

The Center for Economic Justice

NEWS

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NAIC Producer Compensation Model Full of Holes

Consumer Organization Urges State Regulators to Revise Model to Better Protect Consumers

Center for Economic Justice Says Proposed Model Protects Insurers and Producers Instead of Consumers

The Center for Economic Justice (CEJ), a non-profit consumer advocacy organization, today said the producer compensation disclosure model law adopted recently by the National Association of Insurance Commissioners is so full of loopholes that it will not protect consumers from abusive sales practices.

“The NAIC failed in their stated goal of bringing transparency to insurance markets with better disclosure of broker and agent compensation,” said Birny Birnbaum, Executive Director of CEJ.

“Despite the fact that regulators in four of the five most populous states wanted far stronger disclosure and consumer protection, the NAIC never gave serious discussion to a disclosure requirement for all brokers and agents. After three months of meetings, hearings and discussions, the best the NAIC could come up with was to “defer” consideration of the most meaningful consumer protections in the model,” Birnbaum added.

The model attempts to “target” certain types of producers for specific compensation disclosure. But, the distinctions – whether the producer’s compensation is paid directly or indirectly by the consumer and on whose behalf the producer is acting, the proposed model – are meaningless and unenforceable. The loopholes for specific disclosure requirements will quickly lead to non-substantive changes in compensation structure as insurers and producers take advantage of the loopholes created by these “distinctions.”

Birnbaum explained, “The model is so full of loopholes and exceptions that the only thing it will accomplish is changing the way that brokers and agents hide their incentives to sell various products. For example, the model only requires a broker or agent to disclose the amount of compensation from the sale of a product if they are taking money directly from the consumer and if the calculation of the compensation is *possible*.”

CEJ called on the NAIC membership to quickly repair the disclosure model and the reputation of state insurance regulation.

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The Center for Economic Justice is a Texas nonprofit corporation dedicated to protecting the interests of minority and low-income consumers on insurance, credit and utility matters. Web Site: www.cej-online.org