

RECEIVERSHIP & INSOLVENCY (E) TASK FORCE

Receivership and Insolvency (E) Task Force Dec. 6, 2009, Minutes

Receivership and Insolvency (E) Task Force Nov. 18, 2009, Conference Call – (Attachment One)

Life Insurance and Annuities (A) Committee March 19, 2008, Initial Request – (Attachment One-A)

Life Insurance and Annuities (A) Committee Oct. 6, 2009, Response – (Attachment One-B)

American Council of Life Insurers (ACLI) Nov. 12, 2009, Letter – (Attachment One-C)

W:\Dec09\TF\Rcvr and Insolv\Contents.doc

Receivership and Insolvency (E) Task Force
San Francisco, CA
December 6, 2009

The Receivership and Insolvency (E) Task Force met in San Francisco, CA, Dec. 6, 2009. The following Task Force members participated: Susan E. Voss, Chair, represented by Jim Mumford (IA); Karen Weldin-Stewart, Vice Chair (DE); Steve Poizner represented by Harry LeVine (CA); Thomas R. Sullivan represented by Jon Arsenault (CT); Kevin M. McCarty represented by Wayne Johnson (FL); Michael T. McRaith represented by Pat Hughes (IL); Carol Cutter represented by Connie Ridinger (IN); Sandy Praeger represented by Larry Bruning (KS); James J. Donelon represented by Arlene Knighten (LA); John M. Huff represented by Fred Heese (MO); Wayne Goodwin represented by Jeffrey Trendel (NC); Roger A. Seigny represented by Alex Feldvebel (NH); James J. Wrynn represented by Francesca Bliss (NY); Joseph Torti, III (RI); Leslie A. Newman represented by Mark Janquish (TN); Kent Michie represented by Neal Gooch (UT); and Mike Kreidler represented by Jim Odiorne (WA). Also participating were: Linda Sizemore (DE); Robin Wescott (FL); and Elizabeth Lovett (IN).

1. Heard a Legislative Update on Receivership Matters

Charles Richardson (Baker & Daniels LLP) gave a presentation on legislative updates related to receivership matters. Mr. Richardson said the result of federal developments and debates over financial services regulatory reforms might impact the future of insurance regulation or the federal government's impact on areas outside of the traditional area of tax. The result of the debate will inevitably have an impact on what will happen when an insurance company goes into insolvency and on consumer protections. The U.S. Treasury Department's Proposal for Systemic Financial Regulatory Reform was announced June 17. Two sections of the 88-page proposal focused on insurance; however, most of the proposal focused on banking reform, consumer protection and hedge funds derivatives. On the insurance front, the action relates to the proposed Office of National Insurance. Over time, Treasury will be looking to modernize and improve insurance regulation according to six guiding principles. As the goal of increased national uniformity is front and center, the Obama Administration has said that could happen through a federal charter or by effective action by the states. Mr. Richardson said the U.S. House of Representatives' Financial Services Committee has been active since the August recess. He said votes in the Committee occurred Dec. 2 on the Financial Stability Improvement Act of 2009 and the Federal Insurance Office Act of 2009. The financial stability bill is the systemic risk resolution authority bill, and it is where the action is so far regarding insurance holding companies and insurance company subsidiaries, as well as policyholder and consumer protections. The Federal Insurance Office Act of 2009 is less controversial and has moved into an information-gathering mode that is acceptable to most everyone, including the NAIC. It will give a federal focus to all things that are insurance. In an amendment offered just prior to the Committee vote, the proposed Federal Insurance Office was directed to conduct a study of insurance and submit it to Congress within one year of the new legislation becoming law. On Nov. 10, U.S. Sen. Christopher J. Dodd (D-CT) released a comprehensive proposal, called the Restoring American Financial Stability Act of 2009, that includes a new Federal Insurance Office within the U.S. Treasury Department, and started holding hearings. Sen. Dodd's bill calls for more bank regulatory consolidation and less authority going to the Federal Reserve. He said there are several key industry issues related to the systemic risk resolution authority and the Federal Insurance Office, including making sure insurance company insolvencies are handled by that states, that insurance company assets continue to be "walled off" for policyholders when an insurance company gets into trouble, and that Congress does not do anything to undermine the consumer protections provided by the guaranty associations. Industry and regulators remained concerned about how a resolution regime will be paid for and whether the large insurers will be assessed. On the questions of the Federal Insurance Office, it looks like the NAIC and other voices have gotten the proposal close to an acceptable information-gathering operation. He said recently there has been debate over the renewed efforts to repeal the insurance industry's limited antitrust immunity as a part of the health care reform debate. The repeal would impact the health insurers and medical malpractice providers. The House health care bill's inclusion of antitrust exemption repeal language and restoring the Federal Trade Commission's ability to conduct investigations of the insurance industry is something to be followed in the next few weeks. There will likely be a House floor vote next week. Then, these bills will likely be pushed into next year's agenda. While there were calls months ago for a federal regime to handle troubled companies, for now, the consensus is that current state-based mechanisms are adequate and holding up well.

Mr. Hughes said that, in the current systemic risk bill, there is the notion that insurance insolvencies could be included because they are part of the systemic risk. He asked whether there were discussions as to what extent would the systemic risk provisions for insolvencies of any significance yield that result. Mr. Richardson said the overriding principle is that insurance entities regulated by the states would get resolved by the state's existing regulatory mechanisms, but coordination would have

to occur. It is not the case that an insurance company in trouble would be resolved any differently than it is today. Insurance companies in trouble would be resolved with existing guaranty association protections.

Mr. Mumford asked if state legislators would have any influence on the federal legislation. Mr. Richardson said there would be conversation about all aspects of this for several more months and state legislators are influential. Mr. Mumford asked if the Federal Office of Insurance would have the authority to pull in state aspects of insurance. Mr. Richardson said the language that has been approved is narrow, limited to information-gathering and international relations, and the preemption language is narrow.

Dennis Herch (Massachusetts Mutual) asked for Mr. Richardson's opinion on the impact of the prefunding of assessments. Mr. Richardson said one of the key issues in this debate is whether this new resolution authority mechanism would be funded before or after the fact. As the legislation started in the U.S. House, the consensus was that it would be after the fact; however, the legislation has changed to a prefunded mechanism of \$100 billion. Systemically important firms with assets of \$50 billion or more are to be assessed to make that happen. The question of how insurance companies, whose resolution will be handled at the state level, would be handled and assessed, is at the heart of the debate. He said this issue would continue to be debated and is almost as controversial as the issue of setting up the consumer financial protection agency. Mr. Mumford asked if the prefunding assessments would affect the funding of the guaranty associations. Mr. Richardson said he did not think so, but the industry is trying to make sure there are credits against prefunded assessments for amounts that have to be paid into the guaranty fund system.

2. Discussed Receivership Matrix on Reinsurance Recoverable Solutions

David Vacca (NAIC) stated that the Task Force had a charge to identify and recommend possible solutions to address timing and collection concerns with reinsurance recoverables held by insurers in receivership. He said several comment letters were received on various topics, which have been summarized in a matrix. Mr. Mumford stated that the Task Force would meet in early 2010 to discuss possible solutions.

3. Adopted Nov. 18 Conference Call Minutes

Mr. Vacca said that during the interim conference call, the Task Force adopted the model *Guideline for Notice of Protection Provided by [State] Life and Health Insurance Guaranty Association*. Mr. Vacca provided the Task Force members with a copy of the guideline that will be presented for adoption to Financial Condition (E) Committee.

Ms. Bliss made a motion to adopt the Nov. 18 conference call minutes (Attachment One). Mr. Odiorne seconded the motion, and the motion carried unanimously.

5. Received Report of the Receivership Technology and Administrative (E) Working Group

Mr. Johnson reported that the Phase I data, which is demographic information, in the Global Receivership Information Database (GRID) is 90% – 95% complete. The Phase II data, which is financial information on the estates, is 30% – 40% complete. He noted that each state has a different level of resources available to get this information entered into the database for consumers. Mr. Johnson also stated that the GRID public access reports had received more than 14,000 hits this year. He stated that GRID is a convenient way for the states to answer claimants' questions. The Working Group also is working on enhancements to improve uniformity and to make it easier for the states to input data into GRID. The Receivership Technology and Administration (E) Working Group will hold a conference call in January 2010 to discuss these enhancements. He stated that the Uniform Data Standards (UDS) (E) Working Group held a webinar in June 2009 for receivers and guaranty funds on specific UDS records. There are new UDS records on which the Receivership Technology and Administration (E) Working Group has been requested to comment. Mr. Johnson made a motion to receive the report of the Receivership Technology and Administration (E) Working Group. Mr. Odiorne seconded the motion, and the motion carried unanimously.

6. Heard a Report of the IRMA Critical Elements Review Group

Mr. Vacca said the IRMA Critical Elements (E) Review Group has compiled a matrix of the elements of the *Insurer Receivership Model Act* (#555) to identify elements that would be considered controversial and non-controversial, as well as critical, important or useful. The Review Group has a few sections of the model left to review. Mr. Mumford emphasized that the Task Force is not going to debate the model again or get into a debate on the controversial elements. He said the goal is that, because time has passed since the passage of this model and some elements have been more beneficial than originally

thought, the Task Force could identify some elements in the model that might help the guaranty funds and receivers to better handle insolvencies.

Having no further business, the Receivership and Insolvency (E) Task Force adjourned.

W:\Dec09\TF\Rcvr and Insolv\12-receiver.doc

Draft: 12/1/09

Receivership and Insolvency (E) Task Force
Conference Call
November 18, 2009

The Receivership and Insolvency (E) Task Force met via conference call Nov. 18, 2009. The following Task Force members participated: Susan E. Voss, Chair, represented by Jim Mumford (IA); Karen Weldin-Stewart, Vice-Chair (DE); Jay Bradford represented by Jim Musgrove (AR); Steve Poizner represented by Harry Levine (CA); Thomas R. Sullivan represented by John Arsenault (CT); Kevin M. McCarty represented by Wayne Johnson (FL); Michael T. McRaith represented by Pat Hughes (IL); Carol Cutter represented by Cindy Donovan (IN); James J. Donelon represented by Arlene D. Knighten (LA); John M. Huff represented by Diane Garber (MO); Wayne Goodwin represented by Jeff Trendel (NC); James J. Wrynn represented by Joe Fritsch and Frankie Bliss (NY); Joel Ario represented by Joe DiMemmo (PA); Joseph Torti, III (RI); Leslie A. Newman represented by Mark Janquish (TN); Mike Geeslin represented by James Kennedy (TX); Kent Michie (UT); and Mike Kreidler represented by Gayle Pasero (WA).

1. Discuss Recommendations from Life Insurance and Annuities (A) Committee Relating to Section 19 of the *Life and Health Insurance Guaranty Association Model Act* (#520)

Mr. Mumford summarized the Task Force's initial request to the Life Insurance and Annuities (A) Committee dated March 19, 2008, as well as the response from the Committee (Attachment One-A and One-B). The response attempted to formulate a disclaimer template that would satisfy the requirements of Section 19 of the *Life and Health Insurance Guaranty Association Model Act* (#520) and promote uniformity among the states, which would be beneficial to consumers and guaranty fund associations. Mr. Mumford stated that added language in Version B involving a "free look" or a consumer's right to cancel the policy within a stated number of days, was the only difference between the two versions.

Commissioner Michie moved that the Task Force adopt Version A of the proposal and forward it to Financial Condition (E) Committee with the recommendation that it be considered as a model guideline and companion product to the model #520. The motion was seconded by Commissioner Weldin-Stewart.

Commissioner Michie stated he was in favor of Version A. He stated that the additional language was not pertinent to the rest of the disclosure and that similar language referring to cancellation provisions is found elsewhere in bold print on the policy itself.

Mr. DiMemmo stated that most lines are well protected by guaranty funds; however, long-term care coverage, with its sometimes unlimited policy benefits, might be significantly constrained by guaranty fund limitations. Mr. DiMemmo said that the additional language found in Version B would provide extra assurance and opportunity for policyholders to understand their rights.

Ms. Bliss wondered if language similar to that found in Version B and offered by the American Council of Life Insurers (ACLI) in a letter to the Task Force would be acceptable (Attachment One-C). Mr. Mumford stated that the language was referred to the NAIC's funded consumer representatives, who found it to be insufficient.

Mr. Musgrove stated that the "free look" language of Version B would be the fourth or fifth time in the policy that warns the consumer to carefully read their policy. Mr. Musgrove questioned whether one more reference was necessary.

Birny Birnbaum (Center for Economic Justice—CEJ) stated that the purpose of the disclosure is to inform the consumer of the availability of guaranty fund coverage. Mr. Birnbaum said the premise is to empower the consumer with knowledge, not just to utilize the guaranty fund when appropriate, but also to evaluate whether the policy is in their best interests. Mr. Birnbaum stated that the "free look" language is essential to be viewed in the context of the guaranty fund disclosure.

Wayne Mehlman (ACLI) commented that the purpose of the guaranty fund association notice was to inform consumers of the existence of the guaranty fund association and its coverage limits. Mr. Mehlman continued that the notice was not intended to include "free look" language or to advise consumers of their right to return the policy, as these are included in sections of the policy itself. By including the language on the notice template, it might actually be misleading to consumers, as the amount of coverage is determined by the consumer's state of residency at the time that the insurer becomes insolvent,

not the consumer's state of residency at the time the policy is purchased. Mr. Mehlman stated that the ACLI supported Version A.

Mr. Musgrove called the question. The motion carried, with Pennsylvania and Washington voting against the motion.

Having no further business, the Receivership and Insolvency (E) Task Force adjourned.

W:\Dec09\TF\Rcvr and Insolv\Attachment One -- RITF minutes 2009_11_18.doc

DATE: March 19, 2008

TO: Superintendent Eric Dinallo, Chair of the Life Insurance and Annuities (A) Committee

FROM: W. Franklin Martin, Jr., Chair of the Receivership Model Acts Revision Working Group of the Receivership and Insolvency (E) Task Force

SUBJECT: Request for Comment on How to Proceed with Revisions to Section 19: *Prohibited Advertisement of Insurance Guaranty Association Act in Insurance Sales; Notice to Policy Owners of the Life and Health Insurance Guaranty Association Model Act*

The Receivership Model Acts Revision Working Group of the Receivership and Insolvency (E) Task Force is currently working on a charge to draft potential revisions to the Life and Health Insurance Guaranty Association Model Act.

As Chair of the Working Group, I would like to request input from the A Committee on how the Working Group might proceed with revisions pertaining to Section 19: *Prohibited Advertisement of Insurance Guaranty Association Act in Insurance Sales; Notice to Policy Owners of the Model (Attachment One)*.

This section currently prevents life insurers or their agents from using the existence of the guaranty associations and their coverage as tools in the marketing of life insurance or annuities. The model does require insurers to provide some disclosures about the guaranty associations as part of the delivery of the policy documents.

Based on previous Working Group discussions, several different perspectives and schools of thought have been discussed from both regulators and interested parties that make it difficult to move in one direction with this Section. For example, the following perspectives need to be addressed:

- Would removal of the advertising prohibition create a moral hazard in that consumers could be encouraged to purchase insurance in unsound companies;
- Would disclosure requirements for limits of coverage for parties purchasing life and annuity related products be valuable data in helping consumers with their decisions to purchase life products;
- Should a combination of advertising prohibition and disclosure requirements exist;
- Should advertising and disclosure requirements be generally or specifically addressed given nuances that complicate the matter with coverage and limits; (e.g. complicated new products resembling securities; how investment risk factors into the calculation with certain equity index products; and/or how guaranteed rates of return could trigger rollback provisions)
- Should advertising and disclosure requirements mirror the methods used by banking and thrift regulators.

I appreciate the A Committee's consideration and comment on this topic. As I am sure you are aware, the NAIC requirements regarding the length of time for Model Law revision efforts is one year; thus, the A Committee's awareness of the time restrictions would be appreciated.

W:\Dec09\TF\Rcvr and Insolv\Attachment One-A RITF 2008 referral.doc

EXECUTIVE HEADQUARTERS	2301 McGee Street, Suite 800	Kansas City, MO 64108-2662	p 816 842 3600	f 816 783 8175
GOVERNMENT RELATIONS	444 N. Capitol Street, NW, Suite 701	Washington, DC 20001-1509	p 202 471 3990	f 202 471 3972
SECURITIES VALUATION OFFICE	48 Wall Street, 6th Floor	New York, NY 10005-2906	p 212 398 9000	f 212 382 4207

DATE: October 6, 2009

TO: Commissioner Susan E. Voss
Chair, Receivership and Insolvency (E) Task Force

FROM: Commissioner Thomas R. Sullivan
Chair, Life Insurance and Annuities (A) Committee

SUBJECT: Guaranty Association Disclosures referenced in Section 19: *Prohibited Advertisement of Insurance Guaranty Association Act in Insurance Sales; Notice to Policy Owners of the Life and Health Insurance Guaranty Association Model Act (Model #520)*

The Receivership Model Acts Revision Working Group of the Receivership and Insolvency (E) Task Force requested input from the Life Insurance and Annuities (A) Committee on March 19, 2008 regarding how to proceed with revisions to Section 19: *Prohibited Advertisement of Insurance Guaranty Association Act in Insurance Sales; Notice to Policy Owners* in the Life and Health Insurance Guaranty Association Model Act – Model #520 (Model Act). After careful consideration of the issues raised by the Receivership and Insolvency (E) Task Force in the March 19, 2008 request, the Annuity Disclosure (A) Working Group decided to draft a Guaranty Association Coverage Disclosure Template (Guaranty Association Disclosure) that updates the general notice on guaranty association coverage required to be provided under Section 19 of the Model Act. The Model Act requires insurers to provide some disclosures about guaranty associations as part of the delivery of the policy documents and the Guaranty Association Disclosure is intended to include the information enumerated in the Model Act.

An initial draft of the Guaranty Association Disclosure was drafted, at the Working Group's request, by the American Council of Life Insurers (ACLI) and the National Organization of Life & Health Insurance Guaranty Associations (NOLHGA). Subsequent revisions to the Guaranty Association Disclosure have been distributed and discussed by the Working Group on four separate conference calls.

The Working Group members and interested parties all agreed that the Guaranty Association Disclosure should be brief, written in easy to understand, consumer friendly language and should include all the information required under Section 19 of the Model Act. However, a difference of opinion emerged regarding the inclusion of information about the existence of a free-look period during which time a consumer is able to return their policy.

Those that oppose the inclusion of information about the free-look period argue that the Guaranty Association Disclosure ought to be limited to the information referenced in Section 19 of the Model Act about guaranty association coverage. They argue that the inclusion of information regarding the free-look period is irrelevant to the purpose of the disclosure, which is to inform consumers about guaranty associations and their limitations, and unnecessarily adds information that is disclosed to the consumer in more appropriate locations elsewhere in their policy documents.

The proponents of including a statement about the free-look period argue that the inclusion of information about the limits of guaranty association coverage is meaningless unless a consumer is able to act upon the information. Because the Guaranty Association Disclosure cannot be delivered prior to a consumer purchasing a policy, it is critical that a consumer understand that there is the free-look period during which time a consumer is able to act upon the information received in the disclosure and return the policy if they so choose.

The Life Insurance and Annuities (A) Committee decided that two versions of the Guaranty Association Disclosure should be returned to the Receivership and Insolvency (E) Task Force for consideration, leaving to the Task Force any decisions on whether information regarding a free-look period could be appropriately included in the Guaranty Association Disclosure.

EXECUTIVE HEADQUARTERS	2301 McGee Street, Suite 800	Kansas City, MO 64108-2662	p 816 842 3600	f 816 783 8175
GOVERNMENT RELATIONS	444 N. Capitol Street, NW, Suite 701	Washington, DC 20001-1509	p 202 471 3990	f 202 471 3972
SECURITIES VALUATION OFFICE	48 Wall Street, 6th Floor	New York, NY 10005-2906	p 212 398 9000	f 212 382 4207

Version A

Template

**NOTICE OF
PROTECTION PROVIDED BY
[STATE] LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION**

This notice provides a **brief summary** of the [STATE] Life and Health Insurance Guaranty Association (“the Association”) and the protection it provides for policyholders. This safety net was created under [STATE] law, which determines who and what is covered and the amounts of coverage.

The Association was established to provide protection in the unlikely event that your life, annuity or health insurance company becomes financially unable to meet its obligations and is taken over by the [STATE] Insurance Department. If this should happen, the Association will typically arrange to continue coverage and pay claims, in accordance with [STATE] law, with funding from assessments paid by other insurance companies.

The basic protections provided by the Association are:

- Life Insurance
 - [\$____,000] in death benefits
 - [\$____,000] in cash surrender or withdrawal values
- Health Insurance
 - [\$____,000] in hospital, medical and surgical insurance benefits
 - [\$____,000] in disability [income] insurance benefits
 - [\$____,000] in long-term care insurance benefits
 - [\$____,000] in other types of health insurance benefits
- Annuities
 - [\$____,000] in withdrawal and cash values

The maximum amount of protection for each individual, regardless of the number of policies or contracts, is [\$____,000]. Special rules may apply with regard to hospital, medical and surgical insurance benefits.

Note: Certain policies and contracts may not be covered or fully covered. For example, coverage does not extend to any portion(s) of a policy or contract that the insurer does not guarantee, such as certain investment additions to the account value of a variable life insurance policy or a variable annuity contract. There are also various residency requirements and other limitations under [STATE] law.

To learn more about the above protections, [as well as protections relating to group contracts or retirement plans,] please visit the Association’s website at [[www._____](#)], or contact:

[STATE] Life and Health Insurance Guaranty Association
[ADDRESS]
[PHONE NUMBER]

[STATE] Department of Insurance
[ADDRESS]
[PHONE NUMBER]

Insurance companies and agents are not allowed by [STATE] law to use the existence of the Association or its coverage to encourage you to purchase any form of insurance. When selecting an insurance company, you should not rely on Association coverage. If there is any inconsistency between this notice and [STATE] law, then [STATE] law will control.

Version B

Template

**NOTICE OF
PROTECTION PROVIDED BY
[STATE] LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION**

This notice provides a **brief summary** of the [STATE] Life and Health Insurance Guaranty Association (“the Association”) and the protection it provides for policyholders. This safety net was created under [STATE] law, which determines who and what is covered and the amounts of coverage.

The Association was established to provide protection in the unlikely event that your life, annuity or health insurance company becomes financially unable to meet its obligations and is taken over by the [STATE] Insurance Department. If this should happen, the Association will typically arrange to continue coverage and pay claims, in accordance with [STATE] law, with funding from assessments paid by other insurance companies.

The basic protections provided by the Association are:

- Life Insurance
 - [\$____,000] in death benefits
 - [\$____,000] in cash surrender or withdrawal values
- Health Insurance
 - [\$____,000] in hospital, medical and surgical insurance benefits
 - [\$____,000] in disability [income] insurance benefits
 - [\$____,000] in long-term care insurance benefits
 - [\$____,000] in other types of health insurance benefits
- Annuities
 - [\$____,000] in withdrawal and cash values

The maximum amount of protection for each individual, regardless of the number of policies or contracts, is [\$____,000]. Special rules may apply with regard to hospital, medical and surgical insurance benefits.

Note: Certain policies and contracts may not be covered or fully covered. For example, coverage does not extend to any portion(s) of a policy or contract that the insurer does not guarantee, such as certain investment additions to the account value of a variable life insurance policy or a variable annuity contract. There are also various residency requirements and other limitations under [STATE] law.

To learn more about the above protections, [as well as protections relating to group contracts or retirement plans,] please visit the Association’s website at [www.____], or contact:

[STATE] Life and Health Insurance Guaranty Association
[ADDRESS]
[PHONE NUMBER]

[STATE] Department of Insurance
[ADDRESS]
[PHONE NUMBER]

Insurance companies and agents are not allowed by [STATE] law to use the existence of the Association or its coverage to encourage you to purchase any form of insurance. When selecting an insurance company, you should not rely on Association coverage. If there is any inconsistency between this notice and [STATE] law, then [STATE] law will control.

[Optional Paragraph:]

You have the right to cancel your policy within a certain number of days as stated in your policy. If, after reviewing this notice, you decide that this policy is not right for you, you can cancel the policy within the time period stated in your policy and purchase another policy that better fits your needs. To cancel your policy, contact the insurance company at:

[Phone] [Internet] [Mail]

W:\Dec09\TF\Rcvr and Insolv\Attachment One-B Memo to RITF re GA disclosure w attach.doc



Wayne Mehlman
Counsel, Insurance Regulation
(202) 624-2135 t (202) 572-4804 f
waynemehlman@acli.com

November 12, 2009

Receivership and Insolvency (E) Task Force
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

RE: Guaranty Association Disclosure Notice Template

Members of the Receivership and Insolvency Task Force:

The American Council of Life Insurers ("ACLI") appreciates this opportunity to comment on the two versions of a guaranty association disclosure notice template that have been referred to your Task Force for consideration by the Life Insurance and Annuities (A) Committee. The ACLI is the primary trade association of the life insurance industry, representing 340 member companies that account for 93% of the industry's total assets in the United States, 94% of life insurance premiums and 94% of annuity considerations.

We have enjoyed working with the Annuity Disclosure Working Group during the past few months to help develop a template that is both concise and consumer-friendly and could be presented to and adopted by the states in order to achieve greater uniformity.

Unfortunately, a difference of opinion has emerged among various Working Group members and interested parties as to whether information relating to a state's "free look" period and the ability of a consumer to cancel his or her policy or contract within a certain number of days should be included in the template.

The ACLI strongly opposes the addition of any "free look" period language to the template for the following reasons:

- Language that refers or relates to a state's "free-look" period is not relevant to, and goes beyond the intended scope of, a disclosure notice about guaranty association coverage.
- A consumer's right to a "free-look" period is already clearly displayed on the front page of all policies and contracts.
- Adding "free-look" period language to the notice is inconsistent with the requirements of Section 19.C of the *Life and Health Insurance Guaranty Association Model Act* (the "Model").
- Adding such language to a guaranty association notice would invite a consumer to consider returning his or her policy or contract based solely on his or her state's guaranty association coverage.
- Language relating to contract rights and obligations (including a "free-look" period) should be limited to the actual policy or contract, and should not be added to a completely separate and unrelated guaranty association disclosure notice.

American Council of Life Insurers
101 Constitution Avenue, NW, Washington, DC 20001-2133
www.acli.com

We, therefore, strongly oppose Version B of the template (which contains optional "free look" period language) and strongly support Version A (which does not contain any "free look" period language).

At Jim Mumford's request, the ACLI and the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA) recently offered alternative "free look" period language in an attempt to try to reach a compromise on the concept of whether to include any "free look" period language in the template, but unfortunately, we were unable to reach agreement. The language we offered is as follows: *"Optional sentence - Your policy or contract contains important provisions, including time limits relating to your rights to review the policy or contract."*

Once the template is finalized, we strongly prefer that it take the form of a guideline, either free-standing or as one relating to the Model. The Model itself should not be reopened in order to incorporate the template.

Thanks again for this opportunity to comment, and we look forward to working with the Task Force to finalize the template.

Sincerely,

A handwritten signature in black ink that reads "Wayne A. Mehlman". The signature is written in a cursive, flowing style.

Wayne A. Mehlman
Counsel, Insurance Regulation

cc: Roger Sevigny, NAIC President
Therese M. Vaughn, NAIC Chief Executive Officer
David Vacca, Assistant Director, Insurance Analysis and Information Services Department