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Highlights of Sessions at the 2017 SOA Annual Meeting & Exhibit

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This article contains a summary of some of the Product Development Section presentations given at the 2017 SOA Annual Meeting & Exhibit in Boston this past October. Thanks to Donna Megregian and John Timmerberg for their session contributions. You can also find session presentations on the SOA website as well as virtual sessions at <https://www.soa.org/prof-dev/events/2017/annual-meeting/virtual-session/>. 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 Lindsay Meisinger at lmeisinger@rgare.com, Simpa Baiye at simpa.baiye@pwc.com, Blake Hill at Blake_Hill@manulife.com, or me at kurt.guske@aig.com.

SESSION 87: NEW OPPORTUNITIES IN ACCELERATED BENEFIT RIDERS

Moderator: John Leo Timmerberg, ASA, MAAA; Presenters: Jeanne Meeker Daharsh, FSA, MAAA, and Denise Liston

More than 150 actuaries attended session 87, New Opportunities in Accelerated Benefit Riders, at the 2017 SOA Annual Meeting. John L. Timmerberg, ASA, MAAA, consulting actuary with Accelerated Actuarial began the session with an introduction to the accelerated benefit rider types (chronic illness, critical illness and terminal illness), rider structures, and the size and growth of the market. He discussed the pros and cons of the three rider structures (full benefit, fractional benefit and lien), the relative value to the policyholder and the pricing risks of each structure. Special pricing considerations for combining the riders with the various base life products were discussed.

Denise Liston, vice president at LifePlans, Inc., continued the session with underwriting considerations for these riders. Denise discussed the underwriting risks for chronic and critical illness accelerated benefit riders, including IADLs (instrumental activities of daily living) and ADLs (activities of daily living) and their impact on the rider benefit triggers. She explained IADLs as precursors such as forgetting medications, inability to use

telephone or prepare meals, for example. She included additional emphasis on cognitive and dementia risks and how these impact the underwriting for chronic illness accelerated benefit riders.

Jeanne Daharsh, FSA, MAAA, actuarial reviewer for the Interstate Insurance Product Regulation Commission (IIPRC), outlined the benefits of filing new products with the IIPRC and the scope and volume of filings approved. She discussed how the IIPRC reviews these rider filings and tips for avoiding common filing pitfalls. For example, coverage has to be incidental to the life coverage which means less than 10 percent of the life event. She explained that the average time to approval is 26 days through the Compact.

The session concluded with a lively question and answer session.

SESSION 29: TOOLS AND DATA IN UNDERWRITING PROCESS

Moderator: Donna Christine Megregian, FSA, MAAA; Presenters: Donna Christine Megregian, FSA, MAAA, Kevin Pledge, FSA, FIA, and Zhe (David) Zhu, FSA, FCIA, Ph.D.

Companies are looking for ways to improve the customer experience during the sales process. Beyond the traditional sources of underwriting, speakers in this session discussed newer sources of information such as facial recognition, electronic health records, credit, and mortality risk scores. Presenters talked about some validation studies with both positive and negative results. They also discussed considerations companies should think through as they adopt the new tools, such as regulatory, consumer, and



administrative issues. For example, be cognizant of unintended unfair discrimination in establishing these new programs and processes. Another key example is messaging that triage is a path to a noninvasive underwriting process and not a decision, which is paramount to using these newer information sources in the triage process. Transparency and disclosure are becoming key consumer and regulatory issues while adjustments to systems and proper tracking and monitoring are key company issues to manage.

SESSION 161: BEST PRACTICES & CONSIDERATIONS FOR ACCELERATED UNDERWRITING

Moderator: Donna Christine Megregian, FSA, MAAA; Presenters: Gregory A. Brandner, FSA, MAAA, and Lisa Hollenbeck Renetzky, FSA, MAAA

So many companies are implementing accelerated underwriting programs which many may find difficult to define. The panelists discussed ways, with audience voting participation, to put accelerated underwriting and simplified issue closer to fully underwritten mortality as many companies do not want to modify retail rates significantly to accommodate the process.

Points discussed included should the program just go to age fifty? What target markets would be optimal? Should age and amount grid vary by age? What products make sense? The panel claimed most often seeing programs on term. An audience survey revealed the session participant companies are more often using MIB, MBR, Rx, and credit/credit-based scores as data sources in their accelerated underwriting processes than industry or proprietary predictive models.

A few things the panel discussed included how companies are implementing accelerated underwriting programs (what ways and which products), timelines to implement an accelerated underwriting program, and what areas need to be involved in the process. An audience survey revealed seventy-five percent of the session participants believe creating and implementing an accelerated underwriting program will take at least nine months. Forty-one percent think it will be longer than twelve months.

It's important to monitor the accelerated underwriting program. One way to do this is by using a misclassification matrix to map the results of the program versus how they would be fully underwritten.

And what's in store for the future in risk selection? The panelists' prediction is more individualized mortality scores.

SESSION 118: VM-20 IMPACT ON PRODUCT DEVELOPMENT: RESEARCH STUDY PHASE 2

Moderator: Kelly J. Rabin, FSA, MAAA; Presenters: Paul Fedchak, FSA, MAAA, Jacqueline M. Keating, FSA, MAAA, and Michael W. Santore, FSA, MAAA

The panel presented results of the second phase of the SOA sponsored research of the impact of VM-20 on term and ULSG product designs. They analyzed the impacts to the net premium reserve (NPR), deterministic reserve (DR), and stochastic reserve (SR) under a variety of different case studies. The presentation opened with a brief summary of phase 1 results, upon which the phase 2 case studies were built.



Photo by Hyon Smith.

The phase 1 results showed that on term, the NPR floor was the winner in early level premium term (twenty year) durations. The DR is slightly higher in the tail end of the level premium period. On ULSG with no-lapse premium to attained age 110, the DR exceeded the NPR in all durations. The SR excess is small and limited to early durations.

Companies currently engaged in reserve financing would yield lower profits under VM-20, according to the study. Term without financing experienced more favorable results with VM-20 than under CRVM reserves. ULSG with and without financing experienced less favorable results in the VM-20 study than with CRVM.

The panel also discussed the impact of different assumptions on the deterministic reserves to understand each assumption's attribution to the total reserve. According to the study, removing the mortality margins had a notable impact, while removing expense margin and lapse margins had smaller reductions to the DR. Removing all appeared to converge with the baseline where the DR exceeded the NPR, at the tail end of the level premium period.

The mortality margin is a key driver of the overall deterministic reserve. As a result, the ability to forecast the DR with updated mortality improvement up to the valuation date is important.

The phase 2 case studies focused on small company, simplified-issue term, coinsurance, 30-year level term, and short pay ULSG situations. Each study began from phase 1 results and layered in assumption changes to examine the impact on VM-20 reserves and pricing results. For instance, the small company study demonstrated that coinsurance is effective on UL with lower credibility and longer duration liabilities, and less effective on term.

The panel also discussed the industry interviews that were conducted and summarized as part of the phase 2 study. The topics covered in the interviews included industry preparedness for VM-20, implementation concerns, collaboration, and the pricing process.

More details of the research can be found at the SOA website at <https://www.soa.org/research-reports/2016/2016-impact-of-vm20-product-development/>.

SESSION 174: NEWLY PROPOSED ASOPs: PRICING, MODELING, AND SETTING ASSUMPTIONS

Moderator: David C. Armstrong, FSA, MAAA; Presenters: Nick Fiechter, FSA, MAAA, Maria Rose Itteilag, and Donna Christine Megregian, FSA, MAAA

Did you know there were some newly proposed ASOPs that relate to the product development actuary? Although these are not yet final, the proposed ASOPs try to represent current

practices and guidance which may help the actuary through the various product development exercises encountered. Presenters in this session went through each proposed ASOP's background and framework, then moved into scenarios where an actuary may be challenged to do the job being asked but may end up conflicting with or may be unclear with what is in the proposed ASOPs.

Most people at this session had not read the ASOPs. The panel stressed reviewing and commenting on the proposed ASOPs to ensure that clarity in guidance is achieved and enhancements have a chance to be included.

SESSION 188: INFORCE MANAGEMENT: UNDERSTANDING AND INCREASING ITS VALUE

Moderator: Donna Christine Megregian, FSA, MAAA; Presenters: Andy Ferris, FSA, FCA, MAAA, Stephanie J. Koch, FSA, MAAA, and Jennifer L. McGinnis, FSA, CERA, MAAA

The panel discussed the importance of doing inforce management and building an inforce management team. The panel shared some experience of building a team, developing goals and measuring success. The panel also discussed some cases where changes made have a potentially large impact on inforce values such as through post level term management.

Many companies are contemplating varying levels of nonguaranteed element changes as well, and these changes may be impacted by regulations like NY regulation 210. In the end, there are a variety of resources available for actuaries including Actuarial Standards of Practice 2, 12, 15, 24, and 33, along with proposed ASOPs on pricing, setting assumptions, and modeling from session 174. ■



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