

SENATE COMMERCE COMMITTEE

STATEMENT TO

SENATE, No. 2005

with committee amendments

STATE OF NEW JERSEY

DATED: NOVEMBER 24, 1997

The Senate Commerce Committee reports favorably and with committee amendments Senate Bill No. 2005.

This bill, as amended by the committee, provides for the regulation and licensure of fraternal benefit societies for the sale of annuities and life and health insurance to their members. The bill repeals the current law in this regard. Much of the current law in regard to fraternal benefit societies is maintained in the bill. The most important additions to current law give societies clear authority to own subsidiary corporations and to establish accounts necessary for offering variable life insurance and variable annuities. Other additions include authority to provide new products and services to their members to keep pace with any new authority granted to commercial life insurers in the future; improved provisions for juvenile contracts; allowing designation of irrevocable beneficiaries; providing for assignment of contracts; allowing use of benefit contracts for third-party insurance situations; increased bond protection during the organization period of domestic societies (The commissioner is to establish the amount of the bond which amount cannot be less than \$300,000.); raising the initial amount of premium required to start an insurance program to \$150,000 for each kind of insurance business (health, life or annuity) that a society is authorized to transact; removes the \$300 limitation on tombstone benefits; increases funeral benefits from \$500 to \$5,000; provides that only the Commissioner of Banking and Insurance may bring an injunction proceeding against a society, not private litigants; providing for assessing fraternal benefit societies for their share of the cost of operating the Insurance Division in the Department of Banking and Insurance; applies the rehabilitation and liquidation law concerning life and health insurers to societies; and applies certain commercial insurance standards to benefit contracts, such as standards for insurance contracts, unfair trade practices and privacy.

As under current law, fraternal benefit societies are: prohibited from issuing group policies; exempt from State, county, district, municipal and school taxes, other than taxes on real estate and office

equipment; and allowed to operate not-for-profit subsidiaries to carry out their social or religious function but no society may own or operate funeral homes or undertaking establishments.

The committee amendments to the bill:

- a. Delete "patriotic" from the list of purposes for a society;
- b. Delete the cap on the amount of the bond the commissioner can require of a fraternal benefit society;
- c. Clarify that the aggregate premium amount of \$150,000 applies to each type of business that the society is authorized to transact;
- d. Provide that credit for reinsurance is allowed as a asset or reduction from liability;
- e. Apply insurer surplus requirements to a society that converts to a mutual insurer;
- f. Clarify that societies may not provide group insurance;
- g. Eliminate the permissive provision providing a one month grace period for premium payments;
- h. Provide that existing non-conforming certificates would be deemed withdrawn one year following enactment of this bill, unless the commissioner, for good cause shown, allows its continued use for a period not to exceed one year;
- i. Eliminate unnecessary and confusing references to specific mortality tables;
- j. Provide for adequate regulatory oversight of separate accounts in this State in the event that a particular society's home state does not;
- k. Clarify that societies are subject to assessment for the Division of Insurance Fraud Prevention and the special purpose apportionment to support the financial oversight functions of the Division of Insurance in the Department of Banking and Insurance;
- l. Delete unnecessary language concerning minimum standards of valuation for certificates;
- m. Clarify that only foreign and alien societies need to renew their licenses annually;
- n. Make societies subject to the same financial examination procedures as life and health insurers; and
- o. Clarify that the requirement for appointment of the commissioner for the service of process applies only to foreign and alien societies.

As reported by the committee, this bill is identical to Assembly Bill No. 2874 (1R).