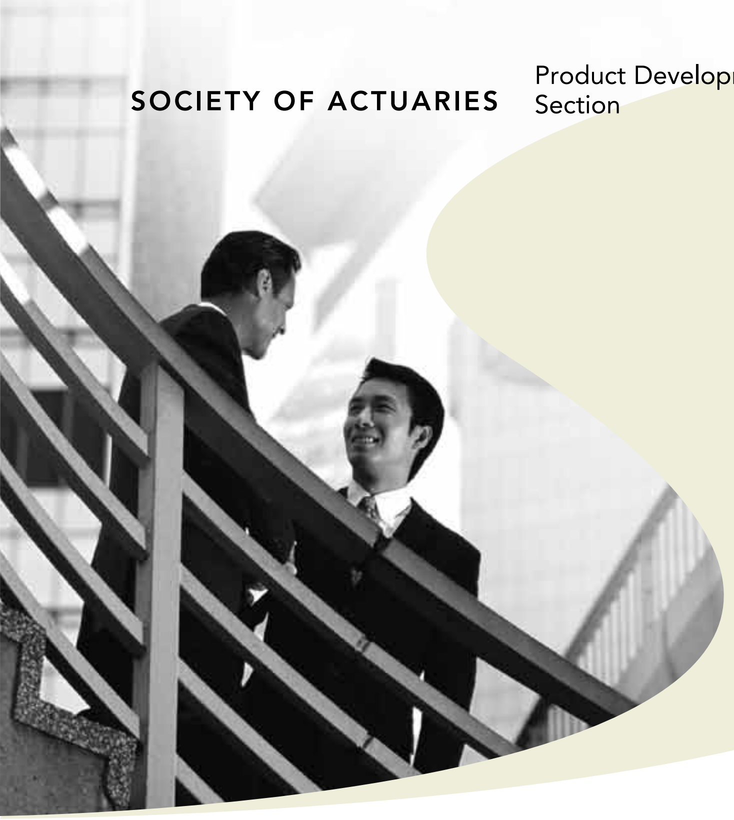
Article from:

Product Matters!

October 2009 – Issue 75

SOCIETY OF ACTUARIES

Product Development Section



Product Matters!

ISSUE 75 | OCTOBER 2009

That was Then … **This is Now**

By Elaine Tumicki and Karen Terry

Over the last few decades, U.S. individual life insurance new premiums had some ups and downs, but in general, the story was positive. From 1976 to 2007, annualized new premium grew on average 4.6 percent per year. Different products did well at different times. Universal life did well after it was introduced in the early 1980s and again through most of the current decade; whole life experienced a resurgence in the late 1980s; VUL owned the late 1990s; and term had steady growth throughout. *That was then.*

To say the financial products landscape has changed over the last 12 months is a gross understatement. Individual life insurance has not been immune from the effects of the challenges in the broader financial marketplace. While individual insurance products have emerged from other recessions relatively unscathed, this is clearly unlike any other recession. Consider the following:

- New premium declined 14 percent in the 4th quarter of 2008 compared to the prior year quarter. That was the steepest quarterly decline (at least up to that point) since 1951.
- Universal life—the hottest product this decade—saw sales drop by nearly a quarter in the 4th quarter.
- Declines were widespread—two-thirds of participants in LIMRA's quarterly Individual Life Sales Survey reported declines, nearly half by double digits.

And that was just the beginning. First quarter 2009 set new records for declines. Annualized new premium dropped 26 percent, the biggest quarterly decline since 1943, during World

CONTINUED ON PAGE 5

War II. Variable life products fared the worst, dropping an astounding 61 percent compared with the first quarter of 2008. Universal life did a little better, dropping **only** one-third compared to last year. *This is now.*

Term and whole life did much better than their universal counterparts, declining by single digits in the first quarter. Term and whole life each accounted for 28 percent of new premium in the first quarter, the highest share for whole life since 1999 and a record for term.

These trends do not show signs of significant change yet. Second quarter sales show some improvement, but not much—annualized premium for all products still recorded declines compared to the same quarter last year. VUL still fared the worst and term the best.

The good news is that consumers do not appear to be abandoning their existing life insurance policies as they evaluate their financial situations. LIMRA has been tracking consumer opinions regarding the economy frequently over the past year, including whether they've taken any actions as a result of the economy. While the most recent study, conducted in July 2009, showed improvements over surveys conducted earlier in the crisis, still, two-thirds of consumers have a somewhat or very unfavorable opinion of the economy. An increasing number of consumers are taking action with regard to their finances—one-third in July 2009 compared to one-in-six in October 2008. Consumers who do take action are worried about the safety of their money and want to act before the situation deteriorates. But what are these actions? Often nothing more than checking account balances or changing asset allocations. Few are taking action with life insurance.

Another piece of good news comes from our Canadian neighbors, where the individual life market is holding up much better. This, in part, reflects the state of the Canadian economy, which has lagged the United States in both the timing and severity of its decline. Sales in the fourth quarter of last year were flat, rather than down and in the first quarter premium declined by a minimal 1 percent—not the record decline seen in the United States. Product performance in Canada is similar in that universal life sales are performing more poorly than term and whole life.

"The lesson of this downturn is diversity."

Outlook for Individual Life Products

Overall, it is very likely that 2009 will end with a decline in individual life insurance sales. Sales held up in the second quarter as well, down just 2 percent. LIMRA is currently forecasting a double-digit decline in sales for 2009. Sales should start to bounce back in 2010, and then show modest increases in 2011 and 2012. However, given the recent sharp declines, full recovery will take a while. Even sales in 2012 will not likely reach the record sales of 2007.

As has been true historically, it is likely sales by product type will vary more than overall sales. Part of what has driven universal life sales this decade is the growth of products with long-term no-lapse guarantees. In this uncertain world, guarantees will likely be appealing to consumers, if the price is right. Although still down substantially over last year, death benefit guarantee UL has fared better than other forms of UL.

Variable life products never truly recovered from the last significant downturn in 2001-2003, dropping from a peak of 36 percent of new premium in 2000 to 16 percent in 2003 and staying at roughly 15 percent of new premium through 2007. The variable product share of new premium is now in the single digits and is not likely to gain much ground in the near future. In fact, VUL is the only product that is forecasted to decline each year through 2012 based on LIMRA's model.

Term and whole life seem to be a little more recession proof than UL and VUL. LIMRA predicts term sales will end 2009 roughly equal to 2008. Since term insurance tends

CONTINUED ON **PAGE 6**

Elaine Tumicki is corporate vice president, Product Research, LIMRA International, Windsor, Conn. She can be contacted at etumicki@limra.com.

Karen Terry, FLMI, is Manager of Product Research for LIMRA International. She can be reached at kterry@limra.com.

to be cheaper than other insurance products, it is a more affordable option for consumers who feel they really need insurance but are concerned about spending in the current environment. One advantage for whole life is that the top carriers selling the product are mutual companies, which have been less affected by Wall Street's woes. And these companies have a captive audience—affiliated agents selling primarily those companies' products. Despite these advantages, whole life is projected to decline slightly.

There also have been, and will be, changes to company product portfolios as a result of the economic downturn. Term prices are rising for the first time in years due to capital pressures. Carriers are also rethinking their products with guarantees. Several have discontinued their ROP term products and have discontinued, or considered discontinuing their secondary guarantee UL products. Guarantees are popular with producers and consumers however, so it is unlikely that these products will disappear entirely. In fact, even as some companies reel from the impact of their variable annuity guarantee products, a recent article in the *Wall Street Journal* touts the benefits of those guarantees and portrays the loss of them in the variable annuity market as a lost opportunity for consumers.[1] Perhaps seeing how those guarantees protected the nest eggs of annuity owners will make guarantees on VUL products more attractive in the future.

The lesson of this downturn is diversity. Historically, different products have done better at different times and that's still true today. While UL and especially VUL are struggling, term and whole life are holding their own. Product development takes time and carriers who focus the majority of their efforts on the hot product of the day will lag behind those that consistently review their portfolio and already have competitive products on the shelf to offer. We saw this in the beginning of this decade after the stock market decline when carriers who had put all of their eggs in the variable basket fell behind those with established UL products to offer. Despite the dramatic change in the environment over the last year, the lesson still applies: It's important to maintain a robust product portfolio to be able to offer competitive products no matter what the environment. ◻

1 "Long Derided, This Investment Now Looks Wise," Leslie Scism, *The Wall Street Journal*, July 24, 2009