SOCIETY OF ACTUARIES

Article from:

# Small Talk Newsletter

May 1998 – Issue No. 11

**Codification Coming Your Way**
*continued from page 5*

accounting basis is called an OCBOA (other comprehensive basis of accounting). Theoretically, an auditing firm could issue an opinion on a Moldavian basis as long as Moldavia's practices qualified as an OCBOA.

Codification may not become an OCBOA primarily because of the states' rights issue. Each state does not want to appear to give up anything when it comes to regulating insurance companies. To accommodate this, there remain several references to permitted practices and state variations throughout the codification document.

What this likely means is that the auditors would issue an audit opinion on the state-of-domicile rules, regulations, and permitted practices. The audit report would then contain a report or a footnote that reconciles state-of-domicile financials to codification financials.

Codification must be adopted by each state. About half the states would automatically adopt it. This is because the codification document was renamed the "Accounting Practices and Procedures Manual." This manual is currently referenced in the insurance regulations of half the states. The other half of the states must formally adopt codification. It has not been decided whether this is a regulation on the accreditation track.

After nearly seven years of work, it seems that we have been presented with a 51st accounting basis whose financial statements will be of little interest or value to anyone.

*R. Thomas Herget, FSA, is Executive Vice President at PolySystems Incorporated in Chicago, Illinois and Chairperson of the Life Insurance Company Financial Reporting Section.*

# Bank Alliance Niche for Insurers

***by Paul J. Sulek***

**Editor's Note:** *The following is a summary of Session 79, "Bank Alliance Niche for Insurers," held at the SOA Annual Meeting in Washington, D.C. and moderated by Paul J. Sulek.*

A panel of guest speakers discussed the bank alliance niche for insurers. They included Julie Williams, Chief Counsel for the Office of the Comptroller of the Currency; Steve Landberg, Principal for Sibson & Company; and John Hillman, President of Philadelphia Financial Group. This session was sponsored by the Smaller Insurance Company Section. The objective of the panel was to discuss insurance product offerings of banks and to examine what insurers, especially smaller companies, can do to successfully market products in partnership with banks.

Julie Williams gave a brief history of bank regulation as it pertains to insurance activities. National banks currently engage in a wide variety of insurance and annuity activities. Ms. Williams pointed out that the issue of state and federal regulation of banks is not new. Recent Supreme Court decisions in *Barnett Bank of Marion County, N.A. v. Nelson, Florida Insurance Commission* and *NationsBank v. Variable Annuity Life Insurance Company* have resulted in an increased focus on bank insurance and annuity sales. These cases also resulted in new and challenging issues. State laws that apply generally to regulate insurance will apply to national banks provided the law does not interfere with authorized activities.

According to Steve Landberg, banks have seen a marked shift away from regular deposits in the last 10 years. The number of financial advisors in banks is growing, while the life agency population has shrunk. The smaller bank distribution channels are generally third-party marketers and branches platforms. Landberg said that until this time, banks have tended to deliver insurance or investment products rather than managing a customer relationship over multiple products.

One key to success is understanding the bank culture that is often focused on organizational issues. Almost 40% of banks currently sell insurance, but what and how they sell varies considerably. They plan to increase insurance sales to achieve greater profitability. Banks primarily sell individual annuities. Insurers need to have a long-term perspective to create bank alliances. Well-designed products, marketing, selling, and service are essential. These will need to be reengineered for bank distribution. Focused strategies and tight organizational alignment are keys to success.

John Hillman presented a case study focused on life insurance. The life marketer is a late arrival compared to annuity sellers. New entrants include insurance carriers with significant resources and patience; Internet companies that are highly focused with unique services; and direct marketers. Mr. Hillman said that opportunities exist in the bank market because this is a real, evolving market. There is an extensive customer database with possibilities for greater efficiency and profitability.

The challenges to insurers are to be recognized as a new distribution channel, to integrate with existing channels, providing focus on packaging, not features, knowing how to sell, and becoming aware of compliance requirements. To succeed, it is necessary to commit to the channel, be open to changing banker groups, consider new products, incorporate technology, focus within a segment, and be patient.

*Paul J. Sulek, FSA, is Vice President and Chief Actuary at AGL Life Assurance Company in Blue Bell, Pennsylvania and a member of the Smaller Insurance Company Section Council.*