

NCOIL Protests Insurers' Offers of Enhanced Cash Surrender Values

September 08, 2022

The National Council of Insurance Legislators (NCOIL) unanimously agreed to waive a red flag protesting insurers' offers of enhanced cash surrender values. At its summer meeting, NCOIL adopted a Resolution Identifying Certain Enhanced Cash Surrender Value Endorsements as Violating the Standard Nonforfeiture Law.

The resolution "calls upon state regulators to enforce the same Standard Nonforfeiture Law smoothness requirement that regulators requested legislators to add to the insurance codes, by withholding approval of, and rescinding any previous approval of, any non-compliant 'enhanced cash surrender value' endorsements providing limited time, spiked cash surrender value offers incentivizing consumers to terminate their life insurance protection, and calls upon state legislative committees with oversight of insurance to monitor insurance departments' actions with respect to this matter."

The resolution asserts that insurers are "offering 'enhanced cash surrender value endorsements,' dramatically changing the terms of well-seasoned policies from their issued and approved policy forms, seeking to incentivize consumers to terminate policies and their death benefit protection by means of limited time, enormous increases in cash surrender value, in plain violation of the Standard Nonforfeiture Law standards."

It also claims:

[L]imited time, spiked cash surrender value offers carry substantial risks of the same sort as the regulated product they mimic, life settlements, and the carriers who offer them do not follow the consumer protection statutes created by legislators to protect policyholders offered limited time, big cash incentives to give up their policies, such as

rescission rights, intermediary fiduciary duty, physician certification of (elderly) consumer competence, and disclosure of competing alternatives.

Having received NCOIL's protest, the NAIC Life Insurance and Annuities (A) Committee is studying whether insurers have gone out of bounds. The A Committee intends to review the history of universal life and survey state insurance departments to get a better understanding of these cash surrender value options — i.e., what they look like and to whom they apply.

Authored By



Ann Young Black

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