



## Life Market Overview

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### Key issues impacting life market

- Sustained low interest rates
- Regulatory outlook on AG38
- Sales still somewhat sluggish
- Market remains very competitive on rate/guarantees

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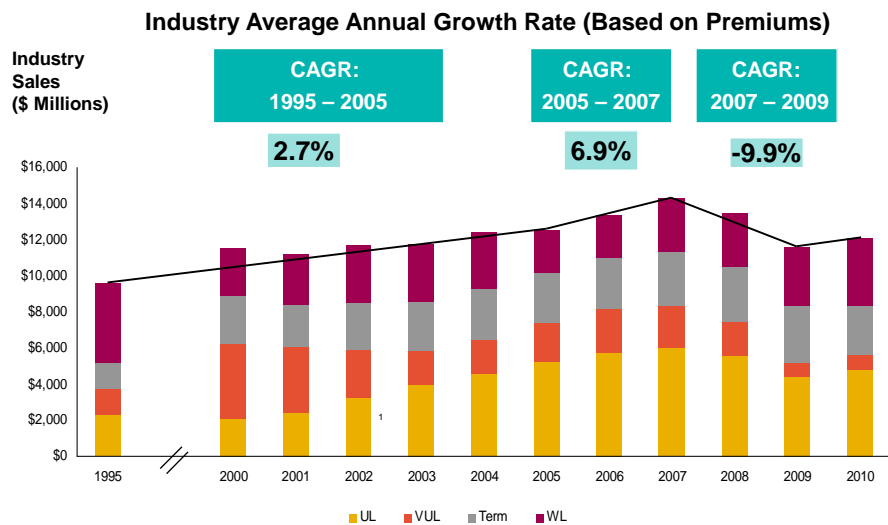
## After a period of steady growth, life insurance sales have dropped significantly since 2007, due primarily to the global financial crisis

- In addition to decline in consumers' purchasing power, a key driver of the drop was lack of access to premium financing which drove institutionally motivated sales in past
- Sales in 2010 and 2011 have recovered somewhat, with each year showing an annual increase of 4% over the prior year
- 2012 1Q YTD life sales up 3% over prior year
  - Biggest driver is whole life insurance – up 10%

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## Sale Distribution by Product Type



<sup>1</sup> Includes indexed UL

Source: LIMRA International Market Trends. Based on first-year (weighted) premium; 100% of planned ongoing premium plus 10% of single premium.

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## Sales Trends by Product Category

- ULSG accounted for nearly 40% of recent UL sales
  - Drop of 7% from 2010 on higher prices and fewer offerings
- Some term sales are now captured in UL category
  - Special UL product designs provide low-cost, term-like protection with less stringent reserve requirements
- Whole life popular recently due to career agency push, guarantees
- VUL has been in the doldrums, but experienced a bit of a resurgence in 2011 – up 22% over 2010
- Indexed UL premium jumped 38% in 2011

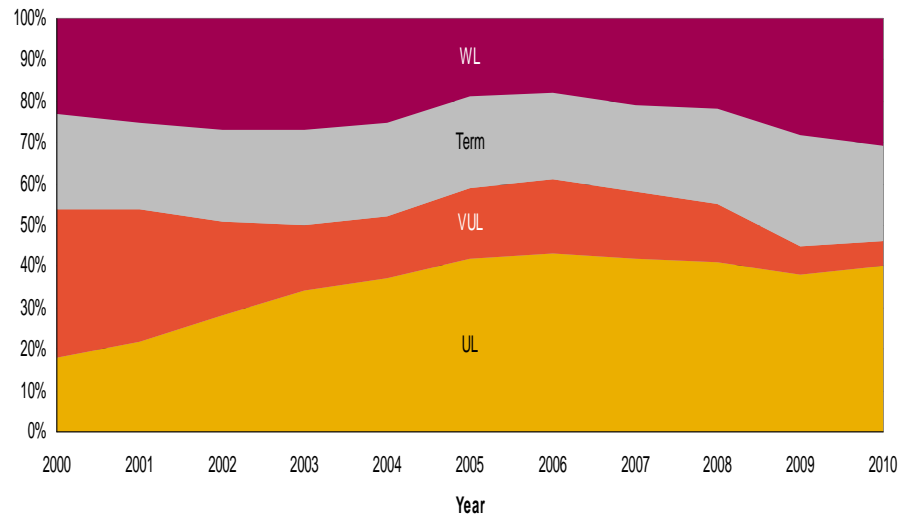
Source: LIMRA's Market Trends Report.

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## Individual Life Annualized Premiums Market Share by Product Type



Source: LIMRA's Market Trends Report.

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## Pricing competitive and profitable ULSG products is challenging in the current environment

- Continued low interest rate environment
- Very low emerging lapse experience on some blocks
- Higher third-party reinsurance rates
- Additionally, many of the ULSG products sold over the last several years reflected the impact of excess statutory reserve financing transactions in their pricing
  - While the market for excess statutory reserves financing has returned to some extent, financing is much more expensive today
    - Cost continues to be fairly high relative to 3-4 years ago
    - The tenors available are shorter than what was available 3-4 years ago
    - Transactions may involve restrictive provisions
    - Significant execution risk

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## In 2011, there have been several targeted price increases and/or companies dropping out of the ULSG market

### Top 20 Single Life Non-Indexed ULSG Premiums Male Best Nonsmoker 65, \$1 Million Face Amount

Statistic	Jul-08	Jul-09	Jul-10	Jan-11	Jul-11	Jan-12
25th Percentile	18,695	18,728	18,867	18,863	18,967	18,985
Median	18,908	18,895	19,180	19,098	19,403	19,523
75th Percentile	19,093	19,088	19,620	19,753	19,987	20,120
Mean	18,817	18,848	19,247	19,348	19,453	19,679
% change						
25th Percentile		0.2	0.7	(0.0)	0.5	0.1
Median		(0.1)	1.5	(0.4)	1.6	0.6
75th Percentile		(0.0)	2.8	0.7	1.2	0.7
Mean		0.2	2.1	0.5	0.5	1.2

Source: Blease Research's Full Disclosure Reports, Towers Watson analysis

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## While certain companies have elected to scale back in this market, others have elected to continue to meet the ULSG consumer need

- Mechanisms companies have used to scale back
  - Eliminate the sale of the most capital intensive version of the product
  - Increase premium rates to cut production
  - Reduce ULSG guarantee period
- Other companies have taken a closer look at the valuation requirements
  - X-factors
  - Use of permitted lapse rates
  - Use of Preferred 2001 CSO tables
- Other companies have elected a re-design of their ULSG product to be more reserve efficient

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## Today a majority of competitive ULSG writers' products have multi-fund shadow fund designs or have multiple sets of shadow fund COI rates

Male Best Nonsmoker, Issue Age 65, \$1 Million Face Amount

Rank	Company	Product	Multi?	NLG Premium
1	Midland National	Essential Guaranteed	Y	18,278
2	Lincoln National	Lincoln LifeGuarantee	Y	18,724
3	Nationwide	YourLife No-Lapse Guarantee	N	18,738
4	Banner	Life Choice	Y	18,742
5	American General	AG Secure Lifetime GUL	Y	18,783
6	Principal	UL Protector III	*	18,890
7	Penn Mutual	Guaranteed Protection UL	N	18,945
8	Protective	Centennial G II F/G	Y	18,988
9	ING	Guaranteed Death Benefit UL II	*	19,040
10	The Hartford	Hartford Bicentennial Freedom	Y	19,045
12	MetLife	Guarantee Advantage	N	19,218
18	Mass Mutual	UL Guard 2	N	20,495
25	New York Life	Custom UL Guarantee	*	24,931

Source: January 2011 Full Disclosure Report by Blease Research, Towers Watson analysis

\* Contains multiple sets of COI rates within a single shadow fund

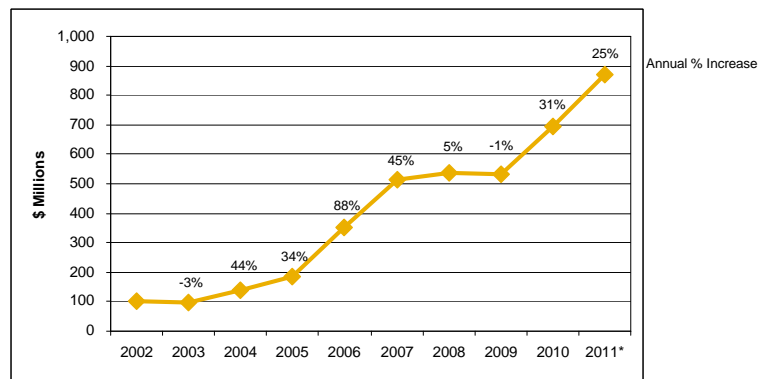
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## Other product related issues

- Indexed UL continues to gain some traction
  - Like the indexed annuity space, IUL sales have held up well through the recent challenging economic period
    - Several new carriers have recently entered the market and others are currently working on new products
  - Some carriers have had very good success with their first product, even without the bells and whistles offered by the long-time leading carriers
  - This indicates the indexed concept is catching on well with distributors
  - Annual point-to-point caps generally 10-14%; illustrated rates 6%-9%
    - Both appealing relative to fixed UL

## IUL sales have shown significant growth in the last decade



\*Annualized 2011 Sales through 3Q

IUL is still a small market relative to UL (approx 1:5) but may have surpassed VUL in annual premium

Source: AnnuitySpecs.com's Indexed Sales & Market Report, 3<sup>rd</sup> Quarter 2011

## Indexed UL products are beginning to compete more strongly in the ULSG marketplace

### Male Best Nonsmoker 65, \$1 Million Face Amount

Company Name	Product Name	Annual Premium
Aviva Life	Advantage Builder IV	18,700
Midland National Life	XL-DB2	19,465
ING "Security Life of Denver"	ING IUL-GDB	20,505
Non-Indexed ULSG Top 20 Single Life ULSG Premium Statistics		
Min		18,524
25th Percentile		18,985
Median		19,523
75th Percentile		20,120
Max		21,507

Source: Blease Research's Full Disclosure Reports (1/1/2012), Towers Watson analysis

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## The trend toward multi-fund shadow fund designs and the emergence of Term UL has drawn regulatory scrutiny on reserve requirements

- The NAIC formed a commissioner level joint working group to address the issues surrounding Actuarial Guideline 38
- Draft Framework developed and exposed for comment
  - Proposes a bifurcated approach (i.e., one approach for in-force business and another for prospective business)
  - Several critical outstanding issues documented in the Appendix of the Draft Framework

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**Term UL was first introduced by Genworth in late 2009 and has been designed to compete with level term life insurance**

**Male Standard No Nicotine Use, Issue Age 35, \$250,000 Face Amount  
Level Pay 20-year Guarantee Premium**

Rank	Company Name	Product Name	Annual Premium
1	Savings Bank Life	T-20/20	302.50
2	Protective Life	Secure-T - 20 Year No Lapse UL	323.84
3	Cincinnati Life	LifeHorizons Termsetter 20	325.00
4	Genworth	Colony Term UL 20 (200K+)	330.22
5	American General	Select-a-Term - 20 Year	331.50
6	Transamerica	TransTerm UL 20	337.50
6	Hartford Life	Bicentennial Term 20	337.50
7	TIAA-CREF	20-year Level Term	338.00
8	Banner Life	OPTerm 20	340.00
9	ING	TermSmart 20	340.50

Source: Term4Sale.com as of 05/09/2011

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**The Joint Working Group developed a three-phase approach to the decision process**

Phase 1	Phase 2	Phase 3
<ul style="list-style-type: none"> <li>• Adopt the Bifurcated Approach in concept</li> <li>• Retain one or more independent consulting actuaries to advise the Joint Working Group</li> </ul>	<ul style="list-style-type: none"> <li>• Joint Working Group to develop and present recommendations to the NAIC with respect to the outstanding issues                             <ul style="list-style-type: none"> <li>• Effective date</li> <li>• Scope of products and companies covered by the evaluations</li> <li>• Assumptions and methodologies to use in the evaluations</li> <li>• Final formulaic approach to AG38 for Prospective Business</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Finalize the Framework</li> <li>• Ensure compliance with state laws</li> </ul>

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**The Phase 1 decision to adopt the BIFURCATED APPROACH was passed by the working group in February 2012**



- Treated as a closed block
- Subject to an actuarial evaluation using stand-alone asset adequacy testing
- Additional reserves required if analysis determines reserves are deficient

- Reserved for using the formulaic approach consistent with the LATF interpretation of AG38
- All policies issued on or after the effective date of Principles Based Reserves (PBR) reserved for using the PBR methodology

**There are numerous outstanding issues to be addressed before resolution can be achieved**

- Who should perform the actuarial evaluations
  - Appointed actuary, regulatory actuary, consulting actuary, or a combination thereof
- How the methodologies and assumptions should be determined
  - Prescribed methodologies and assumptions, or more flexibility to apply company experience and actuarial judgment
- Retroactivity of Principles Based Reserves (PBR)
- Effective date

Interested parties will have the opportunity to provide input and/or ask questions during Phase II

## Other product related issues

- Life/LTC combination products are gaining popularity
  - 56% growth rate in 2011
    - Third consecutive year of double digit growth
  - \$2.2 billion of premium in 2011 represents approximately 13% of all individual new premium
- Base product is usually UL, but whole life and VUL are also used
- There is also continued growth in accelerated LTC products

## Other product related issues – Hybrid Term

- Blended coverage providing an initial All Cause Death Benefit and Accidental Death Benefit
  - Initial blend of coverage is issued through a non-medical underwriting process.
- Optional to undergo medical underwriting within the first six months of the policy's issue date to potentially qualify for an improved blend of policy benefits.
- All Cause Death Benefit is renewable on a level premium basis through the initial term period, and on an annual renewable term (ART) basis up to age 95.
- The Accidental Death Benefit expires after at the end of the initial period

## Contact

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