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INDIVIDUAL ANNUITY PRODUCT UPDATE

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Recorder: DANIEL JAQUEZ

- Market overview/trends
- MVAs
- Bank annuity sales
- SEC developments

MR. HUBERT B. MUELLER: The areas we will be focusing on are market overview, Securities Exchange Commission (SEC) developments, market value adjusted (MVA) annuities, and the marketing of annuities through financial institutions.

First, I would like to introduce our panel of experts. Steve Roth is a partner in the law firm of Sutherland, Asbill & Brennan in Washington, D.C. He has been assisting insurance companies with the registration of variable insurance products for almost a decade. Steve will give us an overview of the recent SEC proposal regarding the 1940 Investment Company Act as it pertains to registered annuity products, the current status of that proposal, its impact on future product designs for registered and nonregistered annuities, as well as any other recent SEC developments affecting annuities.

Next we will have Gordon Boronow. Gordon is chief actuary and also chief operating officer at American Skandia Life in Connecticut. Gordon will talk about American Skandia's experience with their MVA products and will address such issues as product development, pricing, regulatory issues, marketing, distribution and internal communication and controls within the company.

The final speaker will be Jim Truax. Jim is senior vice president at Marketing One with responsibility for their bank annuity sales. Jim will discuss the issues for insurance companies who are considering the marketing of annuities through financial institutions. He will discuss such issues as product design, due diligence, marketing success factors, and obstacles, and he will tell us about industry experience.

I would like to start with an overview of the individual annuity market, focusing on premiums, distribution, bank annuity sales, and recent and future market trends.

Individual annuity premiums have been increasing at a dramatic pace over the last few years. The annualized growth rate is about 18% since 1987 (see Chart 1). Individual annuities and group annuities together now account for about half of total

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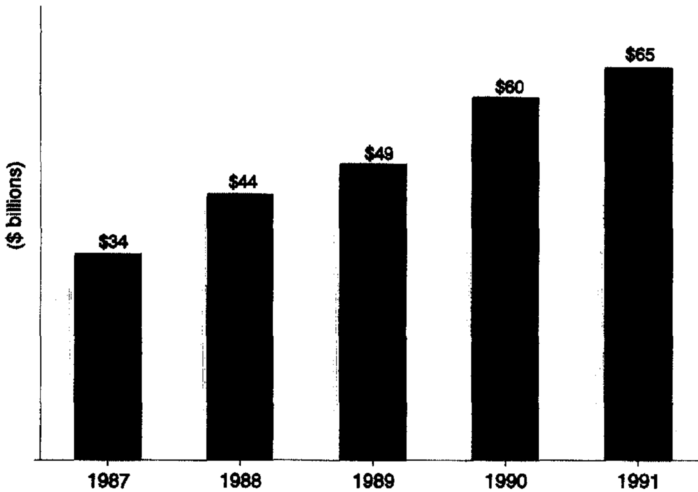
industry premiums. In 1991, this share was 48% which is about double the share that they had just 10 years ago.

CHART 1
U.S. Individual Annuity Premiums



Sources: LIMRA, Tillinghast

Within the individual annuity marketplace, a dramatic shift has taken place over the last few years. Variable annuities, which represented less than 20% of sales five years ago, are now up to about a 40% market share, according to Life Insurance Marketing and Research Association (LIMRA), for the first half of 1992 (Table 1).

TABLE 1
Market Shares of Individual Annuity Products

Product Type	1988	1989	1990	1991	(first half) 1992
Fixed	83%	80%	77%	72%	60%
Variable	17	20	23	28	40

Sources: Data compiled from LIMRA, Tillinghast

Even more impressive is that they have managed to double their market share in a market that has grown dramatically. In fact, if you look at the growth in the annuity market overall, variable annuities have been the driving force of that growth. As you can see in Chart 2, fixed annuities actually declined in sales, while variable annuities increased at about 30%. This enabled 1991 sales to actually increase over 1990 sales. There were not many other segments in the life industry that could say that.

This trend seems to be continuing this year as well. Looking at the first half of 1992, it is evident that variable annuities are solely responsible for the growth in the market,

increasing by about 75% over last year's sales, whereas fixed annuities again declined. (See Chart 3.)

CHART 2
Market Shares of Individual Annuity Products*

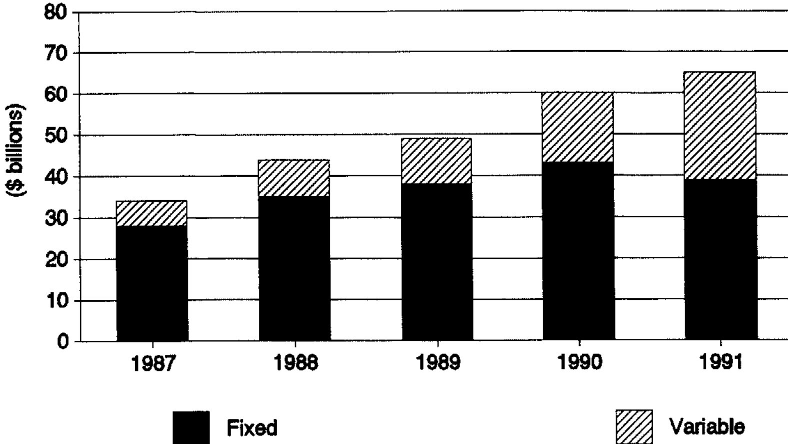
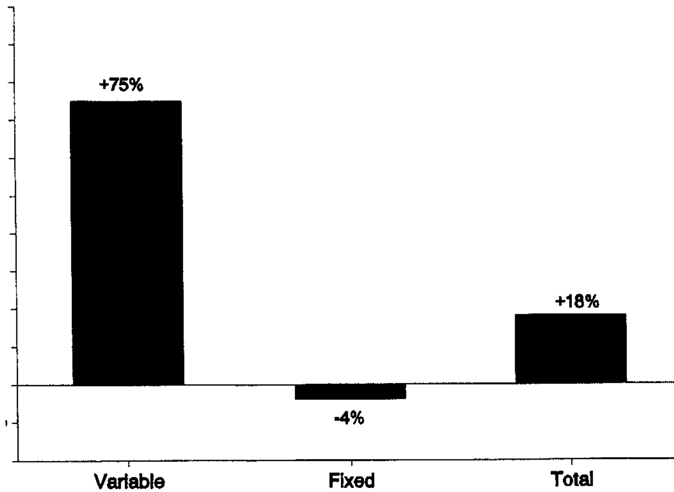


CHART 3
U.S. Individual Annuity Premiums
First Half 1992 versus First Half 1991*



* Sources: LIMRA, Tillinghast

Table 2 shows some recent variable annuities sales statistics. If you look at the top 10 companies in this market you can see that they actually command a fairly high percentage of the total market. So, the market is highly concentrated, with the top 10 companies accounting for 66% of total market premiums. There are only about 50 companies that are selling more than a million dollars in variable annuity premiums a year.

TABLE 2
Ten Largest U.S. Individual Variable Annuity Writers (Millions)

Company	1991	1992 (first half)
Lincoln National	$ 2,284	$1,503
Nationwide	1,421	960
Equitable	1,205	935
Hartford Life	1,139	1,072
IDS Life	1,109	1,029
Prudential	941	684
Anchor National	685	346
Sun Life (Canada)	676	417
NALAC	539	509
Met Life	503	440
Top 10	$10,502	$7,895
Market share	66%	66%

Market value adjusted annuities is another growing segment within the annuity market. First, introduced and marketed by a few companies in the mid-1980s, they have now gained popularity, especially in the current low interest rate environment. (See Table 3.) The 1991 sales of $2.1 billion are only about 3% of total industry sales. That number should actually increase dramatically in the near future, since several companies are currently developing such products.

TABLE 3
Market-Value Adjusted Annuities (MVAs)
1991 Sales Statistics

Number of companies	15
Total premium	$2,141 million
Total policies	66,450
Average size	$32,215

Chart 4 shows the distribution of individual annuities as compiled from a LIMRA survey. Career agents have increased their market share in the individual annuities market from 25% in 1991 to 34% in 1992, which is surprising, because everybody seems to think that the annuity market is now totally dominated by stockbrokers. Stockbrokers share actually declined, while banks have managed to retain their market share.

Chart 5 shows the variable annuity market. Stockbrokers have a much stronger presence in this market. Their total market share is 35% which is almost equal to the career agents' 37% according to a survey which Tillinghast conducted a few weeks ago. Financial planners come in at third place at 18%, while banks and direct response channels together have now a 10% market share which is up from 6% in 1991.

CHART 4

Distribution of U.S. Individual Annuity Premiums

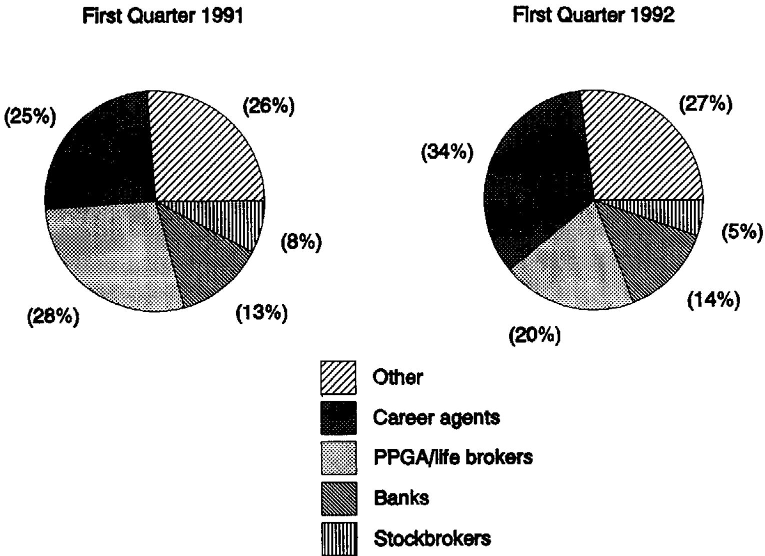
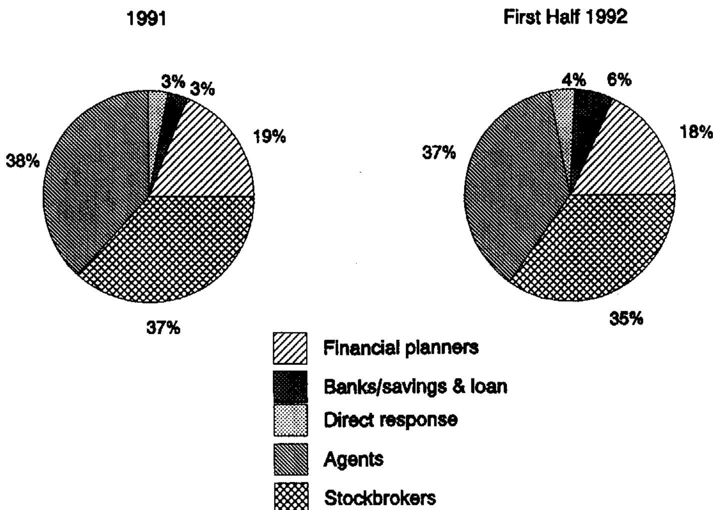


CHART 5

Distribution of U.S. Individual Variable Annuity (VA) Premiums



Sales of annuities through financial institutions have steadily increased from $4 billion in 1987 to be about $9-10 billion in 1992. (See Chart 6.) However, the relative share of financial institutions in the annuity market has actually not increased at all. If you look at the relative share percentage, it is about the same in 1991 as it was four years ago. (See Chart 7.) This means that banks have kept up with the growth in the market, but they have not been able to beat that growth rate.

CHART 6
U.S. Individual Annuity Sales to Financial Institutions*

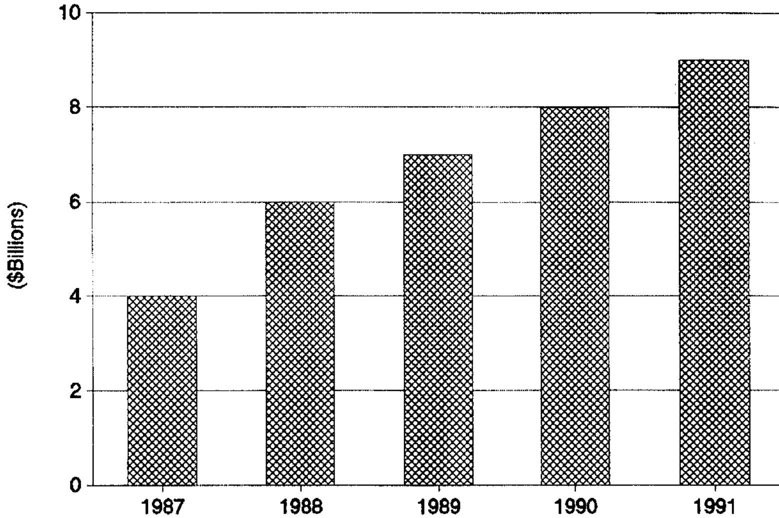
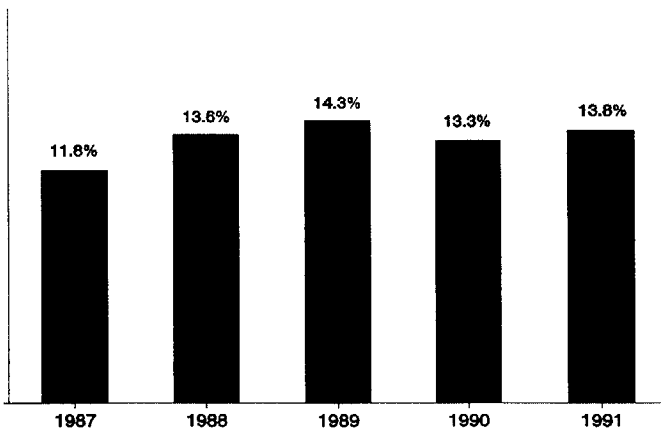


CHART 7
U.S. Individual Annuity Sales -- Financial Institution Share*



* Sources: LIMRA, Tillinghast

TO SUMMARIZE

- Variable annuities have a 40% market share in the annuity market.
- MVA sales are increasing, yet they are still a small portion of the annuity market.
- Career agents are still dominant players in the annuity market.
- Stockbrokers have a significant market share of the variable annuity section of the market, but not so much in the overall market, where they are still trailing career agents. That is good news for all the insurance companies with tied agency sales forces.
- Overall, bank annuity sales are increasing in absolute, but not in relative numbers.
- Within the variable annuity sector, banks and direct response channels are increasing their market shares.

My outlook on the annuity market is that the market share of MVA products and variable annuities has not reached a peak yet. It will increase further. Second, I think that there is a growing tendency for mutual fund groups to enter the variable annuity market, which will add both distribution as well as investment management opportunities. Third, sales of annuities for financial institutions and direct response channels should continue to increase as well. Actually, if you look at some European countries like France and Spain, sales of annuities through banks already account for about half of total new business in the life insurance sector. Finally, it should be noted that any significant adverse tax laws could severely impact the future market growth of annuities. This would shift the growth momentum back to life insurance products. In particular, single premium life and single premium variable universal life could become very attractive alternatives again.

MR. STEPHEN E. ROTH: As Mr. Mueller indicated, insurer and consumer interest in SEC-registered annuity products has never been higher. The number of SEC registration statements that have been filed annually for new products and variable annuity products have increased steadily over the last four years. The number of companies offering SEC registered fixed annuity products and MVA annuities is at an all time high.

My basic message is that I am happy to report that there are a number of SEC regulatory developments on the horizon, most of which if implemented operate to increase the level of insurer and consumer interest in these registered annuity products. Particularly, last spring the SEC staff issued its long awaited report on the Investment Company Act of 1940 entitled, "Protecting Investors: Half Century of Investment Company Regulation." This 525-page report covers many of the most significant areas of investment company operations that are regulated by the 1940 Act. A number of the recommendations in the report, if implemented, could have a significant effect on the design and marketing of variable annuity products. I would like to discuss some of those more important recommendations.

From a product design perspective, the most important recommendation is a proposed overhaul of the SEC framework for regulating variable contract charges. The SEC currently regulates all charges deducted in connection with registered variable annuity and variable life products through a framework which identifies each charge with the nature of the expenses it is designed to cover, then subjecting that charge to

a specific statutory or a regulatory limitation. For example, sales loads under variable annuity products are limited to 8.5% of premiums. Administrative charges must be at cost with no anticipated element of profit to the insurer. Mortality and expense (M&E) are limited on an ad hoc basis by the SEC staff to 125 basis points. This framework has led many in the industry to grumble that it makes product design more complicated, that it inhibits competition in the marketplace, and in many important circumstances it prevents insurers achieving an appropriate rate of return on their capital investment.

The SEC staff took these concerns to heart in a study report and recommends that the current framework be replaced by a statutory amendment that would simply require that all of the charges under the variable contract in the aggregate be reasonable in relation to the services rendered, the expenses to be incurred by the insurer, and the risks assumed by the insurer under the contract. This recommendation, if adopted, will have the most significant ramifications for variable life (VL) products. There is strong evidence that the current SEC limitations on sales loads, M&E risk charges, and administrative charges has kept a substantial number of insurers out of the VL marketplace. However, it is also an important development for variable annuities writers. As a general matter, because the recommendation is based upon a proposal submitted by the life insurance industry, it is viewed positively.

I will briefly point out some of the ramifications of the proposal. First, under this proposal the insurer must make a representation in its SEC registration statement that the aggregate charges are, in fact, reasonable. Under this approach, policyholders will have a potential claim against the insurer for a material misstatement of fact if it can be shown that the charges in the aggregate are, in fact, unreasonable or not reasonable. Currently, there is no such policyholder private right of action against insurers related to the level of the charges they impose under their contract. This raises the question of what reasonableness means in this context. The SEC report does not provide much guidance on this question. It states that an insurer should consider all relevant factors in assessing the reasonableness of contract charges. It further indicates that the proposed statutory change contemplates that a reasonable profit could be built into the price of a variable product. It does not, however, discuss what is meant by a reasonable profit. Therefore, such questions as whether the insurance company's efficiency, target rate of return on capital, for example, should be taken into account are left unanswered. Many companies are currently relying for their M&E risk charges on a standard that is within the range of industry practice. The SEC proposal does not include the industry practice standard and it is unclear what role, if any, industry practice will play in determining whether the charge is reasonable. The SEC's recommendations grant the SEC statutory authority to adopt rules describing guidelines for determining the reasonableness of charges. However, the report indicates that the staff does not expect that the SEC necessarily will need to use its rule-making authority. Indeed, it hopes that the simple existence of that authority would tend to discourage excessive pricing in the industry.

The report further acknowledges that the SEC would need to consider many factors, including product development, market practices, contract design, and possibly NAIC rules and regulation that may need actuarial services or a market survey before it could propose or adopt any such rules providing guidelines. One anomaly here is that the recommendation apparently leaves intact the National Association of Securities

Dealers (NASDs) current jurisdiction over sales charges. This does seem anomalous because for the NASD to regulate sales charges, while the SEC only looks at charges in the aggregate and requires there be representation that they are reasonable in the aggregate, it seemed to leave open the question of what should appropriately be deemed to be a sales charge. If the NASD were to take up that question it could completely unravel the aggregate approach that the SEC is proposing and might bring us back to where we are today.

This recommendation is certainly a positive development. While there are certainly some uncertainties associated with the proposal at this point and while it would give the SEC clear jurisdiction over all variable contract charges, the industry has historically maintained that the insurance charges are not subject to SEC jurisdiction as opposed to the investment charges. Nevertheless, the intent of the proposal is to let the market operate more freely and efficiently.

The staff hopes to prepare a legislative package for submission to the SEC very shortly. It is likely that they will be looking at it within the next several weeks. The objective is to have that package introduced early in the next session of Congress. There has been some talk in the press about Chairman Breeden stepping down at the SEC. That is likely, if it has not already occurred. But I do not think any changes in the composition of the SEC itself are going to affect the viability of this proposal. What remains uncertain is where it will go when it reaches the Congress. We are obviously talking about a watershed year here in terms of change and the composition of Congress, what the legislation is attached to, the hearings and the committee are all unknowns at this point. But if I were to venture a prediction, I would say that the chances are quite good that we may see this legislation in effect at this time next year.

I might also mention, as an aside, that while this is still a proposal and it requires legislative action, we are beginning to see some softening of the SEC's approach to the regulation of charges in the day-to-day way in which they handle SEC filings. For example, at a recent program in which I participated, the SEC indicated that the staff was open to receiving exemptive application for M&E risk charges for variable annuities that exceeded 125 basis points. We have not heard that statement for as long as I have been practicing in this area. They indicated, however, that where they would be receptive is where there is an enhanced death benefit. The company could make a strong justification that the enhanced death benefit significantly increased the company's risk.

There are a number of other recommendations in the report that are relevant to variable annuity writers. For example, the SEC is proposing to allow mutual funds and insurance companies, through separate accounts, to offer limited redemption fund. Mutual funds and separate accounts currently must redeem daily and must pay the proceeds out within seven days after the redemption request is received. There would be two new exceptions to this general rule that would permit variable products to invest in less liquid investments. First, so-called interval funds that offer to redeem funds monthly, bimonthly, or quarterly. Second, so-called extended payment funds that take up to 30 days, rather than seven days, after the redemption request was received and recorded. Of course, these extended payment funds would continue to offer, to accept, and to process redemption daily. So the interval fund only redeems

at specified points in time. The extended payment fund redeems daily, but takes 30 days to put the check in the mail.

There is currently a real proposal pending that would implement these recommendations. It is likely that we are going to see some SEC action on this rule proposal within the next six months or so. In the meantime, the SEC has also opened the door here indicating that it would be receptive to individual requests for exemptive relief to the extent that insurance companies or mutual fund complexes wanted to implement an offer of these limited redemption funds before the rules are in place.

The third recommendation I wanted to briefly focus on is the recommendation that mutual funds and variable insurance products be allowed to sell securities off the page. This procedure would permit an investor to clip a coupon out of a newspaper or a magazine ad and send it in with money, all before having seen a prospectus. The ad would, however, have to meet certain exposure requirements that are yet to be specified. The prospectus would still have to be sent, but would come back to the investor with the confirmation. This procedure, which is similar to that now currently used in the U.K., might be attractive, for example, to direct response writers of variable products.

Perhaps the most controversial recommendation relates to the status of qualified plan separate accounts and bank collective trusts. The report recommends that certain of the exemptions currently enjoyed by these investment vehicles be significantly narrowed. By way of background, variable annuity separate accounts dedicated to the qualified plan market are exempt from the registration and prospective delivery requirements of the 1933 Act, the substantive regulatory requirements of the 1940 Act, and from the broker-dealer registration and agent licensing requirements for the 1934 Act. Essentially, except for possible antifraud liability, qualified plan products are designed and sold outside the sub, it of the SEC's jurisdiction. The report recommends that variable products should be offered to participants in directed defined-contribution plans, an essential example being 401(k) plans be registered under the 1933 Act and presumably also be subject to the broker-dealer requirements of the 1934 Act. Based on the existing Employee Retirement Income Security Act of 1974 (ERISA) and state insurance law regulatory framework, the report does not recommend that these products be subject to the 1940 Act, the Investment Company Act. Therefore, these products could continue to be designed irrespective of the requirements and limitations of the 1940 Act.

The report also recommends that there be no change with respect to defined-contribution plan products or products offered to nonparticipant directive defined-contribution plans. If adopted, the 1933 Act and the 1934 Act requirements would limit distribution of 401(k) products, for example, to agents who are appropriately securities licensed and associated with a broker-dealer, and would require the prospectus be printed and distributed as currently done in the nonqualified market. This recommendation is being vigorously opposed by the insurance industry.

Recently, the Department of Labor (DOL) issued final regulations under ERISA Section 404(c) that provide for enhanced disclosure for certain participant directive defined-contribution plan. The insurance industry is going to attempt to argue that this enhanced DOL disclosure should satisfy the SEC's concern. The SEC has essentially

said we are concerned about disclosure and not about substantive regulations. Unfortunately, preliminary indications are that the staff does not believe the final 404(c) regulations go far enough. Therefore, it appears that the staff will move forward with its recommendation and include it as a part of the legislative package I referred to earlier.

Finally, the report proposes to expand the exemption for private investment companies. I refer you to the materials which were handed out. The other thing that I will allude to and maybe we can talk about in the discussion section is that this report is completely silent, although it had requested comment, on the status of fixed annuity contracts and life insurance contracts under the 1933 Act, an exemption which includes traditional and excess interest products from the ambit of the federal securities laws. It did not address it, but they are doing some studying in that area.

I want to briefly highlight a couple of other proposals that I think are interesting outside the scope of this study I have been talking about. The first relates to the possible use of a "hub and spoke" or master feeder or master core structure for variable insurance products. Currently, the structure is being used primarily to distribute mutual funds through banks. It involves an unregistered entity that is taxed as a partnership and does not register its shares under the 1933 Act. It, in turn, serves as the core investment vehicle through which a number of spokes that are distributed through different distributors can feed into. There has been considerable interest in using this structure for variable insurance products and, indeed, tapping into the same hub that is used to distribute mutual funds through banks for public offering and mutual funds through brokers dealers, et cetera. However, there are a number of issues that need to be worked out here. In particular, the SEC staff within the last month or so has stated that it will not declare a variable annuity registration statement effective involving this kind of a "hub and spoke" structure unless it first receives some comfort from the IRS, that the structure is consistent with the desired annuity tax treatment that is normally accorded variable annuity products. So it's going to be interesting to watch to see how that develops.

The other development does relate to MVA annuity products. Several companies have expressed an interest in and, in fact, at least one is currently offering a product funded by a separate account that would be insulated from the claims of the insurer's general creditors.

In parlance of the separate account statute, the separate account, like a variable annuity separate account, would not be chargeable with liabilities arising out of any other business the insurer may conduct. Some 20 or more companies currently operate in the registered MVA market. Until recently, none of these products have involved insulated separate accounts. The way they have been treated by the SEC is to require that the prospectus be filed and declared effective, but there has been no substantive regulation of these products under the 1940 Act. It has been disclosure only.

Now the SEC staff has indicated that it believes that an insulated separate account could subject the product to regulation under the 1940 Act. And, of course, as we have been discussing, subjecting that product to the 1940 Act could lead to changes in the product design that could essentially turn it into a variable product in the worst

case scenario. The staff is considering a couple of no action letter requests, but has indicated in several public forums recently that it likely will recommend against those request and instead will either require registration of insulated MVA products under the Investment Company Act or at least require that the company come in and seek and obtain appropriate individual exemption. It has indicated that it is receptive to exemptive application, but it has also indicated that it is going to look at each case on its own facts and, in particular, where an outside investment advisor is being used to manage the separate account assets, it at least has voiced some question about whether it would be prepared to grant exemptions from all provisions of the Act. Therefore, there is not yet a clear answer on how a product funded by such an insulated separate account will be regulated by the SEC although, again, as I mention, there are companies out there that are offering these or proposing to offer them.

In sum, these are interesting and I think exciting times for SEC registered annuity products, for the issuers of those products, and for the purchasers of those products. There are some proposals on the drawing board that could significantly affect the flexibility to design and market these products. Hopefully, these proposals will enhance the marketability and attractiveness of these products to consumers.

MR. GORDON C. BORONOW: It is a privilege for me to be part of this panel and to bring to the group some of the experiences we have learned as a writer of Modified Guaranteed Annuities (MGA). Our company, American Skandia Life, has written MVA annuities since early 1989. We presently offer three versions of this product in a fixed-only format and we offer two variable annuities which have MVA optional accounts. Despite three years of experience with this product, I continue to learn new insights into the way MVA products behave in different economic conditions. It is a wonderfully rich product from an actuarial and technical point of view. My goal is to touch lightly on a broad range of issues that might be of interest to product and/or valuation actuaries. During the question time we can focus more specifically on those areas of interest to you.

I will start with my least favorite part of the business, state approvals. At the time I prepared my remarks, only eight states had adopted the NAIC Model Law for modified guaranteed annuities and many of these were adopted only recently. By the way, I will refer to MVA annuities and modified guaranteed annuities as essentially the same thing. In states which do not have authority for individual modified guaranteed annuity products we use a discretionary group version of it. However, this still leaves three states, Oregon, Nevada and Washington, where we are not presently writing MVA products. I think some of our competitors are. We have not been able to figure out how to get them approved.

The NAIC Model requires that MVA business be written using separate accounts. This creates the potential for a well-managed, well-controlled product. Furthermore, some states, among them our State of Connecticut, permit the use of an insulation clause to protect separate account assets from credits of other business the company may conduct. I will note that the Virginia law, which was passed recently, states that assets are available to other creditors unless the commissioner allows otherwise. There seems to be some shifting of viewpoints taking place on this issue.

Along with separate accounts comes the requirement that assets and liabilities be accounted for at their market value. This requirement is a very powerful step to sound business practices in an area that has brought us mispriced CDs from banks and savings and loans and mispriced Single Premium Deferred Annuity (SPDAs) from insurance companies.

Finally, there is a trend among the states to require a plan of operations to write MVAs because of the separate account. And my only comment here is that this is a potential nuisance because, if this is widely adopted, you will have to have your products approved, and also have to go through a long discussion with the states on approving your plan of operations. This should be avoided but has to be resolved by coordination at the NAIC level. They will, however, be a barrier to entry for other competitor companies.

Statutory reserves for MGA products are the present value of future guaranteed benefits. This calculation is performed using the yield to maturity on assets, less an allowance for investment expenses, less an adjustment for the percentage of the portfolio invested in noninvestment grade bonds, less a core percent for conservatism.

This all sounds simple enough but there are some very interesting issues lurking in that formula primarily related to determining the yield on the separate account assets.

The attraction for actuaries of a MVA product is that a company can now finally offer a fixed interest rate product that can be truly matched. Both professionally and for these products by regulation, assets and liabilities must be matched. However, if you are not a purist, matching is financially necessary from a practical point of view. The discipline of market-value accounting forces one to control matching risks. And the final point here is that you should do your matching exercise using option-adjusted measures of duration for assets and liabilities.

Moving now to some product design issues, one of the first questions you must answer is whether to register the product and sell it with a prospectus. At American Skandia Life, we answer in the affirmative because of the following two criteria: One, we have a product that invades principal or potentially invades the principal and two, we sell our product through stockbrokers with an emphasis on its investment features. For some companies, registering the product is a stumbling block.

The heart of the modified guaranteed annuity is the MVA formula. We use an actuarial formula that is based on pricing a zero-coupon bond. Other formulas are possible and recently some companies have put limits on the degree to which the MVA is applied. We use a neutral actuarial market value adjustment and we calculate our reserves as described earlier. I do not know whether companies that limit the MVA reflect that limitation in their reserves or whether they even consider the product an MGA. A further question is whether a limited MVA product should have a different risk-based capital requirement than a more zero-coupon-bond-oriented MVA. In fact, the limited MVA, on a spectrum of risk, is somewhere in between an SPDA and a zero-coupon bond design.

No matter how you limit the MVA, you have to define it and you need to consider in your definition whether to use an internal yield as the basis for the adjustment or an

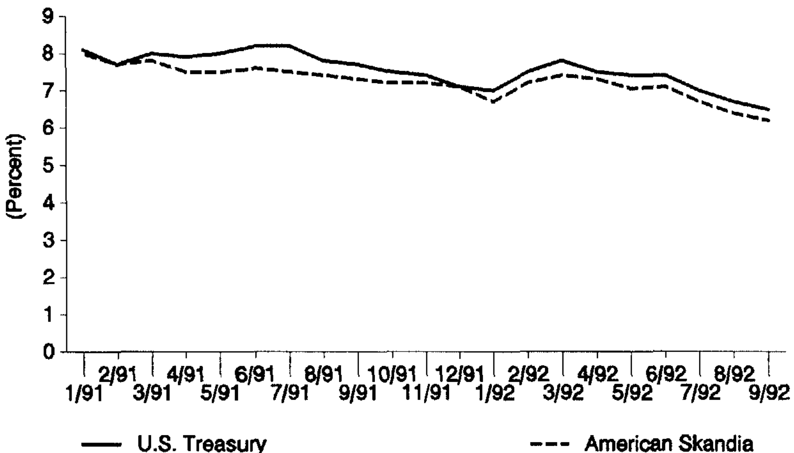
external factor. As I said at the outset, you will learn new things all the time. Examining this particular issue will give you insight into several interesting outcomes.

You also have to address the usual many smaller issues that go into a product design. How much liquidity do you want to give to the buyer? Do you use a back-end load or a front-end load? Do you permit transfers between guarantee period and so on?

While the product design is being set, you need to consult frequently with the investment department to establish a suitable investment policy for this product. To price your product you need to know the degree to which your company will bear credit risk. That is, the quality of the assets and a degree to which you want to bear interest rate risks. How closely are you planning to match or mismatch assets and liabilities? Will your company's infrastructure permit you to change rates when you need to? Will you be able to sell enough of this stuff in order to properly diversify the asset portfolio?

Chart 8 shows, to some extent, the frequency of rate change on our product compared with the Treasury yield on seven year treasuries. You can see that we changed things very quickly. We have about a 10 basis point trigger before we will change the rate on our product on a day-to-day basis. We try to stay to a weekly cycle. However, as we have moved our marketing into bigger stock brokerage firms, there is a lot more resistance to the idea of our reserving the right to change the rate and so you have to resolve this for your own company.

CHART 8
Seven-Year Rate Comparison
American Skandia Life versus U.S. Treasury
January 1991 – September 1992



This product demands constant attention. Communication between the new business area, the actuarial area, your finance and accounting department, and the investment department is the key to a smooth-running operation. This is everyday

type of communication. This is not a once a week. It is every single day, several times a day communication between those areas, particularly actuarial, finance, and investment. In addition, we have special weekly, monthly, and quarterly reports that are more formal communications.

The regulatory structure for MGAs permits and even forces a much stronger controlled environment than is customarily found with SPDAs. There are three critical areas I would like to mention. The first is duration matching. At American Skandia life we require matching within a half year tolerance on an option-adjusted basis. This is monitored on a weekly basis with daily communication on large transactions. Beyond duration matching, our investment advisor also monitors the convexity of the portfolio and other measures of sensitivity to interest rate changes.

The quality and diversification of assets also need to be monitored. We have an investment grade only investment policy, but more than that we have an investment policy objective with regard to the overall portfolio quality and we look at this on a basis which is weighted by the duration of the asset as well as a basis which weighted by market value.

Finally, you must monitor whether you are realizing your expected spread. If you monitor this area and dig into the information you have, you will learn a lot. You will learn about matching and mismatching. You will learn about junk bonds. You will learn about calls and prepayments. And you will also learn about the options that you have permitted in your own contracts. This product is a rich mine of knowledge if you take the time to properly analyze it. You must dedicate adequate resources to control MVA products. While they are much safer than other fixed annuity products, they too, can be easily mismanaged.

MR. JAMES M. TRUAX: My topic concerns a very exciting segment of the financial marketplace, the sale of annuities by banks. I am going to provide you with an overview of the market and the explosive growth we have experienced in the last 10 years. I will discuss the annuity product and examine the due diligence process because this is one of the key services that a third-party marketing company, such as my company, Marketing One, provides.

What is a third-party marketing company? I'll define that and give you some insight as to what to look for in considering the benefits that they bring to the table. And just so that I do not go overboard too much with optimism, I will discuss obstacles, particularly the obstacles faced by insurance companies that are considering entering the bank marketplace. Finally, I will dust off my crystal ball and offer my projections on what is next.

The bank sale of annuities, virtually unheard of a decade ago, has expanded to the point that a recent study by Kenneth Kehrer & Associates found that 85% of the largest 500 banks and savings institutions in the nation were either in the business of selling annuities in some form, had a plan to get into the business, or had a committee considering the topic. Add to this equation the fact that some of these banks are not retail institutions, and thus not really suitable platforms for consumer sales and you find significant market penetration.

The customers themselves are a very distinct group. (See Table 4.) They are mature, they are conservative, and they are many. Nationally we are told the medium age of the annuity purchaser is 48 years old. Our customer in the financial institutions is much older, averaging 63 years of age. The single greatest common denominator is the conservative nature of the bank customer. They are savers. That is how they got the money in the first place and that is why we find them in the bank.

TABLE 4
The Market

	Age	Sex	Initial Investment
Bank	63	F	$21,100
Agent	44	M	6,500
PPGA	46	F	33,900
Stockbroker	52	M	32,000

The subject of who we find in the bank and what they are doing there is worth a few minutes itself. Technology in the form of computers, automatic teller machines, bank by phone, direct deposit, and all of the other changes in the way banks do business had a lot of impact on customer habits. The fact that our customers are more mature implies nothing about the annuity product. These are just simply the majority of people that we see. Younger customers do not use the lobby as much preferring to use their direct deposit or their debit cards and money machines. And as technological achievements have moved numerous transactions out of the bank lobby, this has freed up the platform personnel to perform other functions like selling income-producing products -- and they are selling. Single premium annuity sales in general have increased from $51 billion in 1982 to $282 billion in 1990 according to Standard & Poor's, parallelling this increase, the bank market for annuities has gone from $1 billion in 1985 to $9 billion in 1991. Projections for 1992 sales are approaching $12 billion and we see every indication for continued growth.

Let us turn to the product itself. As I stated earlier the customer is very conservative. Extensive consumer research that we performed in 1991 clearly demonstrated that safety is the primary concern for the bank customer. Protect their principal first; a nice rated return is a plus, but conservation of principal is a must. The resemblance of the annuity to a certificate of deposit is to a large degree responsible for the acceptance of this product in the bank setting. The customers know how it works and they like the predictability. We have discovered an interesting trend over the years that illustrates this and despite the fact that there is no real ceiling on the investable amount that they can put into an annuity, we have found that most customers stop adding to their asset accumulation annuities at $100,000. Not uncoincidentally the FDIC limit.

Tax deferral is the biggest single selling point. Line 8 on the 1040 form is still perhaps our greatest marketing tool. Product liquidity features have been designed with the mature customer in mind. The pricing of these features is critical in terms of the viability of the annuity product in the bank market. The commission structure is important. The market has grown and, of course, has become increasingly

competitive. Most salespeople are very independent and have several options, several different carriers to select from when it comes to making recommendations to their clients. Pricing must include adequate commissions for marketability. Finally, the products that are selling are easily understood by the average consumer and the salesperson. And I mentioned earlier that changes in the way banks do business have given the platform personnel more time for other duties. We have a client whose customer service representative handles 140 different products and services of which annuity sales are included. Product simplicity, therefore, is important in both cases.

The bank market is unique in other ways as well. The bank is attracted to annuity sales because of fee income, controlling the run-off of traditional products to other investments, and then cementing customer relationships, but not always in that order. The good name and reputation of the bank is a primary concern. The research that we did, focus groups in cities around the country, indicated that banks have a special burden. No matter how carefully the salesperson presents the products, no matter how clearly they state that the annuity is not a bank product and not guaranteed by the federal government, the bank is still responsible for the product safety in the minds of the customer. If the bank lets someone sell the annuity in their own lobby, they must have checked it out, right?

The bankers share this belief and, in my experience, subject their insurance companies to a high level of scrutiny. The bank will establish standards for carriers, for surplus, capital adequacy, and safety of portfolio. They will conduct regular reviews and this is time-consuming. The bigger the bank the more particular they will be and the more frequent their reviews. They will insist upon high rating from multiple rating agencies.

Due diligence is one area where the market companies bring a real value added service to the equation. The marketing companies act as a middleman between the insurance company and the financial institution, selecting products, setting up the distribution system of client banks, and then driving the sales. In some states a bank must operate through a third party by law. In some instances banks do business with marketing companies by choice. They benefit, in other words, through outsourcing. Most banks need the experience of a marketing company to get into the business, which is complicated, capital intensive to get up and running, and filled with opportunities to err. Banks will often subsequently internalize the programs when they are ready and as they grow into it.

As more and more banks have entered the market, marketing companies have had to do a better job for providing value and service to survive. Compliance, recruiting, advertising, contests and incentives, sales tracking and measurement, customer service, sales support, market research and carrier due diligence are traditional functions performed by the marketing companies. There are now approximately 125 marketing companies in operation, and of these less than 25 can be considered national in scope with the balance being regional companies or smaller. The three largest marketing companies: Marketing One, GNA and Essex, did a combined total of over $3 billion in annuity sales in 1991; the 20 largest marketing firms had an 81% market share. While size is an important consideration for an insurance company in evaluating a marketing company, the amount of production is more important. Can they deliver the required production? How consistent is that

production? And, again, how stable and diversified is the marketing company's distribution system?

The relationship between the insurance company and the marketing company is more of a partnership than a vendor relationship. The complexity and the uniqueness of the bank marketplace can be perilous for even the most experienced carrier. There is very little similarity between the bank sales force and the traditional insurance agent. Traditional methods and sales techniques can be wholly inappropriate in the bank environment. Finally, the patchwork nature of state and federal banking and insurance laws create a need for experience which can be offered by the proper marketing company. Experience, specifically the lack of it, is the primary inhibitor to success by an insurance company in the bank market.

The issue of surplus is a big factor in weighing annuity sales in general but is really critical in this segment of the industry. Consider the fact that this October, over $100 billion of the total $900 billion of money invested in certificates of deposit will mature. Where will it go? Who will it go to? If it is us, do we have the capacity to take it?

The legal requirements are a major hurdle and this area is getting progressively complex. As we speak, two states, Pennsylvania and Florida, are debating sweeping reforms of bank sale of insurance products. Banks with operations in multiple states present the insurer with additional problems. Sales to the mature market require a special sensitivity and training. In other words, no small, hard-to-read-type print should be used on this group. Though these customers are older, they are very astute. They read everything. They ask the right questions. They refuse to be steam rolled. And a quality sales presentation for a quality product is necessary for success. The bank sales culture is perhaps the least understood potential stumbling block. I heard an individual who has responsibility for one of the 20 largest bank insurance programs in the nation say that "no insurance-types will ever sell from our platform." Integration with bank products and staff is probably one of the largest contributors to success and the most common factor in a program's demise. Banks are very different from your traditional agencies.

Utilizing the banks as a major distribution system is the key factor to annuity growth today. And, barring any legislative changes, in the future, it is where many of your agents will go to work and where the opportunity to cross sell more traditional life insurance products will develop. You have to address the changing market demographics and attitudes. The American population is aging and it will have an enormous impact on insurance sales and on banking activities. Consumer attitudes are changing. Lifestyles are busier and more complex. Consumers are looking to simplify how they obtain financial products and services. Where is the logical environment to consolidate and centralize their financial dealings? The answer is with someone they trust and someone nearby: the bank.

To work closely with banks as they develop insurance marketing, carriers will need to change. The key elements of a successful bank relationship include the carrier's financial strength and commitment to the market. Only the strong can participate. A bank will not offer insurance or investment products underwritten by questionable insurance companies. For carriers this means a strong commitment and achieving the

highest ratings possible. Marketing companies (acting as a partner of the insurance company) must be prepared to offer more assistance in hiring, training, and supporting of quality sales personnel. They must be prepared to offer necessary management reporting, tracking, and compensation systems. Carriers must demonstrate their commitment by modifying products, systems, and procedures to fit with the bank's approach.

A strategy based on products that were built for the agency distribution system is destined to fail in the bank distribution system. (See Table 5.) Insurance companies must redesign products so they have features that bank customers expect such as principal guarantees, liquidity options, and rate protection. The increased efficiency of a bank's prospecting system will allow reduced front-end commissions to pay for additional consumer features, including higher accumulation values. A good example of this is the one-year bonus rate offered for a 1% reduction of up-front commission. Product modification must extend to underwriting and administrative systems as well. It will be necessary to offer simplified application, instant issue, net settlement of commissions, and systematic withdrawal option. You will be competing for the salesperson's time as well as the customer's time. Will they sell your product or another carrier's product, or will they offer an equity income bond fund?

TABLE 5
Product

	Agent	Bank
Current interest rate	5.65%	5.50%
First-year bonus	1.00%	N/A
Initial rate guarantee	1 year	1 year
FPDA or SPDA	FPDA	FPDA
Free withdrawal provision	10.00%	10.00%
Surrender charges	9 years	6 years
Guarantee of principal	Yes	Yes
Maximum age at issue year	75	85
Minimum initial deposit	$1,000	$2,000
Minimum addition	$100	$50
Hospital/nursing home	No	Yes

Banks are moving toward the strategy that uses product differentiation to meet different customers' needs. We call it suitability. The one size fits all approach is becoming obsolete. Many banks and marketing companies like mine are investing heavily in data and technology that will allow them to learn more about their customers and to use that knowledge to develop and to distribute products. We will seek insurance companies that offer a similar strategy. This information allows us to identify the bank's customer base as a series of separate segments each with its own product needs. Carriers must be prepared to offer a variety of product options within these given categories.

Finally, insurance companies, if they want to participate in the growth of this segment of the market, must develop a distribution strategy. Of course, I would recommend a third-party marketing company. They offer some significant advantages. They

specialize in developing and supporting bank programs and have well-developed training programs that are handled by experts. They also offer special marketing and support capabilities such as print advertising material, contest and incentives, administrative systems, etc. They also represent a variety of carriers that are better able to integrate your company and products into the bank distribution system. I believe that the market looks bright indeed and I hope that some of you can come along for the ride.

MR. MUELLER: I would like to open the forum for discussion now.

MR. EDWIN R. REOLIQUIO: How do you take into consideration the MVA adjustment in the statutory reserves?

MR. BORONOW: I believe that the way it is taken into account is what we guarantee as a maturity value at the end of a guaranteed period. That maturity value is discounted at the yield on the assets. Now the yield on the assets is the current yield so that automatically and implicitly adjusts. It states the value of the guaranteed benefit on the same basis that the MVA would also be made if there was a surrender. But the MVA only comes into play in the event of a cash surrender. The reserve itself is simply a discounting of the future guaranteed benefit back to the current rate. Now you do have the further limitation that your reserve cannot be less than the cash surrender value.

MR. REOLIQUIO: And it is in the cash surrender value determination that you then include the MVA.

MR. BORONOW: It would come into play on determining the cash surrender value as well. Right.

MR. REOLIQUIO: Do I also get the impression that the discount rate then is something that you include in your actuarial memorandum when you did the filing for this product? Basically you are saying that the statutory valuation rate is the yield to maturity rate on the assets supporting the liabilities.

MR. BORONOW: Right, that is determined. You know it changes everyday based on the value of the assets. The formula is part of the Regulation 127 formula for New York. That is what is required and the basis for our reserves.

MR. MUELLER: The reserve requirement for an MVA product has to be treated, for statutory valuation, appropriately. It is a type B annuity which will typically require a valuation rate about 0.5% higher than the type C annuities which would be what a more traditional SPDA would look like.

MR. REOLIQUIO: Okay, what about tax reserves on this product?

MR. BORONOW: I haven't a clue.

MR. LESLIE L. DURLAND: One of the trends in the mutual fund business which is now occurring in variable annuity contracts is the payment of what is known as a trail commission with mutual funds. They are called 12(b)-1 fees which is essentially

analogous to a renewal commission, or probably better yet with universal life, a payment on the assets under management. The State of New York does not allow the payment of that trail commission on either funds or variable annuities. And I understand there has been a task force working with the insurance department to try to amend that. Could you give us an update on where that stands?

MR. MUELLER: New York has this regulation called Section 4228 which goes back to the Armstrong Regulation of about 1906 or 1908, so it is sort of outdated. But, what it says in essence is that if you want to sell in New York you will not be allowed to have any commission on a product, annuity, or any other product that is not premium based. What that means in essence is that you cannot pay a trail commission as long as you are selling in New York. This ruling has extra territoriality; in other words, even if you are not domiciled in New York, it will require you to use that same method of paying premium-based commissions in all the states that you are operating in. There is a task force that is working on this very actively. However, realistically it will be a while before you can actually expect any changes there.

MR. PAUL H. LEFEVRE: Gordon, I would like if you could elaborate a little bit on the insulation issue. The basis of my question is from a marketing standpoint. In a variable annuity when there is a direct link between the values in a separate account and the values of the person's own account, the implication would be that your money is insulated and safe. I am not sure how that carries over to an MVA product where such things as where that direct link does not exist and such elements as junk bonds defaulting or whatever in a separate account could create a disparity or even mismatching could create a disparity between the separate account and the value to liability.

MR. BORONOW: I mentioned in my remarks that we utilize the feature which allows us to insulate the separate account in which our fixed annuities are written so that it is not chargeable with other liabilities that the company may have from other creditors arising out of other business. The reason that we chose to do that was a very practical reason. American Skandia Life is a company that is now in its fourth year of operation and at the time we started selling MVA annuities we did not have any rating from any rating agency. We were an unknown company and we were trying to sell our products into a very savvy market, the stockbroker marketplace. Insulating the separate account made sense.

If you approach the question from a perspective of a company that has written fixed annuities in the general account, I can see where there might be some question as to whether that is a relevant thing to do. However, we are essentially a variable annuity company. Ninety percent of our sales this year came from variable annuity products and overall about 80% of our assets are in variable separate accounts rather than fixed separate accounts. So we look at our modified variable, our MVA annuities as a special form of variable annuity. We do not think of it as a special form of a fixed annuity.

In our mind it is closer to being a variable annuity than it is to being a fixed annuity. The only thing that we have done as a company is that we have stepped in and said, okay, mister investor, we will bear the credit risk but we are not going to bear the interest rate risk, and we passed that on to the buyer. And so to us it did not seem

a very significant change in philosophy or strategy to use an insulated separate account for what is essentially a variable annuity with a protection against credit risk.

MR. ROTH: As I indicated in my remarks, the SEC is looking at the question of what the status of an insulated account is. Even if the account was simply insulated and there was no real significant marketing of that feature, I think the staff would still have some concern about whether that was an investment company. But with a noninsulated separate account, there are some prospectuses and some marketing materials that point to the existence of the noninsulated account and what the account invests and the staff there I think has raised some concerns about advertising.

MR. GARTH A. BERNARD SR.: MVA products have done exceptionally well in the stock brokerage marketplace. I wonder if Mr. Truax would care to comment on how successful he thinks MVA products would be in the bank marketplace. Also, Mr. Mueller, if you could comment on the statement that you made earlier about seeing MVA sales increase now that interest rates are lower. I think I have seen the opposite effect and I was just wondering where you've seen that. Is that with respect to the MVA pieces that are part of the combined variable annuities, MVA product, or where that was coming from?

MR. TRUAX: We do not sell MVA products to any large degree in the bank marketplace yet. Remember the market that we work in -- the bank marketplace. It is your mom and dad that they are working with, and you can always put that in perspective. That kind of tells you what you have to do and where the money is and what it was in. It was in a certificate of deposit and this is maybe the first time in a lot of times where they have ever talked about doing anything else. And why are they talking about doing something else? Because rates are really low. And why are they really concerned? They cannot afford to take any market risk because they do not have any time to recoup anything if they make a mistake and then their sons and daughters will not let them. Because the only battles that we ever see in the bank marketplace is in public relations, is when you take a mom and dad and put them in something that is not a bank CD. If it is not handled right, the sons and daughters will come right straight through the president's office at the bank, right straight through every place else. So, in other words, by passing the market risk on to the customer, you are dealing with a new environment and it is going to take time for it to work. We understand why it has value and why the insurance companies would like to see it moved along and it has some real pizzazz. It also has pricing issues. Again, you have to move it through a distribution system and it costs money to do that. So I am not talking down the product and it is evolving. As we educate the marketplace, in time, we will pick up on the sales.

MR. BERNARD: But would you not say that the MVA product is very similar to a CD? That may be just the positioning issue.

MR. TRUAX: Yes.

MR. BERNARD: For example, if you have something that has a 1, 3, 5, 7, structure. You put into a three-year MVA option that is there for three years. It is like a three-year CD. Is that not very similar to the bank products?

MR. TRUAX: Yes. That is the strongest selling point, actually. The commission structures on that though, when the salesperson or the distribution system has other products to offer that can pay them better, pays 2% or 3%. I mean the bank is greedy and it takes almost all of the profit in the first place. It will just take time. Several of the insurance companies who approached us and said "if we could guarantee that there would be no invasion of principal that might make it a little bit different and maybe it would work a little bit better on a platform style program rather than a dedicated program."

MR. BERNARD: Right, that is for the registered product.

MR. TRUAX: Maybe they could sell the simpler product through the platform system, because they do not get paid in the same way that a dedicated salesperson does. But then you sacrifice training, education, knowledge, experience, and wisdom and, again, that makes me very nervous about who is dealing with my mom and dad.

MR. BERNARD: Did I hear some concerns in terms of the compensation structure? Maybe the compensation is not all being paid up front; because in some of these designs, to the extent that you can renew a guarantee, similar designs include a compensation that kind of rolls every time you are up to the new guarantees.

MR. TRUAX: Why have a lot of banks at this point not built into their product trailer commissions by maybe reducing the amount of commission they would take up front for the sale of the product? Why have not many of them done it? Because it takes long to recoup that in a form of a trailer commission and the way banks are being merged, and taken over and out of existence, who can wait seven years to be sure that they beat the system. There are not many banks, only probably the largest, who have even taken the time to consider it. We represent a couple of very large banks, national banks, and though they have seriously looked into it, they also have chosen not to take it.

MR. BERNARD: Well, interestingly enough, at Capital Holding, we sell quite a large amount of annuities through the bank channel and I have seen some instances, like you say, with some of the larger banks, where there is a concern in terms of continuity of income, that some of the trailer fees produce income in subsequent years where, if you did not have to sell anything or if you did not have any sales in subsequent years, you would still be getting at least some income.

MR. TRUAX: You know your company is a good one and it takes the right blend between the bank, the product, and the consumer to put together something like that. It just depends. The good news is that a lot of the banks or the insurance companies are willing to look into it and build their product to fit those kind of needs. Everybody says, well, do you have a cookie cutter approach to putting banks into the business and what companies and products that you use? And the answer is it is not even close. You walk right down the street and their plant is completely different than the other bank or the other savings and loan and, again, it is the partnership between the insurance company and the marketing company. In this particular case it solves those problems. Sometimes not very fast, but most of the time very effectively.

MR. MUELLER: I would like to get back to the question about MVA sales and why I would see them increase. For one, I think just the sheer number of companies that are going to enter the market is going to generate increased sales, because for some reason or another they are going to sell less in their fixed annuities and they are going to try to promote their MVA annuity. The number of companies in the market which started in 1986 with the Hartford and Travelers entering the market and then several others entering in late 1989, 1990 with Skandia and a few other ones once some regulations were passed. As Mr. Roth was saying, there are about 20 filings that are pending just for MVA products. A lot of them are within variable annuities so that is one point. The second one is the fact that you can extend longer interest rate guarantees with these products because you don't find too many SPDAs anymore with five-year guarantees. The typical one now is a one-year guarantee, three years is rare, and five years is almost nonexistent at this point. With the current steep yield curve on an MVA product, I have seen some of them that offer at least 6.5% or 7%, 10-year guarantees and I think that is still an attractive option.

MR. ROTH: Let me just clarify one point. The 20 companies I referred to are SEC registered MVA products and I think with the exception of one, all of them involve MVAs that can invade principal. I think there are probably significantly a larger number of companies that are generally in the MVA market with some sort of a limited MVA. And, in that context, you get into the question of how much do you have to limit the MVA in order to avoid SEC registration. It is fairly clear that if you put your floor in of minimum statutory and nonforfeiture rate to 3% or 4%, that should not be treated as a security. You go down to principal, that is a tougher question. My sense is that there are a lot of unregistered MVAs out there that simply guarantee principal. I think there is one that is registered with the SEC, so there is not a uniform approach on the SEC status of those products. It is going to be interesting to watch to see whether there is ever any litigation over that point.

MS. MARY ANN BROWN: Mr. Roth, you had mentioned that the SEC is silent on the fixed account products and I was wondering if you knew why that was and, furthermore, if you know what they are thinking or heard any rumors that perhaps in the next couple of years they maybe planning to have some control over them as well beyond the MGA?

MR. ROTH: Sure. While they studied the fixed account products, they did not have time to put together their conclusions. There is a meeting, in fact, scheduled with some industry representatives in the next couple of weeks to discuss the scope of the exemption for fixed insurance products. That is being spearheaded by VALIC which, as many of you know, is still involved in the *Otto* vs. *Variable Annuity Life Insurance Company* (VALIC) litigation. They are very concerned about the fact that the Seventh Circuit seems to have held that in order to qualify for the exemption you need to guarantee excess interest a year at a time. They want to undo that. The SEC is sympathetic to that and so, an effort is going to be made to have the SEC come out with some sort of an interpretive rule that takes it farther than the safe harbor rule, Rule 151, and gives companies some comfort for products that do not come under the safe harbor.

A couple of things they are thinking about which have not reached any conclusions on. First of all, many of you may know that one of the prongs of the safe-harbor rule

is that the contract cannot be marketed primarily as an investment. Put aside what that means. The SEC is thinking about scaling back that test. I think they realize that it is not a very informative or practical test to apply. What they may end up doing is balancing the investment risk assumed against the marketing and what I mean by that is if you go all the way, for example, to a safe-harbor contract, then marketing may become irrelevant. But if on the other hand you reserve the right to change interest at any time or have a limited MVA, then how it is marketed may be a factor that is taken into account in determining the security status. The other thing that has people questioning what is going to happen is that requests for comments on the study, when it began two years ago, suggested that the SEC was rethinking its views as to whether mortality risk assumption was a relevant and a necessary factor in order to qualify for the exemption. What they seem to be looking at, if there is no mortality risk, is to not require registration of the product, but they may conclude that products should be subject to the anti-fraud provisions of the federal securities laws. If you are aware of how the framework works, right now traditional fixed insurance products are completely outside the scope of the federal securities laws. Even if there is a misleading statement made in sales literature, in theory, there should be no cause of action under the securities laws if you are dealing with an exempt insurance product. What they are looking at is that the product does not have a mortality risk assumption, a significant mortality risk assumption then at least one could bring a 10(b)-5 action.

MR. LEFEVRE: I just have a comment, maybe food for thought. The MVA product has been sold in an era where interest rates have been declining. I am not aware if there is a single contract out there that has a negative MVA at this point. I am also not aware of a great deal of movement of money in these accounts to lock in or take that capital gain. In some of the contracts there is some portability between guarantee periods. I am just curious what is going to happen if interest rates start trending up and we start having a lot of contracts out there with negative values? It seems people, as we know, usually buy at the bottom of the market, and right now at interest rates at their lowest levels when people are pouring money into these contracts. Maybe that is the American way.

MR. BORONOW: I would like to make just a comment in response. We have actually seen ourselves dry up as the interest rates have come down and the stockbrokers are very much aware of the fact that it is not a good idea to buy a long-term zero-coupon bond when interest rates are at a historically low level. So, for us at least it will not be a problem because we have not sold very much in the last 12 months. On the other hand, when interest rates start ticking back up, we will be very well positioned to take advantage of that opportunity on the fixed interest side, whereas companies that are writing or have written a lot of SPDA business are either going to go bankrupt or they are going to be out of the market with rates that will not be competitive. So it is an interesting question to contemplate what happens in a rising interest rate environment, but I would predict that MVAs will only become even more dominant in that kind of an environment.