



## Protection Products in a Turbulent Economy

Actuaries' Club of the Southwest – Spring Meeting  
June 11, 2009

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## Overview

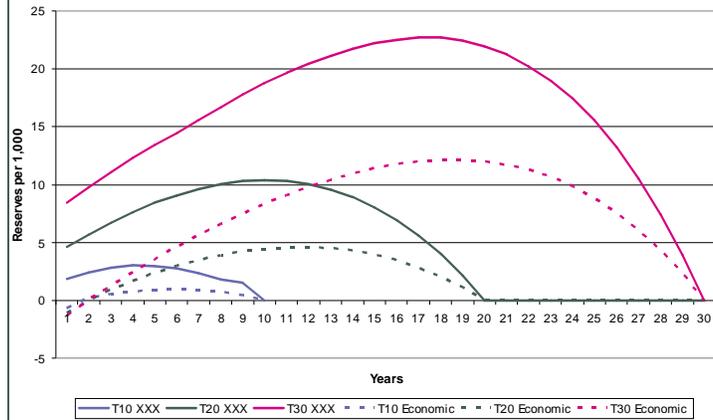
- Economic drivers of change
- US compared to other environments
- Future outlook

	<p style="text-align: right;">Swiss Re  </p> <h2 style="text-align: center;">Economic drivers of change</h2>
<p>June 11, 2009 Page 3</p>	<ul style="list-style-type: none"> <li>■ Industry trends</li> <li>■ Increased cost of collateral solutions</li> <li>■ Declining net investment income rates</li> <li>■ Loss of tax efficiencies</li> <li>■ Maintaining financial strength</li> </ul>

	<p style="text-align: right;">Swiss Re  </p> <h2 style="text-align: center;">Economic drivers of change (1)</h2>
<p>June 11, 2009 Page 4</p>	<ul style="list-style-type: none"> <li>■ Extremely turbulent and challenging times</li> <li>■ XXX level premium re/insurance industry trends include <ul style="list-style-type: none"> <li>– Dramatically increased prices for long-term collateral solutions</li> <li>– Rapid declines in net investment income rates</li> <li>– Loss of tax efficiencies for some companies</li> <li>– Heightened rating agency scrutiny</li> <li>– Limited capacity due to changes in securitization market</li> </ul> </li> <li>■ Outlook for lapse rates dependent on industry action <ul style="list-style-type: none"> <li>– Will prices increase materially?</li> <li>– What impact would higher prices have on lapses?</li> </ul> </li> </ul>

## The XXX Dilemma

Illustrative XXX Reserve Projection  
 per \$1,000 reserves for sample products



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## Economic drivers of change (2): Increased cost of collateral solutions

- XXX statutory reserves are significantly greater than realistic, or economic, reserves
  - Varies by company and by plan
  - Creates redundancies of more than 100%
- Traditional reinsurance used as solution, but reinsurers also face constrained access and higher costs of funding
- Solutions for funding redundant reserves
  - Use of (re)insurer's own capital & surplus
  - Letters of credit and/or insurance linked securities

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## Economic drivers of change (2): Increased cost of collateral solutions

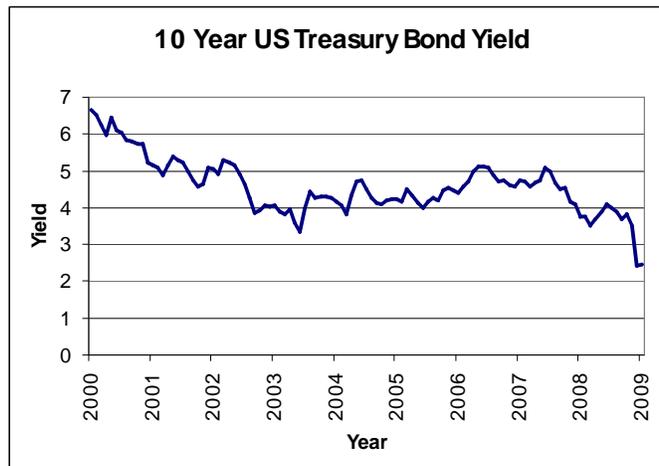
- Solution setbacks
  - Capital losses
  - Weak investment yields
  - Available capacity has decreased dramatically
  - Costs have increased dramatically
  
- Other solutions
  - Regulatory changes
    - Reduce the redundancies in the long term
    - Reduce the capital required in the short term
  - Individual state commissioner relief provided
  - Change product offering – short term plans & reduce guarantees

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## Economic drivers of change (3): Interest rate declines

Interest sensitive products have been significantly impacted by the precipitous drop in interest rates



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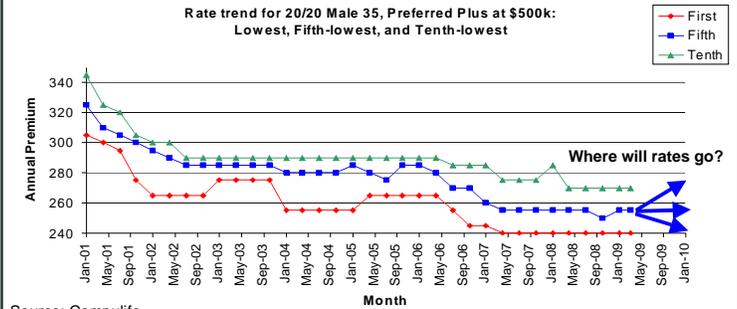
	Economic drivers of change (4): Loss of tax efficiencies	Swiss Re III
<p>June 11, 2009 Page 9</p>	<ul style="list-style-type: none"> <li>■ Varies considerably by company</li> <li>■ Reserve redundancies can generate non-cash tax losses in the early durations</li> <li>■ Efficient use of these tax losses can be difficult</li> <li>■ Lower investment returns cause loss carryforwards</li> </ul>	

	Economic drivers of change (5): Maintaining financial strength	Swiss Re III
<p>June 11, 2009 Page 10</p>	<ul style="list-style-type: none"> <li>■ Profitability of overall company may be challenged by <ul style="list-style-type: none"> <li>– Capital losses and weak investment yields</li> <li>– Higher costs and limited access to funding</li> <li>– Different mix of new business &amp; lower lapses on inforce</li> </ul> </li> <li>■ What will it take for industry to survive and thrive? <ul style="list-style-type: none"> <li>– Long term strategic and financial commitment</li> <li>– Drive necessary changes to ensure a sustainable product portfolio</li> </ul> </li> </ul>	

Swiss Re 	
<h2 style="margin: 0;">The US Compared to Other Environments</h2>	<ul style="list-style-type: none"> <li>■ What does a US term product look like in other regulatory environments?</li> <li>■ Switzerland, Canada, UK, and others               <ul style="list-style-type: none"> <li>– Best-estimate with PADs</li> <li>– Principles-based approach</li> <li>– Risk-free discount rate</li> <li>– Statutory reserves = tax reserves</li> <li>– Company-specific assumptions more prevalent than industry-prescribed</li> </ul> </li> <li>■ If the US adopted regulation similar to the rest of the world, would it change our viewpoint of protection products?</li> </ul>
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Swiss Re 					
<h2 style="margin: 0;">Non-US Regulatory Environments</h2>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #4F7942; color: white; text-align: center; padding: 5px;">Pros</th> <th style="background-color: #4F7942; color: white; text-align: center; padding: 5px;">Cons</th> </tr> </thead> <tbody> <tr> <td style="background-color: #ADD8E6; padding: 5px;"> <ul style="list-style-type: none"> <li>■ Assumptions based on actuary's prudent assumption</li> <li>■ Reserves linked to pricing assumptions (economic)</li> <li>■ Tax income = regulatory income</li> <li>■ Data collection to arrive at best estimate</li> <li>■ Review process – by peers or regulator</li> <li>■ Good risk management framework leads to competitive advantage</li> </ul> </td> <td style="background-color: #FFFF00; padding: 5px;"> <ul style="list-style-type: none"> <li>■ Limited or no standardization</li> <li>■ High variation between companies</li> <li>■ Lack of certainty</li> </ul> </td> </tr> </tbody> </table>	Pros	Cons	<ul style="list-style-type: none"> <li>■ Assumptions based on actuary's prudent assumption</li> <li>■ Reserves linked to pricing assumptions (economic)</li> <li>■ Tax income = regulatory income</li> <li>■ Data collection to arrive at best estimate</li> <li>■ Review process – by peers or regulator</li> <li>■ Good risk management framework leads to competitive advantage</li> </ul>	<ul style="list-style-type: none"> <li>■ Limited or no standardization</li> <li>■ High variation between companies</li> <li>■ Lack of certainty</li> </ul>
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<p>What would be the impact on a US protection product if it was sold elsewhere?</p> <p>June 11, 2009 Page 12</p>					

## US term insurance



- Recent financial market turmoil has highlighted known weaknesses in the industry's views of term insurance
  - Historically competitive pressure on street rates
  - Reserves regulations
  - Resulting reliance on capital markets funding solutions

## Future Outlook

- Increased economic costs may ultimately place an unnecessary burden on the consumer
  - XXX redundancies
  - Economic cost of lower yields
  - Higher cost of capital
- Does regulation need to change?
  - Differing views depending on how company deals with financing costs
  - If you believe there is extreme conservatism in reserves from XXX, then regulation needs to change

## More sustainable solution needed

- Regulatory reform
- Product redesign (e.g. shorter premium guarantees)
  - Reduces risk
  - Transformation and reopening of the capital markets
- Will street rates increase unless something improves?

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## Questions?



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