



News Release

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

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NAIC Adopts Model Legislation Calling for Broker Disclosures

Defers one section for further consideration

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KANSAS CITY, MO (December 29, 2004) – During a conference call of its membership, the NAIC today adopted model legislation that would implement new disclosure requirements designed to ensure consumers are provided the information necessary to understand the manner in which brokers are compensated for the sale of insurance products. The model legislation amends the NAIC’s current Producer Licensing Model Act and is a key component of an aggressive initiative by state insurance regulators to address issues surrounding the use of compensation arrangements by insurance brokers.

The members also directed the NAIC Executive Task Force on Broker Activities to give further consideration to the development of additional requirements, such as recognition of a fiduciary responsibility of producers, disclosure of all quotes received by a broker, and disclosures relating to agent-owned reinsurance arrangements.

“We made a promise to consumers and industry to get to the bottom of this matter as quickly as possible, resolving to develop and put into place a tangible action plan for state insurance regulators,” said NAIC President/Pennsylvania Insurance Commissioner Diane Koken, who also chairs the task force. “With passage of this model legislation, we are delivering on that promise.”

Today’s action emanates from the work of the NAIC Executive Task Force on Broker Activities, whose members have moved quickly to implement a three-part action plan that includes creating more transparency for insurance consumers through better disclosure of broker compensation arrangements; continuing to help state insurance regulators coordinate efforts to address improper conduct by brokers and insurers through investigation and collection of relevant information; and the implementation of a new on-line fraud reporting system.

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Among the requirements contained in the model legislation, brokers would be required to disclose the amount of compensation from the insurer and the method for calculating the compensation, including any contingent compensation. In those cases where the contingent commission is not known, brokers would be required to provide a reasonable estimate of the amount and method for calculating such compensation. Producers who represent companies and do not receive compensation from customers would have a duty to disclose that relationship in certain circumstances. (A draft of the model legislation is available for review on the NAIC home page at www.naic.org.)

The NAIC held a public hearing at its Winter National Meeting earlier this month to receive public comment on the proposed language, committing to adopt model disclosure language by the end of the year.

About the NAIC

Headquartered in Kansas City, Missouri, the National Association of Insurance Commissioners (NAIC) is a voluntary organization of the chief insurance regulatory officials of the 50 states, the District of Columbia and U.S. territories. The association's overriding objective is to protect consumers and help maintain the financial stability of the insurance industry by offering financial, actuarial, legal, computer, research, market conduct and economic expertise. Formed in 1871, it is the oldest association of state officials. For more information, visit the NAIC on the Web at www.naic.org/pressroom.