

HB 3960: Prevent Insurance Fraud in Texas

Ambiguity in a Texas law, aimed at preventing insurance fraud, is allowing some individuals to use litigation to force life insurance companies to pay benefits even if the coverage was obtained based on false representations.

HB 3960 will amend Texas insurance law to clarify that a life insurance policy may be rescinded during the state's two-year contestability period when the individual who purchased the policy provided false answers to material facts in the application for coverage.



Background: Texas' Contestability Period

To prevent fraud in the **sale of life insurance**, state laws provide for — and policies are required to include — a **two-year contestability period that allows an insurer to rescind the policy if the applicant provided false answers about his or her health that are material misrepresentations**. Misleading an insurance company by providing inaccurate information on one's application to obtain better rates or approval for coverage is known as material misrepresentation. **If a policy is rescinded during the contestability period, all premiums paid by the consumer are fully refunded.**



Confusion in Texas Law Causing Benefits to be Paid Based on False Representations

Attorneys are using lawsuits to compel life insurance companies to pay benefits on policies **even when the individual who purchased the policy clearly provided false information** about their health status. Some courts have required proof that the applicant intentionally gave false information that would be material to the risk.

Life Insurers Are Forced to Pay Benefits Even When Misled

Such a scenario allows a life insurer to be forced to pay death benefits within weeks or months of a policy's issuance, even if medical records establish evidence beyond doubt that the applicant had a serious medical issue before applying, knew of the medical issue, and then answered the health questions regarding the medical issue in a dishonest way. This creates huge exposure for insurers offering life insurance policies, and if not clarified in statute, could lead to increased instances of fraud and higher premiums for life insurance. In many cases, **life insurance companies are being compelled to settle for amounts much greater than the face value of the policy to avoid prolonged and costly litigation, even though the insured did not disclose a terminal or life-threatening condition they had.**



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HB 3960 will clarify the Texas contestability law and help put an end to life insurers being forced to pay benefits when coverage is obtained under false pretenses.



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