

LOW INTEREST RATE TASK FORCE

International subcommittee meeting #2

5/5/2020

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AGENDA

01 PROCESS UPDATE

5 min

02 DISCUSSION

- Changing role of life insurance
 - Distribution
-

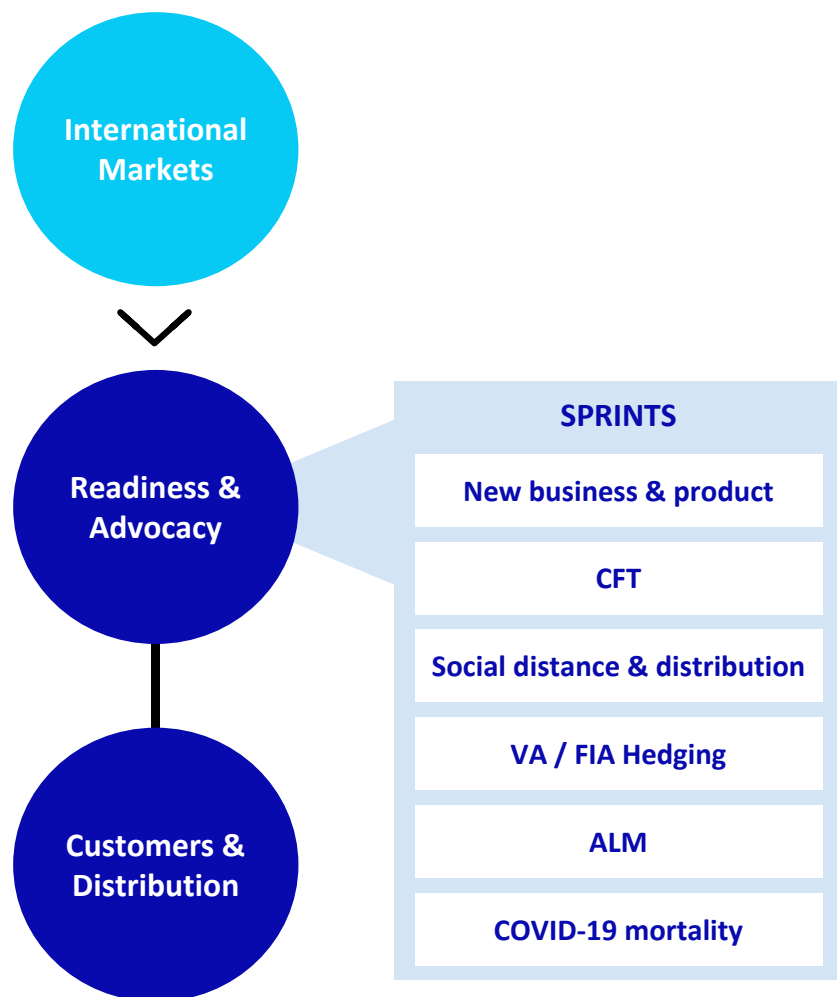
45 min

03 NEXT STEPS

5 min

PROCESS UPDATE

Subcommittees



Updates

- The last two months have **focused on immediate responses** to COVID-19 related challenges:
 - Assembled 6 “**sprint**” groups to evaluate industry response to key issues
 - Launched a **microsite** as a reference source for insurers as they manage through the crisis
 - **Hosting a webinar on findings** within the next two weeks
- We will transition focus to **longer term implications** with launch of **Customers & Distribution** subcommittee
 - Focused on how insurers can maintain a strong value proposition for consumers & distribution
 - International research will inform this subcommittee
- Efforts from the Low Interest Rate Taskforce will culminate in a session at LLG’s **annual meeting in October** and a final report

DISCUSSION

- In preparation for the upcoming Customer and Distribution subcommittee meeting, we asked for feedback on these focus areas, and will discuss them further today:

- **Changing role of life insurance:** how did the role of life insurance change in these countries as rates moved lower?
- **Distribution impact:** how have distribution channels been affected by low rates?

Focus of today's discussion

- We also asked for feedback on other areas of interest:

- **Stock vs. mutual companies:** how have they been affected and reacted differently in response to low rates?
- **In-force management actions:** are there any other relevant in-force management actions taken by insurers that we have not covered?

In appendix for reference

DISCUSSION: CHANGING ROLE OF LIFE INSURANCE

Views from initial research

- In Japan, the life insurance industry focused more on protection and health products, and focused less on standalone savings products (e.g. bundled them with health offerings via modular products)
- In Germany, product innovations (e.g. hybrids) kept consumers interested in life insurance as a savings vehicle

Feedback received thus far

- “Bank sales are mostly savings products.”
- 🇩🇪 “[in reference to product innovations keeping consumers interested in savings products] Yes and no. For well-structured annuity products there is still a tax advantage; but mainly the life insurers use their asset structure from past years to create products with a certain ‘rest attractiveness’. But this game is getting more difficult over time as interest rates stay low or decrease.”

Focus questions for this discussion

- How did the role of insurance shift in the context of the broad spectrum of savings products? (e.g. mutual funds, bank deposits)
- What other innovations have been successful and could be adopted by US insurers to help them successfully navigate a prolonged low interest rate environment? (especially in other European countries)

Feedback received thus far

- 🇩🇪 In Germany, **low interest rates put pressure on certain savings for banks** (e.g. CD's), so many banks turned to insurance sales, **especially single premium annuity products**, which were, in the tax and regulation environment in Germany, sometimes the most attractive "investment" products
- 🇩🇪 Companies have **adjusted their marketing strategies to deemphasize guarantees** and cater to shifting business mix
- Consumers continue to look to insurance as savings vehicles; however, **protection features are typically added to these products**

Note: flags represent the relevant geography

DISCUSSION: DISTRIBUTION IMPACT

Views from initial research

- Channel mix hasn't changed noticeably in Germany
- Channel mix in Japan has shifted away from captive towards independent and bancassurance, but not directly driven by interest rate changes


Feedback received thus far


 “Digital channels are still small, but increasing.”


Focus questions for this discussion


- Overall, how was the distribution industry impacted by low rates?
- How did advisor comp structures change in response?
- Did the industry shrink ? (less agents, few distribution firms, M&A)


Feedback received thus far


 In Japan, as product mix shifted from simple JPY savings products to more complex savings, protection and medical products, sales became more difficult, spawning an **upskilling effort** and **shift to broker dealers and banks**

 **New sales approaches** needed to be developed as former capital products do not operate well in the low rate environment (e.g., strengthening protection sales, selling unit-linked or hybrid etc.)

 In Germany, **legislation has aimed to reduce commission levels**, especially for capital products; however, **commissions for protection business tended to increase**

 In Japan, **sales commission rates more strategically allocated**, lower rates for saving products, higher rates for more protection oriented products

 Germany has experienced **substantial industry contraction** (~260k agents in 2011, ~200K agents in 2020), a trend likely to persist

 The **number of traditional agents decreased** due to the difficulty selling savings products and a challenged commission structure

Note: flags represent the relevant geography

NEXT STEPS

- Customer and Distribution subcommittee to kick off on 5/6
- **This group will meet as needed** (likely 1-2 times) to support the Customer and Distribution subcommittee and ongoing efforts until October, but **work load is expected to be much lighter** than during phase one

Other resources:

[Visit the low interest rate microsite](#)

[Visit the OW dedicated COVID-19 website](#)



The screenshot shows the top navigation bar of the Low Interest Rate Task Force website, featuring logos for LIMRA, LOMA, Secure Retirement Institute, ACLI, and IRI, along with the OLIVER WYMAN logo and a Logout button. Below the navigation bar, the page title "Low Interest Rate Task Force" is displayed. The main content area features a dark blue banner with the text "COVID-19 Primer" and a sub-headline "RESPONDING TO COVID-19" in large white letters. Below the sub-headline, it says "Primer, Scenarios, and Implications". A short paragraph of text describes the impact of COVID-19, and a "Continue reading..." link is visible at the bottom left of the banner.



Oliver Wyman and our parent company Marsh & McLennan (MMC) have been monitoring the latest events and are putting forth our perspectives to support you clients and the industries you serve around the world. The Coronavirus Hub will be updated daily as the situation evolves.

APPENDIX

APPENDIX: STOCK VS. MUTUAL COMPANIES

Views from initial research

- We've seen a trend of companies de-mutualizing to access capital markets in Japan (less so in Europe).
- We've also heard that Japanese mutuals had an advantage over international competitors due to lower hurdle rates on new business.

Feedback received thus far

- “There have been a few demutualizations (Taiyo and Daido about 20 years ago, Daiichi about 10 years ago) but I would not call it a trend.”
- “Domestic companies in Japan, whether stock or mutual, mostly have lower hurdle rates compared to international companies.”

Focus questions for this discussion

- Overall, how did the low rate experience differ for stock vs mutual companies?
- Were there any common differences in strategies pursued between mutual and stock companies? (e.g. pricing, distribution channel mix)
- What advantages did stock companies have over mutuals in a low rate environment? (and vice-a-versa)

Feedback received thus far

- Because **stock companies** have profitability/dividend obligations, they have felt **more pressure to change than mutuals**
- 🇪🇺 **Mutual companies** have less profitability/dividend pressure, but also **less access to capital**, especially if companies are not part of larger group supporting them
- 🇩🇪 **Run-off** has mostly been **limited to stock companies**
- 🇩🇪 Mutual groups tended to pursue a more traditional approach, staying all-lines insurers, but often reducing their life new business in favor of other LOBs
- 🇩🇪 No notable distinguishing trends for pricing, product, and ALM strategies between mutual and stock companies





Note: flags represent the relevant geography

APPENDIX: IN-FORCE MANAGEMENT

Views from initial research

- In-force actions we've identified (e.g. policy buyouts and conversions) have not been highly successful
- Expense management is a common theme across Japan and Europe
- More recently, some European insurers have put their books on runoff





Feedback received thus far

-  “There have been some attempts at converting high guarantee business to lower guarantee business or to not inhibit lapses on the high guarantee business.”
-  “I am not aware of voluntary conversion programs attempted in Japan, only the forced ones for the bankrupt companies in the early 2000s.”
-  “Expense management is a common theme across countries”
-  “Conversion has not been overly effective because of the need to take into account customers’ best interest”

Focus questions for this discussion

- Do you agree with above characterization?
- Are there any other relevant in-force manage actions taken by insurers that we have not covered?

Feedback received thus far

-  European insurers have **more actively attempted to reduce guarantees** on in-force policies (or to not inhibit lapses on high guarantee business)
-  Some German companies have **directly reinsured their life portfolio with a non-life** group company, including capital guarantees (SII benefits) and a number have gone into run-off
-  German companies have installed “**in-force management departments**” aimed at influencing policyholder behavior, including “Triage” in customer calls, and mailings to publicize attractive pay-out opportunities
-  Reinsurance is used, but market depth for these kinds of transaction (block sales) in Japan is far smaller than that of US

Note: flags represent the relevant geography

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