Testimony of Doug Cardoni
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Thank you Chairmen Crisco and Megna and members of the Committee. My name is Doug Cardoni and I am the Chief Administrative Officer for the Credit Funds at Fortress Investment Group. Fortress is an asset manager that invests and manages assets primarily on behalf of pension funds, university endowments, and charitable foundations. In fact, we currently manage over $1.2 billion for Connecticut investors. We also have over 700 employees in the state of Connecticut and for the last few years my family has rented a cabin on Candlewood Lake each summer, so I have some very fond memories here.

I am here today to urge the Committee to vote for Senate Bill 409. This bill is intended to protect consumers of life insurance. As I'm sure you know, the life insurance industry is very competitive. Life insurers compete primarily on price – they want to offer consumers the lowest premium rates for the greatest amount of coverage. If life insurance consumers are anything like me, they don't spend a lot of time thinking about which insurance company to actually buy their policy from. Instead, they (as did I) basically look to see if they've heard of an insurance company, and then - of those companies whose names they recognize - they pick the cheapest premium. It's pretty simple; you look at your options and pick the lowest cost carrier – kind of like renting a car.

What most consumers don't know is that many life insurance companies insert language into policies that purportedly allows the insurer to raise those premiums the consumers relied upon *after* a policy is already in effect - sometimes many years after its issuance (when it is much more difficult, and often much more expensive, to get another policy). Specifically, the language in the policy states that the insurer can raise the "cost of insurance" (COI) rate for the policy, which, in turn, can tremendously increase the premium payments owed from the original relied-upon rates. This type of increase should only be imposed in rare instances where an insurance company could not have had any reason to know that the insurance was priced incorrectly.

So, a consumer - for sake of ease let's use my mom as an example - like my mom (who's soon to be 67) can purchase a universal life insurance policy that she thinks is going to cost a pre-determined amount in any given year. What my mom doesn't know, however, is that the insurer has attempted to give itself the right to increase those pre-set and pre-agreed premium payments by amounts sometimes higher than 50% of the original billed charges, without providing any justification for the increase which could be evaluated or challenged. What's more, when she is comparing those premium quotes, she doesn't know which company has actually invoked this right to raise premiums in the past. It is, to use a no-longer outdated phrase, a classic version of the "bait and switch".

Senate Bill 409 addresses this problem by simply requiring life insurers to notify their policyholders and the Insurance Department before they raise the COI rate. This law will bring transparency and honesty to what is currently a hidden process that victimizes consumers without their knowledge. The notice required under the bill is not onerous. It only requires disclosure of basic information about the amount of the increase and the reason that the costs are going up. It also requires that insurers notify potential future customers if they have raised this rate in the past (again, I think my mom would want to know if the insurance company she's choosing has already dramatically increased their rates from what they originally quoted).

I just hit 40, have two young children, and recently purchased a life insurance policy. Unfortunately, I didn't have the information that Senate Bill 409 would require that the insurer provide. I didn't learn that my own policy contains this type of COI increase language until after I purchased the policy – and I still have no information about my company's track record for imposing COI increases.

When you think about it, the disclosure requirements of Senate Bill 409 sound like common sense. It's hard to imagine that a life insurance company could increase your rates without any explanation or basic disclosures about why the rate increase is being imposed.

The sad thing is that it's happening right here in your back yard. Phoenix Life Insurance Company – based right here in Hartford – is currently imposing illegal rate increases on their policies. And this bill would help prevent Phoenix, and other insurers that might follow their example, from acting as badly.

I'm sure many of you are familiar with Phoenix—their headquarters are located across the street in the "Boat Building". Sadly, Phoenix made some really bad bets in the market, before the recession. The company lost tons of policyholder money betting on subprime securities and other exotic derivatives. As a result, they were downgraded from an "A" rated carrier to a low "B" carrier, and almost no one has been willing to buy their policies since.

To make up for their investment mistakes, Phoenix is currently imposing massive rate increases on their policyholders, without disclosing one iota of information about the increases.

The conduct of Phoenix hit our radar screen because we manage a block of insurance policies that we recently bought for our investors from other banks and investors that needed to sell them. A number of the policies that we own were issued by Phoenix between 5 and 8 years ago.

Late last year, Phoenix started sending letters to policyholders telling them that their premiums rates were increasing dramatically. Amazingly, Phoenix didn't tell any of the policyholders *why* it was raising rates. Rather than tell consumers the amount of the rate increase and why it was being imposed, Phoenix sent letters with an (800) phone number, and instructions to "press Option 4, Option 5, then Option 1, then Extension 8875", to get more information. But we have called - and are told nothing.

It's abundantly clear that Phoenix doesn't think it has an obligation to provide this type of information to its policyholders. Now, Fortress is a large asset manager, and we have the resources to look after ourselves. And despite hiring lawyers to contact Phoenix and eventually suing them, we still have been able to get any information from Phoenix about these increases.

The average consumer does not have these kinds of resources. I'm quite certain most consumers have never even heard of the ability of insurers to raise the "cost of insurance" and have no idea that their rates could go up from what they originally agreed to. These consumers certainly don't have the resources to file a lawsuit against Phoenix for breach of contract, let alone provide the Insurance Department with the type of documentation necessary to institute a regulatory proceeding against the insurer.

During this hearing, and in the hallways, you will hear people talking about things like STOLI and investors who "gamble" on the lives of others, but those are just red herrings. The life insurance industry will use those false arguments and deflections to try and hide their actual behavior.

This new law will simply require life insurers to provide fair notice to consumers about a rate increase, and provide reasonable remedies if the insurer fails to meet these minimal notice requirements. This legislation is important for consumers and it's important for Connecticut. We urge you to support RB 409.