

California Joins Insurance Crackdown

New York Attorney General Eliot Spitzer started it, filing suit against Marsh & McLennan for allegedly steering business clients to insurers that paid an extra compensation. Now, California's Insurance Commission, John Garamendi, is putting the insurance industry under tougher scrutiny.

Calling secret broker commissions a "serious problem that betrays the public's trust," Garamendi has announced new regulations requiring agents and brokers to disclose any financial incentive they would receive for selling certain insurance products and steering business to specific companies. Targeting a practice that has sparked a national controversy and criminal charges against industry executives, Garamendi said his proposal would help clarify and strengthen the laws prohibiting these practices. "When consumers place their trust in the hands of agents and brokers to find them the best policy at the best price, they should know if a backroom deal has already been struck," Garamendi said. "My ongoing investigation will expose these under-the-table kickbacks that are not in the best interest of consumers." The regulations were released this week for public review, after which they must gain the approval of the state's Office of Administrative Law. Brokers would be required to disclose to their clients whether they were receiving fees from a third party for steering business their way. Also, brokers would not be permitted to put their own financial interests above those of their clients. Specifically, a broker would be in trouble if he or she:

- Fails to provide the client with the proposal from the best available insurer;
 - Advises a client to select an insurer other than a best available insurer;
 - Advises a client not to select the best available insurer from among multiple insurers suggested to the client; and
 - Fails to take reasonable measures to obtain a quote from an insurer that might be the best available.
- Garamendi ordered the drafting of the regulations in March after the practice drew scrutiny from a foundation critical of the incentive commission practice. At that time he also initiated an investigation of the industry in California to assess the extent of this practice, and to determine the need for any ensuing regulatory or legal action. Under Garamendi's proposed regulations, failure to comply could result in fines of up to \$10,000 per incident, issuance of a cease and desist order by the Commissioner, and/or the revocation or suspension of a company or broker's license.

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