On August 9, 2011, SCOR SE, a global reinsurer with offices in more than 31 countries, acquired substantially all of the life reinsurance business, operations and staff of Transamerica Reinsurance, the life reinsurance division of the AEGON companies. The business of Transamerica Reinsurance will now be conducted through the SCOR Global Life companies, and Transamerica Reinsurance is no longer affiliated with the AEGON companies.

While articles, treaties and some historic materials may continue to bear the name Transamerica, AEGON is no longer producing new reinsurance business.

Archive Materials

Term/UL Cuts into Traditional Term Life Sales

Reprinted from the June 2011 Messenger newsletter

By Bill Winterman, ASA, MAAA, Second Vice President, Pricing, Mortality Solutions

Term life insurers have been looking for signs of recovery in sales; instead, last year’s new premium volume saw the largest decline ever reported: a 12 percent drop. The still-sluggish overall economy hasn’t helped, and policy replacement as a source of new premium has been down since the end of the term price wars. Finally, term carriers overall raised prices in 2010. These factors, however, pale in comparison to the impact of the new term-on-a-UL-chassis (or term/UL) designs that began appearing in late 2009.

LIMRA’s 4th Quarter U.S. Individual Life Sales data recorded a 12 percent decrease in term sales; however, this figure excludes new term/UL premiums. If new premium for traditional term and “UL/other” (which includes term/UL) is summarized, new premiums are down about six percent – halving the reported decline in traditional term life sales.

So what’s driving the term/UL movement? For consumers, term/UL offers level premium coverage at attractive prices with added flexibility. Compulife’s April 2011 rates for key pricing cells reveals that three of the top six rate quotes shown are actually term/UL designs.

Some carriers have interpreted the letter of AG 38 (AXXX) regulation as allowing them to hold lower reserves using a term/UL chassis. While this interpretation is still in dispute, the consensus at this time is that term/UL is here to stay. For the time being, most life insurers are waiting on regulators and existing term/UL carriers to finish discussions on how to calculate term/UL reserves before moving forward.

Term writers in general have been looking for ways to make the most efficient use of capital on hand. XXX reserves are expensive in the best of financial climates; the current environment of low interest rate yields, low statutory discount rates and low lapse rates are raising reserving costs at the same time that capital remains hard to acquire and expensive relative to the prices available before the financial crisis. Some direct writers maintain that the multiple shadow account design of term/UL allows...
them to use the letter of AXXX regulation to support lower reserves for these new product designs.

Have these cost savings been passed to consumers? A sampling of term/UL pricing cells suggests that the new designs are being priced generally at or below the premium rates on traditional term offerings recently marketed by these companies, with the biggest differences occurring in 30-year business (Figure 1).

<table>
<thead>
<tr>
<th>Cell</th>
<th>10 Year</th>
<th>20 Year</th>
<th>30 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male - Age 35 - Pref Plus NT $500,000</td>
<td>99.4%</td>
<td>99.4%</td>
<td>95.2%</td>
</tr>
<tr>
<td>Male - Age 35 - Pref Plus NT $1,000,000</td>
<td>98.9%</td>
<td>99.4%</td>
<td>95.2%</td>
</tr>
<tr>
<td>Male - Age 45 - Pref Plus NT $500,000</td>
<td>100.6%</td>
<td>100.1%</td>
<td>96.4%</td>
</tr>
<tr>
<td>Male - Age 45 - Pref Plus NT $1,000,000</td>
<td>99.1%</td>
<td>100.2%</td>
<td>96.5%</td>
</tr>
</tbody>
</table>

The move to term/UL has solidified competitiveness for carriers that were already price leaders in the traditional term segment.

The potential reduced reserving costs for term/UL could enable carriers to afford some reduction in prices and increase their returns. Term/UL also provides additional flexibility to the policyholder. But for some companies the costs may outweigh the benefits. For one thing, term/UL can incur higher administrative costs and more complex compliance requirements than traditional term. For example, term/UL writers must keep ledgers of guaranteed values, issue annual reports and manage cash flows among multiple shadow accounts – additional complexities that carriers will have to manage for a very long time. The added flexibility may also be difficult for agents and consumers to understand.

Many state insurance commissioners have approved the new term/UL designs but some regulators are now raising concerns over reserving approaches. For example, the New York State Insurance Department is currently in discussions with term/UL writers over which of the multiple sets of interest rates and charges should be used in determining the minimum premiums for reserving calculations. The ongoing question-and-answer process between term/UL carriers and regulators is likely to continue for some time. In the meantime, some companies are holding off moving into term/UL until these regulatory issues are cleared up.

While term/UL is now being thoroughly vetted by regulators, the current sentiment is that it’s here to stay. We will keep our clients apprised of regulatory developments and other news. If you have further questions about this emerging product segment please contact us.