



NAIFA *Advocacy at Work*

Upholding the Tradition



*NAIFA's leadership continues its
unwavering commitment to advocacy in the
interest of its members.*

By William Anderson and the Government Relations Staff

Ask any NAIFA member the main reason he joined the association and he will most likely mention NAIFA advocacy. A hundred years ago, you would have received a similar response, demonstrating NAIFA's long history of securing major victories in its fight for enlightened industry practices. Here are some of the successes the association has achieved as it looks out for your interests so you can concentrate on your business.

An early success

In 1905, the life insurance industry was rocked by a scandal that forced the resignation of top management at major companies and caused the New York Legislature to create the Armstrong Commission. The commission's hearings revealed widespread abuses in the industry, including inappropriate commissions and bonuses for agents. In response, New York passed several laws to address the problems, including one regulating agent compensation, which set a national standard.

Many of these reforms mirrored concepts that NAIFA, formed just 15 years earlier as The National Association of Life Underwriters, had been advocating for over a decade to improve industry practices. Unhappy with New York's restrictive commission rule, however, NAIFA succeeded in having the restrictions loosened in 1909. Then, as now, NAIFA sought a marketplace where enlightened and fair practices pre-

vail. As recounted in the NAIFA history, *Voices From the Field*: "When the dust settled and the nation's leaders looked around for an identifiable and viable group that could adequately represent the life insurance business, there was only the NALU." NAIFA responded and set its priorities, the first of which was to "seize every opportunity to influence all proposed legislation affecting the business."

The beat goes on

This year, 100 years later, NAIFA faced another crisis in the insurance industry, again originating in New York, with Attorney General Eliot Spitzer's charges of bid rigging and other abuses in the property and casualty industry. This year, as in 1905, attention has quickly focused on agent compensation, with some states calling for broad commission disclosure. While there were no documented abuses in the individual life insurance market, model legislation that the National Association of Insurance Commissioners (NAIC) considered would have swept all life insurance agents within its scope and required commission disclosure in the sales process.

How did NAIFA react to this new threat? As it did 100 years ago, it led the life insurance industry in proposing a solution for the commission-disclosure issue, which NAIC adopted. NAIFA's leadership demonstrated its continued dedication to advocacy in the interests of its members.

Last fall, NAIC proposed an amendment to its Producer Licensing Model Act (PLMA) that would have required all

agents to disclose their commissions during the sales process. The proposal resulted from the Spitzer investigations into insurance brokerage practices at certain companies and was completely unacceptable to NAIFA.

The association took the lead in preventing unnecessary and harmful commission-disclosure rules. Working closely with the Association for Advanced Life Underwriting (AALU), the American Council of Life Insurers (ACLI) and the National Association of Independent Life Brokerage Agencies, NAIFA formed a historic coalition of life insurance organizations to speak with one voice to NAIC.

After intense negotiation and lobbying, the coalition convinced NAIC to adopt an amendment to the PLMA in December that requires expanded compensation disclosure only when a producer receives compensation from the consumer and the insurer on the same transaction. Key portions of the amendment, which allow the vast majority of NAIFA members to avoid specific commission disclosure by disclosing that they act as agents of an insurer, were devised by NAIFA and drafted by the coalition.

When NAIC indicated it would consider mandating additional disclosures or requirements under PLMA in spring 2005, NAIFA's coalition kept the pressure on to ensure that no further changes were made. As this article goes to press, we have succeeded in this effort.

NAIFA's fight to rein in calls for commission disclosure continued at the National Conference of Insurance Legislators, which adopted its own amendment to the PLMA in March. With NAIFA's leadership, the coalition urged NCOIL to be consistent with NAIC so that producers have uniform commission disclosure rules. The NCOIL amendment requires commission disclosure only when the producer receives a fee and a commission (as with the NAIC amendment), but also includes a complete



THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS
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exemption from any disclosure requirements for producers that receive all their compensation from the insurer. NAIFA and its coalition partners support the NAIC PLMA amendment, but do not object to the NCOIL amendment because it does not impose added obligations on producers and will not damage uniformity.

NAIFA and the coalition achieved an outstanding victory in preventing wholesale commission-disclosure requirements over the last 10 months. But the coalition did not accomplish this goal alone. Thanks go to NAIFA's state association leadership, which has done an outstanding job in addressing various disclosure proposals that have been considered in some two dozen states this year.

Derailing term license

NAIFA advocacy is also succeeding in preventing states from creating a "second-class" license to sell only term life insurance. Legislation to create a new limited-line license for term insurance arose for the first time earlier this year, and NAIFA was the first to speak out against it. Proposals vary, but they generally would create an easily-obtainable term license, without a license exam (or with a simplified test), with reduced prelicense and continuing education requirements, and with no restriction on the benefit amount. The proposals might also permit a "term agent" to receive compensation for introducing clients seeking replace-

ment insurance to fully-licensed agents.

NAIFA opposes term-license proposals because they lower the bar for agent education and qualification, limit the products a term agent can offer a consumer, and complicate the agent licensing system.

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A term license undermines the goal of a more uniform agent licensing system by adding another license to the marketplace. With less uniformity, there's less reciprocity among states to obtain non-resident licenses and more complication in licensing rules. Further complexity in agent licensing makes the system less efficient, which is bad for agents, regulators and the public.

Through zealous grass-roots lobbying, NAIFA state associations in Alabama, Illinois and Mississippi derailed term-license proposals this year. NAIFA has met with ACLI and several of its member companies to communicate its strong opposition to these proposals and testified in support of an NAIC resolution condemning term licenses as inconsistent with necessary consumer protections and the goal of license uniformity.

Fewer IOLI bills

NAIFA's advocacy team also continues to battle efforts to inappropriately broaden insurable interest laws in many states. Often

referred to as investor-owned life insurance (IOLI), these proposals would weaken insurable interest laws so a charity could assign its insurable interest or right to own a life insurance policy to an unrelated entity that couldn't otherwise purchase the policy on its own. As a result, an entity funded by private investors unrelated to the insured could own and be the beneficiary of life insurance policies taken out on strangers.

Both NAIFA and AALU strongly oppose these efforts to "end run" the integrity of long-standing insurable interest principles, which were designed to ensure that life insurance is used by those with a relationship to the insured for the benefit of families, businesses and charities. Allowing charities to be used for private investment purposes could potentially turn insurable interest, and insurance itself, into a commodity for use by investors.

Last August, NAIFA and AALU began a national proactive campaign designed to educate state lawmakers about this issue in anticipation of the 2005 legislative session. NAIFA state associations met with their legislators and regulators to explain their concerns regarding IOLI. This effort resulted in the introduction of fewer IOLI bills in 2005 than in the prior year, and a retreat for IOLI in Virginia, where we succeeded in passing legislation that tightened the state's insurable interest laws to prohibit most IOLI programs. Where pro-IOLI legislation has arisen this year it has not been enacted, thanks to the aggressive opposition of our state associations, NAIFA and AALU.

NAIFA also played a key role this year in the development of an NCOIL resolution opposing enactment of pro-IOLI legislation, as NAIFA state associations held numerous meetings with NCOIL members and NAIFA Senior Vice President Bill Anderson employed his lobbying skills to shepherd the resolution through adoption.

IOLI became a federal issue when the



Bush administration's 2005-06 budget proposal included a 25 percent excise tax on the death benefit from life insurance purchased in connection with IOLI transactions. The proposal echoes NAIFA's position in recognizing the Treasury Department's concern that IOLI arrangements may "do more to facilitate investment by private investors in life insurance contracts than to further a charity's exempt purposes ... [and] may inappropriately afford benefits to private investors that would not otherwise be available without the charity's involvement."

While we applaud the administration for sharing NAIFA's disapproval of IOLI, we don't see taxing death benefits as the answer. To achieve the same goal, we've proposed a solution that focuses on taxing funds used for IOLI transaction premiums. At press time, the Senate Finance Committee has introduced legislation to crack down on IOLI, which appears to follow our premium-tax approach.

Equal treatment on military bases

NAIFA has been a vigorous advocate of ensuring that agents can provide financial services to those who often need it most—our nation's military personnel. With this goal, NAIFA is working to ensure that insurance agents have a level playing field with on-post banks and credit unions in providing insurance on military bases.

Since 2003, NAIFA has led a legislative effort to stop a Department of Defense (DoD) proposal that would effectively ban life insurance agents from operating on military installations and grant an exclusive market to banks and credit unions located on base. NAIFA maintains that the proposal would set a dangerous precedent for the insurance industry and interferes with the rights of men and women in uniform to make informed financial decisions.

NAIFA was successful in helping pass legislation to prevent the DoD from enact-

ing its harmful proposal and sought a Government Accountability Office report on allegations of military efforts to prevent the processing of hundreds of life insurance policies purchased by soldiers deployed to Iraq and Afghanistan. NAIFA met with

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Pentagon officials to seek more narrowly-tailored paths to curb abusive sales practices and to recommend programs to educate military personnel about their financial options.

Tools for success

What explains NAIFA's success with this array of issues affecting your clients and your livelihood? The answer is you. Your involvement in the political process is critical to our success in the legislative process. So, let's focus on NAIFA's political programs—IFAPAC and APIC.

Before you cross your eyes and skip this paragraph because you know that PAC stands for political action committee, you should think about this: There are over

4,100 federal PACs and many more state PACs—someone is contributing to them, and for good reason.

It's unavoidable. Step on politics, look under shoe, see money. And frankly, there's nothing wrong with money in politics. Citizens should devote their resources to help elect those who can serve them best. That's what IFAPAC does for you—it gives financial assistance that helps make NAIFA a player in the electoral arena.

Success in the legislative arena takes more than money, however. It takes people—to vote, to canvass, to advise, and to keep the campaign and legislative wheels moving. APIC is NAIFA's tool for organizing members to connect with their elected officials. Thanks to APIC, the association has a reputation as a reliable ally on Capitol Hill and in every state capital.

Looking ahead

These victories demonstrate to lawmakers that NAIFA is a force to be reckoned with. As new challenges emerge, your support will help us meet them head on, and continue our tradition of creating a favorable business environment for all agents and advisors. **AI**

Voices From the Field, the history of NAIFA and the industry, is available in its entirety online at **ADVISORTODAY**

Join or renew now at www.naifa.org or call 877-TO-NAIFA (866-2432).

