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Highlights of the October 2012 SOA Annual Meeting

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This article contains a summary of some of the presentations given at the October 2012 SOA Annual Meeting. This article does not cover all sessions that are related to product development, but shares observations that have been made by various members of the SOA Product Development Section Council. We encourage everyone to join our LinkedIn group where you can participate in discussions on these or any other topics that are relevant to our business.

Session 41 – Experience Studies (by Tim Rozar)

- Moderator: Kevin Pledge (Insight Decision Solutions)
- Presenters: Derek Kueker (RGA) and Steven Ekblad (Swiss Re)

At this session, two expert practitioners in experience analysis provided an overview of the experience study process as well as some of the more nuanced aspects and best practices of effective experience analysis. Derek's presentation included a very useful demonstration of the difficulties in aligning lapses and exposure on calendar year lapse studies and highlighted the importance of carefully considering the impact of claim rescissions, intra-year mortality rate calculations, substandard factors, joint mortality rates, conversions and riders in mortality studies. Steven provided additional background on the alignment of the experience and exposure periods including a discussion of IBNR and claim lags. He discussed the dangers of misinterpreting mortality improvement, univariate experience splits and large claims volatility when analyzing experience results. He also provided insights into statistical methods for blending partially credible data with a baseline expectation.

Session 53 – Assumption Setting Best Practices (by Tim Rozar)

- Moderator: Jason Kehrberg (Polystems)
- Presenters: Kim Steiner (Towers Watson) and Lisa Hollenbeck Renetzky (RGA)

This session covered a variety of topics in the important field of assumption setting. Kim's presentation covered the assumption setting process with a valuable step-by-step framework. She provided an in-depth look at the organizational structures and governance processes being deployed at best-in-class companies including requirements around assumption ownership, documentation, review and approval, access rights and internal communication. Lisa provided guiding principles to consider and demonstrated the challenges associated with assumption setting through a practical re-pricing case study. She discussed the need for consistency in approach when developing lapse and mortality assumptions and important considerations in interpreting, analyzing and applying experience study results.

Session 54 – UL Deep Dive Part II – Accumulation Market (by Stephen Peeples)

- Moderator: Stephen Peeples (Genworth Financial)
- Presenters: David Beasley (Oliver Wyman) and Tim Pfeifer (Pfeifer Advisory LLC)

At this session, two experts in the UL market provided an overview of the accumulation market. David focused his remarks on the current state of the accumulation market. In particular, David discussed the emergence and importance of Indexed Universal Life (IUL) products. He highlighted the latest in IUL: Increased Competition, Lower Index Caps, Indexed Loan Rates, Guaranteed Living Withdrawal Benefit, and Survivorship Designs. Tim's presentation looked at the future of the accumulation market. He began with a discussion of the factors that will drive the future. Tim concluded by stepping through each product type and highlighting his expectations for that product in the future.

Session 88: Life Product Development Trends and Issues (by Donna Megregian)

- Moderator: Donna Megregian (Milliman)
- Presenters: Craig Hanford (Swiss Re), Dean Kerr (Oliver Wyman), Donna Megregian (Milliman)

Participants of this session included Craig Hanford, Dean Kerr and Donna Megregian. This session focused on a few key items impacting product development. Starting the discussion was a look at the current sales for the United States and a brief report in a survey conducted on term insurance providers. Of course the hottest topic for both the United States and Canada is the low interest rate environment. Most countries continue to struggle for profits with the current environment, as new money rates are dipping below the guarantees on many inforce products and are looking unattractive for new business sales. Both Craig and Dean discussed implications of the current environment from new valuations rates to re-pricing of products.

In the United States, new AG 38 standards will take root starting Jan. 1, 2013, impacting new products and current financing solutions. Canada has a level COI product that is raising concerns about profitability, especially in this current environment and many have removed their Term-to-100 product offerings. This session had a good mix of information facing both the United States and Canada with some compelling concerns facing the product development world today.

Session 102 – Inforce Product Management (by Stephen Peeples)

- Moderator: Stephen Peeples (Genworth Financial)
- Presenters: David Wiensier (Oliver Wyman) and Mitch Katcher (Deloitte)

This session took a look at topics regarding inforce product management. David's presentation covered the active inforce management with a focus on low interest rates and COI redetermination. He used indexed products as an example of the changes in guaranteed values for new products. Mitch talked about Predictive Analysis in the context of inforce business. He discussed ways that external data and reason codes can provide deeper insights and more understanding into customer segmentation which leads to a better understanding of future policyholder behavior.

Session 116: Canada and the United States: Learning from Each Other (by Jim Filmore)

- Moderator: Lisa Hollenbeck Renetzky (RGA)
- Presenters: Rebecca Rycroft (Oliver Wyman) and Michael Taht (Munich Re)

Rebecca and Michael started the presentation by comparing the size of the individual life market in the two countries. The premium and policy count was nine times larger in the United States than it was in Canada. That part was probably not surprising to most members of the audience. Somewhat surprising to me was that the face amount of 2011 individual life business issued in the United States was only six times larger than that in Canada. The variance in those two statistics is due to the average face amount being 37 percent larger than the average face policy sold in the United States.

Next, the presenters outlined the differences between the regulatory environment in Canada and the United States. The key take-away from my perspective is that the statutory reserves in the United States are prescribed and are meant to be conservative whereas the statutory reserves in Canada are best estimate with a provision for adverse deviation. Essentially, Canada valuation law already allows their actuaries to take a principle-based approach.

When asked about recent product trends in the United States, Michael Taht indicated that he sees the following:

1. Regulatory upheaval especially with respect to the impact of Actuarial Guideline 38 on the Universal Life No Lapse Guarantee products.
2. Underserved middle market and trend towards automated underwriting.
3. Increase in equity indexed products (life and annuities).

When comparing product statistics between the United States and Canada, it was noted that premiums per 1000 were higher in the United States. However, that premium difference per 1000 is likely driven by an older issue age in the United States.

2012 credited rates on universal life products are much higher in the United States as compared to Canada. The higher credited interest rates in the United States were noted to be the result of the U.S. non-forfeiture regulations. It was also noted that there will be a new lower non-forfeiture rate in the United States for 2013 issued policies. However, that would only provide modest relief from the current low interest rate environment.

Rebecca and Michael noted a number of similarities and differences between the U.S. and Canadian markets. In particular, the following points were noted:

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- The Canadian insurance and reinsurance marketplaces are more consolidated than in the United States.
- Canadian insured population is more homogenous than the United States (perhaps due to a smaller number of writing companies which have similar underwriting practices).
- There are fewer preferred underwriting classes in Canada.
- The Canadian marketplace originally priced their term-to-100 products with ultimate lapse rates in the mid single digits. Today, that product is typically priced with an ultimate lapse rate of less than one percent. A similar trend was observed over the last few years with respect to the pricing of Long Term Care policies in the United States. Thus, we may want to take those lessons into consideration when setting the ultimate lapse rate on lapse supported products in the future.
- Canadian actuaries have the ability to exercise more judgment in setting statutory reserve assumptions which may in part be driven by their closer relationship to their regulatory body (OSFI). A similar relationship in the United States could be challenging given regulation of insurance at the state level.
- The impact of assumption changes (such as interest rates) hits immediately in Canada. That means more financial volatility. The U.S. valuation typically doesn't reflect interest rate changes so quickly which result in more earnings stability. However, that also means there could be less of an early warning system in the United States when it comes to financial results.

The bottom line is that there are many lessons that can be learned in one country and applied to the other. However, one has to be careful to consider the nuances of the marketplace to which it is being applied to ensure that an appropriate conclusion is reached. ◻