

Insurance and Real Estate Committee
January 27, 2009

Senate Bill 456: An Act Adopting the National Association of Insurance
Commissioners' Interstate Insurance Product Regulations Compact

456

Testimony of Robert P. Mallick
Counsel
The Phoenix Companies, Inc.

Good morning Senator Crisco, Representative Fontana, Senator Caligiuri, Representative D'Amelio and distinguished members of the committee, my name is Bob Mallick, and I am Counsel in the Law Department of the Phoenix Companies, Inc. headquartered here in Hartford, Connecticut. I am here this morning to offer testimony on S.B. 456 entitled an Act Adopting the National Association of Insurance Commissioners' Interstate Insurance Product Regulation Compact.

Although I am confident that many of you are familiar with the Phoenix, for those of you who are not, the Phoenix is a financial services company headquartered in Hartford and maintains offices throughout the United States. The Phoenix employs 1139 individuals, 650 of whom are employed at the Hartford headquarters location.

I am here to testify in support of this bill.

The Interstate Insurance Product Regulation Compact is a milestone in insurance regulation.

The Compact allows for the adoption of uniform national product and advertising standards for financial service products offered by the industry, specifically individual and group annuity, life insurance, disability income and long-term care insurance products.

Uniform national product standards have been a long-term goal for the insurance industry for many years. Uniform product standards will mean that a newly developed product can be sold nationwide in a timely fashion.

Currently, we as an industry find ourselves developing state specific versions of what would otherwise be national products. The differences in the state specific versions are an obstacle to nationally uniform products. Because of the intensive filing efforts and programming costs, these state specific products increase the development and administrative costs of our products, costs which ultimately are passed on to the consumer. Product standardization will translate into lower costs to the industry and the public.

Thirty jurisdictions have already adopted the Compact. It is my hope that Connecticut will be the thirty-first state to adopt the Compact. Jurisdictions adopting the Compact are: Alaska, Colorado, Georgia, Hawaii, Idaho, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, , Michigan, Minnesota, Nebraska, New Hampshire, North Carolina, Ohio, Oklahoma, Pennsylvania, Puerto Rico, Rhode Island, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, and Wyoming.

To become an operative compact 26 states or states representing 40% of premium volume needed to adopt the compact. That goal has been reached. As a consequence an Interstate Insurance Product Regulation Commission has been established pursuant to the Compact. The current Chair of the Commission is Ms. Jane L. Cline, West Virginia Insurance Commissioner.

That Commission is empowered to adopt the uniform product standards mentioned above.

In the past, it has been a concern that the Commission would weaken consumer protections built in to the Connecticut statutes and regulations. That is not the case based on the record of accomplishments of the Commission.

As set out in the attached American Council of Life Insurers white paper, the Commission has adopted standards that it is believed exceed current Connecticut statutory/regulatory requirements. Examples of these higher standards follow.

Readability: Making insurance products easier for consumers to understand is an essential part of consumer protection. An insurance product is easier to understand the higher the Readability Test score. The current national average Readability Test score is 40. The Connecticut mandated Readability Test score is 45. The Commission's required score is 50.

Death Benefit Interest: Another example of heightened consumer protection is the Commission's requirement that death benefit interest accrue from the date of death. In Connecticut interest begins to accrue 10 days after date of death. In addition, the Commission requires that penalty interest at a rate of 10% be payable beginning 31 days after all requirements necessary to pay the claim have been satisfied. Penalty interest is in addition to the normal death benefit interest that accrues from date of death. Connecticut has no such penalty interest provision.

Right to Examine Policy: A further example of heightened consumer protection is the Commission's requirement for a 30 day free look period for replacements. Connecticut requires a 10 day free look period for replacements.

Settlement Options: The Commission's standard requires insurers to provide annuity rates at the time of annuitization that are at least equal to the purchase rates currently offered on single premium annuity contracts. This consumer protection concept is known as betterment of rates. Connecticut has no such requirement at present.

Commutation of Immediate Annuities: The Commission's proposed standard will include extensive commutation requirements. This will protect consumers who would like to "cash out" their immediate annuity. Connecticut has no such requirement at present.

In addition, the Commission is able to approve or disapprove products submitted for review that conform to the national standards.

By not being a member of the Compact Connecticut has no say in what those uniform product standards will be.

Of critical concern to the insurance industry has been the time that it takes to facilitate a national launch of an insurance product. It can take a year or more to garner approvals from all state insurance departments under the current system. This puts the insurance industry at a distinct disadvantage with competitors such as banks and securities firms whose regulators are predominantly on the Federal level. The delays in the current state system have also given rise to calls for Federal regulation of the insurance industry.

We at Phoenix strongly support working within the valuable framework of state regulation. We believe that the states are in the best position to regulate the business of insurance. The state insurance departments are the acknowledged experts in the field of insurance product regulation. We

believe the best way to leverage that state insurance department expertise is to establish uniform national product standards within the state regulatory system.

I urge you to adopt Senate Bill 456.

Thank you for your attention and I am happy to answer any questions that you may have.