



# Excelsior

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Ethical Market Conduct Issues for Presidents and Senior Executives

## The CEO and IMSA

CEO's created IMSA. They were not trying to build a compliance organization. The CEO's who built IMSA wanted to build consumer trust and confidence. They saw IMSA as a strategic effort to build customer confidence and improve their marketing efforts and the bottom line. Yes, they were thinking about ethical market conduct. They saw that like Caesar's wife a life insurance company must be above reproach.

The CEO's designed IMSA around six principles that directly impact marketing. The goal was primarily to strengthen the company's relationship with its customers and create more marketing opportunities. Let's take a brief look at each of these areas and some suggestions as to how you can use IMSA assessments to improve the policies and procedures that support your marketing and sales operations.

### 1. High Standards of Honesty and Fairness

Let your customers know that you as a company are committed to ethical market conduct. IMSA requires a written statement for the concepts in the Principles and the Code to all employees and distributors. But this need not be some pro forma lifeless document that nobody reads. You can put together a powerful communication that not only says you pledge your company to act in the best interests of your customers but that gives specific examples of ways in which you have acted in your policyowners' best interests. Better still, you can be the spokesman for integrity. Take every chance you get to "build your brand," for it is the

key to your continuing success.

The fundamental way you can act in the customer's best interest is through needs analysis. This issue is at the heart of Principle 1. You must take here a very proactive role, stressing to your marketing people the importance of meeting the customer's need. Be sure they go beyond simply checking to make sure that the product the distributor has sold is a "fit" with the buyer's insurance needs and financial objectives. Set up a marketing file for each customer that uses a comprehensive needs analysis process to identify areas where a product or service they offer can be useful to the customer. And don't stop there. Look at the buyer's characteristics to see potential needs and then schedule follow-up calls to help meet that need. When you don't have a product that meets the customer's needs, get one.



By Kenneth J. Kalis, CLU

Does this really work? One IMSA Company found that their agents using their needs analysis process produced 40% more than those who did not.

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## Annuity Sales, Suitability and Seniors

Bethesda, MD (September 5, 2007) – "Every sale of an annuity product should be suitable for that particular consumer, regardless of age," said Brian Atchinson, President & CEO of the Insurance Marketplace Standards Association (IMSA) in conjunction with written

testimony provided for a hearing today by the U.S. Special Senate Committee on Aging focusing on sales practices to seniors.

IMSA is calling in its testimony for sound compliance practices by companies and distributors to protect all consumers. "IMSA introduced a new suitability standard for annuities and long-term care insurance products and developed suitability, disclosure and producer training standards for indexed annuity products," stated Atchinson in the testimony.

"IMSA has always maintained standards to promote sales designed to meet the insurable needs and financial objectives of customers," Atchinson added. "As the marketplace for life insurance products has evolved, IMSA has modified its existing standards and introduced new

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## 2. Competent, Customer-Focused Sales and Service



You must make sure your training people build the needs analysis philosophy into your training and customer service policies. In a very real sense, your distributors are your customers, and they will reflect your treatment of them on to the people who buy your products. Principle 1 has been called the “Golden Rule” Principle, and that is correct. The underlying thought must be to treat the customer as you would treat yourself. But this will not

become a reality in your marketing organization until you treat your distributors this way.

How? You begin with the selection process, a key element in the IMSA questionnaire, choosing distributors whose ethical standards match with the Golden Rule. Then provide them with on-going education that emphasizes the long-term value of a customer to your company. How much is it? A regular pizza customer is worth \$5,000. A regular new car buyer \$300,000. What is it for your company, \$100,000? A million dollars? You may be surprised! But you need to know! Once the immense life time value of the customer is put into concrete terms and taught to your distributors you will see a change for the better in the way they relate to your customers and their needs.

How does being an IMSA company help you with this? IMSA requires you to have an ongoing system of monitoring for your agent training. You’d be surprised how few companies have any idea whether the millions they spend on training are delivering the desired sales. As CEO you can encourage this as a part of your IMSA assessment and as an ongoing step in continuous improvement.

## 3. Active and Fair Competition

Do you have a company policy on the way you compete? What is your philosophy regarding replacements? Whatever these are, you need to communicate them regularly to your distributors and make sure they are following them! You need to act decisively too to protect your policyholders from unwarranted replacements. Not just from an IMSA standpoint, but from a financial standpoint. You don’t want to let that million dollar customer walk out the door.

Make sure you have an UNDERSTANDABLE way of comparing policy values in a replacement situation. Then go out and work for your customer’s best interests. Establish a conservation unit, as some IMSA companies have done, that protects the company’s inforce business and make sure you know what’s going on in the field. One top company executive from a leading IMSA company writes personal letters directly to Agency managers when any agent exceeds

the company replacement standard. The Agency manager then must report and remedy the situation. You can be sure that the sensitivity to this issue has been raised, and, more importantly, the example has been set for seeing the customer as a long-term, valuable asset to the company. According to the Harvard Business Review, Great-West Life Assurance Company pays a bonus to its distributors for customer retention. One company we have assessed paid agents a “mile-stone” commission when policies reached critical years. You need to be thinking about these kind of best practices if you want to leave your successor a stronger company than you took over.

## 4. Advertising and Sales Materials.... Clear, Honest and Fair

Don’t be the victim of a class-action suit. According to Mel Weiss, the attorney most successful in winning lawsuits against life insurance and annuity companies, this is the key area where companies are vulnerable. You can protect yourself and produce a more effective product by doing one simple thing: listen to the customer. IMSA has rightly focused on this standards under Principle 4, because at the heart of so many complaints and misunderstandings. Very often, companies think it is easier and cheaper to use surrogates for customer input, rather than customer focus groups and customer surveys. The result can be complex concepts, insider language and technical complexities that baffle the customer.



Make sure your product managers and actuaries design simple sales materials that the customer can understand. Flesch-test them. Or better still, run them through the “grade-level” scoring tool on your word processing program. Aim for the 8th grade level. Then expose them to your customers to validate their understanding. Keep track of their usage too, and monitor regularly, as IMSA requires, but go beyond the IMSA standards and see which materials are producing the most sales and get the highest marks from customers. Then model other materials on the ones that do best.

## 5. Fair and Expedious Complaint Handling

Every CEO should know what the most common complaints are for your organization. And they should not remain the same over time. You need to make sure they are addressed. View complaints as an important source of customer feedback. They are useful in the IMSA assessment process as monitoring tools, often when all else fails. But

you want to use them to help you hear what your customers are saying and what their needs are. IMSA requires you to do root cause analysis to eliminate the source of problems with your policies and procedures, but you want to go beyond this to achieve a marketing objective. Complaints often reveal what your customer wants and needs. You can design products or product features to meet those needs and so build your relationship with your customers.

It has long been an axiom in marketing research that an unhappy customer tells three or four times as many people about an unpleasant experience as a satisfied customer does about a pleasant experience. Worse still, most customers simply go away without giving you a clue as to why you have lost them and their life-time asset value. So treat complaints as an opportunity to strengthen your long-time customer relationship. Research also shows that if you resolve a complaint quickly and satisfactorily, the now satisfied complainer will be more loyal to your company than someone who has never complained.

## 6. System of Supervision and Review

To get the most out of IMSA as a marketing effort, you as the CEO must take ownership of the IMSA initiative. You must demonstrate Leadership in a visible and believable way. The approach you take will vary by company culture. One IMSA CEO has made a video in which he talks about his commitment to ethical market conduct and to customer satisfaction. He backs it up with regular communications and actions that reinforce the message that putting the customer first is the road to more sales and greater financial success.

Another CEO has taken the public position that meeting the IMSA standards and using them to improve customer relationships and company revenues is the job of every person in the company. He will not create a compliance department because he believes that that would diminish the important message that ethical market conduct in everyone's job.

Still another company President has taken personal ownership of the IMSA process but then delegated specific Principles to his executive staff. They, in turn, have delegated questions to their people who have then assigned responsibility for specific indicators to the people working for them. Thus accountability is established throughout the whole company including the field force and distributors.

When there is accountability throughout your organization, your people will become proactive. If you have instilled in them the concepts of IMSA you will have given them the basics for energizing your marketing and sales activities and help IMSA realize its strategic goal of restoring customer trust, thus retaining old customers and winning new ones. Then when you hand over the reins to your successor, your stewardship will be evident by a stronger organization than you took over, and you will have been a successful CEO. Perhaps the ultimate goal is one expressed by a CEO whose company just renewed its IMSA membership: "I want to leave a stronger, bigger and more profitable company to my successor's successor." When you have that long range view, you will act for the long-term interest, and you will be a great CEO.

# Excelsior Awards

In our practice, we have been using the Malcolm Baldrige National Quality Award standards to help us identify business policies and procedures that are of world class quality. This means they are customer-focused, data-driven and continuously improved. Over the years, we have recognized hundreds of best practices in over 40 companies. This year, we are presenting Excelsior Awards to the nine companies we have assessed for 45 best practices.

Following the lead of J. Edward Deming, we have called this approach to assuring the finest quality of business processes. "Process Reengineering," "Continuous Quality Improvement" or "Total Quality Management" over the years. Whatever you call it, its purpose is to reduce rework and customer complaints, engage people on the front lines in helping streamline business processes and in cutting operating expenses and improving your bottom line.



*Jeff Brine of the Knights of Columbus Receives the Award.*

## IMSA Today

I hope you are all enjoying IMSA Today as much as I am. IMSA Vice President: Susan W. Beach is the editor and it is chock full of the latest news on IMSA's activities. Much of the material here and in our electronic monthly updates and best practice has been selected from the last two issues. If your Company is an IMSA member, you can get in touch with Susan to get your copy at [SusanBeach@IMSAethics.org](mailto:SusanBeach@IMSAethics.org). If you would like to get our free monthly updates simply send an email to [kenkalis@gmail.com](mailto:kenkalis@gmail.com) or call 386-462-1074.

## Fighting those “Self-Assessment Blues”?

One of the things I hear all the time from Compliance Officers is that they have the “self-assessment blues.” That’s because they haven’t integrated into their IMSA self-assessment the work they’ve done on self-assessments for SOX, 34A-1, 20647, NASD (3012), AML, Privacy and SINRA. A few companies have adopted an integrated self-assessment approach that looks at these elements on an on-going bases.



IMSA is a good over-arching process to use because renewing membership requires an ongoing system of monitoring and review. With a little with your QIA, you can adopt an IMSA approach that takes the results of these other mandated self-assessments into account using their documentation and findings as evidence to satisfy the IMSA standards. Be sure to read next quarter’s Excelsior for some more detail on this approach. And don’t miss our best practice for September that shares one company’s tool for monitoring these assessment challenges.

## FINRA Regulatory Notice 07-43

**FINRA has published Regulatory Notice 07-43 which addresses “Senior Investors” issues. The Notice addresses Suitability, Communications with the Public, High-Pressure Sales Seminars Aimed at Seniors, Diminished Capacity and Suspected Financial Abuse of Seniors and Investor Education. Within the “Communications with the Public” section is a link to a database of professional designations including the qualifications, if any, that are needed to obtain the designation. This list may be of value to your organization.**

**The full text of the Regulatory Notice can be found on the FINRA website at [www.finra.org](http://www.finra.org) under “Notices”.**

## Annuity Sales, Suitability and Seniors

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standards to address the contemporary market conduct and compliance challenges posed by the life insurance marketplace.”

### Highlights from Atchinson Letter to Senate Special Committee

Here are some of the highlights of Brian Atchinson’s letter to the Senate Committee:

“Through their demonstrated commitment to high ethical practices, IMSA-qualified companies help to achieve the type of sound marketplace practices that are sought by all consumers of life insurance, annuity and long-term care insurance products. Today, IMSA qualified companies represent 73% of the admitted assets of the top 20 life insurers in the United States.”

“IMSA has been a leader in developing standards to address compliance issues facing the life insurance industry. During 2006, IMSA introduced a new suitability standard for annuities and long-term care insurance products and developed suitability, disclosure and producer training standards for indexed annuity products. IMSA will continue to monitor the marketplace to identify other areas for further standards development.”

The letter then goes on to describe how companies qualify for IMSA membership and lists the six principles and their underlying topics and subtopic, with which our readers are all familiar. He then explains the assessment process and IMSA’s promotion of “a “continuous improvement” culture of compliance within IMSA qualified life insurance companies.”

He goes on to describe IMSA’s role in setting standards: “IMSA has been a leader in working with regulators to rapidly develop standards designed to address potential market conduct and compliance issues in the life insurance marketplace..... Copies of IMSA’s needs-based selling/suitability and indexed annuity standards are attached.”

The concluding paragraph is: “IMSA will continue to examine issues in the life insurance marketplace that may be ripe for the introduction of new standards. For example, IMSA is currently examining whether to develop standards applicable to long-term care insurance product claims activities. We also will be sponsoring forums between regulators and the life insurance industry to promote uniform interpretation and enforcement of existing laws and regulations to prompt sound compliance practices to protect all consumers.”

*For the full text of the letter see [imsaethics.org](http://imsaethics.org).*

## Best Practice Corner

### June:

One of the bedrock standards in the IMSA assessment process is the intake of information about new laws and regulations (as well as updates to existing ones), sharing them with those who need to know, and then following up to make sure that appropriate action is taken. Most companies do this by having someone go to a website that provides legal updates, then send it on to the users and then follow up with emails or calls. Many companies have an electronic database that monitors this for them. Some companies have the intake centralized in legal or compliance, while others have it within the business units. One company has put together what they call "Client Focus Groups" that meet every week to discuss the updates and implementation plans. It gets the job done and establishes backups and action plans as well as building teamwork between the compliance officers and the businesses they support.

You can get these best practices monthly by signing up for our monthly electronic update. Just send your email address to [kenkalis@gmail.com](mailto:kenkalis@gmail.com).

### July/August:

Long before there was an IMSA, I developed a confidential "ethics hot line" that was used to give distributors and employees an safe place to share their concerns. This was a huge success a first with a large volume of calls. It alerted top management to potential powder kegs before they blew up. As time went on, usage abated, and there were issues about staffing the hot line, providing the right expertise to answer the questions raised and lots of other things. Most of the companies we've assessed have some sort of confidential hot line, but their experience has been mixed. The best practice we found this year was with a large company who out sources this function to a company who specializes in taking such calls, providing feedback to the company, and working with the caller and company to find a good answer to the issue. Because this is all the company does, their expertise is likely to produce a better answer more quickly and a more satisfactory outcome.

### Best Practices Workshop/LHCA Updates on September 30

IMSA's Best Practices Workshop is set for Chicago, September 19-20, 2007. We are sponsoring this event as well as the LHCA meeting in Greenville, SC. We'll give you a full update at the end of the month and a brief recap in our next Excelsior.

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## September Songs

Remember the old Tom Jones song that began, "Try to remember the kind of September..?" I love that song, and I love the month of September. Summer is over, and it is a good time to look back and remember the good this about summer. Emily Dickinson does this in the poem below. But September is also a time for new beginnings. School starts again and all the students get their stuff ready and approach the new year hopefully.

On a more spiritual note, many welcome Rosh Hashanah, the Jewish New Year. This year is 5768 since Creation. Those who observe this holy day spend it in reflection and repentance to prepare for the new year. We're reflecting too on the past year and getting ready for the new one.



### INDIAN SUMMER

*Emily Dickinson [1830-1886]*

These are the days when birds come back,  
 A very few, a bird or two,  
 To take a backward look.  
 These are the days when skies put on  
 The old, old sophistries of June, -  
 A blue and gold mistake.  
 Oh, fraud that cannot cheat the bee,  
 Almost thy plausibility  
 Induces my belief,  
 Till ranks of seeds their witness bear,  
 And softly through the altered air  
 Hurries a timid leaf!  
 Oh, sacrament of summer days,  
 Oh, last communion in the haze,  
 Permit a child to join,  
 Thy sacred emblems to partake,  
 Thy consecrated bread to break,  
 Taste thine immortal wine!



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