



NATIONAL ALLIANCE OF LIFE COMPANIES

An Association of Life and Health Insurance Companies

2021 SPRING CONFERENCE SUMMARY



Governor Jim Hodges, Dawn Bergsma & NALC President Rob Hardy

The NALC heard from an outstanding group of insurance commissioners at our session on Thursday, June 3, 2021, in Scottsdale, Arizona. The following is a summary of the remarks:

1. Commissioner Evan Daniels. Commissioner Daniels is the recently appointed leader of the Arizona Department of Financial Institutions. He previously worked in the Arizona Attorney General's Office. Commissioner Daniels has developed an expertise around crypto-currency and emerging financial technology issues. Commissioner Daniels discussed a range of issues, including the State of Arizona's approach to remote work during and after the pandemic, as well as legislative issues of significance during the recent legislative session.
2. Commissioner Glen Mulready. Commissioner Mulready is the elected Insurance Commissioner of the State of Oklahoma. He brings a wealth of insurance experience to the job, having worked in the insurance business in the private sector, and later as a legislative leader in Oklahoma. The Commissioner discussed steps to streamline the regulatory process in Oklahoma, as well as his work at the NAIC on the commission financing issue of importance to many of our members. He assumed a leadership role on the Life A Committee, and is leading efforts to ensure that important decisions at the NAIC are made by elected and appointed officials rather than staff.
3. Commissioner Dean Cameron. Commissioner Cameron is the appointed leader of the Idaho Department of Insurance. He previously served in the legislature and ran a family-owned insurance agency. Commissioner Cameron has assumed a number of important positions at the NAIC, including Chair of the Life A Committee. He is also the current Vice-President of the NAIC, and is in line to assume the President's role in 2022. Commissioner Cameron focused on a few big issues at the NAIC, including the discussion around annuity suitability rules. He also described some of the challenges during the pandemic, and discussed his approach to health insurance in Idaho- a focus on providing consumers a wide array of health insurance options. The

Commissioner listened to NALC concerns regarding the impact on small life insurance companies of proposals at the Life Risk-Based Capital Working Group around revisions to bond factor rules.

4. Commissioner Vicki Schmidt is the elected Insurance Commissioner of Kansas. She was a pharmacist and state senator before election to the Insurance Commissioner post. She serves as Chair of the Property and Casualty (C) Committee at the NAIC. The Commissioner discussed how her career in health care helped shape her view of health care challenges facing consumers. She also discussed the agency's efforts to continue to serve the citizens of Kansas during the pandemic, and her goal of bringing the Department of Insurance to consumers in their communities. This can be particularly challenging in farm country.
5. Troy Downing. Montana State Auditor Troy Downing oversees insurance and securities issues in his state. Auditor Downing has an interesting background. He first served in an academic research center in New York before starting a successful tech venture and later joining the military as a helicopter pilot serving in Afghanistan. After his service, he started a self-storage and real estate investment firm before successfully running for the State Auditor position in 2020. Auditor Downing brings a business leader's approach to public office, and has energetically tackled a wide range of issues during his first two years in office.
6. Tom Considine. Tom Considine is the former Commissioner of Banking and Insurance in the state of New Jersey. He currently serves as the CEO of the National Conference of Insurance Legislators (NCOIL). Mr. Considine was a long-time government relations executive with MetLife prior to his state government service. NCOIL has begun a hybrid approach to its meetings, with in-person and virtual attendance at the last meeting in Charleston. Mr. Considine expects a larger in-person crowd at the next event in Boston. He discussed a series of issues, including the commission financing issue pending at the NAIC. He also discussed NCOIL's efforts to better collaborate with the NAIC, but noted NCOIL's belief that the development of model laws should be the exclusive purview of NCOIL. NCOIL remains committed to state regulation, and Mr. Considine shared that the leadership had been in touch with the Biden Administration regarding state-federal insurance issues and received a warm reception.



Commissioners' Troy Downing, Dean Cameron, Vicki Schmidt, Evan Daniels & Glen Mulready

Emerging Regulatory Issues: Scott Harrison, High Point Strategies

1. Update on Life RBC WG Project to Update Bond Adjustment Factors

Over the past number of months, the NAIC's Life Risk Based Capital Working Group has begun to receive serious objections to changes to bond adjustment factors developed by the American Academy of Actuaries. The NALC has taken a lead role with Working Group members and commissioners expressing deep concerns about the disparate impact of the Academy's proposal on smaller and medium sized companies. Moody's Analytics was commissioned by the ACLI to analyze the Academy proposal, and earlier this year presented their findings and proposed modifications to the Working Group. Over a series of calls the Moody's proposal began to get traction with Working Group members who shared concerns about the Academy proposal.

Update: On June 11, the Working Group voted to adopt the Moddy's bond factors with the bond size adjustment factors at an initial 50/50 split. Thanks to Peggy Camerino for providing this very helpful chart comparing the various proposals.

Current	Academy Proposal 3/2021	Life RBC WG	Moody's Analytics Proposal
Issuers	Issuers	Issuers	Issuers
First 50 2.50	Up to 10 7.50	Up to 50 2.4	Up to 10 5.87
Next 50 1.30	Next 90 1.75	Next 50 1.54	Next 90 1.53
Next 300 1.00	Next 100 0.90	Next 100 0.90	Next 100 0.85
Over 400 0.90	Next 300 0.85	Next 300 0.85	Next 300 0.85
	Over 500 0.75	Over 500 0.75	Above 500 0.82

2. Social & Cultural Trends Impacting Regulatory Policy

- ESG (Equity, Social & Governance)
- DEI (Diversity, Equity & Inclusion)

The NAIC embraced DEI as a key priority in 2020, forming a new Special (EX) Committee on Race and Insurance. The 2021 charges for this Committee include recommendations and steps regarding the following:

- That state insurance regulators and the insurance industry can take to increase diversity and inclusion within the sector
- That should be taken to address practices that potentially disadvantage people of color and/or historically underrepresented groups; and
- To ensure ongoing engagement of the NAIC on these issues through charges to its committees, task forces and working groups

The NYDFS recently issued guidance and a Circular Letter establishing ESG and DEI as high regulatory priorities:

- **Insurance Circular Letter No. 5 (2021) regarding "Diversity and Corporate Governance" (exposed March 16, 2021), and**
- **Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks From Climate Change (exposed March 25, 2021)**

Though these changes in New York law apply only to companies subject to DFS authority, they provide insight into how regulators in key states are thinking about these issues and the broader potential implications for regulatory policy in every state.

1. NYDFS on DEI (summarized):

- Diversity is a key strategic priority. C-suite and board of directors must make diversity of company leadership a key business priority and element of their corporate governance. Starting in 2022, DFS' examination process will be include questions about the company's efforts related to diversity.
- Regulatory oversight of a company's commitment to diversity is inextricably linked with its responsibility to oversee financial solvency, corporate governance and risk management practices.

- DEI research proves that diversity is a “business imperative” that improves the bottom line:
 - Increased profitability
 - Broadened customer base
 - Increased innovation
 - Better risk management
 - Increased talent pool and satisfied employees
- DFS will collect and publish data relating to the diversity of boards of directors and management. “Transparency is a powerful catalyst for change.”

2. Proposed Guidance for New York Domestic Insurers on Managing the Financial Risks From Climate Change (exposed March 25, 2021).

DFS guidance begins with the assertion that climate change is “one of the most critical risk-management issues of our generation” that “poses wide-ranging and material risks to the financial system.” This statement is the organizing principle for the various policy prescriptions contained in the document. DFS draws heavily upon the “Guide for Supervisors Integrating Climate-Related and Environmental Risks Into Prudential Regulation,” published in May 2020 by the Network for Greening the Financial System (NGFS).[1] This could be an important factor given the NAIC’s stated desire to align U.S. regulatory policy on climate change with international standards and developments.

PROJECTS & PSYCHOLOGY: Alan Claypool, TAC₄ Solutions

Complex projects involve large groups of people from various departments. On any complex project, the team members will face thousands of problems. How we deal with those problems largely determines whether the project succeeds or fails.

People working together creates problems by default, because we all have Ego. Ego is a complicated melding of our world view, core values, history, education, identity, skills, and fears. There are positive and negative aspects of our ego that make working together complicated. In general, people tend to:

- Think they are right
- Want to be respected
- Get defensive when challenged
- Talk behind people’s backs
- Want to feel useful and purposeful
- Want to be included in decisions

In this presentation, we examined 6 tips to combat the negative aspects of our ego and bring out the positive aspects of our ego, so that we build a cohesive team for a successful project. Those tips are:

- Gather a core team of energetic change agents
 - Interview most stakeholders (err toward too many)
 - Create behavioral ground rules for the team focused on healthy conflict
 - Create a “Project Echo” that unifies the team with clarity around the project’s purpose
 - Set great expectations in a stakeholder kickoff meeting
 - Use a decision form to get clarity and unity on project decisions
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INVESTING IN THE TIME OF COVID: Bill Fain, & Anjanette Fowler, Madison Scottsdale

Macro Economic Summary

- Massive monetary and fiscal stimulus, combined with vaccine driven reopening pushed “risk on” investment strategies with smaller stocks performing best while investment grade bonds delivered negative returns YTD
- Early year curve steepening driven by expectations of an early Fed reversal have faded as the Fed continues to communicate its intention to run inflation hot before removing accommodation
- While inflation has printed higher than expected much of the increase is deemed “transitory” as the base comparison from Q2 2020 was impacted by the pandemic shutdown with accompanying price weakness.
- Employment slack continues to drive Fed policy with 8mm fewer employed today than before the pandemic
- Stock market P/E ratios are falling after hitting relatively high levels late last year with expectations for a 31% increase in earnings for the S&P 500 in 2021 and 12% in 2022.
- Fed bond purchase continue unabated, but balance sheet increase will be slowly reduced beginning late this year or early next year. However, they will continue to reinvest maturities for the foreseeable future.
- No Fed Funds rate hikes until late 2022 or early 2023

Strategy Considerations

- Insurers being forced to bear far greater risk than they are being compensated for.
- On the fixed income side, strategies incorporated greater exposure to high yield corporates at historically low relative yields, structured loans and securities, mortgage-backed and asset-backed securities
- On the equity side, allocations were pushed to and sometime beyond industry averages to capture dividend income or generate greater total return.
- Equities provide the greatest relative value, to the extent the insurer has capacity in the Enterprise Risk Budget.
- With Fed policy and government fiscal support, there appears to be more room for equities to perform, albeit with continued and heightened volatility.
- Insurers must remain vigilant and aware about risks being borne by their investment decisions--there is no free lunch in generating income or total return.
- Insurers must also not be complacent about sitting in cash or extreme overweights to short term holdings as with yields well below 1.00% and inflation running close to 2.5% or greater, real negative yields persist.

RECENT CLASS ACTION LITIGATION AGAINST THE INSURANCE INDUSTRY: Markham Leventhal, Carlton Fields

This presentation summarized recent developments in class action litigation affecting life insurance companies and their products, including a discussion of case law developments throughout the country, court rulings in cases involving life insurance products, and a discussion of theories of liability used by plaintiff’s counsel to attack products and business practices in the life insurance industry.

The discussion also touched on recent U.S. Supreme Court decisions impacting class action litigation.

FIXED INCOME DIVERSIFICATION, A PANDEMIC CASE STUDY: Stephen Gonzalez, AQS Asset Management

2020 presented the largest challenge to life insurers since the Great Financial Crisis. Federal Reserve activity in response to massive economic gyrations led to the lowest yielding reinvestment environment in US history.

While the vast majority of insurers and asset managers had no choice but to reinvest new money at book yields between 2-3% in 2020, there were (and still are) ample opportunities for reinvestment in the 5%+ book yield context.

One just had to know where to look. In the words of Baseball Hall of Famer Willie Keeler: “*You gotta hit ‘em where they ain’t*”

CYBER SECURITY & DATA PRIVACY LANDSCAPE FOR INSURANCE SECTORS: Fred Karlinsky, Greenberg Traurig

Cyber-attacks are a growing threat around the globe. In the first half of 2021 the United States alone has seen major cyber-attacks shutter major businesses costing them millions of dollars in ransom payments. Commercial interests around the world are looking to the insurance industry to mitigate their financial risks.

Unlike the European Union, the United States has not approached cybersecurity in a uniform, comprehensive data security laws and regulations. The United States has generally approached data privacy and cybersecurity by regulating only certain sectors and certain types of sensitive information. States, like California and Virginia, have stepped into the vacuum left by the federal government to adopt comprehensive data protections and cyber security standards to protect their citizens. Now, other states are following suit to adopt similar protections. However, recent events have caused the United States to engage more actively after advisories were issued by Office of Foreign Assets Control (“OFAC”) and Financial Crimes Enforcement Network (FinCEN), as well as a Presidential Executive Order.

The session provides attendees a comprehensive view of the cybersecurity risks presenting themselves, as well as governmental action at the state and federal levels that insurers, and all commercial entities, should be aware of and comply with.

BITCOIN ON YOUR BALANCE SHEETS? A GROUP DISCUSSION: Richey Dugger, Moderator

Bitcoin is an extremely powerful technology that is still in the very early stages of adoption. Directly after the NALC meeting in Scottsdale on June 5th, 2021 El Salvador announced a new law-making Bitcoin legal tender. This has serious ramifications on international finance and currencies. On June 15th, 2021 it was also announced that six new insurers acquired shares of Grayscale’s Bitcoin Trust, following up on Mass Mutual’s large purchase of Bitcoin in December, 2020.

Important resources to consider when doing research on Bitcoin are the original Bitcoin White Paper <https://bitcoin.org/bitcoin.pdf>, along with <https://bitcointreasuries.net/> which tracks known treasury holdings of Bitcoin. It is also important to understand the halving schedule of Bitcoin which cuts in half the incoming supply every four years, fixing the total supply at 21 Million Bitcoins. This permanently and mathematically fixed supply component of Bitcoin is guaranteed by Bitcoin’s Proof of Work blockchain structure, and it can never be altered. There will only be a maximum of 21 Million Bitcoins ever in existence.

Keep a close eye on any potential approvals of Bitcoin ETFs over the next few months. VanEck along with others have submitted Bitcoin ETF applications, and the SEC has only delayed their rulings so far. If VanEck along with any other candidates are approved for a Bitcoin ETF here in the United States, that will be a massive catalyst for corporate Bitcoin adoption.

ACCELERATING YOUR DIGITAL TRANSFORMATION: Gavin Dean, Avolanta

In our presentation to the NALC attendees, Avolanta presented a case study with Marty Dinehart, EVP and COO of Patriot Life, a member of Frankenmuth Insurance Group. Through the case study, we outlined Marty's current process, his desire to accelerate Patriot Life's digital transformation and the role of Avolanta's technology in accelerating Patriot Life's digital transformation for new sales, retention and customer service.

Avolanta believes hybrid distribution is an insurance company's greatest opportunity to grow revenue. Avolanta believes insurance companies should think like their customer and give customers and agents digital tools to help them place more business. Our SaaS-based sales and service enablement platform is designed to reduce friction between insurance companies, sales teams and customers for quotes, applications and policyholder service.

We help pre-need and life companies with their digital transformation in the following areas:

New Business Processing

- Build user-driven applications that offer a collaborative approach for agents to engage with consumers and complete in good order applications.

Enhanced Customer Service

- Provide policyholder service through various methods including multichannel notifications and self-service portals for payment updates and beneficiary changes.

Account Management

- Allow agents to manage their existing book of business easily, as well as assist policyholders with common account inquiries and updates.

Document Access

- Provide agents and policyholders with access to common policy documents that can be generated through the Avolanta platform or stored in third party systems.