



STREAMLINED UNDERWRITING FOR THE MIDDLE MARKET & ITS IMPACT ON PRODUCT PRICING

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Agenda



-
- Definitions
 - Distribution
 - Underwriting
 - Product
 - Pricing
 - Lessons Learned
 - Key Success Factors

Sources

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- Is There Magic in the Middle Market (LIMRA, 2009)
 - Trillion Dollar Baby (LIMRA, 2005)
 - Simplified Issue Marketplace (LIMRA 2009)
 - Automated Life Underwriting (SOA 2009 survey)
 - U.S. Life Insurance Persistency Update (LIMRA, 2008)

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Definitions – Streamlined Underwriting

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- Broader than Simplified Issue
 - LIMRA definition of SI:
 - “Individually owned life insurance that does not process through traditional medical and nonmedical underwriting”
 - “Goes through limited underwriting where a limited number of health-related questions are asked”
 - Any underwriting process that does not involve the collection and analysis of fluids (oral swab, urine, or blood)
 - No para-med, APS, or medical exam

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LIMRA Simplified Issue Survey Participants



AAA Life Insurance Company	Equitable Life & Casualty	Mutual of Omaha
Allstate Financial	Farmers New World	Nationwide Financial
Allstate Workplace Division	Foresters	Oxford Life Insurance Company
American Fidelity	Gerber Life Insurance Company	Phoenix
Americo	Great-West Life & Annuity	Principal Financial Group
Aviva Life & Annuity	Household Life Insurance Company	Symetra
Baltimore Life Insurance	Illinois Mutual	Transamerica Capital Management
Conseco Insurance Company	ING	Vantis Life
Cotton States	Lincoln Financial Group	Western & Southern Life
CUNA Mutual Group	Mennonite Mutual Aid Association	

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SOA Automated Underwriting Survey Participants



ACE Tempest Life Re	CMC National Life	John Hancock Life	State Farm
ACL Life Assurance Company	Empire Life	MassMutual	Sun Life Financial
AIC Life Insurance Corporation	Equitable Life & Casualty	Max New York Life Insurance Co.	Sun Life Financial Canada
Allianz Life	Equitable Life Insurance Company of Canada	Minnesota Life	Sun Life Re - Rezac
Allstate Life	Farm Bureau Life Ins Co	Modern Woodman of America	Symetra Life
American Fidelity Assurance	Farmers New World Life Insurance Company	MTL Insurance Company	Teachers Protective Mutual Life Ins Co
American Health & Life Insurance Co	Federal Life Insurance Co. (Mutual)	National Western Life	Tennessee Farmers Life
American-American Life Ins Co of Texas	Federated Life Insurance Company	Nationwide Life	The Baltimore Life Insurance Companies
Americo	Fidelity Life	New York Life	The Chocoma Life Ins. Co.
Assurity Life Insurance Company	First Investors Life Ins. Co.	Northwestern Mutual Life	The EFCO Life Insurance Co.
AVIVA USA	Foresters	NTA LIFE	The Lafayette Life Insurance Company
AXA Equitable	Forethought Life Insurance Companies	Old Republic Life Insurance Company	Triwest Financial
Bankshire Life	Genworth	Pacific Guardian Life	TIAA-CREF
DMI Financial Group, Inc.	Gerber Life Insurance Company	Pacific Life	Transamerica Life Canada
EMO Life Assurance	Herford Life	Principal Life Insurance Company	UNIFI Insurance Companies
Canada Life	Hiscox Holmes Services (MVAIS)	Protective Life Insurance Company	Unified Life Insurance Company
Conseco	Hiscox Mann Life Insurance Company	Prudential Insurance Company	United Heritage Life Company
Co-operators Life Insurance Company	HSBC Insurance Services	RBC Life Insurance Company	USAA Life Insurance Co.
COUNTRY Life	Indiana Farm Bureau Insurance	Reserve National Insurance Co	Vant's Life Insurance Company
CSI Life Insurance Company	Individual Assurance Company	Sagicor Life USA	Western Fraternal Life Association
CUMIS Life Insurance Company	ING	Sheridanoak Life Insurance Company	Woodmen of the World
CUNA Mutual Insurance Society	Jackson National Life	SSQ Financial Group	

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DEFINE THE MARKET



What is the Middle Market?

-
- Middle market
 - Household income = \$35,000 -- \$124,999
 - 52 million households
 - Simplified issue
 - 1 million policies/ \$600 million premium/ \$35 billion face
 - Un/underinsured
 - 48 million households “don’t have enough life insurance”
 - \$17 billion premium/\$9.5 trillion face

Characteristics of the Middle Market



-
- 52MM households
 - 73% feel they "need" life insurance
 - 34% believe they don't have enough coverage
 - 25% have none
 - 32% have only employer group coverage

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The Opportunity



-
- Un(der)insured
 - 44% need more coverage
 - 27% planning to buy in 12 months = \$9 billion premium/\$4.8 trillion face
 - Middle market
 - 34% need more life insurance
 - \$60,000 average size
 - \$1 trillion face

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Middle Market Characteristics

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	<u>Top 3 Goals</u>	<u>Have Not Achieved</u>
Meet monthly expenses	43%	30%
Have emergency savings	38%	73%
Adequate medical coverage	25%	26%
Comfortable retirement	50%	92%
Pay off credit cards	48%	57%
Adequate life insurance	7%	34%

Source: Is There Magic in the Middle Market (LIMRA, 2009)

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DISTRIBUTION



Distribution Issues – Distributor Perspective

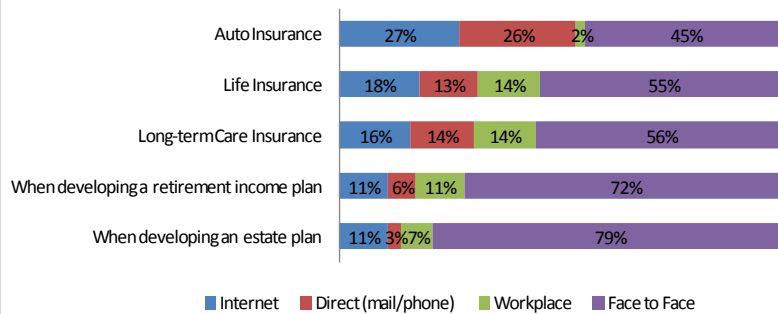


- Effort required
- Expected payout

Distribution Issues – Buyer Perspective



How Customers Prefer to Buy Protection and Planning Products



Source: Is There Magic in the Middle Market (LIMRA, 2009)

Overcoming these issues and selling to this market



-
- Direct mail (e.g. Colonial Penn)
 - Affinity marketing (e.g. HSBC)
 - Multi-line agents (e.g. Farmers New World)
 - Traditional (Fidelity Life, Liberty Life)

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Overcoming these issues and selling to this market -- Internet



-
- Middle market and use of internet
 - Internet and life insurance
 - Quotes
 - Information
 - Internet life sales

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Overcoming these issues and selling to this market – “Lost” internet sales



- Medical underwriting requirements
- Lengthy underwriting process
- Cost

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Simplified Issue Sales



Sales by Distribution Channel

Average of companies' responses - percentage of sales (by policy count)

Distribution Chanel	Recurring Permium			Single Premium
	Whole Life	Term	UL/ML	WL & UL/ML
Career	30%	8%	22%	4%
Independent	38%	28%	20%	51%
Financial Institutions	11%	15%	16%	45%
Worksite	6%	23%	29%	0%
Direct-internet	1%	5%	0%	0%
Direct-other	14%	21%	0%	0%
Broker-dealer	0%	0%	13%	0%
Fee-based planners	0%	0%	0%	0%
Total	100%	100%	100%	100%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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UNDERWRITING



Underwriting for the Middle Market

-
- Maximum face
 - Issue Age Range
 - Application
 - Additional information
 - Follow up process
 - Automation

Simplified Issue Sales



Sales by Policy Size

Average of companies' responses - percentage of sales (by policy count)

Policy Size	Recurring Premium			Single Premium
	Whole Life	Term	UL/VL	WL & UL/VL
< \$5,000	5%	0%	13%	3%
\$5,000-24,999	75%	6%	27%	42%
\$25,000-49,999	15%	18%	20%	19%
\$50,000-99,999	5%	30%	27%	17%
\$100,000-499,999	0%	41%	7%	18%
\$500,000+	0%	5%	6%	1%
Total	100%	100%	100%	100%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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Issue Ages



- Term – 18-65
- Perm – 0-80

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Simplified Issue Sales

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Sales by Issue Age Group

Average of companies' responses - percentage of sales (by policy count)

Issue Ages	Recurring Premium			Single Premium
	Whole Life	Term	UL/VL	WL & UL/VL
< 25	16%	11%	19%	0%
25-34	6%	25%	23%	0%
35-44	9%	29%	26%	0%
45-54	17%	24%	19%	2%
55-64	23%	11%	11%	12%
65+	29%	0%	2%	86%
Total	100%	100%	100%	100%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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Simplified Issue Application

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Health Information Collected

Percentage of applications that request each item

<u>Item</u>	<u>Whole Life</u>	<u>Term</u>	<u>UL/VL</u>
Height and weight	65%	100%	100%
Applicant medical history	88%	88%	80%
Recent hospitalization	47%	75%	70%
Recent or frequent consultation with health professional	35%	69%	70%
Prescription medications	29%	50%	70%
Family medical history	6%	31%	40%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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Simplified Issue Application

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Lifestyle/Avocation Information Collected

Percentage of applications that request each item

<u>Item</u>	<u>Whole Life</u>	<u>Term</u>	<u>UL/VL</u>
Tobacco	82%	100%	100%
Drug or alcohol abuse	71%	81%	100%
Occupation	29%	75%	80%
Driving record	12%	75%	70%
Citizenship	35%	69%	70%
Declined or rated by other company	47%	56%	70%
Actively at work	12%	56%	70%
Avocations	12%	56%	60%
Aviation	6%	56%	50%
Convicted of a felony	18%	56%	60%
Income	0%	44%	40%
Total coverage in force and applied for in all cos.	24%	44%	60%
Foreign travel	6%	31%	40%
Member of armed services	0%	31%	20%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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Simplified Issue Application

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Applications Are Completed by

Percentage of applications completed by each entity

<u>Entity</u>	<u>Whole Life</u>	<u>Term</u>	<u>UL/VL</u>
Agent only	61%	50%	40%
Customer only	11%	20%	0%
Agent and customer	11%	30%	40%
Agent and tele-underwriter	17%	0%	10%
Agent, customer, and tele-underwriter	0%	0%	10%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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Simplified Issue Additional Information

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Underwriting Tools

Percentage of products that sometimes or always use each tool

<u>Tool</u>	<u>Whole Life</u>	<u>Term</u>	<u>UL/VL</u>
MIB check	71%	87%	100%
APS	59%	44%	56%
Prescription database	30%	38%	55%
Inspection report	24%	25%	44%
Motor vehicle record	18%	50%	56%
Blood or urine test	18%	44%	44%
Oral fluid collected	6%	31%	11%
Credit report	0%	12%	22%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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Simplified Issue – Underwriting Time

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Average Underwriting Time

Percentage of products in each underwriting time grouping

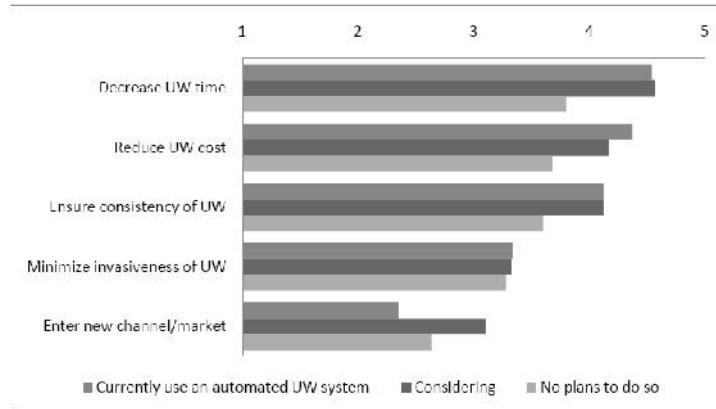
<u>Number of Days</u>	<u>Simplified Issue</u>				<u>Full Underwriting</u>
	<u>SI Whole Life</u>	<u>SI Term</u>	<u>SI UL/VL</u>	<u>SI Total</u>	<u>Total</u>
One day or less	35%	13%	20%	23%	5%
2-5 days	47%	49%	30%	44%	5%
6-10 days	12%	25%	50%	26%	0%
11-20 days	0%	13%	0%	5%	32%
21-30 days	6%	0%	0%	2%	58%
Total	100%	100%	100%	100%	100%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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Objective in Using Automated Underwriting

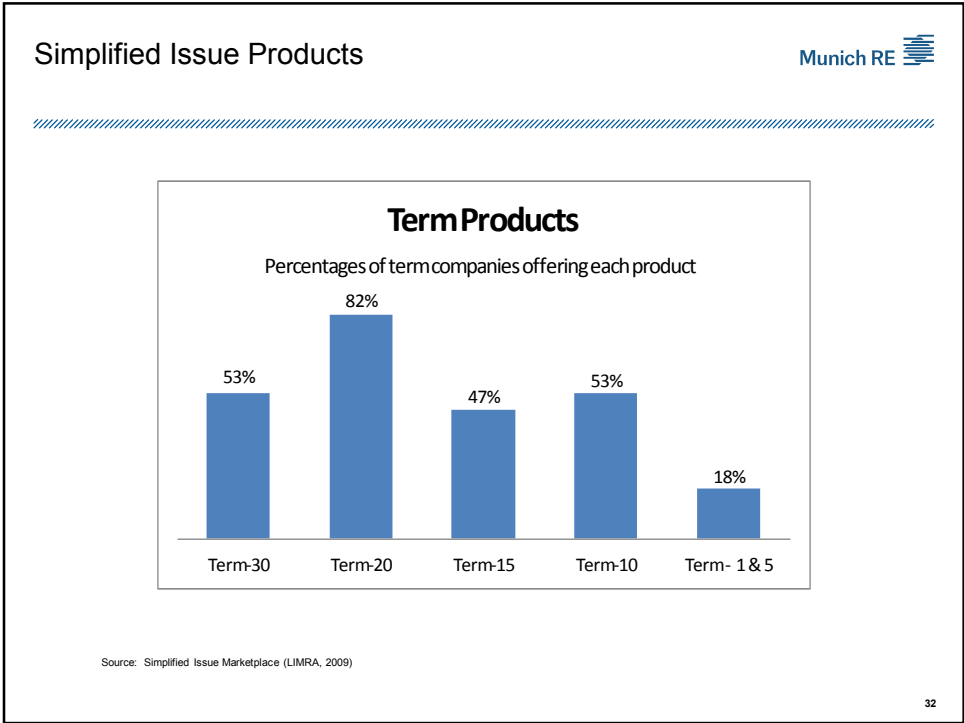
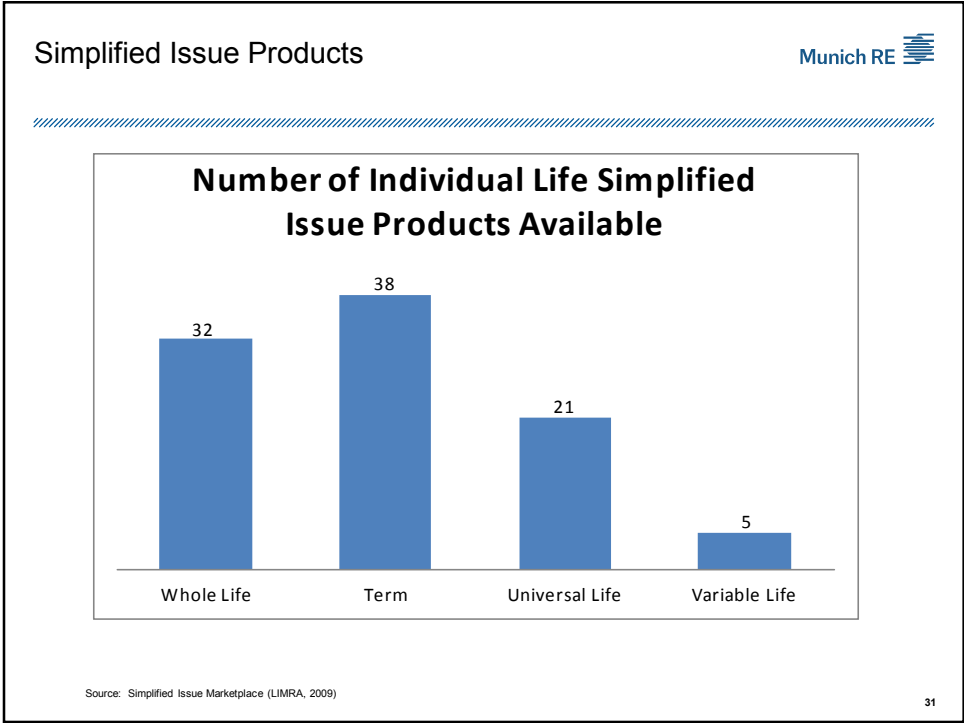
Figure 1: Importance of Business Objectives



Source: Automated Underwriting Survey (SOA, 2009)

PRODUCT





Simplified Issue Products

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Simplified Issue Sales

	2007 Sales			Growth Rate 2006 Sales to 2007 Sales		
	Number of Policies	Premium \$ (000's)	Face Amount (000's)	Policies	Premiums	Face Amt
Recurring Premium						
Whole Life	675,000	126,800	6,882,000	1%	10%	-1%
Term	300,000	130,100	27,047,000	53%	88%	67%
Universal Life	48,000	22,000	2,077,000	-11%	-3%	-10%
Total	1,023,000	278,900	36,006,000	11%	33%	41%
Single Premium						
Whole Life	4,500	154,000	252,000	-9%	-10%	-10%
Universal Life	3,400	171,000	249,000	-13%	-13%	-12%
Total	7,900	325,000	501,000	-11%	-12%	-11%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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Middle Market Survey

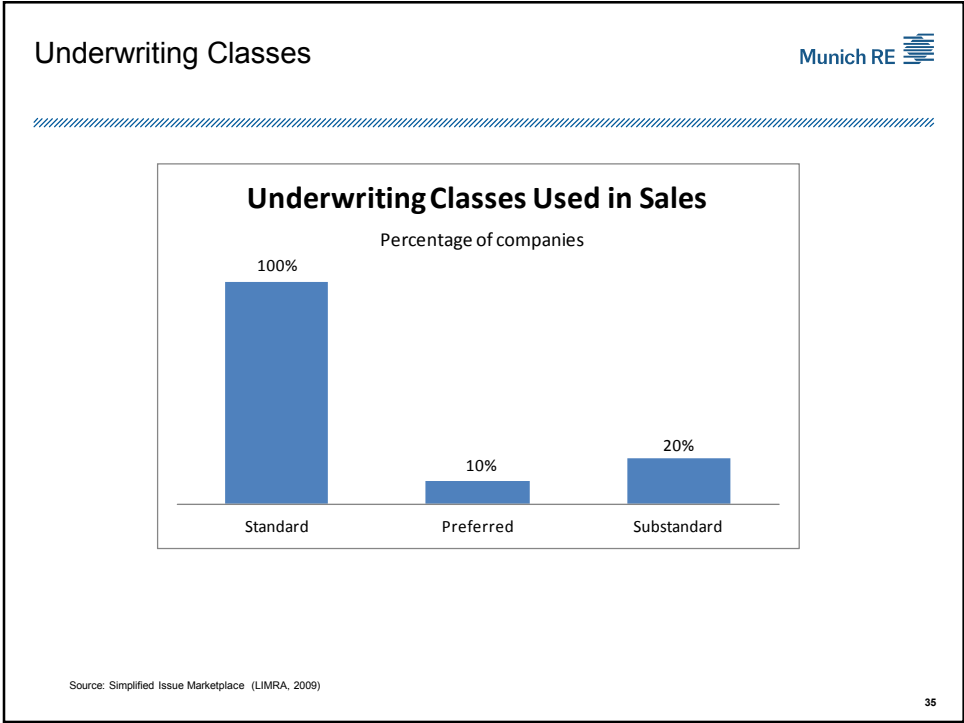
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Type of Life Insurance


	All Middle-Market Households				Household with Individual Life		
	No Life Insurance	Only Group	Only Individual	Both	Only Term	Only Perm	Both
Total	25%	32%	17%	26%	46%	33%	21%
Age							
25-34	34%	33%	14%	20%	52%	31%	17%
35-44	22%	34%	19%	25%	50%	29%	21%
45-54	26%	31%	14%	29%	42%	32%	26%
55-64	15%	25%	23%	37%	38%	44%	18%
Household Income							
\$35-\$49.9k	35%	38%	15%	12%	54%	39%	7%
\$50-\$74.9k	26%	33%	17%	24%	44%	30%	26%
\$75-\$99.9k	24%	28%	18%	31%	49%	32%	19%
\$100-\$124.9k	11%	27%	19%	43%	41%	34%	25%
Investable Assets							
Under \$5,000	37%	29%	14%	20%	45%	35%	20%
\$5k-\$9.9k	26%	37%	12%	24%	0%	0%	0%
\$10k-\$24.9k	26%	40%	16%	18%	59%	27%	14%
\$25k-\$49.9k	14%	37%	14%	35%	40%	39%	20%
\$50k-\$99.9k	24%	35%	14%	27%	57%	25%	19%
\$100k-\$199.9k	19%	29%	21%	31%	52%	27%	21%
\$200,000 or more	13%	30%	21%	35%	29%	41%	30%

Source: Is there Magic in the Middle Market (LIMRA, 2009)

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Simplified Issue Products

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Policy Riders Available


Percentage of products offering each rider

Rider	Whole Life	Term	UL/VL
Accelerated Death Benefit for Terminal Illness	39%	59%	90%
Accidental Death Benefit	33%	65%	40%
Waiver of Premium on Disability	17%	65%	50%
Child Term	22%	59%	60%
Future Guaranteed Insurability	0%	0%	50%
Spouse Term	0%	29%	40%
LTC Acceleration Option	0%	0%	40%
Return of Premium Option	6%	29%	20%
Critical Illness Acceleration Option	6%	29%	20%
Disability Income Benefit	0%	24%	0%
Waiver of Premium for Unemployment	0%	24%	0%
Cost of Living Increases	0%	0%	0%
No Riders Offered	44%	10%	10%

Source: Simplified Issue Marketplace (LIMRA, 2009)

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PRICING

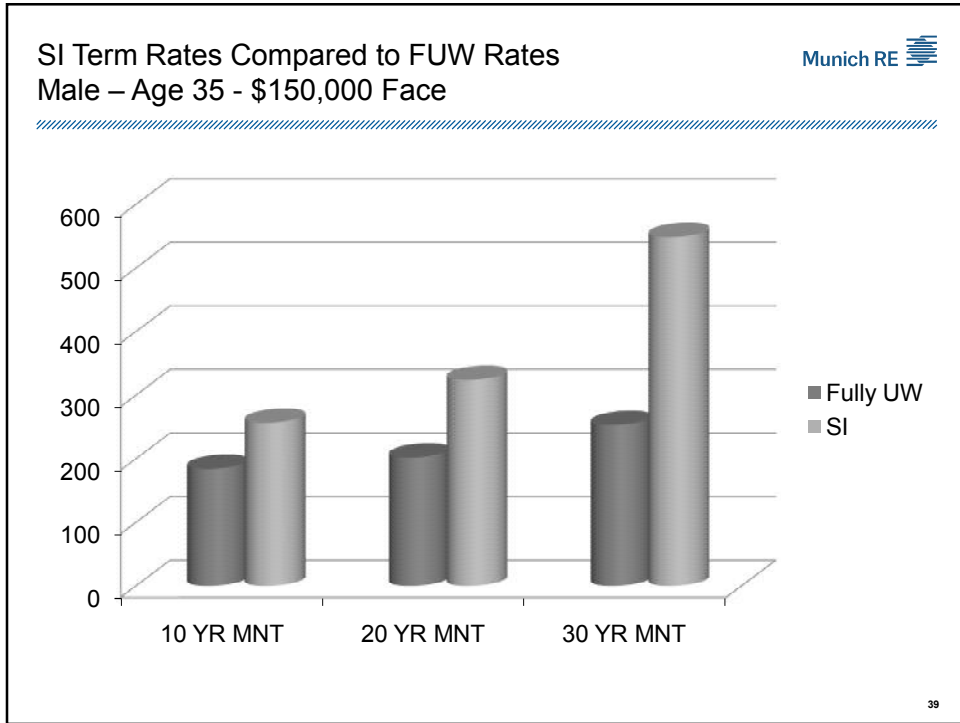
Premium Comparison – 20 Year Term – SI/STP Only 

Male – Age 35 - \$150,000 Face

Company	Product	Premium	\$/1000
Sample	Fully UW Best Class	\$137	\$0.91
Sample	Fully UW Residual	\$238	\$1.59
Assurity	LifeScape - Select + NT	\$229	\$1.52
Assurity	LifeScape - Select NT	\$272	\$1.81
Assurity	LifeScape - Standard NT	\$373	\$2.49
Fidelity Life Assn	RD - Select NT	\$267	\$1.78
Fidelity Life Assn	RD - Standard NT	\$337	\$2.25
Famers New World	Foremost - Select Plus NT	\$318	\$2.12
Famers New World	Foremost - Select NT	\$531	\$3.54
Household/HSBC	Simple Term – NT	\$328	\$2.19
Prudential	My Term – NT	\$346	\$2.31
Liberty/RBC	Express Term – NT	\$431	\$2.87

Source: NC DOI website; CompuLife

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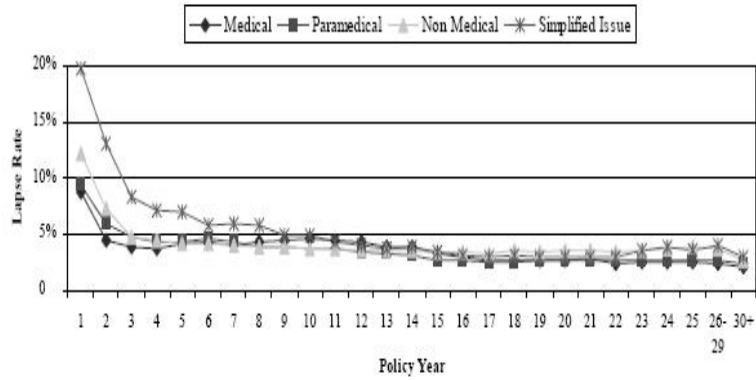
- ### Product Pricing - Assumptions
- Munich RE
- Mortality
 - Sources
 - Level, slope
 - Lapse
 - Difference from FUW
 - Observed experience
 - Relevant surveys
 - Distributions
 - Tobacco/Nontobacco
 - Preferred/Standard
 - Expenses
 - Commissions
 - Underwriting/Issue
 - Maintenance
 - Claims
 - Other
 - Profit
- 40

Lapses



Whole Life Policy Lapse Rates by Underwriting Method

Includes 23 Companies



Source: U.S. Individual Life Persistency Update (LIMRA, 2008)

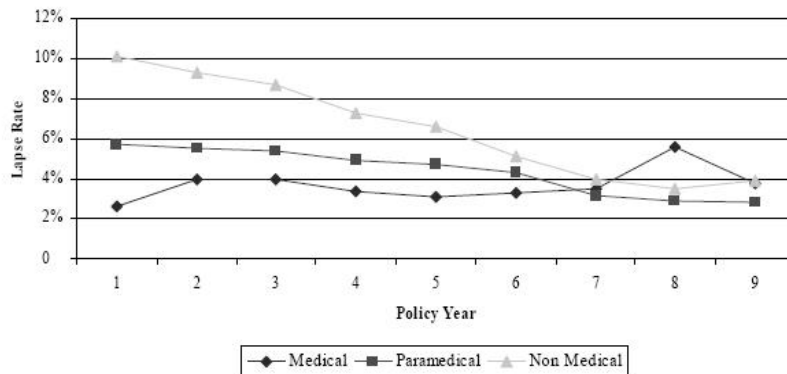
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Lapses



20-Year Term Policy Lapse Rates by Underwriting Method

Includes 13 Companies



Source: U.S. Individual Life Persistency Update (LIMRA, 2008)

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LESSONS LEARNED



Lessons Learned – Application Process

-
- Importance of data/identity validation
 - Prohibit internal anti-selection
 - Value of telephone interview
 - Quality of application questions (with reflexive drill-downs)
 - Vigilant monitoring of field force
 - Policy Ownership
 - Premium billing mode

Lessons Learned – Pricing

-
- Mortality
 - Tobacco misrepresentation
 - Rx database hit rate
 - Early lapses
 - Risk sharing

KEY SUCCESS FACTORS

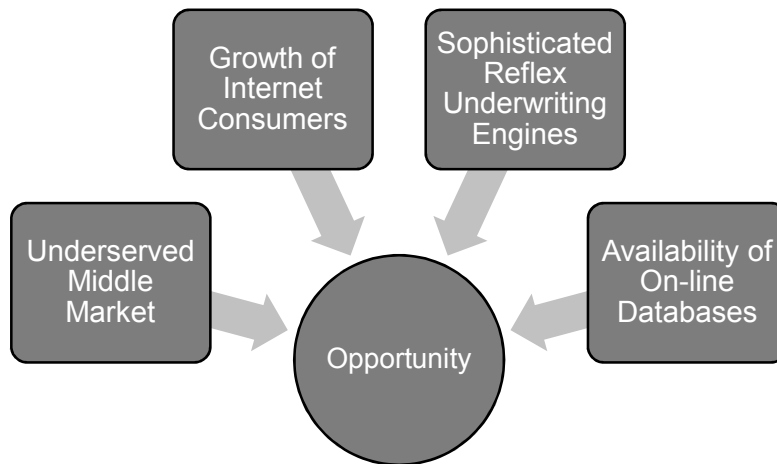


Key Success Factors

-
- Clearly defined target market
 - Appropriate distribution channel
 - Simplicity
 - Speed
 - Convenience
 - Impact on price

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Perspective on the Middle Market



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Conclusions



- There is a sizeable market opportunity
- Must understand the market
- Learn from what's out there
- Use the technology available to make something new possible
- Monitor results and be prepared to move quickly to make adjustments