Consumer Federation of America | CENTER FOR ECONOMIC JUSTICE

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CONSUMER ALERT!

CONSUMER GROUPS ADVISE CONSUMERS TO CHECK THEIR INSURERS' FINANCIAL CONDITION

-Groups Applaud New York State Insurance Superintendent Dinallo For Helping Consumers-

The Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ) advise consumers to check the financial condition of their insurance companies.

In recent weeks, insurance commissioners in a number of states have allowed some insurance companies to alter the way the insurers report the capital, assets and reserves that guarantee that consumers' claims and benefits under the insurance policies will be paid. Under some of these "permitted practices," insurers can, for example, now count more expected future tax credits ("deferred tax assets") as part of their required capital – even though these deferred tax assets do not represent real money available to pay claims and benefits.

"Less than three weeks ago, the state insurance commissioners, through the National Association of Insurance Commissioners, voted NOT to allow insurance companies to lower the dollars of consumer protection by shifting those dollars out of reserves into capital," said J. Robert Hunter, director of insurance for CFA. "But, in the last few weeks, many of these commissioners – in Iowa, Connecticut, Ohio and Indiana, for example, have allowed insurers to use rules like those that were voted down by the NAIC."

These states have allowed the weakening of the consumer financial protections for some insurance companies through a process known as "permitted practices." An insurance company must choose which state is its home base – known as the state of domicile – and the insurance commissioner in the domiciliary state is the state granting the permitted practices.

"The permitted practices granted by some states to some insurers has resulted in significant changes in the minimum amount of money insurers must hold – assets that can be quickly used to pay claims or benefits," said Birny Birnbaum, executive director of CEJ. "Some insurers have been granted significant dollar shifts that might confuse consumers if they were not aware of the impact to the insurer they were either considering for purchase or maintenance of a life insurance or annuity product," Birnbaum said.

WHAT SHOULD CONSUMERS DO?

Consumers should find out if their insurance company has gotten the so-called "capital and reserve relief." The problem is that state insurance regulators have not provided the information to consumers.

New York Superintendent Helps Consumers

Consumers need transparency to sort through just what is happening to the life insurer they are studying, without the confusion of altered (and inadequately studied) accounting rules.

The New York Insurance Department responded to this vital need on February 19, 2009 when they required that insurers from other states reveal the impact of these permitted practices from other states. New York will require the insurers to show the data in a New York Supplement to the 2008 Annual Statement filed in New York.

"The New York Insurance Department and its Commissioner, Eric Dinallo, deserve praise from consumers across the nation for helping them see through a maze of accounting changes and make better decisions on purchase and maintenance of life and annuity policies," said Hunter, the CFA insurance director.

Consumers in all states should review not only the Annual Statement filed in their home state, but get the Annual Statement from New York as well so that the consumer can compare the 2007 data they reviewed last year with the 2008 data as filed in New York. In that way, consumers will be able to compare the insurer on an "apples to apples" basis without the distortion introduced by actions of several states.

We do note that many insurers do not do business in New York and a consumer might not be able to determine, in that instance, if a permitted practice is adversely impacting their insurer. If your insurer is not doing business in New York, we encourage you to request from your own state's insurance commissioner the answers to these questions:

1. Has my insurer (give name) been granted a change in accounting that has the effect of increasing their capital?
2. If the answer is "yes" what is the impact on my insurer's balance sheet of such a change in accounting rules?

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CFA is a non-profit association of some 300 organizations that, since 1968, has sought to advance the consumer interest through research, advocacy and education.

CEJ is a non-profit that advocates on behalf of low-income and minority consumers on insurance, credit and utility matters.