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## SCORviews: Building on Strengths

With the integration of Generali Life Re USA behind us, we'd like to express our gratitude to our clients and stakeholders who demonstrated their support during this important process. Based on recent client feedback, we achieved our goal of causing minimal disruption and maintaining a "business as usual" atmosphere.

Even more, surveys indicate that we were successful at combining the best features of each company to create a reinsurer that truly is greater than the sum of its parts. Our goal now is to consistently build on these capabilities and efficiencies to make SCOR Global Life Americas not only the largest life reinsurer in the US, but also the best in class. Strong client relationships will be the cornerstone of this achievement. That means enhancing the ease of doing business, providing a diverse portfolio of solutions, and continuously developing and offering innovative approaches and solutions tailored to our clients' unique needs.



As part of this process we are happy to introduce SCORviews. This newsletter shares our perspectives on topics germane to our clients. In this issue we look at some prominent product trends in the industry, particularly with permanent life insurance products.

George Hrischenko examines indexed universal life, the industry's best seller in terms of growth. Vera Ljucovic reviews living benefits riders, an attractive feature to permanent life insurance that has filled a needed gap as long-term care insurance sales have fallen. Cindy Mitchell analyzes the most common preferred underwriting criteria and thresholds and asks whether we could gain even better results from the information that carriers collect during the fully underwritten process. Hiroe Noonan discusses some of the product trends that are shaping today's life insurance industry.

We hope you find the articles and ideas informative and pertinent to your business plans. As always, we welcome your feedback on this newsletter or any other issue related to our reinsurance partnership.

Again, thank you for the trust you have placed in us. It is an honor to have you as a client, and we look forward to remaining a strong reinsurance partner at your side for many years to come. ∞

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# Strong Equity Market, Strong IUL Sales

## Easy Sale, Complex Product

### Executive Summary

Sales of Indexed Universal Life (IUL) have outpaced other products for several years. Certainly recent stock market performance has made the potential cash value growth attractive.

In developing IUL, carriers attempt to marry the best features of traditional UL and VUL into a single product. By all appearances, they are succeeding, but in the process insurers have created a more dynamic and complex product, with some of its cousins' greater risks.



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In a market highlighted by otherwise flat sales growth, indexed universal life stands out with double-digit growth rates. The attractiveness to the consumer is easy to understand: equity markets have posted pre-recession highs. Literature explains that the policyowner is able to participate in this upside while being protected from the risk of loss. This downside risk protection makes the product more attractive than variable universal life (VUL), even if the crediting rate is less than 100% of returns. And this investment opportunity is wrapped in permanent insurance, usually with a no-lapse guarantee.

But from a carrier's perspective, what is the cost of these features? We can bucket the primary risks into product, regulatory and market risks.

### No IUL Standard

All IUL products are similar to traditional UL policies in that all premiums enter the policy, the cost of insurance is deducted, and the remaining cash builds value on the insurer's general account. But this generally is where the similarity with UL ends. The crediting rate has four components:

- *Illustrated crediting rate.* Policies contain both a minimum and maximum illustrated crediting rate; these rates vary from product to product, even within the same carrier
- *Index basis.* The most common cash value credit basis is the S&P 500 equity index, but can be

any equity index – or even an average of several different indices

- *Participation rate.* Policyowners "participate" in the index's posted growth at a stated percentage rate. Participation rates can be fixed or graded, and may exceed 100%
- *Crediting period basis.* While period-to-period (e.g., annual, biennial, 5-year) is most common, other methods exist (e.g., monthly average, five-year historical average, best/worst averages).

Therefore, while the mortality component is fairly straightforward (a YRT charge, plus expenses), the cash value portion can be very complicated.

### Product Risks

The popularity of the IUL product lies in its virtual elimination of downside investment risk. The insurer guarantees a minimum crediting rate, which typically is zero. (Note, however, that due to increasing YRT premium rates, the cash value may decrease in such a situation unless the policyowner increases the premium.)

Historic equity market growth, even through recessions, has trended positively, which can make illustrating potential cash value growth attractive. IUL products, however, place a ceiling on the returns possible (e.g., 10%-12%), but even these caps provide favorable longer-term growth prospects. To ensure the carrier can credit the illustrated returns to the cash value, carriers engage in a complex series of derivative investments similar to strategies that indexed annuity providers employ. (Discussion of this strategy is beyond the scope of this article.)

## Comparison of Universal Life (UL) Structures, Simplified

	Traditional UL	VUL	IUL
<b>Structure</b>	Transparent mortality charge and cash value	Transparent mortality charge and cash value	Transparent mortality charge and cash value
<b>Mortality Charge</b>	YRT	YRT	YRT
<b>Cash Value</b>	Periodic floating rate	Determined by performance in invested accounts	Based on performance of equity market index(es)
<b>Minimum Guarantee</b>	Usually 2%-4%	Usually 0%	Usually 0%
<b>Maximum Guarantee</b>	Usually none, though 6%-8% common	None; based on separate account returns	Varies by product/company, participation rate; 12%-14% common
<b>Other Guarantees</b>	No-lapse guarantee (NLG) available on some products; living benefits (LTC, CI)	NLG, living benefits, guaranteed minimum returns on some products	NLG, living benefits; participation rates can exceed 100% of index returns
<b>Who Bears CV Investment Risk?</b>	Insurer - investments carried on General Account	Policyowner - determines allocation among Separate Accounts (ex. GICs)	Insurer - investments carried on General Account
<b>Where CV Is Invested</b>	Mostly investment-grade bonds	As determined by policyowner	Mostly investment-grade bonds
<b>Degree of Hedging</b>	Minimal - bond portfolio returns usually suitable to manage minimum guarantees	Moderate, as GMB riders have become less available/generous	Heavy use of options and futures to manage basis risk between General Account portfolio and index performance

IUL packages the best features of traditional UL and VUL into a single product. The result can be a complex product to manage.

When sold as part of a retirement planning strategy, IUL may also contain a substantial degree of basis risk due to policyowner behavior (persistence, accumulating funds, taking loans). At this time there is no strong hedge available to manage this risk.

The end result is a much more complex product, with low lapses and high loan rates, and whose value in many cases may accrue to the policyowner only mid- to long-term.

### Regulatory Risks

IUL has been popular as a retirement tool, where purchasers look to the tax-advantaged cash value accumulation as a supplement to retirement income. In such instances, IUL often comes with a no-lapse guarantee (NLG) rider. This places the product under the auspices of AG38 and its steep reserve strain. These risks have prompted more carriers to shed the NLG rider and focus more on "protection" IUL policies, where the emphasis is on the underlying mortality coverage generally sold to younger consumers.

### Marketing Risks

A common caveat found with any derivative investment vehicle is: *"The illustrated returns are based on historical returns and are for illustrative purposes only. Past performance does not guarantee future returns."* The first IUL policies entered the market around 1997 with many products following much later, meaning that experience is relatively limited. As a result, many companies may use policy illustrations that use historic 25-year market averages, arguing that the longer term incorporates more economic swings and therefore is more representative of potential returns.

Under a period-to-period crediting approach, companies may be determining the crediting rate somewhat frequently. This requires the carrier to update marketing illustration material often to ensure that the most recent rates are being used by their sales forces. However, the underlying factors used to determine this rate are not necessarily transparent, and depend on how the policy itself is designed.

# Strong Equity Market, Strong IUL Sales

## Easy Sale, Complex Product (cont.)

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When a high volume of marketing material is produced, risks can arise:

- Companies may create an error or omission in revising materials so frequently
- Producers may inadvertently use older, inaccurate marketing material
- Some producers may selectively use material that puts the product in the best position given current economic conditions

Equity markets are generating high returns today, so the risk of selective use of marketing material currently is low, but must be considered over the long term. Many of us recall the “vanish pay” days of early-generation VUL in the late 1980s. During this time, producers legitimately sold policies on illustrations that projected that, based on current return trends, the policy effectively would become self-funding. The resulting litigation and regulatory scrutiny is still fresh in the minds of many producers and carriers.

As a result, regulators and interested parties are examining closely the current language incorporated in policies for too-good-to-be-true illustrations. A pronouncement from the NAIC is anticipated by the end of the year.

### Reinsurer Involvement

IUL features vary from company to company, and even among a single company’s products. Taking a wholesale approach to assessing and projecting product performance is therefore difficult. SCOR Global Life Americas has reviewed a number of these products where the carrier has sought coverage for the underlying mortality risk. SCOR has participated in the risk on these products on a case-by-case basis, similar to the reinsurance community at large.

### Conclusion

IUL is the life insurance industry’s current “it” product, with appreciable sales growth. But it comes with a degree of complexity that may confuse both the purchaser and the producer trying to explain it. While IUL has become increasingly popular (last year, it accounted for 51% of traditional UL sales according to LIMRA), IUL remains challenging for even a seasoned producer to explain easily.

On the inforce management side, numerous product features involve intricacies that must be hedged with instruments whose cost to the insurer can fluctuate and which provide less than 100% protection. These

complexities, combined with significant sales growth, have attracted the attention of regulators who grow concerned about potential market conduct issues.

Some carriers have the capabilities to model

and develop the robust hedge programs to address some of the consumer behavior risks that accompany purchasers who are trying to maximize the cash value. Many other companies are shifting their focus to offering IUL for protection purposes, offering the value of mortality coverage with the prospect of participating in any long-term equity market gain.

SCOR has participated on the mortality risk of several client products. We continue to monitor product developments and welcome the opportunity to consult with clients about their mortality risk needs. ∞

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*IUL features vary from company to company, and even among a single company’s products.*

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# Long-Term Care

## Meeting Needs through Product Flexibility

### Executive Summary

Companies in the individual long-term care insurance (LTCI) market have learned much since the introduction of their first wave of products. Today's LTCI products feature a combination of premium enhancements, cost containment efforts and product flexibility that ensure that coverage sold today will balance consumer value and increased cost certainty for the carrier.

At the same time, sales of permanent life insurance with an LTC accelerated death benefit (ADB) rider have taken hold, registering sales growth even through the financial crisis. Could such hybrid or "combo" products portend a new wave of life-cycle type products?



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A relatively new and significant development in the diagnosis and management of Alzheimer's disease is the identification of a genetic marker, apolipoprotein E (APOE), which can predict the risk of developing Alzheimer's disease as much as seven years earlier than currently available tests. A blood test is expected to be available to researchers and physicians in the next year. The test is an improvement over previous tests, which require expensive imaging techniques or invasive extractions of spinal fluids.

Earlier diagnosis allows individuals to plan for the future and take preventive measures. However, if the test results are part of the client's medical records, purchasing long-term care insurance (LTCI) may become more expensive or unavailable as carriers would have to rate such applicants.

The Genetic Information Nondiscrimination Act (GINA) of 2008 prohibits the use of genetic information for underwriting or setting health insurance premiums. The Act does not currently apply to life insurance, disability, or long term care. Insurers cannot require genetic testing, but if the results become part of the medical records, the insurer may reflect this in their decision to provide insurance.

As APOE is a relatively new marker, we don't know how credible the test is or how a positive result translates into mortality or morbidity. Still, it provides an opportunity for the life insurance industry to revisit the challenges in providing older-age products.

### Learning from the Past

LTCI came to market in the early 1980s, but product pricing missed the mark in a big way. Many insurers still have inforce blocks on their books and continue to face losses. Most companies left the individual LTCI market completely: By 2013, according to LIMRA, about 36 companies offered individual LTCI, and five accounted for nearly 75% of new business.

Still, the underlying need for these products is growing, and insurers understand that this market presents a real opportunity for organic growth. Companies currently in the market have introduced significant design changes and higher rates. They have tied benefit triggers more closely to need – replacing the activities of daily living (ADL) trigger with the more challenging independent activities of daily living (IADL) – and eliminated lifetime benefits

### Figure 1 – Alzheimer's Disease in Brief

**Accounts for 60%-80% of all dementia cases**

**5.2 million diagnosed cases, including over 200,000 under age 65**

**500,000 deaths annually**

**Affects women by a 2:1 ratio (68% of cases)**

**17.7 billion hours of unpaid caregiving annually, from more than 15.5 million caregivers**

**Annual cost to economy about \$220 billion**

**Codependency issues – higher incidence of stress and depression among caregivers**

*(Source: Alzheimer's Disease Facts and Figures, 2014. Alzheimer's Association)*

# Long-Term Care Meeting Needs through Product Flexibility (cont.)

**Figure 2 - Benefits Structure**

John Smith, a 70 y/o N/S Male, applies for \$1 million of permanent life insurance with a chronic illness rider. John's chronic illness benefits provide for 2.5% of the face amount per month. Subsequent obligations are dependent on the type of rider he chooses. At age 83, John suffers a stroke and is unable to perform two ADLs, qualifying for the chronic illness benefit. (Note: for illustrative purposes only)

	Discounted Death Benefit	Policy Lien	Rider Premium
<b>Premium</b>	Standard premium for underlying policy	Standard premium for underlying policy	Standard premium for underlying policy, plus premium for Chronic Illness Rider
<b>Rider Benefit at Time of Claim (Age 83)</b>	\$300,000/year (\$1m*.025*12), until discounted death benefit is depleted	\$300,000/year, until the death benefit is reached	\$300,000/year or IRS maximum LTC per diem disbursement, whichever is less, until death benefit is depleted
<b>Repayment schedule</b>	Policies with such riders usually include a waiver-of-premium (WP) provision, triggered by the first disbursement; no repayment	Continued premium payment (unless WP provision, then zero). Will be required to repay loan according to repayment schedule	Policies with such riders usually include a WP provision, triggered by the first disbursement; no repayment
<b>Resulting Death Benefits</b>	Any remaining face amount available at time of death	The life insurance policy's death benefit, less outstanding loan principal	Any remaining face amount available at time of death

in favor of shorter benefit periods. Lastly, they have moved to a per-diem compensation approach, one that encourages the insured to seek an affordability/level-of-care balance. While underwriting experience continues to develop, companies have learned much about how to classify an applicant, and the Alzheimer's test mentioned above may be helpful in the future.

Product changes and premium hikes have caused new business to fall, with premiums falling 30% in 2013 to \$406 million. There was relatively no change in terms of lives covered on an inforce basis from 2012 to 2013 (*U.S. Individual Long-Term Care Insurance: Annual Review 2013*. LIMRA International, 2014.).

## Reinsurer Involvement

Reinsurer participation in the LTCI market was limited over the first wave of products, as many companies lacked sufficient experience to properly assess the products' performance. Recently, however, reinsurers have begun to enter this market.

SCOR Global Life has extensive worldwide experience in such products, especially in Europe where LTCI is more commonplace. SCOR Global Life Americas employees have worked closely with our colleagues

in Paris to help develop solutions tailored to the US market and recently have brought an LTCI solution to market in the US.

## Moving to a Life-Cycle Approach

One of the challenges associated with the current wave of LTCI policies is the relatively high premium. A promising development has been the introduction of accelerated death benefit (ADB) riders to permanent life insurance policies with payouts that mimic LTCI. These so-called "combo" products come at a small additional premium and transform the underlying life insurance policy into something more akin to a life-cycle policy. Benefits are triggered and paid similarly to current LTCI products. Total benefits available are a percentage of the life insurance policy's face amount and vary by company (Figure 2, from "The Evolution of Living Benefits Riders" in the October 2013 issue of *The Messenger*). Some companies offer an extension of benefit rider which pays out additional LTC benefits once the payouts from the ADB have been exhausted. A monthly benefit is elected and a benefit period is selected. One company offers a lifetime benefit period on the rider, which is the most comprehensive option available to the consumer.

**Figure 3 – Top Causes of Long-Term Care**

Dementia/Alzheimer's disease	~25%
Stroke	9%
Arthritis	9%
Injury/Accident	9%
Cancer	8%
Nervous disorders (e.g., Parkinson's disease)	6%
Respiratory diseases	5%

*(Source: American Association for Long-Term Care Insurance)*

While growth in stand-alone individual LTCI policies has fallen, interest in such combo products has been robust. According to LIMRA's "Individual Life Combination Products 2013 Annual Review," 2013 marked the fifth consecutive year of double-digit growth in such plans, even through the heart of the financial crisis. About 98,000 policies were issued, with new-business premium of more than \$2.6 billion – six times the premium income from stand-alone LTCI products in the same year. Average face amount for recurring-premium policies was \$350,000, with an average annual premium of about \$8,850. By far the most popular chassis for this rider is universal life, though variable life policies saw the highest new business growth rate in 2013 (128%).

## Reinsurer Involvement

Life reinsurers have demonstrated varying degrees of participation in combo products. Depending on the structure of the ADB, a reinsurer may prefer to reinsure the rider alone, the underlying mortality (but not the rider) or the product as a whole.

All of these products incorporate a waiver-of-premium (WP) provision if the ADB is triggered. As a result, the difference between assuming the underlying mortality risk or the product risk as a whole is small. Because of the WP provision, we assume full death benefits will eventually be paid. The key difference, then, amounts to a cash flow issue. The face amount will be paid in its entirety. For pure mortality coverage, the

reinsurer pays under terms similar to any other pure life reinsurance coverage. If the reinsurer participates on the rider it may pay out some portion of the death benefits early (per treaty terms), with the remaining balance paid upon death – just as the direct writer pays. The math comes in, then, by estimating the number of insureds who will file for the ADB and the time-value-of-money impact on claims payments.

SCOR has participated in providing solutions to both the entire combo product and the rider itself. In some instances we have been asked to help carriers structure and model such products and have contributed our experience to their product design.

## Conclusion

Today's combo products are simpler than the first generation of LTCI policies and, if attached to a life insurance policy's death benefits, help the insurer more accurately quantify its risk. At the same time, this simpler product helps meet an important consumer and growing societal need. It is in effect a life-cycle product, providing valuable benefits while the insured is alive, and ensuring that premature death also is covered. As the number of Baby Boomers retiring continues to increase each year, the market is ripe for such a product, and sales figures seem to confirm this point.

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*While growth in stand-alone individual LTCI policies has fallen, interest in combo products has been robust.*

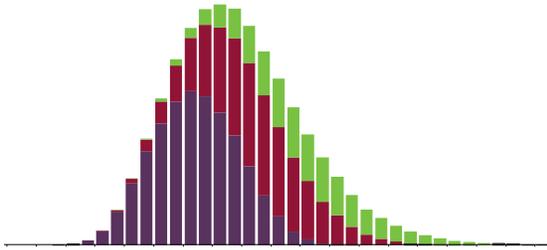
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Worldwide, SCOR Global Life is an active partner and participant in the LTCI business. Building on the expertise of our European colleagues in particular, SCOR Global Life Americas is helping clients control their risk exposure while providing worldwide expertise to their local customers. ∞

# Preferred Perspectives

## Editor's note:

*The development of preferred risk led to revolutionary product design, marketing and underwriting of life insurance, changing the concept and value of life insurance in the process. Preferred risk classes have benefitted insurers, customers and society in general by providing more affordable coverage for many consumers.*



*SCOR Global Life Americas has invested heavily in its research functions over the past few years, enhancing the value it derives from its large database of inforce mortality. In the months ahead we will examine the current state of preferred risk from the underwriting and pricing viewpoints. This first article looks at traditional preferred risk criteria and values and possible improvements to the risk selection process.*

## Preferred Risk Criteria and Values: Can We Move from Good to Better?

### Executive Summary

Since the inception of preferred programs in the late 1980s life insurance underwriters have done a good job in identifying applicants that demonstrate more favorable mortality, even as the products, best-class qualification cutoffs and other features have continued to change.

With decades of underwriting experience to research, the author reviews some of the criteria commonly used to try to answer the question: "We have done well in the past, but could the industry use its criteria to make risk selection more effective?"



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There is no doubt that preferred underwriting has revolutionized the industry by creating lower priced products benefiting carriers, producers and consumers alike. Preferred criteria utilized in the risk assessment process have done their job – selecting risks that produce mortality which is better than the standard class. While the underlying dynamics of creating 'better-than-standard' risk classes have worked for the industry as a whole, it should not deter us from examining the risk selection process used to create preferred classes in more detail.

Although preferred underwriting has existed for more than 25 years, the industry only recently began asking some critical questions, one of which is, "Are we using existing preferred criteria in a manner that produces the best mortality?"

It may help set the stage if we examine how preferred criteria were initially developed. Medical research such as the Framingham study were utilized in the development of preferred criteria by demonstrating that build, blood pressure (BP), lipids and smoking were significant mortality markers. The cutoffs or thresholds used for each criterion were set by guidance from clinical medicine and not through detailed distribution analysis. These and other criteria are assessed through a knock-out approach where an applicant will fail to qualify for the best class if even one criteria threshold is exceeded.

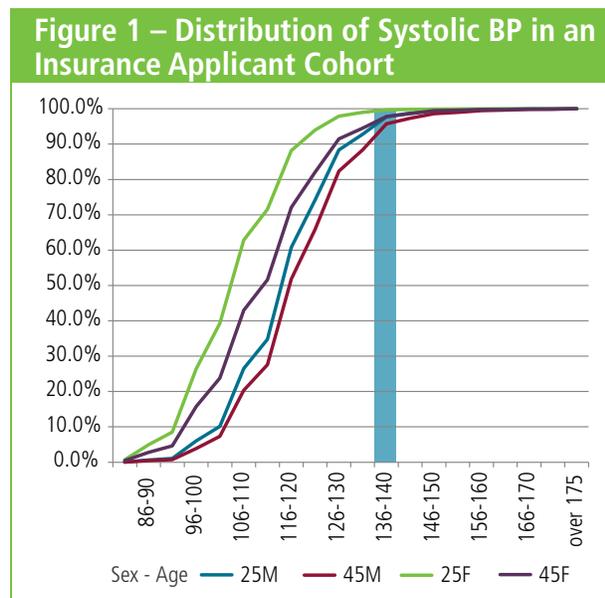
Companies often define their preferred class(es) more from competition and market pressures than analysis of the parameters used to select risk. However, setting the cutoffs for each individual preferred criterion is an important part of developing a set of preferred guidelines. If you set the thresholds too conservatively, you risk throwing away good risks; too liberally, you are allowing too many 'higher' risks in. In today's market, the same threshold is used regardless

of whether the applicant is a 30-year-old female or a 55-year-old male: age and gender are not taken into consideration. Since the distribution often varies greatly by age and gender, does it make sense to have this one-size-fits-all approach?

As the percent of applicants qualifying under any risk factor approaches 100%, the effectiveness of that criterion lessens. In fact, if a particular risk factor has a qualification rate of 100% that factor has no selective power on its own. To illustrate the importance of determining appropriate thresholds, we will examine the distribution curves of some commonly used preferred criteria. I will focus on three quantifiable criteria: BP, Cholesterol/HDL ratio and build. The accompanying figures are based on an internal proprietary database of insurable applicants.

## Blood Pressure

Based on the SOA's Preferred Underwriting Structures Survey (December 2012), the maximum untreated blood pressure to qualify a 45-year-old male for the best class was between 130/80 and 140/85. The cumulative distribution of systolic BP by select ages for both genders appears in Figure 1.



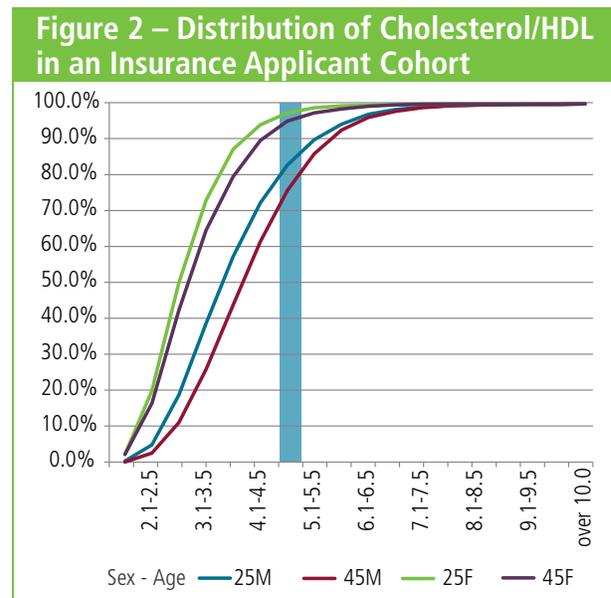
*Common industry preferred cut-offs of 130-140 systolic BP qualifies about 97% of the applicant population for that criterion.*

Two observations can be made. First, the distribution is different among each group. Second, regardless of age or gender, most people meet the cutoff of 130-140. Although the figure does not illustrate diastolic BP, we should note its distribution produced similar

results. Therefore, very few individuals would be knocked out of the best class solely because of BP.

## Cholesterol/HDL Ratio

Cholesterol/HDL's distribution also varies significantly by age and gender. The most common cutoff used in today's market is 5.0, which is a good differentiator for older men. However, the same does not hold true for women: over 95% of women in a typical applicant pool have a Chol/HDL ratio of 5.0 or less. Therefore if a company wants to classify a consistent percentage of male and female risks in their best class, a lower cutoff for women (especially young women) would be more appropriate.



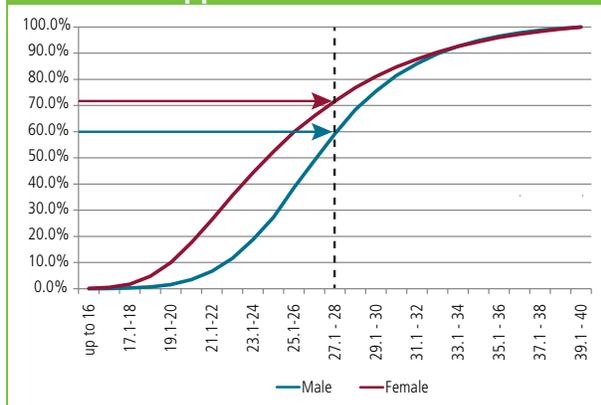
*A cholesterol/HDL ratio of 5.0 is more effective for men, particularly older male applicants.*

## Build

The foundation of any preferred structure is the build chart. With the median body mass index (BMI) in the US hovering around 27, there is a nice spread of individuals with BMI cutoffs above a typical cutoff of 28 (Figure 3, next page). Therefore, build cutoffs carry a lot of power in their ability to segregate risk. The fact that individuals with lower BMIs tend to have lower lipid and BP levels strengthens using build/BMI as a risk differentiator. Any changes to a company's build chart may create a measurable impact in the number of people qualifying for the preferred class.

# Preferred Risk Assessment: Can We Move from Good to Better? (cont.)

**Figure 3 – Distribution of BMI in an Insurance Applicant Cohort**



*Build as measured through BMI carries significant weight in preferred risk programs.*

## Impact of Preferred Criteria Changes

Due to the competitive nature of the industry, periodic tweaks to preferred criteria are common. The change in best-class qualification rates depends on which criterion is changed and by how much. For example, minor tweaks in systolic blood pressure cutoffs will have a negligible impact. For build, a small change may have a profound effect on how risks will be distributed (Figure 4).

## Conclusion

Progress in collecting and analyzing data has allowed the industry to discover nuances that were not known at the time of preferred criteria development.

The industry's preferred risk structure has worked well, but could it be more effective in classifying risk without pushing away good business? Certainly a deeper understanding of mortality, the availability of alternative mortality markers and advances in technology may lead to improvements. However, any changes to underwriting criteria require a delicate balance between risk appetite and the company's production goals. Underwriters should work with their pricing actuaries to determine how new or changing underwriting guidelines may affect the selection of risks and corresponding mortality in each class.

Over the past five years we have seen significant underwriting changes in the industry, and undoubtedly more changes will come. SCOR has a dedicated team of researchers who analyze underwriting criteria and how changes in clients' thresholds may affect their business. As always, SCOR's underwriting research team is available for consultation. ∞

**Figure 4 – Distribution of BMI in Discrete BMI Ranges**

	Male	Female	Total
up to 16	0.0%	0.1%	0.1%
16.1 - 17.0	0.1%	0.5%	0.3%
17.1-18.0	0.3%	1.8%	0.9%
18.1-19.0	0.7%	4.8%	2.5%
19.1-20.0	1.6%	10.0%	5.4%
20.1-21.0	3.5%	17.6%	9.8%
21.1-22.0	6.7%	26.4%	15.5%
22.1-23.0	11.6%	35.7%	22.3%
23.1-24.0	18.7%	44.3%	30.1%
24.1-25.0	27.3%	52.4%	38.5%
25.1-26.0	38.6%	59.9%	48.1%
26.1 - 27	49.0%	66.0%	56.6%
27.1 - 28	59.2%	71.7%	64.8%
28.1 - 29	68.5%	76.8%	72.2%
29.1 - 30	75.5%	81.1%	78.0%
30.1 - 31	81.5%	84.8%	82.9%
31.1 - 32	85.9%	87.8%	86.8%
32.1 - 33	89.8%	90.4%	90.0%
33.1 - 34	92.6%	92.6%	92.6%
34.1 - 35	94.8%	94.4%	94.6%
35.1 - 36	96.5%	96.0%	96.3%
36.1 - 37	97.8%	97.3%	97.5%
37.1 - 38	98.7%	98.3%	98.5%
38.1 - 39	99.4%	99.2%	99.3%
39.1 - 40	100.0%	100.0%	100.0%

*Underwriters should consider how reducing a standard threshold of 28 to 25 can affect the percent of applicants who qualify.*

# Individual Life Sales Trends

## Will IUL & Whole Life Continue to Drive the Growth?

### Executive Summary

Common wisdom in the industry argues that in times of financial uncertainty consumers will gravitate to the security offered by permanent coverage and an illustrated cash value. LIMRA published sales trends for the past 40 years. In looking back through the heart of the financial crisis, does the common assumption ring true?



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The U.S. individual life market posted positive growth in 2014. According to LIMRA's recent sales survey, annualized premiums for 2014 inched up 1%, exceeding \$13 billion. 2014 marked the fourth highest sales results recorded by LIMRA (see Figure 1), and is \$1 billion shy of the all-time sales high of pre-recession 2007. The industry has continued to improve since the beginning of the financial crisis and many life insurers are pursuing their own unique strategies to navigate this dynamically changing market environment.

### Sales Trend Observations from the Last 15 Years

LIMRA's long-term product sales trend survey<sup>1</sup> illustrates a significantly different pattern between pre- and post-financial crisis (see Figure 2, next page).

From 2000–2008 UL grew from 18% to 41%, driving overall life sales growth. Whole life and term were almost flat at 23% each.

After the crisis hit, product mix shifted:

- Traditional UL's share declined but IUL sales helped compensate for the drop
- Whole life's share jumped and continues to grow steadily, reaching 35% in 2014, the largest share that the product has held since 1997
- Meanwhile, term life slipped slightly in its share of new sales, from 23% to 21%.

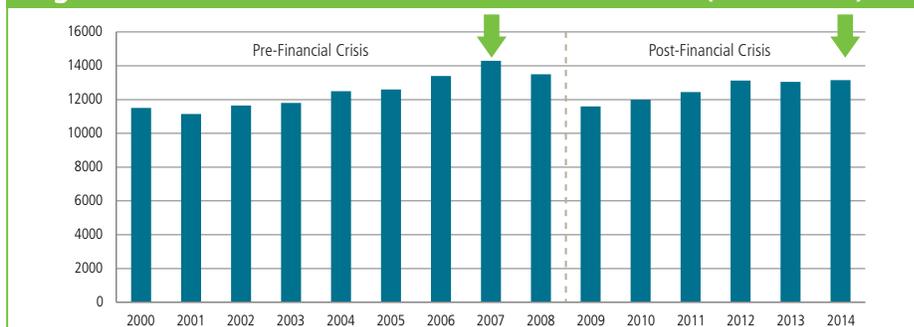
Whole life has now replaced term as the most-sold individual life product in terms of policy count (50% vs. term's 37% in 2014).

Trends since 2008 suggest more buyers of lower face amount policies chose whole life over term, while buyers of higher face amount policies were attracted to IUL's option to participate in financial market performance with downside protection. Producers and carriers supported this trend.

### What Is Driving These Trends?

The largest drivers for the current life sales growth are IUL and whole life. Other products suffered sales declines due to ongoing low interest rates and higher reserve requirements, leading carriers to re-price, modify product features, and even exit some markets.

**Figure 1 – U.S. Individual Life Annualized Premium (2000-2014)**



2014 sales have almost reached pre-recession levels. (Source: LIMRA International)

What separates IUL and whole life from those low-performing products? Three major factors played key roles: product features, consumer sentiment and marketing effectiveness. Unlike other products, IUL benefits from the low interest rate environment as it attracts consumers

# Individual Life Sales Trends

## Will IUL & Whole Life Continue to Drive the Growth? (cont.)

seeking products with higher possible returns. IUL offers a favorable combination of potentially higher returns and certain degree of security from downside risk, appealing to the current consumer sentiment. Marketing is also a key element. Many carriers have launched big branding campaigns and new websites for IUL in recent years, often resulting in robust sales growth. Whole life's growth, on the other hand, appears to be driven by consumers' post-crisis preference for long-term guarantees, strong new-agent recruiting (particularly by mutual companies) and increased marketing campaigns.

it may not be feasible as many strategists are skeptical of a fourth straight year of double-digit equity gains in 2015. If the market declines significantly as some analysts suggest, it could potentially cause a shift away from IUL, as VUL experienced in the early 2000s. It is true that IUL's success largely depends on how equity markets move. But equally important is how well life insurance companies identify these emerging trends and respond to them, as they demonstrated in their marketing efforts with IUL and whole life.

### What Are Near-Term Prospects and Emerging Trends?

How long will this sales trend likely continue? At least for the next four years, according to LIMRA<sup>2</sup>. They base this prediction on the assumption that steady growth in the indexed market will continue. However,

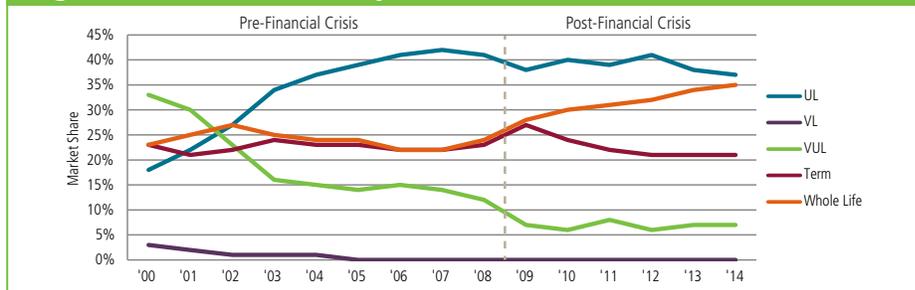
It is noteworthy that growth-driver characteristics of whole life and IUL are like opposite sides of the same coin: IUL sales thrive during periods of positive equity-market sentiment, while whole life benefits from consumers' concern over market uncertainty. Still, they are the two main engines for today's life sales growth. A balanced mix of reasonable investment returns and sense of security are where these products intersect. Life insurers must continue to proactively monitor the market and changing consumer needs, and adjust product mix and marketing strategies accordingly. ∞

and adjust product mix and marketing strategies accordingly. ∞

1 U.S. Individual Life Insurance Sales Trends, 1975 – 2014. LIMRA International.

2 Individual Life Sales Forecast, Fourth Quarter 2014. LIMRA International.

**Figure 2 – Market Share by Product (2000-2014)**



Whole life sales have almost matched UL sales. (Source: LIMRA International)



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