Volume XXVII, Number 2 | November 2021

nolhga journal

A Publication of the National Organization of Life and Health Insurance Guaranty Associations

Outlook Uncertain

The pandemic, regulatory changes, and possible M&A activity make it hard to predict the future of the LTC market

By Matt Morton, FSA, MAAA

Uncertainty almost seems to be the natural state of the long-term care (LTC) insurance industry. From early claims and lapse predictions gone wrong to questions of whether rate increase requests would be approved to companies being placed in receivership, the questions always seem to outnumber the answers. But there is one thing that all observers of the LTC market agree on—if you're looking to the future of LTC, expect that uncertainty to continue, for a number of reasons.

Early Experience

LTC facilities and caregivers were pushed into the headlines in March 2020 as COVID-19 came to the United States. The 24-hour news cycle was filled with stories of elevated mortality rates among those receiving LTC, high transfer rates of the virus in nursing homes, and the dangers to the elderly. Over a year later, the LTC insurance industry continues to feel the impact of COVID-19 in emerging experience.

As the pandemic wore on, LTC insurers saw trends far outside of normal year-to-year volatility. The spread of COVID-19 also affected the number of new claims entering benefit payment status and caused changes to active claimants as well.

Consumer hesitation related to LTC facilities and nursing home providers early in the pandemic fueled a dramatic decrease in new claims for many insurers. During the second quarter of 2020, many companies saw requests for benefits from new claimants drop 30% or more from expected levels. In some places in the United States, facilities stopped accepting new residents, which contributed to the decrease in new claims. This dramatic reduction in new claims appears to be temporary, as over the past year, most insurers are returning to levels in line with long-term expectations. Long-term impacts of this short-term deviation remain to be seen.

Insurers also experienced changes to the population of claimants receiving care at the onset of the pandemic. The experience shows that an unusually high number of claimants "recovered" from claim, indicating that their benefit payments stopped. Anecdotal conversations with claimants indicated that family members removed loved ones from facilities to care for them at home while the uncertainty around the pandemic was at its peak. In

["Outlook Uncertain" continues on page 19]

IN THIS ISSUE

1 Outlook Uncertain

2 Early Planning by Regulators, Receivers & the Guaranty System Benefits Policyholders

4 "No Wonder People Are Angry"

12 "We Have a Lot of Learning To Do"

20 Calendar

Early Planning by Regulators, Receivers & the Guaranty System Benefits Policyholders

The following is a slightly edited version of remarks shared in August 2021 with a group of senior state regulatory officials involved in the supervision of insurance receiverships.—Peter G. Gallanis

Lately we haven't had to discuss many problem receivership cases involving guaranty association–covered business. That is because, by and large, the system that provides insolvency protection to policyholders—through the coordinated efforts of receivers and guaranty associations—has been working well.

Rather than simply taking that positive situation for granted, it may instead be worth noting briefly how that situation has proven to be critically valuable in many, many cases over the years. I'd like to take a couple of moments to illustrate that value, with a few examples from the life and health insurance sectors. But I know that a similar situation can be seen on the property and casualty insurance side.

You don't hear much about most of these cases, for the very reason that the outcomes for policyholders have been good, and policyholders don't complain when they are treated well.

NOLHGA has worked with receivers in about 100 multistate liquidations, and in a number of rehabilitations. Some of those rehabilitations resulted in liquidations; in other cases, liquidation was not required. That's always a victory for all of us—regulators, receivers, and the guaranty system.

In cases involving traditional indemnity health insurers, I'd like to note particularly several cases.

First, CoOportunity Health was an Iowa company that did business in Iowa and Nebraska. It was the first of a number of ACA Consumer Operated and Oriented Plans (CO-OPs) that began to have serious financial trouble—in this case, beginning in late 2014. The regulators in both states consulted the states' guaranty associations and NOLHGA as soon as the depth of the problem became apparent, and we succeeded in developing, *together*, a seamless liquidation plan that fully protected the policyholders.

We've been involved in a lot of other health cases that followed the same course over the past decade or so, whether it was Benicorp in Indiana, SeeChange in California, Universal Health in Florida, or cases in many other states—most recently, Northwestern National in Wisconsin.

In every one of those cases, close and effective collaboration between the receiver and the guaranty associations during conservation or rehabilitation resulted in effective protection of policyholders upon liquidation.

The story has been similar in cases involving life and annuity business. Our biggest life or annuity challenge in recent years has been the Executive Life of New York (ELNY) case, in which a company long in rehabilitation developed insuperable financial problems. The New York Liquidation Bureau asked NOLHGA and its members to bring expert resources to bear and to develop a resolution plan. Working together with the Liquidation Bureau, we were able to craft a seamless "prepackaged liquidation" that effectively maximized the protection for contract beneficiaries. One of your former regulatory colleagues, Lynda Loomis of Ohio, has been a key player in the success of the ELNY plan, and New York's David Axinn knows the case well.

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The ELNY case epitomizes the success that regulators and the guaranty system have achieved repeatedly through effective collaboration in life and annuity cases during conservation or rehabilitation, or even before. Such success can be seen in the outcomes of the Metropolitan Mortgage companies in Washington, Arizona, and Idaho; the London Pacific case in North Carolina; the Lincoln Memorial case in Texas; the Golden State Life case in California; and in other cases from other states.

The most rewarding cases were the ones where NOLHGA's team provided material and substantial assistance to commissioners who were able to find non-receivership solutions, such as with a major life and annuity writer in Kansas when Sandy Praeger was Commissioner.

Finally, for those of us in the guaranty system, as for regulators and receivers, one of the major challenges of recent years has been long-term care (LTC) insurance. We've been involved in a number of those cases, large and small, in various states.

We worked with the Pennsylvania receivership team in advance of liquidation to provide a soft landing for policyholders of Life and Health Insurance Company of America (LHICA) in one of the early LTC liquidations. Shortly afterward, we worked with Director Huff and his Missouri team during rehabilitation to develop a plan for the protection of policyholders in the eventual liquidation of National States. We've done the same with Pennsylvania on Senior American, a small LTC writer; and on Penn Treaty, the largest writer of LTC yet to enter receivership.

In the Penn Treaty case, over a long rehabilitation effort, we collaborated closely with Commissioner Altman, Laura Slaymaker, Pres Buckman, Joe DiMemmo, and the rest of the Pennsylvania team to develop what was effectively a prepackaged liquidation plan that began protecting policyholders seamlessly from the first day of liquidation. The case is a credit to the state system.

That same sort of work goes on today in Wisconsin in the Time Insurance Company rehabilitation case, where we expect that our work with the outstanding team at the Office of the Commissioner of Insurance will result in a successful resolution plan.

To conclude, we in the guaranty system know that you and your colleagues have a tough job. No one knows that better than I do, as a former receiver. The goal for all of us is to prevent liquidation for the sake of policyholders and the public, when that can be done; and to deliver the strongest possible protections to policyholders when liquidation is unavoidable.

Our close collaboration on the cases I've mentioned, and on many others, has been crucial to allowing regulators, receivers, and the guaranty system to develop plans that deliver real and valuable protection to policyholders. We in the guaranty system remain committed to supporting our friends and colleagues who work as regulators and receivers. ✪

Peter G. Gallanis is President of NOLHGA.

"No Wonder People Are Angry"

George Nichols and Karen Petrou discuss the impact of economic inequality in America and what can be done to remedy it

George Nichols III currently serves as the 10th President and CEO of The American College of Financial Services. He joined The College after a 17-year stint at New York Life, where he held principal roles in sales, strategic initiatives, and public policy. He most recently served as Executive Vice President in the Office of Governmental Affairs, which encompasses all the legislative, regulatory, and public policy issues at the company.

Prior to joining New York Life, George was Kentucky's first African-American insurance commissioner, leading the regulation of the state's $10 billion insurance industry through his expertise in health insurance reform and financial services integration. He was also the first African-American president of the National Association of Insurance Commissioners (2000), and he is a former Chair of the NOLHGA Board of Directors.

Karen Petrou is the co-founder and Managing Partner of Federal Financial Analytics, Inc., a privately held company that since 1985 has provided analytical and advisory services on legislative, regulatory, and public policy issues affecting financial services companies doing business in the United States and abroad. In 2012, ***American Banker*** *called her "the sharpest mind analyzing banking policy today—maybe ever."*

Karen has authored numerous articles in publications such as ***American Banker*** *and the* ***Financial Times*** *and is frequently quoted as a bank policy expert in* ***The Wall Street Journal***, ***Bloomberg***, ***Politico***, ***The Hill***, *and other media outlets. Her latest book,* ***Engine of Inequality: The Fed and the Future of Wealth in America***, *is, in my opinion, her best and most important work to date.*

George and Karen joined me online in late July at NOLHGA's 2021 Legal Seminar to discuss the growing focus on economic inequality and inclusion and its effect on insurance and the greater financial services industry. The following is an edited transcript of our conversation.—Peter G. Gallanis.

Gallanis: *We are here today to discuss two broad questions. First, how much financial inequality exists in the United States today; does that degree of inequality pose problems; what are those problems; and finally, what should be done about them? The second broad question has to do with what the insurance industry can and should do to advance the causes of diversity, equity, and inclusion within American society.*

With that as a prelude, I'm going to turn first to Karen. Your day job is advising financial institutions and financial regulators based on facts, statistics, and numbers. What do the facts, statistics, and numbers tell us about economic inequality in the United States today? What are the trends in recent history, especially going back to the global financial crisis of 2008?

Petrou: The more my husband and I looked at the trends after the 2008 crisis in our day job, the more convinced we became that there were inadvertent but really profound inequality effects going forward. I think in the 2016 election, when we saw how angry everybody was, we really delved into the facts. Those facts are the driving force, not only behind my book, but I hope behind the difference I want it to make. I didn't work late nights and weekends writing that book just to hear myself think. I really hope the facts lead to change, because the economic inequality in America, which is best judged by both income and wealth, has gotten a lot worse.

Inequality in the United States began to grow in about 1980, and the United States was beginning to be the most unequal, economically speaking, of any advanced economy by the 2008 financial crisis. Like most financial crises, the 2008 global financial crisis was actually a bit of a boon for equality, particularly wealth equality, because it hit the upper-income people who lost money in the stock market. That didn't last. Starting in 2010, the markets began to recover. What never recovered were jobs and wages, particularly for lower-income people with less education.

What you see in the United States was an unequal society, economically speaking, growing more and more unequal. When 2008 hits, there's a bit of a blip on the charts, and you can see a lot of charts in my book and in the recent *New York Times* article[1]—they did a fantastic job with interacting graphics. If you want to see some really cool charts, look at the *Times* for those. But if you look at these charts, you'll see inequality rising, both for income and wealth, leveling out a bit in 2008 and then really taking off in 2010.

The reason I call the Federal Reserve the engine of inequality is because nothing changed as much in 2010 as monetary and regulatory policy. We had profound causes of economic inequality—education, tax policy, technology changes, trade policy, continuing discrimination against women and people of color. These didn't all just go boom in 2010. What did get a boom in 2010 was a significant change in how we regulate financial institutions and to whom the Fed channels money.

We have become hugely more unequal. The top 1% of the United States now holds over 32% of the wealth in this country. In the year from 2020 to 2021 alone, their wealth grew $10 trillion. At the same time, the bottom 50% of the United States was at 2% wealth share, and their wealth grew $700 billion. That's a pretty good amount of money. It's one of the first times their wealth has actually grown since 2010, but much of that is the CARES Act and the fiscal stimulus. I have a really bad feeling about where we're going next, particularly as inflation kicks up.

Just as a little point of fact, in the last three months, we've seen hourly wages, the most important wages for lower-income people, go up 3%. After inflation, in real terms, it's 2%. These are lower, moderate, and middle-income families, struggling every day to make ends meet. They cannot save, they cannot buy insur-

NOLHGA Conversations

ance. Ultra-low low interest rates put them behind the curve, and then you add even a little bit of inflation and the engine of inequality is really grinding away. It's quite distressing.

Gallanis: *Let me turn to George for a minute. To what extent is the insurance industry today hoping to bridge the wealth gap in minority communities? How much room for improvement or advancement is there? Second, is there room for advancement within the insurance industry when it comes to matters of diversity, equity, and inclusion?*

Nichols: When you think historically about the insurance industry, in many Black communities, people probably had a life insurance policy before they ever had a banking relationship. The insurance industry really should be at the forefront in driving some of the issues that Karen mentioned, by how we promote and sell products and services within the insurance space. I think the life insurance industry especially has done a much better job recently in thinking about how they're approaching the Black community, and I think there are really three keys.

The first thing is, you really have to think about education. Not just, "here are our marketing materials about what life insurance and annuities will do." Try to think about where the Black community is in their knowledge base or the stages of their life, and then determine how to explain to them the value and benefits of products and services that are offered through the life insurance space. I think that's the first thing.

The second thing, which I think is still a challenge, is the whole issue around access and opportunity to the products. If you think just because we put them out there, they will come, that's not going to happen. We've known that in the life insurance space for years—even in the broader white community, it's not one of those things at the top of mind: "I want to go out and buy insurance today." So how are we making these products available? People can say, "we're doing it on social media or through digital means," but I still think this is a human business. If insurance companies are successful in their efforts to recruit more Black advisors and Black agents, we'll be able to do more in those communities on a face-to-face basis.

When you think historically about the insurance industry, in many Black communities, people probably had a life insurance policy before they ever had a banking relationship.

The third thing really is the summation of those two, and I think it will get to the second point I want to make about the broader opportunities for diversity, inclusion, and equity in the insurance space. When I was an executive and we were doing market research, one of the things that was common knowledge was that once Blacks ascended to a certain economic or income level, there was no difference in how we would market to them versus how we would market to the majority population. That was the golden rule of how we were going to market, and I think we've missed an opportunity.

Just looking at my personal life. I lived and worked in an environment where I was one of the few people of color, and yes, I had some of the same opportunities and trappings that my white counterparts had. But I've never stopped living a Black life. I never stopped being part of my Black community, and I never was able to convince people that, you know what, it really is different. The industry never seemed to understand that I and many other Blacks link our prosperity to family and the broader community. If we're addressing education and access, the industry has to do a better job of tailoring itself to the beliefs of underserved communities. We're going to have to push ourselves in that regard.

How do we do that? Where are the opportunities? The insurance industry has to do a much better job across the board in bringing more African-Americans and people of color into leadership roles. The only way you're going to change that view of, "if you get money you're going to be just like everyone else," is if you're including more people of diverse backgrounds in your discussion so they can challenge the thought process. They can say, "why don't we dig a little deeper before we decide that this is how we're going to market, this is how we're going to educate, this is how we're going to promote, this is how we're going to recruit?"

I am seeing the industry start looking at recruiting more at historically Black colleges and universities. I'm seeing them recruit more with inner city colleges and universities, where you're going to get a much more diverse workgroup. The more we do that and then bring them into the

organization, with sponsorships and mentoring and development programs, I think we've got a shot at being able to get back to what I started with— if you go back 30, 40, or 50 years, insurance was probably the number one financial product in Black communities.

Gallanis: *Karen, you mentioned the evidence of economic inequality, particularly wealth inequality, in the United States. Acknowledging that no society has ever been perfectly equal, what are the effects of this inequality on the economy? On potential public policy development or legislation? On political stability?*

Petrou: I could answer that very fast and just say "a lot," but let me tick them off. There's a lot of research on all of this, and I think we all live it every day too. What's the impact of economic inequality on the economy? Demonstrably slower growth. There's a tremendous amount of economic literature correlating and demonstrating causation between increased economic inequality and reduced growth.

What about the financial system? Economic inequality is the leading, most predictive cause of financial crises. If you think about that, it really makes sense. What we just saw in 2008 and 2020 is this—when you have a lot of families living paycheck to paycheck, with household leverage, and then you compound that with financial sector leverage, typically a result of the transformation of investment from capital formation into financialization, i.e., supporting lending, complex financial instruments, all sorts of other forms of financial assets, but not plants, not equipment, not output-producing assets, what do you get? You get crises.

And interestingly, financial crises caused by economic inequality lead to

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much longer and deeper recessions. It's a real perpetuating cycle, and again, we saw that the recovery the Fed takes such pride in, in 2010, was the weakest in the United States since the Second World War—and going back before that, the data aren't very good. I think it's possibly the weakest recovery ever. It took 10 years, at least to 2018, before employment started to pick up.

So that's the economic and financial cost of inequality. What does it mean in terms of mortality and health? You all know that better than I. COVID really showed the difference between what happens in communities of color, which are disproportionately lower income, and other communities. What happens in lower-income and rural communities? They get sick, and they die a lot more than would be predicted by statistical norm.

What happens to the economic structure? There's an increasing amount of literature on the links between economic inequality and market concentration. When you don't have a vibrant economy with a lot of startup small businesses and people coming into the economy, you get a lot more concentration, especially when that is accelerated by technology. I think we're beginning to see a market structure that gives me, and I suspect a lot of others, pause in terms of a few giant companies controlling more and more economic resources.

Finally, and we saw this, interestingly, in 2008 and 2012, when Obama won, and then in 2016, when Obama voters often went first for Bernie Sanders and then for Donald Trump. Look at what's happening now in the United States. People are really angry, and a lot of them are right, because it's not fair.

When I graduated college in 1975, there were rich people and there were poor people. We had a wealth distribution and an income distribution. People had more, people had less, but the top 1% got its share—1% of economic output—and the bottom 1% got 1% of economic output. In other words, you earned what you worked. In 2018, the top 1% got 312% percent of its equitable share. No wonder people are angry. They really should be. It's not fair.

Gallanis: *The points you make are so dramatically illustrated by the interactive graphs in those* ***New York Times*** *articles—the amount to which the levels of wealth among the very highest strata are accelerating compared to the very slow growth, if there's any growth, for people at the lower ends of the economic distribution. It's just startling.*

Nichols: If you stop and think about what Karen said, she shared a large, macro perspective, but she also touched on how it really comes down to what's happening to people on the ground. And part of the education component I mentioned earlier is trying to take what Karen just said and figuring out how we help

NOLHGA Conversations

the average American understand that—especially minorities, who have not been a part of many of the economic opportunities that exist in our country. I'll give you a prime example.

I get very frustrated when I hear people talk about the spending power of Black Americans: $1.2 or $1.3 trillion of spending power. And my response to them is, spending power is consumption—it's not wealth building, it's not wealth transfer. When I think about the long-term implications of this, we've got to rethink how we're preparing people. Not just for now, but for the future.

When I hear the powerful information that Karen provides, I really hope companies are asking how they can help people understand this. We shouldn't be promoting the $1.2 or $1.3 trillion spending power of the Black community. We should be talking about growing that value. Part of that would be savings and wealth, which will benefit the companies, the communities, and the overall economy.

There is a statistic we get from the Fed that says that if you are able to impact the wealth gap for Black Americans over the next eight years, you could grow the GDP by $1.5 trillion. That's real money in our economy. That's the power of what Karen is saying, once we do something about it.

Gallanis: *Sometimes in the public discourse, we slap together concepts of income and wealth as though they're the same. Susan Neely, President and CEO of the ACLI, often makes the observation that there is a huge percentage of Americans who have saved a total of something like $400, and that's their wealth position. If, as you suggest, some part of the focus of the insurance industry is not on consumption or income but on the translation of income and spending power into wealth and accumulation, what can the industry do to make that translation from spending power into wealth accumulation take place, especially in minority communities?*

Nichols: There's a couple things. First, let's comment about that wealth transfer. Being at a college that focuses on financial services, I like to talk about all the products and services one can get from any financial services company. We work very hard to be agnostic on what it is we're promoting, as opposed to people getting the benefit and value out of the financial products and services they are getting. So that's the first thing.

The industry has to do a better job of tailoring itself to the beliefs of underserved communities.

Now let's just talk about wealth transfer. I don't know of a product better than life insurance, where you can pay so little and transfer so much. Think about me at 30 or 35 years old, buying a $1 million policy—think about what I'm going to pay in over the life of that policy, and being able to transfer $1 million to my family. I don't know of another product that will do that and actually guarantee it for you.

The industry is trying to be creative in terms of how we market ourselves against other products, and I think we fail to explain the value of that wealth transfer, in addition to the wealth building that goes on in many of the products we sell. When people come to me in the Black community ask what they should do, I say, "let's talk about what you do now, but I also want to think about what you do in the future." And I tell them to buy as much life insurance as they can, because I can't find a cheaper way for you to transfer wealth in those kinds of numbers, unless you're the next Warren Buffet.

There are some other things that are really valuable, and I'm beginning to see the insurance industry take a different perspective. The life insurance industry is always going to think about long-term investments. But I'm beginning to see them say, "as we make those long-term investments, are the investments actually going to help a community, i.e., infrastructure, investing in minority-owned businesses, investing in enterprise zones?" I know there's a debate around enterprise zones, but is there a part of that you can get into?

When you look at Black-owned businesses and the growth that is occurring among Black females—because of their frustration in corporate America, they are coming out and starting businesses. They're the only cohort that actually is creating more businesses than their male counterparts. So that's exciting.

But there's another statistic, and this is something I think the insurance industry can help with. Only about 2% of capital goes to women-owned businesses. Only about 2% of that 2% goes to people of color. If you think about small business being such a foundation of our great country, think about the opportunity to invest in those companies. And I want to talk about it in two ways—not just financial, but intellectual. Let's help them be successful. There are some really smart people at insurance companies. Why don't we

transfer some of that knowledge and help them be successful in addition to making those financial investments.? Those are just a couple things the industry could do.

Gallanis: *Karen, George raises an interesting question, and I think it relates to a public policy debate that couldn't be more current, which is what we're really talking about when we talk about infrastructure. When we talk about incentivizing the investment of private funds, what sort of infrastructure investment would have some lasting impact on diminishing the wealth gap?*

Petrou: That's a really important question, and obviously Congress is debating it right now. What is infrastructure? Is it hard infrastructure—highways and bridges and other forms of civic infrastructure that you can touch? God knows we need a lot of that. Then there's soft infrastructure, which is the enormous disparities in healthcare—for the elderly, for people of color, for children—and educational opportunity and so much else.

But since you asked, Peter, I'd like to put in an ad for another form of infrastructure which I think is critical to both equality and also, ethically, to quality of life for all of us—biomedical research. A week ago, *The New York Times* had another article about me and my late husband, Basil, because we've been working for quite some time to try to figure out ways to speed the financing of treatments and cures for disease and disability. If you think about it, nothing is more important to national and personal and family security than health. That comes through the health insurance all of your members provide, but it also comes through preventing suffering. I see this on the biomedical Boards on which I sit, that a big part of the problem in biomedical research isn't science anymore; it's money.

We saw this last year. If you had asked Pfizer or Moderna how long it would take to come up with a COVID-19 vaccine, they would have told you 10 to 15 years, and they wouldn't have done it. That's why we had no pandemic preparedness—

Economic inequality is the leading, most predictive cause of financial crises.

because the economics of biomedical research are all through venture capital and talk about financialization and the big bio-pharma companies, and they bet on things that are going to make them rich. The seemingly low probability of a pandemic, the kinds of antibiotics we need to prevent hospital-transmitted infections, and lots of other things we urgently need aren't big ticket items, so we don't have research into them.

We've been working with a group of biomedical foundations and others on a new way to fund biomedical research, and I do think this is infrastructure. We call them BioBonds. Anybody in life insurance, you all are familiar with ESG investments; everybody is talking a lot about green bonds. I think we need BioBonds. We can and we should speed treatments for diseases—cancer; heart disease; sickle cell anemia, which has been overlooked because it's a minority population and there's no "get rich quick" in that disease group, just a whole lot of suffering people; my blindness; and a lot more. There's that kind of infrastructure. I know those of you in the insurance industry are the likely investors in these bonds, and I hope you all will speak out and try to persuade Congress to pass H.R. 3437, the legislation to create them.

Gallanis: *George, when I think back to some of the public policy responses to the 2008 financial crisis, goodness knows there are some things they got wrong. But one of the things they got right was that Congress facilitated long-term infrastructure investments, which the life insurance industry got very heavily involved in. That's an area we don't immediately think of as a way of addressing inequality or diversity or inclusion. But I wonder if the life industry could make a difference with this type of long-term investment, particularly if there were some accounting or tax incentives provided by the federal government.*

Nichols: Definitely, but we've got to tell the story of this investment. Everybody thinks, "give them money, or do something in their community," but there's a broader context out there that brings value.

Imagine you're advising someone to build their wealth over time so they can have a good retirement, but you've done nothing about their health, which will allow them to enjoy their retirement. That's not good planning right there, not holistic planning the way I would define it. It's important for us to connect these things—where your community is, how you live, the housing, the infrastructure, the police support, all those things—and think about the health components that relate to them. And when you think about health, that's going to drive right into underwriting, and you can walk that value all the way through

in your company, not just in the community. I think it is perfect for our industry.

With public policy, there are laws that say we've got to do everything a certain way. What I'd like to see, and this is something that we at the College have been trying to promote—what if Congress partnered with the financial services industry, insurance, and long-term investors and said, "we're going to invest in this, but we'd like to carve out parts of this program and see if there are some innovative, creative things we can do that may run counter to the regulations on how this has to be implemented, to see if these innovative things can work."

At the College, we've talked about the promotion of intellectual capital. There are a lot of executives in the investment space who have ideas, but they know they can't do them due to regulation. And I'm not saying change the rules. I'm just saying, why don't we try to innovate? As Karen mentioned, we did that when we needed a vaccine for COVID-19. As we think about Baby Bonds or anything else, we're going to have to get creative and innovative. And we can do it on a small basis to see if these things work. I think that's the only way we're going to make a difference in people's lives and in those communities we serve.

Gallanis: *Karen, you alluded earlier to the fact that there are a lot of different causes of economic inequality, and probably for that reason, there are a lot of different proposals on what can be done to remedy it. Some would be very expensive, and some are political nonstarters. You've explored some specific changes that, as you viewed them, would be affordable and politically feasible. Can you talk a little bit about what you have in mind?*

Petrou: The publisher of my book wouldn't take the manuscript until I added two chapters of solutions, so you'll find them in the book: one on regulatory solutions and another on monetary policy. I really want to focus on monetary policy for a moment. This period of incredibly accommodative monetary policy has led to ultra-low interest rates—rates that are negative in real terms after you take inflation into account. I don't have to tell anybody in the insurance industry how much havoc that wreaks with your long-term investment strategies. It wreaks enormous havoc also with inequality, both in terms of income and wealth.

What we were saying in our paper was that it's important for the industry to take advantage of the efficiencies [from AI], but we also have to recognize the potential disparate impacts that exist.

The same thing is true with the Fed's huge portfolio. This is not supporting the economic growth and shared prosperity the Fed would prefer. Its portfolio is now $8.1 trillion, or a third of GDP. It's huge. Nobody has that kind of money, no one has that much power in the economy. The Fed can and should change monetary policy gradually—and I lay out how in my book—not to shock the markets, but to get the markets back into more normal configurations without the iron safety net the Fed has spread between markets.

During the pandemic, the Fed rushed in to save the markets, and to some degree it needed to. But it never thinks about the families. Many families were innocent victims of the liquidity shock, the macroeconomic shock. The Fed has the power to create what I call "family financial facilities," as well as the ones that rescued the money market funds, corporate bonds, junk ETFs, and a lot of other financial instruments that were never really thought of as so deserving before.

George talked very importantly about rule changes—not just rule but practice changes, looking at innovative investments. I'd like to see the creation of what in my book I call "equality banks," which would earn regulatory exemptions by virtue of strict adherence to equality-focused activities. These are not as risky as the rules make it seem. If you have a diversified portfolio of small-dollar loans, you're taking a lot less risk than you are with one giant corporate leveraged bond; there's no question about that. But the rules favor the highly leveraged corporate bond, not the loans to low-income households. We can make a lot of changes in the rules before we encounter even more controversial questions of wealth taxes or Baby Bonds and that sort of thing.

Gallanis: *Let me turn to George with a question from the audience. The College recently published a paper on artificial intelligence and how it relates to ethics and life insurance. Do you have any thoughts you could share with us on the promise of artificial intelligence and big data, and also the prevailing concerns that both the industry and regulators need to be thinking about, especially when it comes to issues of appropriate treatment of underserved communities?*

Nichols: When people talk about AI, everybody recognizes the efficiency value that it will bring. I don't think anybody would argue that point. When I look at the underwriting process in life insurance, we really do need to make it more efficient. We need to shorten the time, so anything we can do to help that process, let's do that. I think AI brings that.

But there's an issue regulators raised, I thought appropriately, and that's disparate impact. With AI or any major data analytics initiative, what you put in is what you get out. What we were saying in our paper was that it's important for the industry to take advantage of the efficiencies that are there, but we also have to recognize the potential disparate impacts that exist. Are there ways we can test to be sure the data is coming out the right way, to identify factors in the data that may inadvertently be capturing race or some other aspect that would create a disparate impact?

One of the examples was that if you have an arrest record, it doesn't count my conviction, it just counts my arrest. Well, if I'm pulled over more often, what does that do? I've been pulled over for driving while Black. Whether I got convicted or not, that is now part of my identity when companies are making decisions about me.

I think the insurance industry believes AI is going to make us more efficient. It's going to give us better information, so we can do a better job of underwriting. And hopefully, that efficiency will benefit the consumer as lower prices. However, if we're not careful in understanding how we should put checks and balances in the system, those disparate impacts are going to occur.

Health is another major concern. We're getting medical records. Well, COVID-19 has shined a bright light on the disparate treatment of people of color in the health system. I would guess that you could probably find that same disparity if you looked across the delivery system for Blacks. I serve on the Board of a hospital system in the suburbs in Philadelphia. We've done research internally, and there are real and perceived beliefs about inequality in our medical treatment. Now that's getting into the medical records—that's another problem. With all these things, we have to be really careful if we're going to use AI. But I think everybody would say, let's find the answers, because of the real value in the efficiencies we'll get from it.

We all remember walking to the bank as a kid and putting your first big birthday present in a savings account, because that's going to teach you thrift. Well, any kid who puts their money in a savings account is going to be a very broke adult.

Gallanis: *Another question from our audience. Karen, how do you unwind embedded policies and practices that have been going on for decades, and especially since 2008, in a way that both allows us to continue to afford our sovereign debt but excludes the inequality circumstance without creating financial instability? How constrained is the Fed?*

Petrou: Those are really important and difficult questions. When you're thinking about the Fed's relationship to our U.S. foreign debt, the Fed right now is buying virtually all the Treasury bonds and bills that are being purchased, the short-term bonds, and that has really distorted both the Treasury markets and also the broader economy. There's a lot of talk that what the Fed has to do is "monetize the Treasury gap," because it is really just taking dollars from one pocket and putting them in another.

But it really changes the nature of the Central Bank. What we're doing, in my opinion, is that the economy as a whole is subsidizing the cost of Treasury bonds, because we're suppressing rates, keeping them ultra-low so that the cost to taxpayers of government services is arguably lowered. But again, as I try to show in my book, the longer the rates are this low, the more you exacerbate wealth inequality.

Think about this. Many of you are as old as I am. We all remember walking to the bank as a kid and putting your first big birthday present in a savings account, because that's going to teach you thrift. Well, any kid who puts their money in a savings account is going to be a very broke adult, because the maturity on a savings account is limited. So you see all these kids staying at home day-trading now. We're changing how the economy works. It's subsidizing our sovereign debt, but it's distorting our economy in ways that are going to ultimately cost us a lot more.

Nichols: Let me add a couple of things to what Karen just said, because she's spot on. But now let's move to under-

["No Wonder People Are Angry" continues on page 18]

"We Have a Lot of Learning To Do"

Climate change, equity & diversity, the lasting impact of COVID-19: Prudential's Ann Kappler discusses the challenges facing the insurance industry.

Ann Kappler serves as Executive Vice President and General Counsel at Prudential Financial. She was appointed in September 2020, after serving as the company's Deputy General Counsel and head of External Affairs for six years.

Before joining Prudential in 2009, Ann was a partner at Wilmer Cutler Pickering Hale and Dorr in Washington, D.C., where she focused on emerging issues at the intersection of regulation, legislation, and litigation. She has held a variety of other roles with expanded responsibilities, including as a litigation partner at Jenner & Block and as General Counsel at Fannie Mae.

Ann was kind of enough to "sit down" with me (online, of course) in late July during NOLHGA's 2021 Legal Seminar to discuss the impact COVID-19 has had on the insurance industry, the differences between domestic and overseas regulation, and how issues such as climate change and diversity are changing the industry. The following is an edited transcript of our conversation.—Peter G. Gallanis.

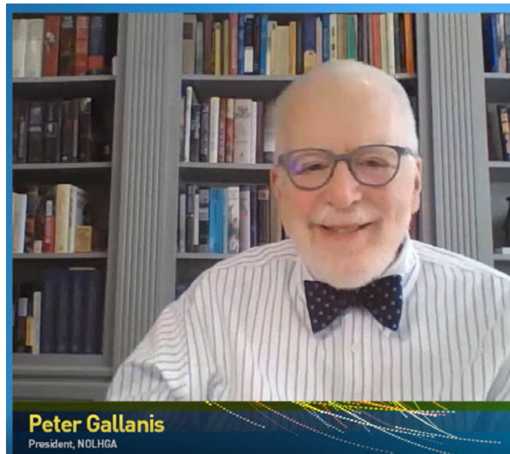
Gallanis: *When you took your new position with Prudential in September 2020, the pandemic was raging, and New York City, next door to Prudential's headquarters in Newark, was in a lot of ways the U.S. ground zero for the pandemic. In those early days, even going back to March and April 2020, what aspects of the pandemic kept you up at night?*

Kappler: It was a scary time. It's hard to think back and try to remember what it was like and just how unsettling it was for all of us. I remember driving home from New Jersey—I live outside of Washington, D.C.—on the 13th of March, thinking I was going back to the office on a hybrid schedule. And the message came back that nobody's coming back to the office, and then month to month wondering when it was going to be safe to go back.

Let me just tell you our experience as a Legal Department. I think we've gone beyond our expectations of how much we were able to adapt and work remotely. The only folks who came in, and frankly are coming in now, are IT people who really need to be there for the hardware, as well as some of our traders.

But beyond that, everybody's been pretty successful in terms of working remotely.

That said, we faced all the questions about how quickly we could adapt to the circumstances and figure out the support we need to provide as the Legal Department for the business. At the beginning of the pandemic, there was a question of who can go into buildings? Who can return to an office? Who can be out on the streets? What doors can be open? And very few of the states listed insurance and insurance operations as being essential.



We had to do a huge amount of work, and we did it as a company. We certainly did it with the industry to make sure that states quickly adapted, through regulation or otherwise, to make it clear that making payments on your retirement plans or your insurance policies is an essential business, and we've got to get those people back to work.

So, a whole SWAT team focused on work arrangement. And then as things developed, what are the requirements? Who can get back? Who can't? When do you need masks? That was a whole SWAT team supported by an outside law firm.

And then, the questions of all the regulations that were coming out from the insurance regulators about how we accommodate our customers. And we were thinking ahead of time. We were not waiting for demands to come out. There were huge questions there. Were the state regulators going to allow us to move to a digital operation, doing things by phone or doing things remotely?

In a lot of ways, we thought it was great that the regulators were so responsive. But we were also thinking, "We are moving. We have to be responsive to our customers. We're not waiting. We have to move. And if anything, let's try to use this as a proof point in urging regulators going forward that we can serve our customers and serve them safely in what are thought of as non-traditional ways, but now, during the pandemic, feel like traditional ways."

Our biggest pain point was our call centers. They just became overwhelmed. And in part they were overwhelmed because we have a big retirement business, record-keeping business. And you'll recall one of the first legislative acts was relief that allowed people to take more money out of their retirement funds. That just made our phones ring off the hook. We actually had an initiative called PruCorps where people who would not normally work at call centers got quickly trained. I even sent a couple lawyers to go work at some call centers.

Like many companies do, we have call centers abroad, including in India. And when the outbreak happened in India, we faced another challenge. Because of cyber and privacy issues, we had pretty tight limitations on how those vendors could do business. They had to do it on premises with our equipment, very locked down. Well, all of a sudden, they couldn't work in their offices anymore. They had to work from home. We had to scramble to figure out how we could adjust the contracts and make accommodations and set them up so that they could work from home and we could still feel like we had cyber controls.

From an operational perspective, there were huge challenges. But lots of lessons learned.

Gallanis: *Speaking of lessons learned, there's been a debate about how much the expansion of telehealth during the pandemic is going to survive the return to whatever a new normal is. On the life/annuity and asset management side, are there practices or procedures that you had to pick up on because of the pandemic that you see going forward even as we return to something closer to what was the pre-pandemic normal?*

NOLHGA Conversations

Kappler: We feel it's really going to be a huge accelerant for automated underwriting. We can't send paramedics out to people's home to take bodily fluids. What are you going to do to underwrite? There's a recognition that we need alternative methodology. We need it ourselves from an actuarial perspective, and we need to make sure that the regulators are comfortable with it. I see us paying attention to this too, but we can't go slowly. I think we're going to have to go faster and faster.

One of the things I alluded to earlier—electronic delivery of documentation. The amount of documentation in a normal life insurance application process, the back and forth, often with paper—we still have things we're faxing people. Who has a fax machine? How do we get to a place where we're doing things electronically, where we're comfortable with that?

Also, as an industry, we have to get used to customers who now don't necessarily want face-to-face sales. What does it look like to have sales that aren't face to face? How do you do that in a controlled mechanism? From a compliance law perspective, how are you monitoring what those activities are? How do you capture them? All these things are going to be accelerated going forward.

Gallanis: *Is it too soon to say how much of a lasting effect on either mortality or morbidity we're likely to see as a result of COVID-19? I saw in the paper today that U.S. mortality was significantly higher last year than in prior years. What do we know about the actuarial implications of this?*

Kappler: I can tell you what our actuaries would say—we know what happened last year, but we don't have any insight into what it means going forward. And last year was an unusual year because there was no vaccine. So, to try to map last year onto going forward? I think they would say you really can't do it.

Let's try to use this as a proof point in urging regulators going forward that we can serve our customers and serve them safely in what are thought of as non-traditional ways, but now, during the pandemic, feel like traditional ways.

As you know, Peter, mortality isn't a one-year event. It's really looking at trends that go over time. In talking to our actuaries, they'd say it's more important for them to understand, for example, long-haul COVID. What does that do to morbidity and mortality? What do we know about these new variants that look to be both more virulent and maybe more lethal? Interestingly enough, we're also looking at advances in the development of vaccines and curative therapies that may actually be a positive going forward from a mortality perspective.

Gallanis: *To switch gears entirely—I follow the NAIC fairly closely, as I am sure many at Prudential do. I also follow things that are happening in the presidential administration and in Congress. And at all those levels, there have been some new and different ways of asking questions about, first, climate and resiliency, and second, issues of equality, diversity, inclusion, and equity.*

How is the climate issue viewed from the industry perspective? I'm not asking about Prudential specifically, except to the extent you want to talk about it. Is it a disclosure issue? Is it a compliance issue, an investment issue, a stakeholder relation issue? In other words, as the author once said, what do we think about when we think about climate in the insurance industry?

Kappler: From my perspective and Prudential's perspective, it's all of the above in terms of where the influences are coming from. And I think that's true of the industry. We're all facing the question of how we move forward from here. What are we doing about our own operations to get to some level where we're being responsible stewards of the environment? I think most companies are very focused on this. How do we reduce our emissions, be smart about how we're heating our buildings? That kind of thing.

I think the more challenging part for the life insurance industry is on the investment side. Right now, there's insufficient information to make real assessments of

As an industry, we have to get used to customers who now don't necessarily want face-to-face sales.

where your investments should be and where they should not be. We've had a fair amount of writing that came out of PGIM, which is our investment management group, about a framework they're trying to use to look at investments to be able to essentially score companies with regard to climate change. But even there, if they're not getting information disclosures, it's impossible to use these algorithms.

That's one area where I think we and the industry have been very vocal in trying to get some standardized information that could be utilized by us and other investors to evaluate the impact of our investments. We're not like the P&C companies, where it's so directly related to their business. It's a little bit more tangential, but that's how we're thinking about it and what we're focused on from a climate perspective.

Gallanis: *I would assume a big part of the issue is forming a consensus on definitions and measurables.*

Kappler: That's absolutely right. ACLI has a group thinking about this. Europe is far ahead of us. And U.S. companies have been a little bit slow to get onboard and join those organizations to think about what the standards are.

We know the SEC is going to come in here. I think sooner rather than later, they're going to have something about disclosures. Eventually, we're going to have to land on some kind of a standard, whether it comes out of accounting sources or some other standard-setting body. There seems to be more and more gelling, but it would be good if there were just one. It may be naïve to think that's where we're going to get to, though.

Gallanis: *Switching gears again, when people in the life industry—and the health industry, to the extent you're familiar with it—think about the challenge of confronting problems of diversity, equity, and inclusion, what are the issues you think about? Are they issues of governance and staffing within companies? Procurement practices? How insurance products and services are delivered to underserved communities? The role of a company and the company's employees within communities? How do you approach those issues?*

Kappler: It is a huge challenge, with all kinds of systemic issues embedded in it. The way we think about it, and I think it's helpful, is basically a three-legged stool. One, how do we as companies think about our own talent? Not just the talent of the people we're hiring right now, but how are we developing a pipeline? And that's related to other pieces, like how we reach various parts of the industry. If you look in the life insurance industry, for example, the sales floor is not very diverse—we need a lot of work, and there's a lot of effort being put into this. How do we recruit? How do we support? How do we retain a diverse workforce that can reach out to a diverse population?

Similarly, asset management is a space that is not very diverse at all. It really needs work on the pipeline, especially from historically Black colleges, which we are doing. Everybody's got different ideas about sponsorships and things that can be brought together, but it needs to be a concerted effort to work on the workforce itself so that we look more like America, frankly. Look like the customers we want to serve.

The second leg is the business itself. I think both in the health insurance industry and the life insurance industry, we are honest with ourselves. We have some history we're not proud of, if we were to think about it from the perspective of disparate impact practices that are behind us, thank goodness. But that is part of our history.

There are huge pockets of underserved populations. How do we get to those populations? The way we've been thinking about it, and I think many companies are, is a combination of product, delivery mechanism, and who are your partners? And by partners, I mean not just salespeople, but also who are the trusted advisors of the customers you're trying to reach? Can you partner with them? And that leads into the communities. What are your community relations? What are you doing there?

The third leg of the stool is the policy piece. What are you doing for community development reach-out, who are you partnering with, how do we reach the people we want to reach, and how do we address the inequities of the system that we as an industry can address? They're not comprehensive, but there are ways we can help.

Then also, what should we doing on the policy side? We as a company decided we would focus on four areas: voting rights, racial equity, criminal justice reform, and police reform. Criminal justice reform and police reform are quite new to us, even

Racial equity will be a lens through which the FSOC looks at all the issues they're focused on.

though we worked very closely in Newark, which is where our headquarters are, with the local government and with New Jersey, both of which have done a lot of work in that area.

We're finding our voice there, but we have a lot of learning to do. We're a lot more comfortable in terms of what we've been doing on the voting rights space and racial equity. That's a place the Biden Administration is very focused on. We're trying to find areas where the administration is looking where we can really advocate for ways in which the industry can be a partner.

Gallanis: *Since you mentioned the new administration, I think most people would say that in the last administration the overall direction of the FSOC and many of the constituent federal regulatory agencies was less, if I may use the word "activist," than it was during the Obama Administration. Now we have a new administration. Does the life industry have a set of expectations about where this administration and the current FSOC are going to go in the matter of macroprudential regulation and perceived threats to the financial system?*

Kappler: Let's hope we're not rolling back. I think we feel pretty comfortable that the era of identifying large insurance companies as being systemically risky is behind us. For lots of reasons. One, I think the federal system has learned a lot about the companies and whether they do or don't create risk. And frankly, the NAIC has done a huge amount of work around macroprudential regulation. I think there have been great advances in the work that they're doing in terms of monitoring. There's much more confidence in the states' ability there.

Our sense is there will be attention especially to what happened in this most recent crisis—where is there fragility in the system? The hedge fund industry should probably be thinking that they're going to be looking at them. Things like money market funds are still being looked at. Now we're looking at questions around things like crypto currency and cybersecurity, which is not unique to the financial industry but has huge ramifications as it hits the financial industry. Climate change and racial equity, as we've discussed. Racial equity will be a lens through which the FSOC looks at all the issues they're focused on.

It's been a little surprising to us that it's taken the FSOC a while to get up and running and have its agenda. Things like the transition from LIBOR, which we know the FSOC is focused on. That is important to the life insurance industry, because we have so many assets that are tied to LIBOR. Most of us are in pretty good shape in terms of moving forward. But I think we'll see if we get to a place where they're looking at systemic risk for individual companies. I would be very surprised, unless those companies are somehow in a crisis situation.

Gallanis: *Prudential is not alone in being a U.S.-focused company that has material activities in non-U.S. jurisdictions. And there is a different regulatory focus in some of those jurisdictions—a lot of it informed by discussions that take place at entities like the International Association of Insurance Supervisors (IAIS) and the Financial Stability Board (FSB).*

Those entities have been talking a lot about insurance in recent years, and they've had a particular focus on how to measure capital and think about it in ways related to the protection of the financial system. Liquidity as well. When you tune into the conversations at IAIS, FSB, EIOPA, and other offshore jurisdictions, do they think about capital and liquidity and their importance differently than U.S. companies and regulators? And are we moving in a direction where a multinational corporation can deal successfully with both ways of thinking about those topics?

Kappler: Outside of group capital, where there are big distinctions, I think there's a general consensus on a lot of issues—at least from my perspective.

Cyber, data innovation, market conduct approaches, sales practices, even climate change—there may be some differences in terms of how far forward they're leaning, but I think there's a general consensus. But to your point, Peter, in the capital space there is a big difference.

We're very pleased with where the NAIC has ended up in terms of how they're thinking about group capital, and frankly for their advocacy for an aggregation methodology that would be used for multinational companies. We don't agree with, and we're very troubled by, where the IAIS is with their focus on a market-adjusted evaluation. That is a very negative—and we believe unfair and inaccurate—capital construct for companies like life insurance companies, which have long-term liabilities that are funded by assets that are meant to match them. It puts a huge strain on how you construct your asset/liability mix. In our view, it pushes you to a place where you don't have many long-term products, which is a lot of what's happened in Europe under Solvency II, or to a place where you're taking risks on the asset/liability side that you don't want to encourage companies to take.

We've been advocating, as have all U.S. companies, to try to get that moved. I don't know whether we're going to be successful. Then the real question is, how are they going to treat equivalence? The pandemic has been a challenge because it's been difficult to engage with regulators. We're hoping that they'll continue to engage. We're in a monitoring period now, so there's more testing and learning.

We're seeing different countries that are starting to think where they're going to go. We have a huge operation in Japan, for example, and it is very likely that Japan—notwithstanding where your group calculation is—will look more like the IAIS. I think for multinationals, we're going to be in a world—not that we haven't been in that world—where there are different capital constructs within borders. The real question is going to be what happens at that group level.

Gallanis: *Turning back to the domestic front, anybody who has followed insurance for a long time can't help but notice there have been a lot of changes in the way companies are doing business. There used to be a fair number of companies that were what we might think of as true multi-line insurers—they did a lot of property casualty, a lot of life and annuity, and a lot of health. But there aren't many multi-line companies now. If anything, a lot of companies seem to be moving in the direction of specialization in pretty specific areas.*

Am I perceiving that correctly? And if so, is that being driven more from regulatory pressures or from a desire to just get good at what you're good at and focus on that?

Kappler: I absolutely agree with you. When I joined Prudential more than 12 years ago, the discontinued businesses included health insurance and P&C insurance, which had been very healthy, big businesses previously. And the insurance business wasn't unlike the financial industry writ large. We were very much of the approach of "let's be a supermarket—let's be all things to our customers, so they can get everything from us."

The pendulum has obviously swung in the opposite direction. You may have noticed that today we announced that we've entered into an agreement to sell our retirement record-keeping business. That's a business we've been in for quite some time. We're going to sell it to Empower, which is very focused on the retirement business.

I think a lot of this is driven by: "Can you be, not just good, but great, in the businesses that you're in?" And how do you find businesses where you're serving your customers, there's a growth potential, but you're also serving your other stakeholders—which includes, for those of us who are publicly traded, your shareholders? There's been a lot of competition and consolidation in these areas, which makes it challenging if you're not among the top companies. Can you really compete? There's a lot of price compression and margin pressure.

So I don't think this is coming from a regulatory perspective. I really do think it's a business imperative. How can you deliver best to both your customers and your other stakeholders? That leads you to find the places where you're really, really good and there are growth markets where you can see a future. ✯

NOLHGA Conversations

["No Wonder People Are Angry" continues from page 11]

served communities, where there's a digital divide. Even if you wanted to do day-trading in those communities, I'm not sure you can. And again, this is not just Black America; this is brown America, low-income whites, rural whites. These are things that we really are going to have to think about as we change the economy to more of a digital environment.

I had a conversation with the SEC's Investor Advisory Council, and they were sharing with me their write-up on how to get into investing. They really work hard to make it consumer friendly. And I said, "did you write it for someone who's underserved, who has a propensity to believe they shouldn't invest because it's a risk?" My father raised me to say that a dollar made is a dollar earned, and you don't put that dollar at risk, which is why you go to the bank and take the savings account rate. And now you're going to tell me I want to trade stocks? Even if I could, that is not a psychology I ever learned.

They looked at me and said, "no, we never thought about that—we're just trying to get you to invest." But that's the mentality these communities have, and it just exacerbates what Karen is saying. On top of the policy issues, on top of what's happening in the market, there's still a behavioral and psychological impact in communities that we're going to have to address and try to bridge as we deal with this wealth gap in the future.

Petrou: I just want to say, we have banking deserts now. It's a very different economy. It was highly discriminatory before, but now? One of the fascinating statistics I came across in my books is that Black homeownership rates in the United States now are lower than they were before the Civil Rights Era began. Black wealth as a percentage of median white wealth is lower now than it was before the Civil Rights Era. Every promise this country made to Black Americans, in the Great Society and thereafter, has been broken when you look at economic income and wealth. It is really a profound and dangerous long-term proposition.

Every promise this country made to Black Americans, in the Great Society and thereafter, has been broken when you look at economic income and wealth.

Gallanis: *I'm going to ask each of you to give me a one-minute answer to a question that's grossly unfair. If you were king or queen of the world for a day and you could change one thing about our financial services marketplace and environment to reduce economic inequality in the United States, what would it be?*

Nichols: I'll fall back on what I do for a living, which is education. I wish there were a way we could provide real knowledge to the American people so they could make better decisions for themselves. I don't want the government making those decisions, and I don't want companies making those decisions. I would like us to figure out a way to provide knowledge and education for people to make better decisions and help them with their relationship with money and their finances.

Petrou: I think we need to restructure the financial incentives so that people get what they deserve. For example, if you save, you should get something back for that. If you buy a health insurance policy, it should cover what you think it covers, and you should be able to afford it, not be subject to sudden and unanticipated life-changing medical bills. If you study hard, you should be able to get a good education anywhere you go to school, and college should be affordable.

Another statistic that is a little distressing—for lower-income millennials who borrow money for school, the student debt is 372% of income. No one can get ahead, and they're trying so hard. That's really what's wrong and why people are so angry, because no matter how hard you try, unless you are born wealthy, you cannot get ahead. That's our country now. We have no intergenerational mobility, and it isn't fair. ✭

End Note

1. https://www.nytimes.com/interactive/2021/07/12/opinion/covid-fed-qe-inequality.html?searchResultPosition=2 (*subscription may be required*).

[“Outlook Uncertain” continues from page 1]

addition to these claimants, many insurers experienced elevated mortality rates of 10% higher than expectation. These trends were most pronounced in the second quarter of 2020 and are slowly returning to baseline levels.

As experience returns to long-term expectations, many insurers are focused on monitoring the cost of care and how that care will be provided. Understanding whether care providers will be charging more for improved services will directly affect the insurers, as many policyholder claim payments are contractually based on reimbursement for actual expenses incurred. Over the past few decades, LTC insurance has seen a shift in care delivery toward home care. Insurers are monitoring policyholder experience to determine if the pandemic will accelerate that trend.

Regulatory Focus

Despite their focus on COVID-19 and related issues, state regulators continue to make progress on various fronts related to LTC insurance. Rate increases on legacy run-off blocks of business are still a focus, as double- and triple-digit rate hike requests from insurers have become the norm. Insurers continue to explore different ways to mitigate the impact of these rate increases by offering various options to the policyholders.

One option that has gathered attention is the potential for a cash buyout for the policyholder. LTC insurance contracts do not contain a cash value, so the offer of cash to a policyholder to terminate their policyholder faces legal, compliance, financial, and tax hurdles. The NAIC Long-Term Care (EX) Task Force is studying a variety of benefit reduction options. The task force is also examining a process for multi-state review of rate increase requests as well as restructuring and pre-rehabilitation planning options.

Consumer hesitation related to LTC facilities and nursing home providers early in the pandemic fueled a dramatic decrease in new claims for many insurers.

On the M&A Front

As the United States and the world emerge from the global pandemic, mergers and acquisitions in the insurance space have picked up speed. These transactions are often designed to allow insurers to focus on core business and other opportunities for growth. Will LTC insurance legacy blocks join the long list of transactions in the coming years? As more experience emerges, the level of uncertainty in the operational cash flow should decrease. While this reduction in uncertainty will help bridge the pricing gap between sellers and buyers, additional risks—interest rates, inflation, and counterparty stability—are expected to emerge.

In the past year, the LTC mergers and acquisitions market has included two noteworthy events. After years of trying, the deal involving China Oceanwide’s acquisition of Genworth dissolved, and both parties have walked away despite receiving multiple regulatory and government approvals. In addition, in 2021, HC2 Holdings entered into a definitive agreement to sell Continental Insurance Business to an affiliate.

While there continues to be interest in LTC run-off block acquisitions, differing cash flow estimates between buyers and sellers remain the most common reason deals aren’t executed. We anticipate that buyers will look for creative solutions to assist sellers in risk transfer transactions, since interest levels remain high among buyers and sellers.

Conclusion

Like other industries, LTC insurance is still being affected by the pandemic. Early indications are that the impact was limited, but all eyes will be focused on the emerging experience in the next few years to identify any lasting effects. The pandemic has also highlighted for the U.S. population the need for safe and effective care delivery to the elderly, which may lead to future product innovation in the LTC space. ✯

Matt Morton is the Principal Consulting Actuary with LTCG.

NOLHGA Calendar of Events

2021

December 13–16	NAIC Fall National Meeting | San Diego, California

2022

January 31–February 1	**MPC Meeting | Clearwater Beach, Florida**
April 5–8	NAIC Spring National Meeting | Kansas City, Missouri
April 25–26	**MPC Meeting | Indianapolis, Indiana**
August 9–13	NAIC Summer National Meeting | Portland, Oregon
September 28–30	ACLI Annual Conference | Washington, D.C.
December 12–15	NAIC Fall National Meeting | Tampa, Florida

NOLHGA Journal
Vol. XXVII, No. 2 | November 2021

The *NOLHGA Journal* is a publication of the National Organization of Life and Health Insurance Guaranty Associations dedicated to examining issues affecting the life and health insurance guaranty system.

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NOLHGA
13873 Park Center Road, Suite 505
Herndon, VA 20171
TEL: 703.481.5206 FAX: 703.481.5209
Editor: Sean M. McKenna
E-mail: smckenna@nolhga.com

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