2008 Fall Conference Report

NATIONAL ALLIANCE OF LIFE COMPANIES *An Association of Life and Health Insurance Companies*

September 10 - 13, 2008
Westin Bay Shore
Vancouver, British Columbia

The NALC held its 2008 Spring Conference September 10 - 13, 2008 at the Westin Bay Shore, Vancouver, British Columbia. Following are summaries of presentations by participating speakers.

Commissioners Panel

Commissioner Roger Sevigny of New Hampshire joined us for our Commissioner's Panel. Commissioner Sevigny is President-Elect of the NAIC. The Commissioner noted that modernization was a critical goal for regulators and insurance companies. Many necessary steps can be taken at the state level, such as passage of the Interstate Compact. He noted, however, that the federal government could play an important role in modernization without passage of the Optional Federal Charter. Congress could focus on creating the tools necessary to encourage reform in the fifty-one state jurisdictions. That would allow the preservation of an effective state regulatory system and at the same time achieve uniformity and modernization with limited federal intervention.

Commissioner Roger Sevigny and Director Linda Hall

The NAIC faces several major challenges this year. First, it must hire a new Executive Vice-President. That person must have an ability to effectively argue the states' case before Congress. Additionally, the NAIC decided to endorse the Office of Insurance Information legislation proposed by Secretary Paulson, which would give the Treasury limited oversight over a range of insurance related issues, including international standards. There is also a debate over SEC regulation of indexed annuities and NARAB 2 legislation at the federal level. Finally, the leadership of the NAIC has been actively involved in discussions with Congress regarding the Optional Federal Charter legislation as referenced above. The NAIC is actively opposing this legislation, but sending the signal it wants to work with Congress to improve the overall system.

Tom Considine, Commissioner Sevigny and Brian Patrick Kennedy, President of NCOIL

Director Linda Hall of Alaska also spoke. Director Hall has served seven years, which makes her one of the longest serving regulators in the country. The Director noted that the turnover of regulators presents a set of challenges for the NAIC, including education and continuity of policy. She is a strong advocate of agent licensing uniformity, and noted the difficulty in getting jurisdictions to move forward on those issues. There are success stories, however, such as electronic licensing of non-residents. The Director also discussed Principles Based Reserving, and stated that the NAIC goal was to move away from formulaic reserving that resulted in redundancy of reserves. She also discussed New Jersey Commissioner Steve Goldman's efforts to create a better regulatory scheme for reinsurers.

6 words = Current NALC President Gerry Kraus Presiding

Mary Ellen Waggoner, Executive Director of the National Insurance Producer Registry (NIPR) spoke. Ms. Waggoner is a former Deputy Director of the Colorado Department of Insurance, and was hired to start the NIPR in 2002. The focus of the NIPR is modernization and uniformity of producer licensing, and it has been a great success. With initial seed money provided by producers and the NAIC, NIPR successfully implemented programs in a few states, and later broadened its focus to the remaining states by using its cash flows to expand the range of services available to producers and the states.

Agent Licensing Issues

Suzanne Loomis, Sr. VP - Government Relations, Primerica

Events in Producer Licensing in the last few decades have impacted Life Insurance Industry and consumers in the United States.

- Americans are underinsured, with more impact to minority groups.
- The sales force has been and continues to shrink and age with fewer agents entering the profession.
- The Industry has lost pace on several counts, magnified by the population growth:
- Total Agents have declined, experiencing a decrease by 31% in the last 30 years
- Policies Purchased have declined by 45% over last 40 years

Alliances have been formed to address the issues. Primary groups are the ACLI Producer Licensing Task Force, accompanied by NAIFA and the NAIC Producer Licensing Task Force. Established goals are: Build the Agent Force, improve accessibility to Life Insurance in particular, Middle America. A product of these efforts has resulted in the NAIC - Best Practices State Guide to Producer Licensing, a needed enhancement to the PLMA and URLS.

Mike Pickens & Alisa Bissell

Investment Management…An Outlook on the Economy

Ted Hoxmeier, VP & Portfolio Manager Advantus Capital Management

The economy and markets went through the gauntlet in the recent months, hit hard by the failure of large financial institutions, worsening economic conditions and stalled credit markets. The Federal Reserve and the Treasury launched a number of extraordinary measures to prevent a severe recession or depression.

The failure or forced sale of a number of large, well-known firms dominated the financial headlines. First came the takeover of the mortgage giants Fannie Mae and Freddie Mac. Next, the federal government assumed an 80 percent share in AIG, the world's largest insurance company. Merrill Lynch was quickly sold to Bank of America. Washington Mutual was seized in the largest bank failure in U.S. history. Wachovia was sold to Wells Fargo.

Gerry & Terri Kraus & Denise Campbell

In every circumstance, these failed organizations depended on funding from the short-term credit markets to do business. When they lost their ability to secure short-term credit, the speed with which these icons of our financial system unwound shocked observers and sent fear through the markets.

It also led to the federal government's $700 billion plan aimed at preventing the credit markets from going into a deep freeze. While the rescue plan won't bring an immediate end to the turnaround, it could limit how quickly and how far the economy falls. A lack of liquidity and lending capacity is threatening to shut the economy down, and the plan attempts to get the credit markets moving again.

The bold, unprecedented and necessary actions of the Fed and the Treasury very likely prevented a collapse of the financial system. Whether they are sufficient to contain the crisis in the months ahead won't immediately be clear. It is certain, however, that changes this crisis brings to our financial system will be both lasting and profound.

The equity markets tumbled, as investors dramatically lowered their expectations for future earnings growth in the U.S. and internationally.

High volatility characterized the markets, peaking on September 29 when the S&P 500 fell by 8.8 percent following the initial Congressional rejection of the Bush rescue plan. A high degree of uncertainty means volatility is likely to continue for some time to come.


Harry Bassett & Maryellen Waggoner

A glimmer of hope for investors comes from the likelihood that, with concerns about inflation lessening, the Fed will cut interest rates to get the economy growing. Investors would then likely reassess the future earnings growth of companies. Stocks in general, and some of the sectors such as financials that have been seriously beaten down could get a lift as a result.

The problems of financial firms significantly affected the fixed income markets, creating a substantial drag on performance over the quarter.

Even money market funds suffered, and redemptions led one fund to "break the buck" and generate losses for its shareholders, a situation that had only occurred once previously. The Treasury Department quickly announced a guarantee program designed to stem a potential run on money market funds.

Jimmy Caldwell, Summer & Andrew Quist

A flight to quality created such high demand for Treasury bills that yields at one point dropped to almost zero, with investors willing to completely forgo returns in exchange for safety. This occurred at the same time that the short-term borrowing rate for banks and businesses rose to 6 percent.

Those rates are high by historical standards and make it very difficult to fund and finance a business.

The residential housing market continued to suffer, as home price declines continued and mortgage delinquencies increased. While it has been frequently stated that a stabilized housing market is the key to resolving the credit crisis, it will take some time for housing losses to work through the system. It will be an evolving process, and won't happen overnight.

Commercial real estate, continues to be one of the better-performing sectors of the market. Commercial real estate funding is typically long-term, rather than short-term, insulating it from the current stresses in the short-term credit. It should be noted, longer term, a slowing economy will put pressure on commercial real estate fundamentals

Outlook

While everyone's crystal ball is somewhat cloudy at this point, we believe the effects of economy's reduced lending capacity will begin to become more apparent in the months ahead.

Fewer lending sources and higher interest rates will reduce the ability of Main Street businesses to get funding. When projects now in the works are completed and the money to start new ones isn't there, we could find ourselves in a very serious economic slowdown.

On the positive side, the government's sizeable efforts to stimulate the economy will at some point become a powerful force. When that happens, investors who decided to get out of the market and stay on the sidelines will miss some powerful opportunities.

We think investors would be better served by averaging into the down market, and remaining diversified. History shows that over time, diversification and staying in the market overcomes even the deepest downturns.

A very attentive audience...

Principles Based Reserving

Clarence Daugette & Alie & Michael Causey

Norm Hill, Actuarial & Business Consultant, NoraLyn Ltd.

PBR documents include a revised Standard Valuation Law and a Valuation Manual (Model Regulations), applicable only to new issues. Currently, the trend is for a stripped down SVL, with all or almost all details left to VM. It is very possible that such SVL will be adopted this year by the NAIC, with a host of unresolved, contentious issues left in the VM for 2009 adoption. This means the SVL would be submitted to state legislatures for passage, and the VM would become automatically effective upon NAIC adoption. Since the original intent, we believe, was submission of an SVL/VM package to legislatures, this likely removal of an appeals source on VM causes us great concern. The matter is even more sensitive, considering that VM work to date has been for life and variable products, with no work on health or non-variable annuities.

John Brown, Suzanne Loomis & Bill Dudley

Some of the unresolved issues in VM include:

1. Three reserve floors, with application to the smallest reserve unit.

2. Discount rate, company portfolio or risk free (possibly + 50 basis points) Treasury rate.

3. Stochastic Exclusion Test-less risky products can use gross premium reserves, not the more onerous stochastic reserves, by demonstrating low test ratios indicating less riskiness. Some traditional products have already been tested, but more testing is required for nonpar permanent life, including single premium and limited premium life.

4. Reinsurance, project only net of ceded, or project both gross and net.

5. Proposed small company exemption from experience reporting of data, even during the 5 year deferral period from PBR for less risky products.

6. Do actuaries take PBR seriously, except for certain risky products, such as term and Universal Life with so-called secondary guarantees?

The standard Risk Based Capital proposal for the C3 interest risk on life products is a form of PBR. However, it would require stochastic reserves for all issues. Also, the discount rate would be after tax, a radical departure.

Anne Monaco-Warren, Jimmy & Jim Caldwell

Fortunately, there are several alternatives proposed:

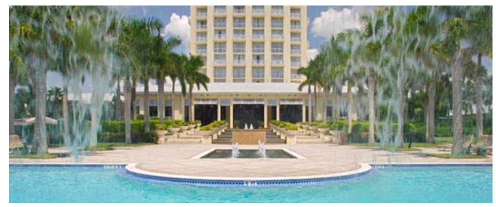
1. For less risky products passing a form of the above Stochastic Exclusion Test, retaining the current C3 factors. It is not resolved whether the SET would be exactly the same as for PBR reserves.

2. Use of the Alternative Amount, which appears to allow actuarial judgment, subject to considerable documentation.

This entire approach would become effective upon NAIC adoption. It might be effective for year end 2009, or, more likely, 2010.

Save the Date…Register Now!

2009 Spring Conference



The NALC will hold its 2009 Spring Conference April 22 - 25, 2009, at the Hyatt Regency Coconut Point, Bonita Springs, Florida. Online conference registration, the hotel reservation form, golf registration, tentative agenda and sponsorship list are available at www.nalc.net. You have the option of registering online, or completing the forms on your computer. ***PLEASE NOTE:*** Registration fees are subject to a 50.00 late fee if not received by April 1, 2009. Registration fees are non-refundable after April 10, 2009.

The cut-off date for the NALC room block at the Hyatt Regency Coconut Point is March 6, 2009. Any reservations received after March 6, 2009, will be based on availability. See hotel reservation form for pertinent information.

Contact Dawn Bergsma for sponsorship opportunities.

Looking Ahead

Please make note of these future NALC conference dates and add them to your calendar. You won't want to miss them!

- **2009 Fall Conference:** September 29 - October3, 2009
  Westin Kierland Resort & Spa, Scottsdale, AZ

- **2010 Spring Conference:** April 14 – April 17, 2010
  Kiawah Island Golf & Resort, Kiawah Island, South Carolina

- **2010 Fall Conference:** September 22 – September 25, 2010
  Stoweflake Resort, Stowe, Vermont