1-12-2013 Update

Reply from Barry Flagg:

Veralytic Response to "Is the Veralytic Report a Useful Tool for Advisors?"

January 6, 2013

1. Should you take the Veralytic Appropriateness Rating seriously?

We invite you to determine for yourself and at our expense if you should take the Veralytic Appropriateness Rating seriously (see more on this special offer at the end of this post). Veralytic also believes that "the complexity of the [life insurance purchase] decision requires a decision model which considers an individual's unique circumstances, objectives, and constraints." While NO rating system can know a client's unique circumstances, objectives, and constraints, advisors need information to match product attributes to these considerations unique to each client. Veralytic's mission is to publish this pricing, performance and suitability research needed by advisors to better identify those product(s) that match each client's unique circumstances, objectives, and constraints. All permanent life insurance policies have certain common characteristics. These characteristics can and do vary from product to product. Some products are better than peer-group alternatives. Some are worse. In all cases, at least 5 of these common characteristics are measurable.

It is precisely for this reason that "Veralytic shows the components of the Appropriateness Rating, so advisors can easily produce their own opinions by changing the weights", placing greater emphasis on and explanation of those elements of the Veralytic Star Rating important to the client (e.g., explaining a borderline financial strength and claims-paying ability rating in Star #1) and less or no emphasis on those elements less or unimportant to the client.

And while anyone can have an opinion about a life insurance policy, not all opinions serve the interests of the client. Some opinions are uninformed and worthless (i.e., since everyone has an opinion, clients are only served by those opinions formed from information they don't already have). Some opinions are actually harmful to clients (i.e., when the opinion serves the interests of the opinion-giver more than the interests of the client). Only those opinions based on knowledge the client doesn't have and which serves the client's interests actually offers value to clients. Confucius defined "real knowledge is knowing the extent of one's ignorance." Merriam-Webster defines "ignorance" as "a lack of knowledge". In that it is impossible for anyone to know what they don't know; other professions routinely address this lack of knowledge with online research services. In fact, it is expected in most if not all professions other than life insurance that advisors WILL supplement their personal experience with additional and/or independent research services.

Imagine a client's reaction to (and the advisor's liability for) tax advice that failed to consider relevant tax law or a tax case because the CPA or lawyer failed to subscribe to up-to-date tax law information like BNA or CCH and/or up-to-date case law information like Lexis/Nexis or Westlaw. Likewise, imagine a client's reaction to (and the financial advisor's liability for) investment advice that failed to consider suitable investment products because the financial advisor failed to subscribe to the likes of Morningstar or Lipper.

As Michael Kitces observes in his blog article referenced above, "In today's world, a planner faces a genuine risk of liability for failing to analyze the costs and performance of a recommended investment using the available tools like Morningstar and recommending a 1-star fund. One wonders how long it will be until a planner could be held similarly accountable for failing to evaluate the costs and performance of a recommended insurance policy using the available tools like Veralytic and recommending a 0-star life insurance policy?"

Veralytic's mission is, therefore, to be one of these independent research services (for others, see question "9. If not the Veralytic report, then what?" below) used by financial advisors to supplement their personal experience with "real knowledge" (i.e., in the Confucius meaning of the term) that leads to more complete advice to clients.

2. What is the relationship between the Veralytic Appropriateness Ratings and future policy performance or future policyholder satisfaction or future anything?

The relationship between Veralytic Star Ratings and future policy performance is the same as that for most every other product in the financial services industry, namely that products charging lower expenses and with a track records of superior performance are more likely to produce better future results. While past performance is no guarantee of future results, these basic Prudent Investor principles have proven useful to advisors in most every other type of financial product. As such, Veralytic believes that:

1) Products from insurers with <u>high ratings for financial strength and claims-paying ability</u> are less likely to increase pricing or cut-back on performance to maintain, restore, or increase their financial strength and claims-paying ability, and as such are more likely to deliver on pricing and performance expectations.
2) Products in which the insurer represents they will <u>charge less</u> are more likely to deliver better future performance than in those products in which the insurer represents they will charge more.
3) Products where <u>pricing is more stable</u> because it's based on actual mortality experience, actual operating experience, and actual investment experience are more likely to deliver on pricing and performance expectations than those products that assume mortality improvements or are overly-dependent on the reinsurance market, or assume operating gains, or assume investment performance that is better than that achieved in the past.
4) Products with <u>greater access to cash values</u> are more likely to deliver on pricing and performance expectations than those products which restrict access to cash values and thus make it more difficult and more costly to make a change if pricing and performance expectations are not met.
5) Products from insurers with a track record of <u>superior performance from invested assets underlying policy cash values</u> are more likely to deliver better future results than those products where historical performance of invested assets underlying policy cash values has underperformed its peer-group.

Of course, there are other factors that influence future policyholder satisfaction. However, Veralytic believes that any methodology (cheaper, easier or otherwise) that fails to consider expenses and past performance leaves future policyholder satisfaction completely to chance, and that those advisors who don't want to gamble with future client satisfaction will consider what their clients are actually being charged and what their clients are actually getting in performance, just like they do in most every product in the financial services industry.

3. Are advisors well served by a dumbed-down formula for life insurance pricing?

Advisors have been well served for years by simplified formulas like Alpha, Beta and R^2 in the investment business and certainly are well-served by a simplified formula that provides a basic understanding of life insurance product pricing and performance. Most advisors who have clients who have life insurance are NOT life insurance specialists, but with Veralytic they certainly know MORE about a given life insurance product than they could withOUT a Veralytic Report. This is precisely the mission of Veralytic – to make life insurance MORE (but admittedly not completely) understandable to ALL financial advisors who have clients who have life insurance.

By analogy, $E = MC^2$ makes Einstein's Theory of Relativity more understandable to ALL but certainly does NOT make everyone a physicist. Similarly, Veralytic research is designed to support a basic understanding of life insurance pricing and performance for a BROAD range of financial advisors who are not now and never will be specialists trained in the pricing and performance of life insurance. Without such a basic understanding, and research to support basic pricing and performance concepts, the only source of information widely-available to clients and financial advisors are the illustrations of hypothetical policy performance produced by the insurer.

Such illustrations of hypothetical policy performance are a commingling of the insurer's actual pricing representations intermingled with, more often than not, arbitrary performance assumptions. Once "scrambled" together, both pricing and performance become obfuscated, making it difficult if not impossible for most financial advisors and practically all clients to discern good pricing from bad and/or reasonable versus overly-optimistic performance assumptions.

This is not to say that these illustrations are not useful to the relatively few specialists trained in the pricing and performance of life insurance, but is to say that comparing illustrations of hypothetical policy values is NOT useful to EITHER the overwhelming majority of financial advisors OR their clients as a decision support tool for determining which products are more suitable in each client situation. In fact, advisors who are not trained in the life insurance pricing and performance principles, but who nonetheless compare illusions of hypothetical policy values to determine which product is "better", can instead actually cause harm to clients.

For this reason, the chief regulatory body of the financial services industry "strictly prohibits" comparisons of such illustrations of hypothetical policy performance because they can be "misleading". Similarly, the chief actuarial body of the life insurance industry commissioned a study that concludes "illustrations should not be used for comparative policy performance purposes" because such "usage for illustrations is fundamentally inappropriate." Instead, both the chief regulatory body of the financial services industry and generally-accepted Prudent Investor principles prescribe separate examination of expenses independent of performance assumptions.

History also shows that comparing illustrations of hypothetical policy performance has not produced good results for clients. In the 1980s, illustrations of hypothetical policy performance were used to market universal life (UL) products when prevailing interest rates were high, which gave the APPEARANCE of lower costs. When high interest rate assumptions proved unsustainable, many UL policies became underfunded and are now at risk lapsing without value and without paying a death benefit. In the 1990s, variable universal life (VUL) illustrations using high earnings rates again gave the APPEARANCE of lower costs, but many VUL policies are also now underfunded and risk lapsing without value and without paying a death benefit.

Had more financial advisors been able to actually examine policy expenses and performance assumptions separate and distinct from each other, instead of simply comparing illustrations of hypothetical policy values, there would almost certainly be fewer disappointed clients with UNDER-funded UL and/or VUL policies. These "flavor of the day" marking practices using illustrations of hypothetical policy performance continue to this day with indexed universal life (IUL) and emerging litigation and case law reveals just how harmful this practice has been (i.e., see "A Shot Across The Bow" in the December 2010 issue of Trusts & Estates magazine).

So while profit tests may be the crown jewels of life insurance due diligence, there is a HUGE information void between A) the profit tests that are RARELY available/understandable to anyone except a handful of life insurance specialist and B) illustrations of hypothetical policy values that are widely-available but can be "misleading" and are "fundamentally inappropriate" when used for due diligence. It is the mission of Veralytic to help BOTH fill this void by providing more information about life insurance pricing and performance to ALL financial advisors and consumers AND bridge the gap between A) financial advisors/clients who can now more readily identify problems using Veralytic and B) the life insurance specialist who can now help solve more problems.

Veralytic's mission to widely-publish life insurance pricing and performance research is not unlike Morningstar's mission to widely-publish mutual fund pricing and performance research. Morningstar also received its fair share of criticism over the years. However, few would argue that Morningstar didn't both A) empower more financial advisors with more information needed to better advise clients, and B) provided more clients with more (albeit not necessarily all the) relevant information needed to make better investment decisions.

Morningstar also did so without knowing the profit maximization strategies of the mutual fund companies in their database. For instance, Vanguard grew into one of the largest, most well-respected and most popular mutual fund companies because many of their funds offer consistently lower costs and comparable or superior performance. Morningstar did not need access to Vanguard internal pricing documents to be able to measure the pricing and performance of their mutual funds against the universe of peer-group alternatives. Instead, they simply compiled pricing and performance information in a database from which good, bad, and average pricing and performance could be calculated and measured.

Likewise, Northwestern Mutual has grown into one of the largest, most well-respected and most popular life insurance companies because many of their products offer consistently lower costs and comparable or superior performance. Veralytic similarly does not need access to Northwestern Mutual internal pricing documents to be able to measure the pricing and performance of their products against the universe of peer group alternatives. Instead, Veralytic simply breaks life insurance pricing and performance down into its discrete pricing elements (i.e., COIs + E – i%) and compiles this information in a database from which good, bad, and average pricing and performance can be calculated and measured.

4. Can one set of analytical tools apply to all cash value policies?

Yes, because ALL forms of permanent life insurance have certain common elements, one set of analytical tools CAN apply to these elements common in all cash value policies. For instance, ALL forms of permanent life insurance charge expenses and credit interest or earnings from invested assets underlying policy cash values. As such, these common elements can be stored in a database and used to calculate good, bad and average pricing and good, bad and average performance. In fact, without one set of analytical tools for all cash value policies, such vital information about which products offer good, bad or average pricing and/or performance would not be possible.

For instance, all cash value life insurance products can charge expenses for cost of insurance charges (COIs), fixed administration expenses (FAEs), cash-value-based "wrap fees" (e.g., VUL M&Es), and premium loads. These expenses and can and do vary by as much as 80%, but without one set of analytical tools to measure these discrete elements common to all cash value policies, there would be no way for most financial advisors to know which products are competitively-priced versus those that over-charge and/or which are overly-aggressive in their performance assumptions versus those with a track record that supports performance expectations.

As such, Veralytic believes an important (but certainly not only) step in any due diligence process is to SEPARATELY measure those pricing and performance elements common to all types of permanent life insurance. While this may be a simple vision, life insurance is the last, largest, most-neglected asset on too many clients' balance sheets, and Veralytic believes this vision is nonetheless important. Veralytic also recognizes there are considerations beyond the common elements, which can nonetheless be important in different situations.

In some cases, these other considerations are addressed by other research publishers and service providers (see "9. If not the Veralytic report, then what?" below). In other cases, certain products offer unique features NOT common to all life insurance products, or even all products of the same type. Such unique features are beyond the scope of any database of commonalities, and require the individual attention (e.g., reading policy contract language specific to a particular guaranteed UL policy) and/or the professional judgment (e.g., to understand the hedging budget specific to a particular index UL policy) of the life insurance specialist.

5. Is Veralytic's Pricing Style Box useful?

Yes, the Veralytic Pricing Style Box certainly would have actually been useful to the team of advisors involved in the real-life lawsuit discussed below where the only member of the team with such information was the life insurance specialist. The purpose of the Pricing Style Box is, therefore, to help ALL advisors to a client (especially NON-life-insurance specialists) better understand the planning objectives for which a particular policy is designed to perform optimally.

Without such information widely-available to, and understandable by, NON-life-insurance specialists, product recommendations become the exclusive domain of the life insurance agent, broker or consultant. As is illustrated in the lawsuit below, and for reasons discussed below and in Is Your (Client's) Insurance Advisor a "Butcher" or "Dietitian"?, life insurance agents, brokers and/or consultants may or may not be making product recommendations based on the client's best interest.

For instance, industry profit tests reveal that insurers generally experience higher profits on larger policies due to better longevity of the insureds that purchase larger policies. These insureds are higher income earners and/or have greater wealth, and can afford preventative and/or better medical care, whether covered by health insurance or not. As such, insureds with higher incomes and/or greater wealth categorically have longer life expectancies, and thus correspondingly present lower mortality costs to insurers.

For this reason, the Society of Actuaries publishes separate mortality tables for the mortality experience of insureds purchasing policies with face amounts of $1M or higher, which is better than the standard mortality tables for all policies. Some insurers design products specifically for this market to offer lower cost of insurance charges (COIs) that correspond with their lower mortality costs experience in this market segment. Some insurers also design products that are specifically priced for particular planning objectives, like wealth accumulation.

However, too many financial advisors to those clients considering larger life insurance purchases for instance are UNaware that different products can be designed for different target markets and/or different planning objectives. For instance, a 2008 lawsuit (see http://www.veralytic.com/1vagelos-v-merrill-lynch.aspx) provides just such a public example where a "retired Merck CEO … sued Merrill Lynch for fraud in connection with life-insurance policies" that were "patently unsuitable". A separate audit revealed that the $276 million in life insurance were the wrong type of policies.

Had more of the advisors to this client had a Veralytic report, then the Pricing Style Box could have alerted some of them in ADVANCE (instead of relying blindly on the life insurance specialist), and for far less than the cost of the separate audit, BOTH that the recommended products were not "designed for wealth accumulation" as advertised (i.e., by virtue of the Funding Strategy dimension) AND instead were regular retail type products (i.e., by virtue of the Target Market dimension) used to increase the commissions for Merrill Lynch, according to the lawsuit.

The purpose of the Pricing Style Box in Veralytic Reports is, therefore, to help ALL advisors to the client better understand the planning objectives for which a particular policy is designed to perform optimally. Of course, just because a particular product may be designed to perform optimally in a particular planning scenario, that doesn't mean it automatically will. This is where the life insurance specialist comes in, who can "fine-tune" the premium funding plans to further optimize results by paying non-level premiums for instance.

6. Are Veralytic's benchmarks useful?

Veralytic's benchmarks are useful in measuring cost-competitiveness in the same way the S&P500 is useful in measuring investment performance for instance. Just as the S&P500 does not claim to represent the arithmetic average performance of all stocks, Veralytic does not claim to represent the arithmetic average costs for all life insurance products. However, both provide a useful means for a broad range of financial advisors to measure investment performance (S&P500) and life insurance costs (Veralytic).

At the risk of stating the obvious, the term "sufficiently calibrated" is relative to the prevailing environment and is thus evolutionary. For instance, the sextant was the most "sufficiently calibrated" navigational instrument in the 18th Century. Now, GPS is a far more "sufficiently calibrated" tool for navigation. However, this does NOT mean that the sextant was not "sufficiently calibrated" for the environment of its time. Without it, navigation to the New World would have been IMpossible.

Likewise, Veralytic is the largest database of life insurance pricing and performance research available to ALL financial advisors, and thus is currently the most "sufficiently calibrated" tool for widely measuring the pricing and performance of any permanent life insurance product against its peer-group. In addition, each time a user submits data about a particular policy to be measured against the benchmarks from the database, the database gets bigger and "smarter" over time.

And because the Veralytic Star Rating is derived from ACTUAL insurer pricing representations and ACTUAL historical performance of invested assets underlying policy cash values, it cannot be "gamed". This is in stark contrast to indexes like those discussed in "On the Choice of an Index for Disclosure in the Life Insurance Market: An Axiomatic Approach", which are calculated from illustrations of HYPOTHETICAL policy values. Because the HYPOTHETICAL assumptions inherent in these illustrations of HYPOTHETICAL policy values can be manipulated, these indexes can thus be manipulated.

As such, indexes calculated from illustrations of HYPOTHETICAL policy values can be "gamed" both by manipulating the HYPOTHETICAL assumptions and by choosing the index that highlights the product the agent/broker wants to/is selling, but which may or may not actually be the product offering lower expenses and/or a better performance track record. On the other hand, because ACTUAL insurer pricing representations on file with the various state departments of insurance cannot be manipulated, and because ACTUAL historical performance of invested assets underlying policy cash values reported in the public domain cannot be manipulated, the Veralytic Star Rating cannot be manipulated.

In addition, the Veralytic Star Rating is intended to help ALL advisors more easily and readily identify those policies that actually provide better consumer value precisely because the product(s) are selected and/or designed to score better versus the Veralytic benchmarks (i.e., to the extent that the consumer places value on products from insurers with higher financial strength and claims-paying ability ratings, and which offer lower expenses, more stable pricing, higher cash values and superior investment performance).

And because Veralytic is intended more for the BROAD range of financial advisors, Veralytic reports consider things like the range of pricing distributions in Star #2 of the Veralytic Star Rating, and commission concessions in dial-a-commission products shown in the Policy Expense Breakdown graph at the top-center of each Veralytic Analysis page, but leave additional detail to the life insurance specialist and/or other publishers. Some say Veralytic reports are already too long.

7. What is the relationship between companywide statutory accounting data and product-specific pricing factors?

It is NOT accurate to say that Veralytic believes there is a CLOSE relationship between companywide statutory accounting data and product-specific pricing factors. However, Veralytic DOES believe …

- … that different insurers invest the assets underling whole life, universal life, and indexed universal life policy cash values differently,
- … that these different investments will produce different investment performance over time,
- … that such different investment performance has material influence over the interest that will actually be credited to universal life policies, and/or included in the dividend of whole life policies, and/or used to determine the hedging budget noted above as important in indexed universal life policies,
- … that insurers who achieve superior investment results will be more likely to actually credit more interest to their universal life policies, and include more interest in their dividends on whole life policies, and be able to buy more options and thus deliver superior performance in their indexed universal life policies.

As such, while past performance is no guarantee of future results, past performance is certainly one of the generally-accepted measures of relative future performance, and the past performance of the insurers portfolio of invested assets underlying whole life, universal life, and indexed universal life policy cash values is, therefore, an essential consideration. Few advisors would recommend a mutual fund without even considering its past performance, yet life insurance is routinely purchased based on some ASSUMED rate of return in some illustration of HYPOTHETICAL policy values withOUT considering an insurers ability to achieve expected performance relative to other insurers.

So while there are certainly differences between statutory and GAAP accounting, both accounting methods provide information about the financial operations of the insurer. In the absence of other better sources of historical investment performance data, Veralytic believes there is SOME relationship between statutory accounting data and an insurer's historical investment performance, and that it is IMprudent to ignore available data even if not perfect, and thus prudent to consider the historical investment performance data that is available.

8. What is the effect of a Veralytic Report on litigation?

It remains to be seen whether a Veralytic Report either deters litigation or improves the defendant's position. However, customer complaints, arbitrations and litigation involving life insurance are on the rise due at least in part to the now clearly-questionable sales practices involving stranger-originated life insurance (STOLI). As such, financial advisors and particularly Irrevocable Life Insurance Trust (ILIT) trustees and other fiduciaries will have to decide for themselves if Veralytic Reports makes them less vulnerable to the following line of inquiry:

- Do you tell clients that they should buy from/hire you because your advice, products and services will best meet their needs (versus the competition)?
- Are you aware that such representations make you a fiduciary?
- And as a fiduciary, you have a duty to be prudent in the investment and management of assets?
- And that your definition of prudence comes from the Uniform Prudent Investor Act (UPIA as adopted in each individual state), correct?
- And in your state, the Prudent Investor Act applies to life insurance just like any other investment?
- So your definition of prudence includes a Duty to Investigate and thus "examine the information likely to bear importantly on the value or the security of [the life insurance] investment" under UPIA Section 2(d)?
- And one type of information that this definition of prudence specifically requires you to examine are costs as prescribed under UPIA Section 7?
- And you thus have a duty to "incur only those costs that are reasonable and appropriate" also under UPIA Section 7?
- And the premium is NOT the cost of a life insurance policy (any more than the $2,000 invested into an IRA is the "cost of that IRA), correct?
- In fact, the Courts have already ruled that premiums are NOT the measure of costs in a life insurance policy, haven't they?
- Instead, the costs inside these life insurance policies include cost of insurance charges (COIs), fixed administration expenses (FAEs), cash-value-based "wrap fees" (e.g., VUL M&Es) and/or premium loads?
- And these costs can and do vary by as much as 80%?
- It appears you may have hired an agent/broker/consultant to examine such costs. As a fiduciary, you are aware that you have a duty to exercise reasonable care, skill, and caution in selecting an agent, broker or consultant?
- Are you aware that agents/brokers/consultants often purport to examine costs but then actually DISCLAIM their supposed examination of costs?
- Are you also aware that the chief regulatory body for the financial services industry "strictly prohibits" the methodology used by many agents, brokers and consultants because it can be "misleading"?
- Are you also aware that the chief actuarial body of the life insurance industry commissioned a study that concludes the methodology used by many agents, brokers and consultants is not just inappropriate, but "is fundamentally inappropriate"?
- Are you also aware that research is available to measure life insurance expenses in a way that avoids this questionable methodology and instead has been reviewed by chief regulatory body for the financial services industry and found to be consistent with their rules for fair and adequate disclosure?
- And that this research allows you to measure expenses in ways similar to the way many financial advisors already measure costs in other types of financial products?
- Are you aware that this research also indicates you could be over-charged by (as much as) 80%?
- So in those instances where you failed to actually examine policy expenses, and thus were allowing your client to be over-charged by (as much as) 80%, can you explain why the beneficiaries are not due (as much as) an additional $800,000 for each $1,000,000 of life insurance that you (allowed to be) sold to them?

Veralytic reports were specifically designed to support Prudent Investor principles and have been reviewed by chief regulatory body for the financial services industry for compliance with their Rules requiring fair and adequate disclosure. Veralytic research is also endorsed by the New York Bankers Association (NYBA) to support irrevocable life insurance trust (ILIT) trustees in their Duty to Investigate the suitability of trust-owned life insurance (TOLI) holdings. For these reasons, Veralytic believes (admittedly a self-serving belief) that Veralytic research can either deter litigation or at least improve the defendant's position against the above line of inquiry. Time will tell.

9. If not the Veralytic Report, then what?

Veralytic believes that advisors should have as much information as is possible about the pricing, performance, features, terms and suitability of the life insurance products owned by or being sold to their clients. No information resource provides all things to all advisors, not in the investment business, nor in the life insurance business. Different information services provide different types of information useful to different advisors in different client situations. For instance, …

… **Compulife** provides information about term insurance products not provided by Veralytic.

… **Full Disclosure** publishes information about how cash value life insurance products illustrate at various assumed rates of return and in a variety of example scenarios, but does not include disclosure of policy expenses specific to each client situation or the actual historical performance of invested assets underlying policy cash values.

… **Morningstar** reports on the actual historical performance of and expenses in the mutual-fund-like separate accounts found in variable products but does not consider the largest (by far) expense in every life insurance policy – cost of insurance charges (COIs).

… **LifeSpecs** provides information about important contractual terms for indexed universal life products but does not include total policy costs or actual historical performance of invested assets underlying policy cash values.

… **Veralytic** provides NONE of the above, but DOES publish the pricing and performance research NOT provided by these other services so advisors can measure what the client is actually being charged and whether that is reasonable relative to the universe of peer-group alternatives, and what the client is actually getting in performance and whether that is reasonable relative to both asset-class benchmarks and the universe of peer-group alternatives.

As such, Veralytic subscribers find that Veralytic research is also a service that provides important information (especially for fiduciaries who have a duty to incur only those costs that are reasonable and appropriate) and can save a lot of time (versus the hours it otherwise takes to manually run, manually compile, manually separate costs from performance, manually analyze and manually evaluate the dozenS of illustrations of hypothetical policy values typically suitable in each/many client situations).

Veralytic also encourages both greater disclosure requirements by state insurance regulators and greater enforcement of existing disclosure rules by the chief regulatory body of the financial services industry. However, advocates of such a regulatory approach date back at least 40 years, and unfortunately for the consumer, have made little progress.

For instance, Joseph Belth testified before Congress in the 1973 Hart Hearings that "[m]any policyholders are overcharged for their life insurance" and "[t]he market for individual life insurance is characterized by an absence of reliable price information." More recently, the December 2010 issue of *The Insurance Forum* included an article about "THE 1973 HART HEARINGS IN RETROSPECT" in which Professor Belth lamented the lack of progress in disclosure of life insurance pricing and performance information available to buyers and policyholders.

As such, Veralytic believes that regulatory efforts ALONE have proven INadequate and that a market-based solution is ALSO needed. In the same way that BOTH regulators AND the likes of Morningstar improved the accuracy, reliability, timeliness, and incisiveness of the information provided to mutual fund investors, Veralytic research is compliant with industry regulations and widely-available to advisors so as to also improve the accuracy, reliability, timeliness, and incisiveness of the information provided to policyholders.

Final thoughts

Veralytic agrees that Veralytic has NOT completely solved the problem of determining life insurance product suitability. Veralytic also believes that problems in determining life insurance product suitability will never be completely solved, and instead will be solved incrementally, over time, by all who are genuinely interested in serving the best-interests of the client. These solutions will involve regulators, consumer-centric life insurance companies, financial advisors, and research publishers and services providers to those advisors. Veralytic's mission is to be one of (and by no means the only one of) those research publishers and service providers helping financial advisors serve the best-interests of their clients.

Final Q&A

Q. Veralytic aspires to do for life insurance what Morningstar has done for mutual funds. There is academic research on the predictive value of the Morningstar ratings.

What verifiable claims is Veralytic making about the predictive value of the Veralytic Reports? To put it another way, what evidence is there that reliance on the Veralytic Reports produces better outcomes for policyholders than the simple alternative of shopping the market for policies with the best illustrated values issued by companies with investment-grade financial strength ratings?

A. Veralytic publishes objective, innovative research to help our customers reduce due diligence costs and risk, improve consistency, sell faster, and better document against possible lawsuits and regulatory requirements. While academic study on the predictive value of Veralytic research has not yet been undertaken, Texas Tech University (TTU) is conducting a stream of research about life insurance pricing and performance disclosure. Phase I is underway and examining the usefulness of illustrations of hypothetical policy values. Phase II will examine alternative tools to include Veralytic and is expected to begin within the next year.

In the meantime, Veralytic research has been endorsed by the New York Bankers Association (NYBA among others) for investigating product suitability, approved by the Financial Planning Association (FPA) for inclusion in their Practitioner Resource Guide, and accepted by the AICPA when their CPA2Biz subsidiary was supporting their members in the prudent delivery of financial services. Veralytic has also contributed to the FPA Task Force to apply established fiduciary principals to life insurance, the Society of Financial Services Professionals (SFSP) Standards of Care Initiative, and the curriculum for Best-Practice Standards for Life Insurance Stewards training starting this April at West Point.

While such broad acceptance isn't evidence that Veralytic research will produce better outcomes than simply comparing illustrations of hypothetical policy values, the chief regulatory body of the financial services industry reviewed Veralytic reports and found them consistent with their rules specifically crafted to protect consumers and widely-accepted to produce better outcomes. On the other hand, evidence does exist to indicate that shopping the market for policies with the best illustrated values can be "misleading" and is "fundamentally inappropriate" according to both chief regulatory body of the financial services industry and a study commissioned by the chief actuarial body for the life insurance industry.

Lastly, Veralytic results can be verified in the same way as the other information services mentioned above – by trying it and verifying results against known data sources. If you are not currently a Veralytic subscriber, then I invite you to take Glenn's advice "to become familiar with this tool by ordering a [Veralytic] report for each of the five main types of cash value life insurance." If you are not completely satisfied with your experience, then just say so for a FULL refund under our NO risk trial subscription. As a token of thanks to Glenn and A4A for asking the tough questions that can lead to a better understanding of life insurance product suitability for all, mention this article and receive a $25 discount off the single user monthly subscription rate (a $300 annual savings). Call 888-908-8242 to subscribe.

Feel free to also e-mail me personally with any questions at bflagg@veralytic.com.

Reply by Glenn Daily:

The idea that you can say interesting things about the future performance of nonguaranteed life insurance policies without talking to the people who do the pricing and understanding their pricing process seems implausible to me, but it would be good news if true. Who wants to spend time doing unnecessary work?

Here is the research program that I have in mind:

1. Take a large sample of policies with Veralytic Appropriate Ratings of 0 to 5.
2. Define one or more reasonable measures of policyholder satisfaction.
3. Analyze the relationship between the Veralytic Appropriate Ratings and future policyholder satisfaction, making the necessary adjustments for survivorship bias, etc.
4. Do the same thing for simple alternatives, such as ranking policies based on illustrated values, financial strength ratings and other public information.
5. Try to determine if any comprehensive due diligence process could have achieved a better result.