



2009 Fall Conference Report

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



September 30 - October 3, 2009
Westin Kierland Resort & Spa
Scottsdale, Arizona

The NALC held its 2009 Fall Conference September 30 – October 3 at the Westin Kierland Resort & Spa, Scottsdale, Arizona. Following are summaries of presentations by participating speakers.

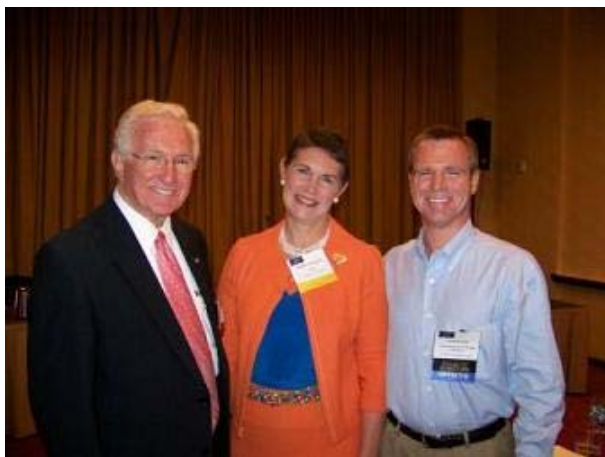
Christina Urias, Director, Arizona Department of Insurance

Christina Urias is the one of the longest serving insurance commissioners in the United States, having served Arizona for the past seven years. This highlights the challenges of continuity and experience among the nation's commissioners.

Director Urias talked about financial regulatory reforms being proposed in Washington. The focus is on systematic risk regulation, and she does not believe that insurance companies pose a risk that could collapse the financial system. States have done a good job of regulating insurance companies, and these companies have not experienced the problems of other financial institutions. The Director noted that a large part of the job of state insurance regulator is handling consumer complaints. With over 60,000 complaints a year, this is difficult. With large state budget cuts, it's much harder to manage. It is clear that a remote federal bureaucracy could not adequately handle the wide variety of complaints that state agencies deal with on a daily basis.



Cam Waite & Christina Urias



Nick Monaco, Terri Vaughan & Cam Waite

Director Urias believes that state regulators should focus on three things to improve oversight: 1. employing strategic risk management tools to evaluate company decisions; 2. making certain that companies have adequate capital on hand to take care of claims; and 3. making certain the interests of shareholders and management of companies are properly aligned.

Terri Vaughan, CEO, NAIC

Terri Vaughan is the CEO of the NAIC. She is the former Iowa Insurance Commissioner, President of the NAIC, and a former professor of insurance at Drake University in Des Moines. Ms. Vaughan led a discussion on federal financial regulatory reform. She noted that the Consumer Financial Products Safety Agency legislation does not broadly include insurance, as it's limited to credit, mortgage and



title insurance. The Office of National Insurance Legislation (also known by other acronyms) does propose a limited federal role in insurance oversight, mostly dealing with international insurance treaty issues and other agreements.

Ms. Vaughan believes the NAIC cannot simply say no, and must offer some constructive ideas regarding ways to work with the federal government. In that light, the goal of the NAIC is to preserve the exclusive regulatory authority over insurance, while considering such ideas as a joint state-federal systematic risk council and an Office of National Insurance with limited, non-regulatory functions (such as oversight).

Ernie Csiszar, Insurance Director, Bridge Strategy Group LLC

Ernie Csiszar is the former Insurance Commissioner of South Carolina, the former President of the NAIC, and the former CEO of the Property and Casualty Insurers of America. He is currently teaches at the University of South Carolina and is a consultant with Bridge Strategy Group. Mr. Csiszar says he supports state regulation conditionally, because the federal government has traditionally done such a poor job of regulating business. He favors an approach like the “tool box” to achieve greater uniformity of product approval and licensing among the states.

Interestingly, Mr. Csiszar believes the issue of whether or not the federal government passes an insurance regulation law will be driven by outside events—namely the jobs market. With unemployment potentially reaching low to mid double digits, Congress will be distracted by the demands and needs of the unemployed. He also suggested that the insurance industry misplaces its attention on the role of the NAIC in the creation of insurance law and regulation. In his view, state legislatures are where the real action is, and he thinks industry should put more focus and resources in that area.



Welcome to Arizona!

Protecting Your Investments

Mike Kiley, CEO, Kiley Investment Management



Byron Allen & Mike Kiley

Mike Kiley, of Kiley Investment Management, presented an investment topic at this year's fall NALC meeting, held at the Westin Keirland Resort in Phoenix, Arizona. The presentation was entitled, “Protecting Your Investments”. Kiley spoke about a system that is invaluable in protecting the value of bonds in one's portfolio.

The two-part system uses a macroeconomic methodology, employing the business cycle as a basis for determining which asset classes to choose—at various times in the cycle. Kiley gave a brief overview of the history of the business cycle, and then provided a guide, or “roadmap”, which an investor can use to make investment decisions.



Wait For Me!

The system then uses basic financial analysis of individual companies to find overvalued and undervalued bonds for investment. In his example, Kiley showed that Anheuser Busch, recently purchased by Inbev, is more highly leveraged than the market appears to be acknowledging. He recommended selling this holding. Then Kiley presented an argument that California taxable municipal bonds, despite their budget problems, are an excellent investment at current prices and yields. Kiley argues that risk is not measured by a bond's ratings, but rather by its price. If there is a high probability that the price will decline, then the bond is risky, and should be sold and/or avoided no matter what the bond is rated. If there is a low probability of price decline, then the bond should be given serious consideration as an investment for the investor's portfolio. Price matters!

Kiley Investment Management is a registered investment advisor, managing bonds for institutional clients, and specializing in insurance company portfolios. Kiley Partners, a FINRA licensed broker-dealer, is an affiliated company, which buys and sells bonds for institutional clients. The firm's address is Kiley Investment Management, 13241 Oakmeade, Palm Beach Gardens, FL. 33418. Phone: 561 630 5006. Email: mike.kiley@kileypartners.com.

Identity Theft Prevention Pursuant to the Identity Theft Red Flags Rule

Todd Newton, Partner, Mitchell, Williams, Selig, Gates & Woodyard

On December 4, 2003, the President signed the Fair and Accurate Credit Transactions Act (the Act) into law. The Act amended portions of the Fair Credit Reporting Act of 1970 and added new provisions requiring the federal bank regulatory agencies and the Federal Trade Commission (collectively, the "Agencies") "to issue joint regulations and guidelines regarding the detection, prevention, and mitigation of identity theft, including special regulations for requiring debit and credit card issuers to validate notifications of changes of address under certain circumstances." The Act also required the Agencies "to issue joint regulations that provide guidance regarding reasonable policies and procedures that a user of a consumer report should employ when the user receives a notice of address discrepancy."



Todd Newton & Rick Campbell

On July 18, 2006, the Agencies issued proposed rules and guidelines for implementing the provisions of the Act, giving the public until September 18, 2006 to comment on the proposed rules and guidelines. After considering the comments that were submitted, the Agencies published their final rule on November 9, 2007 (the "Rule"). The Rule became effective November 1, 2008, except for those entities covered by the Federal Trade Commission ("FTC"). The FTC has extended the enforcement deadline several times, with the current deadline being November 1, 2009.

In summary, the Rule (and accompanying guidelines) imposes several requirements that require prompt attention. First, financial institutions that offer or maintain certain types of accounts and creditors that permit multiple transactions to persons, all primarily for personal, family or household accounts (“Covered Accounts”), are required to implement a written program to detect, prevent, and mitigate identity theft in connection with the opening of a Covered Account or any existing Covered Account. The Agencies deemed the program to have such importance that they require the board of directors and senior management to develop, implement and oversee the program. Second, debit and credit card issuers are required to assess the validity of change of address notifications, particularly when such requests are followed by a request for an additional or replacement card for the same account. Third, “users of consumer reports” and “persons requesting consumer reports” (“Users”) are required to implement policies and procedures that must be followed when a User receives a notice of address discrepancy concerning the customer about whom the credit report was requested.



Friday Night Fun

There are a few points that are worth mentioning. First, for those entities covered by the Rules, compliance is mandatory. Second, the Rules and accompanying guidelines make it clear that each program must be tailored to the specific entity and the industry in which it is engaged. Third, the Rules envision that companies will not have to “reinvent the wheel” by creating and implementing new policies and procedures if they already have certain policies and procedures already in place. Rather, companies may revise their existing policies and procedures to incorporate those elements required by the Rule.

Alternative Solutions for Funding New Business Development

Steve Christopher, President & CEO, Capital Partners Funding

Kenneth Johnson, President, Palmetto Consulting Concepts, LLC

Michael Molony, Partner, Young Clement Rivers, LLP

The presentation titled “Alternative Solutions for Funding Life and Annuity Business was made at the NALC fall conference in Phoenix, AZ. The presenters were, Michael Molony, Partner, Young Clement Rivers, LLP, Steve Christopher, President and CEO, Capital Partners Funding Group, and C. Kenneth Johnson, President, CIFG Captive Management Company, Inc.



Ken Johnson, Mike Molony & Steve Christopher

Mr. Molony presented the segment from the *Attorney’s Viewpoint* which included an overview of captive insurance developments he has experienced in South Carolina, where the State has licensed over 25 Special Purpose Financial Captives used to fund the redundant reserves of major term life insurance companies. Mr. Molony has played a major role in helping license these companies. His firm works closely with the SC Dept. of Insurance to see that these unique reinsurers are properly capitalized and managed. He also sees a growing opportunity for small to mid size life carriers to be able to take advantage of this same reinsurance business model in the very near future. The SPFC model is very cost effective and allows the parent life company to



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own captive reinsurance company. Capital Partners Funding Group can assist in both the long term surplus funding that is required to finance life reserves and provides a total structuring facility with its team of experienced actuaries and investment bankers.

Mr. Johnson closed out by presenting the *Viewpoint of the Financial Officer.*, He covered the proper regulatory oversight that captive formations must follow and explained that how only a small group of state insurance departments are experienced in managing this oversight. He explained the importance of having the proper team of professionals to assist in the captive development process and in selecting the best state for domiciling the new captive company. He included in his presentation, what many in the captive industry see as the next big advantage for captive formation; the Segregated Cell Special Purpose Captive. Through the use of segregated cell formations you have a fully licensed company with its own IRS tax ID, under a regulatory structure that is much cheaper to form and to manage going forward. This business model is now in the development stages in South Carolina and expects to become available in 2010.

If you would like a copy of the PowerPoint Presentation that was presented by these three gentlemen, please contact C. Kenneth Johnson at kjohnson@cpfgnet.com or call his office at 843-849-7647.



arrange a better reinsurance platform to save on reinsurance cost as well as a good model to free up much needed surplus.

Mr. Steve Christopher, who as the past President of ING Life USA, provided the Alternative Solution from the *Insurance Executive's Viewpoint*. Mr. Christopher pointed out the annual issues many life companies must go through every year in structuring their reinsurance treaties and how this process impacts not only the short range planning process but the long range planning process as well. Alternative Solutions can be a more flexible tool for the planning process. He encourages all life companies, not just term product writers, to see the advantages of having your



Suzanne Loomis & Bob Ries

Through the use of segregated cell formations you have a fully licensed company with its own IRS tax ID, under a regulatory structure that is much cheaper to form and to manage going forward. This business model is now in the development stages in South Carolina and expects to become available in 2010.

Save the Date

2010 Spring Conference

April 14 – April 17, 2010
Kiawah Island Golf & Resort
Kiawah Island, South Carolina

Complete registration information will be available soon on the NALC website at www.nalc.net