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February 21, 2006

Commissioner Jim Poolman
Chair, Life (A) Committee
National Association of Insurance Commissioners

Re: Proposed Changes to Life Insurance and Annuities Replacement Model

By Electronic Mail

Dear Commissioner Poolman,

The Center for Economic Justice opposes the proposed changes to the Life Insurance and Annuities Replacement Model Regulation. The replacement regulation provides essential consumer protections in response to a demonstrated problem in the marketplace – policy replacement activity that harms consumers while benefiting produces and insurers. We see no rationale for limiting the scope of the regulation to exclude replacements by corporate affiliates of the existing insurer and we see potential harm to consumers from the elimination of the replacement regulation's current protections for consumers for these types of transactions.

The principal role of the replacement regulation is to provide consumers with information to make an informed decision about replacing an existing policy. The regulation includes an important notice that prompts the consumers to ask several questions related to his or her situation and to obtain key information from the replacing insurer. It is unclear why a consumer should be denied this information because the replacing insurer is part of the same corporate family of the existing insurer. It is unclear why a consumer has more protection against an unfavorable replacement when the replacing insurer is an affiliate of the existing than insurer than if the replacing insurer is not an affiliate of the existing insurer.

In its arguments supporting the proposed change[1], MetLife argues that the change will benefit consumers for the following reasons:

1. It will eliminate "potential confusion" for the consumer by removing "additional, often confusing, paperwork" from the replacement process.

This type of argument – that consumer information and disclosures are confusing for consumers – is a big red flag for consumer advocates and should be a red flag for insurance regulators also. Insurers routinely argue against meaningful consumer disclosure by claiming such disclosure will "confuse" consumers. Even if we were to assume all the benefits claimed by MetLife about inter-affiliate replacements, the required disclosure of Appendix A in the replacement regulation helps inform the consumer about insurance replacements and prompts the consumer to value a replacement that provides benefits to the consumers. It is unclear why MetLife believes the provision of this information might be confusing to consumers when the replacing insurer is a different insurance company in the same corporate family of the existing insurer. MetLife has provided no logical explanation – let alone any empirical evidence – that the important disclosure is or might be confusing to a consumer for an inter-affiliate replacement.

2. The consumer retains the same financial protection and choices of permanent plans as with an intra-company conversion.

MetLife claims that under an inter-affiliate conversion, the consumer pays no surrender charge, suffers no loss of cash value, faces no new contestability or suicide exclusion periods and faces no new medical underwriting. While all these provisions may be part of an inter-affiliate replacement, we find nothing in the proposed changes that requires these provisions be part of every inter-affiliate replacement. In addition, the proposed changes do not limit inter-affiliate replacements to replacements of term life insurance. The proposed changes would allow inter-affiliate replacements of any type of insurance or annuity.

3. Permanent insurance is always better than term for consumers.

MetLife argues:

For term conversions, the policyholder receives the extra protections that permanent policies offer. While a permanent plan requires higher premiums, the consumer is made aware of these higher costs through illustrations and other disclosures. In exchange for the higher cost, which is crystal clear to the consumer, he or she has the opportunity for lifetime protection and cash accumulation.

[1] Letter from Gregory Redmond to Commissioner Jim Poolman of September 5, 2005.

In fact, many or most consumers are best served by term life insurance. A staple of consumer financial advice books – Suze Orman comes quickly to mind – is a recommendation for term life insurance over permanent insurance. MetLife's argument seems to be that, because the benefits of permanent life insurance replacement of term life are so great for consumers, the consumer protection of the replacement regulation are unnecessary. This type of argument is another red flag for consumer advocates – that the insurer know best what is better for the consumer.

4. The proposed change will streamline conversion campaigns and give MetLife greater flexibility in serving its consumers.

We see no obstacle in the replacement regulation to MetLife serving consumers. Rather, we see the replacement regulation as an aid to MetLife and all insurers in serving consumers. The goal is an informed consumer making beneficial purchases, not a streamlined conversion campaign – which is a euphemism for more and faster replacements and which should not be a goal of insurance regulators.

Thank you for your consideration.

Sincerely,

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