

Term Topics

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2003 Sales Results

Product Line	Market Share	Premium Growth
Universal Life	28%	28%
Variable Life	1%	-40%
Variable Universal Life	21%	-33%
Term	23%	1%
Whole Life	27%	7%
Total	100%	0%

Data from LIMRA; 2003 individual life sales

Term Sales by Company		Ann. Prem. (mil)	Face Amt. (bil)	Policies
1	AIG-American General	139.7	71.7	176,766
2	Aegon USA	136.3	53.5	140,338
3	State Farm Life	130.2	51.0	336,414
4	GE Financial Assurance	106.3	57.5	149,544
5	Prudential Financial	94.1	40.5	88,829
6	Northwestern Mutual	79.0	57.2	107,736
7	New York Life	78.3	41.1	100,384
8	Legal and General America Inc.	74.2	42.8	80,296
9	Fidelity & Guaranty Life	72.5	13.9	88,813
10	MetLife/NEF/GenAm/Texas	71.0	38.3	80,237

Top 10 represents over 50% of total
Data from LIMRA; 2003 individual term life sales

Market Segments

- Traditional market - upper middle through affluent.
 - Buy term and invest the difference
 - Easily integrated with financial planning, business planning, etc.
 - Value proposition primarily rate and commission
- Middle market – increasingly attractive segment
 - Requires different product offerings and delivery
 - Value proposition includes underwriting and product features, not just rate and commission

Market Differentiators

- Price: it's an efficient commodity market
- Compensation
 - Amount
 - Annualization
 - Hierarchy rules
 - Including policy fee
 - Zero commission (ie: fee based market)
- Distribution
 - Captive
 - IMO
 - Brokerage
 - Direct
- Service: customer and agent

Market Differentiators (contd)

- Underwriting
 - Classes (6 most common)
 - Rules and “rule bending”
 - Testing tools (online “black boxes” growing in number and sophistication)
 - Nonmed vs. medical testing
- Special Programs
 - Table shaving
 - Conditional exchange
 - Internal conversions: contractual and enhancements
 - Class improvements: quit smoking, control cholesterol, etc.
- Product features
 - Return of Premium, Disability Income, Waiver, etc.
 - Term periods: 20 year continues to be most popular
- Company ratings

Recent Carrier Changes

- Fewer rate reductions, and some increases
- Proliferation of new features (ie: ROP)
- Jefferson Pilot focusing on higher face policies and sending those <\$1m to Banner
- ING and AIG consolidating subsidiaries
- First Colony transition to Genworth

Reinsurance “Support”

- History
 - During term wars, reinsurance – especially coinsurance – increased profit margins and ROE's.
 - XXX and pricing pressures shifted to improved ROE, but at the cost of profit margin
 - Today's reinsurance market makes it challenging to improve ROE's.
- Number of outlets shrinking
 - ERC
 - Allianz – purchased by RGA
 - Annuity & Life Re
 - AUL – purchased by ERC
 - Lincoln Re – purchased by Swiss Re
 - CNA Re – purchased by Munich Re
 - Life Re – purchased by Swiss Re

Reinsurance “Support” (contd)

- LOC costs rising as demand continues to grow
- Missed mortality bets from the past
- Many life reinsurers hindered by P&C affiliates – demand for capital
- Alternatives
 - Excess YRT
 - First dollar YRT
 - Increase credit risk by opening pool to lower rated reinsurers
 - Leverage an affiliated offshore entity for reserve relief – requires your own letters of credit, funds in trust, etc.
 - Securitization
 - Reinsurers can support these and other creative alternatives

Impact of 2001 CSO

- What's the impact ?
 - Price reductions from 0 to 30%
 - Will your reinsurer(s) share their gain ?
 - Impact larger on UL's with long secondary guarantees
- 25 states have adopted with effective dates 1/1/05 or sooner
 - Additional 5-15 states could join this group
 - NAIC recommended no later than 1/1/09
- Steps for use
 - Must have your domiciliary state approval
 - Most states require updated filing of policy forms and/or Actuarial filing
 - Same rules apply to reinsurers
- May be able to use for 2004 tax reserves – if 26 states adopt this year

Pricing Considerations

- Key drivers
 - Mortality
 - Persistency
 - Commissions
 - X Factors
 - Reinsurance
 - Expenses
 - Investment yields
 - Mix of business
- Closely monitor all your assumptions - watch out for:
 - Impact of special programs
 - Competitor behavior
 - X Factor development
 - Expense overruns, including bonus programs
 - Reinsurer security

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Product Development Symposium

Term Topics
Sessions 5B, 6A
May 7, 2004

Presented by:

Keith Dall – Milliman
Scott Cochran – Swiss Re
Paul Yates – ING Re

Return of Premium Term

- Summary
 - Marketing
 - Pricing
 - Reserves
 - Standard Nonforfeiture Law
 - Informal Company Survey
 - NAIC LHATF Survey
 - Miscellaneous

Return of Premium Term

- Marketing
 - Great Sales Pitch
 - Higher Premiums
 - Higher Commissions
 - Traditionally Used in Mortgage Term
 - High policyholder Internal Rate of Return

Return of Premium Term

Marketing

“Wouldn't you like to get
your money back when
you don't die?”

Return of Premium Term
Marketing

“Did you know that less than
5% of all term life insurance
policies are ever used for
their death benefits?”

Return of Premium Term
Marketing

“No cost (ROP) Term”

Return of Premium Term
Marketing

“Imagine getting a money-
back guarantee on your
Term Life Insurance.”

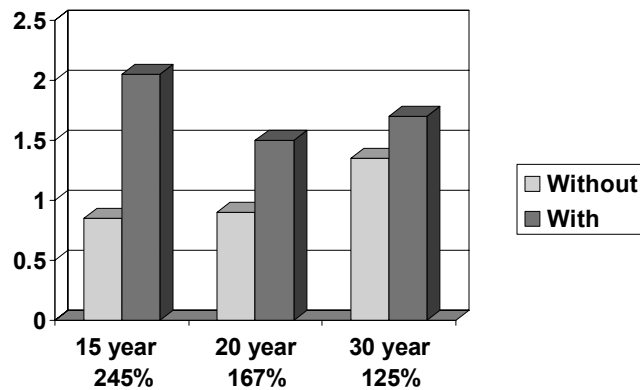
Return of Premium Term
Marketing

“Coverage when you need it,
money back when you
don't.”

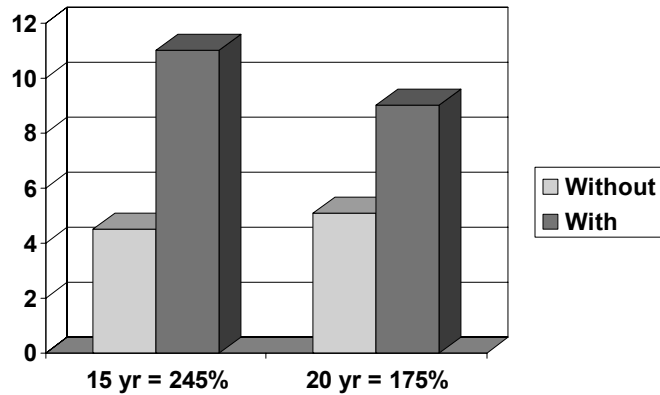
Return of Premium Term Marketing

“Win-Win-Win”
Death benefit – conversion -
ROP

Return of Premium Term Premium Rates 35-M-Pr



Return of Premium Term Premium Rates 55-M-Pr



Return of Premium Term Marketing

“...male, age 35... equates to a
8.59% rate of return
guaranteed...20% tax
bracket...jumps to a
guaranteed 10.74%”

Return of Premium Term Marketing

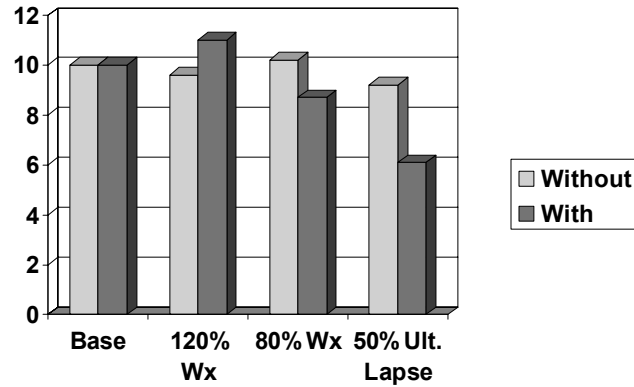
“...female, age 45... equates to
a 11.52% rate of return,
14.40% if she were in a
20% tax bracket...”

Return of Premium Rider

- Pricing
 - Persistency Risk
 - Base Profits vs. Rider
 - Impact of NIER
 - Additional Reserves
 - Cash Value

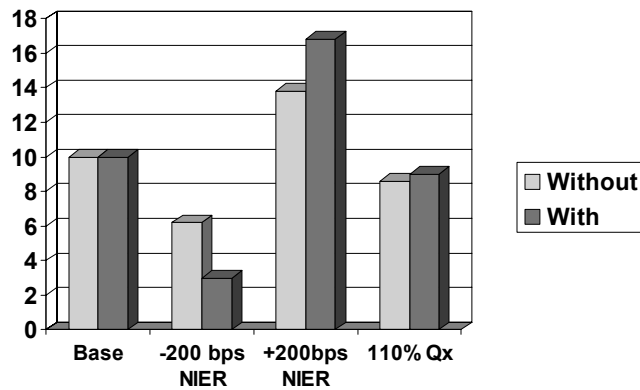
Return of Premium Rider

Persistency Risk Profit Margin



Return of Premium Rider

Sensitivities: NIER & Mortality



Return of Premium Rider Regulation

- Reserves
 - XXX Model Regulation
 - Unusual Pattern of Guaranteed Cash Surrender Values
 - Endowment
- SNFL

Return of Premium Rider NAIC LHATF Survey

- New York Insurance Department Letter
 - Substantial Risk if Lapses are low
 - SNFL requires nonforfeiture values
 - Reserves should reflect endowment
- Survey (1/29/04)
 - Individual policy with rider
 - 7 of 8 states required SNFL demonstration
 - 1 of 8 states reviewed marketing materials
 - Generally regulators okay with concept

Return of Premium Survey Informal Survey

- 15 Company Responses
 - 3 Companies have ROP Rider
 - 7 Companies plan to offer within 2 years
 - 5 Companies do not have current plans
- Products too new for lapse study

Return of Premium Survey Miscellaneous

- Reinsurance
- Tax Implications
- Other Rider
 - Recapture Premiums, if convert
 - Disability Income
 - Critical Illness
- Comparison to UL

Term Topics

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ING Re

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Topics

- Recent impacts on term market
- How have rates changed?
- What are companies doing to compete?
- Term Market Outlook for Near Future

Recent impacts on term market

Recent Impacts on Term Market

- 2001 CSO
- Reinsurance market impacts on term

2001 CSO Impacts

- Some expected up to 20% premium reductions due to 2001 CSO
- Initial estimates may not have taken into account the impact of 2001 CSO in the presence of coinsurance
- Reinsurance quota shares on term tend to be in the 80 – 90% range
 - Reinsurers were already efficient with reserves
 - Higher quota shares minimize any gains resulting from 2001 CSO

2001 CSO Impacts – Hypothetical Scenario

- Term portfolio with 10- and 20-year term products
 - PV (LOC expense) / PV (Net Reins Premium)
 - 1980 CSO - 5.2%
 - 2001 CSO - 4.1%
- Net effect of 2001 CSO to reinsurer for this case
 - 1.1% Net reinsurance premium
- Translates to roughly 1 allowance point

Reinsurance Market Impacts on Term

- Consolidation of reinsurers
 - 1994 – Top 5 reinsurers had 56% of reinsurance IF
 - 2002 – Top 5 reinsurers had 71% of reinsurance IF
 - Source MARC survey
- Companies have left the market, been acquired, or run into financial trouble
- May open the door for new entrants into the reinsurance market

Reinsurance Market Impacts on Term

- Increasing LOC costs for reinsurers
 - Increasing cost may offset any gains due to 2001 CSO
- Hypothetical case
 - $PV(\text{LOC expense}) / PV(\text{Net Reins Premium})$
 - 1980 CSO, LOC = 80bps - 5.2%
 - 2001 CSO, LOC = 80bps - 4.1%
 - 2001 CSO, LOC = 80bps - 4.8%
 - Translates into less than 1 allowance point

Reinsurance Market Impacts on Term

- Lower interest rates
- Reinsurers continue to refine their mortality expectations
 - Translates into higher expectations in some places and lower expectations in others
- Some reinsurers requesting higher reins premiums

How have term premium rates changed?

How Have Term Premium Rates Changed?

- Norm used to be to reprice term portfolio annually
- Rate decreases were largely justified with lower reinsurance rates
- Tightening of reinsurance market has slowed the pace of term rate changes

How Have Term Premium Rates Changed?

- Comparison looks at
 - Rates on 20-Year term
 - Based on Compulife data
 - Male NT best class only
 - \$500,000 face

How Have Term Premium Rates Changed?

- Breakdown of term rate changes (April to April)

	IA 35			
	2001	2002	2003	2004
Increased	3%	4%	11%	7%
Decreased	39%	51%	34%	24%
No Change	58%	44%	55%	70%

	IA 45			
	2001	2002	2003	2004
Increased	3%	4%	8%	7%
Decreased	39%	51%	37%	22%
No Change	58%	44%	55%	71%

	IA 55			
	2001	2002	2003	2004
Increased	6%	5%	6%	6%
Decreased	37%	48%	37%	23%
No Change	57%	47%	57%	71%

How Have Term Rates Changed?

- Average rate change by year

	IA 35			
	2001	2002	2003	2004
Avg Increase	7%	6%	7%	11%
Avg Decrease	-14%	-13%	-12%	-14%

	IA 45			
	2001	2002	2003	2004
Avg Increase	8%	3%	4%	2%
Avg Decrease	-9%	-11%	-9%	-10%

	IA 55			
	2001	2002	2003	2004
Avg Increase	7%	13%	5%	1%
Avg Decrease	-13%	-13%	-14%	-9%

What are companies doing to compete?

What are companies doing to compete?

- Securitization
 - Not everyone can play
 - Complexity
 - Need large volume
 - Need access to an offshore reinsurance company
 - Reinsurers continue to explore this and similar alternatives
 - Could make it indirectly accessible to all companies

What are companies doing to compete?

- Accepting lower profitability
 - May have had rates increased by reinsurer
 - May have higher expense and/or other assumptions
 - May try to offset by gains in another LOB
 - How long can they hold out in this environment?

What are companies doing to compete?

- Riders
 - Differentiation by offering unique riders
 - ROP
 - Critical Illness (accelerated DB)
 - Subsidizing lower profitability in base plan with “fat” riders

What are companies doing to compete?

- Changes to underwriting requirements
 - Direct writers typically want faster, less expensive, quicker to market
- Must consider
 - Impact on mortality
 - Impact on reinsurance rates
 - Additional expense (including not takens)
 - Inconvenience to policy holder
 - The effect on time to issue policy
 - Agent / brokers reaction

What are companies doing to compete?

- Adjusting preferred criteria
 - Changing the number of preferred classes
- Tightening preferred criteria
 - Consider your objectives
- Debit / Credit
 - Helps company to better classify risks
 - How will distribution respond

What are companies doing to compete?

- The “wait and see” approach
 - I’m going to wait and see what everyone else does
 - Must be willing in some cases to accept lower profitability in the interim
 - Most likely a hope that reinsurers will find alternatives to LOCs that will help stabilize costs
 - Companies that have had the same reinsurance rates for a few years may end up with reins rate increases

What are companies doing to compete?

- Increasing premium rates
 - More companies are increasing rates than in the recent past
 - Companies are very reluctant to take this approach
 - Many of the “wait and see” companies are feeling pressure to do so

Term Market Outlook for Near Future

Term Market Outlook for Near Future

- In general term rates are likely to remain flat
- Direct writers and reinsurers will continue to look to take advantage of LOC alternatives
- Companies who are unable to decrease premium rates will likely look for ways to differentiate their term products
- It's possible we'll see new reinsurance players