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Testimony of the American Council of Life Insurers
before the Insurance and Real Estate Committee
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Senate Bill 172 - An Act Adopting the National Conference of Insurance Legislators' Life Insurance Consumer Disclosure Model

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, we appreciate the opportunity to offer the following comments in opposition to Senate Bill 172 - An Act Adopting the National Conference of Insurance Legislators' (NCOIL) Life Insurance Consumer Disclosure Model. The American Council of Life Insurers (ACLI) strongly opposes the passage of Senate Bill 172 for the following reasons.

To understand why the life insurance industry is so vehemently opposed to SB 172, legislators should understand the differences between life insurance companies and life settlement companies. Life insurers are in the business of selling insurance to consumers to protect against a financial loss they may incur due to the death of a family member or business partner. In other words, our products provide consumers with financial protection. On the other hand, the life settlement companies are looking at the life insurance policy as an investment. Life settlement companies seek out older persons or persons who are chronically or terminally ill to buy their life insurance policies. The amount the life settlement company offers to pay for the policy is based on how long the insured is expected to live. Once the life settlement company buys the policy, it or its investors must continue to pay the premiums on the policy until the insured dies. Unlike life insurers, life settlement companies have an interest in the insured dying sooner rather than later, because the sooner the person dies, the more money the life settlement company will make. The life settlement company intends to make a profit on the early death of the insured.

The sale of life insurance policies in the secondary market has been under ongoing scrutiny by Congress, the Securities and Exchange Commission (SEC), the Government Accountability Office (GAO), state Attorneys General and state insurance regulators.

No other state has adopted the NCOIL Life Insurer Disclosure Model that was approved by NCOIL over substantial opposition in November. The National Association of Insurance Commissioners does not recommend legislation in this area.

This legislation would require life insurance companies to advertise the business of life settlements to its policy owners, giving the impression that our industry endorses the life settlement industry, to which we strongly object. Proponents of Senate Bill 172 will say that this legislation is needed to inform consumers about all the choices they may have when considering surrendering their insurance policy for cash, including the availability of a life settlement. We would strongly disagree. Mandating these insurer notice requirements, which mention life settlements, puts seniors at risk for becoming more attractive to stranger-originated life settlement (STOLI) perpetrators as they mistakenly believe that insurers are promoting life settlements. STOLI transactions promote wagering on human life and rob families of financial protection just when they need it most. Life insurers are working to protect consumers from STOLI transactions by promoting strict laws governing the under-regulated life settlement industry. The

proposed mandatory notice provision is a step backward from the STOLI protections that Connecticut put in place in 2008.

The vast majority of policy owners surrendering policies will not qualify for a life settlement. Because life settlement investors are primarily interested in larger face value policies owned by elderly individuals with limited life expectancy, a life settlement is not a viable option for most policy owners. By requiring life insurers to inform policy owners of their "right" to settle, policy owners could experience an economic loss while they explore an option that they are not likely to have. Premiums would still have to be paid by the policy owner while they figure out whether an investor is interested in purchasing their life insurance policy. A recent Wall Street Journal article published February, 2, 2011, entitled "New Life-Policy Fallout: Suits from Insured", highlights the dangers to policyholders who are induced to maintain their life insurance policies for possible settlement. The article describes the plight of an 81-year old policyholder who was induced to pay a \$25,000 a month premium to maintain a policy which his agent said could be sold at a profit in the secondary life insurance market. Ultimately there was no buyer for the gentleman's life insurance policy and he was out the \$25,000 plus a bank loan of \$665,000 for the premiums paid the first two years of the policy.

ACLI members are strongly opposed to the requirement that Senate Bill 172 would impose of the costly mailing to our insureds of a brochure containing descriptions of products available from life settlement providers. These mandatory notice provisions in Senate Bill 172 put unnecessary compliance costs on life insurers. Ultimately, these costs would mean reduced revenue for insurers and potentially higher premiums for consumers, resulting in a hidden cost to consumers which is not in the best interest of a majority of policy owners.

ACLI members are in support of informing our insureds of their policy options and are currently do so in many ways. As a highly regulated industry in Connecticut, life insurers are required to provide numerous disclosures to policyholders. The most comprehensive disclosures currently required are the Buyer's Guide and Policy Summary which must be provided to the policyholder before or at the time of delivery of the policy (Sec. 38a-819-36). The Buyer's Guide (attached) describes in comprehensive detail how to determine if you need life insurance as well as what type and the amount of insurance. The Buyer's Guide describes various types of life insurance, including term and whole life insurance, in layman's terms. The Guide even goes in to detail regarding the cost of life insurance and how to use and interpret cost indexes.

Another comprehensive document which provides certain policyholders with detailed information about their coverage is the life insurance illustration (Sec.38a-819-58). If a life insurance illustration is used with a policy, an annual report must subsequently be provided to each policy owner. The annual report contains, among many other items, the policy value, the current death benefit and the net cash surrender value (38a-819-65).

If passed, Senate Bill 172 will force insurers to advertise a life settlement option which is not supported or endorsed by the life insurance industry, is unavailable to most policy holders, and can lead to unforeseen financial consequences, and imposes an unnecessary cost on our industry. As an industry, life insurers fully support and currently provide our policyholders with a full range of policy options. The mandatory notice provisions contained in Senate Bill 172 will ultimately be a disservice to those we strive to protect.

Thank you for considering our position in opposition to [Senate Bill 172 - An Act Adopting the National Conference of Insurance Legislators' Life Insurance Consumer Disclosure Model](#). Please contact Kate Kiernan at 202-624-2463 with questions.

ACLI is a trade association with more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. ACLI members represent more than 90 percent of the assets and premiums of the life insurance and annuity industry. There are 242 ACLI member companies licensed to do business in Connecticut, accounting for 91 percent of the ordinary life insurance in force in the state.