



SOCIETY OF ACTUARIES

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Small Talk Newsletter

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BREAKING NEWS — LEGISLATION INTRODUCED TO RESTRICT SMALL POLICIES

Editor's Note: The following is reprinted with permission from the NALC (National Alliance of Life Companies), an Association of Life and Health Insurance Companies' newsletter which ran in the March 31, 2001 issue.

Senator M. Mandy Dawson (D-30 th) has introduced SB1786, which would greatly restrict the sale of small policies and ban the sale of Industrial Life. The bill would make the following changes to the current code:

1. Each insurer who has in force in Florida, a policy of life insurance with a death benefit of \$15,000 or less shall annually on the policy anniversary date, by United States mail, disclose to the policyholder or premium payor the total amount of premiums paid, the cash value, and the amount of the death benefits payable under such policy. If the insurer is unable to locate the policyholder, the policyholder shall be converted to a full paid-up status. A disclosure notice is not required to be sent for any policies that are in full paid-up status or policies that are converted to full paid-up status.
2. Any changes to the code would not be effective for policies written prior to July 1, 2001.
3. For all policies issued after July 1, 2001, with a death benefit of less than \$15,000, the following would apply:
 - a. When the cumulative premiums paid exceed 250% of the death benefit, the insurer shall enhance the death benefit by \$0.50 for each premium dollar paid in excess of 250% of the death benefit.
 - b. When the cumulative premiums paid exceed 500% of the death benefit, the insurer shall enhance the death benefit by \$1.50 for each premium dollar paid in excess of 500% of the death benefit.
 - c. Industrial life insurance would be prohibited and such policies may not be delivered or issued in Florida, on or after July 1, 2001.
 - d. Each insurer who has in force in Florida an Industrial Life policy, shall annually, on the policy anniversary date, by United States mail, disclose to the policyholder or premium payor, the total amount of premiums paid, the cash value, and the amount of the death benefits payable under such policy. If the insured is unable to locate the policyholder, the policy shall be converted to full paid-up status. The disclosure notice is not required to be sent for any policies that are in full paid-up status or policies that are converted to full paid-up status. We will watch this matter extremely closely. The NALC is seeking help and input from all Members concerning this matter. **If you are interested in participating in the work on this matter, please contact Scott Cipinko (Cipinko@nalc.net) immediately.**

SMALL POLICY WORKING GROUP SHIFTS FOCUS

The Small Face Amount Working Group met in Nashville Tuesday. The Co-chairs are Commissioner Mike Pickens (AK) and Director Ernst Csiszar (SC). The Working Group decided to limit the inquiry of the Working Group to disclosure at the interim meeting in Atlanta in February. Commissioner Csiszar advised that the industry has been asked to provide a study concerning small policies. The study has now been broken into two parts. The first part is an economic study, which will be conducted by Professor Michael Porter of Harvard University. The second study concerns how the policies are written. That will be an educational piece created by the American Academy of Actuaries (Academy). The Academy will give its report to the Working Group when it is completed. However, it was originally intended that the economic study would be presented to the Life Insurance and Annuities (A) Committee at a later date, as the study would be completed after the June deadline for the completion of the Working Group's work. Commissioner Csiszar stated that there are two fundamental issues that need to be addressed. The first issue is whether the industry is garnering excess profits. The second issue is how smaller policies are priced. In addition, there is a question about discriminatory practices in connection with mode of payment. Additional discussion took place concerning how the Academy will conduct its study. Director Nat Shapo (IL) advised that he has problems with the concept of strictly moving toward disclosure as a solution. Rich Robleto (FL), who is very well aware of the Florida legislation, was confused about the direction of the Working Group. Mr. Robleto thought that the group was working toward disclosure regulation. He was also concerned about the value of any study. He would like to see all insurance companies included in the Academy study if it would not include the companies on the fringes of the industry, which may be charging excessive rates. This issue came up in connection with the discussion of the Academy study in detail by Mike Pressley, Vice President of the Academy. John Hartnedy (AK) wanted to make clear that the Academy is a truly independent organization, which includes regulators and members of the industry in its membership. Because the academy will do the study based on broad averages, the top and bottom companies may not be included. Further, the study will be a blind study.

The companies in the study must be anonymous in order to avoid any claims of restraint of trade. Further, the academy must be aware of antitrust concerns. Commissioner Merwyn Stewart (UT) stated that most of the industry is doing a reasonable job. However, as some are not doing a reasonable job, it is important to see how those companies are operating. He emphasized that the regulators want the industry to make reasonable profit and for consumers to get good value. If both of these things occur, it will be a better world. Mr. Pressley advised that the study would not reveal which companies are making a profit. Leslie Jones (SC) advised that the study would show scenarios were premiums exceed the face amount. A number of regulators asked questions about how the study would work. This led into the discussion of specific questions. A number of questions were prepared by Mr. Hartnedy and Ms. Jones. The industry and regulators will be asked to respond to the questions by April 20, 2001. The conference call will be held at that time and more questions will be drafted. In addition, an interim meeting will be held during the week of May 7, 2001. The most likely location for the next interim meeting will be Atlanta. Paragraph copies of the questions are available from the NALC office or by contacting Scott Cipinko (Cipinko@nalc.net).