

NALC Fall Conference Highlights



Longboat Key Club
Longboat Key, Florida
September 28 - October 1,
2005



The NALC held its 2005 Fall Conference, September 28 - October 1, 2005, at the Longboat Key Club, Longboat Key, Florida. Following are summaries of presentations by participating speakers.

Thursday, September 29

Commissioners Panel

- *Kent Michie, Utah Commissioner*
- *Eric Serna, New Mexico Superintendent*
- *Mike Pickens, Arkansas Former Commissioner*
- *John Hartnedy, Arkansas Former Deputy commissioner*
- *Louis Pietroluongo, 1st Deputy Superintendent, New York*

We were fortunate to have a strong group of present and former state regulators speak to the NALC. Utah Commissioner Kent Michie managed to couple "demagogue" and "obfuscate" in the same speech, and make it interesting. The Commissioner acknowledged his prior experience in insurance was limited, as most of his career has been in investment banking. The Commissioner then discussed issues facing the NAIC, including Sarbanes Oxley. He also engaged NALC members in a discussion of the challenges facing the industry. It is interesting to note that Commissioner Michie attended all sessions and showed great interest in all topics covered at the meetings. He also left us with a memorable definition of politics: "The duty to make popular that which is sound and good."



Kent Michie & Eric Serna



Lou Pietroluongo, Mike Pickens & John Hartnedy

Superintendent Eric Serna had a different definition of the state of politics-one that cannot be printed in a family publication! The Superintendent also shared with the members his belief in the importance of state regulation. He noted problems in all areas of commerce that moved from state to federal regulation. He emphasized his efforts at the A Committee to focus on reasonable regulation and consumer protection.

Former Arkansas Commissioner and NAIC President Mike Pickens spoke on the battle over federal regulation. The Commissioner believes that access, responsiveness and willingness to make a decision are the backbone of a good regulatory system. During his tenure, he emphasized efforts to pass the Interstate Compact and engage Congress in discussions about ways to improve the regulatory climate, yet retain state

regulation. He is troubled that regulatory modernization has slowed down, and that some state regulators do not seem to understand the threat of federal regulation that looms.



Derek Wooley & Lou Pietroluongo

Former Arkansas Deputy Commissioner John Hartnedy spoke with evangelical fervor about the superiority of state regulation. He noted his service on a federal commission where errors in the hundreds of millions are viewed as rounding errors. He also described insurance as a "promise to pay," and said that many states have too many unnecessary regulations that fail to reinforce this commitment.

New York Deputy Superintendent Lou Pietroluongo spoke on disaster planning and response efforts of the New York Department. He presented a great summary of efforts prior to 9-11 to coordinate the response of the Department and industry, as well as a discussion of how these efforts unfolded after 9-11. One problem area was an initial failure to give New York City a seat at the table, but Mr. Pietroluongo noted that the plan worked very well in establishing an orderly plan to get in touch with insurers quickly.

Friday, September 30

Sarbanes Oxley

- *Ed Stephenson, Director of Operations, Barnert Associates*
- *Scott Quist, President, Security National Life Insurance Company*



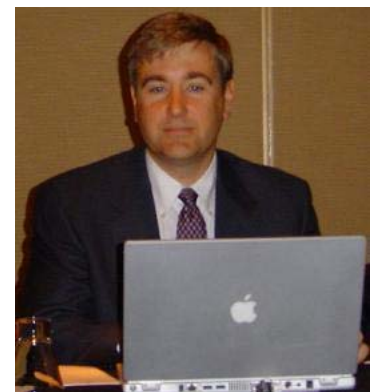
Scott Quist

Scott Quist discussed SOx from the perspective of a medium-size public company executive. He gave a presentation describing the nuts and bolts of his company's SOx compliance program, discussing the risk-based identification of key accounts and controls, and what companies must do once key internal controls have been identified. Generally, he found very little benefit to the requirements and a great deal of cost.

Ed Stephenson then gave an update on NAIC deliberations concerning the implementation of SOx Section 404 requirements for non-public insurers. The NAIC/AICPA Working Group released language in April 2004, the interested parties have sent their response. The IP counterproposal would expand company's

options in fulfilling internal controls requirements by allowing insurers to design their own risk-based "frameworks" and determine the levels of documentation required, with examiners reviewing those decisions during examinations. The IPs would not require an auditor to attest to the internal controls at the company.

In recent developments, the regulators at the NAIC/AICPA Working Group have stated that the idea of auditor attestation is still "on the table" and will be decided in deliberations. Many interested parties have indicated that any addition of audit requirements would lead to industry walking out of negotiations with the regulators. The NAIC/AICPA Working Group also recently gave themselves an extension to finish the changes to the MAR until March 2006.



Ed Stephenson

The corporate governance provisions of the changes that have been “finished” by the NAIC/AICPA Working Group remain a serious concern to NALC membership, to be addressed with the Financial Condition Committee and Commissioners, Legislators and other stakeholders in the upcoming months.



Rick Dugger

Fraud Assessment

Rick Dugger, President, Vector One

Fraud, according to Webster’s Dictionary, is the intentional perversion of truth in order to induce another to part with something of value; an act of deceiving or misrepresenting. I’m going to discuss the two areas of insurance fraud with which I’m most familiar: Agent debit balances and fraudulent death claims.

Vector One is the only source of information on agent debit balances. Vector One subscribers save thousands, if not tens of thousands, of dollars a year by screening for agents with a history of debit balances, as well as recovering debit balances they may have already incurred.

Vector One has expanded into screening agents in the process of license renewal, and will be accessible via XML in November. Vector One is “Due diligence for the insurance industry.”

Life Insurance fraud is estimated to cost almost \$12 billion a year, and is growing; the ALIC estimates that fraud adds about 2% a year to premium costs. As technology has become more sophisticated, so have the criminals. The internet makes it very easy for criminals to obtain fake birth certificates and death certificates. For small face value policies, Vector One may be able to help with this costly problem.



Burt & Lynn Lowe



Sandy Timmermann

Profile of the Aging Baby Boomers: Are We Prepared?

Sandy Timmermann, Director Mature Market Institute, MetLife

With the oldest baby boomers turning 60 next year, we are more aware than ever of the graying of America and the demographic changes that are taking place. A cartoon that appeared recently in a magazine says it all. A portly, middle-aged man is standing at the box office. The caption reads “Two Stones tickets, please, senior discount.” We laugh at the cartoon because it’s hard to believe that not only are we getting older but that the Rolling Stones are now senior citizens themselves. We look at the aging of the population and it is us!

The changing demographics also have important implications for our business. How can the insurance industry meet the needs of the aging baby boomers as they experience life events such as “empty nests,” the birth of grandchildren, caring for aging parents, loss of loved ones and the retirement transition? We have a role to play in helping dispel myths and providing education so that boomers can be assured of enough income to last a lifetime, financial protection from major health episodes or chronic illnesses, and opportunities to leave a legacy.



Kent Michie, Ray Renfrow, & Will Baker

Studies conducted by the MetLife Mature Market Institute and other research organizations indicate that most boomers underestimate their longevity. Yet this is one of the greatest risks as we age, especially for women who live longer than men. With retirement looming on the horizon, the boomers are facing a "perfect storm"--their saving rates are low, many employers are eliminating retiree health benefits, defined benefit plans are being replaced by defined contribution plans, health care and long-term care costs are rising, the future of government entitlement programs is uncertain, and few are planning. While some might view this situation as a "glass half empty," we can also look at a "glass half full."



Mildred & Nick Monaco

For most of the boomers--and for those of us in the industry--there is still a window of opportunity before the boomers retire. Most boomers are still working and many indicate that they expect to work beyond traditional retirement age, enabling them to earn money longer. They are better educated and healthier than previous generations. Many have assets in their homes. They are not as concerned with leaving an inheritance. And they are open to advice and assistance. According to psychologists, as people move into the transitional period before they retire, their values shift and they begin to examine the deeper meaning of their lives and what is most important to them. Perhaps it is spending more time with family, starting a new career, embarking on physical adventures, or giving back to the community. If we can help the aging boomers with the financial basics, we can free them from worry and allow them to fulfill their lifetime dreams.

Federal Regulation

Chris Petersen, Attorney at Law, Morris Manning & Martin

Two major developments have pushed insurance issues to second tier priorities as the 2005 Congressional session starts to wind down. First, the Supreme Court vacancies will dominate much of the Senate's time. Even though Judge Roberts should be confirmed rather handily, President's Bush second Supreme Court appointment is likely to garner much more political machinations. A second major issue will be the political response and fall out from the recent hurricanes. Responding to the disasters, and placing blame for failing to respond, will occupy a significant amount of Washington's time and energy.



Chris Petersen



Carol & Jim Caldwell

However, four significant insurance proposals are still very much alive in Congress and one or more of these proposals could become a major issue in the 2006 legislative session. These proposals are: 1) optional federal charter; 2) the SMART Act; 3) AHPs and 4) the CHOICE Act. Each of these proposals has seen political attention over the last few months. For instance, the industry coalition supporting optional federal charter has formed a new grass roots/tops organization to seek local support for optional federal charter. The agent organization recently held a series of events designed to call attention to the optional federal charter proposal. In turn, this resulted in renewed Congressional staff activity promoting the SMART Act as an alternative to optional federal charter.

AHPs also received some recent political attention when Senator Enzi, chairman of the Senate Health, Education, Labor and Pensions Committee, announced that he felt something like AHP's should be considered so long as state enforcement remained intact. It is not clear exactly what Senator Kyl meant by his comments,

but they provided hope to supporters of AHPs. His comments also encouraged the supporters of the CHOICE Act who argued that if something like AHPS are good for small businesses then a similar approach is also good for individuals. The supporters also pointed out that the CHOICE Act preserves state regulation and enforcement.



Greg & Joan Stephenson

Finally, part of the response to the recent hurricanes might be a review of flood insurance and other property/casualty issues. The more time Congress spends looking at insurance issues, the more comfortable Congress becomes with these issues and the more confident Congress becomes that it can and should address insurance issues. This does not bode well for the 2006 session.

Private Placements

Ted Hoxmeier, Vice President and Portfolio Manager, Advantus Capital Mgmt.

The private placement market continues to show strength as a complement to a public bond portfolio. There continues to be very strong demand for this asset class as institutional buyers seek the additional yield provided by private placements. Spreads continue to be attractive versus public bonds. Currently, comparable quality and term private placements offer between 10 to 45 basis points additional yield, as compared to public issues. As a result, there continues to be strong demand from a variety of institutions, including life insurance, banks and more recently hedge funds.

Foreign issuance is strong particularly from the UK, Europe and Australia.



Ted Hoxmeier



MARK YOUR CALENDAR NALC 2006 Spring Conference

Wyndham El San Juan Hotel & Casino, San Juan, Puerto Rico
May 17-20, 2006

The NALC will hold its 2006 Spring Conference May 17-20, 2006, at the Wyndham El San Juan Hotel & Casino, San Juan, Puerto Rico. The conference registration form, hotel registration form and conference schedule will be available soon on the NALC website at www.nalc.net.

We hope to see you there!