

The Center for Economic Justice

NEWS

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Consumer Organization Criticize State Insurance Regulators' Proposal on Insurance Producer Compensation Disclosure

*Center for Economic Justice Says Proposed Model
Protects Insurers and Producers Instead of Consumers*

The Center for Economic Justice (CEJ), a non-profit consumer advocacy organization, today criticized the latest version of the National Association of Insurance Commissioners' of a model law for disclosure of agent and broker compensation.

“CEJ strongly **opposes** the latest version of the producer compensation disclosure model law amendment. The latest proposal does nothing to promote transparency in insurance markets or to target industry structures that fostered a climate conducive to bid-rigging. The proposed model appears to be an exercise in public relations damage control. It will also provide fodder for those critical of state-based insurance regulation,” said Birny Birnbaum, Executive Director of CEJ.

Birnbaum listed the problems with the 12/16/2004 version of the model producer compensation disclosure law:

The model attempts to “target” certain types of producers for specific compensation disclosure. But, the distinctions – whether the producer’s compensation is paid directly or indirectly by the consumer and on whose behalf the producer is acting, the proposed model – are meaningless and unenforceable. The loopholes for specific disclosure requirements will quickly lead to non-substantive changes in compensation structure as insurers and producers take advantage of the loopholes created by these “distinctions.”

The model creates generic “disclosures” for all other producers. These so-called “disclosures” are the stereotypical “fine print” which provides no meaningful information to consumers. The generic “disclosures” are worse than no disclosure for consumers because the generic “disclosures” may provide producers with a liability shield from consumers who have been victims of unfair practices induced by inappropriate compensation structures that were not revealed to the consumers

The proposed model is an effort by regulators to make *a priori* judgments about what types of compensation arrangements are useful to disclose to consumers. This is a mistake. Regulators should make sure all consumers have access to specific producer compensation information and leave it to those consumers to judge how the compensation may or may not affect the producer’s actions.

Birnbaum added, “The proposed model, under the euphemism of “targeting corruption,” is a Christmas tree of exemptions and carve-outs for the various insurer and producer interests. The NAIC members have turned a blind eye to the abusive personal lines compensation issues which CEJ presented to the NAIC earlier this month.”

CEJ submitted an alternative proposal that requires specific compensation disclosure of all producers.

Birnbaum concluded, “We’re very disappointed that NAIC members are being cowed by industry interests on the producer compensation issue. Reasonable people may disagree about how compensation disclosure will ultimately help consumers, but there is no harm from providing consumer with specific information about the type and amount of compensation his or her insurance producer will receive from the sale of the insurance product.”

“It may well be that certain products can no longer be sold if compensation associated with those products is disclosed. And it may also be that certain compensation structures will be changed because consumers will not purchase products that reflect certain compensation structures. But such changes are not harms to producers and insurers, they are gains to all involved in an industry premised on ethical sales of suitable products to consumers.”

A copy of CEJ’s statement to the NAIC is attached.

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The Center for Economic Justice is a Texas nonprofit corporation dedicated to protecting the interests of minority and low-income consumers on insurance, credit and utility matters. Web Site: www.cej-online.org