

Prepared by:

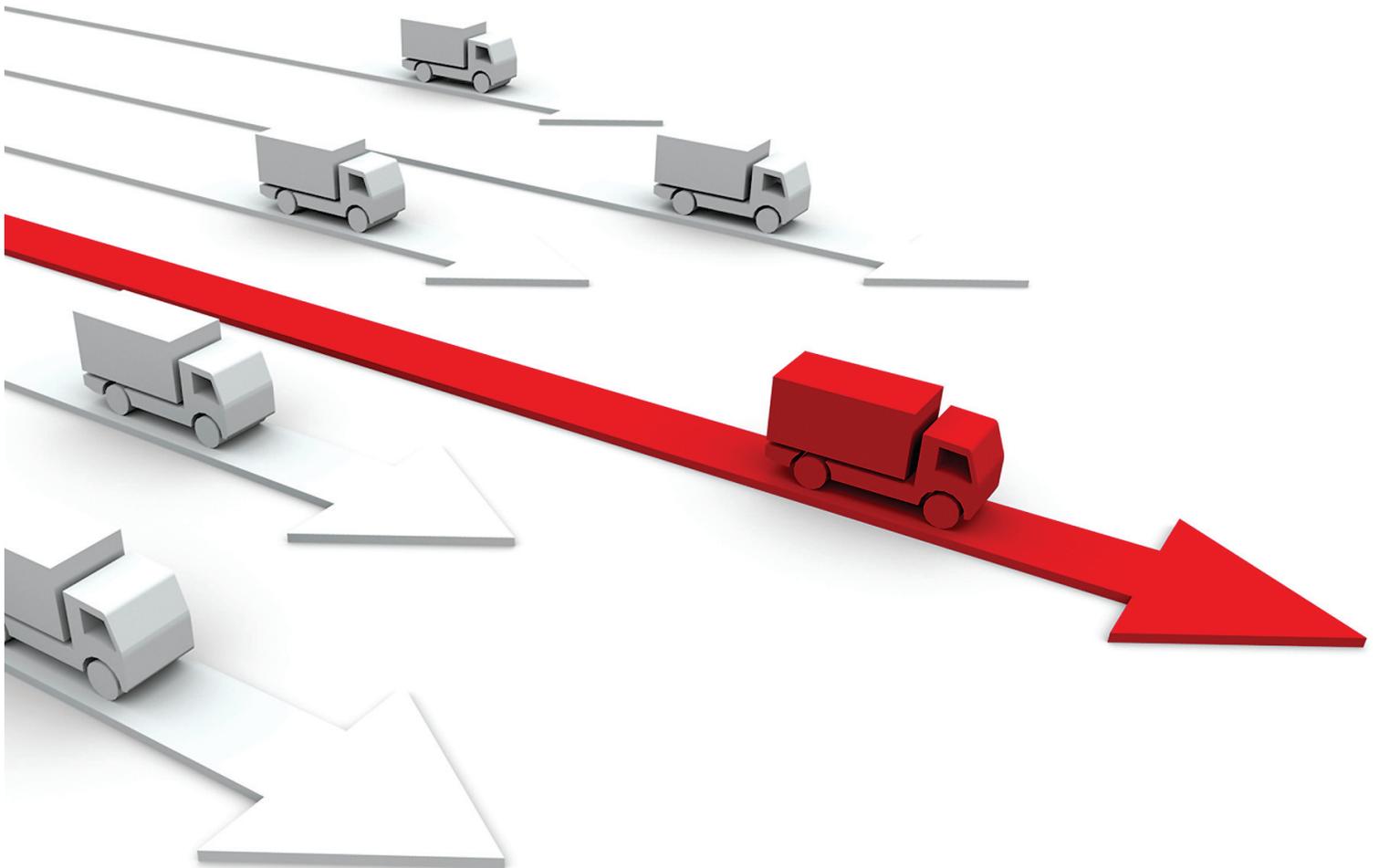
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October 2009



Interstate Compact Survey Report





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INTERSTATE COMPACT SURVEY REPORT

Overview of the Report

Speed to market continues to be a prime concern among insurers for new product launches. Perhaps no other factor has piqued interest in speed to market as much as the Interstate Compact. The Interstate Compact offers approval of new product submissions in 35 states and Puerto Rico in 60 days, or less.

As of August 2009, 63 companies were registered with the Interstate Insurance Product Regulation Compact (IIPRC or Interstate Compact). Although 106 Interstate Compact submissions were filed in 2008, 144 submissions have been submitted as of August 2009. The IIPRC expects to double the total number of 2008 submissions by the end of 2009. Milliman Inc. conducted this survey in an effort to better understand the dynamics behind company participation in the Interstate Compact.

The survey was designed to identify the reasons why some companies have not yet registered with or filed submissions through the IIPRC, as well as to gauge the experience of those companies who have filed Interstate Compact submissions.

Responses to the survey came from 61 companies; 21 companies, or 34% of them, are registered to file submissions through the IIPRC.

The survey asked companies 17 questions regarding the IIPRC (the complete survey appears in Section IV below). The first three questions were directed to companies not currently registered in the IIPRC, and the remaining 14 questions were applicable to companies filing submissions through the IIPRC.

Overall, the survey revealed a high level of satisfaction for companies currently filing IIPRC submissions. Among companies not yet registered to file IIPRC submissions, a primary concern—related to the issue of Mix and Match—was eliminated, as described below. Additional concerns may also be resolved by working towards more thorough communication with the insurance industry to address the IIPRC issues identified in this report.

Disclaimer

This report contains information based on input from companies in the U.S. life insurance industry that participated in the survey. Milliman Inc., ACLI, IIPRC, NAIC, and the companies participating in the survey do not recommend or endorse any particular use of the information contained in this report. Milliman Inc. makes no warranty, guarantee, or representation with regard to this material and assumes no liability or responsibility in connection with the use or misuse of the survey results.

SURVEY RESULTS

Survey Responses From Non-Registered Companies

Survey results are provided in the order of questions presented in the survey. Questions will appear in boldface and numbered throughout the report. A copy of the survey appears at the end of this report in Section IV. The breakdown of companies participating or not participating in the Interstate Compact is provided below.

Question 1.

Does your company now file Interstate Compact filings?

Of the 61 companies that participated in the survey, 40 (66%) stated their company has not registered with the IIPRC or filed Interstate Compact filings. Twenty-one (34%) of the responding companies are registered with the IIPRC.

Question 2.

If your company does not file forms via the Interstate Compact, state the main reasons for not doing so starting with the most important reason and ending with the least important reason in order of importance.

The 40 companies not currently registered in Interstate Compact identified 23 concerns regarding the IIPRC. Respondents were given the option to weigh the importance of their responses by identifying the level of importance assigned to each reason with (1) being the most important reason for non-participation in the IIPRC and (7) being the least important. Based on weighting the importance of the above responses, the top six reasons why the respondents do not participate in the IIPRC are ranked in order of importance as follows:

Rank

1. Concern over Mix and Match issues.
2. The filing cost and cost-benefit ratios are not yet favorable enough.
3. Key standards have not yet been developed.
4. Quicker approvals of more complex forms, or minor changes, are available outside the IIPRC.
5. The standards are too restrictive, stifle innovation, and apply the most stringent state requirements to most states.
6. The IIPRC is not a priority because the company only files a limited number of filings in a limited number of states.¹

On July 30, 2009, the IIPRC announced elimination of the issue formerly known as *Mix and Match*. That means Compact-approved forms may now be used with non-Compact-approved forms without the previous Mix and Match time limitation. The announcement occurred concurrently with the distribution of this survey; hence, the fourth concern in the first set of responses and the item shown as the primary concern in the second set of weighted-average concerns may be eliminated. The only other shift occurred with item 4, *Quicker approvals of more complex forms...* which moved above item 5, *The standards are too restrictive...* once the concerns were rated. With the exception of this one change, the main reasons why companies do not currently participate in the IIPRC are identical for both sets of responses categorized by both response frequency and weighted averages.

The main concern for companies not yet registered with the IIPRC is a perceived negative cost versus benefit ratio. Among companies now making Interstate Compact submissions, however, the general perception regarding IIPRC cost appears to be more positive (see Question #4, p.5).

¹ Item 6 was placed last because it received only five responses, or 7% of the 68 most frequent responses.

Question 3.

If your company does not file IIPRC filings, but intends to do so soon, check the appropriate box below.

Forty companies responded as follows when asked when they intend to start filing IIPRC submissions:

FIGURE 1

| TIMEFRAME | # OF RESPONSES | % OF TOTAL RESPONSES | RANK ORDER OF RESPONSES |
|--------------------|-----------------------|-----------------------------|--------------------------------|
| 3 MONTHS | 5 | 12.5 | 4 |
| 6 MONTHS | 5 | 12.5 | 4 |
| 9 MONTHS | 0 | 0.0 | 0 |
| 1 YEAR | 6 | 15.0 | 3 |
| 1.5 YEARS | 2 | 5.0 | 6 |
| 2 YEARS | 1 | 2.5 | 7 |
| 2+ YEARS | 4 | 10.0 | 5 |
| OTHER | 9 | 22.5 | 1 |
| NO RESPONSE | 8 | 20.0 | 2 |

Survey Responses From Companies Participating in the Interstate Compact

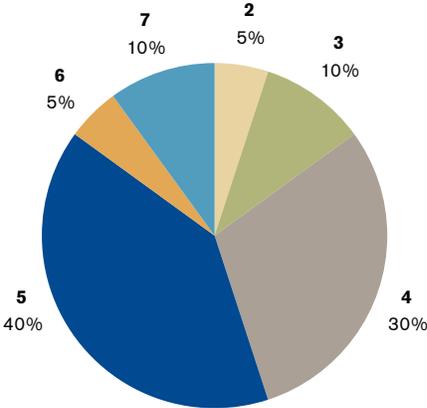
Twenty-one insurance companies representing one third of all IIPRC registered insurance companies participated in the survey. The first five questions in this section of the survey measured participating company satisfaction in the IIPRC. A scale from (1) to (7) was used, with (7) being the measure of highest satisfaction. Overall satisfaction in companies participating in the IIPRC is very high. The least favorable comments pertain to Interstate Compact filing cost, with the scores centered in the range of (3) to (6), which still reflect a reasonable level of satisfaction. The responses are summarized below.

Question 4.

Rate overall satisfaction with Interstate Compact filing cost:

1 = lowest satisfaction level.
7 = highest satisfaction level.

FIGURE 2

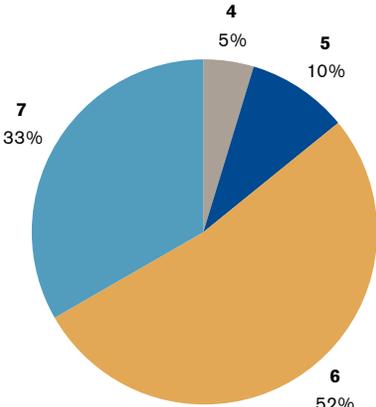


Question 5.

Rate overall satisfaction with the Interstate Compact filing process:

1 = lowest satisfaction level.
7 = highest satisfaction level.

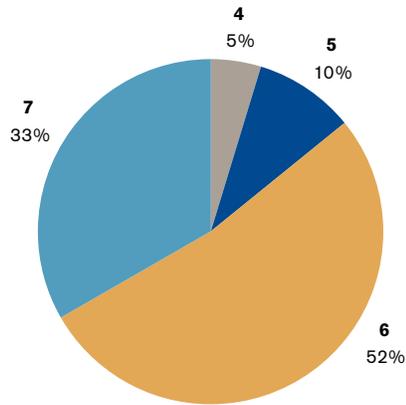
FIGURE 3



Question 6.
Ease of use:

1 = lowest satisfaction level.
7 = highest satisfaction level.

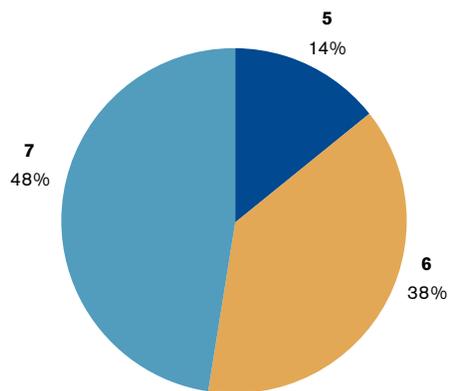
FIGURE 4



Question 7.
Speed to market:

1 = lowest satisfaction level.
7 = highest satisfaction level.

FIGURE 5



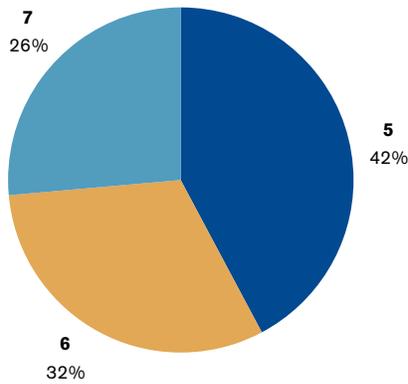
Question 8.

Compatibility with existing Mix and Match and reverse Mix and Match forms:

This question is no longer relevant per the comments regarding Question #2 shown on page 3.

1 = lowest satisfaction level.
7 = highest satisfaction level.

FIGURE 6

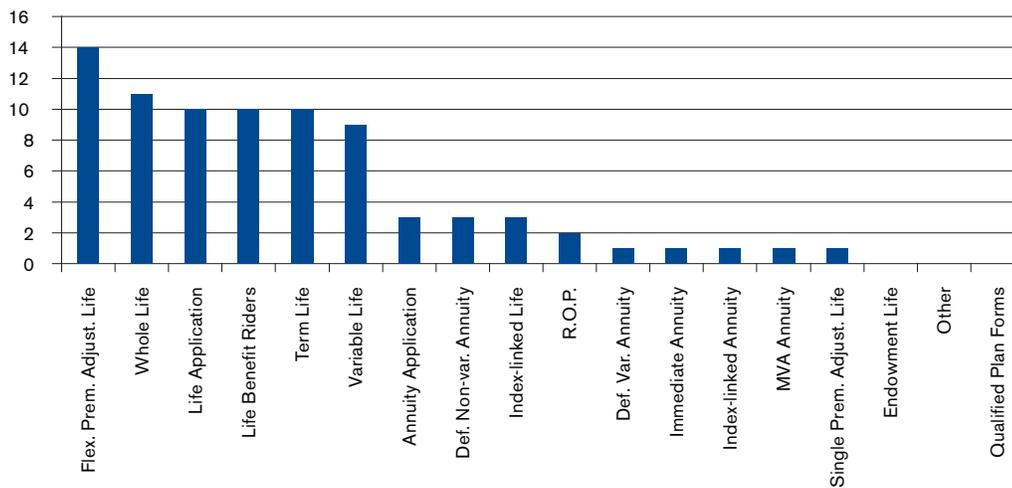


Question 9.

What products types have you filed via the Interstate Compact?

The highest number of IIPRC filings have been flexible premium adjustable life products, followed by whole life, term life, life benefit riders, life applications, and variable life submissions.

FIGURE 7



Question 10.

How has your company been directly involved in the development of Interstate Compact standards?

Fifteen of the 21 companies, or 71% of the IIPRC participating companies surveyed, have been involved in IIPRC conference calls, including reviewing and commenting on the development of the standards.

Question 11.

Describe company procedures for tracking newly adopted Interstate Compact standards, the impact such adoptions have on Mix and Match and reverse Mix and Match forms, and the future Interstate Compact filing of such forms.

As previously described under Question 1, recent elimination by the IIPRC of the Mix and Match timeframe requirements made this question irrelevant.

Question 12.

On average, what has been your Interstate Compact turnaround time, from submission date to approval date?

Nearly 62% of all IIPRC submissions are approved within 35 days of the submission date, and 76% are approved within 40 days.²

FIGURE 8

| TIMEFRAME | # OF RESPONSES | % OF TOTAL RESPONSES | CUMULATIVE % TOTAL OF RESPONSES |
|--------------------------|-----------------------|-----------------------------|--|
| LESS THAN 30 DAYS | 10 | 47.6 | 47.6 |
| 30-35 DAYS | 3 | 14.3 | 61.9 |
| 36-40 DAYS | 3 | 14.3 | 76.2 |
| 41-45 DAYS | 1 | 4.8 | 81.0 |
| 46-50 DAYS | 2 | 9.5 | 09.5 |
| 51-55 DAYS | 0 | 0.0 | N/A |
| OTHER | 2 | 9.5 | 100.00 |

Question 13.

Describe your top concerns regarding Interstate Compact submissions, starting with the most important concerns and ending with the least important concern.

Respondents were given the option to weigh the importance of their responses by identifying the level of importance assigned to each reason with (1) being the most important reason for not participating in the IIPRC and (7) being the least important. Based on the level of importance of the above responses, the primary concerns were ranked as follows:

² Please note that this survey shows longer turnaround times than IIPRC published statistics because respondents included objection resolution times, whereas the IIPRC counts business days and excludes the company response time to objections.

Rank

1. Lack of standards, the slow pace of standards development, and getting final agreement.
2. Confusion regarding state requirements versus IIPRC requirements.
3. Possibility of states *opting out* of standards and standards being subject to unpredictable change.
4. Many key states have not yet joined the IIPRC.
5. Adoption of standards for more innovative products.

The main concern of IIPRC-participating companies appears to be a lack of standards, the slow pace in developing new standards, and the length of time required to secure final agreement on new standards. The next two concerns appear to be a subset of the first in that there is sometimes confusion regarding state requirements versus IIPRC requirements, and concern over states possibly opting out of standards, and the perceived potential for unpredictable change in the standards.

Question 14.

How do you feel about Interstate Compact filing costs (immediate and long-term)?

Thirteen respondents, representing 59% of the total IIPRC-registered insurers, responded favorably regarding costs versus the perceived benefit of IIPRC submissions; 41% responded somewhat unfavorably or unfavorably regarding IIPRC costs. The subject of cost appears to be a significant issue for current insurance company IIPRC participants.

FIGURE 9

| COSTS | # OF RESPONSES | % OF TOTAL RESPONSES | RANK ORDER OF RESPONSES |
|--|-----------------------|-----------------------------|--------------------------------|
| Costs are reasonable in relation to the time saved, the benefits outweigh the costs | 9 | 41.0 | 1 |
| Costs are about the same when compared with non-IIPRC filings | 1 | 4.5 | 4 |
| Costly, but willing to spend the amount to achieve multi-state approvals in minimal time | 3 | 13.6 | 3 |
| Too expensive, especially when states constantly ask for additional funds and a \$10 per state fee | 6 | 27.3 | 2 |
| The more filings a company does in a given year helps make the annual fee more reasonable, but the cost is high | 1 | 4.5 | 4 |
| Not sure why state filing fees are imposed if states don't review the submissions | 1 | 4.5 | 4 |
| Hope costs come down as more companies get involved | 1 | 4.5 | 4 |

Question 15.
What are you most satisfied with about the Interstate Compact process?

FIGURE 10

| CATEGORY | # OF RESPONSES | % OF TOTAL RESPONSES | RANK ORDER OF RESPONSES |
|---|----------------|----------------------|-------------------------|
| Speed of approval | 15 | 26.8 | 1 |
| Accessibility and ease of working with the helpful IIPRC staff/reviewer | 15 | 26.8 | 1 |
| One filing results in multiple state approvals | 11 | 19.6 | 2 |
| Easier to administer a single generic contract for 30+ states | 5 | 8.9 | 3 |
| Standards are clear and user-friendly | 5 | 8.9 | 3 |
| Some difficult states have signed on, eliminating costly/problematic state variants | 1 | 1.8 | 4 |
| Potential to reduce costs as more states get involved | 1 | 1.8 | 4 |
| One set of standards with one set of objections, if any | 1 | 1.8 | 4 |
| Back-end approval detail is much easier to create | 1 | 1.8 | 4 |
| Removal of the two-year Mix and Match deadline | 1 | 1.8 | 4 |

Question 16.
What would you like to see change most about the Interstate Compact?

FIGURE 11

| CATEGORY | # OF RESPONSES | % OF TOTAL RESPONSES | RANK ORDER OF RESPONSES |
|--|----------------|----------------------|-------------------------|
| More states join | 4 | 19.0 | 1 |
| Mix and Match | 3 | 14.3 | 2 |
| More insurers participate | 2 | 9.5 | 3 |
| Receive notification when a new process is adopted or a standard revised | 2 | 9.5 | 3 |
| New standards adopted for Long-term Care, Accident & Health, and other products | 2 | 9.5 | 3 |
| More reviewers | 1 | 4.7 | 4 |
| Summary of individual state rules that no longer apply to IIPRC-filed forms | 1 | 4.7 | 4 |
| Flexibility to use filed forms with forms pending IIPRC approval | 1 | 4.7 | 4 |
| Way to consider more innovative products, not just the <i>plain vanilla</i> standard version | 1 | 4.7 | 4 |
| Fee structure | 1 | 4.7 | 4 |
| Take the guesswork out of the process | 1 | 4.7 | 4 |
| More detailed standards | 1 | 4.7 | 4 |
| Less specific standards | 1 | 4.7 | 4 |

Question 17.
Please add any other comments as you deem appropriate.

The only comment received was *They are doing an excellent job addressing concerns.*

SURVEY SAMPLE

MILLIMAN INC. INTERSTATE COMPACT SURVEY

1. Does your company now file Interstate Compact filings? Yes No
If you checked "Yes", skip to question #4.

2. If your company does not file forms via the Interstate Compact, state the main reasons for not doing so starting with the most important reason and ending with the least important reason in order of importance:

- a.
- b.
- c.
- d.

3. If your company does not file IIPRC filings, but intends to do so soon, check the appropriate box below.

My company may start IIPRC filings in:

- | | |
|-----------------------------------|--|
| <input type="checkbox"/> 3 months | <input type="checkbox"/> 1.5 years |
| <input type="checkbox"/> 6 months | <input type="checkbox"/> 2 years |
| <input type="checkbox"/> 9 months | <input type="checkbox"/> 2+ years |
| <input type="checkbox"/> 1 year | <input type="checkbox"/> Other, explain: _____ |

The rest of the survey should only be completed by companies currently making Interstate Compact submissions:

(Circle one number with 1 as the lowest rating and 7 the highest)

- | | |
|---|---------------|
| 4. Rate overall satisfaction with Interstate Compact filing costs: | 1 2 3 4 5 6 7 |
| 5. Rate overall satisfaction with the IIPRC filing process: | 1 2 3 4 5 6 7 |
| 6. Ease of use: | 1 2 3 4 5 6 7 |
| 7. Speed to market: | 1 2 3 4 5 6 7 |
| 8. Compatibility with existing Mix & Match and Reverse Mix & Match forms: | 1 2 3 4 5 6 7 |

9. What products types have you filed via the Interstate Compact?

- | | |
|--|--|
| <input type="checkbox"/> Term Life | <input type="checkbox"/> Def. Non-var. Annuity |
| <input type="checkbox"/> Variable Life | <input type="checkbox"/> Index-linked Annuity |
| <input type="checkbox"/> Whole Life | <input type="checkbox"/> MVA Annuity |
| <input type="checkbox"/> Endowment Life | <input type="checkbox"/> Def. Var. Annuity |
| <input type="checkbox"/> Flex. Prem. Adjust. Life | <input type="checkbox"/> Immediate Annuity |
| <input type="checkbox"/> Single Prem. Adjust. Life | <input type="checkbox"/> Qualified Plan Forms |
| <input type="checkbox"/> Index-linked Life | <input type="checkbox"/> Immediate Annuity |
| <input type="checkbox"/> R.O.P. | <input type="checkbox"/> Annuity Application |
| <input type="checkbox"/> Life Benefit Riders | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> Life Application | |

10. How has your company been directly involved in the development of Interstate Compact standards?
11. Describe company procedures for tracking newly adopted Interstate Compact standards, the impact such adoptions have on Mix & Match and Reverse Mix & Match forms, and the future Interstate Compact filing of such forms:
12. On an average, what have been your Interstate Compact turnaround time, from submission date to approval date?
- | | |
|--|---------------------------------------|
| <input type="checkbox"/> Less than 30 days | <input type="checkbox"/> 46-50 days |
| <input type="checkbox"/> 30-35 days | <input type="checkbox"/> 51-55 days |
| <input type="checkbox"/> 36-40 days | <input type="checkbox"/> Other: _____ |
| <input type="checkbox"/> 41-45 days | |
13. Describe your top concerns regarding Interstate Compact submissions, starting with the most important concern and ending with the least important concern in order of importance:
- a.
 - b.
 - c.
 - d.
14. How do you feel about Interstate Compact filing costs (immediate and long-term)?
15. What are you most satisfied with about the Interstate Compact process?
16. What would you like to see change most about the Interstate Compact process?
17. Please add any other comments as you deem appropriate (attach additional sheets, if necessary):

Return your completed Survey to:

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Your Company Name: _____



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