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# Life Product in low interest rate environment

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# Interest Rate Impacts

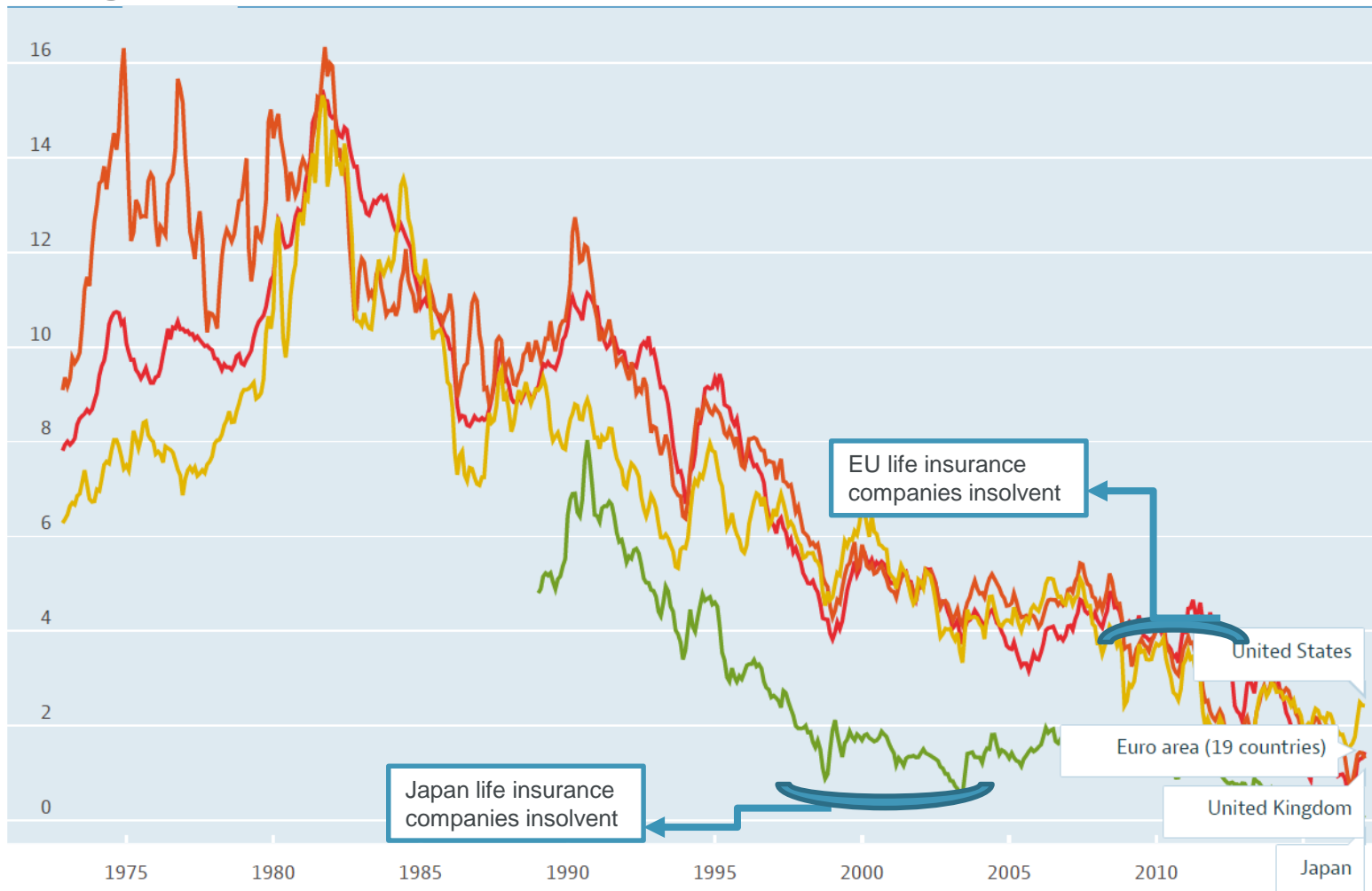
# Life Product Innovations

# Outlook

31 March 2017

# Interest Rate Impact

**Long-term interest rates** Total, % per annum, Nov 1972– Feb 2017



# Interest Rate Impact

## Key Drivers of Instability

Persistent low interest rates

Asset Liability mismatch

Products with long term minimum guarantees

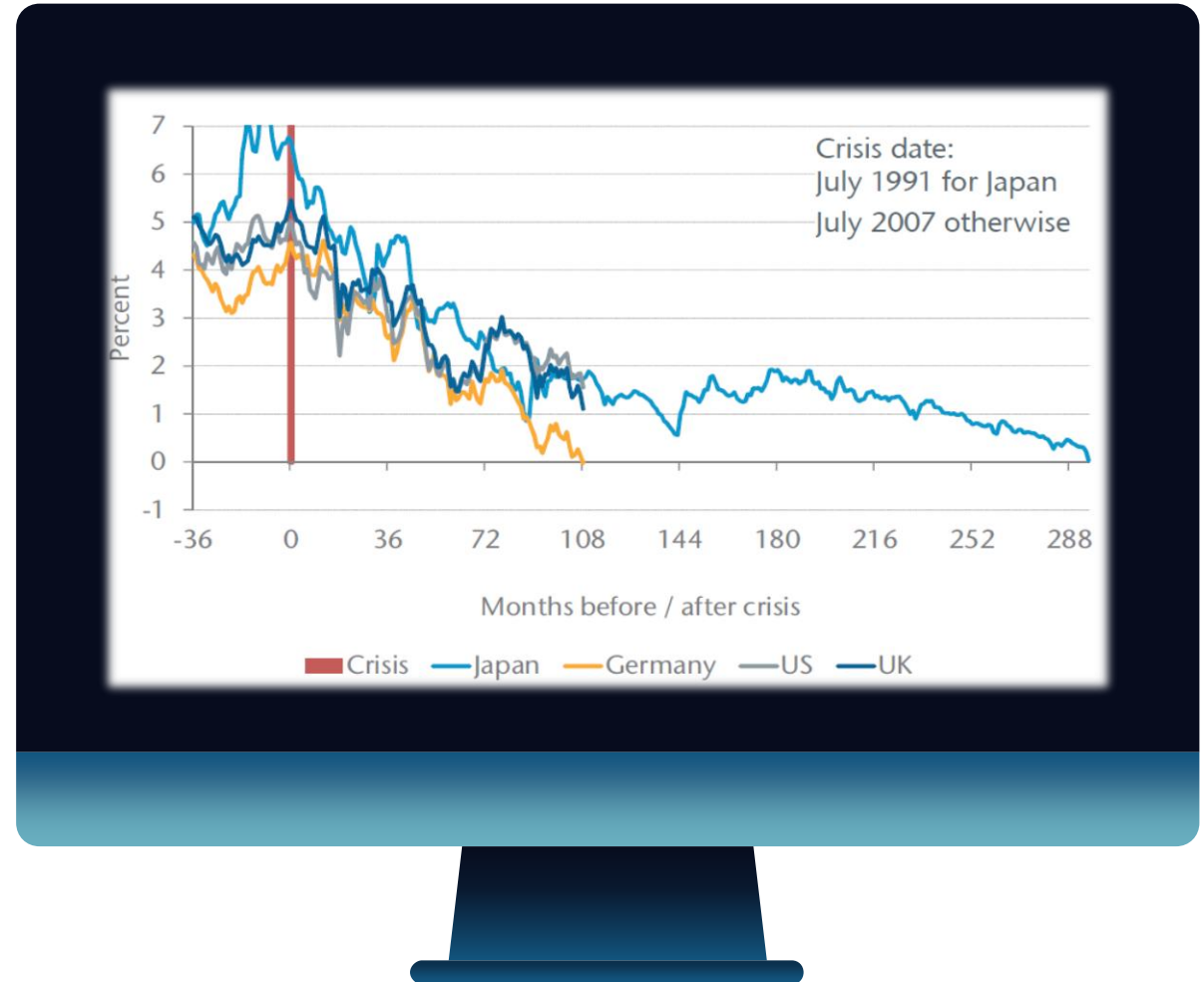
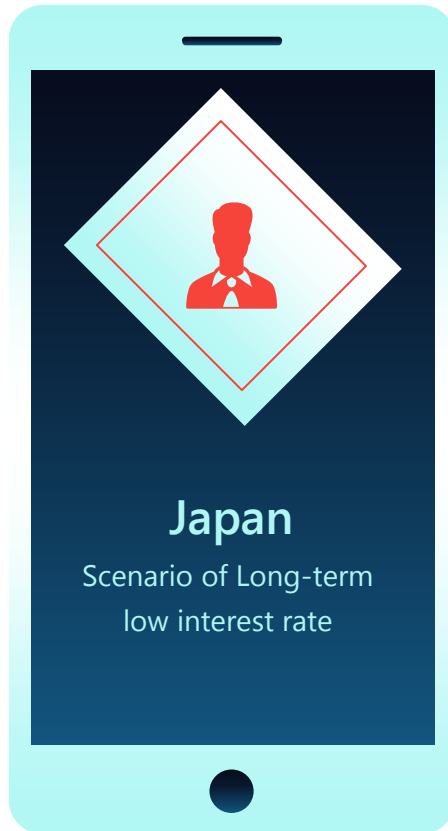
### Germany

Name	Liquidation date	Total liabilities
Mannheimer	2003	EUR 2,700,000,000
Lauenburg-Alsbener	2011	EUR 351,046
Ver. Vers. Ges.Dtschl. (U.S.)	2011	EUR 18,038,360
Almeda Versicherung	2012	EUR 172,331
Globale Rück	2012	EUR 134,174,476
Prorück	2012	EUR 1,876,485
HDI-Gerling Friedrich	2012	EUR 1,258,296
Gothaer Finanzholding	2012	EUR 297,288,621
ThyssenKrupp Rein AG	2012	EUR 2,030,151
		<b>EUR 3,155,189,766</b>

### Japan

Name	Liquidation date	Total liabilities
Nissan Mutual Life Insurance Company	1997	JPY 2,144,000,000,000
Tokyo Mutual Life Insurance Co.	1999	JPY 2,840,000,000,000
Chiyoda Mutual Life Insurance Company	2000	JPY 2,828,000,000,000
Daihyaku Mutual Life Insurance Company	2000	JPY 1,620,000,000,000
Kyoei Life Insurance Co., Ltd.	2000	JPY 4,415,000,000,000
Taisho Life Insurance Company	2000	JPY 191,000,000,000
Tokyo Mutual Life Insurance Co.	2001	JPY 763,000,000,000
Yamato Mutual Life Insurance Co.	2008	JPY 259,000,000,000
		<b>JPY 15,060,000,000,000</b>

# Interest Rate Impact -- Japan



# Interest Rate Impact -- Japan



## Market

Late 1980s -- an asset price bubble in which real estate and stock prices were inflated to a great extent.

## Product

Life insurance companies issued long-term life insurance and annuity policies with guaranteed fixed interest rates of 4%-6%.

## Asset

Companies supplemented bond investment by investments in equities, loans and real estate as the Japanese government did not issue many bonds with long maturities

# Interest Rate Impact -- Japan

01

Shifts in the  
investment  
portfolio  
allocation

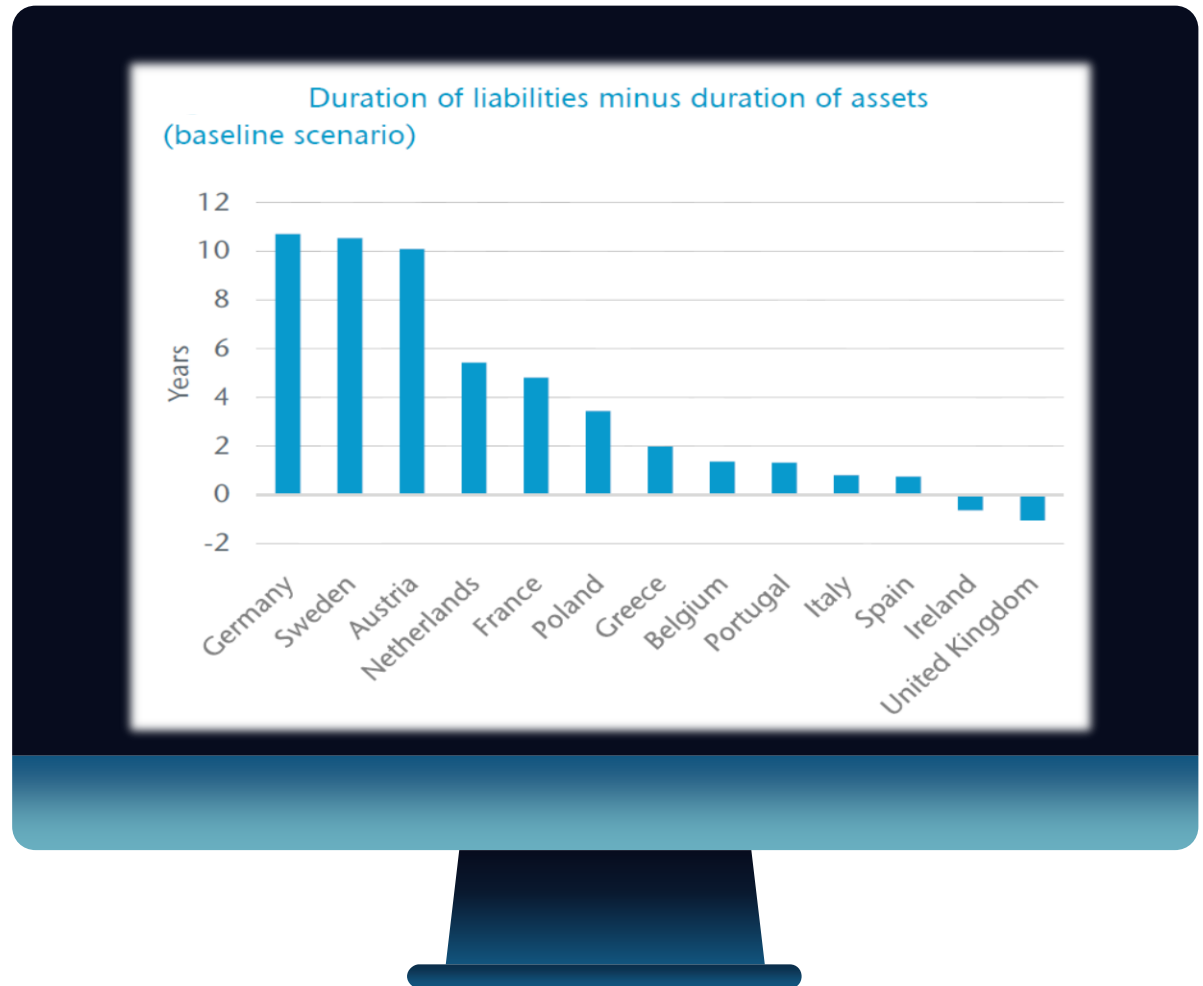
02

Creation of new  
distribution  
channels

03

Changes in the  
product mix

# Interest Rate Impact -- Germany





# Interest Rate Impact -- Germany

01

Shifts in the  
investment  
portfolio  
allocation

02

New Product  
Strategy



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# Interest Rate Impacts

## Product Strategy

## Outlook

# Product Strategy

General Product Structures	Product Types
Premium dependent	Whole Life, Guaranteed Universal Life, Hybrid Variable Universal Life death benefit guarantees, Indexed Universal Life death benefit guarantees
Dividend dependent	Whole Life with term riders, modified premium whole life, suspended premium whole life
Cash value dependent	Universal Life, Variable Universal Life, Hybrid Variable Universal Life, Indexed Universal Life

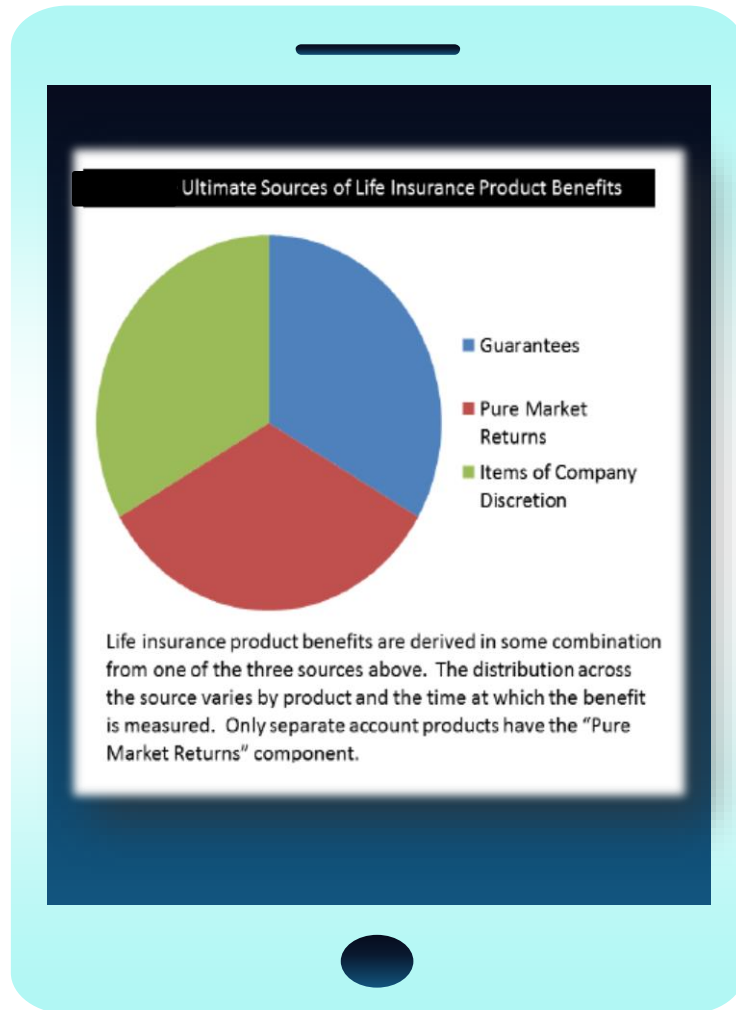
# Product Innovation

Address the implications of the low interest rate environment and the capital requirements for long-term guarantees

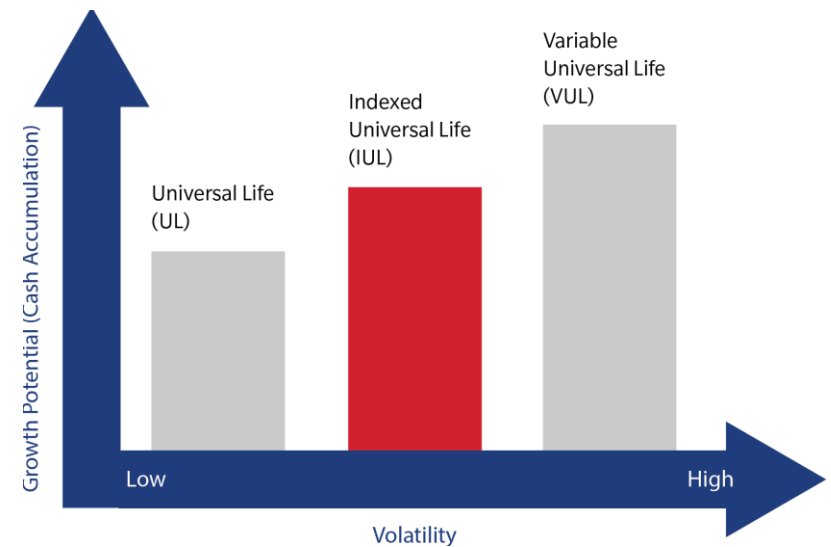
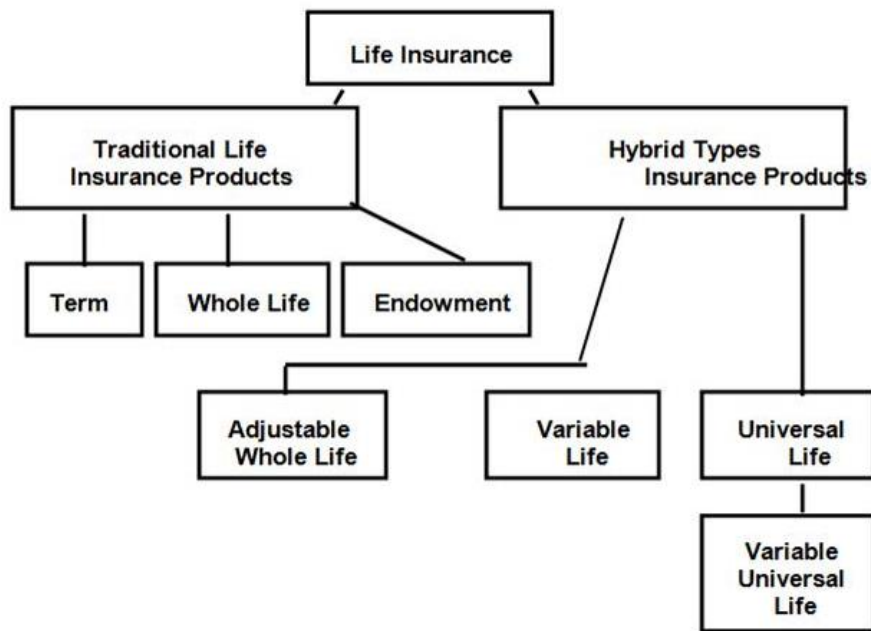
Replacing traditional saving-type products with alternative guarantee concepts

Focusing on protection-type products

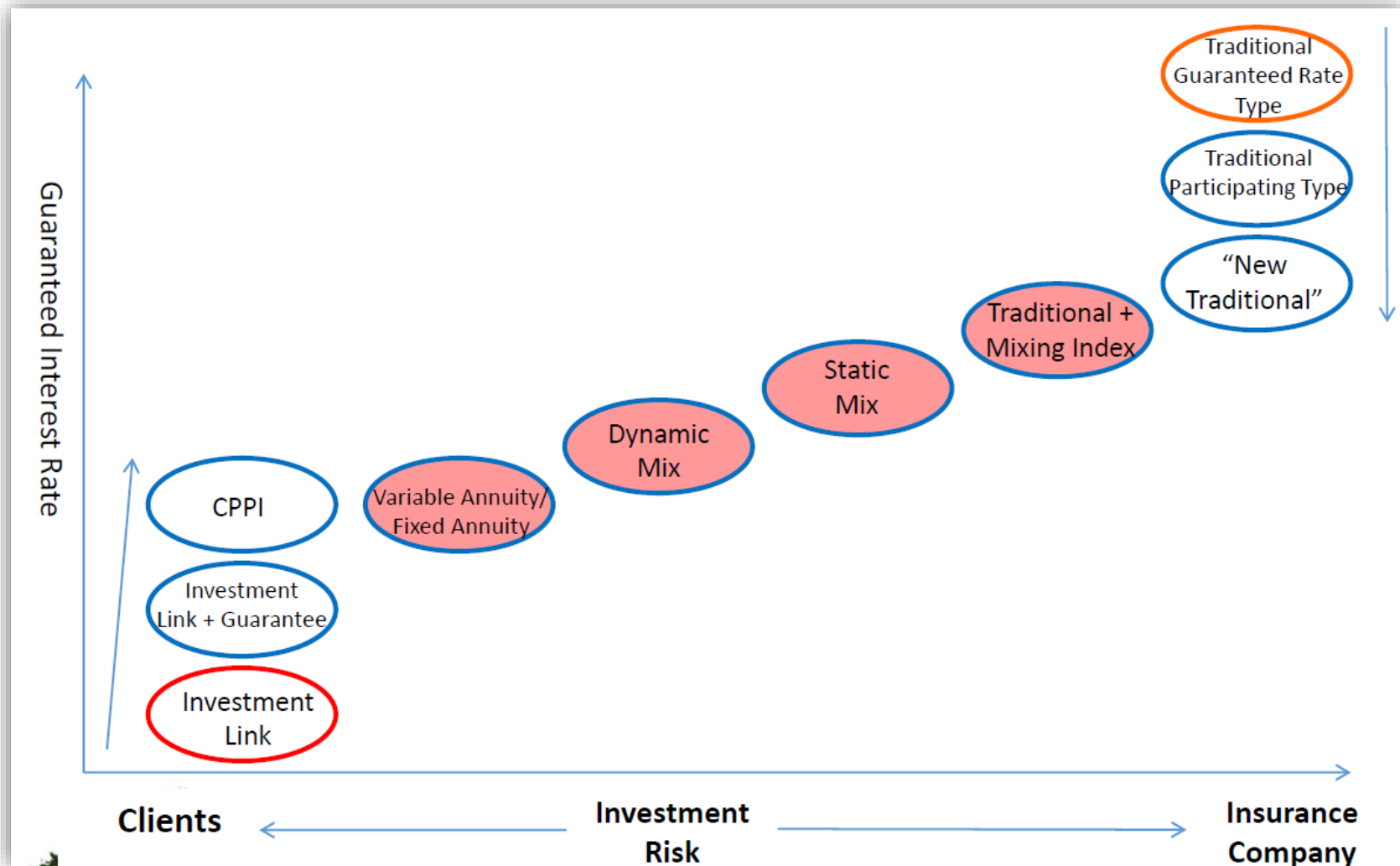
Shift in allocating investment portfolio



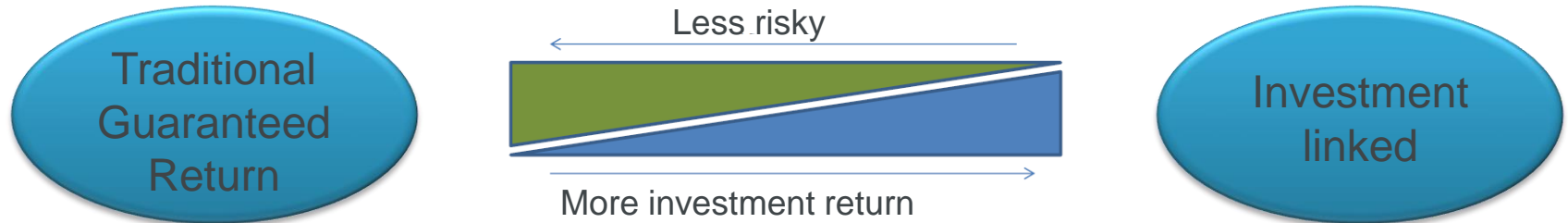
# Product Innovation



# Product Innovation



# Product Innovation



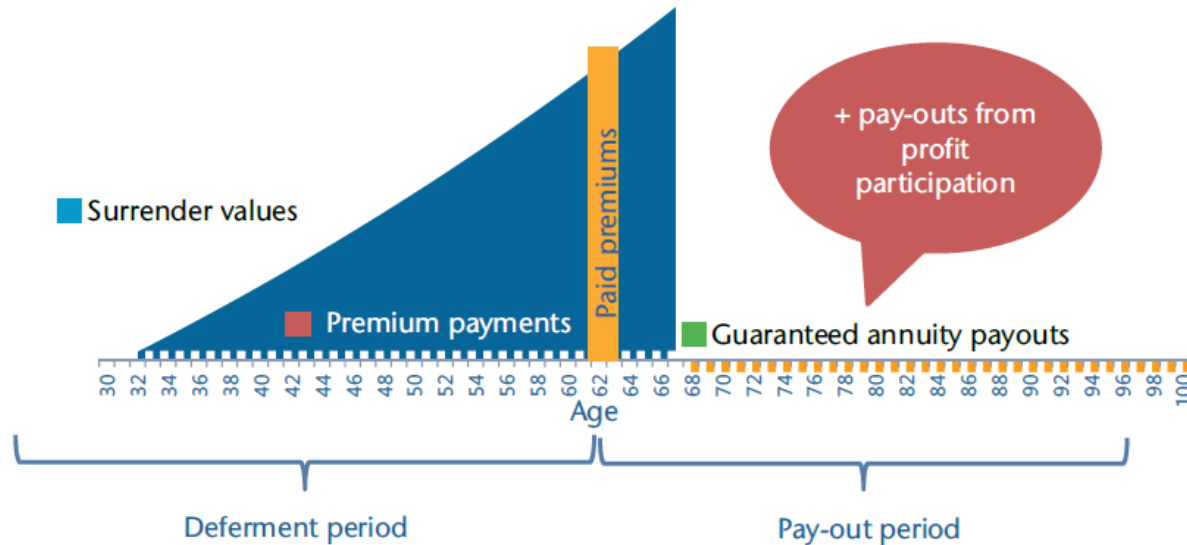
## Products:

- Could be shift between Traditional and Investment-linked
- Easy-understood Protection Benefit / Low Premium
- Investment - linked: Simple / Transparent / Flexible
- Provide supplementary investment enhancements



# Product Innovation – Traditional Guarantee

Guarantees in traditional deferred annuity products



- Interest rate
- Surrender values
- Accumulated capital at the end of the deferment period
- Return of paid premiums at the end of the deferment period

- Interest rate
- Mortality rate
- Minimum annuity pay-out
- Annuitisation factor at the end of the deferment period



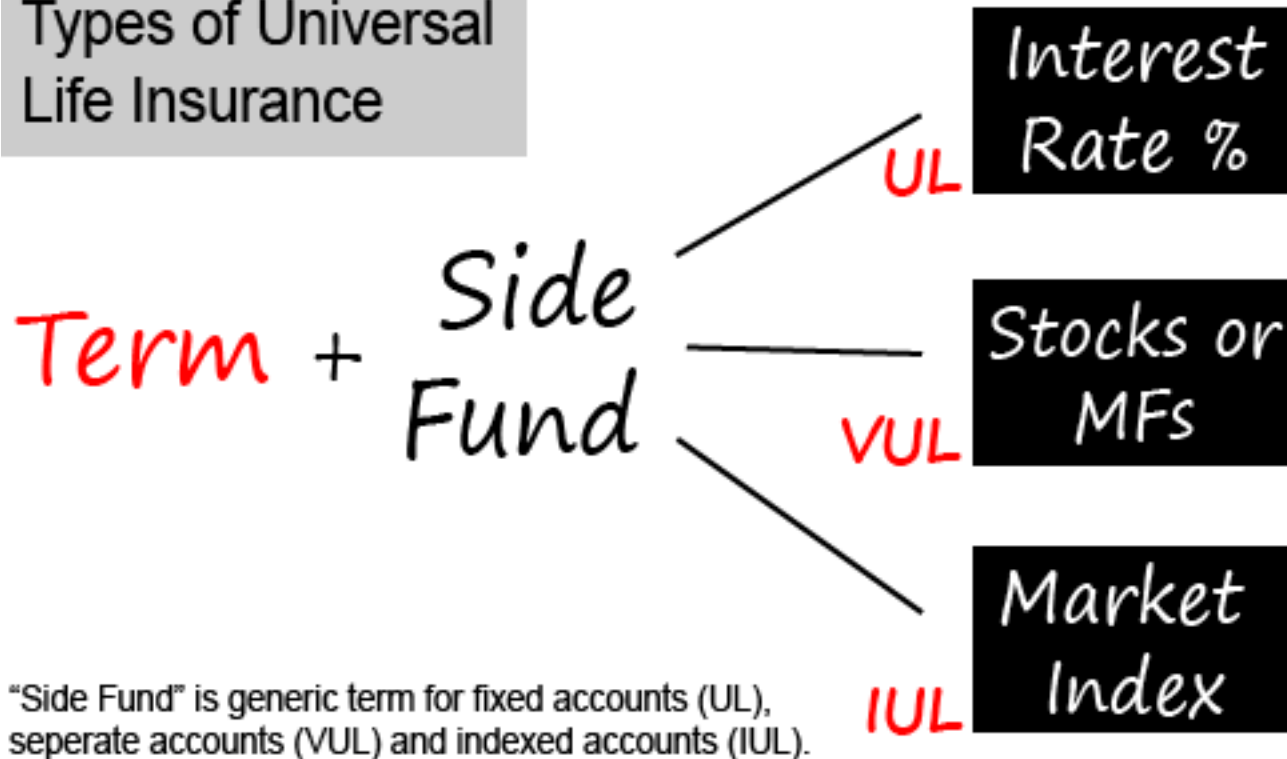
# Product Innovation – Investment linked

## General Impact of Sustained Low Interest Rates

	Existing (“Inforce”) Policies	New Policies
<b>Cash Value Dependent Structures</b>		
Most Universal Life	Lower cash value; Reduced policy duration absent additional premiums; Increased policy expenses	Higher illustrated premiums
Variable Universal Life	To extent investment performance lower than expected, lower cash values; Earlier policy lapse absent additional premiums; Restrictions on allocations to fixed accounts	Lower guaranteed interest rates in fixed account options; Limitations on allocations to fixed accounts
Indexed Universal Life	Lower cap and/or participation rates; Reduced cash value; Reduced policy duration absent additional premiums; Increased policy expenses	Lower cap and/or participation rates resulting in higher illustrated premium requirements.

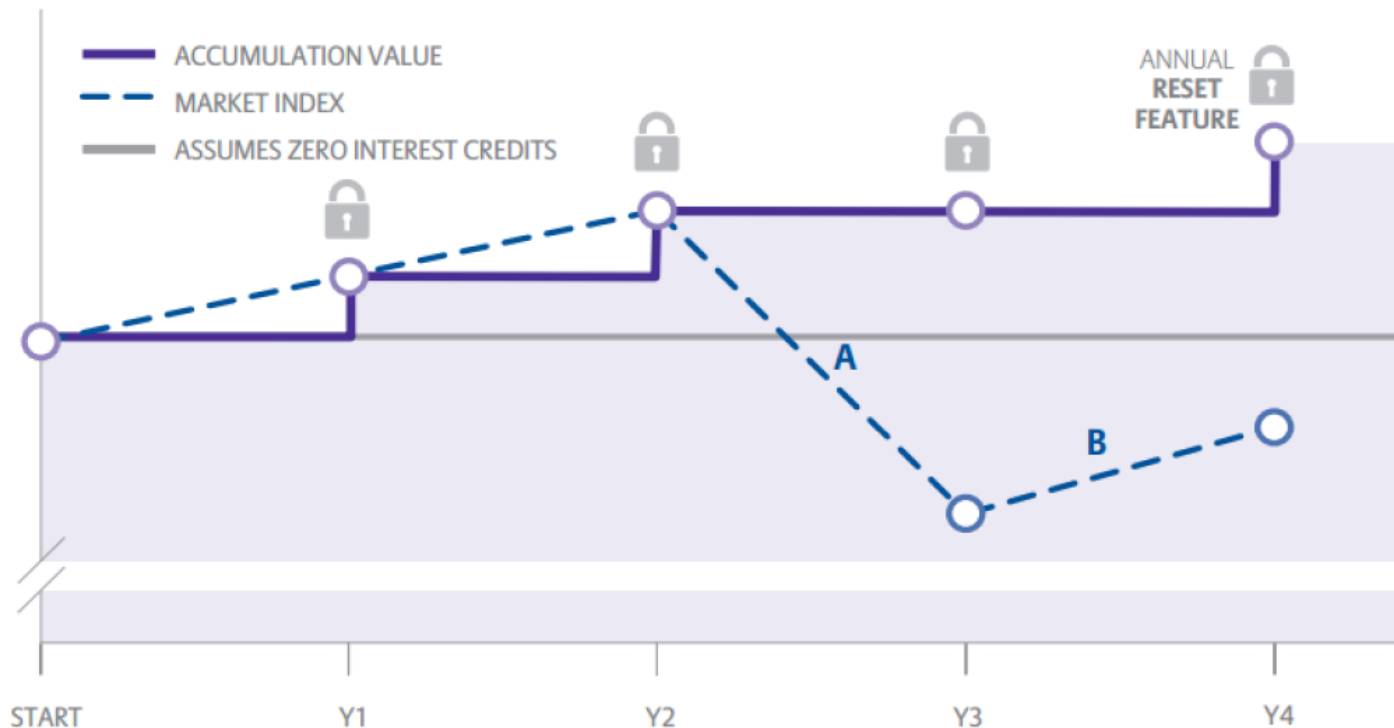
# Product Innovation – Investment linked

Types of Universal  
Life Insurance



# Product Innovation – Investment linked

This chart shows how annual reset works.



# Product Innovation – New Traditional

## General Impact of Sustained Low Interest Rates

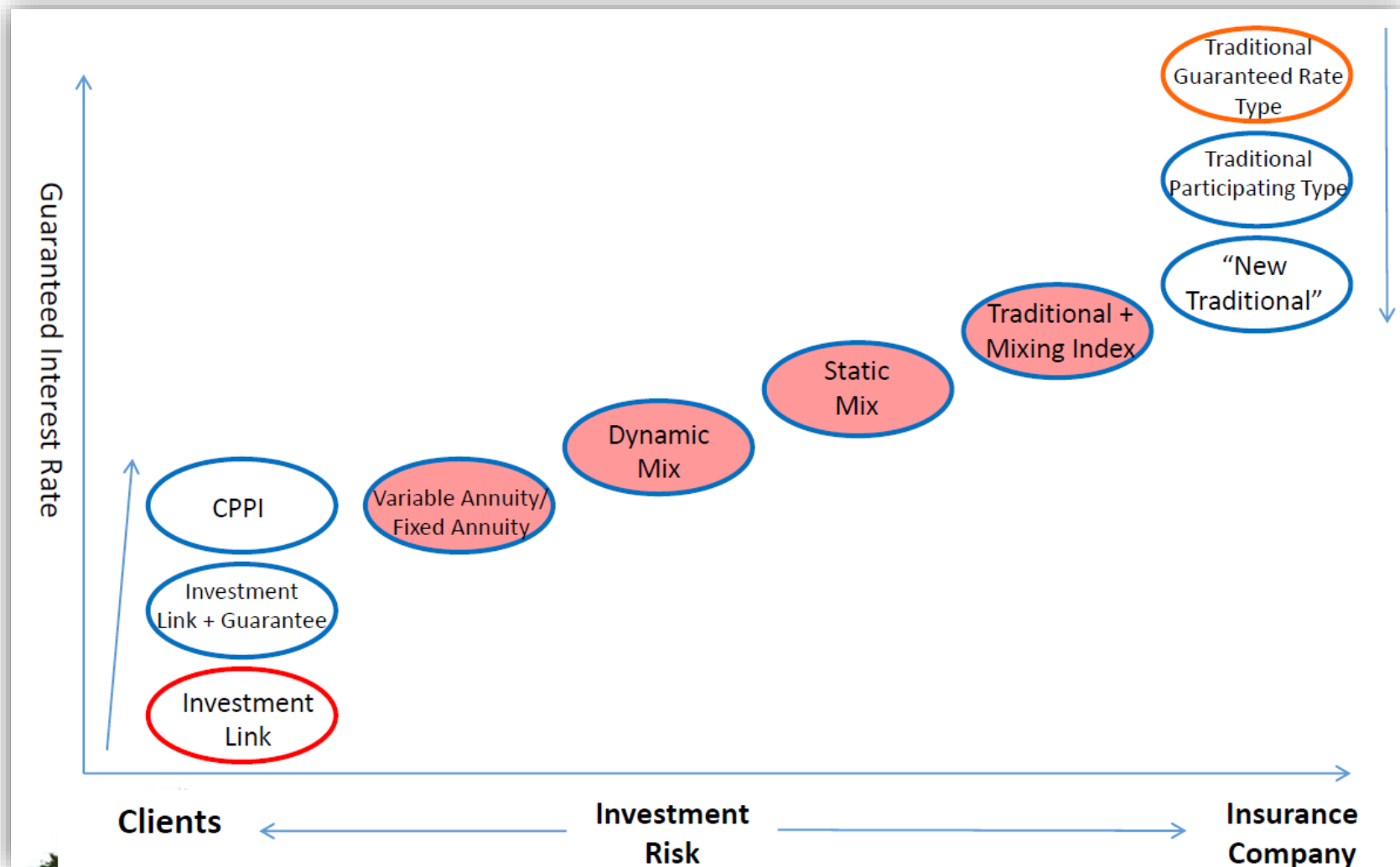
	Existing (“Inforce”) Policies	New Policies
<b>Dividend Dependent Structures</b>		
Whole Life with Term Riders	Additional out-of-pocket premiums; Increased annual premium requirements; Reductions in death benefit; Increased policy expenses	Higher illustrated premiums;
Modified Premium Whole Life	Additional out-of-pocket premiums; Payment of higher Ultimate Premium	Higher out-of-pocket costs; Lower death benefit growth
Suspended Premium Whole Life	Reappearing out-of-pocket premiums; Reduced cash value and death benefit; Increased number of required out-of-pocket premiums	Inability to suspend premiums; Increase in number of required out-of-pocket premiums

# Product Innovation – Hybrid

## General Impact of Sustained Low Interest Rates

	Existing (“Inforce”) Policies	New Policies
<b>Premium Dependent Structures</b>		
Whole Life (All base – premium paid all years)	Lower death benefit growth; lower cash value	Same
Universal Life with Secondary Guarantees	Lower cash value; No impact on death benefit guarantees since premium dependent	Higher premiums especially for large up front funding (i.e. 1035 exchange); Restrictions on amount of lump sums; Fewer carriers offering product
Variable Universal Life Death Benefit Guarantees	No impact on death benefit guarantees since premium dependent	Premiums for guarantees have been reducing; restrictions on allowable investment allocations with guarantees
Indexed Universal Life Death Benefit Guarantees	No impact on death benefit guarantees since premium dependent	Introduction of more products with limited or long-term guarantees
Death Benefit Indexed Universal Life	Guarantees since premium dependent	Limited or long-term guarantees
Indexed Universal Life	No impact on death benefit	Introduction of more products with guarantees

# Product Innovation – Hybrid



# Product Innovation – Hybrid

## Hybrid product with dynamic allocation:

Risky asset

UL fund



In bear market,  
allocation in risky  
assets tends to be  
lower

Risky asset

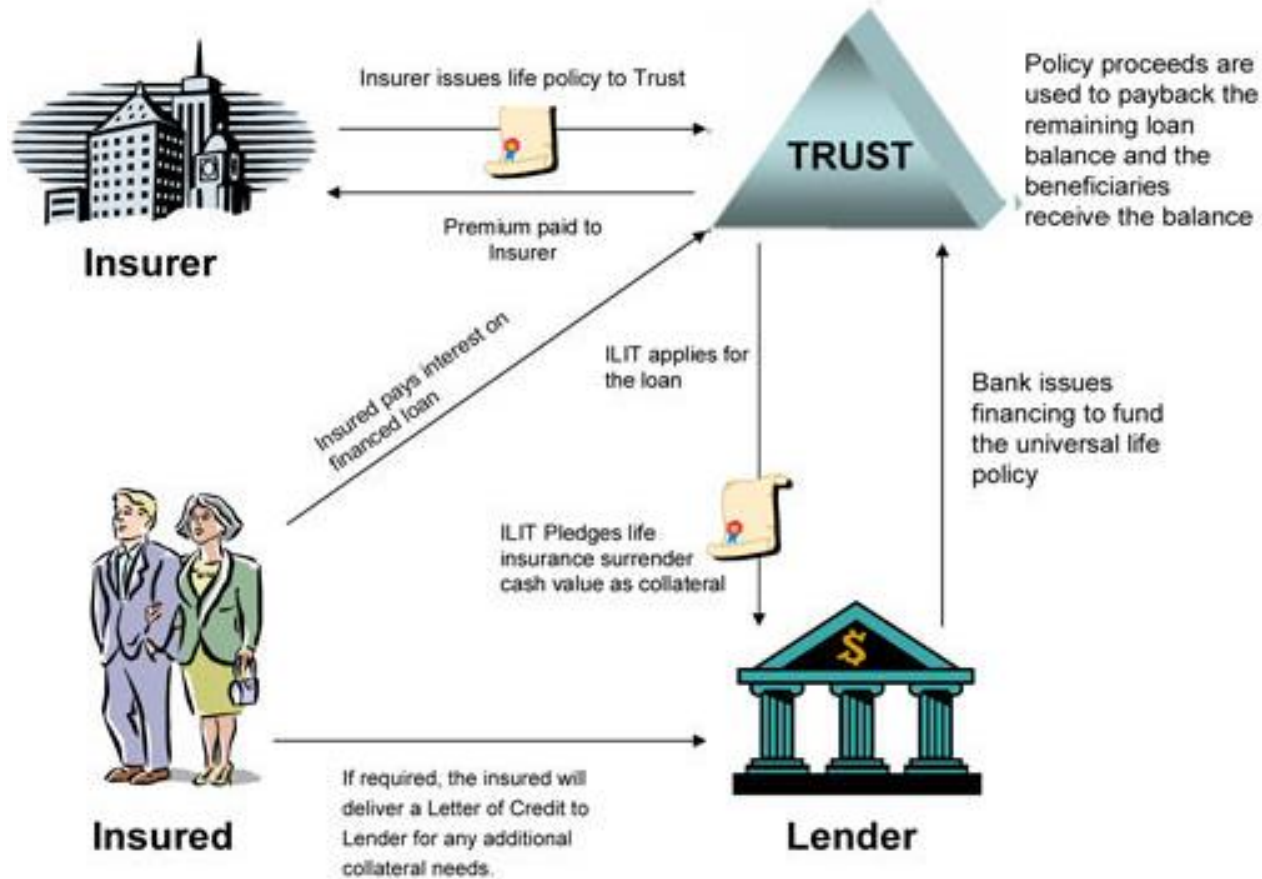
UL fund



In bull market,  
allocation in risky  
assets tends to be  
lower

# Product Innovation – Other

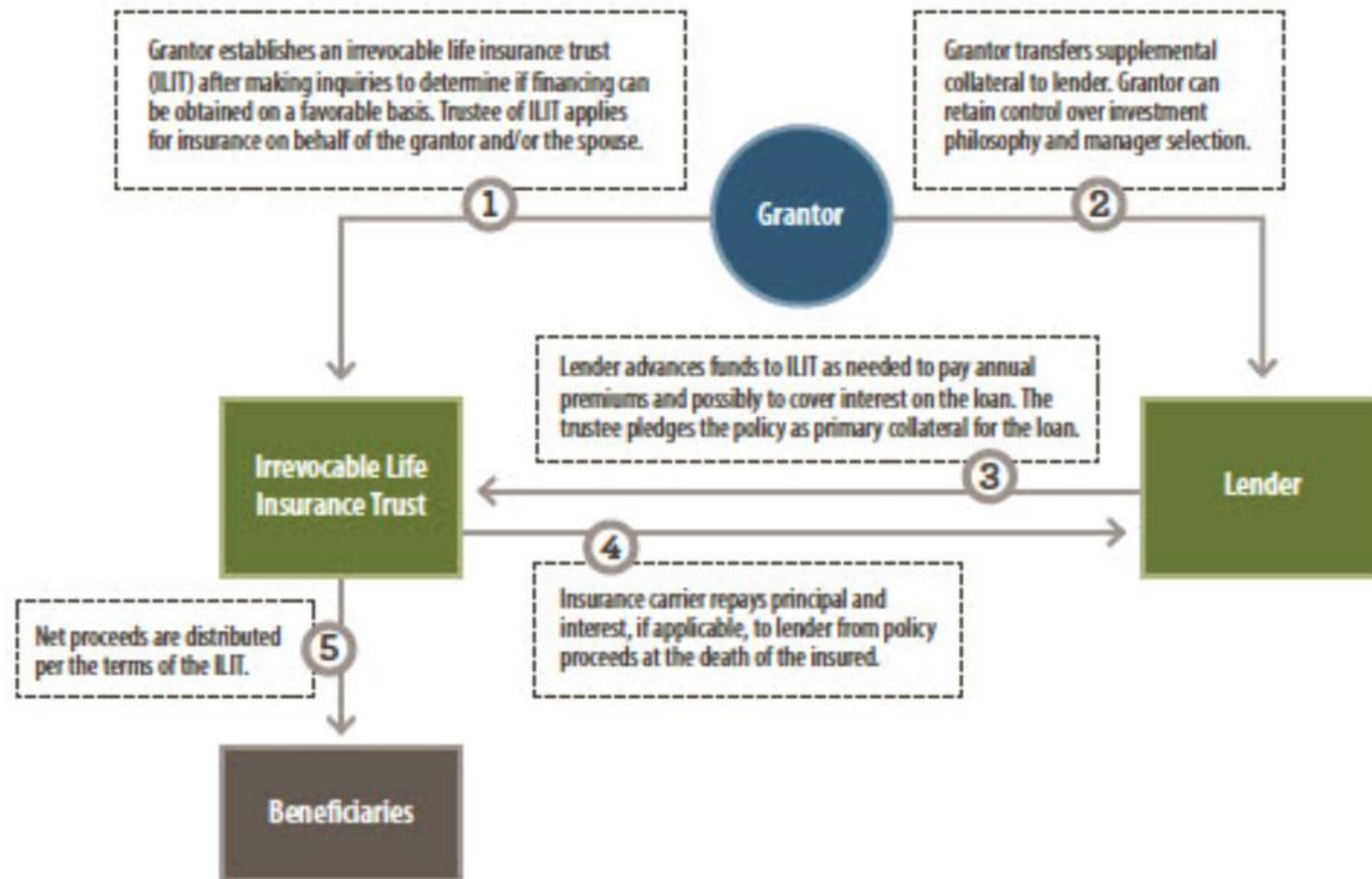
## Premium Financing





# Product Innovation – Other

When arranged properly, life insurance premium financing can be a valuable funding alternative for your estate plan.



# Outlook

**Innovative Product**

**Innovative Distribution Approaches**



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# Thank you!

31 March 2017

