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Cost of Product Compliance

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Summary: This panel shares insights into the numerous considerations on new products, such as equity-indexed life and annuities. Speakers consider illustrations compliance, legal issues, systems needs, and various SEC requirements.

Mr. James N. Van Elsen: We're going to discuss the costs of compliance. We have, I think, a very fine panel of people who will present their different aspects of this discussion. We hope to allow significant time toward the end of the session for your questions, so please, as the panelists are making their presentations, do think of things that you would like expanded upon. I intend us to go through kind of the top layer in the presentations and then we'll go deeper into the areas where you'd like more discussion. The session will go in the direction that you want it to go.

As far as what we hope to accomplish with this session, we want to give you some understanding of the impact of different regulations and what they do to a life company's operations and how it, ultimately, affects the company and the consumers who buy from those companies, as well as give some ideas of how companies can influence the future process to perhaps create regulations that aren't so expensive.

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We're starting with Linda Lanam. Linda is currently senior vice president, general counsel, and secretary of the Life Insurance Company of Virginia. Linda obtained both her B.S. and her J.D. from Indiana University and began her career as an attorney with Lincoln National in 1975. Since then she has worked in the law department of INA and Union Fidelity, served as a lobbyist in the federal affairs office of Blue Cross and Blue Shield, and was Deputy Insurance Commissioner in Pennsylvania for three years. She joined the Life of Virginia law department in 1989. Linda served as technical resource advisor to the NAIC on a number of issues, including the development of the Life Insurance Illustration Model Regulation, and is author of a number of articles on state regulation of insurance. She is currently coordinating the work of the NAIC technical resource advisory on the annuity disclosure regulation. Linda is admitted to the Bar Associations of Indiana, Pennsylvania, and Virginia and is listed in *Who's Who in American Law*, *Who's Who of American Women*, and *Who's Who in America*.

Ms. Linda L. Lanam: You may have noticed that my introduction was longer than my presentation and one reason for that is lawyers never like to put anything in writing that could be introduced in evidence against them. The other reason is that my presentation is far less a technical one than a background piece on how we got where we are. Or to put it as Jim did last night when I was talking to him about it, I'm the one to blame for these things, because I'm both a lawyer and a former regulator. To some extent that is how we got where we are and how regulation got as costly as it is. My fellow panelists will talk to you a lot about the current impact of regulation and also about the future of regulation for the products that you devise and price.

What I want to talk about is how we got where we are. I'm not going all the way back to the beginning of state regulation, but I want to talk a little bit about where we have been in probably the last 10–15 years in terms of the attitude of the public, the plaintiff's bar, and the regulators we deal with. That is the context in which the present status of regulation and probably the future of regulation, at least in the short time, arises.

Probably about eight years ago we started seeing the impact of changing interest rates and the decline in the interest rates on the products that we had developed which contained features impacted by changing interest rates. Howard Metzenbaum, the Senator from Ohio, wrote a letter to the president and vice president of the NAIC at that time, discussing what he called the disappointed expectations of purchasers of life insurance products. He said they had been led to believe that the premiums for those products would either remain unchanged or, in the term now infamous to all of us, vanish. He asked the regulators what they intended to do to help those customers who had been, in his words, "misled by the

advertising material, which included policy sales illustrations." The NAIC put together a task force of regulators and the first of what Jim called, technical resource advisory groups, to take a look at the issue. They produced a white paper and looked at a number of options, including banning illustrations altogether.

At that point in time, I started talking to our actuaries and tried to get a better understanding of what illustrations were, seeing myself in some context as an ordinary customer. One of the things I discovered was that the intent of the illustration, so far as the actuaries who designed it, was simply a hypothetical demonstration of how a product might work. In the eyes of the actuaries this was an assistance to customers. This was a way of showing them what might happen under a given set of circumstances.

The point that the regulators were taking in looking at the illustration, was that without the proper context, the customers saw that as a demonstration of what was likely to happen. When that illustration was presented to them in a marketing context, surrounded by the comments of a salesperson whose obvious goal was to place that policy, the likelihood that a customer would understand the technical impact of changing interest rates, changing mortality costs, and a changing tax impact was limited. The impact of what Senator Metzenbaum put before the regulators and the impact of what they did in that white paper essentially changed the expectations that were going to be applied to our products and to the way in which our products were presented. In essence, they expected that the disclosure that we put together would be presented in such a way that the expectations of the customer would be clearer. Their way of making disclosure make a difference was to try to devise a way in which you told the customers what it was they were supposed to do with what you gave them. The dangerous part of that, and the part that the plaintiff's bar has continued to have a field day with at this point in time, is where you draw the line between giving customers the information that they need and finding some way to make sure they do with it what you intend them to do with it.

The good news about regulation is that a majority of regulators do not actually expect that we can make customers read everything we give them. But they have moved a step toward saying, you must give them something that they could read and understand, if they chose to do that. But part of what that does is put your profession in a position that it's never been in before. So one of the points I want to spend a little more time on, is my calling the actuary the "corporate conscience." I think that is the attitudinal approach that the regulators are applying as they've developed the Life Insurance Illustrations Model Regulation, as they are developing the annuity regulation, and looking at a number of things.

Commissioner Bob Wilcox, who was chairperson of the Life Illustration Task Force in its initial phase, actually used the phrase, "The actuary is the corporate conscience." He believed that the actuaries were the people in the company who were best situated to explain the products that they devised and to recognize what the realities were. Because actuaries deal with assumptions and know the factors that are going into the assumptions, they're the ones who then can try to put those assumptions in perspective for the customer. But the likelihood that we, whether "we" includes actuaries alone or actuaries and lawyers together, will ever be able again to stand away from the products that we develop, and price, and advertise, and say—We've laid the information out there, it's there if you want to look for it, we have people here to answer questions if you want to use those 800 numbers that the states all require us to have—and consider our job's done—those days are gone.

What regulation does now—you see attitudes being set forth by the people, both at the staff and the commissioner level in the departments—is focus on, again, not the expectation that the customers will do with what you give them what you want them to do, but that they could, that there is enough information in the sales illustrations. The purpose of the narrative summaries, the midpoints, trying to write it in readable language is that you're putting something in front of the customers that explains to them as completely as you can how the product works, or how the illustration works; they can then understand what a hypothetical is, what an assumption is. But assumptions are things that are based on current, and current means today.

I'll give you a simple example. I was talking to a fairly well-educated customer who had looked at an illustration with what we call "the option to suspend premiums," as our replacement for "vanishing premiums." He had asked one of the actuaries to explain what that meant. The actuary said, "Based on current assumptions, it means that at that point you will never have to pay premiums again." Because he wasn't an actuary, what he thought current assumptions meant that the actuary had looked at past interest rates and past costs and had made a projection about what was likely to happen—not that current assumptions meant right now, this minute, today, not even looking at the next hour, or tomorrow when we change interest rates, or when we do our evaluation.

I realized then that the terminology that we use is very clear to us, but is not necessarily as clear to the customer. So our obligation is not necessarily to change our terminology, but simply to make sure that there's enough in the materials that we give to help the customer understand what we mean. I do believe that this is an industry that has never intentionally and actively led customers to believe things that weren't true. But I think we are very bad at managing expectations, because we recognize all the caveats, all the conclusions, all the limitations, all the bits and

pieces that surround the product that we put out there. Because we understand them so well and we spend so many hours of our days knowing what all the riders mean and what all the pieces and the parts on the fourteenth page of the contract mean, we tend to forget that may not be as apparent to the customer.

So I think you will see regulators looking at it from two perspectives. There are regulators who would like very much to simplify products. There are some regulators who, I believe, would like to have a direct impact on product design, but they are not in the majority. The majority of regulators are focusing on making how the product operates clear to the customer and saying, that's what you do; you as actuaries must find a way to work with your company to do that. Make your sales material, your illustrations, and how you present the product accurate and complete enough that if customers choose to read the materials, they could get either a complete understanding or a not easily misunderstood presentation of the product.

Another example of that is I don't think regulators will try to open the black box of dividends, nor do I think regulators will actively seek to force a complete explanation of your interest-rate-crediting practices. But I do think you will see regulators saying that if your "plan," which happens to be a word that the lawyers in the group of technical resource advisors keeps having significant fights with regulators over, is to follow a certain investment strategy that will impact subsequent rates on a product (the renewal credited rates on an annuity is the current example that we're dealing with), then how you explain renewal rates to the customer will have to be accurate and either as complete as it can be, which in many cases may be more confusion than the customer wants, or phrased in such a way that the customer can understand it to mean something that you as a company and as an actuary intended.

I don't know how many of you are familiar with the class action that's currently pending on annuities, but the issue there is, again, much like with illustrations, a language-based issue. The phrase that apparently was used was renewal rates will reflect current market conditions. What was meant by that by the company most likely was the current market conditions affecting its portfolio that backed up that product line. What the customers are alleging they thought it meant was each year on their anniversary date, the renewal rate would reflect current interest rates in the marketplace. So if interest rates on five-year Treasury bills go up, they should expect their renewal interest rate to go up.

Obviously, the case is newly brought and there has been no resolution or no indications what a court will do or what a company will do as a result of that. But it is further indication that the plaintiff's bar will not be abandoning the industry as a source of its efforts to bring a different order to the marketplace. Our regulators are

dealing both with their desire to protect the consumers and, arguably, to protect the companies.

A successful major class action lawsuit could seriously impact a company. So the efforts will be an attempt on the part of regulators to see where this kind of thing may be going and to focus their efforts on bringing the industry into this new alignment in the marketplace, and on the actuary as the corporate conscience, to see the actuary as being responsible for how the product he or she designs and prices is actually presented in the marketplace. That's really where the Illustration Life Insurance Model Regulation came from, to some extent, where the Annuity Regulation will go and, as Roger will talk about when he concludes, perhaps where the future of regulation will go.

Mr. Van Elsen: Linda participates often at the NAIC meetings and, particularly, we'll see her at sessions where there are many actuaries. I always find interesting what the attorneys think about what we do. Many actuaries, if there wasn't an attorney trying to constrain us a little bit, would probably give opinions that would put us at a lot more risk than we would be at otherwise. It's really nice to have someone like Linda who can explain to us just what we're really saying and some of the things we're doing. But part of Linda's role in all this was to get your attention on how some of this regulation affects you individually as actuaries.

Next, I'd like to introduce Alex Zeid. Alex will discuss a couple regulations, in particular, and their impacts. Alex graduated from the Illinois Institute of Technology in 1971, attaining his ASA designation in 1978. He is the Founder of FMSI, which is an actuarial and software consulting firm in Northbrook, Illinois.

Mr. Alex Zeid: It's always interesting to gather a lawyer's opinion. We were hired by an attorney to defend an agent who was doing some minimum premium cases, and the agent was being sued by the insured. The amount of insurance was $28 million and he made some, what we thought, misrepresentations and we wound up with a real extravagant bill. When it was all over I asked the lawyer why he needed all this work done—projections? He said, "I needed to go to the insurance company to show them, to have support that they could pay out the policy limits." It's just such a different paradigm we see, going through this whole thing. The report was 40 pages long and I needed one number from him. It's interesting how lawyers perceive what we do differently.

I'm going to talk about state of compliance, what our experience has been in developing software, and a bit about *XXX*, and market conduct issues that we see. Starting with the state of compliance, I think as of today 14 states have adopted the model regulation relating to life insurance sales illustrations, it's under consideration

for adoption in the next six months by 14 additional states and under consideration in various states in proposal draft and redraft form. The process should take years. Now we would think states adopting the model regulation to date have done so without much variation, but there are some states, as we all know, making major changes to it. We hope they'll fall into line, so that we'll have some systematic adoption. We understand Texas, in particular, has some major differences between its proposed regulation law and the model regulation and I think in recent times they've tended to come closer. Although you may not have a problem keeping up with the implementation, differences between states will become an important compliance issue, and its cost on the companies will be significant.

Building the model—that's always a difficult one. The experience of insurance companies moving to compliance has been distasteful, in my opinion. In many cases, the company, or several of its operating units, are cast into turmoil, because of the level of effort necessary for compliance. Not only are the model's illustration formats radically different from what we've seen, but the amount of information disclosed is also significantly different. The language required in the illustration in many cases must mirror the contract much more closely than what we've ever done before. Therefore, you get into legal and actuarial review required for every contract, and the findings can be unpleasant. It's really similar to doing some home remodeling. First you remove something and then you find something different in there, and you find things that you never expected. I guess that's true with the actuarial review. It often exposes errors in one or more existing contracts or in the software that illustrates or administers them. Depending on the kind of errors that you uncover, the outcome could result in everything from refilings to refunds.

I guess the actual staff of large companies can handle most of this work in-house, hiring consultants only for short durations or for very specific tasks. Under these circumstances the costs are being well defined. However, in our experience, smaller companies with little or no in-house actuarial support these companies have to hire actuarial consultants as well as systems people without having a good handle on where it's going to end up. Companies without an actuarial staff tend to evidence problems that have accrued over the years and that haven't been addressed, because their products are not being continually reviewed. Again, it's expensive to hire these consultants and you wind up designing the product almost from scratch.

Compliance has many faces and these two definitions. Compliance illustrations must conform to a model and must conform to the specifications of the contract being sold. Actuarial review of each contract to be illustrated is a must to ensure that the proper language is presented in the illustration. Heretofore, there was little text in an illustration and you just presented the numbers. Wording was loose; and

you just made sure that you were disclosing something that you hoped the agent could sell.

Now the actuarial review begins with the wording of the contract and comparing it with existing illustrations. Remember that the existing illustration format is still needed for noncompliance states. The comparison, in our experience, has uncovered inaccuracies or errors in many existing illustrations to the point that the same illustrations yield different values between the compliant and noncompliant forms. We've also seen instances where the software was simply not able to illustrate the contract, but it was done.

One company we worked with has had to analyze all its first policies for a particular product, because it found out that the guaranteed minimum premium (GMP) illustrated was in violation of the IRS code. We recommended that it go into a refund mode with some of the premiums, so that it really didn't have some exposure out there. We think that failure to do so could place the policies in a resulting real tax problem. We've worked on an audit in one situation. You can find something minor wrong, but the minute you say you have tax guideline problems, you really raise a flag to the IRS.

It is also within the realm of possibilities that the differences between the illustration and the contract are significant enough, again, to force refiling in one or more states—not an attractive situation to be in for a small company that has only one or two products to sell. Alternatively, the product could be discontinued and replaced with a different one, the same problem, but it requires a lot of effort from a legal, actuarial, printing, and administration point of view. It gets costly for these small companies.

We got into the software end of this business and found that you need the software to print the illustration. That's another whole can of worms I'm not even going to talk about. Much of the illustration software in use today is very old and was written well before the model regulation was a gleam in anyone's eyes. Most software houses are in the throes of upgrading their illustration software to meet the model regulation compliance. But what will it cost the company to do that? Illustration software is a major investment for most companies both in dollars and in commitments to the software developer. Somebody came down to our booth last night and asked me if we'd sell them the code, because they've paid more than $300,000 in developing illustration software. I think I could pay for many systems to do that, but that's been the experience of many companies.

The decision to upgrade illustration software with the current vendor versus purchasing new illustration software from a different vendor is a complex issue and

requires careful analysis. You're getting into bed with this vendor. You need to check it, find out what its references are; it's almost like buying an administration system.

We think the following major considerations are in order. The illustration software should be compatible with the administration software. It should be easily transferrable between the illustration and the administration system. If not, information will have to be manually entered to transfer data from the administration system for billing and account management and go the other way to run in-force illustrations in the future. Entering data manually is an open invitation to error. We've seen one vendor that wants its client to do that. There's a client of ours who purchased our illustration software and has asked us to write an interface between it and its administration system. The result will be automatic data transfer of issued policies to the administrative system and the ability to run in-force illustrations in a compliant formula on demand. Above all, keep in mind here that the illustration software is new, but the administration system is not.

Newer illustration software can do a lot more than its predecessors, because software development technology has improved tremendously over the years. It is dangerous to assume that the old administration system can easily be made to communicate with the newer illustration software. Of great concern is the ability or, as we found, the inability, of the administration system to handle the peculiarities of new insurance products.

On more than one occasion we've designed a moderately sophisticated product that we could illustrate with our software, but later had to retreat because the client's administration system couldn't handle it. We've designed an annuity illustration system for one client. They want us to show systematic withdrawals and we've given them that option, but the current administration system can't handle it and they're going on the basis that it's going to happen. We think that's dangerous and could lead to problems, but it's an issue that we think we may have some liability on because of what they're doing.

Regardless of which software is selected, because it's important to remember that both upgrades and replacement software have one thing in common, they are both new products. It is our opinion that any illustration software conforming to the new model regulation is so different from its predecessor that it must be treated as a totally new product even if it is called an upgrade. Thorough testing is required before commitment and implementation. The software vendor must be willing to listen and accept suggestions about the software. Most of the oldest illustration software was developed for DOS with its unforgiving and arcane user interfaces. The advent of graphical user interfaces, such as Windows, has encouraged

developers to write even fancier and seemingly more sophisticated software, but beware. A lot of today's software is too fancy and is made too complicated under the guise of being more powerful.

Characteristics of this software is that it appears to be written for technical people rather than real people. Of course, this satisfies the developer's ego and results in the need to justify unnecessarily high prices. Further, the more complicated the program, the more that can go wrong with it. Look for software that seems as if it were designed for someone using a computer for the first time. Taken to an extreme, if the software needs a user's manual it is too complicated for illustrations. A perfect example of this is Kiplinger's best-selling Tax Cut Income Tax Software, which has been published every year for at least ten years and never once was sold with what we would call a user's manual.

Unfortunately, another consideration in the decision-making process is the hardware environment of the sales staff. If half the sales staff has 286s or even 386s of early vintage, the difficulty of the decision-making process is compounded by a possible need for a hardware upgrade. In a company that controls its sales force a hardware upgrade is probably in order, because new hardware is so relatively inexpensive. A bigger problem exists in companies with significant outside sales forces, because the company may not have enough leverage to force such an upgrade. These outside agents will suffer by not being able to use the new software. But the company also suffers from a similar reduction in its sales force. The older illustration software may still be usable in noncompliance states, but as compliance moves along, hardware will become a bigger issue.

I want to talk about *XXX* for a while and the quest of *XXX* compliance for the Valuation Life Insurance Policies Model Regulation. The *XXX* saga and its predecessor have been going on for about a decade. I'm assuming that you already know the basis of the regulation and how it will work if it ever passes in a state that you do business in. Just a refresher, though, because most of us really haven't worked with *XXX*, it is very hard to forget about it quickly. I'll just give you a brief description of it. It has several purposes. One is to introduce the use of new select factors in valuation mortality tables. This in isolation is not such a bad thing until you look at the complexities of how you'd expect to implement it. The second purpose is to define calculation rules for reserves with nonlevel premiums and/or nonlevel benefits. The third is to define rules supplementing the NAIC universal life (UL) model regulation for reserves on UL plans with secondary guarantees beyond five years. Without getting into the details, let's just say that these rules are extremely complex and, generally, make it very difficult from a reserve standpoint to offer products with competitive, guaranteed premiums beyond the fifth policy year.

Within the *XXX* requirements there are many options that you need to choose from for which the financial implications can be significant, but unclear without some extensive analysis. Actuarial administration of *XXX* will be a *XXX*-rated nightmare. Tax reserve questions abound. Our good moderator here is going to the Wisconsin Insurance Department next week to tell the people there to defend the small companies on that regulation against the larger who want it (or so it seems). Anyhow with the ongoing uncertainty surrounding the *XXX* regulation, this can be a very difficult product compliance issue for both small and large companies.

You will be faced with new product decisions. Do you design a new product in anticipation of an imminent *XXX* regulation? If you believe it's imminent, you may feel comfortable designing *XXX* products today that may or may not be on the street for another six months. Or, do you believe *XXX* will never see the light of day and develop new products under this assumption, running the risk that you get caught without a viable product in a state that passes *XXX*? Or, do you attempt to file dual products and keep one on the shelf in the event that *XXX* passes? Either way it's an expensive proposition for you. Or, do you get creative? The other alternatives are to get creative with guarantee riders or develop products that are *XXX*-ready if and when a state passes *XXX*. There are competitive disadvantages with these types of products that tip your *XXX* hand to competitors. Again, you can believe *XXX* will never see the light of day and develop new products under this assumption running the risk that you get caught without a viable product.

Each of these decisions has an associated cost, particularly if you make the wrong decision. The best decision, obviously, will vary by company. For example, you need to look at the key states you do business in and assess where they are with *XXX*. There are several Internet sources for keeping up to date with where *XXX* is. I believe Jim maintains an up-to-date status on his electronic newsletter. In particular, several of these sources keep track of the status of states that have or are considering the passage of the Illinois 51% rule. Or, you can contact your favorite insurance department directly to keep up to date. Another is the SOA Web site or Actuaries Online on Compuserve. Just pose the question on one of these forums, such as, What's the latest status on *XXX* in Texas? You're bound to get an answer from someone who's recently talked with the Texas Department on this issue. Then you must assess your marketing situation and develop a strategy.

What types of products are affected by *XXX*? We typically associate *XXX* with super-competitive, renewal term products, but as you know, the regulation applies generically to very many types of products. Have you tested your current portfolio to see which products would be affected by *XXX*? Have you determined whether the effect is acceptable to you? Or, do you have other types of products that you'll want to redesign if *XXX* happens?

Then we have valuation administration decisions. Are your valuation systems ready to do *XXX*? If not, what will your plan of attack be? This could be a costly issue for all companies and, in particular, small companies. You don't know whether you will ever need to value a policy under *XXX*. Will you spend your scarce resources to evaluate a system or to modify your existing system? Are you going to bite the bullet and spend hundreds of thousands of dollars on a new *XXX*-ready valuation system that may never actually be used? Or, are you going to do an emergency patchwork on your actuarial PCs in the event that you need to?

Whatever you decide, some planning is warranted here. There are many calculation options in the *XXX* regulation that may affect your valuation system and how it needs to work. For example, depending on the product, there are calculation options that may allow you to load a single set of valuation factors onto your existing administration system. Other options may require you to modify your administration system to carry several sets of factors and make comparisons at valuation time.

Then you have the valuation financial decisions. You should also consider how the various *XXX* calculation options will affect your company financially. The relative pattern of reserves will be different by age, sex, class, and duration, and it depends upon the product design. So you may want to do some modeling of the various options before you make your final decision. I don't even want to think about how the accountants will get into this.

Last, I want to talk about the cost of market compliance. Even without the threat of class action suits, we see related problems on a smaller scale. Your customers are starting to see this in the popular press. How many companies are seeing an increase in complaint letters, saying things such as, the agent didn't explain what I was buying, or I didn't know that my premium wasn't guaranteed? How many letters looked coached by perhaps a competitor's agent looking to score points at your expense? Insurance departments are under much criticism and pressure with respect to the job they're doing and are much more sensitive to complaints, and they're starting to take a hard line.

The problem, and this is why nobody is immune, is that your exposure has little to do with how honest and ethical your company management and your marketing sales force are. The problem is that most companies have, historically, little or no control or documentation of what goes on at the kitchen table during the sales process. Without controls you don't know what took place. Without documentation it doesn't make any difference what actually took place. I can't remember what I had for breakfast today, so when a lawyer or a competing agent asks your customers what they were told about the policy they bought from you five

years ago, it's not surprising if they don't remember being told much. They're then told that the lawyer-agent can help them get all their money back and then some. It's not surprising that many will take them up on it. Small companies will be particularly exposed to this type of problem. Individual agents or agencies account for a large portion of your in-force. So there is a very real cost of noncompliance.

But what about the other side, what is the cost of market conduct compliance, and what can you do that really will be effective in reducing your exposure? Many companies are hiring full-time compliance officers, they are building compliance departments, and they are stepping up field training. These are all probably good things, but small companies have limited resources and need to carefully consider the true effectiveness of these costs. Compliance, we believe, is everybody's responsibility. We need to attack the root cause of noncompliance. You must treat the customer the right way.

You need to have effective communication of company policies. There needs to be documentation of the policies by the company and communication monitoring. You need to follow up on problem areas, and we really see the major problems of perceived lack of interest for salespeople to follow burdensome, tough compliance procedures. I hope I gave you some insight into what we're all facing in insurance companies.

Mr. Van Elsen: A couple things you've mentioned struck some nerves with me, and I was jotting them down as you were talking. You mentioned a situation of finding a client with policies not compliant with IRS regulations. One of the assignments I take quite often is working for different insurance departments on examinations. I'm amazed at the number of companies I go to where there are policies that are, obviously, not in sync with the IRS regulations. The departments are just beginning to understand that it's a material financial risk to the companies to not be in compliance and one that they should be concerned with. Eventually the IRS will be making the rounds and they will be expecting you to write checks at that point, so it's just something to keep in mind.

Mr. Zeid: Well, the scary point with that is we don't realize the impact to the policyholders if the death benefit becomes taxable to them. We worked on one audit for the IRS, and we'd only done an audit once. It was amazing how we rattled their cage when we basically said that didn't we think that this was in compliance. We can talk about a $20 million tax reserve adjustment and they just say, Well, we'll fight that. But the minute we said that we thought that their policy didn't comply, we got their attention real quickly and it's scary. There's a lot of exposure out there and we see it as a major problem.

Mr. Van Elsen: The other thing you mentioned was the conflict between illustration systems and administration systems. It's been my experience that the administration system becomes God, because it's hard to modify and that the illustration system usually is modified to agree with the administration system even if it's not as good. Where I've really run into that is on just what we're talking about—the 7702 calculations. The administration system's usually a little more conservative and then rather than make the calculations a little more aggressive on it, they bring the correct calculation of the illustration software into compliance with what the administration system's doing.

Finally, *XXX* is something that Alex, and I, and a number of people are actively involved in. If any of you read *National Underwriter*, you know this is something that I'm right in the middle of right now. If it's something you'd like to be involved with, see me after the meeting.

With that I'm going to introduce Roger Wiard-Bauer. He's been with LifeUSA for the past five years and because of his employer's innovative product designs, he's started attending the Life and Health Actuarial Task Force (LHATF) meetings of the NAIC and is now very active in regulatory issues. Roger's a member of the Life Committee of the Actuarial Standards Board (ASB) and just helped draft a first cut of the actuarial standard of practice (ASOP) for the new proposed nonforfeiture law. He's also active in the AAA as a member of the Committee on State Life Insurance Issues, and a member of Working Groups for Disclosure and Nonforfeiture. As of November 1997, he is also a member of the Academy's Life Practice Council. Further, Roger is active in the trade associations and is on the National Alliance of Life Companies Actuarial Committee and the ALCI's Cost Disclosure Nonforfeiture Committee. Roger does have to live with what he recommends. He participated in the NAIC's work to develop the life illustration regulation and when he got back to Minneapolis, they made Roger their illustration actuary, so that he could live with it.

Mr. Roger K. Wiard-Bauer: I have to live with it is one way of describing it. Because we design innovative products, we've had to develop some of the rules after the fact.

Right now we are going through the rules being changed in the industry. Linda scared you a little bit. Alex told you about what you have to do to follow those rules. They like to make the rules focused more on making things friendly for the consumer or, to a large extent, many of the regulators are interested in making sure the insurance department knows the company is doing the right thing, and they're turning to the actuarial profession in a new role. I've described it internally to my company as being the police officer. I said, specifically, I don't want to be in that

role. I want to help make this regulation work. Linda talked about the role of the actuary as the corporate conscience of the organization. That really is happening and it will continue to happen.

There are many trends going on right now. Notice I started off with three major trend areas: federal, NAIC activities, and the marketplace. The federal government is rewriting the rules and sometimes it is through Congress and sometimes it doesn't bother with that. Right now the SEC is out there, because of equity-indexed products, asking questions. The people there have a concept to release and they're looking for comments from folks by November 20, 1997. The AAA is working on a response, the NAIC is working on a response, and the ACLI is working on a response, and I know some companies are working on a response. But the harder issue is, what is an annuity? If you think about where our sales have gone, that's a very important question. It also gets right into the insurance exemption from the 1933 Security Act.

So what is being defined and what equity-indexed products have really generated is that if you want to be innovative and you want to have a new type of product, you have to somehow work around old rules. And just as you figure out how to fit your product into that structure and you think that you've done a good job fitting it into that structure, you find that new regulations start developing, because regulations react to the marketplace. So as you're developing products, as you're reserving for them, the next step is to figure out what the reaction will be. Your sales activity is great, but you will have a regulatory reaction. The cost of compliance after the fact can be great both from litigation concerns and from modifying your approach and procedures to satisfy insurance departments. And we found it to be a lot better to talk to insurance departments to start with rather than after the fact when there are many problems.

Regarding health insurance and HIPAA, the Kennedy-Kassebaum Law that went through last year, I'm not an expert in this field, but one thing I do know is that the NAIC scrambled like crazy, because it changed the relationship of the federal government and the state insurance departments. The state insurance departments have been going along satisfied that they were able to control their states' activities. There was some concern about relationships with other states. The federal government popped out of nowhere and said, We're going to change all the long-term-care rules, and you folks have to get it done in a few months. A lot of work has gone into trying to get things compliant.

The Office of the Comptroller of the Currency (OCC) just decided one day to change the definition of the 5,000-person small-town-type exemption. It didn't bother to wait for Congress to do something and suddenly the entire marketplace

has changed and our business is affected. This activity can come from any direction, including the Department of Labor (DOL).

Apparently, because of the Harris Trust Decision, the DOL's now developing new regulations that say for general account products that are used in pension plans, it will now require all sorts of disclosure. The draft's not out, but from what the ACLI people told me, this goes far beyond anything we've ever seen for disclosure, especially when we have to start disclosing profit activity going out of our general account in order to use these products in pension activities. Think about that; the federal government's getting into things.

There was an attempt in the House of Representatives to require federal licensing of agents. That was proposed, but it's been backed out of now. But the NAIC is suddenly seeing the federal government getting into its turf. It is recognizing that the marketplace is changing. A lot of regulation, really just like our products, is driven by the marketplace. The marketplace drives our products. When our products change we drive regulation. When we drive regulation or regulatory needs in the marketplace, consumer understanding, it keeps going in a spiral, hopefully improving on top.

The second topic here is the NAIC, an area near and dear to my heart. When I started five years ago at LifeUSA, the first thing I had to do was analyze proposed changes to the new annuity nonforfeiture law. That was all well and good, and I wrote up a paper. I was coming out of the group business for a former employer, getting now into individual life and individual annuities and I'd been there for about 30 days. I didn't have that much background so I was sent to the LHATF meeting. They thought that would help me understand things. A few months later when the next meeting came along they suggested I stand up and talk a little bit about the proposed changes. So I stood up thinking I would make two comments like the person before me, and I found myself answering many questions for the next 45 minutes. So there's a great deal of need, especially, if you're designing innovative products, to get up, stand up, and talk to people about how these products work and why. We were able to answer many questions and help insurance departments understand why things are being done that way. It's amazing but the exercise of explaining it to other professionals helps you solidify your explanations.

But that also starts to ask the questions, again, about how consumers perceive and understand the questions Linda was talking about. If you can't explain it to an insurance department person who is well trained, you won't be able to explain it internally very well, and your agents will find it challenging when describing it to consumers. Tom Foley is very good. He's really trying to focus on allowing more innovative products at the price of making sure that consumers understand them.

His standard is that if Martha from North Dakota can understand it, then you have good disclosure.

Regarding annuity disclosure and illustrations, including support ability, the NAIC is working very hard to have what it considers to be a structured regulation by December 1997. When I say *very hard*, you have to understand there's been a history now for about a year-and-a-half of not knowing where this is going, who is in charge, or anything else. The NAIC now has Tom Foley in charge and he's indicated that a lot of the life illustration regulation will be used for the annuities main-format-type concerns. It wants to use a structure, though, where for what I'd call simple annuities you can just talk about what the guarantees are under the contract. If you want to get a little more fancy and show nonguaranteed elements you will have to use an illustration. Then the usual format-type concerns seem to be developing what is guaranteed before current, that type of activity. But no draft is out yet and it will potentially move very fast. For actuaries there's a special area of interest—supportability. He has talked about having the life self-support and lapse-support test applied to annuities, but he has asked the AAA to look at it. I'm involved in that group and we'll be doing some work in the next few months.

Next is a new approach for valuation. Bob Wilcox, former commissioner of Utah and now the new Academy vice president in the life practice area, has been chairing a task force for the past year that is really looking at the fundamentals of what valuation is supposed to be doing. You can even put it in a larger scope of solvency; they're really getting back to square one.

Another activity is going on at the international level which is, basically, to start talking about an international standard for financial reporting, which is probably long overdue. I've had it pointed out to me that many companies now have foreign ownership, or they're looking at expanding into Europe. It's mostly been going on Europe so the international need is becoming more apparent.

Also under valuation I might throw in equity-indexed products. *Actuarial Guideline ZZZ* is being developed, and the draft continues to change. It's hoped to be finalized shortly. It will be discussed in early December 1997 at the Seattle NAIC meeting. Again, this is a new approach, because they're trying to fit equity-indexed products with either a hedging methodology or an alternative methodology a mark-to-market type of approach where assets and liabilities will actually be going up and down on your balance sheet. That's actually fairly new for the actuarial profession for statutory reserve purposes.

I'm going to move into nonforfeiture. For the last two years we have been looking at a plan approach. I'm actually very excited by it, because it says no more bright-

line tests. Remember the Jordan or the actuarial mathematics formulas you had to learn, those bright-line formulas where you apply the 1980 CSO first-year charges? Those go by the wayside. They haven't been driving the actual cost or benefits to consumers for years. It's all been nonguaranteed loans. So the regulators have gone to the point of actually saying, We need to have a few things proven, but we will consider developing a model law that says no bright-line tests. The company just simply discloses to the consumer what its plans are and then the company has to live up to those plans. If you think about it, it's a real simple concept. You tell consumers what they're going to get and you deliver it. But as far as being able to describe it and where the consumer understands, suddenly many actuaries are pretending to be experts in communications, and I think we will see that happen a lot more often in the profession.

By the way, there is some activity going on and I hope to have an ACLI draft and a regulator draft, based on some work done by the Academy that will be discussed in Seattle in early November 1997. They're hoping to give a thumbs up or thumbs down on a number of issues, such as should cash values be required? One of the things they're talking about doing away with is cash-value requirements, and instead just allow you to have benefits in kind just as with extended term or reduced paid-up. They also want to make sure that multiple-benefit product designs could be supported by new law. So this nonforfeiture law is not a life nonforfeiture law. It's going to affect health and annuity activities and will be an option. I want to make sure I don't get people concerned. It will be an option as it's currently being drafted. A company could continue to use the old one or perhaps for one or two product designs try this experimental approach. So it shouldn't be a threat; it should be an opportunity. But there's a lot of work to be done on that yet.

I'm not going to go into risk-based capital but they're looking at the C–3 risk factors. With new replacement regulation there's been some activity in New York. They're trying to have something in effect by 01/01/98. They want to mandate and I believe, at this point in time, it's just for life and not for annuity products, but don't quote me on that, please. Just annuities are out.

From the Floor: Annuities are included in the New York version.

Mr. Wiard-Bauer: I stand corrected. It's both life and annuities in New York, and they want some very interesting provisions, such as a 60-day free look period. Think about your investment strategy for that or your mortality risk. Also, anytime during the 60 days the consumer could go back to the original company with no underwriting. Think about that mortality risk for a bit. Also, there have been proposals that the suicide incontestability periods for the original face amount on the original contract would be waived, or the original periods would be limited to

whatever's remaining on the original contract. So you're talking about some very radical things. Almost like insurance when you buy your first contract, it gives you a right and that right carries forward and it's almost a health concept that's coming into it. It isn't limited though, just to New York. The NAIC has been having some activities and it is very close to the New York model, but it is starting to modify its position away from it. It is still finding the 60-day free look and a few other things.

I'm going to go on to loss ratios. I'm not a health insurance expert, but the NAIC LHATF has been talking about eliminating loss ratios for health insurance. That's a regulatory development that no one would have predicted a few years back. But it's because the regulators are trying to be responsive to the needs for insurance to survive and provide benefits to consumers. Often people in industry get mad at regulators, because they seem to be a roadblock. But the real issue is there's a misunderstanding as to why things are needed, or how it needs to be done, or how consumers benefit.

At LifeUSA we've developed a very good philosophy of talking about how things are needed by consumers and how it benefits the consumers. Use that as the standard by which to judge what you're doing. The reason I say that is because I think Linda got into it, saying that a few years back vanishing premium activity was going on. It isn't the rules of ten years ago that you're being judged by. It's the rules of today that you're being judged by. You're going to be judged by the rules from ten years from now. So the best thing we figured out to do is think in terms of your product compliance, your regulatory activities, how you conduct yourselves. Use that external standard of the consumer. If you can figure out how you're treating that person, you actually have an excellent defense down the road, because you're going to need it.

Looking at a third force in the marketplace, equity-indexed products came out of nowhere. The regulatory environment switched gears to start reacting to it. Consumer education is clearly necessary. The product designs are still extremely diverse. But I expect that to continue to expand as you go forward, it is something that we're all going to need to know more about. I believe there are some sessions later on at this meeting where you can learn a lot more detail on that.

There are also variable products. I think we've all seen that. The traditional fixed products are seeing a sales slump. Variable products, especially with the way that stock market is going, are really taking off. That also changes the way we have to interact, because variable products are being regulated at the federal level, also.

Accelerated death benefits and accelerated long-term care are just examples of innovation that can occur that have changed the way people perceive insurance. It

used to be you bought the policy you kept it. Now we're into even taking existing contracts and changing them into multiple-benefit product designs. You start off with life insurance, you get out there at a certain point, and you have some sort of dread disease or are HIV-positive. The AIDS risk actually started the accelerated death benefits. Suddenly, you can convert that to cover some other cash-flow needs. The amazing thing, of course, is that the tax law actually tried to modify itself to support some of these concepts. Later on at this meeting there are sessions talking about the problems associated with providing for the population that's aging.

Those are the trends. I've talked a bit about what's going on, but there's another point—forces shaping the future. I've heard it said that it used to be the lawyers driving regulations. It's now the actuaries and their issues. So much is starting to revolve around making sure that the benefits shown to consumers are actually going to be payable that the actuaries are going to be front and center. Because of this corporate conscience activity going on, we're being asked to take on a new role. I find myself often talking more with our compliance folks about interpreting regulations now than I do talking with the investment folks or our financial folks about the product pricing. So roles can change; you can find yourself being pulled into things. Believe me, you can add a lot of value by explaining things in ways that people understand and by helping facilitate the greater understanding of what's going on.

But if you want to get involved, and there are easy ways to do this, you can do it through the AAA, the ASB, the SOA, or trade associations. Now how you can be involved is as simple as learning about when some of the conference calls go on. Perhaps sit in on a conference call to figure out if you want to be further involved. Of course, meetings are always going on. For example, if you're into equity-indexed products at all, the Academy's been having conference calls a number of times a week for different topics on it. The SEC concept release has been on. A lot of disclosure work has been completed. But those are all opportunities to learn what's happening, and you can plug into them.

Speaking of conference calls, the LHATF, as well as other NAIC organizations, have conference calls in between the big meetings, and that's actually when a lot of the work happens. They also sometimes have interim meetings, but the conference calls are actually posted on the NAIC Web site: www.naic.org. You can look to see what's coming up. A moderate charge for participating tends to run about $15 for phone costs beyond your long-distance carrier charges. But certainly you can start dialing and find out what the thought process is. This gives you great insight as to what different regulators, especially those in the more active states, are thinking so that helps you on your product filing activities.

I've been involved in the ASB. That's actually a neat organization. The people at the ASB are trying to think through professional issues. We are being asked to be more of a profession by the regulators and by the public. We are getting a public service role.

The SOA, of course, has meeting opportunities such as this. There is the ongoing SOA research, for the life illustration regulation generally recognized expense table (GRET) that the Society has done work for. There is mortality table development, and many other activities you can be involved in.

If for some reason you feel a need to be wearing your industry hat, especially because your employer is the one giving you the time and/or funding to go to these sessions, the trade associations allow you to take off your professional hat that you need to wear for the three organizations that we're talking about. At trade association meetings you can really represent your company's issues and get into things and express an opinion. The neat thing about all these opportunities is that I have found opinions are recognized and heard, and they can influence. It isn't just one person speaking out in a great sea of activity. If you start presenting good ideas, they are heard. They get into reports. They get presented by the trade associations or by the professional organizations and they influence the direction of things, so you can actually accomplish something.

I would encourage you to think about becoming involved, even if it's just learning more of what's going on. The rules are changing. We have a different future coming up, and the objective I see is to be as responsive as possible to that future. The future belongs to those who prepare for it.

Mr. Van Elsen: I might add to Roger's comments. I'm also involved in a number of the association's organizations you mentioned. One myth that people have is that it's hard to become involved in these organizations. I can tell you that each of them is looking for volunteers. With almost anything I have expressed some interest in, I found myself on a committee right away. So if an issue is important to your company, call someone at those associations and I guarantee you, you'll get involved. One of the frustrations I've had in working with some of them is I think that smaller companies as a group are underrepresented. I'm trying to find more smaller-company actuaries to be involved, because I do think they have a unique perspective.

This is the part of the program where we open it up to your questions. We've tried to skim the surface, but if there are things that you'd like to know more about, please ask.

One question I have for Linda is regulators are constantly faced with determining how to strike the proper balance between consumer protection and the cost to the company, which is ultimately paid by the consumer. Is there any advice you would offer them in evaluating that?

Ms. Lanam: I think there's advice on both sides. I do believe that one of the things that happened at certain points in development of the life illustration regulation was that regulators were being open to information about the cost impact on the company. An example was the original proposal was that your annual report would have to include an in-force illustration. And there were several of us who were successful in convincing the regulators that was not, at this point, technologically possible for a number of companies to get the information into the system. Also, there was the run time for those of who run the batches at night. It would take longer than overnight to be able to produce in force illustrations at this point in time. They were willing to hear that because we were able to demonstrate the exact impact on the company. So I think it is important for regulators to express to companies their interest in knowing what the cost is. But it's also increasingly incumbent on company representatives to know what that is. As a lobbyist, I never had to go back and take the proposal to the operating areas, the systems people, and the administrative people and look at what it was that was going to happen. You'll find in many cases that your administrative people are just so used to putting up with what you bring back that they don't necessarily tell you the things that they can't do.

I'll tell my favorite story. When I was at one of my previous companies, we were working on Medicare Supplement regulations. I asked the head of the systems department, "Do you care if we have to give a premium credit or a premium refund?" He said, "No." So, we went back, we worked with the regulators on it, and we convinced the regulators to make it as a company option. I then went back and said, "We can do either one." He said, "No, we can't." I said, "Excuse me, you said you didn't care." He said, "Yes, I didn't care, because we can't do either one."

Mr. Craig W. Reynolds: I've worked recently with several companies on some of the class action lawsuits, defending companies against those. I'm just curious to get comments from the panel as to whether they think any of the recent compliance activity, particularly the illustration regulation, will really stop those suits, at least in regard to future action. Also, the nonforfeiture regulation that's out there seems to me that in creating more flexibility and more options, but it is actually increasing the likelihood of such suits.

Mr. Wiard-Bauer: Let me speak to the nonforfeiture regulation first. Yes, one of the big topics that keeps coming up is, how do you make sure consumers still

understand the new nonforfeiture requirements? Nobody has a good answer to that. It really keeps coming down to, as Linda was saying, as we've all been saying, consumer understanding on all this. At least with the nonforfeiture discussions we've gotten to the heart of the issue. It's not an actuarial issue; it's a disclosure issue. To a large extent that's the same with the life illustration regulation. The first part of your question really deals with whether that will eliminate all the lawsuits? It will change the form of them. I think you can almost guarantee that with all the lawyers out there and with their creative ideas, the focus of lawsuits will be shifted to something else. I hate to say it, but one of the things that will be under more scrutiny is the fact that some illustration actuary has signed off on it. That will be the target, to try to figure out a way to break that person down, break down his or her work, and to use that against the person. Find any flaws in that type of work, and you have got gold mines then to go after things. So think through what you're doing carefully, because the standards of the future will judge your work today.

Ms. Lanam: I failed to bring up one analogy when I was talking, but it is one that insurance lawyers are beginning to try to come to terms with. It is a very difficult one, because it goes to exactly what Roger said. The kind of litigation we're facing now is much more akin to product liability litigation than it is to the kind of litigation we have faced in the past. That's not something any of you have ever had any reason to follow, but you probably see the results of it. You see in your owner's manual; for certain things tell you not to do things you probably never would have thought to do. With those big cardboard sunscreens that you put in the windshield of your car, if you've ever read all the verbiage on mine, they're in very big print, it says, do not drive with sunscreen in place. That's the result of a product liability lawyer looking at the things that are there, because that's how product liability litigation works. You apply the standards of today to what was done there. Companies are held responsible for knowing that something might have been available or could have been done. The danger we're facing is that we can't just look at our products and our materials as they are now. We have to try to think about what could happen in the future, and that's a daunting standard.

From the Floor: That takes me back to the disclosure issue. What it really is about is whether people understand what they got in the first place and if the company keeps the deal. That deal keeping is all in the standard nonforfeiture law benefits, nonguaranteed benefits as well as nonforfeiture benefits; it is the disclosure of the deal and the companies required to commit to that deal that people plan. It's also the concept with loss ratios coming out that a company will commit to a certain premium level with increases of only a certain percentage. There's this disclosure to the policyholder, so there's a better matching of expectations and what is really required. It's moving more toward the disclosure level, and I think that's something we haven't done in the past. I think we have mostly emphasized the product or the

contractual benefits, but so much in the nonguaranteed area haven't been matched. Now we're talking about disclosure of the nonguaranteed portion whether it's the premium on health insurance or the nonguaranteed dividends for life insurance.

Mr. Daniel J. Keating: I don't have a question, just a couple comments. I guess I'm echoing what several of the people have already said. If you have interest in anything that's going on at the NAIC, or the Academy, or any of those types of organizations, you should be either participating in conference calls, going to the meetings, or talking to the people. My first experience at a NAIC meeting was before I was a regulator and the illustration model regulation was being considered for final definition. The company I worked for used an electronic application that did not fit in the model as it existed at that time. Two of us went and made our presentation, in all of two or three minutes, and we convinced the regulators that there was a better way to handle that. We got something that worked for our company without the cost of getting everything. But if you don't make a statement, obviously, no one will hear you.

Alex mentioned an increase in complaint activity and more of the consumers' attitude. The only personal experience I had here is with the equity-indexed annuity regulations or the work that's going on. Our stance on that is if the company does go straight completely, then I think there's a much less likelihood that there will be justifiable or supporting the complaints against the company. It should illustrate in such a way that the person can realize reasonable expectations from the product as opposed to pie in the sky expectations. Show how it would work when it goes up, but also show what happens if it doesn't, if the stock market or the index does not go up. I think there's much less of a basis of people complaining and saying they didn't tell us about this. The disclosure that we're talking about here is usually signed by people when they get the policy. They're supposed to know what they're reading, which brings up a problem.

Roger talked about nonforfeiture law and the plan that the company has and then the plan that it gives to the consumer. The difficulty, from my point of view, is that when a company files a plan it's available to the insurance departments. I think they have a good understanding of what the company says it will be doing, how it will handle different situations in the future. The problem, as I see it, is that we haven't totally defined what the plan is that goes to the consumer. It can't be anywhere near as detailed, obviously, as to what the company sends to the regulators. But it has to be full of enough useful information so that the consumer can understand, in general, at least what's happening and have some justification for changes that occur in the policy in the future.

Mr. Wiard-Bauer: Dan is right. Talking a little bit with people does wonders. There are obviously a couple ways to communicate. There are the conference calls, there are the meetings, you can also write in comments—all those are very effective ways. But if you have an issue that is really near and dear to your company's needs, I'd recommend you actually show up at a meeting where the regulators are discussing it. The two to three minutes face to face presenting a concept does a lot more. I have seen very good proposals written in by companies. What the regulators basically say is that people are not here to talk about it, so they must not really want it that badly, and the proposals are dismissed as not necessary. So writing things down is a great way to get concepts put into place, but calling up individuals does wonders. If you can't make a meeting, call the chairperson of a committee and talk to him or her, or some of the other key committee members, or even your own state insurance department. Ask if the insurance department will represent that issue. You'd be amazed what regulators are willing to do to help out.

We've, because of our innovative products, found it necessary to educate agents for a long period of time already. So to us agent education programs were just a natural activity and adding the life illustration regulation needs to it makes sense. So we are trying hard to educate the field, and that's actually quite a focus for our marketing area.

Ms. Lanam: I think the other thing is it also will vary by type of distribution channel. When a company controls its agents through an employment situation, is a career agency force it's a little easier to provide the training that needs to be done. The difficulty with an independent distribution force is that the salespeople have the option of going or not going to the training as they choose and that, I think, can contribute to the inefficiency. But, interestingly enough, when we were thinking about trying to more strongly encourage our independent sales force to come in, our tax lawyer told us that requiring people to attend training can make them your employees for tax purposes and we would then have to do withholding. So, so much for training noncareer agents.

Mr. Zeid: I think the jury is really out on whether there's any incremental savings on more information. I just think we're getting a sharing and a transferring of responsibility. You're now getting the consumer to sign off that he or she has received this. You can explain it, but again, you don't know what's going on. I looked at that one situation where we were defending the agent, and I had a real hard time because of who I was defending, because of some of the things that he did. I try to relate that to the illustration. We had a huge file of illustrations. Which one do you look at? So the problem is you're going to get there and you have to sign one, but the customer's going to say, "Well, the agent showed me this one."

It's a nightmare and I don't think it's going to go away. The real issue is that we're all involved in this, and it's a serious problem.

Mr. Wiard-Bauer: I have one more comment about agent training. We've gone to having a university program at our company that pulls a lot of people in. It's amazing how interested the agents are to start with. But what also helps, because we do not have direct control of the agents, is that they are controlled by their marketing organizations. If you get the marketing organization top management to understand the legal liability, it can get its agents to come so easily. It works wonders.