

CONSENT FOR LIFE INSURANCE

House Bill 4784 as introduced First Analysis (2-3-98)

Sponsor: Rep. Mary Schroer
Committee: Insurance

THE APPARENT PROBLEM:

In several well-publicized cases, people have taken out life insurance policies on their spouses (or others) without the consent of the insureds and then benefitted from their sudden and suspicious deaths. This has prompted legislation based on the principle that people whose lives are being insured by those who stand to gain from their deaths ought to be asked to consent to the issuing of the policies. While industry officials say life insurers do typically obtain information from the insureds and require their signatures, particularly for large policies, there is apparently no statutory requirement, except in cases involving employers insuring the lives of employees.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code to require an individual to obtain a person's consent in writing before insuring the life of that person for his or her own benefit. (This would not apply if the person whose life was to be insured was under 18 years of age.) The person's signature on the insurance application would constitute consent. The bill would apply to life insurance policies and certificates of \$10,000 or more delivered or issued for delivery 30 days or more after the bill's effective date.

The bill would amend Chapter 22 of the code, which deals with insurance contracts in general. It refers to an individual "who has an insurable interest in the life of another human being," which means, according to Barron's Dictionary of Insurance Terms, an expectation of monetary loss that can be covered by insurance. Examples include the insurable interest a person has in his or her own life; those arising from parent-child, husband-wife, and sibling relationships; and those arising from business relationships and debtor-creditor relationships.

MCL 500.2211

BACKGROUND INFORMATION:

A nearly identical bill, House Bill 4676, passed both the House and Senate in the 1995-96 session, but was among the items not enrolled on the final day of session (because a Senate amendment was not addressed). Further, another similar bill, House Bill 4907, passed the House in the 1993-94 session.

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the bill would have no fiscal impact on state or local government. (1-30-97)

ARGUMENTS:

For:

The aim of the bill is to prevent people from having their lives insured without their knowledge and consent. It is not a desirable situation for one person to arrange to benefit from a second person's death without the second person being aware of it or being able to prevent it. While some insurance companies already require such consent or make the insured aware by asking for certain relevant information, these practices are not mandatory (except in cases involving employers and employees). It seems to be common sense to require the consent of the insured.

Against:

The bill could lead in some instances to additional administrative burdens and more paperwork. It will require that insurance companies obtain the signature of the insured before any policy of \$10,000 or more is issued. Is this necessary, given the narrow scope of the problem? Will the additional burden result in fewer policies being sold? Should such a requirement be limited to very large life policies? On the other hand, what is to prevent a person from purchasing numerous smaller policies (without consent) to avoid the law? This

should be left to the judgment of the insurance companies. It should also be noted that a person who takes out an insurance policy on the life of another person and then is found to have killed them or aided in killing them will not collect.

POSITIONS:

The Insurance Bureau is not opposed to the bill. (1-28-98)

The Life Insurance Association of Michigan has no position on the bill. (1-29-98)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.