



HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

MEMO

March 31, 1976

SUBJECT: HB 646 (PN 2856) -- Proposed Individual Accident, Sickness Insurance
Minimum Standards

TO: Honorable C. L. Schmitt
Chairman, Consumer Protection Committee

FROM: Joseph Sobel, Legal Counsel

I. Purpose of Proposed Legislation

An act to provide reasonable standardization and simplification of terms and coverages of individual accident and health insurance policies and subscriber contracts of health plan corporations, nonprofit health service plans and certificates issued by fraternal benefit societies to facilitate public understanding and comparison, to eliminate provisions contained in individual accident and health insurance policies and subscriber contracts of health plan corporations and nonprofit health service plans and certificates issued by fraternal benefit societies which may be misleading or unreasonably confusing in connection either with the purchase of such coverages or with the settlement of claims, and to provide for full disclosure in the sale of accident and health coverages.

This bill constitutes an important piece of umbrella legislation and is one of the Insurance Department's highest priorities. The bill is basically enabling in its content, granting the Insurance Commissioner the power to promulgate regulations determining minimum standards in accident and health coverage, benefits, and policy provisions. In the area of policy provisions the Insurance Commissioner would be given the power to standardize--

- (1) terms of renewability,
- (2) initial and subsequent conditions of eligibility,
- (3) non-duplication of coverage provisions,
- (4) coverage of dependents,
- (5) pre-existing conditions,
- (6) termination of insurance,
- (7) probationary periods,
- (8) limitations,
- (9) exceptions,
- (10) reductions,
- (11) elimination periods,

- (12) requirements for replacement,
- (13) recurrent conditions,
- (14) standardizing the definition of terms relating to accident and health policies.

In the area of accident and health benefits themselves, the Insurance Commissioner would be empowered to standardize:

- (1) basic hospital expense coverage,
- (2) basic medical-surgical expense coverage,
- (3) hospital confinement indemnity coverage,
- (4) major medical expense coverage,
- (5) disability income protection coverage,
- (6) accident only coverage,
- (7) specified disease or specified accident coverage.

Generally, the Insurance Commissioner would be able to determine standards of readability and disclosure.

In addition to overall standardization in this branch of the insurance industry, the bill will enable the Insurance Department to deal with numerous pressing issues such as discrimination in coverage, availability and convertibility, based on race, sex, geography, or other unwarranted factors. Similarly, the bill will enable the Insurance Department to deal more effectively with much neglected areas of coverage such as payments for mental illness hospitalization and rehabilitation.

II. Persons Affected by this Legislation

Insurance companies selling or authorized to sell policies of insurance governed by this bill.

III. Local Government Units Affected

None.

IV. Enforcement

No new provisions.

V. Relationship With Other Bills

Although this bill may be considered to be part of the package concerning insurance, generally it is exclusive in effect and intent.

VI. Repealed Legislation

None.

VII. Supporting and Opposing Organizations

This bill has the support of the Insurance Federation of Pennsylvania, the Pennsylvania AFL-CIO, the Insurance Federation of Pennsylvania, and the Pennsylvania Insurance Department. Also, U. S. Steel Workers of America Union

Background

A. This bill, if enacted, would enable the Insurance Commissioner to adopt rules and regulations which would standardize policy terms, coverages, exclusions and conditions, in the area of individual accident and health insurance.

Frequently consumers are misled by the complexities of accident and health policies and by non-standardized definitions of terms, coverages, exclusions and conditions and assume they have comprehensive coverage in areas where it is actually lacking.

For example, some policies contain "confinement" provisions for the collection of disability benefits. What happens if a disabled person feels well enough one day to walk to the grocery store and this becomes known to the Insurance Company? Under some policies he stands to lose his coverage.

Further, many policies advertise hospitalization benefits or medical-surgical benefits when in actuality they are only partial and may be totally inadequate in today's marketplace.

This bill will make a major contribution toward modernizing and revamping accident and health insurance policy standards in Pennsylvania. Without it, our state stands to become a backwater for insurers selling substandard and misleading policies.

B. Addendum re Agreed Amendments

The Senate amendments to HB 646 (PN 2856), a proposed individual accident, sickness insurance minimum standards act are entirely of a technical nature and provide for the smooth implementation of procedures mandated by this bill. The principal bone of contention which existed between the insurance industry and the Insurance Department was the question whether any promulgation of rules or regulations under the act should be preceded by the issuance by the Commissioner of findings of fact. The Insurance Department expressed concern that the legal connotations carried by the term "findings of fact" suggest the creation of a new legal right of action, which would, to all intents and purposes, severely hamstring the Insurance Commissioner in implementing and enforcing this Act in that it would have been possible for any party wishing to contest the promulgation of a rule, or regulation, to bypass the rule-making process by filing a complaint in Commonwealth Court prior to any attempt at enforcement of the rule or regulation without any necessity to plead or prove actual or potential harm to any aggrieved party. The amendment requires the commissioner to issue such findings, by language which negates any prior connotation that a new right of action is being created. The overall effect would be that the Commissioner would have to exercise greater care in

promulgating rules or regulations and that public hearings shall be held prior to the promulgation of any rule or regulation under this act.