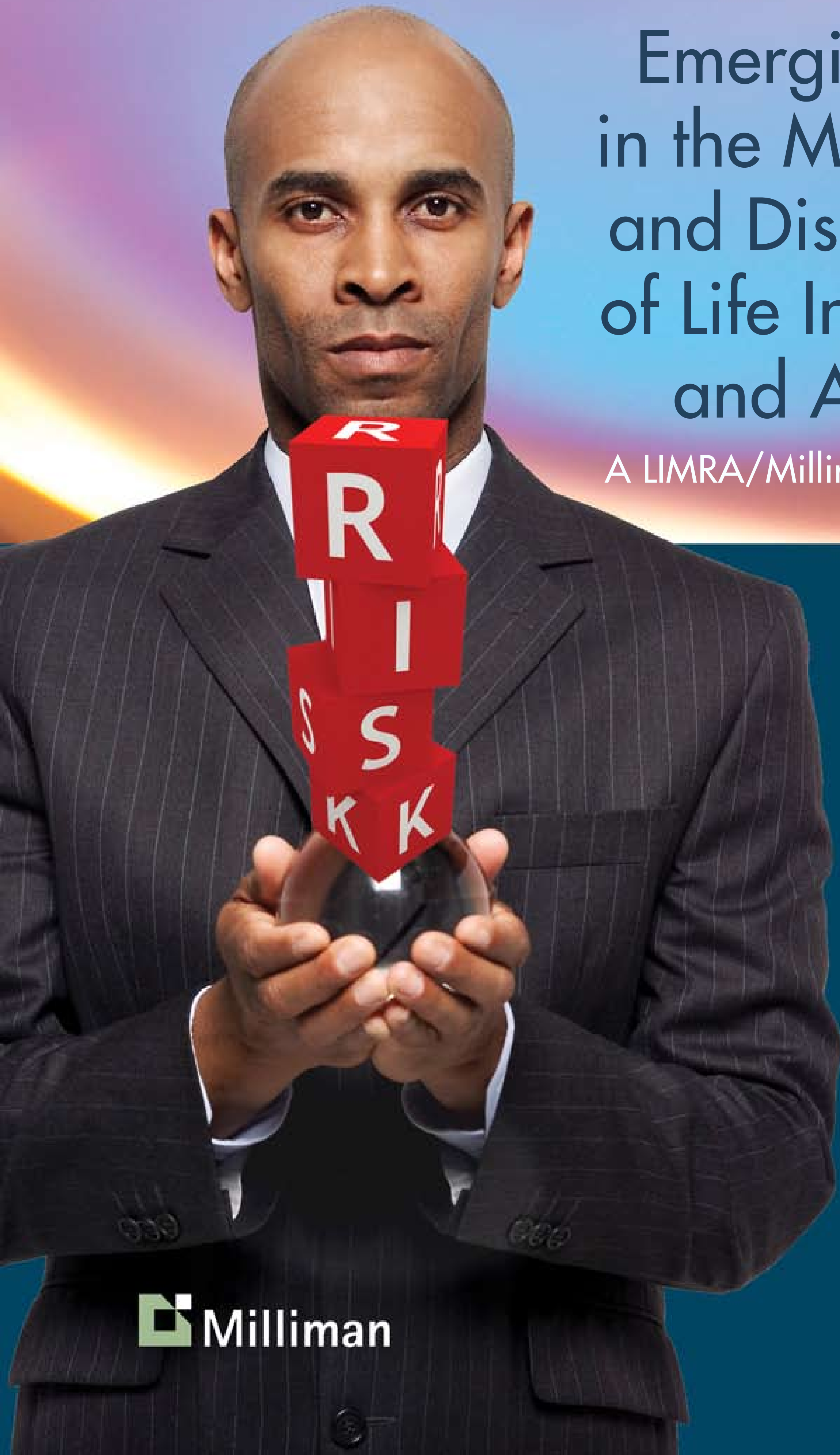
Emerging Risks in the Marketing and Distribution of Life Insurance and Annuities

A LIMRA/Milliman Joint Study



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INTRODUCTION

In these turbulent economic times, risks to insurance companies' sales, profitability, and even viability are pervasive. The Dow Jones Industrial Average hit its lowest point in more than 11 years during 2009. The stock price of many major insurers plummeted, with many falling to less than one tenth of the previous year's high. A number of insurers sought and received aid from the federal government.

To help members gain a perspective on managing this risk, LIMRA and Milliman collaborated and conducted a study regarding emerging risk identification in the life insurance industry. The goal was to identify any new emerging operational and strategic risks that companies are facing as they market and distribute life insurance and annuities in the United States. Emerging risks are difficult to spot, may have a high loss potential, and are subject to a high degree of uncertainty. Companies can use this information to identify, analyze, and understand the industry's risk exposures to provide useful input for strategic planning, risk management, and marketing. Now more than ever, companies must be vigilant in identifying and managing emerging risks.

LIMRA and Milliman interviewed senior executives from 15 U.S. insurance companies. The companies selected represent a mix of large, midsize, and small companies. Some sell a wide variety of products while others offer fewer products. They sell through many, a few, or just a single distribution channel. The interviews were conducted between December 2008 and March 2009.

Each interview included, among other things, questions regarding the company's strategic goals and objectives, along with threats to meeting those objectives; threats to their distribution channel(s); internal threats from within the organization; external threats from competitors, new entrants to the industry, or to their market niche; threats from regulators and legislators; the risk of reputational damage; changes in consumer demand for products; and, on the flip side, industry opportunities.

The interviews were transcribed and analyzed using CRisALIS™ — Milliman's proprietary methodology for helping companies describe, understand, model, and manage strategic threats and opportunities. (See sidebar) Using this technique, we conducted further content analysis to identify the key/salient risks confronting the industry.

About CRisALIS™

Milliman's proprietary analysis methodology, CRisALIS™, is designed to capture the connections between various elements of a business process. The "cognitive mapping" technique within CRisALIS™ is highly visual and provides a solid scientific framework for resolving complex interrelated concepts. The clusters and nodes on a CRisALIS™ cognitive map provide insights to the drivers and elements underlying the risks facing an industry. (See Appendix B for more information and for a sample of the cognitive maps developed for this project.)

The Nature of Risk

Insurance is a risk management business, but the risks a company faces may be difficult to pin down at any given time. People often think of risk as bad — something that they should avoid at all costs. Traditionally, risks are defined as events that have a certain "likelihood" of occurring and a certain "impact" should they occur. This definition suits certain types of risk, but seldom captures all the risks that can impact organizations and prevent them from achieving their goals. When the worst happens, you often hear that the risk was a surprise — no one saw it coming.

The reality is that risks are often undesirable outputs from a system. They emerge over time and are the result of a complex interaction of components in the system (such as people, processes, etc.). Invariably there are warning signs of impending trouble, if only one knows where to look.

The results of research carried out in the UK show that viewing risk, particularly strategic risk, as an emergent property of a system enables using certain techniques that can make the nature of the risk exposure more transparent. This in turn allows companies to better understand and more effectively manage those risks.

The systems we are modeling (marketing and distribution for life and annuity insurers) are truly "complex." This means that their behavior results from the interactions of multiple factors in a complex manner, and the ways in which these interactions take place can change over time, as the components reorganize themselves. In other words, in complex systems, risks change over time.

GOALS AND RISKS

The interview process used in this study began with an identification of company goals. The participating executives know exactly what their company's goals are, and several strategic goals emerge as common themes.

Strategic Goals

> **Strategic Goals**
>
> - Achieve Long-Term Profitable Growth
> - Increase Life Insurance and Annuity Sales
> - Grow Revenues
> - Maintain the Health of the Life Insurance Industry
> - Protect Core Business

Five common goals emerged from the interviews. Three of the goals involve measures that insurance companies use for setting their plans and other management indicators.

To achieve long-term profitable growth, increase life insurance sales, and grow revenue are goals in a typical insurance company's management plan, and would remain unchanged whether this study were done five, 10, or 50 years ago, and will likely remain the same 10 years from now.

The last two goals, maintain the health of the life insurance industry and protect core business, are different and would not have been seen even three years ago. But, given the turbulent times beginning in the fall of 2008, they are not surprising. The goal to maintain the health of the life insurance industry is largely directed at protecting the reputation of the industry. This theme emerged in most if not all of the interviews. This goal has two dimensions. First, through state guarantee funds, the industry is largely responsible for protecting itself. When a company becomes insolvent, the companies that sell in the same state are responsible for protecting the failed company's policyholders. The second dimension is the converse of the rising tide argument. When the life insurance industry is frequently in the press for a failure or financial pressures, certain companies may gain market share but the overall market shrinks because of consumer concerns. A larger share of a smaller "pie" may in fact be a smaller piece.

The second of these two goals is a bit more intriguing. Protecting core business is a goal that speaks to many of the non-core activities that resulted in significant troubles for many insurers. Credit default swaps, securities lending, mortgage insurance, risky investing, and other non-core activities are seen as real sources of risk. Keep in mind that the interviews were typically with marketing officers whose main responsibilities are to life insurance and annuity sales. These individuals are naturally biased toward protecting their lines of business. However, the goal reflects what appears to be a general backlash against non-core activities that insurance companies previously felt pressured to enter into as a way to increase the bottom line. The insurance industry is considered a mature industry. As we will touch on elsewhere, it is difficult to find new sources of growth in the traditional life insurance lines. Because of this, companies often look for growth elsewhere. At times, they look to areas of growth where they do not understand the risks.

So, does the goal of protecting core business really mean that companies should not be involved in non-core activities or does it mean that core business needs to grow so that there is no need to look beyond that core? More likely, it's not an either/or situation. Rather, it means not losing sight of what's important and not being distracted by other businesses. In other words, keeping priorities straight. This difference is likely in the short-term versus the long-term aspects of this goal. In the short-term, a knee-jerk reaction would be to pull back from everything except life insurance and annuities. If the core business can generate growth at a sufficient rate, most CEOs would likely be fine with that. The fact of the matter is that core businesses have generally not been able to generate sufficient growth. Since sales of most life and annuity contracts require the investment of capital in the first year or so followed by profits in later years, slow growth means that the cash and surplus generated as the business runs off must be invested elsewhere. Companies became flush with cash and needed activities to invest it in, prompting investments in non-core activities. However, over the long-term companies must either find ways to increase the growth of their core business, or find non-core businesses whose risk profiles they better understand in which to invest. This takes time.

The next step in our overall risk analysis is to identify the risks that impact the ultimate achievement of the identified goals. The following section discusses the 11 key risks that emerged from the CRisALIS™ methodology, as well as the potential measures companies may want to consider to mitigate and manage these risks.

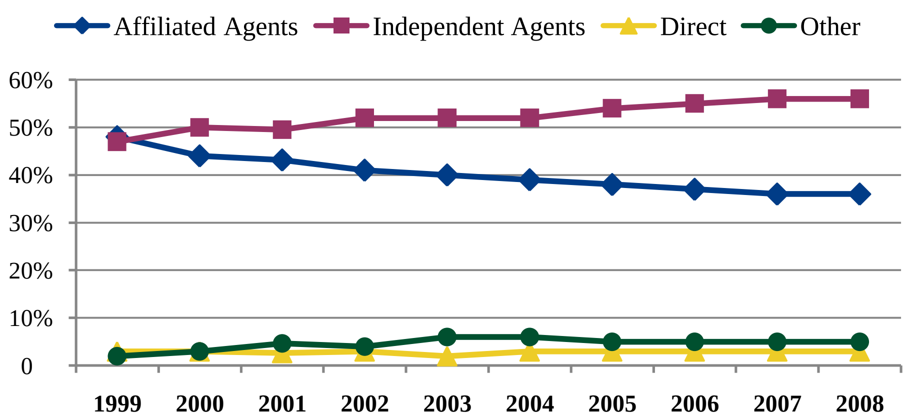
Keep in mind, however, that while this report itemizes the risks as independent, stand-alone items, the reality is more complex. The sample chart in Appendix B show that a whole network of interlocking elements and drivers can impact the achievement of the strategic goals. Visually, it becomes clear that the factors combine in multiple ways to influence the achievement of these goals.

Risk 1: Failure to Maintain Strong Distribution Relationships

Independent distribution has grown substantially over the last couple of decades and now accounts for well over half of new life insurance premium (Figure 1.1). The rewards of using independent channels include a variable cost structure and the opportunity for broader reach in the marketplace. But independent distribution comes with substantial risks. Advisors often have a choice of several — maybe dozens — of products to offer, from many carriers. Carriers that are not top-of-mind among independent producers risk losing sales.

Figure 1.1 — U.S. Individual Life Market Share by Channel

(Based on annualized premium)



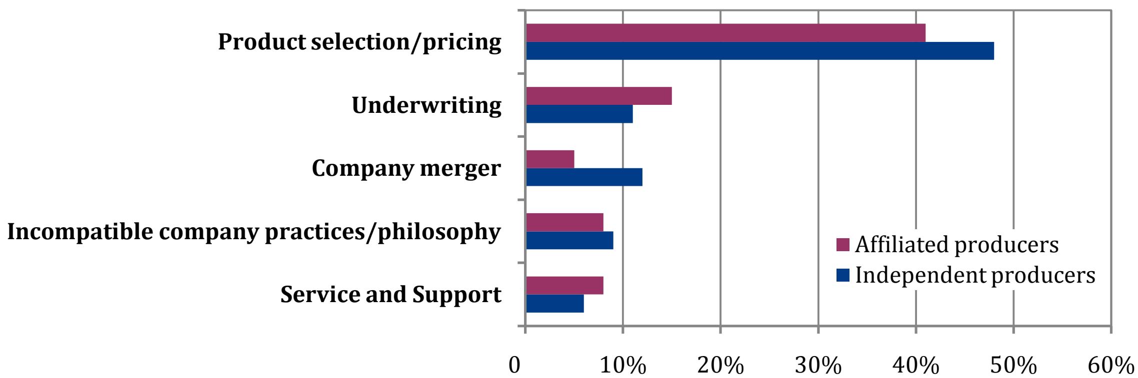
Source: LIMRA's U.S. Individual Life Insurance Sales Studies and LIMRA estimates. Affiliated includes career, MLEA, and home service; Independent includes brokers and PPGAs; Other includes stockbrokers, financial institutions, worksite, and channels other than those included in the previous categories.

Executives recognize that they risk losing distributor shelf space more now than ever. Independent producers are contracting with fewer companies than they did just a few years ago. In 2004, producers sold business with an average of 13 companies; in 2008, it dropped to ten. Now, if you're one of the ten, that's great, because you'll get more business. But what if you're one of the three? The current environment emphasizes the need to diversify — companies cannot afford to put all their eggs in the same distribution basket.

Diversifying distribution by itself won't assure success. Becoming a carrier of choice among independent producers involves substantial effort. There are many facets to the carrier-distributor relationship. Product is certainly important. A 2008 LIMRA study of producers shows that product/pricing is by far the biggest reason producers switch carriers for brokered business (Figure 1.2). But product and compensation are a given — just the ticket to entry in selling in the independent channel. Providing support that producers value can differentiate some carriers. But where should companies invest the limited support dollars to achieve maximum benefit? There is no clear consensus on what areas of support producers value the most. Carriers need to determine what *their* distributors value, and what would make the most difference in *their* distributors' business (Figure 1.3).

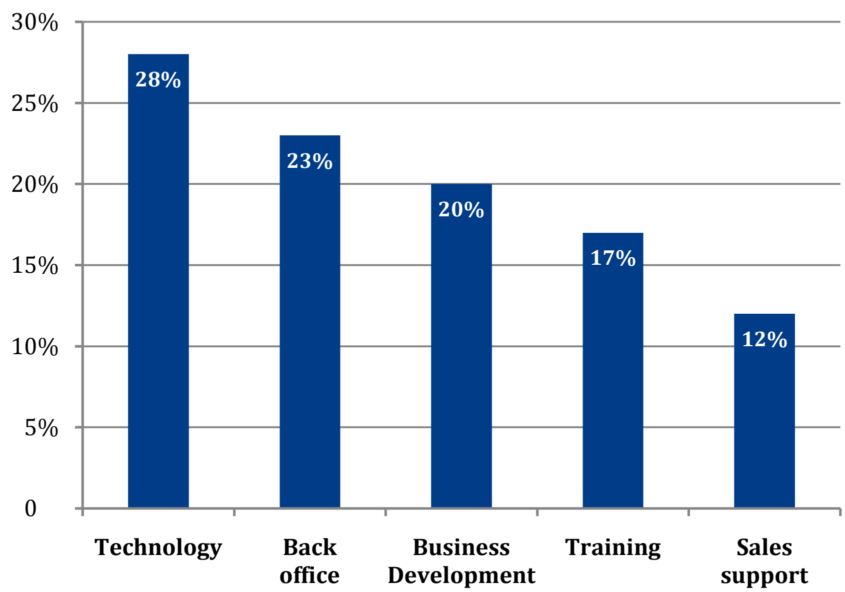
Many of the executives believe that there are opportunities for highly-rated companies to pick up new distribution in the current environment.

Figure 1.2 — Why Do Producers Change Carriers for Brokered Business?



Source: *What Producers Value from Companies and Independent Intermediaries,* LIMRA, 2008.

Figure 1.3 — Support Ranked "Most Important" by Producers



Recent LIMRA research (conducted in collaboration with McKinsey & Company) demonstrates that there is no one type of value-added service most important to producers; therefore, companies have to be prepared to deliver across several dimensions. Where your company should invest its resources, however, will depend on your company's current markets, products, distribution strategies, and your current producer-support strengths and weaknesses.

Source: *Forces of Change: Issues Facing Distribution Leaders*, LIMRA and McKinsey & Company, 2009

Managing This Risk

1. **Stay close to independent distribution, and build relationships with them.** Find out what their needs are and what would make a difference in their business. From this perspective, independent and affiliated distribution are the same. A LIMRA analysis of sales trends several years ago shows that companies that treat their distribution well — whether it is affiliated or independent — tend to have consistent sales success. What services make a difference will vary for different companies and for different distributors. It could be a technology solution or special home office support. But whatever it is, it has to be important enough to distributors to make them want to do business with you instead of with another carrier.

2. **Stay competitive on product and compensation.** While companies may not need to have the lowest rates or the highest commissions, they need to be in the same ball park as their key competitors.

Risk 2: Failure to Diversify Distribution

The need to diversify distribution relates to the previous risk of maintaining strong relationships. While companies with their own affiliated agents may be comfortable concentrating distribution in one or two channels, companies that don't control their distribution face substantial risks if they fail to diversify. Even companies with their own distribution can benefit from diversification. Growing career distribution is expensive and time consuming. Turning to various independent channels can provide access to new markets quickly and efficiently.

Ten years ago, less than a quarter of companies used three or more channels to sell individual life insurance (averaging 1.8 channels). Today, a third of companies use three or more channels. Part of that increase is the result of acquisitions — as much of the M&A activity over the last decade resulted in companies acquiring additional and often different distribution channels that allowed them to expand their reach to new markets. Many executives feel the need to continue marketing products using different distribution methods in order to reach different target markets.

Threats to Affiliated Channels

Congress will likely implement at least some new regulations for the financial services industry over the next year or two. A few see this as a growing threat to their affiliated or career distribution channels. The question is: What regulation and for whom? Some think new regulations might include fiduciary requirements mandating that advisors find the best product/solution for the client. This clearly concerns companies that rely heavily on sales through their own agency force. Another potential implication of this is the acceleration of the shift to independent distribution along with increased consolidation among independent distributor organizations. These mega-marketing organizations would wield more power, thus increasing their ability to negotiate higher commissions, which impacts company profitability.

The UK Experience: A Case Study

The experience of the insurance industry in the United Kingdom over the past two decades provides some insight on what could happen. The Financial Services Act of 1986 mandated that the UK's independent financial advisors (IFAs) provide "best advice." Best advice — essentially a requirement that a recommended product be suitable for the client — imposed a substantial regulatory burden on individual IFAs and small IFA firms. To help meet the regulatory requirements, many IFAs joined "networks." These networks, intermediaries between manufacturers and producers, provided IFAs with services such as software for client needs analysis (fact finding) and recordkeeping for administration and compliance, along with product portfolios drawn from a variety of product manufacturers. Over time, these networks grew in size and developed considerable market power that they used to negotiate more favorable commission arrangements from the manufacturers. For more information, see: Is the UK a Predictor for the Future Elsewhere, LIMRA, 2006.

Career agent companies have traditionally recruited and trained new insurance agents. With the decline in the number of career agent companies, who will recruit and train in the future? One emerging model may answer that question — a "career agent" distribution firm that sells the products of multiple companies. The distribution firm recruits and trains new agents and provides the support traditionally associated with a career agency company. The difference is that the firm offers a variety of products from multiple carriers.

Managing This Risk

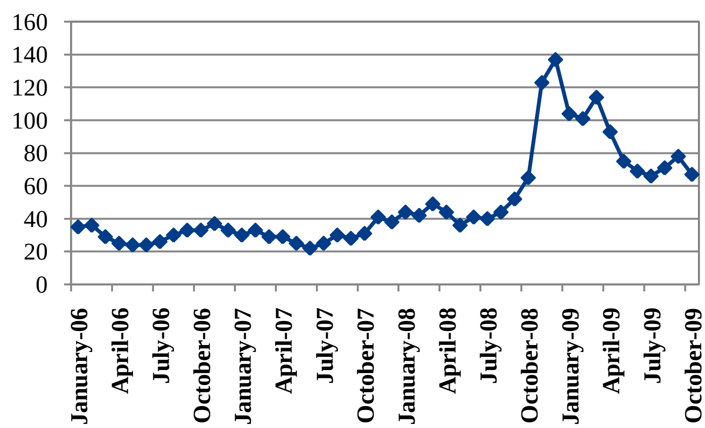
1. **Diversify distribution outlets.** Companies that market through independent channels put themselves at higher risk if they have fewer distribution outlets.
2. **Continue to monitor and plan for potential regulatory changes.** Consider different legislative/regulatory scenarios. Identify the possible impact on your business. Then consider developing risk mitigation plans.

Risk 3: Inability to Adjust Products to Current Environment

No one knows what the financial landscape and insurance product landscape will look like one year or even six months from now. The years 2008 and 2009 were a testament to just how quickly financial markets can move. Many insurance products have a limited range of environments in which the product will still be attractive to the customer and profitable for the company.

A case in point is the variable annuity (VA) marketplace. Several executives identified the VA marketplace as an example of a product that was not able to react to market shifts quickly enough. The VA market of 2007 and early 2008 was often categorized as an "Arms Race." The companies with the most generous guarantees and most innovative features experienced dramatic increases in sales. This drove the market to create richer and richer living benefit guarantees. During 2008, volatility steadily increased, Treasury rates fell, and equity markets declined. The rising volatility and falling interest rates led to dramatic increases in the expected cost to hedge VA guarantees. Companies struggled with what to do in light of this pressure.[1] (See Figure 3.1)

Figure 3.1 — Milliman Hedge Cost Index for Representative VA with GLWB



Moreover, insurance products face some unique challenges related to this risk. First, insurance products take time to bring to market. Product concept development, pricing, administration system implementation, and ultimately product roll-outs can take anywhere from six months to two years. This lag time between product concept and product roll-out to consumers makes it difficult for insurers to respond efficiently to significant changes in the marketplace.

Second, companies have to educate distribution channels about product changes. The VA marketplace, for instance, relies on wholesalers to complete a certain amount of this education. It can take a wholesaler six months to a year to contact all the agents in their territory.

[1] However, a Milliman study of VA writers with hedging programs found that the hedging programs were 94% effective in achieving their designed goals in the volatile November 2008 to March 2009 period.

Peter Sun, *The VA Industry: An Analysis of Recent Activities*, July 2009
http://www.milliman.com/expertise/life-financial/publications/rr/va-industry-analysis-recent-rr.php

Third, life insurance is a state-regulated industry with most major companies operating in all 50 states. Insurers attempt to file products that have a certain amount of flexibility, such as charges that can be adjusted on new issues, or product features that can be changed periodically. However, major product changes have to be filed — frequently a time consuming process.

In light of this risk, insurers are faced with two choices: (1) continue to offer products that may not achieve their target profitability; or (2) pull a product from the market until a replacement product can be put in place. Neither of these choices is attractive and both can have long-term implications.

Managing This Risk

No one can say what the next product trend, key distribution channel, or financial crisis will be, but there *will* be new products, new distribution, and financial crises. Companies built to react quickly and correctly will succeed. The pace of change will likely only accelerate in the future.

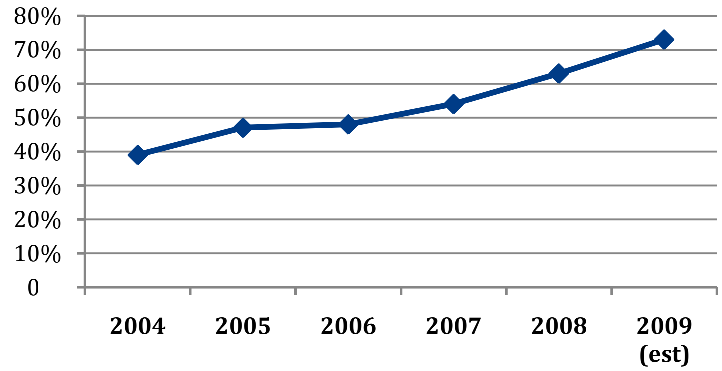
Creating a nimble organization requires:

1. **Competitive intelligence** — Competitive intelligence is something most companies wish they had more of, especially during a crisis. Some companies have robust and systematic competitive intelligence gathering processes. These companies are better equipped when a crisis emerges.
2. **A broad portfolio** — When one product type falls out of favor, sales often boom in another. This was apparent in 2008 — when VA sales slumped and fixed annuity sales increased dramatically. And in 2009, when UL sales plummeted, whole life and term fared better.
3. **Maintenance of product development functions** — Companies that bring product development resources to a situation quickly and effectively will be better able to react to a changing product landscape. This includes technical resources (actuarial and risk management) as well as filing and systems.

Risk 4: Demand for Products Featuring Guarantees

Many current insurance products feature mechanisms through which poor financial performance may be passed on to the customer. Examples include dividends in participating products, variable annuities without guarantees, and non-guaranteed elements in universal life products. Over the last decade, consumers and producers have been looking for more guarantees. Life insurance products are generally long-term products, and providing guarantees over a long time frame can be challenging. Mispriced guarantees, or the financial environment moving in the wrong direction, can severely impact a company's performance. Sales of VAs with guarantees increased dramatically in the past decade, until the current market turmoil began. (See Figure 4.1)

Figure 4.1 — Election Rate of Guaranteed Living Benefits Offered on Variable Annuities



Source: Milliman Guaranteed Living Benefit Survey

From Guidance to Guarantees — How Has Insurance Changed in the Last 50 Years?

Picture a life insurance transaction in 1960. The product being discussed was likely a participating whole life contract. The setting is likely a kitchen table where an agent the family knows and trusts is on his third visit trying to close the sale of a policy with a $50,000 face amount. A table of values is being used to show how the policy will perform going into the future. The table has guaranteed values on it, but they are not the focus of the discussion because they are based on very conservative assumptions.

A modern life insurance sale is much more transactional in nature. It is likely term insurance which has a guaranteed death benefit for a guaranteed premium. If permanent insurance is needed, it is likely a Universal Life (UL) contract with a secondary guarantee. The UL chassis has non-guaranteed elements such as a crediting rate that is reset every year and certain contract loads and charges that can be increased. However, the premium and death benefit provided by the secondary guarantee are often so strong that much of the company's ability to adjust for a poor financial environment or poor experience has been taken away.

Historically, the life insurance market moved from traditional participating whole life to universal life (UL). UL policies were typically sold by means of an illustration that had conservative guaranteed values, but that also showed how the performance of the policy would be enhanced by the use of more aggressive assumptions. As time passed and illustrations became more sophisticated, they showed that premiums would “vanish” after a certain number of years. If interest earnings did not reach the level of the aggressive illustration, premiums did not vanish, policyholders were unhappy, and there were many well-publicized lawsuits against insurance companies. This caused a loss of trust in life insurers, and is part of the reason for the increased demand for guarantees.

Consumers and producers now commonly want guarantees — products such as UL with secondary guarantees and variable UL with secondary guarantees, both of which guarantee that the insurance will remain in force until death regardless of the account value, as long as a certain level of premium is paid into the contract. These products give the consumer upside potential, but the guarantee often takes away much of the insurance company’s ability to adjust the product features for an adverse environment or adverse experience.

In the VA marketplace, companies provided guaranteed minimum death benefits and guaranteed living benefits on VAs without either securing adequate reinsurance or adequately pricing for the cost of hedging the equity guarantees in the capital markets. This led to losses. Because of increased equity market volatility and the increased cost of hedging, companies reduced the level of the guarantees in their VA products, increased the price of the guarantee, or implemented a combination of both solutions. Because of both the increased cost of guarantees to the policyholder, and the general decline in equity markets leading to losses in the account value, sales of these contracts have significantly decreased since mid-2008.[2]

Managing This Risk

There are no quick answers to this risk of consumers demanding guarantees. Insurance companies can respond to the issue in one of two ways:

1. **Increase competency in managing guarantees** — Insurance companies have had to expand their typical asset liability management skill set to include hedge programs that allow them to manage the risks associated with guarantees. This is most visible in variable annuity hedge programs, but also exists for long-term interest rate guarantees.
2. **Find distribution less focused on guarantees** — Possibilities on this front might include financial planners or other relationship-driven distribution channels. Channels less focused on transactional sales are better suited to promote products that are likely to provide a better value in the long-run, with the downside of a lack of a guarantee.

[2] However, as previously noted, a Milliman study of VA writers with hedging programs found that the hedging programs were 94% effective in achieving their designed goals in the volatile November 2008 to March 2009 period.

Peter Sun, *The VA Industry: An Analysis of Recent Activities*, July 2009
http://www.milliman.com/expertise/life-financial/publications/rr/va-industry-analysis-recent-rr.php

Risk 5: Erosion of Sales Due to Misunderstanding of Need for Insurance Products

While life insurance premiums have risen since the mid 1980s, once the numbers are controlled for inflation they have actually declined. Likewise, the number of life policies sold has declined, despite population growth.

There are many possible explanations for these declines, but one contributing factor is dual-income households. Especially prior to 2001 and again prior to the 2008–2009 recession, these households saw 401(k) balances accumulate to amounts they had never imagined. Many households thus took to self-insuring, or at least partially self-insuring. In other words, if one spouse were to die, the other spouse would still have a job and the full amount of savings in both 401(k) plans.

This phenomenon illustrates one way that consumers do not understand the value of life insurance products. And it adds to the difficulties that producers had already faced for decades: consumers do not understand why they need life insurance or how they can use these products for protection. This is exacerbated by the fact that the purchase of life insurance does not yield instant gratification, as does the purchase of a new car or a flat screen TV. It is an intangible, one for which people pay out every year on the promise that at some time in the distant future, after they're dead, the company will pay a sum of money to their heirs.

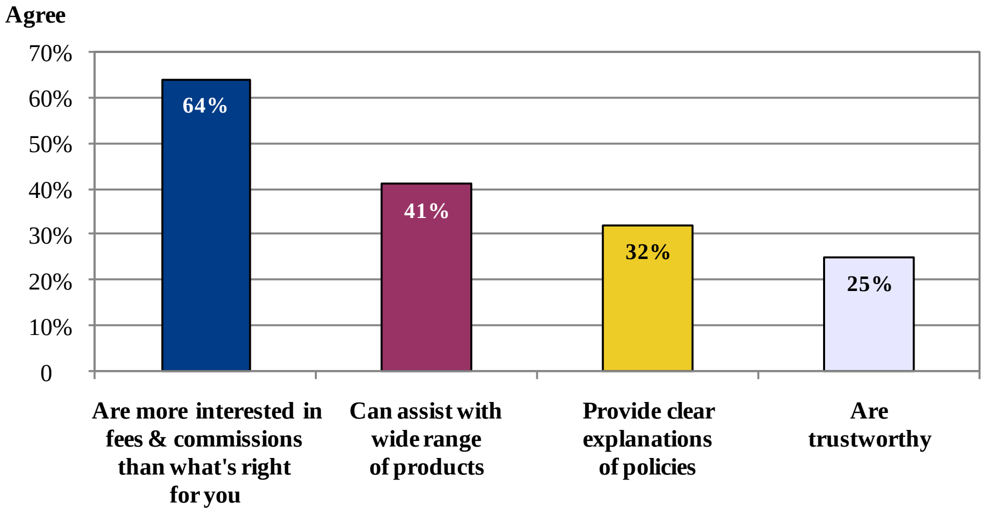
Not an easy sale. Hence the expression "life insurance is sold, not bought."

On the retirement front, consumers in focus groups love the concept of annuities as long as the "A-word" isn't used. They especially like that an annuity can provide a monthly income for life, no matter how long you live. But annuities have received a great deal of bad press, adding to consumer misunderstanding.

Some companies feel that if consumers were better educated about the products, then selling the products would be much easier. Many consumers also say they want to know more about insurance products. However, this leads to a number of issues:

1. Consumers won't go out and educate themselves about insurance products unless they are serious about buying, but this doesn't typically occur until they are "disturbed" by a producer.
2. Consumers often go online to learn about insurance products. They don't want to feel ignorant talking to an agent, especially since they typically don't trust agents they don't know. And most don't feel that the agent does a good job of explaining things anyway. (Figure 5-1)
3. On the other hand, agents express a strong need and desire to know more than their clients and prospects. This becomes more difficult when their customers go out and educate themselves on the Internet.

Figure 5-1 — Consumer Perceptions of Insurance Agents and Brokers



Source: LIMRA, *Life Insurance in a Tough Economy*, 2010

Managing This Risk

1. **Market products in ways that motivate consumers to take action.** This consumer action may be in the form of first educating themselves, then making the purchase, either through a producer or through a direct means. Executives are more inclined to feel that it will always take producers to motivate and educate consumers, and to close the sale, which is indeed the most common way a sale occurs today. In the future, however, the ways for this process to occur may be more varied, with producers/advisors constituting *a* major, but not *the only* major channel for insurance sales.

2. **Gain the trust of your prospects.** One way to gain that trust is to educate them; show them you have nothing to fear from their being knowledgeable. As New York clothier Sy Syms is often credited with saying, “An educated consumer is our best customer.” Given the Internet, you have to presume that today’s consumers will educate themselves to some degree prior to purchase (about half do, and it’s growing).

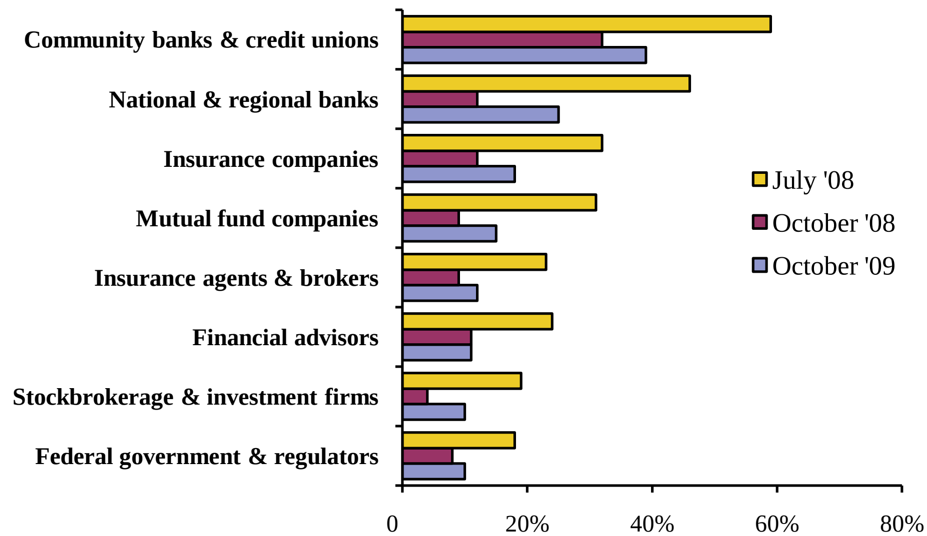
3. **Get referrals.** Producers have the advantage of being perceived as trustworthy if they are referred by someone the prospect knows well, likes, and respects. Getting referrals is an age-old technique, but one that producers often are reluctant to use, fearing that asking for referrals might jeopardize the sale they just closed.

4. **Educate those in authority.** Regulators (and legislators and legislative assistants) are people too. That means that they are often just as ignorant regarding insurance products as regular consumers (i.e., those not actively educating themselves because they’re not in the process of purchasing a policy). If the industry wants a positive outcome on legislation and policy, it must educate people in positions of authority too.

Risk 6: Trust in Financial Institutions Undermined

It is not a risk that consumers *will* lose trust in the financial services industry — they already have. And historically, insurance agents have not topped anyone's list of the most trustworthy professions. LIMRA has tracked consumer views on the financial services industry throughout the financial crisis. Though somewhat improved recently, consumer confidence levels have not returned to where they were pre-crisis in July 2008 (See Figure 6.1). Consumers place the most trust in community banks and credit unions. This is not surprising as, for the most part, they were not involved in the risky activities that hurt bigger banks.

Figure 6-1 — Consumer Confidence in Financial Services



One troubling result for the insurance industry, though, is the divergence between national and regional banks and insurance companies. In October 2008, they were at about the same low level (12 percent confidence). Since then, national and regional banks have surged ahead, even though far more banks than insurers had to rely on the federal government for their survival. This could be because consumers had more trust in banks than insurance companies before the crisis hit. Consumers could be easing back to their "normal" opinions as the crisis starts to wane. In any event, the insurance industry has a way to go to regain consumer trust.

Trust is especially important in financial services because of the nature of the products — consumers can't "kick the tires" of a life insurance policy. The products are complex and consumers don't like the fact that they don't know much about them, a point that executives are well aware of.

According to LIMRA research on consumer trust, 7 in 10 consumers decide whether or not they trust someone at the first meeting; 3 in 10 decide within the first few minutes. You don't get a second chance to make a first impression.

Financial strength is another component of trust. While it's a consideration for both consumers and distributors, it is most important to distributors. Some distributors have specific rating standards below which they won't carry a product. Recent rating downgrades for most of the industry may have created a "ratings curve" effect, but all things being equal, company financial strength is still a key to success.

The insurance industry has seen less financial devastation than other financial institutions. Of the insurance companies that were significantly affected, the impact was not due to the company's insurance operations, but to areas of the company that were neither insurance-related nor regulated by insurance regulators. The heads of insurance company industry associations have been adamant about the safety of the industry and are quick to note that not a single death benefit has gone unpaid, and that annuity payments continue to be made on time. Part of the recovery of trust will simply be time, but the other part will be to hammer home these messages of prudent regulations that require sufficient reserves for claims and continued payment of all liabilities associated with life products.

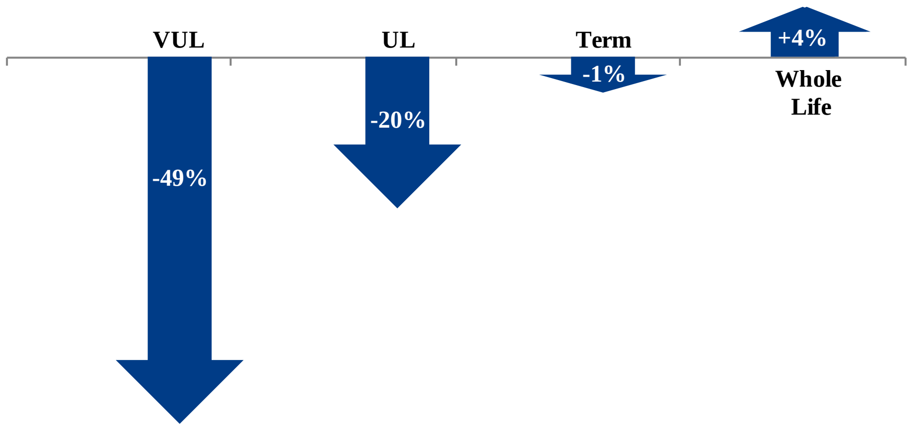
Some executives think that the loss of consumer confidence in financial institutions could result in consumers placing more faith in employer-sponsored financial products. If the credibility of employers increases, then insurance companies selling at the worksite may be at an advantage in the future.

In fact, worksite marketing is one example of a broader concept: affinity group marketing. With affinity group marketing, a carrier aligns itself with an outside membership organization that has the trust and confidence of its members. The members expect that any products offered through or recommended by their "affinity group" have undergone some type of due diligence scrutiny, and they are therefore more likely to buy from the endorsed carriers. Affinity group marketing may be one way for carriers to overcome the distrust caused by the recent financial crisis. Perhaps the best known example of affinity group marketing in the industry is the relationship a number of carriers have with AARP (American Association of Retired Persons).

Several executives feel very good about the financial stability of their company, and say that marketing this strength could be an advantage for increasing sales. In fact, some have already benefited from consumers' "flight to quality." They feel vindicated by the results that their conservative investment policy and conservative product design have produced for them in this challenging economic period.

For some consumers, a basic whole life insurance product looks pretty good right now, compared with other more investment-oriented life insurance products. LIMRA's sales tracking studies show that whole life and term insurance fared much better during the crisis than universal and variable life products (See Figure 6.2). A focus on traditional guaranteed products could be an effective strategy in the current environment.

Figure 6.2 — U.S. Individual Life 2009 Annualized New Premium



Source: LIMRA's Individual Life Sales Survey

Managing This Risk

1. **Tout the financial strength of your company and of the insurance industry as a whole.** Echo the comments by association leaders that death benefits and annuity payments continue to be made.
2. **Highlight your product guarantees.** Guarantees comfort consumers (and producers) in times of financial stress and uncertainty.

Risk 7: Continued Degradation of Agent/Consumer Dynamics

As mentioned previously, consumer confidence (trust) in life insurance agents, never especially high even in the best of times, deteriorated after the October 2008 financial crisis and thus far has failed to rebound to former levels (see Figure 6.1 on page 19). Trust, of course, is critical to success in face-to-face insurance sales. One LIMRA study finds that in life insurance sales situations, consumers who "trust" their agent buy about three quarters of the time, while those who do not trust their agent buy a little more than a third of the time.[3] The erosion of consumer confidence or "trust" in insurance agents, if not reversed, could make sales more difficult, even after the economy rebounds. It is also possible, but perhaps less likely, that the lack of confidence in insurance agents could drive sales to other channels, although most companies still believe that life insurance sales require an agent, and do not see a major shift to nontraditional channels in the foreseeable future.

Recent LIMRA research looks specifically at the subject of interpersonal trust.[4] The research identifies four major components of trust:

- Benevolence: A person's motivation to place another's interests ahead of his or her own interests — to be caring and supportive, and provide the appropriate product or advice.
- Integrity: Adhering to sound moral and ethical principles — being honest
- Dependability: Delivering on promises — predictability
- Competency: Ability, expertise, and knowledge

Interestingly, benevolence and integrity are by far the most important of the four.

Managing This Risk

1. **Train your agents.** If trust is a key to making a life insurance sale, then companies need to train agents about the importance of trust and the ways to establish trust with potential clients. The training should specifically address the four facets of trust, and emphasize benevolence and integrity.

   In order to tap into the benevolent facet of trust, agents need to:[5]

   - Ask about the client's needs, and explain why understanding their needs is important to finding them the right product.
   - Be empathetic and listen to the client: patiently answer the client questions.
   - Give the client time to make a decision; don't be pushy.
   - Avoid talking about things that will not interest the client.

[3] *Buyers and Nonbuyers of Life Insurance*, LIMRA, 2004.
[4] *Consumer Trust*, LIMRA, 2009.
[5] Ibid.

The integrity facet of trust is somewhat self-explanatory and is reinforced when agents:[6]

- Are up-front with clients about their objectives.
- Present different options to the client and prioritize them.
- Are honest and do not stretch or conceal facts.
- Take proper care of confidential information.

2. **Timing is everything.** Agents need to work on establishing trust early in a relationship with a client. As mentioned earlier, most people (70 percent) decide whether or not to trust someone by the end of the first meeting and many (29 percent) decide in the first few minutes.
3. **Don’t feel threatened by consumer knowledge.** Agents find that some consumers arrive at the first meeting already armed with information about financial products that they found on the Internet or from financial news shows or publications. Agents should not feel threatened by this behavior: agents are (or should be) better informed than their clients about insurance product features and their proper use and application. But agents should recognize that this behavior reflects a client’s unease about the potential purchase of a major financial product from a person they have yet to get to know. Agents can put these clients at ease, not necessarily by showcasing their superior product knowledge, but by displaying benevolence and integrity. Agents should emphasize how they will help the client find the right product for their needs.

[6] Ibid.

Risk 8: Economic Environment

Consumer Wallets Shrinking

Consumers rarely see insurance products as necessities. Life insurance products are not required by law. Homeowners insurance, while not required by law, is often required for a mortgage. Consumers see life insurance products and annuities as valuable, but as discretionary spending falls, they may be the first to get cut.

With consumers losing not only their jobs in the recession, but also a significant share of the money invested in 401(k) plans and other equity-linked investments, they have less money to spend on life insurance and annuities, which makes selling even more difficult. One company's agents report that due to the high gas prices consumers were enduring in 2008, they weren't even getting face time with the client to try to make a life insurance sale. Although gas prices have fluctuated since then, their level is an instantaneous measure of how willing consumers are to spend money on other things.

On the other hand, some see the market downturn and resulting deterioration of consumer wealth as an opportunity. From this point of view there are now many consumers out there that thought they could handle their own financial affairs, and are now very frustrated to say the least. These consumers will probably be looking for help, and those companies that can provide a needs-based, consultative approach will succeed in increasing sales.

Tight Credit Market Becomes Tighter and Availability of Capital Shrinks

The economic environment has also impacted insurance companies. Tight credit markets hurt a company's ability to raise equity to maintain risk-based capital and other solvency ratios at desired levels. Many companies had investments in mortgage-backed securities, hedge funds, limited partnerships, and real estate, most of which are thinly traded and difficult to value. Tight credit markets themselves caused reductions in these asset values, due to the lack of a liquid market. Companies also made guarantees to policyholders that were "unhedged" or ineffectively hedged, leading to losses and reduced capital. Some large industry players applied for and received money from the various bailout programs set up by the Federal government as a result of these issues.

On the "raising capital/liquidity" side, although initially there was some intra-industry investment made to shore up capital and some companies were able to raise debt, most companies had difficulty raising capital until the second quarter of 2009. Many industry analysts believe that there are numerous business units, books of business, or companies that are "for sale" in an effort to raise capital, but capital markets have not yet become conducive to raising the required levels of capital to provide potential purchasers with both a cushion to risk-based capital ratios and the resources to make acquisitions. Also as a result of these market conditions, respondents are taking more conservative approaches to their investments.

Reserve Relief Solutions Difficult to Put in Place

In the past, the perception of overly conservative reserves in certain products resulted in the creation of reserve relief mechanisms such as securitizations and captive reinsurance. These mechanisms relied to a significant extent on a cheap and reliable source of capital and were financed by investors who relied on financial guarantors to perform due diligence and provide a wrapper. As credit markets tightened and financial guarantors contracted their businesses, some of these programs were no longer available. Specific product lines such as 20-year level premium term and UL with secondary guarantees rely on these mechanisms more than other products and have therefore felt the pressure of the credit crunch more acutely.

Risk Mitigation for a Catastrophic Mortality Event More Challenging

While the threat of a catastrophic mortality event always hangs over the industry, concerns in recent years have centered around extremely potent strains of the flu, as well as the potential for terrorism and natural disasters causing mass casualties. During typical times, companies can use their capital and reserves to manage this risk. However, during stressful periods, company management, regulators, and rating agencies become concerned about the ability of companies to withstand adverse mortality events. Moreover, the cost of maintaining reinsurance and other risk mitigation strategies may make the business less profitable at a time when profits are already being significantly squeezed.

Managing This Risk

1. **Promote product stability** — Life insurers need to promote their products as a source of financial stability in uncertain times. Policy liquidity features, such as loans and partial withdrawals, should be used to demonstrate the flexibility of products. Fixed products should promote stability of returns.
2. **Never assume that the future will be like the past** — Much of the financial crisis of late 2008 was magnified by an assumption that short-term borrowing (commercial paper market) would always be available. The freezing of this market limited the ability of some insurers to refinance debt that was backing some reserve relief solutions. An enterprise risk management system should identify and help to mitigate the risk of certain markets failing or any other assumptions a business relies on.

Risk 9: Assumption of Defensive Strategies

Risk is not always due to a specific action or decision. Missed opportunities also create risk for companies. This risk has been prevalent in the insurance industry due to the retrenching that occurred in late 2008 and early 2009.

The poor macroeconomic environment of late 2008 and early 2009 has put pressure on the industry and has prompted many companies to become defensive. During the last half of 2008 and the first half of 2009, capital preservation became a primary goal of many insurers. This goal often counteracts other goals, such as revenue growth. In such circumstances, long-term profitability may have been reduced in order to survive the short-term crisis. This capital-preservation strategy manifested itself in a number of ways including:

1. **Limitation of sales —** Constraints on capital forced many companies to limit sales even where there was strong demand. For instance, some companies had to scale back their VA businesses, despite the continued need for retirement income. Another example is the limitation of potentially capital-intensive products such as equity-indexed annuities.

   As respondents note, this feeds back negatively into the industry's ability to recruit high-caliber agents who would rather seek opportunities in more dynamic industries, and right at a time when the agent population is also aging along with the boomers.

2. **Limited M & A activity —** There were relatively few deals done in the later half of 2008 and 2009. During this period, a number of entities would have liked to sell all or a portion of their business. The lack of available capital, the desire to retain any capital available, and the lack of external financing made it difficult to get deals done.

3. **Limited willingness to try new initiatives —** Many companies "stuck to their knitting" during this period, even when faced with attractive opportunities in distribution or new product initiatives.

Managing This Risk

Even though the current environment has forced some companies into defensive postures, they still need to plan for when times improve. Companies should ask themselves what will rebound, and what may remain changed going forward. For example, will consumer attitudes and spending levels return to pre-crisis levels? Will product preferences be the same? (After the 2000–2001 market drop, for example, variable life sales did not rebound.) And what about the regulatory environment? It's reasonable to think that over the next few years, regulatory structures and controls will tighten as a result of the crisis.

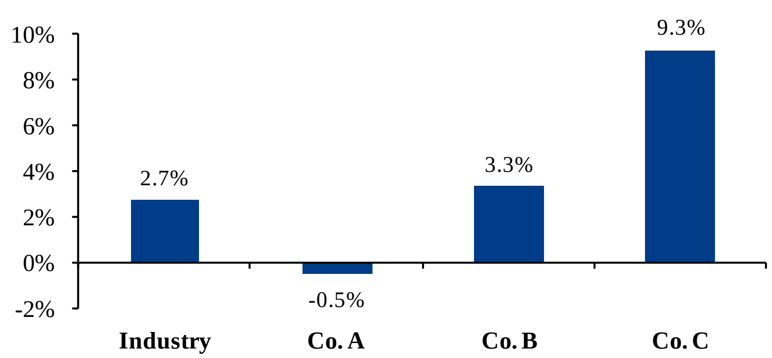
Risk 10: Inability to Organically Grow Life Insurance Business

Many companies express the desire to grow their business organically; that is, growth that doesn't come simply by virtue of a merger or acquisition. They seem to feel that anybody can grow if they just have enough capital to buy another company or a block of business, but it takes real skill as an executive to grow a business organically. This risk that a number of executives talked about is predicated on not having enough capital to acquire business; lacking that capital, if they fail to grow the business organically, their company's survival would be at risk.

As Figure 10.1 shows, organic growth can be achieved. The industry itself realized a 2.7 percent compound annual growth rate between 1995 and 2008 (not adjusting for inflation, however). And, of course, at the industry level, all growth is organic. But more significantly, the experiences of Companies A, B, and C (all real companies, all growth-adjusted for any M & A activity) show that individual companies and the strategies they employ can make a real difference.

Figure 10.1 — Compound Growth Rates 1995 – 2008

(Based on Annualized New Premium)



Companies use a variety of strategies to help them organically grow life sales, including:

- Expanding product breadth
- Expanding current distribution
- Developing new distribution channels
- Expanding into new markets, especially the middle market, the mass affluent market, and ethnic markets
- Investing in sales and marketing budgets

On a short-term basis, companies can buy market share by pricing their products more competitively, but this type of activity cannot be sustained. Furthermore, with all of the product manufacturers in the marketplace, it is difficult to create a new product that won't quickly be copied. An example of this is the revolution in UL in the 1980s; after it was first introduced, it didn't take long for other companies to follow suit. Indeed, what looked like growth in life insurance sales in that decade was really the cannibalization of more profitable in-force policies. The product breadth expertise really only works at the company level, and only if it allows that company to tap into new markets.

Expanding current distribution can take one of two forms: expand the number of distributors or grow sales per distributor (or both). Given the aging of the current field force and low agent retention rates, growing a career field force is extremely difficult. Some companies have had success by recruiting fewer new agents and concentrating on making them more successful, thus achieving much higher retention rates. Current high unemployment rates help recruiting efforts, but the challenge will be to keep those newly trained agents once the economy improves.

Increasing sales per producer typically involves improved training practices as well as better systems for lead generation and efficiency of doing business. These strategies will require some investment, although not to the degree of acquiring companies or blocks of business.

On the independent side, one way to grow distribution is to provide superior products and services that make you attractive to brokers as their carrier of choice; this, again, requires an investment. Another approach, one that for some companies would be considered expanding into new channels, would be to form alliances with various marketing organizations (banks, brokerage firms, independent broker-dealers, IMOs, etc.). Of course, the more types of distribution channels a company has, the more expertise it needs to make those relationships successful.

Indeed, expanding current distribution is top-of-mind for many companies. In a recent LIMRA survey, most companies (59% percent) indicate plans to expand current distribution.[7] Among those with plans for expansion, about half are planning expansion of a career channel, a number no doubt driven in part by the recruiting opportunities in the current economy. Moreover, a little over a third (37 percent) of companies plan expansion with independent broker-dealers, and a little under a third (32 percent) plan expansion with IMOs or BGAs.

Expanding into new markets is another option for achieving organic growth: recent research suggests that about 4 in 10 companies have such plans.[8] A number of companies that have found the high-end market not as lucrative as it had been are turning to the mass affluent or even the middle market for growth opportunities. They see the data that show how underserved these markets are and hope they can grow their business by this vertical market expansion.

And, of course, some companies are trying to grow their business through more, and more effective, marketing and sales efforts. Some are following the old adage, "It pays to advertise," while others are targeting their marketing dollars into sales support, public relations, or other efforts that they hope will yield results.

[7] *After the Dust Settles: An Executive View*, LIMRA, 2010.
[8] Ibid.

Managing This Risk

1. **Invest in organic growth.** Organic growth is not easy and, like M&A activity, it usually requires some amount of investment (though not to the same degree). Therefore, companies that want to grow need to apportion some part of their budget as a reinvestment in their business, whether to support new distribution channels, to improve results from current channels, to enter new markets, or for whatever strategy is employed.

2. **Be realistic about organic growth.** While not easy, organic growth is clearly achievable, as evidenced by Company C in the Figure 10.1 on page 27. Companies must take care not to grow at the expense of their in-force blocks of business.

3. **Develop strategies that complement existing strengths.** To succeed, the strategy a company elects should complement its existing strengths in the marketplace. For example, if a company is good at developing products for the markets it serves, increasing product breadth might be a good strategy for that company. If that same company also has access to distribution in a new market and feels it can develop good products for that new market, that also might achieve organic growth.

4. **Focus on strategy execution.** While strategy is extremely important in determining how to grow, the importance of execution should not be overlooked. As a wise man once said, “The devil is in the details.” The best strategy, poorly executed, will cost precious resources. Indeed, improved execution of one’s current business may well yield some degree of growth as well.

Risk 11: Individual Company Reputational Risk

The most valuable attribute an insurance company possesses in the marketplace is its reputation for stability, for meeting its commitments, and for treating its policyholders fairly. Virtually all companies in the study agree that damage to the company's reputation is an extremely serious threat to achieving strategic goals. Damage to a company's reputation can threaten the company's long-term viability.

Executives agree that a company's reputation can be damaged in a number of ways. The most common ways can be categorized as top-down or bottom-up. Bottom-up reputational risk is damage to reputation due to the action of a few or a portion of the agents. Top-down damage occurs at the corporate level.

Bottom-up risks can include a number of areas, but are often summarized as sales practices. Some companies note that they place special emphasis on introducing or maintaining tools to identify producers who are not complying with field underwriting and documentation guidelines, and putting procedures in place to take action on these problem producers when necessary. Certain companies have programs in place to monitor the quality of marketing activity and the quality of business.

Bottom-up risks often damage a company's reputation by resulting in lawsuits, potentially class action suits, and through media reporting. News stories that focus on denied claims, perceived discrimination, or product misrepresentation are not unusual. When these stories reach national media outlets, they can damage a company's reputation.

Top-down risks also include a number of areas, but the most common include ratings downgrades, severe financial distress, issues with related companies, or key employee issues. A rating agency downgrade can be a particularly dangerous risk, especially during periods of economic pressure. A "downgrade spiral" can occur when a downgrade leads to loss of sales and an increase in lapses because of solvency concerns. The downgrade will also make it more difficult to raise capital. The downgrade may lead to a loss of key employees because they may be concerned about the company's future. All of these items can combine to increase the financial pressure on the company, potentially leading to another downgrade — and the spiral continues.

It is interesting that the mutual companies feel that they currently have an edge over the stock companies, as they are not in the news regularly with analysts reporting dismal company profit results. The primary audience of a mutual company is their policyholders, and mutual companies don't have to deal with the public markets.

Managing This Risk

Communication is critical in protecting a company's reputation. Communication is also critical to prevent a damaging situation from becoming a critical situation. The logistics of communication are often more of a problem than crafting the message. Consider the following:

1. **Distribution communication —** If you wanted to have a letter in the hands of all of your agents within a week, could you do it? How? If you wanted senior sales and marketing individuals to have face-to-face meetings with your key distribution partners within a week, could you do it?
2. **Rating agency communication —** How is your relationship with the rating agencies? Do you see them as a key partner in communicating your company's strength to the marketplace or do you see them as a necessary evil? If you had to tell them about some bad news, but had a plan to work your way out of it, would they believe you or would prior issues cause them to doubt you?
3. **Customer communications —** In a crisis situation, could you effectively communicate with your policyholders? What if the crisis involved key distribution, so distributors could not be used? In a "run on the bank" situation, could you put a retention strategy in place quickly and effectively?
4. **Employee communication —** How would your employees react to a damaged reputation? How could you ensure business continuity during a stressful period?

It will be infinitely easier for companies to consider all of these risks before they occur, rather than during a crisis. The challenges associated with many of the risks above may surprise some — but better now than later.

APPENDIX A — PARTICIPANTS

LIMRA and Milliman would like to thank the following individuals for the valuable insights they provided during the interview process.

Ralph Arnold	Monumental Life Insurance Company
John Aschenbrenner	Principal Financial Group
Mehran Assadi	National Life Insurance Company
Nancy Behrens	State Farm Life Insurance Company
Donald Britton	ING
John Fleming	Baltimore Life Insurance Company
Arnie Henkel	UNIFI Companies
Beth Hirschhorn	MetLife
Albert Homiak	Baltimore Life Insurance Company
Gary Huffman	Ohio National Life Insurance Company
Robert Lautensack	Phoenix Life Insurance Company
Eileen McDonnell	Penn Mutual Life Insurance Company
Al Meyer	American Family Life Insurance Company
Joseph Monk	State Farm Life Insurance Company
John Pearson	Baltimore Life Insurance Company
Leif Roll	State Farm Life Insurance Company
Brad Rosenblatt	Sammons Financial Group
Paul Rutledge	Transamerica Reinsurance
Anthony Vossenberg	Genworth Financial
John Westage	Penn Mutual Life Insurance Company

APPENDIX B — BUILDING COGNITIVE MAPS USING CRISALIS™

Building the Map

Milliman's CRisALIS™ tools and methods are built around the understanding of risk as the emergent property of a system containing many complex interactions – allowing for these interactions can make a big difference to identifying the most important features of a risk profile. The mapping process in CRisALIS™ has two main components. First we capture the information about the organization to know how to draw the map. Second we document it in a way that captures the relevant interconnections between the concepts that the companies have identified. The process used is known as "Cognitive Mapping." There is a body of literature available that explains the technique, so this paper summarizes the key points only. Once the information about each of the organizations is captured, the key nodes (issues) that emerge from each map are combined, together with their underlying related events. A map of the Key Nodes is shown on page 35. To view additional maps from this project, go to http://www.limra.com/members/research/Maps_for_ERM_Report.pdf or http://www.milliman.com/marketing/presentations/pdfs/limra-repor-map.pdf.

Interview Process

The best way to capture information about the organization is to interview a wide cross-section of individuals within the organization. The best knowledge about the organization is most likely to be within the organization itself and we normally find that connections emerge as the number of interviews increases. Also, staff at different levels of the organization will have different views of processes and interactions. Although for this study we were limited to one interview with each company, knowledge of the industry was developed through interviews with multiple companies with different perspectives and viewpoints. The result was that several common themes emerged. The layering of these different perspectives enables us to form a view of the whole industry and of typical organizations within it.

The primary objective of the interviews was to determine:

- The key objectives of the business;
- The companies' thoughts on the main threats that could prevent them from meeting these objectives, and the dynamics of such threats;
- How risks are discussed within the organization; and,
- How people find out about risks.

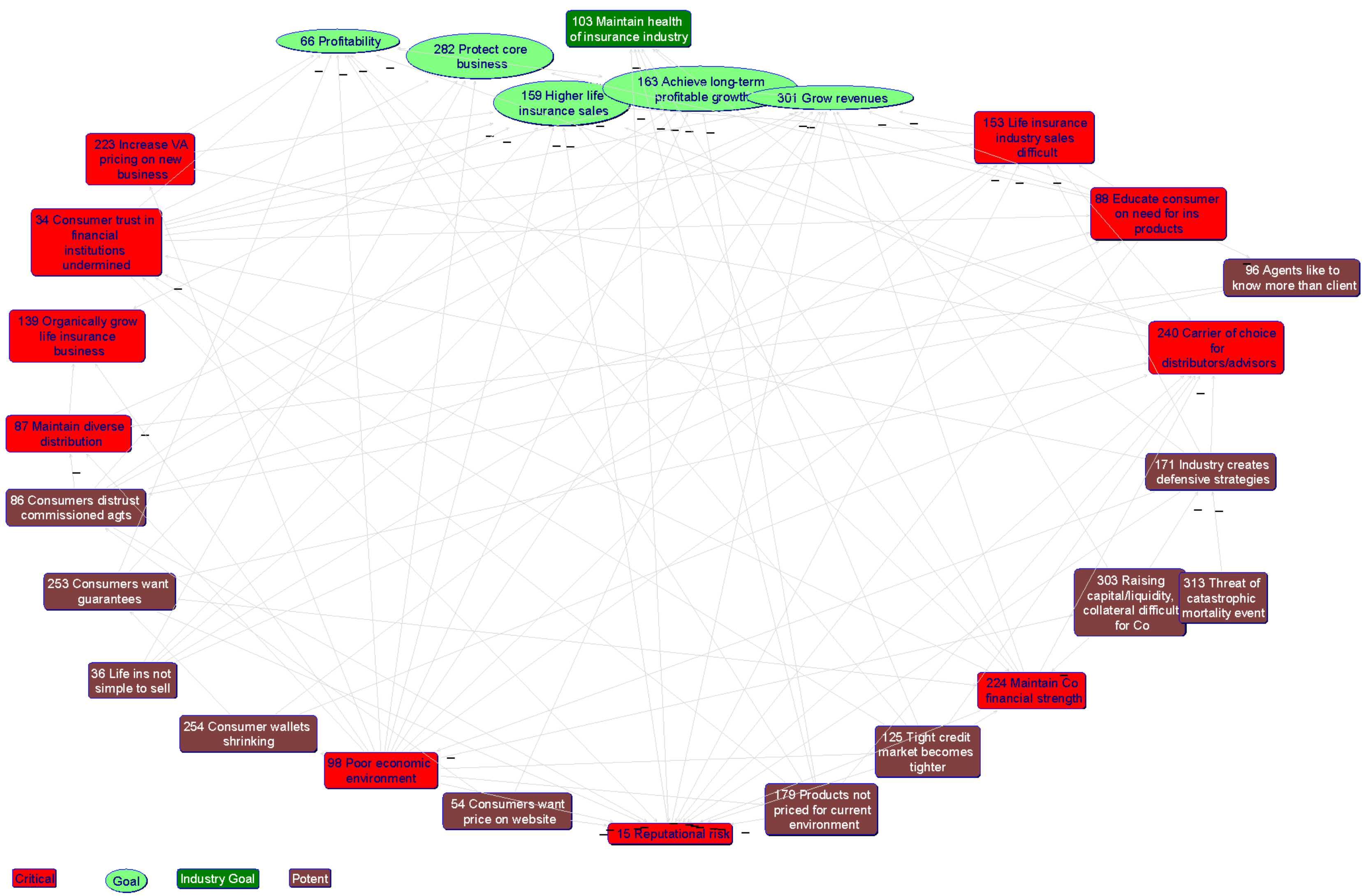
Our process for conducting these interviews included sending out a short list of questions to the invited interviewees in advance. This allowed the interviewees the time to think about the questions, and also hopefully put them at ease during the interview, as they already knew what to expect. The interviews frequently and intentionally departed from the list of questions, however, so that areas of risk could be better studied.

Drawing the Map

We then translated the interviews into a "map" that provides the structure needed to perform the subsequent analysis. Each of the key concepts mentioned in the interviews is recorded as a "node" on the map and the connections that interviewees make between concepts are captured as links on the map. We show both positive and negative links among the concepts and goals.

For example, we might learn that the organization has four business objectives such as "Profitability," "Sustained growth," "Positive reputation," and "Maintain an A rating." We would then show that these objectives have a variety of causal relationships. For example, having an "A rating" would probably enhance a company's reputation, which would in turn help to generate new business. Similarly, profitability provides the ongoing cash flow required to fund new business. We then may find that they have an exposure to equity markets due to a less-than-effective hedging program. This would have an impact on their earnings volatility and a negative impact on profit. It would also have a negative impact on their rating and the volatility of earnings would not be good news for their reputation. These causal relationships are shown through links and arrows on the map.

Key Nodes Map



Assessment of Risk

Once the map has been created, additional tools can be used to identify specific areas of risk that may need further consideration or attention. The tools facilitate the identification of a number of key attributes of the map. This identification process extracts from an otherwise impossibly complex map of concepts the critical and actionable information.

The tools facilitate the identification of the following:

Goals

Goals rise to the top of the mapping process. Goals are specific concepts from the interview process that many other concepts flow into. Goals can and do impact other concepts and other goals, but they are the concepts that have the vast majority of other concepts flowing into them.

Loops

Identification of loops is a key element of the CRisALIS™ process. Loops are specific concepts that feed on each other to exacerbate a negative situation (in a different economic environment, these factors might move in the other direction and enhance a positive situation). Loops are a group of events or concepts whose occurrence reinforces each other, therefore acting as a feedback loop which can spiral out of control.

An example of a loop is the classic ratings downgrade spiral that can occur. A downgrade occurs. Agents and customers become concerned about the company's future. Agents and customers take their business elsewhere, which puts a strain on company cash flows. Lapses increase because of the concern over solvency, further straining cash flows and potentially resulting in capital losses when assets have to be sold to cover outflows. These capital outflows further strain the company's profitability and result in additional rating agency scrutiny, which results in a downgrade and the loop starts over.

Key Elements

The interview process used to collect data for this report yielded literally thousands of concepts. Those concepts had to be filtered to get at the 100 or so key elements. The tools can look for the concepts in the map which appear to be most significant. It does this by looking for those concepts which appear to be highly connected to other concepts and goals. This focuses attention on the important 10 to 15 percent of the concepts while pushing the distracting information out of the way.

A systematic process like the CRisALIS™ methodology is critical in making sure attention is paid to the right areas. In complex systems, like insurance companies, it is easy for the risk management process to get bogged down in minutiae and executives will miss the big picture.

Key Drivers

The final analysis identifies which concepts are "driving" the key elements. The result is an identification of items which are very important to understand when deciding where to focus resources in risk-control activity. The concepts identified in this analysis should be considered highly "inflammatory." Therefore, we would expect companies to set a very low risk tolerance for these concepts.

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