

Where to from here

- n Profitability impacts due to current market conditions are significant
- n Price increases are necessary to reflect market conditions, coupled with collateral capacity limitations.
- n While capital markets are beginning to re-open, we'd like to see XXX reserving issues addressed rather than the continuation of a product that is dependent upon financial mechanisms to fund redundant reserves
- n We believe a more sustainable level term solution lies in a combination of
 - Price increases
 - Product re-vamp
 - Regulatory reform
 - Re-opening of the capital markets

The 2009 SOA Annual Meeting
October 26, 2009

Slide 15

Outline

- n Economic and financial market environment
- n Implications for the pricing actuary
 - Term Insurance
 - Capital release
- n Conclusions

The 2009 SOA Annual Meeting
October 26, 2009

Slide 16

Look at your in-force

n Benefits from an in-force transaction

- Provides release of embedded value and target surplus on attractive terms
- Assumption of risk is accomplished by a reinsurance agreement and/or the acquisition of a legal entity
- Permits a re-positioning of capital and human resources
- Responds to pressures from stakeholders, rating agencies and regulators to enhance returns and capital adequacy

n An in-force transaction may provide the ability to administer business cost effectively

- Can divest facilities and legacy systems; reduction in overhead and improved operating productivity
- Costs instead managed through a fixed cost per policy pricing

The 2009 SOA Annual Meeting
October 26, 2009

Slide 17

Outline

n Economic and financial market environment

n Implications for the pricing actuary

n Conclusions

The 2009 SOA Annual Meeting
October 26, 2009

Slide 18

Product Response

Illustrative Drivers



Product Response – Enabling

- n Shape and direction of economic recovery
 - Interest rates
 - Yield curve
 - Equity market rebound
- n Demographic trends and resulting morbidity, longevity and wealth transfer needs

Product Response – Challenging

- n Product design – attractive to customers, but with adequate risk adjusted margins
- n Consumer attitudes, risk tolerance and perceived safety and value of financial institutions and their products
- n Distribution compensation/fees and impact on profitability
- n Risk management/product design ensure risks are known, priced for, disclosed

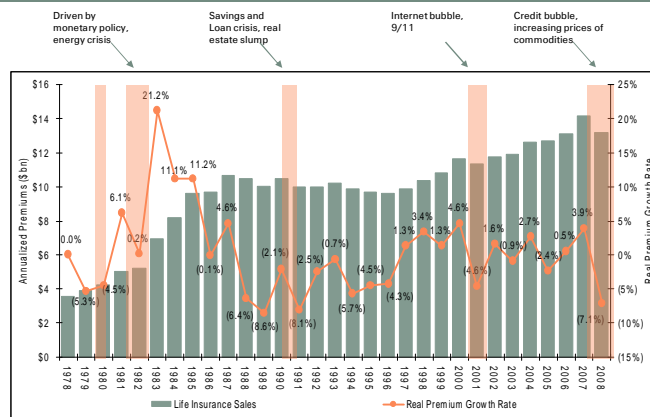
The 2009 SOA Annual Meeting
 October 26, 2009

Slide 19

Impact of prior recessions on the L&H industry

Historical life insurance sales data demonstrates that while recessions impact sales, recovery occurs post-recession

The post-recession economic environment drives product innovation, leading to increased sales



1981-82:

High interest rate environment led to the emerging popularity of annuities and advent of savings-based life insurance e.g. UL

1990-91:

Diminished popularity of institutional GIC products and steepening yield curve through the mid-90s led to increased fixed annuity sales

2001:

Equity bubble burst; sale of VA products suffered short term and ultimately rebounded with increased product guarantees

2008-09:

?

The 2009 SOA Annual Meeting
 October 26, 2009

Slide 20

Source: NBER, LIMRA, Swiss Re Research
 Note: Shading in chart represents economic downturns. Nominal Premium Growth Rate is deflated by inflation rate