



**Statement  
of the  
American Council of Life Insurers**

**On**

**"Pandemic Influenza Preparedness in the  
Financial Services Sector"**

**before the**

**Subcommittee on Oversight and Investigations  
of the  
House Financial Services Committee  
of the  
United States Congress**

**June 29, 2006**

Good morning. I am Robert Gleeson, a physician and medical director of Northwestern Mutual Life Insurance Company. I am testifying today on behalf of both the American Council of Life Insurers (ACLI) and the Northwestern Mutual Life Insurance Company (Northwestern Mutual). We appreciate the opportunity to comment on pandemic influenza preparedness in the life insurance industry.

Northwestern Mutual provides financial services and protection to over three million Americans and is the largest seller of individually underwritten life insurance in America. I have been involved with the impact of new diseases on the life insurance industry for over 25 years, starting with AIDS in the 1980's, later dealing with SARS, and now evaluating the threat of pandemic influenza.

ACLI is the primary trade association for life insurers in the United States. It represents three hundred seventy-seven (377) member companies that offer life insurance, annuity, pension, reinsurance, and other retirement and financial security products. ACLI member companies account for 91 percent of total assets, 90 percent of the life insurance premiums, and 95 percent of annuity considerations in the United States.

Life insurance provides a foundation of financial security for families against future uncertainties. Life insurers are keenly aware of the vital role their products play in their customers' financial security. Even though a human outbreak of avian flu remains a possibility and not a fact, life insurers are following developments closely to assure they can continue to serve policyholders and their beneficiaries in the event an outbreak occurs. As they have in the past, life insurers plan to respond promptly in fulfilling their promises.

Life insurers have extensive experience and expertise in assessing and managing risk. Indeed, life insurers' ability to anticipate and respond to risk is integral to the life insurance business. Life insurers are also subject to rigorous state solvency laws that require them to have reserves and capital and surplus adequate to meet unexpectedly large volumes of claims. The life insurance industry, with over \$4 trillion in assets, is well-positioned to absorb the impact of an influenza pandemic without jeopardizing its commitments to policyholders and their beneficiaries. In addition, life insurers, such as Northwestern Mutual, are in various stages of efforts to undertake operational assessments, institute business continuity plans, and coordinate with federal, state, and local governments to ensure customer needs will continue to be met if there is a pandemic influenza.

It should be emphasized that an influenza pandemic is neither an imminent threat, nor a novel one. Quite certainly, the world will have another pandemic because they occur every thirty or forty years. Some, like the 1918 pandemic, are severe and others, like the 1968 pandemic, are only moderate. It is impossible to predict the severity of the next pandemic.

An influenza pandemic is typically identified as a low-frequency/high-severity event. Low-frequency/high-severity events, such as tsunamis and earthquakes, occur irregularly but are large in magnitude as measured by claims costs. Again, life insurers know such events will occur and plan for them even if the timing and severity of such events cannot be predicted.

The now circulating Avian Influenza virus, known as Bird Flu or H5N1, is a new influenza virus that has not previously infected humans; still, it has the potential to cause significant disease. So far, this virus has infected millions of birds across half the globe, but has rarely been transmitted from bird to human. In only two instances has there been transmittal from human to human. Scientists are concerned that this virus could mutate so that it could pass more easily from birds to humans and from humans to humans. If that happens, the virus might cause the next pandemic. In truth, however, the next pandemic might be some different influenza virus; or vaccines, drug treatments and other preventative measures could put a significant damper on the spread of disease.

Because life insurance companies sell insurance to large numbers of people, they can predict with considerable accuracy how many of those insured people will die the next year. Insurers also know with near certainty that someday another disaster will occur. Whether it will be a major earthquake or a repeat of the 1918 pandemic, again, is unknown. However, the ability to understand and plan for this lack of certainty is a core function of life insurers. Financial planning for high impact, low frequency disasters, such as a possible bird flu pandemic, is an integral part of our business processes.

To ensure that life insurers honor their contractual obligations to policyholders and their beneficiaries, state law requires each life insurer to maintain reserves (i.e. invested assets) that are sufficient to cover all expected future claims. The required level of reserves is calculated on a very conservative actuarial basis, taking into account expected mortality experience, future premium payments, and investment earnings. In addition, life insurers are also required to have additional capital and surplus, over and above reserves, that are available to cover even catastrophic levels of claims. It is highly unusual for an insurer's reserves to be inadequate and for the insurer to have to dip into capital and surplus to cover catastrophic claims of its policyholders and beneficiaries. At the end of 2005, the policy reserves of U.S. life insurers totaled \$ 3.3 trillion and capital and surplus totaled \$256 billion.

Although the life insurance industry has more than adequate funds to handle catastrophes, policyholders and beneficiaries cannot be served if life insurers' critical business activities cannot be sustained and life insurers' employees are not provided the resources necessary to maintain their own health and employment in the event a catastrophe such as a pandemic occurs. An influenza pandemic will pose new and very different challenges to all businesses. Like all industries, the life insurance industry took extraordinary steps prior to Y2K to ensure continuity of their businesses functions. Insurers took additional steps after September 11 to further protect their operations in the aftermath of a major catastrophe.

Life insurance companies are now in various stages of development of business plans to respond to a pandemic influenza. Of course, the plans will vary from company to company. Pertinent to life insurers' contingency planning for pandemics, a recent report of the Government Accountability Office explored the life insurance industry's ability to recover critical operations after a terrorist attack or natural disaster. The report concluded that life insurers have taken sufficient steps to ensure business continuity and to minimize effects on their service to policyholders. The report also stated that since life insurers operate independently of one another, difficulties at one insurer are not likely to impact the rest of the industry.

One important lesson learned from prior terrorist attacks and natural disasters has been the importance of rapid reaction by federal, state, and local governments and coordination by businesses with these agencies. Life insurers have found coordination with state insurance departments and local health departments to be invaluable in refining claims and settlement procedures to their most essential elements and in targeting geographical areas in need of assistance. In the wake of Hurricanes Katrina and Rita, insurance departments in the Gulf States and in many other affected states mitigated certain regulatory requirements to facilitate rapid processing and payment of claims. These efforts were also replicated by federal agencies such as the Securities and Exchange Commission and the Department of Labor with respect to time-sensitive aspects of pension management. ACLI and its member companies work closely with these agencies, as well as with the Departments of the Treasury and Homeland Security, to develop contingency plans before disasters occur.

As a founding member of the Financial Services Sector Coordinating Council (FSSCC), ACLI also works with other financial services industries, such as the securities and banking industries, to ensure that our efforts are coordinated and do not work at cross-purposes. ACLI applauds the FSSCC's progress in the development of contingency plans relating to telecommunications, internet, and employee issues and has found FSSCC materials regarding contingency planning and disaster recovery, particularly those relating to avian flu, to be very helpful. Recently, ACLI participated in a "readiness" conference call of the FSSCC designed to test the federal government's ability to communicate emergency information to the private sector. ACLI and many of its member companies also have access to the Government Emergency Telecommunications Service.

Most business resumption planning assumes the loss of physical structures, such as buildings. However, planning for a possible pandemic must take into account implications for employees and business operations of a pandemic that might occur in waves over several months and result in significant absenteeism. By way of example, the Northwestern Mutual response plan focuses on identification of critical business processes and minimum staffing need for their fulfillment, planning for communication with employees, field representatives and policyholders, and preparation of buildings and employees to keep them as "flu-free" as possible.

Life insurers, working with government agencies and other financial services industries, have typically found innovative solutions to service their policyholders and their beneficiaries when faced with disasters of unexpected magnitude. While these events may not be predicted with any certainty, we have learned that it is important to plan ahead together. This is a responsibility that the life insurance industry takes seriously. We look forward to continuing our efforts and working with this Subcommittee to prevent and minimize any adverse consequences from an influenza pandemic and again thank you for the opportunity to appear before you today.