

AMENDED IN ASSEMBLY MAY 9, 2012

AMENDED IN ASSEMBLY APRIL 26, 2012

CALIFORNIA LEGISLATURE—2011–12 REGULAR SESSION

**ASSEMBLY BILL**

**No. 1747**

---

---

**Introduced by Assembly Member Feuer**

February 17, 2012

---

---

An act to amend Section 10173.2 of, and to add Sections 10113.71 and 10113.72 to, the Insurance Code, relating to life insurance.

LEGISLATIVE COUNSEL'S DIGEST

AB 1747, as amended, Feuer. Life insurance: nonpayment premium lapse: notice.

Existing law requires that life insurance policies contain certain provisions, including, but not limited to, an individual life insurance policy notice of the right to cancel a policy. Existing law requires life insurers to provide certain notices to individual life insurance policyholders, including, but not limited to, a notice of premium increases.

This bill would require that every life insurance policy issued or delivered in this state contain a provision for a grace period of not less than 60 days from the premium due date that provides that where the premium owed is paid fully within the grace period the policy remains in force and a provision that gives the applicant the right to designate at least one person, in addition to the applicant, to receive notice of lapse or termination of a policy for nonpayment of premium. *The bill would require an insurer to provide each applicant with a form, as specified, to make the designation and to notify the insured annually of the right to change the designation.* The bill would prohibit a notice of

pending lapse and termination from being effective unless mailed by the insurer to the named insured, a named designee, and a known assignee or other person having an interest in the policy at least 30 days prior to the effective date of termination if termination is for nonpayment of premium. The bill would also make conforming changes.

Vote: majority. Appropriation: no. Fiscal committee: no. State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 10113.71 is added to the Insurance Code,  
2 to read:

3 10113.71. (a) Every life insurance policy issued or delivered  
4 in this state shall contain a provision for a grace period of not less  
5 than 60 days from the premium due date. The provision shall  
6 provide that if the premium owed is fully paid within the grace  
7 period the policy shall remain in force.

8 (b) (1) A notice of pending lapse and termination of a life  
9 insurance policy shall not be effective unless mailed by the insurer  
10 to the named insured, a designee named pursuant to Section  
11 10113.72, and a known assignee; or other person having an interest  
12 in the policy, at least 30 days prior to the effective date of  
13 termination if termination is for nonpayment of premium.

14 (2) This subdivision shall not apply to nonrenewal.

15 (3) Notice shall be given to the insured and to the designee by  
16 first-class United States mail, postage prepaid, not less than 30  
17 days after a premium is due and unpaid. However, notices made  
18 to assignees pursuant to this section may be done electronically  
19 with consent of the assignee.

20 (c) For purposes of this section, a life insurance policy includes,  
21 but is not limited to, an individual life insurance policy and a group  
22 life insurance policy, except where otherwise provided.

23 SEC. 2. Section 10113.72 is added to the Insurance Code, to  
24 read:

25 10113.72. (a) An individual life insurance policy shall not be  
26 issued or delivered in this state until the applicant has been given  
27 the right to designate at least one person, in addition to the  
28 applicant, to receive notice of lapse or termination of a policy for  
29 nonpayment of premium. The insurer shall ~~receive from~~ provide  
30 each applicant a ~~written designation listing~~ *with a form to make*

1 *the designation. That form shall include* the name, address, and  
2 telephone number of at least one person, in addition to the  
3 applicant, who is to receive notice of lapse or termination of the  
4 policy for nonpayment of premium.

5 (b) The insurer shall notify the insured *annually* of the right to  
6 change the written designation or designate one or more persons;  
7 ~~if the insured did not designate a person at the time the policy took~~  
8 ~~effect, when the insured's premium is due.~~ The insured may change  
9 the designation more often if he or she chooses to do so.

10 (c) No individual life insurance policy shall lapse or be  
11 terminated for nonpayment of premium unless the insurer, at least  
12 30 days prior to the effective date of the lapse or termination, gives  
13 notice to the insured and to the person or persons designated  
14 pursuant to subdivision (a), at the address provided by the insured  
15 for purposes of receiving notice of lapse or termination. Notice  
16 shall be given by first-class United States mail, postage prepaid,  
17 not less than 30 days after a premium is due and unpaid.

18 (d) Each individual life insurance policy shall include a  
19 provision that, in the event of lapse, provides for reinstatement of  
20 coverage, if the insurer is provided with proof of the insured's  
21 cognitive impairment or the loss of functional capacity. This option  
22 shall be available to the insured if requested within five months  
23 after termination and shall allow for the collection of a past due  
24 premium, where appropriate. The standard of proof of cognitive  
25 impairment or loss of functional capacity shall not be more  
26 stringent than the benefit eligibility criteria on cognitive impairment  
27 or the loss of functional capacity contained in the policy.

28 SEC. 3. Section 10173.2 of the Insurance Code is amended to  
29 read:

30 10173.2. When a policy of life insurance is, after the effective  
31 date of this section, assigned in writing as security for an  
32 indebtedness, the insurer shall, in any case in which it has received  
33 written notice of the name and address of the assignee, mail to the  
34 assignee a written notice, postage prepaid and addressed to the  
35 assignee's address filed with the insurer, not less than 30 days  
36 prior to the final lapse of the policy, each time the insured has  
37 failed or refused to transmit a premium payment to the insurer  
38 before the commencement of the policy's grace period or before  
39 the notice is mailed. The insurer shall give that notice to the  
40 assignee in the proper case while the assignment remains in effect,

1 unless the assignee has notified the insurer in writing that the notice  
2 is waived. The insurer shall be permitted to charge the insured  
3 directly or against the policy the reasonable cost of complying  
4 with this section, but in no event to exceed two dollars and fifty  
5 cents (\$2.50) for each notice.

6 As used in this section, “final lapse of the policy” means the  
7 date after which the policy will not be reinstated by the insurer  
8 without requiring evidence of insurability or written application.

O