



AMERICAN ACADEMY *of* ACTUARIES

July 9, 2007

Julie McPeak
Executive Director, Kentucky Office of Insurance
Chairperson, NAIC Life Insurance and Annuities (A) Committee
and Travel to Foreign Countries Working Group

RE: American Academy of Actuaries'¹ Life Products Committee Comments on
Proposed Changes to Unfair Trade Practices Model Act

Dear Director McPeak:

The American Academy of Actuaries' Life Products Committee appreciates the opportunity to comment on the proposed revisions to the Unfair Trade Practices Model Act, which introduce restrictions on the use of travel destination in life insurance underwriting.

We support the inclusion of subparagraph (2)(a) of Section 4.G. since it allows underwriting decisions based on sound actuarial principles. The use of sound actuarial principles in underwriting for future travel was described in detail in our September 9, 2006 testimony, which was based on *Actuarial Standard of Practice on Risk Classification (ASOP 12)*. We also recognize that there are valid practical reasons for including safe harbors. While the safe harbors included in subparagraph (2)(b) of Section 4.G of the draft model act are consistent with sound actuarial principles, we are concerned that these conditions may be viewed by some as the only ones that are permissible. We urge that language be added to make it clear that the safe harbors are examples of criteria that are consistent with sound actuarial principles, and not the only criteria consistent with sound actuarial principles.

¹ The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

We have also previously commented (January 17, 2007) that pre-filing of travel underwriting guidelines, as described in subparagraph (2)(d)(ii) of section 4.G. raises issues of concern. Travel that is planned prior to application for life insurance involves special underwriting considerations, because the applicant is already aware that his or her risk exposure is about to increase for a certain period of time. This knowledge could, in some cases, affect the timing and amount of the life insurance purchase. Also, since the insurance coverage could be terminated at any time, it would be possible to purchase large amounts of life insurance just before entering a hazardous environment and cancel it immediately after the trip, thus paying a minimal amount in premium for a large amount of coverage. While the impact of a single high-risk insured in an otherwise lower risk class may not be significant, the availability of a premium rate that has not taken into account the full risk will tend to attract business from the high risk group, an effect known to actuaries as “adverse selection.” A requirement to pre-file underwriting guidelines reduces the flexibility needed to make underwriting decisions reflecting all the information available to the company at the time the decision is made. Furthermore, underwriting guideline filings may be subject to open records rules in some states, which may increase the opportunity for adverse selection.

As stated in our January 17, 2007 comments, the Life Products Committee recommends the inclusion of subparagraph (3)(c) of the November 27 exposure draft of the Unfair Trade Practices Model Act, which says, “Each market conduct examination of a life insurer conducted pursuant to [insert reference to applicable state law] shall include a review of the life insurer’s implementation of this paragraph and Paragraph (2) of this subsection.” These proposed modifications reinforce the fundamental role of actuarial principles in risk classification and they require all companies to maintain documentation of the actuarial basis for its risk classification criteria for review at the time of examination of the insurer. We believe this is the most practical and appropriate method for assuring that underwriting criteria for travel destinations are properly developed and applied.

We would be happy to answer any questions.

American Academy of Actuaries Life Products Committee

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