BLOG + ARTICLES

INSURERS TAKE AIM AT IUL ILLUSTRATIONS

December 24, 2014 by Arthur D. Postal

WASHINGTON – A coalition of three large insurance companies is urging the National Association of Insurance Commissioners (NAIC) to act promptly to adopt a realistic regulation governing the illustrations insurers and agents can use in marketing indexed universal life insurance (IUL).

The coalition is composed of MetLife, Northwestern Mutual and New York Life.

In a recent comment letter to the NAIC's the Life Actuarial (A) Task Force (LATF), the coalition said that aggressive maximum illustrated crediting rates that are widely used in illustrating potential IUL returns must be curbed. The coalition noted a Kansas Department of Insurance survey indicating that most IUL policies in the market are illustrated at crediting rates greater than 7 percent, with the median illustrated crediting rate above 8 percent.

"We believe that these high illustrated rates are highly unlikely to be achieved, which could lead to widespread consumer disappointment and potentially damage the reputation of the entire life insurance industry," the coalition letter said.

"Companies are justifying these aggressive illustrations by pointing to a historical look-back of index returns, based on current non-guaranteed product parameters and options prices."

The coalition's other recommendations included additional uniform consumer disclosure requirements to be included in the revised guidelines. The coalition letter explained that the model regulation the new illustration guidelines will be part of was developed prior to the advent of IUL products. "As such, there are additional IUL disclosures that would be beneficial to consumers beyond what is required by the model regulation," the letter said.

The coalition said any guidance to a group that seeks to craft compromise illustration regulation should focus on several issues.

These issues include curbing aggressive maximum illustrated crediting rates and a concern that the "use of the historical look-back perpetuates the opportunity for gaming."

The letter also says that illustration actuaries lack the necessary guidance to certify that IUL illustrations are self-supporting and that there is a need for any illustration guideline regulation to eliminate loan arbitrage. The letter also calls for enhanced consumer disclosures.

The coalition urged the NAIC task force to have an acceptable illustration guidance rule in effect by July 1 because "the predominant current industry practices result in aggressive IUL illustrations that are likely to lead to consumer disappointment."

"We are concerned that IUL writers who benefit from the status quo have little incentive to effectuate meaningful change," the coalition's letter states.

The letter said that this is “evidenced” by a proposal by the American Council of Life Insurers (ACLI proposal), “which would only codify the existing practices that we believe lead to aggressive illustrations and unrealistic consumer expectations.”

At a meeting held Nov. 1 in conjunction with the NAIC fall meeting in Washington, LATF chair Mike Boerner, an actuary with the Texas Insurance Department, set the March 2015 NAIC spring meeting as the deadline for final NAIC adoption of a new guideline, and July 1, 2015, as the guideline effective date.

That was based on the LATF providing acceptable guidelines from the commissioners by Dec. 18. However, 10 days ago, the conference call to do that was delayed until sometime in January.

The ACLI illustration proposal, and its pros and cons, were the focus of the November meeting.

Not only does the coalition oppose the ACLI proposal, but Sheryl J. Moore, president and CEO of Moore Market Intelligence, voiced concern with the part of the ACLI proposal that calls for reliance on historical lookbacks when illustrating indexed life.

“Reliance on historical lookbacks in this market is problematic for several reasons,” she said. At the same time, she said she had “no problems” with the other components of the ACLI’s proposal, and, “in fact, [I] wholly-support the ACLI’s suggestion of using midpoint illustrations.”

Moore is critical in principle of the coalition approach.

She said she “vehemently disagrees with their proposal because it is ridiculous.”

But she hedged her criticism by saying that, “I believe that their proposal is based on erroneous information that they were provided in conjunction with indexed life hedging and pricing.”

“Based on this alone, I give the companies the benefit-of-the-doubt that they had good intentions in developing their proposal. They just can’t get it right if their basis for understanding indexed life product pricing is severely flawed.”

ORIGINALLY POSTED AT INSURANCENEWSNET ON DECEMBER 23, 2014 BY ARTHUR D. POSTAL.

CATEGORIES: **SHERYL'S ARTICLES**

Comments for this thread are now closed. ×

1 Comment **Wink** 1 **Login**

Recommend **Share** **Sort by Best**

Listener • 2 years ago

All current illustration designs for permanent life should be banned from public distribution. They do nothing to educate the consumer and provide only technical data and inaccurate projections of future value. There has to be a complete paradigm shift away from conventional insurance sales. The consumer has had it with wimpy fact-finding and cursory explanations of what they're being asked to buy. The agent is caught in a fundamental conflict-of-interest by having a commissisoned interest in the advice that is given. What's worse is that the advice is becoming less and less accurate or worthwhile due to the agent having to hurry up and get securities-licensed so that s/he won't starve to death. Also, gotta get those capital letters on the business card to have credibility with other advising professionals so that they might toss a referral in your direction. Illustration wars are futile and pointless. The consumer isn't buying an illustration anyway.

• Share ›

MAD PEPPER WAS TOSSED AROUND AS A COMPANY NAME IDEA FOR WINK.

MORE BLOG + ARTICLES › NEWSLETTER SIGN UP ›