June 28, 2019

Mr. Fred Andersen
Chair, IUL Illustrations (A) Subgroup
National Association of Insurance Commissioners

Dear Commissioner Andersen,

Thank you for the opportunity to participate in this next phase of public comment on IUL Illustrations. I applaud the Subgroup's commitment to ongoing dialogue and feedback — an open forum is essential as our industry continues to drive consistency, define best practices, assess our value and evaluate our long-term performance.

I'd like to begin by addressing the specific questions put forth for public comment, and then offer some additional, related perspectives.

In response to Questions 13, 15 and 16, I would offer a combined response as they are all core to IUL design and somewhat interrelated. Hedge budgets (or "options budgets") are interpreted as monies assigned to a IUL policy via General Account yield, plus any additional monies extracted from the policy for the purpose of augmenting that budget. To the best of my knowledge there is no actual description, legal or otherwise, to what defines the hedge budget. Limiting the hedge budget is not going to help IUL policies perform better; in fact, it's going to have the direct opposite effect. While I don't agree with much of the implied performance demonstrated by IUL policies, I cannot find fault with the structural integrity of the derivative operations they employ. Importantly, the problem with IUL is not product design, it's the display technology. The disconnect between perceived performance and realistic performance has been a persistent problem of our industry for decades. IUL is just the latest example, and it is time we better resolve this important issue.

On Question 14, my observation is that index loans generally do not hold great promise. Realistically, the performance of index loans as a strategy is totally reliant on the consistency of the underlying indexing method. The recurrent charges that debit IUL account values are accentuated when the index strategy doesn't perform, only to be further challenged by the constant interest growth of index loans.

In addition to the Subgroup's leadership around IUL illustrations, there is another, overarching question to be answered: How can we as a financial services industry

establish better performance/risk demonstration criteria, and create positive disruption in this arena to advance greater accountability and transparency?

Through my company's research initiatives we have crafted long-term, multi-variable models to measure the performance of financial instruments; this year, we shifted our robust toolset into an InsurTech start-up. Our methodologies have been vetted in a university setting, applying the highest level of academic rigor and stress analysis. Later this summer we will introduce a commercial version of our financial product viability platform, a stochastic suite of Monte Carlo technologies, designed to help consumers, producers and fiduciaries optimally fund for future financial liabilities based on outcome analysis. For producers, we have cloned seven of the top IUL policies and FIAs (using publicly sourced data). For fiduciary style advisors, we have expanded on the insurance suite to include AUM methods (tax affected) and variable product clones. Our platform takes into account the expanding regulatory environment, diverse product suite and varied tax systems, creating an objective-level ecosystem rooted in science where viability can be measured and quantified, empowering advisors to provide fully informed counsel to their clients.

A few attributes of our platform and the IUL module would include:

- Our IUL analysis is based on the performance elements of the policy envelope (bonuses, additional credits, persistency factors, multipliers, performance riders etc.) and its indexing methods.
- We presently have four different capital market inputs for our MC engines: two derived from large investment banks' capital asset pricing models and two developed from market performance.
- The concise reports we generate are designed to deliver fiduciary quality analysis in an easy to comprehend style of words, pictures and numbers. Additionally, users will be able to select the output languages of English, Chinese or Spanish.
- Our performance benchmarking includes sensitivity analyses developed to measure and express the effect on outcomes given downward index cap movements and/or COI increases.
- The platform design allows us on-board new IUL products from their pricing data, algorithms and indexing data maps, as quickly as in a couple hours.
- For retirement income scenarios we provide six separate income levels, in an effort to help customers fully comprehend the risk/reward outcome spectrum.

Producers, registered reps, advisors, RIAs, broker dealers and fiduciaries are coming under increasing standards to demonstrate best interest, and for good reason — while we industry professionals are fluent in the jargon and systems of our field, consumers often don't speak the same language, and rely on their advisors to navigate complex financial markets and instruments. Advisors want and need succinct, unfiltered and transparent information, so that they can support their clients in making some of the most important decisions of their financial lives.

The work of this Subgroup is tremendously important, and I feel honored to be a part of our industry's advancement. I'm eager to keep the conversation going, and I welcome your perspectives and feedback.

Sincerely,

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