Statement of the Center for Economic Justice

Before the National Association of Insurance Commissioners
Market Regulation (D) Committee on

Limited Line Producer License for Term Life Insurance

June 11, 2005

After careful review of the arguments in support of the proposal, the Center for Economic Justice (CEJ) supports the "Limited Line Term Life Resolution" of the Producer Licensing Working Group and urges the Market Regulation (D) Committee to adopt the resolution and recommend adoption by the full NAIC.

In addition, the arguments against, a limited line producer license for term life insurance are also applicable to a limited line producer license for credit insurance. Consequently, for the same consumer protection reasons causing the Producer Licensing Working Group to oppose a limited lines producer license for term life insurance, we urge the Market Regulation (D) Committee to eliminate the limited lines producer license for credit insurance.

We have reviewed the arguments for a limited line producer license for term life insurance put forth by Primerica in their March 14, 2005 letter to Commissioners Voss and Poolman and the accompanying report by Milliman actuary Douglas Bennett. We have also reviewed the correspondence from Louisiana Representative Shirley Bowler in support of the proposal.

We oppose the proposal for the following reasons. First, a limited line license for term life insurance will result in abusive sales to consumers. We are confident making this statement because we have seen how a limited line license has led to abusive sales of single premium credit insurance products. The entire premise of the proposal is to create an agent who pushes only one product on the consumer, regardless of the consumer's needs or situation. The notion that a simple "needs" analysis by the term life agent will protect the consumer has no basis in fact or logic. Rather, the incentive – the imperative – will be to push the single product the agent has to sell, regardless of the needs of the consumer.

Second, the argument for the need for a term life license – that a term-only license will address the problem of underserved low- and middle income markets – is unsupported by any empirical evidence or sound economic analysis.

<u>Alleged Benefit of Term Life License</u>

The Primerica proposal relies upon a study Douglas Bennett of Milliman that purports to provide an economic and policy analysis of the need for a term-only license. Perhaps because Mr. Bennett is an actuary and not an economist, the Milliman paper provides a deeply flawed economic analysis. The Milliman argument goes something like this:

1. Low and middle income consumers are underserved for death protection insurance.
2. These markets are underserved because traditional life insurance agents won't sell to consumers in these markets because it is not profitable enough. Rather, traditional life insurance agents are forced to target more affluent consumers with annuities and investment-related products.
3. The solution to this problem is the creation of more agents willing to sell in underserved markets.
4. The way to get more agents willing to sell in underserved markets is to create a term-only license with fewer requirements than a traditional life insurance agent license to lower the cost for people seeking to become producers of term life insurance.
5. Increasing the number of agents selling death protection will make product distribution more cost-effective and sales will increase.
6. Middle and low-income markets will be the beneficiary of these increased sales.
7. There is little or no risk to creating a term-only license.

Let's accept the proposition that low and middle income consumers are underserved for death protection insurance. However, in justifying this statement, Mr. Bennett explains the absence of life insurance in many households with the claim that "people who need life insurance (and know they do) do not take the initiative to go out and buy it. . . .Most people do not buy life insurance when they need it." The premise behind this argument is the old saw that consumers don't buy life insurance but insurers must sell life insurance to consumers. This statement is based on the proposition that markets are not competitive and consumers are irrational. While we agree that markets are not fully competitive, we reject the notion that consumers are irrational and need an agent to elicit a rational decision. A large increase in agents pushing a particular product may well result in increased sales of that product simply because more people are engaged in unfair and coercive sales practices.

On page 5 of his report, Mr. Bennett presents a telling graph that shows the percent of households owning life insurance dropped from 83% in 1960 to 76% in 1998 while the drop in agent sold life insurance has dropped from 72% to 42%. This indicates that alternative distribution methods have grown dramatically and does not indicate a need for more life insurance agents. Further, it is important to note that household composition has changed dramatically since 1960, which may explain the modest reduction in total life insurance ownership.

Mr. Bennett also presents a chart showing a decline in the number of full-time agents. Most folks would say that this decline is a market response to consumers buying fewer policies from agents. For Mr. Bennett, lower sales results from fewer sales people. His proposition is based on the concept that the supply of sales people driving sales as opposed to consumer demand driving sales. Not that supply of life insurance drives sales, but supply of agents selling a particular type of life insurance drives sales. Economic theory suggests that consumer demand drives sales. And while marketing and advertising can spur consumer demand, Mr. Bennett's argument is not the absence of consumer demand. Rather, sales of term life are low, according to Mr. Bennett, because consumers act irrationally in the absence of agents selling the product. This is illogical, counter to economic theory and unsupported by any empirical evidence.

Next, Mr. Bennett argues that the commission structure of life insurance makes term life uneconomical for agents to sell because higher commissions are available from more expense products. He further argues that licensing requirements exclude a significant portion of the population from being insurance agents serving the low and middle income market because there's only so much money that can be made selling term life to low and middle income markets.

Bennett states, with no backup or support, that an agent selling term life insurance could expect to earn a gross income of $21,000 to $35,000 annually. He argues that it is not worth a person's time and investment to get a traditional life insurance license only to realize that modest income. Yet, Bennett assumes, again with no analysis or support, that this same person would invest a lesser amount of time and money to achieve this level of income. The expected future income seems too low to attract any candidate.

Mr. Bennett then presents a set of pass/fail rates for license examinations in a few states, arguing that those rates prove the testing requirements are too rigorous. Needless to say, pass/fail rates by themselves prove nothing about the rigor of the testing. Given that Primerica has over 100,000 fully licensed agents selling its term life products, the evidence suggests that full licensing requirements are not a barrier to term life sales.

If there is a problem, it seems clear that the problem lies with the commission structure and price of term life, not with licensing requirements for agents. If agents add as much value to the transaction as Mr. Bennett claims, insurers would increase the rates for term life to provide greater compensation to agents. The higher-priced product would still sell because of the value added by the agents. The fact that insurers do not offer higher compensation for term life indicates that insurers do not believe that agents add the kind of value Mr. Bennett suggests or that consumers are unwilling to pay more for agent-based sales.

The bottom line is that there is no empirical evidence or economic theory to support several of the links in the benefit argument for term life only license:

- There is no evidence to indicate that current life licensing requirements discourages individuals from becoming life insurance agents;
- There is no evidence to suggest that a term life license will increase term life sales to underserved populations; and
- The only certain outcome will be some number of term life salespeople who are less trained than before.

The harm from a term life only licensed agent is clearly an increase in unfair, coercive and unsuitable sales of term life insurance. As the producer licensing working group has stated, it is reasonable and necessary to know about other life insurance products not only to determine if term life is unsuitable for a particular consumer, but also to understand how the purchase of a term life policy may impact the replacement or cancellation of other death protection policies the consumer has.

A reasonable argument in response to this concern is that there are already instances of term life being sold as the only product offered via direct mail solicitation and internet sales. However, there is a key difference between a consumer evaluating a direct mail solicitation or internet site and a consumer being sold a product by an agent in person. The abusive sales of single premium credit insurance are evidence of this fact.

In response to the question of potentially unsuitable sales, Mr. Bennett's statements are downright scary. He argues, "Putting aside that notions of suitability generally have been rejected in the life insurance industry, it is hard to argue that death protection is not always suitable, particularly in the middle and lower income markets. . . . As stated earlier, a company authorized to appoint term-only agents must equip their term only agents with a standard and consistent needs analysis process. If the process identifies a need for income replacement, then term insurance is suitable or at least not 'unsuitable.'"

Translation: You need term life insurance whether you want it or not or think you need it or not.

In summary, we oppose a limited line license for term life because there is no reasonable expectation of consumer benefit and a clear danger of harmful sales to consumers.

We conclude by pointing out that these same arguments against a limited line license for term life insurance apply to a limited line license for credit insurance. If anything, there is a greater need for a full life license for credit insurance than for term life. Credit insurance sales involve not only term life, but disability and unemployment insurance. Credit life is also more complicated than term life because the coverage, though tied to a specific loan, may not fully cover the loan payoff, may not match the term of the loan and the premium may be financed into the loan. The sale of credit life may not only be unsuitable for the consumer's insurance needs, but may be harmful to the consumer by foisting unmanageable debt on the consumer. In addition, the financing of the single premium credit life insurance typically masks the true cost of the product to the consumer. Unlike the unsupported theories tossed out to support a term life only license, the consumer harms from the sale of credit insurance are well documented.

We therefore respectfully urge the Market Regulation (D) Committee to adopt the resolution opposing the limited line license for term life and to eliminate the limited line license for credit insurance.

The Center for Economic Justice is a non-profit that advocates on behalf of low-income and minority consumers on insurance, credit and utility matters.