LIFE INSURANCE (C3) SUBCOMMITTEE

Reference:
1970 Proc. Vol. IIB p. 1179
1971 Proc. Vol. I p. 499
1971 Proc. Vol. II p. 530

J. Richard Barnes, Chairman, Colorado
Thomas D. O'Malley, Vice Chairman, Florida

AGENDA

1. Receive report of the Commissioner's Task Force on Premium Financing.
2. Receive report of the Industry Task Force on Policy Loan Interest Rates.
3. Development of an NAIC Model Regulation for Price Illustrations of Life Insurance Products.
4. Any other matters submitted for consideration.

The (C3) Life Insurance Subcommittee meeting was held in the East Ballroom of the Fontainebleau Hotel at 3:30 p.m. November 30, 1971. All members of the Subcommittee except one were present.

1 — Report of the Commissioner's Task Force on Premium Financing: Superintendent McCaskill presented the final work product of this committee. A copy, as amended, is attached hereto and made a part of this report. Comments were received from industry representatives recommending that it be considered as model guidelines rather than model regulations.

In executive session it was unanimously decided to recommend its use as either regulation or guideline, depending on the situation in each individual state.

2 — Report of the Industry Task Force on Policy Loan Interest Rates: Manuel M. Gorman, representing American Life Convention and Life Insurance Association of America, summarized the report previously provided to each of the States by the industry committee. He also presented a draft of a recommended model bill for implementing the Committee's recommendations that policy loan interest rates be permitted to vary with the change in economic conditions. It provides for a ceiling to be established with not more than one change per year, any change not exceeding one per cent per year. Mr. Gorman also presented an eight page summary of annotations to the proposed model bill. A copy of the model bill is attached.

A letter from Commissioner Joaquin G. Blaz of Guam was read which recommended that while considering flexibility in interest rates on loans, Commissioners should also consider requiring the companies to adjust interest rates on dividends left to accumulate and death benefits left under settlement options to reflect increasing interest trends. Commissioner Blaz also recommended nation-wide restriction on maximum compensation to agents.

In executive session the committee unanimously decided to appoint a Technical Task Force,

made up of department staff personnel, to study the industry report and make recommendations to this Committee in June 1972. Recommendations of members for this Task Force are solicited from the various Commissioners by the (C3) Chairman.

3 — Development of an NAIC Model Regulation for Price Illustrations of Life Insurance Products: Commissioner DuRose of Wisconsin who had requested that this item be placed on the Agenda, reported that he had drafted a proposed Wisconsin ruling and held hearings on this subject. He proposed the interest adjustment method of price illustrations. He also gave a comprehensive background of the problem and reported on various studies and comments which have been made recently. He urged action to abandon the traditional net cost method and the promulgation of a model regulation for price illustration.

Mr. Joe Mintz, an independent agent from Dallas, Texas, made a presentation in support of the same concept.

In executive session the Committee unanimously agreed to appoint a Technical Task Force composed of staff members from various insurance departments, not limited to those states represented on the (C3) Committee, to study the subject further and submit a report. This special Task Force may request the (C3) Committee to appoint an industry Task Force to assist them.

4 — Proposed change in valuation and non-forfeiture laws - annuities: John M. Bragg, Vice President and Actuary of Life of Georgia and Chairman of the Joint Actuarial Committee of LIAA and ALC, gave a summary of the study and report of his Committee which recommends new annuity tables and changes in the laws pertaining to interest assumptions on annuities. In essence, it recommended an increase in interest rates and adoption of appropriate 1971 annuity tables.

Robert Link, Vice President and Actuary of the Equitable Life Assurance Society, emphasized the need to change interest assumptions and adopt new tables, particularly as concerns group annuities. He recommended adoption of the LIAA-ALC recommendations.

Dan Coler, a private consultant in Florida, urged caution to be sure that any action did not become inflationary. Mr. Bragg pointed out that the upward change of interest assumptions is deflationary as it would decrease premium rates.

Various department personnel recommended careful study before taking further action.

In executive session it was unanimously agreed that LIAA-ALC should be requested to furnish a copy of the study and the tables, and recommendations to each State. Each State is requested to have their technical personnel study the proposals and submit written recommendations to the (C3) Subcommittee not later than May 1, 1972. A Technical Task Force is to be appointed from department personnel to analyze these reports and make further recommendations to this Subcommittee. Recommendations for membership on that Technical Task Force are solicited.

5 — Other Matters - Scott Christie of Indiana reported on a recommendation by Zone 4 that a Task Force be appointed to study illustrations used in selling equity insurance and leased life insurance, as well as replacement of insurance with non-similar products.

In executive session the Committee voted to delegate this study to Zone 4 and request a report at their early convenience.

Hon. J. Richard Barnes, Chairman, Colorado; Hon. Thomas D. O'Malley, Vice-Chairman, Florida; Hon. Cornelius C. Bateson, Oregon; Hon. John G. Bookout, Alabama; Hon. Robert L. Clifford, New Jersey; Hon. Walter D. Davis, Mississippi; Hon. Everette S. Francis, Virginia; Hon. Edwin S. Lanier, North Carolina; Hon. William Y. McCaskill, Missouri; Hon. Ned Price, Texas; Hon. Oscar H. Ritz, Indiana; Hon. John G. Ryan, Massachusetts.

REPORT OF THE TASK FORCE ON PREMIUM FINANCING OF LIFE INSURANCE TO COLLEGE STUDENTS

Commissioner William Y. McCaskill, Missouri - Chairman
Commissioner Cornelius C. Bateson, Oregon
Commissioner Oscar H. Ritz, Indiana

The Task Force met at 9:00 a.m. in the East Ballroom of the Fontainebleau Hotel in Miami Beach, Florida and approved the final work paper for submission to the (C3) Subcommittee.

The recommendation that the work product of the Task Force be in the form of a guideline rather than a regulation was taken under consideration. It was the concensus of the members of the Task Force that the decision on this matter be made by the (C3) Committee.

Hon. William Y. McCaskill, Chairman; Hon. Cornelius C. Bateson; Hon. Oscar H. Ritz.

REVISED REPORT OF THE TASK FORCE ON REGULATION OR GUIDELINES FOR THE PREMIUM FINANCING OF LIFE INSURANCE TO COLLEGE STUDENTS

PROPOSED MODEL REGULATION OR GUIDELINES PREMIUM FINANCING OF LIFE INSURANCE FOR COLLEGE STUDENTS

This regulation or guideline applies to all admitted companies and agents that are offering life insurance plans to college students which involve the use of promissory notes as a method of partial or complete premium payment.

1. If the insured is a minor the note must be co-signed by the insured's parent, legal guardian, or adult spouse.

   NOTE: This provision may be unnecessary in jurisdictions which have statutes governing the enforcement of notes executed by minors.

2. The fact that a promissory note is to be executed by the insured must be set forth in the application in the "Remarks" section on the application preceding the applicant's signature, showing the amount of the note, the true rate of interest, the amount of any down payment made at the time of taking the application and, if applicable, the fact that the note becomes due and payable in full upon any default in premium payment. A down payment in

cash of at least ten dollars (10.00) must be paid by the insured at the time the application is signed.

3. If a note is taken to finance less than the full first year premium, the balance must be paid by the applicant at the time the application is taken, and the premium payment frequency must be set forth in the application as a part of the disclosure required by Item 2 above.

4. The down payment must be paid by the applicant in cash and any payment, whether called a loan or denominated otherwise, directly or indirectly, by the agent, under any circumstances, shall be construed to be a rebate or special inducement.

5. If the payee of the note is an insurer or any affiliate thereof, except the agent, a copy of the note must be delivered with the policy at time of policy issuance. If the payee is the agent, a copy of the note must be delivered with policy at the time of policy delivery. Delivery must be in person by a company representative. In the event that personal delivery is for good reason impractical, delivery may be made by use of the United States Certified Mail, Return Receipt Requested, and delivery to addressee only.

6. If the company or any affiliate thereof, except the agent, be the payee, and there is a transfer of the note, the company shall notify the note maker and all co-makers regarding such transfer after it occurs, inviting any questions relative to the note, or the policy which is used as collateral security for the note. Such notice may be given by the purchaser, transferee, or assignee of the note. If the agent, or a party other than the company or any affiliate thereof, be the payee, the agent shall bear the duty of notice as in this section provided and shall furnish the company with a copy of said notice.

7. Upon delivery, a policy receipt or acceptance form must be executed which recites that:

   (a) The face amount, premium payment frequency and periodic premium amount of the policy are as represented at the time of sale; and

   (b) The insured has examined the "Remarks" section on the application and acknowledges and understands the provisions and obligations of the financial indebtedness that he has incurred.

   It shall be the responsibility of the company representative to read the policy receipt or acceptance form to the insured. In the event that delivery is made by use of the United States Mail as in Item 5 above, the company shall request the insured to sign and return the policy receipt or acceptance form.

8. If the payee or intended assignee of the note is the insurer or any affiliate thereof, except the agent, the receipt or acceptance form (outlined in Item 7 above) should be registered by number, (preferably corresponding to policy number) in the home office.

   (a) This receipt or acceptance form must be sent with the policy at time of delivery only.

   (b) These receipts or acceptance forms shall not be made available as supplies to field representative or agents, but must be furnished from the home office in transmittal of the policy to the writing agent.

9. If the payee or intended assignee of the note is the insurer or any affiliate thereof, except the agent, the promissory note should not be sold or otherwise transferred by the payee, nor any commissions on the sale paid to the agent until the form outlined in Item 7 above has been received in the home office of the company.

10. The maximum amount of any financing arrangement which can be executed in connection with such a transaction will be in accordance with reasonable and sound underwriting practices as determined by the management of the company. It is the recommendation of this office that a financed program should not be sold to a student on a basis where premiums would come due prior to the anticipated date of graduation by the insured.

NOTE: The inclusion of Item 11 is optional; states with replacement regulations may find it unnecessary.

11. It is the responsibility of the agent to determine if an application with payment is pending with any other company and/or if replacement is intended. The disturbing of any permanent insurance, including the partial or total replacement of any provisions of an existing policy for the purpose of placing additional insurance, will be cause for investigation and review by this Department.

12. A. Agents or field representatives of the company who are licensed by this State to represent the company as licensed life agents may not represent, refer to or hold themselves out to the public under any special title or as representatives of any special policy or company division unless otherwise identified as a licensed agent of the company for which they hold a license.

B. "No person other than a licensed agent shall participate in the solicitation, negotiation, or effectuation of life insurance with respect to college students in this State. Solicitation includes, but is not limited to, situations where a licensed agent compensates or agrees to compensate certain professors, students, or administrative personnel for aiding him in the solicitation of prospects."

Item B is optional. It may be unnecessary depending on laws of jurisdiction involved.

13. "If it is determined that the company or agent has violated this Regulation or guideline, or if it is determined that there has been a material misrepresentation of the contract, this Office will expect and fully appreciate the cooperation of the company and its agents in bringing such matters to a satisfactory conclusion as expeditiously as possible."

14. If a sales presentation is made for an amount of insurance greater than that sold, then an appropriate summary must be given to the insured for the exact amount of policy sold at time of signing the application.

15. If the policy provides that a pure endowment will be paid before final maturity of the policy, the face of the policy must set forth periodic gross premium for the pure endowment benefit and the number of such premium payments.

16. (Optional) All sales material, notes and other forms prepared by the insurer and used in the sale of such programs must be submitted in duplicate with duplicate letters of transmittal at the time that the policy form is submitted for approval. If found acceptable, the duplicate copy of such materials will be returned as "filed." No such material may be used until so "filed" with the Department. No materials may be added to amended unless first submitted and found acceptable as outlined above.

17. Companies will be responsible for notifying their agent of the requirements set forth in this regulation.

PROPOSED
MODEL POLICY LOAN INTEREST RATE BILL

Submitted by the American Life Convention and the Life Insurance Association of America

Enacting Clause (1)

Section 1. Delete the reference in Section _____ to rate of interest. (2)

Section 2. A policy shall contain(3) either, but not both, of the following policy loan interest rate provisions: (1) a provision that a policy loan shall bear interest at a specified rate [not exceeding ___%(4) per annum], or (2) a provision that all loans under the policy, including outstanding loans(5), shall bear interest at a variable rate [not exceeding ____%(6) per annum], specified from time to time by the insurer. The effective date of any change in such variable rate shall be not less than one year(7) after the effective date of the establishment of the previous rate. If the interest rate is increased, the amount of such increase shall not exceed 1%(8) per annum. With respect to policies providing for a variable rate, the insurer shall, (a) when a loan is made and when notification of interest due is furnished, give notice of the variable rate currently effective, (b) as to any loans outstanding 40 days before the effective date of any increase in the variable rate, give notice of any such increase at least 30 days before such effective date, and (c) as to any loans made during the 40 days before the effective date of the increase, give notice of such increase when the loan is made. Every such notice shall be given to the policy owner and any assignee as shown on the records of the insurer at its home office.(9)

Section 3. The loan value of the policy shall be at least equal to the cash surrender value at the end of the then-current policy year, and the insurer may deduct, either from such loan value or from the proceeds of the loan, any existing indebtedness not already deducted in determining such cash surrender value including any interest then accrued but not due, any unpaid balance of the premium for the current policy year, and any interest which may be allowable on the loan to the end of the current policy year.(10)

Section 4. This Act shall take effect _____

November 24, 1971

Annotations to Model Policy Loan Interest Rate Bill (the "Model Bill")

A. General Discussion

These Annotations, prepared by the Subcommittee on the Model Policy Loan Interest Bill, [1] elaborate on various aspects of the proposed language of the Model Bill. A few initial general comments precede discussion of particular provisions contained in the bill.

The Model Bill was developed based on recommendations of the Joint Policy Loan Study Committee [2] contained in their report dated July, 1971. This report sets forth in considerable detail the considerations which led to the recommendation that insurers be allowed to issue policies containing flexible as well as fixed policy loan interest rate provisions.

While this bill is a "model" rather than a "uniform" bill, the importance of substantial uniformity bears emphasis. It cannot be too strongly urged that any material variation contemplated (particularly in respect to the mandatory delay period between interest rate changes and the maximum permitted rate change) be most carefully considered as to its impact on insurers issuing policies in more than one jurisdiction.

The effective date which should be specified for legislation based on the Model Bill, generally speaking, will not be critical inasmuch as the present pattern of incorporating fixed policy loan interest rate provisions will be continued. Some delay, occasioned particularly by the necessity that insurers develop appropriate internal systems and obtain approval of policy forms, may be anticipated before policies incorporating variable rate provisions may be issued. However, there appears to be no reason not to allow insurers to proceed at their own discretion.

B. Specific Discussion

The following sections key to the numbers set forth in the copy of the Model Bill preceding these annotations:

(1) Jurisdictions have characteristic enacting clauses which accompany all proposed legislation, for instance, in New York, the following words precede all acts of the legislature: "The People of the State of New York, represented in Senate and Assembly, do enact as follows:" Appropriate language in the particular jurisdiction involved should be employed.

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1. A Subcommittee of the Joint Legislative Committee of the American Life Convention ("ALC") and the Life Insurance Association of America ("LIAA").

2. A Joint Committee of the ALC and the LIAA. Copies of the report of this Committee may be obtained from the New York office of the LIAA.

(2) The insurance laws of a majority of jurisdictions now expressly require life insurance policies to include a provision for policy loans at a specified rate. The relevant statutory language tends to be quite uniform, characteristically specifying that all loans shall be made " . . . at a specified rate of interest . . . " or " . . . at a specified rate of interest not exceeding [ ] percent . . . " In these jurisdictions, this phrase may simply be deleted and Section 2 of the bill inserted immediately following the present section relating to policy loans.

In some jurisdictions, it may be possible at this time to write policies containing a variable policy loan interest rate provision, although only in Nevada, once its new Insurance Code becomes effective on January 1, 1972, will a variable policy loan interest rate be expressly authorized by law. This result may be possible due either to very broad statutory language or to a complete absence of a section establishing the characteristics of policy loans. However, serious consideration should be given in these jurisdictions to the question whether more specific policy loan legislation of the nature discussed in the preceding paragraph (as amended by this Model Bill) should not be adopted. This course would serve to promote uniformity generally and would insure that the jurisdiction in question will approve policies containing each of the policy loan interest rate options contemplated by this bill.

(3) While an insurer would be required to include one or the other provision, it would be expressly precluded from issuing a policy which contains both a fixed and a variable policy loan interest rate provision. However, nothing contained in the bill is intended to prevent an insurer from issuing all policies with a variable rate, all policies with a flexible rate, or some combination of each.

(4) An appropriate maximum on policy loan interest rates guaranteed in the policy should be specified in each jurisdiction. This would be a continuation of the pattern now required by many insurance laws. It is felt, however, that the maximums established in many jurisdictions are unrealistically low in view of economic conditions, particularly the generally high market interest rates, which have existed in recent years. For a detailed discussion of the effects on the insurer, on the policyholder and on the economy generally of fixed policy loan interest rates which may be below prevailing market interest rates, reference is made to the report of the ALC-LIAA Joint Policy Loan Study Committee, referred to above.

Most of the same considerations apply in establishing policy loan interest rate maximums as apply in setting usury law maximums. However, it is felt that it is wholly equitable to both policyholders and insurers, and that the purposes of the Model Bill will be accomplished, if policy loan interest rate maximums are keyed to, but are set somewhat below, usury limits in most instances. The following table is suggested for use in converting the appropriate usury maximum to a policy loan interest rate maximum.

Usury Rate Under State Law	Maximum Policy Loan Interest Rate
No usury rate	8%
Below 8%	The usury rate
At least 8% but less than 8-1/2%	8%
At least 8-1/2% but less than 9-1/4%	8-1/4%
At least 9-1/4% but less than 10-1/4%	8-1/2%
At least 10-1/4% but less than 11-1/2%	8-3/4%
At least 11-1/2% but less than 13%	9%
At least 13% but less than 14-3/4%%	9-1/4%
At least 14-3/4% but less than 16-3/4%	9-1/2%
At least 16-3/4% but less than 19%	9-3/4%
19% or greater	10%

Whether this conversion table is used, or whether some other technique is used to establish the policy loan interest rate maximum, it is recommended that an express numerical maximum rate be included rather than referring to the particular jurisdiction's usury law. The latter technique may create confusion as to which of several limits, depending frequently on the size of the loan or on the nature of the borrower, is applicable.

(5) One of the effects of allowing the insurer to vary the policy loan interest rate from time to time on outstanding loans is that two different applicable interest rates during the policy year or other interest payment period may result.

(6) The considerations relating to maximum fixed policy loan interest rates, discussed in note (4) above, are equally relevant to interest rate maximums relating to policies incorporating variable policy loan interest rate provisions. Again, it is recommended that a numerical maximum rate be used rather than a cross-reference made to the appropriate usury law. Use of the same conversion table from usury rate maximums is also suggested. It is noted, however, that a distinction may be made in the interest rate maximums allowable in fixed and in variable policy loan interest rate schemes, with a higher maximum rate being set in respect to the variable rate. Accordingly, it may be desirable to use a modified conversion table or to insert the appropriate usury rate figure without change.

(7) Events in recent years have demonstrated the volatility of market interest rates. Precluding an insurer from changing its rates more often than once each twelve months will occasionally result in some discrepancy between its effective policy loan interest rate and prevailing market interest rates. It is believed, however, that the over-all purposes of the Model Bill may best be accomplished by imposing limitations which slow the frequency and restrict the amount of changes which may be made in policy loan interest rates.

(8) The limitation that any increase in policy loan interest rate may not exceed 1% has been included for several reasons. Inasmuch as the applicable interest rate may be varied during the policy year or other interest payment period, it will usually be impossible for a borrower to know his precise interest charge at the beginning of the applicable interest payment period. The 1% limitation assures the borrower that variations in his costs will be infrequent and moderate. This provision, coupled with the 30 day notice of rate increase provision (discussed in note (9), below), is intended to protect the borrower.

This limitation provides an additional feature which is needed in situations involving maximum policy loans. The problem may best be illustrated by posing a question as to how the maximum amount which may be borrowed on a policy may be calculated when the applicable interest rate may vary. By imposing a 1% limit on any increase, a "safety margin" may be created which, if withheld from the loan proceeds, will insure that an increase in the applicable rate will not exhaust policy cash values prior to the next policy anniversary. The changes contemplated by section 3 of this Model Bill, discussed in note (10), below, are designed to assure the policy owners this safety margin in maximum loan situations.

It is important to note that provision for a safety margin creates a technique which allows use of variable policy loan interest rates in maximum loan situations but does not ultimately affect the cash value of a policy. The amount of cash value available to a policy owner upon surrender or to be used as required by non-forfeiture provisions is not reduced.

(9) Provisions for notice have been established to protect the policy owner. Notice setting forth the currently effective policy loan interest rate must be given at the time a policy loan is made or interest is billed. Moreover, notice of any increase in the policy loan interest rate must also be given with respect to all loans affected by such increase.

(10) Typically the laws of many jurisdictions specify that the maximum policy loan amount shall be the cash surrender value at the end of the current policy year, reduced by any unpaid premium for the current policy year and further reduced by the interest on the loan to the end of the current policy year. Section 3 of the Model Bill is identical to typical current legislation except the phrase "may be allowable" has been substituted for the word "allowed". The effect of this substitution is to provide for the consequences, up to the next policy anniversary date, of an increase in the policy loan interest rate, as discussed in note (8) above. Amendment of existing statutes will be required in some jurisdictions to permit insurers to withhold this amount.

The two most prevalent statutory patterns indicate, in respect to policy loan proceeds, that the insurer "may deduct . . . interest on the loan to the end of the current policy year. . " or "may collect interest in advance on the loan to the end of the current policy year." In these jurisdictions, substitution of the words "all interest which may be allowable" for the word "interest" would seem to provide sufficient authorization to allow insurers to establish a safety margin in either case.

A number of jurisdictions presently authorize the deduction of interest through the current policy year by means of statutory language more or less similar to the above. In some instances, a change analagous to that suggested above will suffice. However, this point should be independently reviewed in each jurisdiction.

An alternative technique, which may be more conveniently utilized in some jurisdictions, would be to add a sentence to Section 2 of the Model Bill as follows:

> "The insurer may withhold from the loan proceeds an amount equal to all interest which may be allowable to the end of the current policy year."

Of course, provisions similar to those set out above should be included in the law of any jurisdiction adopting policy loan legislation for the first time.

November 24, 1971.

VARIABLE ANNUITIES AND OTHER CONTRACTS (C4) SUBCOMMITTEE

Reference:
1971 Proc. Vol. I p. 500
1971 Proc. Vol. II p. 535

Samuel Van Pelt, Chairman, Nebraska
Johnnie L. Caldwell, Vice Chairman, Georgia

AGENDA

1. Receive Industry Advisory Committee Report.
2. Consideration of Advisory information from Insurance Department staffs re: Industry Advisory Committee recommendations at New York meeting.
3. Status report on Variable Life Insurance discussion with the Securities and Exchange Commission.
4. Any other matters submitted for consideration.

The variable Annuities and Other Contracts Subcommittee met in the East Ballroom of the Fontainebleau Hotel at 1:30 p.m. on December 1, 1971. A quorum was present.

Mr. Larry Gilberton, Chairman of the Industry Advisory Committee, presented the Committee report and called Mr. Gordon Merritt to explain a proposed amendment to the Model Law and the Model Regulations.

Chairman Van Pelt asked for further advisory comment from departmental staff regarding two carry-over ideas from the June 1971 meeting.

Director Van Pelt gave a background and status report on the industry rule-making petition to the Securities and Exchange Commission, seeking exemption of variable life contracts from S. E.C. regulation.

In Executive Session, the committee accepted the December 1971 report of the Industry

Advisory Committee and recommended that the following sentence be added to item "C" of Section 3 of the Model Law and item "C" of Section 1 of the regulation: "The state of entry of an alien company shall be deemed its place of domicile for this purpose."

The Committee further accepted a portion of the June 1971 report of the industry committee and recommended that Section 4 of the Model Replacement Regulation be amended to read as follows:

"This Regulation should not apply when:

(1) .....;

(2) The new life insurance is provided under (i) .....; (ii) a policy whose cost is borne in whole or in part by the insured's employer or by an association of which the insured is a member. (The cost of a policy shall not be deemed to be borne by the insured's employer to the extent the insured's salary is reduced or the insured foregoes a salary increase); (iii) ..... or (iv) .....; provided,

(3) .....

(The underlined language is the new language)

The Committee deferred action on that portion of the June 1971 Industry Committee Report, recommending that the following language be added to the Model Regulations:

"All of the requirements of this regulation shall apply in any replacement transaction which involves annuity contracts, except those provisions which require the completion and furnishing of a Comparison Statement."

There being no further business to come before the Committee, the meeting was adjourned.

Hon. Samuel Van Pelt, Chairman, Nebraska; Hon. Johnnie L. Caldwell, Vice-Chairman, Georgia; Hon. James Baylor, Illinois; Hon. Pedro J. Fenrandez Badillo, Puerto Rico; Hon. Berton W. Heaton, Minnesota; Hon. Millard Humphrey, Arizona; Hon. John W.Lindsay, South Carolina; Hon. Edward P. Lombard, District of Columbia; Hon. Robert D. Preston, Kentucky; Hon. Benjamin R. Schenck, New York

REPORT OF THE TASK FORCE TO EXPLORE PROBLEMS RELATING TO EMPLOYER-EMPLOYE GROUP COVERAGES OF THE (C) COMMITTEE

The Task Force to Explore Problems Relating to Employer-Employee Group Coverages met in the East Room of the Fontainebleau Hotel, Miami Beach, Florida, at 2 p.m. Monday, November 29, 1971. A quorum was present.

The Chairman reported that an Industry Advisory Committee was appointed to consider and make suggestions on the problems identified in the June 1971 report of the Task Force. The members of the Advisory Committee were:

R. Donald Albright, Provident Life and Accident Ins. Co.
Horace R. Baker, Jr., John Hancock Mutual Life Ins. Co.
Thomas R. Bodine, Connecticut General Life Ins. Co.
Paul E.Brown, Bankers Life Company
Lawrence M.Cathles, Jr., Aetna Life & Casualty
Melvin B. Engler, United Benefit Life Ins Co
Richard A. Loebach, Continental Assurance Co.
Howard B. Woodside, Sentry Life Ins.Co.
Charles B. Strome, Jr., Equitable Life Assurance Society of the U. S.
Robert E. Younger, The Prudential Ins. Co. of America

Mr. Lawrence M. Cathles, Jr., Chairman of the Industry Advisory Committee, submitted the attached report to the Task Force.

In general, it was the suggestion of the Advisory Committee that the insurance commissioners of most states have sufficient authority within the insurance statutes to effect resolution of the identified problems by means of appropriate administrative rules or regulations.

The Chairman noted that he had neglected to appoint a representative of the Blue Cross and Blue Shield Plans as a member of the Industry Advisory Committee. Mr. William Timmons spoke on behalf of the Blue Cross and Blue Shield Plans and indicated that those organizations were in agreement with the report of the Industry Advisory Committee.

In Executive Session the Task Force decided to follow the suggestion of the Industry Advisory Committee and proceed in cooperation with that Committee to draft a NAIC Model Regulation incorporating the concepts of the Industry Advisory Committee report.

The Task Force took note of the fact that the Industry Advisory Committee report did not resolve all of the problem areas previously identified but it was recognized that the report represents very substantial progress in the thinking of the insurance industry on these matters. The Chairman also stated his intention to make certain that a representative of Blue Cross and Blue Shield be a member of the Industry Advisory Committee on any insurance work.

Hon. S. C. DuRose, Chairman, Wisconsin; Hon. J. Richard Barnes, Colorado; Hon. Oscar H. Ritz, Indiana; Hon. Robert L. Clifford, New Jersey.

November 30, 1971

Honorable William Y. McCaskill, Chairman
Life, Accident & Health (C) Committee

RE: NAIC Task Force to Explore Problems Relating to Employer-Employee Group Coverages of the (C) Committee

Dear Bill:

I respectfully recommend that the suggestion, and/or recommendations made by the Advisory Committee be amended by adding the following:

> The Insurer shall be responsible for seeing that all Certificate Holders are notified of "termination" or "cancellation". In the event the policyholder fails to make such notification the Insurer shall mail notices of such cancellation or termination to the last address of such certificate holder as shown by the records of the policyholder. In group policies containing conversion privileges, the time specified within which exercise of such privilege must be made shall begin no earlier than the date of such notice required herein or the cancellation or termination date, whichever occurs last.

Respectfully,
Johnnie L. Caldwell
Insurance Commissioner, Georgia
