The term of such insurance shall not
8 extend more than 15 days beyond the scheduled maturity date of the
9 indebtedness except when extended without additional cost to the
10 debtor. If the indebtedness is discharged due to renewal or re-
11 financing prior to the scheduled maturity date, the insurance in
12 force shall be terminated before any new insurance may be issued
13 in connection with the renewed or refinanced indebtedness. In all
14 cases of termination prior to scheduled maturity, a refund shall
15 be paid or credited as provided in Section 8.

16 Sec. 6. PROVISIONS OF POLICIES AND CERTIFICATES OF INSURANCE;
17 DISCLOSURE TO DEBTORS. a. All credit life insurance and credit
18 accident and health insurance shall be evidenced by an individual
19 policy, or in the case of group insurance by a certificate of
20 insurance, which individual policy or group certificate of insur-
21 ance shall be delivered to the debtor within 30 days of the date
22 upon which the indebtedness is incurred.

23 b. Each individual policy or group certificate of credit
24 life insurance, and/or credit accident and health insurance shall,
25 in addition to other requirements of law, set forth the name and
26 home office address of the insurer, and the identity by name or
27 otherwise of the person or persons insured, the rate or amount of
28 payment, if any, by the debtor separately for credit life insurance
29 and credit accident and health insurance, a description of the

1 amount, term and coverage including any exceptions, limitations
2 and restrictions, and shall state that the benefits shall be paid
3 to the creditor to reduce or extinguish the unpaid indebtedness
4 and, wherever the amount of insurance may exceed the unpaid in-
5 debtedness, that any such excess shall be payable to a beneficiary,
6 other than the creditor, named by the debtor or to his estate.

7 c. If a debtor makes a separate payment for credit life or
8 credit accident and health insurance and an individual policy or
9 group certificate of insurance is not delivered to the debtor at
10 the time the indebtedness is incurred, a copy of the application
11 for such policy or a notice of proposed insurance shall be de-
12 livered at such time to the debtor. The copy of the application or
13 notice of proposed insurance shall be signed by the debtor and
14 shall set forth the identity by name or otherwise of the person or
15 persons insured, the rate or amount of payment by the debtor
16 separately for credit life insurance and credit accident and
17 health insurance, and a statement that within 30 days, if the in-
18 surance is accepted by the insurer, there will be delivered to the
19 debtor an individual policy or group certificate of insurance con-
20 taining the name and home office address of the insurer, and a
21 description of the amount, term and coverage including any excep-
22 tions, limitations and restrictions. The copy of the application
23 or notice of proposed insurance shall refer exclusively to in-
24 surance coverage, and shall be separate and apart from the loan,
25 sale or other credit statement of account, instrument or agree-
26 ment, unless the information required by this subsection is pro-
27 minently set forth therein. Upon acceptance of the insurance by
28 the insurer and within 30 days of the date upon which the term of
29 the insurance commences, the insurer shall cause the individual

1 policy or group certificate of insurance to be delivered to the
2 debtor. Said application or notice of proposed insurance shall
3 state that upon acceptance by the insurer, the insurance shall be-
4 come effective as provided in Section 5.

5 Sec. 7. FILING, APPROVAL AND WITHDRAWAL OF FORMS. a. All
6 policies, certificates of insurance, notices of proposed insur-
7 ance, endorsements and riders delivered or issued for delivery in
8 this state and the schedules of premium rates pertaining thereto
9 shall be filed with the director.

10 b. The director shall within 30 days after the filing of any
11 such policies, certificates of insurance, notices of proposed in-
12 surance, applications for insurance, endorsements and riders, dis-
13 approve any such form if the premium rates charged or to be
14 charged are excessive in relation to benefits, or if it contains
15 provisions which are unjust, unfair, inequitable, misleading,
16 deceptive or encourage misrepresentation of the coverage, or are
17 contrary to any provision of the Insurance Code or of any rule or
18 regulation promulgated thereunder. In determining whether to
19 disapprove any such form the director shall give due consideration
20 to past and prospective loss experience within and outside this
21 state, to underwriting practice and judgment to the extent approp-
22 riate, and to all other relevant factors within and outside this
23 state.

24 c. If the director notifies the insurer that the form is
25 disapproved, it is unlawful thereafter for such insurer to issue
26 or use such form. In such notice, the director shall specify the
27 reason for his disapproval and state that a hearing will be
28 granted within 20 days after request in writing by the insurer.
29 No such policy, certificate of insurance, notice of proposed

1 insurance, nor any application, endorsement or rider, shall be
2 issued or used until the expiration of 30 days after it has been
3 so filed, unless the director shall give his prior written ap-
4 proval thereto.

5 d. The director may, at any time after a hearing held not
6 less than 20 days after written notice to the insurer, withdraw
7 his approval of any such form on any ground set forth in sub-
8 section b above. The written notice of such hearing shall state
9 the reason for the proposed withdrawal.

10 e. It is not lawful for the insurer to issue such forms or
11 use them after the effective date of such withdrawal.

12 f. If a group policy of credit life insurance or credit
13 accident and health insurance (1) has been delivered in this state
14 before the effective date of this Act, or (2) has been or is
15 delivered in another state before or after the effective date of
16 this Act, the insurer shall be required to file only the group
17 certificate and notice of proposed insurance as specified in sub-
18 sections b and c of Section 6 of this Act and such forms shall be
19 approved by the director if they conform with the requirements
20 specified in said subsections and if the schedules of premium rates
21 applicable to the insurance evidenced by such certificate or notice
22 are not in excess of the insurer's schedules of premium rates
23 either on file with the director or filed with such forms; provided,
24 however, the premium rate in effect on existing group policies may
25 be continued until the first policy anniversary date following the
26 date this Act becomes operative as provided in Section 12.

27 g. Any order or final determination of the director under the
28 provisions of this section shall be subject to judicial review.

29 Sec. 8. PREMIUMS AND REFUNDS. a. Any insurer may revise its

1 schedules of premium rates from time to time, and shall file such
2 revised schedules with the director. No insurer shall issue any
3 credit life insurance policy or credit accident and health in-
4 surance policy for which the premium rate exceeds that determined
5 by the schedules of such insurer as then on file with the director.

6 b. Each individual policy, or group certificate, shall pro-
7 vide that in the event of termination of the insurance prior to
8 the scheduled maturity date of the indebtedness, any refund of an
9 amount paid by the debtor for insurance shall be paid or credited
10 promptly to the person entitled thereto; provided, however, that
11 the director shall prescribe a minimum refund and no refund which
12 would be less than such minimum need be made. The formula to be
13 used in computing such refund shall be filed with and approved by
14 the director.

15 c. If a creditor requires a debtor to make any payment for
16 credit life insurance or credit accident and health insurance and
17 an individual policy or group certificate of insurance is not
18 issued, the creditor shall immediately give written notice to
19 such debtor and shall promptly make an appropriate credit to the
20 account.

21 d. The amount charged to a debtor for credit life or credit
22 health and accident insurance shall not exceed the premiums
23 charged by the insurer, as computed at the time the charge to the
24 debtor is determined.

25 e. Nothing in this Act shall be construed to authorize any
26 payments for insurance now prohibited under any statute, or rule
27 thereunder, governing credit transactions.

28 Sec. 9. ISSUANCE OF POLICIES. All policies of credit life
29 insurance and credit accident and health insurance shall be

1 delivered or issued for delivery in this state only by an insurer
2 authorized to do an insurance business therein, and shall be
3 issued only through holders of licenses or authorizations issued
4 by the director.

5 Sec. 10. CLAIMS. a. All claims shall be promptly reported
6 to the insurer or its designated claim representative, and the
7 insurer shall maintain adequate claim files. All claims shall be
8 settled as soon as possible and in accordance with the terms of the
9 insurance contract.

10 b. All claims shall be paid either by draft drawn upon the
11 insurer or by check of the insurer to the order of the claimant to
12 whom payment of the claim is due pursuant to the policy provisions,
13 or upon direction of such claimant to one specified.

14 c. No plan or arrangement shall be used whereby any person,
15 firm or corporation other than the insurer or its designated claim
16 representative shall be authorized to settle or adjust claims.
17 The creditor shall not be designated as claim representative for
18 the insurer in adjusting claims; provided, that a group policy-
19 holder may, by arrangement with the group insurer, draw drafts or
20 checks in payment of claims due to the group policyholder subject
21 to audit and review by the insurer.

22 Sec. 11. EXISTING INSURANCE; CHOICE OF INSURER. When credit
23 life insurance or credit accident and health insurance is required
24 as additional security for any indebtedness, the debtor shall,
25 upon request to the creditor, have the option of furnishing the
26 required amount of insurance through existing policies of in-
27 surance owned or controlled by him or of procuring and furnishing
28 the required coverage through any insurer authorized to transact
29 an insurance business within this state.

1 Sec. 12. ENFORCEMENT. The director may, after notice and
2 hearing, issue such rules and regulations as he deems appropriate
3 for the supervision of this Act. Whenever the director finds that
4 there has been a violation of this Act or any rules or regulations
5 issued pursuant thereto, and after written notice thereof and
6 hearing given to the insurer or other person authorized or licensed
7 by the director, he shall set forth the details of his findings
8 together with an order for compliance by a specified date. Such
9 order shall be binding on the insurer and other person authorized
10 or licensed by the director on the date specified unless sooner
11 withdrawn by the director or a stay thereof has been ordered by a
12 court of competent jurisdiction. The provisions of Sections 5, 6,
13 7 and 8 of this Act shall not be operative until 90 days after the
14 effective date of this Act, and the director in his discretion may
15 extend by not more than an additional 90 days the initial period
16 within which the provisions of said sections shall not be opera-
17 tive.

18 Sec. 13. JUDICIAL REVIEW. Any party to the proceeding
19 affected by an order of the director shall be entitled to judicial
20 review by the procedure set forth in the Administrative Procedure
21 Act of 1959.

22 Sec. 14. PENALTIES. In addition to any other penalty pro-
23 vided by law, any person who violates an order of the director
24 after it has become final, and while such order is in effect,
25 shall, upon proof thereof to the satisfaction of the court, for-
26 feit and pay to the State of Alaska a sum not to exceed \$250.00
27 which may be recovered in a civil action, except that if such
28 violation is found to be willful, the amount of such penalty shall
29 be a sum not to exceed \$1,000.00. The director, in his discretion,

1 may revoke or suspend the license or certificate of authority of
2 the person guilty of such violation. Such order for suspension or
3 revocation shall be upon notice and hearing, and shall be subject
4 to judicial review as provided in Section 13 of this Act.

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