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Term Life Insurance Survey Results

By Susan J. Saip

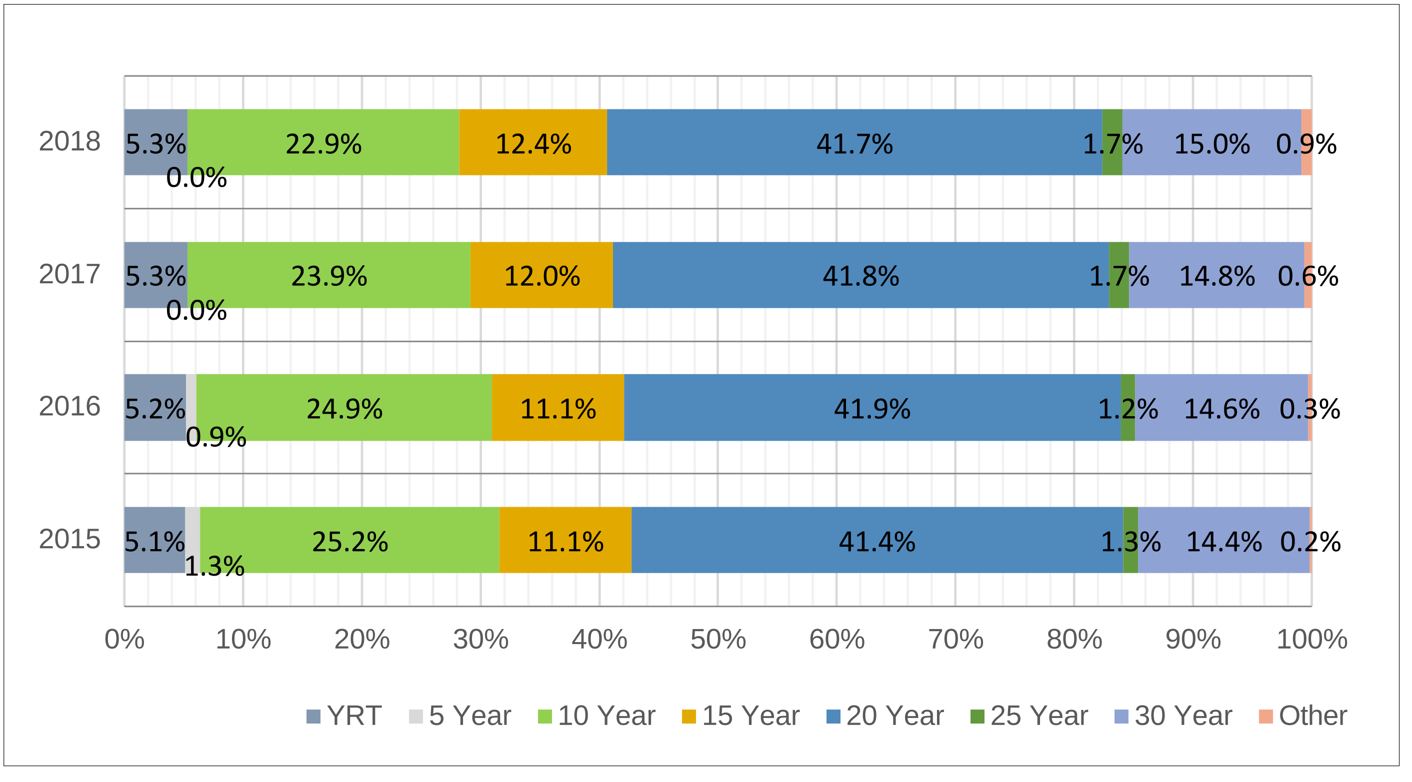
In 2019, Milliman conducted its second biennial survey on term life insurance, capturing historical data for key industry competitors, as well as company perspectives on a range of issues pertaining to these products into the future. The survey covered product and actuarial issues such as sales, profit measures, target surplus, reserves, risk management, underwriting, product design, compensation and pricing. Twenty-eight life insurance companies submitted responses.

A summary of the results of the survey is covered in this article, revealing trends in the U.S. individual term life insurance marketplace.

TERM SALES

The graph in Figure 1 illustrates the level premium term period mix as reported by survey participants from calendar years 2015 through 2018. Term sales were reported for yearly renewable term (YRT), 5-, 10-, 15-, 20-, 25- and 30-year level premium term periods, as well as some sales in other level premium term periods. The market share by level premium term period was fairly stable for term products over the survey period, with the 20-year term at 41 percent to 42 percent, followed by the 10-year at 23 percent to 25 percent, the 30-year at 14 percent to 15 percent, the 15-year around 11 percent to 12 percent and YRT at about 5 percent. The market share over the survey period primarily shifted from the 5-year term (–1.3 percent) and 10-year term (–2.2 percent) to the 15-year term (+1.3 percent) and other term periods. Note that the shift away from the 5-year term was primarily driven by one participant.

Figure 1
Level Premium Term Period Mix by Year



Of the 28 survey participants, six reported return of premium (ROP) term sales (included in the total term sales reported above). ROP term sales reported as a percentage of total term sales by all survey participants were 3.9 percent in 2017 and 4.0 percent in 2018. For these six participants, ROP term sales as a percentage of their total term sales ranged from 3.6 percent to 22.8 percent in 2017 and from 2.6 percent to 27.1 percent in 2018. ROP term sales were reported for 15-, 20- and 30-year term periods, with the majority in the 20-year and 30-year terms.

Total term sales were reported separately by underwriting approach. Underwriting approaches were defined as follows:

- **Simplified issue (SI) underwriting.** Less than a complete set of medical history questions and no medical or paramedical exam.

- **Accelerated underwriting (AU).** Any fully underwritten life insurance program that allows some applicants to forgo having a medical or paramedical exam and providing fluids, if they meet certain requirements and/or meet certain predetermined thresholds.

- **Fully underwritten.** Complete set of medical history questions and medical or paramedical exam, except where age and amount limits allow for nonmedical underwriting.

The distribution of 2018 term sales by underwriting approach was 7.1 percent SI, 19.0 percent AU, and 73.9 percent fully underwritten. We expect further shifting away from fully underwritten term sales as additional companies adopt alternative underwriting methods. Note that the distribution shown for AU sales includes only those policies that were eligible and ultimately qualified for the AU program. It does not include those policies that were eligible but ultimately did not qualify for the AU program. Also, the AU figures may be influenced by the makeup of the survey participants, which are traditional insurers (versus insurtech companies).

PROFIT MEASURES

The predominant profit measure reported by survey participants relative to the pricing of new term sales issued today is an after-tax, after-capital statutory return on investment/internal rate of return (ROI/IRR). The average ROI/IRR target reported by survey participants was 9.8 percent. Profit margin is also a popular profit metric used by survey participants for term insurance. The average profit margin is 3.8 percent on an after-tax, after-capital basis.

Survey participants reported their actual results for 2018 relative to profit goals. For all term products, 11 percent of participants were exceeding, 50 percent were meeting or close to, and 39 percent were short of their profit goals. The primary reasons reported for not meeting profit goals in 2018 were low interest earnings and higher than targeted expenses.

PRINCIPLE-BASED RESERVES AND THE 2017 CSO

Implementation of principle-based reserves (PBR), in accordance with the National Association of Insurance Commissioners (NAIC) Valuation Manual Chapter 20 (VM-20), was allowed as early as Jan. 1, 2017, subject to a three-year transition period. Half of the survey participants (14 of 28) intend to implement PBR in calendar year 2020. Twelve of the 28 implemented (or planned to implement) PBR in calendar years 2019 or earlier. The final two survey participants are not implementing PBR. Factors that impacted the rationale for participants' implementation plans include resource issues, levels of reserves under PBR, reserve solutions, system and modeling issues and New York state regulations.

Similar to PBR, the earliest effective date for the use of the 2017 Commissioner's Standard Ordinary (CSO) mortality table was Jan. 1, 2017, also subject to a three-year phase-in period. Twenty-three of the 28 survey participants implemented (or planned to implement) the 2017 CSO in 2019 or earlier. Four of the remaining five participants intend to implement the 2017 CSO in 2020. The final participant noted that implementation would be in both periods.

A description of the aggregation of mortality segments for purposes of credibility under VM-20 was provided by 24 of the 28 participants. The majority of participants expect to aggregate mortality segments across broad categories, such as all life products, all permanent products or all fully underwritten products.

Only five survey participants reported using or considering using third-party mortality consistent with the underwriting of their term business in order to increase the credibility of the company experience.

Participants were asked about their views regarding the impact of principle-based reserves on term product prices. Of the 27 responses, 15 participants reported that term prices will stay the same, seven reported term prices will decrease and five reported they will increase.

Term insurance is currently offered in the state of New York by 18 of the 28 survey participants. The New York version of PBR will be required for policies issued on or after Jan. 1, 2021. New York includes a floor that is equal to 70 percent of the current New York term insurance reserve requirements. Therefore, the minimum New York term reserves will be equal to the maximum of 70 percent of the current New York requirement and VM-20 reserves. Fourteen participants reported they plan to offer term insurance in New York on or after the required use of PBR (Jan. 1, 2021). Three participants do not plan to offer term insurance in New York after that date, five are not sure and the remaining six did not respond to the question.

RISK MANAGEMENT

In planning for new term products under VM-20, 10 participants anticipate changes to their reinsurance structures in light of PBR. A variety of changes were reported, including ending captive structures and moving from coinsurance to YRT reinsurance.

In both 2017 and 2018, the percentage of new term business that was ceded by survey participants ranged from 1 percent to 100 percent, with an average of 44 percent. The median was 45 percent in 2017 and 38 percent in 2018.

UNDERWRITING

Of the 28 responses, SI underwriting is being used by 12 participants, AU by 19 participants (with one additional participant to implement its program in 2019) and full underwriting by 27 participants. The ages and face amounts where these underwriting approaches are used vary widely among survey participants.

Place rates (defined as issued policies, excluding not taken policies, and then divided by those policies applied for) for fully underwritten and SI term insurance were reported by 24 survey participants. Responses are summarized in Figure 2.

Various statistics on the use of AU were compiled based on survey data relative to new term business issued in 2018. Figure 3 includes a summary of the questions and associated statistics (based on policy count). Results are quite variable, as is the experience that survey participants have with their AU programs. Some carriers just started their AU programs in 2019 and others have been using their programs since 2013–2014. If eligible, AU programs typically waive requirements such as blood, urine and other medical testing that is typically associated with full underwriting.

Figure 2
Place Rates

Basis	Number of Companies	Average	Median	Minimum	Maximum
Fully Underwritten Term Insurance					
Policy count	23	70%	69%	59%	99%
Face amount	18	71%	69%	61%	99%
Simplified Issue Term Insurance					
Policy count	9	67%	70%	33%	100%
Face amount	9	74%	70%	53%	100%

Figure 3
Accelerated Underwriting (AU) Experience (Based on Policy Count)

Question	Average	Median	Minimum	Maximum
Percentage of business issued that was eligible for AU, assuming only the age and face amount requirements are considered	57%	53%	4%	94%
Percentage of business issued that was eligible for AU, assuming all requirements are considered	38%	39%	4%	77%
Percentage of cases eligible for AU that ultimately qualified to have requirements waived	40%	36%	10%	100%
Percentage of qualified cases that became sold cases	75%	84%	12%	98%
Percentage of cases that did not qualify for AU that became sold cases	63%	66%	42%	72%

The use of predictive modeling in the life insurance industry continues to increase. Fifteen survey participants use predictive analytics in their AU algorithms. Six participants reported using predictive analytics in underwriting of term products under other underwriting approaches (i.e., other than AU).

No survey participants have yet received an objection from the state of New York regarding the use of external data sources, algorithms or predictive models. In January 2019, the New York State Department of Financial Services set forth new requirements in Circular Letter No. 1 (2019) for all insurers authorized to write life insurance in the state of New York. The letter includes requirements for insurers using "external data sources, algorithms or predictive models" in the underwriting process. Included in these new requirements is the prohibition of the use of these tools unless the insurer can demonstrate that their use is not unfairly discriminatory. The insurer must also determine that the external data or predictive model is based on sound actuarial principles or experience. It will be interesting to see the impact these new requirements will have on the future use of predictive modeling in the life insurance industry.

PRICING

The overall level of mortality experienced on term insurance relative to that assumed in pricing was reported by survey participants. Figure 4 shows the aggregate mortality levels that were reported for calendar years 2016, 2017 and 2018. The percentage of participants reporting that mortality rates were close to or lower than those assumed in pricing was 80 percent in 2016, 86 percent in 2017 and 86 percent in 2018. Note that, of the 20 participants reporting aggregate mortality levels, 12 included experience after the level term period.

Figure 4
Overall Level of Mortality, Aggregate

Aggregate Mortality Rates	Number of Participants		
	2016	2017	2018
Close to expected	9	6	10
Lower than expected	7	12	8
Greater than expected	4	3	3
Total	20	21	21

Similarly, the overall level of lapses experienced on term insurance relative to that assumed in pricing was reported by survey participants. Aggregate lapse rates were reported for calendar years 2016, 2017 and 2018. Actual lapse experience on an aggregate basis was close to or lower than that assumed in pricing for 90 percent of participants in 2016, 77 percent in 2017 and 81 percent in 2018.

For the majority of survey participants, the overall level of conversion rates for the period from 2016 to 2018 was close to that assumed in pricing for all level premium term periods. With the exception of YRT and the 5- and 25-year term periods, the percentage of participants that reported conversion rates close to those assumed in pricing ranged from 78 percent (15-year term) up to 82 percent (30-year term).

The percentage of calendar year 2018 sales to permanent products (based on the number of policies sold) that originated from term conversions was reported by 21 participants. The percentage ranged from 1 percent to 50 percent, with an average and median of 17 percent.

CONCLUSION

As term carriers continue dealing with the implementation of PBR, the 2017 CSO mortality table, accelerated underwriting programs and predictive models, one wonders what the next significant challenge will be for the term market. The implications of these changes are yet to be seen fully, and monitoring of the results will be important in the years to come. How will actual term mortality experience relate to the new mortality table? What will emerging mortality experience look like for term products issued under AU programs? How will carriers react to potential new regulations relative to predictive modeling? Perhaps the next biennial term survey will have answers to these questions.

A complimentary copy of the executive summary of the December 2019 *Term Life Insurance Issues* report may be found at *https://www.milliman.com/insight/2019-Term-life-insurance-issues*. ■

Susan J. Saip, FSA, MAAA, is a consulting actuary at Milliman. She can be reached at *sue.saip@milliman.com*.