



MILLIMAN PRODUCT RESEARCH

Milli-Byte – Life insurance product management and the COVID-19 pandemic

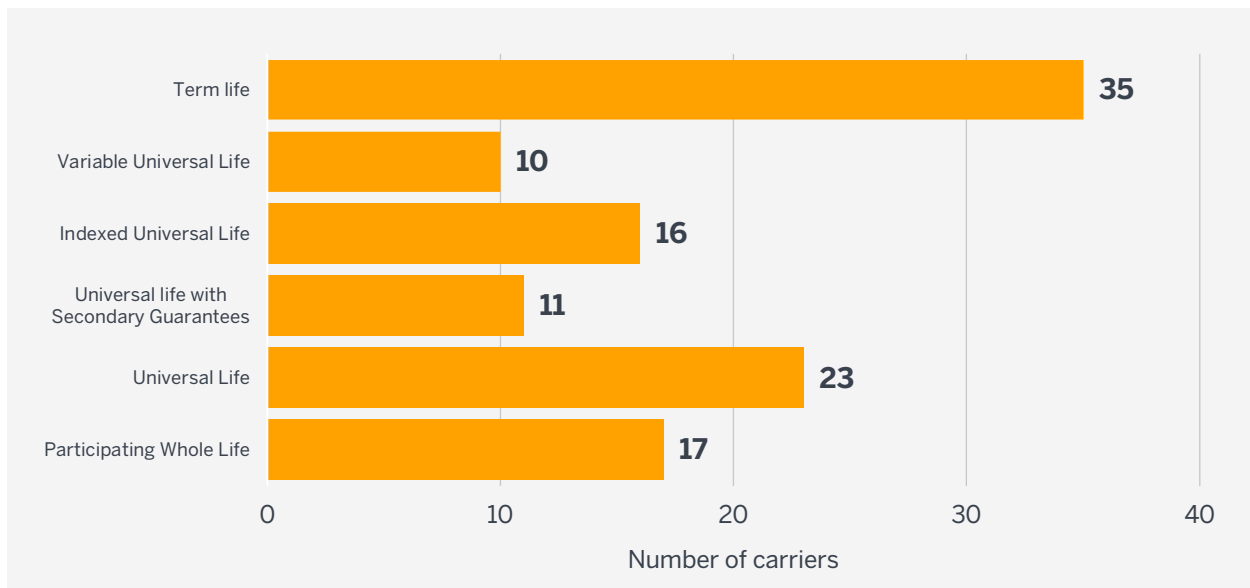
April 2020



It is rare that a single phenomenon so profoundly impacts all of an industry, let alone all of society, but that does not mean that all life insurance carriers think about the impact in the same way. We received responses from 41 carriers for our Milli-Byte Survey of Life Insurance Product Management and the Coronavirus (COVID-19) Pandemic. This survey examines how carriers are currently reacting to the COVID-19 pandemic.

The survey specifically asked about individual life products. Figure 1 (next page) shows that of the 41 carriers surveyed, 35 offer term life products, 23 offer universal life products, and 17 offer participating whole life products. Of the universal life products, 16 offer indexed universal life products, 11 offer universal life with secondary guarantees products, and 10 offer variable universal life products.

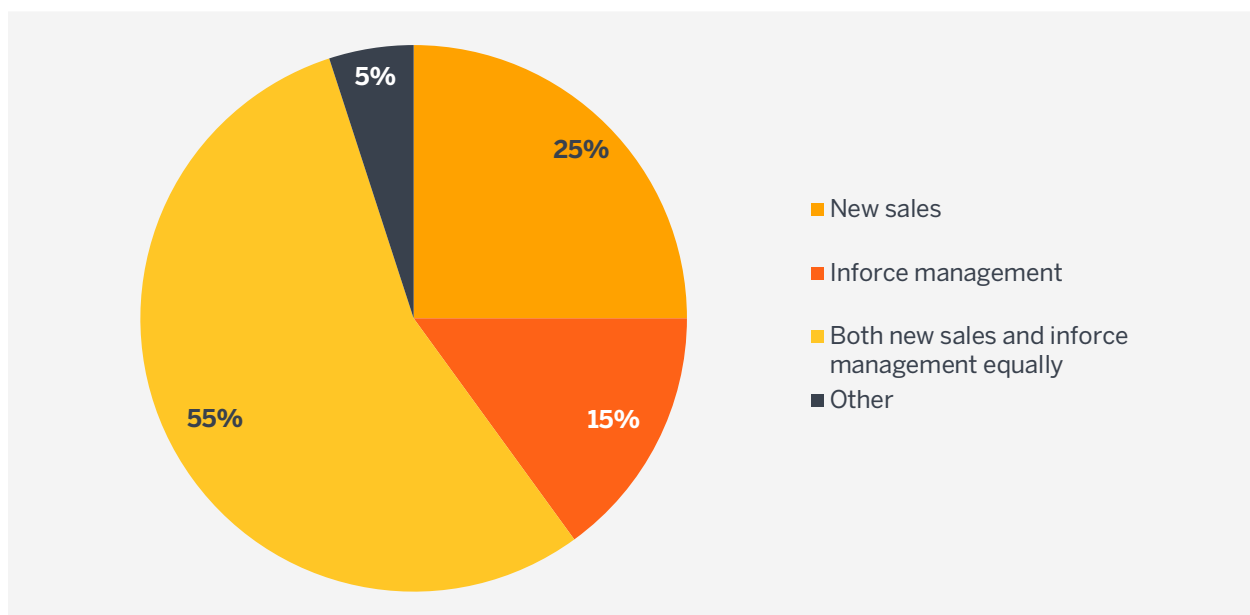
FIGURE 1: PRODUCTS OFFERED BY RESPONDING CARRIERS



Primary business focus

With regards to their primary business focus in response to the COVID-19 pandemic, 55.0% of respondents are focused on both new sales and inforce management equally. The other responses indicated that 25.0% are focused on new sales, 15.0% are focused on inforce management, and 5.0% are focused on areas other than new sales and inforce management. Answers for “other” included concerns over liquidity and more broadly trying to understand the impact of COVID-19. The percent of carriers for each primary business focus are shown in Figure 2.

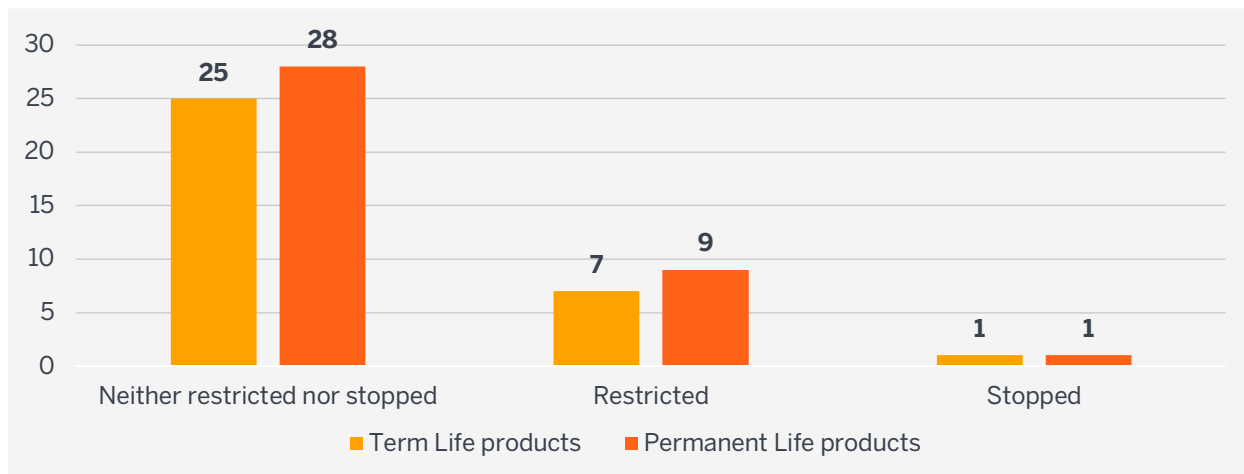
FIGURE 2: PRIMARY BUSINESS FOCUS IN RESPONSE TO THE COVID-19 PANDEMIC



Sales

Respondents were then asked if they have restricted or stopped sales for either term life products or permanent life products in response to the COVID-19 pandemic. While most of the carriers that responded to this question said they are not currently restricting or stopping sales, 7 of 33 term life carriers and 9 of 38 permanent life carriers are restricting sales. One carrier stated that they are stopping sales of all life products. These results are shown in Figure 3.

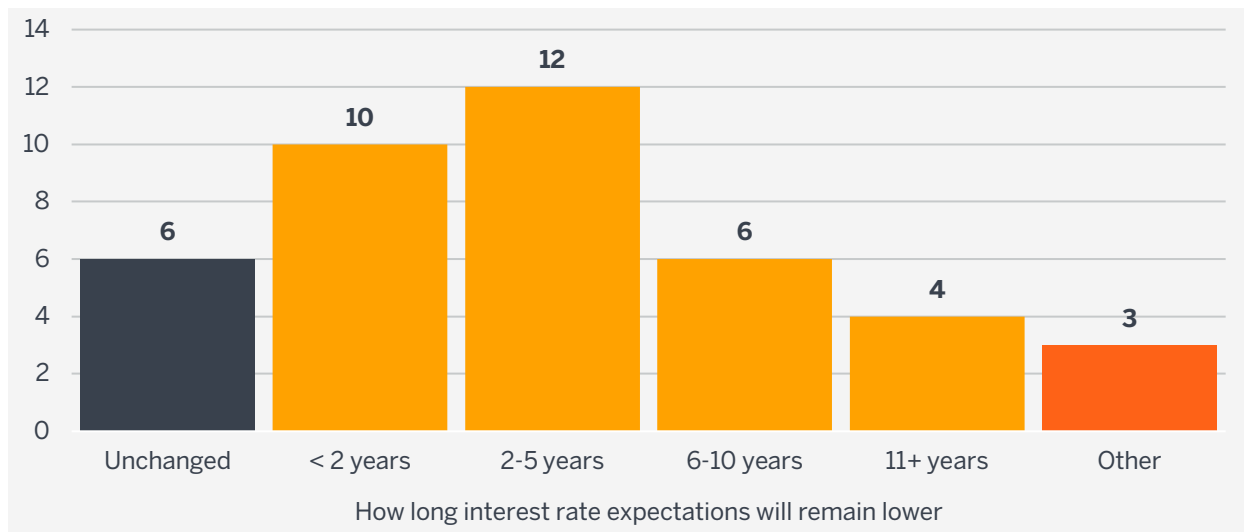
FIGURE 3: NUMBER OF CARRIERS WHO HAVE RESTRICTED OR STOPPED SALES



Interest rate and mortality expectations

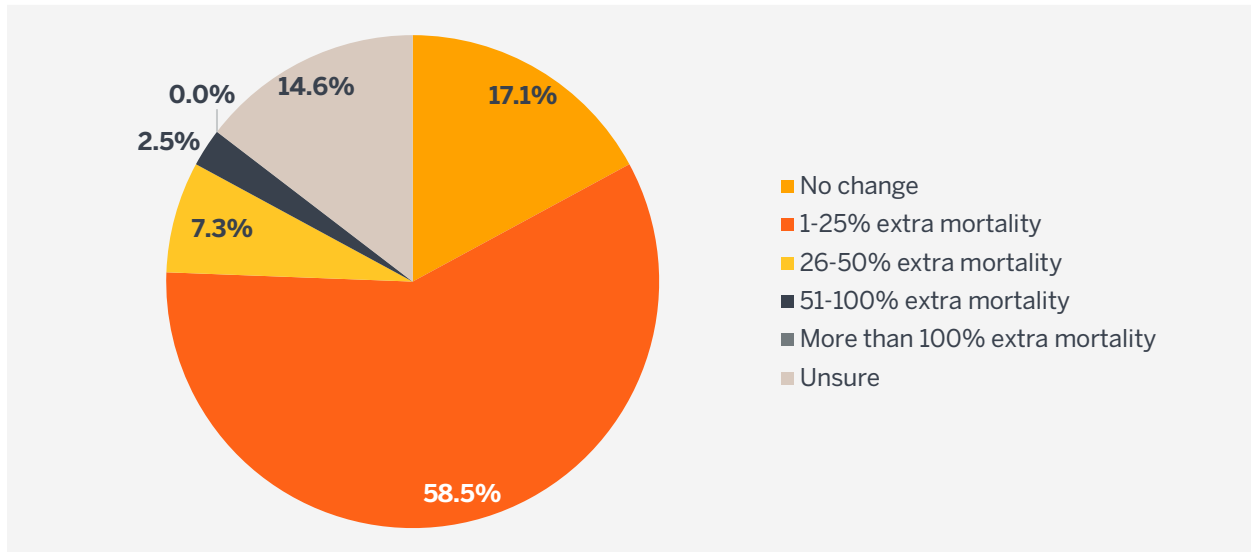
More than 85% of the respondents have lowered their future interest rate expectations as a result of the COVID-19 pandemic. More than 2/3rds of those that are expecting lower interest rates envision the impact lasting 2 years or more.

FIGURE 4: LOWER INTEREST RATE EXPECTATIONS



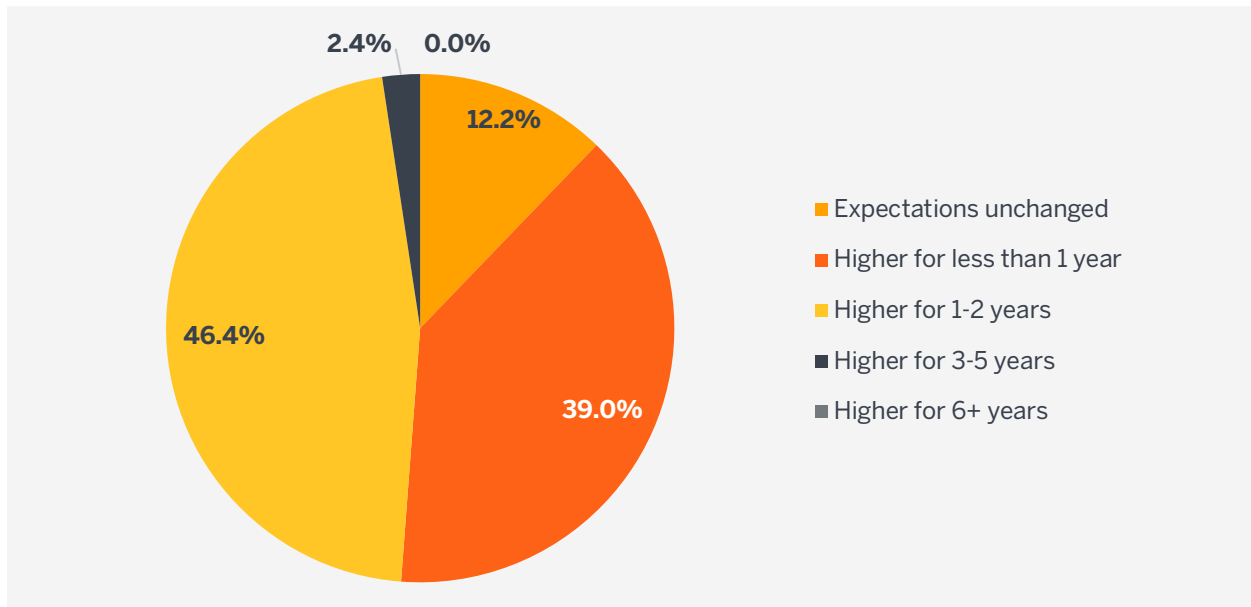
In addition to interest rate expectation changes, carriers also indicated how their mortality expectations have changed. The majority of respondents (68.3%) have increased their expectation of future mortality, while 14.6% are unsure. Only 17.1% indicated that they have not adjusted future mortality expectations. Of those expecting higher mortality, the majority are adjusting expectations by 25% or less. These results are shown in Figure 5.

FIGURE 5: HIGHER MORTALITY EXPECTATIONS



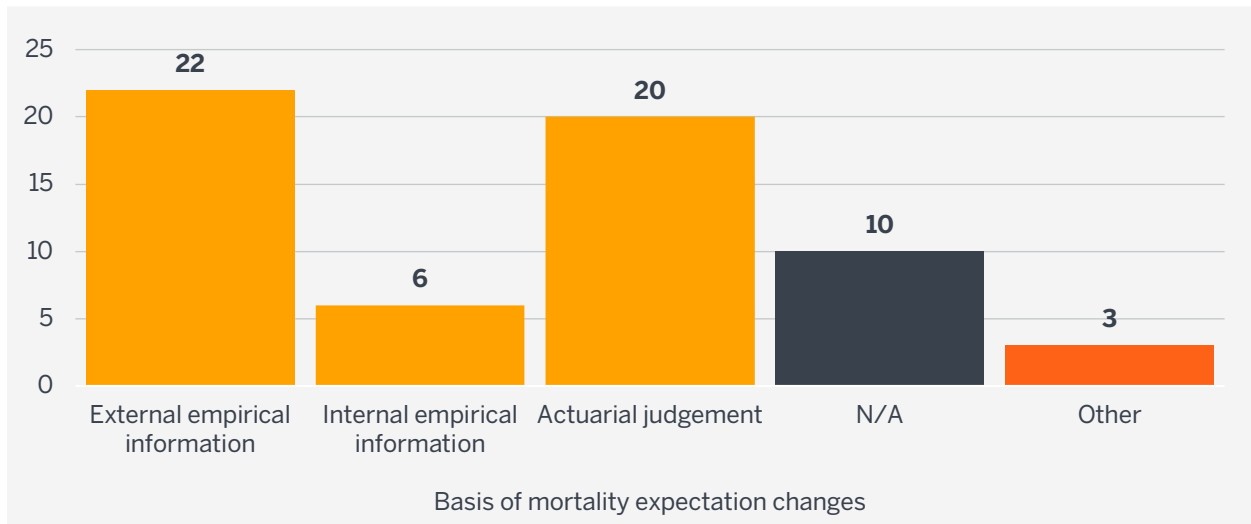
When asked how long carriers expect the mortality impact to last, 85.4% of respondents expect the impact to last 2 years or less. Two respondents indicated that they are not changing their mortality expectations (see Fig. 5), but do expect a mortality impact, although for less than one year. Only one respondent indicated that they expect the impact on mortality to last longer than 2 years. Figure 6 shows these results.

FIGURE 6: HOW LONG MORTALITY IMPACT IS EXPECTED



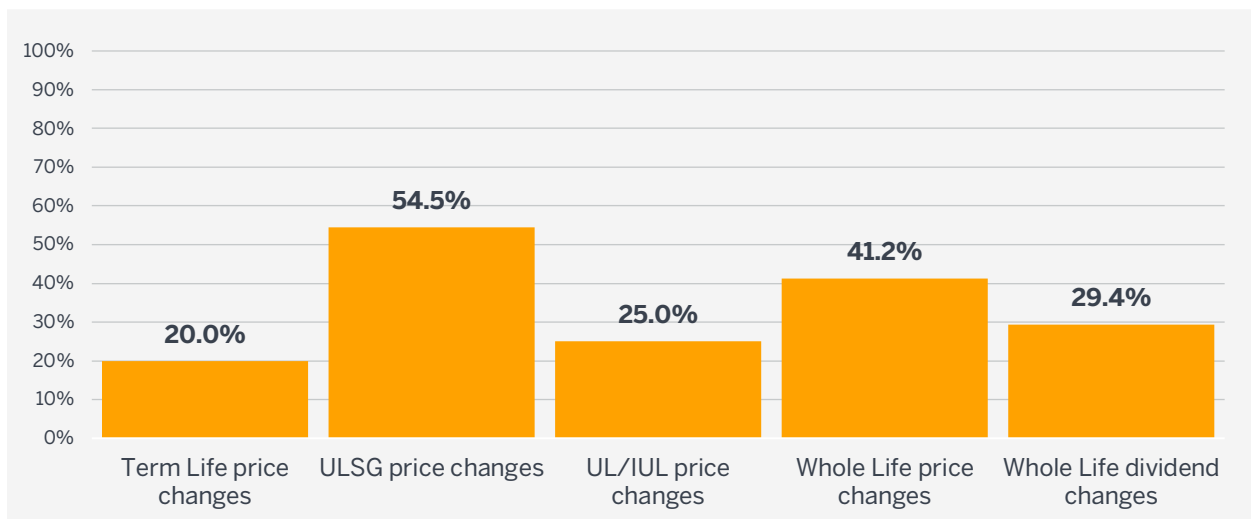
Carriers reported the basis for their higher mortality expectations: external empirical information, internal empirical information, and/or actuarial judgement. Respondents were given the ability to select more than one option, with 10 carriers combining 2 different bases (predominately external empirical information and actuarial judgement), and 5 carriers using all 3 bases options. As seen in Figure 7, most respondents are at least using external empirical information and/or actuarial judgement as the basis for their mortality adjustments. Those who responded with “other” are either using a variety of sources or waiting for more data.

FIGURE 7: BASIS FOR HIGHER MORTALITY EXPECTATIONS



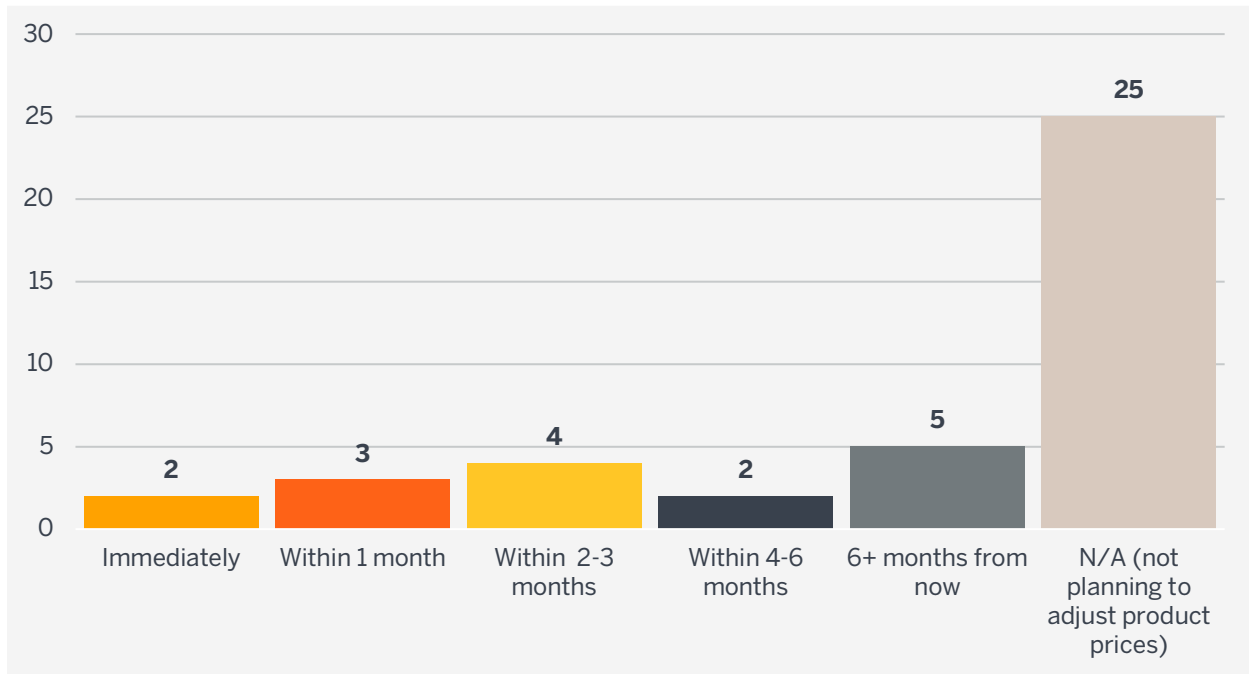
The survey asked carriers what options they are exploring in response to changes in interest rate expectations and mortality expectations, giving respondents the ability to select more than one option. Many carriers indicated they are planning product pricing changes (other than crediting rate changes). The general consensus is that the impact on future interest rates will be longer term in nature than the changes in mortality expectations, which is the likely driver behind these changes. Figure 8 shows that the percentage of carriers who are planning to reprice their products ranged from 20.0% of those who offer term life products, to 54.5% of the those who offer ULSG products.

FIGURE 8: PERCENTAGE OF CARRIERS WHO ARE MAKING PRODUCT CHANGES IN RESPONSE TO CHANGES IN INTEREST RATE AND MORTALITY EXPECTATIONS



Most respondents (61.0%) are not planning on adjusting product prices. For the remaining carriers who are planning to adjust product prices, two are doing so immediately, three within 1 month, four within 2-3 months, two within 4-6 months, and five are planning to adjust product prices more than 6 months from now.

FIGURE 9: EXPECTED TIMEFRAME FOR ADJUSTING PRODUCT PRICES



“ My company has a Determination Policy for Nonguaranteed Elements that adequately addresses the appropriate response to the COVID-19 pandemic.”

46.3% of respondents neither agree nor disagree with the above statement, and 43.9% of respondents agree. The remaining respondents either disagree (7.3%) or strongly disagree (2.4%).

Underwriting

Many respondents (70.0%) have made or expect to make short-term adjustments to underwriting in response to the COVID-19 pandemic. Responses regarding the specific underwriting adjustments varied. Common responses among carriers are shown in Figure 10.

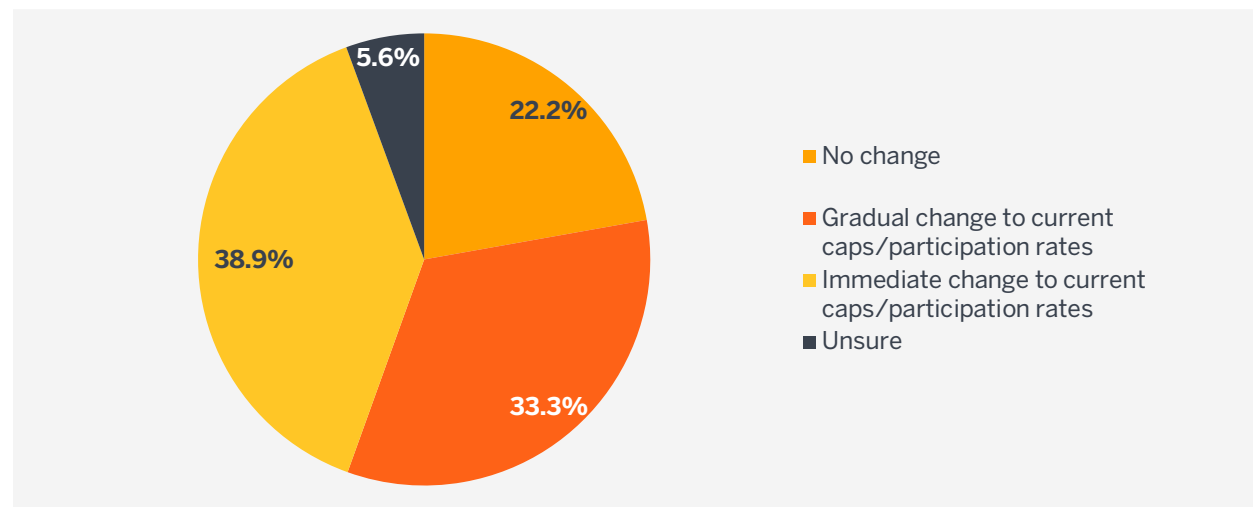
FIGURE 10: COMMON UNDERWRITING ADJUSTMENTS IN RESPONSE TO THE COVID-19 PANDEMIC

Common Responses	Frequency
More conservative underwriting at ages 65+ with postponements for higher risk individuals.	9
Allowance of alternatives to paramedical exams in certain circumstances.	8
Requirement of statement of good health on all contracts.	7
Reducing/expanding simplified underwriting.	6
Restriction of foreign travel.	5
Increased use of data in select situations and/or increased caution with co-morbidity.	5
Asking additional questions regarding COVID-19 exposure.	3

Impact from market volatility and interest

For indexed products, 55.5% of respondents expect changes in caps and participation rates as a result of market volatility and interest, with 33.3% expecting the change to be immediate, and 22.2% expecting the change to be gradual. Only 5.6% expect no change to current caps/participation rates, while about 38.9% are still unsure what the impact will be. These results are shown in Figure 11.

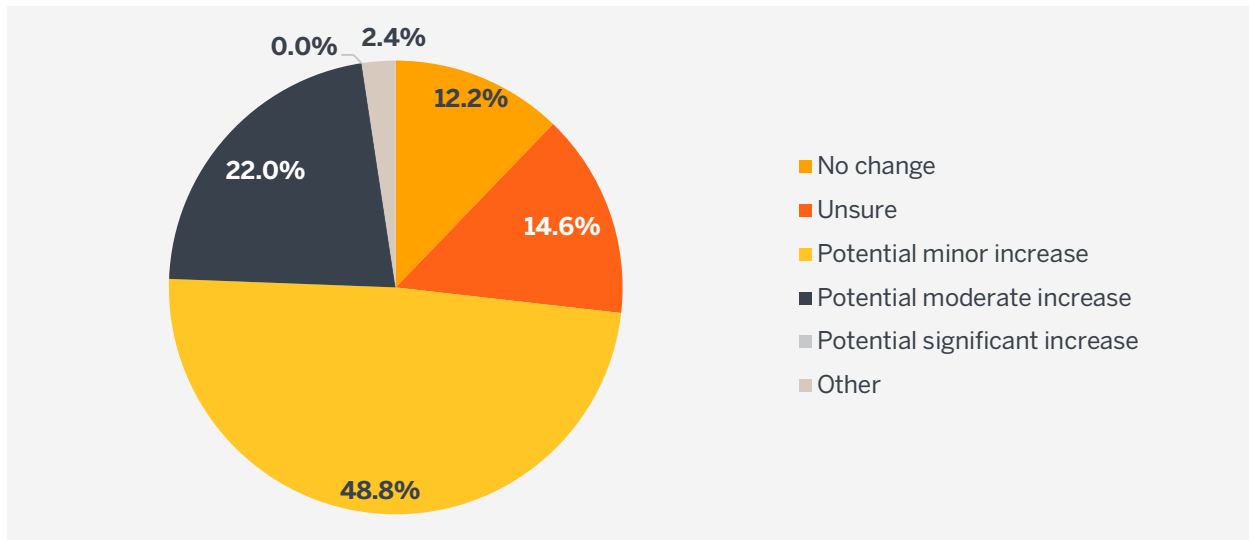
FIGURE 11: EXPECTATIONS OF CHANGES TO CURRENT CAPS/PARTICIPATION RATES FROM MARKET VOLATILITY AND INTEREST



Surrender or policy loan activity

Most respondents expect some impact to surrender and policy loan activity. Nearly half (48.8%) expect a potential minor increase, and an additional 22.0% expect a potential moderate increase. Only 12.2% expect no change in surrender or policy loan activity, while 14.6% are unsure what change to expect. These results are shown in Figure 12.

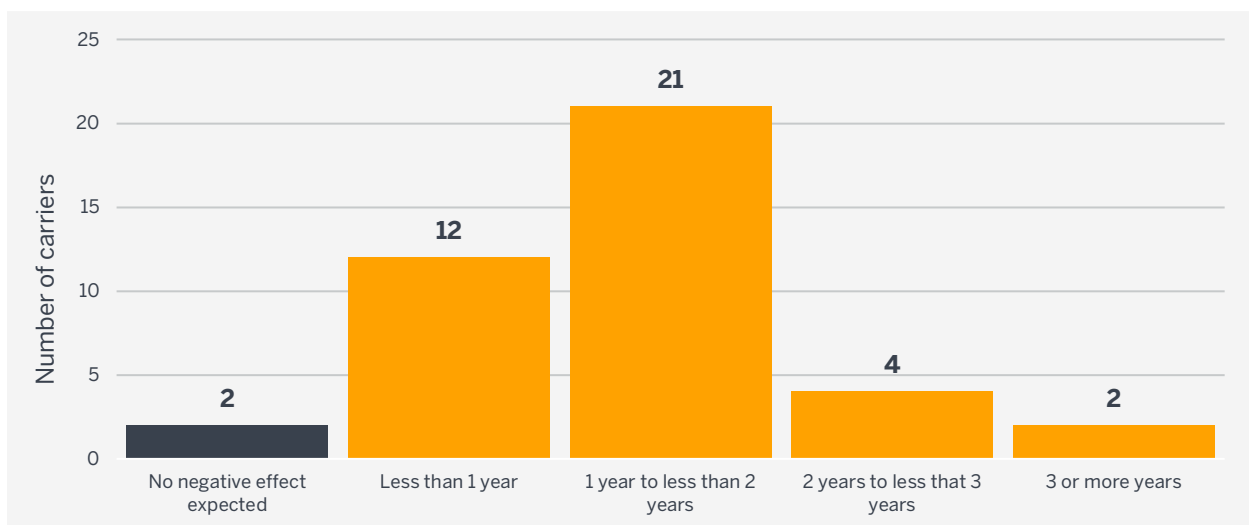
FIGURE 12: EXPECTATION OF CHANGE IN SURRENDER OR POLICY LOAN ACTIVITY



COVID-19's estimated length of effect

Looking toward the future, almost all respondents expect the pandemic will have a negative impact on the financial well-being of their company, with more than 80% of participants expecting the impact to last less than 2 years. Only two of the responding carriers do not anticipate any negative effect. These results are shown in Figure 13.

FIGURE 13: ESTIMATED LENGTH OF NEGATIVE EFFECT ON ORGANIZATION'S FINANCIAL WELL-BEING



Concluding thoughts of respondents

The survey concluded by asking carriers for any additional thoughts or comments about how the COVID-19 pandemic might impact their business.

The prevailing theme from respondents was the importance of **upgraded technology** in a timely manner given the expected increased reliance on technology for sales, customer contact, and underwriting.



Other comments included:

- Expected increase in consumer demand for life insurance hindered by traditional underwriting approaches.
- Heavier consideration of the morbidity impact over the mortality impact.
- Potential for additional mortality improvement resulting from the high levels of co-morbidity (i.e. – population post pandemic will have fewer underlying health conditions).
- Impact of required extended grace periods/premium forgiveness by state mandates (e.g. – delayed lapses).

Participating carriers

We would like to thank the following carriers for their participation in this survey.

5 STAR LIFE INSURANCE COMPANY

AAA LIFE INSURANCE

AETNA

ALLSTATE

AMERICAN FAMILY LIFE INSURANCE COMPANY

AMERICO

AMERITAS LIFE INSURANCE CORP.

BALTIMORE LIFE INSURANCE COMPANY

BRIGHTHOUSE FINANCIAL

CATHOLIC FINANCIAL LIFE

CENTRE LIFE INSURANCE COMPANY

CFG

CINCINNATI LIFE

CNO FINANCIAL

COMBINED INSURANCE

CUNA MUTUAL

**ENCOVA LIFE INSURANCE
(FORMERLY MOTORISTS LIFE)**

ERIE FAMILY LIFE

F&G ANNUITY AND LIFE

FARMERS LIFE

GLOBAL ATLANTIC FINANCIAL GROUP

GPM LIFE INSURANCE COMPANY

HORACE MANN

ILLINOIS MUTUAL

KANSAS CITY LIFE

LINCOLN FINANCIAL GROUP

LUMICO LIFE INSURANCE (IPTIQ AT SWISS RE)

MUTUAL OF OMAHA

NASSAU RE

NATIONAL LIFE GROUP

NAVY MUTUAL AID ASSOCIATION

NEW YORK LIFE INSURANCE COMPANY

OHIO NATIONAL FINANCIAL SERVICES

OXFORD LIFE INSURANCE COMPANY

PHYSICIANS MUTUAL

SAMMONS FINANCIAL

SYMETRA

TEXAS LIFE INSURANCE COMPANY

THRIVENT FINANCIAL

TIAA

WESTERN & SOUTHERN FINANCIAL GROUP

Contact us

Milliman's market research provides insights into an expanding and competitive individual life insurance product marketplace. We plan to monitor the COVID-19 pandemic and, depending on its development, may conduct additional research on the pandemic's impact on carriers who offer life insurance products.

If you are interested in learning more detailed information about the life insurance product market, please contact us about our flexible engagement options.

We are currently underway with our 2020 research projects. If you have ideas for future surveys or would like to provide feedback about our past surveys, we would love to hear from you.



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CONTACT

David Bahlinger
David.Bahlinger@milliman.com

Paul Fedchak
Paul.Fedchak@milliman.com

Ian Laverty
Ian.Laverty@milliman.com

Bill Mehilos
Bill.Mehilos@milliman.com

The authors would like to acknowledge the exceptional work of Jessie Mason, Actuarial Analyst, in the creation of this report.

The data in this report has been summarized for distribution to survey participants. Some of the data presented in this report has been aggregated at the total market level. In addition, not all data points collected from the survey may be shown in this summary report. It is possible that different reviewers of the data could produce different conclusions, particularly for certain market segments, than those that may be drawn from this summary report. As such, readers of this report should be cautious when interpreting the data and making decisions regarding specific market segments.

Milliman has prepared this report for the specific purpose of providing you with the results of our market survey. This report should not be used for any other purpose. Milliman's work is prepared solely for the internal business use of and is only to be relied upon by survey participants. No portion of this report may be provided to any other party without Milliman's prior written consent. Milliman does not intend to benefit any third party recipient of its work product, even if Milliman consents to the release of its work product to such third party.

In preparing this report, we relied upon data and other information provided by survey participants in the marketplace. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our report may likewise be inaccurate or incomplete. We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of this report.

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