

# INDIVIDUAL LIFE AND ANNUITY

**HOT TOPICS IN PRODUCT DEVELOPMENT & PRICING**

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**May 10, 2022**

# AGENDA

## Section

**1** Industry players

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**2** Growing acceptance of digital

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**3** Economic conditions

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**4** Population dynamics

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**5** Key takeaways

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# PRIMARY INSURER ARCHETYPES

Most US life and annuity players fall into one of the four archetypes described below

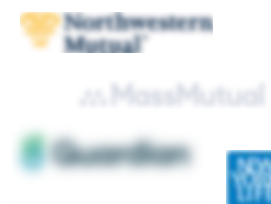
## 1 Asset player

- **Primary objective:** Generate assets under management through optimized return strategies which require large amounts of assets
- **Product offering:** Competitive retirement-oriented products



## 2 Large mutual

- **Primary objective:** Create value for their policyholders, as measured by policyholder dividends; with dividend scales supported by investment income and profits from insurance products
- **Product offering:** Dividend-paying products (e.g., participating whole life) and other products that provide earnings to support dividend scales



## 3 Large public

- **Primary objective:** Generate growth and earnings that meet the demands of their investors through a diversified portfolio of insurance liabilities
- **Product offering:** Broad offering to ensure growth and earnings stability across a large range of economic and demographic outcomes



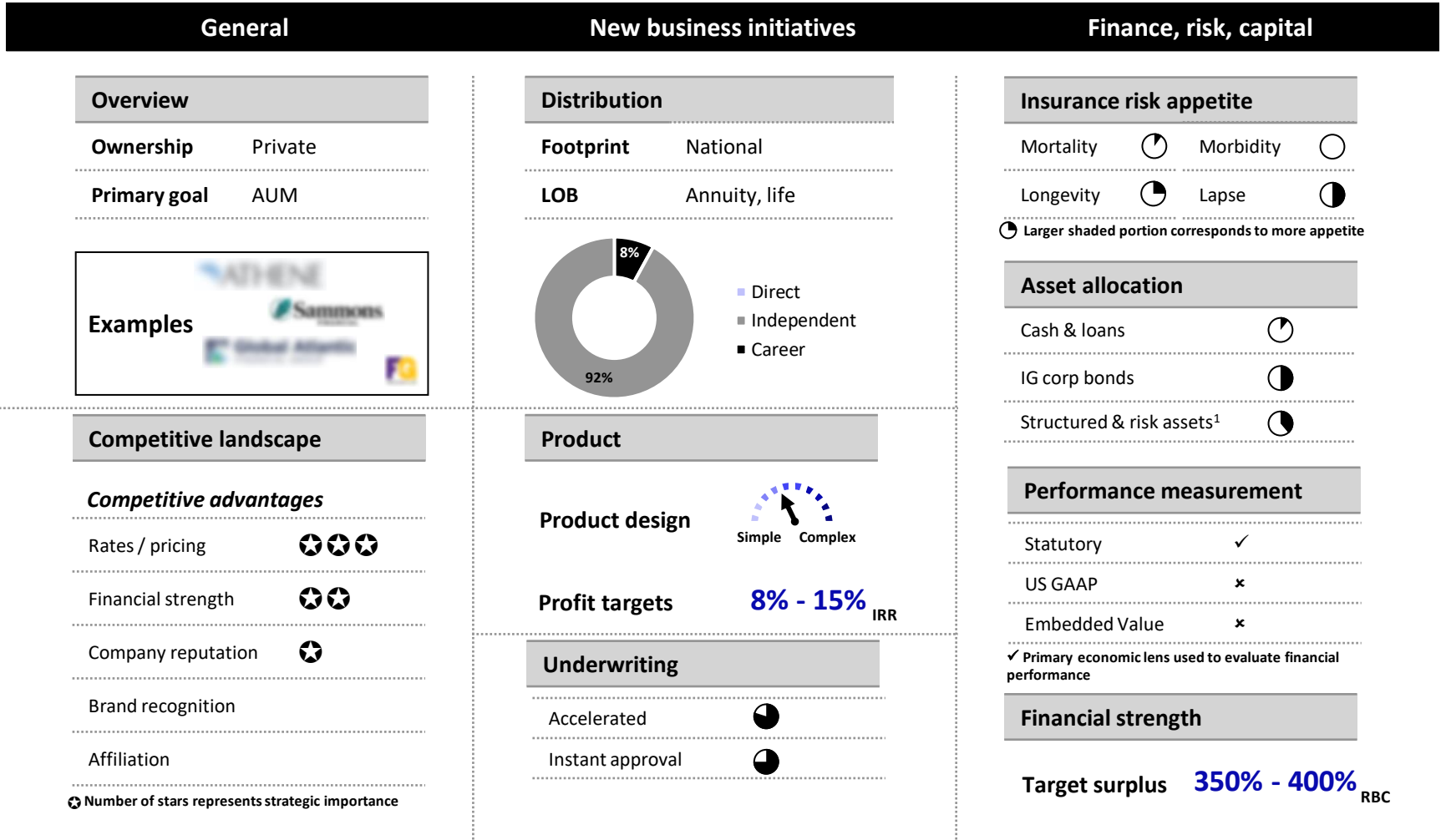
## 4 Midsized niche

- **Primary objective:** Aligned with mutual or stock carriers
- **Product offering:** Typically focused on a particular market segment where a competitive advantage can be gained through narrow focus



# INSURER ARCHETYPES

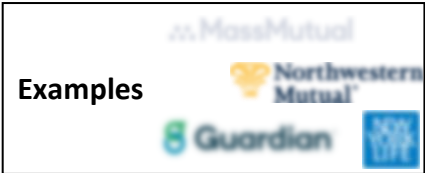
## 1 Asset players



<sup>1</sup> Structured assets (e.g., CLO, CMBS, RMBS, ABS), high yield, traditional risky assets (e.g., real estate, equities) other risky assets (e.g., alternative, private equity, hedge funds, venture capital, debt financing)  
 Source: Public information and recent Oliver Wyman market surveys with 60 participants covering a majority the retail and institutional insurance markets in the US

# INSURER ARCHETYPES


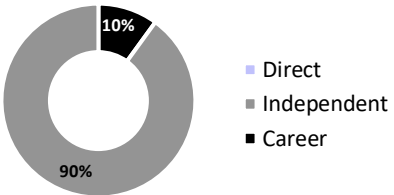
## 2 Large mutual

General	New business initiatives	Finance, risk, capital
<p><b>Overview</b></p> <p><b>Ownership</b> Policyholders</p> <p><b>Primary goal</b> Dividends</p> <p><b>Examples</b></p> 	<p><b>Distribution</b></p> <p><b>Footprint</b> National</p> <p><b>LOB</b> All</p> <p><b>Chart:</b> Donut chart showing 40% Direct, 60% Independent, and Career.</p>	<p><b>Insurance risk appetite</b></p> <p>Mortality ● Morbidity ●</p> <p>Longevity ● Lapse ●</p> <p>⌚ Larger shaded portion corresponds to more appetite</p> <p><b>Asset allocation</b></p> <p>Cash &amp; loans ●</p> <p>IG corp bonds ●</p> <p>Structured &amp; risk assets<sup>1</sup> ●</p> <p><b>Performance measurement</b></p> <p>Statutory ✓</p> <p>US GAAP ✗</p> <p>Embedded Value ✗</p> <p>✓ Primary economic lens used to evaluate financial performance</p> <p><b>Financial strength</b></p> <p>Target surplus <b>300% - 450%</b> RBC</p>
<p><b>Competitive landscape</b></p> <p><b>Competitive advantages</b></p> <p>Rates / pricing ★★</p> <p>Financial strength ★★</p> <p>Company reputation ★★</p> <p>Brand recognition ★</p> <p>Affiliation</p> <p>★ Number of stars represents strategic importance</p>	<p><b>Product</b></p> <p><b>Product design</b> Simple → Complex</p> <p><b>Profit targets</b> 7% - 10% IRR</p> <p><b>Underwriting</b></p> <p>Accelerated ●</p> <p>Instant approval ●</p>	

<sup>1</sup> Structured assets (e.g., CLO, CMBS, RMBS, ABS), high yield, traditional risky assets (e.g., real estate, equities) other risky assets (e.g., alternative, private equity, hedge funds, venture capital, debt financing)  
 Source: Public information and recent Oliver Wyman market surveys with 60 participants covering a majority the retail and institutional insurance markets in the US

# INSURER ARCHETYPES


## 3 Large public

General	New business initiatives	Finance, risk, capital
<p><b>Overview</b></p> <p><b>Ownership</b> Public</p> <p><b>Primary goal</b> Growth</p> <p><b>Examples</b></p> 	<p><b>Distribution</b></p> <p><b>Footprint</b> National</p> <p><b>LOB</b> All</p> <p><b>Channel mix</b></p>  <ul style="list-style-type: none"> <li>Direct</li> <li>Independent</li> <li>Career</li> </ul>	<p><b>Insurance risk appetite</b></p> <p>Mortality </p> <p>Morbidity </p> <p>Longevity </p> <p>Lapse </p> <p><b>Asset allocation</b></p> <p>Cash &amp; loans </p> <p>IG corp bonds </p> <p>Structured &amp; risk assets<sup>1</sup> </p>
<p><b>Competitive landscape</b></p> <p><b>Competitive advantages</b></p> <p>Rates / pricing </p> <p>Financial strength </p> <p>Company reputation </p> <p>Brand recognition </p> <p>Affiliation</p> <p><small>★ Number of stars represents strategic importance</small></p>	<p><b>Product</b></p> <p><b>Product design</b> </p> <p><b>Profit targets</b> <b>8% - 12%</b> IRR</p> <p><b>Underwriting</b></p> <p>Accelerated </p> <p>Instant approval </p>	<p><b>Performance measurement</b></p> <p>Statutory ✗</p> <p>US GAAP ✓</p> <p>Embedded Value ✗</p> <p><small>✓ Primary economic lens used to evaluate financial performance</small></p> <p><b>Financial strength</b></p> <p><b>Target surplus</b> <b>250% - 400%</b> RBC</p>

<sup>1</sup> Structured assets (e.g., CLO, CMBS, RMBS, ABS), high yield, traditional risky assets (e.g., real estate, equities) other risky assets (e.g., alternative, private equity, hedge funds, venture capital, debt financing)  
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# INSURER ARCHETYPES

## 4 Mid-sized niche

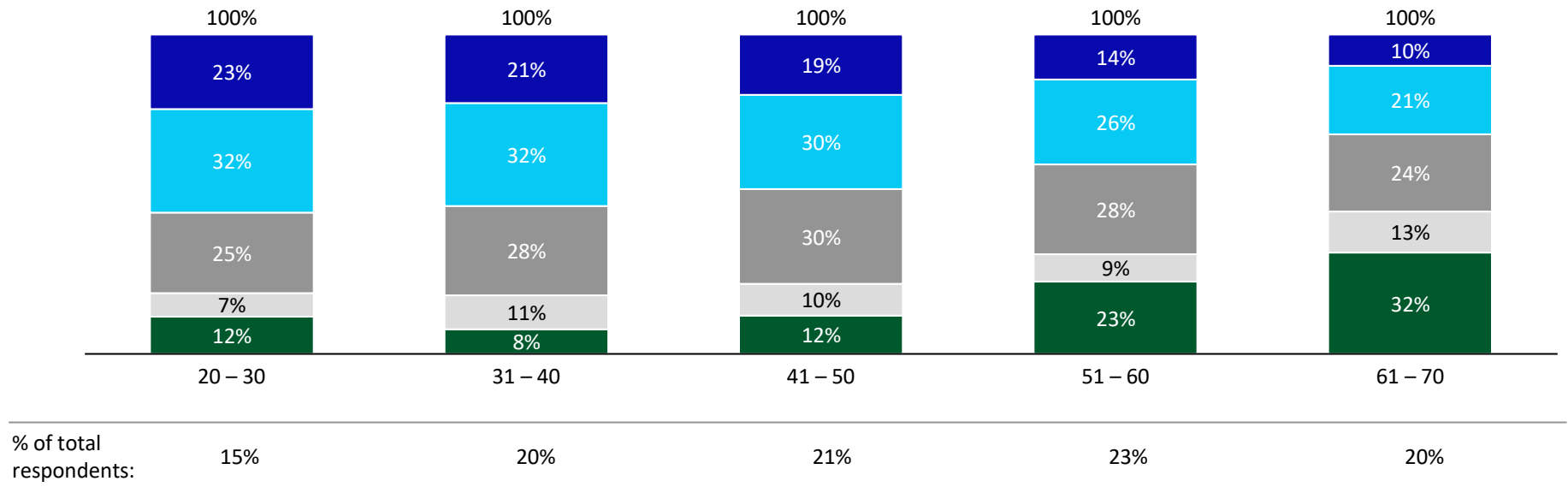
General	New business initiatives	Finance, risk, capital
<p><b>Overview</b></p> <p><b>Ownership</b> Varies</p> <p><b>Primary goal</b> Varies</p> <p><b>Examples</b></p> 	<p><b>Distribution</b></p> <p><b>Footprint</b> Large regional</p> <p><b>LOB</b> Isolated</p> <p><b>Donut Chart:</b></p> <ul style="list-style-type: none"> <li>Direct: 10%</li> <li>Independent: 70%</li> <li>Career: 20%</li> </ul>	<p><b>Insurance risk appetite</b></p> <p>Mortality  Morbidity </p> <p>Longevity  Lapse </p> <p><b>Legend:</b> Larger shaded portion corresponds to more appetite</p> <p><b>Asset allocation</b></p> <p>Cash &amp; loans </p> <p>IG corp bonds </p> <p>Structured &amp; risk assets<sup>1</sup> </p> <p><b>Performance measurement</b></p> <p>Statutory ✓</p> <p>US GAAP ✓</p> <p>Embedded Value ✓</p> <p>✓ Primary economic lens used to evaluate financial performance</p> <p><b>Financial strength</b></p> <p>Target surplus <b>300% - 500%</b> <small>RBC</small></p>
<p><b>Competitive landscape</b></p> <p><b>Competitive advantages</b></p> <p>Rates / pricing </p> <p>Financial strength </p> <p>Company reputation </p> <p>Brand recognition </p> <p>Affiliation </p> <p><b>Legend:</b> Number of stars represents strategic importance</p>	<p><b>Product</b></p> <p><b>Product design</b>  Simple Complex</p> <p><b>Profit targets</b> <b>8% - 15%</b> <small>IRR</small></p> <p><b>Underwriting</b></p> <p>Accelerated </p> <p>Instant approval </p>	

<sup>1</sup> Structured assets (e.g., CLO, CMBS, RMBS, ABS), high yield, traditional risky assets (e.g., real estate, equities) other risky assets (e.g., alternative, private equity, hedge funds, venture capital, debt financing)  
 Source: Public information and recent Oliver Wyman market surveys with 60 participants covering a majority the retail and institutional insurance markets in the US

# DEEP-DIVE – GROWING ACCEPTANCE OF DIGITAL (1 OF 2)

Although digital channels have grown in popularity, most consumers still prefer to engage with a human at some point during their purchase

**% of respondents indicating a preference on how they'd like to buy life insurance if needed in the future (n = 2,811)**  
By age bucket



- Buy it online and avoid personal interactions
- Mostly online, but with a person available to answer questions
- Do my initial research online but work with an expert/advisor to finalize everything
- Work with an expert/advisor first, but also shop around online
- Work with an expert/advisor throughout the process

Source: Oliver Wyman life insurance survey (n = 2,811), Oliver Wyman analysis

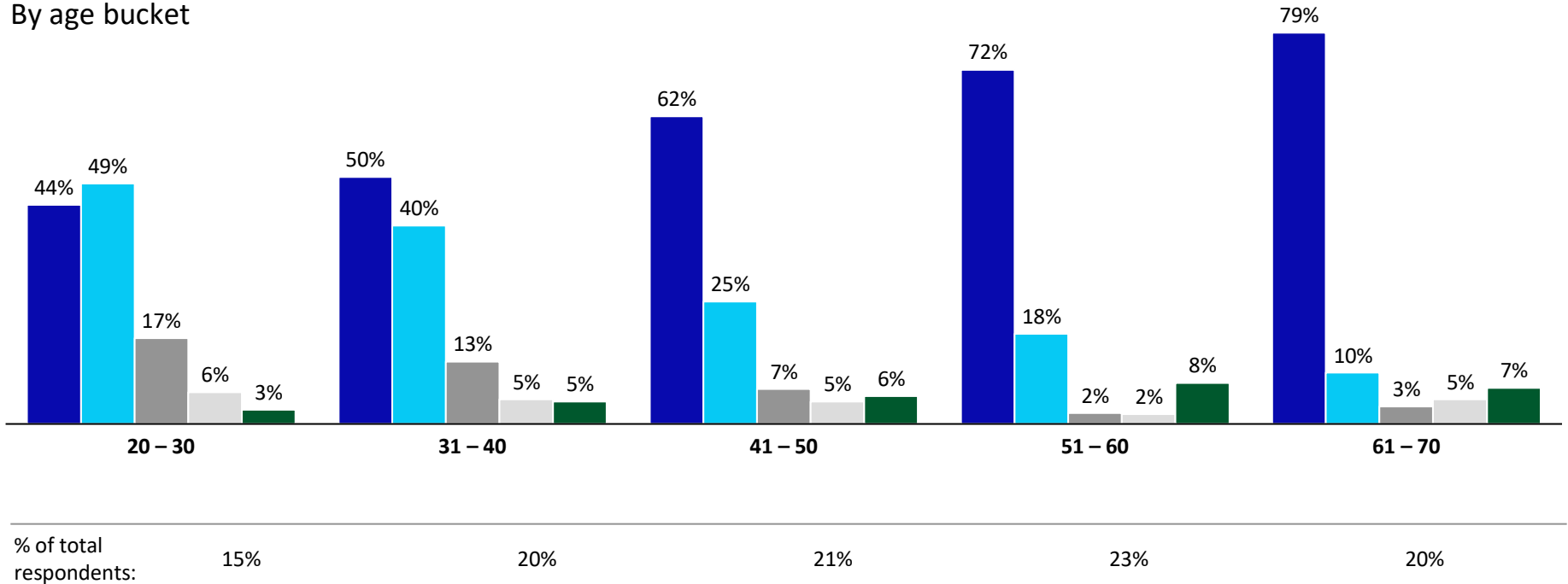


## DEEP-DIVE – GROWING ACCEPTANCE OF DIGITAL (2 OF 2)

The online trend is expected to pick up further over time as a substantial share of young policyholders tend to purchase their life insurance online, either through carriers or aggregators

### % of buyers using a given channel in purchasing individual life insurance (n = 2,811)

By age bucket



- Life insurance agent
- Online - directly from insurer website
- Online - online marketplace (e.g. SelectQuote)
- Bank
- Other

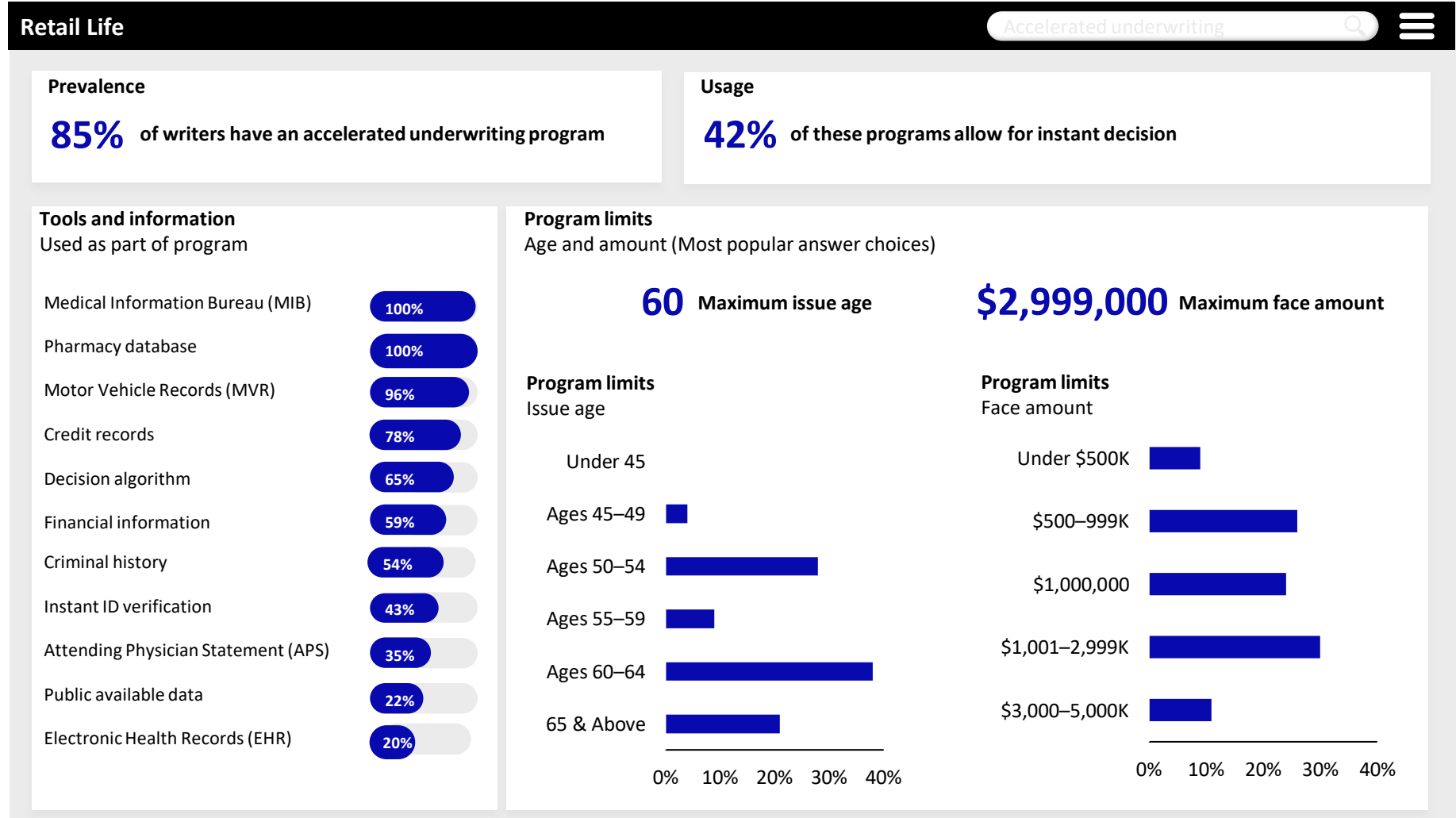
Note: survey data reflects individual life insurance (i.e. not limited to term life)

Source: Oliver Wyman life insurance survey (n = 2,811), Oliver Wyman analysis

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# ACCELERATED UNDERWRITING

Program prevalence and components



Source: Recent Oliver Wyman market surveys with 60 participants covering a majority the retail and institutional insurance markets in the US

# TERM PROFITABILITY AND PRICING METHODOLOGY

Profitability and pricing methodology

Term (46 writers)
Pricing methodology & assumptions

### Average profitability (most prevalent measure)

**9%** Internal Rate of Return (IRR)

Primary profit measure

- Internal rate of return (IRR)
- Liability cost of funds
- Loss Ratio
- Profit margin (% of Asset)
- Profit margin (% of Premium)
- Return on asset (ROA)
- Return on equity (ROE)
- Other

### Capitalization

Primary measure and target (Most popular answer choice)

**348%** Risk Based Capital (RBC)

Primary measure (RBC)

Target (% CAL RBC)

300% & Under	22%
301–350%	39%
351–400%	31%
401% and Over	8%

### Impact of reinsurance

**50%** view reinsurance as a benefit among applicable use cases (83% reflecting reinsurance in pricing)

- YRT & Excess
- External offshore
- Internal offshore
- Financial reinsurance
- Other

### Average portfolio composition

- Investment grade bonds
- Cash & other loans
- Structured & risky assets<sup>1</sup>

### Expense allocation method

- Fully allocated
- Projected fully allocated
- Marginal
- Other

### Use of pricing margins

Mortality

Lapse

■ Yes ■ No

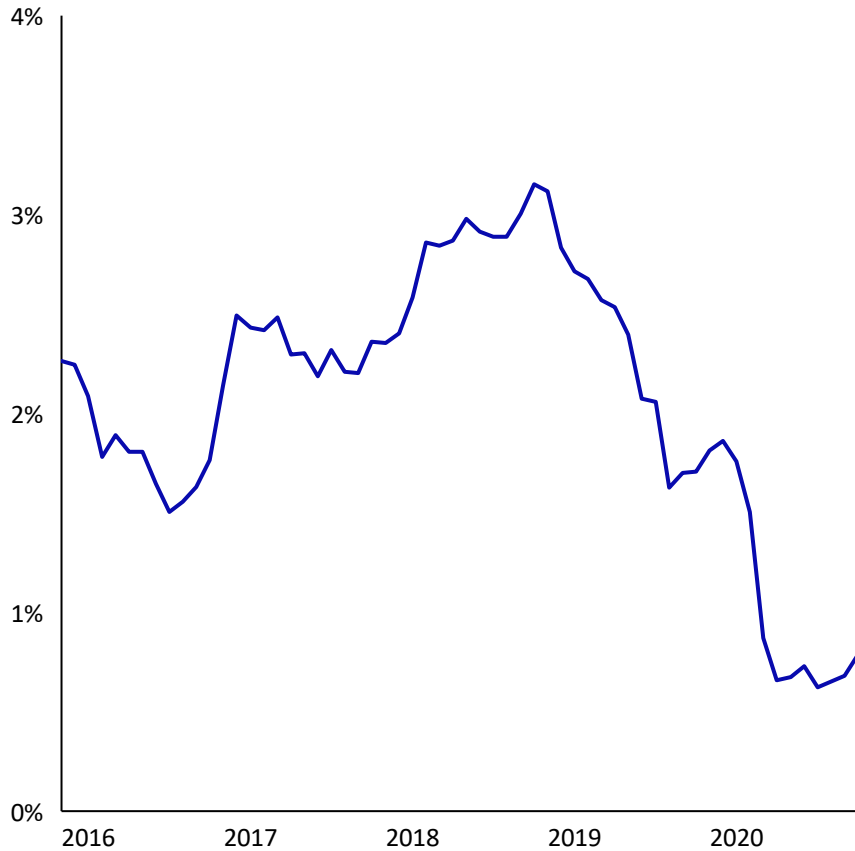
<sup>1</sup>Structured assets (e.g., CLO, CMBS, RMBS, ABS), high yield, traditional risky assets (e.g., real estate, equities) other risky assets (e.g., alternative, private equity, hedge funds, venture capital, debt financing)

# ECONOMIC CONDITIONS ARE VOLATILE

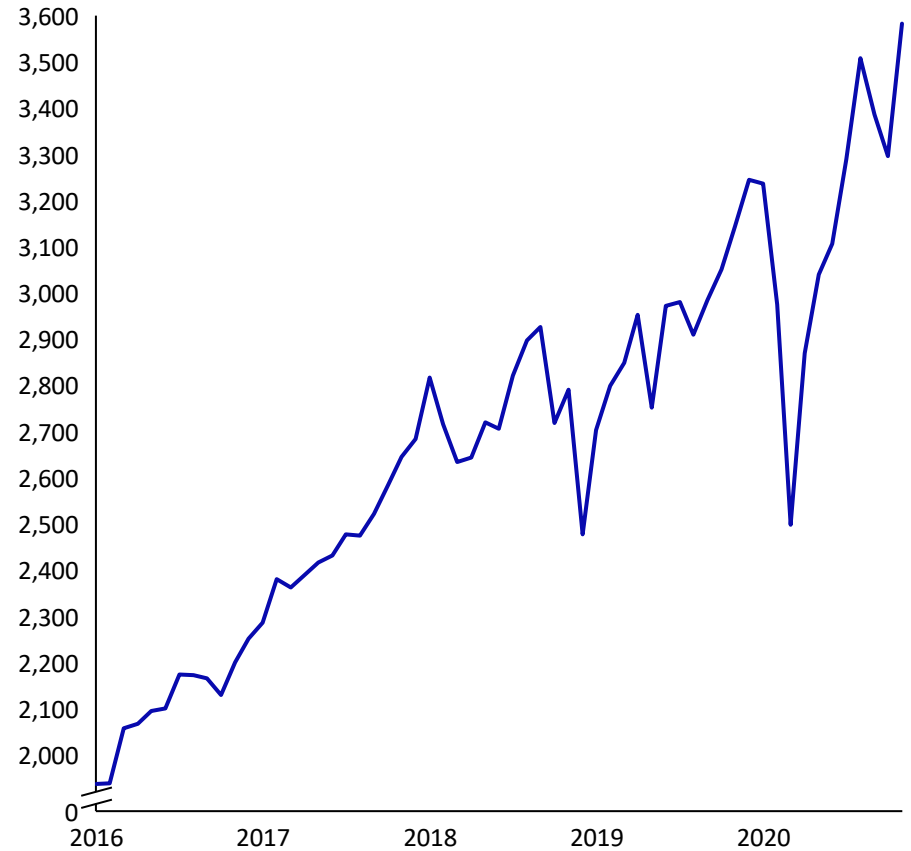
Interest rates have been steadily declining since the end of 2018; equity markets have been performing well despite significant dips

## Yield curve and equity returns

### 10-Year Treasury Rates



### S&P 500 Index Value



## PROFITABILITY PERFORMANCE RELATIVE TO TARGET

Annuity and UL writers report better performance in 2021 relative to 2020. Modest (1%) decreases in profit targets were observed for indexed annuities, indexed life and variable life

### Summary of retail product profitability relative to targets

	2021				2020				Change (2021 - 2020) <sup>1</sup>			
	IRR	Performance			IRR	Performance			IRR	Performance		
	Average	Below	Meet	Exceed	Average	Below	Meet	Exceed	Average	Below	Meet	Exceed
Fixed annuities									0%	-12%	8%	4%
Indexed annuities									-1%	-15%	7%	8%
Variable annuities									0%	-14%	2%	12%
Indexed UL									-1%	-14%	20%	-6%
UL									0%	-13%	5%	8%
Variable UL									-1%	-9%	6%	3%
Term									0%	0%	-5%	5%
Whole life									0%	4%	-1%	-3%
LTC & disability									0%	1%	-2%	1%

<sup>1</sup> Color key: Green for favorable pricing trend and red for unfavorable

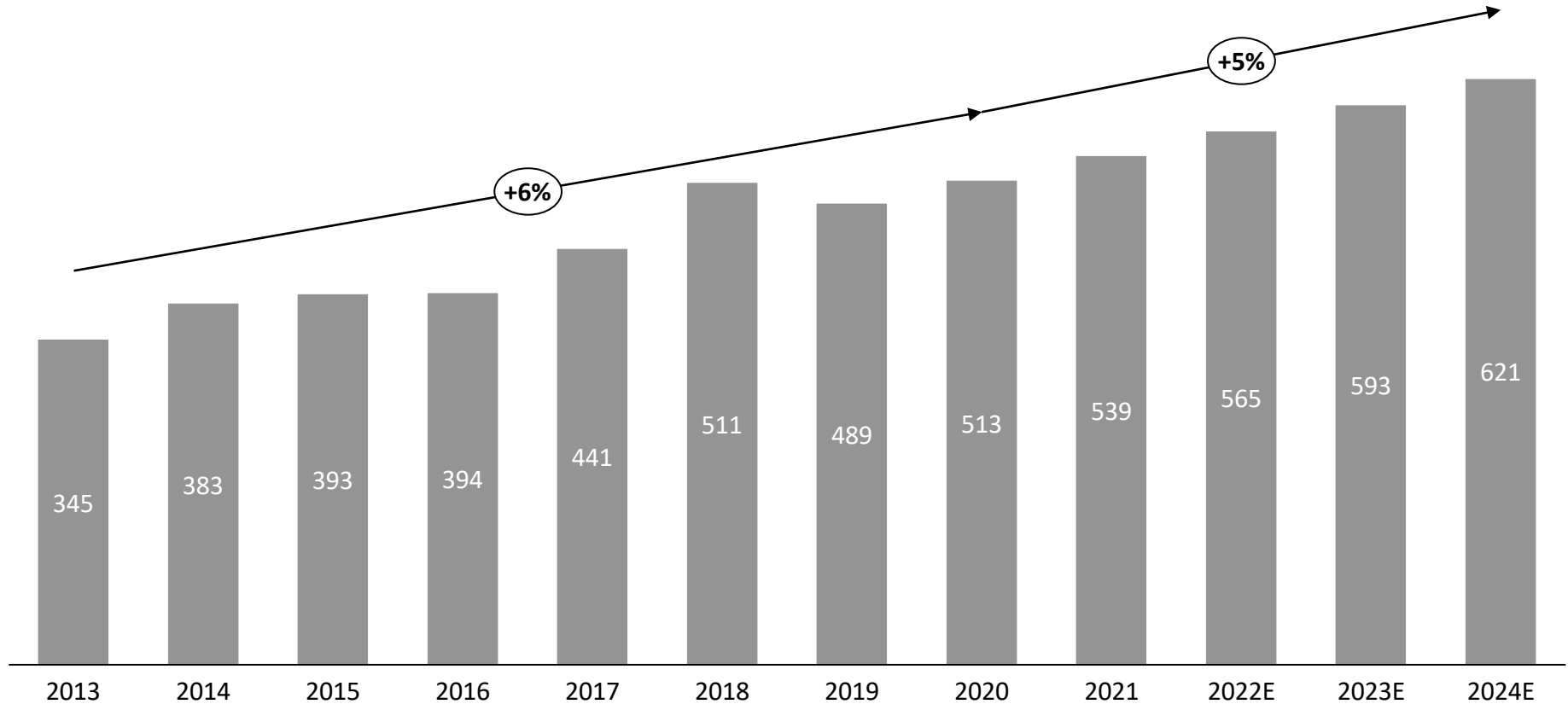
Source: Recent Oliver Wyman market surveys with 60 participants covering a majority the retail and institutional insurance markets in the US

## DEEP-DIVE – POPULATION DYNAMICS

The overall dynamic of an aging population is driving an increase in roll-overs from Defined Contribution plans to Individual Retirement Accounts ('IRAs')

### Roll-overs from Defined Contribution plan to IRA

\$ BN; 2009 – 2024E



# ANNUITIES

Structured deferred products represent the most significant annuity innovation of recent years, which fills the gap between FIAs and VAs in terms of risk spectrum

Annuity payout structure		
Product	Payout structure	Description
<b>Fixed annuity (FA)</b>		<ul style="list-style-type: none"> <li>• Fixed upside (no equity market participation)</li> <li>• No downside</li> </ul>
<b>Fixed indexed annuity (FIA)</b>		<ul style="list-style-type: none"> <li>• Limited equity market participation</li> <li>• No downside</li> </ul>
<b>Structured annuity</b>		<ul style="list-style-type: none"> <li>• Additional equity market participation over FIA</li> <li>• Downside protection – either up to a floor or a buffer with insurer taking the first portion of losses</li> </ul>
<b>Variable annuity</b>		<ul style="list-style-type: none"> <li>• Full market participation</li> <li>• No downside protection</li> </ul>

# STRUCTURED ANNUITY

Profitability and pricing methodology

Structured annuity (11 writers)
Pricing methodology & assumptions
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### Average profitability (most prevalent measure)

**11%** Internal Rate of Return (IRR)

**Primary profit measure**

- Internal rate of return (IRR)
- Liability cost of funds
- Loss Ratio
- Profit margin (% of Asset)
- Profit margin (% of Premium)
- Return on asset (ROA)
- Return on equity (ROE)
- Other

### Capitalization

Primary measure and target (Most popular answer choice)

**366%** Risk Based Capital (RBC)

Primary measure (RBC)	Target (% CAL RBC)
	300% & Under <span style="display: inline-block; width: 100px; height: 10px; background-color: #ccc; border-radius: 5px;"></span> 0%
	301–350% <span style="display: inline-block; width: 100px; height: 10px; background-color: #4CAF50; border-radius: 5px;"></span> 40%
	351–400% <span style="display: inline-block; width: 100px; height: 10px; background-color: #4CAF50; border-radius: 5px;"></span> 60%
	401% and Over <span style="display: inline-block; width: 100px; height: 10px; background-color: #ccc; border-radius: 5px;"></span> 0%

### Product performance

**20% Short of expectations**

**50% Meeting expectations**

**30% Exceeding expectations**

**Impact of reinsurance: Only 8% of reported IVA pricing use cases reflected reinsurance, with mixed impacts on pricing**

#### Average portfolio composition

- Investment grade bonds
- Cash & other loans
- Structured & risky assets<sup>1</sup>

#### Expense allocation method

- Fully allocated
- Projected fully allocated
- Marginal
- Other

#### Use of pricing margins

Mortality

Lapse

■ Yes ■ No

<sup>1</sup>Structured assets (e.g., CLO, CMBS, RMBS, ABS), high yield, traditional risky assets (e.g., real estate, equities) other risky assets (e.g., alternative, private equity, hedge funds, venture capital, debt financing)

Source: Recent Oliver Wyman market surveys with 60 participants covering a majority the retail and institutional insurance markets in the US

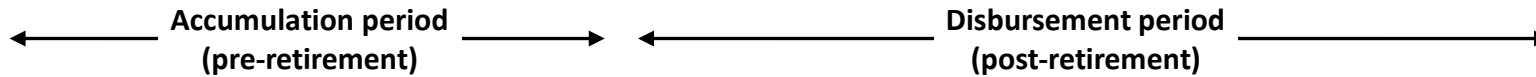


# LIFETIME INCOME IN RETIREMENT (LIRP)

Despite being funded with after-tax contributions, LIRP illustrations compete with traditional retirement funding concepts by optimizing the tax-favored treatment of life insurance policies.

Age	IRR (death)	Death benefit
65	11%	\$900k
75	8%	\$380k
85	8%	\$50k

Age	IRR (surrender)	Surrender benefit
65	6%	\$460k
75	7%	\$760k
85	9%	\$1,250k



**Policy cash flow**

Post-tax contributions made up to IRS limits<sup>1</sup>

**Policy cash flow**

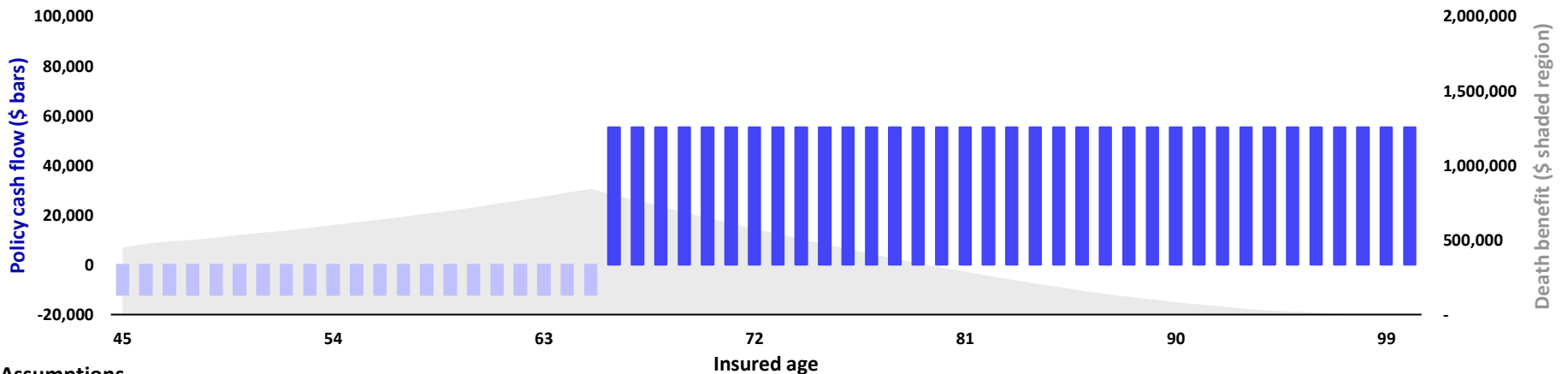
Tax-exempt withdrawals made starting at age 65 (IRS penalties of 10% apply for withdrawals in excess of the basis before age 59 ½)

**Death benefit**

Increasing death benefit option used to maximize allowable contributions

**Death benefit**

Death benefit option changed to level to minimize cost of insurance charges



**Assumptions**

<sup>1</sup> Maximum of Guideline Level Premium (“GLP”) and TAMRA 7-Pay Premium (“7702”)

<sup>2</sup> Simplified example assumes charges equal to 1% of account value and credits equal to 6%

# INDEXED UNIVERSAL LIFE

Profitability and pricing methodology

Indexed Universal Life (29 writers)
Pricing methodology & assumptions
☰

### Average profitability (most prevalent measure)

**10%** Internal Rate of Return (IRR)

Primary profit measure

- Internal rate of return (IRR)
- Liability cost of funds
- Loss Ratio
- Profit margin (% of Asset)
- Profit margin (% of Premium)
- Return on asset (ROA)
- Return on equity (ROE)
- Other

### Capitalization

Primary measure and target (Most popular answer choice)

**360%** Risk Based Capital (RBC)

Primary measure (RBC)	Target (% CAL RBC)								
<p>90%</p>	<table border="0"> <tr> <td>300% &amp; Under</td> <td style="text-align: right;">8%</td> </tr> <tr> <td>301–350%</td> <td style="text-align: right;">42%</td> </tr> <tr> <td>351–400%</td> <td style="text-align: right;">46%</td> </tr> <tr> <td>401% and Over</td> <td style="text-align: right;">4%</td> </tr> </table>	300% & Under	8%	301–350%	42%	351–400%	46%	401% and Over	4%
300% & Under	8%								
301–350%	42%								
351–400%	46%								
401% and Over	4%								

### Impact of reinsurance

**38%** view reinsurance as a benefit among applicable use cases (94% reflecting reinsurance in pricing)

### Average portfolio composition

- Investment grade bonds
- Cash & other loans
- Structured & risky assets<sup>1</sup>

### Expense allocation method

- Fully allocated
- Projected fully allocated
- Marginal
- Other

### Use of pricing margins

<p>93%</p> <p>Mortality</p>	<p>96%</p> <p>Lapse</p>
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■ Yes ■ No

<sup>1</sup>Structured assets (e.g., CLO, CMBS, RMBS, ABS), high yield, traditional risky assets (e.g., real estate, equities) other risky assets (e.g., alternative, private equity, hedge funds, venture capital, debt financing)

Source: Recent Oliver Wyman market surveys with 60 participants covering a majority the retail and institutional insurance markets in the US

# KEY TAKEAWAYS

## Takeaway

- 1** Insurer motivations influence the method of distribution and risk tolerance; both of which play key roles in the new business strategy

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- 2** Insurers are moving toward automation and digitization as a way to reduce processing times, reduce expenses and replace human interaction with self-service options where it is desired from their customers

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- 3** Recent economic conditions have pushed customers and insurers alike toward insurance solutions with equity market participation

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- 4** Shifting demographics have pushed life and annuity writers alike to create solutions for retirement income

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