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THE DRIVING FORCES BEHIND PARTICIPATING/UNIVERSAL LIFE (UL)/NONGUARANTEED ELEMENT PRODUCT DEVELOPMENT

Moderator: MARK A. TULLIS
Panelists: CHRISTIAN J. DESROCHERS
PHILIP K. POLKINGHORN
LINDA S. STRECK
Recorder: MARK A. TULLIS

A panel of experts in participating/UL/nonguaranteed element products will discuss current issues. The moderator will lead the discussion, with a heavy emphasis on questions and topics obtained from the floor. Based upon audience participation and late-breaking developments, the participants are prepared to cover product design, regulatory issues, implementation, pricing issues, and/or compensation.

MR. MARK A. TULLIS: Chris DesRochers is with Avon Consulting Group. Chris does quite a bit of product work, but he's also probably the nation's foremost expert on IRS Section 7702.

Until recently Phil Polkinghorn was with Allmerica. He resigned his position to rejoin Tillinghast. Linda Streck is with Central Life Assurance in Des Moines, Iowa. Linda is the director of product development at Central.

I was with Tillinghast until recently, and I'm starting as executive vice president with Primerica Financial Services in Atlanta, Georgia soon.

I'll get things kicked off with a question for Chris. What do you see as key pricing issues that companies are having to deal with currently, when they do product development?

MR. CHRISTIAN J. DESROCHERS: There are a lot of things in the product arena, and I'd like to talk about a couple of them. The first one has been creeping up on us, and that's what I call a trend toward product standardization. We have come through the 1980s, to the early 1990s, in an era where there is a great deal of product development being done. I started my career in product development in the early days of UL, and there was certainly a lot of innovative product work going on at that point.

Recently, I get the feeling that sometimes we're getting back to the old days, where you had your life paid up at 90 and 95, and maybe a whole life plan. I think that companies have to deal with products being much more restrictive, and much more like commodities, both in the life insurance area, and the annuity area. I think there's a couple of reasons for this. One is that for the last ten years or so, we've lived in an era during which to get favorable tax treatment, the products have been restricted in terms of what they can do.

We've also seen, with the Technical and Miscellaneous Revenue Act of 1988 (TAMRA), another narrowing of permissible product designs. At the same time, through the regulatory process, we're also seeing a narrowing of permissible product designs. I went to the session at this meeting on term insurance, and the panelists mentioned that one of the things they felt would happen as a result of the work now going on at the NAIC was really a narrowing of price, and a narrowing of the product design.

Also, through valuation, we're seeing some forcing of companies toward standardization. Finally, with the trends at the NAIC in nonforfeiture, although I really can't predict what will happen there, it seems like there is a desire on the part of some people to regulate many more of the aspects of UL products. So I think all this adds up to a trend toward much more commodity-type products.

There is a similar trend in the area of product illustrations, where we're trying to get much more generic in terms of what we illustrate. So I think one of the trends that we need to deal with is that we are becoming like the PC industry, where the products are very much commodity products. And what that means is that there will be fewer opportunities for entrepreneurial profit. There will be fewer opportunities to really be innovative in product design and gain some even short-term benefit in the market.

The second trend I'd like to talk about is what I call rationalization of pricing. I think we're seeing many companies finally recognizing that you can no longer subsidize new business with in-force profit. Ultimately that subsidized new business becomes your in-force business, and I think companies are now recognizing that, if you want to have competitive products, you need to have good cost fundamentals. There has to be something other than the desire of the marketing vice president to obtain really competitive products. I think we're seeing a trend toward much more rational pricing and product development, which is also flowing through in the products that we see in the market.

MR. TULLIS: Does everybody out there agree that we're in a more rational pricing mode than we were a few years ago?

MR. JERROLD M. NORMAN: I agree with you as a product actuary. And the marketing people at my company would disagree with you. So we're fighting it out as to how to develop products now.

MR. TULLIS: The net result is, do the marketing people get to impose their undesirable wishes on you?

MR. NORMAN: Right now, we're looking at a new term portfolio under Guideline XXX. So they want high commissions and low premiums. And they don't want to cover all the expenses of the company. They want the in-force business to help cover the new products, but I don't.

MR. DOUGLAS N. HAWLEY: I would just comment on the rationalization or standardization of product, to the extent that there's a limitation on what I would call durational equity, that is, the so-called persistency bonuses, and so on. This would be a welcome trend in eliminating trick load provisions, such as return of mortality charges. All this has generally been a deceptive trend, which I would like to see reversed.

MR. JAMES W. PILGRIM: Chris, I was at the same presentation you were, and one of the presenters had a statement about a possible 1994 fire sale in term insurance. If I misunderstood your comment here, are we getting more rationalization in pricing or more rational pricing?

MR. DESROCHERS: My comments probably apply more to permanent insurance than term insurance. I think there probably is a price war going on in term right now.

MR. PHILIP K. POLKINGHORN: Jim, I agree in general that there's more realization, in that people are not necessarily being more rational in their actions. But, I think actuaries realize that they do need to look at profitability.

MR. TULLIS: Eleven years ago when I started consulting, the product actuaries at the company were fairly low on the totem pole. Oftentimes they reported to the chief marketer, and they did not really have much experience. Their position did not really have a lot of importance in the company. Now, at many companies, that position is recognized as one of the key individuals.

MR. DANIEL THEODORE: One of the things intriguing me is the illustration regulation that is being considered by the NAIC, which is certainly a movement toward rationalization of the industry. Most of us know that an illustration of values 20 or 30 years from now means very little at all. Our marketing people come back to us and say, "But our agents look at that. They want us to have competitive products." And we reply that we have competitive products, but the marketing people look at a 30-year illustration regardless.

MS. LINDA S. STRECK: I think the response from the NAIC to the illustration issue is somewhat of a hard hammer for all of us. In a session at this meeting, Dick Weber, who is now with Merrill Lynch, made the comment that, when we made illustrations available to the agents, that was when we, as actuaries, lost control of the product development function.

The problem with illustrations is not just from the agent's standpoint. That's something that we've done to ourselves. In some cases, it is our unwillingness or our inability to address the marketing folks from the perspective of a long-term solvency standpoint, from a credibility standpoint. We've lost some of the credibility with the regulators. And it's not something that we as a group can blame on the agents.

MR. TULLIS: Linda, as an actuary at a company where you recently worked on your dividend portfolio, do you have any comments regarding that process?

MS. STRECK: I definitely agree that reality is coming back into the pricing. I wouldn't say that we're already there yet. But we've made some steps. We at Central Life did a fairly thorough study of what the market was doing last fall. And then we did another study right after the first of the year.

MR. LEROY PRUITT: The reality based pricing seems to be primarily linked to a downturn in interest rates. If interest rates turn back the other way, how long will this be a reality?

MR. DESROCHERS: I don't think it's really related to a downturn in interest rates. If you look at products issued 20 years ago, you'll find that the people, who bought those products over the course of 20 years, virtually all received more than was illustrated. In fact, many received many multiples of what was illustrated. If you look at the products issued ten years ago, you'll find that about two-thirds of the people received more than was illustrated.

The problem we're running into today is it gets increasingly difficult in the current environment to provide what was illustrated. The agents and the public felt that dividends were guaranteed, because the industry had a great history of doing that. I think there are other things that come into play right now other than just purely interest rate. First of all, mortality, although it's still going down, doesn't seem to be declining quite as rapidly as it was.

Second, I think there are a lot of companies that are struggling with expense issues. Third, I think we're dealing in a highly competitive market, which encompasses a great deal of financial services. The reality-based pricing is not really driven by interest rates, as much as it is driven by a highly competitive market. I don't think we're going to see changes in the foreseeable future that are going to allow us to pay dividends that are twice what was illustrated, as has been the case in this industry for the last 20 years.

MR. POLKINGHORN: I think it's driven as much by financial necessity. At my old company, when interest rates did go down over the past couple of years, the credited rates on UL went down in parallel with new money rates. There was maybe a tiny bit of lag, but they probably dropped faster than the average company's in this room. We found out two things: one that wasn't surprising, and one that was surprising.

The thing that wasn't surprising is that we stopped selling very much UL as we took the credited rate down. The thing that was surprising is that the in-force business was very sticky. Even as we took the interest rates down, the business tended to stick. So you start looking at it in financial terms and say, "Boy, it would be nice to be selling more UL business." But what if we did have a higher interest rate? It's difficult selling enough to make up for the lost profits on the in-force business by raising the interest rates.

MR. TULLIS: Phil, could you spend a little time talking about your sponsored product line?

MR. POLKINGHORN: Since our company wasn't selling a great deal of UL business, it didn't mean that we weren't selling anything. We were selling quite a bit of variable annuities and variable UL. And the company had done a market research project, called the "Voice of the Customer" project, which looked at what attributes customers seek in financial services companies. We isolated 13 key attributes, some of which would not be very surprising to you. Financial stability was one. But a couple that we chose to focus on were: (1) customers wanted plans that were customized to them, and (2) they wanted plans that were flexible over time.

Due to the backgrounds of the very senior members of management at the company, the company focused very heavily on variable products. Variable products also allowed you to customize a program. You didn't have one investment strategy fits all like you might have with a participating whole life or UL, in which the general account is the right investment mix for all customers.

So, we had an agency force that wasn't always going to sell to prospects who wanted variable products. To focus on our strengths and devote our resources to variable products, we decided that we would go outside to get other products that we weren't going to concentrate on. We decided we were going to get other products from other companies that specialized in making them. And we would price the share of the distribution allowance to the field, so that, when the field sold these products, the products still made a contribution to the fixed expenses that we had for running the field.

We found that agents were willing to do that. They could probably make a little bit more on a brokerage basis, if they were to deal directly with these companies. But they liked dealing with one set of underwriters and with one set of sales support people. They liked getting their convention credits.

MR. TULLIS: Do other companies have similar experiences or think about similar things?

MS. STRECK: We offer a similar arrangement with product lines that we don't offer: disability income, long-term care, that sort of thing. We offer other companies' products to our general agents, and it counts towards the convention credit. One of the benefits from the general agent viewpoint is that it keeps the agents within the agency, rather than going out to that other company.

MS. MING H. STANTON: There are two complaints that the insurance department sometimes runs across, which I haven't heard you mention. I think the cutting of dividends is not really felt by the consumers; when they look at a dividend, they can't understand it. However, there are two things the consumer does understand. One is the number of years to be paid up. When originally sold, the policy will be illustrated as paid up in, let's say ten years. At the end of ten years, when the customers expected the policy to be paid-up, they might be told they had another five or six years to pay. That's one of the problems.

The second problem we have relative to dividend illustrations is that, if somebody buys a policy today, he or she gets a set of dividends illustrated to them. A month later, if a friend bought the same policy, the dividend illustration might be different. That creates a credibility problem. Any comments on that?

MR. DESROCHERS: I think the majority of court cases on illustrations have dealt with that issue. The court has not really dealt with the issue of the dividend cut per se, but it's dealt with the issue of the vanishing period that has unvanished. That is a very real problem for product development actuaries. It certainly is a very real problem for the company. One of the things that we now appreciate, that we didn't appreciate before, is the sensitivity of the vanishing illustrations to the interest rate assumption.

This is particularly an issue in the last-to-die area, where vanish periods may dramatically change with small changes in interest rates. And certainly, as people are developing products now, they'd be well-advised to really look at how sensitive that is. Because that is where it's really in the face of consumers.

MR. TULLIS: My impression is that the vanishing premium illustrations aren't emphasized as much in the sales process now as they were a few years ago. I throw that question to the audience.

MS. STRECK: I don't agree with that. I think the vanishing premiums are still very much emphasized. I think there is a much stronger emphasis on running things like an alternative dividend scale, with a lower interest rate assumption, to show the sensitivity. But I don't think vanishing premiums have gone away.

MR. JOHN A. MACBAIN: I think the rationalization we're seeing in pricing is motivated by a lot of things. But it's amazing how rational industry became when regulators started concentrating on solvency, and after the federal government started concentrating on our industry, after what happened to the savings and loans. I think that has pushed us into more "rational behavior." And I, for one, am pleased because it's brought the actuary much more into focus than a few years ago. But I'm a little concerned that, if interest rates turn around and investment gains start to accrue, perhaps we will become less rational. I'm glad to see that illustrations are becoming rational, although I'm not sure that what California did is rational, in terms of requiring this yield index, which absolutely nobody on the consumer side is going to understand. But I'd be interested in getting a feel for whether the panel feels that, when the economy turns around and investment gains are more amendable, whether the pricing will continue to be as "rational"?

MR. DESROCHERS: One thing that we don't appreciate as much as we perhaps might is the fact that the financial rules have changed dramatically in this industry. Industrywide data on earnings, to my knowledge, were not really gathered until about 1979. And when we look back at the 1960s, there are some ugly financial numbers out there. What's happening is, at least on a statutory basis, year after year the statutory profit margins of this industry have decreased. Much of it has been driven by solvency and by regulation, and maybe some of it has been driven by the fact that the financials are a little bit more realistic now than they used to be.

We're now in an environment where the rules have changed. And the price for being irrational is so high. I think companies are much more realistic about what their needs are and much more willing to face some unpleasant alternatives—be it cutting costs or walking away from product line. So I would hope that the rationalization would continue.

MR. TULLIS: I think there are a couple of reasons that things can't go back to the way they were. One is, there are more restrictions on how we do our investing. Companies cannot play the junk bond game, because they can't invest large percentages of their assets in junk bonds any longer. Also, what has been happening in the past few years, is companies basically have taken capital gains, and liquidating portfolios, and invested in lower yielding stuff. You can't do that any more with the interest maintenance reserve.

This means that when the interest rates do turn around, most companies would be stuck with fairly low yielding portfolios.

MR. POLKINGHORN: People have a better understanding now, than perhaps in the past, of the profitability of new business versus in-force business. And people are taking more sophisticated looks at that. Whether you're looking at statutory or GAAP results, the impact of the in-force business just dwarfs what's happening on new business. I think people, because of that, are getting more shrewd about taking a look at what the costs are, in association with generating new business. What sort of contribution do we expect to get from this year's sales? And when we discount our hurdle rate, does it add up to those costs? Oftentimes the answer has been no.

MR. RODNEY C. WILTON: I've always felt that, for products like flexible premium annuity and UL, as interest rates went down, your portfolio rate lags new money rates, and you will generally get a bigger spread on your interest rate between credited and earned. And as interest rates go back up, either you'll have to pay more to the in-force side than you're really able to do, or else it will lapse off. You'll get the opposite of the stickiness observed by Mr. Polkinghorn.

MR. POLKINGHORN: I think that's probably helped financial results in recent years for a number of companies. Their spread on in-force business is larger, because interest rates have gone down. What will happen in an increasing interest rate environment depends on how quickly people follow with their credited rates. We have asset liability studies, where we made a number of assumptions about what's going to happen, but we really haven't had a big enough swing in interest rates to really see what's going to happen.

MR. TULLIS: Linda, what kind of products are people working on now?

MS. STRECK: Well, we don't have a variable product. That's the area that we're looking at right now, in terms of the feasibility standpoint. We are in a situation at Central Life in Des Moines, where we own the largest savings and loan, the largest real estate firm, and the largest mortgage company in Iowa. So we have a unique conglomerate of companies at Central Life.

We have a fairly active distribution of annuities, and sell variable products through another company. We market life insurance and mutual funds through our bank. And one of the things that we're having a real strong request from in a bank environment is for single premium UL contract.

MR. TULLIS: The bank is actually asking for single premium UL?

MS. STRECK: The insurance representatives at the bank are asking for that. Basically they're looking for something that is very similar to annuities. But it has a little bit more of protection from the annuity taxation risk. And it's a fairly easy sale for them. So from the bank perspective with an older clientele, it's a good combination.

MR. POLKINGHORN: We're seeing the trend towards single premium as well. Both in the fixed and variable market. And what we're dealing with does come from the financial institution market. People in the financial institution markets are a bit more sophisticated about life insurance than they were in the heyday of the prior versions of single premium whole life (SPWL). One issue here is the cost of the death benefit, which is quite a bit higher than in some of the early generation products. It's going to be interesting to see where it goes, but over the last six months or so, there has been a real upswing in the SPWL market.

MR. TULLIS: Any comments on what products are hot?

MR. PAUL D. LAPORTE: I concur with what Linda had said about banks. Banks and third-party marketers who deal with banks have said that they really want to have two products: single premium annuities and single premium annuities with death benefit. And that's really how they saw it in a recent study we've done.

MR. POLKINGHORN: That's important to point out. People now seem to be looking at the single premium product differently. In 1988, I suspect that most of the people that bought it didn't know that there was any difference between the single premium life, and an annuity.

Now what we're seeing is that there seems to be a demand from people willing to pay for the death benefit. If you want a product for retirement income, or you want a product that you're going to draw down from, then it makes sense to go to the single premium deferred annuity (SPDA). But if you really are not interested in that as retirement product, then the SPWL has some appeal.

MS. STRECK: And it's also an older clientele typically through the bank.

MR. MICHAEL J. ROSCOE: I've seen the same kind of thing. Single premium variable life has been asked for quite often in our company. Linda, you said something that I think is a little bit frightening. You had said that it's just like an annuity with a little bit of death benefit on it. I'd like to hear some reactions to how that plays out in different places.

But what I've seen is nothing new but maybe more emphasized, and that is that life insurance is being sold without a life insurance need. I see it with second-to-die on grandchildren. Why do they need second-to-die? Who knows? But it has a great accumulation.

MR. DANIEL A. DE KEIZER: Something that I've seen, especially in the second-to-die market, is the term *paid-up hybrids*. Every company calls it something different. But I think those products have a commission issue that we need to be concerned about. We haven't talked about that yet in this forum. But the idea is that an agent might be able to use this type of product to bias the price of the insurance by toying with his commissions, depending upon whether he buys the underlying product or a paid-up product.

MR. DESROCHERS: I think we're going to see pressure on commissions over the next couple of years. It's not going to be in the direction that we as product development people might like. As you see the trend toward product standardization, how do you distinguish your products from those of your competitors? One way is through the compensation. Second, we are facing a mature market. The individual life sales, by all accounts, have been flat for the last several years. As companies are competing more and more to maintain their market share, there is going to be pressure on commissions. That's something that we saw at this meeting in the discussion on term insurance.

MR. POLKINGHORN: There will be competition, too, in terms of who gives the agent or the salesperson a franchise? Who gives these people an environment in which they can become productive? We had the case where commissions weren't always going up. They were occasionally going down from generation to generation. And there was much complaining and moaning. You could, at the end of the year, say, "Don't look forward, look backward. This year most of you made a fair bit more money than you made the year before. And if you looked at last year, most of you made a fair bit more money than you did the year before. So, sure, there's been some commission reductions. But there have been other programs, like seminar selling programs, that we provide for you that have made you more productive. And in the end, you made more money."

MS. STRECK: You made it up on volume.

MR. POLKINGHORN: The only thing that allows you to cut commissions is if you can show somebody a way that he or she can still meet, or exceed his or her income expectations at that commission level.

MS. STANTON: I just want to make a comment about a question that agents sell the insurance as a no need, such as the second-to-die policy on a grandchild. Now first I have to say that I find my role reversed here, because as a regulator, I often argue with the company that it sells its product to the public. However, in this case, I have taken the opposite role. I think that the question implies the grandchild is just born, and is let's say, two or three years old. But sometimes the case is not as simple, since a grandchild could be 20, 30, or 40 years old. To assume there's no need for that kind of policy is to say that consumer is not sophisticated. But in at least one case, I think you will agree the consumer may need it. That is, if it was a family business, and the grandfather really built the business, maybe the grandchild will pick up the business. If both of them die, the family business is probably lost and the family has no income. So I think in this case, it's legitimate to sell a second-to-die policy with a grandchild.

MS. STRECK: There's definitely some legitimate market applications. I'd say there are fairly few. But that's not to say that there aren't examples of situations where it's an appropriate sale.

FROM THE FLOOR: I'm wondering if anybody has given any thought to level commissions in order to encourage servicing of variable UL products. Is any of that going on?

MR. POLKINGHORN: I gave some comments on level commissions at the seminar the other day. I think for variable products, some companies enhance renewal commission trails on annuities. I'm not sure the renewal commissions on variable life need to be much higher than they are now.

However, variable products are a bit different. Clients make an asset allocation, and they need to revisit that from time to time. They need to be counseled during down markets. There definitely is a little bit of service work there.

But I think in looking at the move to level commissions, you have to take a look at a number of key questions. First, what component of the salesperson's job do you expect to be a sales job, and what component do you expect to be a service job? Second, which elements of those jobs are more difficult? Because if you put a high enough payment on things that are important to your organization, and valuable to your organization, but they're not quite as difficult as other things like going out and selling the next piece of business, people will tend to concentrate on the things that are easiest, that have payments attached to them.

I believe that some movement of compensation for the first year to renewal years would be appropriate. But if you're an organization that either is taking some of the elements of service; not the financial counseling elements, but other elements of service and taking care of themselves, and you feel that the job is largely a sales job, then I don't think you'd want to move a lot of the commission to renewals. You may, however, want to do it for other reasons. For example, if you felt that by leveling commissions, you could change the nature of the product and the product positioning, and allow people to sell more because of that, that might be a good reason. Or if you feel like you really want your agents to be giving more service and less sales work, you might also do it.

MR. TULLIS: I'd like to shift gears a little bit. This session is about product development, and we tend to concentrate on pricing when we talk about product development, but there's a lot more to product development than just pricing. Linda, could you discuss some of the implementation issues that actuaries deal with in the product development area? I guess I have two specific questions. One, a constraint that always comes up is the computer system. You'd really like to be able to have some feature, but the system is in the way. I'd like your thoughts on that and how companies get around this problem. The second question is, how long do you do testing in model office?

MS. STRECK: Again, I'm not sure whether Central Life is representative, but I can talk to you about our experience. One of the things that we try to do is to keep our data processing (DP) area very involved with the development process up-front. We have the higher ups in our DP area get involved in some of the product meetings. They can warn us about some of the things that we're running into early in the process, so that before we get too far down the road, we know what we're getting into from their point of view, rather than just on a marketing and a pricing picture. Getting them involved early on is probably the best thing you can do.

It can be frustrating. The DP people want to know more details. They want to know more about exactly what it is that you're trying to do, and you don't know the answers yet. You just want to make sure that they're floating along with you. One of the things that we did when we redid our annuity portfolio last fall was we were getting woefully behind in terms of the product features in the annuity marketplace. And we had done a number of cost estimates for our different systems and for putting the new products on our system.

What we ended up doing was going outside and buying a brand new system. Historically, we have been the typical mutual company that integrates everything. All of our systems talk to each other. Everything is completely integrated. And this time around, we went out and bought a new system, put it in, and didn't integrate it. Virtually nothing was integrated other than the accounting aspects. Short term it worked great. As the products person, and as the person responsible for getting it out to the field in the shortest amount of time, it was terrific. Our administrative folks are not quite as enthusiastic as I am. They're dealing with some of the issues of it not being integrated. Long term, I'm not sure that it was the wisest move. But I also know what the volume of premiums were that we received during that period of time. I'm not sure we'd be out to the street yet if we were waiting for our regular integration.

MR. PAUL MARGUS: On the subject of systems, that's really a pricing issue, too. But there are all these nifty little features like taking a periodic withdrawal of interest, and all that. I'm not really sure that we are pricing for the cost of administration on a lot of these products.

MS. STRECK: The new system dealt with a number of those issues. The new system automatically handled a number of the features that were in the marketplace that we couldn't do. And on a per unit basis, it was cheaper for us to go out and buy the new system, and have it automatically process some of those typical functions, than it was for us to be able to build that into the systems that we had right now.

MR. STEVE P. COOPERSTEIN: Did you consider, or has anybody else in the room, considered temporary administration and then migrating it as your administrative people come up to par?

MR. TULLIS: One thing I've seen companies do is look at third-party administration as an alternative, with the idea being that, if they sell enough, they'll migrate it in house, and if they don't, they just leave it with the third-party administrator. I've actually seen a lot of companies recently look at that as an option.

MR. JAMES A. MURTAUGH: We have in fact, a considerable experience with exactly that issue, with temporary administration systems, while products are being developed frankly, and introduced. And we have come to a relatively painful conclusion that they're not worth it. With our latest generation of products, we have decided to forego implementation rather than agree to some sort of temporary administrative system, largely because our field force was fed up. Those people had it up to the eyeballs with all the problems that temporary administration systems present. They finally said, "Don't do it until you can do it right." That forced us to make some very hard decisions about how to do it right faster. And the temporary systems just are not worth it.

MS. CAROLYN J. EDDY: We have multiline agents. I think it's easy in a product development area when you're sitting at a home office, and you're technically oriented. But I think the hardest part is getting the agents to understand these nuances between the products and understanding where they apply and where they don't. I wonder how other companies have addressed the training.

MS. STRECK: There shouldn't be an actuary who's working in a home office that isn't working with the field. About a third to a half of my job is on the phone with our agents. That involves me with the training process as much as the training area is. I think that's a critical function in the product development process.

MR. BRYN T. DOUDS: On the previous topic, we've been taking a look at time lines and how long it takes to develop a product. Prudential has a history of going to outside administrative systems. Because of this integration issue that you talk about, we often have brought it back in at enormous expense. Also, we find that getting state approvals is often on the critical path for our product development. I figure a minimum of six to nine months, just to get state approvals in a decent number of states. And then if you have a really innovative product, it could be a couple of years. Finally, talk about systems usually means the administration system. But it may be the illustration systems that are going to be the slow ones. So the bottlenecks aren't always where you think they're going to be.

MR. JAMES J. REILLY: We also went out to third party administrators for a couple of our products. I don't see ever bringing that business in house no matter how big the critical mass. I just think there would be such a huge process, that I don't see it ever being done. They already have the old product, so why should we spend all these system costs doing that? But one advantage of going out with the third party, is that our internal system has no reason to be innovative. And so, if you develop any product that's any different from the last one, the internal group's time frame is going to be in excess of a year. But we went outside for our last two products, and now they know we can go outside for the third one. All of a sudden, they're cutting their estimates in half.