INSURANCE AGENT COMMISSION DEREGULATION

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HEARING

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11 As long as the internal benefits of a policy are not reflected in the premium, people need help in measuring those benefits. That is, in a nutshell, what cost disclosure systems have tried to do.

that sort of thing.

I think if the marketplace is allowed to become truly competitive, that that issue will take care of itself.

There is an additional value in this sort of proposal in terms of people being able to understand the cost of the products that they may be buying.

To the extent that, say, a group like Consumer Reports would be able to do cost comparisons of insurance products net of commission, or net of any markup, a person might say, aha, this policy that Prudential offers costs this much net.

Now I will shop around and see who will charge what to sell it to me; so there may be an advantage in that respect that promotes better price comparison.

Mr. MARRIOTT. I am curious about one thing, and that is, why you are making comparisons among toasters, automobiles, and life insurance policies.

Do you really think there are no differences among the three? I am talking about the way the policies are structured.

Normally I guess on a toaster, an automobile, what you see is what you get, and you get some warranties for a couple of years. So, it is pretty easy to make a decision whether you like red, green, blue or other particular features.

blue or other particular features.

But a life insurance policy, in my opinion, is a rather complicated animal, very easily used to deceive people.

Do you think really there are no differences? Can you really make the analogy that we ought to sell life insurance policies like we sell toasters?

Ms. MITCHELL. I think the analogy I was trying to make was the classical economic analogy of whether or not the producer of the product should be permitted to set the pure price of the product and the markup.

Mr. MARRIOTT. Who?

Ms. MITCHELL. I think the marketplace will produce a range of services just as it has in the securities industry where, for example, you might find sophisticated buyers going to insurance discounters, people who felt as though they didn't need advice.

You might also find people doing what the full service brokerage firms are doing now, which is, offering a variety of services and saying, if you just want me to execute this trade, it will cost you x dollars.

If you also want my research service, it will cost you x dollars, and you might find other people offering fee-for-service arrangements.

If it costs the agent 2 or 3 hours of work to sell a product and analyze the person's financial needs, the agent would be able to charge for that, whereas if the agent only needed 1 hour to do that, the person buying the service in that case wouldn't pay the same as the first buyer.

That seems to me to make ultimate sense.

Mr. MARRIOTT. Let me just conclude by asking this: Wouldn't that be a better approach, if you are really serious about your proposal than messing with rebates? It doesn't seem to me it proposal, than messing with rebates? It doesn't seem to me it would be subject to as much abuse.

If you simply required insurance companies to write a pure

Mr. LAFALCE. It could permit the present system of charging commissions, plus charging a fee for service, and so forth.

In any event, we are going to hear that commission deregulation will "wreak havoc with the attempts of the insurance commissioners and the industry over the past decade to design an effective and accurate method of cost comparison of policies."

Do you consider that an accurate statement?

Ms. MITCHELL. No. I think that the marketplace has already virtually, as I mentioned before, destroyed the current cost disclosure system because of the new types of products that don't fit into the old molds.

The NAIC is working right now on a new life cost disclosure mechanism, but I think that even as the other commissioners work on it, the needs continue to change because the current period for the life insurance industry is really quite startling.

There is more change going on now than there has been perhaps for 70 years.

Mr. LAFALCE. The industry witnesses are also going to be claiming that evidence of competition is evident from the fact that the price of insurance has declined.

Ms. MITCHELL. Net pricing is really the notion of the company producing a product at net cost, net of the expense of selling it, making it available to, in quotes, retailers, who will then market it up to reflect their actual costs and any profit that the marketplace will allow.

I have talked to company officials on both sides of the business, life company officials and property and casualty company officials who will tell me privately that they would like very much to do this.

They have some ideas about new marketing systems, tapping into existing marketing systems.

They are not willing, however, to come forward at this point and say it publicly for fear of bringing down the wrath of the agents who are accustomed to the current system.

Mr. MARRIOTT. Just one other question.

Do you think, notwithstanding rebating and whether it ought to be allowed or not, that life insurance commissions are too high?

Ms. MITCHELL. There is no single answer to that. That depends on the cost of selling it, of selling the product.

Mr. MARRIOTT. So you are not attacking the size of the commission?

Ms. MITCHELL. No; I am not.

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costs of legitimate losses. In short, the cost of bearing pure risk should be established on the basis of actual experience, by a joint Government-industy statistical board, with consumer representation and should not enter the competitive pricing arena.

This is discussed in appendix A of my statement.

[Appendix A follows:]

point.

This needed system is not about to emerge full swoop. Insurance companies are too strong vis-a-vis unorganized policyholders. However, there is an area where competition can work that should be