EXHIBIT # 4

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American Council of Life Insurance®

Regulatory Efficiency and Modernization

An Assessment of Current State & Federal Regulation of Life Insurance Companies and an Analysis of Options for Improvement

November, 1999

Regulatory Efficiency and Modernization

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Product Regulation

SUMMARY

1. **Policy/Contract Form Approval**

Overall Score	Unsatisfactory
Uniformity	Unsatisfactory
Speed/Timing	Unsatisfactory
Cost	Unsatisfactory
Objective Achieved	Unsatisfactory/Needs Improvement
Necessity and Relevance	Needs Improvement
Expertise/Capacity	Needs Improvement/Unsatisfactory
Sensitivity to Industry	Unsatisfactory
Enforcement/Penalties	Needs Improvement

2. **Equity Products – Securities and Exchange Commission (SEC)**

Overall Score	Good
Uniformity	Good
Speed/Timing	Good
Cost	Needs Improvement/Good
Objective Achieved	Good/Excellent
Necessity and Relevance	Excellent/Good
Expertise/Capacity	Good/Excellent
Sensitivity to Industry	Good/Excellent
Enforcement/Penalties	Good/Excellent

3. **Equity Products – National Association of Securities Dealers (NASD)**

Overall Score	Needs Improvement
Uniformity	Needs Improvement
Speed/Timing	Needs Improvement
Cost	Needs Improvement/Good
Objective Achieved	Good
Necessity and Relevance	Excellent
Expertise/Capacity	Unsatisfactory
Sensitivity to Industry	Unsatisfactory
Enforcement/Penalties	Good

EQUITY PRODUCTS – SECURITIES AND EXCHANGE COMMISSION (SEC)

Brief Description:
This element of life insurance product regulation involves the regulation of insurance products whenever these products are considered securities under federal securities statutes. For these products, registration statements are reviewed by Securities and Exchange Commission (SEC) staff members (the "Staff") and are granted effectiveness before the products may be lawfully sold. The Staff's review of registration statements primarily represents an evaluation of the adequacy and accuracy of the extensive disclosures that are mandated in conjunction with registered product offerings. After being declared effective, registration statements must be updated periodically in order to incorporate current financial information and to ensure the continuing accuracy of registration statement information.

Insurance products registered with the SEC, and separate accounts registered as investment companies under the Investment Company Act of 1940, are subject to ongoing compliance under the federal securities laws. Most compliance activities involve the mandated dissemination of information in various forms (e.g., proxy statements, prospectuses, annual/semi-annual reports, etc.) and the payment of various annual fees. Many transactions normally occurring as a by-product of the operation of registered separate account products (e.g., purchases, redemptions, exchanges, etc.) are governed by specific Investment Company Act of 1940 provisions and the rules thereunder.

Generally, the federal securities laws are disclosure statutes with strong anti-fraud provisions and include detailed requirements and prohibitions. They do not involve evaluation of the merits of the product.

Overall Score: "Good". The SEC is legitimately considered one of the best federal regulators. Traditionally, the Staff has sought to accommodate the evolution and increasing sophistication of life insurance equity-based product offerings, and has generally managed to do so without sacrificing its regulatory objectives or creating imbalances favoring insurers or non-insurers competing in various financial services markets. Most problems encountered by insurers with the SEC are engendered because the securities statutes were not formulated with insurance company products in mind. Although insurance products are regulated by a special office of insurance products in Investment Management Division, the office is small considering the volume of product filings.

Rating Factors:

Uniformity is Scored as "Good"
SEC regulation is generally applied on a uniform basis. While there are exceptions, with only one agency applying the rules, there is more uniformity than state insurance regulation. For example, SEC disclosure forms mandate uniform presentation of illustrations and other

disclosures. The SEC's traditional orientation, however, is toward conventional securities markets, mutual fund products, and full service brokers-dealers. The Staff has at times proposed policy or rules that do not take the unique needs of the life insurance industry into consideration. When this is pointed out, however, the Staff has responded with some accommodation. It should be noted, however, that banks are generally exempted from most federal securities regulation; thus, federal securities regulation is not uniform with respect to different types of entities within the financial services industry.

Speed/Timing is Scored as "Good"
The registration of the typical variable insurance product will, with some variance, take an average of four months for a routine filing. For a more complicated filing, the review process can take considerably longer. The staff has consistently attempted to add efficiency to its processes and regulatory structure. The selective review process, the elimination of the exemptive application process for separate account unit investment trusts assessing mortality and expense charges, and the automatic effectiveness provisions of the post-effective amendment system are all examples of SEC efforts to streamline its regulation and allow new products to reach the market without unreasonable delays. While the SEC regulatory process may not be as rapid as desired, timeframes are relatively predictable and thus manageable.

Cost is Scored as "Needs Improvement/Good"
There is nothing insubstantial about the routine expenses related to equity-based product regulation (e.g., attorney and accountant fees, broker-dealer training, compliance, printing costs, postage, etc...). Generally, explicit costs, such as 24f-2 fees do not seem unreasonable. More difficult to reconcile, however, are the routine expenses, particularly those related to disclosure requirements which, when viewed in context, maybe of little utility to most investors (e.g., on-going product and underlying fund prospectus delivery obligations, annual and semi-annual reports). Instead of required distribution, these documents should be made available to investors upon request.

Objective Achieved is Scored as "Good/Excellent"
The primary objective of federal securities regulation is investor protection. In connection with insurance products, the SEC has generally been successful in assuring that investors receive adequate information in conjunction with investment decisions. The SEC has also been successful in assuring that separate accounts and separate account products (including related sales and advertising practices) are managed in a way that is consistent with the interests of security holders. These factors, combined with stiff liability provisions, have generally provided good protection for investors in registered insurance products.

Necessity and Relevance is Scored as "Excellent/Good"
There is little question that the sale of investment products with inherent risk characteristics requires some compulsory standards of disclosure beyond that which is mandated through state insurance regulation. Ultimately, these standards, while difficult at times to deal with in the

particular, foster public trust in the aggregate, and address the regulatory gap that would exist if registered insurance products were exclusively regulated under state insurance law.

Expertise/Capacity is Scored as "Good/Excellent"
With very few exceptions the Staff is, and has been, characterized by professionalism and competence. Very few Staff members have direct insurance industry experience; generally, however, the Staff is willing to ask questions and listen to the responses.

Sensitivity to the Industry Needs/Views is Scored as "Good/Excellent"
As a general matter, the Staff (except for Office of Insurance Products) does not have an insurance orientation. New SEC initiatives are often advanced with an apparent lack of awareness with respect to the impact of such initiatives on insurance product offerings. On the other hand, the Staff has generally been amenable to logic, and when issues have arisen that underscore essential differences between registered insurance products and other registered products, the Staff has taken definitive steps to level the playing field and accommodate the special needs of the insurance industry. Examples of this sensitivity are reflected in the array of special rules governing variable insurance products (particularly variable life insurance), the elimination of the exemptive relief application process, form amendments, the development of new forms (e.g., N-6) tailored for the industry, and an extensive history of fair dealing with insurance related no-action requests and exemptive applications.

Enforcement/Penalties is Scored as "Good/Excellent"
The audit and enforcement units of the SEC are extremely active, but have not attempted to impose punitive measures against firms within the industry for technical deficiencies; good faith efforts to achieve compliance are rarely met with enforcement actions or penalties. The federal securities laws do provide for criminal and civil liability for inadequate disclosure and even greater liability for fraud in connection with the sale or purchase of securities.

Competitive Implications Relative to Other Financial Institutions:

The SEC's regulation of equity-based insurance products has generally not resulted in competitive disadvantages for the insurance industry. The SEC could promote competitive balance by assuring that when regulatory relief is promulgated for mutual funds, equivalent regulatory relief is provided for variable products if applicable. At the same time, regulatory requirements regarding broker/dealers should recognize that the unique structure and characteristics of broker/dealers affiliated with life insurers are different from full service broker/dealers.

EQUITY PRODUCTS - NATIONAL ASSOCIATION OF SECURITIES DEALERS (NASD)

Brief Description:
NASD Regulation, Inc. (NASDR) is a self regulatory organization governing the securities sales activities of broker/dealers through rules of conduct supporting just and equitable principles of trade. Variable insurance products and broker/dealers affiliated with life insurers face a unique regulatory environment different from traditional insurance regulation. A fundamental supervision standard pervades all NASDR conduct rules. Suitability is accomplished by assuring that all securities purchases and sales comport with customer account forms eliciting investment objectives, net worth, tolerance for risk, and financial sophistication. Advertising and illustrations must be filed with and reviewed by NASDR according to guidelines. Detailed record keeping rules provide critical compliance and supervision tools. NASDR enforces its rules through periodic compliance inspections and provides explicit procedures for addressing investor complaints and disciplining broker/dealers.

Overall Score: "Needs Improvement". The need for self regulation in securities distribution is critical to market conduct and investor protection. NASDR's regulatory objective is sound and the structure exists to fulfill its mandate. Regrettably, a number of significant NASDR rules and interpretations fit broker/dealers affiliated with life insurers poorly, being designed on the template of full service broker/dealers. Accordingly, compliance costs are often unnecessarily high, and impose a burden on competition. NASDR has exhibited an insensitive, and sometimes hostile, attitude toward variable products and insurance broker/dealers. NASDR is slow in completing regulatory initiatives, and slow in seeking insurance industry input. Turn around on advertising review is good, although policy determinations are occasionally inconsistent or arbitrary.

Rating Factors:

Uniformity is Scored as "Needs Improvement".
While the conduct rules can be constructively viewed as uniform standards, they often have a disparate impact on variable product distribution when designed around the template of a full service broker/dealer. Advertising approval is erratic and reviewer dependent in subjective areas, despite guidelines. NASD District Office expertise and emphasis vary greatly from District to District and impair compliance program consistency. While the Boston District Office has commendable insurance product expertise, others are badly uninformed and target compliance issues inconsistently.

Speed/Timing is Scored as "Needs Improvement"
Advertising review has been a source of concern. Although the NASD makes available a faster "rush" review (at added cost), turn around is not optimal. Routine NASDR interpretive responses

and rulemaking are slow and indecisive. The cash and non-cash compensation rules took ten years to complete. NASDR waited two years to fix a complaint reporting rule that unfairly exaggerated the complaint ratio for insurance affiliated broker/dealers by capturing non-securities complaints of insurance agencies. Opportunity for insurance industry input often occurs too late in the process to shape proposals responsibly. Invalid NASDR reach for jurisdiction over unregistered group variable annuity sales occurred without *any* opportunity for input.

Cost is Scored as "Needs Improvement/Good"

Compliance Costs: Often unnecessarily high for broker/dealers affiliated with life insurers. "One-size-fits-all" regulations are primarily suited to full service broker/dealers. Expenses are disproportionately high for numerous small and geographically dispersed offices of insurance broker/dealers. ACLI recently reversed a negative correspondence review rule that required a registered principal at each location to open and review written correspondence prior to use or distribution.

Benefits of Compliance: Strict rules of conduct tailored to different broker/dealer structures and operations are worthwhile and valuable to uphold highest standards of market conduct and public confidence. Institutional costs of regulatory compliance are justifiable if rules are designed responsibly.

Objective Achieved is Scored as "Good"

Concept of NASDR regulation is sound and continues to improve after bifurcation of NASD and NASDR. NASDR's importation of SEC staff and organizational practices should help it to better achieve its mandate to enforce just and equitable principles of trade. Inspections, licensing, advertising and disciplinary actions support NASDR's mission and ensure investor protection. Better understanding and responsiveness to the differences among its members will make NASDR more effective.

Necessity and Relevance is Scored as "Excellent"

Management and enforcement of securities market conduct are essential and relevant. NASDR's self regulatory charge allows SEC to delegate many administrative and ministerial functions to conserve its resources for securities policy making and major enforcement actions. Absent self regulation, marketplace confidence could erode. Without NASDR, SEC would have to expand in order to properly govern the market.

Expertise/Capacity is Scored as "Unsatisfactory"

While NASDR sufficiently understands full service broker/dealers, its capability concerning broker/dealers affiliated with life insurers is sorely deficient. Rulemaking and interpretive positions often reflect weak understanding of limited purpose broker/dealers affiliated with life insurers. NASDR comments on advertising are occasionally inconsistent, trivial or irrelevant.

Sensitivity to Industry Needs/Views is Scored as "Unsatisfactory"
NASDR has frequently demonstrated an insensitive, and occasionally hostile, attitude toward variable products and broker/dealers affiliated with life insurers. Repeated development of ill-fitting rules for this segment of its membership is unfounded given that greater than 50% of the NASD's registered representatives work for broker/dealers affiliated with life insurers. While NASDR commendably permits our industry to air its views, responsiveness to needs is inadequate. In some forums, NASDR legal staff has misstated laws governing variable products and insurance broker/dealers, such as ERISA and Rule 151 under the Securities Act of 1933. Reorganization and restructuring of the NASDR's Committees has steadily diluted the industry's opportunity to shape policy in its early stages. The life industry's representation on the NASD's Board of Governors has also been diminished as a result of structural reorganization. The NASDR has not been sensitive to the disclocation of business relationships and structures that occurred when it asserted jurisdiction inappropriately over the sale of unregistered variable annuities to qualified retirement plans in Notice to Members 97-27.

Enforcement/Penalties is scored as "Good"
NASDR has authority to discipline and sanction broker/dealers and their salespersons for conduct rule violations. Actions are appealable to the SEC. Detailed procedures for arbitrating securities related complaints provide a dispute resolution mechanism faster and cheaper than litigation. The courts have upheld the validity of mandatory arbitration clauses in agreements with customers and salespersons. After its recent bifurcation from the NASD, NASDR has adopted enforcement structures modeled after the SEC and centralized the enforcement function in its Washington, D.C. headquarters. NASD sanctions and penalties seem reasonable in relation to offenses committed. Quicker wrap up of NASD disciplinary actions would be a constructive improvement in the enforcement process.

Competitive Implications Relative to Other Financial Institutions:

Several of the NASDR's rules and interpretations impose a significant competitive burden on limited purpose broker/dealers affiliated with life insurers, by not accommodating the unique structure and operations of these marketplace participants. Life insurers, therefore, suffer a disadvantage when competing against full service broker/dealers. While many banks voluntarily choose to comply with NASD rules, banks are not required to do so. Some banks obtain an advantage by distributing securities without complying with NASD rules. Although the bank regulators have attempted to incorporate some aspects of SEC and NASD regulation, this structure is not considered as rigorous as the NASDR. Also, after separation of the NASD's business functions from the NASDR's regulatory functions, broker/dealers may face a more adversarial regulator than the banking industry.