



ENDSIGHT

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Who's Got Your Back?

In tough economic times, all financial instruments come under increased scrutiny in terms of their performance and safety. So, what protections are in place for policyholders of life insurance policies? Life insurance remains one of the most highly regulated financial service industries and this issue of ENDSIGHT will provide an overview of policyholder protections.

Protecting Policyholders and Maintaining Insurance Company Solvency. State insurance departments serve as the principal regulators of life insurance companies. Their focus is primarily on protecting the public by providing greater certainty that life insurance companies will remain solvent and meet their contractual obligations to policyholders, including paying death benefit claims and surrender values to policyholders.

Conservative Reserves. Life insurers are required to hold reserves to cover the cost of future claims. The required reserves are calculated using a conservative method mandated by state law and regulation. As an example, the underlying required mortality assumption (i.e. death rates) applied to the reserve calculation is much greater than current actual experience, resulting in a reserve cushion to handle potential adverse future mortality experience.

Conservative Capital (Risk Based Capital). Life insurers are also required by state law and regulation to hold a capital and surplus cushion (based on the types of risks on the insurer's balance sheet). If the capital and surplus of a company falls below a minimum required level, the state regulator will take action to protect policyholders.

High Quality General Account Assets. The vast majority of insurance portfolios backing insurance liabilities are comprised of high quality assets, including high quality bonds, commercial mortgages, and real estate. To further reduce the portfolio volatility, life insurance company portfolios are allowed much less leverage than banks or investment banks.

Cash Flow/Liquidity Testing. Life insurers are required to ensure that the assets they hold will provide sufficient liquidity to meet policyholder liability by modeling thousands of economic scenarios.

Restrictions Between Insurance Subsidiary and Parent Holding Company. Life insurance *subsidiaries* have protections in place to protect policyholder interests from being diluted by parent holding companies. The wall that is created between the subsidiary and parent was evident in the AIG situation, where the financial difficulties of the parent company did not result in an impairment of the life insurance operations.

Insurance Company Financial Statement Reviews. Insurance companies must file quarterly financial statements with the state insurance commissioner. They are reviewed to ensure appropriate disclosure and accounting treatment, financial stability, and include financial analytics and commentary.

Mandatory Audits and State Examinations. Life insurance companies must have annual audits of their financial statements performed by independent third party auditors, and are subject to thorough examinations by state regulators on a periodic basis.

Policy Performance

During this economic downturn, the only insurance policy pricing element (mortality, expense, investment earnings, and persistency) that has been impacted is investment earnings. While there has been sustained downward pressure on crediting rates, the return on fixed income life insurance products has provided a sustained, stable return to policyholders.

Best Practices

Policyholders appear to recognize that during this time of global financial stress, life insurance companies remain financially strong. Life insurance has offered a safer port in the current financial storm, especially using products that perform best under a buy and hold philosophy. This is an appropriate approach, both from the perspective of NCUA 701.19 and IRC 101(j). These rules define the appropriate use of life insurance to fund (and offset the cost of) benefit liabilities and potential liabilities by credit unions. ECS understands the complexities of the insurance landscape and the mechanics of the products available. Our in-force service – provided after the policy is placed – is a hallmark of our commitment to our clients. ECS is committed to providing our clients with the information and service necessary to be fully informed and comfortable with their choice and ongoing performance of their asset deployment decisions.



ECS is pleased to provide a nationwide survey of credit union benefits and executive compensation for the 6th consecutive year. It is our 'give back' to the Credit Union Movement. We strive to produce the definitive source for good compensation and benefit decision making. Please participate in ***The Survey 2009: Employee and Executive Compensation and Benefits for the Credit Union Movement*** at www.ecs-m.com.