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**MEETING OF THE INDIVIDUAL LIFE INSURANCE AND  
ANNUITY PRODUCT DESIGN SECTION**

*Moderator: GREGORY J. CARNEY. Panelists: MICHAEL B. HUTCHISON, JAY M. JAFFE, HOWARD H. KAYTON, RICHARD W. KLING, D. ALAN LITTLE, LYNN C. MILLER, JOHH O. MONTGOMERY, RICHARD A. SWIFT*

1. Reports to Members

- a. Status
- b. Membership
- c. By-Laws
- d. Elections to Section Council

2. Role and Purpose of Section

- a. Can various forms of products be considered under one Section; i.e., par, non-par, excess interest, non-guaranteed premium, universal life?
- b. Should dividends be considered in the Section?
- c. What should the first tasks of the Section be?

3. Open Discussion

MR. GREGORY J. CARNEY: The individuals that are sitting at this table are the members of the Section Council. I will introduce the officers: I am Chairman, Jay Jaffe is Vice Chairman, Howard Kayton is Treasurer, and Al Little is the Secretary.

Two of the members that were elected to the Section Council, Mike Hutchison and John Montgomery, have also been elected to the Board of Governors of the Society. I would like to congratulate both of them on their election.

However, this is a good news/bad news story. That was the good news. The bad news is that the by-laws which Al Little will be discussing in a few minutes prohibit simultaneous membership in the Section Council and in the Board of Governors. Thus, unfortunately, we have to replace John and Mike. John Harding has agreed to fill in for one of those spots. Tony Spano from the ACLI, who is not able to be here today, has agreed to fill in on the other.

At this point, I will turn it over to Al for a brief discussion of the by-laws.

MR. D. ALAN LITTLE: I am going to quickly cover a couple of key points in the by-laws. The rest of the items you can read. The purpose of this special section, per the by-laws, is to encourage and facilitate the professional development of the members through activities such as meetings, seminars, research studies and the generation and dissemination of literature. The section is to cover the field of Individual Life Insurance and Annuity product development. The Section Council consists of nine members serving three-year terms. The first Council has three members serving one-year terms, three serving two-year terms, and three serving three-year terms. After this first year there will be annual elections of

members to serve three-year terms. Each member of the Council must be an FSA.

I will briefly go through the scope of activities section of the by-laws, as this is really what we are here today to discuss. Meetings - we may initiate and organize meetings. Seminars - we may either assist the Society in sponsoring seminars or sponsor and direct seminars. Research - we may define and recommend research projects. Literature - we may prepare literature. Other activities - as allowed by the Board. The one thing that we cannot do is be a public forum. For example, we cannot make presentations to the NAIC, nor can members of the Council represent that they are members of the Council in public statements. There can be no public statements or public opinion from the Council. That covers the key elements of the by-laws. The rest of them you can read.

MR. CARNEY: Before I go any further, as I indicated, this is a cross between an organizing meeting and the kick-off meeting of the section. We are doing both together and that has created a bit of a problem. There are some people that are not on the podium today that have done a lot to get this special interest section together and get it to the place it is today. I would like to recognize some of the members of the organizing committee: Steve Bickel, Warren Carter, Walt Miller, Carl Ohman and Harold Ingraham. Gentlemen, we appreciated all of your help.

The agenda calls for us to cover Section II - Role and Purpose of the Section. We are not going to follow the topics as outlined in the program. Instead, I would like to have Howard Kayton come up and discuss the meeting that occurred with the Section Council and what we want to try to do for the rest of the afternoon.

MR. HOWARD H. KAYTON: We have been meeting at various times in the last two days and I guess we have been influenced by our keynote speaker today. We decided that under a participative management approach we want to know what the members of the Section want out of this section.

The section concept is new. We all can read the by-laws and it tells us purposes and scope, but it does not get down to how we are going to function. We are trying to figure that out and we are trying to come up with great ideas to propose to you; to come to you with a full program of what we are going to do for the next year. We were unable to do that in our meetings. We had conflicting ideas and conflicting goals.

We decided the best way to handle this is for each of us to give you our ideas, then to ask for your ideas as to what you want out of a section. Then, perhaps, we will circulate a questionnaire that would provide guidance as to exactly how to proceed: whether we break down into sections or committees, whether we continue to function as one group, whether we use newsletters, publications, seminars, meetings, or whatever. So, for the next few minutes we have asked that each of the members of the panel present his ideas as to what he wants out of this section. Again, when you hear them, do not get offended. Do not jump up and down and say that is not what I want. Do not leave until you hear the last guy talk. If you still do not like what was said, come up and tell us your ideas. We are pretty open on this. I can assure you that we do not have the minutes of this meeting typed up and ready to go. Let me give you my ideas first and then we will just go down the line.

What I look to this section for is a mutual aid group where people are going to be monitoring events going on within the industry to determine items that might affect products that I am interested in; items that I would not otherwise hear about. These could be proposed regulations, proposed legislation, or seminars that are occurring. They might be papers that have been proposed. Hopefully, I would hear about things that the Academy is doing but there might be committees of the Academy that are working on product-type developments that we otherwise do not hear about until the very end, and we might want to provide input.

Other things might be reports from local clubs on products. In order to accomplish this, we would need people who agree to monitor these areas and then put together material in the form of newsletters or perhaps put together mailings in a way similar to what is being done now for the Actuarial Research Clearing House. We might be a product clearing house.

As far as sponsoring seminars or sponsoring meetings, we should not bring people together to discuss what we are going to discuss. We have enough groups doing that, and I would hope that the only ones who are forced to do so are the Council or smaller groups. The Section might suggest, if there is a need for it, a topic for a seminar or for a meeting. However, generally because of the long timing involved, by the time the session is here, there is really not much to say. It is not timely enough. Perhaps it would be an ad hoc notice that several people are getting together in two weeks to discuss some important issue; please indicate whether you can make it and then we will decide where it is going to be. We might decide that there is material missing from continuing education and propose topics to the Committee on Continuing Education. The important thing is to minimize the structure and really get down to the purpose of the Section: Product.

The products that I am interested in are annuities and variable products. We tried to decide what would be a good definition of products and every time we cut them one way we realized, no, there are other people who want to cut it another way. It becomes very difficult to do. I would hope that we get a questionnaire out which indicates broad categories and people will assign priorities to areas of interest; we would keep track of the priorities.

MR. LITTLE: I will second much of what Howard talked about, but emphasize a few different items. One of the basic needs is getting information out as to what is happening at the regulatory level. We have seen proposals of the Montgomery committee, the Becker committee, and we find out after the fact what is going on and what is being discussed. For example, with the ACLI dynamic interest proposal, most of us found out about it after the fact. We had heard of dynamic interest but did not know very much about it, and suddenly this is a law that we are going to live with. What I would like to see from the group is feedback to each of us in some kind of communication, whether that be a newsletter, an alert or whatever, as to what is happening. A second level, and this can be crucial, is giving regulatory groups input from our group. While we cannot be a forum for public opinion, we can make the ACLI or the NAIC or the various state regulatory people aware of who the experts are in the area they are discussing. To me, this is a crucial function. It gives John Montgomery and Ted Becker and the people at the IRS a way of going to people that we know to be knowledgeable.

Some comments on the product area - I find this very difficult because some kinds of information include items I do not want to release too quickly. I want to have six months' lead time. Six months later, if you want to come to me and say, "What did you do, we found this on a state insurance department shelf?" that is reasonable. Certainly there can be discussion of products and the factors once they become public information, but I do not want the role of this group to be one of "We've got to rush out here and release information in a hurry." I am hesitant in that area. I see us as discussing broad general issues related to products, but I do not see us as necessarily being the source of immediate product information.

MR. JOHN O. MONTGOMERY: I would like to have information about new products as they are being developed. These forums will bring out the problems that are being experienced with the new products, especially after they have actually been put on the market - if they ever get that far before a state insurance department says the product cannot be put on the market. This brings up the subject of regulatory limitations. It is quite important that some of the advance thought of regulators be given to the members of the section so they can know what to prepare for, and I would hope that we could help you in that way. I would like to see this part of the section process be handled so that we can find out what our problems are going to be both from the standpoint of regulators with the companies and from the companies with the regulators. Often regulators view insurance regulation as the fox versus the chicken, and you have foxes around that are ready to gobble up the chickens. If some regulation is not put on that can happen, but we do not mean to stifle the business. Actually, in California it has been the process to try to develop new products and, as you know, about 60% or 70% of the new products usually start out in California. I would hope that we could continue to formulate regulations that will be stimulating to new products. I am emphasizing this area since I happen to be in regulation. It is important that the points on the exchange between the regulators and the industry be emphasized.

MR. JOHN H. HARDING: As a late comer to this group, I am probably going to list some of the things that each of you may be thinking about now, or at least if you are not, I would encourage you to. What did you come to this session expecting to hear? What do you expect from this section as it evolves? There does have to be a balance between proprietary information on the one side and the need for timely information and timely discussion. Most of the existing forums for timely discussion occur periodically in a manner that will not necessarily meet the needs of timeliness unless they happen to fall around a Society meeting. Another purpose that I consider highly desirable is to bring like people together to reinforce that network of who it is that I can talk to about a given problem.

MR. RICHARD W. KLING: I would like to see this section set out a few specific objectives rather than set up a series of committees. Therefore, we need to know what you really want. Do you want meetings? Do you want seminars? Do you want a newsletter? Many of you appear to want information on a timely basis. How can we identify, collect and distribute this information? We have a computer listing with all your names on it. We may be able to match that up with your interests. We may also be able to identify some of you as experts in specific areas and ask you to participate in certain section activities.

MR. CARNEY: If I can summarize what has been said, we are looking for a timely methodology for receiving information related to product development and regulatory issues that affect product development. We want to provide a forum, some type of forum, to discuss the current topics in the product development arena. What we need to know at this point is your needs. What do you want from the Section? What are your information needs? What product areas are you looking at? The topic is obviously very broad. Where are your specific interests? How can we best perform our function which might be one of, to use Jay's terminology - mutual aid to you. I would like to turn to you now and get your ideas.

MR. WALTER N. MILLER: In terms of finding out late, red-hot, up-to-date information as to new types of products, my inclination is that this is secondary. I have the luxury of a very large field force that is very quick to write letters telling me what other people are doing and we are not. One thing that is lacking, even in the input apparatus of a company as large as the New York Life, is up-to-date information about what is going on in the regulatory arena. I would support efforts to speed up the flow of information on that front. Finally, when we are talking about the regulatory arena, I would hope we would agree that there is one very important part of that, the SEC, where there are needs both for collecting information in a timely fashion and, as was said by a couple of the council members, for making ourselves known as people who have something to contribute in terms of educating others. I have a strong feeling that many of the products that this section is going to be discussing in one way or another, are going to turn out to be registered products. Many of them are going to present new and challenging problems for the commission and the staff, as well as for those who have to deal with the SEC in trying to get these things on the street in a reasonable way.

MR. CARNEY: Do you see the needs then in the accumulation-type product vehicles as a first start for the section?

MR. MILLER: Sure, because that is where a lot of the impetus for the formation of this section came from in the first place and it is an active part of the arena and the marketplace. It is an area where you are going to see variable versions. I would certainly count that very high on our list in all forms of activity; not only information gathering about regulation, but the other types of activity that have been suggested.

MR. BRUCE E. NICKERSON: You asked what we we were looking for when we joined the Section. I second the comments about regulations, particularly the often unknown or too late known impact of regulations on our activities. Above all, I would like the opportunity for what might be described as "structured sessions:" narrow, in-depth discussions - not teaching, not a panel discussion by experts, but conversation among people familiar with a problem and willing to share views. The focus of these sessions would not be on specific new products as such, but on product problems, market opportunities, and regulatory restrictions and opportunities. Like Walt (even though I am in a company at the opposite end of the spectrum), I receive a lot of information about specific products of other companies. The questions that I often ask myself are: What problem does the product address? Is this product for a particular market? Is it an early response to an evolving problem? Society meeting discussions often cover too wide a topic, too superficially.

MR. CARNEY: Bruce, what is the best way of getting that information to you? Through meetings or through a newsletter?

MR. NICKERSON: A newsletter is fine if someone can do it, but it requires a lot of work authoring and editing. As much as we would enjoy being recipients, I doubt that many of us could give adequate priority to contributing.

MR. STEVE P. COOPERSTEIN: Just a follow-up on that. I have always felt that we should have informal groups. Perhaps one of the things you can do is take the listing of people that have indicated membership and distribute them on a geographic basis so that we know who in our area has an interest in product development. Then we can get together for bull sessions and just knock it around. One thing the Section needs to do is to be very, very informal, and just do things without considering them too deeply. Over time the Section will filter out the things that it can do effectively and the things that it cannot.

MR. CARNEY: One of the things that we did discuss yesterday is the possibility of having a geographic listing of the membership so that if there were some topics that we felt we had to try to get a forum on very quickly, we could contact people and have sessions at local actuarial clubs. I do not know how that idea goes with the membership, but that was one of the things discussed yesterday.

MR. KAYTON: One idea would be to ask the Society to use the membership list and put it out arranged by companies, similar to what they do with the year book. That would be very helpful because I notice there are a number of companies with multiple memberships. You might be able to get one contact person and reduce your mailing cost, if nothing more.

MR. MICHAEL P. TINE: I urge the Section to structure forums and other discussions such that openness and participation is encouraged. Only in an informal atmosphere, and with each of us making a personal commitment to share our own knowledge and ideas with others, will we be able to arrive at solutions to problems.

Also, a number of people suggested the need for a newsletter or a mechanism for distributing information to the members. Whatever we do in this regard should be concise and focused, or it will degenerate into just some more paper passing over the desk.

MR. JOHN WADE: One thing that comes to mind is, instead of having a newsletter, to have a report on a given subject that is of interest to people. For example, Universal Life is something that everybody is concerned about. Without necessarily trying to get the most up-to-date proprietary information, a group could get together and collect information giving the general parameters of the different ways commissions are being handled. Not what the actual amount is, but what are the ideas on the subject. Various things such as: how are the expenses being handled, what are people doing in front-end or back-end load? Come out with maybe a four- or five-page report on a given topic.

MR. MICHAEL B. MCGUINNESS: Listening to what has been said, I have been a bit disturbed, remembering that I am one of the 20% of members of the Society who are Canadian. There has been a good deal of talk about NAIC,

ACLI, SEC; I have not heard any reference to Canada. Mike Hutchison has left the Council and I did not detect a Canadian replacing him. I am not pleading necessarily for geographic representation, but I am concerned that insufficient weight will be given to Canadian problems. I do not have an answer. I am posing it as a question.

MR. CARNEY: Mike, I think your point is well taken. Some of the major new products that are being developed right now are coming out of the Canadian marketplace, and if we are going to perform our function in the product development area, in the accumulation product arena, we have to monitor and report on what is being done in the Canadian marketplace. Although we do not have a Canadian on the Section Council at this point, I am sure that will be a topic that is well represented.

MR. JOHN A. MACBAIN: I think Walt brought up a good point and that is why are new products being put on the market? Not so much defining exactly what those products are or how commissions are paid or expenses are structured, but an analysis of what areas new products are covering. What is the purpose of Universal Life? We may not know that. Once we see a new product we like to sit back and ask, what is its use? A more universal perspective on that would be very helpful. I see that as being something that the Section could be very helpful in accomplishing.

MR. STEVE RADCLIFFE: At the Program Committee meeting this morning, we discussed how we might integrate our job of putting together programs for SOA meetings with the efforts of the various sections. We are interested in the formats you would like to use for future meetings. We are thinking in terms of dedicating time slots, maybe even full days, to section-type activities.

MR. MILLER: Starting when?

MR. RADCLIFFE: The incoming chairman is Steve Frankel and he will be the one to contact on this question. We have not decided on anything as for timing, but this is something that we are considering for future meetings.

MR. MILLER: Is there a possibility for section activities to be a part of the 1983 Spring meetings?

MR. RADCLIFFE: The 1983 meetings are pretty well planned, so it probably will be the 1984 meetings before section activities can be completely integrated.

MR. WARREN R. LUCKNER: I have interest in the function of this section in my responsibility as Education Committee coordinator for Part 9. In particular, I would like to see some type of entity, either some individual or group that would serve as an Education Committee liaison to help us in syllabus development, particularly in the area of current issues. We always get a lot of criticism for having outdated material on the syllabus but it is very difficult to develop material without experts willing to help us in that area. One of the valuable functions that this section could serve would be in that area.

MR. CURTIS D. GREENE: I suggest that we try some small group time in either of two ways. One would be simply divide everyone into 10's or 12's and say this is to be a dedicated time devoted to talking about products. Another

would be to have a number of single topic posters on the wall and send people to gather under them. Then they may have their informal discussion in that place, where they know what they are going to talk about when they start.

MR. J. LYNN PEABODY: For those of you on the panel, if you were to complete the sentence, "I got the idea to start an Individual Life Section because . . .," how would you do it?

MR. CARNEY: There were a few of us at a C-4 Technical Subcommittee meeting in San Francisco having nothing to do one afternoon. We sat down and thought that it would be a good idea to have a special interest section in the annuity topic to try to get information disseminated very quickly as to what was going on in the annuity field, both in the regulatory arena and in the new product design. We originally approached the Society with that as a concept; a much finer line than the Section currently encompasses.

In the discussions and the negotiations with the Society, the definition of the topic became a bit broader than this group originally intended. It is very positive, but it creates a problem for us when we are sitting here with approximately 850 members and we know that all of you have different primary interests. Some of the people up here are very interested in nonqualified annuities. Some are interested in qualified annuities. Some are interested in variable annuities. We have a number of people that are interested in Universal Life, Variable Life and other accumulation-type products. We have people whose primary interest would be in the participating products area and in dividends. We have people that would be very interested in term insurance, smoker/nonsmoker and other current activities. We obviously have people interested in what is going on in Canada.

The Section has a very broad definition. If we are going to try to work and be effective in terms of producing anything for you, we have to try either to narrow our scope or to find some way to zero in on what your specific interests are in the specific product area, whether it is accumulation products or term insurance or variable products. We then must develop a mechanism to disseminate that information on those specific areas. What we are going to try to do is to design a questionnaire from the comments and discussions that have been raised today. We will go out to you with the questionnaire; get the interests that are most important to you. Then we can set up committees to attack each of those special interests and try to provide you with the information that you need. What I just ended up doing was summarizing the session. If anyone has some good ideas, we would love to have you come up and talk to us or send us a letter. Thank you.