



International Association for the
Study of Insurance Economics

Études et Dossiers

Extract from

Études et Dossiers No. 325

4th Chief Communications Officers Meeting

Hosted by ING Group

Amsterdam, 14-15 December 2006

&

9th Amsterdam Circle of Chief Economists

Hosted by ING Group

Amsterdam, 8-9 February 2007

April 2007

Working Paper Series of The Geneva Association

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The Geneva Association Working Paper Series “Études et Dossiers” appear at irregular intervals about 10 - 12 times per year. Distribution is limited.

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Layout & Distribution: Valéria Kozakova

Standardisation U.S. Life Insurance Industry Experience

Brian K. Atchinson

Crisis of Confidence.



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THE WALL STREET JOURNAL.

Insurance Probe to Expand

The New York Times

**Spitzer Suit Accuses Company of Abuses
in Insurance for Elderly and Ill**

**Consumer
Reports**

INSURANCE
AGENT **SCAMS**



Confusion as a Sales Tactic

Fines, penalties and litigation.



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. . . \$5 million for widespread deficiencies concerning supervision . . . (2007)

The National Association of Securities Dealers . . . fined four broker-dealers . . . a total of \$7 million. (2006)

Insurance companies had, on average, nearly 1,700 pending lawsuits against them at any one time last year, and nearly one in five had at least 50 lawsuits pending with more than \$20 million at stake. (2007)

. . . insurers seem to be "by far the biggest litigation magnets" among U.S. business sectors . . . (2007)

Regulatory complexity



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- **77% of CFOs cited as their biggest worry for 2007 "the growing level and complexity of regulation."**
- **40% of CFOs cited tougher regulatory or rating agency scrutiny of their risk-management practices as a major issue.**

Best Review, Dec. 2006

Standards Organizations in the U.S.



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Hospitals



Health



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Investor protection. Market integrity. **NASD**

Brokers/ Distributors

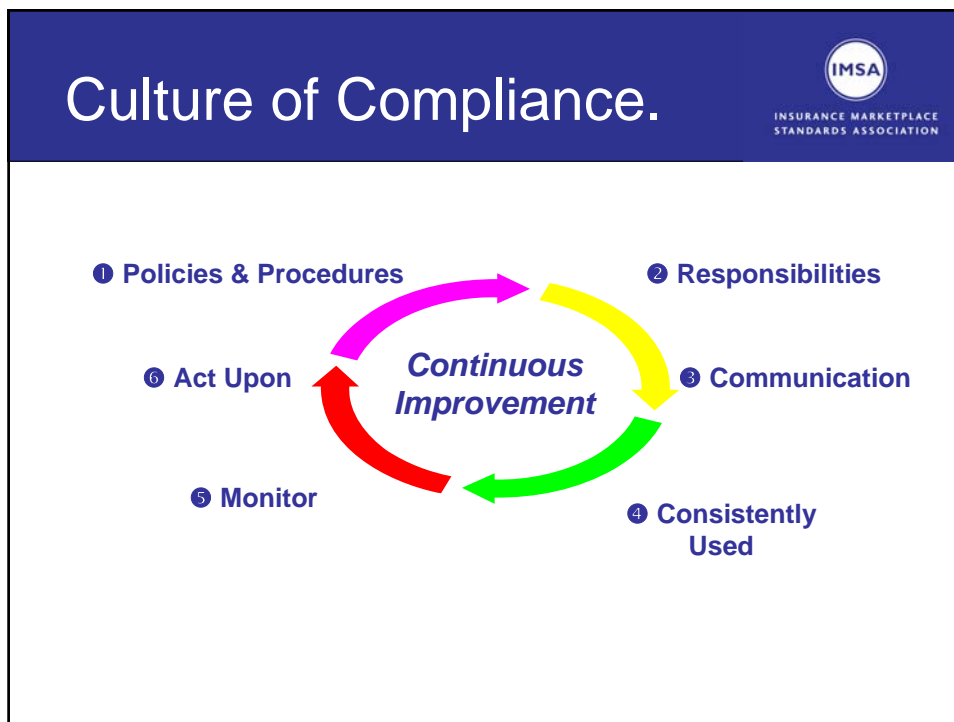
Life Insurance/
Annuities/Long-term
Care Insurance

Quality and Best Practices.



INSURANCE MARKETPLACE STANDARDS ASSOCIATION

- **Responsive to the marketplace.**
- **Timely standards development.**
- **Consistent standards nationwide.**
- **Balanced industry solution.**



- ## Essentials.
-
- Adequate staff -- trained and compensated.
 - Quality data collection.
 - Timely analysis.
 - Transparent laws and regulations.
 - Determine compliance with laws, regulations and BPO/SRO standards.
 - Assessments (self and independent).
- IMSA
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IMSA's Role in the Marketplace



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- Organized in 1996.
- The premier standards-setting organization for the individual life insurance, annuity and long-term care marketplace.
- National Standards for Marketing, Advertising, Sales & Service.
- 60% market share.

IMSA Program Standards



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- Needs-Based Selling.
- Suitability of Sales to Consumers.
- Advertising Compliance.
- Fair Competition.
- Producer Selection Criteria.
- Producer Licensing and Appointment.
- Market Conduct Training for Producers.

IMSA Program Standards



- **Product & General Compliance Training.**
- **Replacement Review.**
- **Disclosures to Consumers.**
- **Sales Materials & Illustrations.**
- **Customer Complaint Resolution.**
- **Root Cause Analysis.**
- **Ongoing Supervision and Monitoring.**

IMSA Qualification.



- **Company conducts an extensive self-assessment.**
- **IMSA-qualified assessor(s) conduct an independent review.**
- **Three-year renewal requires continual compliance through prior qualification period.**

Standards Development Process.



- **Responsive to changes in the marketplace.**
- **Industry, regulatory, rating agency and consumer feedback.**
- **Continuous Improvement.**
 - **Needs-based selling → Suitability**

Standards Advisory Committee



















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Recent Market Challenge Annuity Sales



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The Solution 2006 Indexed Annuity Initiative



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- Iowa DOI asked IMSA to develop standards for marketing & sales of Fixed Equity Indexed Annuity products.
- Within 120 days, IMSA developed and implemented new national standards for
 - Suitability,
 - Disclosure, and
 - Agent training.

IMSA Membership is Associated with		Effect of IMSA Membership on Variable of Interest
Higher	AM Best Ratings	Almost Two Rating Levels Higher (i.e. an A- to An A+)
Higher	Return on Equity*	Members have a 4% Higher ROE
Higher	Cost Efficiency**	Members have an 8% increase in cost efficiency.
Higher	Revenue Efficiency***	Members have a 3% increase in revenue efficiency.
Lower	Lapse Ratio [†]	Members have a 3.2-4.0% lower lapse rates
Lower	Justified Complaints ^{††}	Members have a 150% lower Justified Complaint Index
Lower	Unjustified Complaints ^{††}	Member have a 10% lower Unjustified Complaint Index.
Lower	Discipline Rate ^{†††}	Members have a 10% Lower Rate of Regulatory Discipline
Lower	Expenses Ratios ^{††††}	Members have lower % of total costs devoted to Underwriting and Settlement Expenses

* ROE is the ratio of net income to surplus.
 ** Cost Efficiency is an index of firm cost relative to the most efficient insurer.
 ***Revenue Efficiency is an index of firm revenue generating capacity relative to the most efficient firm.

Source: Georgia State University Center for Risk Management and Insurance Research, 2006

Cost Exhibit Line Number	Description	% Change Between Members and Non-Members	Avg. Expenditure	Avg Saving for Mean Firm
4.1	Legal Fees and Expenses	-27%	\$ 809,970.70	\$ (217,221)
4.2	Medical Examination Fees	-32%	\$ 754,872.00	\$ (242,933)
4.3	Inspection Report Fees	-71%	\$ 102,473.10	\$ (73,215)
4.4	Fees of Public Accountants and Consulting Actuaries	-24%	\$ 569,431.20	\$ (134,584)
4.5	Expense of Investigation and Settlement of Policy Claims	-88%	\$ 719,547.30	\$ (632,602)

Source: Georgia State University Center for Risk Management and Insurance Research, 2006

Financial Rating Agencies E.R.M.




- Rating agencies consider IMSA qualification a positive factor when evaluating a company's Enterprise Risk Management and governance.
- IMSA qualification is a valuable, tangible indicator of a company's *culture of compliance*.

In the Courtroom.



IMSA membership properly conducted can be a weapon in litigation. It can be a very important shield.

James. R. Carroll, Esq.
Partner, Skadden, Arps, Slate, Meagher & Flom



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Through its Principles and Code of Ethical Market Conduct, IMSA encourages its member companies to develop and implement policies and procedures that promote sound market practices It behooves the property/casualty industry - carriers and brokers alike - to establish, and to avail itself of the benefits offered by, such an organization.

Gregory V. Serio
NAIC testimony, Superintendent of Insurance, State of New York
U.S. Senate, Nov. 2004



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Marketplace Impact.

- **Implementation can be faster, more comprehensive.**
- **Promotes uniformity of standards.**
- **Improved practices.**
- **Less risk of violations of laws and regulations.**
- **Helps protect companies, consumers and distributors.**
- **Promotes a healthy, competitive marketplace.**



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***We must all hang together,
or assuredly we shall
all hang separately.***

Benjamin Franklin