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Providing Information and Value Customers Deserve • Transforming the Life Insurance Marketplace

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Mr. Michael Boot, Mr. Greg Heidrich, and Mr. Bruce Iverson
The Society of Actuaries - Via emails, and
475 North Martingale Rd., Suite 600, Schaumburg, Illinois 60173

Dear Gentlemen:

Over the past few months, I have been informingⁱ many organizations and individuals, including some other members of the Society of Actuaries, about my campaign to reform the life insurance industry's terribly inadequate disclosure and problematic sales practices. Earlier in 2010, my web site began providing the disclosure on life insurance policies that consumers have always needed and deserved, and every day more and more consumers are learning about and benefiting from this disclosure. Today, I am inviting the SOA to endorse my disclosure approach. The American public deserves a professionally certified life insurance policy disclosure approach.

Detailed information regarding my disclosure approach is attached, and I welcome opportunities to further discuss my approach with you, and answer any questions you have. Given my disclosure approach's straightforward simplicity, that it provides the essential policy cost and rate information that consumers have always needed, has been used to accurately explain new sales illustrations and actual historical performance policy in hundreds of meetings with clients and advisers over the years, and can be corroborated by insurers' financial and contractual data, I am highly confident that you can readily recognize it as a valid disclosure approach worthy of industry-wide adoption and publicity. If, however, you think there are any problems with my approach or that other ideas such as the many that the SOA has considered in the past need to be re-evaluated, then please sponsor a 'competition' and organize a panel of genuine financial expertsⁱⁱ to certify an appropriate life insurance policy disclosure approach. Again, given my approach's simplicity, versatility, validity, and usefulness, I am highly confident of the SOA's endorsement.

This task of reviewing and endorsing an appropriate policy disclosure approach is a fundamental professional responsibility for your professional organization. So that the basis of this assertion can be well understood, please allow me to review some facts and industry history. Without appropriately informed consumers, the marketplace does not, has not ever, and in fact can never work properly. Without a professionally-certified policy disclosure approach, consumers cannot be

totally confident about being properly informed, and the economic losses to our nation from such have been, and will continue to be, enormous.ⁱⁱⁱ While the history below focuses upon the actuarial profession's serious shortcomings, please know that, in my opinion, all the other major participants in the life insurance marketplace have commensurate or greater failures. Echoing a famous historian's words, that 'the road to Auschwitz was paved with indifference,' it is time for the SOA to speak-up against the practices that have enabled the life insurance industry to deceive and to impoverish American families.

A modern history of the life industry's disclosure problem begins by recalling that it was not until 1970 that the industry repudiated and statutorily prohibited the inherently misleading and financially invalid policy comparison approach of evaluating policies on the basis of the difference in the sums of their annual premiums^{iv}. For an industry endeavoring to be the leading financial adviser to families, the century-old, financially invalid method was a pathetic practice; and SOA's countenance of such, baffling. An equally ignominious black mark was the SOA's decision decades ago to not respond to Professor Joseph Belth's inquiry^v about actuaries' professional responsibilities regarding life insurers' sales practices. Since virtually all of the industry's age-old and on-going sales practices problems can be traced to the Society's failure to answer Professor Belth's question, I invite you now to reconsider Professor Belth's inquiry, and to respond differently this time.

While some might try to point to the adoption in the 1970s of the interest-adjusted policy comparison indices as an actuarial accomplishment, the indices, as you well know, have always been inherently-defective and flawed in so many ways. An NAIC task force in 1980 advocated terminating their use, and the American Academy of Actuaries repudiated them in the early 1990s. Sadly and - I think almost all would concur with me - shamefully, actuaries and other industry leaders have never even endeavored to replaced these faulty indices in all the ensuing years.

In 1992, actuary John Keller's told the SOA that the reason the insurer did not conduct focus group research with recent purchasers of the company's policies is that 13 of 15 such policyholders would be disappointed with what they would have learned in such a focus group.^{vi} *The Hellhound of Wall Street*^{vii} does not document any more egregious admission of financial services misconduct by any business. Somehow, though, the SOA took no action following Mr. Keller's statement. Similarly, the SOA has virtually ignored the industry's horrific lapse problem. Industry data clearly show that some life insurers are really just commission generating enterprises as it can be statistically known at time of sale that their policies are much more likely to financially harm, than benefit, consumers^{viii}. Consequently, I have attached, and very much welcome your thoughts about, a list of assignments that could express SOA's remorse by having its members fulfill 10,000 hours of annual public service.

Please also recall that a 1992 SOA task force's final report declared that the caveat, "sales illustrations should not be used for comparative policy purposes," should appear atop all illustrations shown to consumers. The SOA, however, not only failed to effectively persuade regulators of the importance of this caveat but also failed to show how policies should be compared or to provide the