



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

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# 2017 Life & Annuity Symposium

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



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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

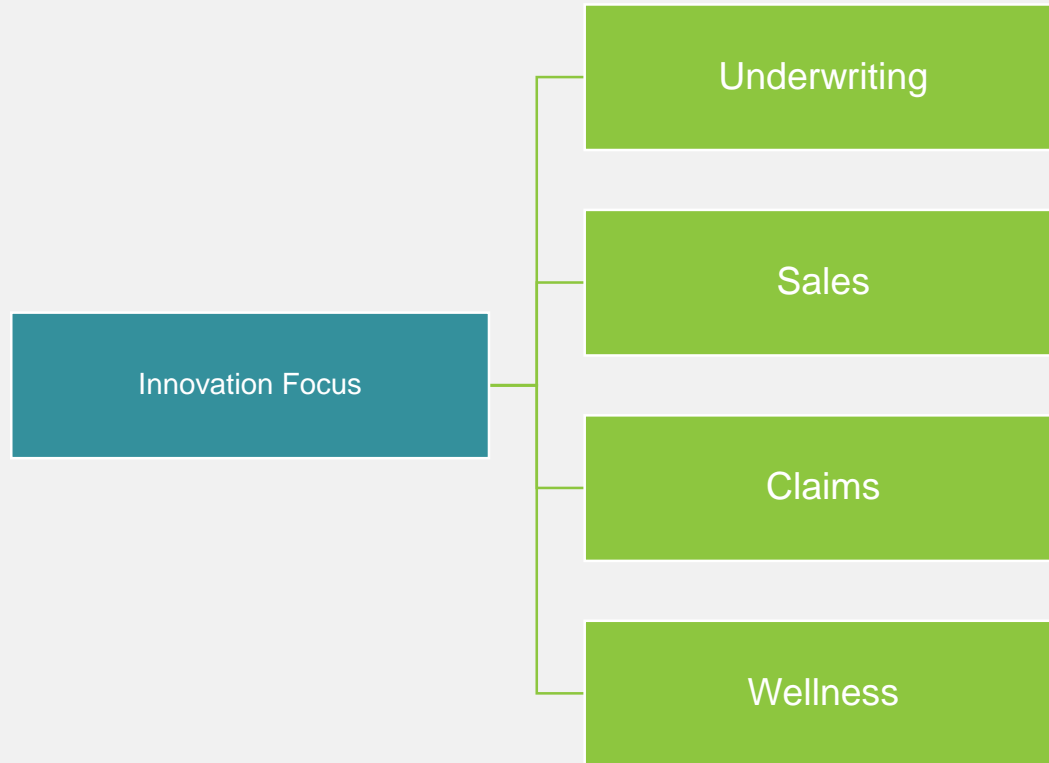
## New Regulations:

- 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

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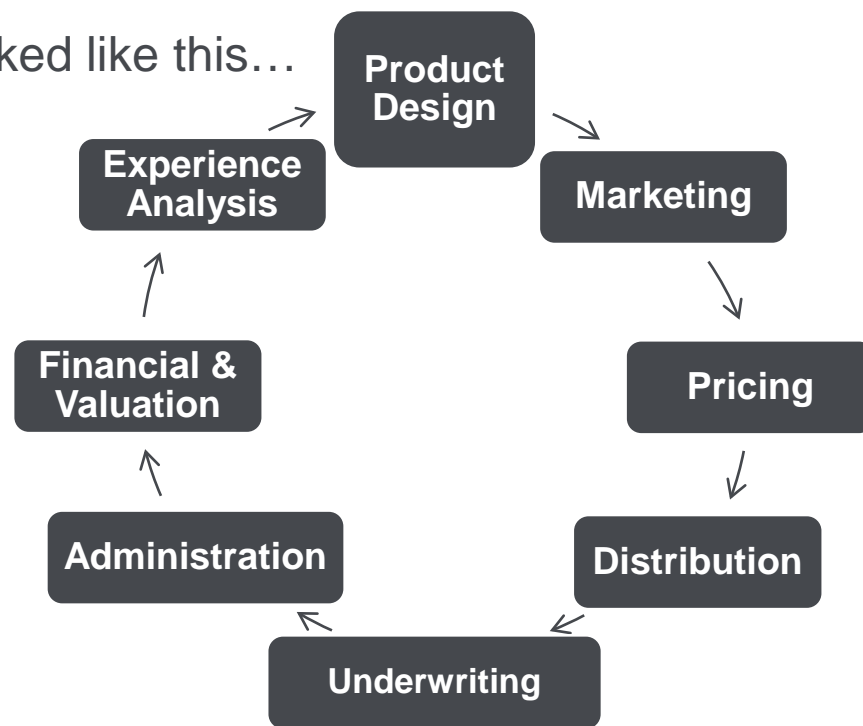
# Agenda

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

# Speed to Market

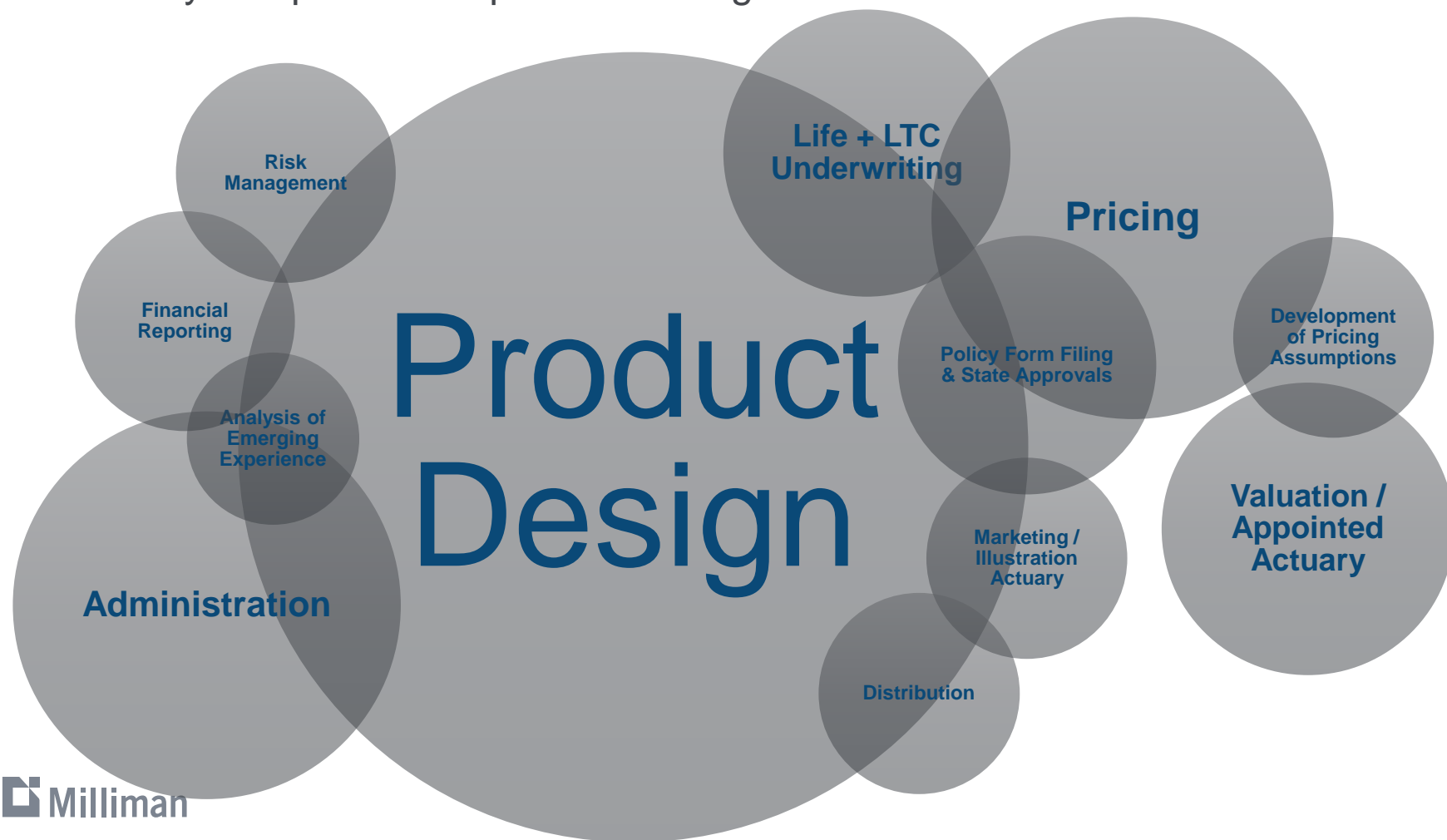
# Product Development Process and Speed to Market

- 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...



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# 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



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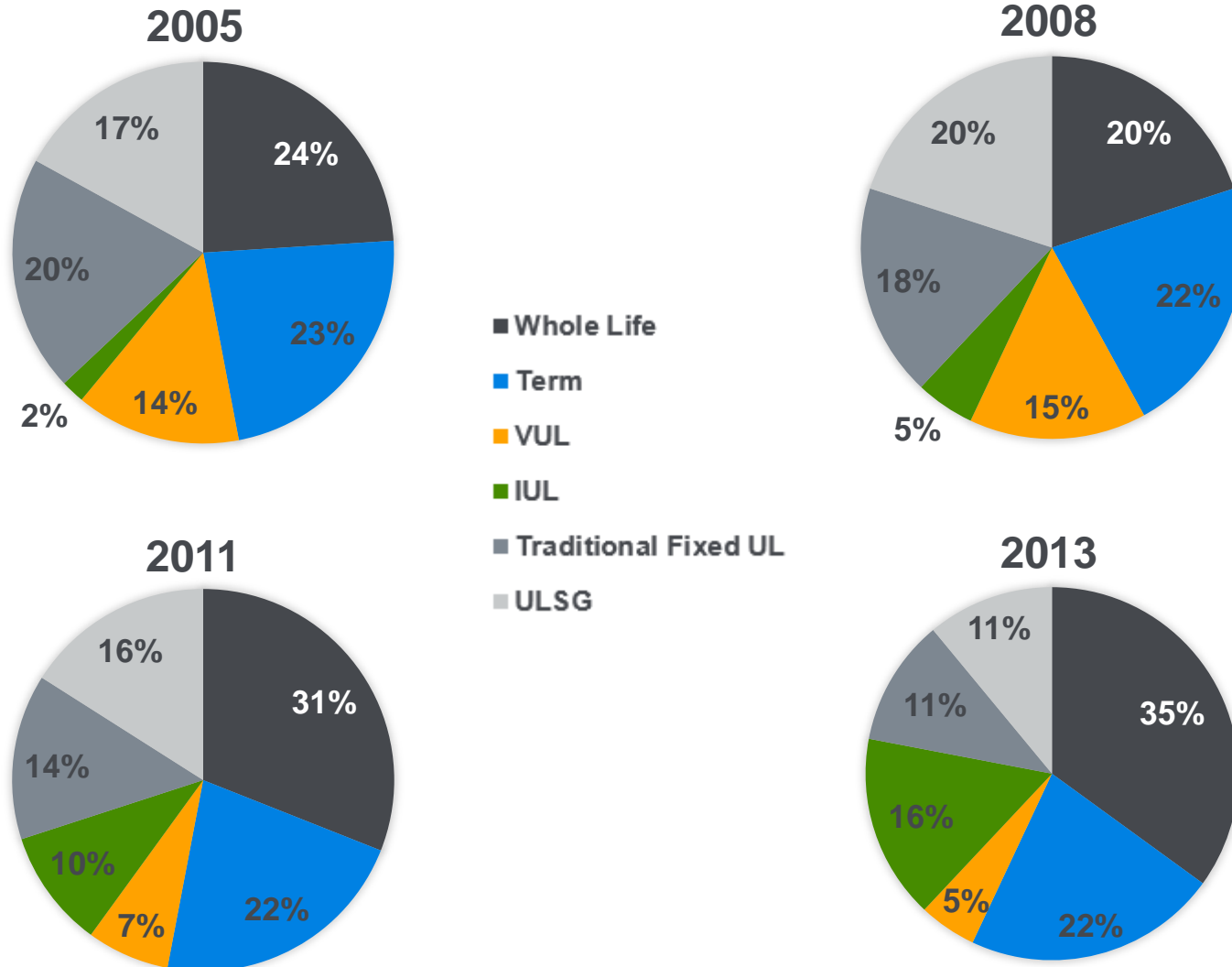
# Product Development Process and Speed to Market

- 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 3<sup>rd</sup> 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

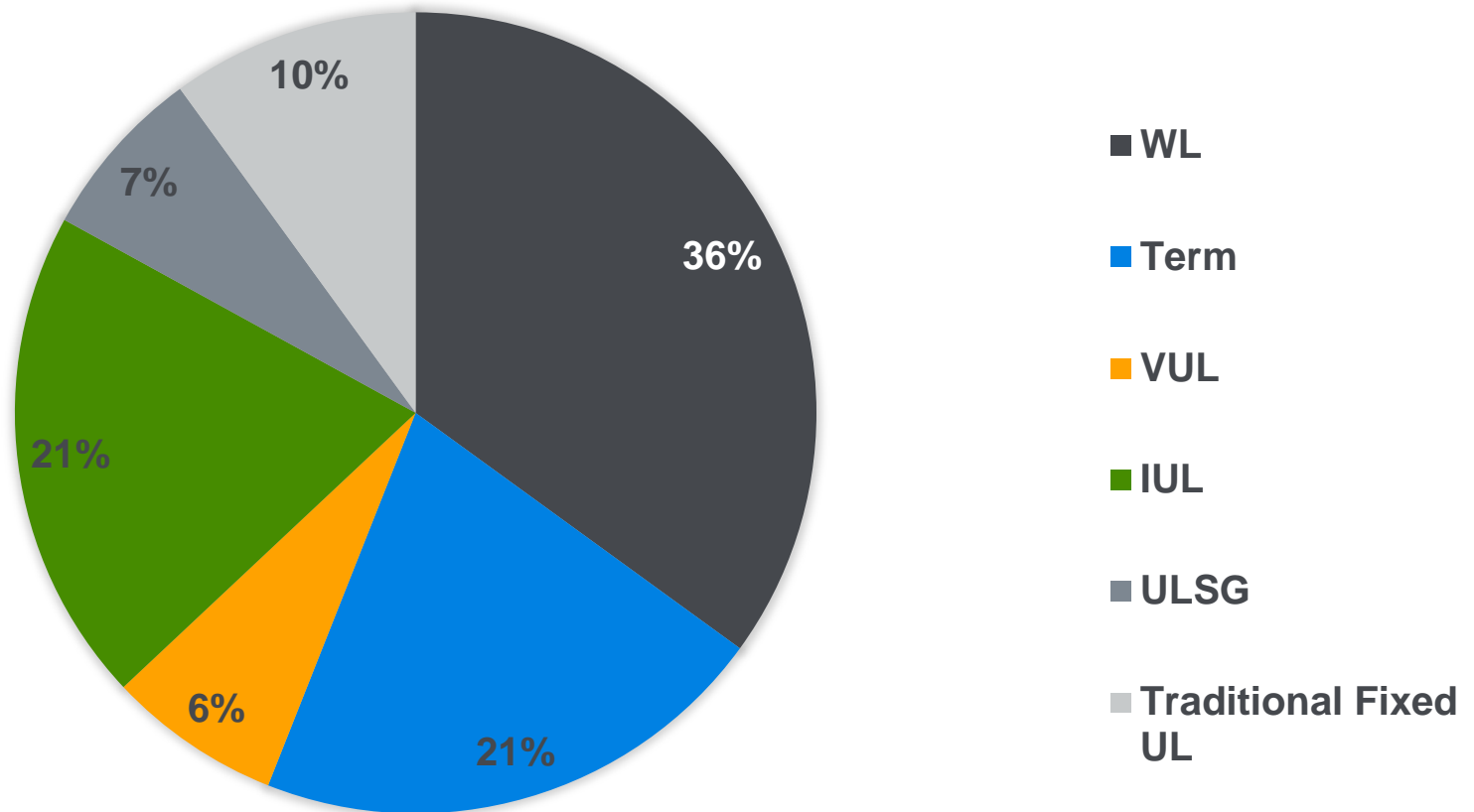
# Life Market Sales Mix

## Percent of Annualized Premium



# Life Product Market Shares

Percent of Annualized Premium, thru 3<sup>rd</sup> Quarter 2016 = \$7.9B



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# 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

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# 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

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# 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



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# 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

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# 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

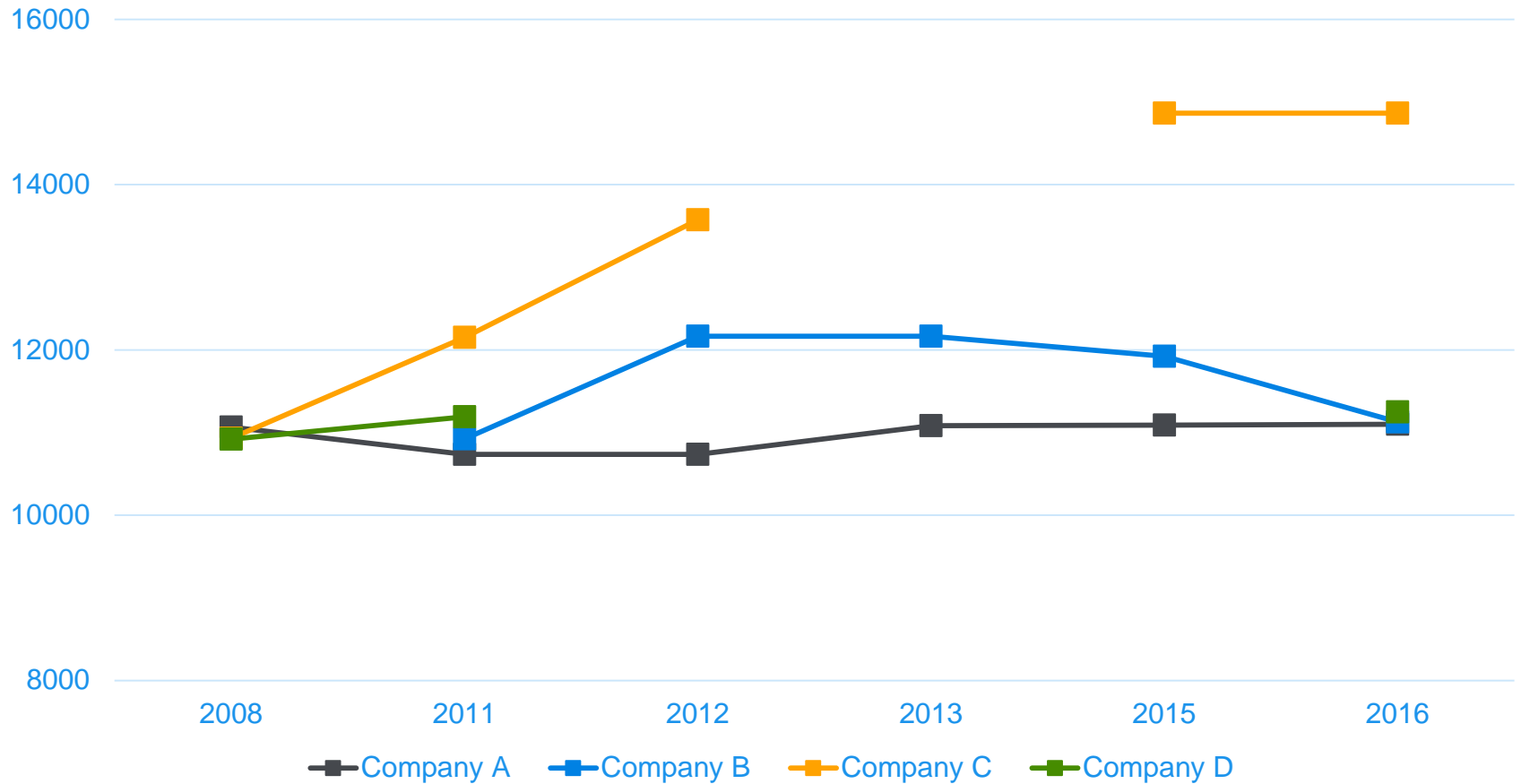
- AIG Secure Lifetime GUL 3
- American National Signature Guaranteed UL
- John Hancock Protection UL 2016
- Lincoln LifeGuarantee UL (2016 version)

## ■ 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



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# 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

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# 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

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# 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**

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# Agenda

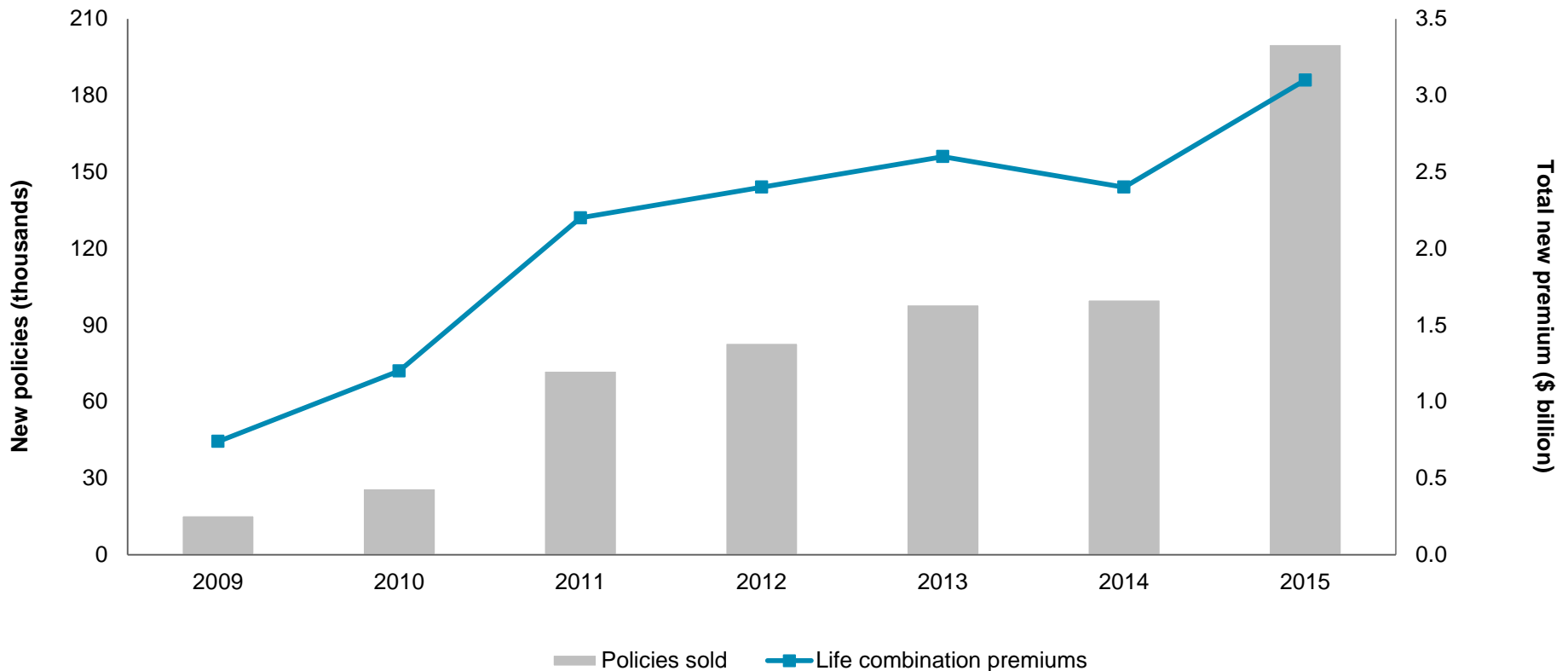
1. Combination products
2. PBR impact on product design and pricing
3. Trends in technology
  - a. Streamlined underwriting
  - b. Advanced analytics
  - c. Product innovation
  - d. Enhanced customer experiences

# 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



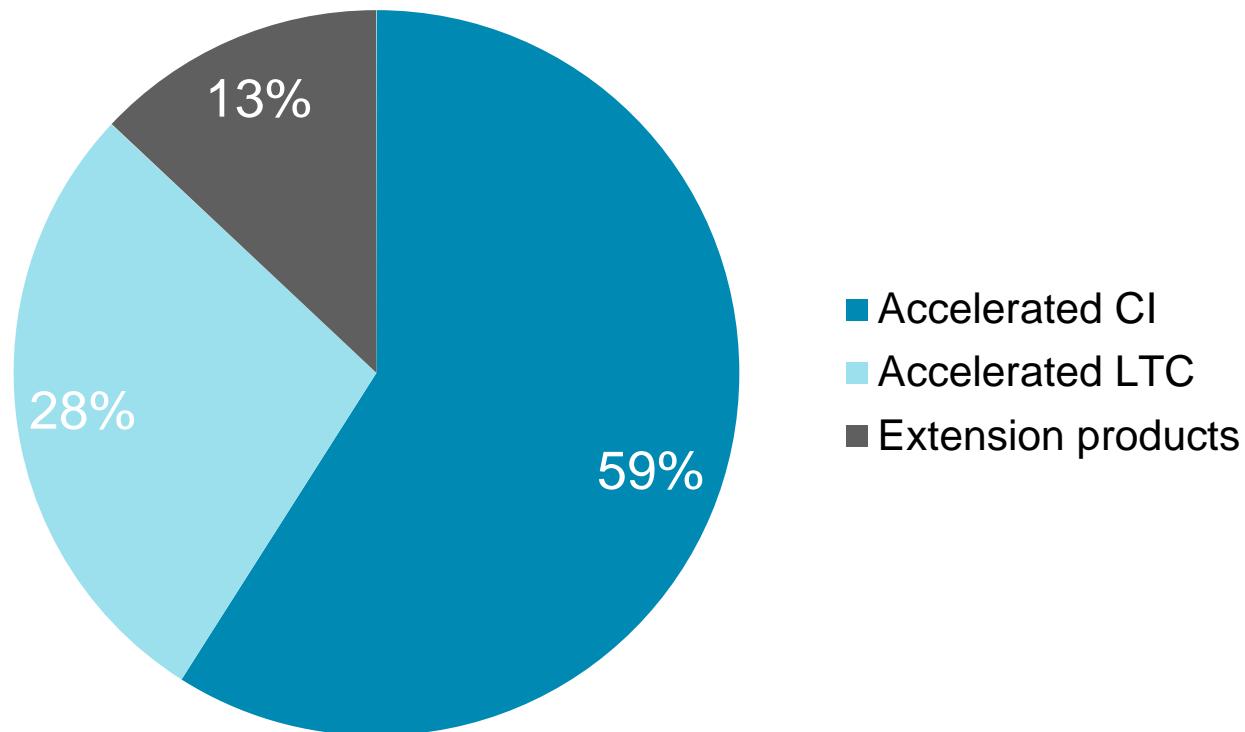
Combination products represented 15% of total life new premium and 8% of annualized premium

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

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

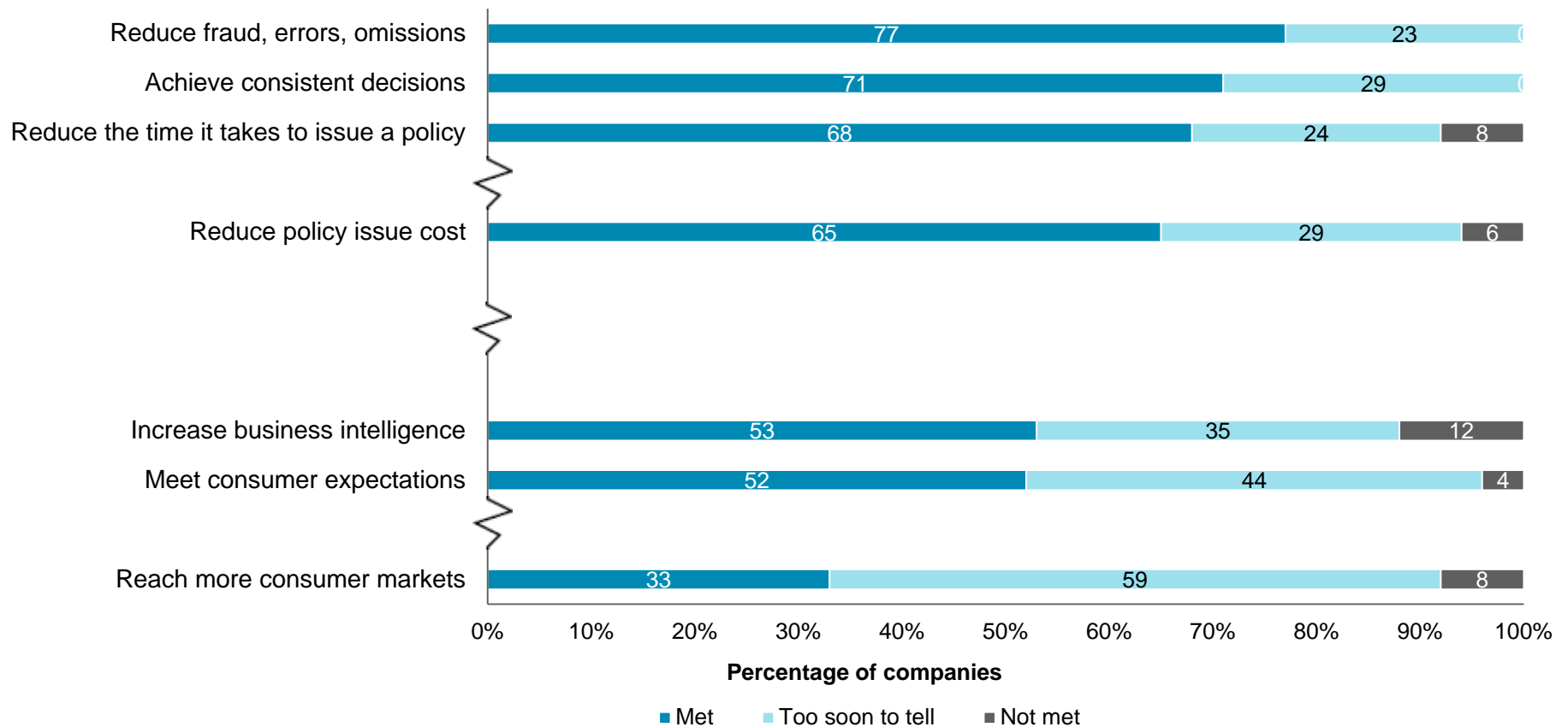
Two in three insurers in the US and Canada have implemented automated underwriting in at least part of their business and another 32% are in the planning stages of implementing

# 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

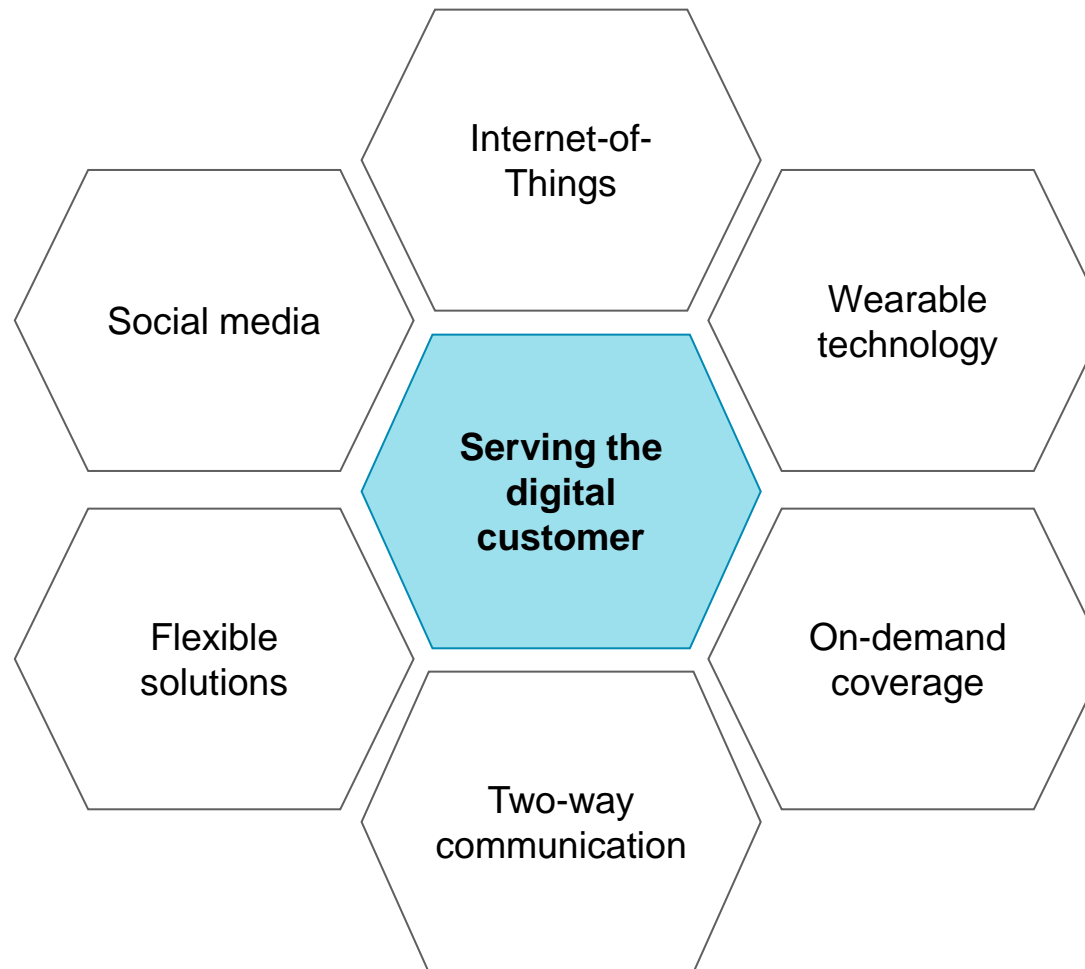
- Predictive models have the potential to be applied to underwriting processes, depending on:
  - Data availability and volume
  - Prohibited variables

### Regulatory considerations

- VM-20 mortality assumption for accelerated underwriting

# InsurTech

## Product innovation for the digital customer



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

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# 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

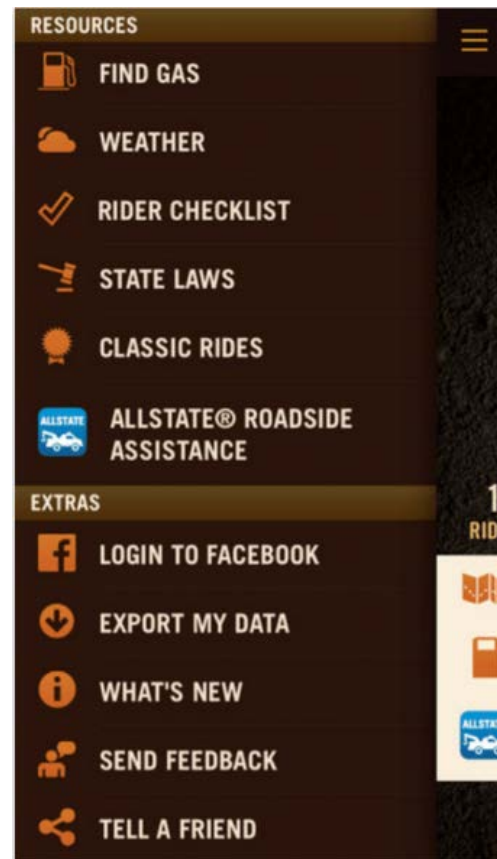
## Apps are finally reaching the insurance industry

### Home



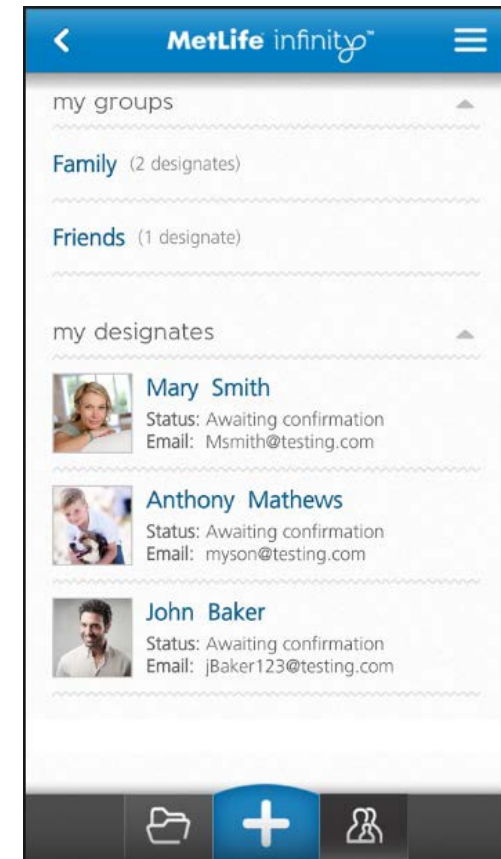
Liberty Mutual Home Gallery

### Auto



GoodRide by Allstate

### Life



MetLife Infinity

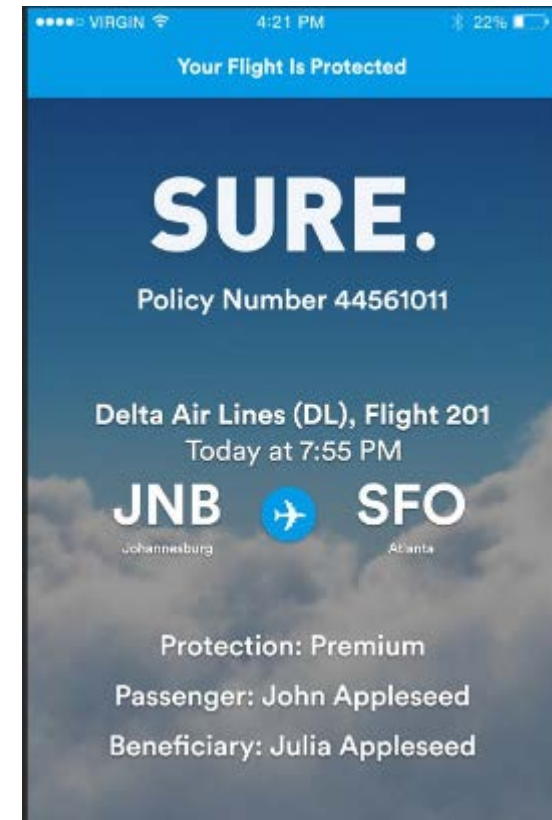
## On-demand protection

### 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?



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