



2017 SOA
Life & Annuity
Symposium

May 8-9, 2017
Seattle, WA

Session 12 PD, Life Product Update

Moderator:

Stephen S. Cameron, FSA, MAAA

Presenters:

Curtis Matthew Clingerman, FSA, MAAA

Helen Colterman, FSA, CERA, ACIA

[SOA Antitrust Disclaimer](#)

[SOA Presentation Disclaimer](#)

2017 Life & Annuity Symposium

Stephen Cameron, FSA, MAAA
Curt Clingerman, FSA, MAAA
Helen Colterman, FSA, ACIA, CERA
Life Product Update
May 8, 2017



**SOCIETY OF
ACTUARIES**



SOA Life & Annuity Symposium

Sessions 12 and 34: Life Product Update

May 8, 2017

Stephen S. Cameron, FSA, MAAA, AVP & Actuary, Individual Life Pricing

Munich RE 

Agenda

- SOA anti-trust statement
- Introduction of Presenters
- Product Trends: A Reinsurer's Perspective

SOA Anti-Trust Statement

Please review the SOA anti-trust statement in your program
or in the meeting app.

Presenters



Stephen Cameron,
Munich Re, US (Life)



Curt Clingerman,
Milliman



Helen Colterman,
Oliver Wyman



New Underwriting Paradigms:

- Movement to streamlined underwriting (at higher issue ages & face amounts)
- Use of non-traditional data sources

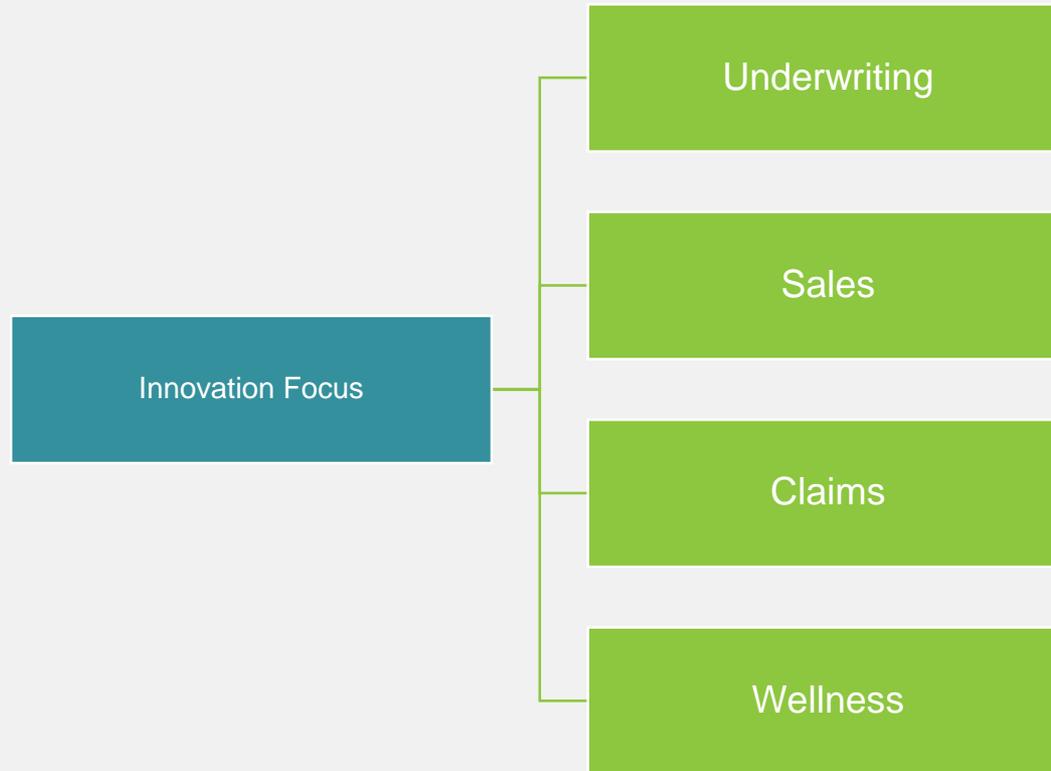
New Regulations:

- Principles Based Reserves (PBR)

Other:

- Expansion of acceleration riders

U.S. Life Industry Trends: A Reinsurer's Perspective



We will now explore topics related to current product trends





Life Product Update

Sessions 12 & 34

Curt Clingerman, FSA, MAAA
May 8, 2017

Limitations

- The content of this presentation represents the views of the presenter and not those of Milliman.
- These slides have been prepared for presentation at the 2017 SOA Life and Annuity Symposium for the educational use of meeting participants. There are no intended beneficiaries of this work.
- This presentation may not be distributed, disclosed, copied or otherwise furnished to any additional party without our prior written consent. Any distribution of this presentation must be in its entirety.
- The presented information is intended to be valid as of the date it has been prepared. Its future validity depends on the further development of market events, regulations, and standards of practice.
- This presentation is not intended to contain material that represents an actuarial opinion. The professionals responsible for preparing this report are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries.

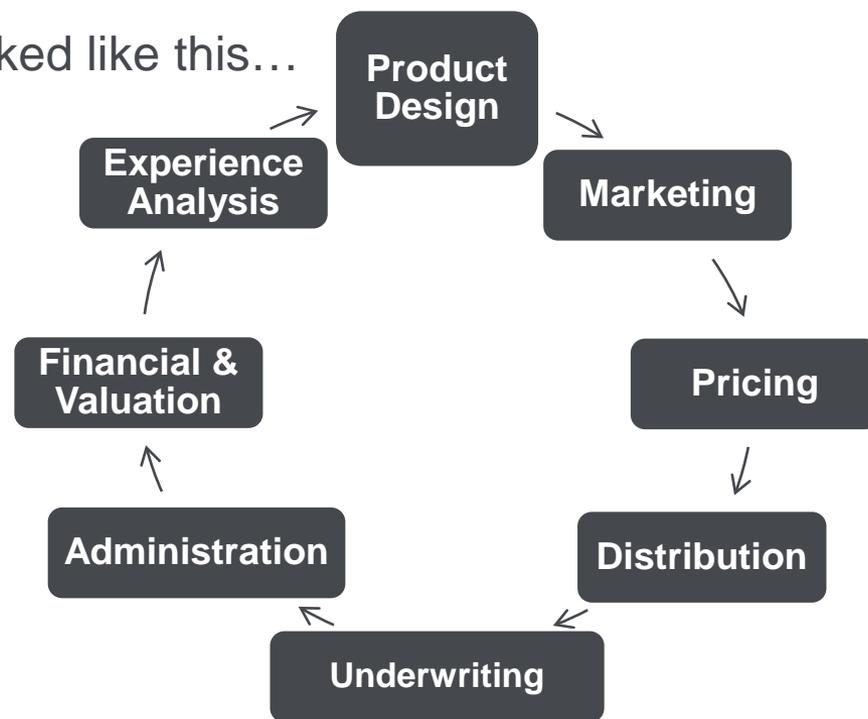
Agenda

- Speed to Market Trends
- Product Trends
 - Traditional Products
 - Universal Life
- Other Trends

Speed to Market

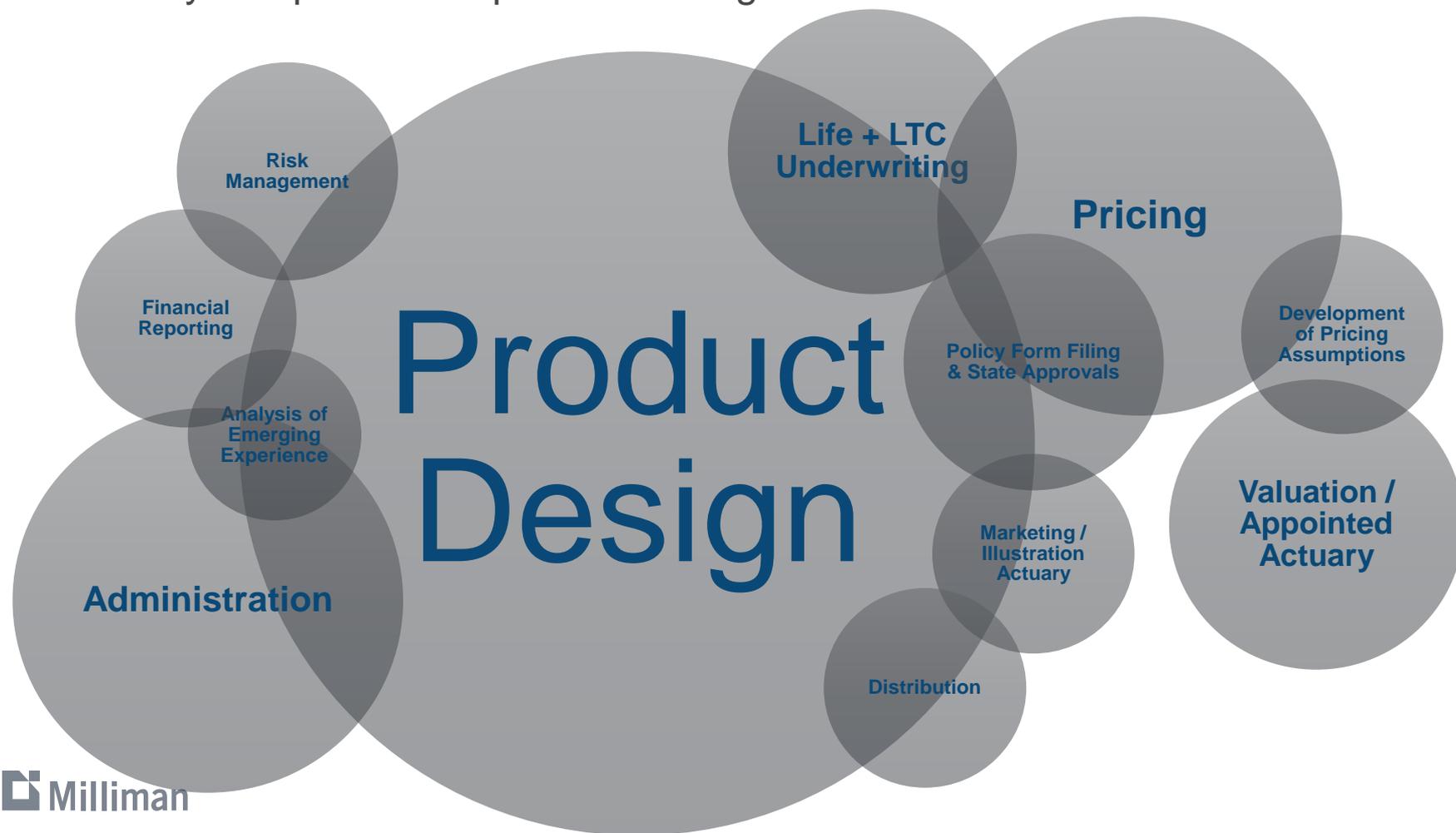
Product Development Process and Speed to Market

- In the Late 1990's many companies were discussing the length of time required to get a product to the market
- The first Life and Annuity Symposium (Originally the Product Development Symposium) in 2001 focused on this issue.
- The process at many companies looked like this...



Product Development Process and Speed to Market

- How did companies get faster?
- For many companies the process changed to look like this...



Product Development Process and Speed to Market

- Other companies reduced requirements for products to launch
- Developed only the “Day 1” functionality for the product
 - Could be as simple as produce the necessary policy pages to print a policy and collect premium
- Remaining product functionality delayed until necessary
 - If a feature does not kick in until year 10 why develop it today?
 - Leads to a large list of “Day 2” items and additional risk
 - Easy to forget about these items if a product is not successful
 - In this wild west approach many times features revised prior to first usage
- Stricter product and assumption governance having an impact

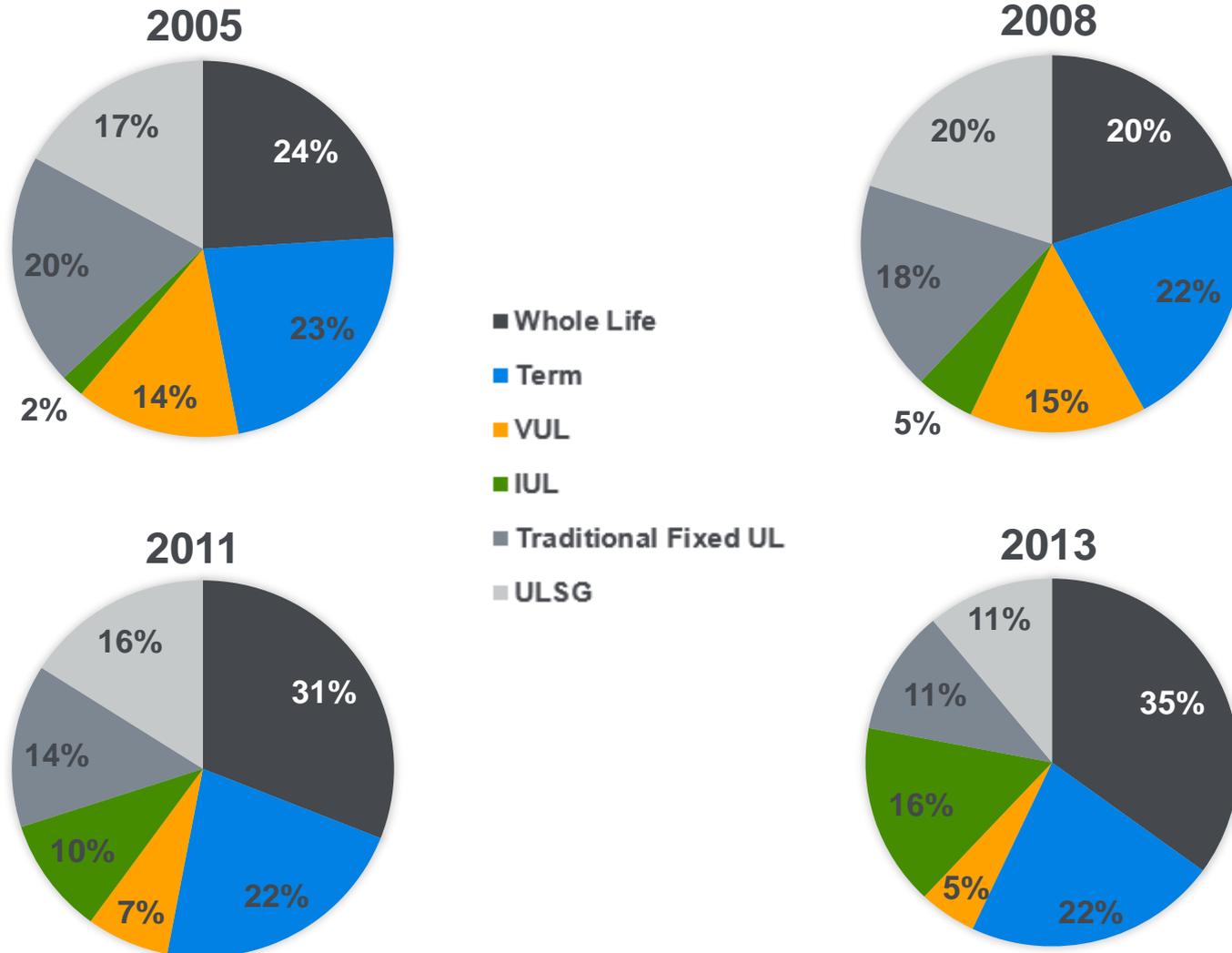
Product Development Process and Speed to Market

- Where do we go next to improve the process?
- There are companies that are offering to help prototype new offerings
- Brings to the table help in the following areas:
 - Product pricing
 - Reinsurance
 - Compliance
 - Administration
 - ...
- There is even the possibility that the 3rd parties will take the risk for a limited time
- Allows companies to try new ideas but not be saddled with failed products

Life Market Trends

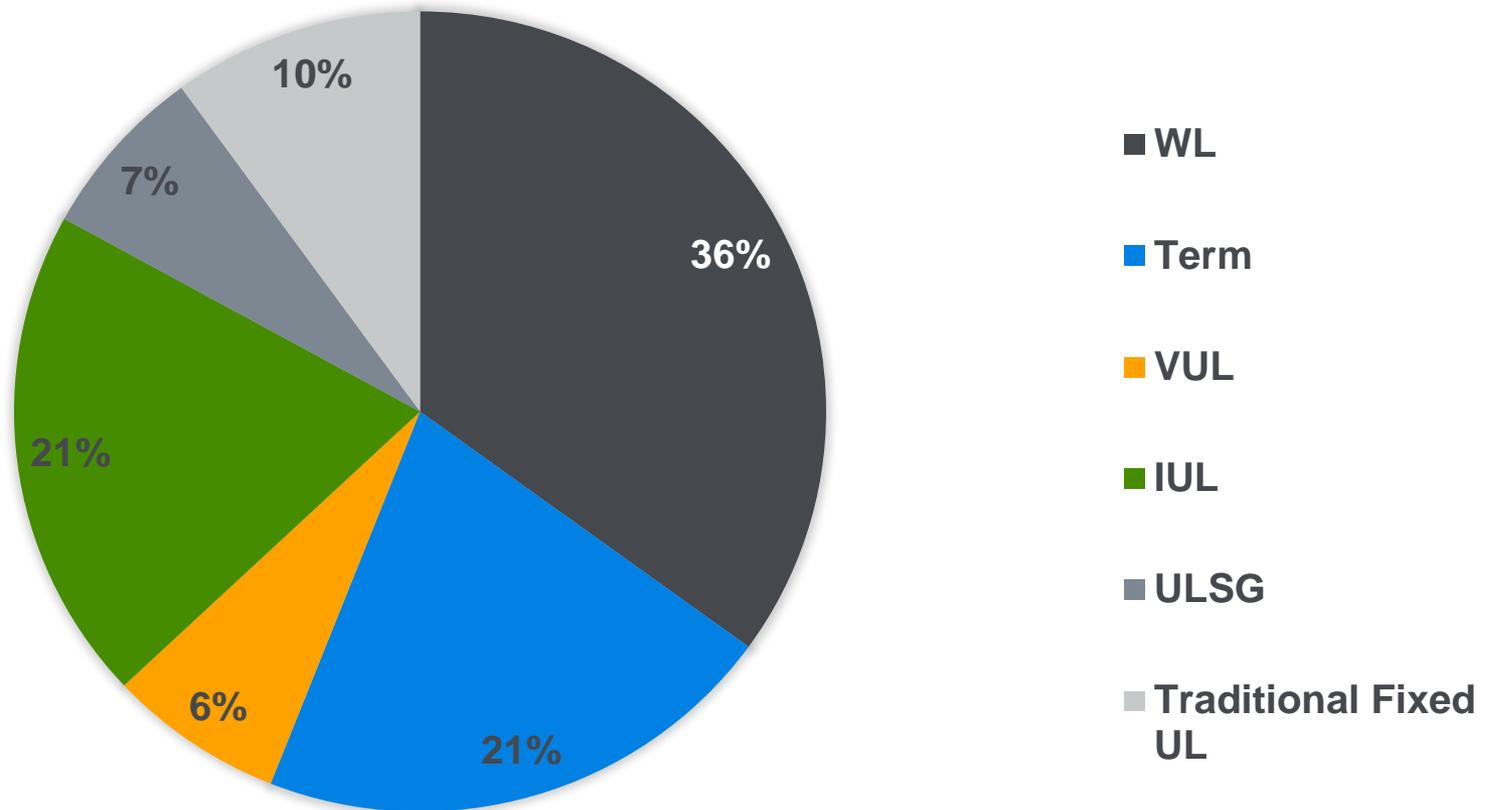
Life Market Sales Mix

Percent of Annualized Premium



Life Product Market Shares

Percent of Annualized Premium, thru 3rd Quarter 2016 = \$7.9B



Trends in Product Mix May Continue

- Declining interest rates have continued to make things difficult in the traditional UL market
 - Interest rates beginning to increase will see how quickly this occurs
 - Portfolio products will continue to struggle for next several years
- Regulatory pressures make the ULSG market more challenging
- IUL the darling of the UL market
- Adapting to regulatory changes
 - AG49
 - AG48
 - DOL

Anticipating Interest Rate Changes

- Fed rate hike in December 2016 and March 2017 each 25bps perhaps a signal of tightening approach favorable to life companies
 - Future pace of rate increases uncertain but Fed hinting at more increases
- In 2015 Moody's release stated an expected increase of 150bp to 200bp by end of 2017
 - This has been revised to 2 – 3 increases and a 150bp rate.
 - Is this a fast hike? For comparison: mid-2000s 4% hike over 30 months
- Currently a mixed perspective on next rate movement.
 - Employment and Inflation close to expectations
 - Awaiting signal from the Trump administration for Economic Policy plans

Traditional Products

Whole Life Market

■ Trends

- Continues to drive Life Insurance Sales
- WL sales have increased each year since 2006.

■ Whole Life Products

- Sales concentrated in a small number of carriers.
 - Top 10 responsible for approximately 75% of WL sales.
- Primary Sales drivers are simplicity, guarantees and dividend potential

■ Growth Areas

- Whole life is predominately sold through captive agency arrangements
- 2016 represented a high point in independent agent sales of 13% of annualized premium
- Whole Life designs are gaining some flexibility from some of the large mutual carriers.
 - Premium flexibility
 - Death Benefit flexibility
 - Makes administration and illustration more complex

Term Life Market

■ Trends

- Mostly a steady as she goes product
- Market share for Term has changed very little in the last decade.

■ Term Life Products

- 2017 valuation table does present some opportunity to reduce reserves
 - Decrease Premiums to be more competitive
 - Increase profits due to aggressive premium rates and low interest

■ Growth Areas

- Potential for more direct to consumer sales
 - As Millennials become greater proportion of insurance buying market likely more acceptance of less traditional sales methodology
 - This method is becoming more than direct response.
- Companies are focusing on the retaining sales after the level term period
 - More favorable ART scales. Or possibly not using an ART scale
 - More favorable conversion programs

Universal Life Products

ULSG Market

■ Trends

- Customized/variable guarantee period length
- Cash-out/ROP options
- Larger offering of riders (a trend of UL/IUL in general)

■ New/Repriced ULSG Products

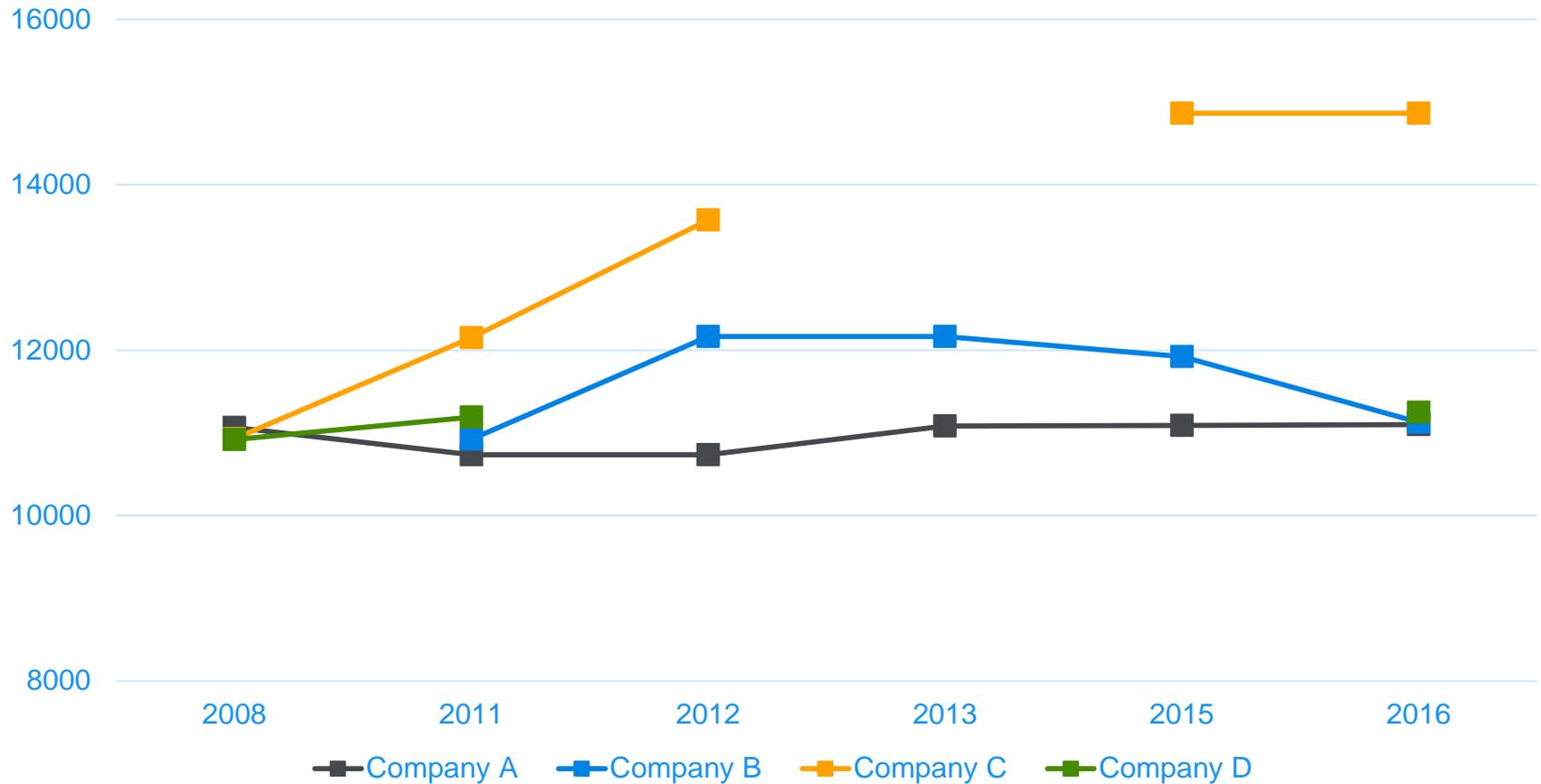
- AIG Secure Lifetime GUL 3
- American National Signature Guaranteed UL
- John Hancock Protection UL 2016
- Lincoln LifeGuarantee UL (2016 version)

■ Exits/Revised ULSG Offerings

- Protective Life discontinued lifetime SG option on Custom Choice UL (replaced with a revised version of another SG product)
- Genworth
- MetLife Guarantee Advantage UL (in 2014)

ULSG Premium Trends

Annual Premiums, Male Age 55 Best NS Class, \$1M Face



IUL Market

■ Trends

- IUL sales continue to grow and have for the past decade
- Some regulatory pressure suppressed 2016 sales
- Larger offering of riders (a trend of UL/IUL in general)

■ IUL Products

- Lots of movement
 - New Carriers
 - New Products
 - Product Revisions
 - Products pulled

■ Other Issues

- Illustration requirement did slow sales
- Sales highly concentrated in the brokerage and independent sales distribution channels

Traditional UL Market

■ Trends

- Products have struggled in the continued interest rate environment
 - Accumulation harder to generate
 - “Minimum” funded Death Benefit focused products slightly easier
- Will benefit once rates rise further.

■ Products

- Development activities focused on product features for differentiation
- A quick review of a few companies shows some carriers with 15+ rider options

Other Trends

Other Life Trends

■ What is driving purchasing?

- Concern for security of loved ones
- Outliving money in retirement (Cost of Care)
- Retirement planning

■ Distribution

- Still mostly agent sold
- Direct to Consumer
 - Definition is the key – Not just the same old advertisement
 - The majority of those looking to buy are researching online
 - A portion of that group would purchase directly online
 - Predictive analytics may help reduce the target audience and increase sales opportunities

■ Regulatory

- VM20 – adding another layer of review to the development cycle
- For the last several year regulatory changes have driven product design we may be instore for the next round.



Thank you

Curt.Clingerman@Milliman.com

May 8, 2017

12 & 34 PD Life Product Update Life and Annuity Symposium

May 8, 2017

Helen Colterman, FSA, ACIA, CERA

CONFIDENTIALITY

Our clients' industries are extremely competitive. The confidentiality of companies' plans and data is obviously critical. Oliver Wyman will protect the confidentiality of all such client information.

Similarly, management consulting is a competitive business. We view our approaches and insights as proprietary and therefore look to our clients to protect Oliver Wyman's interests in our proposals, presentations, methodologies and analytical techniques. Under no circumstances should this material be shared with any third party without the written consent of Oliver Wyman.

Copyright © Oliver Wyman

Agenda

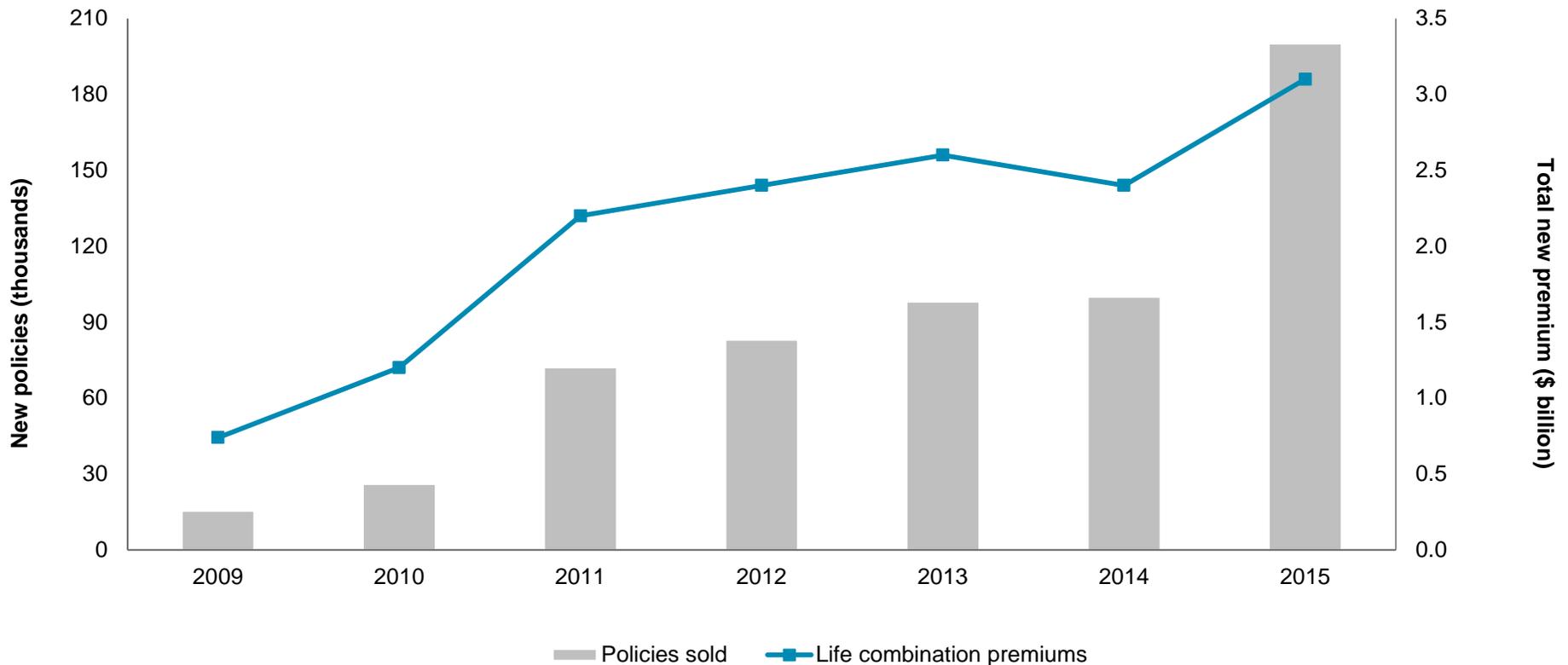
1. Combination products
2. PBR impact on product design and pricing
3. Trends in technology
 - a. Streamlined underwriting
 - b. Advanced analytics
 - c. Product innovation
 - d. Enhanced customer experiences

Section 1 | Combination products

Growing popularity of life combination products

The cost-effectiveness of combination products relative to their standalone counterparts has, in part, driven high growth

Life combination product sales
Premiums and policies sold, 2009-2015



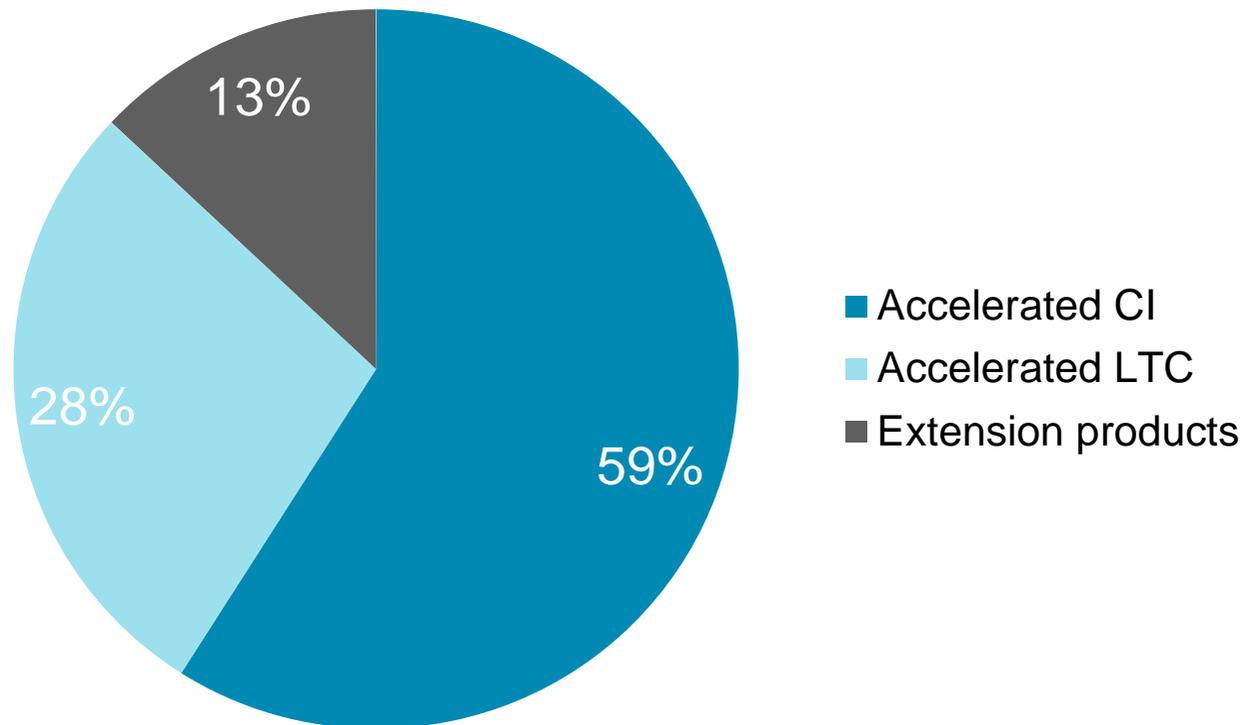
Combination products represented 15% of total life new premium and 8% of annualized premium

Source: LIMRA, Individual Life Combination Products (2010-2016)

Combination policy sales by product type

Accelerated CI dominates sales, while accelerated LTC grew 51% from 2014

Combination product market shares
Number of policies sold in 2015



Section 2 | PBR impact on product design and pricing

PBR impact on product design and pricing

Impact on reserves

Purpose	Product	Impact
Statutory reserves	Term	<ul style="list-style-type: none"> Very significant reserve decrease NPR eventually dominates if NPR valuation mortality table not unlocked (while DR is unlocked)
	ULSG (Protection)	<ul style="list-style-type: none"> Typically a reserve decrease
	UL (Accumulation)	<ul style="list-style-type: none"> NPR expected to dominate
Tax reserves	Term	<ul style="list-style-type: none"> Very significant decreases. The lower tax reserve may eliminate the substantial tax benefit resulting from reserve financing
	ULSG (Protection)	<ul style="list-style-type: none"> Slight decrease in tax reserves. Non-deductible reserves can be eliminated
	UL (Accumulation)	<ul style="list-style-type: none"> NPR expected to dominate

Reserve financing influences the impact of moving to PBR. For instance, a reserve decrease under PBR could reduce profitability if a benefit of higher tax reserves is realized in pricing

PBR impact on product design and pricing

How will companies respond with pricing and product development?

Key considerations

Expected pricing/product development implications

Term

- Impact of reserve financing
- Credibility of assumption data



Product reprices for lower premiums

ULSG

- No deficiency reserve component
- Reserve calculation requirements for secondary guarantees
- Credibility of assumption data



Product reevaluation:

- *More flexibility for account charge patterns*
- *Less emphasis on shadow funds*

VUL/IUL

Not enough guidance to fully understand implications

Section 3 | Trends in technology

Innovations in underwriting

What is streamlined underwriting?

- 1 Rules-based decision-making
- 2 Point-of-sale underwriting
- 3 Triage approach
- 4 Data analysis
- 5 Outsourcing
- 6 E-signatures and straight-through processing
- 7 Predictive analytics



Streamlined underwriting

- Increased availability of data and new technology are helping insurers to issue policies faster, cut costs and provide a less intrusive experience for customers

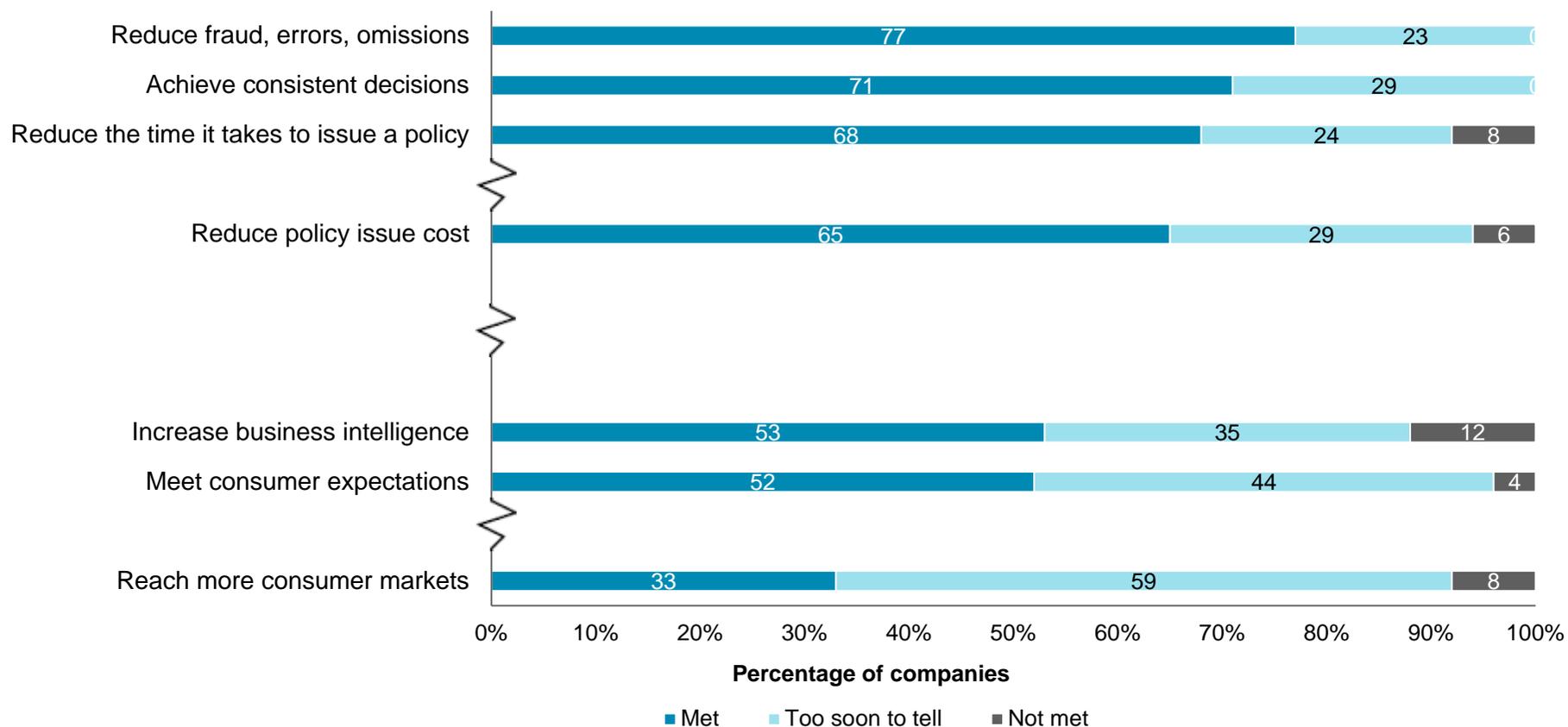
Two in three insurers in the US and Canada have implemented automated underwriting in at least part of their business and another 32% are in the planning stages of implementing

Implications of underwriting innovation

Are companies finding success from their investments?

Success meeting goals with automated underwriting

Percentage of companies listing each goal



Source: LIMRA, Automating Underwriting for Life Insurance (2016)

Optimizing underwriting with advanced analytics

What lies ahead?

Expanding data sources

- Current common sources:
 - MIB
 - Prescription drug records
 - Labs
 - Motor vehicle records
- Future sources:
 - Credit scores
 - Social media?

Predictive modeling

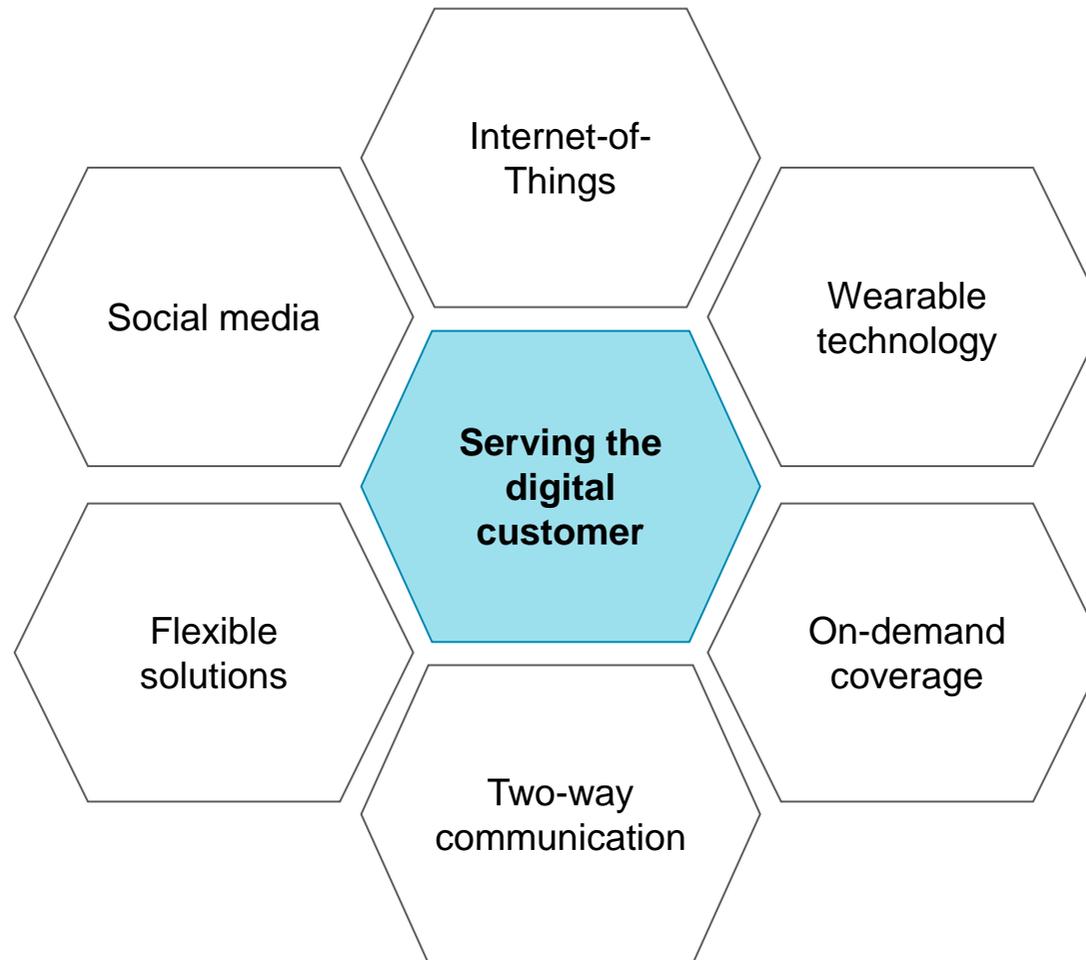
- Predictive models have the potential to be applied to underwriting processes, depending on:
 - Data availability and volume
 - Prohibited variables

Regulatory considerations

- VM-20 mortality assumption for accelerated underwriting

InsurTech

Product innovation for the digital customer



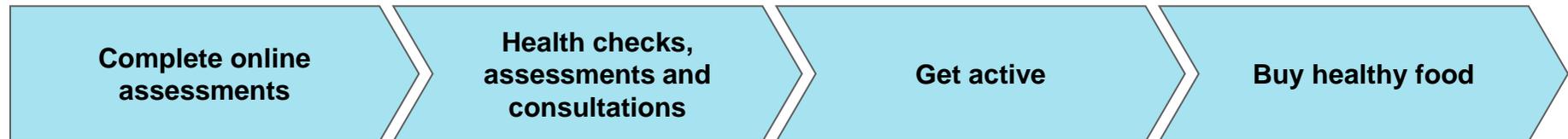
“InsurTech” refers to the use of technology innovations designed to squeeze out savings and efficiency from the current insurance industry model

Product innovation

Wearable technology in product design

Rewards-based products are changing customer interactions, integrating with policyholder lifestyles and gathering and taking action on health data

- An example of this product innovation is John Hancock's Vitality
- While not many statistics have been released yet, the products are attracting and encouraging healthier lifestyles



- Complete preliminary online health and cancer screenings and mental wellbeing assessments
- Do an in person health check to assess blood pressure, cholesterol and weight
- Get rewarded for flu vaccinations and visits to the dentist and optometrist
- Track activity level and gym visits with wearable devices like a FitBit or Apple Watch
- Get rewarded for outdoor sports or rounds of golf
- Get cash back on health foods

Social intelligence and changing customer interactions

Apps are finally reaching the insurance industry

Home



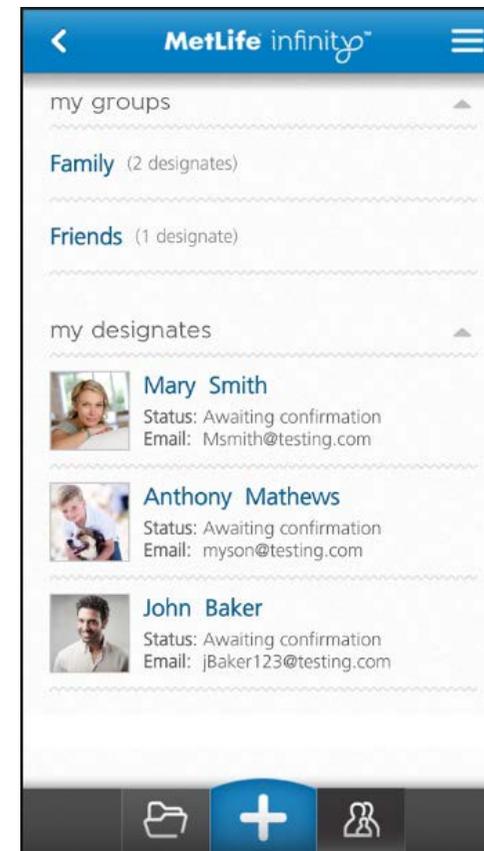
Liberty Mutual Home Gallery

Auto



GoodRide by Allstate

Life



MetLife Infinity

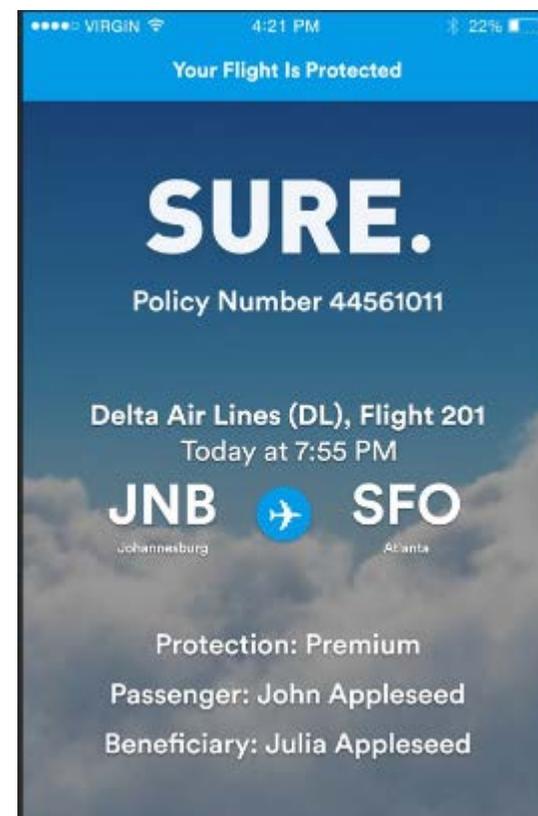
On-demand protection

Micro-term/event insurance

- Business models like Uber and Airbnb are often described as the on-demand economy, where customers (1) obtain access to services when they need it and (2) they only pay-per-use
- Start-ups like Sure, Fabric and Ladder are offering simplified insurance that can be purchased instantly online to access the underserved market

But insurance is different from Uber and Airbnb...

- The pay-per-use insurance model would be significantly more expensive than traditional insurance
- The online-only platforms and concept of purchasing insurance immediately before it is needed increase the risk of fraud
- If we consider the market is currently underinsured, is offering less coverage, less of the time the right solution?



QUALIFICATIONS, ASSUMPTIONS AND LIMITING CONDITIONS

This report is for the exclusive use of the Oliver Wyman client named herein. This report is not intended for general circulation or publication, nor is it to be reproduced, quoted or distributed for any purpose without the prior written permission of Oliver Wyman. There are no third party beneficiaries with respect to this report, and Oliver Wyman does not accept any liability to any third party.

Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been independently verified, unless otherwise expressly indicated. Public information and industry and statistical data are from sources we deem to be reliable; however, we make no representation as to the accuracy or completeness of such information. The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. Oliver Wyman accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report. No obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client. This report does not represent investment advice nor does it provide an opinion regarding the fairness of any transaction to any and all parties.