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Highlights of Sessions at the 2016 SOA Life & Annuity Symposium

By Kurt A. Guske

This article contains a summary of some of the presentations given at the 2016 Society of Actuaries (SOA) Life & Annuity Symposium in Nashville. While this article covers only a portion of sessions that are related to product development, it 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. If you would like to present at an upcoming SOA event or write an article for Product Matters!, *please contact Simpa Baiye at* simpa.baiye@pwc.com, *Brock Robbins at* brobbins@scor.com, *or me at* kurt.guske@aig.com.

SESSION 54 WORKSHOP: ILLUSTRATION WORKSHOP FOR AG 49

Presenters: Brandon Patrick Emerson, FSA, CERA, MAAA; Laura Alden Hanson, ASA, MAAA; Francis L. Radnoti, FSA, MAAA

Slides available at *https://www.soa.org/Files/Pd/2016/las/pd-2016-05-las-session-54.pdf*

By Francis Radnoti

Based on polling results, the audience was predominantly made up of insurance company actuaries who did not function as illustration actuaries, but rather characterized themselves as possessing only a high-level understanding of Actuarial Guideline 49 (AG 49). While there were still several subject matter experts in the room, there was greater attendance than we expected from people less familiar with the subject. There were several people who had to use actuarial judgment under AG 49, either in the creation of a Benchmark Index Account, or in the determination of illustrated rates for other accounts. People represented different thoughtful approaches used and agreed on the need for strong documentation.

With respect to the 145 percent limit in Section 5, some viewed this as a direct limit to the illustrated rate, while some viewed this as an indirect limit that is considered only in disciplined current scale (DCS) testing. With respect to the illustration of bonuses, there was roughly an equal split of people who would or would not illustrate a bonus above the maximum illustrated rate if it passed DCS testing. In order to comply with the 100 bps loan limit, the vast majority of respondents would decrease an illustrated crediting rate, rather than use an alternative approach.

The group was fairly evenly divided as to whether AG 49 limitations should be applied to in-force illustrations.

SESSION 66: TRENDS AND NEW TOOLS IN INSURANCE MARKETING AND DISTRIBUTION

Moderator: Andrew G. Steenman, FSA, MAAA; Presenter(s): Benjamin Filip and Jay M. Jaffe, FSA, MAAA

Slides available at *https://www.soa.org/Files/Pd/2016/las/pd-2016-05-las-session-66.pdf*

By Jay M. Jaffe

Editor note: This article provides detailed insights into Jay's part of the session. Happy reading.

Each year the magazine *Broker World* devotes its January issue to a "Carrier Forecasting Forum." This issue features short articles from 10 or more life and annuity company executives. Given the theme of the issue, I've always anxiously anticipated these articles with the hope that they would present a picture of the trends the chief marketing officers (CMOs) and other contributors expect in the near term.

The 2016 Carrier Forecasting Forum included articles from 13 companies. I went through these articles and have identified the common interests among the authors. So what did I find?

My general observation is that these industry leaders were more concerned about convincing the readers of *Broker World* that their companies are better than the other companies that authored articles for the issue. Their standard message was "sell for me in 2016." Any insight the authors have about trends in distribution channels and insurance marketing, for the most part, was not revealed in their articles.

Collectively, the CMOs mentioned several few general trends that I'm sure we all expect to happen:

- More use of social media activity
- Faster application processing
- Expanded mobile access for prospects and producers
- AG 49 will have an impact on the way new business is conducted.
- Data is becoming increasingly important and easier to obtain and use.
- Customer satisfaction needs to be measured and tracked.
- The continued low interest rate environment needs to be addressed.

A couple of the CMOs talked about identifying and expanding into new areas of growth such as women producers, Hispanic and other ethnic markets. A few CMOs were concerned about creating an atmosphere or culture that would attract agents and customers.

There was one author who seemed to have a broader grasp of what agents need for future success. Interestingly, this individual was the head of a large independent marketing organization (IMO) rather than an insurance company employee. Here are a few of his comments that resonated with me:

- We're living in a new world. Forget how things were done in the past.
- The key task his organization faces is to "identify, engage, educate and enable the next person who can position and sell a life insurance policy."
- Creating and enabling new distribution
- Ensuring succession and continuity of production entities
- Dealing not only with change but the rapid pace of change

I had hoped that *Broker World* would have provided me with a long list of upcoming trends and distribution changes and simplify my preparation for this panel. Instead, I had to do my own thinking and make my own observations about the general trends and changes in the life insurance distribution process that we are likely to see in next several years. I identified eight areas that should be considered as potentially impacting life insurance distribution:

1. Shifting production sources
2. The sources for innovative ideas
3. The implications of using outside innovation sources
4. The opportunity for an insurance revolution
5. Insurance clones
6. A changing insurance regulatory environment
7. Direct-to-consumer
8. Private benefit exchanges (PBEs)

The Shift in Production Sources

Today's life insurance business is dominated by fewer and fewer carriers. There's every reason to expect that this trend will continue.

Nowadays very few life insurance companies hire and train raw life insurance agents. More and more IMOs are stepping up to fill this gap. To some extent the emergence of the IMOs is also a reflection of the concentration of product availability from fewer and fewer carriers.

The implication of the increasing dominance of the IMOs is that more than ever the fight between many insurers will be not for consumers but for production sources. The exceptions to this new reality will be a few carriers that have established a brand name and can deal directly with consumers without the need for an intermediary.

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I believe the trend toward stronger and more creative external production sources will continue. In the future some IMOs will work with individual independent producers while others will become more technology oriented. As is the case now, many IMOs will identify and operate in market niches.

The Sources for Innovative Ideas

My nonscientific but carefully observed impressions are that most new ideas for improvements in the life insurance delivery process are not emanating from within insurance carriers but from external sources. New underwriting tools, data-driven solutions, new technologies and other improvements strongly tend to originate from outside entrepreneurs rather than within carriers.

One of the reasons outsiders produce these new ideas is that insurance companies, with some exceptions, do not foster an atmosphere of creativity and research. It would be very unusual for an insurance company to have a research and development (R&D) budget because most company efforts are devoted to meeting yearly goals. Identifying new solutions can be expensive and then to get concepts to the point where they can be applied by insurance companies adds further expense. Besides, most new ideas fail so all the costs of the failed projects have to be amortized over the costs of the few projects that are successful.

The Implications of Using Outsiders for Innovative Ideas

The good news is that if new ideas are developed by outside entrepreneurial organizations, there will be more new ideas and probably at lower cost than if they are created within insurance companies. The bad news is that all carriers will begin to look alike because they are buying the same new innovations.

Most of the time, there will be just a few new entrants providing a new technology or concept. The insurance market is not large enough to have tens of providers offering versions of the same or a similar new idea. It should not be surprising that even the idea developers are likely to consolidate.

Looking ahead, there will be fewer unique insurance products. Also, insurers will quickly find that what they thought was a new idea will rapidly become ubiquitous rather than remain unique.

The Opportunity for an Insurance Revolution

The major question about the future we face is who or what will revolutionize the insurance business in the coming years.

For example, sooner or later Google, Amazon or another forward-thinking company will probably tackle not just the process we use to buy insurance, but also the concept of insurance as we know it today. These companies will offer an entirely new customer-centric experience. Some of these new ventures will concentrate on distribution, and others may target new types of risk takers and products. While we can't predict what the new insurance environment will look like, it is not difficult to expect that Google or another visionary company will be successful at reinventing the insurance business.

Tech companies have the talent to revolutionize the insurance business. They employ more than a sufficient number of those who hold doctorates and others to invent new products and ways to distribute insurance. Moreover, when they become successful entrants to the insurance business, they may not need or choose to rely on actuaries for insurance and analytic expertise.

Insurance Clones

One way to create needed new insurance products is to build them as insurance clones rather than as regulated insurance contracts. In recent years a number of products and services have been developed that are insurance clones but for regulatory purposes are not classified as insurance.

An example of an insurance clone product is a dental network rather than dental insurance. The network provides discounts for dental services versus payments for services. A dental network is definitely not an insurance product and, therefore, is more flexible and less expensive to develop and operate as well as providing benefits that are often more appropriate for consumers than those provided by similar insurance policies.

The Regulatory Environment

I foresee that the increasing complexity of the regulatory environment may result in a movement to both modernize and make the current regulatory environment more workable. For example, we already have the Interstate Insurance Product Regulation Commission (or the Compact) to make filings easier and less expensive.

A way to judge the success of the future regulatory environment is to see new, creative insurance companies being formed. We need these new carriers if we are to maintain a vibrant industry. Every environment must have a diverse gene pool if it is going to survive.

If there continues to be an absence of new carriers, we'll be continuing the trend of an industry that used to have relatively free entry but is currently devoid of new blood. Both the industry and insurance regulators need to find some way to encourage new insurance companies to be formed or face winding up with a situation where a few life insurance companies dominate the landscape. To some extent this is exactly what we see has happened to the health insurance industry.

Direct-to-Consumer (DTC)

During the past 60 or 70 years the DTC distribution system has undergone as much of a transformation as any insurance distribution system. It provides a good case study of adaptation and innovation in a changing world. To a large extent, DTC distribution is a precursor of future distribution trends.

DTC began mainly using print media. The most obvious example is direct mail, but it also used ads on public transportation, applications inside matchbooks, take-ones on counters, and other print media. Then a massive change occurred in the later part of the 20th century when telemarketing became popular and profitable. Telemarketing wasn't successful because of someone's brainy idea but rather because new tele-technology made calling easier and inexpensive.

More recently DTC has moved into internet-based marketing activities. The new internet tools enable marketers to reach potential customers with offers that are precisely targeted to the needs and desires of each prospect. The product offering can be made to appear to be a very personalized offer rather than an offer to a broad group of people.

There's no question that DTC will become a more important insurance distribution method. Some insurance marketer may even find a way to change the old adage that much "life insurance is sold not bought" to one where "life insurance is a proactive purchase." The point is that we're getting very close to having this capability.

Private Benefit Exchanges (PBEs)

A distribution platform related to DTC is the PBE platform. Recently, Accenture reported that for the recent 2016 enrollment period there was a 35 percent increase as compared to the prior year in respect to people purchasing health plans through an online market. While the absolute numbers of people and employers using the PBE marketplace are still not dominant in the market, the trend to more PBE participation is significant.

If PBEs become more popular, could this format become the answer to how to reach the middle market? Will PBEs replace worksite marketing and some other DTC activities? If I were the CMO of any insurance company interested in the middle market, I would at least be investigating, if not heavily investing, in distribution through the PBE system.

A consequence of not having a predominant place in the PBE networks will be that the non-players in this distribution system will be shut out of certain individual markets. To avoid customer sensory overload PBEs will severely limit the number of carriers offering specific products. The PBE market may very well be a case where "the early bird gets the worm." As such, one should not expect many opportunities for late entrants.

Conclusion

Given that this session's topic has much to do with the future, you're probably now wondering whether I've left you with any nuggets of useful information and if the information I've presented is accurate. I cannot promise you that each and every observation or trend that I've mentioned will be helpful. Rather, my hope is that my comments should enable you to make your vision of the future more relevant.

Perhaps the best nugget I can leave you with is how to develop your own predictive skills. It is not difficult to be a successful forecaster if you first become an observer. The second step is to consider the implications of what you see and infer from your observations. You will not make perfect predictions, but don't let this fact stop you from thinking about how you and your companies need to change in order to be active and successful participants in the life insurance business in the next two to five years or beyond.

If you choose to be a trend predictor, you are likely to be viewed as successful even if your recommendations are only 25 percent accurate. There's no magic to the 25 percent success rate I've just mentioned. However, it is not an insignificant coincidence that the average major league baseball player only batted .254 in 2015. This means, on average, that the players failed to hit safely 3 out of every 4 times they came to bat. If you're a pessimist, you'll likely focus on the fact that each hitter failed 75 percent of the time they had a chance to help their teams with a hit. The average typical major leaguer is now paid over $4 million per year. Not bad for being successful only 25 percent of the time! ■

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