

Michael Lovendusky
Vice President & Senior Associate General Counsel

5 August 2021

Marlene Caride, Commissioner, New Jersey Department of Banking & Insurance, Chair
NAIC Life Insurance & Annuities (A) Committee
c/o Jennifer Cook, Senior Life & Health Counsel, NAIC
via jcook@naic.org

RE: Life Insurance Illustrations Issues (A) Working Group

Dear Chairwoman Caride & Members of the Committee:

The American Council of Life Insurers (ACLI) believes that consumers should have access to tools that help them make an informed decision when purchasing life insurance for financial protection. For that reason, we welcomed the opportunity to explore with the Life Insurance Illustrations Issues (A) Working Group how the narrative summary required by the *Life Insurance Illustrations Model Regulation* and the policy summary required by the *Life Insurance Disclosures Model Regulation* might be enhanced to promote consumer readability and understandability, including how they are designed, formatted and accessed by consumers. After an exhaustive review process, the ACLI believes the Working Group's efforts were a success. No regulator found fault with the information consumers currently receive from companies or agents. The discussions between stakeholders and regulators also reemphasized the value of the free look period as a key consumer protection. It provides consumers with time, typically ten days, after purchasing a policy to review and return it for a refund if they are not satisfied.

Therefore, the ACLI respectfully recommends that the Committee recognize the accomplishments of, receive a final report from, and retire the Life Insurance Illustrations Issues (A) Working Group. This letter explains the ACLI recommendation and answers the questions staff emailed to regulators and interested parties on July 28.

QUESTION 1

1. *Do you support the development of a short policy overview document for the working group to achieve its charge? Yes or No.*

Answer: No. The working group has fulfilled its charge. The Working Group was created from concerns raised when the Indexed Universal Life (IUL) Illustrations (A) Subgroup under the Life Actuarial (A) Task Force was working on guidance for IUL policy illustrations that would result in consumers being better able to understand the product performance and interest variability of IUL

products.¹ A review of sample disclosures for all types of life insurance policies revealed that additional disclosures to those now required are likely to confuse consumers, which would be the opposite of the Working Group's goal. Moreover, the additional disclosures could create liability traps for insurers regarding required versus supplementary disclosures and undermine well-respected NAIC models enabling the availability of affordable insurance protection to millions of Americans.

QUESTION 2

2a. *Do you prefer the revisions to Model #580 using the current delivery requirement in the model? Why? or Why not? (Refer to DRAFT April 20, 2021 (Current Delivery Requirement) 1-A)*

Answer: The current model regulation delivery requirements provide the only basis upon which supplementary disclosures might be feasible. The timing of current model regulation disclosures functions well because consumers can exercise their free look rights with their policy in hand, knowing its cost and details of its terms of coverage.

2b. *Do you prefer the revision to Model #580 requiring delivery of the policy overview at the time of application? Why? or Why not? (Refer to DRAFT April 20, 2021 (At Application) 1-B)*

Answer: No. Supplementary policy disclosures or illustrations at the time of application are unnecessary considering the existing, efficacious, current model regulation requirements. The current NAIC consumer disclosure paradigm respected by the regulators in all the states has been in place for decades. During that time, millions of life insurance policies have provided billions of dollars of financial protection to policyholders and beneficiaries. The NAIC should not risk undermining the *Life Insurance Disclosures Model Regulation* or the *Life Insurance Illustrations Model Regulation*, two of its most successful model regulations.

Additional Comments

The Working Group substantially explored how the narrative summary required by [Section 7B](#) of the *Life Insurance Illustrations Model Regulation* and the policy summary required by [Section 5A\(2\)](#) of *Life Insurance Disclosures Model Regulation* might be enhanced to promote consumer readability and understandability of these life insurance policy summaries, including how they are designed, formatted and accessed by consumers. In 2016, the ACLI contributed samples of all types of policies for Working Group review. There was no regulatory finding of inadequacies or problems of readability or understandability with any type of policy from this fact-based exploration.

As a result, the Working Group tried to address an unknown problem, which is impossible to do. It undertook to devise simple "policy overviews" for term, whole, and universal life insurance policies, beginning with the simplest product. But neither of the two reported sample term life policy overviews is likely to help consumers read and understand their policies. Rather, either policy

¹ See 2016 NAIC Proceedings p. 424/1282 (Spring 2016 volume 1, Minutes of the LIIIG 4/3/16 [here](#)).

overview is likely to confuse consumers -- especially those whose policies are issued other than as applied for. This is because a supplementary policy overview (especially one delivered at time of application, before underwriting) will not improve the ability to select *the most appropriate plan of life insurance for the buyer's needs* in the absence of an agent, broker or advisor; or improve the buyer's understanding of the *features of the policy that has been purchased*.² Rather, such an overview will lack useful, personalized policy information.³

These observations should not be construed to be criticism of the NAIC working group effort. To the contrary, the ACLI believes the working group explorations were a success. No regulator found fault with the sample policy summaries provided by the ACLI to the working group in 2016; the reasons for the traditional business practice of providing consumer disclosures at time of policy delivery – and especially the importance of the Free Look Period – were remembered; and the importance of agents and financial advisors in helping consumers select the most appropriate plan of life insurance and explain policy features was appreciated anew. The NAIC working group succeeded in its charge and the ACLI thanks its members for their efforts.

Should the Committee believe that further consideration be given to promoting consumer readability and understandability of life insurance policies, the ACLI recommends that the NAIC undertake its traditional approach to alleged systemic problems, namely, an objective fact-finding and study.⁴ It is not clear that there is a problem with consumer disclosures and, if so, what precisely the problem is and the extent of the alleged problem. The ACLI would welcome the opportunity to review objectively evidence that an alleged problem might be extensive and evaluate it against the manifest success of life insurance policy disclosures based upon the existing, successful model regulations.

In such circumstances, the ACLI will gladly contribute information and empirical knowledge to the study of the alleged problem. If one is found, we will work with you to rectify it. Thank you for your consideration.

Sincerely,



THE AMERICAN COUNCIL OF LIFE INSURERS
Michael Lovendusky, Vice President & Senior Associate General Counsel
Telephone 202.624.2390 | michaellovendusky@acli.com

² Italicized comments quote the NAIC *Life Insurance Disclosure Model Regulation* § 2A (“Purpose”).

³ See ACLI Letter to NAIC Life Insurance Illustrations Issues (A) Working Group (11/15/19) [here](#).

⁴ A modern way to help consumers understand life insurance is to accomplish an online guide which can be easily modified as new products, such as IUL, enter the market. The [Life Insurance Online Guide \(A\) Working Group](#) is charged accordingly.