

# LOW INTEREST RATE TASK FORCE

New business survey results

April 23, 2020

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# OVERVIEW & COMPANY DEMOGRAPHICS

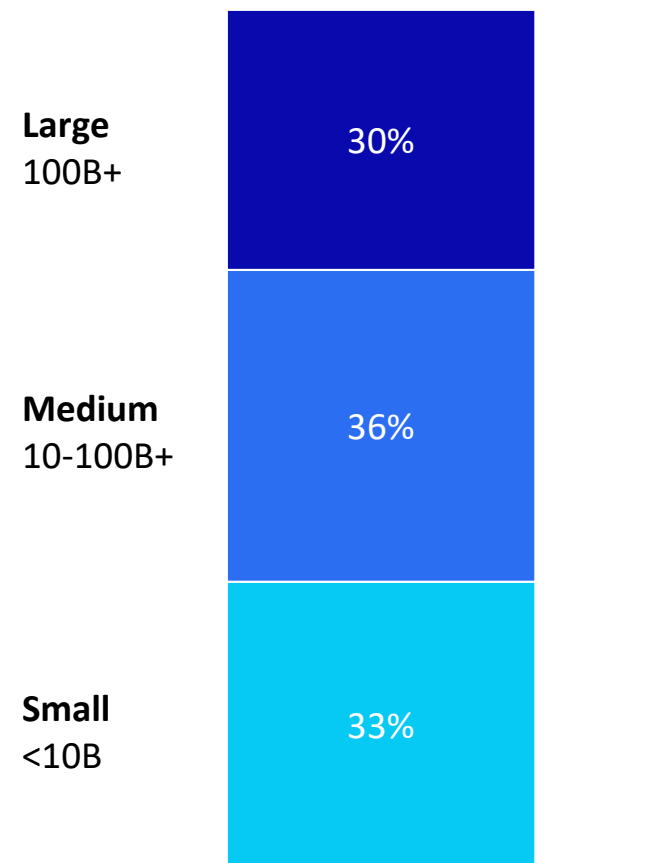
## Survey context

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- Objectives**
- Primary focus is on the impact of current market conditions on sales and the issuing of new business
  - Secondary focus is to understand range of industry practices for new business
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- Respondents**
- 33 respondents working at life insurers (one response per company)
  - Range of functions including actuarial, product management and pricing
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- Approach**
- Multiple choice, rating, or free-response questions
  - Survey in field April 15-22<sup>nd</sup>, 2020
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## Respondents by company size (n = 33) Total assets, USD BN\*



Source: S&P Global Intelligence

\* Large companies (100+BN); Medium companies (10-100BN); Small companies (<10BN)

# NEW BUSINESS SURVEY FINDINGS SUMMARY

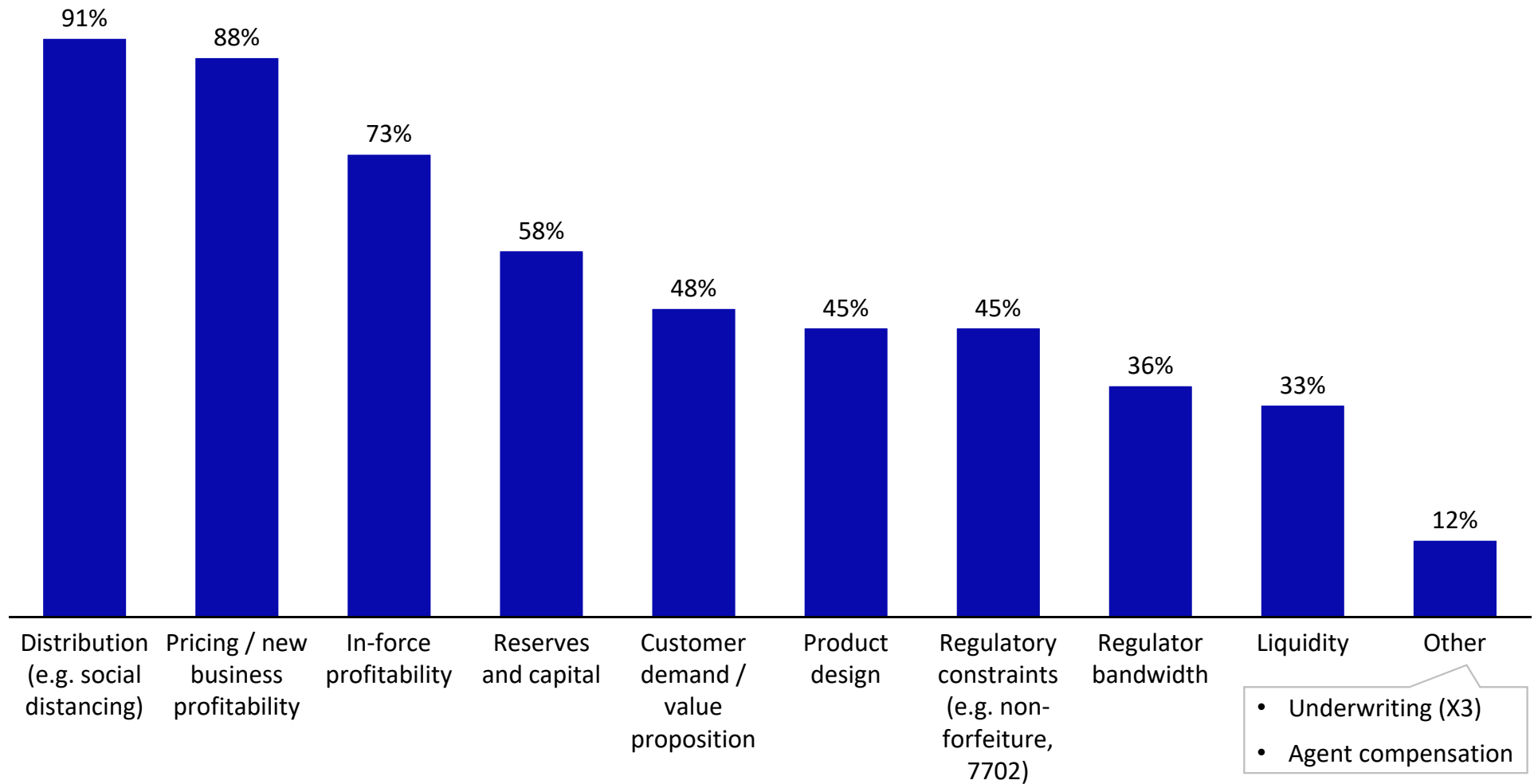
Section	Key findings
<b>01 Top concerns for new business</b>	<ul style="list-style-type: none"> <li>• Around 90% of insurers cited distribution challenges and new business profitability as concerns in light of recent events, and nearly 2/3rds of respondents listed one of these as their top concern</li> <li>• Insurers are also concerned about the profitability of their in-force book, as well as pressure on their balance sheet (~20% listed reserves and capital as a top concern); liquidity was not a top concern</li> <li>• Nearly half of respondents listed customer value proposition and product design as concerns, but these concerns generally ranked behind more near term issues</li> <li>• Recent events have put a strain on pricing and product teams</li> </ul>
<b>02 Pricing and underwriting</b>	<ul style="list-style-type: none"> <li>• Declining government bond rates are a common concern for insurers across all product categories</li> <li>• Other factors such as increased cost of hedging, credit spreads, and underwriting are major concerns for certain products</li> <li>• There is a general trend of insurers reviewing pricing more frequently, moving from monthly to weekly for annuities or from semi-annual or annual reviews to quarterly or monthly reviews for permanent life products</li> <li>• Firms have taken action by instituting pricing controls, changing pricing assumptions, and updating hurdle rates</li> <li>• Social distancing has caused insurers to turn to alternative underwriting solutions, replacing medical exams with APS's, digital screenings, and historical health records</li> <li>• The most common requests for regulatory relief are for an updated 7702 rate floor and decreases to non-forfeiture rates</li> </ul>
<b>03 Product changes</b>	<ul style="list-style-type: none"> <li>• Many firms have introduced changes for product administrative procedures, including shortening product change windows, changing maximum premiums allowed, and increasing the frequency of field notifications</li> <li>• Firm have changed or are considering changing product features (non-guaranteed features and guarantees), and some have placed new restrictions on certain products</li> </ul>

**01**

**TOP CONCERNS FOR NEW BUSINESS**

# INSURERS HAVE CONCERN ACROSS SEVERAL NEW BUSINESS CONSIDERATIONS IN LIGHT OF COVID-19 AND RECENT MARKET CONDITIONS

**Question 1:** Please indicate **which of the following factors is a concern** to your organization regarding new business in light of COVID-19 and recent market conditions? (please select all that apply) (n = 33)



# NEW BUSINESS PROFITABILITY AND DISTRIBUTION WERE THE TOP CONCERNS FOR MANY INSURERS, BUT SOME CITED RESERVES AND CAPITAL AS THEIR TOP CONCERN

**Question 2:** Please rank the following factors according to your organization’s level of concern regarding new business in light of COVID-19 and recent market conditions. (n = 33)

### Key takeaways

Around 90% of insurers cited distribution challenges and new business profitability as concerns in light of recent events, and nearly 2/3rds of respondents listed one of these as their top concern

Insurers are also concerned about the profitability of their in-force book, as well as pressure on their balance sheet (~20% listed reserves and capital as a top concern); liquidity was not a top concern

Nearly half of respondents listed customer value proposition and product design as concerns, but these concerns generally ranked behind more near term issues

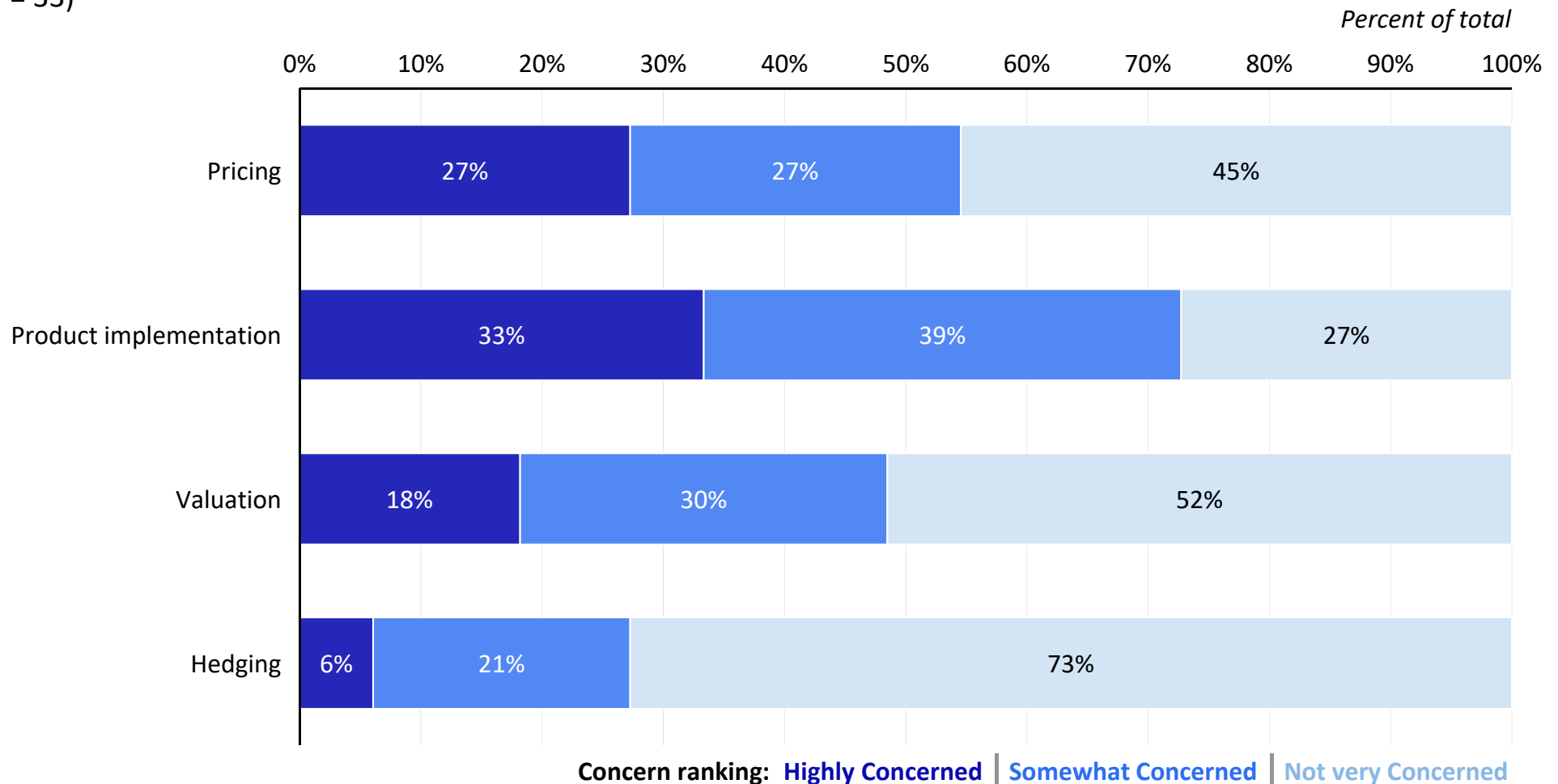
Concerns	% concerned
Distribution (e.g., social distancing)	91%
Pricing / new business profitability	88%
In-force profitability	73%
Reserves and capital	58%
Customer demand / value proposition	48%
Product design	45%
Regulatory constraints (e.g. non-forfeiture, 7702)	45%
Regulator bandwidth	36%
Liquidity	33%

*Count of rankings by category*

	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup> +
Distribution (e.g., social distancing)	10	8	3	9
Pricing / new business profitability	11	6	4	8
In-force profitability	3	7	6	8
Reserves and capital	6	2	1	10
Customer demand / value proposition	1	1	7	7
Product design	0	0	5	10
Regulatory constraints (e.g. non-forfeiture, 7702)	2	2	1	10
Regulator bandwidth	0	1	2	9
Liquidity	0	2	1	8

# FIRMS ARE BANDWIDTH-CONSTRAINED ACROSS MULTIPLE TEAMS, ESPECIALLY PRODUCT AND PRICING TEAMS

**Question 16:** How much are you **concerned about team bandwidth** with the increased need to make pricing and product changes compared to business as usual? Please indicate level of concern for each of the following functions. (n = 33)



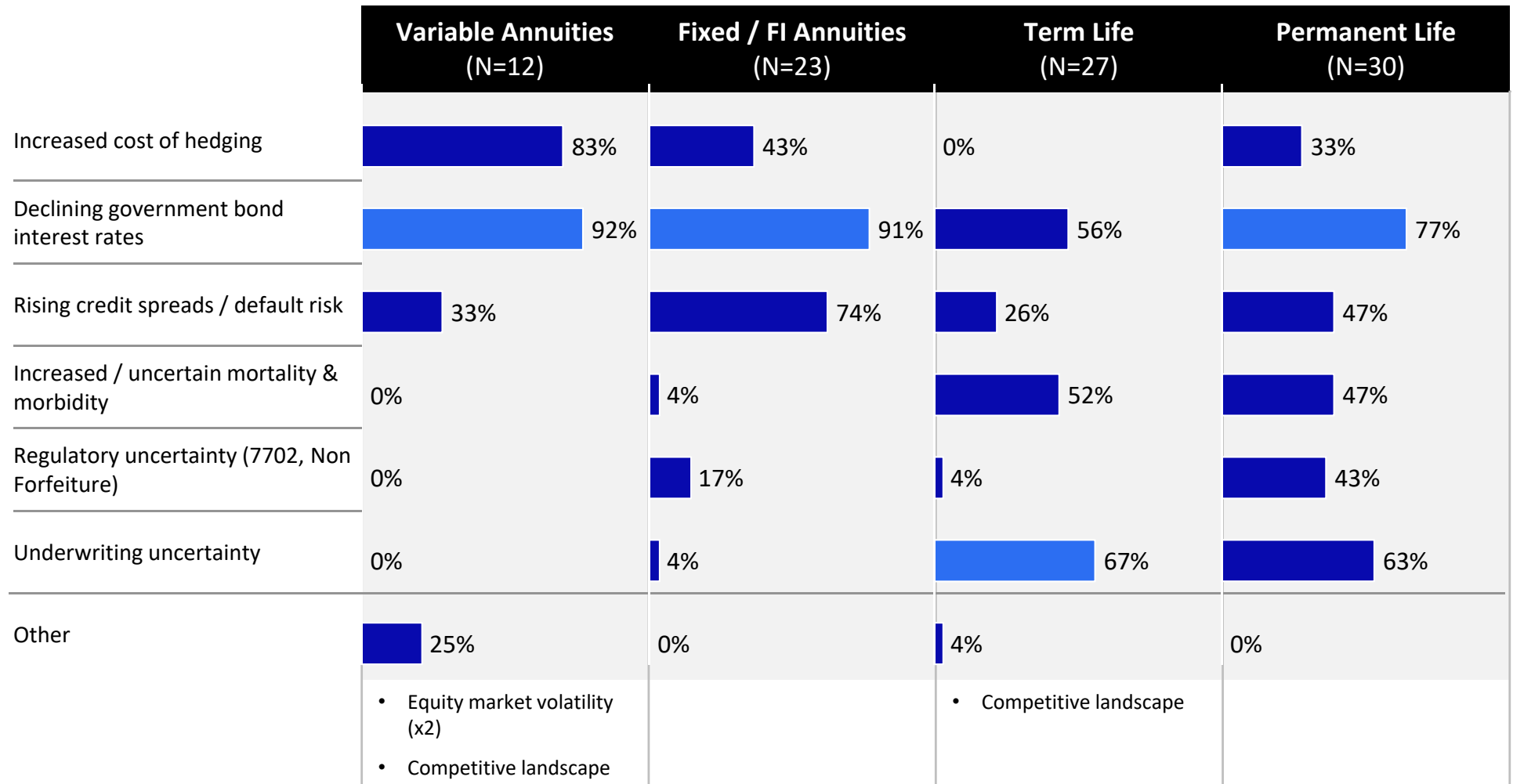


**02**

**PRICING AND UNDERWRITING**

# DECLINING INTEREST RATES IS THE MOST COMMONLY CITED ISSUE THAT HAS CHALLENGED PRICING ACROSS PRODUCT TYPES

**Question 6:** Please indicate which of the following factors have challenged your organization's pricing in the current environment.

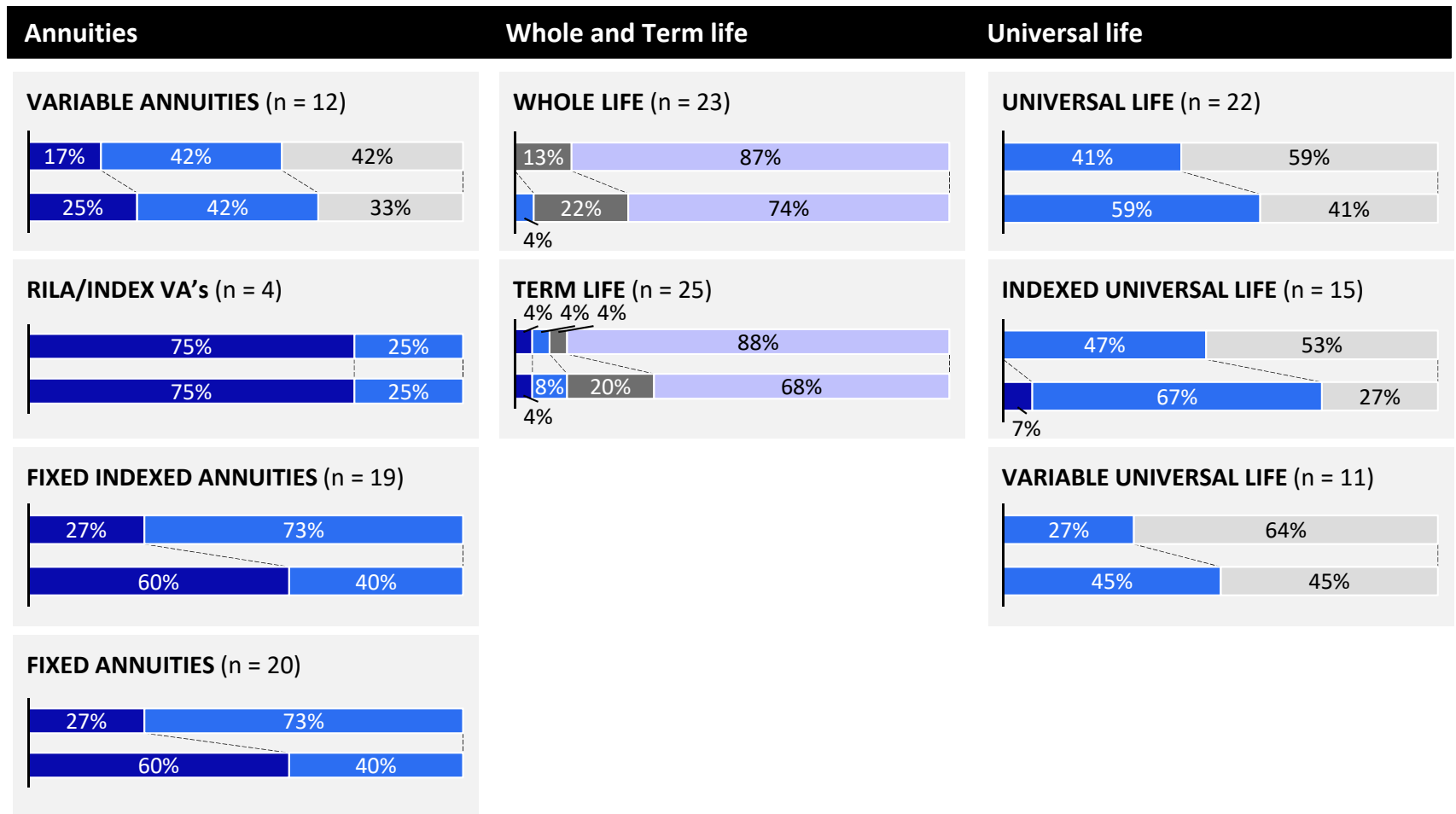


Note: light blue represents most cited concern for each product

# INSURERS HAVE BEGUN TO REVIEW PRICING, CREDITING RATES, AND CAP RATES MORE FREQUENTLY

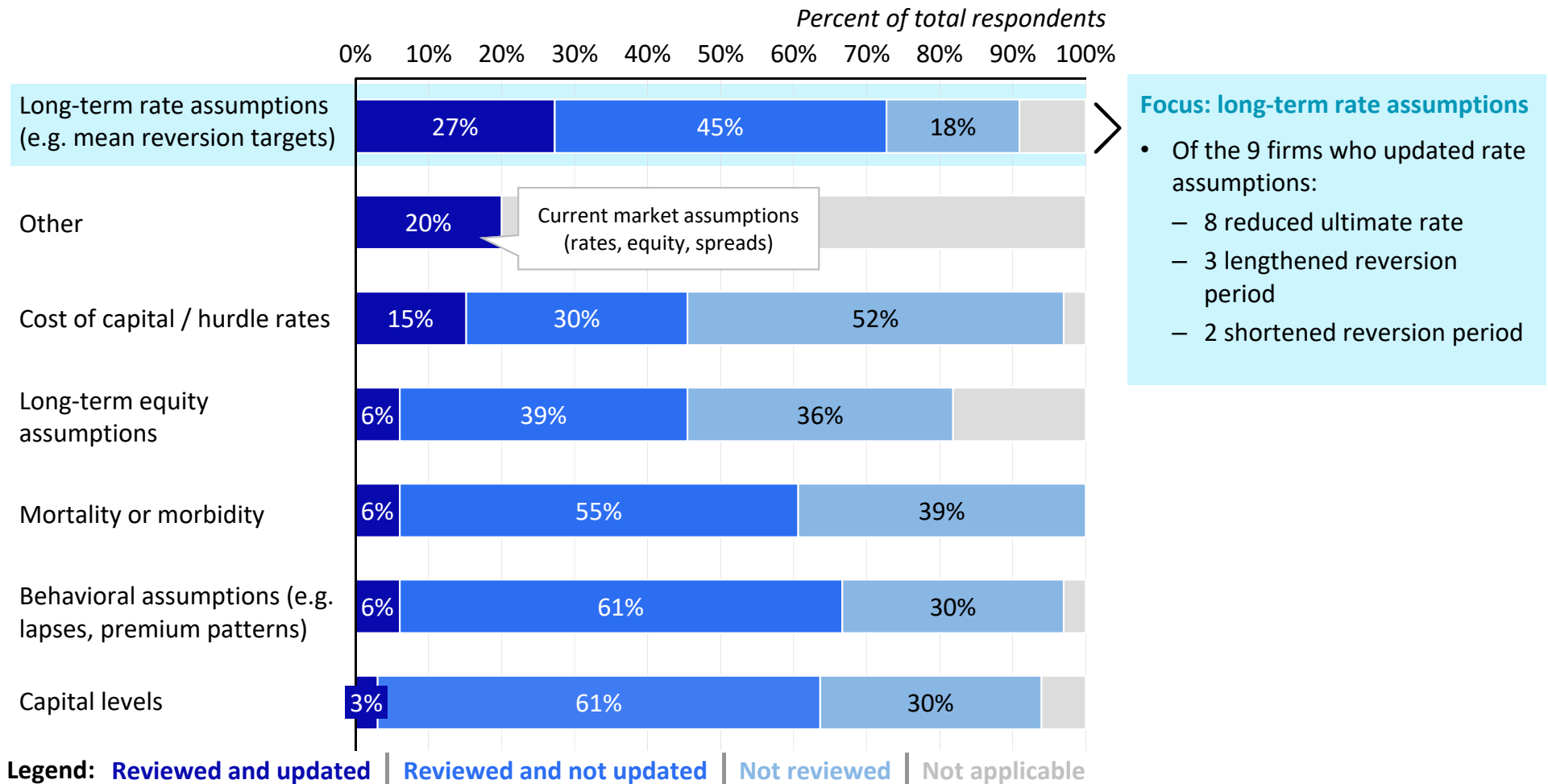
**Question 4:** How frequently did you typically review pricing/crediting rates/cap rates on new policies before COVID-19, and how frequently do you review pricing now?

Frequency of pricing/crediting/cap rate reviews: ■ Weekly ■ Monthly ■ > Monthly ■ Quarterly ■ > Quarterly



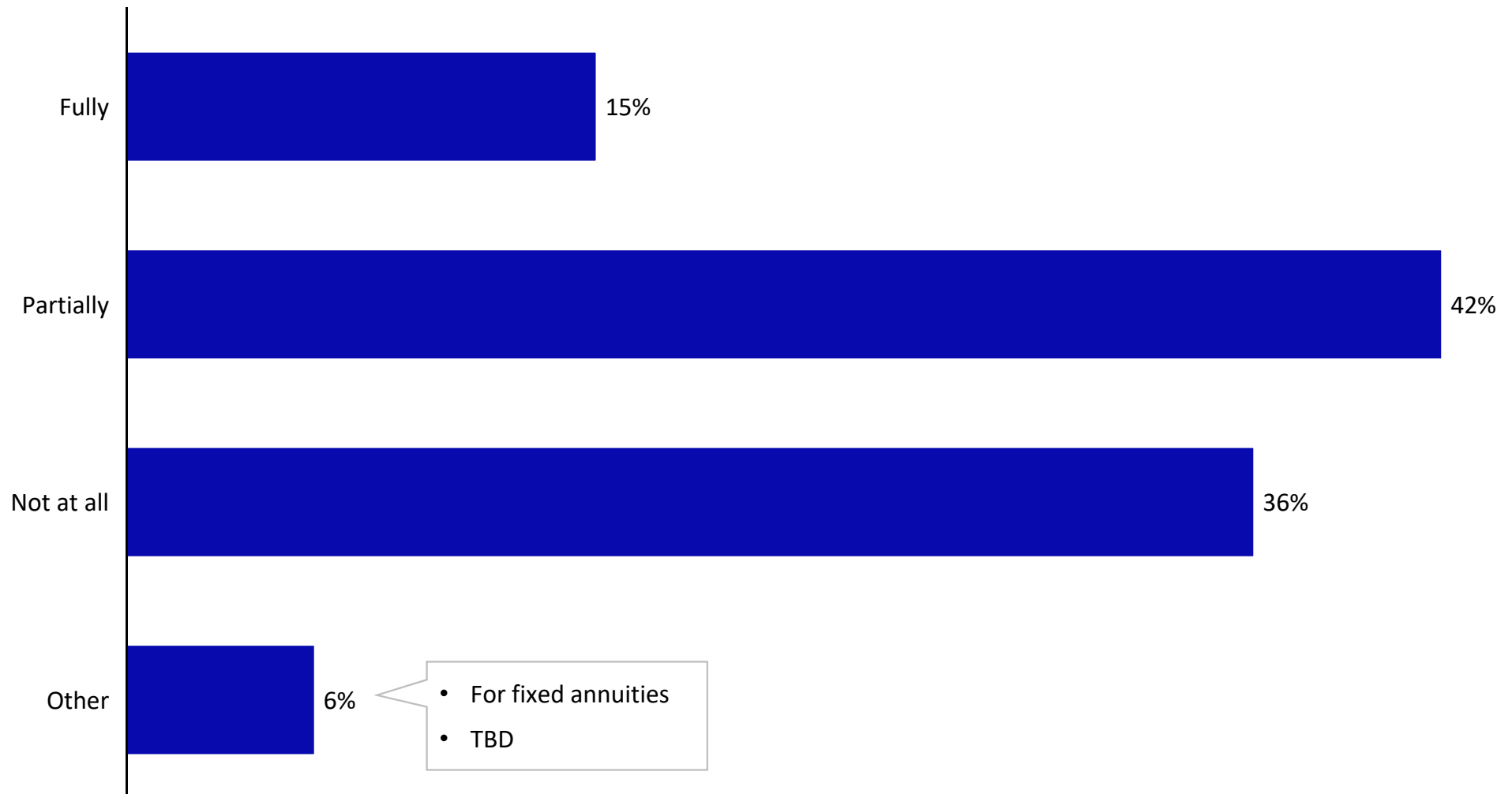
# MOST FIRMS HAVE REVIEWED MAJOR PRICING METRICS, BUT FEW HAVE CHANGED ASSUMPTIONS

**Question 8:** Has your organization **reviewed and/or updated** any of the following **assumptions** in response to recent market conditions? (n = 33)



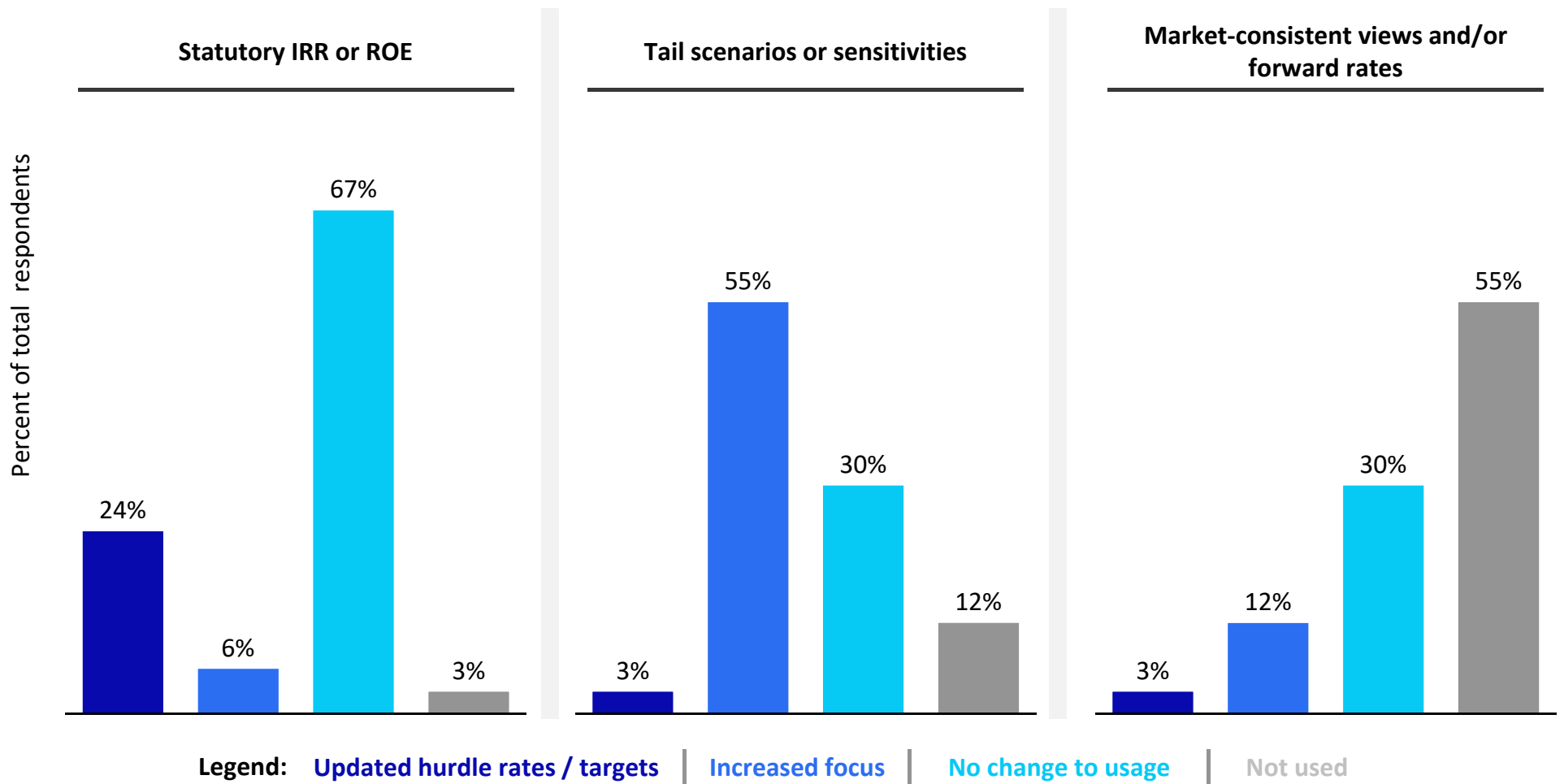
# MOST FIRMS ARE PARTIALLY PASSING CREDIT SPREADS THROUGH TO PRICING, OR NOT PASSING THEM THROUGH AT ALL

Question 11: To what extent are you passing widening credit spreads through to pricing? (n = 33)



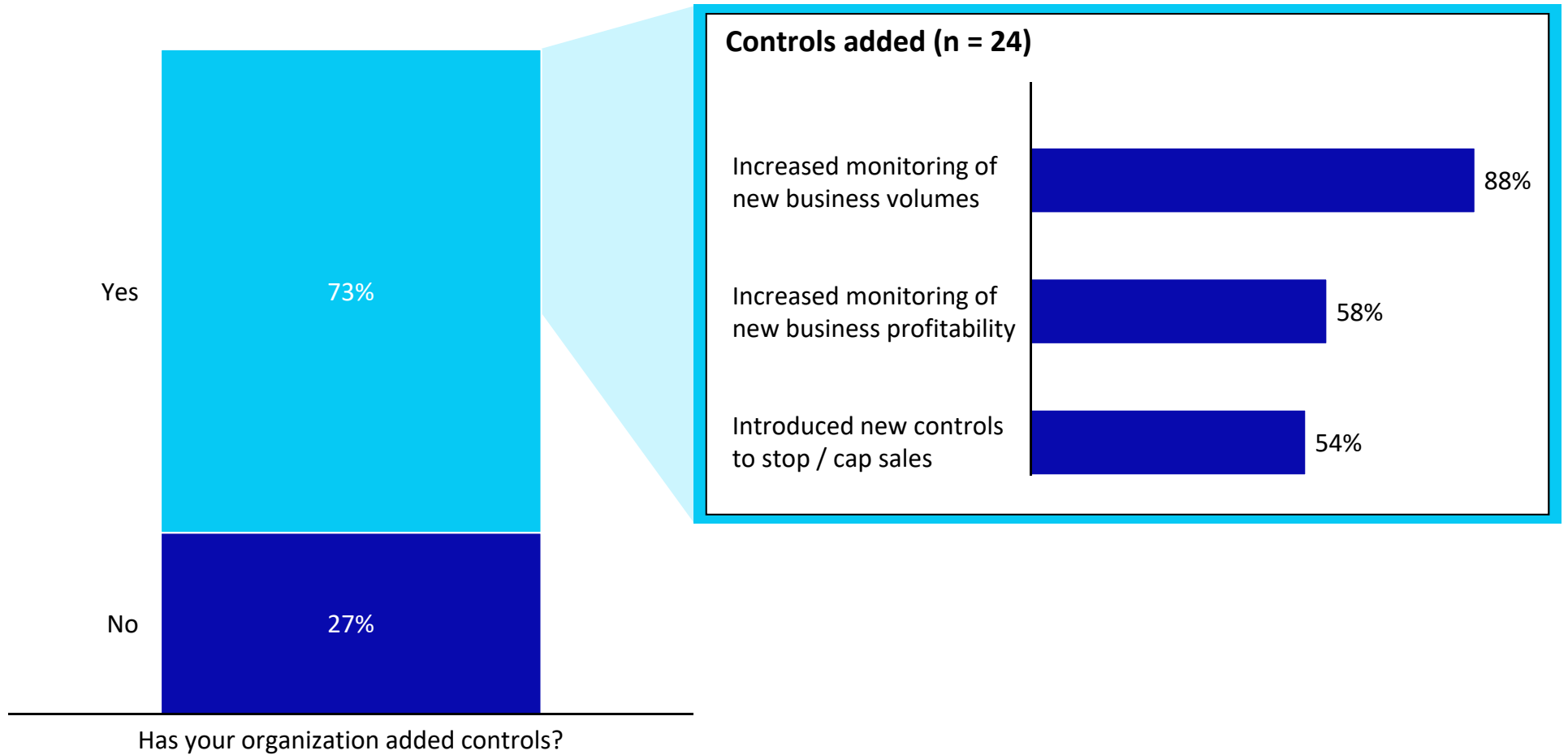
# SOME FIRMS HAVE UPDATED IRR / ROE HURDLE RATES AND TARGETS, AND MANY ARE INCREASING THEIR FOCUS ON TAIL SCENARIOS OR SENSITIVITIES

**Question 7:** Has your organization changed any of the following pricing metrics in response to recent market conditions? (n = 33)



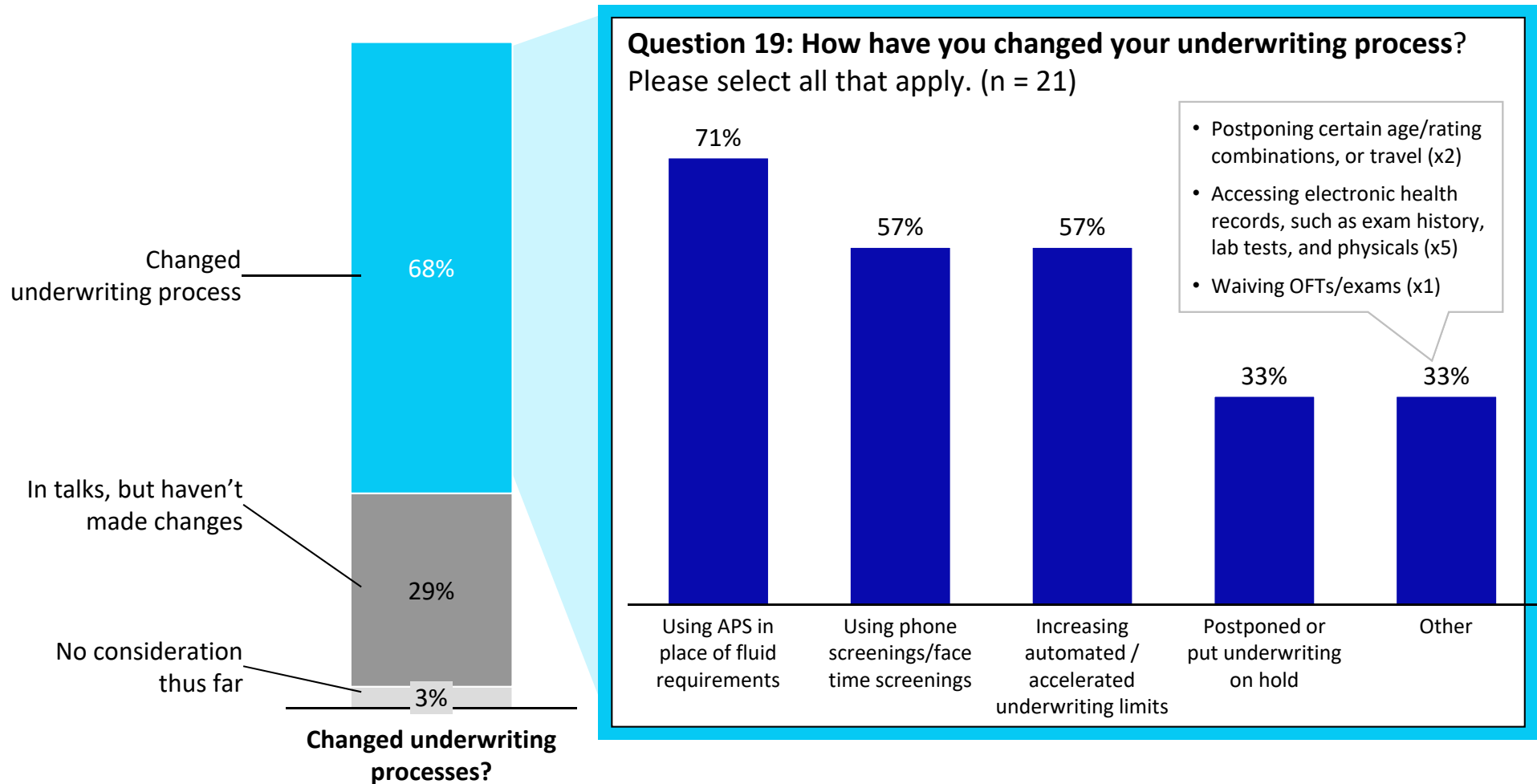
# THREE QUARTERS OF FIRMS SURVEYED HAVE ADDED CONTROLS ON NEW BUSINESS SALES TO MITIGATE PRICING RISK

**Question 5:** Has your organization added controls for writing new business, given market volatility and lead times to change pricing? (n = 33)



# FIRMS THAT HAVE CHANGED UNDERWRITING PROCESSES HAVE TURNED TO LESS STRINGENT REQUIREMENTS THAT REDUCE NEED FOR DOCTORS VISITS

**Question 18:** Regarding the potential lack of access to underwriting results, which of the following best describes your current situation? (n = 29)



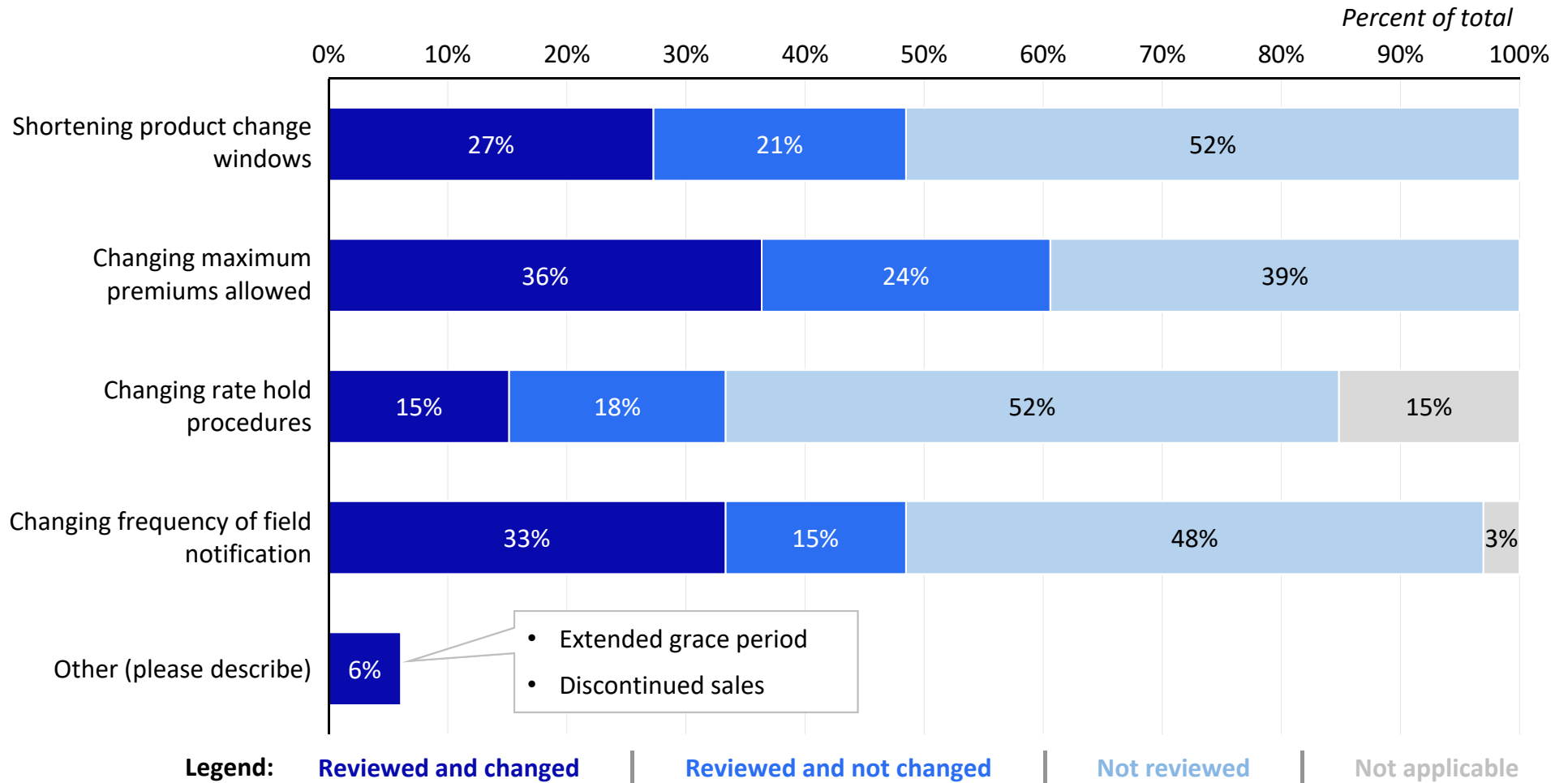


**03**

**PRODUCT CHANGES**

# MANY FIRMS HAVE REVIEWED PRODUCT CHANGE PROCEDURES, AND SOME HAVE IMPLEMENTED CHANGES

**Question 14:** What **changes** have been made to your organization's **administrative procedures** in light of the COVID-19 pandemic and current market conditions? (n = 33)



# FIRM HAVE CHANGED OR ARE CONSIDERING CHANGING PRODUCT FEATURES, AND SOME HAVE PLACED NEW RESTRICTIONS ON CERTAIN PRODUCTS

Question 15: What other product changes or restrictions have you made or are you considering? (n = 33)

Adjustment	Have made change	Have considered change	Have not considered change	Not relevant
Adjusting non-guaranteed elements	52%	24%	21%	3%
Adjusting guarantees	27%	39%	33%	0%
Removing product features or options	15%	42%	42%	0%
Limiting or removing ability to make future deposits	3%	12%	67%	18%

## Other changes or restrictions noted

### Restrictions

- Paid-up additional deposit limits
- Limiting face value amount for some policies
- Restricting issuance of substandard ratings for life insurance (X2)
- Considering ceasing marketing of 30 year term policies
- Product suspensions (X3)

### Features

- Working on new product designs with modifications to the index strategies available (removing the highly volatile strategies from the products)
- Temporarily increased the free withdrawal amount allowed on deferred annuities to help customers dealing with liquidity issues related to COVID-19
- Extended grace periods

## SOME FIRMS HAVE RESTRICTED ACCESS OF PRODUCTS FOR SPECIFIC AGE GROUPS AND RECENT TRAVELERS

**Question 15:** What other **product changes or restrictions** have you made or are you considering? (n = 33)

Adjustment	Have made change	Have considered change	Have not considered change	Not relevant
Restricting life and health products for recent travelers to specific countries	55%	18%	18%	9%
Restricting life and health products for age groups	48%	21%	21%	9%
Restricting life and health products for specific US geographies	3%	21%	67%	9%
Repricing life and health products for COVID mortality and morbidity	0%	24%	67%	9%
Excluding COVID-related mortality and morbidity	0%	15%	70%	15%

### Other changes or restrictions noted

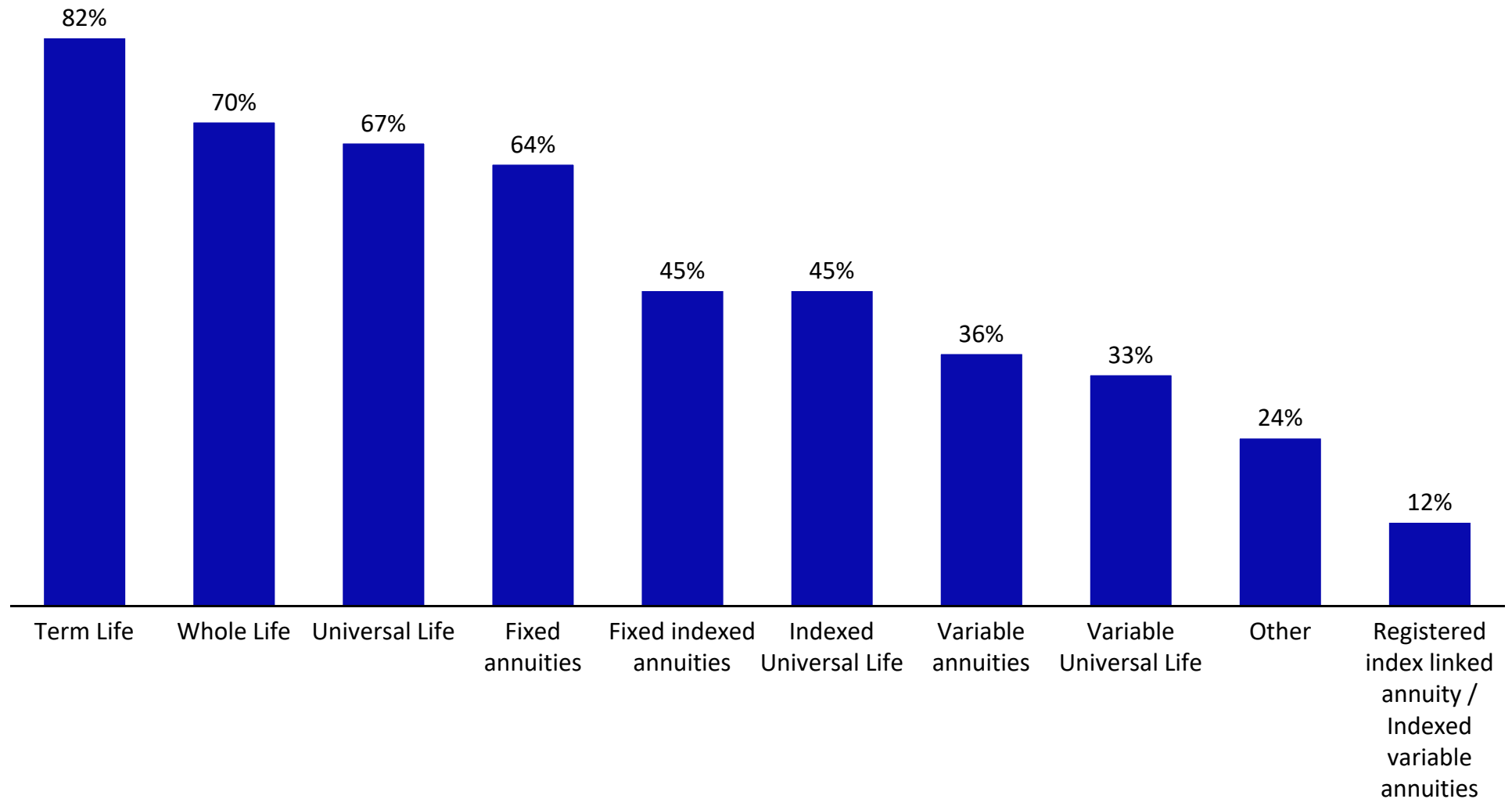
- Re-underwriting for any COVID related activity not disclosed on application
- Adjusting underwriting standards to reflect extra mortality risk and underwriting disruptions due to social distancing (X8)

**04**

**APPENDIX**

## VARIETY OF PRODUCTS OFFERED ACROSS COMPANIES

Question 3: Which of the following products does your company offer? (select all that apply) (n = 33)



# REGULATORY RELIEF IS REQUESTED TO HELP ACCELERATE PRODUCT APPROVALS AND PROVIDE RELIEF FROM NONFORFEITURES

**Question 17: What regulatory measures would provide your organization relief for product changes? (n = 22)**

Category	Responses
<b>Process acceleration</b>	<ul style="list-style-type: none"> <li>• Quicker review and approval of new products by state insurance departments (X9)</li> <li>• Speeding up filings for tele-sales</li> <li>• Faster SEC approval for VA product changes due to COVID-19</li> <li>• Faster compact approvals, especially for non-compact states like CA (X2)</li> <li>• Fast tracking for changes from COVID-19</li> <li>• Increased use of deemer clause for speed to market</li> </ul>
<b>Rate relief</b>	<ul style="list-style-type: none"> <li>• Updates to nonforfeiture (e.g., removing 4% floor reference if IRC s. 7702 interest rate is lowered) (X9)</li> <li>• Lowering interest rate in IRC s. 7702 (X5)</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>• ND and CT not approving COVID-19 questions on application</li> <li>• Illustration relief</li> <li>• LDTI deferment</li> </ul>

# THE MOST COMMON REQUESTS TO REGULATORS FOR PRICING RELIEF ARE FOR AN UPDATED 7702 RATE FLOOR AND DECREASES TO NON FORFEITURE RATES

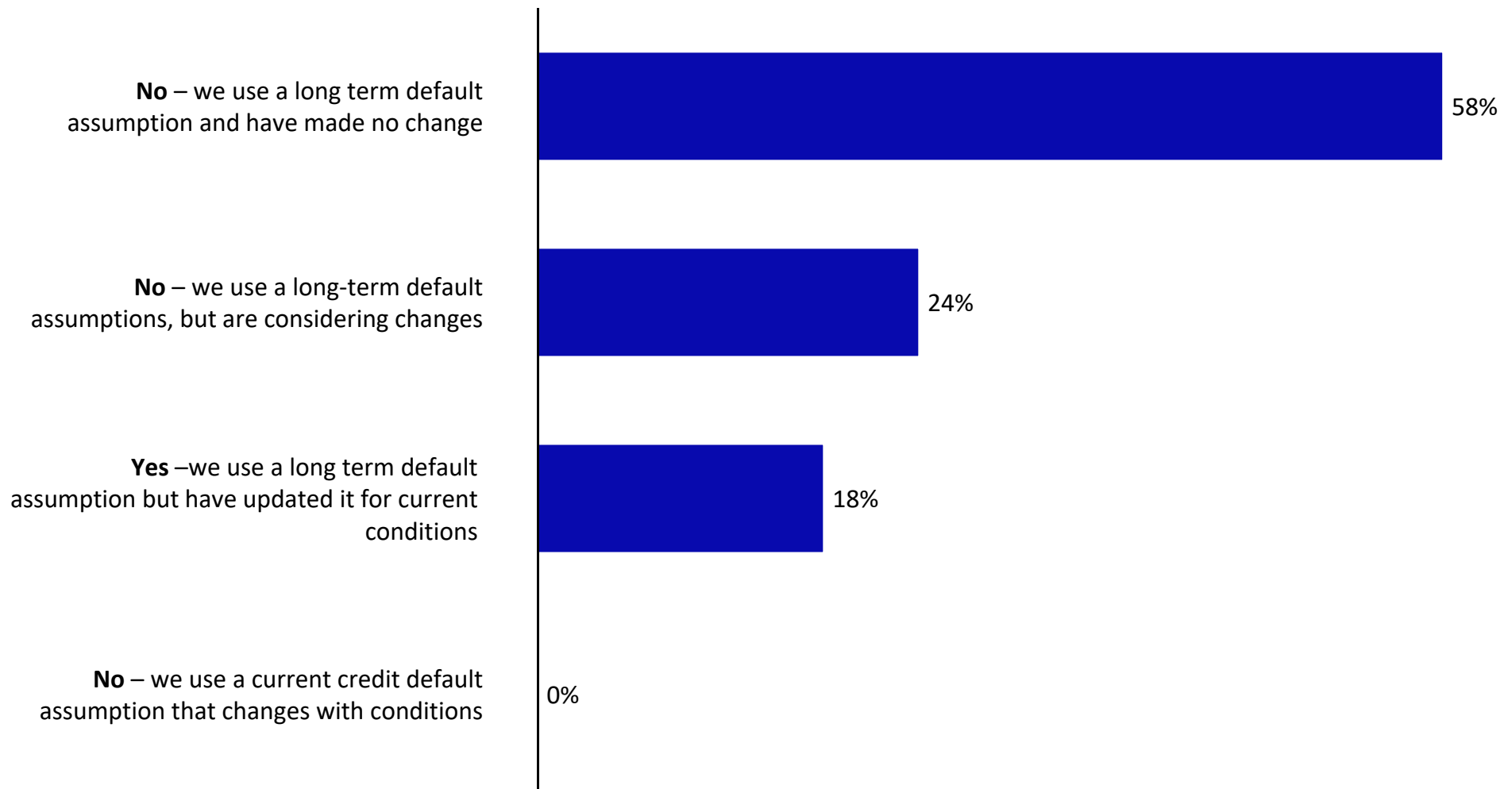
**Question 13:** What regulatory measures would provide your organization relief for your pricing concerns? (n = 20)

Category	Responses
Requirement relief	<ul style="list-style-type: none"> <li>• Rates:               <ul style="list-style-type: none"> <li>– <b>Standard Non Forfeiture Law rate decreases</b> (x10)</li> <li>– <b>Update interest rate floor in section 7702</b> to reflect the current economic environment (x9)</li> <li>– GMIR decreases (e.g., for annuities, FIAs and UL products) (x3)</li> <li>– Leave/allow valuation interest rates for deferred annuities to continue at the rates from 2019</li> </ul> </li> <li>• Capital:               <ul style="list-style-type: none"> <li>– More favorable RBC for equities for appropriate (long-term) liabilities</li> <li>– Continued deferral of the proposed RBC C1 factors until at least 2021, allowing for further ACLI study of their development</li> <li>– Conservatism inherent in PBR/margin requirements</li> </ul> </li> </ul>
Other	<ul style="list-style-type: none"> <li>• Higher use of deemer clause</li> <li>• Lengthen contestable period</li> </ul>



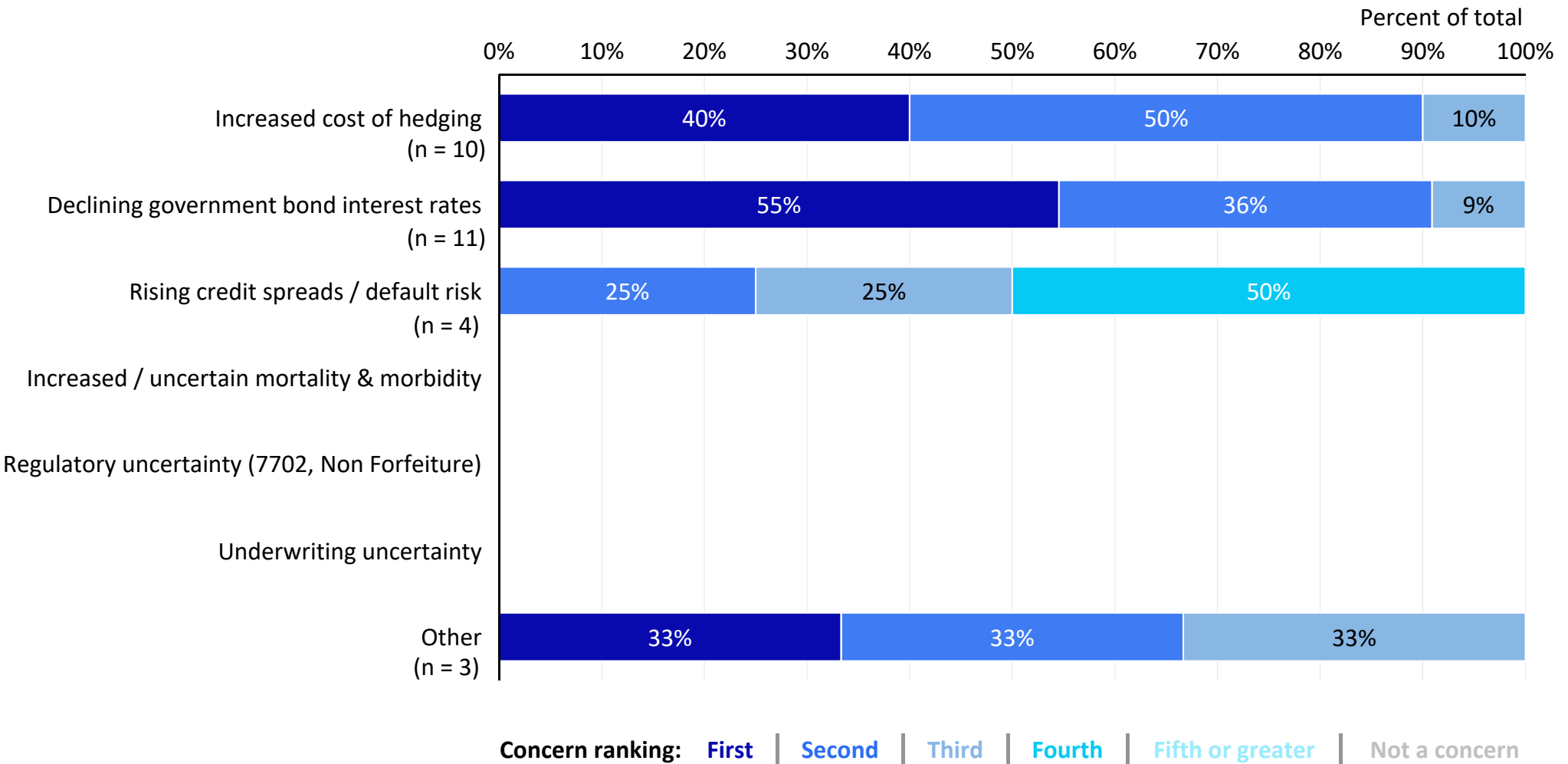
# ALL FIRMS SURVEYED USE A LONG TERM DEFAULT ASSUMPTION, AND MOST HAVE NOT MADE CHANGES TO THIS APPROACH

**Question 12:** Have you changed your **approach to setting expected default losses** on the investment portfolio? (n = 33)



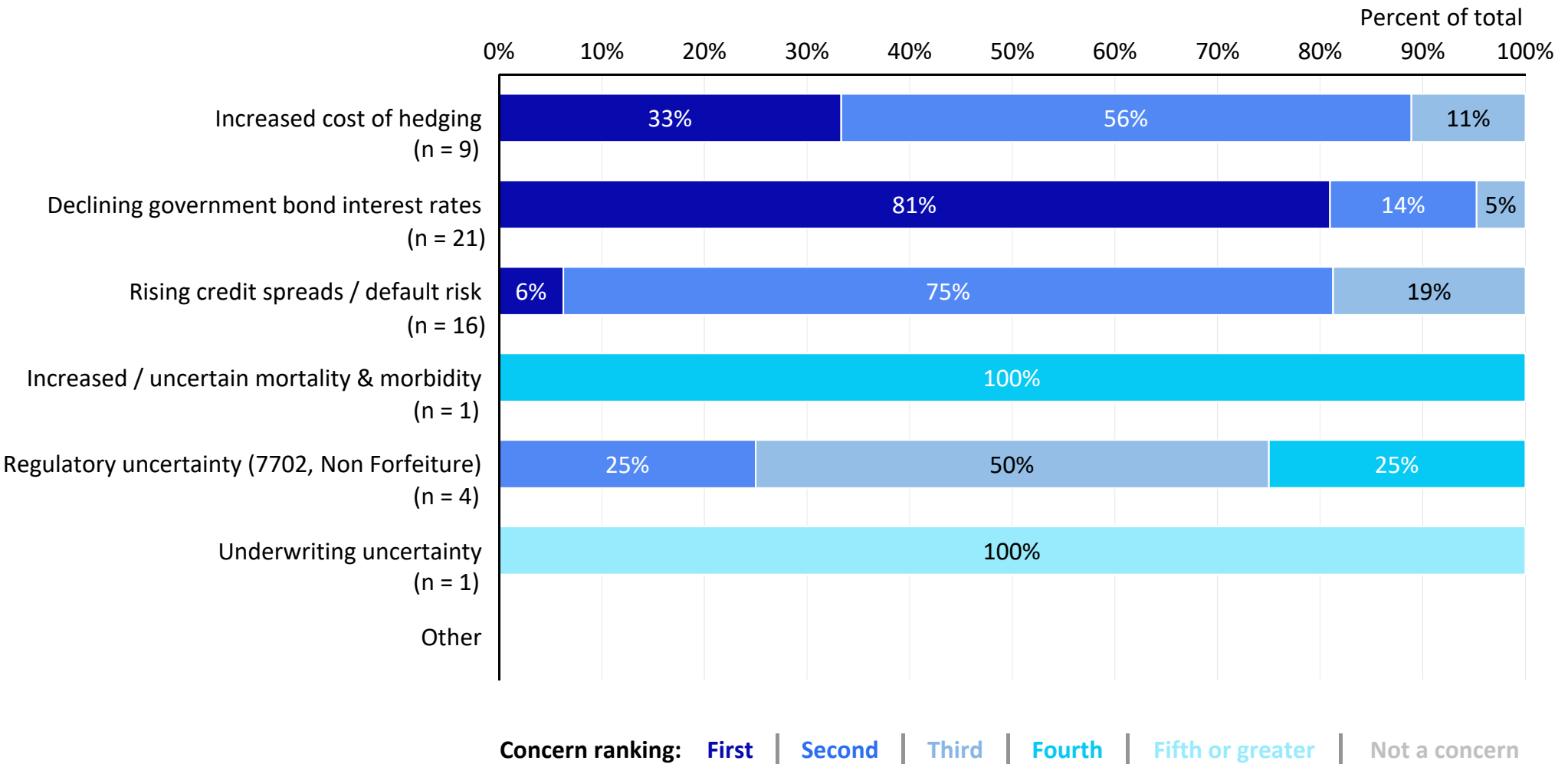
# 55% OF RESPONDENTS RANK DECLINING GOVERNMENT BOND RATES AS THE TOP VARIABLE ANNUITY PRICING CHALLENGE

Question 6: Please rank the following factors based on the degree to which they have challenged your organization's pricing for Variable Annuities?



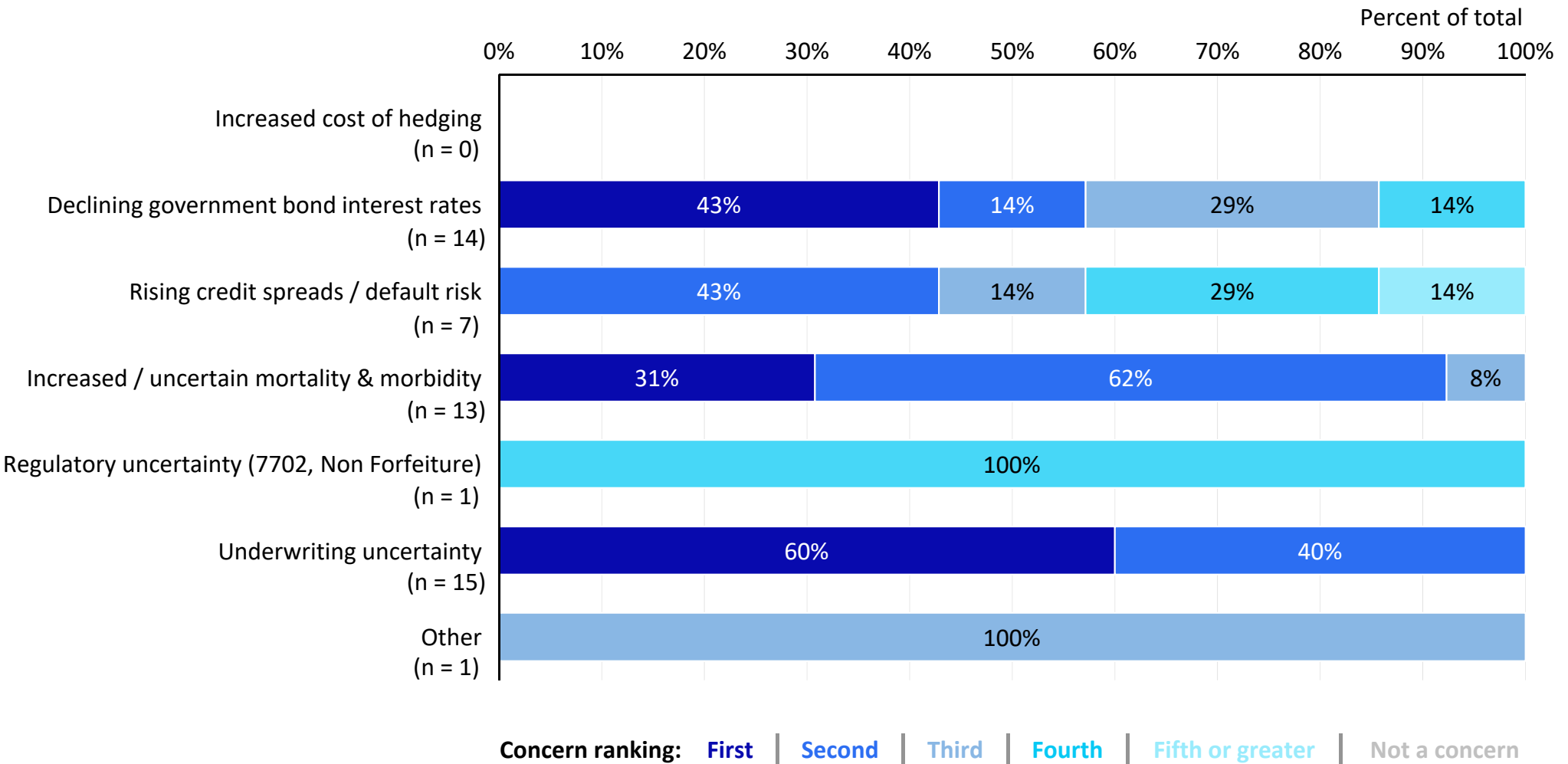
# 81% OF RESPONDENTS RANK DECLINING GOVERNMENT BOND RATES AS THE TOP FIXED / FIXED INDEXED ANNUITY PRICING CHALLENGE

Question 6: Please rank the following factors based on the degree to which they have challenged your organization's pricing for Fixed / fixed indexed annuity?



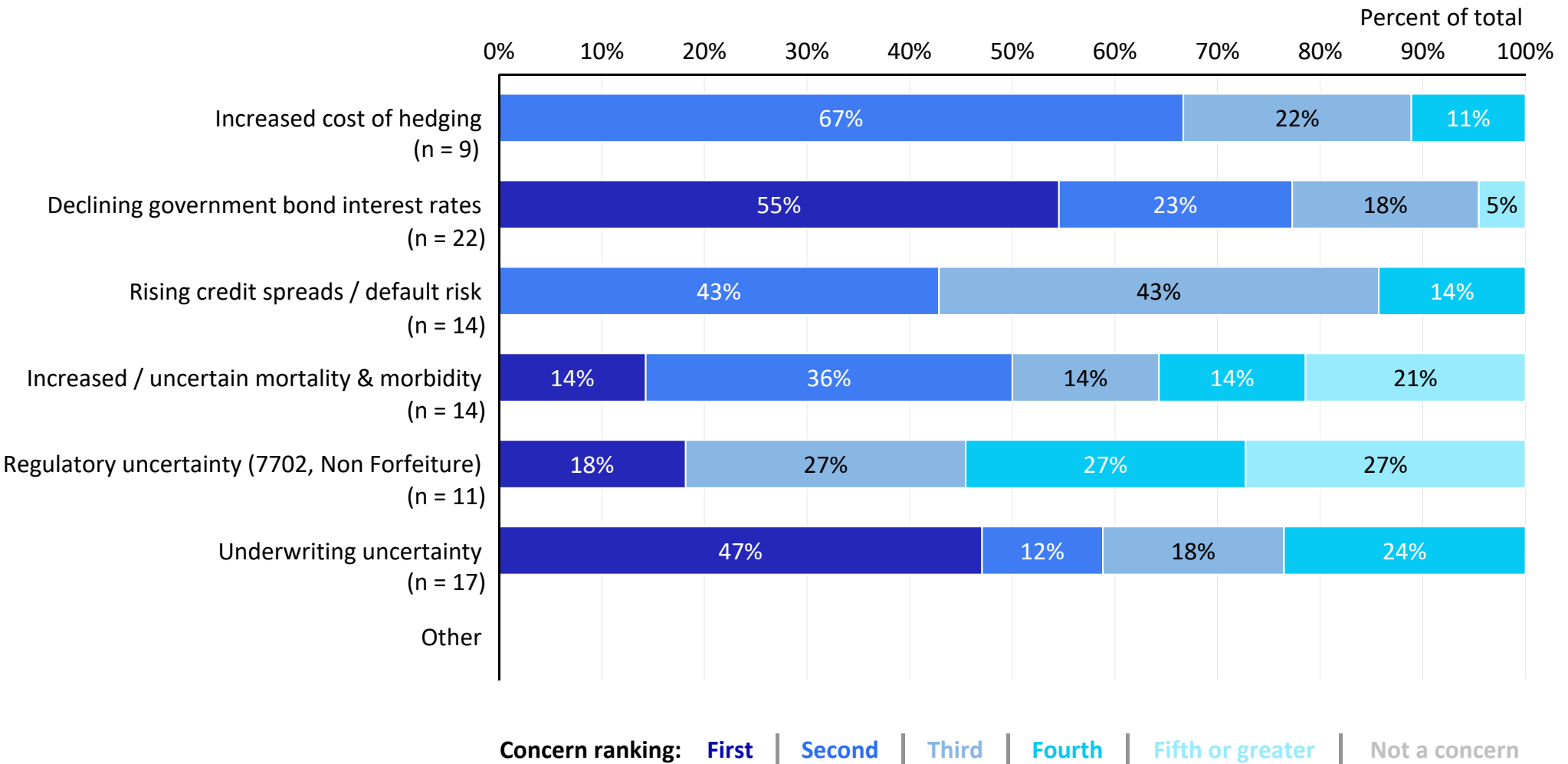
# 60% OF RESPONDENTS RANK UNDERWRITING UNCERTAINTY AS THE TOP TERM LIFE PRICING CHALLENGE

Question 6: Please rank the following factors based on the degree to which they have challenged your organization's pricing for Term Life?



# 55% OF RESPONDENTS RANK DECLINING GOVERNMENT BOND RATES AS THE TOP PERMANENT LIFE PRICING CHALLENGE

Question 6: Please rank the following factors based on the degree to which they have challenged your organization's pricing for Permanent Life?



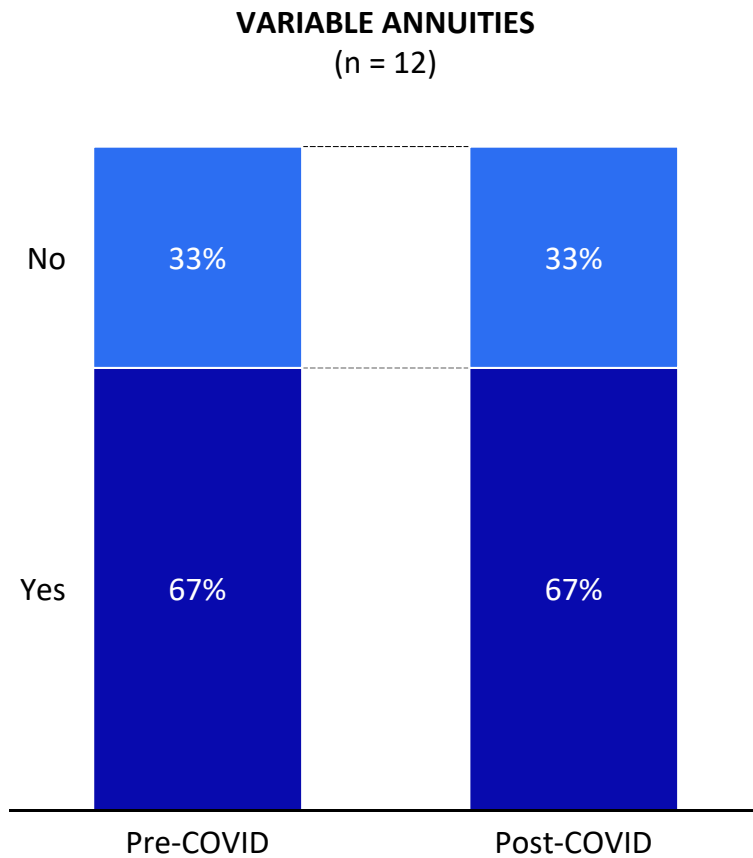
# MOST COMPANIES HAVE DEPLOYED CHANGES TO ALL PRODUCTS IN THE CURRENT ENVIRONMENT

**Question 14: What changes have been made to your organization's administrative procedures in light of the COVID-19 pandemic and current market conditions?**

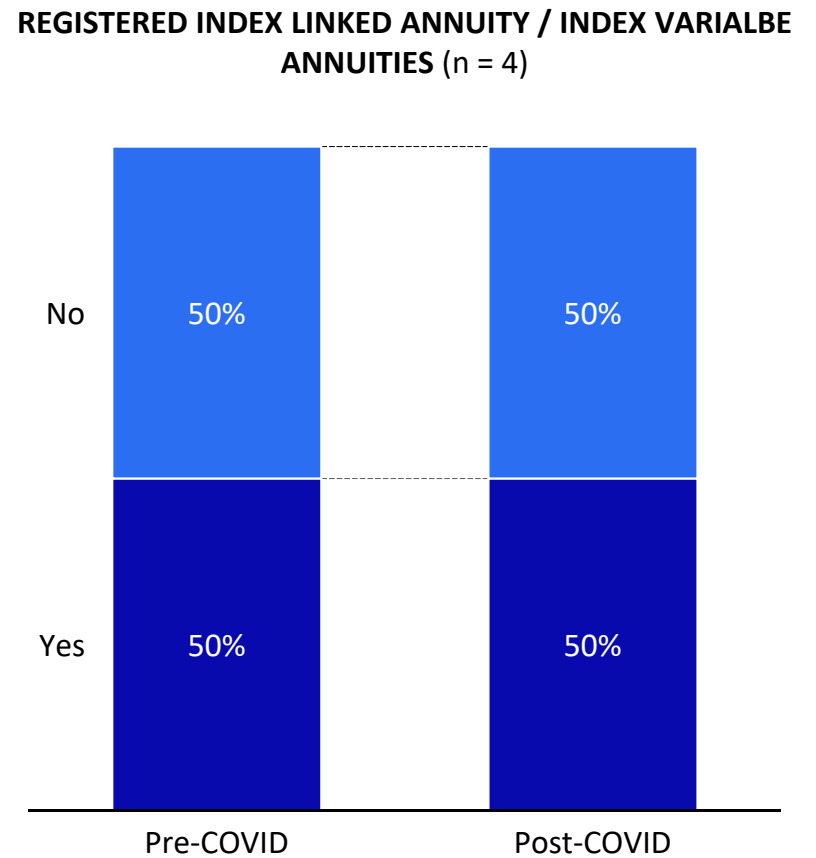
Criteria	Products
Shortened product change windows (n = 9)	<ul style="list-style-type: none"> <li>All (X3)</li> <li>Life</li> <li>Annuities (including VA, FIA, MYGA, FA with GLWB) (X4)</li> <li>Rolling out price increase for GUL and shortened the period from notification to effective date of the price increase</li> </ul>
Changed maximum premiums allowed (n = 12)	<ul style="list-style-type: none"> <li>Life (including all life products and certain single premium life products) (X5)</li> <li>Annuities (including FIA, FA, and VIA) (X5)</li> <li>UL (including with secondary guarantees and equity indexed) (X3)</li> <li>Lowered premium limits for sales with GLWB and GMDB products</li> <li>PUA Rider, NLG, hybrid Life/LTC products</li> </ul>
Changed rate hold procedures (n = 5)	<ul style="list-style-type: none"> <li>Annuities (including fixed and FIA) (X3)</li> <li>Spot-priced</li> <li>Index Universal Life Insurance</li> <li>Annuity rate holds were extended due to challenges created due to social distancing</li> </ul>
Changed frequency of field notifications (n = 11)	<ul style="list-style-type: none"> <li>All (X6)</li> <li>Annuities (including FIA, FA, and VIA) (X2)</li> <li>General portfolio (X2)</li> <li>Product notices on annuity changes more frequently</li> </ul>
Other (n = 1)	<ul style="list-style-type: none"> <li>Discontinued sale of our SPDA product</li> </ul>

# HEDGING STRATEGIES ON VARIABLE ANNUITIES HAVE REMAINED THE SAME AS BEFORE COVID-19, AND NONE ARE CONSIDERING CHANGES

Question 9: Are you hedging new business economics to mitigate market risk from when pricing is set and sales occur?



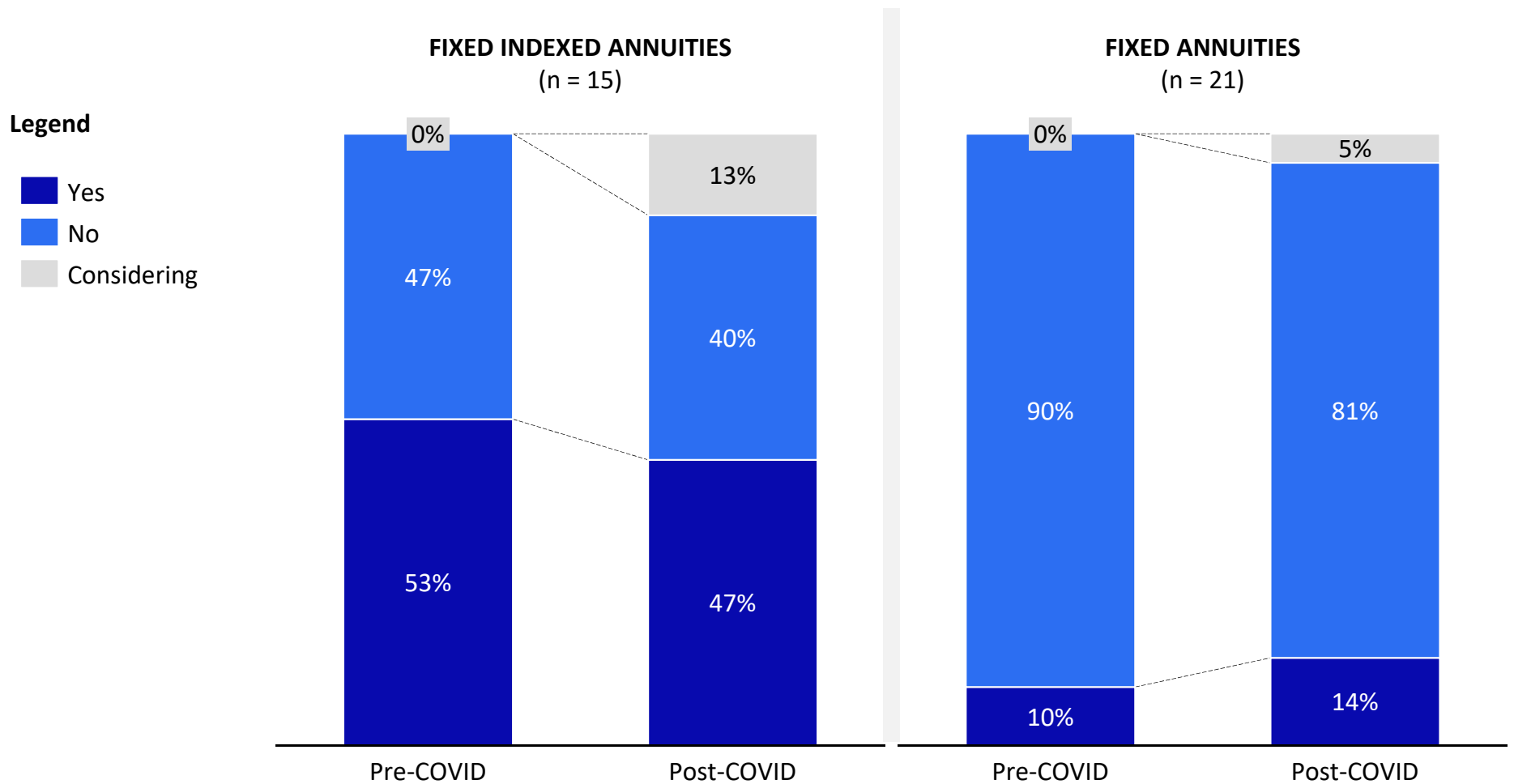
*Note: none are considering changes*



*Note: none are considering changes*

# FIRMS HAVE BACKED AWAY FROM HEDGING AT THE POINT OF SALE FOR FIXED INDEXED ANNUITIES, BUT HAVE INCREASED POS HEDGING FOR FIXED ANNUITIES

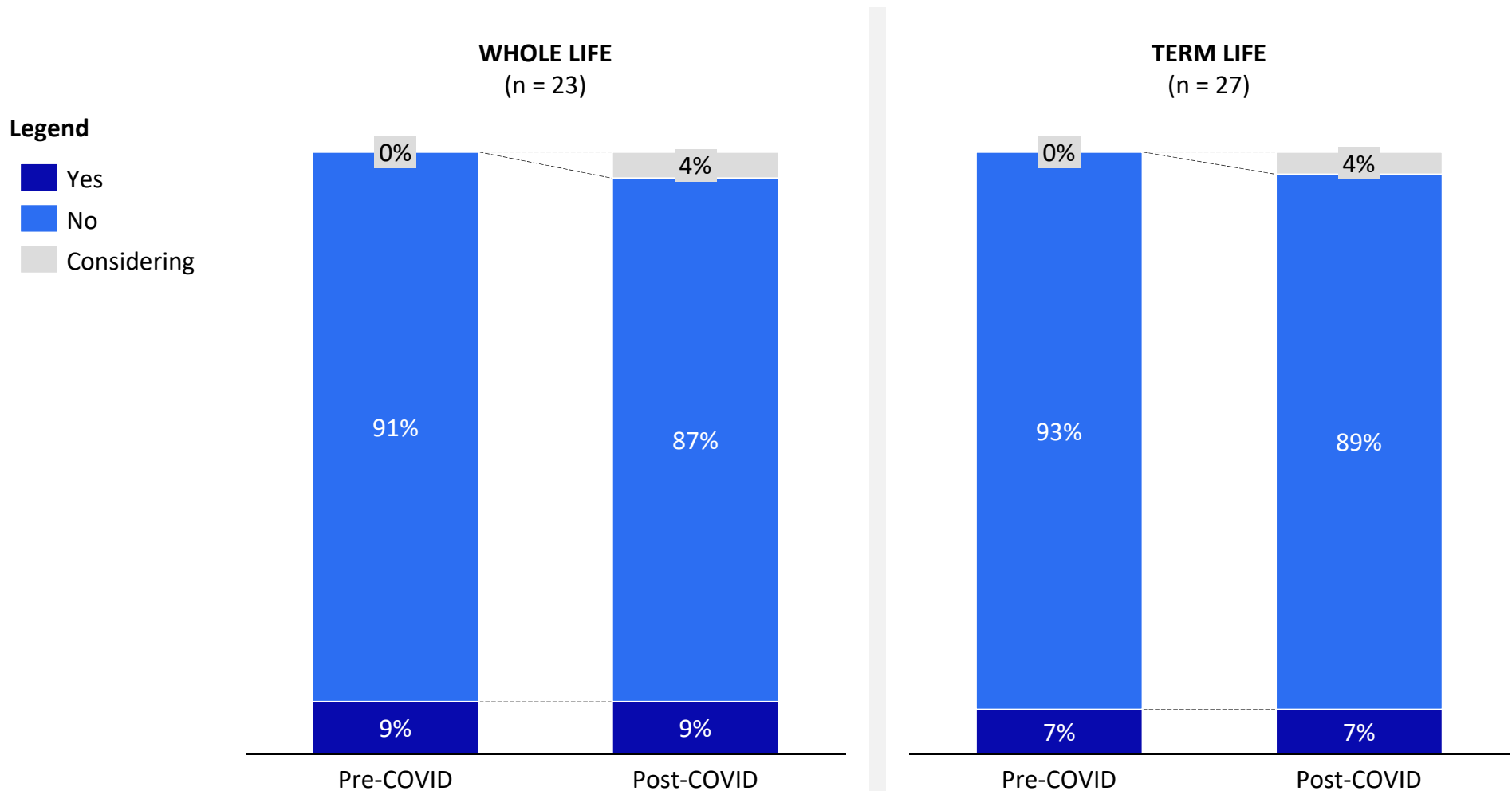
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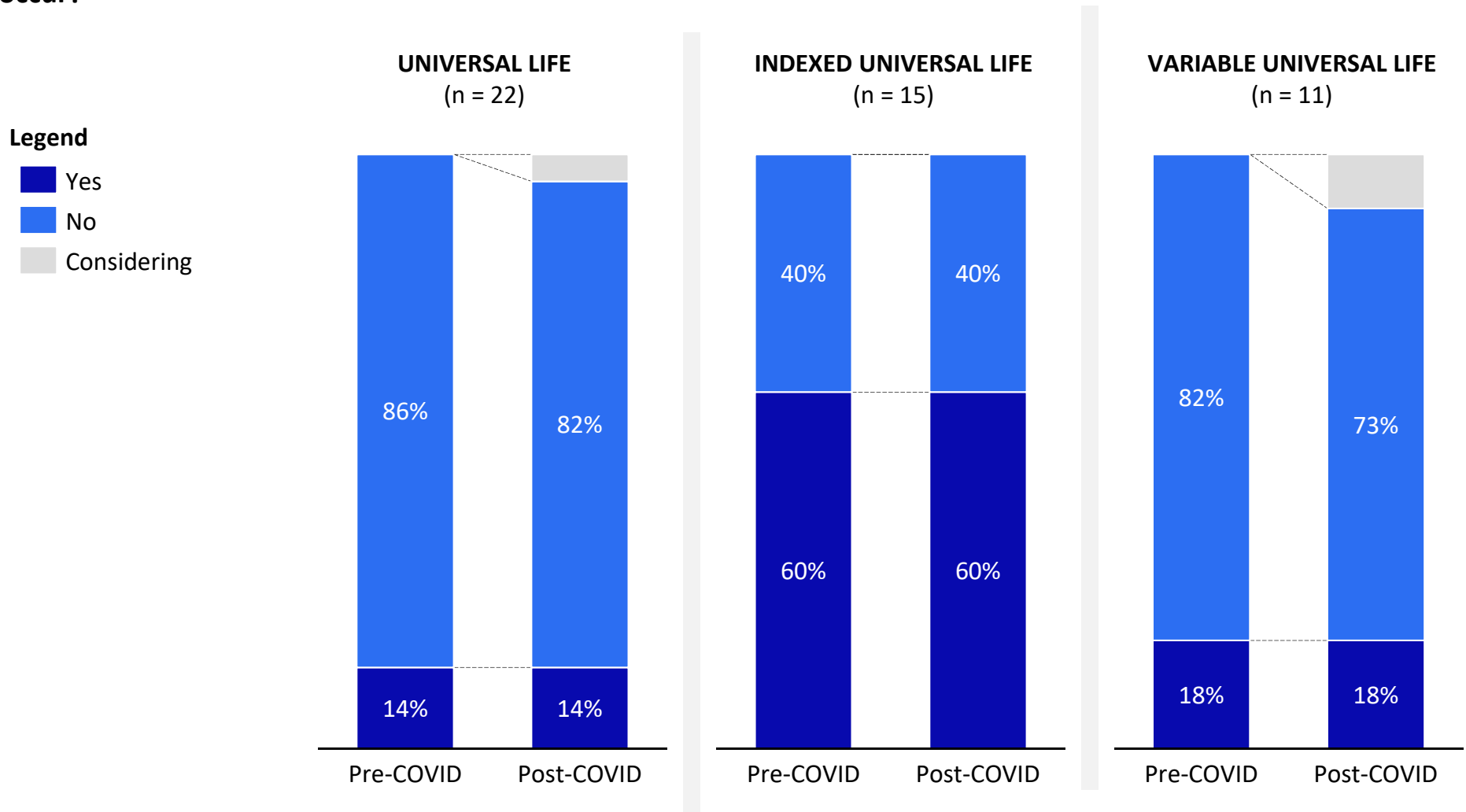
# A FEW FIRMS ARE CONSIDERING HEDGING AT THE POINT OF SALE FOR TERM AND WHOLE LIFE PRODUCTS

Question 9: Are you hedging new business economics to mitigate market risk from when pricing is set and sales occur?



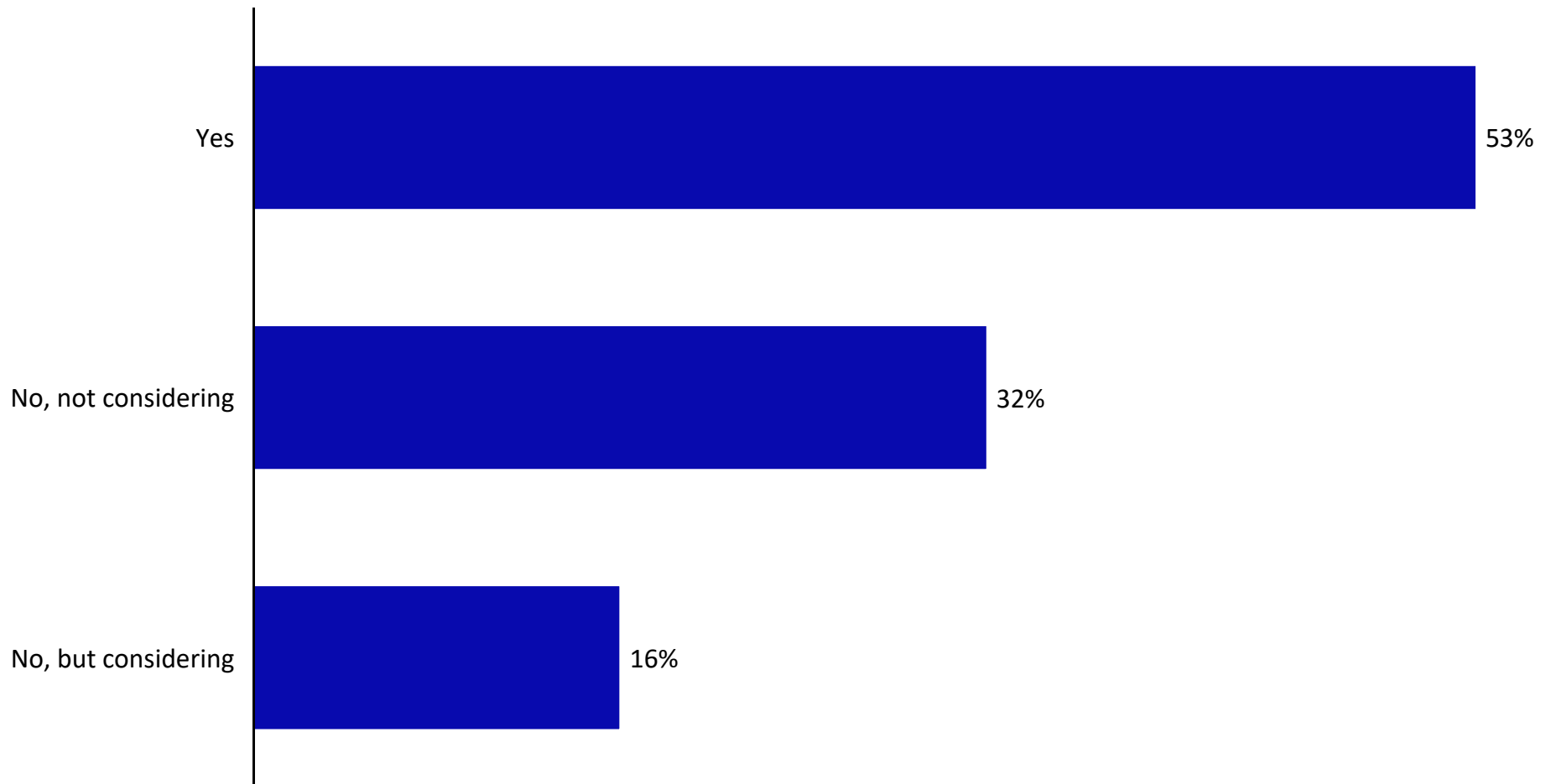
# A FEW FIRMS ARE CONSIDERING HEDGING AT THE POINT OF SALE FOR UNIVERSAL AND VARIABLE UNIVERSAL LIFE POLICIES, NOT FOR INDEXED UNIVERSAL LIFE

Question 9: Are you hedging new business economics to mitigate market risk from when pricing is set and sales occur?



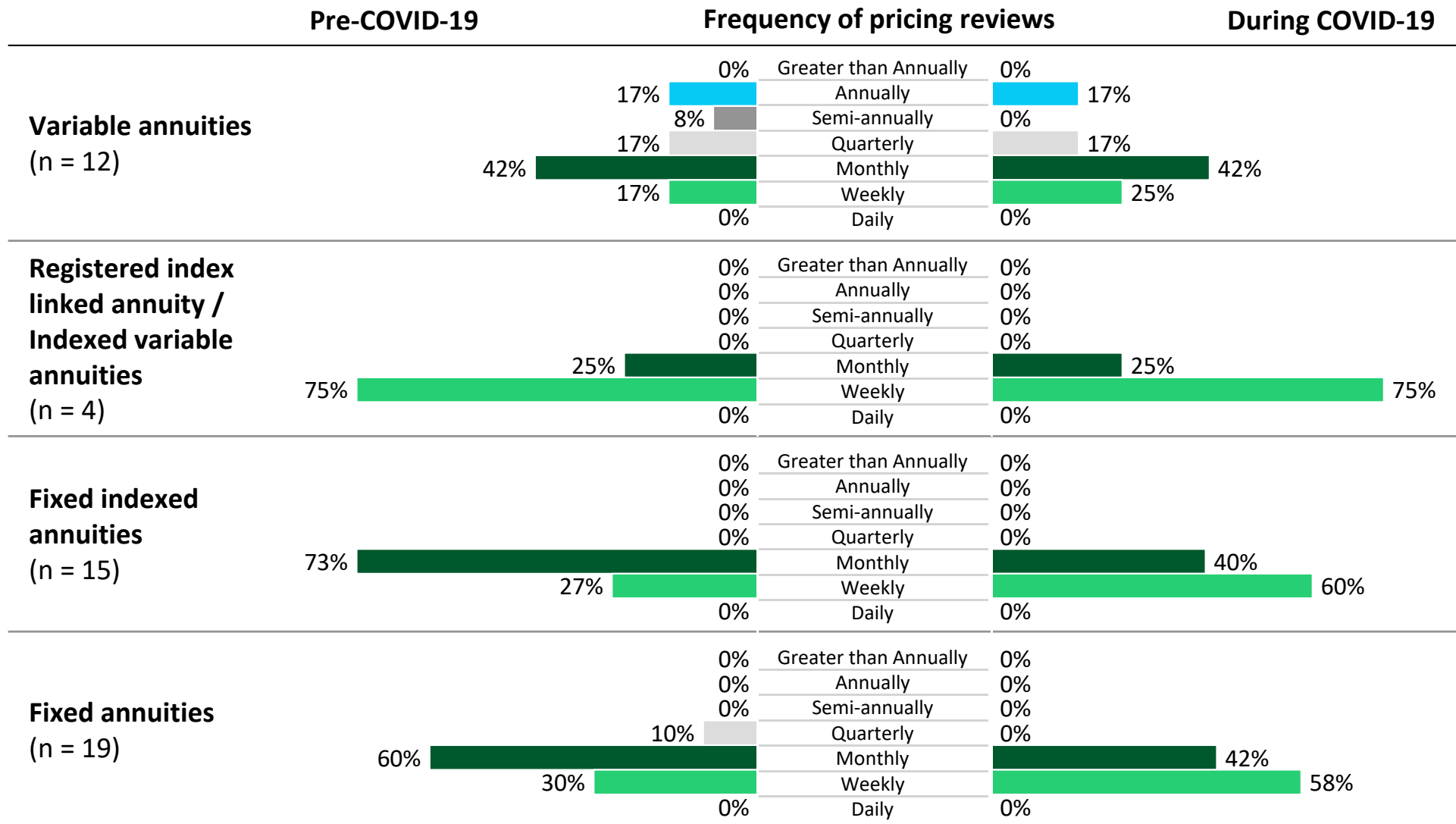
## OF THOSE WITH EQUITY LINKED PRODUCTS, THE MAJORITY HAVE ADJUSTED THEIR OPTIONS BUDGET FOR PRICING

**Question 10:** For equity-linked products, have you adjusted your options budget in pricing in response to current market conditions? (n = 19)



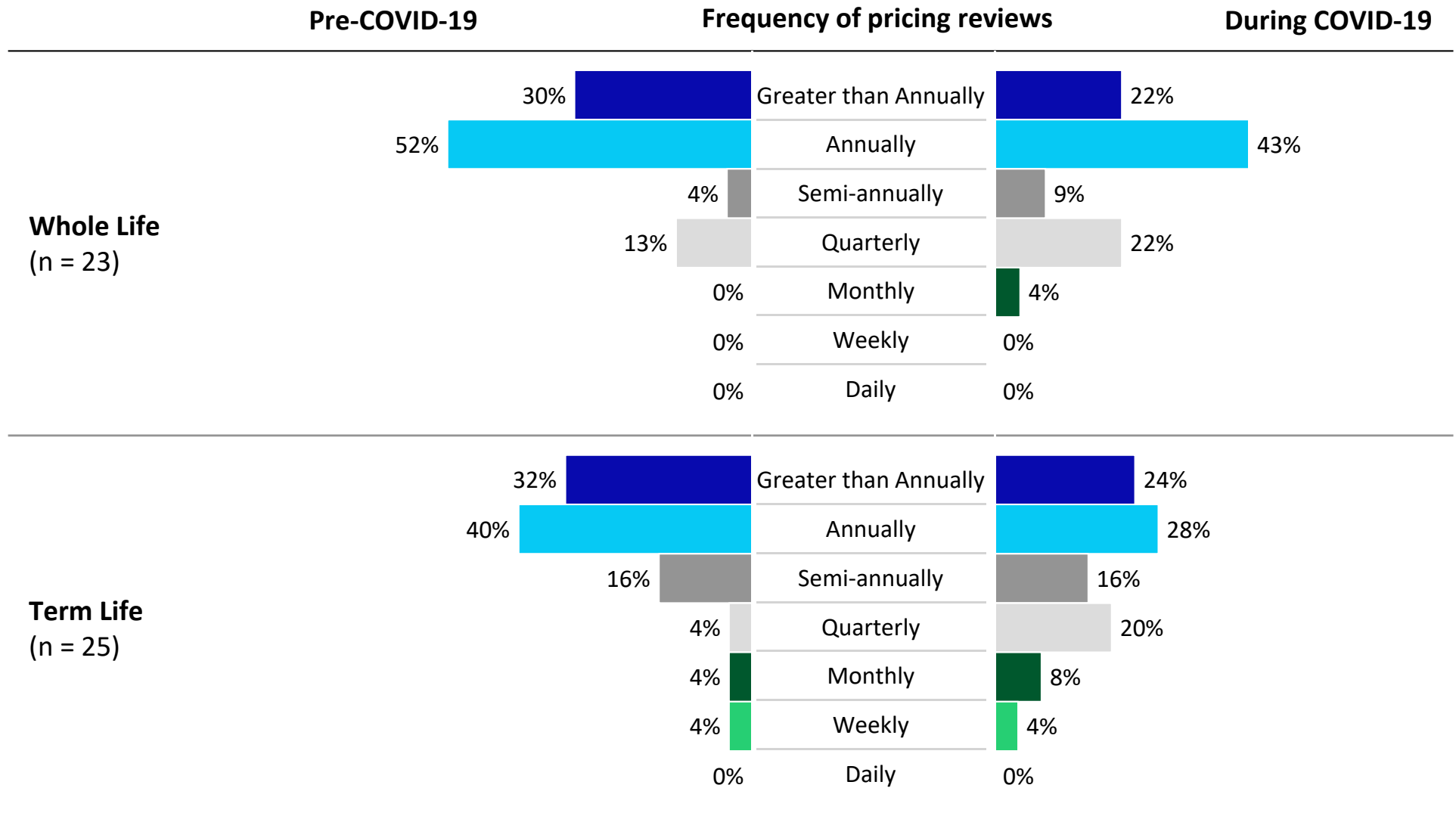
# PRICING REVIEWS FOR FIXED SAVINGS PRODUCTS HAVE BECOME MUCH MORE FREQUENT, LESS SO FOR VARIABLE SAVINGS PRODUCTS

Question 4: How frequently did you typically review pricing/crediting rates/cap rates on new policies before COVID-19, and how frequently do you review pricing now?



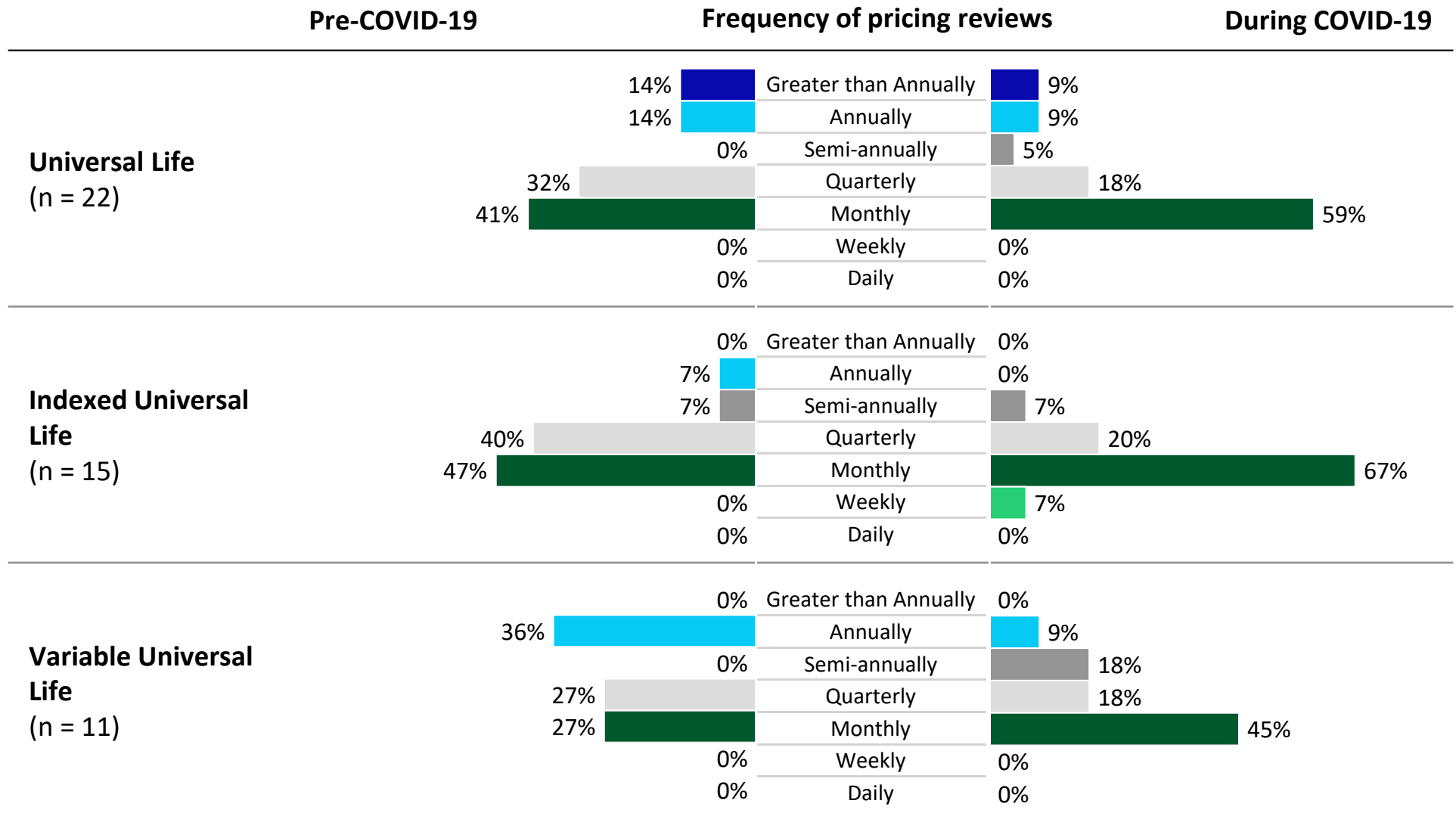
# FOR PROTECTION PRODUCTS, SEVERAL FIRMS HAVE SWITCHED FROM ANNUAL OR SEMI-ANNUAL REVIEWS TOWARDS QUARTERLY, MONTHLY OR WEEKLY REVIEWS

Question 4: How frequently did you typically review pricing/crediting rates/cap rates on new policies before COVID-19, and how frequently do you review pricing now?



# MANY FIRM HAVE SHIFTED TO MONTHLY PRICING REVIEWS FOR UNIVERSAL LIFE PRODUCTS

Question 4: How frequently did you typically review pricing/crediting rates/cap rates on new policies before COVID-19, and how frequently do you review pricing now?



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