

United States Senate

WASHINGTON, DC 20510-3704

May 26, 2004

Frank Keating
President and Chief Executive Officer
American Council of Life Insurers
101 Constitution Avenue, N.W.
Washington, DC 20001

COMMITTEES:
FINANCE
COMMERCE, SCIENCE, AND TRANSPORTATION
ENERGY AND NATURAL RESOURCES
RULES AND ADMINISTRATION
INDIAN AFFAIRS
SPECIAL COMMITTEE ON AGING

Re: State Expansion of Insurable Interest

Dear Mr. Keating:

We are writing to inquire about the recent developments on 'insurable interest' at the state-level.

It has come to our attention that legislation has been introduced in several states that would expand their insurable interest laws, in some fashion, to permit third party investors, using charitable organizations, to buy life insurance and annuities to cover the life of a specific individual. To our knowledge, however, these third party investors have no reasonable relationship to the individual to give rise to an insurable interest.

From what we understand, this type of legislation is designed to facilitate marketing programs through which charitable, educational and religious institutions work with third party investors to solicit individuals to participate in investments. Through the relationship that the individuals have with the charitable institutions, the institution would assist third party investors in purchasing life insurance policies on the individual from one insurer and also obtain annuity contracts on the same individual from a separate insurer. The income generated from the annuity contracts could then be used to pay the life insurance premiums. In exchange for their investment, the third party investors would receive a substantial portion of the death proceeds as the insured individuals die. In contrast, the insured individuals' families may receive none of the death proceeds and the charitable institution receives a small portion of the death proceeds for its participation.

Our concern is that this type of legislation may weaken existing state insurable interest laws to the point they will no longer serve any meaningful, practicable purpose. As you may know, the insurable interest concept is premised on a number of traditional principles, including permitting coverage if the policyowner can reasonably expect to benefit from the insured person's continued life and will suffer a financial loss upon the person's death as well as permitting coverage when the policyholder has a recognized business relationship with the insured.

We believe that laws allowing unrelated third party investors to profit from an unrelated person's death runs counter to good public policy and important life insurance principles. Second and relatedly, we are concerned that charities may be unwittingly participants in these transactions, only to realize minor residual benefit while the third party investors earn sizable guaranteed returns.

Representing one of the leading associations on issues of retirement security and life insurance, we would like to apprise the American Council of Life Insurers (ALCI) of our concerns with this recent legislative development. We understand that ACLI has also been in opposition to pending state action that would expand the definition of insurable interest to facilitate these transactions. However, in some cases, we understand that existing state insurable interest laws may already be broad enough to permit these types of third party insurance investments. Accordingly, as we consider what action may be appropriate to address this issue in the future, we would greatly appreciate ACLI's perspective on this important matter.

Thank you, in advance, for your assistance and consideration in this matter.

Sincerely,



Senator Gordon H. Smith



Senator Kent Conrad

FRANK KEATING
PRESIDENT & CHIEF EXECUTIVE OFFICER



June 7, 2004

The Honorable Kent Conrad
United States Senate
530 Hart Senate Office Bldg.
Washington, D.C. 20510

The Honorable Gordon Smith
United States Senate
404 Russell Senate Office Bldg.
Washington, D.C. 20510

Dear Senators Smith and Conrad:

Thank you for your May 26, 2004 letter of inquiry concerning state legislation that would expand insurable interest laws and permit third-party investors to obtain life insurance on unrelated persons. The American Council of Life Insurers (ACLI) shares your concerns about this issue and has taken steps to actively oppose such legislation in the states where it has been introduced. We firmly believe that life insurance contracts should only be issued to persons with a familial or recognized economic relationship with the insured and should not be merely an investment vehicle.

Since the issue of state legislation that would expand insurable interest has come to our attention, ACLI has aggressively fought passage of proposals that loosen insurable interest standards. We have successfully opposed legislation in Alabama, Florida, Maryland, Oklahoma, and South Carolina. Unfortunately, we were not successful in Tennessee, and ACLI is actively engaged in opposing legislation still pending in Louisiana and New York. Additionally, open-ended insurable interest laws already existing in some states (e.g. Texas and Virginia) are of significant concern to ACLI.

The ACLI Board of Directors has set-up a CEO level Task Force specifically addressing the use of our products in connection with third-party investors. At the initial meeting of this Task Force, our CEOs were unanimous in our opposition to the expansion of insurable interest legislation to permit unrelated third-party investors to benefit from the death benefits from our products. The Task Force directed the ACLI to oppose this legislation and to work to educate state legislators about our concerns.

As you know, life insurance is heavily regulated by the states. The requirement that a policyholder of a life insurance contract have a state-recognized insurable interest at the time that the contract is entered into has always been a requirement of state insurance laws. In opposing the state insurable interest expansion legislation, we have tried to focus the state legislators on the traditional uses of life insurance and have stressed the importance of maintaining reasonable limits on insurable interest as part of state regulated systems.

We are committed to continued work in the states in which this issue arises. We will keep you apprised of our efforts and appreciate your continued support.

Sincerely yours

A large, stylized handwritten signature in black ink, appearing to read 'Frank Keating'. The signature is written over the typed name 'Frank Keating' which is printed below it.

Frank Keating