



SOCIETY OF ACTUARIES

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Chairperson's Corner

by Mark A. Milton

I look forward to serving as Chairperson of the Product Development Section Council this year. I would like to thank outgoing Council members Alan Ryder, Linda Streck, and last year's chairperson, John Fenton. Their efforts were largely responsible for making this past year so successful, and we will miss their many valuable contributions.

This year's Council also plans to actively serve our membership and has already identified several projects for the coming year. We will have 18 sessions at the Spring Meeting in Maui and are beginning our planning for the New York Annual Meeting.

We plan to vigorously support Society research activities. We understand the importance of timely information in today's marketplace and are committed to providing you with this service. We review several potential research projects each year that are requesting support and value your input on research projects that you would like to see initiated or funded.

We currently have plans for at least four seminars this year. The "Emerging Markets For the New Senior Citizen," seminar will be held November 16-17

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New Standard Nonforfeiture Law: Unsafe at Any Speed?

by Douglas C. Doll

The effort to revise the Standard Nonforfeiture Law (SNFL) ran out of gas at the December 1997 NAIC meeting. There was general agreement that no consensus exists on how to complete the project. The current initiative to revise the Standard Valuation Law and ongoing discussions related to disclosure (primarily for annuities) provided a convenient excuse to suspend nonforfeiture work. The Nonforfeiture Working Group was disbanded.

Although it is stalled by the roadside, the new SNFL is not yet consigned to the junkyard. The Life and Health Actuarial Task Force still has a 1998 charge to present recommendations at the winter meeting for "specific parameters for a new nonforfeiture law for life insurance, health insurance, and annuities." Perhaps it expects that the proposed new Standard Valuation Law, a first draft of which is expected in June (!), will provide the insight to deal with the nonforfeiture problems. Alternatively, it may become obvious that the current SNFL will be incompatible with a new valuation law, forcing the SNFL to be readdressed. For example, how

can a nonforfeiture maximum interest rate be 125% of a valuation interest rate, if there is no fixed formula for valuation interest rates?

What went wrong with the nonforfeiture effort? The biggest roadblock was the question of how to deal with nonguaranteed elements. Once you accept that an equitable nonforfeiture value is based on the future values in the contract, you have to consider the value of future nonguaranteed elements. This naturally requires a "plan" for determining the future nonguaranteed elements (just as you must have a plan or strategy for nonguaranteed elements when you do product pricing or perform cash-flow testing).

It is then a small step to say that this "plan" should be disclosed to regulators and policyholders and not changed except for good reason. Some life insurance companies are not happy about restricting their freedom to change nonguaranteed elements, and some regulators are not happy with the idea of allowing a company to have a plan that says "I can do whatever I want."

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in Charleston, South Carolina. This seminar will provide a comprehensive look at the demographics and needs of today's senior citizens, as well as product design, underwriting, and distribution issues.

We also plan to offer an advanced-level seminar on Equity-Indexed Products targeted at those with experience with equity-indexed annuity and life products.

A third seminar will take an in-depth look at the current term-insurance marketplace, including underwriting, *Guideline XXX*, product design, distribution, compensation, and reinsurance.

In addition, we will offer our Product Development Bootcamp later in the year. The seminar material will be revised to better meet the needs of the target audience. It will incorporate basic product design and pricing issues, as well as provide an overview of the product development process and how product development fits into a company's overall strategy.

Many of you have expressed concerns about profitably pricing products in today's competitive marketplace.

Clearly, the role of the product development actuary must extend beyond merely setting assumptions and running profit studies. The actuary must understand what is happening in the marketplace and provide advice and insights on how to respond. It seems to me that today's product actuary must wear many hats, from researcher to marketer to product manager. The Section Council is committed to helping you obtain the skills and information needed to compete in today's environment.

I welcome any ideas you have to help the Section Council serve the members during the coming new year.

Mark A. Milton, FSA, is Vice President and Associate Actuary at Kansas City Life Insurance Company in Kansas City, Missouri and Chairperson of the Individual Life Insurance and Annuity Product Development Section Council.

New Standard Nonforfeiture Law*continued from page 1*

Some assert that "I can do whatever I want" is acceptable, as long as there is adequate disclosure. There was a discussion at the December meeting on whether insurance companies should not market products that fail to meet certain minimum levels of benefits, just as manufacturers should not sell cars that are "unsafe at my speed." A lengthy discussion followed on how consumers and regulators could identify "unsafe" products and the appropriate to relationship among disclosure, valuation, and nonforfeiture standards.

The result of all the discussions was to switch to a smaller, more fuel-efficient vehicle. A newly formed working group, the Innovative Products Working Group, has been set up. Its charge is to discuss how existing valuation and nonforfeiture laws and regulations apply to new product designs and, where appropriate, to develop new model language or actuarial guidelines.

Initially, its focus will be on equity-indexed products. This group will address specific nonforfeiture issues, while the Life and Health Actuarial Task Force makes general progress on disclosure, valuation, and (eventually) nonforfeiture.

The Life and Health Actuarial Task Force has chosen to address the big picture. It has not lost all hope for the SNFL. In fact, its charges include finalizing the new Model SNFL at the Winter 1999 meeting. Who knows? A six-month pause ... some new gas in the tank ... this vehicle may continue to run for quite a while longer.

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The Section would like to encourage articles and papers on product development topics or subjects of interest to product development actuaries. If you have an article or an idea for an article that you think might interest Section members, please contact:

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