Mailed Copy Sent on Breadwinners' Insurance Letterhead
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August 26, 2010

Ms. Jane Cline, Commissioner
Department of Insurance
State of West Virginia
P.O. Box 50540
Charleston, W VA 25305-0540
Also via email jane.cline@WVInsuance.gov

Dear NAIC President Cline:

I am writing to invite you to join my campaign to fix the life insurance industry's inadequate policy disclosure practices by year-end. I readily recognize that you may object to that statement, but please consider the following facts. Professor Joseph Belth in his newsletter*, Insurance Forum*, has written:

> "Yearly prices [of cash-value policies] are so revealing that the companies took extraordinary action to prevent disclosure of the information. For example, in the early 1980s a committee of state regulators concluded, after a careful study, that price disclosure was needed. The companies did not just stifle the committee report; the individuals primarily responsible for the preparation of the report lost their jobs. There were other heavy-handed actions, including an unsuccessful attempt to have me fired by Indiana University." *IF 5/04*

Creating the conditions for a properly functioning marketplace is a fundamental regulatory responsibility. Markets cannot function properly without consumers having good information, yet the life industry has never provided the necessary appropriate policy disclosure. In contrast with the truly complex issues and challenges in health insurance reform, the solution to the paramount problem of inadequate policy disclosure in the life insurance marketplace has always been straightforward and readily available. Consequently, I am sorry to have to report that your predecessors responsible for the life insurance marketplace have not earned a passing grade. Inadequately informed consumers not only have been and remain prey to misrepresentations – as is commonplace in the life insurance marketplace, but they also cannot fulfill their own individually and socially beneficial roles of demanding good value, thereby putting pressure upon suppliers to control costs and provide better value. Several other enormously costly problems (i.e., the unconscionably high policy lapse rates of some insurers and the astronomical failure rates of newly recruited agents) all arise from this problematic pit of inadequate policy disclosure.

Earlier this year, my website, BreadwinnersInsurance.com began to provide proper disclosure of life insurance policies. Fixing the life insurance marketplace, though, is a two step process. First is disclosure, second is publicity of disclosure so that consumers are aware of and can obtain such vital information when they need it. I invite you to join me in publicizing appropriate policy disclosure, a campaign we could launch with a joint press conference and follow-up with a series of events, including seminars for financial journalists and civic-minded others, so that all the information necessary to transform the life insurance marketplace is widely known and readily available.

The industry's objections to appropriate disclosure have always been rooted in its argument that agent compensation, extracted from inadequately and mis-informed consumers, must be protected. While I do not pretend to know precisely what level of compensation consumers will willingly pay for a properly disclosed cash-value policy, I know that current practices of inadequate disclosure and pervasive misrepresentations are indefensible. In fact, the pervasive misrepresentations that agents make, I contend, are proof that they realize that consumers would not knowingly pay the sales loads that become apparent when policies are properly disclosed.

In essence, the life industry's current practices are unsustainable with informed consumers because the fundamental economic advantage of cash-value policies arises – not as agents' largely represent from such policies' avoidance of the "problems of term" insurance – but from cash-value policies' tax privileges. These tax privileges, though, are a free, non-proprietary input, and in a properly functioning, a.k.a. informed marketplace – sellers cannot extract value from consumers for a free, non-proprietary input. Although those with only basic knowledge of financial matters do not readily or intuitively understand such, this analysis is just simply fundamental economics, presented repeatedly to the industry in my articles in *Best's Review* during 1990s and *The Journal of Insurance Regulation* in 2002.

Appropriate disclosure of life insurance policies has required no brilliant breakthrough. Unlike decoding the genome, building a search engine, or landing on the moon, it is nothing more than the intuitive idea of reverse-engineering a sales illustration or, for an actual in-force policy, providing the historical accounting of the policy's annual financial performance, that is, its costs and the compounding rate on cash-values. My website provides examples of disclosure of both sales illustrations' essential assumptions and of actual policies' historical performances. It also expands upon the proper uses of both types of disclosure data, and provides a draft of a new Life Insurance Buyer's Guide and other materials consumers are finding worthwhile and interesting. I certainly welcome your and your associates' thoughts, suggestions, and criticisms - should you see anything of mine that needs improvement.

Admittedly, the transition to a new era will most likely not be pain free for some life insurers and their agents, as they may be called upon to make amends. No doubt you recall that following the industry's publicized sales practices problems of the 1980s and early 1990s, Professor Harold Skipper wrote, "changing a system of such long tradition and wide acceptance will be difficult, but change seems both essential and inevitable [*Journal of the American Society of CLU & ChFC* , *March 1995*]." The leaders of agent associations also then openly acknowledged that laws and regulations prohibiting misrepresentations had never been enforced. Those sad facts are as true today as they have been throughout the industry's 160+ year history. I have long refused to tolerate such circumstances, as my litany of past efforts testifies. This letter is part of a new effort, and one which I now hope you will join.

For the causes of economic justice and progress we must embrace appropriate policy disclosure. Our current national problems demand that the self-interested practices that unfairly protect and enrich the few at the great expense of the many can no longer be tolerated. Contrary to so much of the life industry's self-serving lobbying rhetoric, appropriate policy disclosure will not only fix the industry it will transform it so that it may at long last enter its golden era. Moreover, the simple actions of fixing the life insurance industry ought to inspire all Americans by demonstrating again America's can-do spirit.

Please join me, let us work together. By publicizing appropriate policy disclosure, we can fix the life insurance industry in a fortnight.

Sincerely,

R Brian Fechtel

R. Brian Fechtel, CFA