Small Talk Newsletter

May 1998 – Issue No. 11

Entering the EI Market
continued from page 20

performs them for itself, or it can provide any desired consultation. Alliances offer several possibilities for meeting the challenge of cash-flow testing. The primary company may develop the cash-flow-testing methodology and perform cash-flow testing for the secondary companies or provide them with advice. Alternatively, the companies may jointly develop their cash-flow-testing methodology. Either approach seems preferable to working independently. Regardless of the process used, each company must be knowledgeable and comfortable with the cash-flow testing that is performed on its business. Fees could be included in the administrative agreement or could be independent.

Requirements for Success

In any alliance, certain conditions must be met for the alliance to succeed. The needs of each party must be met and the costs to each party must be less than the benefits. The companies must have similar values and should be able to operate in a relationship of trust. The primary company should be very open and communicate well. This is important to earn and maintain the trust of the secondary companies and to provide the secondary companies adequate knowledge of their equity-indexed business, for which they are ultimately responsible. The secondary companies need not have any relationship with each other.

As in virtually any enterprise, agency issues are important. In consideration of an alliance, each company will need to consider the degree to which the agents of the other companies are in competition with their own agents. Because equity-indexed products can be sold through various distribution channels, conflicts with agents can be minimized in alliances whose members use different distribution channels or concentrate in different regions of the country. Also, it may be desirable to structure administration so that the primary company does not know the agents of the secondary companies.

Availability

Despite the appeal of alliances, few companies are actively seeking these types of arrangements for equity- indexed products. Lafayette Life is actively pursuing such alliances. To date, Lafayette has entered into alliances with three other companies for equity-indexed business. We currently issue an equity-indexed, single-premium annuity and are developing an equity-indexed, flexible-premium annuity and an equity-indexed universal life policy. The company believes that alliances provide an attractive means by which small companies can profit from the interest in equity-indexed products.

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Compromise on Guideline XXX in Works

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The National Alliance of Life Companies (NALC) hosted a meeting in Chicago on April 2 to discuss possible alternatives to the impending XXX regulation. A tentative agreement was reached by the attendees. This proposal will be presented to the Life and Health Actuarial (Technical) Task Force at its meeting in June.

Who Attended

There were 29 people present with at least six others on the speaker phone. Every possible faction of the industry was represented: mutual and stock, large and small, companies and consultants, industry representatives, and regulators. In addition, the American Council of Life Insurance (ACLI), and the NALC were represented. Bob Barney of Compulife Software also participated. Mr. Barney has been very vocal to governors and insurance commissioners about his opposition to XXX.

Basic Reserves

The new methodology (named "JVE" at the meeting) is very similar to the methodology contained in the XXX regulation. The primary difference is that a company must use its current premium scale for determining segments and premium ratios. This would generally create traditional "humpback" reserves for the period of intended level premiums. For example, a 20-year term product with premiums guaranteed for five years would have to set up 20-year "humpback" reserves.

In addition, the five-year exemption provided for in the current XXX regulation has been eliminated.

Minimum Reserves

Minimum reserves are defined similarly to the definition contained in XXX. Segments and premium factors, however, will be based on current premiums. Except for the difference in mortality tables, these net premiums are calculated the same as for the basic reserves. Premium deficiencies, if any, will be calculated based on guaranteed premiums.

Basic Mortality Table

A new set of selection factors will be developed modifying the 1980 CSO table. It is anticipated that the selection period may be 20 years, with longer periods possible at the younger issue ages. It is also anticipated that these factors will reflect the new preferred classifications of underwriting. It will also be more reflective of current mortality levels with appropriate statutory margins.

Minimum Mortality Table

A more aggressive set of mortality tables will be developed for the minimum

continued on page 22, column 1

Compromise on XXX in Works
continued from page 21

reserves. It is possible that the valuation actuary will need to justify the use of the mortality table. These tables may or may not be based on the 1980 CSO table.

Planned Activities

The ACLI's Actuarial Committee will meet on May 12 to consider supporting the compromise. The NALC's Actuarial Committee will meet in April to consider supporting the compromise. In the meantime, five subcommittees have been formed to deal with technical issues of the recommendation. The full committee will meet in Washington, D.C. on May 13 to finalize the recommendation to the L&HATF. This meeting will be sponsored by the ACLI. Please contact our office if you would like to attend.

1. ***Basic mortality table.*** This group will recommend new selection factors for the 1980 CSO table. Rob Foster of CNA will be heading up this subcommittee. The report is due on April 17.
2. ***Minimum mortality table.*** This group will recommend new mortality tables for determining minimum reserves. Rob Foster of CNA will be heading up this subcommittee. The report is due on April 17.
3. ***Draft regulation.*** This group will be responsible for drafting the necessary changes to XXX to reflect the compromise. Jim Van Elsen of Van Elsen Consulting will be heading up this subcommittee. The report is due on April 20.
4. ***"Loopholes."*** This subcommittee will focus on finding problems with the proposed compromise. They will be trying to develop ways to get around the regulation so that potential loopholes may be closed. Lee Harrington of American General will be heading up this subcommittee. The report is due on April 27.
5. ***Communications.*** This committee includes actuaries representing the ACLI and NALC. It will be the group responsible for coordinating the activities of the other groups, as well as putting together the package for the ACLI and NALC Actuarial Committees. They will also be responsible for making the presentation to the regulators in Kansas City in June. Steve Smith of First Colony will be heading up this subcommittee. The initial report is due on May 5.

If all goes well, Jim Van Elsen and Steve Smith will be making a joint presentation to the L&HATF in June. If it is accepted, the suggested modifications will need to work through a normal process for NAIC adoption of a model regulation. This could be expected to be completed in 1999. The effective date of the regulation is proposed to be January 1, 2000, although there may also be a 51% language.

In addition, if well received, efforts will be made to modify, or delay, XXX where it has already been adopted. Wisconsin, for example, will be asked to move back the effective date until January 1, 2000, as well as to make the proposed changes to the regulation. It is also anticipated that New York will consider adoption of the revised model.

Gathering in Washington, D.C. to plan the activities of the Smaller Insurance Company Section for the coming year are Council members (left to right) standing—Chris DesRochers, Norm Hill, Perry Kupferman (Program Representative); seated—John Wade (1997–1998 Chairperson), Norma Christopher (1996–1997 Chairperson), and Lori Truelove.