Uniform Policy Provisions

The law includes **13 Mandatory Provisions** that must be included in individual disability (health) insurance policies. The **Optional Provisions** are not required to be included in the policy, but if the provision is in the policy, it must be worded in industry standard language (*Uniform*).

The Mandatory or Standard Provisions must appear in consecutive order in the policy, or with other provisions that are logically related. Also, ***the policy must not be unintelligible, uncertain, ambiguous, or be likely to mislead the person reading or receiving the policy.***

A. Uniform Mandatory (Standard) Provisions attempt to make disability policies conform to certain standard regulations. These provisions were put together with the intention of ***protecting the insured (consumer).***

1. The **Entire Contract** provision states that the contract is made up of the policy, application (if attached), endorsements, and riders.

   - ✓ All statements in the application will be deemed ***representations*** (statements on an application believed to be true) and not ***warranties*** (guaranteed to be true).
   - ✓ The contract may not be changed unilaterally or arbitrarily once it is issued. ***No changes are valid unless approved and endorsed by an executive officer of the insurer.***
   - ✓ *Producers do not have authority to change the policy or waive provisions*.

2. **Time Limit on Certain Defenses** (a.k.a. Incontestability Period) states that after a policy has been in force for ***two years***, the insurer cannot contest or void the claim, nor can it cancel the policy other than for ***non-payment of premium.***

   - ✓ ***Concealment*** is the ***withholding of facts*** from an insurance company. An example would be not telling the insurer at the time of the application that you are leaving the field of accounting (a low risk occupation) and will be starting your own logging business (high risk occupation) in the next few months. **A *lie*** told by the applicant to the insurance company is a ***misrepresentation***.
   - ✓ ***Material Fact*** is information that, had it been known, would have caused the insurance company to reject the application or issue the policy on ***substantially different terms*** (i.e., rate-up, surcharge, or an exclusion rider).
   - ✓ If a policy is canceled or a claim voided for a **material misrepresentation or concealment, all paid premiums must be refunded** (***no interest***) to the insured.
   - ✓ Lying about age, gender or using tobacco products is ***NOT MATERIAL***. The contract will be adjusted ***but may not be cancelled***.

3. **Grace Period** extends coverage past the due date. ***Claims are covered (minus the past due premium,* NO INTEREST*).*** The minimum number of days required depends on the ***mode of premium payment*** which the insured has. There is a minimum:

- ✓ **7 day grace period** for weekly payment plans
- ✓ **10 day grace period** for monthly payment plans
- ✓ **31 day grace period** for payment plans over 30 days

4. **Reinstatement** allows a lapsed policy to be put back in force. However, an application for reinstatement might be required. The insurer must respond within 45 days of the reinstatement application or the policy is automatically reinstated. ***A reinstatement establishes* a new 10-day probation period *from the date of approval and a new two year time limit on certain defenses for sickness.***

- ✓ **For example, on a policy reinstated on the 1st day of the month, coverage for sickness would not be in effect until the 11th day.**
- ✓ **The probation period does not apply to accidents**.

5. **Notice of Claim -** A written notice of claim must be given to the insurer within **20 days** after the date of loss, if reasonably possible. Notifying the producer is acceptable. In the event of legal **incapacity,** this provision will be waived.

6. **Claim Forms** are used by the insured to file a ***proof of loss.*** The insurer should send the claim form within **15 days after notice of claim**. If the forms are not furnished, the insured may submit a written statement of the occurrence and the loss to the insurance company to satisfy the proof of loss.

7. **Proof of Loss** states that the insured or claimant has ***90 days*** from the date of the loss ***to file a proof of loss*** with the insurer. This could be extended for up to ***one year or waived entirely*** in the event of legal **incapacity.**

8. **Time of Payment of Claims** states that the **insurer must pay claims immediately** after receipt of proof of loss, except for claims involving periodic payments such as disability income policies. **Disability income (loss-of-time) benefits must be paid *at least monthly*.**

9. **Payment of Claims** will be made to the owner, beneficiary, or to the insured's estate if there is no beneficiary. Indemnity for loss of life will be paid to the designated beneficiary. Indemnities for hospital, nursing, medical, or surgical services may be paid directly to the health care provider.

10. **Physical Exam/Autopsy** states that the insurer may require a physical exam of the insured at **reasonable intervals (usually every six months)** should the insured be receiving benefits. **In the event of the death of the insured, an autopsy may be sought at the insurance company's expense, unless prohibited by law.**

11. **Legal Actions** provision restricts the time period during which an insured may bring a legal action against his or her own insurance company. This provision requires that no legal action be started to collect benefits sooner than ***60 days after the proof of loss is filed with the insurer***. This waiting period allows the insurer time to evaluate the claim. The statute of limitations is **three years**.

12. **Change of Beneficiary** is the policy owner's right. An individual disability (health) policy which provides a death benefit must provide a change of beneficiary provision. For the change to be effective, it must be in writing by the owner and approved by the insurer in the form of an endorsement.

A beneficiary is the person to whom the benefits of a policy are payable:

- **Primary/Contingent** = First/Second in line to receive the death benefits. The contingent beneficiary only gets the death benefit if the primary beneficiary dies ***before*** the insured dies. ***If there is no beneficiary, the death benefit will go to the insured's estate***.

13. **Misstatement of Age/Gender (Sex)** states that ***benefits will be adjusted*** so the insurer pays for the benefit the premium would have purchased had the correct age or sex been known. Time limit on certain defenses does not apply to this provision.

B. Uniform *Optional* Provisions ***protect the carriers***. However, these provisions need not be in the policy, as they are the insurer's option. If they are used, they must conform to the following standard **industry language (Uniform).**

These provisions must appear in consecutive order in the policy, or with other provisions that are logically related. Also, ***the policy must not be unintelligible, uncertain, ambiguous, or be likely to mislead the person reading or receiving the policy.***

1. **Change of Occupation** provision states that by changing to **a more hazardous occupation,** the insured is entitled only to the indemnities the original premium would have purchased in a policy written for that more hazardous occupation. This means the **income benefit will be lowered.** By changing to a **less hazardous occupation**, the insured is entitled to **a reduced premium** and a refund of premium.

2. **Other Insurance with This Carrier *(prevents over indemnification)* -** Being **over insured** makes it profitable to collect benefits rather than go back to work if you can get paid double. Excess coverage over the amount to which the claimant is entitled would be void, and unearned premium would be refunded.

- ✓ **The lesser premium policy will pay benefits and the higher premium policy will refund a portion of the premium.**

3. **Insurance w/Other Carriers** (***prevents over indemnification***) by limiting the insurer's liability to its **pro-rata** share of the payable benefits. The pro-rata amount is the distribution of liability among several insurers having policies on a same insured, usually in the proportion that the amount of coverage in each policy bears to the total amount of coverage in all policies.

- ✓ For example: If you have three policies with three different companies and each policy has the same amount of coverage, each would pay one-third of any claim.

4. **Relationship of Earnings To Insurance** provision limits benefit payments so that the payments will not exceed the insured's monthly net earnings at the time of disability, or will take the insured's ***average last two years earnings*** and will pay whichever is greater.

5. **Cancellation** means termination of coverage in advance of the renewal date.

a) If the insured cancels, the refund of premium will be computed on a ***short-rate basis,*** meaning unearned premiums minus a service fee charged by the insurance company.

b) If the insurance company cancels, the refund of premium will be computed on a ***pro rata basis,*** meaning all unearned premiums will be refunded and no service fee is allowed to be charged by the insurance company. The cancellation of a policy will not prejudice any claim originating prior to the effective date of cancellation.

6. **Illegal Occupation.....**The insurance company will not be liable for any loss due to the insured's commission of or attempt to commit a felony or for the insured being engaged in an illegal occupation.

7. **Conformity with State Statutes** provision states that any policy provision which is in conflict with state statutes in the state where the insured lives **is automatically amended to *conform with the minimum statutory requirements*.**