



Highlights of [GAO-09-452](#), a report to congressional requesters

## Why GAO Did This Study

Concerns over unsuitable insurance products and inappropriate sales practices directed at servicemembers have prompted legislative and regulatory changes to address these concerns. Congress asked GAO to assess oversight efforts by the Department of Defense (DOD), the National Association of Insurance Commissioners (NAIC), and state insurance regulators. In this report, GAO (1) describes actions to improve oversight of life insurance sales to servicemembers and the extent to which they have been completed, and (2) identifies and analyzes factors that contribute to apparent ongoing inappropriate insurance sales. To complete this work, GAO visited five military facilities, analyzed DOD pay records, reviewed DOD and state enforcement actions, and spoke with DOD, state regulatory, and insurance industry officials.

## What GAO Recommends

GAO recommends that (1) DOD and NAIC work together to improve the information shared on enforcement actions taken against insurers and agents, and (2) DOD improve controls to detect and prevent inappropriate insurance allotments, and report insurance companies to federal and state authorities when such allotments are found. DOD concurred with the recommendations and stated it would take actions to implement them. NAIC generally agreed with the recommendation to them, adding that it does not have authority to mandate use of the information system it developed.

View [GAO-09-452](#) or [key components](#). For more information, contact Jack Edwards, (202) 512-8246, [edwardsj@gao.gov](mailto:edwardsj@gao.gov).

# INSURANCE SALES TO MILITARY PERSONNEL

## Additional Actions Needed to Prevent Improper Life Insurance Sales and Pay Allotment Transactions

### What GAO Found

Since 2006, Congress, DOD, and state insurance regulators—through NAIC—have developed and implemented laws and regulations designed to help prevent inappropriate insurance product sales to military servicemembers. In 2006, Congress passed legislation that, among other things, sought to establish standards for life insurance products and sales practices. Also in 2006, DOD revised its instruction designed to govern insurance solicitations on military installations. In 2007, NAIC created a new regulation that, among other things, declared certain life insurance products and sales practices to be inappropriate. As of March 2009, all but five states had adopted the regulation. Further, DOD and state insurance regulators took actions against insurance companies and agents related to the inappropriate sale of life insurance products. Some actions are stayed, pending judicial review. Currently, DOD and NAIC have separate mechanisms to centralize the gathering of information on actions taken against those selling insurance to servicemembers. DOD maintains lists of such actions on its Web site, but these lists are not easily searchable and do not always contain some relevant information, such as the name of the insurance agent involved. In response to the 2006 law, NAIC created a system to inform state insurance regulators of such actions. However, as of March 2009, this system contained no data. According to DOD officials, their lists currently meet their needs, and they are reluctant to enter data into NAIC's system because they do not control it. Without ready access to relevant information on disciplinary actions against insurance agents and companies, DOD and state officials may be less able to identify patterns of problematic activities and prevent inappropriate insurance product sales to servicemembers.

Despite regulatory progress such as that cited above, some sales of insurance products that new state regulations generally presume to be unsuitable for servicemembers appear to be continuing. State regulators attributed the continuing sales to the new state regulations not being fully tested yet in state courts. In addition, GAO's review of DOD pay records identified approximately 40,000 allotment transactions that appear to have been created through inappropriate use of DOD's automated pay system, MyPay. For example, DOD regulations and new state regulations prohibit the use of MyPay for insurance allotments, but GAO found records of allotments with certain characteristics and patterns of bank account numbers that state regulators had previously identified as belonging to insurance companies. DOD has limited controls in place to detect or prevent such allotments. Such sales transactions, accomplished through MyPay instead of the proper paper form process for insurance allotments, also circumvent the 7-day cooling-off period that DOD requires to occur between the signing of an insurance application and the certification of an allotment into DOD's pay system. Without adequate controls in place to prevent improper allotments and inappropriate sales activities, servicemembers may continue to be at risk of purchasing unsuitable insurance products.