



2008 Spring Conference Report

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

Spring Conference Report

Grand Hotel Marriott, Point Clear, Alabama

April 2-5, 2008

The NALC held its 2008 Spring Conference April 2-5, 2008 at the Grand Hotel Marriott, Point Clear, Alabama. Following are summaries of presentations by participating speakers.



Commissioners Panel



George Dale

George Dale

Former Mississippi Insurance Commissioner George Dale spoke to the NALC. The Commissioner served eight terms as the elected Insurance Commissioner in Mississippi. He is now a Consultant with the law firm Adams and Reese. Commissioner Dale's comments were directed at changes which have occurred during his thirty plus years in the insurance business. He noted that the predominant trend was consolidation, with fewer small and mid-sized companies in the business. The next trend has been the globalization of insurance, with more international companies involved in writing business. A final change involves distribution, with product sales moving from the kitchen table to the telephone to the computer screen.

Kermit Brooks

Kermit Brooks is the First Deputy Superintendent for the New York Department of Insurance. New York Superintendent Eric Dinallo has been very active during his first two years on the job, bringing a new analytical focus to the work done by the Department. He has also taken a lead role in explaining the benefits of state based regulation on Capitol Hill. Dinallo was recently named Chair of the Life A Committee. The Committee worked through the thorny problems associated with a Model Law for Travel Insurance, and Dinallo promises an active term during his chairmanship of the Committee on other life issues.

Reyn Norman

Reyn Norman is General Counsel of the Alabama Department of Insurance. Mr. Norman noted that Alabama receives over \$250 million annually in insurance premium taxes, so it has many reasons to be concerned about the federal takeover of insurance. Coastal insurance issues



Reyn Norman & Bill Gibson

continue to dominate discussions in Alabama in the aftermath of Hurricane Katrina. Fortunately, the legal atmosphere has been less contentious than in Mississippi. Mr. Norman also said that Alabama would adopt the 1980 CSO Tables for Preneed Insurance, but indicated that opposition from the trial bar has led to the repeated failure of the Interstate Compact to pass in Alabama.

Jim Donelon

Louisiana Commissioner Jim Donelon spoke of the continued tug of war between the NAIC and NCOIL over the issue of Stranger Owned Life Insurance. He also mentioned that he supports the Optional Federal Charter for life insurance only, but is concerned about expanding federal regulation beyond that. He thinks consumer issues are best addressed close to home. Louisiana is an unusual state, in that it enjoys a budget surplus. This has been driven in part by the surge in reconstruction around New Orleans. The Commissioner noted that a major effort has been to address catastrophic coverage issues for Louisiana residents. This is a big issue for the State.



Fred Meese, Kermit Brooks & Jim Donelon



Welcome to Alabama!

National Political Climate

Jim Hodges

Jim Hodges spoke on the national political climate. He believes 2008 will be a good year for Democrats from the White House to the Courthouse. A combination of economic issues, discontent with the Bush administration, and concern over the Iraq war creates a difficult climate for Republicans. Barack Obama will likely be the Democratic nominee, and he will require the Republicans to defend normally safe territory. John McCain's big challenge will be separating himself from the Bush legacy. Expect to see Democratic pickups in the House and Senate, but not enough to allow Democrats to control filibusters in the Senate.

Keynote Address

Troy King, Attorney General

General King served as our Friday keynote speaker. He spoke of the importance of a vigorous criminal prosecutorial operation in the Attorney General's Office. He has focused on making certain that the office is tough on crime and is committing the necessary resources to battling crime. The General also spoke of the importance of a healthy business climate, and stated that a fair and just judicial system is an important element. Alabama has had past issues involving runaway verdicts, and General King is working to make certain that business interests get a fair shake. General King has worked closely with Governor Riley and Commissioner Bell to address insurance issues.



Troy King

Where to Go In the Current Investment Environment

John Gauthier -- Managing Director, Goldman Sachs Asset Management

In our view, the return profile for high quality mortgage assets for the level of cash flow risk is attractive and assets can be purchased in size now due to forced liquidations by banks, dealers, mortgage originators, hedge funds and SIVs – we believe this window is limited.

Mortgage delinquencies and defaults will rise, however the market will eventually price the higher quality securities more accurately for their given level of risk while some lower quality MBS, ABS and CDO's may experience principal losses and re-pricing potentially to the downside.



John Gauthier & Sunny Wadhwa



First Signs of Spring!

attractive risk-adjusted returns over time.

Actuarial Panel Discussion

Norm Hill -- President, Noralyn, Ltd.

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

Four key industry topics were discussed: Principle-Based Approach to reserving, Pre-Need Valuation Mortality Table regulation, Fair Value of Liabilities and Enterprise Risk Management. These were the issues that have been consuming the profession's energy over the past months.

Principle-Based Approach to Reserving

The Principles Based Approach (PBA) for reserves and risk based capital has evolved over 2+ years from very onerous to something small insurers may be able to tolerate.

Liquidity may improve on the margin in early 2008, however, we believe the de-leveraging event that is occurring will continue into 2008 and potentially 2009 causing risk premia to stay at elevated levels.

In our view, over time capital will be attracted to the US mortgage and spread markets as fundamental value will overtake liquidity concerns; i.e., recent capital raises by Freddie Mac, Citigroup, UBS, MBIA and E*Trade Bank. Investors are starting to buy these sectors and private equity/hedge fund firms are looking for opportunities to capitalize on the value in these asset classes.

We expect near term mark to market volatility but we think the opportunities in the market now can provide very



*Fred Meese Announces Gerry Kraus as New
NALC President*

Numerous key issues that are unresolved or lacking final sign-off remain:

1. The ACLI has caused a significant delay by setting up a project to research a net premium reserve floor, aimed at easing federal income tax complications.
2. Insurers would have a 5 year option to phase in less risky plans to PBA.
3. New York's Department is demanding a PBA reserve floor, based on a conservative interest rate equal to Treasury bill rates plus 50 basis points.
4. Regulators have removed the requirement for an annual independent actuarial review, to be replaced by bringing PBA testing somehow into the examination process.
5. Annual experience reporting would be based on calendar year data, much less rigorous than policy year data, but still representing a significant expense.
6. In Treasury Notice 2008-18, the IRS expressed concerns about PBA, which could mean no integration between statutory reserve and tax reserve calculations.



The Happy Couple



Mark Willoughby & Fred Meese

In summary, much work remains to derive a stable product. I don't see how the goal of a new Standard Valuation Law, much less a new Valuation Manual, can be completed and adopted by the NAIC by even year end 2008.

Pre-Need Mortality Valuation Table

The NAIC Plenary at its Spring meeting on March 31, 2008 adopted the Pre-Need Life Insurance Minimum Standards for Determining Reserve Liabilities and Nonforfeiture Values Model Regulation. This regulation prescribes the 1980 CSO mortality table as the minimum standard for pre-need reserves. Key item remaining is that it needs to be adopted by 26 states prior to the end of the year.

An American Academy of Actuaries committee is currently working on a new pre-need valuation table. They would hope to be able to present a draft to LAHATF by the end of the year.

Fair Value & Other Issues

Fair Value accounting will affect public companies GAAP financial statements. It has been a work in progress for a number of years. It has some issues that would be detrimental in the computation of reserves. One consequence is that a company with a lower credit rating than another may in fact be able to post lower reserves.



Dinner with Terri & Gerry Kraus



Friday Night Fun

holistic approach to managing risks. Key elements include determining what the company's risk appetite is, develop metrics that are leading indicators, helps to define a common language within the organization and involves all employees in developing guidelines and limits.

This still has several constituencies that need to weigh in on these principles.

The Interstate Compact for Product Approvals has over 30 states participating. However, these 30 states only constitute one half of all US life insurance premiums.

Progress is being made with respect to Agent Licensing compliance with the Gramm Leach Bliley Act. There are still some state non compliance that needs to be addressed sooner rather than later.

Enterprise Risk Management

Another area of focus for the actuarial profession is the development of Enterprise Risk Management. This is a



Dancing the Night Away

Future Meeting Dates

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

- **2008 Fall Conference:** September 10 - 13, 2008
Westin Bay Shore, Vancouver, British Columbia
- **2009 Spring Conference:** April 22 - 25, 2009
Hyatt Regency Coconut Point, Bonita Springs, Florida
- **2009 Fall Conference:** September 29 - October 3, 2009
Westin Kierland Resort & Spa, Scottsdale, AZ

