

State Corporation Commission 2005 Fiscal Impact Statement

1. Bill Number SB1227

House of Origin	<input type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input checked="" type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron Stosch

3. Committee: Passed Both Houses

4. Title Life insurance; insurable interests.

5. Summary/Purpose: Deletes the provision allowing a person to procure a contract on another person when there is “a beneficiary designated by the insured.” The substitute bill adds a trust established by the corporate employer to situations constituting insurable interest as it relates to employees of corporations. The amendment limits coverage on non-key employees to an amount commensurate with benefits for non-key employees as a group. The bill adds new provisions which provide that economic interest for the insurable interest requirement is deemed to exist in each party in the case of a contract or option for the purchase or sale or interest in a proprietorship, partnership, or firm or shares of or interest in shares of stock of a corporation. For a trustee, other than a trustee of a domestic or foreign business trust, as defined in Title 13.1, economic interest is deemed to exist in (i) the individual insured that established the trust, (ii) each individual in whose life the owner of the trust for federal income tax purposes has an insurable interest, and (iii) each individual in whose life a trust beneficiary has an insurable interest. A second enactment clause exempts policies or contracts of life insurance where (i) a charitable organization headquartered in Virginia executed a nondisclosure and exclusivity agreement before December 31, 2004; (ii) the organization was the holder of a charity certificate issued by a business trust before December 31, 2004; and (iii) the policies or contracts are written according to the agreement on the lives of individuals who were donors to the organization prior to December 31, 2004.

6. No Fiscal Impact on the State Corporation Commission

7. Budget amendment necessary: No

8. Fiscal implications: None on the State Corporation Commission

9. Specific agency or political subdivisions affected: State Corporation Commission Bureau of Insurance

10. Technical amendment necessary: No

11. Other comments: Senate Bill 1227 would prevent investor-owned life insurance and insurance arbitrage transactions. As a result of the bill, an entity with no real insurable interest in the life of an individual, such as a charity, would be prohibited from taking out a life insurance

policy on that individual for the benefit of the entity. Proponents of Senate Bill 1227 believe that investor-owned life insurance transactions are contrary to the basic concepts of life insurance and insurable interest.

Senate Bill 1227 was amended in the House Committee on Commerce and Labor on February 11, 2005 to make it identical to House Bill 2766.

Date: 03/01/05 / V. Tompkins

cc: Secretary of Health and Human Resources