



# 2011 Fall Conference Report

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

The NALC held its 2011 Fall Conference September 21 - 23, at the Hotel Park City, Park City, Utah. Following are summaries of presentations by participating speakers.



## State Leaders, Lawmakers and Regulators

### *Lieutenant Governor Greg Bell*

Lieutenant Governor Bell of Utah discussed the business climate in Utah. Utah is recognized as a well managed state with a strong, diversified economy. Bell noted that Utah moved in the 1990s from an extraction based economy subject to business cycles to a more balanced economy with substantial new business development. One advantage for Utah in recruiting new business is a culture that includes many speakers of a second language and a well traveled and well educated population. Bell is leading the Governor's initiative to produce 1000 new jobs in 1000 days in Utah.

### *Deputy Commissioner Jake Garn*

Deputy Commissioner Garn of Utah spent 25 years in public accounting before moving into regulatory work at the Utah Department of Insurance 5 years ago. He discussed the challenging earnings environment facing insurance companies, but noted that better days are ahead. He feels that regulators have done a good job of coordinating regulation of insurance companies, but acknowledged some advantages to more federal coordination involving agent licensing and international insurance treaties. As a whole, he believes federal regulation would be slower and more costly, and would create an environment that discouraged product innovation. The Commissioner also noted that Dodd-Frank should serve as a wakeup call for any insurer that believes federal regulation would be more flexible and less expensive.



### *Commissioner Tom Considine*

Commissioner Tom Considine of New Jersey spoke. He noted that the regulatory climate in his state has improved. Time for reviewing filings has been reduced by 60%, and the mandate to the Department is that every regulation must have a reasonable basis. The Commissioner also spoke on pending issues at the NAIC. First, he spoke of AG 38. This is not a new issue, as six years ago discussions took place regarding proper reserving. Next, he noted that the separate account issue has its origins in product innovations from the 1950s, when regulators approved the creation of certain products that exposed customers to more risk (like mutual funds) that were separated from general account obligations. With respect to the retained asset account discussion, the Commissioner feels that these products are a valuable option for customers, and that the controversy regarding these accounts has been overblown. The NAIC produced a model bulletin that should be helpful in resolving this issue.



*Representative George Keiser*

Representative Keiser of North Dakota is President of NCOIL this year. President Keiser started by expressing a concern regarding the lack of open meetings and transparency at the NAIC. He discussed the Dodd-Frank Act as well, concluding that it was a larger federal overreach than the Health Care Act. He believes Dodd-Frank is far too focused on process. President Keiser discussed the retained asset account controversy raised earlier by Commissioner Considine. He believes these accounts are good products that lacked the necessary transparency, in many cases. With respect to the unclaimed property debate, he stated that no law should be applied retroactively, and indicated he would oppose any NCOIL model that tried to impose retroactive application. President Keiser did state that the retained asset issue should have been discovered by regulators during market conduct exams, and stated that industry had an obligation to conduct independent reviews and to self-correct in such matters.



*Representative Greg Wren*

Representative Greg Wren of Alabama chairs the Life Insurance and Financial Planning Committee of NCOIL. Representative Wren also works with the COFIR group that is opposed to federal regulation of insurance. He started his discussion by noting that the “optional” part of the optional federal charter is no longer on the table- any future discussion of federal regulation will likely be mandatory for the industry. Representative Wren encouraged the life insurance industry to participate in the national dialogues sponsored by NCOIL. The next dialogue is scheduled for the November NCOIL meeting in Santa Fe, New Mexico.



*Commissioner Susan Voss*

Iowa Insurance Commissioner Susan Voss is the President of NAIC this year. She discussed “what keeps me awake at night.” The Commissioner pointed out that the Obama Administration had recently appointed Mike McRaith as its first head of the Federal Insurance Office. For the first time, the federal government actually has a regulatory role involving insurance, with McRaith having the authority to oversee insurance treaties and compacts. The Department of Treasury has a role as a policy shop. The big outstanding issue at the federal level is the report to be prepared by the Financial Stability Oversight Council on how insurance regulation can be improved. President Voss noted that the Europeans were pushing for the untested federal model to be implemented by the United States, while state regulators countered that the existing model of state regulation stood up well during the financial crisis, with insolvencies at a minimum.



**Overview of Dodd-Frank Law & Implementation**

*Speaker: Kristin Smith, Associate General Counsel, MetLife*

Kristin Smith presented an overview of the Dodd-Frank law and an update on its implementation by the federal regulators. She started by briefly touched on the law’s background, including the policy goals that drove its passage and enactment and the status of the rulemaking process. Kristin then focused on the sections of the bill that she believed would have the greatest impact on insurers, highlighting in particular, the potential impact on

small- and mid-sized life insurance companies. Some of the topics she covered included the new Federal Insurance Office (FIO), the Financial Stability Oversight Council (FSOC), and the Dodd-Frank Act's state-based insurance reforms relating to surplus lines and reinsurance. Kristin concluded the presentation with a general observation that as a result of the Dodd-Frank Act, insurers should expect more federal government involvement in the insurance industry, but that small- and mid-sized insurers might feel a smaller impact than their larger peers.



### **Regulatory and Actuarial Update**

*Norm Hill, President, Noralyn LTD*

*Leon Langlitz, Vice President & Principal, Lewis & Ellis*

The actuarial profession continues to be involved in the development of the Principle Based Reserving (PBR) System along with several related issues the NAIC continues to work on. There is currently controversy regarding Actuarial Guideline 38, and its application to certain universal life contracts with secondary guarantees (no lapse guarantees).

Another key item is the Impact Study currently being performed which is a test of implementing the new PBR system. Their testing has been more involved and time consuming than originally anticipated. The ACLI is now proposing that PBR be scaled back and only applied to Term and universal life with secondary guarantees. There does not appear to be consensus on this point at the NAIC level.

Another aspect of the PBR regimen is required experience reporting. There appears to be little support for small company exemptions from the proposed rules. The primary statistical agent now believes that they have the capability to handle any number of company submissions. This was a significant change from their prior position which limited it to 250 companies.



The actuarial profession is also involved in a number of other activities besides the Principle Based Reserves project. Over the last 20 years the number and types of research studies and projects sponsored by the profession has increased significantly. Practical research projects (beyond just those involving the development of mortality or morbidity experience tables) have been completed in the areas of pension and retirement, finance and investment, risk management, mortality and morbidity. An additional area of study is in the field of longevity. The Society of Actuaries cosponsors a triennial symposium, *Living to 100*. This conference brings together scientists, researchers, business and other thought leaders to share and increase knowledge in the field

of aging and what the ramifications to social, financial, retirements and health care systems. Information can be found at [www.soa.org/research](http://www.soa.org/research).

### **Persistency Check**

*Rick Dugger, President, Vector One*

In 1989 Vector One permanently altered the way companies concerned about due-diligence, market conduct, and debit balances recruit and appoint agents. Today, two-thirds of NALC member companies are utilizing Vector One's Debit-Check as a key component of their agent management. As one long-time member stated to the group at the Park City, UT meeting a few weeks ago, "Since subscribing to Vector One nineteen years ago, our company has reduced the dollar cost of debit balances by 75%, while tripling premium revenue."



Vector One has once again altered the agent management landscape with the introduction of Persistency Check. Beginning in the 1st Quarter 2012, companies will be able, for the first time ever, to screen prospective agents for persistency issues. Persistency-Check subscribers will log on to Vector One's secured encrypted web portal. Upon the input of the SSN or FIDN, subscribers will learn whether or not there is a match for that agent...meaning

another Persistency-Check subscriber has posted the agent as having a persistency issue. If there is a match, they will see: Agent Name, SSN/FIDN, number of Matches, and for each match the Posting Company, Posting Company Contact Information, Product Line and Termination Date. Persistency-Check also provides companies with notifications regarding agents previously queried by the company and not in Persistency-Check at that time, but later added as having a persistency issue by another Persistency-Check subscriber. It is as if the company is constantly checking its field force to see if its agents have been posted to Persistency-Check as having a persistency issue, except we do it automatically!

Companies have always been able to track persistency internally, but have never been able to know about a producer's persistency issues with other companies. Now they can. The reception to Persistency-Check has been overwhelming, with companies already committing to use it as soon as its available. Vector One truly is Due Diligence Insurance for the insurance industry.

For information about becoming a subscriber, please contact:

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### **An Overview of the Current Market and Economy**

*Joe Syage, Portfolio Manager, Brookfield Investment Management*

Recent trading in the US and international markets have been extremely volatile in the past two months as a result of numerous economic and political issues facing the US and Europe. The growing budget deficits, the

contentious debt ceiling debate in Congress, the downgrade of the US Treasury and the Federal Reserve's apparent end to their stimulus options has reduced American's confidence in our government's ability to meaningfully impact our economy. Unemployment continues to remain weak and housing prices are continuing to decline, which has hurt consumer confidence and lowered projected GDP growth. However, the recent increase in market volatility recently has been heightened by the systemic risk associated with the potential European sovereign debt default risk. The default risk of Greece and a number of other European nations could result in a contagion that impacts the European banking system and the economies across the globe.

As a result of the increased market risks and uncertainties resulting from this unprecedented sovereign risk, investors have dramatically reduced their appetites for risk. US Treasury bonds, which are still considered the world's safe haven investments, have rallied considerably, as interest rates on all securities along the yield curve have reached historic lows, with the 10-year Treasury declining to 1.75%. However, inflation pressures have increased in the past year, with the CPI approaching 2%. As a result, Treasury yields for all maturities up to ten years are currently generating negative real rates of return, which has never been sustainable in the country's long history. Therefore, the very low yields on US Treasuries may begin to reverse, and investments in this sector could generate significant downside price movement. Therefore, for insurance company portfolios, the very low yield would negatively impact book yields and could result in unrealized losses. Therefore, we believe US Treasuries are a risky asset class at current levels.

The dramatic rise in US Treasury prices and decline in yields were also accompanied by significant declines in stock prices. As a result, the relative relationship between stock and bond valuations appears to favor stocks. For example, the current relationship of the S&P 500 equity earnings yield exceeds the yields on high grade corporate bonds by the most in several decades. This is due to the low P/E multiples on stocks, resulting from the continued growth in earnings, at the same time bond yields are at historically low levels. As a result, to maintain yields and performance within a diversified portfolio, high dividend equities and infrastructure equity investments provide favorable yields and appreciation potential compared to high grade corporate bonds. Since the flight -to-quality has also caused yield spreads to widen in various fixed income sectors, several additional asset classes provide favorable values, including short term floating rate collateralized loan obligations, the highest rated tranches of commercial MBS, high yield corporate bonds and taxable municipal bonds (Build America Bonds).



## Looking Ahead: 2012 Conferences

*Save the Dates Now!*

Please mark your calendars now for the NALC conferences coming up in 2012. Watch your e-mail for updates regarding online registration, hotel reservations, tentative conference agendas, sponsorship opportunities, local attractions and other conference news.

**2012 Spring Conference**  
**April 18 - 20, 2012**

**LaCosta Resort & Spa**  
**Carlsbad, California**



**September 19 - 21, 2012**  
**NALC 2012 Fall Conference**

**Kingsmill Resort**  
**Williamsburg, Virginia**