

LIFE AND ANNUITY MARKET UPDATE

Actuarial Society of Greater New York

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LIFE INSURANCE UPDATE

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AGENDA

- 1** Sales and trends
- 2** Product themes
- 3** Regulatory happenings
- 4** Recent M&A transactions
- 5** Key takeaways

LIFE INSURANCE SALES AND TRENDS

Overall sales trends

Annual sales growth rates measured by face amount¹

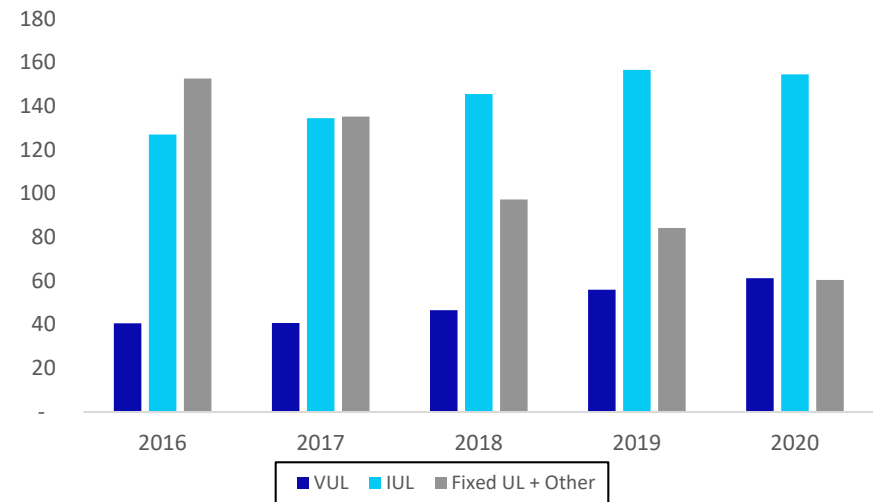
Product	2017	2018	2019	2020
Term	4%	3%	6%	6%
Whole life	-	2%	-	1%
Universal life	(3)%	(7)%	2%	(7)%
Total	2%	1%	5%	2%

- Life insurance sales down 3% in 2020 compared to 2019
- Certain events have impacted life insurance sales over the past two years
 - **2019:** Large volume of sales due to effective dates for 2017 CSO and VM-20
 - **2020:** COVID-19
- Given the large growth in 2019, 2020 numbers are more exaggerated than may appear
 - ▲ Traditional life (Term and WL) similar growth to 2019
 - ▼ Universal life sales poor, closer to 2018 growth rates

Pandemic trend: sales directed to lower cost products with less dependency on interest rates

Universal life sales¹

Sales measured by face amount (\$B)

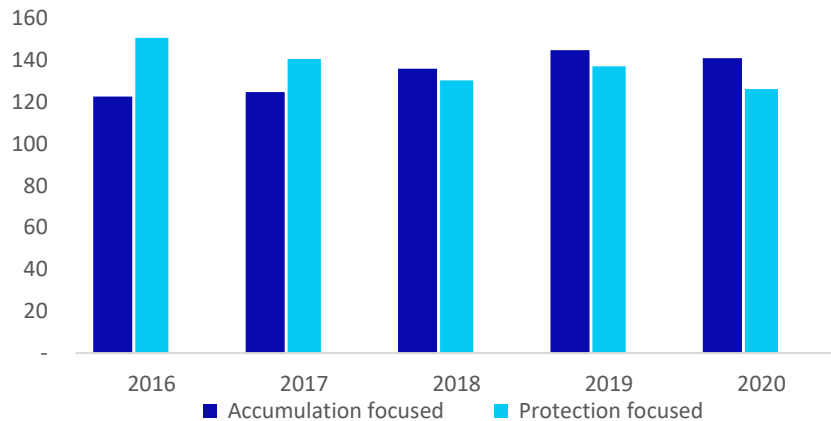


- IUL market share increased over past several years, but slowed during 2020
- Sales for VUL and fixed UL almost the same in 2020, highlighting:
 - A large decrease in fixed UL sales over the last 5 years, and
 - A noticeable increase in VUL sales over the last 3 years

DEEP DIVE: UNIVERSAL LIFE SALES AND TRENDS

Universal Life sales by design type¹

Sales measured by face amount (\$B)

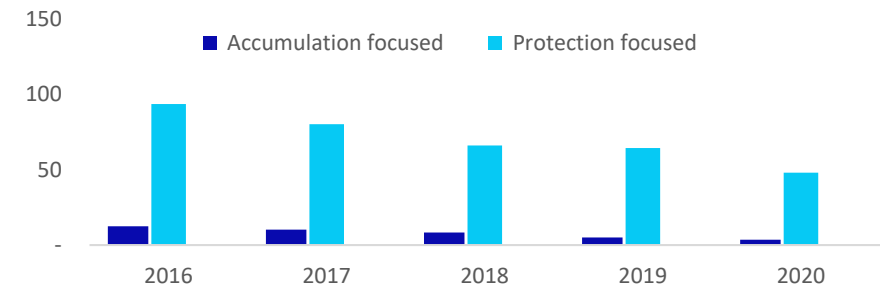


- In aggregate, accumulation focused products have sold better than protection focused products in recent years, especially in 2020
 - Driven by increased sales in IUL which is more focused on accumulation designs
 - Protection focused most popular on fixed UL
- Sales into protection based variable universal life sales were twice as high as accumulation based designs in 2020 and have a three year streak of outselling the accumulation design

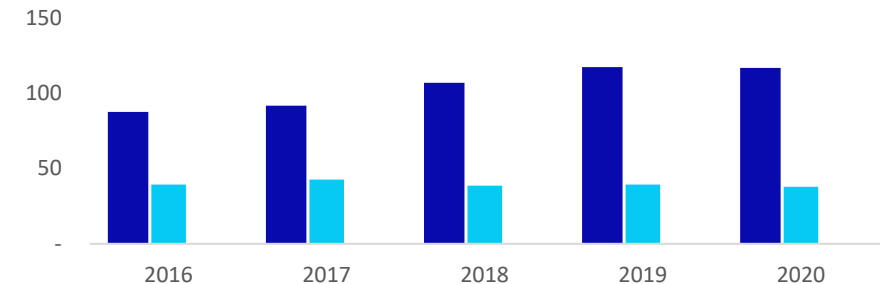
Product sales by design type¹

Sales measured by face amount (\$B)

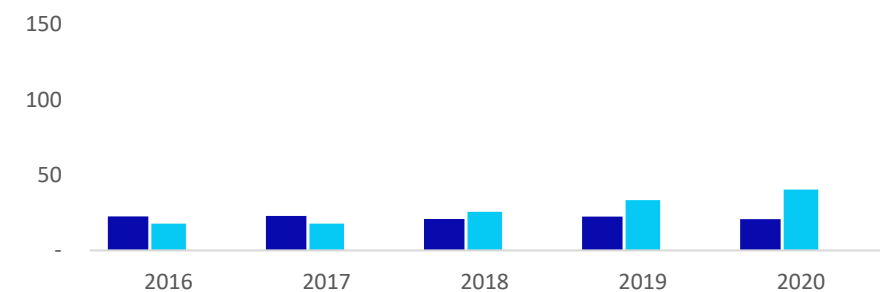
Fixed universal life



Indexed universal life



Variable universal life



PRODUCT THEMES

There are opportunities for writers to broaden their products and distribution to have a portfolio that reaches a broad customer base and has appeal in different economic environments

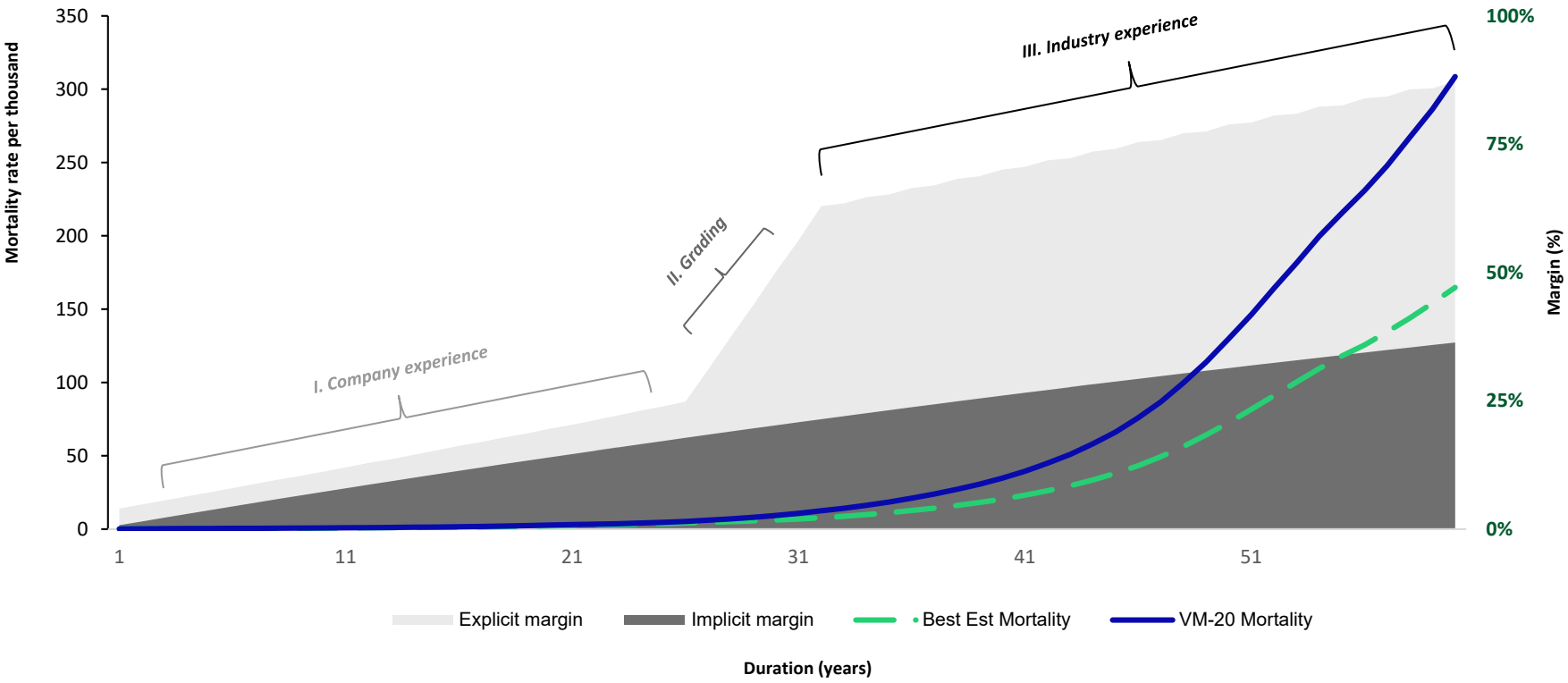
Theme	Comments and considerations
Resurgence of VUL “The Old”	<ul style="list-style-type: none">• Attractive in a persistent low interest rate environment, with consistently rising equities<ul style="list-style-type: none">– Customers willing to pay more for more upside potential– Upsides to insurance company in equity market participation and diversification• Secondary guarantees appear to be attractive to consumers, but carry more risk for writers• Filing and illustration considerations
Registered IUL (“RIUL”) also emerging “The New”	<ul style="list-style-type: none">• RIUL is an IUL with downside exposure, two major designs are buffer and floor• IUL sales growing at around 8% before 2020, popular with consumers<ul style="list-style-type: none">– Recent regulation around illustrations (AG49-A) have impacted sales• Downside exposure allows for lower hedge costs, higher non-guaranteed index components and, in some situations, better illustrations
LTC combo attractive to consumers, dominated by a handful of companies “The Evolving”	<ul style="list-style-type: none">• Hybrid of universal life which allows distribution of death benefit for long-term care• Two major designs, extension of benefits is new for most writers• Natural hedge between life insurance and living benefit components• Uncertainty around reserving; modeling is complex
Sales practice trends	<ul style="list-style-type: none">• Underwriting: Accelerated / Simplified• Digital / automation of sales

REGULATORY HAPPENINGS

Regulatory item	Comments and considerations
LDTI	<ul style="list-style-type: none">• Major changes for life insurance: LFPB, DAC/DAC-like balances, disclosures• Companies at various stages of implementation, depending on reporting status• Policy decisions based on management goals balanced with operational considerations<ul style="list-style-type: none">– Impacts: deferred earnings emergence for some universal life– Major headache and biggest expense: data
PBR	<ul style="list-style-type: none">• Future mortality improvement and YRT reinsurance nearing conclusion• Economic scenario generator entering field testing• Valuation rate for 2021 issue years decreased by 50 bps
7702/SNFL	<ul style="list-style-type: none">• Interest rates used in calculations under 7702 and SNFL were updated in VM-02 in a broader COVID relief bill (defined by VM-02)• Applicable to new business Dec 31, 2020 – 1 year transition• CVAT and GPT calculations will use an “accumulation test minimum rate” published by the IRS• Impacts: product design and profitability, admin systems, illustration systems
AG49-A	<ul style="list-style-type: none">• Applies to all policies sold on or after Dec 14, 2020• Limits illustrated value for IUL policies with indexed-based multipliers, bonuses and policy loans<ul style="list-style-type: none">– Popular multiplier designs are not expected to go away– Writers may demonstrate value by offering supplemental material and illustrating certain accounts below the maximum rate

PBR: IMPACT OF MORTALITY IMPROVEMENT ON MARGIN

Male, 40 year old, preferred non smoker, 2021 valuation

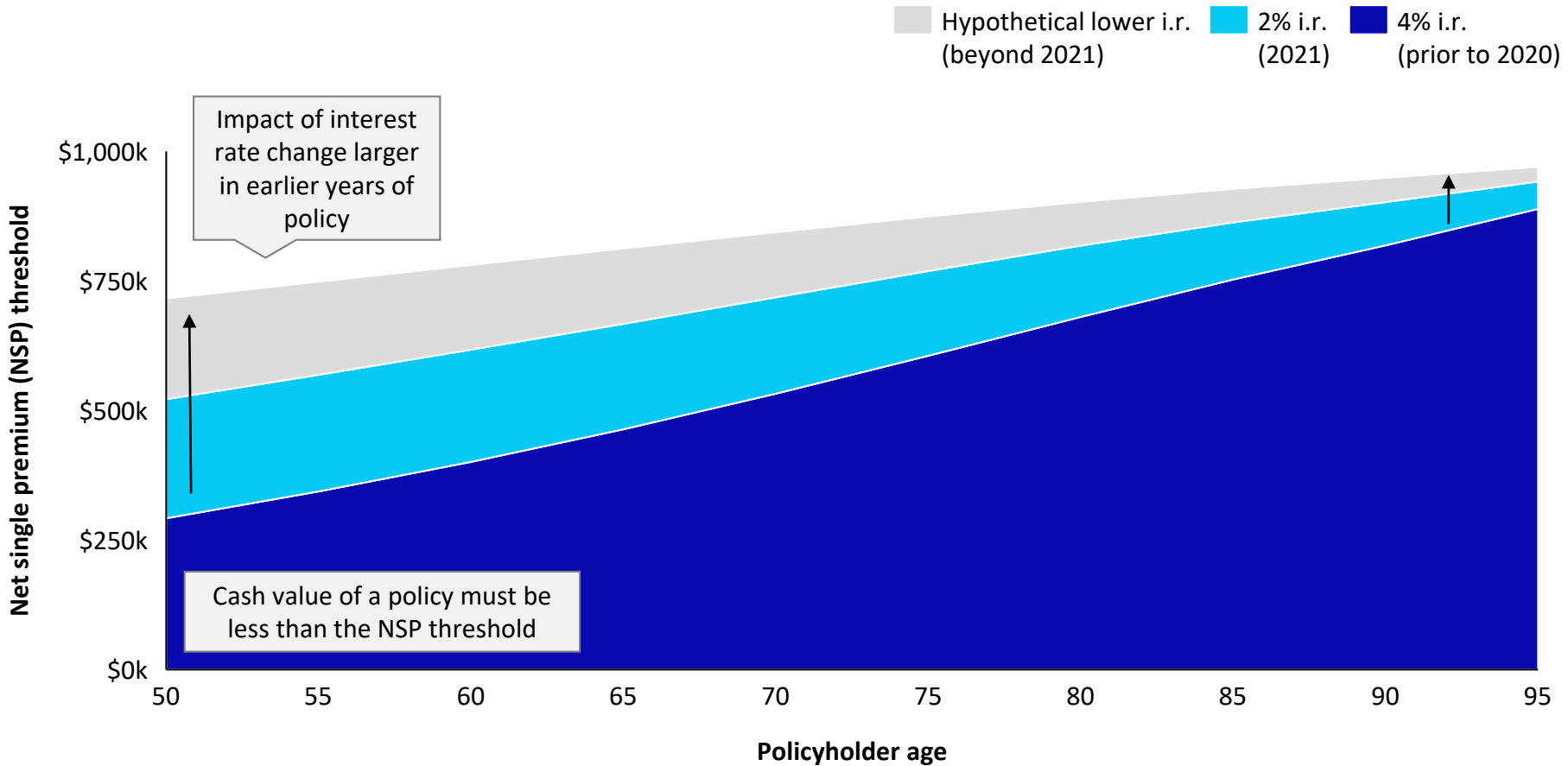


7702: IMPACT TO POLICYHOLDERS

All else equal, a reduction in interest rate allows for the policyholder to accumulate higher cash values and premiums, while maintaining the status of a life insurance policy

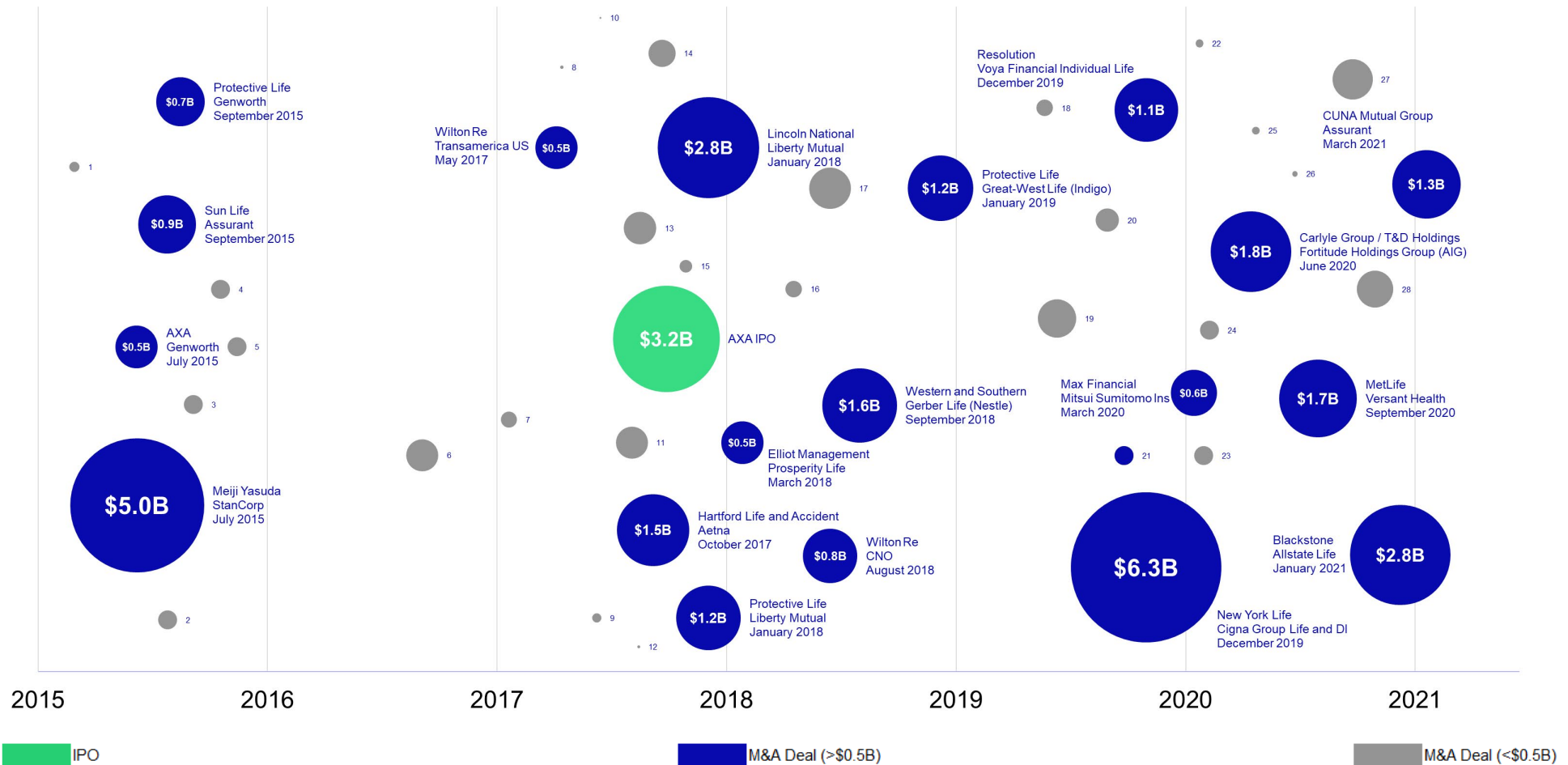
Maximum accumulated allowed cash value to maintain classification as an insurance policy

Net single premium threshold¹ across policy age under CVAT



1. Net single premium (NSP) threshold = actuarial present value needed to fund future policyholder benefits under CVAT

SUMMARY OF LIFE & HEALTH DEALS BY SIZE AND TRANSACTION DATE (2015 - 2021)



2015: ¹HC2 Holdings / American Financial Group, ²RGV / Voya, ³Kuvare / Guaranty Income Life, ⁴RGV / XL Group, ⁵Senior Health Insurance Co of Pennsylvania / Teachers Protective Mutual
 2016: ⁶PartnerRe Ltd / Aurigen Capital
 2017: ⁷Penn Mutual / Vantis Life, ⁸US Alliance / Northern Plains, ⁹Heritage Life / Pharmacists Mutual, ¹⁰R.D. Tips / Southwest Service Life, ¹¹Kuvare / United Fire Group, ¹²US Alliance Life / Midwest Holding, ¹³HCC Life / AIG, ¹⁴HC2 Holdings / Humana, ¹⁵Swiss Re / MAPFRE USA
 2018: ¹⁶Kansas City Life / Grange Mutual, ¹⁷Carlyle Group / AIG
 2019: ¹⁸Ares / Global Bankers, ¹⁹Kuvare / LBL, ²⁰Nassau Re / Foresters, ²¹Somerset Re / Prudential
 2020: ²²First Trinity / K-TENN, ²³Aflac / Zurich North America, ²⁴Monument Re / Greycastle, ²⁵Prosperity Life / National Guardian Life, ²⁶Taishin / Prudential Taiwan, ²⁷Global Atlantic / ManuLife, ²⁸Global Atlantic / Unum

KEY TAKEAWAYS

- 1** COVID-19 contributed to decreased sales in 2020 and impacted universal life significantly. Simpler low cost products easier to sell direct-to-consumer fared much better
- 2** There are opportunities to broaden product and distribution to have a portfolio that reaches a broad customer base and has appeal in different economic environments
- 3** With the number and timing of compliance changes and many writers needing to turn their full focus to LDTI, keeping up with the myriad of other regulatory changes may be difficult

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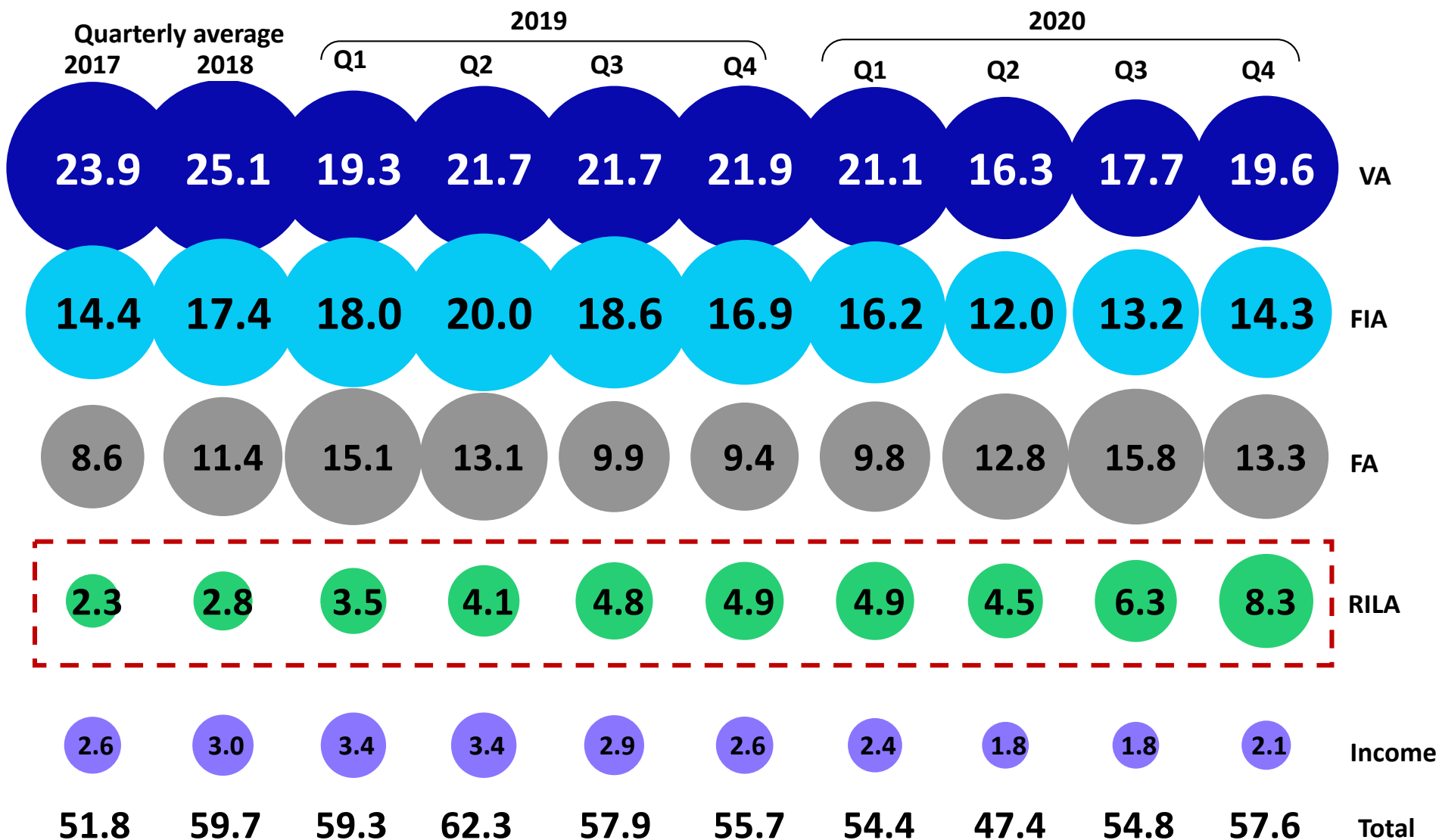
ANNUITY UPDATE

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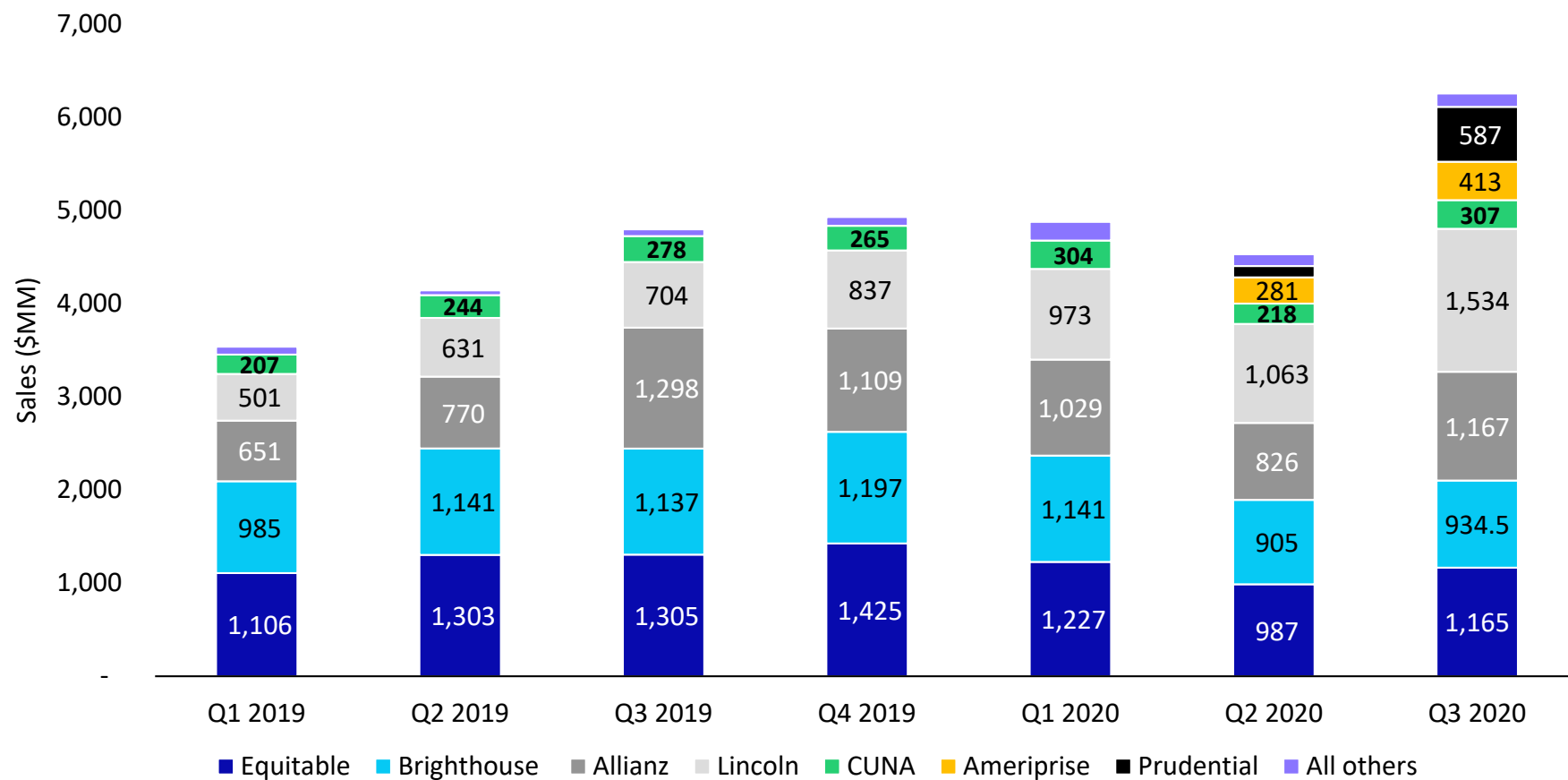
AGENDA

- 1** Sales update
- 2** RILA market expansion
- 3** FIA GLWB Financial reinsurance
- 4** M&A update
- 5** Fixed annuity market dynamics

ANNUITY QUARTERLY SALES TREND (\$BN)



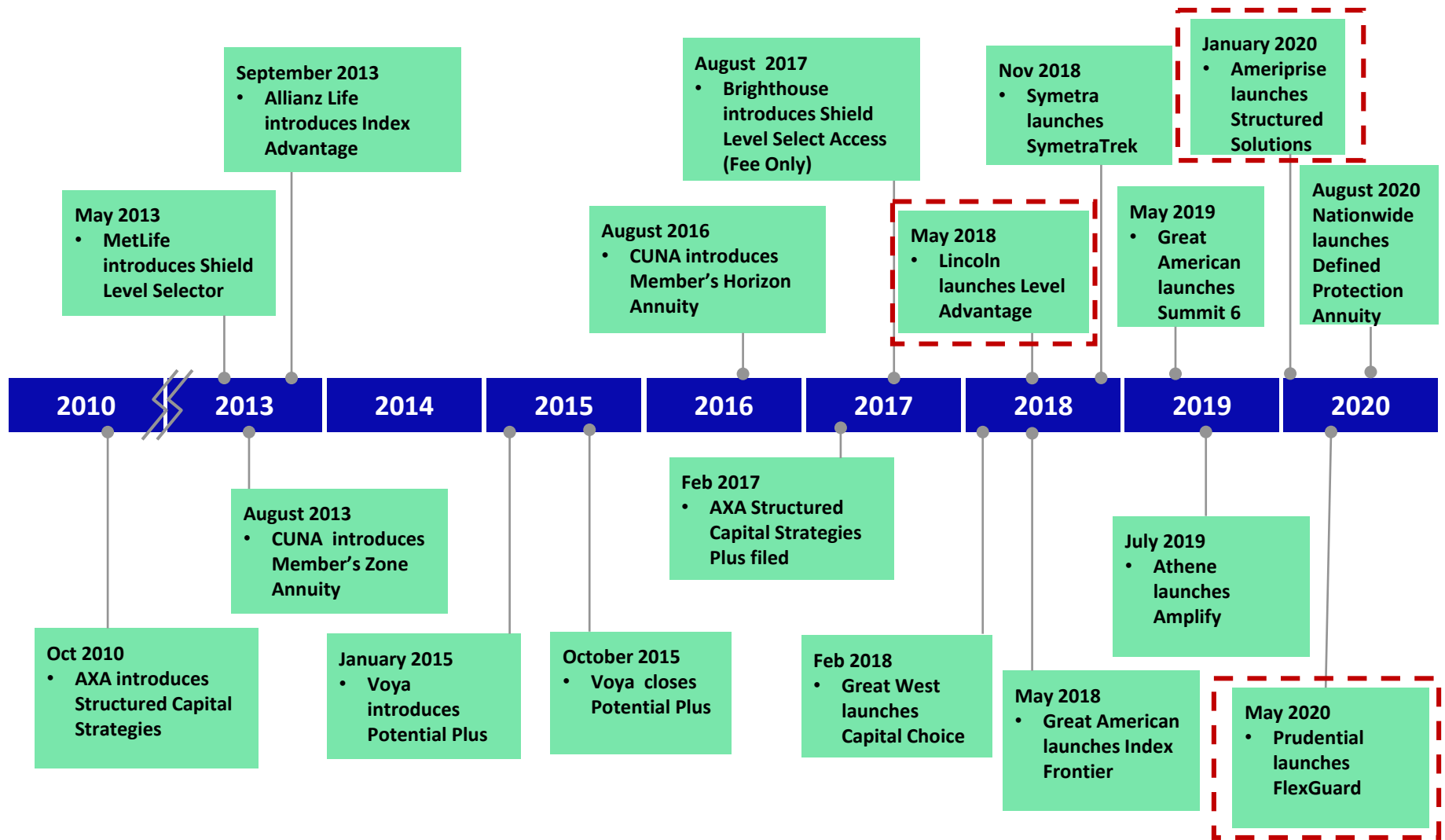
RILA SALES (QUARTERLY)



Source: Wink's Sales & Market Report

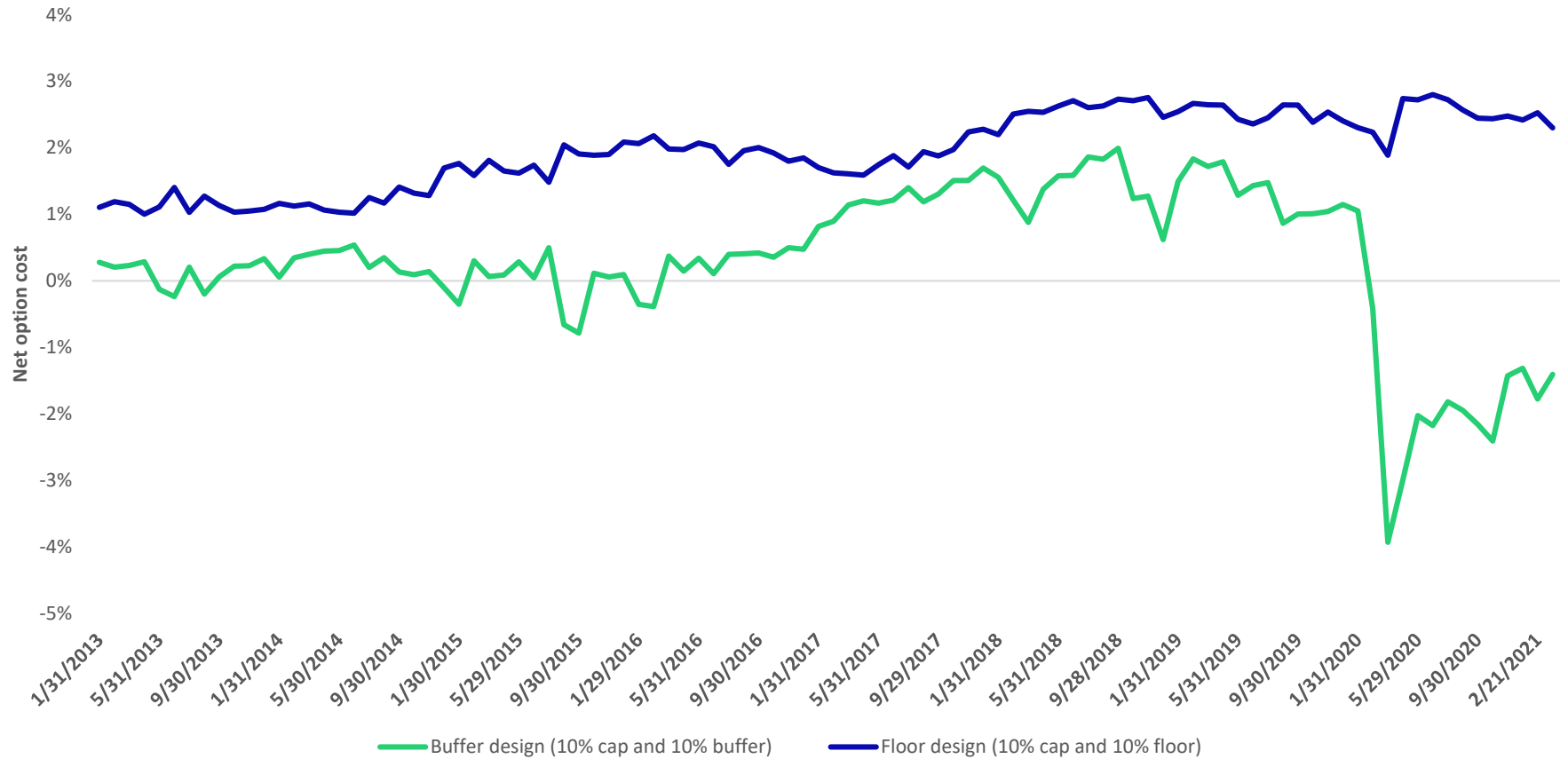
RILA PRODUCT LAUNCHES

Increasing sales has attracted more participants into the RILA space



Recent entrants with strong VA distribution platforms gain a strong foothold in the RILA market

RILA 1 YEAR CREDITING STRATEGY - FLOOR VS BUFFER DESIGN

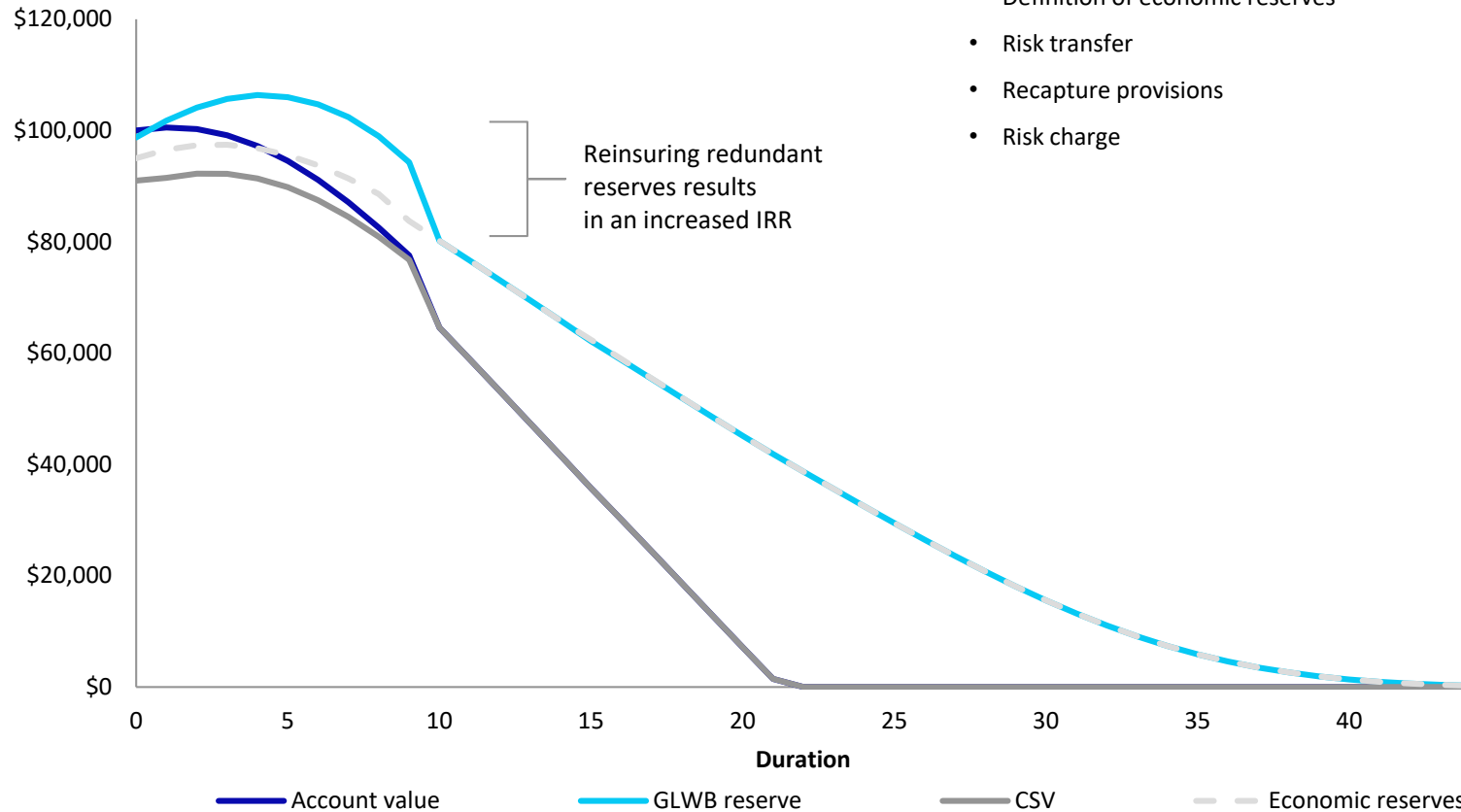


Companies offering buffer design have been able to offer higher caps and capture more profits than floor design

FIA GLWB FINANCIAL REINSURANCE

Financial reinsurance allows direct writers to hold less redundant reserves, reducing rider driven strain

Illustrative account value and reserves

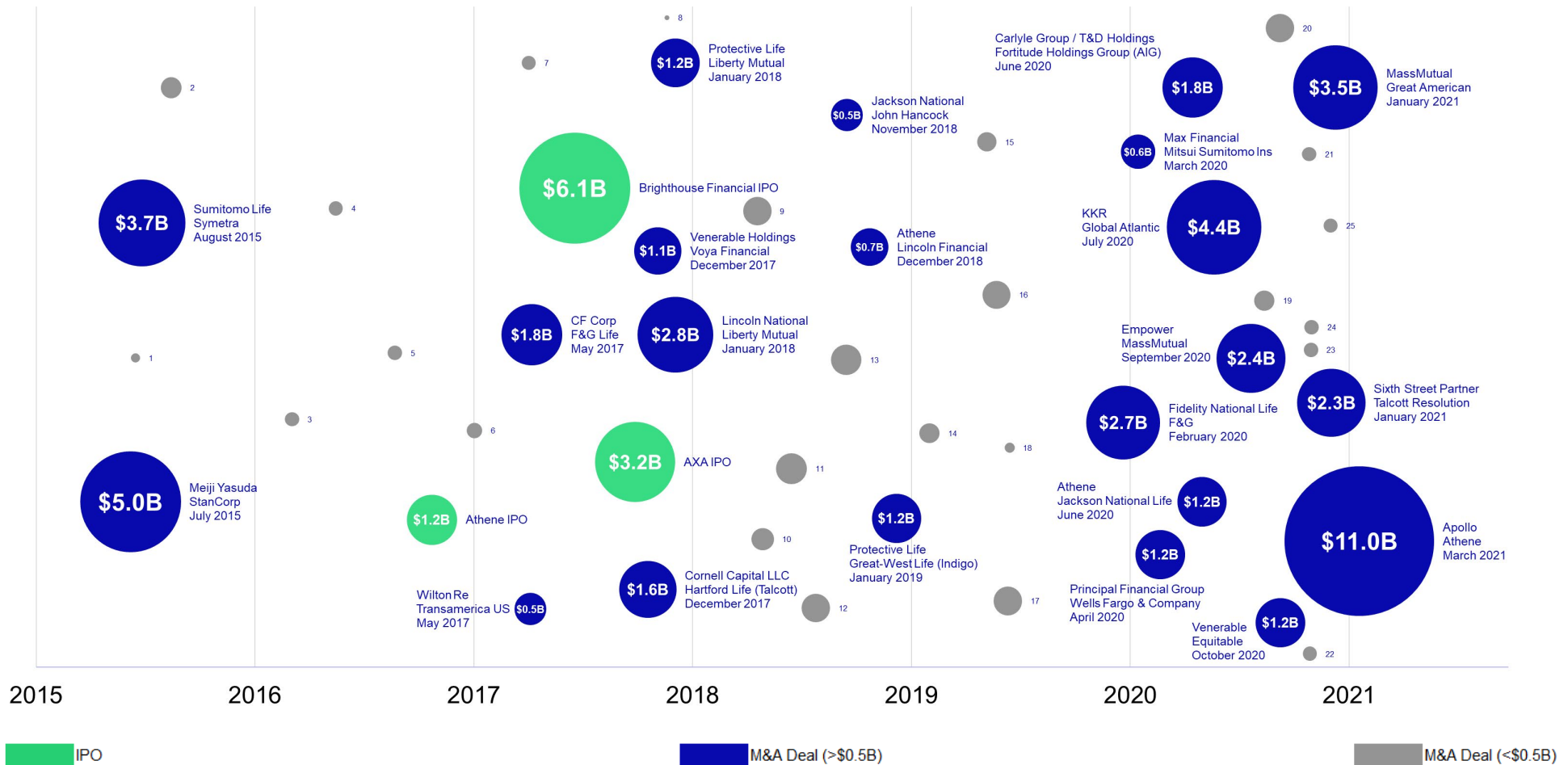


Financial reinsurance considerations

- Definition of economic reserves
- Risk transfer
- Recapture provisions
- Risk charge

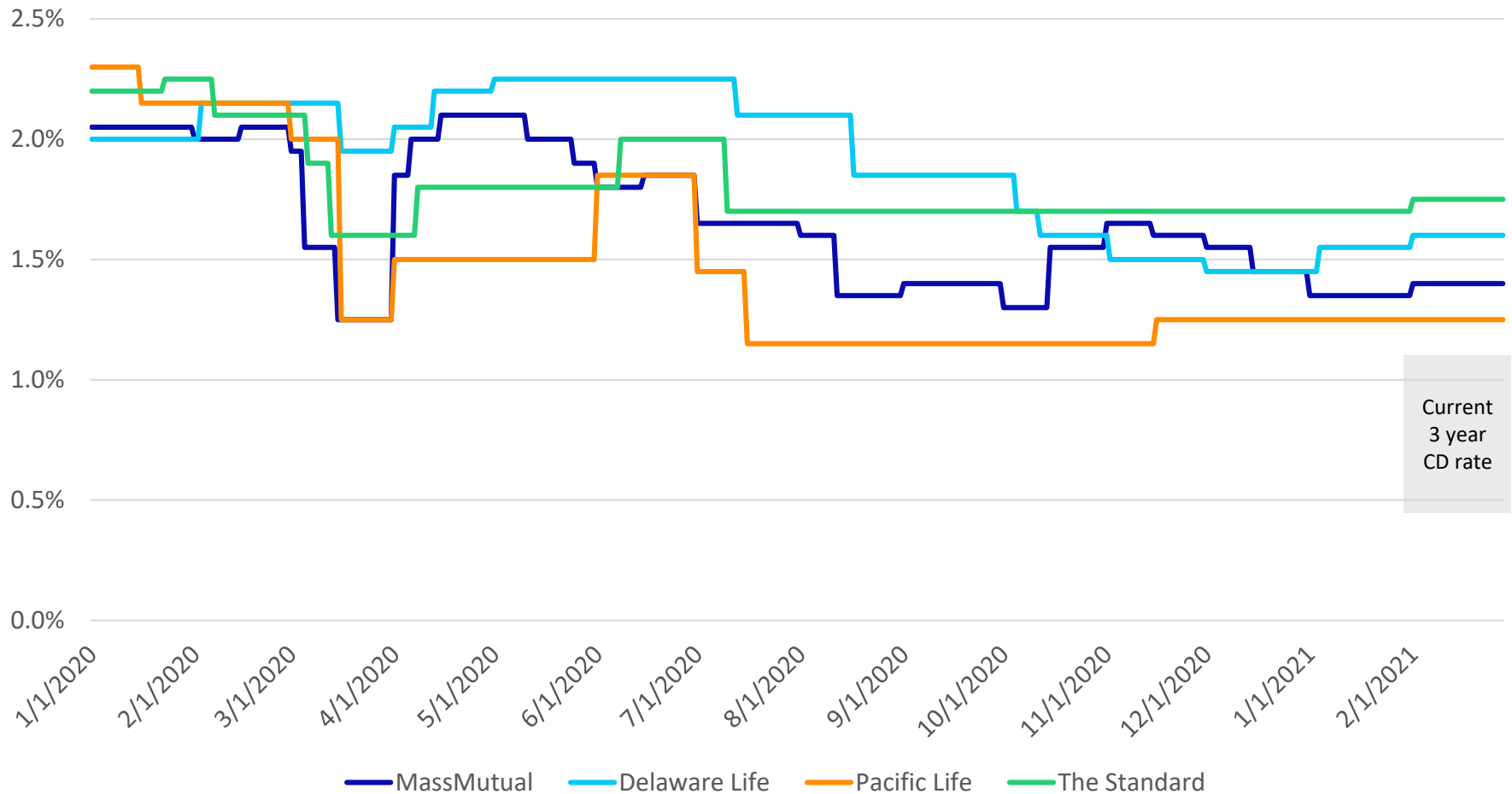
Financial reinsurance is an opportunity to reduce strain and increase product profitability, but treaty and regulatory elements require careful consideration

SUMMARY OF ANNUITY DEALS BY SIZE AND TRANSACTION DATE (2015 - 2021)



2015: ¹National Guardian / Independence Holding, ²Nassau Re / Phoenix
 2016: ³Undisclosed buyer / XL Group, ⁴Advantage Capital Partners / Sentinel Security Life, ⁵Kuvare Life Re / Undisclosed / Undisclosed
 2017: ⁶Global Bankers / Enstar Group, ⁷RGA / Farmers (Zurich)
 2018: ⁸American Republic Insurance / Great Western Insurance, ⁹Athene / Voya, ¹⁰Global Atlantic / Prudential, ¹¹Carlyle Group / AIG, ¹²Resolution Re / Symetra, ¹³RGA / John Hancock
 2019: ¹⁴Global Atlantic / Ameriprise, ¹⁵RGA / Horace Mann, ¹⁶Jade Mountain Partners / Lamington (White Eagle), ¹⁷Kuvare / LBL, ¹⁸777Re / Undisclosed seller
 2020: ¹⁹Ares / F&G Re, ²⁰Global Atlantic / Great American, ²¹777 Re / Unknown party, ²²Athene / General Electric, ²³Kuvare (LBL) / Unknown party, ²⁴Oceanview Re / Unknown party, ²⁵Prosperity Life Assurance / National Western Life

3 YEAR MYGA CREDITED RATES



MYGA rates are currently exceeding CD rates, leading to higher MYGA sales than in recent years

KEY TAKEAWAYS

- 1** VA sales are in decline with many companies shifting to RILA
- 2** M&A and structuring of reinsurance has become popular for fixed annuities and fixed index annuities
- 3** Fixed annuities sales have increased due to changes in credited rates relative to CD rates

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