

Jeopardy

The Actuarial Edition

INDUSTRY	GENERAL	ANNUITY	UNIVERSAL LIFE	TERM & OTHER LIFE PRODUCTS	PRODUCT CYCLE & MANAGEMENT
<u>\$100</u>	<u>\$100</u>	<u>\$100</u>	<u>\$100</u>	<u>\$100</u>	<u>\$100</u>
<u>\$200</u>	<u>\$200</u>	<u>\$200</u>	<u>\$200</u>	<u>\$200</u>	<u>\$200</u>
<u>\$300</u>	<u>\$300</u>	<u>\$300</u>	<u>\$300</u>	<u>\$300</u>	<u>\$300</u>
<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>	<u>\$400</u>
<u>\$500</u>	<u>\$500</u>	<u>\$500</u>	<u>\$500</u>	<u>\$500</u>	<u>\$500</u>

Industry \$100

There is only one event reshaping the Insurance Industry

- Fewer Companies
- Push to Federal Charter
- Tax Debate on Offshore Entities
- Shrinking Capacity in the Reinsurance Marketplace



Industry \$100

What is a Financial Meltdown?



Industry \$200

The Top 100 Life Insurers

- Record losses (UCG/L)
 - '07 \$1.4 Billion
 - '08 (\$51.7) Billion
- Surplus Decreased 4.7%
- ROE
 - '07 12.8%
 - '08 (.3%)



Industry \$200

How Bad has our Industry Been Hammered?



Industry \$300



Industry \$300

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Industry \$400

- FV Accounting Impacts
- GMxB Hedging and Costs
 - Low Asset Yields
 - Reserve Solutions
- Coinsurance
- Securitization



Industry \$400

**How has the Current
Financial Environment
Impacted Product
Development & Pricing?**



Industry \$500

**Asset Downgrades – impact
on RBC and Earnings
Capital Scarce
Liquidity is King
Rating Downgrades – impact
on Distribution**



Industry \$500

**What Additional Industry
Impacts Have There Been?**



General \$100

**ROE/ROI
Break Even Year
Book Profit Margin
Stat/GAAP Basis**



General \$100

**What Profit Measures are
Still Meaningful for
Companies and Societies
Today?**



General \$200

Older Age Market - 70+

- Delayed Word Recall - Cognitive Underwriting Tool
- Mortality Study showed those that had a passing DWR ratio, had an A/E of 114% (expected was the 2001 VBT S&U M/F, N/S Tables)
- Those that did not have a passing DWR ratio, had an A/E of 196%.
- Results were fairly consistent by gender, underwriting age, and smoker status.
- Results do diminish with policy years, the wear-off was 50% after 10 years.
- Cost/Benefit Analysis showed meaningful results with proper tools and assumptions



General \$200

What new tool is available to assess older age mortality?



General \$300

Cession rates continue to decline

- 60% of mortality risk was ceded in 2004 compared to 40% of mortality risk in 2007 and is stabilizing
 - Direct side stronger balance sheet, excess capital
 - Change from quota share to excess of retention
 - Cost of reinsurance went up



General \$300

How are Reinsurers being Impacted?



General \$400

US Population Mortality continued to improve 1.5% in 2006 & 1.1% in 2007 (National Center for Health Statistics).

Annual Improvement		
	Life Ins.	1997-
Male	Weight	2006
25-34	10.0%	1.2%
35-44	25.0%	1.6%
45-54	20.0%	0.2%
55-64	10.0%	2.1%
65-74	2.0%	2.5%
75-84	1.5%	1.5%
Female		
25-34	6.0%	0.7%
35-44	13.0%	-0.6%
45-54	8.0%	-0.2%
55-64	3.0%	1.8%
65-74	1.0%	1.8%
75-84	0.5%	1.1%
Wt Avg	100.0%	1.3%



General \$400

Should Mortality Improvement be allowed in pricing (how long?) or just hold constant?



General \$500

- Umbrella Treaty = YRT with Coinsurance Options
- Mortality Risk – Pure Risk Transfer
- Reinsurance Premium = YRT or levelized YRT on negotiated assumptions in treaty
- Cost of Capital = Risk Free Rate + Capital Use Charge = Reserve Credit Cost



General \$500

Can Reinsurance be Unbundled?



Annuity \$100

NACOLAH's Boomer Annuity

- 9.09% FY Yield => 3.9% CIR
- + 5% Premium Bonus yrs 1-5
- 7% Commission
- 10 Yr SC
- +5% Annuitization Bonus after 10 Yrs



Annuity \$100

What Annuity Structures are Out There Today?



Annuity \$200

- Fixed Annuities
 - Multi-year guarantees
- Fixed Indexed Annuities
 - When Market starts to increase
 - Simple design, annual reset pt-to-pt strategy
- Treasury Linked Annuities
 - Gov't stimulus package & increased Gov't spending
 - Base guarantee + credits if 10T > Base
- Performance Linked Annuities
 - Probability of the Market increasing 1%
 - Provides high CIR, 7.7% if S&P increases 1% on an annual look back



Annuity \$200

What new Annuity features are addressing the current and projected market conditions?



Annuity \$300

2007 \$60 Billion in deposits in Fixed Annuities
\$2 Trillion in Annuity Assets compared to \$3 Trillion
in 401(k) and \$3.5 Trillion in Defined Benefit Assets



Annuity \$300

**How does the Fixed Annuity
Market Stack Up?**



Annuity \$400

There has been a steepening of yield
curve over past months

- 4-6 year multi-year guarantees,
4.5% - 5.25%, compared to 2.8%
on 5 Yr CDs
- an alternate to bonds



Annuity \$400

**Does the distrust of Banking
Institutions equal greater
Opportunity?**



Annuity \$500

SEC Rule 151A

RBC



Annuity \$500

**How has the Regulatory
Environment Changed the
way we Market Annuities?**



Universal Life \$100

Sales still strong with 56% of new premium,
41% of that in Fixed UL

- Fixed UL had \$6 Billion in sales year-end 2007, similar for 2008
- VUL sales have not recovered from market declines



Universal Life \$100 **How has the Market impacted UL Sales?**



Universal Life \$200

NLSG – gaining with 53% of the Fixed UL premium share



Universal Life \$200 **How is the Secondary Guarantee Market Fairing?**



Universal Life \$300

NLSG = Term for life, Guaranteed!

- Older Age Mortality Risk
- Lapse Risk
- Interest Rate Risk
- Expense Risk
- Reserve/Capital Risk



Universal Life \$300 **What are some of the risks associated with Secondary Guarantees?**



Universal Life \$400

NLSG

- Experience for Lapses is limited
- Assumption used for Reserves
- Canadian Market experience with T100 and UL with level COIs

Year 1	5-6%
Year 5	3-4%
Year 10	1.5-2.5%
Year 15	.5-1.5%
Year 20	.5-1%



Universal Life \$400

What are some options for addressing the lapse risk assumption?



Universal Life \$500

PBA



Universal Life \$500

What is the primary driver to setting assumptions, gathering experience needed, and enhancing competitiveness of NLSG?



Term & Other Products \$100

Still the leading product in terms of policy sales, over 50%

20T the most popular with over 33%

ROP – represented 10% of new premium

30T most popular/best value



Term & Other Products \$100

How has the Market impacted Term Sales?



Term & Other Products \$200

ROP – AG CCC

introduces complexity in
required return of premium scales
lapse behavior changes
increases to premiums for new
benefits have been substantial



Term & Other Products \$200

**Have we regulated ourselves
out of another product
design?**



**Term & Other Products
\$300**

Simplified Issue Programs

- Traditionally have been within
Companies retentions
- Reinsurers are now partnering with
Companies with programs up to
\$350,000



**Term & Other Products
\$300**

**Who is participating in
Simplified Issue Programs?**



Term & Other Products \$400

Simplified Issue Programs

- Straight Forward Benefits
- Comparative Analysis provided at
initial contact allows swift purchase
decision
- Need a strict timeline and disclose
“what” and “when” policyholder
receives deliverables



**Term & Other Products
\$400**

**What is key for a successful
Simplified Issue Program?**



Term & Other Products

\$500

**Fraternalism Built-In Additional
Insurance Benefits**

Specific Cancer Benefits

Maternity/New Baby Benefits

Job Loss

Low Cost/Huge Payback



Term & Other Products

\$500

**How well are Fraternal
Benefits being marketed
through Products?**



Product Cycle & Management \$100

- On average, companies
 - Introduce 3 new products
 - Revise 3 products
 - Change rates on 2 products
- Eight product development efforts of varying complexity in one year
- Re-evaluation of entire portfolio every eight months
 - 25% re-evaluate monthly, continual review process
- Term
 - Shelf life of 2.2 years
 - 7-10 months to develop
- Universal Life
 - Shelf life of 2.8 years
 - 10-12 months to develop
- Development time includes state filings but not approvals
- Companies typically launch once they have 33 state approvals



Product Cycle & Management \$100

**What are the latest stats on
the Product Development
Cycle being reported by
LIMRA?**



Product Cycle & Management \$200

- Profitability
- Competition
- Marketability



Product Cycle & Management \$200

**What are the Three Leading
Factors for Product
Development Decisions?**



Product Cycle & Management \$300

- PD Department
- Competition Units
- Internal Sales Department
- Agents in about 50% of companies



Product Cycle & Management \$300

What are the Leading Sources used for Product Development Decisions?



Product Cycle & Management \$400

12/31/2009 will apply to all life business
Testing more volatile scenarios than pricing, CFT
Regulators are taking steps for higher ratios



Product Cycle & Management \$400

What's the latest on RBC C3 Phases?



Product Cycle & Management \$500

Identifying and Addressing Risks

- Analysis
- Entire Company
- Lines of Business



Product Cycle & Management \$500

What is ERM?

