

# **PRICING EVOLUTION**

Southeastern Actuaries Conference

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# AGENDA

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**1** Regulatory and economic landscape

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**2** Macro update

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**3** Annuity update

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**4** Life update

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**5** Key takeaways

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# 1

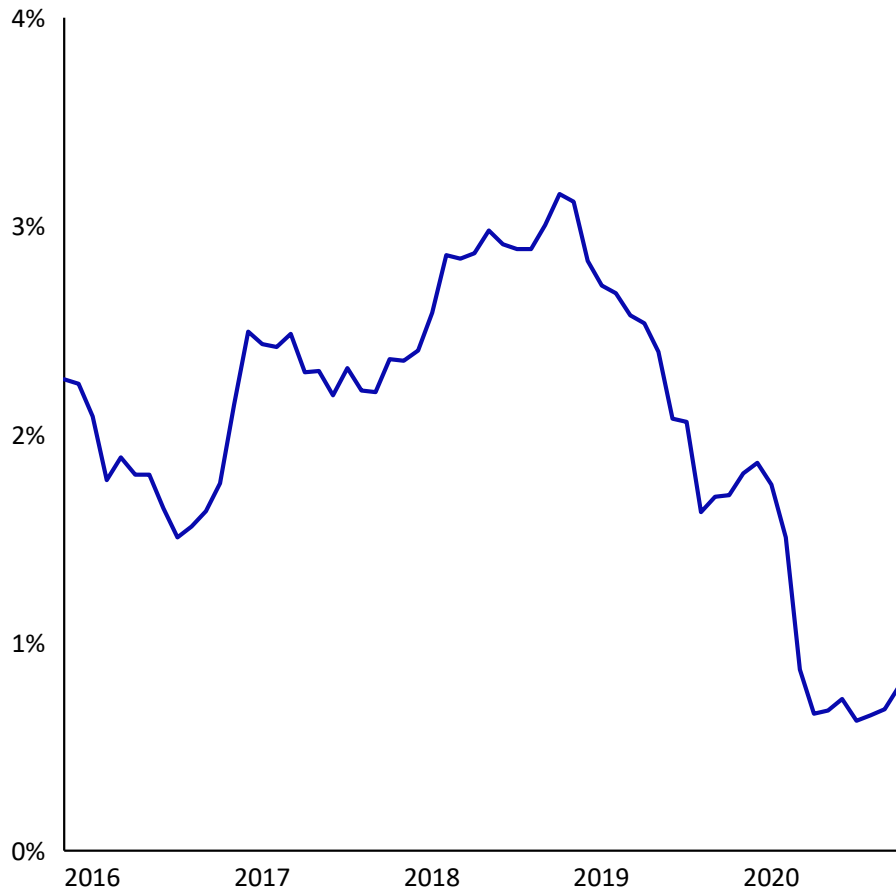
## **REGULATORY AND ECONOMIC LANDSCAPE**

# ECONOMIC CONDITIONS ARE VOLATILE

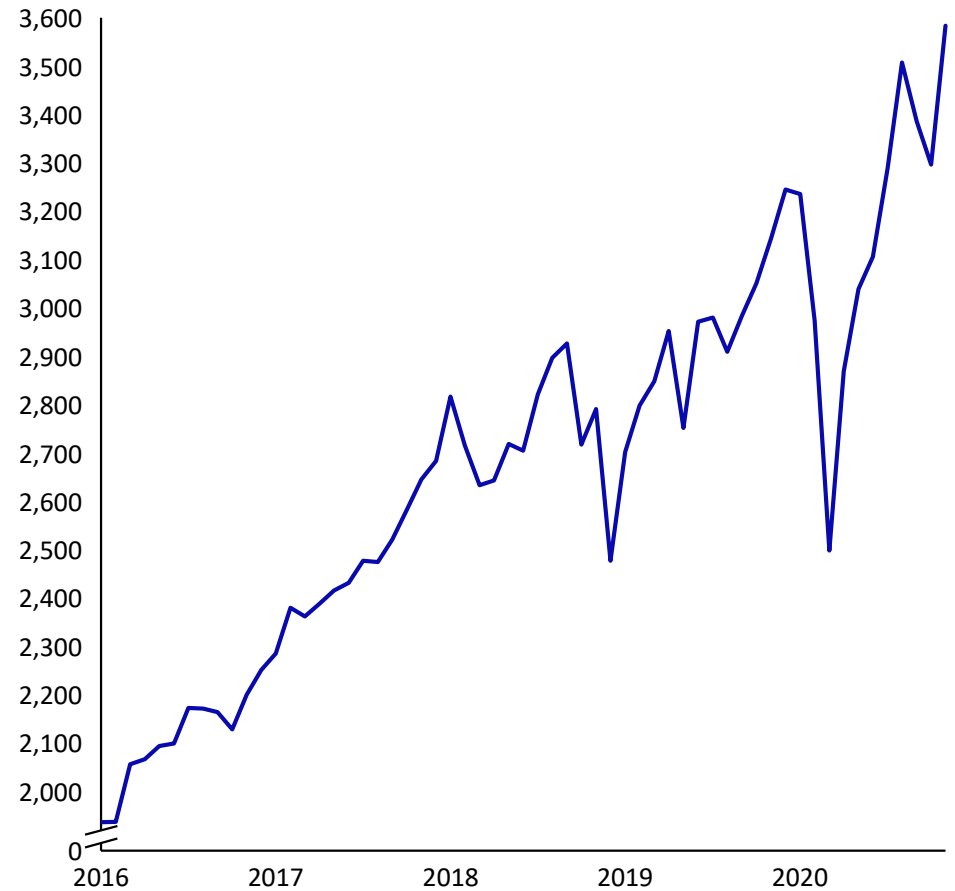
Interest rates have been steadily declining since the end of 2018; equity markets have been performing well despite significant dips

## Yield curve and equity returns

### 10-Year Treasury Rates



### S&P 500 Index Value



# SIGNIFICANT REGULATORY CHANGES ARE HAPPENING

Statutory and GAAP reserving are undergoing significant enhancements

## Regulatory updates

### Scope & timeline



### Key changes



#### GAAP Long Duration Targeted Improvements (LDTI)

- Existing and new business
- Effective date of January 1, 2023 with eight quarters of comparable financials starting January 1, 2021 with an option for early adoption (1/1/2022)
- Simplify amortization of deferred acquisition costs
- Reflect experience and updates in best estimate assumptions for traditional and limited pay liabilities
- Consistent fair value accounting for market-based guarantees
- Enhance effectiveness of required disclosures

#### Life Principles-Based Reserving (VM-20)

- All individual life policies issued on or after 1/1/2020 as well as any business moved to PBR during the optional 3-year implementation period
- PBR is the maximum of three reserve components; a formulaic floor and two modeled reserve components
- The NAIC Valuation Manual is a living document, with an updated version released each year; changes will be retroactive

#### VA Statutory Reform (VM-21)

- All variable annuity contracts
- Effective 1/1/2020 with an optional three-year phase-in period
- Replacement of Standard Scenario with Standard Projection, requiring prudent assumption management
- Alignment of scenarios and asset projections with VM-20, methodology updates to remove non-economic volatility, and alignment of reserve and capital calculations

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**MACRO UPDATE**

# INSURERS ARE ASSUMING A RETURN TO NORMAL IN THEIR EARNED RATE

Life and other renewal premium products are largely priced using a portfolio rate, however grading to an ultimate earned rate for life and annuity products has increased from 28% in 2019 to 38% in 2020



Source: 2019 and 2020 Oliver Wyman US Life Insurance Pricing Surveys  
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# PROFITABILITY TARGETS ARE NOT BEING MET

Expected profitability on interest-sensitive products other than indexed universal life has declined from 2019; fixed annuities, indexed annuities, variable annuities, UL and term are pressured relative to 2019

## Summary of product profitability

	2020				2019				Change (2020 - 2019) <sup>1</sup>			
	IRR	Expectation			IRR	Expectation			IRR	Expectation		
	Average	Below	Meet	Exceed	Average	Below	Meet	Exceed	Average	Below	Meet	Exceed
Fixed annuities									-1%	6%	-8%	2%
Indexed annuities									0%	16%	-9%	-7%
Variable annuities									0%	11%	-15%	4%
Indexed UL									0%	-4%	-4%	8%
UL									0%	15%	-15%	0%
Variable UL									0%	17%	-28%	11%
Term									-1%	10%	-3%	-7%
Whole life									-1%	-1%	-1%	2%

















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



# INSURERS ARE INCREASINGLY REFLECTING THE BENEFITS OF REINSURANCE

Usage of reinsurance continues to increase and the proportion of participants reporting favorable impacts is also increasing. Favorability of reinsurance for term products declined, which we believe to be due to the loss of tax leveraged financial reinsurance solutions for redundant reserves upon moving to PBR.

## Use and impact of reinsurance

	2020		2019		Change (2020 - 2019)	
	% reflecting reinsurance	% view reinsurance as a benefit	% reflecting reinsurance	% view reinsurance as a benefit	% reflecting reinsurance	% view reinsurance as a benefit
Fixed annuities	13%	 92%	10%	 88%	3%	4%
Indexed annuities	40%	 100%	38%	 95%	2%	5%
Variable annuities	9%	 N/A	3%	 N/A	6%	N/A
Indexed UL	96%	 48%	95%	 42%	1%	6%
UL	88%	 49%	88%	 39%	0%	10%
Variable UL	86%	 48%	86%	 46%	0%	2%
Term	88%	 52%	86%	 63%	2%	-11%
Whole life	56%	 43%	52%	 39%	4%	4%

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**ANNUITY UPDATE**

# INNOVATION IN THE US ANNUITIES MARKET

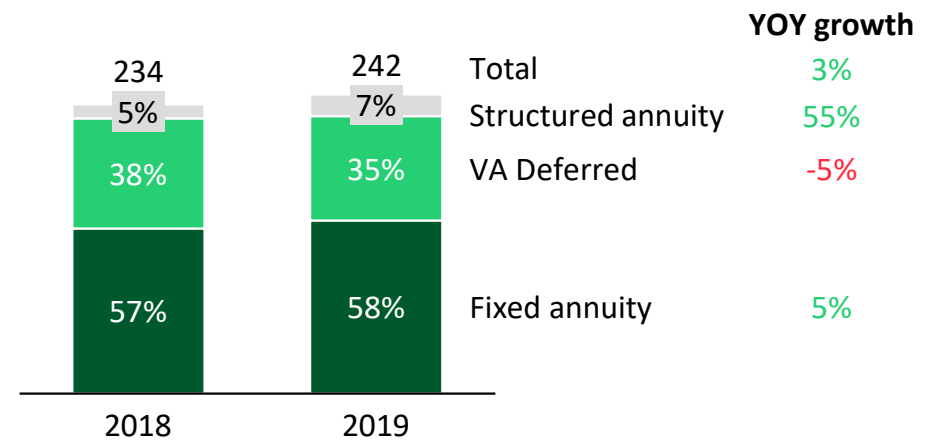
Structured annuities have experienced high growth in US for the past few years, though still a small portion of the overall annuities market

## Annuity market overview

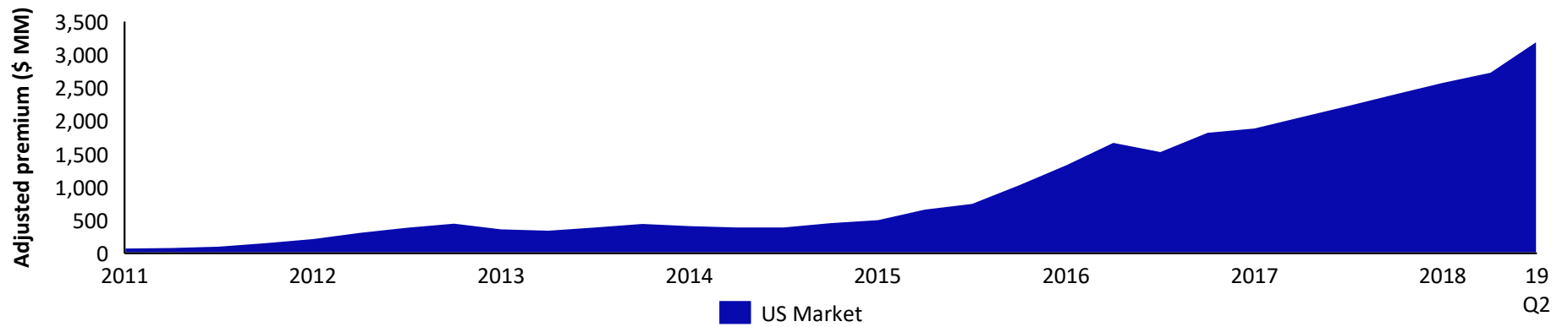
### Market growth

- The structured deferred annuity market is growing fast
- The product combines limited downside protection with capped upside, occupying a middle ground between fixed and variable annuities

### US annuity sales by types 2018-2019, USD BN



### Quarterly sales for structured deferred annuities Q3 2011 – Q2 2019



Source: LIMRA, Wink, Oliver Wyman analysis

© Oliver Wyman

# ANNUITY PAYOUT STRUCTURE IS HIGHLY RELEVANT

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
Fixed annuity (FA)	<p>The graph shows AV return on the vertical axis and Index value on the horizontal axis. A horizontal line represents a constant AV return, with a double-headed arrow above it indicating that the return is fixed and does not change with the index value.</p>	<ul style="list-style-type: none"> <li>• Fixed upside (no equity market participation)</li> <li>• No downside</li> </ul>
Fixed indexed annuity (FIA)	<p>The graph shows AV return on the vertical axis and Index value on the horizontal axis. A horizontal line represents a fixed return, but it has a short horizontal segment followed by a short upward slope, indicating limited equity market participation.</p>	<ul style="list-style-type: none"> <li>• Limited equity market participation</li> <li>• No downside</li> </ul>
Structured annuity	<p>The graph shows AV return on the vertical axis and Index value on the horizontal axis. A dashed line shows a downward slope from the origin, which then becomes solid and horizontal at a level above the origin, followed by an upward slope and then a horizontal line, representing downside protection and limited upside.</p>	<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>
Variable annuity	<p>The graph shows AV return on the vertical axis and Index value on the horizontal axis. A diagonal line passing through the origin indicates full market participation with no downside protection.</p>	<ul style="list-style-type: none"> <li>• Full market participation</li> <li>• No downside protection</li> </ul>

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**LIFE UPDATE**

# ACCELERATED UNDERWRITING PROGRAMS ARE INCREASINGLY PRESENT

Writers are becoming more comfortable with their accelerated underwriting programs and are expanding their application

## Details on accelerated underwriting programs

### Prevalence

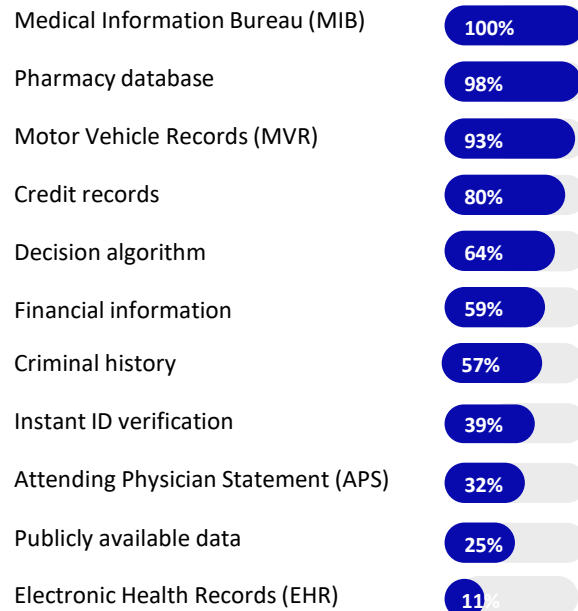
**79%** of writers have an accelerated underwriting program

### Usage

**36%** of these programs allow for instant decision or desktop approval

### Tools and information

Used as part of program



### Program limits

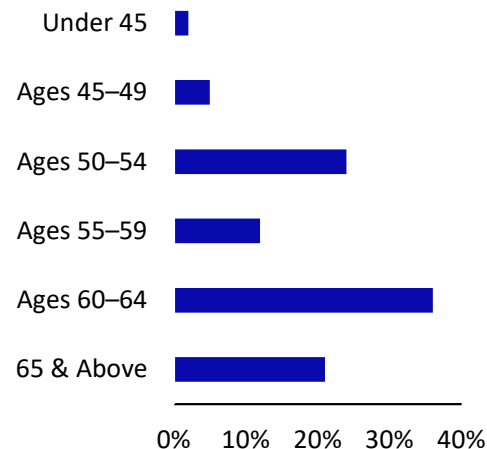
Age and amount (Most popular answer choices)

**60** Maximum issue age

**\$1,000,000** Maximum face amount

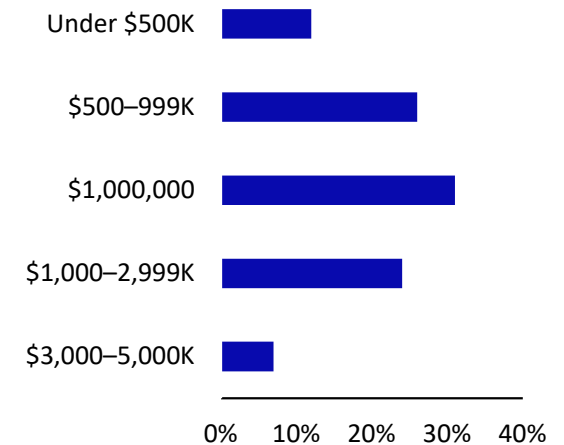
#### Program limits

Issue age



#### Program limits

Face amount

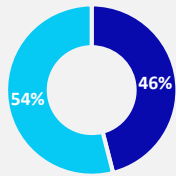


# LIFE WRITERS ARE LOOKING TO REDUCE NOISE IN PROFIT ANALYSIS UNDER PBR

Carriers are gaining better understanding of the impact of PBR on their business and have begun reflecting them in their pricing exercise

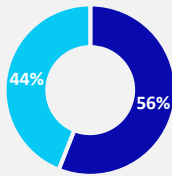
## Consistency between pricing and valuation

### Population granularity



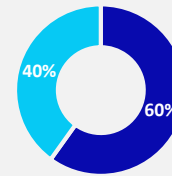
- 29%** Exclude some risk factors in pricing
- 23%** Have different withdrawal and/or funding cohorts in pricing
- 8%** Have variations for other reasons

### Mortality



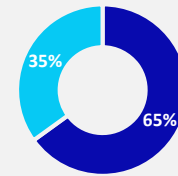
- 23%** Vary the treatment of sub-standard
- 17%** Vary the treatment of term conversions
- 15%** Vary the treatment of accelerated underwriting

### Lapse and Surrender



- 12%** Pricing assumption is more granular than valuation
- 10%** Assumption varies by policy characteristics that differ for pricing and valuation
- 19%** Have variations for other reasons

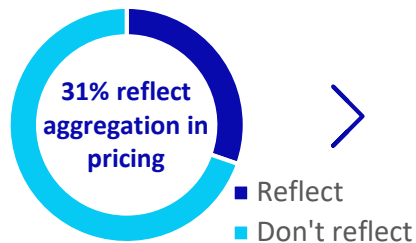
### Expense



- 17%** Pricing assumption is more granular than valuation
- 8%** Pricing assumption is less granular than valuation
- 10%** Have variations for other reasons

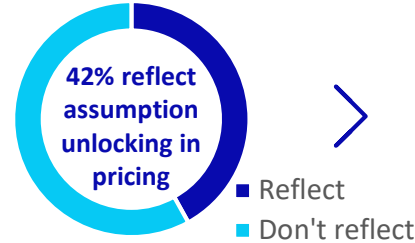
■ Consistent      ■ Not consistent

### Aggregation



- 80%** Reflect aggregation within reserving categories
- 20%** Reflect aggregation across in-force and new business

### Unlocking



- 70%** Reflect mortality unlocking
- 40%** Reflect lapse and surrender unlocking
- 37%** Reflect expense unlocking

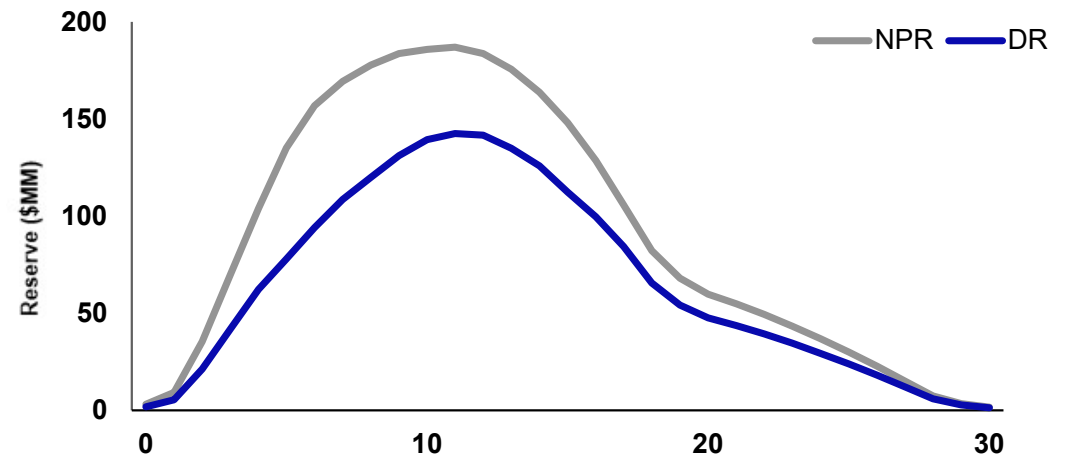
# ILLUSTRATIVE EXAMPLE

Two products within the same model segment can have significantly different reserve patterns

## Illustrative PBR reserves

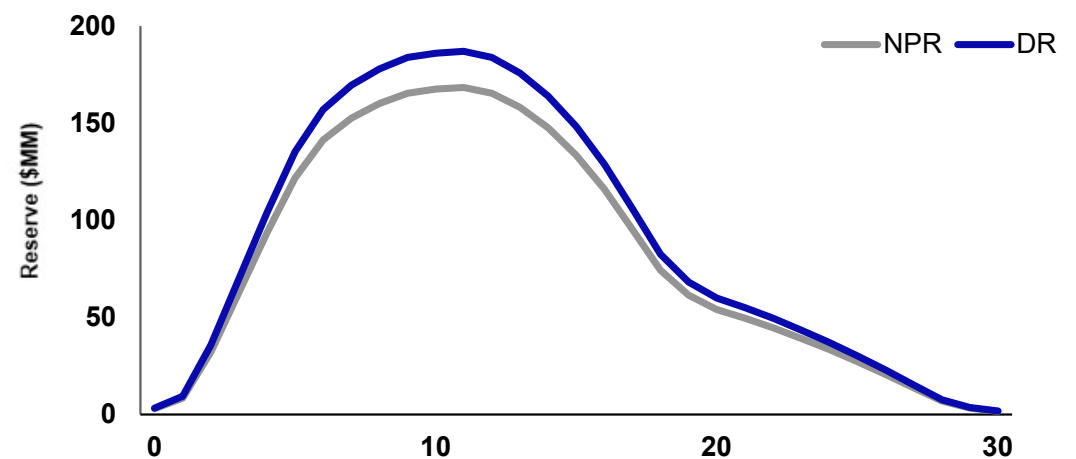
### Product A

- The NPR is the dominant reserve throughout the projection
- The NPR is significantly greater than the DR



### Product B

- The DR is the dominant reserve throughout the projection
- The NPR and DR are relatively close throughout the projection

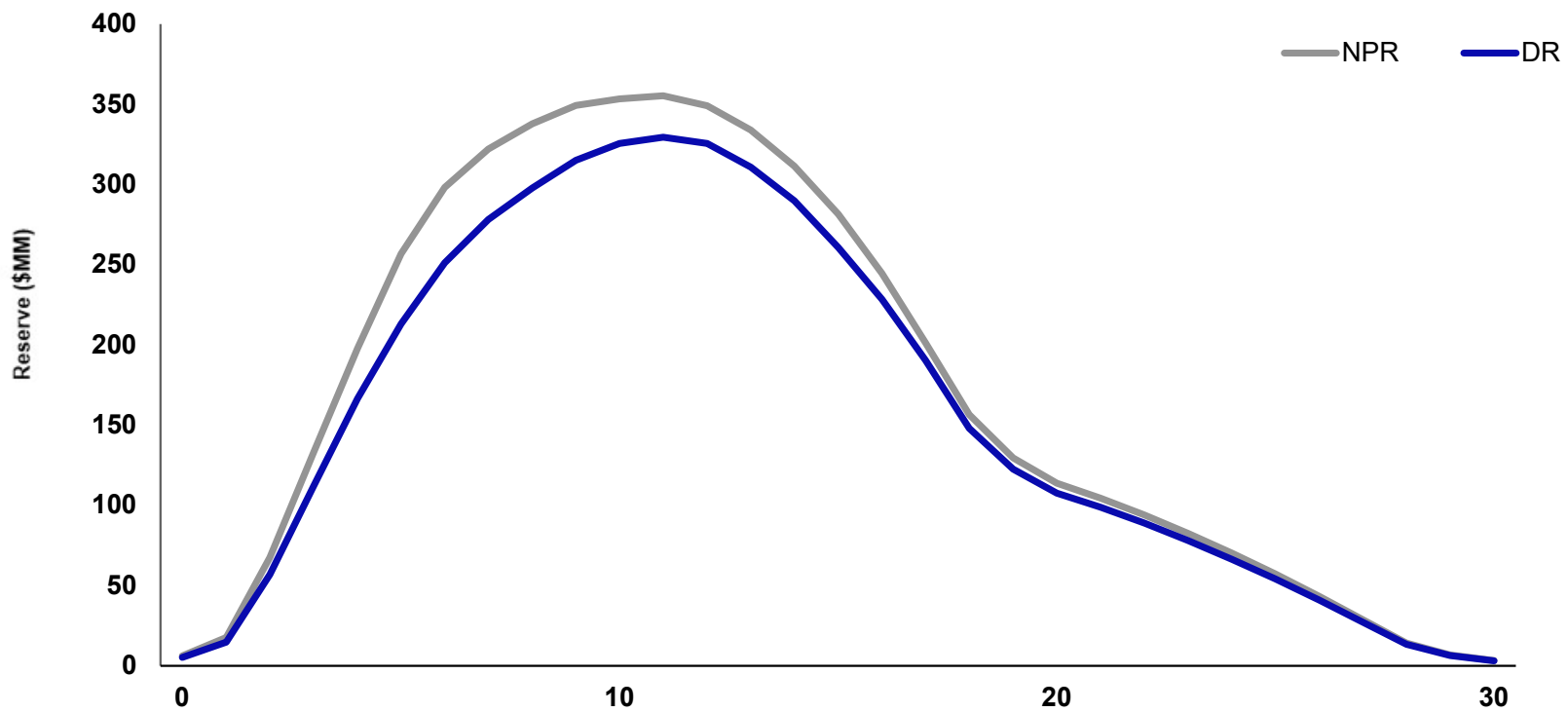




# ILLUSTRATIVE EXAMPLE

When aggregated, the NPR is the dominant reserve for the model segment

## Illustrative PBR reserves



The impact of aggregation can have a significant impact on what is driving the reserve (NPR, DR, SR)

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**KEY TAKEAWAYS**

# KEY TAKEAWAYS

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**1**

**New business profitability is pressured by current economic conditions**

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**2**

**Carriers are finding ways to stand out through innovative product strategy**

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**3**

**Writers are gaining a better understanding of regulatory changes and refining the way they are reflected in pricing models**

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