



Indexed Annuity Market Updates

Southeastern Actuaries Conference

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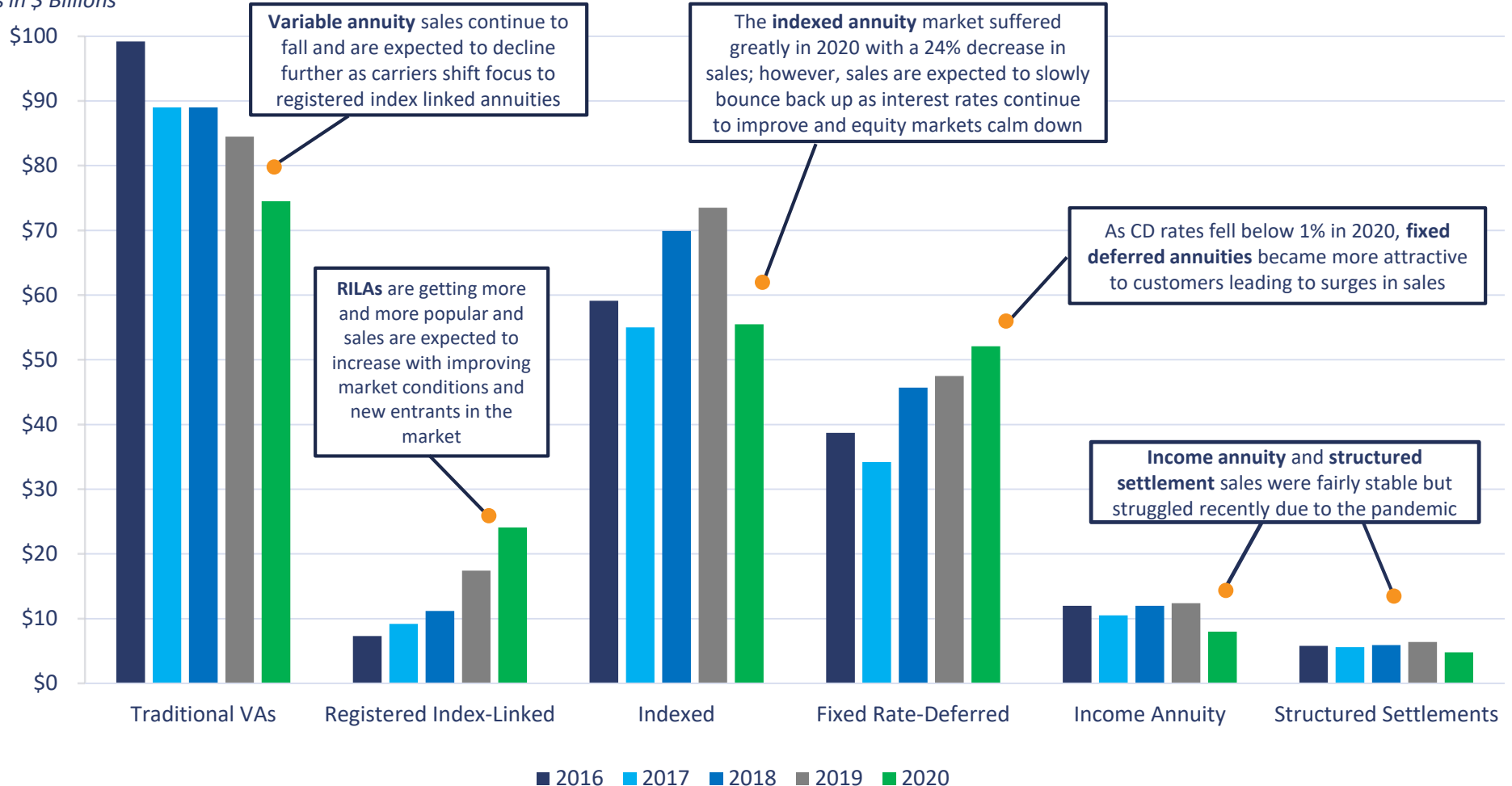


Agenda

- **Annuity sales trends**
- **Indexed market updates**
- **Mergers and acquisitions**
- **Regulatory updates**
- **Conclusions**

Annuity annual sales (2016 - 2020)

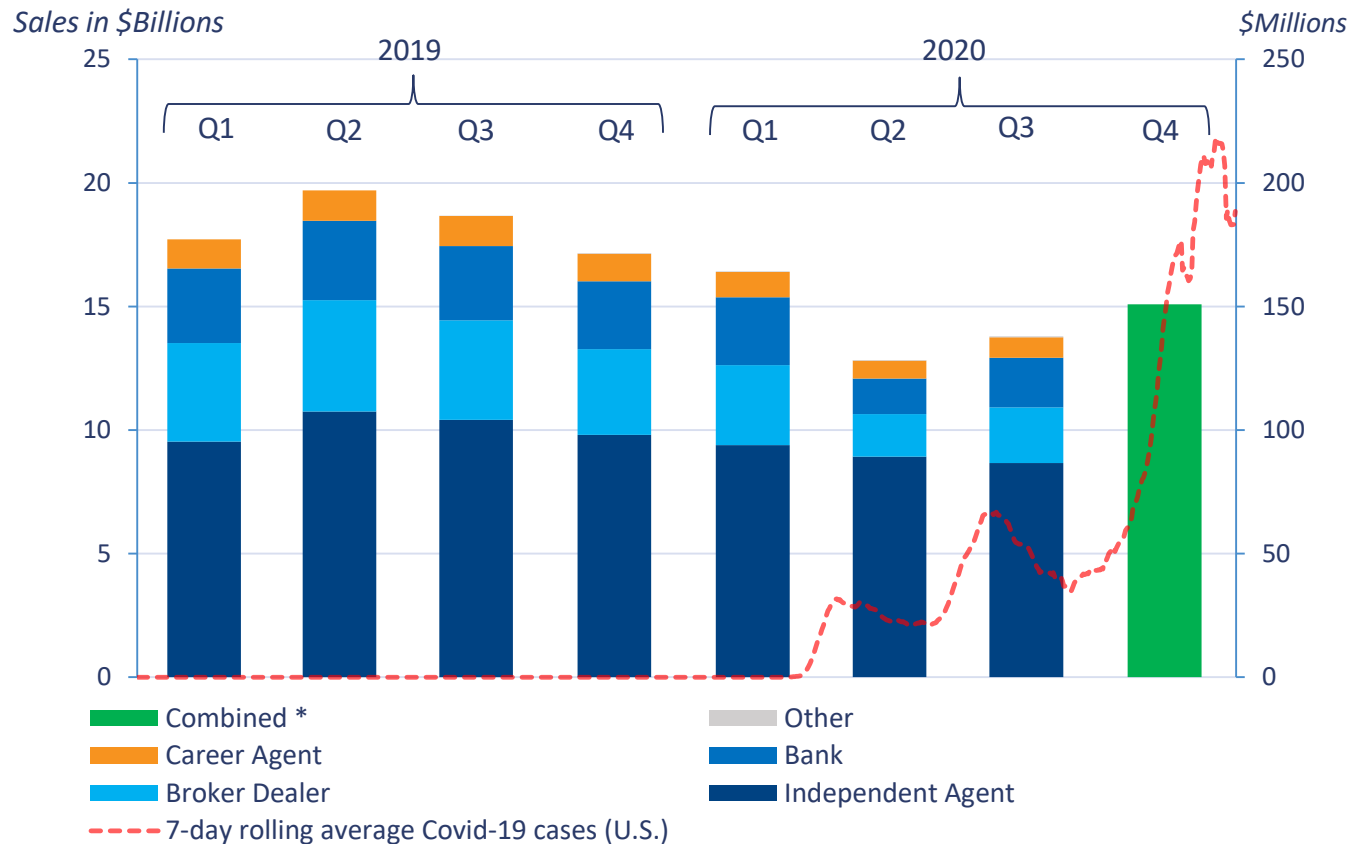
Sales in \$ Billions



Source: LIMRA

Covid-19 impact on FIA sales (Q1 2020 – Q4 2020)

Quarterly FIA sales by distribution channels



* Breakdown by distribution channels not available yet

Business disruption

The Covid-19 pandemic created some initial business continuity challenges and then forced most companies to perform most, if not all operations virtually

- Similar to other industries, annuities' distribution channels faced severe challenges
- Distribution channels which rely heavily on face-to-face interaction with agents were critically impacted

Global uncertainty and economic slowdown

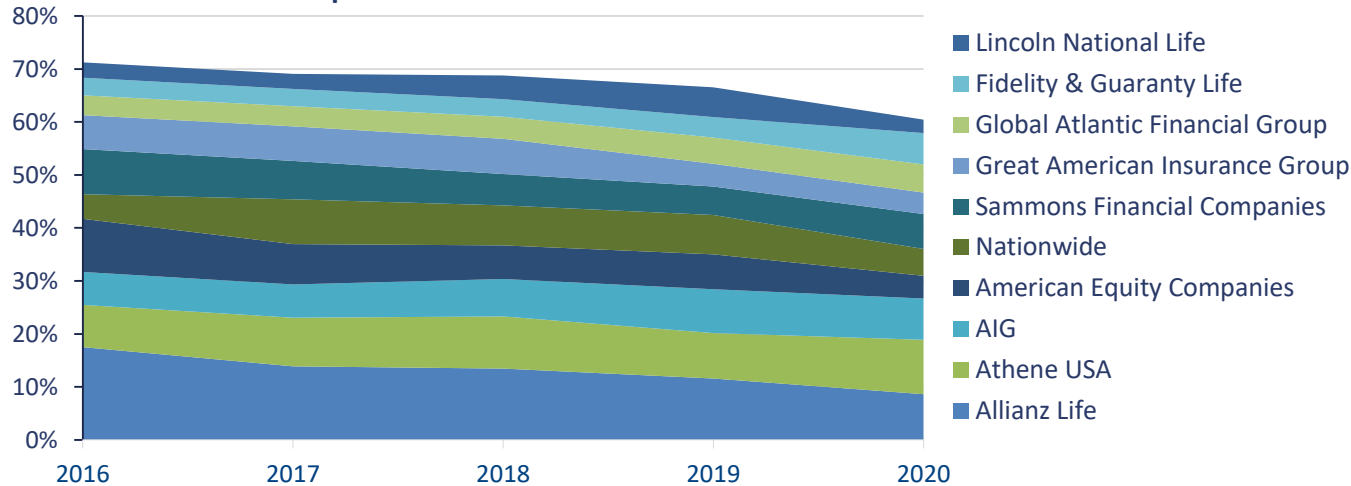
The pandemic triggered significant increase in uncertainty and plunged the economy into a recession

- Rise in U.S unemployment created anxiety among annuity purchasers, which accelerated decline in sales
- Lower interest rates and increased equity market volatility exacerbated pricing pressure on indexed annuity products making them less competitive

Sources: NY Times | Wink's Sales & Market Report

Increased competitiveness in FIA market

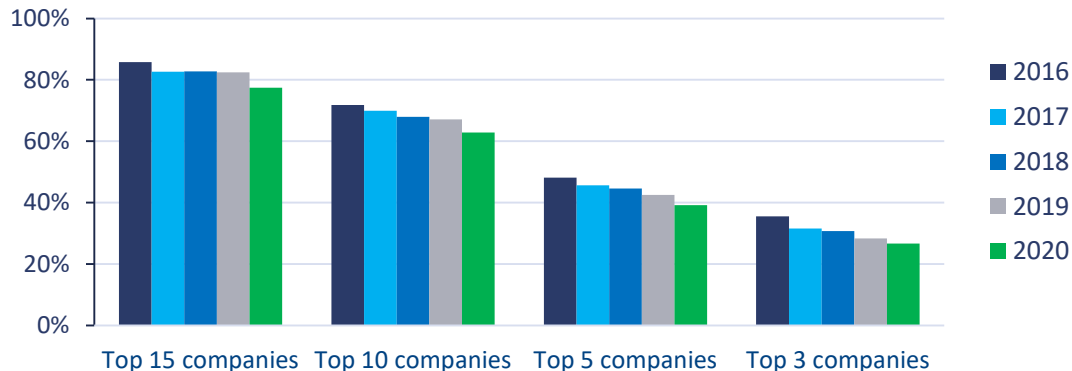
Top 10 FIA writers based on total sales from 2016 to 2020



Top Players

- Allianz Life has been dominating the FIA space for more than 5 years but recently lost its top spot to Athene
- AIG has been slowly but steadily increasing its market share and moved from #5 to #3 among FIA writers

Combined FIA Market Share



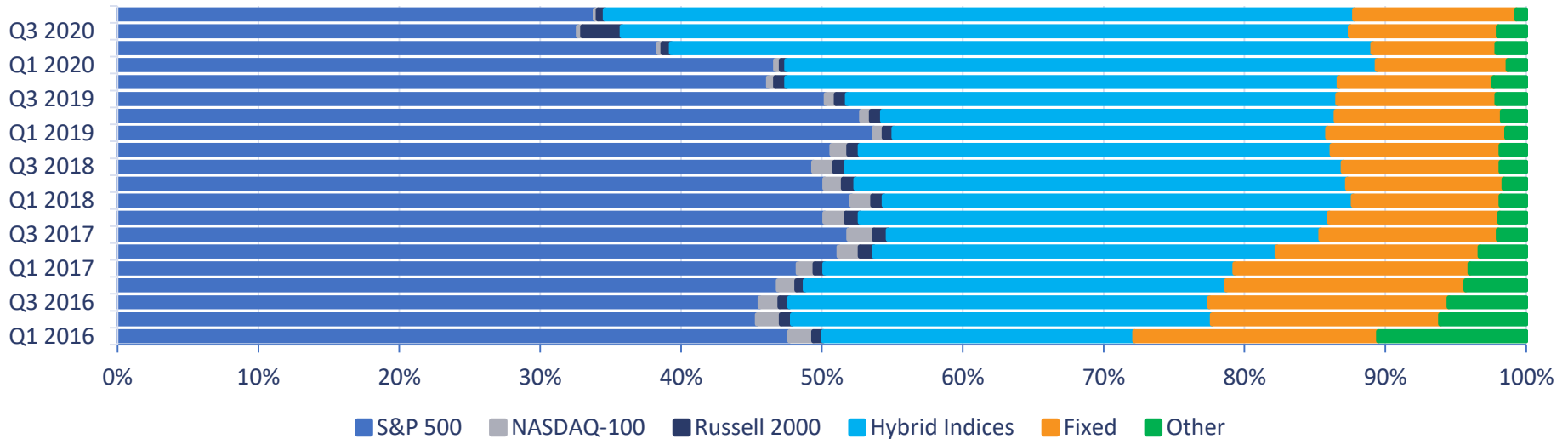
Market Share

- FIA market space is getting more and more competitive
- Market shares for FIA sales leaders are shrinking every year
- Combined market share for the top 15 companies decreased from 86% in 2016 to 77% in 2020

Source: Wink's Sales & Market Report

The continuing rise of hybrid indices

FIA sales mix by index

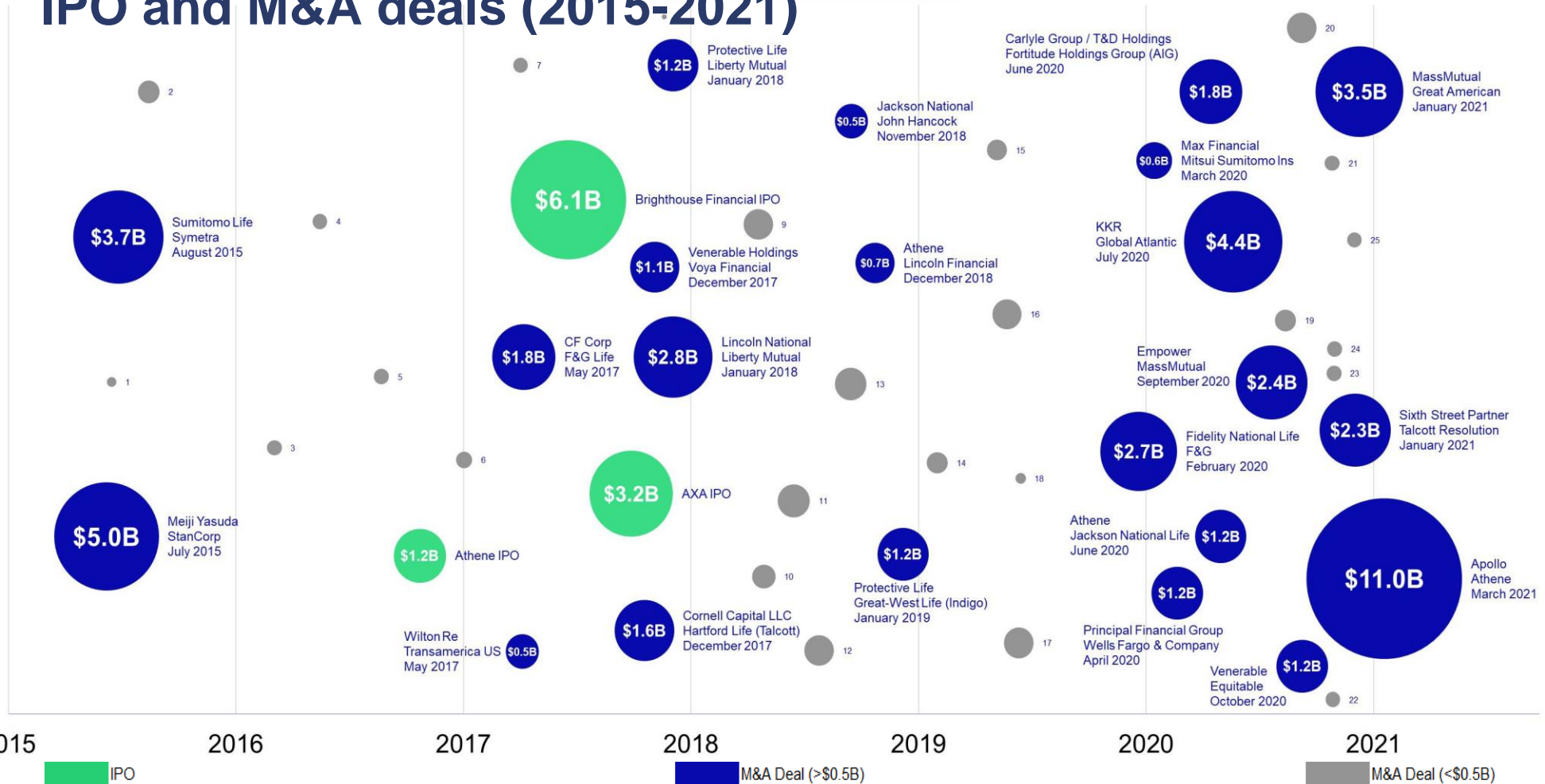


Key considerations when exploring hybrid indices

- Complexity of indices and type of assets included (how easy is it to describe the index to non-financially savvy customers in 30 seconds or less?)
- Sales narrative and strategy (hybrid indices can be comprised of almost any type of assets; some indices focus on assets from tech companies or commodities, while other focus on stocks or ETFs from socially responsible companies)
- Hypothetical back-tested performance and future expected performance of the index (how well does the index illustrate compared to competitors' indices?)
- Target volatility and other option pricing parameters that could impact option costs and crediting rates

Source: Wink's Sales & Market Report

IPO and M&A deals (2015-2021)



2015: ¹National Guardian / Independence Holding, ²Nassau Re / Phoenix

2016: ³Undisclosed buyer / XL Group, ⁴Advantage Capital Partners / Sentinel Security Life, ⁵Kuvare Life Re / Undisclosed / Undisclosed 2017: ⁶Global Bankers / Enstar Group, ⁷RGA / Farmers (Zurich)

2018: ⁸American Republic Insurance / Great Western Insurance, ⁹Athene / Voya, ¹⁰Global Atlantic / Prudential, ¹¹Carlyle Group / AIG, ¹²Resolution Re / Symetra, ¹³RGA / John Hancock 2019: ¹⁴Global Atlantic / Ameriprise, ¹⁵RGA / Horace Mann, ¹⁶Jade Mountain Partners / Lamington (White Eagle), ¹⁷Kuvare / LBL, ¹⁸777Re / Undisclosed seller

2020: ¹⁹Ares / F&G Re, ²⁰Global Atlantic / Great American, ²¹777 Re / Unknown party, ²²Athene / General Electric, ²³Kuvare (LBL) / Unknown party, ²⁴Oceanview Re / Unknown party, ²⁵Prosperity Life Assurance / National Western Life

Source: Oliver Wyman

Thriving during challenging times

Product strategy - 01

Review product strategies including

- exiting line of business
- de-risking new/existing products offerings when possible
- renegotiating commission structures
- shifting focus to hybrid indices on indexed products

Operational costs - 02

Reduce operational costs through outsourcing and process modernization



03 - Reinsurance and hedging

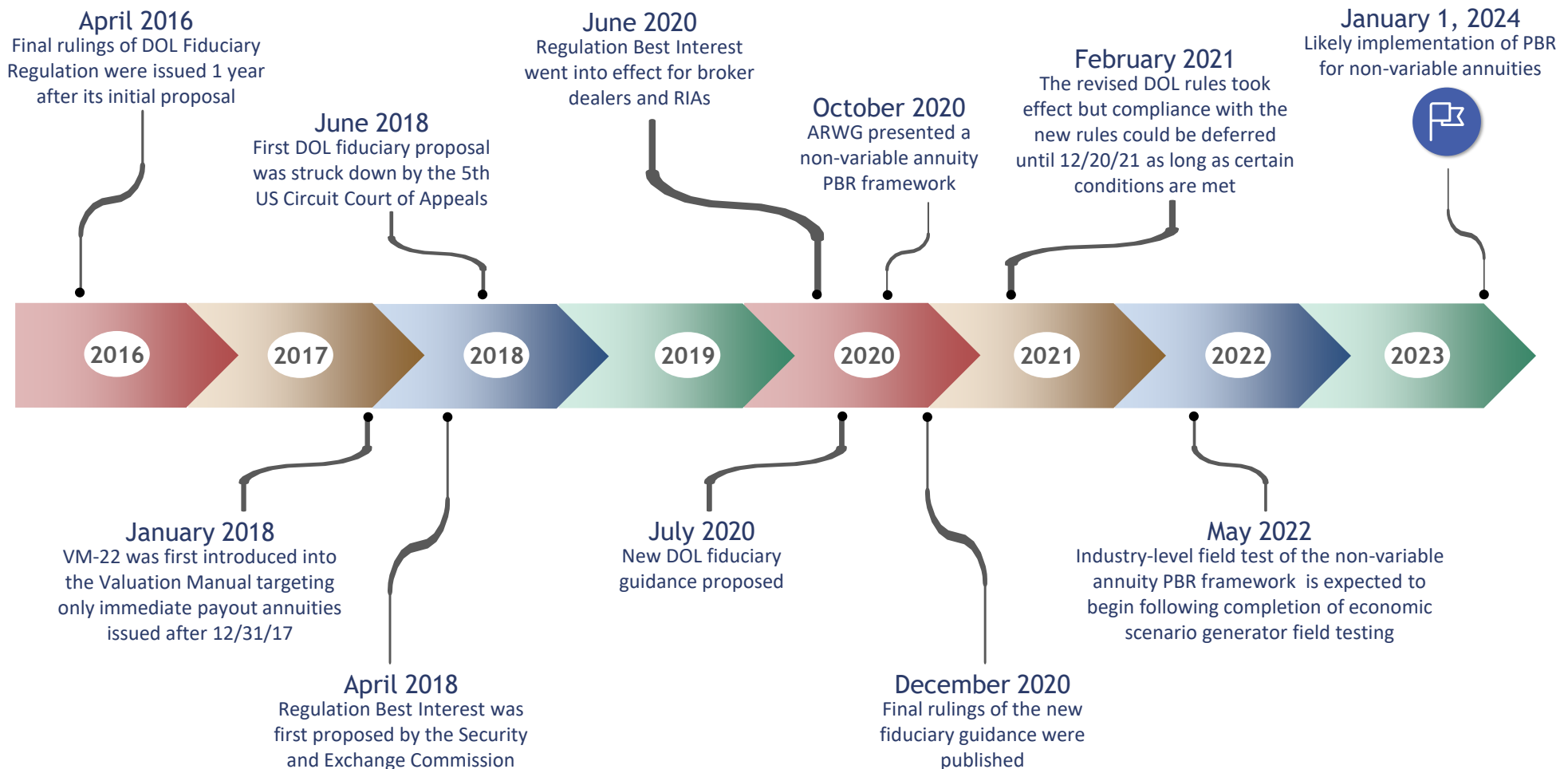
Explore reinsurance and interest rates hedging to manage risk exposure and reduce redundant reserves

04 - Investment strategy

Revisit investment strategies by

- Investing in riskier assets
- Increasing asset/liability duration mismatch
- Rethinking ALM model

Regulatory updates in the FIA market





Conclusions

- With the economic downturn resulting from Covid-19, sales in the annuity world suffered greatly with the exception of RILA and Fixed Annuities
- Amid the pricing pressure from sustained low interest rates and high equity market volatility, annuity providers continue to look for innovative solutions such as hybrid indices, reinsurance and hedging to improve financial results
- Despite its devastating blow on the economy, the pandemic didn't seem to significantly slow down M&A deals in the annuity space
- Annuity writers are bracing for the new DOL fiduciary rule and PBR for non-variable annuities

INDEXED LIFE MARKET TRENDS AND UPDATE

Southeastern Actuaries Conference

June 24th, 2021

Dylan Strother, FSA, MAAA

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AGENDA

- 1** Life industry sales and trends
- 2** IUL profitability and pricing deep dive
- 3** Product themes
- 4** Regulatory happenings
- 5** Recent M&A transactions
- 6** Key takeaways

LIFE INSURANCE SALES AND TRENDS

Overall sales trends

Sales growth rates measured by face amount

Product	2017	2018	2019	2020	2021 ¹
Term	4%	3%	6%	6%	5%
Whole life	-	2%	-	1%	17%
Universal life	(3)%	(7)%	2%	(7)%	4%
Total	2%	1%	5%	2%	8%

Fixed UL = (10)%
Indexed UL = 10%
Variable UL = 47%

- Life insurance sales down 3% in 2020 compared to 2019
- Certain events have impacted life insurance sales over the past two years
 - 2019:** Large volume of sales due to effective dates for 2017 CSO and VM-20
 - 2020:** COVID-19
- Given the large growth in 2019, 2020 numbers are more exaggerated than may appear
 - ▲ Traditional life (Term and WL) similar growth to 2019
 - ▼ Universal life sales poor, closer to 2018 growth rates

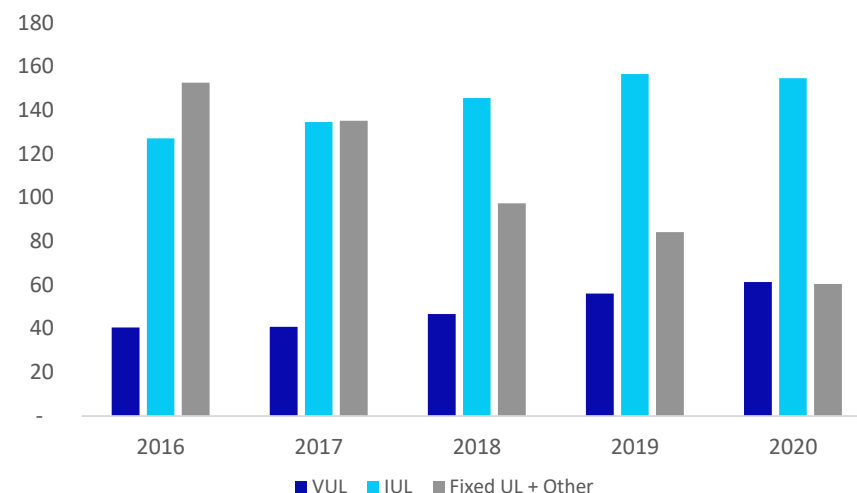
Pandemic trend: sales directed to lower cost products with less dependency on interest rates

1. Through Q1 2021

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Universal life sales

Sales measured by face amount (\$B)

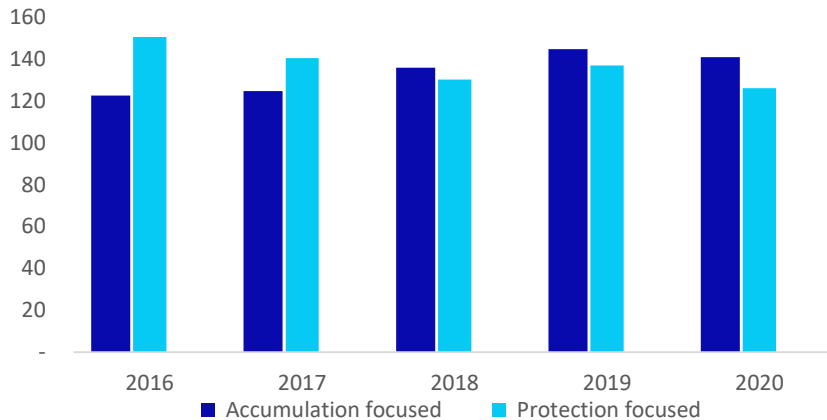


- IUL market share increased over past several years, but slowed during 2020
- Sales for VUL and fixed UL almost the same in 2020, highlighting:
 - A large decrease in fixed UL sales over the last 5 years, and
 - A noticeable increase in VUL sales over the last 3 years

DEEP DIVE: UNIVERSAL LIFE SALES AND TRENDS

Universal Life sales by design type

Sales measured by face amount (\$B)

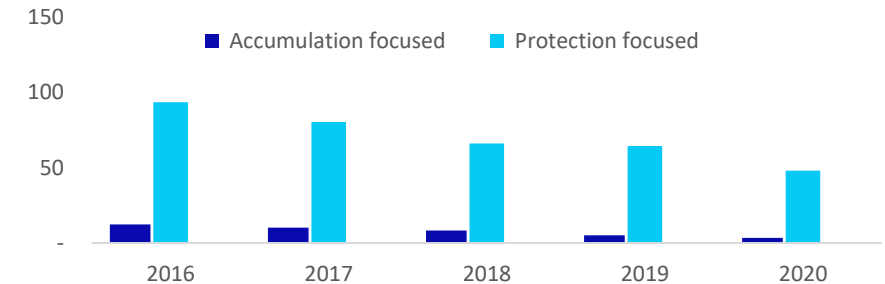


- In aggregate, accumulation focused products have sold better than protection focused products in recent years, especially in 2020
 - Driven by increased sales in IUL which is more focused on accumulation designs
 - Protection focused most popular on fixed UL
- Sales into protection based variable universal life sales were twice as high as accumulation based designs in 2020 and have a three year streak of outselling the accumulation design

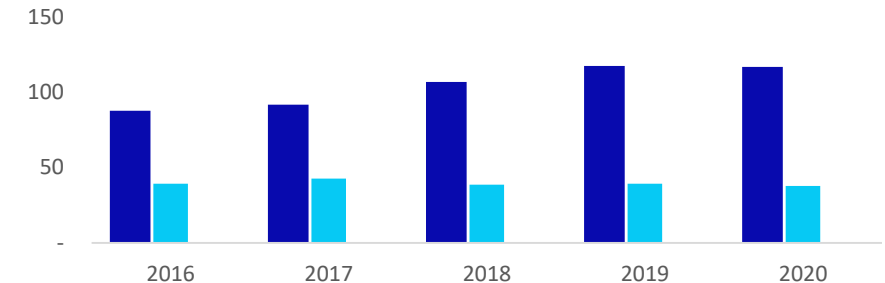
Product sales by design type

Sales measured by face amount (\$B)

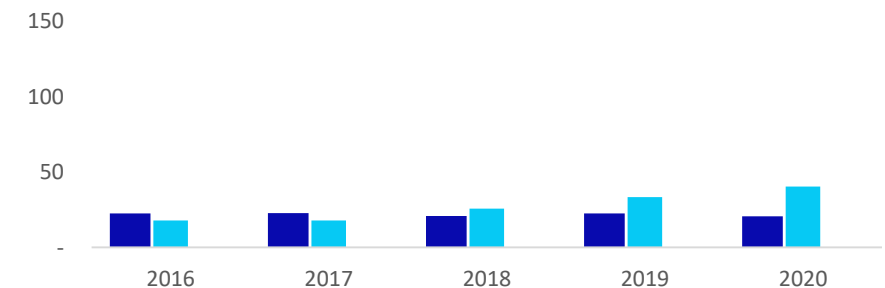
Fixed universal life



Indexed universal life

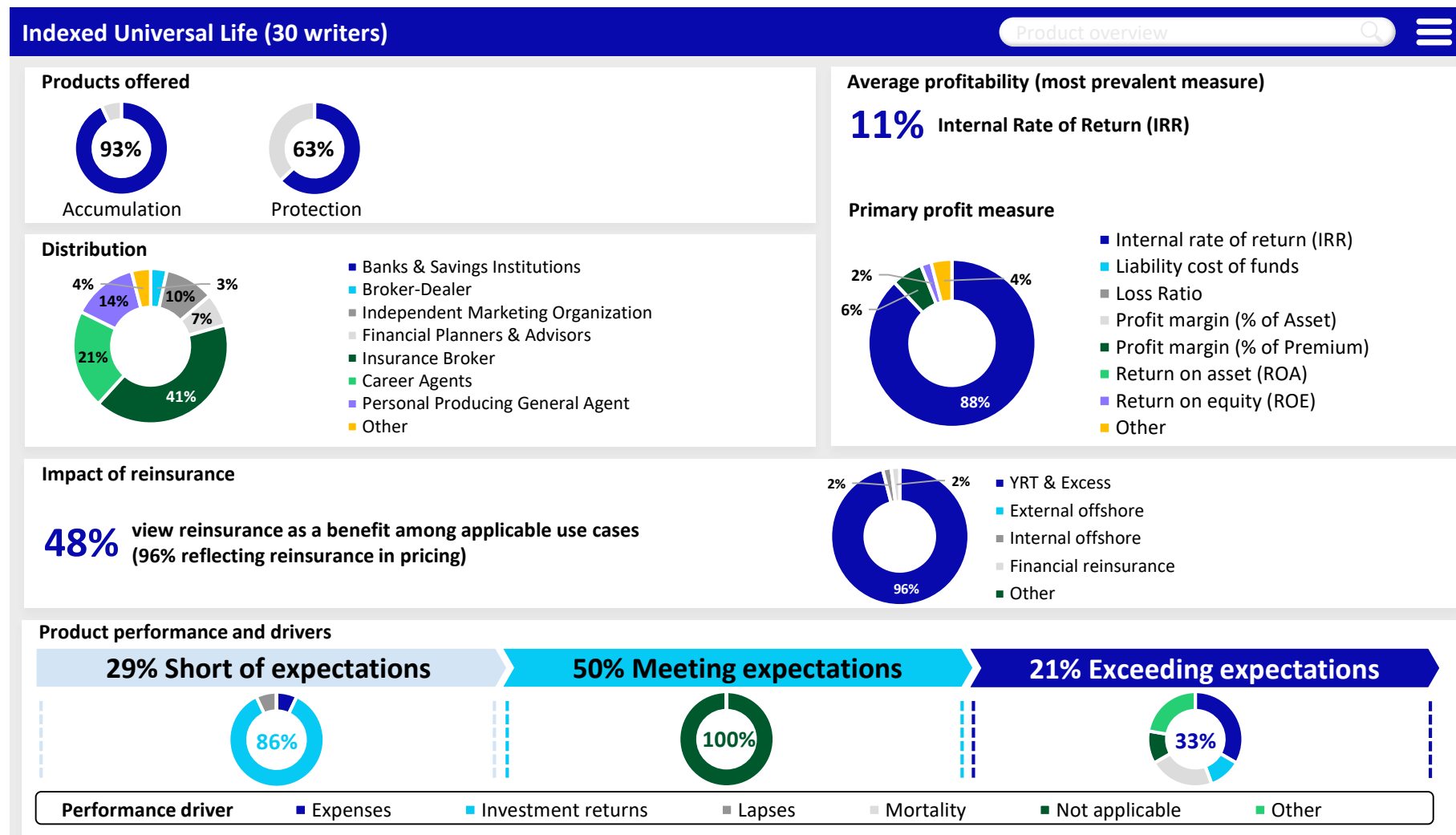


Variable universal life



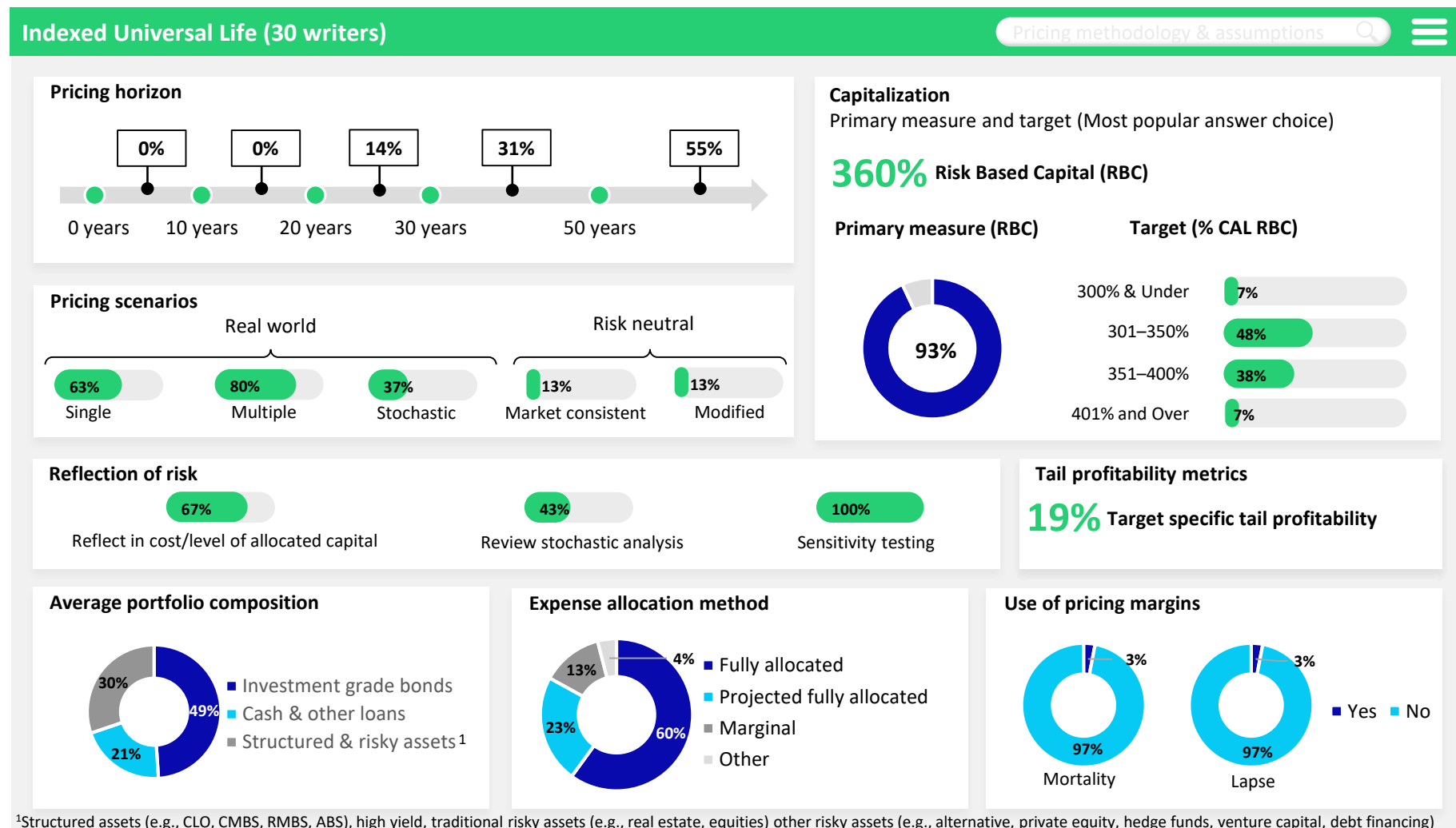
INDEXED UNIVERSAL LIFE PROFITABILITY

IULs are generally more focused on accumulation and are priced to higher profit targets than regular UL. 29% of writers are falling short of pricing expectations with investments being the primary driver of underperformance



INDEXED UNIVERSAL LIFE PRICING PARAMETERS

IUL products tend to have higher capital targets and more frequent use of stochastic analysis compared to regular UL



Source: 2020 Oliver Wyman US Life Insurance Pricing Survey

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PRODUCT THEMES

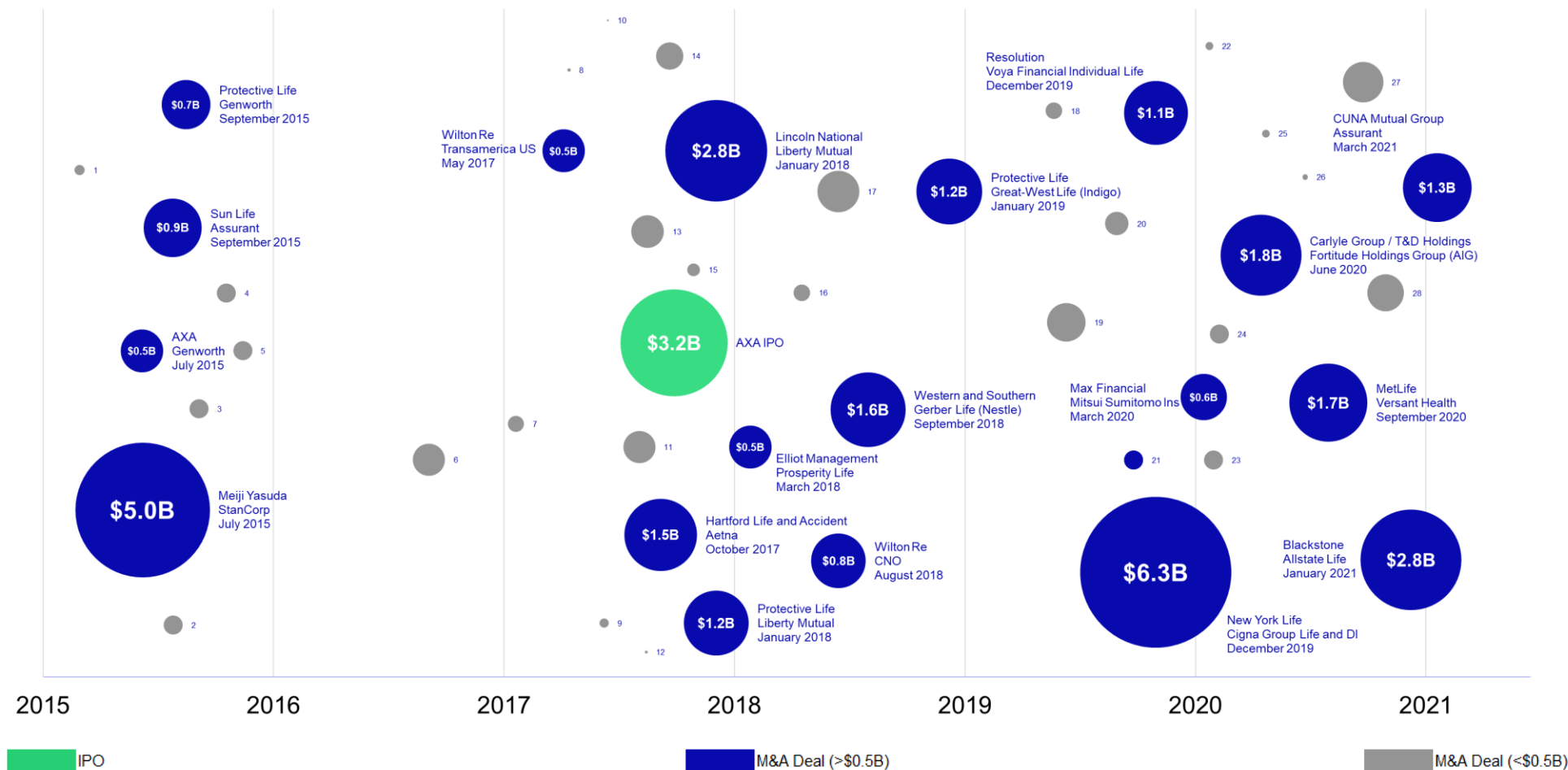
There are opportunities for writers to broaden their product offerings to have a portfolio that reaches a broad customer base and has appeal in different economic environments

Theme	Comments and considerations
Resurgence of VUL “The Old”	<ul style="list-style-type: none">• Attractive in a persistent low interest rate environment, with consistently rising equities<ul style="list-style-type: none">– Customers willing to pay more for more upside potential– Upsides to insurance company in equity market participation and diversification• Secondary guarantees appear to be attractive to consumers, but carry more risk for writers• Filing and illustration considerations
Registered IUL (“RIUL”) also emerging “The New”	<ul style="list-style-type: none">• RIUL is an IUL with downside exposure, two major designs are buffer and floor• IUL sales growing at around 8% before 2020, popular with consumers<ul style="list-style-type: none">– Recent regulation around illustrations (AG49-A) have impacted sales• Downside exposure allows for lower hedge costs, higher non-guaranteed index components and, in some situations, better illustrations

REGULATORY HAPPENINGS

Regulatory item	Comments and considerations
AG49-A	<ul style="list-style-type: none">• Applies to all policies sold on or after Dec 14, 2020• Limits illustrated value for IUL policies with indexed-based multipliers, bonuses and policy loans<ul style="list-style-type: none">– Popular multiplier designs are not expected to go away– Writers may demonstrate value by offering supplemental material and illustrating certain accounts below the maximum rate
LDTI	<ul style="list-style-type: none">• Major changes for life insurance: LFPB, DAC/DAC-like balances, disclosures• Companies at various stages of implementation, depending on reporting status• Policy decisions based on management goals balanced with operational considerations<ul style="list-style-type: none">– Impacts: deferred earnings emergence for some universal life– Major headache and biggest expense: data
PBR	<ul style="list-style-type: none">• Economic scenario generator entering field testing• Future mortality improvement and YRT reinsurance nearing conclusion• Valuation rate for 2021 issue years decreased by 50 bps

SUMMARY OF LIFE & HEALTH DEALS BY SIZE AND TRANSACTION DATE (2015 - 2021)



2015: ¹HC2 Holdings / American Financial Group, ²RGa / Voya, ³Kuvare / Guaranty Income Life, ⁴RGa / XL Group, ⁵Senior Health Insurance Co of Pennsylvania / Teachers Protective Mutual

2016: ⁶PartnerRe Ltd / Aurigen Capital

2017: ⁷Penn Mutual / Vantis Life, ⁸US Alliance / Northern Plains, ⁹Heritage Life / Pharmacists Mutual, ¹⁰R.D. Tips / Southwest Service Life, ¹¹Kuvare / United Fire Group, ¹²US Alliance Life / Midwest Holding, ¹³HCC Life / AIG, ¹⁴HC2 Holdings / Humana, ¹⁵Swiss Re / MAPFRE USA

2018: ¹⁶Kansas City Life / Grange Mutual, ¹⁷Carlyle Group / AIG

2019: ¹⁸Ares / Global Bankers, ¹⁹Kuvare / LBL, ²⁰Nassau Re / Foresters, ²¹Somerset Re / Prudential

2020: ²²First Trinity / K-TENN, ²³Aflac / Zurich North America, ²⁴Monument Re / Greycastle, ²⁵Prosperity Life / National Guardian Life, ²⁶Taishin / Prudential Taiwan, ²⁷Global Atlantic / ManuLife, ²⁸Global Atlantic / Unum

KEY TAKEAWAYS

- 1** COVID-19 contributed to decreased sales in 2020 and impacted universal life significantly. Simple low cost products easier to sell direct-to-consumer fared much better
- 2** There are opportunities to broaden product and distribution to have a portfolio that reaches a broad customer base and has appeal in different economic environments
- 3** With the number and timing of compliance changes and many writers needing to turn their full focus to LDTI, keeping up with the myriad of other regulatory changes may be difficult

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