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BANCASSURANCE & PRODUCT DEVELOPMENT

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Panelists: ALAN W. FINKELSTEIN
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J. LYNN PEABODY
Recorder: JULIE A. ANDREWS

The panelists will review bank annuity product development from three perspectives: an insurance company selling variable annuities, a consultant matching banks with insurance carriers, and a reinsurer working with banks on the "retirement CD" product.

MS. DEBRA E. CUNNINGHAM: I would like to introduce each one of the members of our panel. Our first panelist is Lynn Peabody. Lynn is a principal with Milliman & Robertson (M&R) in Seattle and he has been a principal since 1980. Last year, he became the managing principal of M&R's bank consulting practice. He is the chairperson of the Society Task Force on Banks and Financial Institutions, and he does work with numerous bank clients—everything from due diligence to reserve analysis. His clients include Wells-Fargo, First Interstate, and United States Bank, to name a few. Lynn will take us through some of the regulatory developments, who the players are, and what he sees in the future of banks in insurance.

Our second panelist is Steve Gathje with Fortis Benefits. Steve has been working in annuity product development since 1981. He has been with Fortis since 1990. Most of you know that Fortis is a major player in variable annuities in the financial services sector. They were eighth in premium sales in 1993. They control 5% of the market and they work with over 20 banks. Steve will discuss the proprietary variable annuity that Fortis developed for one of its clients.

Our third speaker is Al Finkelstein. Al is with North American Reassurance Company. He also has a background in product development and his topic is the Withdrawal Surety program. The Withdrawal Surety program is mortality risk reinsurance on the payout portion of The Retirement CD™ product sold by Black Feet National Bank.

Finally, our recorder for the session is Julie Andrews.

MR. J. LYNN PEABODY: I am not going to talk about annuities only. I want to take more of a generalist standpoint. I will talk about things that I see in the current environment of banks. I will try to leave you with some ideas about what you might do to position yourselves or your companies to better approach banks and work with them in the insurance industry.

I will talk first about bancassurance, what it means, what it might mean in the United States. Next, I will discuss the current environment with respect to banks and insurance. Finally, I will mention some of the future opportunities as I see them.

Bancassurance is a term that has been in effect since the early 1990s. It's primarily a European term. They also use the term *alfinanz*. What it really means is the provision of banking and insurance services and products made by the same organization. Now, that doesn't really happen in the United States. It does happen in other countries like Europe and, to some extent, in Canada. I would say there is a modified definition in the U.S. For our purposes, let's call it the provision of banking and insurance products and services through the same distribution channel or to a common client base.

Bancassurance started primarily in what I would consider to be strategic alliances. It was the simplest way to start. This is probably consistent with what we have in the U.S. now—strategic alliances between insurance organizations and bank organizations. It's evolved, at least in Europe and Canada, to be something more than that. In those countries we see direct acquisitions where one organization owns both banks and insurance companies. That creates the ultimate in flexibility and the ultimate in control. I believe that bancassurance will end up in the same environment as the U.S. at the same point. As far as understanding the current environment, I'm sure most of you read insurance periodicals regularly. It's very difficult now to pick up *The National Underwriter* or *Best Week* or go to Society meetings without hearing or reading something about banks and insurance. I think it's important to look at the current environment.

First of all, who's in the business? Well, according to the *Newsletter of the Bank and Insurance Industry*, as of mid-1994 or late 1994, there are about 66 companies active in marketing insurance products through banks. That includes annuity specialty companies, multiline stock companies, and mutual companies. Sixty-six doesn't really seem like that many, but the number increased by between 15% and 20% over the previous year. By the end of 1995, I wouldn't be surprised if we saw a much more substantial jump.

Conning & Company did a major study of the bank industry in 1994 and presented a report called "Banks and Insurance: Annuities Are Only The Beginning." By that title, you can deduce some of Conning's conclusions. They mentioned the fact that the boom in bank sales we've seen in the annuity area is really only the beginning. They believe there will be a gradual but profitable movement into insurance products by the bank industry. To quote the Conning report, "It's inevitably going to happen." I think that's probably true due to the fact that banks are much more aggressive now in terms of wanting to get in to test the market. They have reasons that we'll talk about a little later. Also, some of the barriers that existed before are gradually being torn down and reduced. I think that supports Conning's ideas.

When you think about this marketplace from the bank's standpoint, there are certain things that must always be considered. Politics is certainly one of them. There are some very strong lobbying organizations and lobbying issues relative to the politics of banks being in the insurance market. There are a number of special interests, not the least of which are some of the regulators and the different regulatory bodies. The other thing that automatically brings politics into play is the fact that big dollars are involved. This is a very big ticket item in the financial services industry. When that exists, politics automatically becomes something that you have to deal with.

The interest rate environment is another crucial element for impacting banks in insurance. Banks operate on a marginal interest basis, and they change their products and product distribution according to what's happening with interest rate margins. From early 1994 to late 1994, the margins between CDs that they were providing and base annuity rates narrowed by something like 60 basis points. That's a big difference, and enough to impact a bank's operatives.

As interest rates were coming down, banks quickly dropped their CD rates. Annuity rates went down more slowly. This made annuities very attractive. As interest rates started going back up, the opposite was happening. Gradually, the CD rates are starting to come up. That will shift some banks to different types of annuity sales. They're very concerned about the interest margins in their business. That's what they live for, and because of that, you'll see them moving into a market and out of a market. That will happen with insurance products as well.

The last issue with respect to banks and the banking environment is basic survival. Over the last five to ten years, banks have seen an erosion in their basic business. The business of making loans and the business of accepting deposits has changed. They have more competition than they did before. Therefore, banks are forced to look for additional revenue. Insurance products have provided that, and I think, in the future, they're going to be looking for a little bit more than just the fee income.

What kind of products have we seen in banks? Primarily annuities, both variable and fixed. Historically, life insurance products offered by banks have been trust-related products (estate planning) and to some extent accumulation type products such as single-premium life. Credit insurance has been around for a long time. Mortgage insurance is something that has been very successful with banks as well.

What are we going to see in the future? Well, later we're going to have some discussion about The Retirement CD™. That's a possibility and certainly something that's very hot in the marketplace right now. I think we'll also be seeing add-on products—products that can be offered for very little cost and yet provide value to the consumer. Add-on products also give the banks an opportunity to cement and control their customer base.

There has been much interest in the market right now about bank-owned life insurance (BOLI), a modification of corporate-owned life insurance (COLI). It's being very heavily marketed in some areas. BOLI is very interesting because banks look at that product differently than corporations do when they're looking at COLI. I think there are some very strong disintermediation risks that insurance companies need to be aware of when they're going out and talking to banks about that kind of a product. Additionally, in the future, there are going to be more traditional life and health insurance products, accident products, and personal lines coverages. I think there will definitely be expansion in many different kinds of products.

With respect to bank marketing, David Steppert, director of mortgage marketing with Minnesota Mutual, in a recent article, defined four steps that he called important for successful bank marketing. Certainly, Minnesota Mutual has been very successful in the bank market. First, target your market. When you talk about banks, what exactly does targeting your market mean? It may relate to the type of banks that you're offering products through. It may relate to the customers of the banks and the different people. Second, select the channels of distribution. The bank, by itself, is not necessarily just a channel of distribution. There are lots of alternatives as to how those products are going to be distributed through the banks.

Next, maximize the producer's time. By this, he means replace prospecting with selling. Let me give you an example. Some of you may know about the free accident insurance that banks will offer. They will send you something in the mail. "Here's $1,000 of free accident insurance." If you want a little more, you can get that, but at least you get $1,000 free. I signed up for the free $1,000. By that action, I just told the marketing people that I will at least look at something through the mail. All of the sudden, I became a candidate for telemarketing. The marketing organizations can then take that information and expand on it. They can send further distributions and mailings to me. I'll get more calls at dinner time. The response rates may be substantially better than what they'll get on traditional direct mail marketing or direct response marketing. Because of that, their profit margins go up and they've enhanced their opportunity. That's an example of replacing prospecting with selling.

The last point David Steppert made, which I think is very good, is to create customers instead of making sales. That's going to be very important with respect to banks. In fact, I think it's an important issue in many areas. I'd rather create a customer than just make a sale. There's a greater advantage to doing that.

What do I see as a formula for a bright future with respect to marketing for banks and selling products through banks? There are several things that need to be done. You need to understand the culture. You need to understand the bank's needs. You need to use a little bit of creative thinking. You have to go in with an idea of "we and not me;" that's going to be important when you're working with banks.

What are some of the benefits to banks and to insurers in the current environment? Those of you who are in product development are used to the old three-legged stool concept: the company, the agents, and the consumers. Here's a new three-legged stool idea: there are the banks, the insurers, and the agents. The one who's going to come out with the shorter leg on the deal is probably going to be the agents. That's one of the concerns of many companies.

Mike McCoy, senior vice president of marketing of the Holden Group, said in a recent presentation that right now there are about 230 third-party marketers who are marketing products actively through banks. He thinks by the year 2000 the number will be down to 50, if that many. Those 50 may be very successful, but there just aren't going to be the same needs as the banks get more aggressive and involved in insurance.

One of the strongest lobbies against banks and insurance is the agents' organization. Also, a number of insurance companies are not in the bank business because of their agents. There's a concern about alienating their existing agency force. That's an important issue insurance companies must deal with.

What are some of the benefits to banks specifically related to insurance products? Customer retention is very important to them. That's one thing banks always worry about, and they have a very good handle on how much more benefit they get if the customers have two, three, or more products from them. Fee income is certainly important as well. Cross marketing insurance products allows them to generate that revenue. Investment management opportunity is a new benefit. Banks generally have deposits that are short term. They have loans that are long term. That creates a problem for matching their assets and liabilities. Annuities, for instance, give banks an opportunity to have a liability that's longer term. It potentially creates some real flexibility in their investment philosophies that they did not have before.

What are the benefits to insurers? There are many. There's expanded sales, obviously, potential new markets, increased marginal profits, very definitely a potential expense savings, and reduced distribution costs.

There are a couple of different kinds of banks of which you should be aware—community banks and regional banks. Community banks are generally defined as those with a billion dollars of assets or less. Regional banks are larger. If you are going to work with community banks, they may be interested in a turnkey approach. They're looking for a partnership. You can provide products to them, due diligence compliance, training, interviewing, and hiring assistance. They are looking for efficiency and economic solutions. With respect to regional banks, there are about 450 banks of greater than $1 billion in assets; and 400 of those banks are owned by 100 holding companies. Of those 100 holding companies, about 85% of them are already in the insurance business. So, most regional banks are already in the insurance business or the annuity business one way or another.

When establishing a relationship with regional banks, be aware of what you can offer to them. I think the key is providing some sort of value-added benefit. If you can wrap something around their products and existing distribution to create a value-added package, you have a much better opportunity of developing a good relationship with a regional bank.

You can't talk about the current environment without talking about regulation. I always thought insurance companies were overregulated, and they are. We have 50 different states that do different things, but we have only the NAIC that consolidated the regulations to some extent. Banks have the Federal Reserve, the FDIC, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. If you get into credit unions, there's also the National Credit Union Association. These are federal organizations, and yet some banks are state banks or regional banks with alternate supervision. Banks struggle with their regulators and they're all very heavily regulated. I think banks always are going to have to deal with regulations. As insurers deal with banks, we're going to have to understand their regulations as well as our own.

The real problem with all these different regulators is the uncertainty it creates in terms of what banks can sell, what their jurisdictions are, etc. Recently, the *VALIC* case led to a very important Supreme Court decision. What happened because of VALIC? It created more uncertainty. It may create a little bit less uncertainty in terms of the ability of banks to offer annuities, but does it really mean that all banks can now sell insurance or sell annuities? I said earlier, the larger banks already sell annuities, one way or another. Does it relate to all banks or some banks? Does it mean they can underwrite or just distribute? Then the biggest question of all, which will always be the issue, is who's going to regulate banks as they get into insurance? Is it going to be the states? Is it going to be the federal regulators? As you see, a number of unknown variables must still be worked out.

Another important regulation is the Glass-Steagall Act, an old-time law that has been on the books since the early 1900s. It created some artificial firewalls and was designed to keep banks from offering securities and crossing into other financial areas. There are now at least three initiatives that have been offered in Congress that are going to lead to either the repeal or the reform of Glass-Steagall, that many people predict will happen this year.

Some say, no, it might not happen this year. Regardless, it is a major step towards bancassurance in the U.S. Whether Glass-Steagall is repealed or reformed, it's very definitely going to move us more toward the European definition of bancassurance.

A daily newspaper in the banking community, *The American Banker*, recently had a five-part series on Glass-Steagall and what it means. The articles mentioned the different initiatives. For instance, one said that banking companies can underwrite any kind of security through separately capitalized affiliates. Another of the initiatives said that a single company would be permitted to own banks, insurance companies, and security firms.

The administration has made a proposal that falls in-between each of these. It's hard to tell what, but it looks as if something is probably going to happen. When you involve all these different regulators, it's similar to a boxing match, except there are more than four corners. I don't think we really know how it's going to end up.

In terms of future opportunities, it's important to understand the banks' needs and to position yourself accordingly if you want to work with banks or try to expand your relationship with banks. One of the important areas is due diligence. Banks are very interested in the insurance companies they're going to have relationships with. It's an essential element of their review and the work that they do.

We've worked with a number of banks on a couple different levels of due diligence. One is what I call basic screening. Banks look at financial ratios. They look at Best's, Moody's, Duff & Phelps, and Standard and Poor's (S&P). There are no rules of thumb necessarily. One may look at a distribution of companies that are rated by those organizations, and determine where you have to be rated to fall in the top 50%. I think it's within the top three ratings of Best's, Duff & Phelps, and S&P. I think Moody's may list it down at the fourth level.

Banks also look at various financial ratios, not unlike some of the Insurance Regulatory Information System (IRIS) ratios. They'll look at your risk-based capital, relationships of troubled investments to capital, levels of your mortgage and real estate holdings, below investment grade bonds, and your investment in affiliates.

Another thing banks look at is your interest rate risk analysis. Banks understand interest rate risk analysis. They're also interested in insurance companies investments. Derivatives are an area where banks probably have some very good exposure and understanding that insurance companies don't, and they'll be looking at that aspect of a company's portfolio.

To give you an idea of where some of these financial ratios might fall, for the 66 primary companies, the average of adjusted capital and surplus to liabilities is somewhere between 8.5% and 9%. I think that's a fairly high level of capital and surplus. Those same 66 companies have troubled investments which would be bonds in defaults, mortgages 60 days past due or in the process of foreclosure, which average around 50% of their capital in total. Their investment in affiliates is around 30–35% of capital and this will give you something to compare with your own companies.

Due diligence is going to squeeze the opportunities for companies. This is unfortunate, but it's a fact of life. If your company does not have good ratings or good financial strength, you're going to have a difficult time in the bank market, at least with some of the large players in the bank market, because they're so concerned about due diligence.

Another level of due diligence is a more in-depth financial review that some banks have required. In this case, they'll look at your product pricing. What's your pricing philosophy? Have your assumptions been met? What are your investment strategies, your general approach, and your interest crediting strategy in total? What has been the historical success of your interest crediting versus your projections? What level of sophistication do you bring to your interest crediting strategies? They'll also look at your management. What are its strengths and weaknesses? These are very general issues; they want to know your entire organization.

In terms of understanding some of the motivations and the opportunities for success, I think it's important to identify the parallels between the industries. There are many parallels between banking and insurance. How do your objectives match those of the banks? What are the consistencies between the risks and rewards that you look for in your business compared to what they look for in their business?

To understand some of these issues and address them, it's very important that you have an inside understanding of the bank industry. Try to understand its culture. It has a very different culture than insurance companies. Even though banks are financial institutions and have similar types of products, they have a very different culture in the way that they're organized and in the way they approach their business. Try to learn what makes the bank tick. What are the things most important to their success? You might build something into a product which, to a bank, makes absolutely no sense.

I think probably the most important thing is to have a very proactive mind set. Your ability to work with banks gives you an opportunity to be a leader. The banks do not understand the insurance business, but they're learning much more about it. As I said earlier, they're looking for a partnership. Again, one of David Steppard's rules for marketing success is create customers instead of making sales. I think if you keep that in mind from a proactive standpoint, you'll have a good opportunity to be successful with banks.

Finally, just a couple of ideas. Jim McCormick with First Manhattan Consulting Group talked about success in working with banks comes from the ability to help banks help themselves. He said that insurance products can help retail banking. They can provide value to bank customers and by doing that you can help banks to help themselves. When you think about it, banks have access to a tremendous number of people. Most of us don't go into bank main branches or even into their other branches, but many, many people do.

Telecommunications is a very important way that banks can market. They've got access to computers and a tremendous amount of information about their people. They utilize mail and television. Banks have an awful lot of access to people, and virtually unlimited distribution channels. I am not sure that they really know how to utilize those channels. One of the ways that we can help banks to help themselves is to try to take advantage of some of that, again, emphasize the "we" versus "me" aspect as we work to help banks in these areas.

Flexibility in dealing with banks is probably one of the real keys to the future. In the past, banks have wanted fee income and now they want more fee income. If you've had negotiations recently, they want more than what they had before and they want more than fee income. They want access to the investments. They want to control the investments. They even want to control some of the risk management, so they're looking for more. Your flexibility in working with them is going to be important.

There's a role that actuaries can play, without a doubt. Actuaries are uniquely qualified to serve as liaisons between the insurance companies and the banks from the financial standpoint. We can understand our business and we can understand their business. We can understand products on the insurance side. We have to learn to understand products on the bank side, but we're in a position to do that and I think there's an opportunity. Also, we are able to communicate to both sides.

Probably about five years ago or so, there were discussions about banks getting into insurance and what it was really going to mean. Bancassurance was really what I would call a future topic. There might have been discussions like, "In the future, insurance companies will probably try to take advantage of distributing products through banks." They were doing some things, but it was certainly a future topic. There weren't sessions like this at Society meetings five years ago.

You can hardly read *The National Underwriter*, *Best Week*, and some of our insurance periodicals without seeing something about banks and insurance. I am aware of at least three periodic newsletters or magazines related to banks and insurance or bank marketing in insurance. The *American Banker* that I was talking about, which is a daily newspaper, publishes at least one article about banks and insurance three days a week. Five years ago, the future was in the future. Now the future is the present. There's no doubt about that. I think there are many opportunities. Now I'll turn it over to Steve.

MR. STEVEN M. GATHJE: As Lynn said, things began with banks kind of dabbling in this. They sold products, but they really weren't too involved on a partnership level. What I'm going to talk about is taking that one step further where there really is a true partnership.

My company, about a year ago, became involved in creating a private label variable annuity for a bank. By private label, I mean the product has the bank's name on it. You have to look hard in the marketing materials to find the name Fortis anywhere. The product, even the prospectus, has the bank's name on it in big letters, not ours.

We are not the first and we're certainly not the only one doing private label. In 1993 I believe the Skandia Fleet product was the first one out on the market and there were several others released that year. The companies below may not be an exhaustive list. These are the ones I'm aware of. There were four additional products that came out in 1994 and I've seen the lists that say 8–10 companies are working on private labels for 1995. I suspect this will probably continue to accelerate, barring any regulatory bombshells that might derail it.

TABLE 1
WHO IS DOING IT?

Year	Bank	Insurer
1993	Fleet Great Western Signet	Skandia Skandia Security First
1994	First of America Wells Fargo Norwest Banc One	Security Benefit Skandia Fortis Nationwide
1995	8–10 additional?	

How big is this market? As most of you are probably aware, variable annuities have been doing well, about $50 billion of sales in 1994, and banks have 7–9% of that market right now. The projections that I've seen show that variable annuity sales may double by the year 2000, and banks will probably be at least 20% of that market.

Looking at it another way, there are about 60 banks with assets greater than $10 billion. If they have $10 billion in assets, they are probably capable of producing something like $20 million annually in variable annuity sales. This is probably when it might be worthwhile to do a private label deal. That depends on your own internal efficiencies. Also, an interesting fact. There are actually 50 banks out there right now that have their own proprietary mutual fund products with assets in excess of $1 billion. Variable annuities are a logical extension.

Why does a bank pick an insurance company to work with? A key one for us is existing relationships. Insurance companies do things with banks. We have bank accounts and things like that. The banks that we ended up working with are both local. They also were selling our street version products but not on a proprietary basis. Both of the banks that we've talked to are very familiar with our products, with our companies and with our people; so we took those existing relationships and built on them. Second, they want a company that's financially strong. As Lynn mentioned, the banks are concerned about their customers. They certainly do not want to be in a situation where they have to deal with a company's product if the company ends up going out of business. Third, in our case, they've looked for variable annuity experience. I wouldn't think a bank would want to partner a variable annuity private label with a company that's not doing variable annuities. Fourth is the product design and the pricing. How much are we going to pay this bank and what kind of features can we give to them with their product?

Now, turning that around, why would we pick a particular bank to work with? The bank has to be big enough. It costs money to develop products. The bank has to be big enough to produce an adequate amount of sales to make it worthwhile. A question related to that is, is the bank selling annuities right now? If a bank comes to us and it has never sold a variable annuity it is not a good candidate to do a private label. That's kind of one step ahead of where they're at. You've got to be able to come to an agreement on the product design and the pricing. If they want 11% commission, it's not going to work.

Now I'm going to go into the product design. What do the banks look for? How do we work with them on the product development? Bank customers tend to be a little bit older than your average customer. One of the keys is they don't want you to cut off sales at age 70 or age 75, which a number of annuity products do. Our product goes up to age 90 (in most states). They are mostly looking at single premium. The banks, at least the ones we've worked with, are not heavily into 403(b), 401(k), or IRA business. They're mostly looking at larger deposits. Our experience so far, and it's only been for about a year, is running about 50% larger in average size than our nonbank business.

With a variable annuity, you must decide who's going to manage the money. That's one of the attractive elements for the bank—the bank wants to manage part of this money. They're in the mutual fund business already. The banks we've been dealing with have their own mutual funds. They have their own money managers. They're in the money management business. The variable annuity is simply another way to acquire assets.

In our particular case, when we got down to the choice of the money manager, we're also in the money management business. We have our own mutual funds. The product ended up having four funds managed by the bank (three by us), and they brought in one outside money manager, so there are actually three different money managers within the product.

The number of choices is important. The reason for that is—and this has become a real issue—if these funds don't grow large enough quickly enough, they cost money. The banks still have fixed costs of running their funds. If there's no money in there, they don't have any assets and, if they don't generate any fees to cover their costs, it becomes a losing proposition for the banks. If you come out with a product that has 16 funds, probably 12 of them aren't going to get up to critical mass very quickly unless that bank is selling an awful lot of business. What is critical mass? I've heard numbers anywhere from $10 million to $50 million.

Another issue is "seed money." I'm not talking about the legally required cede money. I'm talking about money needed to get the funds off the ground from an investment standpoint. For example, the bank wants to start four new funds. They have to start new funds because they can't use their public funds. Where do they get the money to fund four funds? They need to have some money to invest right off. The investment manager can't run a $100,000 stock fund. The actual minimum might be in the $2–5 million range. We actually ended up providing the seed money for the bank's funds. This was a critical issue with regard to our getting this deal.

This looks kind of like a no-cost deal because you're just taking some of your money and putting it into, for example, an equity mutual fund, but you must think about it. If you are looking at the profitability of your variable annuity line, you need to ask yourself how this will affect that profitability. You are taking $5 million, $10 million, or $20 million of assets and putting them into this bank manager's fund. That's going to affect the bottom line of your annuity operation. If those funds go down, it's not going to look good on your earnings. So there is some risk involved in putting insurance company money into those mutual funds.

If any of you were in the variable annuity business in 1994, you know fixed accounts were important. Right now, we have two products. One has just a one-year guarantee type fixed account. We also have a market-value adjusted product that has ten options. You can get a one-year, two-year, three-year, all the way up to a ten-year guarantee. If you take your money out prior to the end of that guarantee period, it's market-value adjusted. Some banks like the one-year-type fixed account; others like the choices offered by our market-value adjusted product. I think it's important to be able to give them choices.

Competitiveness of the credited rate is important. In 1994, when bonds and equities didn't look good, it's nice to have a fixed account to keep the thing going. About 60–70% of the premium dollars went into our fixed accounts in 1994. This didn't make the bank very happy because that meant the money wasn't going into their funds. It did make them happy because at least they were making the sales compensation on the product.

It has been brought up, that banks are at least intrigued by the idea of managing the general account money. I'm not sure how you'd actually swing that. Any time it's brought up, I can think of five reasons why it won't work; but I don't think the banks are going to quit asking. If you can figure out how to do it, it's probably a real advantage.

Death benefits are important. We're dealing with bank customers. They are typically fairly conservative. They like guarantees. The death benefit guarantees range from the return of premium type guarantee all the way up to guaranteeing a minimum return such as 5% a year or maybe a ratchet type benefit where the benefit resets every year. In our first run through, the bank really wanted the maximum guarantee; but once we talked about cost, they backed off. Both of our products will probably just have a ratchet type where it resets after five or seven years, which is middle-of-the-road for guarantees.

The banks do not want nine-year surrender charges. They aren't concerned about how high the surrender charges are. Once you go beyond seven years, you're in the painful area for the bank. Five years is probably where they'd like them to be. They like liberal, free withdrawal provisions. Both of our clients have a nursing home waiver where we waive the surrender charge if the client ends up in a nursing home (not available in Texas).

The mortality and expense (M&E) charge is really not an issue. The bank really goes through and says we'd like this much compensation. We'd like all these features. As far as they're concerned, they don't really care how high the M&E charge is. You're going to run into regulatory problems long before you hit the bank's pain threshold.

As for compensation, more is better. It intrigues me when I hear that banks can distribute this more efficiently and for lower cost. To be honest, I haven't seen that. The cost that we pay the bank, the distribution cost, is no less than what we're paying to distribute through any other channel. Now, maybe the bank is making lots of money on that, and they probably are, but again, these banks that we're dealing with are very large. As Lynn said, they have wants and one of the big wants is how much they're going to get compensated for selling this.

We also adjusted the compensation in the private label arrangement. The bank does everything from a marketing standpoint. They are creating their own marketing materials. We review them, but they are creating all their own marketing materials. They do all their own wholesaling. We basically, from a marketing and sales aspect, are not involved in this product at all. Therefore, for us, marketing and sales expenses don't exist, and the compensation we pay the bank reflects that.

I'm going to talk a little bit about how you put one of these deals together once the product is designed. As Lynn mentioned, you're dealing with different cultures. When you're working on a joint project like this, that becomes critical. This is not just signing up a bank to sell your product. This is co-creating a product. So it's important to go through a list and to determine who is going to do what particularly with regulatory type issues; you don't want things to fall through the cracks. You must be in frequent contact.

We actually had one person designated full-time at our company who did nothing but run this project. She was the contact. Any time the bank had a problem or a question, they called her and then she dealt with our internal bureaucracy. Similarly, at the bank there was one person, so we really had one contact point and then the internal people dealt with the other internal people.

One of the things you do right upfront is put together an agreement of understanding, which lays out who's going to do what and who's responsible for what. What happens if things don't work out? You get three years into this deal and they're selling $5 million a year. You have to figure out how you're going to disengage from this process. We actually did lay out that type of thing in our agreement of understanding.

Another big issue was confidentiality. The bank likes to think that they came in and created this innovative, unique product. The last thing they want us to do is go across the street to their number one competitor and say, "Look what this company did. Why don't you do it?" We had lengthy discussions on exclusivity. It's a real problem because there were many things they didn't think of. They aren't the first ones to do it and so we had to balance that.

A key thing is these are the bank's customers. They aren't ours and we really emphasize that with the bank. If you buy this product, when you call up our customer service area, the phone will be answered and they'll say "Norwest Passage Annuity." In other words, they aren't going to say Fortis. The customer may even think they're talking to a bank employee, for all I know. We have separate phone lines for the bank product. Actually, the customer will be talking to a person who's dedicated to this product.

Compliance with 817(h) is the tax issue where you have to be diversified in your mutual funds that underlie these products. If you get out of compliance with 817(h), it's no longer tax deferred and you've got a big problem. This has to be monitored at the fund manager level. As I mentioned, the bank is managing their own funds and you have to lay out in advance this responsibility and the consequences should things go wrong. Hopefully, this will never happen. If it did happen, who's going to be responsible? The best thing is to lay out, right upfront, the seriousness of this, because the banks we dealt with didn't even know what we were talking about until we explained it to them.

The product has to be SEC registered. That's typically the responsibility of the insurance company. The funds have to be registered at the SEC. If they are bank funds, that's the bank's job; but, again, you have to work with the bank on these things. Contract drafting and filing. Again, we did that, but the banks reviewed the contracts. Both their legal area and their marketing people reviewed the contract to make sure that what we said in the contract was consistent with what they thought they were getting into.

Of course, you have to put sales distribution agreements together. You have to be aware of banking laws. We relied on the bank to know their environment. In the agreement, the bank said if they run afoul of banking laws, it's their problem and not ours, which is not entirely true. Then there is a due diligence issue on both sides. You both need to know who you're getting together with.

As I mentioned, the bank does their own marketing materials, but we clearly have a legal responsibility to review these and we do. We did help with the training of salespeople. We negotiated a price. The more services we provide, the more we charge for them. The bank can decide how much help they really need. If it is a complete rookie in this, we come in and provide the full array of services. If they really believe they know what they're doing, then we don't provide as much service and they can keep more of the profit. The bank people do have to be licensed and appointed with the insurance company.

I touched on this already a little bit, but I want to talk about administration and policy service. Of course, you have to change your administrative system to handle a new product.

With regard to customer service, they are the bank's customers. I guarantee you the first time that somebody calls up about this product and we mess up the service, that person will call the bank and we will have a big problem. So the bank has to tell us exactly what their expectations are as far as how we will treat their customers. We use our customer service people, but they're really working for the bank in a sense.

The bank generally will tell you what they want client reports to look like. We actually feed data from our computer system to the bank's computer system and they print out the reports. There's also issues with the mutual funds underlying the product in terms of getting prices back and forth. The daily price information has to be into our administrative system in order for us to value the people's policies. That information has to be given to us by the bank.

Implementation after introduction doesn't end when the product is out on the street. You just don't walk away from this and say, "All right, we're done. Let's go on to the next deal." Communication is still very critical. We need feedback from the bank. What's working? What isn't? Within less than a year, we've already made a few changes.

We've gone from the general bank sale to a private label. Now we're going to go to the extreme. Al Finkelstein is going to talk about the banks actually running the whole show.

MR. ALAN W. FINKELSTEIN: For the purposes of my presentation, I want to talk very quickly about changes occurring in the financial services industry. Then I will talk about recent developments including the *VALIC* decision and the introduction of The Retirement CD™. Finally I will offer my own views on how the actuarial profession can assist the banking industry.

Change is occurring everywhere. We have new products. We have new ventures between banks and insurance companies and between insurance companies and other entities. We have new risk takers. Many savings banks in three states—Connecticut, Massachusetts and New York—have been underwriting their own life insurance. Now we have viatical settlement companies becoming risktakers by purchasing the policies of terminally ill people. In the health arena, we have physicians and hospitals banding together to form health care networks competing directly with the insurance industry. Employers are self-insuring the health plans of more than 50 million Americans.

In the annuity arena we've had, as the other two speakers have talked about, marketing ventures with an insurance company product being sold in a bank lobby. Now we have an example of a product that is owned by the bank itself—The Retirement CD™ product. Now, how did all this happen?

Well, the first of the two developments I want to talk about I call "The Case." It's called *Nations Bank vs. VALIC*. Back in about 1989 or 1990, Nations Bank, a large national bank based in North Carolina, sought permission from the Comptroller of the Currency to be a brokerage subsidiary in the sale of annuities, whether these were to be fixed, variable, or hybrid accounts. The issuers in this case would have been insurance companies. The Comptroller granted Nations Bank application, concluding that national banks had the authority to broker annuities within the business of banking. There are five permissible activities for banks, which are enumerated under the National Bank Act.

The first is discounting and negotiating promissory notes, drafts, bills of exchange and other evidences of debt. The second is receiving deposits. The third is buying and selling exchange coin and bullion. The fourth is loaning money and personal security. The fifth is obtaining, issuing and circulating notes. Now, the National Bank Act doesn't say anything about annuities. The Bank Act was drafted, I believe, back around the beginning of the 1900s. The Comptroller felt that flexibility should be granted as new types of depository products were being created. The Comptroller also ruled that the law which limited insurance sales by banks in towns with no more than 5,000 people did not apply in this case, because the Comptroller did not consider annuities to be insurance products.

VALIC challenged the Comptroller's decision and filed suit in the U.S. District Court in Southern Texas, seeking declaratory and injunctive relief. The district court, however, granted summary judgment in favor of the Comptroller and Nations Bank. In turn, VALIC appealed the decision and the Fifth Circuit Court reversed the decision of the district court, rejecting the Comptroller's view that annuities were not insurance. After this decision, Nations Bank and the Comptroller appealed to the Supreme Court. Finally, in January, the Supreme Court reversed that decision made by the appeals court.

Now, what is the controversy? Are annuities insurance? Here's one definition and this is from my own copy of *Webster's New Collegiate Dictionary*—"coverage by contract whereby one party undertakes to indemnify or guarantee another against loss by a specified contingency or peril." We have many examples. You pay a $50 monthly premium for your annual renewable term policy. If you die, the insurance company pays a $500,000 benefit. You pay a $500 annual premium for your homeowner's insurance against the risk that the insurance company will have to pay $250,000 to replace your home if it's destroyed by perils, to cover your loss of contents and to cover your living expenses.

Annuities don't seem to have this type of feature. Although one recent innovation by a third party marketer called Essex Corporation involves adding an accidental death benefit to an annuity, which in essence would pay double the account value in the event of accidental death. For a plain vanilla annuity such as a straight life annuity, there is no benefit payable upon death. Payments would cease.

There have been arguments in favor of annuities being considered insurance. The following three agreements were taken from the brief that was prepared by the American Academy of Actuaries in preparation for the Supreme Court ruling. In that brief, the Academy argued that both annuities and life insurance involved transfer of mortality risk and are evaluated by actuaries in both instances through application of the same mathematical principles and techniques.

Second, they said to conclude that annuities are not insurance will call into question states' authority to regulate annuities. If annuities are designed and priced without the expert guidance of an actuary the result would be harmful to the public. The final point they made was life insurance and annuity products are still evolving. Concluding that annuities cannot be insurance because they may possess some investment value suggests that life insurance policies with significant investment elements are not insurance.

In addition to these three points, there was an article published about a year ago in the February 7, 1994 issue of *Best Week* entitled "Annuity Status As Life Insurance Appears Increasingly Fragile." It lists a number of consequences if annuities were not considered insurance. For one, annuities could fall under the auspices of the federal government. The article went on to give a case called *John Hancock vs. Harris Trust*, where John Hancock was managing the assets of a group pension plan and in such case they were not exempt from ERISA. This was one of the first examples of a federal government's intrusion into the annuity business, claiming that insurance companies were not exempt.

A second consequence is that insurance protection from major competition would vanish. Banks would enjoy advantages in distribution, the FDIC insurance coverage, and their image as a safe place to put money. A third consequence is that the federal government might start taxing the inside build up of annuities, since they're no longer given the protection that insurance products are offered. The final consequence is that annuity owners might be considered unsecured creditors rather than life insurance policyholders, and therefore have less protection in the event of rehabilitation.

On the other hand there are the arguments against annuities being insurance. These five were taken from the Supreme Court opinion written by Justice Ginsberg in which she stated that the sale of a product by an insurance company does not inevitably render the product insurance. One example, I suppose, is mutual funds, but the specific example that was given in the opinion was the policy loan. The second point was many annuities currently available provide for payments over a term of years rather than over a lifetime. In other words, a period certain annuity has no mortality risk.

The third is that the presence of mortality risk does not necessarily qualify an investment as insurance. The example given was a life interest in real property is a mortality risk on the purchaser. The fourth point was some conventional debt instruments impose mortality risk, and two examples were given in the opinion—reverse annuity mortgages and due-on-sale clauses. The last point was that fixed annuities have significant investment features and are functionally similar to debt instruments. This was the key—annuities are considered to be investment vehicles rather than insurance products.

Now I would like to talk about what I call "The Challenger"—The Retirement CD™ product. It was created by American Deposit Corporation. They are consultants to the banking industry, although the president, Richard Fasold, has also had experience with the insurance industry. At one time he was working on the concept of a nonbank bank which could issue credit cards, which was a market that Baldwin United wanted to pursue, but for other reasons decided not to. The other time that he had ties with the insurance industry, he was a consultant in the Mutual Benefit Life rehabilitation plan. The other principal in the corporation, Dennis Gingold, who's an attorney, previously worked for the Office of the Comptroller of Currency until he went into private practice.

This product was introduced by Black Feet National Bank in early 1994. Black Feet is a Native American-owned bank based in Montana. This is a bank deposit product which was designed to offer the benefits of both tax deferral and insurance up to $100,000 by the FDIC. However, one recent development was just brought to my attention by a coworker. The IRS has just made a ruling on this Retirement CD™ product. Effectively, what will happen for tax purposes is that they will be treated as a zero-coupon bond with income taxes being paid each year on the accrued interest. However, it will not affect Retirement CD™s already sold. I believe the article indicates there will be a public hearing held on August 18, 1995. However, this will not affect the bank's ability to underwrite the product. The product is still considered to be legal. It's still protected by the Supreme Court decision.

There are other features of this product. At retirement or at the maturity date, the owner may withdraw up to two-thirds of the amount in the balance, but must leave at least one-third in, which is payable over the owner's lifetime. There could be two owners in this case. Benefits are guaranteed to be at least equal to the amount at maturity. It is, in essence, a cash refund annuity; at the date of death, the excess of the maturity value over the cumulative benefits paid will be paid to a beneficiary.

Each bank that wants to offer the product pays a licensing fee to American Deposit Corporation. Then they have flexibility to decide on such features as the minimum deposits to open the account, the interest rates that they'll credit, the maturity dates—choices, say, of one, two, or three years to maturity—and any fees that would have to be paid, usually limited to a one-time fee upfront, usually $100. At last count, there were about a dozen banks offering The Retirement CD™ product.

This is a trademarked product. They ask that when we refer to the product we include the trademark symbol. It has a patent pending. Attendees received a copy of a handout containing information that was made available to us by American Deposit Corporation. They talk a little bit about this trademark and patent-pending process. I should mention that there is already action by American Deposit Corporation against one bank in Nebraska that was offering its own tax-deferred CD product, which American Deposit claims is a violation of their pending patent.

We can go into a discussion about the IRS code. They talk about the tax treatment. There is a section of the code that provides for annuities to be issued by either life insurance or noninsurance companies. Before life insurance companies began selling annuities—in fact, even before the tax code came into effect—fraternal organizations, religious organizations, labor unions and individuals issued annuities.

American Deposit Corporation took about nine years to develop this product. It had a legal opinion from a reputable national law firm that this product qualified as an annuity under this provision, a private letter ruling from the IRS—which has changed—and they also had confirmation from the FDIC that the deposits would be insured. This product is essentially a hybrid product. It's like a deferred annuity, yet it's a certificate of deposit during the accumulation phase. During the withdrawal phase, it is an immediate annuity.

The next thing I want to talk about is what I call "The Challenge"—quantifying the mortality risk. I want to give a numerical example. I think it's an important point that the banks need to understand—just how significant can the mortality risk be? In the example, I've assumed 1,000 males age 65 are purchasing immediate annuities in 1995. Each is a straight life annuity that will pay $1,000 per month. The mortality is the 1983 Table A with Projection Scale G projected to 1995 and beyond. Interest is at 5%.

If you look at Table 2, you'll see that mortality is 10% less than expected. In other words, there's a 90% actual-to-expected loss ratio. The third and fourth columns would show the projected benefits payable on the expected basis and on the actual basis. The column after that marked "Difference" is the excess of the actual payments made over the expected. The final column, what I call the "Excess Reserve," is a present value of future benefits, the excess of actual over expected based on the amount of benefit in force at the end of each of three time periods—10, 25, and 40 years.

TABLE 2
THE CHALLENGE—QUANTIFYING MORTALITY RISK

A/E Ratio	Years Since Annuitized	Cumulative Payments: Expected	Cumulative Payments: Actual	Difference	Excess Reserve*
90%	10	$111.8	$112.6	$ 0.8	$1.5
	25	225.9	231.9	5.9	2.7
	40	257.7	269.3	11.6	0.6
80%	10	$111.8	$113.4	$ 1.6	$3.0
	25	225.9	238.1	12.1	5.7
	40	257.7	282.2	24.5	1.4

*PV of excess of actual over expected benefits inforce at the end of time period

You'll notice what's happening is the cumulative excess of the actual over expected is increasing. It's about $800,000 after ten years, about $6 million after 25 years, and nearly $12 million after 40 years. The amount of reserve that the banks would have to hold for this additional liability is about $1.5 million after ten years. It goes up to about $2.7 million after 25 years and then it declines because the present values are decreasing. I'll also show this to you on an 80% actual-to-expected mortality ratio to illustrate how much greater the reserves and the difference in the benefits are. Unfortunately, articles appearing in the press are talking about a life expectancy risk and that doesn't give us much insight. Just to give you some more information, for a 65-year old male, the life expectancy on an unprojected basis, based on 1983 Table A, is about 18.6 years. If we build those improvements in mortality, the life expectancy goes up to about 21.6. A 10% deviation will increase that life expectancy by about one year. A 20% deviation will increase it by about 2.2 years.

Finally, I'd like to give some thoughts about what the actuarial profession can do to assist the banking industry. First, the regulatory and compliance issue is still a very gray area. There are developments in a number of states. There is a confusing array of laws, both federal and state, that have an impact on the activities of banks. There are efforts in two states, Florida and Illinois, by the State Insurance Departments to regulate this Retirement CD™ product as though it were issued by a life insurance company.

There was an effort by the New Mexico State Insurance Department to regulate the product until a federal court banned them from doing so. There was a recent appeals court decision in Louisiana that denies banks the opportunity to sell any product other than credit life, and accident and health insurance. There are two bills in Congress, one being sponsored by Representative Thomas J. Bliley (R–VA) and another one by Senator Alphonse D'Amato (R–NY), which would require banks to comply with insurance regulations on annuity products. I should mention that Alphonse D'Amato's bill would, in addition, strip The Retirement CD™ of its protection under the Federal Deposit Insurance Coverage.

At the very least, what I envision is that banks, if they had to comply with insurance regulations, would require our expertise in the areas of establishing adequate reserves, certification by a valuation actuary, cash-flow testing, and risk-based capital requirements. I think we have a lot of expertise and we can offer the tools to the banking industry.

The second thing that I think we can offer is risk management services. Cash-flow testing serves a dual purpose, allowing management to model and try to predict how their assets and liabilities would behave under different interest environments. The Society has performed studies on lapses of single-premium deferred annuities (SPDAs) and also defaults on credit risk. In addition, actuaries could perform sensitivity testing. I gave you the example of the mortality risk which North American Reassurance conducted to see how sensitive future benefit payments would be under different mortality assumptions.

The final point is reinsurance. Not much has been said in the press about the reinsurance of annuities, although there was an article written last month in the *National Underwriter* dealing with reinsurance. It talked mainly about the reinsurance of the minimum death benefit guarantee on variable annuities. Again, it referred to this life expectancy reinsurance, but it didn't really talk too much about the Withdrawal Surety program that was recently developed by North American Reassurance Company.

A little background about this program. It was developed over the past year under the direction of the head of the group insurance department, Jerry Levy, who is an actuary. We first became aware, about a year ago, about The Retirement CD™ product being offered by Black Feet National Bank. We felt that this would be an opportunity to offer our mortality risk reinsurance to a noninsurance entity. The program is available for life insurance companies that wish to insulate themselves from the mortality risk I illustrated earlier. The Withdrawal Surety program is a special application of annuity mortality risk reinsurance for The Retirement CD™ product. North American Reassurance's charter permits reinsurance arrangements with noninsurance institutions. We performed various studies. We did our modeling. We tried to come up with pricing, provisions and materials that the banks could understand. Then we put together a final package.

We had conversations with the American Deposit Corporation and a number of banks have signed confidentiality agreements and are reviewing the materials right now, but it's too soon to tell how popular this concept of mortality risk reinsurance and annuities will be. The product basically charges a small fee during the accumulation period and during what we call the no-risk period. The no-risk period is the first several years during the withdrawal phase when there is no risk to the bank because the payouts that the annuitants have received is still less than the amount at maturity. After the no-risk period is over, a larger premium would be charged based upon the age at maturity and duration since maturity.

In closing, I would like to suggest that we need to be more proactive as a profession in dealing with this latest development in the annuity marketplace by the banks. For years we've been dealing with banks as partners in the marketing efforts. Now I think we need to offer other services as well. I think that, through the auspices of the American Academy of Actuaries and the Society of Actuaries, we need to make public statements to the banking industry and to the federal government in order to make them aware of the types of risk that exist, and to make them aware of the services that we have to offer.

MS. CUNNINGHAM: We now have time for questions. Does anyone in the audience have a question?

MR. JOSEPH PAESANI: With regard to selling insurance, especially to the under-55 market, it would seem to me that the ability to build that distribution would depend on the bank traffic—the amount of activity that actually flows through the bank. How important do you think the face-to-face interaction is, especially in that younger group where apparently there are not as many people going into banks now as they did a few years ago? How big of an issue is that in making the ultimate distribution model work?

MR. PEABODY: That's a good question and historically that has really been a problem with the banks. They haven't had the ability to sell the insurance. We know that insurance is a product that has to be sold and not necessarily bought. That has been one of the reasons why banks have not historically been successful at this point in marketing that type of underwritten and need-based life insurance. They're working with people in the trust area and things like that, which is slightly different, but they haven't had access to the people in that way.

I think it's going to be a difficult market to get into just because of the needs-based selling that's required. I think that at least initially, banks will probably go into less-needs-based products or easier-to-sell products that they can market through one of their other distribution channels rather than market face to face. There has been some success in that area, but it has been very minimal.

MS. CUNNINGHAM: I have a question for the panel. Would the panel care to expand on this *New York Times* article? You related, Al, that the product is still legally available, but I'm wondering if the tax impact now doesn't even kill it practically.

MR. FINKELSTEIN: Let me read more from the article. There is a quotation in here by Rick Fasold. He said, "This rule doesn't kill us, but it sure wounds us." They still, I think, would probably try to sell it on other features. There have been other things as of late. There was an article by Jane Quinn-Bryant in which she claimed that the payouts available through insurance companies are greater than they are through the banks, at least based on the payout rate she has seen. Banks have responded. They continue to sell the idea that the FDIC insurance and other features that they have still can make up for some of the difference, so it's not just the tax issue. I think it's also the fact that the payouts may not be as competitive.

MR. JAMES W. DALLAS: I'm curious why one-third of the Black Feet annuity value has to go to annuitization?

MR. FINKELSTEIN: I don't know the exact reason for it. Basically, I think it's so this product qualifies as an annuity. I think it may otherwise be considered some sort of tax avoidance feature and lose its tax-deferred status.

MR. PEABODY: I agree with that 100%. I think that was their reason for calling it an annuity in the first place. I don't know whether the one-third was anything magical, but that was probably the logic.

MR. DALLAS: So it was more of the bank's call as far as why they put that in?

MR. FINKELSTEIN: It's not the bank's call. It's the call of the creator of the product—the American Deposit Corporation. As I said, it spent a great deal of time on it. It worked on this product for nine years and used the legal services of 12 law firms. It wanted to be clear about the law and the tax provisions, so it did its homework.

MR. PEABODY: I was going to ask Al a question about The Retirement CD™. Of the 12 banks that have offered this or are able to offer it at this point, my understanding is that there are only a couple that have actually taken any money at this point, and Black Feet has not. Is that right?

MR. FINKELSTEIN: Black Feet has accepted some deposits, but because of the legal action that was taken last year by the Florida State Insurance Department, it suspended sales on the product. The First Commonwealth Bank of Pennsylvania and the First National Bank of Santa Fe are actually selling the product.

MR. JOHN C. DI JOSEPH: I just wondered if any of the panel would care to comment on the degree of disruption in operations that might be caused in insurance companies when trying to deal with the unique needs of banks and the bank culture, because it does seem to be quite different than what we're used to.

MR. GATHJE: That's a big potential problem. One of the things that we sold to the banks is that we're a relatively small, nonbureaucratic company. Our policy service area for annuities has maybe 60 people in it, so it was relatively easy to just slice off five people and say, "All right, you belong to the bank now. Start working with them. Get to know their people. Get to know their expectations." I think if you took a bank and put them into a very large company and didn't really create a special group of people to deal with them, yes, I think you'd have a huge problem.

MR. FINKELSTEIN: Let me read something. This is from CompuServe. Back in January, we had a lively discussion under the topic of VALIC/bank annuities. Hank Ramsey raised the question of what does the *Comptroller vs. VALIC* decision mean to insurance companies who sell annuities through banks? One of the responses that he received is from Cheryl Krueger. She said, "I wonder if banks are ready to take over the challenges of managing products like deferred annuities, especially with regards to managing the risk. The ruling may just make it easier to form partnerships with insurance companies which may involve ownership. We, in the U.S., might even catch up to the rest of the world in that regard."

MR. PEABODY: Let me make a comment because it's kind of interesting. We have to be careful to not bury our heads in the sand. Banks have been managing CDs for a long time. They've been managing deposits, checking accounts, savings accounts, and things like that. Banks have been managing annuities without that mortality risk for a long time and they're very good at it.

I think that's one of the areas we need to be careful about as we start working with banks—thinking that we know a whole lot about the business that they don't. We do know more about insurance than they do. They know a great deal about managing risk that we don't, or at least they know as much, and in their culture they know more. That was an interesting comment. I think that is an indication of where we would like to come from, but I think we need to be careful and not put ourselves on a pedestal in some of those areas.

MR. PAESANI: In light of the IRS announcement you read off, do you see anything happening with The Retirement CD™ from a tax perspective that could in any way impact the inside tax build-up question on life and annuities in any way? Are they going to be mutually exclusive?

MR. FINKELSTEIN: First, I'm not a tax expert. Second, I read to you that excerpt from the article about annuity status as life insurance being fragile, but this is a consequence. The Supreme Court has said that annuities are not insurance. Congress could turn around and say let's tax the inside build-up, in which case The Retirement CD™ would not be disadvantaged compared to life insurance companies' annuities.