

Testimony of the American Council of Life Insurers  
Before the Insurance and Real Estate Committee  
Tuesday, March 13, 2012

Senate Bill 409 - An Act Concerning Disclosures for Certain Life Insurance Policies and Concerning Life Insurance and Annuity Policies that Include Long-term Care Benefits

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the American Council of Life Insurers (ACLI) appreciates the opportunity to offer the following comments in opposition to Senate Bill 409 - An Act Concerning Disclosures for Certain Life Insurance Policies and Concerning Life Insurance and Annuity Policies that Include Long-term Care Benefits. The legislation before you would require an onerous and redundant disclosure for certain life insurance policies.

This legislation is a protectionist measure being raised by a sophisticated group of investors at the expense of insurers. These investors have been targeting insurers through litigation and, having suffered some setbacks in the courts, are now trying to pass legislation in various states in an attempt to protect their bad investments.

The problem facing the hedge fund investors is that they purchased large blocks of life insurance policies on the secondary market and some of those contracts were fraudulent Stranger Originated Life Insurance ("STOLI") policies. The legislation before you today is an attempt by these sophisticated investors to indemnify themselves against a poorly investigated investment. Specifically, lines 94-101 would appear to give the policyholder the election of rescinding a policy and receiving the full amount of premiums in return. This is, in a sense, rewarding the bad behavior of the investors.

Well-established law enables insurers to retain premium when the policy is originated in bad faith or when the policy determined to be void ab initio as a matter of public policy against wagers on life. Most recently a Florida federal court order, *Pruco Life v. Brasner*, found that a \$10 million policy was found to be procured in bad faith by predatory abuse of an elderly Florida resident entrapped in an illegal STOLI scheme. The court held that the contract was not obtained for life insurance but rather for a speculative wager lacking insurable interest and contrary to public policy.

In addition, life insurance contracts already contain disclosures which describe the parameters for when and how cost of insurance rates will be raised or lowered. So the requirement for additional notice is redundant. In addition, contracts contain guaranteed cost of insurance rate maximums that cannot be exceeded. The policy illustrations show both the current rate and the maximum rate as required by Connecticut regulation Section 38a-819-62(b)(2).

Finally, in addition to being redundant, the notice requirement is overly broad and would require the publication of proprietary information. For example, the methodology experience factors required to be disclosed are company trade secrets.

Thank you for considering our position in opposition to Senate Bill 409 regarding premium payment schedules. Please contact John Larkin at 860-430-5928 or Kate Kiernan at 202-624-2463 with questions.

*ACLI is a national 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 237 ACLI member companies licensed to do business in Connecticut, accounting for 91 percent of the ordinary life insurance in force in the state.*