

August 18, 2010

Mr. Brian K. Atchinson, President and CEO  
Insurance Marketplace Standards Association  
4550 Montgomery Avenue, Suite 700N  
Bethesda, MD 20814 (Via Mail and email)

Dear Mr. Atchinson:

I write to inquire about IMSA's interest in working together to bring good disclosure to the life insurance marketplace. My inquiry may seem a little startling, but I ask you to give it serious consideration, as I imagine we both prefer to build bridges than attack fortresses. For years, in fact, I tried to build bridges with your predecessor, Bob Googins, and a few IMSA auditors, but those overtures were not accepted. Nonetheless, I now invite you, your IMSA directors, and your associates to evaluate how we might best work together. Please visit my website, BreadwinnersInsurance.com, and read my many published articles, such as my 2002 Journal of Insurance Regulation article, the Testimonials on my behalf, other introductory web page materials, and my list of current popular articles. While to-date you and I have adopted different approaches to life insurance industry reform, we are obviously both committed to working to bring about the golden age of life insurance. My efforts, however, have steadfastly emphasized that the golden age of life insurance can only be reached after consumers can obtain good disclosure on life insurance policies. That is why I launched my website earlier this year.

Let me begin with one of my new concerns about IMSA's approach: insurers who have claimed IMSA membership since 2007 have not had to verify that they actually maintained compliance with IMSA rules throughout recent years before discontinuing their memberships in 2010. Given IMSA's representations to consumers regarding all that IMSA membership signifies, do you deny or disagree that IMSA has a duty to the public to conduct audits of non-renewing members? For if IMSA has no duty, then is not the significance of IMSA membership irreparably vitiated? Also, don't non-renewed members (whether by choice or audit failure) have an obligation to inform policyholders of their membership lapse? While I am surprised and disappointed by IMSA's Public Relations officer Ms. Kalita's email asserting that a list of IMSA's former members is not public information; I look forward to your fully-explained thoughts on this paragraph's issue with its obvious related variations and aspects.

So that you might better understand some of my longtime concerns regarding IMSA's approach to reform, I present part of a May 2008 letter I sent to Northwestern's Board of Trustees after the publication of *Financial Advisors'* highly critical April 2008 article "The Right Blend" regarding Northwestern's sales practices. I wrote:

**"IMSA's first rule, as you know, requires member life insurers "To conduct business according to high standards of honesty and fairness and to render that service to its customers which, in the same circumstances, it would apply to or demand for itself."** So recalling the [National

Association of Insurance Commissioners' Life Insurance] Buyer's Guide's explanation that a cash-value policy's annual cost is not its annual premium, please consider the following: Is there any product that you or Northwestern likes to buy that you or it doesn't know the item's cost or annual cost? What does IMSA's first rule mean, if not cost disclosure? Hasn't Northwestern failed to fulfill its IMSA obligation to its cash-value policyholders?"

Does IMSA think that appropriate cost disclosure is really NOT a categorical imperative in a properly functioning ethical marketplace, one where it explicitly promises golden rule fairness? Would you like to buy milk at a grocery store if it were priced with disclosure practices identical to Northwestern's 65Life?

Elsewhere in my May 2008 letter I challenged Northwestern's marketing that described 90 Life (the company's leading whole life product) as "The right product when both protection and cash value accumulation is important." That marketing statement (in addition to its shocking poor grammar) cannot be defended, and yet IMSA auditors approved such. My letter also cited several examples of Northwestern agents' sales misconduct that demonstrated categorical violations of not only IMSA rules but also Northwestern's own internal agent rules: 1) to always serve the best interest of clients and 2) to avoid any situation with a potential for conflict of interests. Given the *Financial Advisor* article's documentation of Northwestern's field force's widespread failure to provide the company's policy of best value to consumers (at least according to all the article's quoted independent authorities which include Scott Witt, a former Northwestern actuary), do you see why I could think that Northwestern's IMSA membership was a sham? And that the above-mentioned few facts, Mr. Atchinson, are just the tip of the life insurance industry's iceberg-sized sales practices problems.

Please know that I well understand the predicament that you and IMSA are in. As you may be aware, renowned business guru Professor Peter Drucker has called the rise of consumerism a testament to shameful modern business marketing practices. Clearly, IMSA, born following the life insurance industry's well-documented pervasive sales practices problems of the 1980s and '90s, must have recognized that it was taking on one of the real Godzillas of marketing misconduct. Yet, as well-intentioned and dedicated as your efforts may have been, I think most would agree that IMSA's fulfillment of consumers' expectations for "credibility, trust, honesty, substantive, integrity, fairness," and all the other wonderful words used in IMSA marketing literature amount to little more than subterfuge in the absence appropriate policy disclosure. Those harsh words, I am sure, cannot be music to your ears, but I believe they are the truth.

If that assertion is difficult for you and your associates to accept, please closely review IMSA's website materials on life insurance. In particular, could you please elaborate on IMSA's second sentence on permanent insurance? IMSA writes, "These policies are designed and priced to keep you as a customer for extended periods of years." What exactly does that mean? Is this lawyer-speak for front-end sales loads? Could you please fully explain this statement and provide numerical examples on specific insurers' policies (both new and in-force) which demonstrate such designs and their material pricing impacts over "extended periods of years"?

I cannot believe that you would really want to defend IMSA's Consumer Guide on life insurance. Certainly, you and your board must recognize that your "Life Insurance Information" is virtually vacuous. Furthermore, IMSA's nine "Tips on Buying Life Insurance" are, I am again sorry to say, truly laughable. Tip #1: "Check with your state's insurance department to make sure the company is licensed in your state;" Tip 2: "[B]e sure the company you choose is reputable and ethical;" Tip 4: "Before you select an

agent be sure he or she is licensed to sell insurance in your state.” Are these really the nine most important “Tips” IMSA has for life insurance consumers? And yet, you asserted in your *BestWeek* interview on 2/26/09, “...a surprising number of consumers are finding their way to the IMSA Web site, and therefore, we beefed-up our Internet offering with respect to consumer information.” Pardon me, but pray tell, what was the IMSA site serving up before it got beefed-up? The consumer, Mr. Atchinson, is best helped by having good information, and IMSA, it must be said, has not provided such. In not clearly and loudly speaking the truth about life insurance products, IMSA has merely become a tool of the life insurance industry’s duplicity. Please study my website’s disclosure about policies and seriously consider how my expertise and knowledge could be useful to you and IMSA.

I am sure that this has not been an easy or fun letter to read. It has not been fun to write. But sometimes the only way through a problem is a succinct and frank expression of views. I readily acknowledge that this letter, which again is sent as an invitation to collaborate and will be kept confidential for a time sufficient for your reply, contains some passages with tones and messages that I would have preferred to express more tactfully or in a face-to-face meeting. In light, however, of the enormous time pressures that I am under to accomplish industry reform this year, I hope you can excuse such. Lastly, please be aware that others who advise IMSA have praised my website, pledging to want to “tap my expertise in the future.” Perhaps, you’ll agree, that the future is now. Attached are some additional questions that I think you and your associates will find useful in reviewing my comments and positions. Please try to reply by month’s end. I very much look forward to hearing from you, and to an opportunity to discuss these matters with you and your good associates.

Sincerely,

R. Brian Fechtel, CFA and Agent

Enc. 1) *Financial Advisor’s “The Right Blend”*

<http://www.fa-mag.com/component/content/article/1-features/1879.html>

2) IMSA’s Life Insurance website information

[http://www.imsaethics.org/Content/LifeInsurance\\_54.aspx](http://www.imsaethics.org/Content/LifeInsurance_54.aspx)

Attached List of Questions and 3) Material Related to Questions

[http://advisors4advisors.com/index.php?option=com\\_content&view=article&id=3582:a-gift-for-metlife&catid=126:glenn-daily&Itemid=131](http://advisors4advisors.com/index.php?option=com_content&view=article&id=3582:a-gift-for-metlife&catid=126:glenn-daily&Itemid=131)

## List of Questions

- 1) What does IMSA think about the industry's continued use of the Interest-Adjusted Indices that the American Academy of Actuaries in 1992 recommended be discontinued?
- 2) In light of the fact that the Society of Actuaries 1992 Final Report of its Task Force for Research on Life Insurance Sales Illustrations stated, "Sales illustrations should not be used for comparative policy performance purposes....It is generally not feasible, however, to use sales illustrations to determine whether one policy is a better buy than another....Most life insurance policies are complex financial contracts which contain both guaranteed and non-guaranteed features which depend on unpredictable future events. Consequently, the amount of risk associated with a particular sales illustration cannot be determined. ....The consumer bears a degree of future performance risk, and this cannot be readily estimated, especially for competing policies. This fact is already well understood in the securities industry. It needs to be assimilated in the life insurance industry." A) What has IMSA done on this matter? B) What additional plans does IMSA have to address this problem?
- 3) In particular, how do you think consumers should make a decision on which cash-value policy to buy? B) Could you please show me an example of the information that IMSA thinks a consumer looking at 3 policies should use, and show me IMSA's recommended selection? (Feel free to hide any information identifying the insurers. I am interested in understanding your process, not causing you any difficulty with any insurers.)
- 4) How does IMSA feel about the agents of Northwestern, a prior IMSA member, not even showing its best value cash-value policies (the one recommended by independent advisers as described in "The Right Blend" article) to consumers? B) Does such conduct adhere to IMSA Principles?
- 5) Does IMSA know of any situations where consumers willingly overpay for goods and services? B) And willingly overpay without realizing the extent to which they do so? C) For instance, has IMSA any documentation that shows that consumers choose to overpay for a car by several thousand dollars or pay more for a mortgage than they have to?
- 6) What are the fundamental differences between cash-value policies and term policies? B) What information can IMSA provide in its efforts to substantiate that such factors justify the significantly greater sales costs that consumers currently bear in purchasing cash-value policies?
- 7) What does IMSA think of the quotations of former NY Life President, Mr. Steinberg and Northwestern's actuary Mr. Keller quoted in paragraphs 6 and 7 of my website article, "Life Insurance: An Industry Built on Fraud"?
- 8) Does IMSA think that the NAIC's Life Insurance Buyer's Guide is a useful consumer aid?
- 9) What research has IMSA conducted with groups of recent purchasers of life insurance policies?
- 10) What do you think of the MetLife product referred to in the attached Advisors4Advisors' website article? B) Do you think that MetLife, which at the time was a member of IMSA, fulfilled Principle #1? C) Why would this consumer or any other consumer have provided a premium payment unnecessarily early to MetLife without receiving some additional benefit?

- 11) Is the former MA Insurance Commissioner Kay Doughty still an IMSA auditor? B) Are you aware that she admitted to ethics violations in her job as MA Insurance Commissioner?
- 12) Please recall the last paragraph on Page 2 of my letter where I cite IMSA's website statement about permanent policies: "These policies are designed and priced to keep you as a customer for extended periods of years." A) Is IMSA unaware of similar sounding misrepresentations that agents make regarding paying for one's lifetime costs up front in the early years with a whole life policy? B) Furthermore, for example, in a permanent policy's 16th year, is it still "designed and priced to keep one as a customer for [a still further] extended periods of years"? C) Could not the same thing be stated about a 30 year level premium term plan? (And certainly with respect to such 30 year level term plans, IMSA's statement would have at least been materially truthful.)
- 13) Continuing with a review of IMSA's website, please recall that IMSA concludes its entire four sentences on term, stating, "Term policies tend to be less expensive than other insurance types, and can be **beneficial for the young or for families on a limited budget [Bold added]."** Therefore, since IMSA is suggesting that permanent policies "*tend to be*" more expensive than term, wouldn't it help consumers for IMSA to document and quantify such, much as my website does? B) Are term policies less expensive than a cash-value policy with low-loads on an after-tax basis, and isn't after-tax cost a more meaningful measure? C) Does IMSA think that 50 or 60 years olds shouldn't think about buying term insurance? Or families with ample means shouldn't think about buying term insurance? I, of course, recognize that IMSA does not explicitly say such things, but you cannot be unaware of how commission-driven agents are skilled at twisting facts and printed or web site materials to suit their objectives, and so therefore shouldn't significant changes be made to IMSA's website information?
- 14) Please review my letter and answer any of its questions which are not specifically addressed in IMSA's answers to the above itemized questions.
- 15) Lastly, please feel free to comment critically on my own website or to pose any and all questions you believe I ought to answer.