Southeastern Actuaries Conference – 2013 Spring Meeting
Reaching the Middle Market

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Agenda – Reaching the Middle Market

► Simplified Issue: Evolving Product & Market Considerations

► Simplified Issue: Emerging Experience
Evolving SI Product & Market Considerations

Product Design Considerations
- Min / Max Issue Amounts, Ages
- Potential Overlap with Medically-Underwritten Portfolio
- Rider / Conversion Options
- Protection v. Investment Orientation

Marketing Considerations
- Target Market (Who)
  - Niche v. Broad
  - Un- & Under-Served
- Potential for Product / Distribution Conflict
Evolving SI Product & Market Considerations

Pricing Considerations
- Open Market: Risk Mix v. Premium Competitiveness (lower RR out, higher RR in)
- Feedback Loop: Policyholder Persistency, Mortality Deterioration, Premium
- Veracity of “NT” Applicants

Distribution Considerations
- Channel (How)
  - Direct v. Producer
  - Banks v. IMOs v. Brokers v. Agents
- Compensation
- Persistency

Evolving SI Product & Market Considerations

Underwriting Considerations
- Application (Number, Reflex)
- Alternate / Proxy Requirements
- Access to Third-Party Data
- Assessing Applicant Veracity
- SI Underwriting Process
  - Adapt or Develop New
  - Automation
  - Third-Party Services
- Post-Issue Underwriting
  - Recission
  - Contestable Claims
  - Feedback Loop: Underwriting, Experience, Design, Marketing, Pricing, Distribution
### Underwriting Protective Value: Medical v. SI

<table>
<thead>
<tr>
<th>Medical U/W Requirements</th>
<th>Simplified Issue U/W Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application – Parts I/II (Med. History)</td>
<td>Limited Application (Source)</td>
</tr>
<tr>
<td>Exam – Measurements, BP, Part II+</td>
<td></td>
</tr>
<tr>
<td>Tele-Underwriting (App. Part II+)</td>
<td>Tele-Underwriting (Reflex Questions)</td>
</tr>
<tr>
<td>Lab Analysis – Screening, Scoring</td>
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<tr>
<td>MIB Check</td>
<td>MIB Check (Knock-Out)</td>
</tr>
<tr>
<td>Motor Vehicle Report</td>
<td>Motor Vehicle Report (Knock-Out)</td>
</tr>
<tr>
<td>Prescription Check (Veracity)</td>
<td>Prescription Check (Drug Hierarchy)</td>
</tr>
<tr>
<td>Other Requirements (APS, Resting ECG, Inspection Report, Functional / Cognitive Assessments, Treadmill, etc.)</td>
<td>Other Requirements (Identity Check, Credit Check, Predictive Modeling, etc.)</td>
</tr>
<tr>
<td>Sentinel Effect (+) (Apps not Received)</td>
<td>Sentinel Effect (-) (Apps Received)</td>
</tr>
<tr>
<td>Post-Issue U/W (Contestable Claims / Product Feedback Loop)</td>
<td>Post-Issue U/W (APS, Recession, Adjudication of Contestable Claims)</td>
</tr>
</tbody>
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**SI Underwriting eliminates ~10% of Ultimate Simplified Issue Mortality...**

**Medical Underwriting eliminates ~25% of Ultimate Medical Mortality**

...while SI Pricing Mortality exceeds Medical Pricing Mortality by ~80%
Evolving SI Product & Market Considerations

Administrative Considerations
- Claim Adjudication
  - Staffing / Intensity
  - Activity-Driven Expenses

Financial / Valuation Considerations
- SI v. Medically-U/W Mortality
  - XXX X-Factors
- Tracking Emerging Experience (PBA)

Experience Analysis Considerations
- Persistency
- Mortality

Agenda – Reaching the Middle Market

► Simplified Issue: Evolving Product & Market Considerations

► Simplified Issue: Emerging Experience
# Emerging SI Mortality Experience

<table>
<thead>
<tr>
<th></th>
<th>Industry SI Experience</th>
<th>Hannover Re SI Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source</strong></td>
<td>SOA/AAA Industry Experience Study of Products Subject to Limited Underwriting</td>
<td>Inforce treaties</td>
</tr>
<tr>
<td><strong>Companies</strong></td>
<td>33 Companies Submitted SI Data</td>
<td>12 Client Companies (20+ Treaties)</td>
</tr>
<tr>
<td><strong>Underwriting</strong></td>
<td>SI only (excluded data for GI &amp; Pre-Need)</td>
<td>SI only</td>
</tr>
<tr>
<td><strong>Type of business</strong></td>
<td>Range of Product Designs, Target Markets &amp; Distribution Channels</td>
<td>Range of Product Designs, Target Markets &amp; Distribution Channels</td>
</tr>
<tr>
<td><strong>Exposure period</strong></td>
<td>2005-2009</td>
<td>1999-2011</td>
</tr>
<tr>
<td><strong>Exposures</strong></td>
<td>~19 million exposure years ~$500 billion face amount exposed</td>
<td>2 million exposure years ~$200 billion face amount exposed</td>
</tr>
<tr>
<td><strong>Claims</strong></td>
<td>~273,000 claims ~$2.3 billion in death benefits</td>
<td>~4,000 claims ~$300 million in death benefits</td>
</tr>
</tbody>
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**Emerging SI Mortality Experience**

**SI Mortality Experience by Duration**

*Actual v. 2008 VBT Limited Underwriting S&U Expected Mortality*

- **Hannover Exposure**
- **Industry Exposure**
- **Hannover Experience**
- **Industry Experience**

*Source: HANNOVER RE SI EXPERIENCE, PRELIM. SOA/AAA LIMITED UNDERWRITING INDUSTRY SI EXPERIENCE (TOBACCO-SPECIFIC)*

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Emerging SI Mortality Experience

- The target market has a significant impact on SI experience
- We have segmented the Hannover Re SI experience into three target market groups ("Low", "Middle", and "High") based on:
  - Socio-economics of the customers
  - Product purpose (death benefit vs. accumulation)
  - Extent to which product design/distribution features limit anti-selection

Examples of features that limit anti-selection
- Sales tied to a qualifying event (e.g., mortgage term)
- Additional product design features (e.g., return of premium or investment fund performance)
- Sales through captive distribution
- Sales to affinity or other "closed" groups

Summary of Target Market Segments

<table>
<thead>
<tr>
<th>Socio-economics</th>
<th>&quot;Low&quot; Target Market</th>
<th>&quot;Middle&quot; Target Market</th>
<th>&quot;High&quot; Target Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower income /</td>
<td>Mix</td>
<td>Higher income /</td>
<td></td>
</tr>
<tr>
<td>Blue Collar</td>
<td></td>
<td>White Collar</td>
<td></td>
</tr>
<tr>
<td>Product Purpose</td>
<td>Death benefit</td>
<td>Mix</td>
<td></td>
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<tr>
<td>(e.g., term)</td>
<td></td>
<td>Accumulation (e.g.,</td>
<td></td>
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<td></td>
<td></td>
<td>SPUL)</td>
<td></td>
</tr>
<tr>
<td>Features to</td>
<td>None</td>
<td>Some</td>
<td></td>
</tr>
<tr>
<td>Limit Anti-</td>
<td></td>
<td>Significant</td>
<td></td>
</tr>
<tr>
<td>Selection</td>
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Hannover Re SI Experience by Target Market Segment (v. 2008 VBLTUS &U)

- Low Target Market
- Average Target Market
- High Target Market
Emerging SI Lapse Experience

Lapse Experience / Mortality Deterioration

Duration from Issue

- Fully UW 20-Year Level Premium Term Lapse Rate
- Hanover Re SI Lapse Rate
- Fully UW 20-Term Mortality Deterioration
- SI Mortality Deterioration

Emerging SI Lapse Experience

Hannover Re SI A/E Mortality by Duration 1 Lapse Category (vs. 2008 VBT Limited Underwriting S&U)

- "High" Lapse Rate (>30%)
- "Average" Lapse Rate (20% to 30%)
- "Low" Lapse Rate (<20%)

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Reaching the Middle Market

Questions?