



Excelsior

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Ethical Market Conduct Issues for Presidents and Senior Executives

Special Review of Independent Assessment Practices

I'm sure many of you remember responding to the surveys from Tom Finnell. Tom was engaged by IMSA to do a quality review of the QIA's assessment practices. He was a guest at our first QIA Committee meeting at the IMSA offices in Bethesda. At the meeting, he reviewed for us the finding of his 45-page report. Happily, he provided some "Key Insights" from which I have selected a few I thought you might find of interest.

Before I list these, I should tell you that Tom's review "represented 59 company fleet and stand-alone insurers" and the survey responses from 17 QIA's.

QIA Population Profile:

- 8 QIA's/firms account for almost 90% of independent assessment activity.
- Some QIA's have developed "virtual firms", i.e., the affiliation of 2 or more QIA's collaborating to work on larger companies.
- Half the independent assessments are performed by QIA's who were compliance officers, the rest by CPAs, attorneys, regulators and actuaries.

QIA Survey – Part 1 on their backgrounds, training, time spent as a QIA and related matters:

- 17 QIA's responded.
- Only a few QIA's spend the majority of their time on independent assessments.
- QIA's use similar methodologies based on IMSA handbook; some have proprietary technologies to support their activities.

QIA Survey – Part 2 on responses from 8 QIA's on 14 specific assessments:

- QIA's report need for more guidance on sampling and testing.
- In only a couple of instances were experts used, and these were QIA's.
- Most structured their approach by IMSA principles; one used subject area; one used both.
- Single samples appear to be used by all respondents.
- Most report that no specific technology is used by company to assist in IMSA-compliance process.

- 2/3 report company's IMSA efforts are integrated with other control-based or risk management/ERM processes.
- Most used the responsibility matrix.
- Reporting to clients is very brief via required IMSA forms. Best practices appear to be handled orally in most cases.

Surveys of Member Companies:

- Self-assessment and QIA costs generally increase with company size. The range of cost varies greatly for large companies but is relatively tight for smaller to mid-size firms.
- There does not appear to be a clear relationship between the extent of self-assessment costs and QIA costs; i.e. if self-assessment cost increase, QIA cost does not.
- For 6 large companies QIA costs average about 1% of total audit fees paid by insurers to their external auditors.
- 21 member companies reported they had been requested to meet with or provide information to state regulators about their IMSA process.

IMSA Gets New Executive Vice President

On June 19 IMSA announced that L. Charles "Friar" FitzGerald will be joining IMSA in September as Executive Vice President, Corporate Relations.



"Friar brings with him a wealth of knowledge and expertise about the industry," said President & CEO Brian Atchinson. "We are very excited to have him become part of the IMSA team."

FitzGerald comes to IMSA after a 25-year career with the American Council of Life Insurers where he held a similar position. "IMSA is doing important work setting high standards for the life insurance marketplace," FitzGerald said. "I look forward to working with the association and its members."

Update on Standards Development Process

The Standards Review Committee met at ING headquarters in Minneapolis on May 18 and made significant progress in reviewing the proposals made by the Subject Matter Committee. I have been impressed with both the diversity of the ideas and viewpoints shared at these committee meetings and the productive discussions which have forged some very positive changes that will enhance the IMSA standards and the value of IMSA membership.

Plans are to have all of these reviewed by the IMSA member companies and QIA's in July, shortly after the ACLI Compliance Committee Meeting. There is a lot of work to be done between now and then, and I am working with 5 or 6 others on the QIA Committee to make sure the Independent Assessment Manual accurately reflects the changes made to the Assessment Handbook.

Once the comments from companies and QIA's are reviewed and acted upon, IMSA will roll out the training in the fourth quarter. Please read on.

QIA Committee Begins Work

I attended the first meeting of IMSA's newly established QIA Committee in IMSA's new offices in Bethesda, MD. There has been a real need to get more input from QIA's in the development of the IMSA standards and this committee is doing just that. One of the first things we did was to review our goals:

GOALS:

- Update the QIA Manual as the Assessment Handbook is updated, including development of new assessment procedures if needed.
- Enhance communication between IMSA and QIAs.
- Identify assessor best practices and communicate those practices to all assessors.
- Clarify for assessors what to do if they know that a company started their assessment process, determined if could not meet IMSA's standards and then decided not to renew.
- Increase knowledge about the assessment process by analyzing data; e.g., indicator usage, use of various testing methods, etc.

- Develop disciplinary guidelines, sanction matrices, remedial training requirements, etc., communicate these guidelines to assessors and assist IMSA in implementing them.
- Develop greater consistency in the independent assessment process; e.g., size and composition of samples, work papers, documentation, etc. Determine the feasibility of auditing assessors' work.
- Develop continuing education standards for QIAs.

PROJECTED TIMELINE:

- Modifications to the QIA Manual to be made by late July or early Aug. so they can be finalized at Sept IMSA board meeting
- Training on new assessment procedures to be done before January, 2007
- Achievement of other goals to be scheduled.
- Standing Committee.

See You In Charlotte in July?

As usual, we plan to on hand for the ACLI's 2006 Compliance Section Annual Meeting. This year it is being held at the Charlotte Westin, Charlotte, NC July 12-14. We always present our Excelsior Awards for best practices to companies at **The Exhibitor Marketplace, which will be held July 13**. You may find additional information such as the preliminary program, online hotel registration on the ACLI website: <http://www.acli.com/ACLI/EventsV2/EventsDetail.htm?events=COMP2006>. Please stop by and say "hello" if you have the time. I always enjoy this time of catching up with those of you I don't get to see regularly.

Training Dates Set for IMSA Training on Changes for 2007



IMSA will be conducting training for QIA's and Company people on the changes being made to the IMSA Assessment Handbook and any other changes made to the IMSA assessment process for 2007.

- Washington, DC November 1-2, 2006
- Chicago, IL November 7-8, 2006
- Los Angeles, CA November 15-16

Member company personnel can sign up at the IMSA web site (www.imsaethics.org) and go to: Save the Date IMSA Training.

Regulatory Standards For Annuities Should Be Clear And Consistent, Whether State Or Federal

Consumers, companies and sales professionals deserve better, more efficient regulation that reflects dynamic product changes and increasing consumer expectations, not the disorganized and inconsistent patchwork of laws and regulations that exist today said Brian Atchinson, IMSA President and CEO at May 5th's NASD Annuity Roundtable in Washington.

"Consumers purchasing annuities and other financial service products should be adequately protected, no matter who regulates the products they are considering," said Atchinson. He also noted the value of a company's efforts to establish and maintain voluntary programs for compliance such as those that IMSA-qualified companies demonstrate.

"Nearly 60 percent of consumers purchasing annuities are getting the benefit of the protections in place by buying products sold by IMSA-qualified companies," he added.

"The standards that IMSA companies have in place are national, reflecting both state and federal regulatory requirements. The same high standards apply, no matter where the company operates," Atchinson said. "In order to be IMSA qualified, a company must have a system of supervision and monitoring for all annuity sales activities. This kind of self-policing creates a collaboration between industry and regulators that can improve the marketplace for consumers."

Citing a current initiative in Iowa where

IMSA is developing new suitability, disclosure and agent training standards for indexed annuity products, Atchinson described how programs like IMSA can respond quickly to marketplace challenges. Iowa companies sell one third of these annuity products purchased throughout the United States.

"In a matter of months, we have put together recommendations to enhance our already stringent standards for these products," said Atchinson. "It's this kind of response that makes a real difference for consumers."

You can find this story on the IMSA website at www.IMSAethics.org.



Self Policing Critical to an Efficient, Effective Marketplace, Says IMSA Chairman



The voluntary compliance programs companies have in place, applied in collaboration with the states and the NASD, will go a long way toward creating a more efficient, effective regulatory environment, said Leon Roday at the May 23rd meeting of the Association of Life Insurance Counsel at White Sulphur Springs, WV.

"Self policing is valuable for regulators, consumers and the marketplace," said Roday, IMSA Chairman and Genworth Financial Senior Vice President and General Counsel. *"For example, IMSA was recently asked by the Iowa Insurance Division to consider developing standards to address issues associated with suitability, disclosure and agent training. The resulting standards, announced last week, show how industry and regulators can work together to improve the market for consumers."*

"Regulators should offer incentives for a company's meaningful self-policing activities designed to promote continuous improvement of marketplace practices," Roday added. *"In that kind of environment, everyone wins: companies, regulators and consumers."*

You can find this story on the IMSA website at www.IMSAethics.org.

Best Practice Corner

Each month in our electronic update to our IMSA friends, we are sharing a best practice we have come across in our practice. These will be listed on our web site at kkalis.com and one will be featured here in this very spot of our Excelsior newsletter each quarter.

"How We Do Business Here." This, or a more generically titled "Producers' Compliance Guide" is a tool that many top companies use with both career and independent producers. It's becoming more and more common now as companies gather into one document ALL their compliance communications and policies impacting the IMSA standards. In fact, we gave one company and Excelsior Award for the creative way in which they had organized this booklet – the table of contents mirrored the IMSA Principles. This proved highly effective for organizing the materials and for reinforcing the content of the Principles themselves.

Another reason we gave this company an Excelsior Award for this was that they had it professionally designed and produced using eye-catching graphics and a highly visible color. The Corporate Compliance staff then conducted training sessions in every Agency using this material which is now known throughout the company as the Purple Book. The independent agents were invited to these meeting and many attended. Those who did not were asked to sign an acknowledgment that they had received the Purple Book and would abide by its standards. The next step was referencing it the agents' contract and selling agreements.

I think this is a great example of a "lo-tech" idea that has great impact on a wide number of the IMSA standards (it actually outlines all of them). You may find it useful as a tool in communicating the IMSA standards to independent agents and even as a monitoring device if you put an acknowledgement process in place. You will also love having such a document which can provide documentation on the policies and procedures that support every one of the IMSA standards.

New Federal Proposal For Insurance Self Regulation Could Meet Consumer And Industry Needs

WASHINGTON, DC – On April 11, IMSA Chairman and Genworth Financial Senior Vice President and General Counsel Leon Roday had this to say about interest in the new Senate Bill National Insurance Act of 2006 (S. 2509), particularly the provisions for meaningful self-regulation. “The introduction of this bill will enliven the debate on the need for more modern and efficient insurance regulation. Regulatory recognition of sound insurance compliance programs that include ongoing self critical analysis is consistent with the existing federal regulatory framework for other segments of the financial services industry.

“As an independent standards setting organization whose standards already apply to 60 percent of the U.S. marketplace, this bill’s recognition of the valuable role that a meaningful self regulatory organization can play in such a framework raises important issues worthy of consideration,” Roday concluded.

“Over the last decade, we have worked closely with state and federal regulators to promote consistent standards, such as those followed by IMSA-qualified companies, for the benefit of consumers, companies and the marketplace as a whole,” added IMSA President and CEO Brian Atchinson. “Regardless of regulatory jurisdiction, IMSA’s primary concern is making sure that consumers are protected consistently in a well-regulated competitive marketplace.”

This story appears on the IMSA website @ www.IMSAethics.org.

Salutes to Mothers and Fathers

During the second quarter we usually include something about graduates, Memorial Day or the upcoming 4th of July. This year, we are sharing two poems about the two most important people in our lives – our mother and father. Their loves and roles are different yet powerful and influential beyond our understanding. *A Mother’s Love*, come to us from James Montgomery (1771-1854). This poem has not yet made it to the Internet, so this will be a first, as I transcribe it from 19th century anthology.

You can find Robert Hayden (1913 – 1980), America’s first black poet laureate, in many places on the web, starting with <http://www.english.upenn.edu/~hbeavers/281/hayden-sundays.html>.

Those Winter Sundays

By Robert Hayden

*Sundays too my father got up early
And put his clothes on in the blueblack cold,
Then with cracked hands that ached
From labor in the weekday weather made
banked fires blaze. No one ever thanked him.*

*I’d wake and hear the cold splintering, breaking.
When the rooms were warm, he’d call,
And slowly I would rise and dress,
Fearing the chronic angers of that house,*

*Speaking indifferently to him,
Who had driven out the cold
And polished my good shoes as well.
What did I know, what did I know
Of love’s austere and lonely offices?*



A Mother’s Love

By James Montgomery

*A mother’s love, -- how sweet the name!
What’s a mother’s love?—
A noble, pure, and tender flame,
Enkindled from above,
To bless a heart of earthly mould;
The warmest love that can grow cold;—
This is a mother’s love.*



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