



# RGGA

## Active In-force Management

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# Agenda

*How to maximize the amount of capital and cash generated from inforce blocks*

1. Global trends for inforce management
2. Strategic options to optimize cash and capital
3. Lets define a process



# Global trends for inforce management

## Inforce management is making the news...

Effective Jan 1/16, AXA is increasing COI rates on a small block of Athena Life II policies

Effective Aug 1/15 Banner will implement a cost of insurance (COI) increase for select UL plans.

Dai-ichi to Buy Protective Life for \$5.7 Billion

RGA announces embedded value securitization of \$300M

Allianz has invested 14% in alternative assets

Genworth increasing LTC rates to raise premiums by \$250M-\$300M by 2017

John Hancock to Acquire New York Life's Retirement Plan Services Business & Reinsure 60% of its In-Force Par Block

Motorola Solutions to Reduce Pension Plan Liability by \$4.2 Billion while preserving benefits

RGA to reinsure \$90B in-force mortality block from Voya Financial



## Drivers

- Low interest rates
- Economic uncertainty
- Regulatory changes
- Low Growth in Mature markets
- Increased emphasis on Risk management
- Accounting Changes IFRS
- Shareholder expectations



# Strategic options to optimize cash and capital

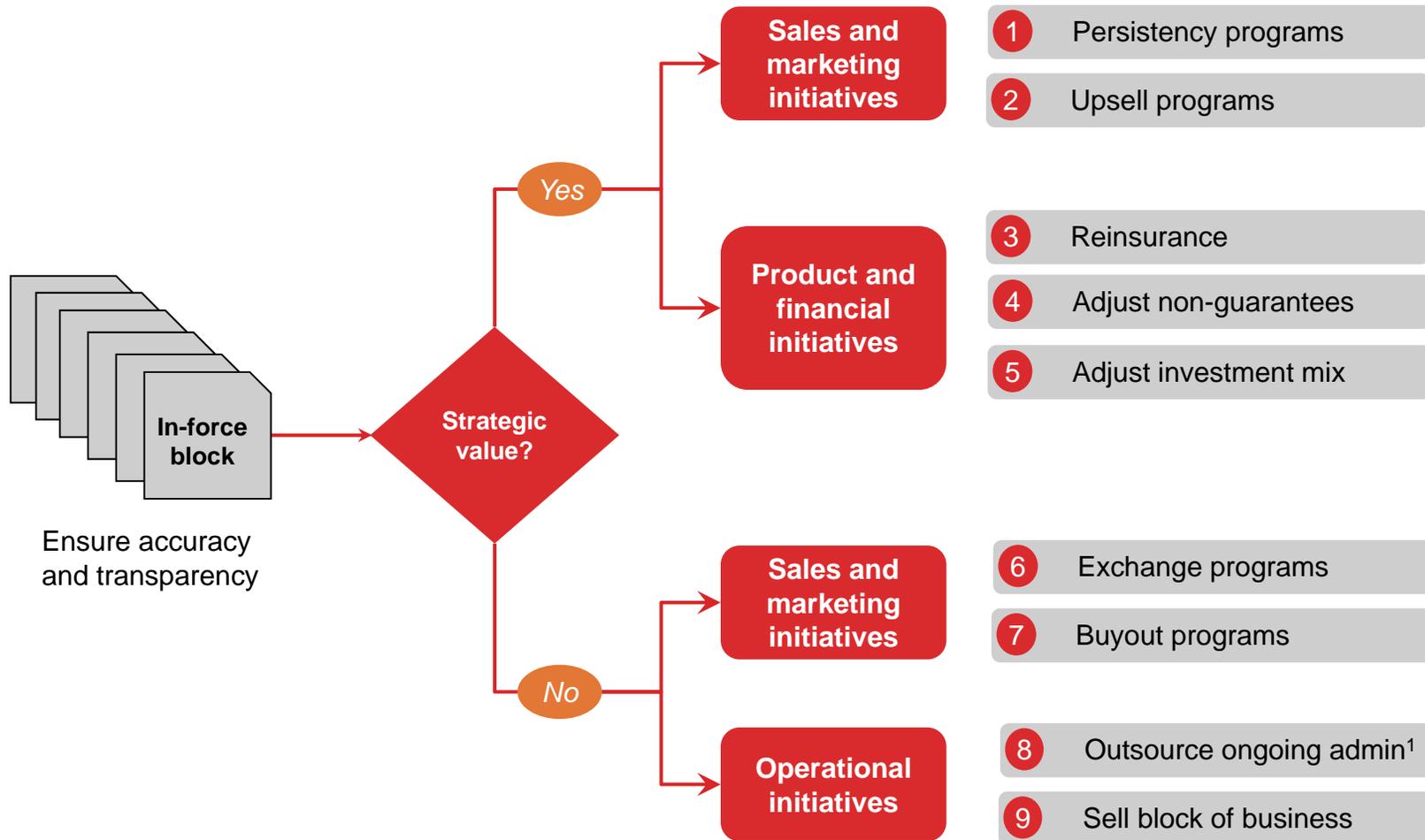
# Strategic levers to optimize in-force management

Active management

Retention analysis

Initiative theme

Strategic lever



1. Outsource administration can also be used if in-force business is strategically valuable

Source: RGA expertise

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# Persistency Programs

## What is it?

Actively managing inforce block by:

- Ensuring optimal coverage amounts
- Ensuring that clients understand flexibility available
- Adding incentive programs

## When to use it?

- Inforce block is strategically valuable
- Blocks of business with persistency less than market averages for a given distribution channel
- Ability to contact customers for sales and marketing initiative

## Reinsurance

### Globally deployable expertise

- Predictive analytics to build retention models
- Share best practices
- Early warning systems (E.g. agent dashboard tracking)
  - Streamline Premium processing & renewal



## Persistency Factors

- Product Class
- Distribution Channel
- SocioEconomic Characteristics
- Policy Duration
- Benefit Amount
- Policy Age and gender
- Number of other policies
- Number of recent contacts
- Economic & market conditions
- Tax considerations

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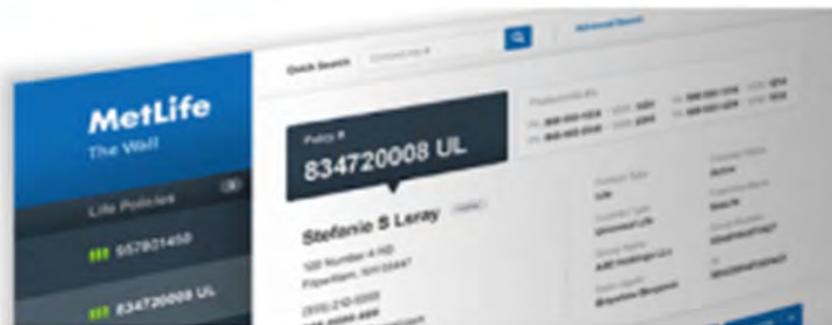
# Share Best Practice

Investing in customer service

RETURN TO ALL NEWS

## Built in record time, the MetLife Wall knocks down barriers to great customer service

GTD COOL THE OCT 24, 2015 10:40 AM



One of the biggest challenges in improving customer service is that the information a representative needs is hard to find quickly – different records in different locations, different sources for data, different presentation formats. The rep knows the information exists, but difference in core legacy business systems create barriers to fulfilling customer needs.

## Share best practice - Met Life Wall



- Biggest challenges in improving customer service is that the information a representative needs is hard to find quickly
- Different records in different locations, different sources for data, different presentation formats. Data from more than 70 legacy systems.
- Modeled after Facebook - It updates in near real time, as new customer transactions occur.
- Provides a timeline of customer's transactions -makes it possible to easily access data and cross-sell
- Wall puts all related and linked customer information into a single record, providing one screen a 360-degree view of a customer's policy
- Interface shows customer interaction across all its touch points, such as the call center, agents, as well as claims and policy updates.

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# Upsell programs

## What is it?

Actively mining inforce client database to upsell new offerings:

- Insurance products and riders
- Leveraging existing client data to minimize underwriting requirements
- Tracking “same client” sales

## When to use it?

Desire to improve risk profile, and diversify insurance risk and/or investment risk

- Adding high margin riders to policies with material guarantees to reduce breakeven

## Reinsurance

### Global best practices that are adapted locally

- Predictive analytics \
- Upsell pricing and underwriting process design
- More systematic process

## Selected example

### ★ RGA Hong Kong – CI rider upsell

- Design upsell, with reduced underwriting and simplified or guaranteed issue terms
- Some clients have 5-7% take-up rates for critical illness riders attached to standard rate policies
- Riders augment profitability at lower acquisition, and underwriting costs

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# Optimizing Traditional Reinsurance programs

## What is it?

- Reviewing Reinsurance program in place
- Does it still fit the liability
- Cost effective? Reinsurance rates reflect experience
- Ease of administration

## Reinsurance

- On going dialogue
- Bespoke solutions
  - Working within local statutory and home country regulatory constraints
- Risk diversification, and capital available at modest costs

## What to consider?

- Unlocking future profit streams
- Is it reducing earnings volatility
- Impact on Solvency Margin
- Optimization of Capital
- Analyse profitability net and gross
- Recapture options

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## Adjusting non-guaranteed elements

### What is it?

- Reducing dividends and crediting rates towards guaranteed minimums on policies
- Increasing protection premiums or cost of insurance charges

### When to use it?

- Poor experience, which has led to a shift in future outlook
- Favorable regulatory environment
- Chance of anti-selective mortality/morbidity behavior is low

### Reinsurance

#### Deep experience with product design

- Undertake mortality and experience reviews
- Adjust product features of inforce blocks
- Analyze re-pricing of product adjustments

### Selected examples

- The Hartford – variable annuities
- The Equitable UK 1792
- GenWorth LTC

# 4 Increasing inforce prices and reducing policyholder benefits

PERSONAL FINANCE | 8/08/2015 @ 7:40PM | 15,128 views

## More Bad News for Long-Term Care Insurance: A Major Carrier Reassess the Business Amidst More Rate Hikes

+ Comment Now + Follow Comments

**Genworth Financial** [GWH -0.45%](#), the nation's largest seller of long-term care insurance, is engaged in an "intense, very broad, and deep review of all aspects of our long-term care insurance business," president and CEO Tom McNerney [told investors last week](#).

Industry sources say the firm could withdraw from the market if it does not win regulatory approval for new rate hikes on about 650,000 older, existing policies. The company spokesman said the firm also needed regulatory approval to approve changes to its policies.

### Genworth Financial USA

- Fortune 500 financial life insurer based in the US
- Used to be one of the largest writers of long term care insurance and variable annuities in US

### Long-term care price hikes

- Aiming USD200-300Mn in rate hikes
  - All policies sold over 25-year period from 1974
- Double-digit rate hikes, require regulatory approval

### Bonus reductions

- Have reduced dividend crediting rates for in-force policies
  - Individual single premium deferred annuity
  - Reducing dividend crediting rates from 5% to 2%

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# Adjusting investment mix

## What is it?

- Low interest rate environment
- Moving towards high yielding assets
- Taking on additional credit risk
- Adding non-fixed income investments to portfolio
- Solvency II pushing safer investments

## When to use it?

- ALM considerations
- Portfolio of long term less optional, low cash value products (e.g. LTC) which require less liquid assets
- Capabilities to hedge downside risks to mitigate volatility

## Reinsurance

- Consider global best practices and trends with respect to:
  - Inforce product portfolio investment mixes

## Selected example

### Private Equity transactions

- Sun Life US Business – *Guggenheim*
- Aviva – Apollo

### Allianz

- Alternative investments

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# Exchange programs

## What is it?

Incentivizing and facilitating exchanges of policies

- Moving customers to lower guarantees but higher upside
- Moving customers to higher yielding currency with equivalent guarantees
- Moving healthy customers to higher levels of insurance coverage with minimal UW

## When to use it?

- Inforce block is not strategically valuable
- Inforce block is experiencing undesirable risk profile
- Comfortable with potential reputational risks
- Understanding of potential increases to insurance risk if coverage is increased

## Reinsurance

### Consider product design

- Global best practices on how to incentivize customers to exchange policies
- Pricing and underwriting re-design to create desirable policies

## Selected example



### Taiwan – Switch to Chinese RMB

- Insurer offered policies holders a 3% guarantee, but in RMB as opposed to NTD
- “Switchers” enjoy same terms (e.g. interest, surrender value, sum insured, premiums) but in RMB (which consumers are more bullish)
- Insurer achieves better profitability due to improved investment yield on RMB

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# Buyout programs

## What is it?

Actively buying out clients

- Increased account values in exchange for giving up in the money VA investment guarantees
- Discounted death benefits/life settlements in exchange for enhanced account values

## When to use it?

- Inforce block is not strategically valuable
- Inforce block is lapse supported
- Ability to effectively publicize option to policy holders
- Ability to incentivize distributors
- Potential to minimize and mitigate anti-selection and reputation risks

## Reinsurance

### Deep experience with product design

- Global best practices on how to incentivize customers to agree to buyouts of existing policies
- Pricing and underwriting considerations to create desirable buyout programs

## Selected example

- Hartford – employees and clients
- Transamerica - clients
- Axa Equitable - clients

# 7 Buyouts: Investors demand insurers try to reduce VA policies

DEALS & DEAL MAKERS

## Hartford to Buy Out Annuities

Email Print Save 3 Comments f t +i in A A

By LESLIE SCISM

Updated Nov. 2, 2012 8:01 p.m. ET

[Hartford Financial Services Group Inc.](#) (HIG +0.32%) has become the latest big insurer to ask its variable-annuity owners to give up the guarantee of a lifetime income stream.

Insurers widely sold the guarantees with the products during the boom years of the 2000s. But investors have implored some of the industry's biggest companies to try to get out of the contracts, arguing the guarantees promise consumers too much, at shareholders' expense.

### Hartford Financial USA

- Leading annuity player in 1990s-2000s. First company to offer GMWB (withdrawal)
- Exiting annuity business focusing on property and casualty, group benefits and mutual funds
- Borrowed USD3.5Bn from US TARP in 2008

### Variable Annuities:

- Popular in US due to tax savings on investments, and promise of annual income
- Assets are typically US equities, which require sophisticated hedging programs
- 2008-09 stock market collapse showed balance sheet risk of guarantees

### Buy-out program:

- Offering buyouts to 15% of total account value of GMWB
- GMWB accounts for 45% of Hartford's net amount at risk
- Targeting policies that are heavily invested in stock funds

### Initial results:

- Have reduced VA contracts by 14%
- Targeting another \$30Mn in buyouts

Source: Investor call

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# Outsource ongoing maintenance

## What is it?

Third parties offer some admin advantages

- Critical mass due to consolidating multiple blocks of business
- Offshore capabilities and labor arbitrage
- Allows life insurer to focus on product design, marketing and distribution

## When to use it?

Desire to:

- Move from fixed to variable expense basis
- Lock in expense factors
- Reduce multiple legacy administration systems

Ability to provide governance and oversight

- Ensure customer service quality levels

## Reinsurance

### Strategic analysis and due diligence

- Can assist with service provider due diligence
- Partner with third party administrators

## 8 Outsource: Third party administrators simplify and save costs

### UK insurer Friends Life signs £1.4bn outsourcing deal

Around 1,900 jobs will transfer to Diligenta, a division of TCS, in 15-year deal to consolidate IT systems and process 'legacy' claims

Posted by Information Age on 9 November 2011

UK insurance giant Friends Life has signed a 15-year, £1.4 billion outsourcing deal with Diligenta, a division of Indian IT services provider Tata Consultancy Services.

Friends Life was created this year after insurance group Resolution acquired Friends Provident and insurance division of private health insurer BUPA.

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 Friends Life & Tata Consultancy Subsidiary

- 15-year, GBP1.4Bn outsourcing deal to Diligenta
- Friends Life is largely closed block resulting from combinations of Friend Provident, AXA, and BUPA

Outsourcing arrangement:

- Responsible for administration of ongoing claims for closed-block
- Diligenta will consolidate legacy IT and claims systems into a single system by 2015
- 1,900 jobs transfer from Friends to Diligenta

Benefits:

- Friends estimates GBP112Mn in annual cost savings
- Additional GBP31Mn in annual savings once migration from legacy systems is completed
- Single supplier for IT and business processes reduce risk and complexity

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## Sell block of business

### What is it?

- Desire to completely exit inforce business
- Through transactions such as:
  - Share sale to third party entity

### When to use it?

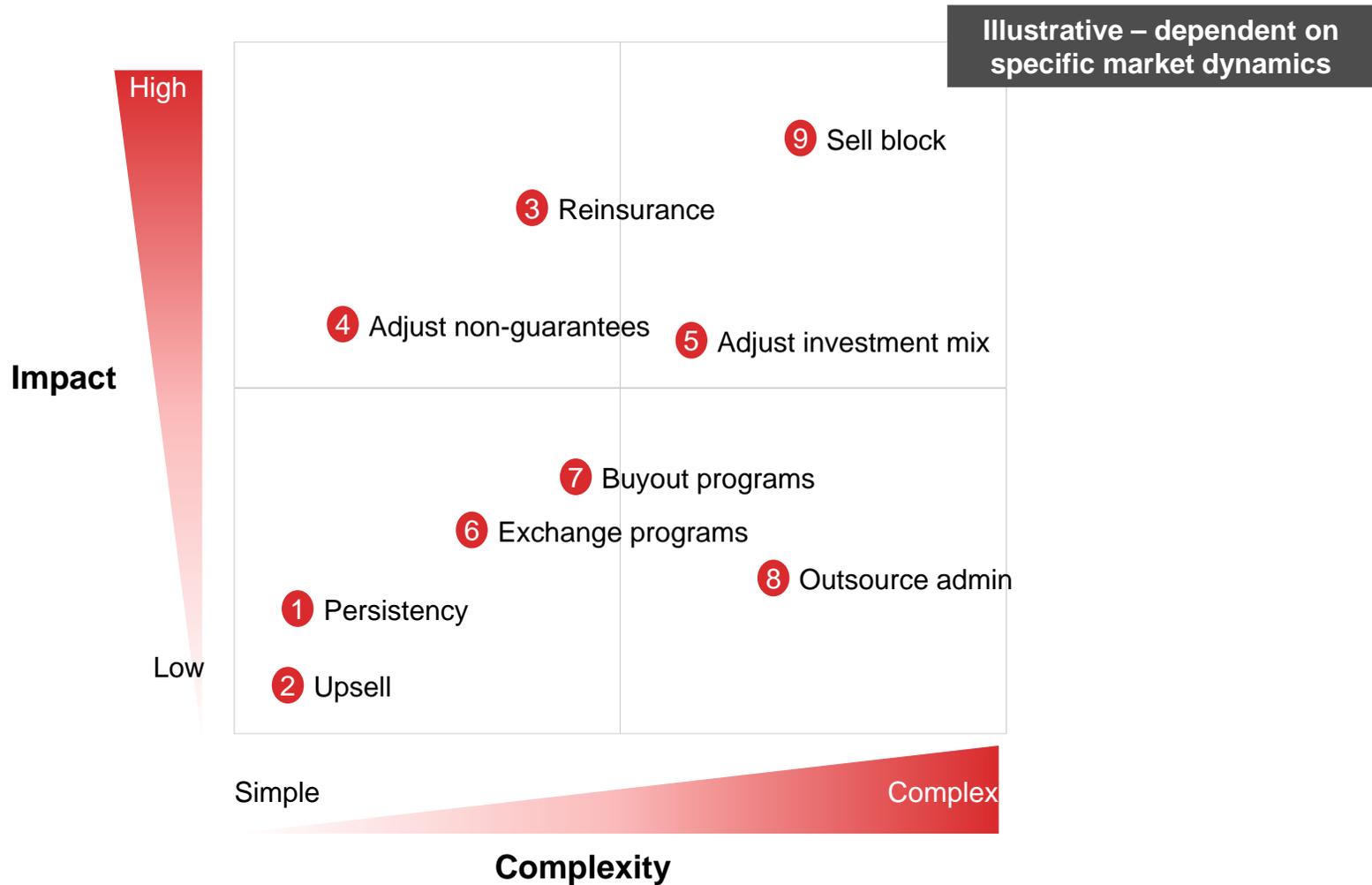
- Block is no longer strategically relevant
- Ability to deploy capital to other more profitable markets or product lines
- Operating expenses are too high
- Unfavorable regulatory and market conditions

### Reinsurance

#### M&A

- Reinsurance could be an option
- Produce strategic benefits for both parties

# Strategic options vary by complexity and cash generated...



Source: RGA expertise

# ... and Reinsurance can help deploy some strategic levers

Strategic lever	Primary insurers	Reinsurer	Investment Banks	Third party administrators
1 Persistency programs	✓ Yes	✓ Yes	✗ No	✗ No
2 Upsell programs	✓ Yes	✓ Yes	✗ No	✗ No
3 Reinsurance	~ Limited	✓ Yes	~ Limited	✗ No
4 Adjust non-guarantees	✓ Yes	✓ Yes	✗ No	✗ No
5 Adjust investment mix	✓ Yes	~ Limited	✓ Yes	✗ No
6 Exchange programs	~ Limited	~ Limited	✗ No	✗ No
7 Buyout programs	~ Limited	~ Limited	✗ No	✗ No
8 Outsource ongoing admin	~ Limited	~ Limited	✗ No	✓ Yes
9 Sell block of business	✗ No	✓ Yes	✓ Yes	✗ No

Source: RGA expertise



## Defining the process

# Mission & Vision

- To proactively maximize RGA's value

Vision



- Leverage financial analysis to create insights into RGA's global businesses that collaboratively facilitates value creation, risk mitigation and/or resource

Mission



- Global
- Primarily in-force, but some new business aspects
- Primarily financially focused

Scope

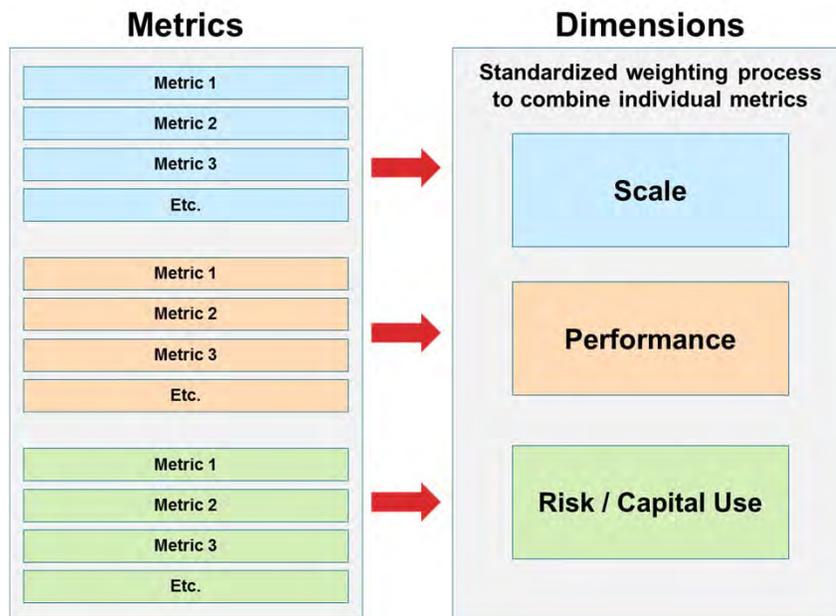


# Value Creation & Optimization Process

Phase	Description	Tools & Processes
<b>Analytical Framework</b> 	<b>Measure</b> <ul style="list-style-type: none"> <li>Determine objective criteria to benchmark relative performance for both IF and NB</li> <li>Trend information as well as point in time</li> <li>Needs to be comparable and scalable</li> </ul>	<ul style="list-style-type: none"> <li>Analytical framework</li> <li>Ad hoc analysis</li> <li>Specific investigation</li> </ul>
	<b>Identify Opportunity</b> <ul style="list-style-type: none"> <li>Analytical framework should lead to opportunities being identified – “focus” blocks for IF and NB</li> <li>Businesses to self-identify and provide feedback too</li> </ul>	<ul style="list-style-type: none"> <li>Analytical framework</li> <li>Market monitoring</li> <li>Business feedback</li> </ul>
<b>Understand Business Drivers</b>	<ul style="list-style-type: none"> <li>Deeper analysis of specific opportunities to understand how to optimize results</li> <li>Engage businesses and other functions to brainstorm solutions</li> </ul>	<ul style="list-style-type: none"> <li>EV and capital models</li> <li>Scenario testing</li> <li>Expert advice &amp; input</li> </ul>
<b>Execute</b>	<ul style="list-style-type: none"> <li>Work closely with the business and other functions through virtual teams</li> <li>Manage external interactions &amp; negotiations if needed; produce strategic info for management and board</li> </ul>	<ul style="list-style-type: none"> <li>Specifics will vary for each opportunity</li> </ul>

# In-Force Analytical Framework Structure - Metrics

## Metric & Dimension Example

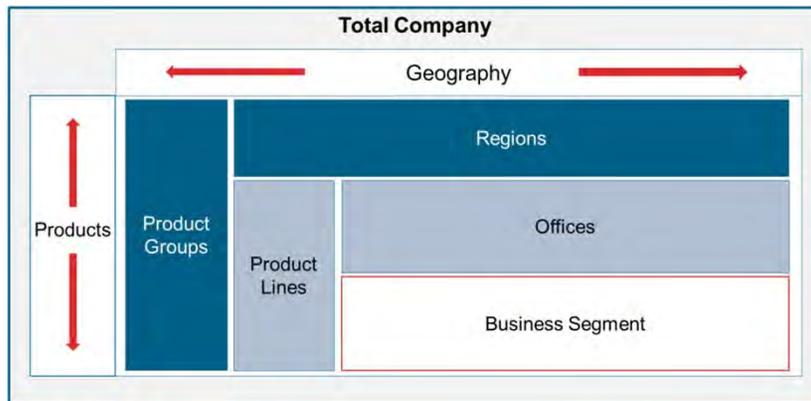


## Metric Considerations

- Metrics should reflect priorities of the company
  - Can (should) change over time
- Objective metrics better to avoid debate
- Mixture of metrics to incent desired actions
  - Short-term vs. long-term
  - Historic vs. projected
- More dimensions can be introduced but interpretation becomes more complex
- Relative comparison requires unitization and ranking within a range
  - Scale should not dominate all other dimensions

# In-Force Analytical Framework Structure - Segments

## Segment Example - Product x Geography



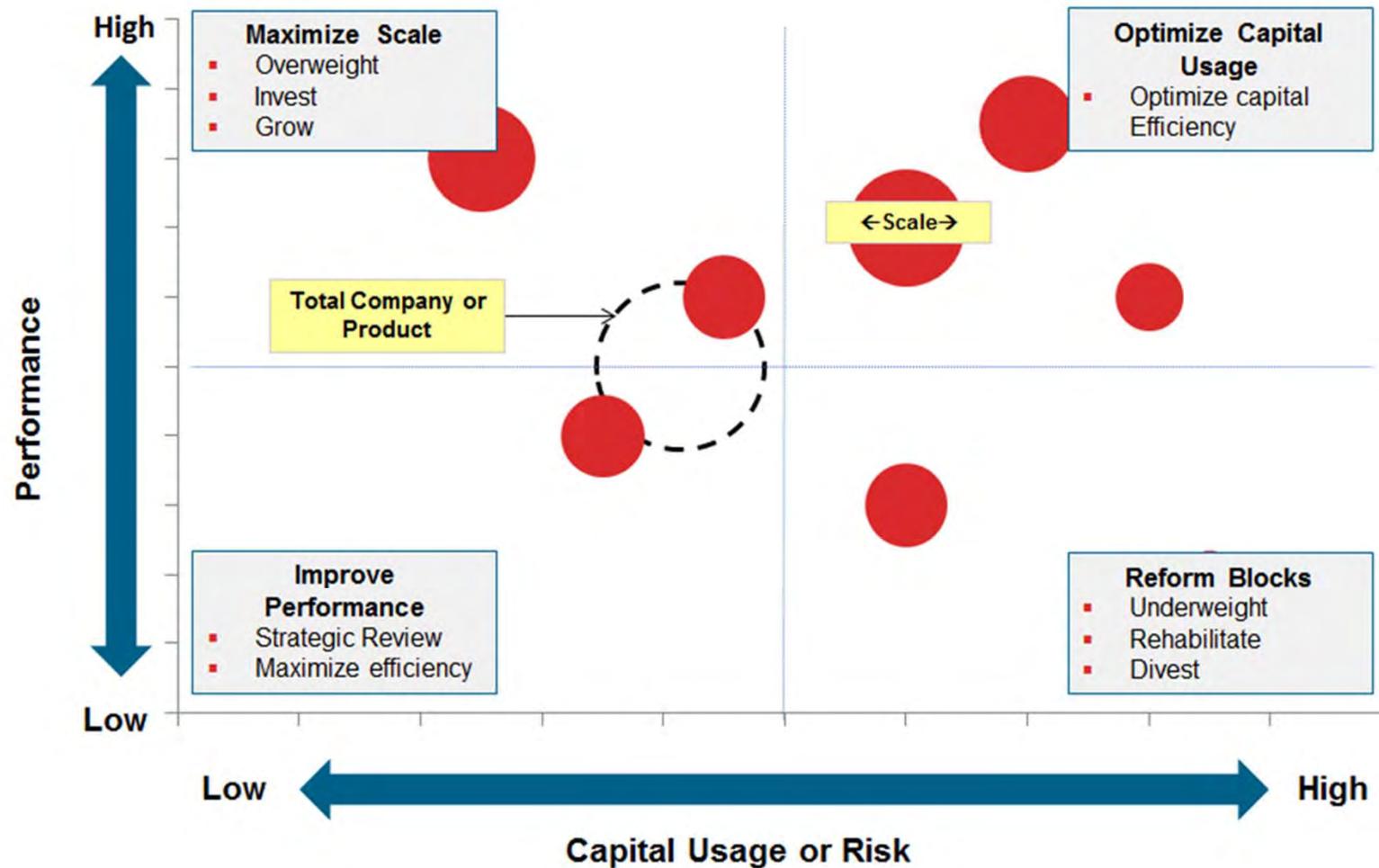
## Segmentation Considerations

- Roll-up structure should be consistent across the total company at higher levels
- Realistically, it will vary at some lower level based on the needs of the product line, office, business segment, etc.
- Some other dimensions to consider for segmentation
  - External disclosure vs. internal management
  - Distribution channel
  - Issue year or attained age
  - Product type – e.g. term, UL, VUL, etc.
  - Product series – e.g. SUL96, SUL98, etc.
  - Adjustable elements
  - Admin system
  - Acquired vs. organic



**What`s the final objective**

# In-force Analytical Framework Charts Example





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