



Consumer Federation of America



CENTER FOR ECONOMIC JUSTICE

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INSURANCE REGULATORS WARNED NOT TO WEAKEN FINANCIAL STRENGTH OF LIFE INSURANCE

Consumer Groups Ask NAIC to Reject Pressure from Insurers

Consumer groups have urged the National Association of Insurance Commissioners (NAIC) to reject life insurance industry proposals to dramatically cut the amount of money that life insurers must set aside to pay benefits that have been promised to policyholders. In a letter to the NAIC, the Consumer Federation of America (CFA) and the Center for Economic Justice (CEJ) strongly opposed the proposals to weaken capital and reserve requirements for life insurers. Reserves are the amount held by insurers to pay life insurance and annuity benefits.

“The major investment banks Bear Stearns and Lehman Brothers failed because of weak capital standards,” said J. Robert Hunter, Director of Insurance for CFA and former Texas Insurance Commissioner. “When insurance giant AIG failed, the NAIC and individual state insurance regulators were quick to point out that, because of stronger capital and reserve requirements, AIG’s insurance units were financially sound. Instead, AIG was brought down by unregulated holding company activity,” he said. “It is simply incomprehensible that state regulators now want to weaken the very standards they trumpeted just a few short weeks ago. State regulators should be ashamed of themselves for putting industry interests so far ahead of the interests of consumers,” said Hunter.

“These proposals should be thoroughly vetted with the public before state insurance regulators even consider adopting them, yet they are rushing to adopt lower standards in a fraction of the time normally used for such actions,” said Birny Birnbaum, Executive Director of CEJ and former Chief Economist of the Texas Insurance Department. “To make a bad situation worse, virtually all the discussions between industry and regulators and among regulators have been in private, with no notice or opportunity for the public to participate. This entire project reeks of a secret deal between regulators and the industry they regulate,” said Birnbaum.

“It is an insult to America’s hard-pressed consumers for the NAIC to jump through hoops to take emergency action on a request by industry for weakened capital and reserve requirements after the NAIC has refused to help consumers suffering from the financial and economic meltdown,” said Birnbaum. “Despite huge increases in unemployment, mortgage meltdowns and other financial stress on consumers, the NAIC has refused to rein in the abuses of insurance credit scoring during this hard economic period, with the result that, as credit scores deteriorate causing more and more consumers’ insurance prices to rise, these consumers are forced to go uninsured.”

In their comment letter, CFA and CEJ pointed out that the regulators had provided no explanation for why the changes were needed, why they had to be done on an emergency basis, and why rating agencies would believe that these changes would make life insurers stronger financially. The groups demanded that the NAIC hold a public meeting at which regulators answer key questions about the proposals, including:

- Why are the actions to weaken capital and reserve requirements necessary? Are so many life insurers in a very weak financial condition that massive insolvency is likely without the proposed actions?
- Why must the NAIC act on the industry proposals in an emergency manner?
- What are the results of regulator analysis regarding the impact on these proposals on stated versus meaningful capital, surplus, reserves and risk-based capital ratios for the industry generally, and for individual companies most affected by the changes?
- How will the proposals, if adopted, work to address the alleged problems that spurred the proposals?
- Why do regulators believe that rating agencies will view any or all of these proposed actions as strengthening insurer capital and reserves and not just as cosmetic?
- Will regulators themselves accept the new results as valid or cosmetic when deciding if an insurer requires regulatory action because of the risk of insolvency?
- What is the mechanism by which the proposals, if adopted by the NAIC, become adopted by the states? Will any of the proposed actions, if adopted by the NAIC, be automatically imposed on states because of state laws referencing NAIC work products or for any other reason?
- How will consumers be informed of the weaker protections they will have in the future? Will the NAIC require life insurers to transparently show the reserves, capital and other important financial data in a way that clearly lets consumers know what has happened? For instance, will regulators disclose these data for all life insurers both before and after the proposed changes are made so consumers will see the impact on the specific policy they own?
- Why would state regulators, who are considering and acting upon proposals that will have the effect of law in their states, NOT be subject to their state's open meetings and public records laws during the consideration of these proposals?
- How will the proposals, if adopted, affect policyholders overall and especially the policyholders of individual companies that will be able to reduce the capital and reserves they have on hand?

The CFA/CEJ letter with attachments is available here:
http://www.consumerfed.org/pdfs/CFA_CEJ_capital_relief.pdf

A letter with similar concerns from Joseph M. Belth, professor emeritus in the Kelly School of Business at Indiana University and editor of the *Insurance Forum* is available here:
<http://www.consumerfed.org/pdfs/Belth.pdf>

CFA is a non-profit association of 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.