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THE OVERSIGHT SUBCOMMITTEE REPORT: MARKETING & COST DISCLOSURE

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(This is the last of three instalments. The earlier ones are in our February and June issues).

A major question explored in the last of the three-chapter Moss Subcommittee Report is this:

Has state regulation been successful in its effort to supply life insurance buyers with the means for making intelligent choices?

The Report looks at this in terms of NAIC's own description of what their Model Regulation was intended to accomplish. Herbert W. Anderson, the Iowa Commissioner, had said:

There are three basic types of information that a life insurance prospect should have . . . : (1) what types of coverage and options are available; (2) what coverage is most suitable to the purchaser's needs; and (3) how to obtain suitable coverage at low cost.

The Subcommittee's majority verdict* on the Model Regulation's success on this trio is:

re (1), "The NAIC disclosure rule achieves the first objective reasonably well."

re (2), "It (the NAIC Buyer's Guide) fails altogether to explain the significance of even the most fundamental aspects of the term-whole life choice. The NAIC rule neither provides rate of return data nor even mentions the concept. Instead, the NAIC adopts the position of non-disclosure that has been advanced by insurers for years to avoid revealing the information that would enable consumers to make a meaningful decision." . . . "Another aspect of selecting the 'most suitable' coverage is the problem of premature lapse. Clearly, a good many people who let their whole life policies lapse shortly after they purchase them, and suffer a financial loss in the process, can be regarded as having made an unsuitable purchase. Yet . . . the NAIC rule contains no provisions specifically designed to deter early lapse."

* Dissenting views of one Subcommittee member supplement the Report.

re (3), "Here, the NAIC rule represents a major achievement, because it does mandate interest-adjusted cost indexes and outlaws comparisons using traditional net cost. However, . . . the rule requires too many index numbers to be displayed, omits yardstick data entirely, and provides for disclosing the cost comparison data only after the purchase decision has been made. Further, we have doubts about effective control of policy manipulation . . . and about the comprehensibility of the NAIC disclosure system." . . . "NAIC earnestly argues that it's too soon to know whether the model rule will work. . . . We think the NAIC raises a legitimate point here, and we are thus willing to defer judgment." . . . We do not recommend instant invocation of federal power to preempt the life insurance cost disclosure field. . . . We believe that the states ought to have an opportunity to address themselves to the issues with a conscious awareness that they are under Congressional observation. We will then see whether, as the NAIC asserts, such scrutiny "concentrates the mind wonderfully."*

(Actuaries can find ideas and predictions on improvement of state regulation in general by reading the excellent Federal vs. State Regulation discussion in the *Record* Vol. 3, No. 4, pp. 801-816).

Other Subjects in Chapter III

The Report discusses the potential impact of the Subcommittee recommendations on the life insurance market. It denies that the costs of implementing them present any serious problem for the life companies. It explores the possibility that its recommendations might result in creating "residual markets," i.e., groups of people who need and can pay for individual life insurance but which few or no companies will be willing to insure. It doubts that such persons will be refused coverage, and asserts that in any event such residual markets "are not properly avoided by keeping consumers ignorant of available low-cost product alternatives."

Discussing the impact of the recommendations on the agency system, the

* The Iowa Commissioner had quoted Samuel Johnson's remark, "Depend upon it, sir, when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully."

Report begins by pointing out the usefulness of an effective cost disclosure policy in educating agents about the relative cost and features of the products they are selling, and the good results that accrue when agents demand better products to sell. A point little noted in discussion within the industry is made, that this may happen even if consumers pay little attention to the cost disclosure materials. "If sensitizing agents to product differences is beneficial," it says, "detailed disclosure to agents obviously shouldn't be delayed merely because consumers are not yet ready for it."

After mentioning the possibility that agents might charge a fee for their counsel so that they won't completely lose out when buyers decide to purchase lower-cost policies than the agent can offer, the Report closes its discussion of this general subject with the flat statement, "In our view, the demise of the agency system is simply not a likely consequence of cost disclosure."

In its final section the Report assesses the propriety of the FTC's involvement in the field of life insurance cost disclosure. It concludes that FTC's activities "have been proper from both a legal and policy standpoint," but believes the FTC staff "should have been more circumspect in its dealings with state regulators," this reference being to FTC's request that insurance departments that haven't already promulgated the NAIC Model postpone doing so. □

COMMENTS

A new Build and Blood Pressure study is an important underwriting aid, although it may not be received with riotous acclaim; the students may groan about possible extension of syllabus reading. The new study records some slight improvement in the mortality from over-weights and a major change in the results from the blood pressure experience.

A table accompanying the press releases for the new Build and Blood Pressure study shows that the Association of Life Insurance Medical Directors and the Society of Actuaries have jointly published, previous to the current study, four intercompany Blood Pressure

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