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Maria Ailor, Arizona Department of Insurance, Chairwoman
NAIC Market Conduct Annual Statement Blanks (D) Working Group
c/o Tressa Smith, Senior Market Analyst
via tesmith@naic.org

RE: Center for Economic Justice Proposal 4/13/17 re 16 New Life & Annuity Categories

Dear Chairwoman Ailor & Members of the Working Group:

The American Council of Life Insurers here responds to the captioned Center for Economic Justice (CEJ) proposal to expand from four to sixteen (16) the product categories for which lawsuit data elements would be collected for the Life & Annuity Market Conduct Annual Statement (MCAS). The ACLI recommends that the NAIC reject this proposal for failing to meet the standards of the MCAS Data Element Revision Process.

The CEJ Fails to Justify or Support Any New Data Collection

The Revision Process requires a proponent to (1) provide a reason and (2) any supporting information relating a proposed change to the product categories for which data is collected.¹ With regard to the proposal, at least sixteen reasons, one for each proposed new category, logically would be required, accompanied by supporting information for each proposed change.

The proponent fails to provide sixteen reasons and supporting information specifically pertinent to each of the new categories proposed. Rather, the proponent alleges generally that the new data collections would all "improve the efficiency, effectiveness and usefulness of the Life & Annuity MCAS." It then expounds upon the alleged benefits of enhancing "efficiency, effectiveness and usefulness" with more granular product categories because "better data quality creates more efficiency and fewer requests to reporting companies for data explanations."

It is not surprising that there might be proponents of the opinion that more data is always better data and any data is better than no data. But data collection is expensive for insurance companies and the costs will be levied upon the products and customers who purchase them. The NAIC Revision Process should be applied to inhibit and reject frivolous, unjustified data demands.

The lack of reasonable justification and supporting information for the proposed 16 new categories make it impossible for the ACLI and its members to evaluate the cost versus

¹ http://www.naic.org/documents/cmte_d_mcaswg_exposure_mcas_data_element_revision_process.pdf

the benefit of changing individual insurance company data management processes to accommodate any of them. The only thing that is sure is that there will be substantial new costs for each company underwriting any of the categories of products. The regulatory merit of the costly impositions is impossible to evaluate.

ACLI Member Company Observations

The following are a sample of observations about the proposal from ACLI member company representatives:

1. Overall, we believe it may be possible to break out our MCAS data into these categories. However, it will require significant changes to the business areas' current data requirements, extraction and aggregation processes. Additional challenges include identifying the appropriate category for older life & annuity policies. In order to obtain this data, our areas may need to pull from legacy systems that are not currently utilized for the MCAS reporting.
2. It appears annuities are broken out in #10-16. What is the NAIC looking to report for #15 "Individual Fixed/Variable Annuity"? Is this a typo? Are they intending to request data for Individual Fixed Annuities?
3. Would COLI/BOLI products be reported within these life product categories based on their plan types?
4. Our folks have reviewed your earlier request regarding the addition of categories, and the main concern is the additional staff that will be required to respond to this request, without any relevant results.
5. The obvious is that taking the categories from 4 to 16 will create additional work (both time and complexity) for staff. Keeping this in mind we question whether going to a more granular approach provides enough additional benefit to make it worth the effort.
6. [There is] a problem with CEJ categories. [Some companies] sell whole life insurance and market it as final expense. [Others] file policies as individual whole life with the corresponding mortality table. How [a company] markets product should be irrelevant.
7. He's also proposing to have preneed and final expense in the same category which can be controversial. Preneed products are filed as preneed and have a different mortality table. Preneed has a funeral contract attached and it's for burial purposes only. Final expense is a small face amount policy that the beneficiaries can use for funeral, medical expenses, or anything they want. The different departments of insurance do not provide different standards of market conduct depending on how companies sell products. A claim has to be paid within a certain number of days regardless of product.
8. The Center for Economic Justice (CEJ) states that more granular product categories would allow for a more efficient, effective and useful market analysis by comparing companies with similar product markets. However, there is a \$50,000 threshold in direct written premium or annuity consideration that must be met to require MCAS reporting for a product category. If the product

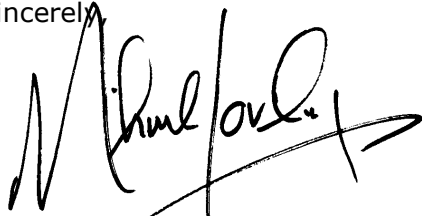
categories were expanded from the current four categories, some smaller insurers that offer a small portfolio of products may not meet the reporting threshold and would not be required to report MCAS data in many, if not all, jurisdictions. By maintaining the existing, broader, product categories the NAIC can expect to continue to collect MCAS data from a larger pool of insurance companies offering like products.

9. We would argue the fixed annuity categories should remain combined in one category for the following reasons:
 - a. From a suitability standpoint these products could be interchangeable based on the customer needs. Suitability review is typically financial in nature, resulting in the recommended product and reporting out the products as proposed could have the potential of creating misleading results.
 - b. Statutes and regulations generally apply to each product category for fixed annuities equally.
 - c. Creating extra categories for fixed annuities would be burdensome for insurers and result in mostly redundant information.
10. Under the NCOIL Market Conduct Annual Statement Model Act, the Commissioner is permitted to collect data for the purpose of market analysis. Section 8 of the NCOIL Model Act provides that the MCAS Data, the work papers and any analysis, as well as the review and analysis of MCAS Data by the Commissioner, among other reviews and analysis by other governmental entities, is confidential and privileged. With the exception of very limited sharing provisions outlined in Section 9, the sharing of MCAS Data with the public is prohibited.
11. The CEJ appears to be a consumer advocacy group focusing on ensuring regulators not only recognize the interests of consumers but also act to further those interests (<http://www.cej-online.org/whoweare.php>). It is our understanding that the MCAS Data submitted to the states is not intended nor is it allowed to be disseminated to the public. The CEJ's argues that the changes will be more useful; useful for whom? Not necessarily the consumer. There are other resources for the consumer such as A.M. Best, Standard & Poor's, and J.D. Power to name a few. Also, an insurer's complaint and market conduct examination information is generally available to the consumer through the DOI's website.
12. We respectfully oppose the proposed changes to the product categories. Insurers have put a great deal of time and resources into developing processes for reporting MCAS data based on the current four life and annuity product categories. Expanding the categories would be extremely burdensome and would not be more beneficial. If anything, it could result in redundant information or less insurers reporting MCAS data as they do not meet the threshold for reporting. In addition, MCAS data is not to be shared with the public. Therefore, we argue that more detailed product categories are not necessary in order for the states to conduct a baseline market analysis of the state's insurance market.
13. In general, would be painful to make this change and report at this level of detail, but ultimately doable. Two primary sources of pain: First, certain system changes would have to be made to accommodate the expansion from four to 16 categories. This means time and money. Second, we currently do not break out VL or UL products, so reporting on these means manual work (these products are coded either as VL or UL).

14. We are unclear on what certain of the expanded categories mean (*see, e.g.,* categories 4, 15, 16).
15. We have no sense on implications for actual reporting into the NAIC database (how to upload the information).
16. Would need sufficient lead time to make all necessary changes to systems and to retrain business and compliance personnel responsible for MCAS reporting.
17. [The company] completed an analysis of the MCLI Market Conduct Committee's proposed MCAS product category changes and determined that we do not support the proposed expansion of the current four product categories into sixteen more specific product categories. We find that the current four product categories provide for sufficient analysis and utilization of the MCAS data. In addition, the expected increase in cost and resource allocation required of [the company] to provide data under sixteen specific product categories is not warranted in the absence of a clear benefit...
18. [The company] does not believe reporting Life and Annuity MCAS data at greater granularity will be of measurable benefit to regulators. [The company] already responds to MCAS-participant state requests for additional information with detail that can include the impact of specific product categories as needed. The new proposed level of detail would require existing data pulls be redesigned and FTEs be reassigned and/or hired to execute. The impact of these new hard/soft dollar costs combined with an already active regulatory environment would impact our ability to timely respond to other inquiries and would provide little to no identifiable value. We recommend that the NAIC maintain the existing four categories for Life and Annuity MCAS.
19. I would add that the cost to the NAIC would outweigh the benefit since they would have to change the score card ratios and current tools and at the end come up with the same conclusion as if they had only four lines of business.

For the reasons and supporting information provided above, the ACLI opposes the proposed expansion from four to sixteen (16) in product categories for which lawsuit data elements would be collected for the Life & Annuity Market Conduct Annual Statement.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Lovendusky", with a long horizontal flourish extending to the right.

Michael Lovendusky
Vice President & Associate General Counsel
The American Council of Life Insurers