

SPRINT #2: NEW BUSINESS & PRODUCT

Challenges of low interest rates related to new business and products

Category	Initial challenges & considerations
Challenging product economics	<ul style="list-style-type: none"> • Low rates create new business and product challenges (e.g. declining customer value proposition, increasing capital requirements for new business in the current rate environment, changes to policyholder behavior) • In addition to rates, increased cost of hedging, (potentially) rising spreads/default risk, increased / uncertain mortality & morbidity, and underwriting uncertainty all contribute to a challenging pricing environment • These concerns will affect volumes, below-hurdle profitability and deteriorating distribution • Insurers may consider feature changes (e.g., hedging features, rates, and profit participation mechanism) as a source of relief, but are concerned around refiling approval and speed
Pricing volatility	<ul style="list-style-type: none"> • Rapid movements in interest rates, spreads and equities have made it difficult to keep up with pricing
Challenging sales & tighter underwriting process	<ul style="list-style-type: none"> • There is some concern around potential mis selling claims and increased regulatory scrutiny of products • Tighter underwriting resulting from increased/uncertain mortality may lead insurers to consider exclusions/waiting periods for recent travel, shutting business in specific geographies and repricing
Distribution	<ul style="list-style-type: none"> • There is concern that if annuities become less attractive, advisors will shift to other products • However, guaranteed products have appeal in this volatile environment • If rates stay low for long, there are concerns around ability to support captive agency cost-base, recruit new talent, and ability to train distribution to sell new products less-focused on guarantees
Communication	<ul style="list-style-type: none"> • Agents face challenges talking when talking to customers about recent market volatility and illustrating products features