

## PROJECT HISTORY - 2002

### HOME SERVICE DISCLOSURE MODEL ACT (#920)

#### 1. Project Description

The Home Service Disclosure Model Act provides recommendations for disclosures that should be made to applicants when soliciting insurance through a home service distribution system. The recommendation to develop a model for disclosures was made as a result of a review of the NAIC white paper titled, "The Sales and Marketing Practices, Auditing and Accounting Procedures and Products of the Insurers Utilizing the Home Service System."

#### 2. Group Responsible for Drafting Model and States Participating

The Home Service Working Group of the Market Conduct and Consumer Affairs (D) Committee was responsible for drafting the model. Alabama and Kentucky co-chaired the working group. The following states were members of the working group: Delaware, District of Columbia, Florida, Louisiana, and Missouri. The Small Face Amount Working Group made some amendments to 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.

The Small Face Amount Working Group of the Life Insurance & Annuities (A) Committee reviewed the model act to make sure the disclosure provisions of the model were compatible with the disclosures developed for small face amount policies contained in the Disclosure for Small Face Amount life Insurance Policies Model Act. The following states were members of the Small Face Amount Working Group: 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 of the Home Service (D) Working Group was, "to finalize the review of existing state laws that contain disclosure requirements for products distributed through the Home Service system and, based on this review and in consideration of the prior recommendations set forth in the NAIC White Paper "The Sales and Marketing Practices, Auditing and Accounting Procedures and Products of the Insurers Utilizing the Home Service System," to develop a model act which would provide meaningful information to the purchasers of products distributed through the Home Service system."

After the model was completed, the NAIC Executive Committee forwarded the model to the Small Face Amount Working Group of the A Committee to make sure the disclosure provisions of the model were compatible with the disclosures being developed for small face amount policies.

#### 4. General Description of Drafting Process

The Home Service Working Group solicited comments from all interested parties, including interested regulators, funded consumer representatives and industry representatives. The working group also solicited key concerns from interested parties and collected information from states that have enacted statutes, rules, or regulations requiring disclosures in the home service distribution system. The working group received and reviewed numerous comments from interested parties.

The Small Face Amount Working Group modified the Home Service Disclosure Model Act to make the disclosure provisions of the model compatible with the disclosures contained in the Disclosure for Small Face Amount life Insurance Policies Model Act. 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 by the Home Service Working Group**

The most significant issues raised and discussed by the Home Service Working Group and interested parties include: (1) the definition of home service; and (2); the definition of small amount life insurance policy. The positions of industry representatives, consumer representatives and regulators were considered while developing the model act. In addition, there were lengthy discussions about the dollar amount used in the definition of small amount life insurance policy. The working group originally included \$25,000 in the definition and later reduced this amount to \$15,000. The interested parties raised no objections to including the same disclosure document for home service policies as used for small face amount policies. Consumer representatives saw this as a great improvement to simply requiring a disclosure.

## **6. Significant Issues Raised by the Small Face Amount Working Group**

The Home Service Model Act adopted by the D Committee required insurers to specify a date certain/expected date when the total premium paid on an insurance policy would exceed the death benefit. The Small Face Amount Working Group deleted this requirement to make the Home Service Model Act consistent with the Disclosure for Small Face Amount life Insurance Policies Model Act. While the Disclosure for Small Face Amount Life Insurance Policies Model Act requires the insurer to disclose that premiums paid on a policy may exceed the death benefit of the policy the model act does not require the insurer to specify a date certain/expected date when the total premium paid will exceed the death benefit. Interested parties indicated that requiring the disclosure of a date certain/expected date would require extensive computer programming.

Section 8 of the Home Service Disclosure Model Act specifies minimum disclosure simplification standards with which all disclosure forms used by insurers must comply. The Small Face Amount Working Group added the disclosure form developed for small face amount life insurance policies to the Home Service Disclosure Model Act. Section 8 of the Home Service Disclosure Model Act was modified to include a presumption that the disclosure form complies with the minimum disclosure simplification standards of Section 8.