Article from:

Small Talk Newsletter

December 1998 – Issue No. 12

small talk

Newsletter of the Smaller Insurance Company Section

ISSUE 12 DECEMBER 1998

From the Editor

by James R. Thompson

Marketing Problems

Companies these days seem to be looking for approaches to increase sales. One approach they are trying is database marketing. Another is worksite marketing. Larger companies often create strategic business units to work on this or otherwise have large resources. We will explore how best to handle these approaches to new sales within the budgetary constraints of the smaller company.

A recent issue of the *National Underwriter* (August 31) carried some articles on these themes. Some of the authors were contacted and have contributed other material they have written to this issue of *small talk*.

If you have policyholders on a database, you have potential leads. How and when to contact them can make for a successful strategy for increasing your application count. Large companies have extensive staffs they can devote to this. How can the smaller company make efficient use of their database? Wallace Dale has contributed an article on database marketing entitled, "Collaborative Database Marketing."

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Small Company Update on XXX

by James N. Van Elsen

It seems that I have been saying throughout my whole career that "XXX is coming." Every time, I truly have believed that nothing could stop it. Well, one more time, XXX is coming!

For those who have not been following this regulation, XXX is a name that has been used to identify a new individual life insurance valuation regulation. Although it was primarily designed to affect reserves for individual term life insurance, it may ultimately affect all individual life insurance products. There are currently a few exclusions in the draft regulation, but even these are under review.

> **"The new version of XXX will become effective for most companies on January 1, 2000."**

The driving force behind XXX this time is the states of Wisconsin and New York. A version of XXX has been in effect in New York since 1994. This has not had a major impact on the industry due to the relatively small number of companies that are licensed in New York. Wisconsin, however, recently adopted XXX with an effective date of January 1, 1999. This has the potential of affecting significantly more companies.

An Ad Hoc Industry Committee has been working to develop an alternative version of XXX. While much work remains, it now appears that the committee may succeed in having the NAIC adopt this alternative regulation. Based on the success of this group, Wisconsin has indicated that they will move the effective date of their regulation back to July 1, 1999. If the Ad Hoc Industry Committee is successful, it is anticipated that Wisconsin will adopt it, moving the effective date back to January 1, 2000.

Current Status

The following is a summary of the status of XXX as of October 13, 1998.

- Exposed for discussion by the NAIC's Life & Health Actuarial (Technical) Task Force and the "A" Committee on September 12, 1998.

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In This Issue

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In the field of worksite marketing, Rick Storms has written an article on how to work with the employer. It is called "Financial Education: Employer Trends, Liability and Considerations." This is important in order to achieve success. Patrick Lusk has written one entitled "Critical Illness: The Next Great Worksite Sale." This is a special market. A generic article was written by Norman Hill, a member of the Smaller Insurance Company Section Council. This is based on his own company's experience over the years in this market. Al Barthelman has written a general article entitled "How to Succeed in the Worksite Market."

Sales are generally in a slump. Smaller companies have both advantages and disadvantages. They have smaller resources but they can react quickly. Many large companies try to remain competitive by using strategic business units (smaller companies within themselves) to react quickly and still have access to major capital and resources. Smaller companies have to carefully understand how to accomplish something without so much backing. Consider that when reading the above articles. How can one use the ideas of a small budget? Some of the authors are consultants and might be able to help out.

A small company has been compared to a submarine. It can turn on a dime. Everyone's contribution is visible. There is no place to hide. On a battleship, turning is a major project and many ensigns are anonymous for a whole mission. In your company, learn how to make your effort count!

Regulation

In many offices, I have seen the humorous expression: *Nobody's life or property are safe while the legislature is in session.*

With the fast pace in regulation, many managers in small companies are distinctly getting that impression, although "legislature" can be broadly extended to various regulatory bodies. There are so many, it is difficult to know where to begin. Perhaps the best place is an article from the *Newsletter of the National Alliance of Life Companies* (NALC) entitled, "Industry Liaison Committee Discusses Small Company Survival." Whenever we see regulations, we should ask ourselves whether they are necessary or material or cost-effective. Please keep this in mind when reading about any of the regulatory issues discussed.

XXX

Perhaps the most important issue we face as of the date of this publication is Alternative XXX. Because XXX is due to take effect in Wisconsin on January 1, 1999, an industry group representing widely diverse interests has constructed an Alternative XXX. Participants have included Northwestern Mutual and other large mutuals that have generally supported XXX, many stock companies that write level premium reentry term and oppose XXX, as well as many others. I have attended several of the key meetings.

One reason this is important is that it is on the fast track. To stave off the implementation of XXX in Wisconsin, action is expected at the December 6 meeting of the NAIC. To iron out details, there have been several conference calls. We are pleased to have two articles on this. One is an excerpt from the September issue of the NALC's newsletter. The other, "Small Company Update on XXX," was written specially for *small talk* by Jim Van Elsen. He and the NALC have been very active in presenting the industry alternative XXX to the NAIC.

To paraphrase Abraham Lincoln: a compromise is something which is agreed to but which nobody really wants as is. Everyone gives in a little to reach a working relationship. Alternative XXX is such a regulation. It definitely reminds me of the old adage: No one wants to see good sausage or legislation being made. This compromise is already being criticized before all the details have been worked out.

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ISSUE NUMBER 12 **NOVEMBER 1998**

Published by the Smaller Insurance Company Section Council
of the Society of Actuaries
475 N. Martingale Road, Suite 800
Schaumburg, IL 60173
Phone: 847-706-3500 Fax: 847-706-3599
World Wide Web: http://www.soa.org

This newsletter is free to Section members. A subscription is $10.00 for nonmembers.

James R. Thompson, Newsletter Editor
Central Actuarial Associates
P.O. Box 1361
Crystal Lake, IL 60039-1361
Phone: 815-459-2083, Fax: 815-459-2092
e-mail: jrthompson@ameritech.net

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Bob Barney is again raising the issue of differences between the length of time that premiums are illustrated level and guaranteed. With XXX he feared that the five-year exemption from deficiency reserves would cause companies to underprice and then raise the premiums after five years. Even though this exemption has been eliminated in the industry proposal, he wants premiums to be illustrated and guaranteed for the same length of time.

One way to in-effect require that companies guarantee premiums for as long as they are willing to illustrate them as level is to base the segmentation on the illustrated (current) premiums rather than the guaranteed premiums. Doing so will obviously raise the premiums but also make sure that the consumer will not have to fear premium increases before the end of the level period.

Alternative XXX, however, is basing the segmentation of the guaranteed premiums on the rationale that companies can experiment with the various combinations of amount of premium, length of guarantee and length of illustrated level premium. The public will have to read the illustrations and sales literature and make the choice they want.

Be prepared to read much about this in the next few months and to be called on to comment. Ultimately, this deals with regulation and free choice and with the trust imposed on companies to price in a bona fide manner.

To understand why the Alternative XXX has only 20-year select mortality factors rather than the originally proposed 25-year select, read the article by Jim Reiskytl.

There is another aspect of this regulation which affects smaller companies. This deals with the ability to use X% of the mortality standard (X is less than 100) for deficiency reserves. There are two criteria. One is that the actuary must opine and issue a report to justify the use of X%. The other is that the actuary must do an actuarial memorandum (Section 8 opinion). As near as I can tell, all the big writers of level premium reentry term, as well as the mutual companies that seem to support XXX, do annual memoranda.

However, there are small companies which use reinsurers in their term ventures. Let us say that the reinsurer has enough exposure that it can justify some X% of the mortality assumption. It can price the product a certain way and hold reserves on that basis. The ceding company should be able to hold the same reserve basis. But can it? If it does not have to do an annual memorandum, now it must do so. Perhaps not using the X% for deficiency reserves will cause the price to be raised. But doing the memorandum is an extra cost. This seems to me to be an example of a regulation creating an unnecessary cost for smaller companies. I believe this could be changed by simply deleting the requirement for the memorandum. Also, there should be an actuarial standard for the report. We should make sure that companies should be allowed to use a reinsurer's assumption. I raised this at an industry meeting on September 3, but it would be helpful if actuaries from the smaller companies, as well as the reinsurers who deal with them, raised this also.

Late Development

While this issue was being assembled, there was a conference call of the Life and Health Actuarial Task Force (LHATF) with industry people. Various issues were ironed out and a final conference call was set for November 18. Whatever comes out of that will go to the NAIC in December.

Of particular note is a proposal by Jack Gies from the Connecticut Department. He is proposing that the mandatory asset-adequacy analysis be replaced with some sort of demonstration of asset-adequacy for the block involved but not involving the seven scenarios of cash-flow testing. He is still formulating his proposal. This has a lot of promise for smaller companies to avoid an onerous requirement for total company cash-flow testing where none may have been done before. We should work with him to develop this.

One thought is that, if a small company must do illustration actuary work, that could be used. He is talking about sensitivity testing. Perhaps illustration actuary work with sensitivity on key assumptions could be used. This would be a lot better than the currently proposed Alternative XXX. During the call, we even decided that the current Alternative XXX would require a total-company asset-adequacy analysis if a company wrote XXX term and reinsured 100% of it. Even if this newsletter does not get to you by November 18, do what you can to lobby for eliminating the total company asset-adequacy analysis. Contact Jack Gies (860-297-3943) or Mark Peavy of the NAIC (816-374-7257).

Mutual Holding Companies

The creation of mutual holding companies is an important part of the insurance scene. This affects their competitiveness and ability to raise capital. The failure of one law in New York is instructive. Ed Slaby, an actuary with a New York mutual, has given us his views in this issue of *small talk.*

AOMR

The Actuarial Opinion and Memorandum Regulation is constantly being discussed among regulators. They want to be able to handle developments in both the assets and liabilities. Companies want a manageable regulatory environment. I have written an article on the latest developments on AOMR.

Summary

Smaller companies must be able to react quickly in the marketplace. If you have any ideas on worksite marketing or database marketing, we would like to hear from you. If these articles have helped you in any way, feel free to write about the results.

On the regulatory front, there are so many developments that we have only covered what we view as the most important. Your opinions matter. Regulators will listen to input. Those who provide none should not be surprised to find themselves left out.

James R. Thompson, FSA, is a consultant with Central Actuarial Associates in Crystal Lake, Illinois, Editor of small talk, *and a member of the Smaller Insurance Companies Section Council.*