

PROJECT HISTORY - 2005

DISCLOSURE FOR SMALL FACE AMOUNT LIFE INSURANCE POLICIES MODEL ACT (#605)

1. Description of the Project, Issues Addressed, etc.

In 2002 the NAIC adopted this model to address concerns that consumers did not understand the possibility that they might pay more in premiums than the face amount of the life insurance policy that had been purchased. The working group that drafted the disclosure model considered how they might do more: could a way be found so that the premiums would not exceed the face amount? The working group was not able to fulfill its charge because it could not come to consensus on other approaches to this issue.

2. Name of Group Responsible for Drafting the Model and States Participating

The 2004 chair of the A Committee appointed a study group to make a recommendation to the entire Committee. That small group consisted of former Iowa Insurance Commissioner Terri Vaughan, Commissioner Walter Bell (AL), Commissioner Tim Wagner (NE), Rich Robleto (FL) and Commissioner Jim Poolman (ND) representing the insurance regulators, Stacey Boyer (Monumental Life), Sharon Roberson (American General), Jerry Krauss (Investors Life), Rob Hardy (Investors Life), and Rick Campbell (Mitchell Williams Law Firm) representing the small face amount industry and Birny Birnbaum (Center for Economic Justice) representing consumer interests.

3. Project Authorized by What Charge and Date First Given to the Group

The first charge to review small face amount life insurance issues was given to the Life Insurance and Annuities (A) Committee in 2000. The charge was continued each year, as consensus had not yet been reached. The 2005 charge was: Complete a regulatory analysis of the small face amount (less than \$15,000 face value) life insurance business, in all its various distribution forms, with an emphasis in this analysis on the overriding goal of fair policyholder treatment, not only in terms of market conduct, such as appropriate disclosures and sales of multiple policies, but also addressing the issue of fair value for the premiums paid and any other related issues.

4. A General Description of the Drafting Process (e.g., drafted by a subgroup, interested parties, the full group, etc). Include any parties outside the members that participated

The study group looked at all aspects of the problem; no possible solutions were off the table. The group looked at caps on premiums, rates, disclosure, and more. The solution settled upon by the group was to recommend changes to the Disclosure for Small Face Amount Life Insurance Policies Model Act to strengthen the disclosure, to require disclosure of alternative products if they existed, and to be sure that every small face amount policy was subject to a free look period. The draft prepared was circulated to the Life Insurance and Annuities (A) Committee for comment and discussion.

5. A General Description of the Due Process (e.g., exposure periods, public hearings, or any other means by which widespread input from industry, consumers and legislators was solicited)

The proposed draft was distributed to interested parties and posted on the NAIC website. At the 2005 Summer National Meeting a hearing was held to solicit comment on the proposed revisions to the Disclosure for Small Face Amount Life Insurance Policies Model Act. Representatives from the life insurance industry and consumer advocates testified in support of the amendments.

6. A Discussion of the Significant Issues (items of some controversy raised during the due process and the group's response)

There was consensus on the proposed changes.

PROJECT HISTORY - 2001

DISCLOSURE FOR SMALL FACE AMOUNT LIFE INSURANCE POLICIES MODEL ACT (#605)

1. Project Description

One of the problems identified in the sale of small face amount life insurance policies is that consumers often do not understand that the premiums on the policy may exceed the face amount of the policy. The consumer is better able to make an informed decision with more information.

2. Group Responsible for Drafting Model and States Participating

The Small Face Amount Working Group developed the model. The members of that working group are, South Carolina, Chair, Arkansas, Co-Chair, Alabama, California, Delaware, District of Columbia, Florida, Georgia, Illinois, Iowa, Kentucky, Louisiana, Michigan, Mississippi, Missouri, New York, North Carolina, Ohio, Oklahoma, Texas, Utah, and Virginia.

3. Charge Authorizing Project

The charge to the Small Face Amount (A) Working Group was, “to complete a regulatory analysis of the small face amount (less than \$15,000 face value) life insurance business, in all its various distribution forms, with an emphasis in this analysis on the overriding goal of fair policyholder treatment, not only in terms of market conduct, such as appropriate disclosures and sales of multiple policies, but also addressing the issue of fair value for the premiums paid and any other related issues.” The model regulation is the first step in fulfilling this charge.

4. General Description of Drafting Process

The Small Face Amount Working Group solicited comments from all interested parties, including interested regulators, funded consumer representatives and industry representatives. The working group received and reviewed numerous comments from interested parties on each draft of the model, which was posted on the NAIC website and attached to the minutes of the meetings.

5. Significant Issues Raised

The most significant issues raised and discussed by the working group and interested parties included whether to make the disclosure specific to each policy or whether to provide a generic disclosure. While the working group would have liked a specific disclosure, they were unwilling to mandate what could be a very costly requirement. In addition, there were lengthy discussions about whether to make the disclosure apply to new policies only or whether to require companies also to send the disclosure to their existing policyholders. The group ultimately decided against the second approach because of the concern that policyholders might lapse policies they had paid premiums on for many years.