

Suitability for Life Insurance

CEJ writes to ask the A Committee to direct the Annuity Suitability Working Group to consider the addition of investment-type life insurance products to the NAIC suitability model. While we firmly believe the working group's charge allows – requires – consideration of this issue, the working group chair ruled the issue beyond the working group's charge at the May 31 – June 1 interim meeting. Consequently, we present this request to the A Committee.

We were surprised at the chair's refusal to discuss adding investment type life insurance to transactions covered by the suitability model at the recent interim meeting. The chair's rejection of any consideration of the issue came with no notice and no opportunity for interested parties to respond to the "legal" opinion offered by NAIC staff. Interested parties had raised the issue many times over the past year, so there was no reason for this surprise rejection.

Based upon direction at the interim meeting, we now ask the A Committee to review this issue.

From our perspective, adding investment type life insurance to the suitability model seems obvious and necessary. There can be no reason not even consider such an action.

Compare investment type life insurance products with annuities:

- Both sold as investments – variable life, universal life, indexed universal life just as annuities
- Both sold with the same types of illustrations
- Both offer death benefits
- Both offer accelerated benefit / long term care combinations
- Both offer guaranteed lifetime income benefits

We see no rationale for applying a best interest suitability to a fixed indexed annuity and not to an indexed universal life or for applying a best interest standard to a variable annuity but not variable life insurance.

The only argument offered against adding investment type life insurance to the suitability model is that offered by the ACLI in a letter to the working group. ACLI argues

Including life insurance in the Model Regulation is unnecessary because life insurance sales practices are already subject to comprehensive state laws and regulations which assure that life insurance products are sold consistent with the best interest of consumers.

While surely not the intention of the ACLI, its letter strengthens the argument for the suitability model to cover investment-type life insurance transactions.

First, the same argument could be applied to annuities – in the absence of the suitability model, annuities are subject to a variety of state laws and regulations. Clearly those other laws and regulations have not been sufficient for annuities or for investment-type life insurance..

Second, none of the life insurance laws or models cited require sales or recommendations in the best interest of the consumer.

Third, the ACLI letter provides a list of model laws and regulations that ACLI contends provide a “comprehensive” regulatory and consumer protection framework. What the ACLI list actually shows is a history of the problems that have arisen in the sale of life insurance products. Rather than demonstrating a comprehensive regulatory framework, the list reveals a piece meal approach of reacting to problem after problem with life insurance sales. And in the last couple of years alone, we’ve seen regulatory concern and consumer complaints about IUL illustrations and cost of insurance increases. ACLI’s list is a history of market problems with life insurance – problems resulting in large part because of conflicts of interest in which producers and insurers did not act in the consumer’s best interest.

Thank you for your consideration.