

2021 US LIFE INSURANCE PRICING SURVEY DEEP DIVE

SEAC Annual Meeting: November 2021

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Product overview



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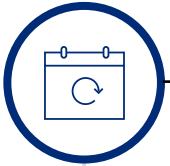
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Pricing methodology and assumptions



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SURVEY BASIS FOR RESULTS AND CONFIDENTIALITY



AS OF DATE

Participants were asked to describe their practices as of Q1 2021



PARTICIPANTS

60 participants with responses covering the landscape of retail and institutional products



RESULTS

This presentation summarizes the highlights of survey results. The results have been compiled in a manner as to not reveal information specific to any participant.

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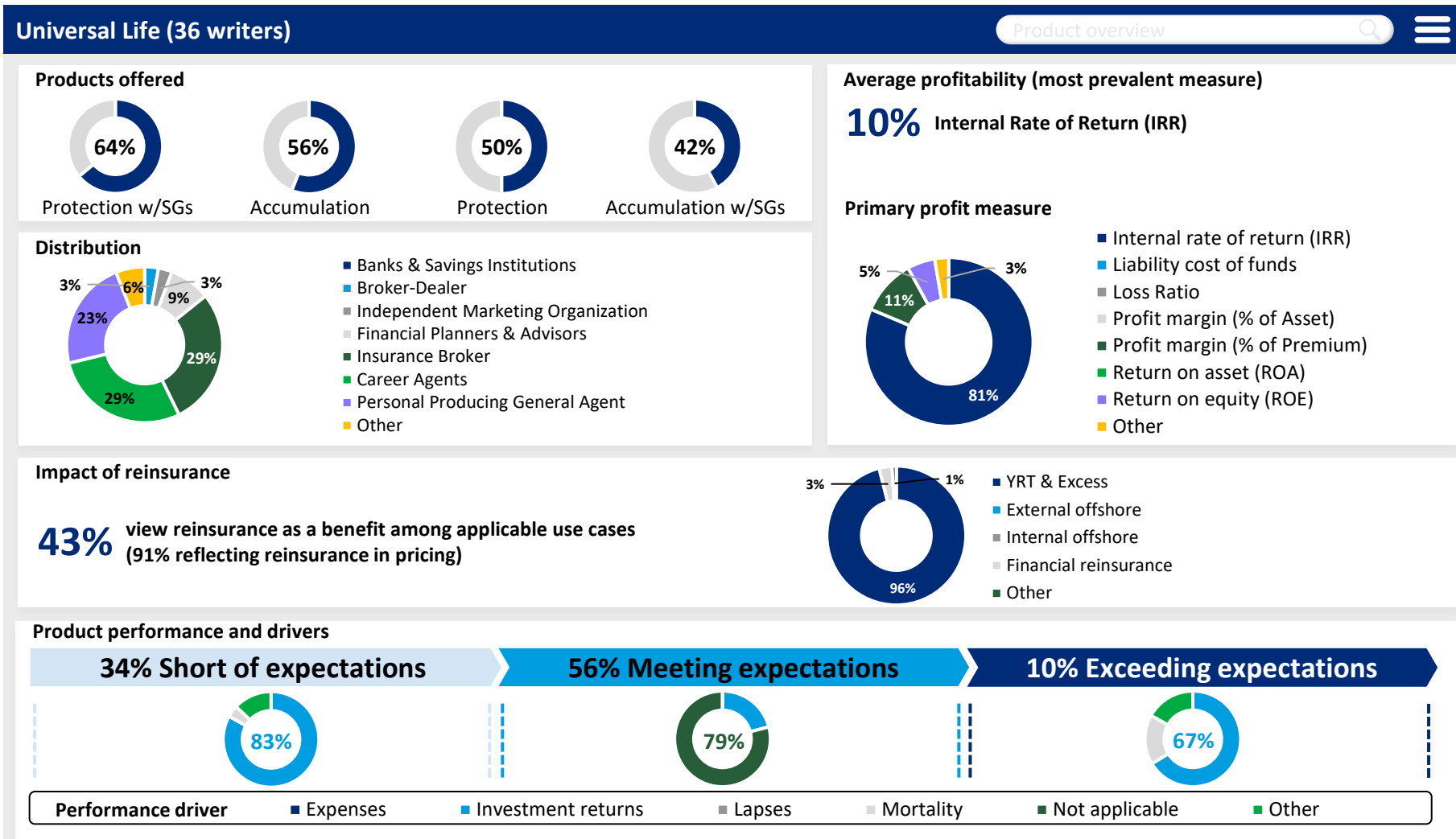


PRODUCT OVERVIEW



UNIVERSAL LIFE (UL)

More participants reported UL products exceeding expectations and fewer reported products falling short of expectations this year. Investment returns continue to be the primary driver of performance.





INDEXED UNIVERSAL LIFE (IUL)

Compared to last year, the number of IUL carriers who noted that profitability fell short of expectations halved with the vast majority of participants noting the profits meet expectations. Investment returns continue to be the primary driver of performance.

Indexed Universal Life (29 writers)
Product overview
☰

Products offered

93%
Accumulation

66%
Protection

Distribution

- Banks & Savings Institutions
- Broker-Dealer
- Independent Marketing Organization
- Financial Planners & Advisors
- Insurance Broker
- Career Agents
- Personal Producing General Agent
- Other

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

Impact of reinsurance

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

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

Product performance and drivers

15% Short of expectations

100%

70% Meeting expectations

82%

15% Exceeding expectations

33%

Performance driver

- Expenses
- Investment returns
- Lapses
- Mortality
- Not applicable
- Other



VARIABLE UNIVERSAL LIFE (VUL)

Target returns decreased this year and continue to be lower than for other equity-based products due to the primary sources of returns (fees and mortality margin). The portion of writers with protection-oriented designs increased by 10% compared to last year, as writers look to equity performance to help offset the cost of long-term guarantees.

Variable Universal Life (19 writers)
Product overview
☰

Products offered

95%
Accumulation

53%
Protection

Distribution

- Banks & Savings Institutions
- Broker-Dealer
- Independent Marketing Organization
- Financial Planners & Advisors
- Insurance Broker
- Career Agents
- Personal Producing General Agent
- Other

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

Impact of reinsurance

48% view reinsurance as a benefit among applicable use cases (93% reflecting reinsurance in pricing)

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

Product performance and drivers

12% Short of expectations

64% Meeting expectations

24% Exceeding expectations

Performance driver

- Expenses
- Investment returns
- Lapses
- Mortality
- Not applicable
- Other



TERM

The term market is highly competitive and target returns are low as market participants seek to achieve underwriting margins in retail channels. Realized returns and target profitability are consistent with last year.

Term (46 writers)
Product overview
☰

Products offered

Fully underwritten

Simplified issue

Return of premium

Guaranteed issue

Distribution

- Banks & Savings Institutions
- Broker-Dealer
- Independent Marketing Organization
- Financial Planners & Advisors
- Insurance Broker
- Career Agents
- Personal Producing General Agent
- Other

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

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

Product performance and drivers

44% Short of expectations

44% Meeting expectations

12% Exceeding expectations

37%

77%

38%

Performance driver

- Expenses
- Investment returns
- Lapses
- Mortality
- Not applicable
- Other



WHOLE LIFE

Whole life target returns are low due to the product's simplicity and stability. Distribution methods are diverse, with target markets ranging from the terminally ill to those seeking fixed-income exposure in their investment portfolio. Profit targets and performance are consistent with last year, despite fewer reports of reinsurance benefiting pricing.

Whole Life (41 writers)
Product overview
☰

Products offered

Fully underwritten

Juvenile

Simplified issue

Final expense

Average profitability (most prevalent measure)

9%

Internal Rate of Return (IRR)

Distribution

- Banks & Savings Institutions
- Broker-Dealer
- Independent Marketing Organization
- Financial Planners & Advisors
- Insurance Broker
- Career Agents
- Personal Producing General Agent
- Other

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

Impact of reinsurance

37%

view reinsurance as a benefit among applicable use cases
(59% reflecting reinsurance in pricing)

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

Product performance and drivers

36% Short of expectations

55% Meeting expectations

9% Exceeding expectations

56%

72%

78%

Performance driver

- Expenses
- Investment returns
- Lapses
- Mortality
- Not applicable
- Other

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COLI/BOLI

COLI/BOLI pricing targets and performance are better than last year, with all participants' products performing at or above target

COLI / BOLI (9 writers)

Product overview

Products offered

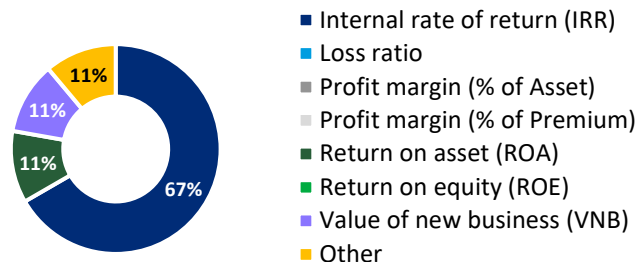


COLI/BOLI

Average profitability (most prevalent measure)

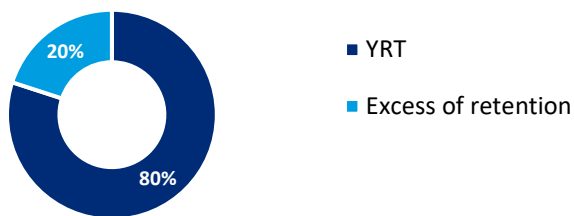
10% Internal Rate of Return (IRR)

Primary profit measure



Impact of reinsurance

40% view reinsurance as a benefit among applicable use cases (63% reflecting reinsurance in pricing)



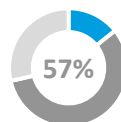
Product performance and drivers

0% Short of expectations

87% Meeting expectations

13% Exceeding expectations

Not applicable



Performance driver

- Diversified margin across mortality and investment
- Mix of business
- Not applicable
- Other

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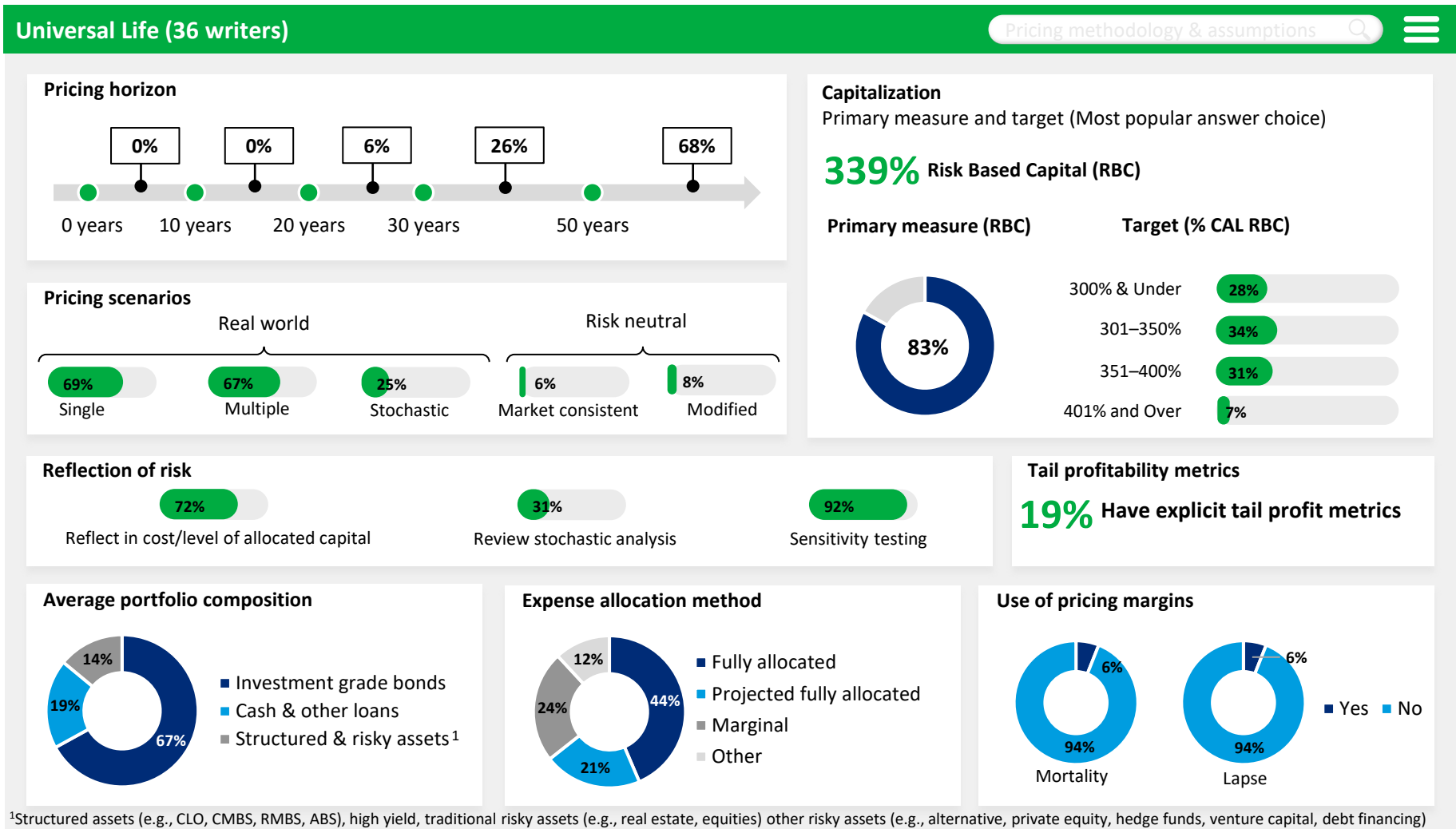


PRICING METHODOLOGY AND ASSUMPTIONS



UNIVERSAL LIFE

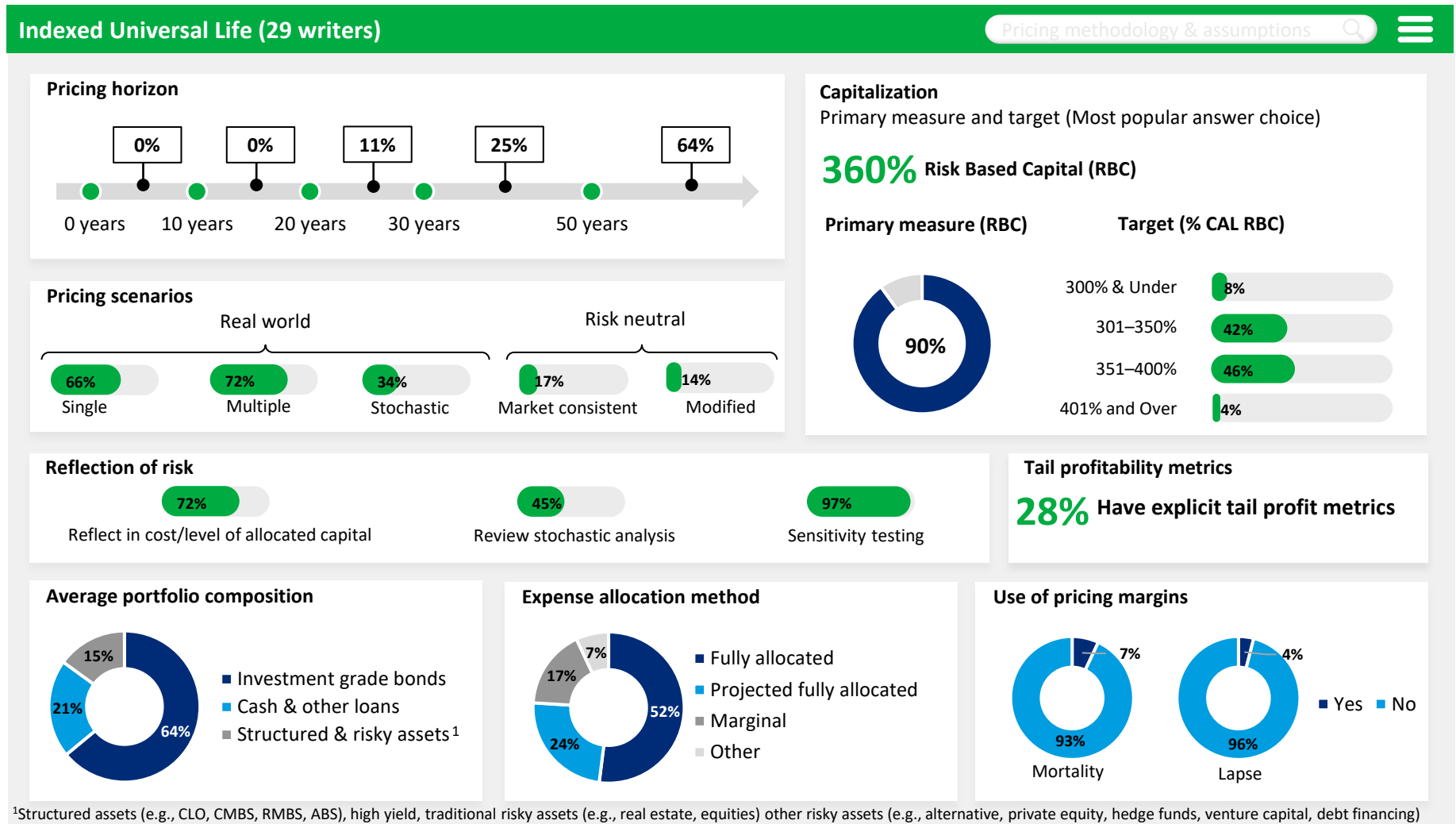
Sensitivity testing is a common approach to reflect risk in UL pricing and is even more prevalent for UL products with secondary guarantees; lengthy pricing horizons are driven by the long tail of the liability. Perhaps driven by pressured earnings, nearly 20% of participants moved to the use of marginal expenses.





INDEXED UNIVERSAL LIFE

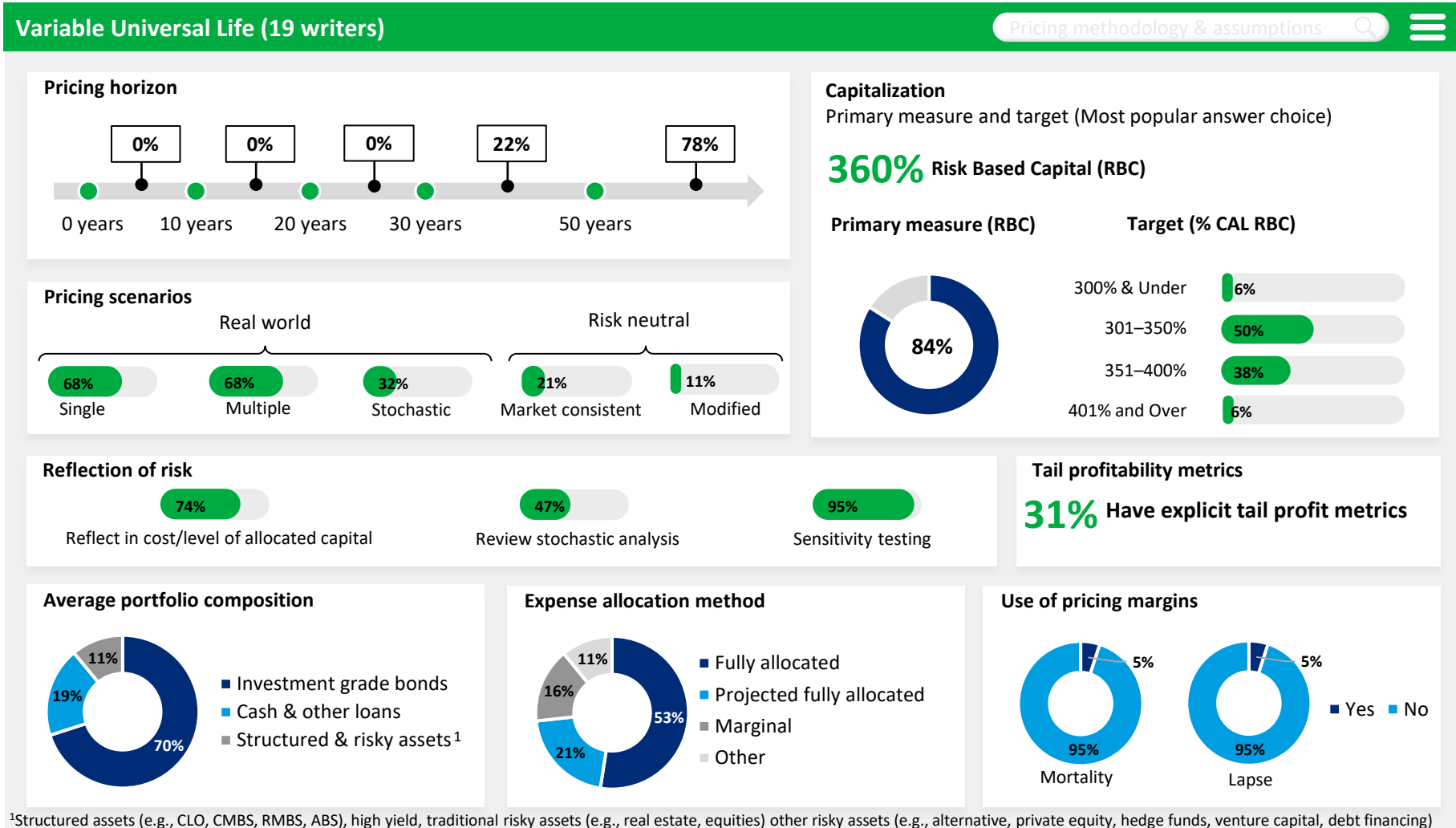
Pricing assumptions and methodology are similar to UL, with the exceptions being higher capital targets and more frequent use of stochastic analysis. 10% of IUL writers extended their pricing horizons to above 50 years relative to last year and a similar increase was observed in the portion of writers utilizing tail profit metrics.





VARIABLE UNIVERSAL LIFE

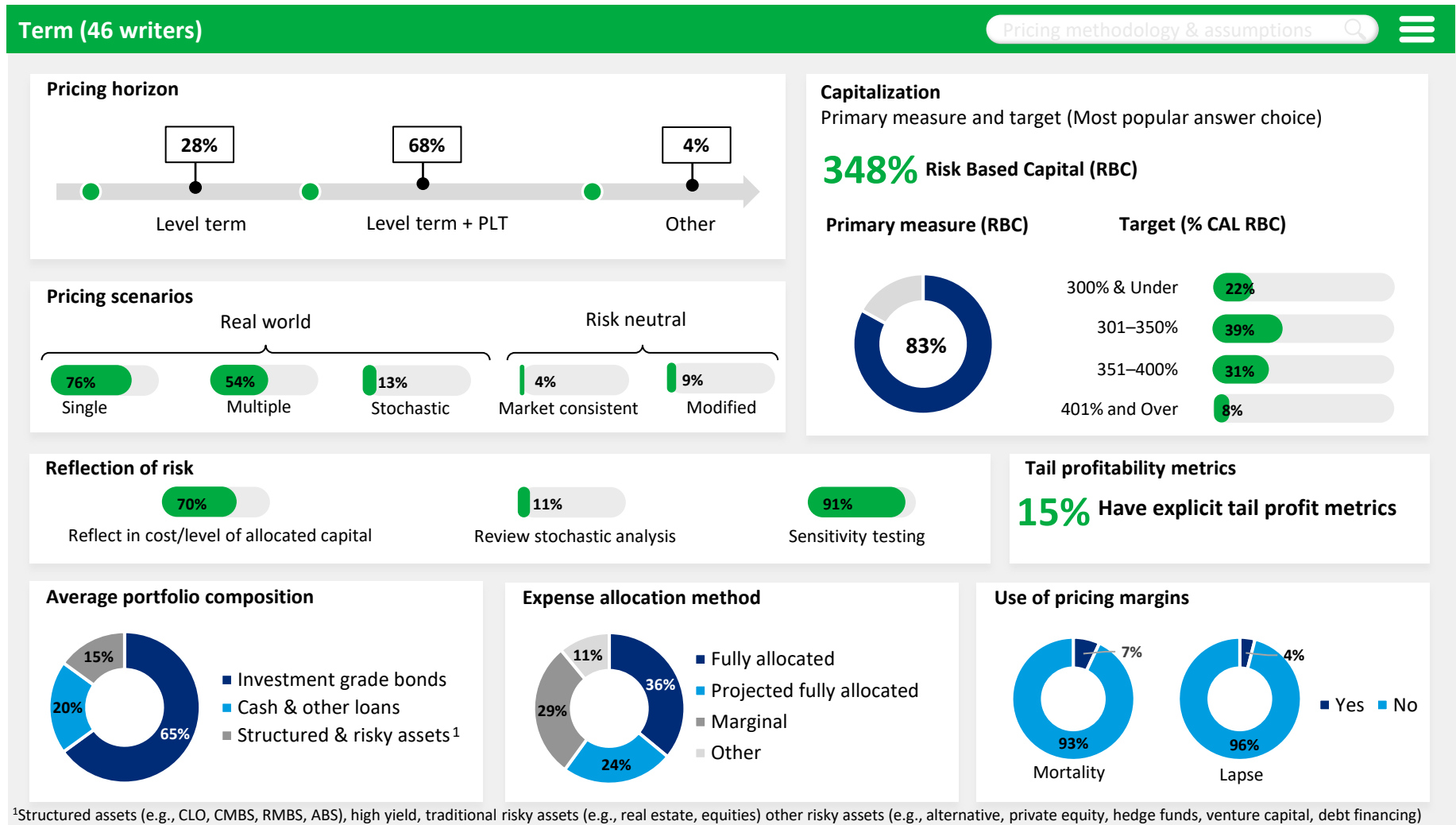
Pricing assumptions and methodology are similar to UL & IUL. Perhaps driven by the trend toward secondary guarantees, the use of tail profit metrics tripled as compared to last year.





TERM

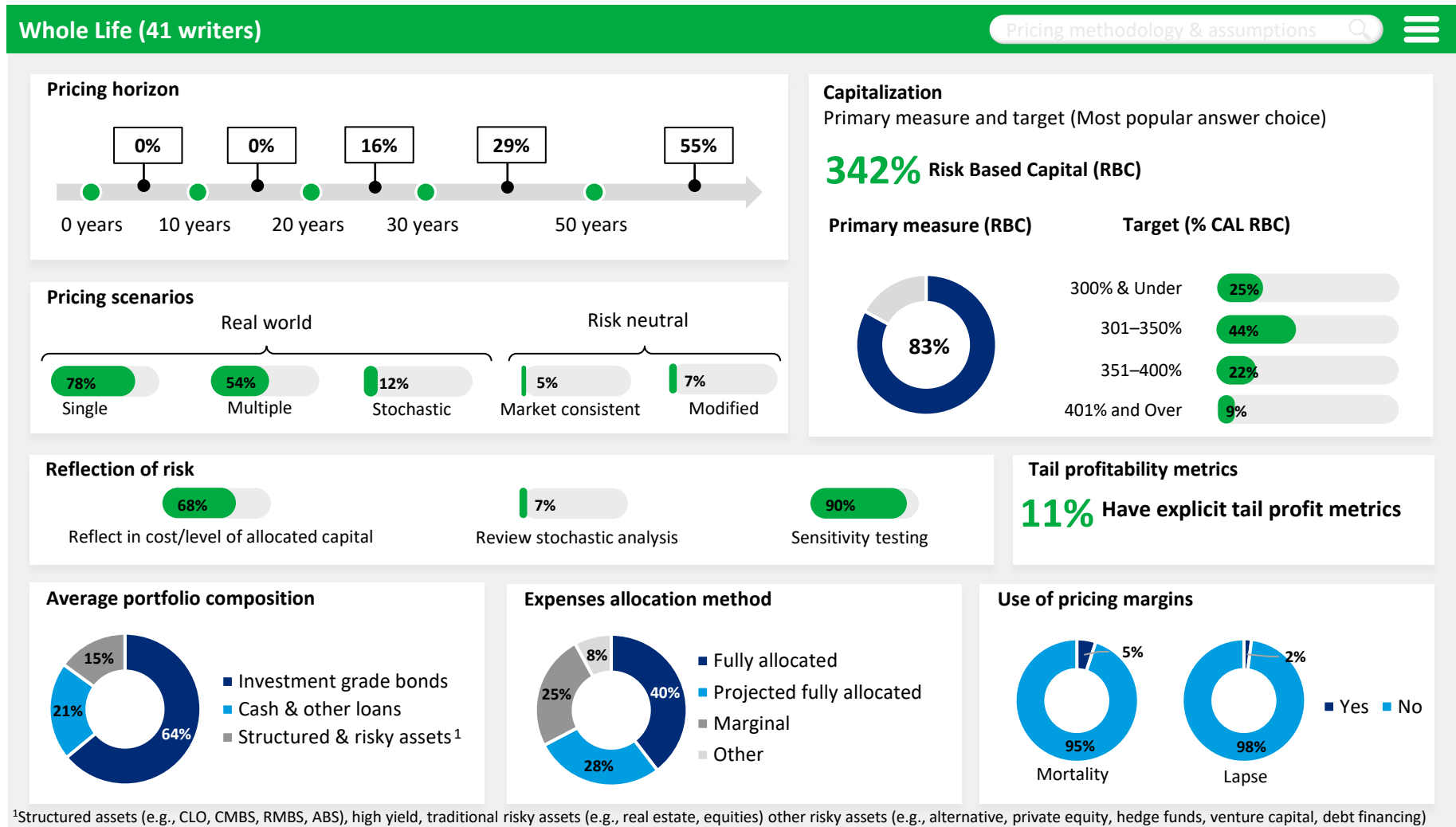
Sensitivity testing is relied on by almost all participants to reflect risk in pricing. Compared to last year, 10% more writers are now pricing based on level term + PLT. Use of marginal expenses continues to be at the high end relative to other product types.





WHOLE LIFE

Pricing assumptions and methodologies are similar to other retail life products. The use of marginal expenses is more common for WL than other lifetime products (UL, IUL, VUL).





COLI/BOLI

Commensurate with bettering market conditions, a majority of writers are pricing their COLI/BOLI offerings on a new money basis, whereas portfolio rate was most common in last years survey

COLI/BOLI (9 writers)
Pricing methodology & assumptions

Pricing horizon

Horizon	Percentage
0 years	0%
10 years	0%
20 years	29%
30 years	43%
50 years	29%

Capitalization

Primary measure and target (Most popular answer choice)

357% Risk Based Capital (RBC)

Primary measure (RBC)	Target (% CAL RBC)
300% & Under	14%
301–350%	43%
351–400%	29%
401% and Over	14%

Investments

Approach to pricing earned rate

62%

 Price these products on a new money basis

Expense allocation method

Method	Percentage
Fully allocated	50%
Projected fully allocated	12%
Marginal	25%
Other	13%

Average portfolio composition

Category	Percentage
Investment grade bonds	71%
Cash & other loans	15%
Structured & risky assets ¹	14%

Earned rate

Pattern of pricing earned rate

Category	Percentage
Rising (grade to ultimate)	37%
Level	50%
Other	13%

Expenses

Pricing assumption assumes long-term expense improvements

Assumption	Percentage
No	13%
Yes	87%

Maintenance

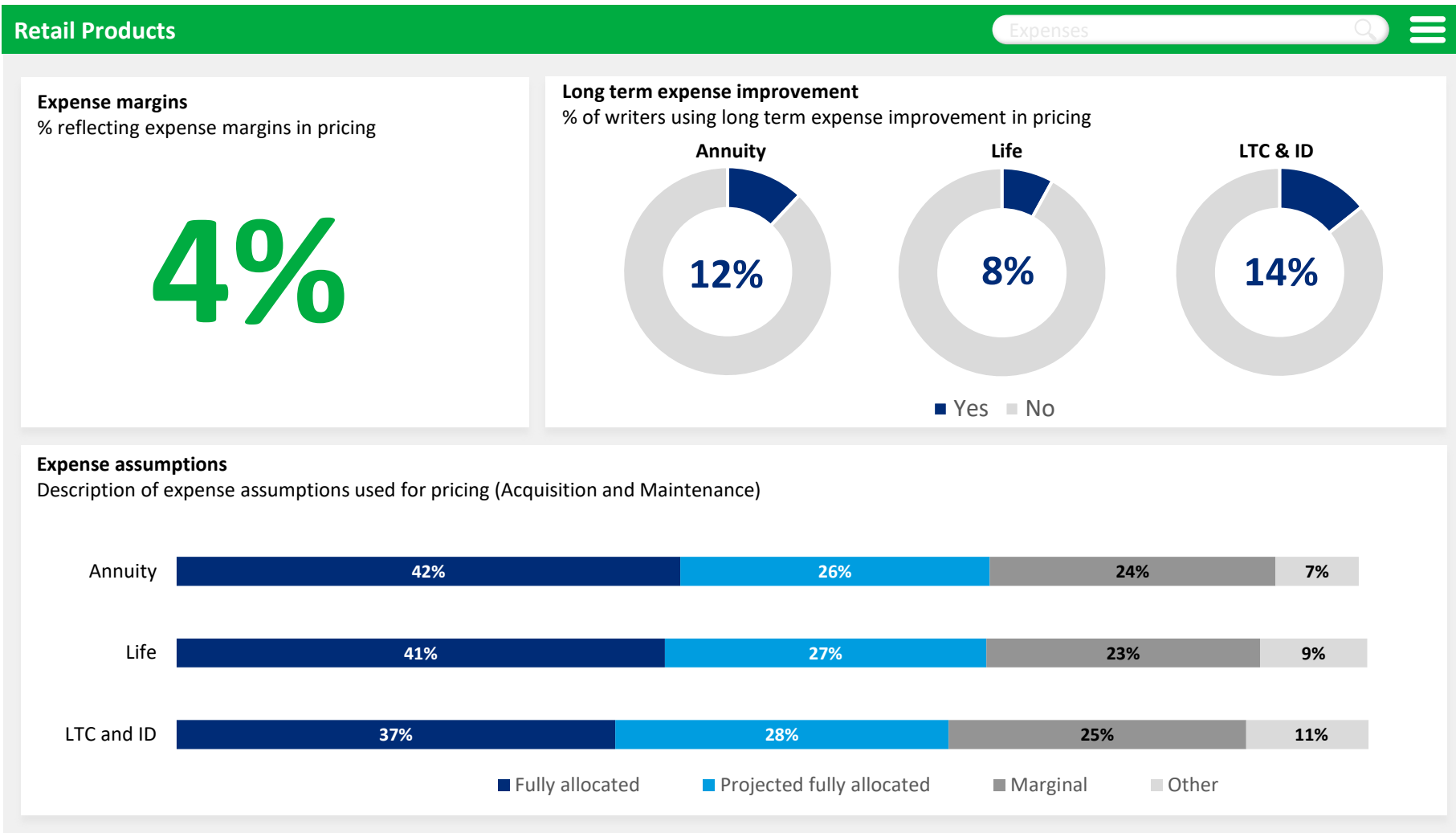
Category	Percentage
Fully allocated	37%
Projected fully allocated	38%
Marginal	25%
Other	0%

¹Structured 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)



DEEP DIVE | EXPENSES (RETAIL PRODUCTS)

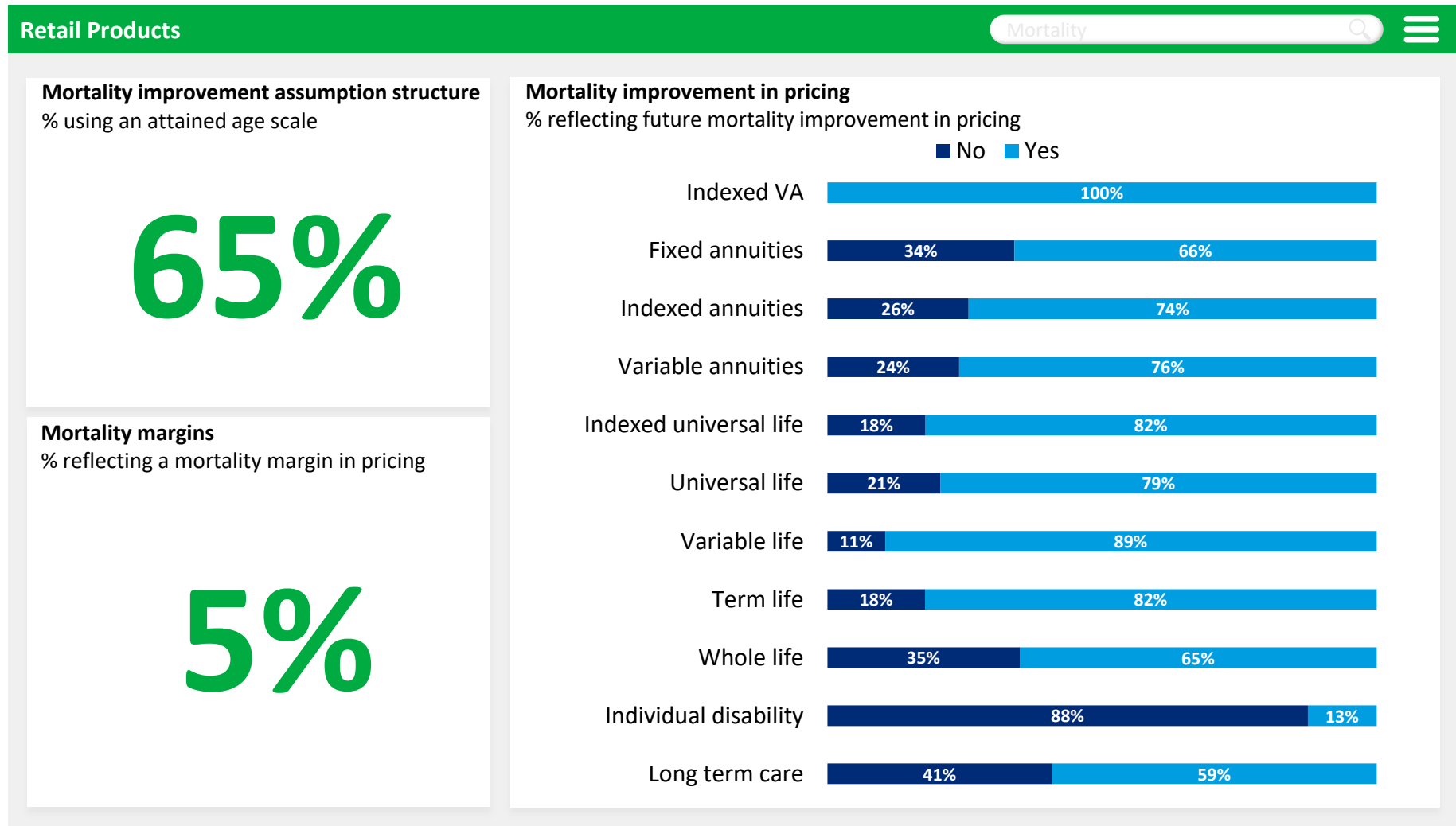
Assumptions of long-term expense improvement are slightly more common for health (LTC & ID) products; use of fully allocated expenses most common for annuity products (a reversal from last year)





DEEP DIVE | MORTALITY IMPROVEMENT (RETAIL PRODUCTS)

Results are fairly consistent with prior years, with future mortality improvement assumed by a majority of participants for all product types except for individual disability





DEEP DIVE | PROFIT MONITORING, RATE SETTING, RE-PRICING (RETAIL PRODUCTS)

While a majority of participants monitor their profitability throughout the year for all product types, annuities tend to require more frequent repricing with a vast majority of IVA writers re-pricing their products at least quarterly



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