Committee on Life Insurance Company Expenses (CLICE)
December 2001 Expense Practices and Methodology Survey
Summary of Survey Results

In December 2001, the Society of Actuaries' (SOA) Committee on Life Insurance Company Expenses (CLICE) distributed a survey intended to provide the committee with guidance on an expense experience study it is currently designing. The motivation for the expense study, as well as the formation of CLICE, stemmed primarily out of the need for inter-company expense information to measure a company's own performance against industry averages or benchmarks. The committee recognized that the most beneficial study would focus on the specific needs of practicing actuaries and that respondents' input through the survey would be invaluable to the study's design.

Notification of the survey was sent via blast e-mail to a list of those noted in SOA membership files as Chief Actuaries of Life Insurance Companies in the U.S. and Canada. The list contained 569 potential respondents. Survey notification was sent in December 2001 with an initial deadline of December 28th, 2001 and then again in January 2002 with a final deadline requested by January 25, 2002.

Fifty-five responses to the survey were received for a response rate of 9.7%. Of the 55 responses, 49 indicated "Yes" or "Maybe" to the first survey question, which asked if companies would be willing to participate in an SOA expense study. The level of interest indicated by the response to this question confirmed for the committee that the need for such a study existed and there would be a sufficient critical mass of participants for the eventual study.

For those companies that indicated a "Maybe" response to the survey, the overwhelming feedback was that participation in the study needed to be neither overly time-consuming nor resource intensive. In addition, the data should not require special programming efforts to obtain. In order to ensure this, CLICE will ask companies represented on the committee and those that noted an interest in participating to provide feedback on the design of the expense study's data collection exhibits.

Respondents indicated overwhelmingly that they would like the study to be geared towards pricing and performance analysis. About 40% of respondents indicated an interest in a study addressing GRET. The response rate on GRET was helpful because there was some question during the survey creation as to the current level of GRET usage by companies. For the final question of the first part of the survey, the majority of companies responded that they would like the study to concentrate on individual life and annuity lines of business.

The second part of the survey specifically focused on the respondents' individual life and annuity blocks of business. For those lines of business, respondents indicated that internal expense studies were most often performed for pricing purposes followed next by studies for illustration regulation purposes. Respondents also indicated that actuaries were usually the staff responsible for performing their expense studies followed next by accountants.

When asked to describe the practice area of those actuaries performing their expense studies, respondents indicated that most were considered to be in the pricing/product area followed by those who would be considered in the experience analysis area. A number of respondents indicated that this question was not meaningful for them given either the small size of their actuarial department or the structure of their department. Consistent with responses to other survey questions, respondents answered that determining future pricing factors was the primary reason for their expense studies followed by performance tracking and identifying areas of performance enhancing initiatives.

CLICE was interested in the level of dump-in business for UL and VUL. For respondents who indicated a percentage of their premium as dump-in for these lines of business, the answers varied greatly: 4-61% for UL and 0%-82% for VUL. The majority of respondents either did not know the percentages or answered that they were inapplicable or unavailable.

Another survey question revealed that the unitized method is the most popular type of overhead expense allocation method of respondents for pricing purposes. Ten respondents indicated that they employed macro pricing for overhead expenses. A related question on pricing revealed that most companies were using a fully allocated approach as opposed to just a few companies that used a purely marginal approach for their unit expenses. A significant number of companies apply a combined approach for unit expenses, although this number is less than just a fully allocated approach.

Because of CLICE's interest in benchmarking capability, the survey asked if companies currently developed their own internal expense targets. More than two-thirds responded positively to this question with the targets usually set by pricing unit costs. A fairly even number of respondents also indicated targets produced from budgets, increases over the previous year and competition. For those who indicated competition, they used either NAIC, LOMA or consultant information for their basis.

Related to its interest in GRET, the committee included in the survey a question as to which unit expense basis appears in the respondent's annual certification of compliance with the Life Insurance Illustrations Regulation. The majority of respondents indicated that fully allocated was disclosed while 10 respondents answered GRET. No respondents indicated that they used marginal. Of the 10 GRET table users, seven answered the second half of the question that asked for the ratio of GRET expenses to fully allocated. The answers were fairly evenly divided between the listed ranges of 91%-100%, 71-80%, and 51-60%. Further investigation into the current usage of GRET and its ongoing appropriateness will likely be pursued by CLICE.

As unit expense comparisons can be impacted to some degree by outsourcing certain functional activities, CLICE was interested in gauging the level of outsourcing and type of outsource organization (TPA, consulting firm or reinsurer). Largely, respondents did most of the listed functional activities in-house. Significant outsourcing occurred with product development by consulting firms or reinsurers, claim administration by TPAs, and information technology by consulting firms. In addition to the listed items, respondents indicated that legal services and state filings were also outsourced.

Finally, in order to understand the financial profile of the respondents, they were asked to indicate their company's size in total assets, individual life insurance in-force, and annuity deposits. The answers ranged widely indicating that the survey attracted a good mix of small, medium and larger life insurance companies.

A full tabulation of the results and a list of participating companies appear on the following pages.

CLICE would like to again thank all of those who participated in the survey. For those companies that did not participate, CLICE is still interested in your feedback. Please feel free to contact Steve Siegel, SOA Research Actuary, at 847-706-3578 or ssiegel@soa.org with input.

Committee on Life Insurance Company Expenses
Expense Practices and Methodology Survey

Please submit this survey by January 25, 2002.

Would your company be willing to participate in a Society of Actuaries study that focuses on developing inter-company unit expense analyses?

- Yes (23/55, 42%)
- No (If no, why not?) (5/55, 9%)
- Maybe (If maybe, what conditions would be needed for your company to participate?) (26/55, 47%)

If Yes or Maybe, in which of the following types of studies would you be willing to participate?

- Pricing / Performance Analysis (47/49, 96%)
- GRET (20/49, 41%)
- U.S. GAAP (22/49, 45%)
- Other (please specify) (2/49, 4%)

If Yes or Maybe, in which lines of business would you be willing to participate?

- Life (47/49, 96%)
- Annuity (34/49, 69%)
- Group Life and Health (15/49, 31%)
- Other (please specify) (5/49, 10%)

If the answer above is Yes or Maybe, please fill in the following:

Company Name:

Your Name:

Phone Number:

E-mail Address:

The following survey questions apply to your company's individual life and annuity business.

1. What types of expense studies does your company perform? Check all that apply.

- ☐ Pricing (41/55, 75%)
- ☐ GAAP (18/55, 33%)
- ☐ Valuation (16/55, 29%)
- ☐ Illustration Regulation (31/55, 56%)
- ☐ Performance Analysis against Unit Costs (23/55, 42%)
- ☐ Other (please specify) (5/55, 9%)

2. Who performs your expense studies? Check all that participate actively.

- ☐ Accounting (29/55, 53%)
- ☐ Actuarial (47/55, 85%)
- ☐ Corporate (6/55, 11%)
- ☐ Business Unit(s) (9/55, 16%)
- ☐ Other (please specify) (1/55, 2%)

Comments

2a. If Actuarial was checked in 2., which practice area?

- ☐ Pricing / Product (23/47, 49%)
- ☐ Experience Analysis (16/47, 34%)
- ☐ Evaluation (8/47, 17%)
- ☐ Other (please specify) (13/47, 28%)

2b. For those companies that perform expense studies, please note the primary reasons:

- ☐ Establish budgets (12/55, 22%)
- ☐ Performance tracking / identify areas of performance enhancing initiatives (32/55, 58%)
- ☐ Determine future pricing factors (44/55, 80%)
- ☐ Other (please specify) (12/55, 22%)

Comments

3. In your most current issue year, what % UL and VUL premium (excluding COLI business) was dump-in?

	Percent	Not Available	Don't Know	Not Applicable
Universal Life (13/55, Answer Range 4%-61%)		(8/55)	(13/55)	(15/55)
Variable Universal Life (12/55, Answer Range 0%-82%)		(3/55)	(5/55)	(28/55)

4. What type of overhead expense allocation is used for pricing?

- Unitized (34/55, 62%)
- Macro pricing (10/55, 18%)
- Other (please specify) (5/55, 9%)

5. Indicate the type of unit expenses used for pricing each product line: (leave blank, if not applicable)

	Marginal	Fully Allocated	Combination
Term	(5/55, 9%)	(22/55, 40%)	(15/55,27%)
Traditional Whole Life	(3/55, 5%)	(23/55,42%)	(10/55, 18%)
Universal Life	(3/55,5%)	(22/55,40%)	(9/55, 16%)
Variable Life	(0/55, 0%)	(7/55,13%)	(2/55,4%)
Variable Universal Life	(2/55, 4%)	(13/55,24%)	(2/55,4%)
Fixed Annuity	(4/55, 7%)	(18/55,33%)	(7/55,13%)
Variable Annuity	(2/55,4%)	(14/55,25%)	(3/55,5%)
Indexed Annuities	(0/55,0%)	(5/55, 9%)	(3/55, 5%)

6. Does your company develop internal expense targets?

- Yes (38/55, 69%)
- No (17/55, 31%)

If so, what targets do you use?

- Pricing Unit Costs (25/38, 66%)
- Budgets (7/38, 18%)
- Increase over previous year (5/38, 13%)
- Competition (How is this measured?) (6/38, 16%)

7. Which of the following unit expense bases is disclosed in your company's annual certification of compliance with the Life Insurance Illustrations Regulation (U.S.)?

- ☐ Fully Allocated (27/55, 49%)
- ☐ Marginal (0/55, 0%)
- ☐ GRET (10/55, 18%)

Keeping in mind that all answers to these questions will be kept confidential, if you are using the GRET table, what is the ratio of your GRET expenses to fully allocated?

- ○ 91 - 100% (2/7, 29%)
- ○ 81 - 90%
- ○ 71 - 80% (2/7, 29%)
- ○ 61 - 70%
- ○ 51 - 60% (3/7, 43%)
- ○ 41 - 50%
- ○ 31 - 40%
- ○ <= 30%

8. An increasing trend toward outsourcing functional activities can cause variation in unit expense comparisons. Does your company significantly outsource any of the following functions? (check all that apply)

	None	TPA	Consulting	Reinsurer
Product Development	32/55	1/55	8/55	9/55
Underwriting	36/55	2/55	1/55	3/55
Claims Administration	33/55	7/55	1/55	2/55
Information Technology	32/55	4/55	9/55	0/55
Policyowner Services	35/55	5/55	0/55	0/55
Financial Reporting	34/55	1/55	5/55	0/55
Other (please specify)	7/55	1/55	4/55	1/55

9. Please indicate your company's size as of December 31, 2000 in the following categories:

Total Assets ($ Millions)	Individual Life Insurance In-force ($ Millions)	Annuity Deposits ($ Millions)

Companies Participating in the Survey

AAA Life Insurance Company
Alfa Life Insurance Corp.
Allstate Financial
American Family Life Insurance Company
American Heritage Life
American United Life
Ameritas Acacia
Boston Mutual Life Insurance Company
Central United Life
Clarica Life Insurance Company of Canada
CSA Fraternal Life; National Catholic Society of Foresters
CSC – Life and Annuity BPO
Empire General Life Assurance Corp.
ERC Life Reinsurance Corporation
Erie Family Life Ins. Co.
Farm Family Life
Federated Life Ins Co
Fidelity Security life
First Penn-Pacific
Forethought Life Insurance Company
GIE AXA
Guardian
Harleysville Life Insurance Co
Hartford Life
Illinois Mutual Life Insurance Company
ING
Investors Heritage Life Insurance Company
John Hancock
Lafayette Life
Lincoln Life- Annuities
Lutheran Life Insurance Society of Canada
Manhattan Life Insurance Company
Maritime Life (Caribbean) Limited
Midwest Security Life Insurance Company
Motorists Life Insurance Company
Mutual Protective/Medico Life Insurance
New York Life - Hong Kong
Northwestern Mutual
Pacific Guardian Life
Pacific Life
Penn Mutual
Physicians Mutual
Provident Mutual
Royal Neighbors of America
Shenandoah Life
Sons of Norway
State Farm Life Insurance Company
Western Southern Life Insurance Company
Woodmen Of The World Life Insurance