



SOCIETY OF ACTUARIES

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Small Face Amount Life Insurance Working Group Meeting Memorandum

from September 14, 2000

To: NALC Board of Directors
Small Policy Consortium
Small Policy Interested Parties

FROM: Scott J. Cipinko
executive director

DATE: September 14, 2000

RE: Small Face Amount Life
Insurance Working Group
Meeting

The NALC was the only trade association to speak at the meeting in Dallas and will likely take the lead in the discussions with the Working Group. We have been working directly with commissioners since the NAIC Resolution was first secretly circulated to the commissioners and before it even became public knowledge. In fact, the NALC was the only party that circulated the Resolution to the industry prior to its release, which occurred on the day the NAIC announced that it was signed by all 51 domestic regulators.

Therefore, we were prepared for the meeting in Dallas. We have been working with our members and the members of the Small Policy Consortium. The Consortium members met with numerous regulators over the past several weeks to discuss the NALC's concerns with the activities of the NAIC in connection with small policies. We also met with NAIC President, Kentucky Commissioner, George Nichols, III and the members of his staff on September 5, 2000, in preparation for the initial meeting of the Working Group in Dallas.

The following topics were covered in Dallas.

Home Service Background Report

The Home Service Working Group, Co-chaired by Michael Bownes (AL) and Mona Carter (KY) presented the findings of that Working Group as a background for the work done recently by the NAIC in the area of small policies. Mr. Bownes feels that there should be a limit on the amount of premiums a person may pay in excess of the face amount. He is unsure what the limits should be, but that there needs to be a cap.

Structure

Commissioner Nichols made it clear that he is leading the charge in connection with the small policy issues at the NAIC. He stated in Dallas that as a result of the NALC's letter, he has renamed the "Small Value Working Group" to the "Small Face Amount Working Group." However, he apologized that he had failed to change the language in the proposed charge to also reflect that change that he told us he would make during our meeting in Kentucky and would do so.

He advised that he assigned the Small Face Amount issues to the Life Insurance and Annuities (A) Committee for the creation of a working group in order to have the issues dealt with by those that know life insurance issues, rather than the (highly politicized) Home Service Working Group.

While no chair has been named, the Dallas meeting was chaired by Nichols and Commissioner Diane Koken (PA), the Chair of the parent, Life Insurance and Annuities (A) Committee.

An interim meeting will be held between the Dallas meeting and the Boston (December) meeting, most likely on Wednesday, October 25, 2000, either in Orlando, Florida, or Atlanta, Georgia.

The Charge to the Working Group is not set and will likely omit any reference to credit insurance, and the reference to "Suitability," which is the subject of the Suitability Working Group chaired by Rosanne Mead (IA), will be changed.

Commissioner Nichols made it clear that there are no plans to push for any product prohibitions, but some type of disclosure is a likely outcome of the present inquiry. Further, he does not want to put insurers out of business or hurt the insurers selling these products. He considers these products valuable and advised that, if it were not for these products, many in his family would have no life insurance coverage at all.

The Commissioner seeks open dialogue about how small policies are sold and marketed and would like comments from the industry as soon as possible.

Actuarial Considerations

As you may recall, we asked that any inquiry into the market consider actuarial science and solvency. In response to our request, Commissioner Nichols invited the chair of the Life and Health Actuarial Task Force (LHATF), Tom Foley (KS) to discuss the actuarial basis for smaller policies, as the Commissioner does not have a desire to set new actuarial standards or loss ratios.

Commissioner Nichols stated that he would prefer to keep the inquiries limited to life insurance policies with a face amount of \$15,000 or less. He would like the LHATF to work on an explanation concerning the pricing of the policies.

Mr. Foley and Commissioner Nichols acknowledged that these policies have value to the consumer and that the methods of distribution drive the costs of these policies up. Further, Mr. Foley stated that the cost of any policy will be higher if the face amount is lower.

The participation of Mr. Foley is significant, as his Commissioner, Kathleen Sebelius, is not a member of the Working Group. However, she is the next President of the NAIC. As the projected work of this Working Group will not end until June, and she takes office this December, Mr. Foley's participation assures that Commissioner Sebelius will be part of the work of the Working Group, or she will at least be kept apprised of its activities.

Products

The members of the Working Group all acknowledged that credit life and Preneed were not the types of products which cause concern, as they are of relatively short duration and are targeted products tailored for specific transactions.

Scope

The Commissioner stated that he wants us to know that it is not the role of the regulator to protect people from themselves. Consumers will pay more for these smaller policies and he wants them to understand that fact. He believes that the consumer should be entitled to:

Disclosure; and knowing the choices in the open marketplace. The Commissioner asked us in the private meeting about the issue of escheating policies to the states. We advised that the issue is not insurance specific and that

each state has the authority or duty under various agencies to accept property which remains unclaimed. In Dallas, he stated that the NAIC staff should simply create a chart of state authorities concerning the issue and leave the issue to the various state regulators.

He emphasized that the race issue is separate from the small face amount inquiry. In order to emphasize this point, he said that the goal is to get the race-based issues completed and off the NAIC Agenda by the end of 2000. The small policy issues should be dealt with and finished by June 2001.

The inquiry will be limited to:

- Traditional (Whole) Life
- Term Life
- Interest-Sensitive Life
- Universal Life

The sale of multiple policies will not be included in the final charge.

Outlook

The Commissioner revealed another concern about small policies that is about to be released. While doing an investigation in connection with the surveys on race-based rating, a certain unnamed company determined that it failed to pay numerous legitimate death claims.

According to Commissioner Nichols, this was done because the insureds had numerous policies under different names (IE. Nathaniel E. Jones, Nat Jones, N. Jones, Etc.).

The company did not collect Social Security numbers and did not cross-check for other policies when the insureds died. Previous market conduct examinations did not uncover this mistake. As a result, now the company has a problem which it must resolve. This may be an isolated case, but he and the

other commissioners want to know and will look into this situation.

What We Need to Do

I would like your initial thoughts on the issue and the charge, which *may* look like this, although we are not sure (Projected deletions are indicated by parentheses):

Complete a regulatory analysis of the small face amount life insurance business, in all its various distribution forms, with an emphasis in this analysis on the overriding goals of fair policyholder treatment, not only in terms of market conduct, such as appropriate disclosures, and issues of (Suitability) of the product for the customer, but also addressing the issue of fair value for the premiums paid, and any other related issues (such as sales of multiple policies and appropriate escheat handling). The results of this analysis are to be included in detailed proposals for reform, which shall be completed by June 2001, for consideration by the NAIC membership.

I have created a list of interested parties to receive documents and help formulate comments to the Working Group. The interim meeting will likely be well attended, but we hope that each of you will consider attending and will participate in the formulation of our testimony.

Thank you for your continued support.

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