

Life Insurance Company Director Orientation



*[Name of Company Board of
Directors]*

[insert date]

cefli



COMPLIANCE & ETHICS FORUM FOR LIFE INSURERS

About CEFLI.

- Our Purpose.

- The Compliance & Ethics Forum for Life Insurers (“CEFLI”) provides a Forum to serve the needs of the life insurance industry's compliance and ethics professionals. CEFLI is “**The Forum That Connects.**”

- What We Do.

- As the only nonadvocacy organization devoted exclusively to compliance and ethics in the life insurance industry, CEFLI is the premier provider of compliance-related education and training. It is uniquely situated to help life insurance compliance and ethics professionals come together as a community through the offering of a diverse array of educational and networking opportunities that include a blend of in-person and remote opportunities.

Overview.

- Welcome.
- Director Duties.
- Our Industry.
- Our Company.
- Our Expectations.

This guide provides an overview of concepts that may be helpful when onboarding new Directors. Any references to third party content is not an endorsement of the third parties nor is it a validation of the completeness or accuracy of the third parties' information. This guide does not constitute legal advice.

Welcome.

- Congratulations!
- We value your insight, perspectives and leadership.
- We look forward to working with you.

Director Duties.

- Fiduciary Duty.
 - Duty of Loyalty.
 - Duty of Care.

Fiduciary Duty.

- Fiduciary Duty: To act in the best interests of the company.
- There are two primary Fiduciary Duties a Director owes to its company:
 - Duty of Due Care.
 - Duty of Loyalty.

Duty of Due Care.

- Duty of Due Care.
 - Exercise ordinary and reasonable care in the performance of duties.
 - Be fully informed of all pertinent facts.
 - Engage actively in the decision-making process.
 - Protect confidential information obtained while serving as a director.

Duty of Loyalty.

- Duty of Loyalty.
 - Not putting any personal interests ahead of the best interests of the company.
 - Avoidance of conflicts of interest.
 - To the extent a Director may have personal pecuniary interests that would conflict with the best interests of the company, the Directors should disclose these conflicts of interest to the Board Chair and/or Company's CEO.
 - Questions concerning potential conflicts of interest can be presented confidentially.

Our Industry.

- Life insurance companies are organized in several different ways:
 - Stock Companies.
 - Mutual Companies.
 - Fraternal Benefit Companies.
- Products.
- Distribution Systems.

Stock Companies.

- Stock companies are public companies and have their shares traded on national exchanges.
- They must file public financial reports with the US Securities and Exchange Commission (in addition to financial reports filed with state insurance regulators).
- The company is owned by the shareholders, not policyholders.
- Corporate earnings are reported publicly.

Mutual Companies.

- Mutual companies are not public.
- Mutual companies are owned by the policyholders of the company.
- The interests of management and policyholders are aligned.
- Financial reports are filed with state regulators.
- Earnings are not publicly available.

Fraternal Benefit Companies (Society).

- A group of people who share a common religious, ethnic or vocational affiliation. Life insurance is provided as a benefit to the members of the society.
- Not publicly traded.
- Members of the fraternal benefit society are the owners of the company.
- Financial reports are filed with state insurance departments.

Fraternal Benefit Companies (Society).

- The society's Articles of Incorporation and its Bylaws are part of the policy/contract.

Products.

- Life insurance companies can offer a wide range of products including:
 - Life insurance (both fixed and variable);
 - Annuities (both fixed and variable);
 - Retirement plans; and
 - Other products.

Distribution Systems.

- Life insurance company agents (producers) may be captive or independent:
 - Captive agents (producers) – Agents who primarily distribute products for one company.
 - Independent agents (producers) – Agents who distribute products for several companies.

Distribution Systems.

- Life insurance companies distribute their products in a variety of ways:
 - Insurance Company Distribution – Agents (producers) can directly distribute a company's life insurance and annuity products.
 - Broker-dealers – Registered Representatives (RRs) of securities firms can offer variable life insurance and variable annuity products.
 - Banks – Agents (producers) who distribute products for one company exclusively or for several companies.

Distribution Systems.

- Direct Distribution – Insurance companies can distribute their products directly to consumers (no agent or producer is involved) via the internet, direct mail, call center outreach, or by other means.
- Other Distribution – Insurance companies can distribute their products via other means such as through affinity groups (e.g. AARP, etc.), aggregators (e.g. PolicyGenius, SelectQuote, NerdWallet, etc.) or through other channels.

Regulation.

- Life insurance companies are primarily regulated by state insurance departments.
- To the extent life insurance companies may distribute securities products (e.g., variable life insurance and annuity products), they are subject to federal regulation through the US Securities and Exchange Commission and the Financial Industry Regulatory Authority (FINRA).
- Life insurance companies are subject to federal and state tax laws.

Corporate Governance Annual Disclosure.

- Regulators impose requirements specific to an insurer's corporate governance.
- The requirements were put in place following the 2008 financial crisis and they allow the NAIC to collect information from insurers regarding corporate governance practices.
- The NAIC [Corporate Governance Annual Disclosure Model Act](#) (#305) specifies the requirements of insurers.

Corporate Governance Annual Disclosure.

- Disclosure is required of insurers by June 1st each year.
- The disclosure must address:
 - The insurer's corporate governance framework and structure;
 - The policies and practices of its Board of Directors and of significant Committees;
 - The policies and practices directing senior management; and
 - The processes by which the Board of Directors, its Committees, and senior management ensure an appropriate level of oversight to the critical risk areas impacting the insurer's business activities.

Key Regulatory Issues.

- Solvency.
 - Regulators monitor the financial stability of a life insurance company to ensure they are able to pay claims.
- Suitability/Best Interest.
 - An insurance company's producers must ensure that annuity recommendations are suitable for, or in the best interest of, the consumer.
- Claims Processing.
 - Life insurance companies are required to pay claims accurately and in a timely manner.

Industry Resources.

- Information included in Appendix A of this document offers additional content for new Directors seeking further insight regarding the life insurance industry.

Our Company.

- Type, Products and Distribution Systems.
- History.
- Company leadership.
- Key initiatives.

Our Company.

- [name of company] is a [type of company (i.e., stock, mutual, fraternal benefit)].
- [name of company] offers the following products:
 - List of products offered.
- [name of company] distribute its products through:
 - List of distribution systems.

History.

- Include brief historical highlights.

History (continued).

- [Add content.]

Board of Directors.

Name—Chair

Title
Affiliation
Tenure/Class

Name

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Board Committees.

Committee Name

Brief Description of the Committee's Charge

Members: [Name—Chair, Name, Name...]

Frequency of Meetings

Committee Name

Brief Description of the Committee's Charge

Members: [Name—Chair, Name, Name...]

Frequency of Meetings

Committee Name

Brief Description of the Committee's Charge

Members: [Name—Chair, Name, Name...]

Frequency of Meetings

Committee Name

Brief Description of the Committee's Charge

Members: [Name—Chair, Name, Name...]

Frequency of Meetings

Committee Name

Brief Description of the Committee's Charge

Members: [Name—Chair, Name, Name...]

Frequency of Meetings

Committee Name

Brief Description of the Committee's Charge

Members: [Name—Chair, Name, Name...]

Frequency of Meetings

Company leadership.

- Identify key officers of the company and, if possible, include photos.

Key Initiatives.

- Identify 2-3 primary corporate goals and objectives over the next 12-24 months.

Our Expectations for You as a Director.

- Attend all meetings of the Board of Directors.
- Review materials in advance of Board meetings.
- Actively engage in discussions.
- Disclose conflicts of interest.
 - Work in concert with the Board Chair and/or CEO.
- Volunteer for Board Committees.

Our Expectations for You as a Director.

- Duty of Loyalty.
 - Your actions reflect on the company and your fellow Directors.
- Resignation.
 - Should you need to resign, please submit your resignation in writing.

Thank you!

Thank you for your service on the [name
of Company] Board of Directors!

Appendix A

Life Insurance Industry Resources

Resources:

The Insurance Industry

NAIC Resources: The National Association of Insurance Commissioners (NAIC) describes itself as “...the U.S. standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories.” The NAIC serves to help state insurance regulators “...establish standards and best practices, conduct peer review, and coordinate their regulatory oversight.”

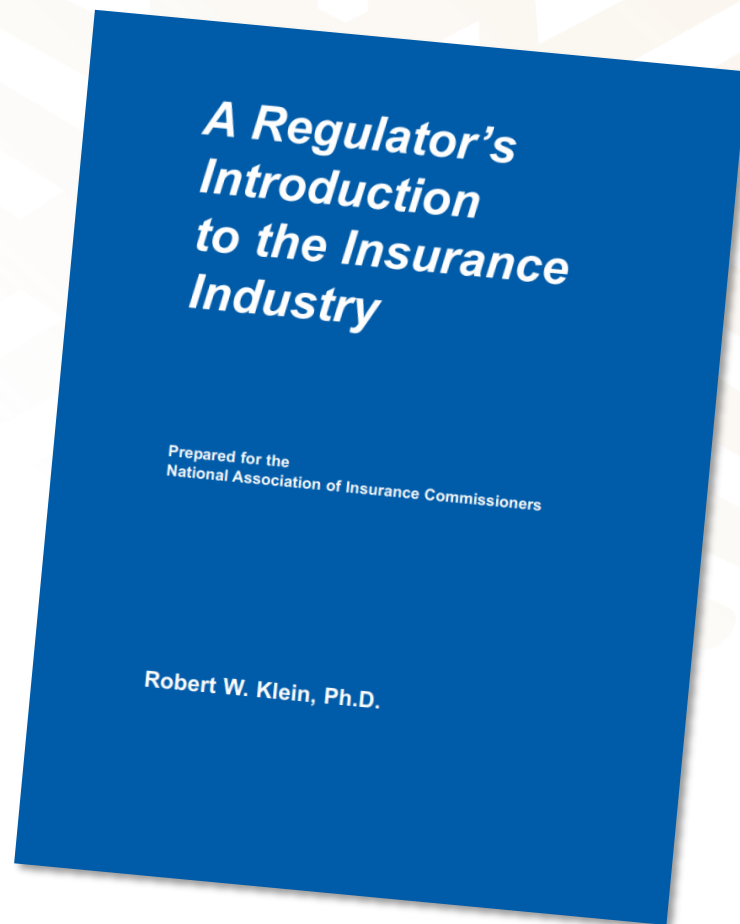
The NAIC offers a publication entitled “[A Regulator’s Introduction to the Insurance Industry](#).” The document was developed to assist new Commissioners (some of whom may not be familiar with the industry) understand the insurance marketplace, insurance company structures and functions, and key regulatory areas of focus specific to the business of insurance. While the 266-page document covers much content, select chapters of the publication may offer valuable insight for new Directors.

Resources:

The Insurance Industry

The following sections of the NAIC's publication "[A Regulator's Introduction to the Insurance Industry](#)" may be particularly helpful for Directors who are new to the insurance industry:

- Chapter 3: Functions Performed by Insurers and Intermediaries
- Chapter 4: Insurance Lines and Products
- Chapter 5: Insurer Organizational Forms and Distribution Systems
- Chapter 8: Principles of Insurance Regulation
- Chapter 10: Financial Regulatory Functions
- Chapter 11: Market and Other Regulatory Functions



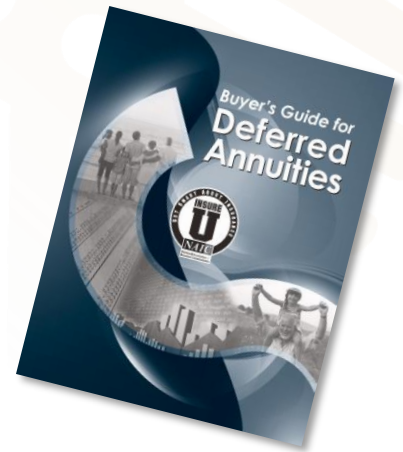
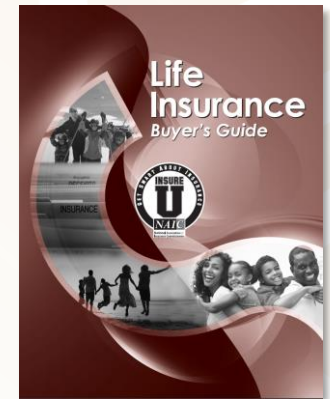
Resources:

The Insurance Industry

The NAIC also makes available “Buyer’s Guides” designed to help consumers understand basic information regarding life insurance and annuity products.

- [Life Insurance Buyer’s Guide](#)
- [Buyer’s Guide to Deferred Fixed Annuities](#)
- [Buyer’s Guide to Deferred Variable Annuities](#)

The NAIC’s website also includes an [overview of life insurance](#).



Resources:

The Insurance Industry

Investopedia: External on-line resources such as Investopedia.com offer a diverse array of quick reads covering key insurance concepts such as:

The Business of Insurance:

- [A Brief Overview of the Insurance Sector](#)
- [What is the Main Business Model for Insurance Companies?](#)
- [Insurance Company Business Models](#)

Types of Life Insurance Products:

- [Guide to Life Insurance](#)
- [What is Term Insurance?](#)
- [Annual Renewable Term \(ART\)](#)
- [Group Term Life Insurance](#)
- [Single Premium Life Insurance](#)
- [Permanent Life Insurance](#)
- [Dividend Paying Whole Life Insurance](#)
- [Indexed Universal Life Insurance](#)
- [Indexed Universal Life vs. IRA and 401\(k\)](#)
- [Variable Life Insurance](#)
- [Credit Life Insurance](#)
- [Split Dollar Life Insurance](#)
- [Life Insurance vs. Annuity](#)

Life Insurance Features and Provisions:

- [Cash Value vs. Surrender Value](#)
- [Modified Endowment Contract \(MEC\).](#)
- [Avoiding the Modified Endowment Contract](#)
- [Free Look Period](#)
- [Paid-Up Additional Insurance](#)
- [What is a Tax-Free 1035 Exchange?](#)
- [Policy Loan Definition](#)
- [Life Insurance Policies: How Payouts Work](#)
- [Level-Premium Insurance Definition](#)
- [Insurance Policy Death Benefits and Cash Values](#)
- [Accelerated Underwriting](#)
- [Nonforfeiture Clause](#)
- [Cashing in Your Life Insurance Policy](#)
- [Automatic Premium Loan](#)
- [Do Beneficiaries Pay Taxes on Life Insurance?](#)
- [How Cash Value Builds in a Life Insurance Policy](#)
- [How Can I Borrow Money From My Life Insurance Policy?](#)
- [What to Expect When Applying for Life Insurance](#)
- [Collateral Assignment of Life Insurance](#)

Resources:

The Insurance Industry

Additional Investopedia.com information specific to annuity products includes:

Annuity Products:

- [Annuity Products Overview](#)
- [Main Types of Annuities](#)
- [Deferred Annuity Definition](#)
- [Fixed Annuities](#)
- [Indexed Annuities Definition](#)
- [Equity Indexed Annuities](#)
- [Variable Annuity Definition](#)

Annuity Product Benefits:

- [Qualified Longevity Annuities \(QLACs\)](#)
- [Guaranteed Minimum Income Benefit \(GMIB\)](#)
- [Guaranteed Minimum Accumulation Benefit \(GMAB\)](#)
- [Guaranteed Minimum Withdrawal Benefit \(GMWB\)](#)

Product Features and Provisions:

- [Accumulation Phase Definition](#)
- [Annuitization Definition](#)
- [Distribution Options for an Inherited Annuity](#)

Product Features and Provisions (continued):

- [Inflation-Protected Annuity \(IPA\) Definition](#)
- [Annuity Due Definition](#)
- [Accumulation Phase Definition](#)
- [Variable Annuities and Required Minimum Distribution](#)
- [Annuitant Definition](#)
- [Annuity Contract Defined](#)
- [Annuitization](#)
- [Variable Annuitization](#)
- [How a Fixed Annuity Works After Retirement](#)
- [Variable Annuities and 1035 Exchanges](#)
- [Joint and Survivor Annuities](#)
- [Death Benefits in a Variable Annuity](#)
- [How are Non-Qualified Annuities Taxed?](#)
- [Present Value of an Annuity Definition](#)
- [Payout Definition](#)
- [Selecting a Payout](#)
- [How Do Living and Death Benefit Riders Work?](#)
- [Distribution Options for an Inherited Annuity](#)
- [Present Value Interest Factor of Annuity \(PVIFA\)](#)

Resources:

The Insurance Industry

SAP vs. GAAP Accounting:

- **NAIC.org:**
https://content.naic.org/cipr_topics/topic_statutory_accounting_principles.htm

Reading and Understanding Insurer Financial Statements:

- **Columbia Business School:** 2010 paper on the Analysis and Valuation of Insurance Companies. (see: Financial Reporting and Line-Item Analysis, page 68+, and the Valuation content, page 120+.
<http://www.columbia.edu/~dn75/Analysis%20and%20Valuation%20of%20Insurance%20Companies%20-%20Final.pdf>
- **Insurance Journal:** What to Know About Insurance Company Financial Statements.
<https://www.insurancejournal.com/magazines/mag-features/2015/09/07/380300.htm>
- **PocketSense.com:** How to Interpret the Financial Statements of Insurance Companies.
<https://pocketsense.com/interpret-financial-statements-insurance-companies-7184367.html>

Insurance Company Distribution Channels:

- **Insurance Information Institute:**
<https://www.iii.org/fact-statistic/facts-statistics-distribution-channels>
- **Ritter Insurance Marketing:**
<https://www.ritterim.com/blog/fmo-vs-imo-vs-nmo-vs-mga-vs-ga-whats-the-difference/>
- **How to Choose and Insurance Agent—An NAIC Consumer Resource:**
https://www.naic.org/documents/consumer_alert_selecting_agent.htm

Glossary of Insurance Terms:

- **NAIC.org:**
https://content.naic.org/consumer_glossary.htm

Resources:

Information Specific to Fraternal Benefit Societies

- Many Fraternal Benefit Societies are part of the [American Fraternal Alliance](#) (AFA). The organization serves most Fraternal Benefit Societies spanning the 50 states, the District of Columbia and Canada.

- AFA's Mission Statement:

“The American Fraternal Alliance strengthens and supports its members and the fraternal benefit sector of the financial services industry by its leadership in advocacy, policy, information, education and member services.

Advocacy and Policy: The Alliance develops policy positions that promote fair and effective competition and allow fraternal benefit societies the opportunity to fulfill their financial services and community services missions. The Alliance delivers results-oriented advocacy of members' interests on key state and federal legislative and regulatory issues, and consistently and clearly communicates the value of the fraternal business model to members, policymakers, and consumers.

Information, Education and Member Services: The Alliance provides members meaningful education, information, networking and knowledge-sharing opportunities. The Alliance offers products, services and programs that allow members to operate their organizations more effectively and efficiently.”

- The following slide contains content developed by the AFA, specific to understanding the fraternal structure.

Resources:

Information Specific to Fraternal Benefit Societies

- [Link to a video](#) about Fraternal Benefit Societies, produced by the AFA.
- Link to additional content from the AFA's website.

“Fraternal benefit societies are not-for-profit membership groups that unite individuals with a common bond, provide them the ability to secure their families’ financial security through a variety of life insurance and investment products, and form one of the nation’s most effective and efficient volunteer networks, delivering billions of dollars of direct financial aid and community service to those who need it most.

Operating through local chapters, fraternal benefit societies enable their members to carry out charitable, educational, social and other volunteer community initiatives. Each year through this unique structure, members of fraternal benefit societies invest more than 80 million hours in community works and contribute more than \$533 million to charitable programs supporting community service projects.

The fraternal business model is unique to North America. It combines the “member owned” characteristic of a mutual insurance company with the “social mission” characteristic of a faith-based or service organization. Together, these two components provide the opportunity for nearly 10 million individuals to secure their families’ financial futures, while also contributing through direct financial assistance and volunteer activities to the health and well-being of the communities in which they live and work.

All fraternal benefit societies must comply with state and federal regulations, with regard to their financial services, and must be licensed by the insurance department of the state or states in which they operate. Fraternal benefit societies are recognized as 501(c)(8), not-for-profit fraternal organizations, by the Internal Revenue Service. The many charitable and benevolent activities of the fraternal benefit system – estimated to be over \$2 billion annually – would be severely curtailed if the 100-year-old fraternal tax exemption were repealed. Clearly, fraternal benefit societies continue to deliver significant value to their members, the hundreds of charitable organizations that benefit from the financial and volunteer support, and American taxpayers more than a century after they were created.”



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THE FORUM THAT CONNECTS.

CEFLI presentations, discussions and resource materials do not constitute legal advice. Such information is intended to offer compliance perspectives and opinions of a general nature. Individuals with specific questions about a law or regulation should consult with legal counsel.