

GUARANTEED ISSUE AND SIMPLIFIED ISSUE UPDATE



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SOA Preferred Mortality Project Oversight Group (“Joint
Committee”)



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Guaranteed Issue (GI) Report and Amendment Proposal



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There were three follow ups from LATF regarding the guaranteed issue (GI) Tables

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- Definition of GI in response to CA DOI submission/request for change
- In response to RGA's comment letter, follow up to see what can be done to reconcile differences in mortality levels and concern of submitter that business may not truly meet the definition of GI
- What would reserves look like using 1980 CSO Ultimate tables rather than the proposed Guaranteed Issue CSO Table? Would this cover the loading concern for certain blocks of business?
 - Model office can be created and run but work has not yet been completed

The CA DOI proposed modification to the definition of GI. The “Joint Committee” proposes a slight modification to add clarity

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CA DOI Suggestion

Guaranteed Issue (GI) Life Insurance Policy: An individual life insurance policy or certificate – other than credit life, pre-need, or industrial -- that is not corporate- or bank-owned, where the applicant, if an active member of an eligible group (which could include being part of a group solicitation via direct marketing), must be accepted for coverage if he/she is within a specified age range, except if that age range is limited to juveniles.

Guidance Note

- Accordingly, any of the following disqualifies a policy as GI
- Actively at work requirement
- Employer groups
- Acceptance based on any health related questions or information
- Waiving of underwriting requirements based on minimum participation thresholds, such as for worksite marketing

The Joint Committee edit

Guaranteed Issue (GI) Life Insurance Policy: An individual life insurance policy or certificate, **received as a member of an eligible marketing group that is not** credit life, pre-need, or industrial **and** is not corporate- or bank-owned, where the applicant **must be accepted for coverage if within a non-juvenile range.**

Guidance Note

- Accordingly, any of the following disqualifies a policy as GI:
- Actively at work requirement
- Employer groups
- Acceptance based on any health related questions or information
- Waiving of underwriting requirements based on minimum participation thresholds, such as for worksite marketing



Reconciliation of GI submitted data to RGA's experience for contributing companies

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- RGA's comment letter suggested GI mortality rates were not consistent with the experience from their clients. LATF requested RGA and "Joint Committee" attempt to compare experience and understand differences and determine whether some companies submitted data to the study not consistent with the GI definition
- Due to confidentiality requirements, RGA could not divulge the names of their clients who submitted data to the GI study, nor could the SOA submit the mortality data of individual contributors to RGA.
- Two companies that contributed data to the GI study were known to be significant writers of final expense. The data submitted by these companies and treated as GI business was minimal and found to be immaterial in driving the level of the GI mortality rates.
- The plan codes of data from 3 of the largest contributors of data (representing 80% of the amount exposures and 85% of count exposures) treated as GI business were identified; these three contributors were asked to verify that the business under those plan codes fit the definition of GI.
 - No company responded that any business treated as GI was incorrectly coded.
 - Conclude that the table is a good fit for the data submitted and verified that the data submitted was indeed guaranteed issue per the definition provided.



There were two follow ups from LATF regarding the amendment proposal changes related to GI and the adoption of the GI tables

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- 1) Slight wording modification to incorporate language to Exposure of APF 2017-63 related to VM-20, §2.A.1
 - ▣ This was completed and language added prior to the re-exposure of the APF

- 2) Evaluate whether the Joint Committee can develop the credibility formulae and prescribed mortality margins for the GI business in order to calculate a modeled reserve under §9.C.4 and §9.C.5 if :
 - ▣ A GI policy does not meet the requirements under VM-20, §2A.1; or
 - ▣ A company elects to calculate a modeled reserve for GI policies that would otherwise meet the deterministic exclusion test

Development of credibility and prescribed margins for GI

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- Due to confidentiality, development requires assistance from statistical agent for GI study, MIB
- Timetable (total 8-9 weeks) – work would extend into 2018 but could be completed by Winter NAIC LATF meeting:
 - 3 weeks: MIB to program the calculations
 - 1 week: SOA to test the calculations
 - 2 weeks: Add margins, run tests
 - 1 week: Signoff from “Joint Committee” and drafting of the APF
 - 2 weeks: Academy peer and policy review
- §9.C.4.a requires all business subject to VM-20 to determine the credibility using the same credibility method for all business.
 - Given the lower number of contributors to the GI study (with some having very low exposure by amount), developing credibility based on the Bühlmann method may not make sense and consideration should be given to limiting the credibility method for GI to only Limited Fluctuation
- Decision from LATF requested as to whether to proceed



Simplified Issue (SI) Tables, Definition, and Report Exposure



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SI Table and Report Exposure

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Exposed for 45 days (expired 9/21/2017):

- ❑ SI definition
- ❑ SI report
- ❑ SI tables
- ❑ Question regarding whether tables appropriate for nonforfeiture

2 comment letters received:

- ❑ Concern with need for an official definition of SI and ambiguity between simplified issue and simplified underwritten
- ❑ Concern of gaps in applicable tables and need for consideration to be given to products that may not meet specified criteria
 - ❑ e.g., Some products may not meet the definition of “simplified issue” so default to the use of the 2017 CSO Table, which may not be appropriate and for which the Simplified Issue Table may be more appropriate.
- ❑ Need to clarify treatment for policies issued under a smoker/non-smoker distinct basis



Definition of SI

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- The definitions developed distinguished between simplified issue (SI) and simplified underwritten (SU)
 - ▣ Both comment letters identified the need to clarify the distinction between these definitions as the ambiguity makes it difficult to comment on the appropriateness of the tables for reserves or nonforfeiture

- The “Joint Committee” agrees more clarity is needed to put boundaries around the various definitions. Given the rapidly changing marketplace, it is difficult to come up with a clear definition between more traditional SI products and more advanced forms
 - ▣ This is further complicated with Accelerated Underwriting (AUW) and distinction between SU and AUW



Issue raised regarding gaps in applicable tables

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- Given the rapidly changing marketplace, it is difficult to come up with a clear definition between more traditional SI products and more advanced forms.
 - This is further complicated by:
 - The introduction of new data sources;
 - Better use of smart applications, with reflexive questioning and/or tele-underwriting process;
 - Increased use of predictive modeling to determine propensity to buy, targeted offerings, or in the development of a risk score for immediately available information; and
 - The wide variety of programs within the industry, with mortality level determined by target market, distribution, and level of underwriting.



Use of 2017 Loaded SI Tables for Nonforfeiture

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- One comment addressed the question on whether the 2017 Loaded SI Tables would be appropriate for nonforfeiture
 - ▣ Indicated that for SI, the 2017 CSO may have mortality rates that are lower than appropriate for SI and SU business and, in particular, “for use for guaranteed cost of insurance charges on universal life products that are SU.” Noted use of the 2001 CSO may be more appropriate.

- “Joint Committee” exploring whether to withdraw definition of SU and modify definition of AUW to incorporate the entire spectrum of business not captured by SI definition.



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