Small Talk

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Welcome to the winter issue of Small Talk! As you might notice, we have altered the timing of the newsletter—look for issues now in June and December.

This issue has a variety of articles for your review. First, there is a new regulatory resource on the Society of Actuaries (SOA) website that provides a one-stop shop for a number of items. Check it out if you haven’t already done so.

You’ll also have the opportunity to read about big data from our friends in the Technology Section. The article focuses on small companies and is worth the read.

On the research front, an article by Jim Filmore discusses how research projects are determined within the SOA. If you have ideas for such efforts, this article provides guidance on how to submit them for consideration.

Highlights from an interview with former SOA president Jerry Brown are included in this issue and provide his insights about the state of the actuarial profession.

Finally, there is an article on industry mortality experience and guaranteed issue mortality. This is a great summary of these considerations, given the PBR and mortality tables currently in use.

Thank you for taking the time to read our newsletter. I know there are number of other things you could be doing and appreciate that you chose to spend some time with us.
Chairperson’s Corner
By Mark Rowley

At the 2018 Society of Actuaries (SOA) Annual Meeting & Exhibit, my term as chairperson of the Smaller Insurance Company Section (SmallCo) ended. It has been a joy to lead SmallCo during the last year. I have been involved with this section since at least 2011, and along the way I have made some lifelong friendships.

My participation in SmallCo has helped me do my job better, mainly because SmallCo played a huge role in helping me build a network of other small company actuaries. In my career, I have been blessed in learning to be an actuary in several different roles—as a specialist in a large company, as a consultant for a few years, and as a generalist at a small company where I am the head of an actuarial team of three people.

Being the lead actuary at a small company was a very different role, and I had a lot to learn! As I got involved with SmallCo, I met a lot of small company actuaries who were much smarter and/or more experienced than I was, and I built a network that has been essential in my success as a small company actuary. In a small company, you typically don’t have actuarial peers within the company, so having a network to reach out to is essential in doing a good job.

Paying the $25 dues to join the section doesn’t guarantee you a network. Some effort is required in getting to know people, and the easiest way is to get involved with SmallCo by joining one of its teams or playing a different role.

It is incredible to me how much quality information SmallCo has disseminated, given that the volunteers who do it are all very busy people—being a small company actuary is a challenging, time-consuming role! We circulate this information to fulfill the section’s mission of helping actuaries in small companies. It is a way to give back to the profession. The key is what Jerry Enoch taught me when he mentored me early on in my time with SmallCo: “Many hands make light work.”

We are relatively unique as a section in that we have so many “friends” playing a role in addition to the nine council members.

Put this together with dedicated SOA staff support, and the work gets spread around pretty effectively. We discourage people from getting overcommitted. Nothing’s perfect, but I challenge everyone reading this to take us at our word, volunteer for SmallCo, and hold us to our pledge that we won’t overburden you. Also, the more volunteers we have, the better we can be at many hands making light work.

SmallCo disseminates information through webcasts, meeting sessions, our semi-annual newsletter and more. Our revenues come primarily through webcasts, which has allowed us to fund research at a much higher level than in the past.

Here are a few of the things we have done in 2018:

- We were the first section to publish anything on tax reform with our special newsletter in March.
- SmallCo and the Taxation Section presented the webinar “Tax Reform Impactions for Smaller Companies.”
- We started a new team called “PBR Without PBR.” Even if small companies are not going to implement principle-based reserves (PBR), this method still has many great ideas that will help these companies. They include, but are not limited to:
  - Setting of investment strategy
  - Model governance
  - Assumption setting
The team has a goal of hosting quarterly webinars on different topics. The webinar “Setting Investment Strategy” was presented in July.

- SmallCo co-sponsored a research project called “Simplified Methodologies in VM-20.” A session on this project was presented at the Valuation Actuary Symposium.

- We also sponsored a research project called “Practical Analysis of PBR Mortality Credibility for Term Insurance.” The final report on this, plus a follow-up webinar, will be available later this year.

- Each year at the Valuation Actuary Symposium and the SOA Annual Meeting & Exhibit, we have unique forums and buzz groups focused exclusively on small company actuaries. We take a poll and make sure we talk about what you want to talk about! These sessions have always received rave reviews.

This is not a complete list. For the sake of brevity, I have left out some meeting sessions, webinars and other items that have happened or will happen in the remainder of 2018.

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Small Company, Modern Data Strategy
By Ying Zhao and Win Georg

Editor’s note: This article is reprinted from CompAct, April 2018, SOA.org/sections/technology/technology-newsletter/. Reprinted by permission.

Predictive analytics and big data have become buzzwords of the insurance industry and actuarial profession. Before companies can dip their hands into the ocean of big data, they need a solid foundation for managing and analyzing their existing internal data. This requires an infrastructure that acquires, integrates and manages the entire enterprise data resources. Many companies have been conducting actuarial and financial transformation projects for the past few years to establish this foundation, which has lead to streamlined reporting processes, improved financial analytics and enhanced internal controls.

While large companies are busy with their technological and actuarial innovations, many small and medium-sized life insurance companies are still trying to figure out how to participate in the world of new technology and big data. This article will outline why small insurance companies should act now to enhance their reporting and analytical capabilities, how to start a seemingly overwhelming project, and what critical factors are needed to ensure the success of such technological and business transformation projects.

Historically, many small companies have been successful by occupying niche marketplaces, providing high-quality customer service and enjoying a capital-rich operating environment. While the industry is gearing up for significant industry changes like principle-based reserves (PBR), some small companies have not felt the same pressure because of PBR’s small company exemption. So do small insurance companies need to conduct transformation projects like the big companies have been doing? The answer is YES, and they need to start NOW, for the following reasons.

• The insurance industry has an aging sales force, which is projected to retire in massive numbers in the coming years. InsurTech startups have started their disruption of the traditional distribution model and are attempting to establish new relationships with the end customers. The niche markets that some small companies have been occupying will undoubtedly be affected by this sea change as well. The mom-and-pop approach to customer care will also slowly lose its appeal as the new generation of customers are more technology savvy and demanding of information at their fingertips. Small companies need to upgrade their front and back office technologies in order to stay in the marketplace.

• An increasing demand for better controls and risk management from regulators and auditors has been an industry theme for many years. As more states adopt the model audit rule (MAR) and modern risk management framework (i.e., own risk solvency assessment (ORSA)), companies need to enhance their reporting capabilities and streamline their reporting and control processes to meet the regulatory requirements.

• A changing marketplace brings challenges as well as opportunities. Some companies pursue rapid growth following a merger and acquisition (M&A) strategy. A robust data infrastructure is one of the prequests for successful business integrations and winning the M&A game.

Fortunately, many business leaders already recognize the need to change. However, they are hesitant to act due to the perceived large size of potential investment and the scope of the projects. In addition to the common industry issues, such as legacy administration systems and outdated data infrastructure, small companies may have additional challenges such as limited analytical capabilities and fragmented reporting processes. Some critical business analyses are heavily reliant on
capable individuals (mostly actuaries) and performed on desktop applications using personal computing technologies (instead of enterprise technology solutions). So is it possible for small companies to take on transformation projects? The good news is that the technological advancements in the past few years have created many different solutions and now allow companies to take a more flexible approach to such projects.

- Cloud-based database and computing technology has matured to the point that it is a viable alternative to on-premises hardware and software and their associated support costs.
  - The technology, architecture and best practices associated with data warehouse design are mature and well understood by practitioners. Cloud computing offers quick and flexible scalability. If architected correctly, a data management/business intelligence system can be implemented at small scale with modest cost initially and can grow quickly to meet expanding business needs. In fact, systems can be configured to scale dynamically up and down as data volume and computing loads increase and decrease at various times.
  - Significant data management and reporting benefits can be realized with a modest initial investment, allowing a re-engineering effort to be started without a large financial commitment. Since the effort can be started on a small scale, a great deal of the risk associated with a large, traditional IT project is automatically eliminated.

- Extensive cloud-based development can be undertaken by a very small team. Relieved of the need for space in the local data center, resources from a backlogged infrastructure support staff, and the delay required to obtain and install new server hardware, a few knowledgeable individuals can create a surprisingly extensive system. A nimble development team can also form a close relationship with the business units and provide quick responses to changing requirements. An agile project management approach will increase communication frequency, improve information handoff and shorten release cycle.

- The vendors of cloud-based database platforms have responded to modern regulatory requirements by implementing such features as database auditing, encryption at rest and geo-replication of data. These features allow an organization to meet Sarbanes-Oxley Act (SOX) and MAR requirements in their databases without the need to build and maintain such functionality themselves.

- Many InsurTech startup companies have come to the marketplace providing technology solutions to one specific area of the insurance business processes, such as application, sales management, underwriting, claim process, etc. Insurance companies can strategically select the areas that they would like to address and establish business relationships with these companies. Like other technology companies, InsurTech companies may not follow a traditional business model and may allow more flexible forms of relationships other than the traditional buyer-seller relationship; hence, a more flexible cost structure for insurance companies.

People in the “transformation business” know that transformations must happen in all aspects of the business, not just technology. Business process, organization structure and personnel need to go through transformations as well. The human factor is as necessary as the machine factor. Without one, the other will be unlikely to succeed. Companies need to train their existing staff and acquire new talents to accommodate the new processes. Actuaries, especially those who are the primary producer of the business intelligence in the small companies right now, can and should become the leading force of these transformations.

Last and most important, no transformation can be successful without a strong commitment and support from company business leaders. A visionary leadership, strategic investment and commitment to success will take small companies to the brave new world of big data and predictive analytics, and find business growth and success in the new era of the insurance industry.
As you likely already know, the various sections of the Society of Actuaries (SOA) initiate research that is either conducted by working groups of the SOA or bid out to external researchers. The sponsoring SOA sections provide funding as needed for the research and also provide oversight for the research through Project Oversight Groups (POGs).

Personally, I believe that such research is an important function of the SOA and its sections. I also believe that participating in such research projects is a way for actuaries to broaden their experience, meet other actuaries interested in similar topics and help give back to the profession.

Participating in research can take many forms:

1. You can suggest topics for research. This is a simple way of being involved, but it is important. Your suggestion can turn into the next great piece of research the SOA produces.
2. You can volunteer to be on a POG for research that is about to be initiated by the SOA.
3. Your company can bid on a research project where your team could be compensated for conducting the research.

Scott Haglund and Pam Hutchins are currently the co-leads for research for the SOA’s Smaller Insurance Company Section (SmallCo), while I’m the current chairperson for the SOA’s Committee on Life Insurance Research (CLIR). Think of CLIR as a forum where the research representatives from various SOA sections come together to share ideas and arrange for the funding of projects that can be used by the members of more than one SOA section. As part of my involvement with CLIR, it has been a pleasure working with the research representatives from SmallCo, as they are very engaged and in tune with the research needs of their section members. Over the past few years, Scott and Pam have been able to promulgate ideas that now have become research reports with relevant and actionable information. Those projects include topics such as “Modern Deterministic Scenarios for Interest Rates” and various research reports and tools designed to help you understand how to implement principle-based reserves (PBR) at your company. All of these items are accessible under the Resources tab of the SmallCo page on the SOA website. You can also find SOA research from all sections categorized by topic under the Research tab of the main website.

My request now is that you help us create the next great research report for our SmallCo constituents. To do that, we want to hear your ideas, including issues and challenges that you face in your actuarial work where research could provide useful insights.

Please e-mail Scott (sdhaglund@fedins.com) or Pam (APH@gpmlife.com) with your ideas for research. You are also welcome to let them know if you are available to serve on a POG for future research projects. A list of current opportunities is available on the “Volunteering” page of the SOA website (SOA.org/volunteer-program/default/). The commitment for participation on most POGs is fairly light and typically involves a one-hour conference call each month, along with reviews of the initial project scope and final draft report created by the researcher. Some projects last only a few months, while more in-depth research (such as experience studies) may last 18 months. I’ve never regretted volunteering to be on a POG, and I anticipate that you will have a similar experience. Being part of a POG gives you the ability to shape the project and receive early information about the results.

Thank you!
Lunch With an Ex-President in Chappaqua, New York

By Jonathan Pollio

I had lunch with former Society of Actuaries (SOA) president Jerry Brown to get his thoughts on the Smaller Insurance Company Section (SmallCo). We talked about many topics, the first being, why be involved in a section? He feels one great thing about joining a section is the networking opportunities. As a small company actuary, it is important to have people with whom to exchange and share ideas and learn what is new in the field. It is also important to talk to someone who understands the challenges of being a small company actuary. From a personal standpoint, the networking opportunities I have gained through my involvement have been invaluable.

SOA support for the small company was our next topic. He mentioned research projects, webinars and newsletters. He feels one way to grow our sections is with new fellows of the Society of Actuaries (FSAs). The SOA recently began offering new FSAs a free one-year membership in two sections of their choice. This program directly shows new FSAs the benefits of section membership.

We then talked about his thoughts on the future of small companies. The small company has a tough future. Bigger companies are starting to get interested in our niche products and will now throw resources at those products. He believes, though, that companies and people survive and thrive. I agree with this thought. Small companies develop a relationship with the customer that big companies cannot achieve.

We also discussed SOA meeting content that is relevant to small company actuaries. SmallCo runs a few sessions at every meeting, a fact of which I was not aware—I only knew about the small company buzz group. I looked at a few of the old meeting agendas, and there are many SmallCo topics. If you have ideas for topics SmallCo should cover at future meetings, feel free to send any ideas to the section council.

Jerry and I then talked about training from the SOA. He was very proud of the predictive analytics seminar that nearly 250 people attended last year. Seminars usually have about 30 attendees, so 250 is a large number. I have attended seminars in the past, but I didn’t know how many seminars are available to members. For instance, the SOA Predictive Analytics Certificate program, a combination of e-learning and a seminar, provides an opportunity to improve your skills in this area.

Next we discussed areas where the SOA could improve. Jerry felt that we needed to work on our “soft skills.” Communication, management, leadership and people skills need to be better developed. We need to learn to talk to our audience. Volunteering for SOA activities is an excellent way to develop and improve those skills. Joining a section council, writing an article for one of the newsletters or presenting at a meeting are all excellent ways to develop soft skills.

The final thing he mentioned is how we need more board diversity. We need representatives from small and large companies. We need consultants, company actuaries and nontraditional actuaries. We also need gender, age and geographic diversity. The resulting diversity of opinions and thoughts will only make the SOA stronger now and in the future.

After lunch, I thought of my takeaways from the meeting. The first thing was how accessible the president was. The lunch was set up with a simple conversation and an invitation. It also was surprising how willing he was to listen and talk openly and honestly with me about the SOA. Basically, if you have a problem with the SOA, talk to a board member or a section council member. They are people just like you who understand your issues and challenges. The SOA’s goal is to help its membership, and it needs help from that membership to reach its goal effectively.

I want to thank Jerry Brown for a nice and informative lunch.

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Relevant Industry Mortality Experience and Guaranteed Issue Mortality

By Mark Birdsall

The implementation of principle-based reserves (PBR) has brought an increased focus on developing industry tables and tools to extract relevant industry data from aggregated industry experience studies. When a company’s own relevant experience is not fully credible, the Valuation Manual (VM) requires that the company calculate anticipated experience assumptions by credibility-weighting the relevant company experience with relevant industry experience. In the absence of other relevant industry mortality experience, the company is currently required to use the 2015 Valuation Basic Table (2015 VBT) as the industry experience in this process. However, there may be life insurance products sold in niche markets for which the 2015 VBT would not be representative of industry experience in that market.

The process of developing relevant industry experience started many years ago. For example, the valuation table for industrial life insurance is still the 1961 Commissioners Standard Industrial (CSI) Mortality Table. The Society of Actuaries (SOA) has studied credit life and generally found it to be less than the 2001 Commissioners Standard Ordinary (CSO) male ultimate mortality. The SOA has also studied preneed life insurance—first in 2008 and most recently in 2015. Mortality for final expense life insurance is currently being collected and studied by the Final Expense Consortium organized by LIMRA and Lewis & Ellis to help companies in this market. The SOA is currently in the process of refreshing the 2014 study of post-level premium term insurance lapses and mortality. It is also working to provide tools and data from industry experience studies that will enable companies to select relevant subsets from the aggregated industry data to facilitate company assumption setting.

In 2011, the SOA began data collection for guaranteed issue (GI), simplified issue (SI) and preneed mortality (resulting in the preneed mortality study already mentioned). Because the Life Actuarial Task Force (LATF) of the National Association of Insurance Commissioners (NAIC) recently adopted a valuation table for GI (2017 CSGI), the remainder of this article focuses on the GI mortality study and subsequent valuation mortality table. For more information about the study, see the full GI mortality report at SOA.org/experience-studies/2016/2017-gi-mortality-tables/. If you have previously accessed the GI basic tables, it may be prudent to download the current version of these tables from this link.

With three data collections for products with limited underwriting, the definition of each category was essential to allocating the mortality experience into the three categories. To qualify as GI, the criteria for denial of insurance could be based on an issue age range or lack of membership in an association group or other group used in a direct-to-consumer context but could not be based on an actively at work requirement, any health-related questions or information, or waived underwriting requirements due to minimum participation thresholds. Preneed life insurance issued on a GI basis was excluded from the GI mortality study except for those under 50 and over 90 for whom GI data was sparse. After analysis of the contributed data, the decision was made to exclude all smoker/nonsmoker data from the GI study. In addition, based on the data sources available to the research team, the resulting GI table is most relevant to GI life insurance sold direct-to-consumer for less than 25 units (each unit representing $1,000 of ultimate death benefit) with a modified death benefit in the first two years.

The GI mortality study produced the 2017 Basic GI Composite S&U ALB mortality tables for males and females with a five-year select period. As input to the development of a GI valuation table, the research team’s project report provided the coverage of companies and exposures at different levels of loading the Basic table (see Table 1).
Table 1
Contributing Company Coverage by Loading Percentage

<table>
<thead>
<tr>
<th>Approximate Coverage Percent of Contributing Companies</th>
<th>Percentage of the 2017 Basic GI S&amp;U Table to Achieve Coverage Percent</th>
<th>Exposure Covered by Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>55%</td>
<td>17%</td>
<td>98.9%</td>
</tr>
<tr>
<td>64%</td>
<td>45%</td>
<td>99.5%</td>
</tr>
<tr>
<td>73%</td>
<td>57%</td>
<td>99.8%</td>
</tr>
<tr>
<td>82%</td>
<td>118%</td>
<td>99.9%</td>
</tr>
</tbody>
</table>


The first column in Table 1 demonstrates the variation of experience by company, while the third column indicates that the data provided by larger contributors are reflected in the final tables.

When an Amendment Proposal Form (APF) with respect to GI valuation mortality was presented at the 2018 NAIC Summer National Meeting, the LATF added GI contracts to the list of exclusions from VM-20 reserve requirements (along with preneed life contracts and industrial life contracts that were already excluded).

In addition, the LATF selected a 75 percent load to the GI Basic table to create the 2017 Commissioners Standard Guaranteed Issue Mortality Table (2017 CSGI) with male, female and unisex mortality rates.

The definition of GI adopted by the LATF expanded the list of eligibility requirements, resulting in the disqualification of employer groups, corporate-owned life insurance/bank-owned life insurance, credit life, juvenile-only products, and policies resulting from the exercise of a policy option such as a term conversion or a guaranteed insurability option.

With adoption of the APF, the same mortality table must be used for GI reserve requirements and minimum nonforfeiture requirements. The new 2017 CSGI Mortality Table may be used for reserves and minimum nonforfeiture standard values in 2019 but is required to be used for GI business beginning in 2020. If the 2017 CSGI mortality tables are not elected for 2019, a company has the option of using either the ultimate form of the 2001 CSO or the 2017 CSO table for reserves and minimum nonforfeiture standard values.

A valuation table for SI remains a work in progress because definitional issues have been challenging to overcome.

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