



Inner Circle Club

XXX Update

May 9, 1999

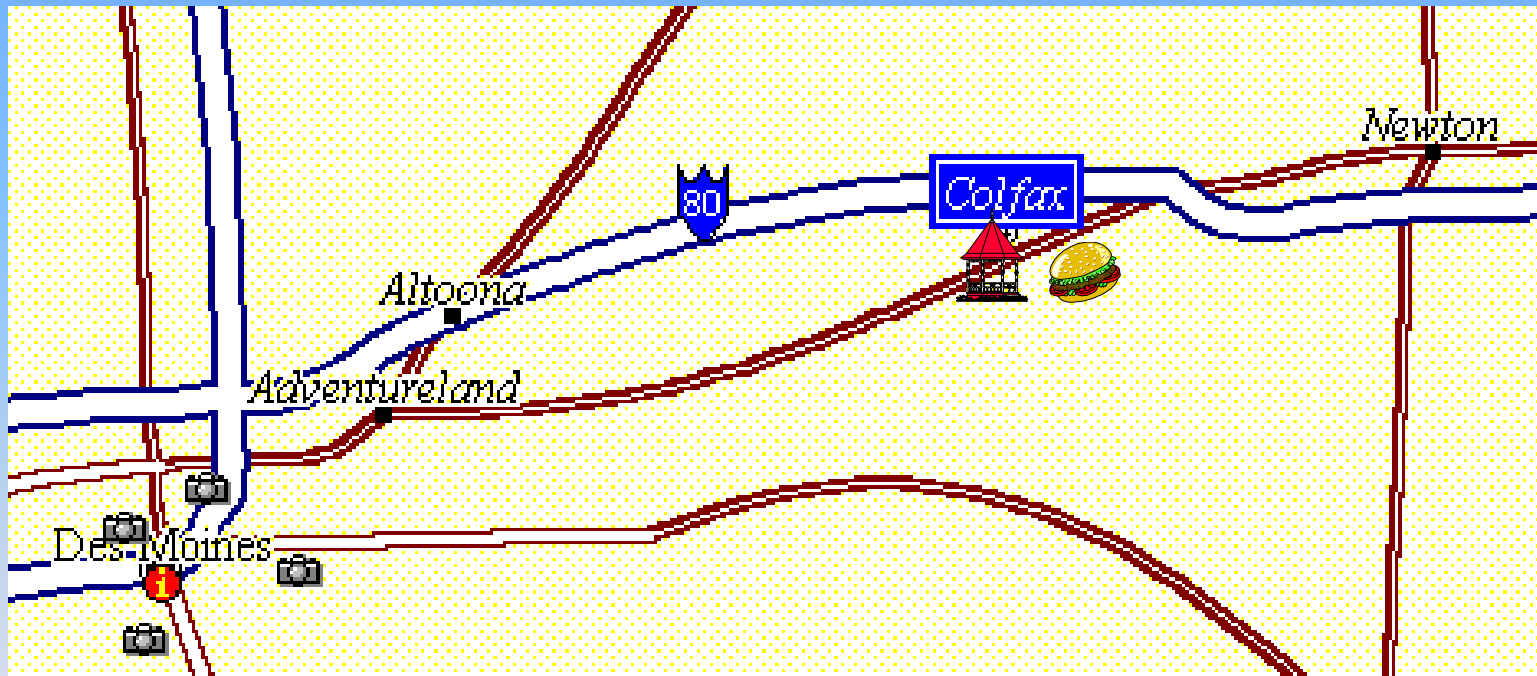
Pekin, Illinois



James N. Van Elsen, FSA, CPA, FLMI, MAAA

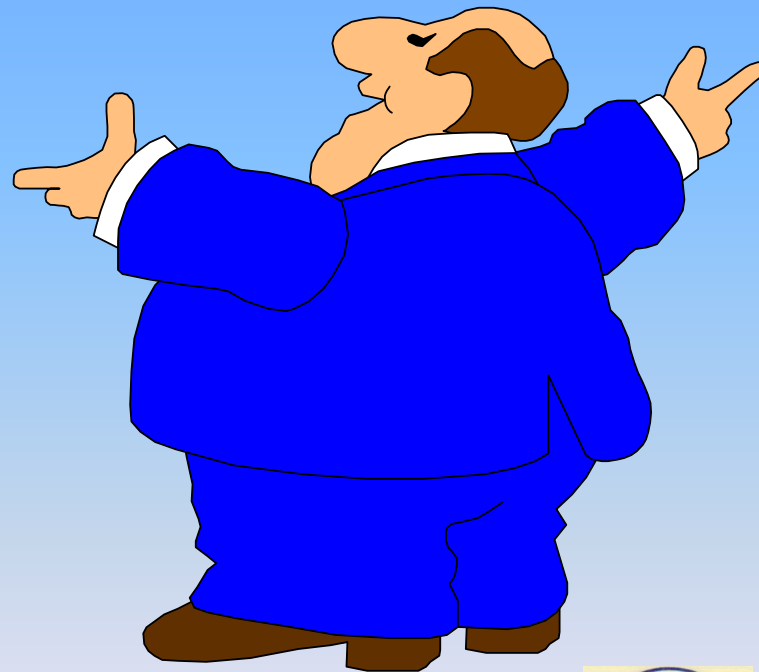
Consulting Actuary
Van Elsen Consulting
Colfax, Iowa

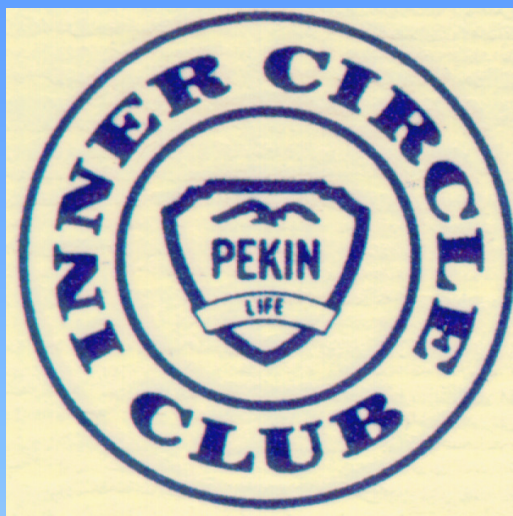
Where is Colfax, Iowa?



Presentation Outline

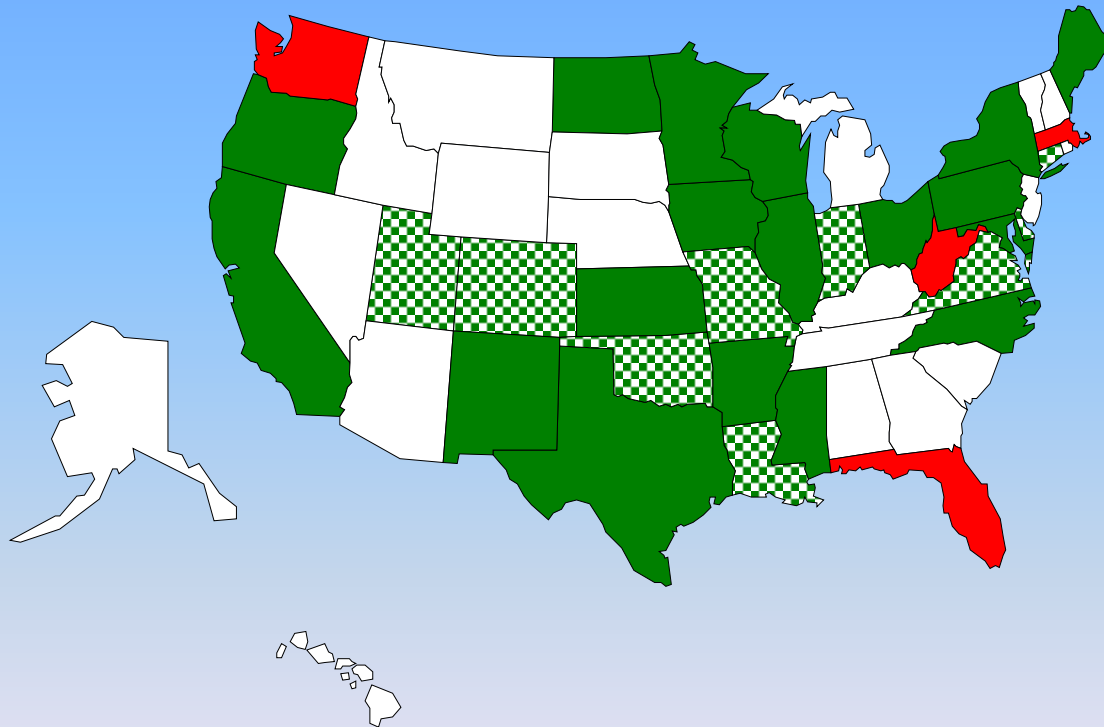
- ◆ Current Status
- ◆ Brief Overview
- ◆ Impact on Products
- ◆ Possible Opportunities



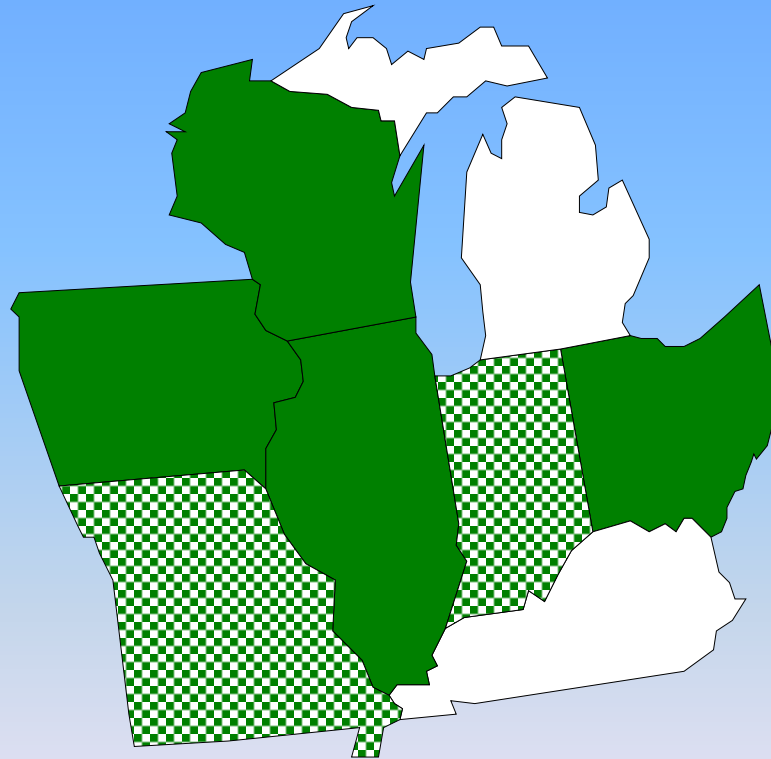


Current Status

National Predictions

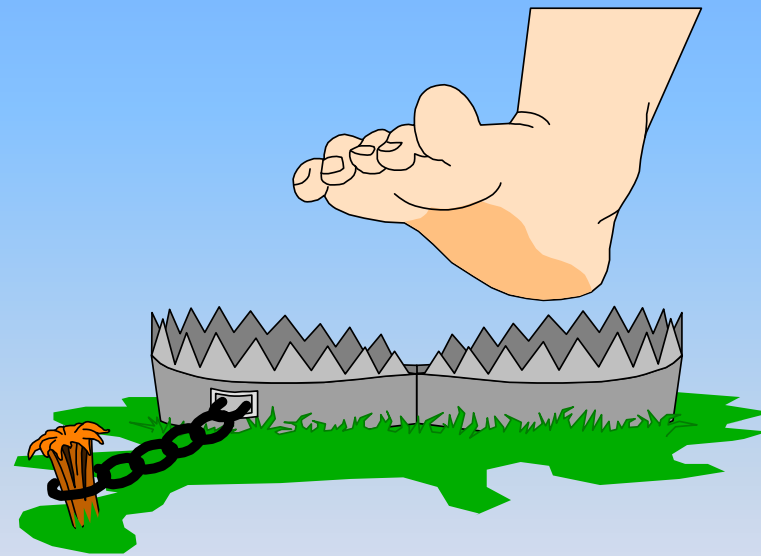


Pekin's World



Potential Approval Problems

- ◆ 51% States
 - Illinois
- ◆ State Variations
- ◆ Domestic State Approval





Brief Overview

What is “XXX”?

- ◆ Valuation Regulation
- ◆ Affects All Individual Life Insurance
- ◆ Emphasizes “Segmented” Methodology
- ◆ Affects Primarily Longer Guarantee Products



The Key

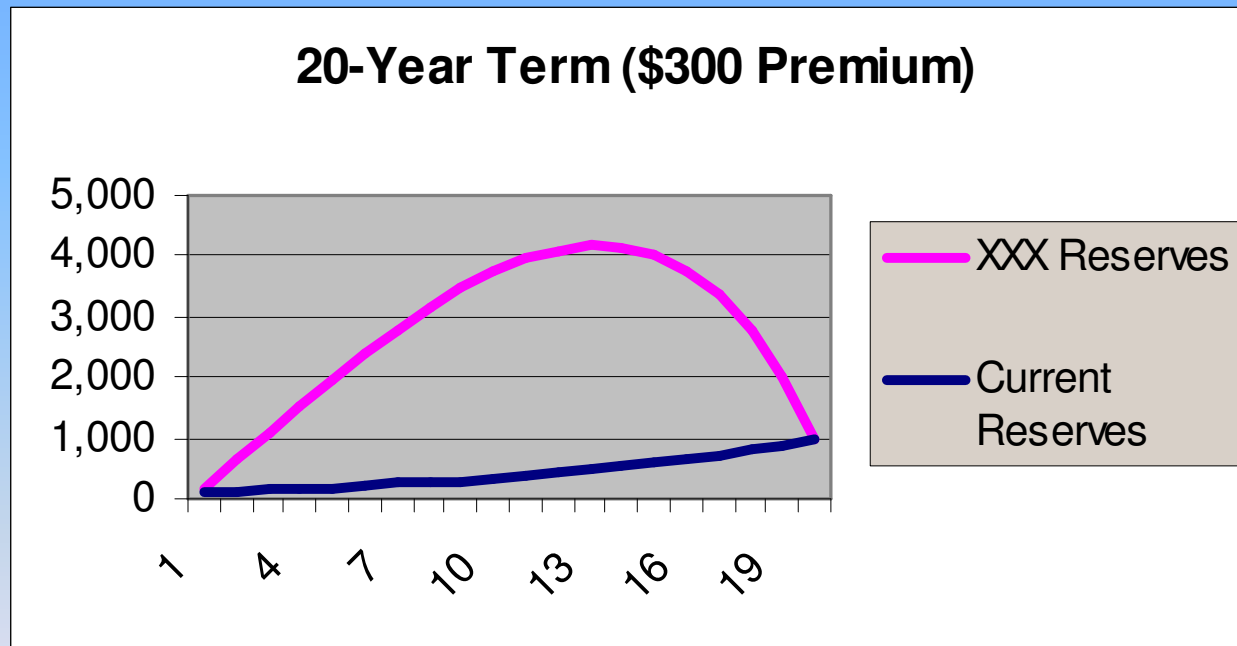
(Study This, Test Later)

$$P_{x+t} = k \times GP_{x+t}$$

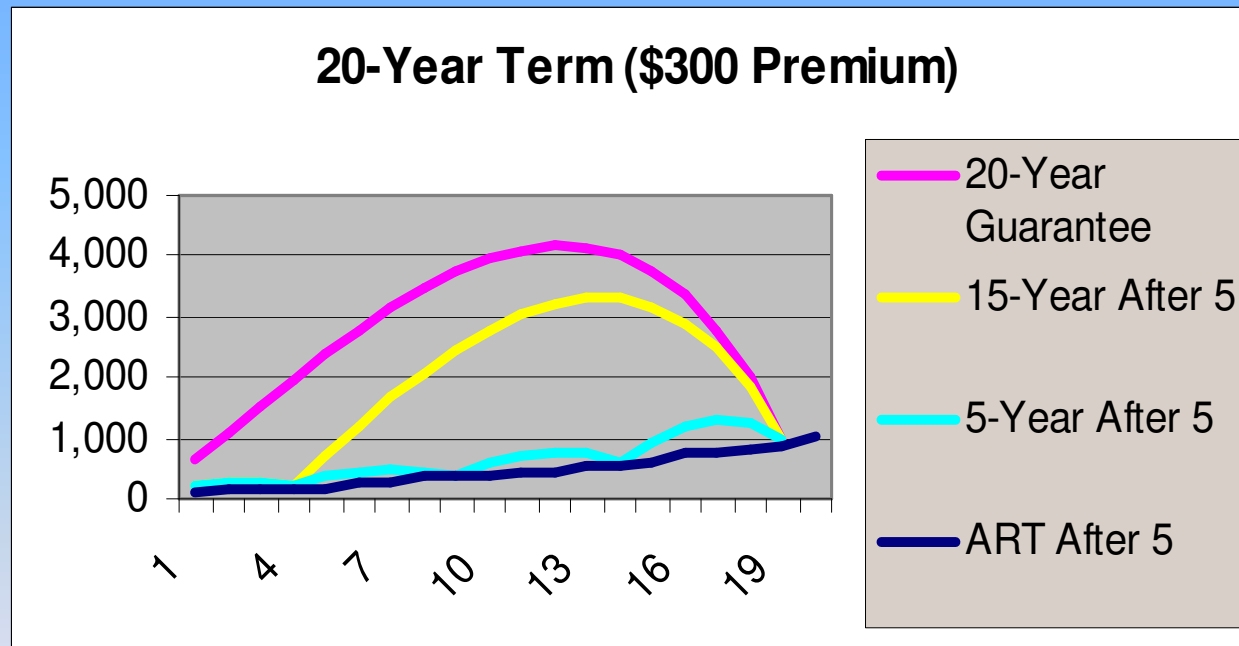
$$k = \frac{A_{x:n} + {}_nCV_x \frac{D_{x+n}}{D_x} + EA_x^{CRVM}}{\sum_{t=1}^n GP_{x+t} \frac{D_{x+t}}{D_x}}$$



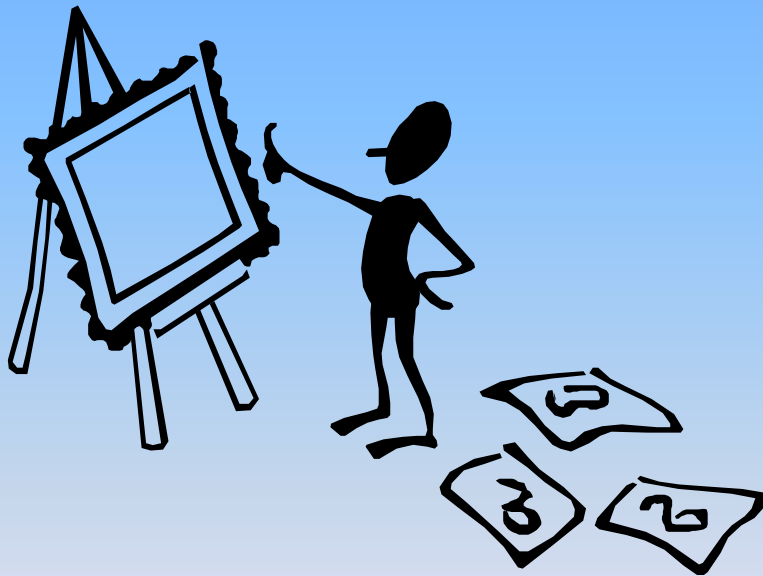
Reserves for 20-Year Guarantee



Reserves for 5-Year Guarantee



So What?



- ◆ Increased Reserves =
Reduced Statutory
Income
- ◆ Increased Reserves =
Reduced Risk Based
Capital Ratio
- ◆ Increased Reserves =
Reduced Shareholder
Return



The “X” Factor

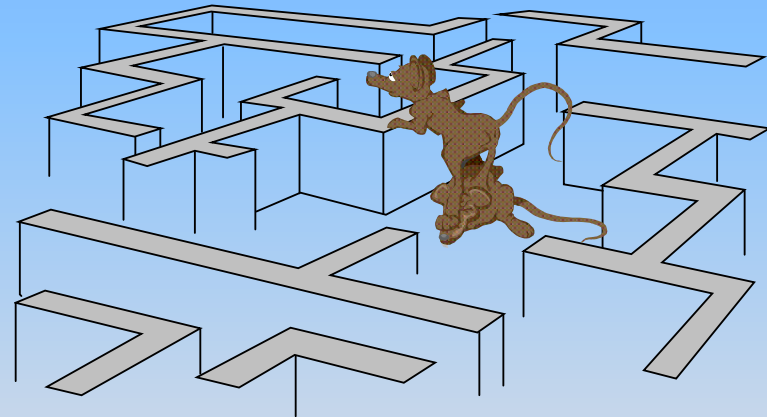
- ◆ Companies Permitted to Use Own Experience for “Minimum” Reserves
- ◆ Will Still be Forced to Carry “Basic” Reserves
- ◆ Deficiencies All But Eliminated

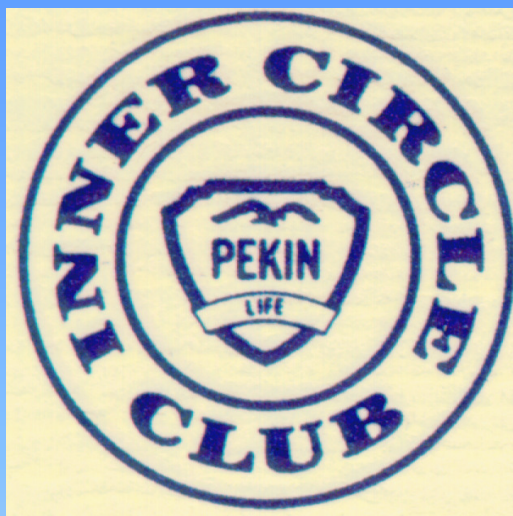
X



Universal Life Secondary Guarantees

- ◆ Exemption for Some Policies
- ◆ Subject to Same Rules As If a Term Product Within Universal Life





Impact on Products

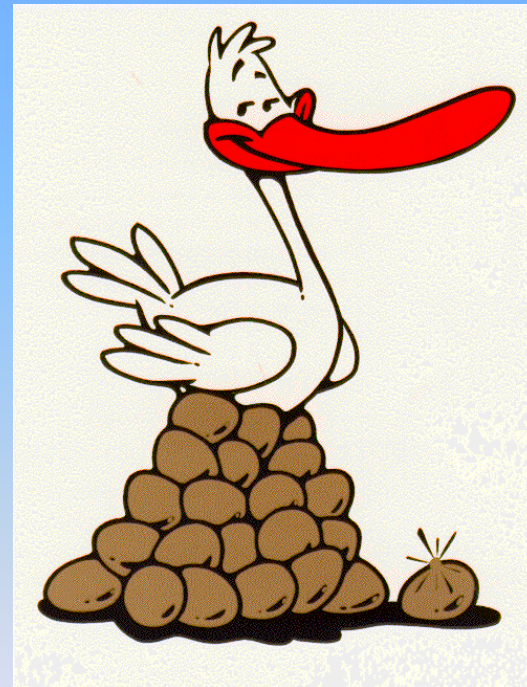
Term Insurance

- ◆ ART - No Impact
- ◆ 5-Year - Minor Impact
- ◆ 10-Year - Minor Impact
- ◆ 15-Year - Some Impact
- ◆ 20-Year - Some Impact
- ◆ 30-Year - Major Impact
- ◆ Decreasing Term - No Impact



Permanent Products

- ◆ Celestial Life - No Impact
- ◆ Full Circle - Some Benefit
- ◆ Pre-Need - No Impact



Choices for Industry

- ◆ Increase Premiums
- ◆ Reduce Premium Guarantees
- ◆ Reduce Guaranteed Benefits
- ◆ Dump in Ocean
- ◆ Ignore
- ◆ Non-Guaranteed Guarantees

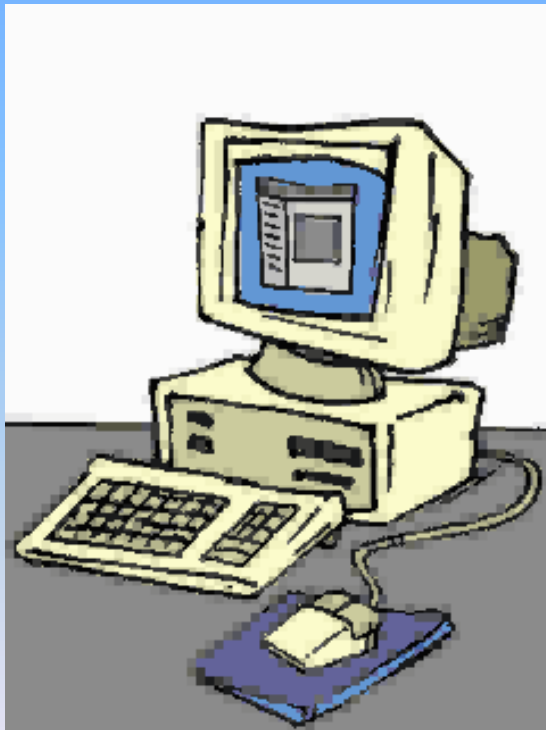


Winners in New Market

- ◆ Permanent Traditional Products
- ◆ Short Term Products
- ◆ Non-Guaranteed Products

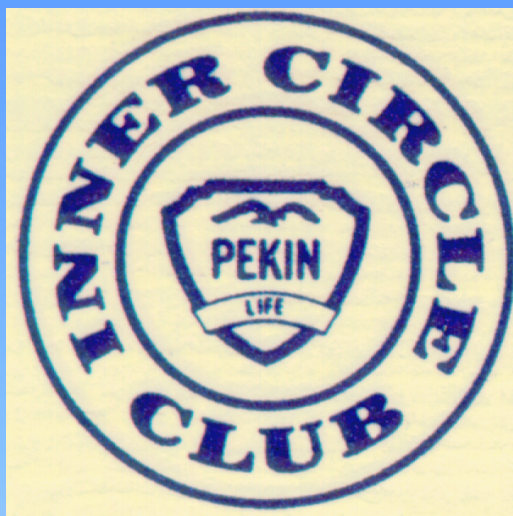


Losers in New Market



- ◆ Long Period Guaranteed Term
- ◆ Universal Life with Secondary Guarantees

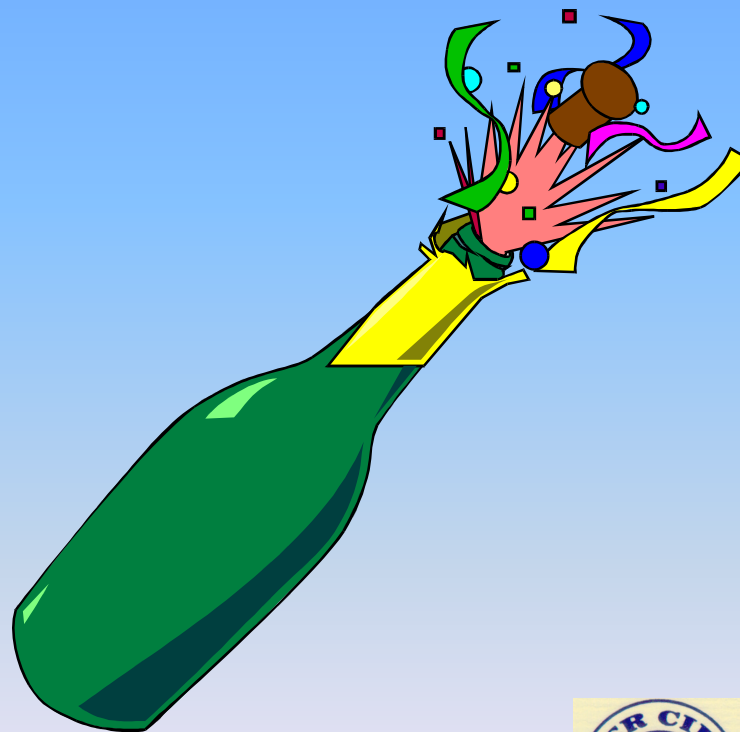




Possible Opportunities

1999

- ◆ Greatest Term Sale of the Millennium?
- ◆ Preparing Company & Agents for Transition



2000 Market Does Not Exist

Y2K

- ◆ Everyone Guessing
- ◆ Companies May Be Groping for Position in New Market
- ◆ All Companies Will Have Opportunity to Find Place in Market



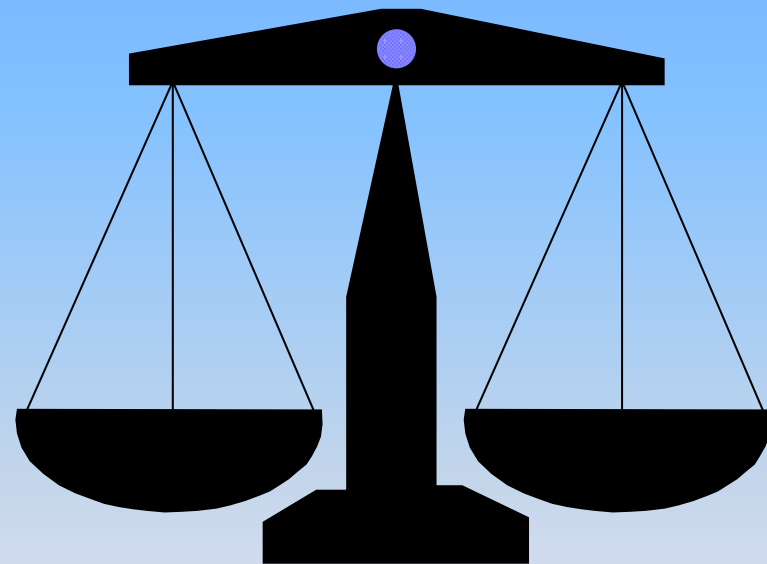
Full Guarantees vs. Low Premiums

◆ Full Guarantees

- New York Experience
- Consumer Advocates
- Higher Commissions

◆ Low Premiums

- Traditional Sale in Market
- Companies Have Not Increased Premiums
- Some Doing Well Already
- Must Illustrate
- Internet Problems



Non-Guaranteed Guarantees?

- ◆ Restrict Ability to Increase Rates
- ◆ Provide Options if Rates are Increased
- ◆ Potential Gimmicks?



Product Differentiation



- ◆ New Benefits
- ◆ New Payment Plans
- ◆ Creative Options
- ◆ Higher Commissions
- ◆ More Aggressive Underwriting
- ◆ Better Service



Managing Segments

- ◆ Shorter Segments
Generally Have Smaller Reserves
- ◆ Offset by Loss of Select Factors & X Factor
- ◆ May Not be Marketable

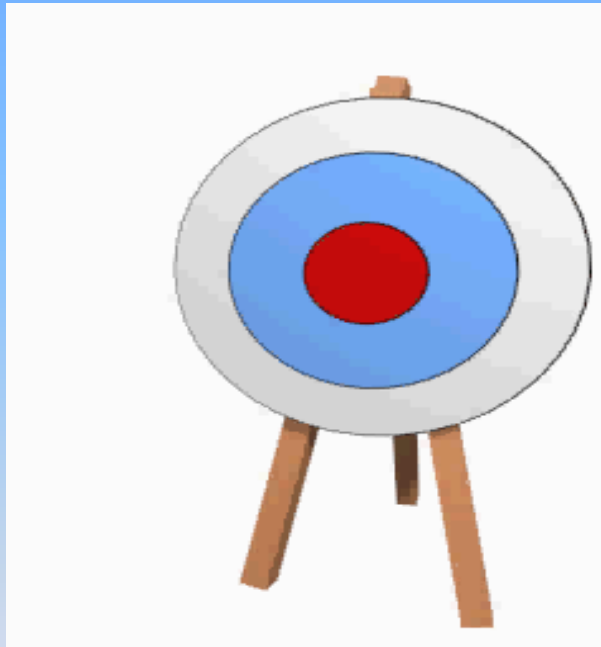


Ability to Respond Quickly to Market

- ◆ All Companies Introducing New Products in 2000
- ◆ Those That Respond Best to Market Will Gain Market Share
- ◆ Speed Will be Critical
- ◆ Good Market Intelligence Needed



Questions & Answers



The End

