Life Insurance Companies Mortality Analysis

Overview

This report utilizes data from statutory financial filings made available through SNL Financial. Data reflects information on individual companies rather than consolidating subsidiaries under a single parent. We did this so we could better separate information about subsidiaries selling specific product lines. As a result, we further separated data to identify companies selling final expense and preneed products.

In addition, companies were also classified by amount of assets in order to compare companies of similar sizes.

	All Life Co's	Final Expense Co's	Preneed Co's
Number of Companies	794	71	26
Quartile 1	Less than $22.2M	Less than $145M	Less than $75M
Quartile 2	$22.2M – $210M	$145M - $458M	$75M - $461M
Quartile 3	$210M - $1,923M	$458M - $1,152M	$461M - $1,145M
Quartile 4	More than $1,923M	More than $1,152M	More than $1,145M

Actual to Expected Mortality

Since final expense insurance is issued entirely on a simplified issue basis it's interesting to compare the mortality experience for companies selling this product to the rest of the industry. In addition, since preneed insurance is sold with very minimal underwriting, the same comparison is valid.

For the purpose of this report, we've estimated actual to expected mortality by using the following formula from the statutory financials:

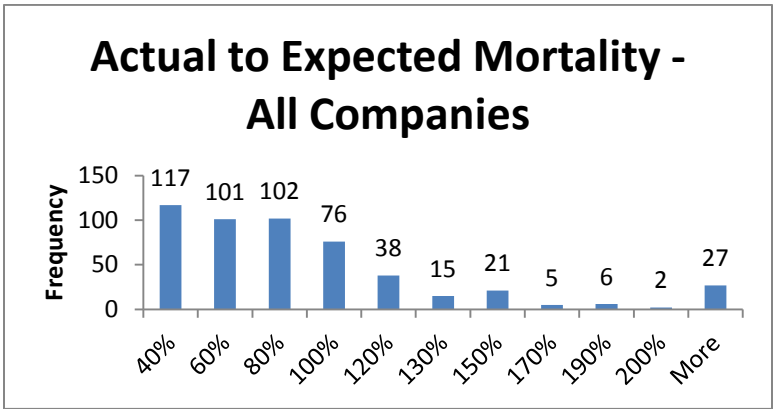
Individual Life Death Benefits (Page 6, Column 3, Line 10)/
Reserves released by death + tabular costs (Page 7, Column 3, Line 9 + 10)

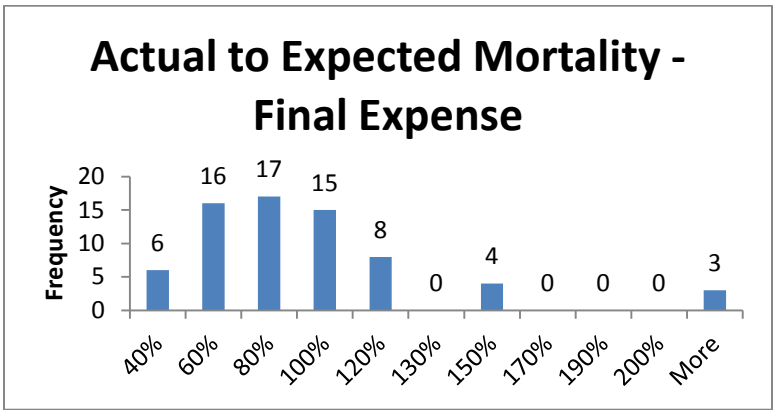
Obviously, this is just an approximation. However, it's a good place to start as a means to explore whether final expense and preneed companies have different mortality experience than the rest of the industry.

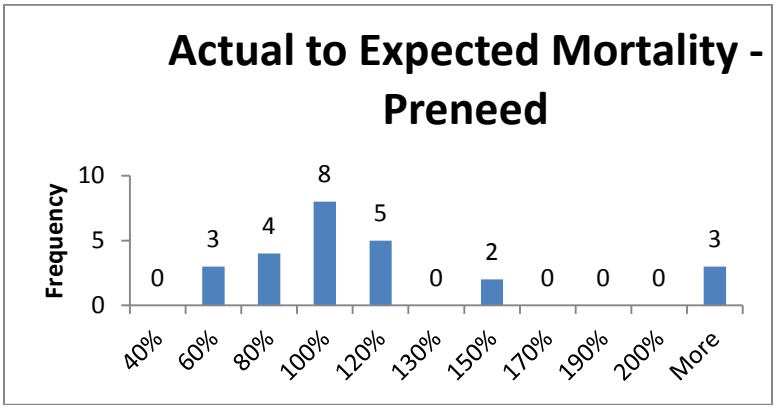
The following table shows the median and average mortality ratio for all companies, final expense companies, and preneed companies broken out by asset size quartile with quartile 1 being the smallest companies. The table shows that overall, final expense and preneed companies do appear to have higher mortality, although this is mostly due to the experience of the smaller companies.

	All Companies	Final Expense	Preneed
		Quartile 1	
Average	78%	103%	86%
Median	73%	85%	89%
		Quartile 2	
Average	78%	78%	217%
Median	73%	75%	171%
		Quartile 3	
Average	92%	98%	88%
Median	81%	74%	87%
		Quartile 4	
Average	88%	73%	99%
Median	65	65%	102%
		All Quartiles	
Average	71%	88%	122%
Median	60%	75%	91%

Since averages can often hide the experience of outliers, we've graphed the range of mortality ratios for the three different groups of companies below. The graphs do seem to support the conclusion from above that more final expense and preneed companies do seem to experience higher mortality.







Benefit Ratios

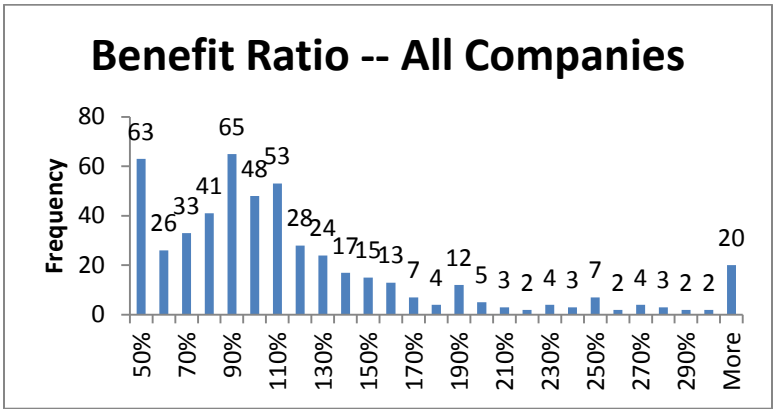
Another way to compare mortality is to look at benefit ratios. In this instance, we have compared benefits and losses for individual life products to net premiums for that line of business using the following formula from the statutory financials:

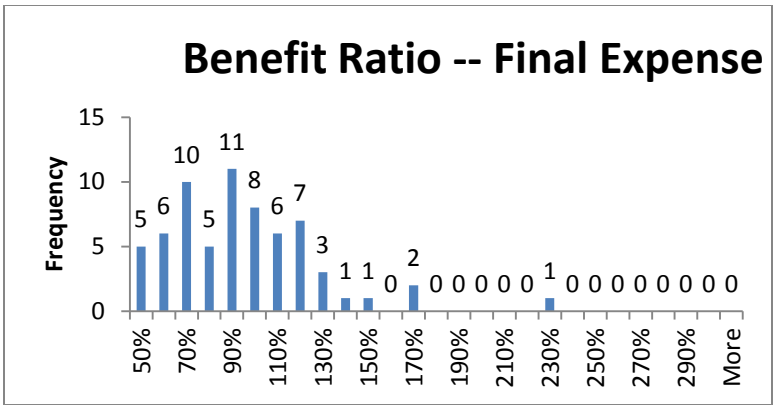
Benefits and Losses (Page 6, Column 3, Lines 10 – 19)/ Premiums and Considerations (Page 6, Column 3, Line 1)

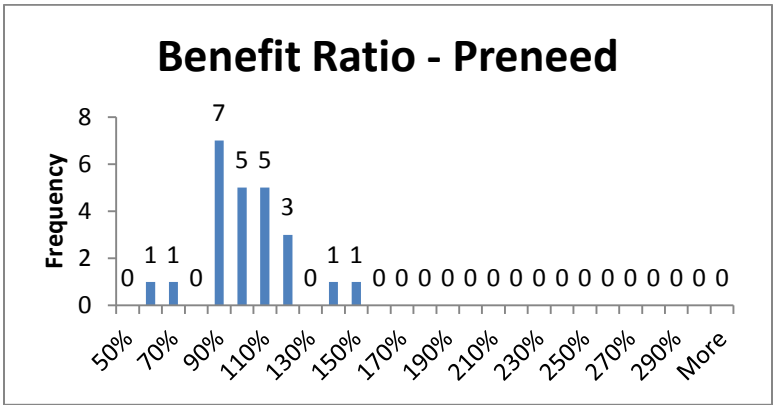
One way to look at this formula is to assume that if this is the percentage of premiums that are being paid out for claims and benefits, then the balance is available to pay expenses, commissions, and profits. The table below indicates that final expense and preneed companies appear to have lower benefit ratios on average than the rest of the industry.

	All Companies	Final Expense	Preneed
Average	118%	90%	97%
Median	95%	88%	97%

Once again, we have graphed the data below in order to capture the outliers. These graphs do confirm the conclusion from the table.







Expense Ratio

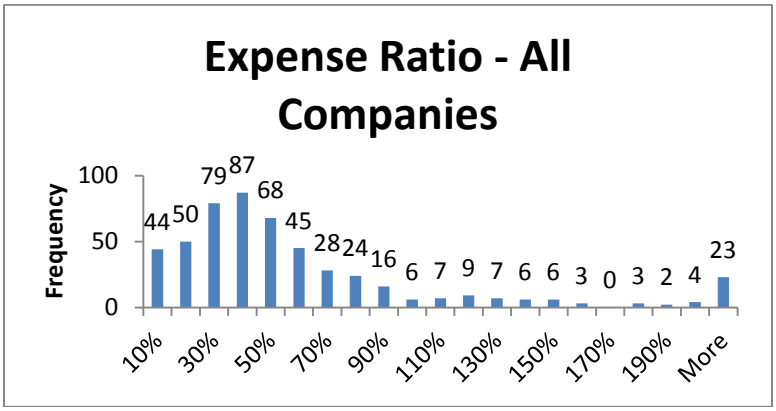
The compliment to the Benefit Ratio is the Expense Ratio. This compares general expenses and commissions to individual life premiums using the following formula from the statutory financials:

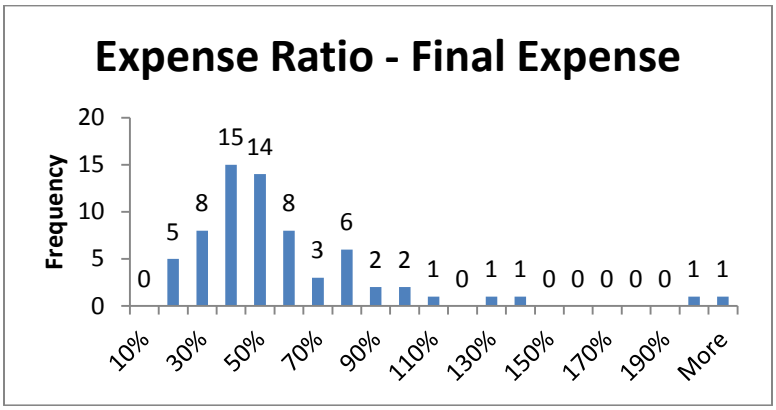
Direct commissions + General Insurance Expenses (Page 6, Column 3, Lines 21 + 23)/ Premiums and Considerations (Page 6, Column 3, Line 1)

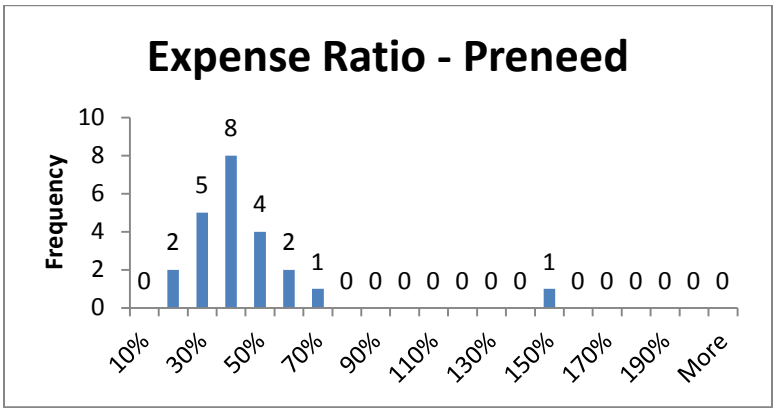
The table below indicates that final expense and preneed companies on average have lower expense ratios than the rest of the industry.

	All Companies	Final Expense	Preneed
Average	65%	59%	41%
Median	40%	45%	35%

The graphs below capture all of the data and confirm the findings in the above table.







Summary

Readers are encouraged to perform their own calculations to see how their company compares to their competitors. Although it can be misleading to read too much into ratios derived from statutory financials, this is an excellent starting point to help identify areas within your company that may require closer scrutiny.