



A National Alliance of Life Companies

NEWSLETTER

NATIONAL ALLIANCE OF LIFE COMPANIES *An Association of Life and Health Insurance Companies*

December 31, 2009

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The news in this publication, including links to background and supplemental information, is also available on the NALC members' website at <http://members.nalc.net>.

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A Letter from the Executive Director

December 31, 2009



Dear Member:

Happy New Year! It's safe to say that we are all happy to see 2009 go. It was a difficult year for the world economy. Here's to a more prosperous, productive 2010 for us all.

It's safe to say that the role of government in business changed dramatically in 2009. From the bank and auto bailouts to the stimulus package and health insurance debate, it was a year for government activism. The big question is whether this level of activism will be temporary or permanent. My view is that the American public is less preoccupied with the big philosophical questions and more concerned about the unemployment rate, job stability and economic growth. If things appear to be improving on the jobs front in November of 2010, the Democrats will be rewarded. If they aren't, the environment will be much more challenging and the Republicans will see substantial gains. Bottom line-the next election won't be about philosophy, but about economic performance.

Having said that, it's safe to say there are some new realities that will not change. First, we will have a national health care bill that will include Medicaid expansion, a mandate on individuals to have health care coverage, and some form of Health Insurance Exchange formed by states or regions of the country. Of course, it will also include taxes to pay for these new initiatives. The big question will be whether the cost containment features provide adequate savings to tamp down the growth in health care costs. But don't expect mandated health care coverage to go away with election changes...any more than Medicare went away with election changes in the 1960s.

The second new reality is that the federal government will play a larger, still undefined role in the business of insurance. The House of Representatives approved language in its Financial Reform Bill to create an Office of Federal Insurance which will, according to the House Financial Services Committee press release "provide national policymakers with access to information resources needed to respond to crises, mitigate systematic risks, and ensure a well functioning financial system." The Committee also says the bill will "provide a unified voice for the United States in global deliberations" with foreign entities and "promote stability in our financial system." I fully expect the Senate will pass language similar to the House, and we will have a new player in insurance policy matters, albeit one with limited regulatory authority.

The big question will be how the Office of Federal Insurance develops. The ACLI and others wanted a broader mandate for the federal government in the bill, and will clearly try and push for more expansive legislative changes in the future. We will continue to keep one eye on state regulators....and one eye on Washington.

In closing, we look forward to an interesting, challenging 2010 for the NALC and the life insurance industry. We certainly had our share of regulatory successes in 2009 - including fighting back a broader federal insurance bill - but we expect more battles during 2010. I look forward to sharing more information with you in future legislative updates, as well as at our Spring Meeting in Charleston in April.

Happy Holidays!

Best regards,

A handwritten signature in cursive script that reads "Jim Hodges".

Jim Hodges
Executive Director

NALC Highlights

Register Now!

2010 Spring Conference

April 14 – April 17, 2010
Kiawah Island Golf & Resort
Kiawah Island, South Carolina



- The NALC will hold its 2010 Spring Conference April 14 – April 17, 2010, at the Kiawah Island Golf Resort, Kiawah Island, South Carolina.
- Online conference registration, hotel reservation information, golf registration, and sponsorship information is available on the [NALC website](#). You have the option of registering online, or completing the forms on your computer.
- **Please Note:** Registration fees are subject to a \$50.00 late fee if not received by March 26, 2010. Registration fees are non-refundable after April 2, 2010.
- **Hotel Reservations:** A hotel reservation form is available on the [NALC website](#). Make your reservations by phone, fax, e-mail or USPS mail. The NALC room block expires on March 14, 2010. Reservations received after this date will only be filled on a space-and-rate available basis.
- **Conference Sponsorship:** There are many sponsorship opportunities available. The list of sponsorships is also available on the [NALC website](#).

Watch your e-mail for Conference updates and reminders!

NAIC Focus

Spring National Meeting

The NAIC will hold Spring National Meeting March 26 - 29, 2010, at the Hyatt Regency & Colorado Convention Center, Denver, Colorado. Registration, attendee information and the agenda will be available soon on the [NAIC website](#).

NAIC Elects 2010 Officers

At its Winter 2009 National Meeting, members of the NAIC elected its 2010 officers. The newly elected officers will assume their duties on January 1, 2010.

- President: West Virginia Insurance Commissioner Jane Cline
- President-Elect: Iowa Insurance Commissioner Susan Voss
- Vice President: Florida Insurance Commissioner Kevin McCarty
- Secretary-Treasurer: Oklahoma Insurance Commissioner Kim Holland



*Kim Holland, Jane Cline, Susan Voss,
Kevin McCarty*

Jane Cline was appointed West Virginia Insurance Commissioner in 2001. Prior to her appointment as commissioner, Cline operated a government consulting firm, Jane L. Cline & Associates. Cline earned a bachelor's degree in business administration from West Virginia University and an MBA from the University of West Virginia College of Graduate Studies.

Susan Voss was appointed Iowa Insurance Commissioner in 2005. Prior to her appointment as commissioner, she served as Iowa's first deputy commissioner. She is a graduate of Simpson College in Indianola, Iowa, and earned a J.D. from Gonzaga University in Spokane, Wash.

Kevin McCarty is the Commissioner of the Florida Office of Insurance Regulation. McCarty became Florida's first appointed insurance commissioner in January 2003. He is responsible for Florida's insurance market, with oversight of company solvency, policy forms and rates, market investigations and new insurance business. McCarty earned a bachelor's degree in political science and a J.D. from the University of Florida.

Kim Holland became the first woman to be elected Oklahoma Insurance Commissioner in 2006. Holland is a former board member of the Oklahoma Health Care Authority and the Oklahoma State Employees Benefits Council. Commissioner Holland is the recipient of the statewide 2007 Public Service Champion of Health, which recognizes her contributions to reducing uninsured in Oklahoma.

2010 Zone Officers Elected

NAIC members also elected 2010 zone officers during the Winter National Meeting. The newly elected zone officers will assume their duties on January 1, 2010.

Midwestern Zone

- Michael McRaith - Chair, Illinois Director of Insurance
- Merle Scheiber - Vice Chair, South Dakota Insurance Director
- Mary Jo Hudson - Secretary, Ohio Insurance Director

Northeastern Zone

- Thomas Sullivan - Chair, Connecticut Insurance Commissioner
- Joel Ario - Vice Chair, Pennsylvania Insurance Commissioner
- Paulette Thabault - Secretary, Vermont Insurance Commissioner

Southeastern Zone

- Scott Richardson - Chair, South Carolina Insurance Director
- Leslie Newman - Vice Chair, Tennessee Insurance Commissioner
- Jim Donelon - Secretary, Louisiana Insurance Commissioner

Western Zone

- Linda Hall - Chair, Alaska Insurance Director
- Morris Chavez - Vice Chair, New Mexico Insurance Superintendent
- Christina Urias - Secretary, Arizona Insurance Director

NAIC Adopts Accounting Change

The NAIC adopted changes to Statement of Statutory Accounting Principles (SSAP) No. 10-Income Taxes. The changes have been considered by financial regulators since the fall and were extensively discussed at the Executive/Plenary session of the NAIC Winter National Meeting before being adopted. The primary issue was finding the appropriate amount of conservatism in the calculation of an insurer's admissible deferred tax assets.

Deferred tax assets represent a difference between an insurers' statutory and tax accounting values that will reverse in the future, and when reversed, will create lower taxes for the insurer in the future. One of the most common examples of a deferred tax asset results from the higher statutory policyholder reserves and the related lower reserve for tax purposes. Deferred tax assets (and liabilities) are recognized by all types of entities who file financial statements using U.S. Generally Accepted Accounting Principles or International Financial Reporting Standards. U.S. insurance regulators have required deferred tax assets and deferred tax liabilities to be recognized in statutory financial statements since 2001, but the amount of such assets that can be recognized is significantly limited under an admissibility formula. With the adopted change, the amount of deferred income tax assets is still significantly limited, but some of the overconservatism has been reduced.

"Insurance regulators have long understood the need for conservatism in insurer's financial statements as evidenced by our current conservative reserving requirements, disallowance of assets for acquisition costs and non-admission of many other assets," said Roger Sevigny, NAIC President and New Hampshire Insurance Commissioner. "This change recognizes that fact, but also recognizes that overconservatism can actually be detrimental to consumers."

The change is effective for insurers' year-end 2009 statutory financial statements and the impact of the change will be disclosed in the notes to financial statements in the insurers statutory filings.

Model Regulations

NAIC Committees have adopted changes to the following model regulations. Complete information is available on the [NAIC website](#).

Actuarial Guideline XLIII CARVM For Variable Annuities

This model was adopted by the Life and Health Actuarial Task Force on December 4, 2009. The purpose of this Actuarial Guideline is to interpret the standards for the valuation of reserves for variable annuity and other contracts involving certain guaranteed benefits similar to those offered with variable annuities. The Guideline codifies the basic interpretation of the Commissioners Annuity Reserve Valuation Method (CARVM) by clarifying the assumptions and methodologies that will comply with the intent of the Standard Valuation Law (SVL). It also applies similar assumptions and methodologies to contracts that contain characteristics similar to those described in the scope, but that are not directly subject to CARVM.

Suitability in Annuity Transactions Model Regulation

This model was adopted by the Life Insurance and Annuities (A) Committee on December 21, 2009. The purpose of this regulation is to require insurers to establish a system to supervise recommendations and to set forth standards and procedures for recommendations to consumers that result in transactions involving annuity products so that the insurance needs and financial objectives of consumers at the time of the transaction are appropriately addressed.

NCOIL Notes

2010 Spring Meeting

Plan now to attend the NCOIL 2010 Spring Meeting, March 5-7, 2010. For more information or to register, go to <http://www.ncoil.org>. The meeting will take place at the Wild Dunes Resort, Isle of Palms, Charleston, South Carolina.

NCOIL Says No to FIO, Voices Concerns with H.R. 4173

On December 10, NCOIL President Rep. Robert Damron (KY) wrote House Speaker Nancy Pelosi (D-CA) to outline NCOIL concerns with [H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009](#), and to indicate NCOIL strong opposition to a Federal Insurance Office (FIO).

“While NCOIL understands the need to address concerns related to banking and securities—areas in which lack of regulation and/or deregulation contributed significantly to the recent financial crisis,” he wrote that NCOIL believes that insurance regulation “should not be co-opted into the proposed bureaucracy envisioned in the legislation.”

Noting that state officials are provided a limited, nonvoting, role on a proposed Financial Services Oversight Council (FSOC), the letter continued, “NCOIL realizes enhanced communication and information sharing between state and federal regulators regarding financial market risk is a must. We believe that state and federal regulators, including state banking, insurance, and securities officials, should be treated equally on any systemic risk council.”

Rep. Damron’s letter said:

NCOIL opposes the creation of a federal insurance office under Title VI. If we enhance communication between state and federal regulators, there is little need for an FIO. What an FIO would do is lead to federal insurance regulation and federal insurance chartering. NCOIL has little doubt that the FIO would quickly expand into a federal insurance bureaucracy, despite the best efforts of the concept’s original sponsors.

In no uncertain terms, and citing the primary reason prompting NCOIL opposition to the legislation, Rep. Damron wrote, “Title VI is a nonstarter for state legislators. We request that if H.R. 4173 is passed that it be passed without the provisions of the FIO.” As drafted, H.R. 4173 includes FIO language in Title VI of the more than 1,200-page bill.

Regarding a proposed Consumer Financial Protection Agency (CFPA), the letter says, “NCOIL appreciates efforts of the HFSC and sponsors of additional pending amendments to H.R. 4173 that would appropriately exempt insurance from the CFPA’s scope” and notes that “we believe the approved and proposed amendments clarify the important role of state oversight.” Rep. Damron added, “Insurance consumers are currently protected from fraud and abuse by a comprehensive set of state laws and regulations.”

House members passed H.R. 4173 on December 11.

News from the States

Donelon Names Al Ater Chief Deputy Commissioner of Insurance

Commissioner of Insurance Jim Donelon announced on December 29 that former Secretary of State Al Ater will serve as Chief Deputy Commissioner of Insurance where he will once again manage the Department’s day-to-day operations. His appointment is effective January 11, 2010.

Ater was Chief Deputy Commissioner of Insurance from July 2004 until he returned to the Department of State in March 2005, where he acted as First Assistant until being named Secretary of State in July 2005. Deputy

Commissioner Denise Brignac will become the Department's Chief of Staff after serving as Chief Deputy Commissioner since February 2008.

Ater is a private businessman, a farmer and a former State Representative, having been elected to the Louisiana Legislature in 1984 and again four years later without opposition. While serving in the House of Representatives with Commissioner Donelon, Ater was Vice Chairman of the Transportation, Highways and Public Works Committee. In 1991 Ater chose not to run for re-election and returned to farming. In 2001 he joined the Department of State as First Assistant Secretary of State, where he spearheaded the merger of the Department of Elections with the Department of State.

Commissioner Donelon says he is pleased with the Department's new management team and he is looking forward to working with both Ater and Brignac in their new leadership positions in the coming year. "Al's experience and understanding of state government is invaluable, and Denise's ability to manage the Department's staff, along with her vast knowledge of insurance regulation, makes both of them a huge asset to our Department," Donelon says.

Maryland Insurance Administration Joins SBS

The Maryland Insurance Administration has formally licensed State Based Systems (SBS), an NAIC owned and operated regulatory tool. "Efficient technology solutions that minimize labor costs are extremely important in the success of our insurance department," said Ralph Tyler, Maryland Insurance Commissioner. "In leveraging SBS, we can eliminate the costly support of our existing licensing system and be guaranteed that SBS will comply with all NAIC member producer licensing-related initiatives. We expect to realize immediate benefits from the implementation of SBS."

SBS is a web-based solution that supports all aspects of insurance regulation via a cohesive user-friendly interface that requires little user training. The goal of SBS is to provide the highest level of efficiency at the lowest possible cost to NAIC members.

Maryland is the nineteenth state to join SBS, which includes Alabama, Delaware, Florida, Illinois, Iowa, Kansas, Missouri, New Hampshire, New Jersey, Nebraska, North Carolina, North Dakota, Oklahoma, Puerto Rico, Rhode Island, Tennessee, Washington, D.C. and West Virginia.

On the National Front

Bills Try to Toss Gramm-Leach-Bliley

Efforts Would Return to Old Separations of Banks, Insurers

A new legislative effort would force walls again between insurance, banking and investment businesses, reinstating the provisions of the 86-year-old Glass-Steagall Act and forcing the breakup of major U.S. financial institutions. Though the bills may have little chance of finding wide support in Congress, they reveal some of the resentment of the Gramm-Leach-Bliley Act that's grown in the last year.

Gramm-Leach-Bliley, the legislation that tore down Glass-Steagall's restrictions and allowed for the formation of major financial firms that combine insurance, banking and investments, just celebrated its 10th anniversary. And because of the recession that largely emerged from the U.S. financial sector, some have accused the act's more permissive stance as one of the culprits.

Former presidential candidate Sen. John McCain, R-Ariz., and a member from across the aisle, Sen. Maria Cantwell, D-Wash., have introduced [S. 2886](#) to go back to the old system, giving financial firms a year to break up and segregate their operations. At the same time, several Democrats in the House of Representatives introduced their own similar version, [H.R. 4375](#).

"I want to ensure that we never stick the American taxpayer with another \$700 billion — or even larger — tab to bail out the financial industry," McCain said in a statement. "This country would be better served if we limit the activities of these financial institutions."

Cantwell, a member of the Senate's Finance Committee, said in her own statement, "We must return stability, security and confidence to commercial banking for the American public. The first step is this bill."

Their focus is more on the bond between banks and investment operations than on the third area: insurance. Though some life firms have expanded into once-banned areas, Gramm-Leach-Bliley hadn't had the major impact on the insurance industry that some predicted it would when it passed in 1999.

Jack Tatom, Director of Research for Networks Financial Institute at Indiana State University, said of the new legislation, "I'm afraid it's probably too late to have any impact." However, he did suggest that its timing may still be early enough to make it part of the ongoing financial reform debate. "Financial regulatory reform is not done, and I think this proposal — Cantwell-McCain — is going to get more attention after the first of the year when financial reform gets taken up on the Senate."

Tatom said that he's seen increased interest in Gramm-Leach-Bliley — especially among its growing ranks of opponents. "The ideas were beginning to percolate among leading finance experts and policy experts, but it hadn't gelled with any of the political leadership until this new initiative."

Defenders of Gramm-Leach-Bliley have recently argued that it was exactly the enlarged, newly diversified firms it created that were healthy enough to swoop in to buy the distressed financial companies, making the recession lighter than it could have been.

But Rep. Maurice Hinchey, D-N.Y., one of the sponsors of the House bill, said Gramm-Leach-Bliley "has exposed the U.S. economy to a level of risk that is simply unacceptable." He said, "Unfortunately, Congress ignored history in 1999 when it repealed the Glass-Steagall Act, and the American people have been forced to pay the price while bailing out these megabanks."

US House Passes COBRA Subsidies Extension, Senate Vote Follows

On December 16, the U.S. House of Representatives, on its rush to adjourn before the holiday break, passed [H.R. 3326](#), a patchwork of bills that included an extension of COBRA health insurance subsidies for Americans who have lost their jobs. The Senate acted quickly to pass the measure on December 19 and the President signed the measure the same day.

In the climate of massive layoffs earlier in 2009, Congress had stepped in to change the existing Consolidated Omnibus Budget Reconciliation Act program to allow for the government to match 65% of an unemployed person's premiums. That help lasts for nine months per individual, but the subsidy program is set to end Dec. 31. The bill that has now passed the House extends that nine-month period to 15 months. Even those who have already run past their nine months and have lost their insurance could get it back for the remainder of the 15-month period.

"We supported the COBRA part of the stimulus package earlier this year, and we support this extension as well," said Robert Zirkelbach, spokesman for America's Health Insurance Plans. "We think it's important than individuals be able to maintain their health care coverage during the economic slowdown."

COBRA, established in 1986, is an 18-month program offering laid-off workers continuing access to group plans. With millions unemployed, the American Recovery and Reinvestment Act enacted in February helped keep 7 million — according to House Appropriations Committee Chairman David Obey — on the health insurance rolls. A survey by Hewitt Associates demonstrated that between March and June, enrollment rates for COBRA were at 38% of those eligible, up from 19% between September 2008 and February, before the subsidy.

The U.S. Department of Labor's rule for which employer plans require COBRA covers all but the smallest plans: "Group health plans for employers with 20 or more employees on more than 50% of its typical business days in the previous calendar year are subject to COBRA."

"When people are facing tough times — particularly if they lose their job — the last thing they should have to worry about is whether or not they have health care coverage," Zirkelbach said.

The newly passed House legislation was embedded within the appropriation for the Department of Defense, along with a number of other non-defense issues, including an extension of the National Flood Insurance Program, provisions of the Patriot Act and an extension of unemployment benefits.

Industry News

Silver-Lined Cloud Has Certain Rules

Clients in the business markets looking to obtain the tax advantages for employer-owned life insurance are subject to Internal Revenue Service rules. The good news is the rules are not difficult to meet and provide financial advisers with an opportunity to explain the many benefits of business life insurance.

Employer-owned life insurance policies issued after Aug. 17, 2006, and some issued earlier, are subject to IRS rules that have a big penalty for noncompliance: The death benefit is taxable. To obtain a tax-free death benefit, the employer must acquire a written notice and consent, usually about one page long, from the insured before the policy is issued. It must be signed by the prospective insured and state the policy's maximum face amount. It must also state the employer's intent to insure the employee, the fact that the employer will be a beneficiary, that the insured consents to the coverage, and that the coverage may continue if the insured leaves the company.

The rules also require that one of several specific situations exist to receive a tax-free death benefit. Generally, they apply to employment status at the time the policy was issued, such as being highly compensated, employed at any time during 12 months before the insured's death, or being a director of the company when the policy was issued. Other situations that meet the rules include paying the death benefit to the insured's family, trust, estate, or a beneficiary chosen by the insured. Using the death benefit to purchase an equity interest in the business also prevents taxation of the death benefit.

The notice and consent rules apply if a corporation, S-corporation, partnership or LLC purchases life insurance on one of its employees to cover business losses if the employee dies. They also apply if a sole proprietor purchases life insurance on an employee. These are classic "key employee life insurance" situations.

The rules also apply to certain executive benefit arrangements, such as split-dollar life insurance when the business is a beneficiary or a policy is purchased to informally fund a nonqualified deferred compensation plan. Employers must annually report to the IRS all life insurance policies subject to these rules.

The IRS rules do not apply if a qualified retirement plan purchases life insurance on a plan participant or when sole proprietors purchase life insurance on themselves. Nor do they apply when business owners purchase life insurance for cross-purchase, buy-sell arrangements or when an employee irrevocably transfers a life insurance policy to his employer and no other policy changes are made.

Clients should always be urged to consult an attorney about these rules. But because the downside of noncompliance is a taxable death benefit, it is usually safest to assume that the notice and consent rules apply.

Explaining these rules to employers should become routine for any financial adviser working in the business markets. The silver lining is a client who understands the benefits of life insurance and appreciates the value a financial adviser brings.

Working Relationships

By Richard Hemmings, CEO of the Fidelity Life Association in Oak Brook, Illinois

Leadership teams at small and midsize insurance companies face three unique challenges. For example, with a smaller scale of operation, they can have difficulty obtaining the overhead coverage necessary to drive down per-policy expense costs to the levels of larger competitors. Attractive new opportunities can appear risky since smaller insurers often are asked to put a lot of surplus eggs in an additional basket. And, even if the company's surplus position is healthy, diversification of risk can be difficult to attain.

The answers to these three challenges can be found in a strategy built on partnerships, in which companies partner with one another to combine their strengths to create a whole that is bigger than the sum of the parts.

Contrary to the results often witnessed with traditional insurance company combinations or acquisitions, relationships based on partnership principles can achieve superior results by tapping into the unique talents of individual partners. There is nothing radically new about these ideas. But taken together, they represent a powerful strategy for creating successful marketing, financial and operational partnerships that move beyond a "bigger is better" mindset to harness the creativity and capacity for innovation in small and midsize carriers.

For instance, a midsize insurer may identify a promising niche within its established distribution channels but it is holding back, uncertain about production volumes and concerned about the investment needed to bring the new product to market. This is a classic example of where a marketing partnership can make sense.

A marketing partnership can fall anywhere from a simple general-agency agreement to a full-scale private label arrangement, in which another carrier handles product development, filing and administration but the product is still sold under the first insurer's brand. In addition to taking advantage of the market investments that the other carrier has already made, the small or midsize company can take advantage of the second carrier's investments in ongoing product innovation. While ownership of distribution in today's market is going against the trend, companies able to manage channel conflicts can uncover some interesting controlled distribution opportunities.

Insurers must be cautious, however, to focus their search on candidates who already have structured themselves to support partnership activity as a business within their overall operations. Otherwise, smaller insurers may invest considerable time and effort as they go through this learning curve. A carrier with an attractive

partnership offering can find itself with partner-sales volumes that exceed its direct distribution volumes along with the corresponding support demands.

An industry resource in this area is the Inter-Company Marketing Group, a membership-based forum specifically devoted to supporting networking among carriers, distributors and vendors interested in forming strategic alliances.

Alliances for Growth

On the other side of the partnership coin, small and midsize insurance firms sometimes develop expertise over the years in a given product or market segment. Here, too, partnerships with other carriers can help to identify opportunities for spreading that investment over a larger block of business.

A good first step in this process is for the insurer to take an inventory of its strengths. In one case, a number of senior executives had experience in direct marketing. Five years ago, this group decided to focus on penetrating the middle market through product innovations designed for rapid underwriting decisions. This decision led to the development of product designs, reinsurance relationships and technology platforms that supported rapid underwriting decision-making.

Once a company's leadership team becomes clear on the strengths their firm has to offer, and what it needs or lacks in-house, the next step is to identify the types of agreements or transactions to enter.

For example, entering into a simple general-agency agreement is a relatively easy option and will probably just slot into existing distribution contract structures with only minor modifications. Acquiring distributors is more complicated, but ultimately may solve some of the problems created by the separation in recent years of manufacturing and distribution, such as aligning the interests of manufacturing and distribution and recruitment and training of agents.

On the other hand, if the team decides to consider entering into full private-label relationships with other carriers, it needs to think through all of the issues surrounding pricing for that agreement. For example, which expenses does the company want to recover upfront in the product pricing and filing process, versus expenses it might be willing to recover via a reinsurance agreement or as a fee expressed as a percentage of premium? Of course, these pricing options may vary from carrier to carrier, based on the insurer's confidence level in production estimates and overall volume. But the idea is to understand costs well enough to avoid making expensive mistakes in pricing services.

Financial Partnerships

Financial partnerships also can cover a wide spectrum of structures, from basic reinsurance agreements to affiliations and acquisitions and customized joint-venture agreements. The key benefits sought from these partnerships typically include access to higher levels of combined capital, improved access to equity markets and the opportunity to manage risk more effectively on new ventures.

A number of carriers have created mutual holding companies in recent years because the structure allows an existing mutual company to convert to stock-company status under an MHC parent while preserving the insurer as a separate operating entity.

The stock subsidiary can retain a separate board of directors. Employees of the stock company can remain in their existing positions, allowing time and attrition to resolve redundancies created by overlaps at the group level. Companies partnering under an MHC umbrella can agree on board representation at the MHC level at the

time of entry, which can be based on net worth, profitability or a separately negotiated formula. It may also be possible to permit partners to withdraw from the MHC by "mutualizing" the withdrawing carrier.

Mergers of mutual companies, stock company acquisitions by a mutual holding company and even mergers of two mutual holding companies often are discussed but rarely executed because of the resulting dislocation of employees, managers and boards.

The most important issues to think through in these combinations, assuming that the financial arrangements can be worked out to the satisfaction of both parties, are the governance structures that will be employed on an ongoing basis. Will current partners remain true partners in the combined group? Will the company have the option of maintaining a separate and independent board of directors? Does the group have intercompany structures that promote collaboration?

The most important single issue in evaluating any prospective partner is cultural. Does the leadership team that's being considered for alignment have a strong commitment to the principles of true partnership? If not, walk away. But, when an agreement can be struck under a true spirit of partnership, the financial and operating efficiencies that can flow from these combinations can provide the capital and combined buying power to free small and midsize carriers to focus on creatively serving customers and distributors with innovative products and services.

Operational Partnerships

Operational partnerships can take many forms, but the overall objective is typically to deliver service, quality and scale economies enjoyed by competitors with larger production volumes or more cost-effective technology infrastructures.

When considering partnership opportunities, many carriers will need to look only as far as their legacy mainframe policy administration system. These systems often generate expense levels far in excess of what the blocks of business running on the system can support. Some unlucky carriers may even find themselves with more than one of these old mainframe systems.

Before beginning to search for an operational partner, insurers should develop a clear picture of exactly what they're looking for. Don't delegate this task to a lower level in the organization; adopting partnership as a strategy demands a very different management style when compared with managing a traditional hierarchy of company departments and vendor relationships.

Senior executives should become heavily involved in partner selection, even interviewing the principals at partner firms, as they would when hiring a senior member of the leadership team. Outsourcing may mean not having to build and maintain it--but the company will still have to manage it.

In today's financial environment, insurers find themselves challenging the conventional wisdom that the economies of scale, enjoyed by large carriers, are worth the sacrifices. Sometimes size crushes the creativity and innovation that can be found with smaller and more focused companies.

And, as seen in recent headlines, sometimes size can create a combined organizational IQ that is lower than the sum of its parts.

Adopting a partnership strategy is a key element in preserving the advantages of focus and innovation of a smaller company while accessing the benefits that partnership can deliver in terms of scale economies and diversification of risk. There may be no better time than today to chart a partnership course into the future.

Calendar of Industry Events

March 5 - 7, 2010 NCOIL Spring Meeting	Wild Dunes Charleston, South Carolina
March 26 - 29, 2010 NAIC Spring National Meeting	Hyatt Regency & Colorado Convention Center Denver, Colorado
April 14 – April 17, 2010 NALC 2010 Spring Conference	Kiawah Island Golf & Resort Kiawah Island, South Carolina
May 3 - 5, 2010 NAIC E-Regulation Conference	Kansas City Hyatt Regency Crown Center Kansas City, Missouri
July 8 - 11, 2010 NCOIL Summer Meeting	Boston Park Plaza Hotel & Towers Boston, Massachusetts
August 14 – 17, 2010 NAIC Summer National Meeting	Sheraton Seattle & Washington State Convention & Trade Center Seattle, Washington
September 22 – 25, 2010 NALC 2010 Fall Conference	Stoweflake Resort Stowe, Vermont
October 18 - 21, 2010 NAIC Fall National Meeting	Gaylord Palms Hotel Orlando, Florida
November 18 - 21, 2010 NCOIL 2010 Annual Meeting	Hilton Austin Austin, Texas
March 4 - 6, 2011 NCOIL Spring Meeting	Hyatt Regency on Capitol Hill Washington, DC
March 26 - 29, 2011 NAIC Spring National Meeting	Hilton Austin & Austin Convention Center Austin, Texas
April 27 - 30, 2011 NALC 2011 Spring Conference	Longboat Key Club & Resort Longboat Key, Florida
July 14 - 17, 2011 NCOIL Summer Meeting	Marriott Newport Newport, Rhode Island
August 30 - Sept. 2, 2011 NAIC Summer National Meeting	Marriott Philadelphia Downtown Philadelphia, PA
November 3 - 6, 2011 NAIC Fall National Meeting	Gaylord National Hotel & Convention Center Washington, DC
November 17 - 20, 2011 NCOIL 2011 Annual Meeting	Eldorado Hotel & Spa Santa Fe, New Mexico