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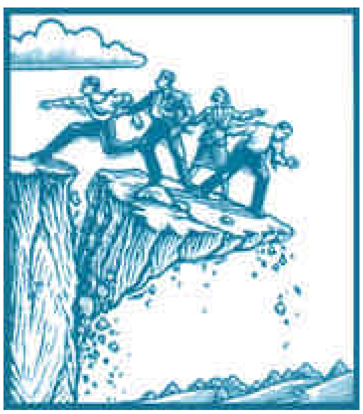
Financial convergence is happening, but is the playing field level?

Retirement savings and state protection are areas where financial institutions from different industries compete. In particular banks, life insurance companies and mutual funds offer similar products to serve these needs. We often hear that the playing field is not level, but it always seems to be tilted against the person commenting, whether he or she works for a bank, insurance company or mutual fund.



We thought it would be informative to have a moderated discussion between three individuals who each work for one of these institutions. We are fortunate that the following three gentlemen agreed to participate:

Keith Hartstein is executive vice president of retail sales and marketing for John Hancock Funds and is responsible for all aspects of John Hancock's retail mutual fund sales and marketing efforts. He has been involved directly or indirectly with the securities industry since 1982, including a 10-year stretch from 1986 to 1995 as a wholesaler calling on financial professionals, first in the Pacific Northwest and, later, in the Southeastern U.S. He has been with John Hancock Funds since September of 1990 and has served in his current capacity since 1999.

Dick Robertson is a retired executive vice president of Lincoln National Corporation. There, he had been chief financial officer as well as chief risk management officer. He is a past president of the American Academy of Actuaries and a past president of the Society of Actuaries.

Dr. Michael D. *White* is chairman and CEO of Michael White Associates, LLC (MWA), headquartered in Radnor, PA, and at BankInsurance.com on the Web. Dr. White has written several columns for leading insurance publications and published several books. He has been a member of the Editorial Advisory Board of Banks in Insurance Report since the late 1980s. MWA senior consultants are the instructors for the bank insurance educational seminars sponsored by the Independent Community Bankers of America (ICBA).

In what respects does the playing field favor your competitors?

Perrott: I can identify three major areas in which there are differences in the way the three institutions are treated:

1. Regulation-Product design and particularly its effect on time to market, solvency, and distribution channels.

2. Capital requirements (both as to the level of capital required to be a suitably rated participant and also what counts as capital).

3. Tax treatment of both companies and their products.

There may be more which will come out in our discussion.

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Regulation

Perrott: I would like each of you to address regulation as it affects your institution.

Robertson: We can talk about the level playing field in two different ways. First, and I think probably the way you are most interested in, is talking about what happens when you try to write particular types of programs in regulated insurance companies, as opposed to other types of financial institutions. Second, with financial deregulation, an insurance company is generally free to form and/or own another financial institution where such other ownership is better suited for the particular coverage. Similarly, another financial institution can form and own an insurance company. That doesn't remove all of the non-level-playing-field aspects.

Perrott: Can you address the tension that exists between a free-standing bank, insurance company, and a mutual fund company, in either addressing a retirement savings product or an estate planning product? I think that those are the primary areas of overlap, as opposed to, for example, the question of whether an insurance company can buy or build a bank, or whether a bank can buy or build an insurance company.

Robertson: If you're dealing with a product that involves significant guarantees of any kind, especially guarantees involving life contingencies (or any risk contingencies), then the insurance company is the organization that is structured to deal with, manage, and provide those guarantees. As such, it has a significant advantage relative to other organizations; it may be that it is impossible for the other organizations to compete directly. For example, if you're talking about estate planning, or those elements that relate to providing funds in the event of death, you must be an insurance company to do that. From a regulatory perspective, the playing field is more than level for insurance companies. Similarly, if you're talking about a life annuity, or an annuity that has life elements, again, you need an insurance company to provide that for very good reasons. They can carve out those types of coverages and identify them as insurance company coverages; that's what they do best, what they're set up to provide.

Once you get outside of programs that involve risk contingencies, then we begin to talk about things that may be easier to do outside the insurance company. At the extreme, I would put accumulation products where there are not significant tax implications. If insurance companies were to try to provide those kinds of programs, we would carry with us all the baggage that our regulatory environment gives us. We have a regulatory environment set up to manage the types of guarantees we provide. To the extent we're competing with organizations not providing these guarantees, we have a serious competitive disadvantage. I can't argue that's not how it should be. That's the price we pay for being organized to provide guarantees.

Second, with financial deregulation, an insurance company is generally free to form and/or own another financial institution where such other ownership is better suited for the particular coverage.

Where the issue gets cloudier is in the middle where you have what I'll characterize as "limited guarantees;' not involving life insurance or life annuities, or where the product is primarily not utilizing those guaranties. Here our regulatory and other environments can be both an advantage and a disadvantage. It makes it harder for us to be as flexible as other organizations. That's a disadvantage. But at the same time, it makes it easier for us to provide those kinds of products that maybe someone else cannot. In the final analysis, part of the price we pay for being organized to provide insurance products is that we get into some difficulty providing products that are not strictly insurance products. That means that we'll probably have to give up part of the marketplace to other organizations because of all the constraints we carry.

Hartstein: There are multiple ways to attack the subject. From the standpoint of product creation, I can get a mutual fund product to market in 90 days from concept, to regulatory filing, and to the sales force.

Perrott: That would be a huge challenge for an insurance company.

Hartstein: Having had some experience on the insurance side building annuity products, I'd have to agree. The regulatory process is considerably longer with insurance products than with investment products, largely because of the individual state regulations.

In addition, Dick mentioned "guarantee:' I can't even utter the word "guarantee" in a product, which is certainly a disadvantage. On the sales side, there's substantial regulation on how things get sold and what we can and cannot do from a distributor's standpoint, in addition to the restrictions placed on the salespeople in the field. Let me offer an example: recently, we wanted to bring together individuals from the home offices of brokerage firms---these are the people who run the mutual fund departments---down to Newport, Rhode Island. But, because it's more than a cab ride away from our home office in Boston, it's not allowed

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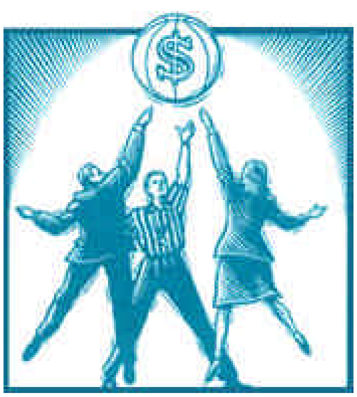
by NASD rules. And, if we bring them to Boston, we can't take them to a ballgame or out to play golf because of those NASD regulations. It's getting to the point of being ridiculous, but those are the things we have to live with. On the insurance side, at least from that standpoint, I don't know what the regulations are. I've seen some things from the field that would seem to indicate that, at least from a certain standpoint, it's a little bit less constricted, but that's just from a manufacturing and distribution standpoint.

White: I'd like to speak relative to insurance and investment products. In theory, Gramm-Leach-Bliley was designed to provide us with a framework of functional regulation. From the manufacturing standpoint (in terms of insurance), any banking organization that wanted to manufacture insurance products would have to be, or form, a bank holding company, and then convert it to a financial holding company. Then it would have to acquire or establish an insurance company that would have to function just like Dick's has to function. I think it's more of a problem, as Keith was saying, on the sales side.



From the banking perspective, the bank agents (or the licensed bank employees, the life specialists or the registered reps) are all subject to the same things that traditional insurance agents (captive, independent, broker, Series 6, or Series 7 reps), distributing both Dick's and Keith's products, would be. But they also have an additional layer of regulation, which I've found surprises many of the traditional sales folk. They also have consumer disclosures imposed on them, beyond any other required disclosures by the SEC, the NASD Fair Practices, or state insurance regulators. In fact, there are consumer protection rules that went into effect on October 1st, implementing Section 305 of Gramm-Leach-Bliley.

These rules create an added burden of disclosure at the federal level. Then, at the state level, some states have clearly differing bank insurance laws, specifically pertaining to the sale, distribution, and solicitation of insurance products by a financial institution, and some of those state laws are very onerous. You might live and work in a state, where, in fact, not only do you have to disclose and cannot solicit the product until after, say, a loan has been approved, the loan approval must be provided to the customer in writing before you can solicit for the sale of the product. And in some cases, you even have to go so far as to say: "you understand you can buy this product anywhere. You don't have to buy it from us." There is this added burden in a number of states in terms of disclosures and confirmations in writing that go even beyond the federal rules that are being implemented under Gramm-Leach-Bliley. On top of that, you have the 13 safe harbors that are included in GrammLeach-Bliley, which basically say the rules in the G-L-B are a floor, and if the state so wishes, it can impose a higher set of standards on the distributors of insurance products. I think that all salespeople, in both traditional and non-traditional settings, are suffering from an overwhelming burden of disclosures. You would have difficulty using a simile or a metaphor to describe how a product works these days. That's how bad it's become.

Robertson: Of course, we in the insurance business are subject to the very same regulatory restraints that you are. There is a difference in that we have had them for so long that we are perhaps more adept at working with them and through them and managing them.

White: I would say that not only do the banks have to deal with the same regulatory constraints that you have in terms of distribution, but there is also an added burden relative to the fact that they are financial institutions distributing insurance. There are some very specific rules that pertain to the banks themselves or even to a third party that sells on behalf of a financial institution. And that's both at the federal and state level. That's not to say that we've got it worse than you guys, though in some respects we probably do. I think it's pretty terrible for all of us.

Robertson: I certainly don't want to be in a position to try to defend the level of regulation we have. It is a problem, and the insurance industry is working very hard to alleviate this, not just for competitive reasons. It makes it difficult for us to efficiently do what we do.

White: And you have, Dick, a more difficult problem in bringing new concepts and products to market, as Keith acknowledged.

Perrott: Mike, Keith pointed out that he can get a product from concept to the street in 90 days. What kinds of time frames do banks deal with?

White: Most banks aren't participating directly in the underwriting of product, so it still really remains an insurance company's problem. The banks have to suffer with the timing on the approvals, the filings that their insurance company providers have to deal with.

Perrott: I was thinking of not only an insurance product. Dick talked about a gray area where there are some guarantees, but not life guarantees. For example, if a bank comes out with a new series of CDs or something, how quickly can it get the concept to market?

White: That's not my specialty area, but I believe fairly quickly. You don't have the same kind of burden.

Robertson: Normally an insurance company has its own internal burdens which are more common than other institutions (partly because the time constraints are not as critical for so much of what we do) .We don't have the processes to cut through internal roadblocks which other institutions might.

White: I might just add one thing: as I said, I think that hardly any banks are participating directly in the underwriting. Most banks in this country don't want to underwrite; they won't underwrite. They're more interested in distribution. The P&C side has become extremely dim in the wake of the past week's events, as has even workers' compensation and many life products to the upscale market. To the degree that banks will participate in underwriting, it's usually through the development of something like a proprietary annuity, whereby the bank shares in the investment management; or consequently, it can augment its fee income through that participation, or it may be through reinsurance. For instance, banks can establish a captive reinsurer for mort gage guarantee insurance. The direct writers come in and they offer the product, but the banks are able to negotiate a reinsurance deal through their own captive and take down some profits in that regard. They're basically not the direct writers, except for Citigroup, really.

Robertson: You're now talking about the other arena of competition. Can a bank more efficiently or effectively underwrite insurance?

White: I don't know that I would agree with that. In my mind, that wouldn't be a reason for going into the business. Quite frankly, I've marveled at some of the big bank CEOs who some time ago said they wanted to get into the insurance business when clearly that industry's ROEs were lower than that of their banking peer group.

Robertson: There's no question that for a long time, and certainly in the current environment, return on equity from insurance is significantly less than from banking activities. That's a reason why you would not want to get into our business. Although if you did, it would mean that at least temporarily your cost of capital would be less than ours.

White: Actually, the ROEs are not stellar these days in banking. If you look at the banking organizations with greater than $10 billion in assets, for instance, in 2000, their ROE was 14.4%.

Robertson: That's not very exciting.

White: No, it's not. It's slightly better than the recent results of the insurance industry.

Robertson: We'd be delighted to get that consistently, but it's something to strive for. I do have some concern to the extent that financial institutions begin to cross lines: if your industry were to get much more intensive in insurance, or conversely, if insurance companies were to move into banking. Your risk management skills, processes, and activities are organized to manage your risks very well. We don't have those skills. We have a different set of risk management skills. The result is that when insurance companies try to get out of our area of expertise and into yours, we're asking for trouble and have gotten into trouble from time to time.

Conversely, when people outside of the insurance industry get into our industry without building their insurance risk management skills, they get their heads handed to them pretty regularly.

White: Wouldn't you agree that, to the extent a company is going to go outside its normal boundaries, the only way they can do it is to recruit the professionals from that industry sector they wish to enter?

Robertson: Well that's the first place. They also have to take care to respect the things they have to do to do it right. That's where they get into trouble more often.

White: Management has an idea about the banking business or the insurance business that doesn't match reality.

Robertson: I'm not just saying that it's the people outside the insurance industry. We sure screwed things up ourselves from time to time. There are some horrible stories of failures resulting from insurance companies trying to do something and not doing it right: guaranteed investment contracts, as one example.

White: I'll just throw this out to you. I remember before Gramm-Leach-Bliley, when the Insurance Commissioner of Puerto Rico approved Banco Popular's sale of variable annuities, and the agents came back and pointed to the mortality guarantee in the contract, whereupon he reversed himself, and said, no, this is insurance. He no longer would permit the bank distribution of variable annuities. You can't win. Somebody is going to lose, no matter what. But yes, you also have the problem because of those guarantees.

Capital requirements

Perrott: Dick, I know capital is an area that you've thought about a lot. Do you want to comment on the difference in capital structure both in required capital (capital that's required to have an acceptable rating, not necessarily required by law), and what is counted as capital?

Robertson: Well, any product that's written in an insurance company is going to increase the capital that the insurance company is going to be required to carry in order to satisfy its constituencies: rating agencies and to some extent state regulators. In both cases, I'm reasonably certain those requirements are in excess of those someone might require outside the insurance company.

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Sample Capital Ratios For Representative Banks (June 30, 2001)

	Jumbo Bank	Large bank	Large bank	Small Bank
Assets ($billions)	>400	~100	~100	3
Equity Capital/Assets	12.16%	10.33%	6.90%	9.11%
Tier 1 RBC Ratio	7.52%	8.44%	7.32%	9.07%
Total RBC Ratio	12.49%	12.07%	11.14%	10.36%

Obviously, in a mutual fund company, there is no capital supporting it other than the fund itself.

In banks, you do have capital constraints, but you tend to look at this as fee income, which doesn't have very heavy capital requirements. To the extent there is any additional capital requirement in an insurance company, there is a cost. It is aggravated by the fact that, at least in today's environment, I tend to believe the cost of capital for most insurance companies is higher than the cost of capital for other institutions; that adds to the burden.

Perrott: Is that driven by what you can count as capital?

Robertson: I'm not sure that I know that. What you can count as capital is elusive. In some cases, it almost depends on the particular time, and what the levels of concern are out there. These are not regulatory capital requirements, or, if they are, the regulatory requirements are not the major constraint. For certain rating agencies, the perceptions of the public and the government count, and these conditions vary.

White: It's pretty capital-intensive in the banking business. Like the insurance industry, it has risk-based capital rules. They need just to be adequately capitalized. Recently, I saw a bank in trouble-Superior Thrift out in Illinois where we were about to have congressional hearings last week. It was required to have in excess of the amount for adequate capitalization, which is 8%; well capitalized is 10%.

White: Pertaining to the insurance and investment product distribution, I think Dick is right, those are not as capital intensive activities; those are essentially agency functions. They are not without risk, but have far less risk than the underwriting of products. I think that that, in fact, is part of the attraction, as he said: fee-income-generating activities that require far less capital.

The industry as a whole is well capitalized. The bigger they are, the less well capitalized they are, but certainly well capitalized. That's probably also a sign as to why the larger banks that possess in excess of $10 billion in assets have a higher ROE. They're deploying their capital better, and they're basically not sitting on it or parking it. If you compare those very large banks, for instance, to community banks under $100 million (the smallest group), the last two years' ROE was less than 9.1%. It's been in decline for eight years; this will probably will be the ninth year. Conversely, their total riskbased capital at that size bank averages 17.4%, which is more than twice what is required for an adequately capitalized bank.

Robertson: Are the returns low because they are more highly capitalized, or is something else going on?

White: Well, they are very highly capitalized and I don't think they are distributing their capital to many of its more productive ends. What were you thinking?

Robertson: Basically, I was thinking that's more a problem than a favorable aspect. I think that's what you're saying, and it's why your industry is seeing a lot of consolidation.

White: Exactly.

Perrott: The percentages Mike is quoting are percentages of Risk Adjusted Value. The Basel Accord specifies the calculation of Risk Adjusted Value for each class of assets and liabilities. It is 0% for treasuries and 100% for commercial loans. It is best viewed as a type of "Value at Risk" measurement.

Please refer to the Sample Capital Ratios table at the top of this page. The difference between the Tier 1 and Total ratios indicates differences in capital structure; the larger the difference between the Total ratio and the Equity Capital/Assets ratio, the less risk the bank is assuming.

Robertson: How reasonable are the risk-based capital requirements relative to what a knowledgeable person would say is reasonable?

White: When the requirements first came out (in the wake of the thrift crisis), a lot of institutions felt that some of them were onerous. They've learned to live with them and accept them. I know there's talk about redoing them and arriving at other standards. To me, they're not unreasonable, but to others they may be.

They're still out there. It's a capital-intensive business like insurance is, unlike, more so, the mutual funds business, which has its own problems.

Robertson: Clearly, in terms of strictly an investment activity, to the extent that we have to take those assets into our balance sheet, it's going to have a significant capital burden relative to an organization that doesn't. Of course, we can both enter the mutual fund business and conduct that with whatever capital it takes to run a mutual fund business.

White: There was a time when that's where the money was going, into Fed funds and government treasuries, bills or bonds. Under the risk-based capital rules, for instance, T-bills have a risk-weight of zero under BIS capital requirements. In other words, there are investments that banks can make/have made that are less capital-intensive. They are equally often less productive. In the immediate wake of the thrift crisis, banks put enormous sums of money into U.S. government instruments, rather than other assets, because they were deemed without risk. This is why Greenspan gets credit for saving the banking industry during the thrift crisis. He raised and stabilized interest rates in the late 1980s and early 1990s, giving banks a safe place to invest assets that produced a higher yield than other potential investments or loans at that time.

Robertson: It also means that a mutual fund should not or probably cannot be offering very much in the way of guarantees. There isn't anything to support it.

White: Have you seen any discussion about starting to package guarantees of some sort in mutual funds?

Robertson: I don't have any direct experience, but I've heard it's being considered, possibly being done in some places. But, of course, you can at least conceptually do this; you can find someone who would underwrite a guarantee outside a mutual fund. The biggest challenge that I see there is that it's difficult to price those adequately; therefore, it doesn't get done much.

White: Are you seeing more questioning about the death benefit within the annuity in the pricing and mortality experience?

Robertson: I think there is an issue as to whether the product is being appropriately priced within the insurance industry, or the extent to which we mayor may not be subsidizing that guarantee from other elements in the pricing process. The pricing formula is not closely related to the risk or to the cost of the product. You can find certain situations where the pricing may well be inadequate in situations or maybe redundant, both among different products and over time. So far, that hasn't been an issue, but it could become one.

White: Could I just ask one other question related to that, in terms of products that are offering some new features to protect against risk like involuntary unemployment? I'm thinking specifically about annuities. I know that some carriers have been coming out with this, and it's probably to be expected dealing with lifestyle issues and overcoming sales objections, like what if I have to go into a nursing home, what if I'm laid off at work? Are you seeing anything about those features relative to the price?

Robertson: I'm not close enough to that part of our business to give you an answer as to how pervasive they are. My first impression is that it sounds like an area where an insurance company can get in trouble, if it's not careful. We have a history of mispricing or mismanaging things where there is a significant economic environment risk. Health or disability benefits are the most substantial examples, but there are others. It sounds like all those problems and more may exist with unemployment coverages.

Tax treatment

Hartstein: Something that's always plagued the mutual fund industry is the way that capital gains and dividends get treated within funds. First, a company with outstanding stock gets taxed on its earnings. Then the company distributes a dividend to all its stockholders including mutual funds that hold shares of the company in their portfolios. This is a taxable event for stockholders. In turn, the mutual fund typically passes these gains along to its fund shareholders. Those shareholders who hold the mutual fund in a taxable account are then taxed on this distributed capital gain. In essence, the same money is being taxed twice.

Perrott: You might want to explain just how they're treated. I think there's a segment of our readership that's not that familiar with the mutual fund tax treat ment.

Hartstein: First, the companies we invest in get taxed on their income and pay dividends from after-tax income. Second, if we (as the shareholder) sell those shares and realize a gain, we have to payout 9899% of our capital gains every year, just to maintain our registration status as a mutual fund company. The shareholder in the fund company gets hit with the taxable consequences. Last year was a particularly nasty year in which a lot of mutual funds had capital gains in a down year because they were harvesting gains from 1999 in 2000. That put many of them in the unenviable position of having to declare capital gains in a down year. I don't think that will be the case this year. I think everybody has plenty of capital losses this year to carry forward.

Perrott: Is your point that a mutual fund is in the peculiar position of reporting capital gains to its holders at the same time that their net equity value has decreased?

Hartstein: Correct. And then the holders mayor may not have a gain in their position. They may have bought the fund more recently and end up having to pay taxes on what in essence are somebody else's gains. And they don't get the chance to realize their personal gain or loss until they exit the fund and sell their shares, at which time they end up hit with another tax bill.

Robertson: Of course, these are problems only when the fund is held outside a qualified pension plan. If you have qualified pension plans, including IRAs, it's not a concern. But with a non-qualified plan, it certainly is.

Hartstein: Something like 60-65% of industry assets are held outside qualified plans. If Congress comes up with a way to alleviate some of the tax burden on mutual fund shareholders, it would be much to our delight in the industry.

Robertson: It is true that an annuity holder has taxes on investment income deferred, although they're taxed at ordinary rates when taken out of the annuity. The deferral can be very long, depending on what is held and why it is held. From a tax perspective, in an unqualified environment, an annuity held for the long term has significant advantages over a mutual fund. If it's held for a shorter period of time, those advantages are offset by the disadvantages.

White: Your point about the taxation, for instance, of annuities in terms of capital gains versus mutual funds, isn't always quite so obvious to many of the distributors, particularly those working in wire houses who have a widespread prejudice against annuities, by virtue of the fact that capital gains inside an annuity are deferred, but effectively converted into ordinary income when realized and taxed at a higher rate. I don't buy that myself, but it's common.

Robertson: If the purpose of the investment is relatively short-term, that can become a serious disadvantage of an annuity. In fact, I think most would agree that it's inappropriate to use an annuity where the holding period is expected to be only a few years. On the other hand, for a longer term holding, the tax benefits can easily offset the higher rate paid. In a sense, I prefer to defend that kind of difference.

White: I'm in absolute agreement with you. I think it's the unseasoned investment rep that will hold that prejudice.

Robertson: It is an area in which the insurance company has an advantage, although you get offsetting costs in regulation and the expense structure. I think the expense structure exists for more than just to carry that kind of product long-term. Each product is more effective in certain situations. As long as you have someone who's managing that properly, it works out well. I agree there are far too many situations where it's not being managed properly.

White: And to the extent it's a variable annuity, it's not part of the general obligations of the insurance company. Thus, the risk attending the product is really the annuity holder's investment risk.

What are the effects of these differences on the consumer?

Perrott: The one other place I'd like to go is to talk about how these impact the consumers of your products. Clearly there are differences. You could make the argument that the differences lead to an efficient market, and so the consumer is well served. Or you could argue that the differences introduce unnecessary expenses into the system, and the consumer is ill served.

Robertson: I'm sure there are examples of both. In general, on the banking side you have federal guarantees. Where they apply can represent a significantly higher level of consumer protection than any insurance operations can provide. But that comes with a cost, the cost of the federal guarantees. In the insurance environment, the customer guarantees are also there but they're weaker and generally have more limitations, and they aren't as well understood. Of course, it comes with a cost there as well. I think I'd make a general statement that in most cases the market sorts it out pretty well. But there are undoubtedly situations where the market doesn't and the wrong kind of product is sold under the wrong circumstances or even misrepresented.

White: Obviously, regulation has its cost. The differences in these product features, in terms of their taxation and capital requirements and regulation, affect what it is they offer. At the very least, one could argue that they afford choice. Choice is not free. A benefit comes with a cost, and if you want a mutual fund, instead of a variable annuity, well, this is what you pay for it. 1 would say this, though: one area where I'm concerned, and I know many other people are, has to do with long-term care, where there is not significant experience, where the federal government has come in and probably more than muddied the waters by offering tax-qualified versus non-qualified rules. A product whose delivery of benefits is really contingent upon local, regional, community facilities, health-care delivery capabilities. You have these companies that have come in, some of which have requested 4,000% increases in their long-term care premiums, which is of concern. I'm worried, for instance, how the NAIC is going to react to this. They're considering model legislation, and I suspect that they probably look at the whole issue.

They tend to look at the whole issue from a consumer protection, don't get ripped-off by paying an expensive premium and not having it locked in point of view.

Robertson: That's a product that can be difficult. It is impossible to forecast the costs of long-term care accurately.

Therefore, it is critical that you have a product that allows the insurer to adjust the price as costs emerge. If you don't do that, you can break the company and that won't do anybody any good.

White: Or they'll just withdraw from the marketplace and the need won't be met.

Robertson: The problem is that, as you suggested, this can lead to abuses, so there's a very important need for the regulators to encourage proper management of the product pricing while at the same time avoiding the abuses. This is a problem that exists with a number of coverages -the health and disability areas are examples. They have a lot of experience with this sort of regulation, but it's not an easy thing to do. It's not an easy thing to manage. It's one of the reasons why we have a heavy regulatory burden. We have to support the regulatory environment to deal with things like this. One aspect is that it's regulated on a state-by-state level and that adds to our burden. But I'm a defender of that process because the issues in different parts of the country are different. In some, the costs can be significantly different; in others, the culture can be significantly different. How you control abuses can be different.

White: I certainly agree in terms of long-term care. For example, look at costs of coverage in the Northeast versus the Southwest. The cost of the coverage reflects the cost of the healthcare.

Robertson: It means that we have to be attuned to real conditions.

Wrap up

Perrott: This discussion has been very helpful. Thank you for each taking time from your schedules to participate in this discussion. It is particularly helpful to get the views of people outside the insurance industry. Thank you on behalf of *The Actuary*.

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