



# Excelsior

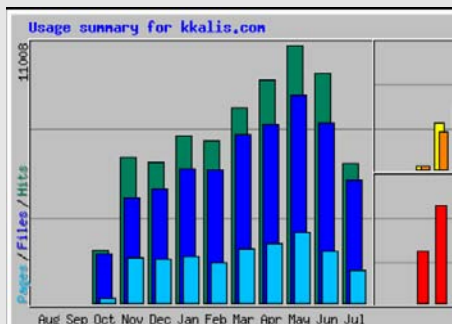
Third Quarter, 2005

Volume VII, Issue 3

Ethical Market Conduct Issues for Presidents and Senior Executives

## Kalis Web Site Exceeding Expectations

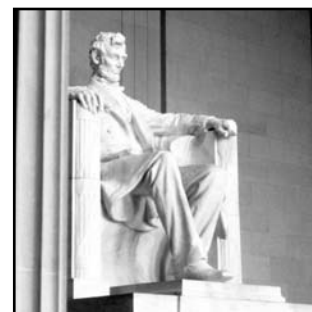
Most of you have been to the Kenneth J. Kalis Company website at kkalis.com. There, if you look on the home page, you will see some 4100 hits, which average out to about one a day since the website has been up. But this is only a part of the story. That number includes only those who go to the Home Page. Over the past 10 months our site has had over 11,000 visits! These visitors



have looked at nearly 20,000 pages and opened over 60,000 files! That's great news for us, but also for IMSA and continuing interest in the important role it has in our industry. If you haven't been to our website recently, you may want to check it out again. You may agree with one of your readers who said, "Your website is absolutely the best on IMSA topics."

## Update on IMSA Assessment Handbook Forum by Ken Kalis

On Thursday, September 8, 2005 about 40 people from 25 IMSA companies and 10 Qualified Independent Assessors met at the Hilton Washington Hotel in Washington, DC to express viewpoints and provide input regarding possible revisions to IMSA's standards.



After a great continental breakfast, Brian Atchinson greeted the group and then turned the meeting over to Don Walters who led us through some general observations about each of the agenda topics. We then split up into small groups to discuss and record our thoughts. Then we shared our conclusions with the whole group.

Before I share my report, I would like to emphasize that this was a preliminary meeting to get input from as many companies and assessors as possible. IMSA is going to record the thoughts and proposals advanced at the meeting and present them in an edited form to the IMSA Board of Directors for review in October. Once direction has been received from the Board, next steps will be announced.

What follows are my reporting on the discussions along with an observation or two that represents my thoughts. I have learned through many years of experience, that my views and opinions are often bounded by my interests, knowledge and experience, and while I am sharing some of them in this report, I recognize that the IMSA member companies' needs and concerns are foremost and that any changes made to the process and handbook must be reflective of the companies' positions. While "Usefulness for Qualified Independent Assessors" was listed on the agenda, it was listed under "Usefulness for Companies," and that is as it should be.

### • Current Assessment Handbook – How Can It Be Improved?

This was a pretty broad topic and a wide range of suggestions were made. First of all there was a general recognition that the creators of the IMSA process and handbook had done an excellent and almost prescient job in putting together a coherent and cohesive methodology which has withstood the test of time. The Principles have served us well and should not be changed. The Code too has served well, but it can and should be updated where needed.

There was a strong sentiment, particularly from the QIA's from the accounting firms, that the format should be made consistent with the format of the 2003 Assessment Manual. The thrust of this thinking was that regulators would be more likely to respond favorably to the IMSA process if it were presented to them in a format that was familiar, i.e., like the NAIC Market Conduct Examiners' Handbook.

On the other hand, one company representative pointed out that IMSA is much broader than a market conduct exam and that she thought IMSA would lose a great deal of its usefulness and purpose if it restructures its process to simply mirror those exams. Don Walters shared with the group (later in the day) that the states may be moving away from the current market

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conduct examination process in favor of a market analysis approach.

My sense of the discussion is that there is merit in retaining current organization of the Handbook and perhaps adding to it a supplement that would reposition the material in the organizational format that covers the material by business function rather than Principle. This would, in fact, be simply an expansion of the current "Appendix A" of the 2003 IMSA Assessment Manual. One key point raised by several participants was that the companies have a lot invested in data systems based upon the current Principles, Questions and Indicators. Care should be taken to keep this in mind as revisions are contemplated.

Each of the small groups responded directly to IMSA's specific question about the Responsibility Matrix, introduced in 2003. The consensus was that it should be retained but not mandated. The information contained within the Responsibility Matrix can be very useful, but often too much time was spent agonizing over minor distinctions that may not apply to every company. The group recommended giving companies wide latitude in the format of this information while agreeing that this kind of information is critical.

**• IMSA Standards**

Here, there was pretty consistent agreement among the attendees that the Principles should be retained as is, but the Code modified and expanded upon as necessary.

There was also agreement that the number of questions could be reduced, combining some that make fine distinctions that appear to be redundant. This is especially true of the Advertising and Complaint sections (Principles 4 and 5).

An idea was also advanced to combine all the questions that talk about complying with laws and regulations to a single, functional area, perhaps under Question 1.2 : Does the company have in place policies and procedures designed to reasonably assure compliance with laws and regulations applicable to the marketing and sale of covered products?

This consolidation would, however, take away from the specific focus on legal requirements within the specific Principles applying to advertising and complaints. These concerns need to be evaluated before a decision is made.

Changes to the indicators will be appropriate and useful, most participants thought. There was a small segment who broached the idea of having "required indicators," but this was seen by others as merely another way of adding new questions, which the group thought should be kept at the current number, or reduced.

My sense of the discussion was that indicators should indeed be added to show that IMSA is continuously reviewing the regulatory landscape and making the assessment process responsive to current concerns. There was also general agreement that the Handbook should be amended to

eliminate redundancies.

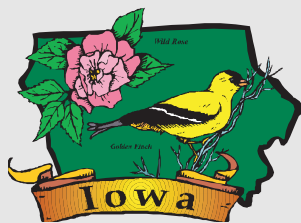
One point that was raised was the importance of retaining the distinctive and unique standards for independent producers vs. career agents in areas such as training and supervision.

**• Should IMSA Standards Include Additional Subject Matters?**

The agenda listed the following topics:

- SEC Rule 38a-1
- Anti-Money Laundering
- Do Not Call List
- Patriot Act and regulations
- Privacy
- Sarbanes-Oxley reviews and certifications
- Suitability

There was a lively discussion of these topics, and the general consensus seemed to be that IMSA should not adopt standards that do not directly impact consumer interests. In this regard, the group thought IMSA may want to think about standards that apply to individual market conduct, such as Suitability, Privacy and Do Not Call, but that the others should not be made a part of the IMSA standards. This does not mean that work products demonstrating compliance with these other areas cannot be used to satisfy some IMSA indicators nor does it mean that indicators referencing them may not be added to make the indicator listing more current.

**Two More States Say They Will Rely on IMSA Data**

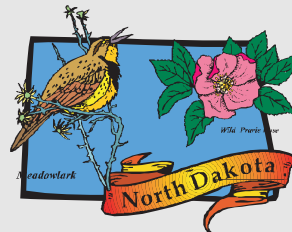
In an article posted on IMSA's web site, Insurance Compliance Weekly reports that Iowa and North Dakota have become the latest states to say they will rely on a company's IMSA qualifications when conducting market conduct exams.

An Iowa bulletin and a North Dakota letter both state that examiners can consider IMSA documentation when determining the scope of their review of marketing and sales practices, including areas such as agent

training and licensing, replacements and advertising.

North Dakota commissioner Jim Poolman went a step further, stating that IMSA's qualification process "provides a strong impetus for a life insurance company to develop high standards for its market conduct activities." He encouraged membership in best practices groups as a way to streamline the exam process and promote more responsive market conduct activities.

Massachusetts, New York and Texas have also issued similar guidance about the use of IMSA qualification data.



## • IMSA's Scope

This topic began with a posting of IMSA's mission before the group:

### *Mission Statement*

*To strengthen trust and confidence in the life insurance industry by requiring member companies to demonstrate commitment to high, ethical marketplace standards.*

With this in mind, we discussed adding products and functions and expanding the scope of membership beyond life insurance companies.

Disability Income is the product most often mentioned as a possible addition, and there is some interest in adding this on the IMSA Board. Since, however, most of the issues dealing with this product concern claims, there has been reluctance to move ahead without expanding the functional areas covered by IMSA to include claims. There seemed to be a consensus that claims could easily and reasonably be added to the process, but whether to do so remains an open question. There seemed to be as strong a consensus also that underwriting was not something that could be easily and reasonably added to the current process.

One company representative asked why IMSA is not considering all health insurance products since it has expanded to include long term care, but there seemed to be no interest among the group for pursuing this at this time.

The issue of expanding membership to include "non-insurance company" organizations was raised. These could include third-party administrators, marketing groups, wire houses, independent broker dealers, financial institution or general agencies. There seemed to be agreement that there would be merit in considering extending membership to some of these entities but that they would have to be brought into a discussion of how the assessment process may need to be retooled to make it meaningful to these organizations.

## • Appendices

The discussion on the Appendices to the Handbook led to the general conclusion that these are in fact very useful, particularly to



## INSURANCE MARKETPLACE STANDARDS ASSOCIATION

*Committed to honesty,  
integrity and ethics*

those companies who have gone through a merger or acquisition. There should be updates to reflect more current issues, especially the glossary.

There was a good deal of discussion on the post-membership market conduct guidelines, especially the requirement for all member companies to report to IMSA any regulatory findings that impact the IMSA standards. Clarity is needed on exactly what is reportable and what dollar amounts should be used. The group thought that consideration should be given to raising the amounts currently shown in the Handbook.

There was also discussion as to whether there should be some interim reporting mechanism in place to supplement the tri-annual assessments, and most agreed that a step in this direction would be of value.

## • Reporting Forms and Regulatory Use of IMSA Information

This discussion began with the Supplemental Report and its overall utility. The consensus was that it does indeed add value and seems to be functioning as intended, although it does not usually provide information on material gaps and corrective action taken to close them. This is because the Company works hard to close such gaps before the Independent Assessment so that there will be none on the copy that goes to the Board of Directors. One assessor pointed out that the Report is indeed an excellent road map for regulators to see exactly what testing went on so that they can factor that into their thinking.

IMSA also mentioned that regulators would like to see the IMSA Self Assessment and documentation in electronic form. (This is standard for client companies of the Kenneth

J. Kalis Company.) This would not only provide consistency among assessors but would enable the regulators to download the material into their systems and analyze the material electronically.

## • Standards Development Process

During this segment, IMSA explained a general view of the process for taking the input from the Forum and other areas and developing it into a revised Handbook. The process may proceed as follows:

- Compile the input from the forum and other sources and present to the IMSA Board in October.
- Share the Board's recommendations with member companies and other interested parties and obtain their feedback and/or approval.
- Organize Committees to work on the changes.
- Present the changes to the membership in the spring of 2006.
- Present revised Handbook to the Board and Member Companies for approval.

## IMSA's Proactive Schedule

One reason for IMSA continuing success is the proactive approach the leadership is taking to involvement in important industry meetings and events. IMSA will be a presence at the following events:

October 9-10, 2005

ACLI Annual Exhibitor Marketplace  
Omni Shoreham Washington

November 17-19, 2005

NAILBA Annual Meeting  
JW Marriott Desert Ridge, Phoenix, AZ

February 26 - March 1, 2006

Intercompany LTCI Conference

You can find out more details on each of these at the IMSA web site at [www.imsaethics.org](http://www.imsaethics.org). If you are attending one, IMSA encourages you to stop by the booth to say hello and to learn more about how IMSA can help you build trust and confidence with your clients and to view copies of IMSA's new brochures.

We hope you will drop by the Kenneth J. Kalis Company booth at the ACLI Annual meeting to say "hello."

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- Publish the revised Handbook in a May-June 2006 timeframe.
- Hold training sessions during the summer of 2006.

It should be noted that the tight time line was a concern for many companies. In my view, this constrained them from making many changes, as did the systems factor, namely, that companies have systems set up for managing the IMSA process, testing and documentation and are loath to change, especially in such a tight time frame.

One company representative pointed out that since there could be budgetary impact on the assessment process, it would be nice to have some idea of the value IMSA represents to its members. IMSA mentioned that it is currently working on a study with a large university to try to quantify those benefits.

- **Testing Standards**

This final segment was on Company Self-Assessment Testing and Effectiveness Testing. There is no common practice among Companies on testing. Some Companies do some of their own testing and others rely solely on the Qualified Independent Assessor's testing. If sample sizes were increased and an accounting "effectiveness testing" standard were adopted, the QIA could then rely on Company self-testing that met these standards. However, the accounting definition of effectiveness is not the same as the definition of effectiveness used by the NAIC. Further, there are issues involving the IMSA independence standards for QIA's that would be raised by allowing the QIA to work with Companies to set up the effectiveness testing procedures.

- **Closing Remarks**

Brian Atchinson thanked all the attendees for coming to what he thought was a very productive meeting. I agree. I believe it is critical that we demonstrate continuous improvement by making changes to the assessment process and the Assessment Handbook that show we are not only keeping current with the industry, but that IMSA Companies are raising the bar regularly to produce more best practices, more trust and more value to their stakeholders and customers.



**Excelsior, A Quarterly Newsletter for Life Insurance Company Presidents and Senior Officers, is published by The Kenneth J. Kalis Company, Inc., Client-Focused IMSA Expertise, specializing in IMSA assessment services.**

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## The Last Word

A reader told me again today that this last section of Excelsior is the best thing about the newsletter. My hope is that this is reflective of the high quality of the material in this section! Sometimes selecting the material is difficult, but it is always enjoyable. Many readers send me material, and I am always on the look out for something that touches upon the softer side of ethics or the very human experiences we all go through.

September for me has always been a time of mixed emotions. While I regret the passing of the last rose of summer, I look forward to the new school year, even though my school days are nearly 40 years behind me. A slight sense of envy steal into my heart as my children buy pencils and writing tablets and get ready to start a new school year. My heart is with them as they march off expectantly to the fall term. It is in this spirit that I share with you this excellent poem, which I hope you will find as encouraging and heart warming as I did. God bless you all.

Ken Kalis



## The Land of Beginning Again

"I wish that there were some wonderful place  
In the Land of Beginning Again.  
Where all our mistakes and all our heartaches  
And all of our poor selfish grief  
Could be dropped like a shabby old coat at the door  
and never put on again.  
I wish we could come on it all unaware,  
Like the hunter who finds a lost trail;  
And I wish that the one whom our blindness had done  
The greatest injustice of all  
Could be there at the gates  
like an old friend that waits  
For the comrade he's gladdest to hail.  
We would find all the things we intended to do  
But forgot, and remembered too late,  
Little praises unspoken, little promises broken,  
And all the thousand and one  
Little duties neglected that might have perfected  
The day for one less fortunate.  
It wouldn't be possible not to be kind  
In the Land of Beginning Again,  
And the ones we misjudged  
and the ones whom we grudged  
their moments of victory here,  
Would find in the grasp of our loving hand-clasp  
More than penitent lips could explain...  
So I wish that there were some wonderful place  
Called the Land of Beginning Again,  
Where all our mistakes and all our heartaches,  
And all of our poor selfish grief  
Could be dropped like a shabby old coat at the door  
And never put on again."

Author: Louise Fletcher Tarkington