



*American Council  
of Life Insurers*

# Creating Connections

## Seizing Opportunities

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Ken Johnson, CFA, CAIA, FRM

Senior Director

A.M. Best

Edward Kohlberg, CPA, CLU, FLMI

Associate Director

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# Hot Issues Breakfast

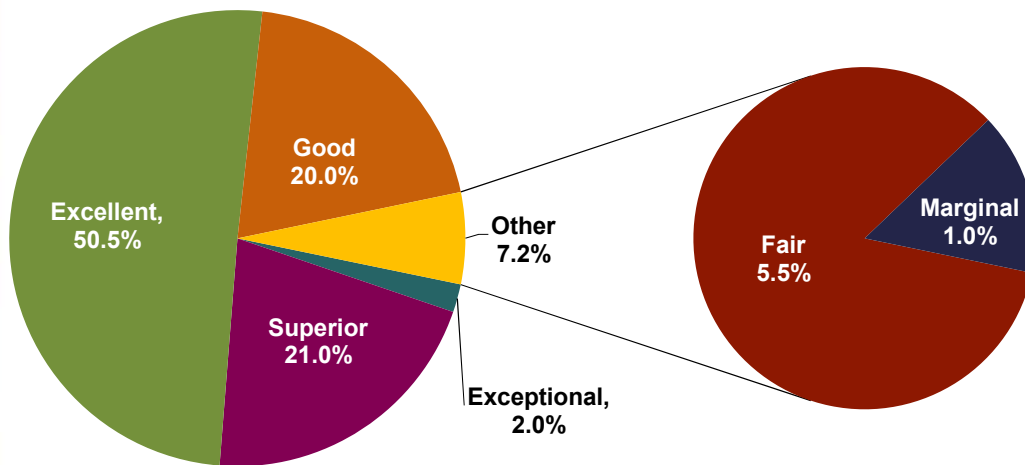
Life Insurers: Benchmarks and Innovation

# US Life Insurance Outlook

- Outlook and trends
- Factors
  - Flattening yield curve
  - Low treasury rates
  - Declining annuity sales
  - Evolving regulatory issues
  - Potential equity and credit market correction
  - Need for tech improvement

# ICR and Outlook Distribution

**US Life & Annuity – Issuer Credit Rating Distribution  
% of Total Rating Units, First Half 2018**



**Issuer Credit Rating Outlooks**

Life/Annuity		
	Rating Units	%
Stable	173	86.5
Positive	9	4.5
Negative	7	3.5
Under Review	11	5.5
Subtotal	200	100.0
E/F, rs	0	0.0
Grand Total	200	100.0

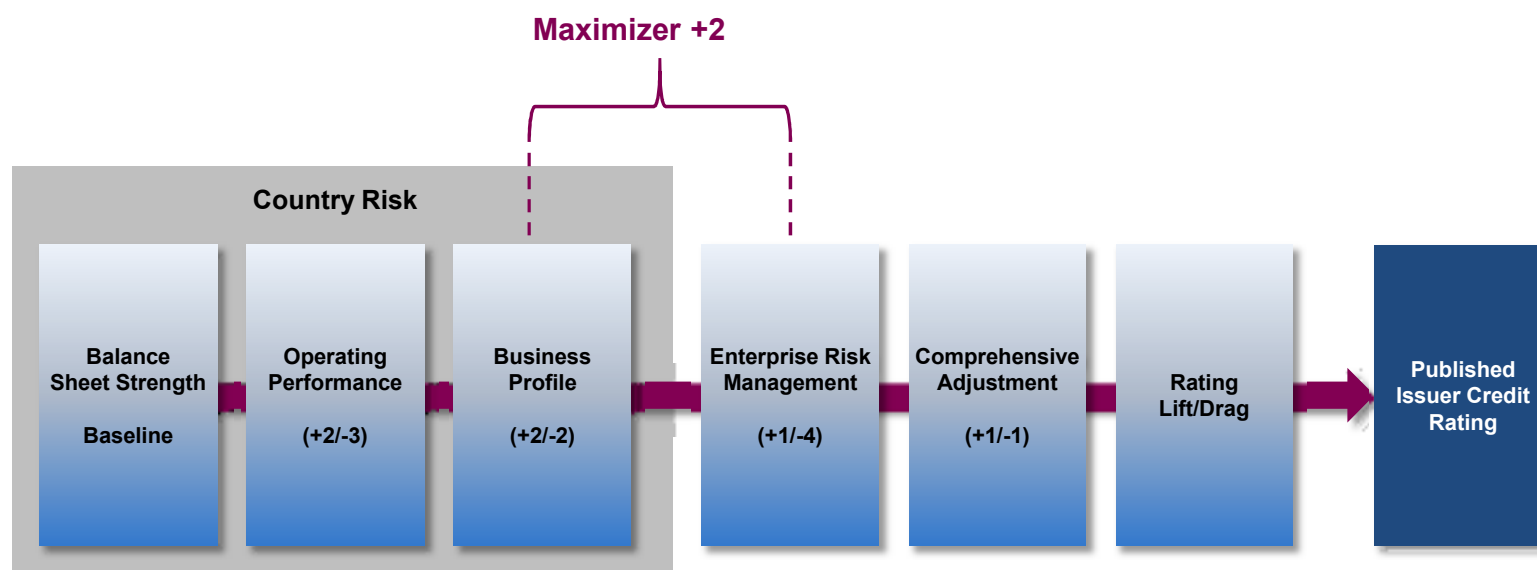
Source: A.M. Best Data and Research

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# BCRM Building Blocks



# An Updated BCRM: Building Blocks

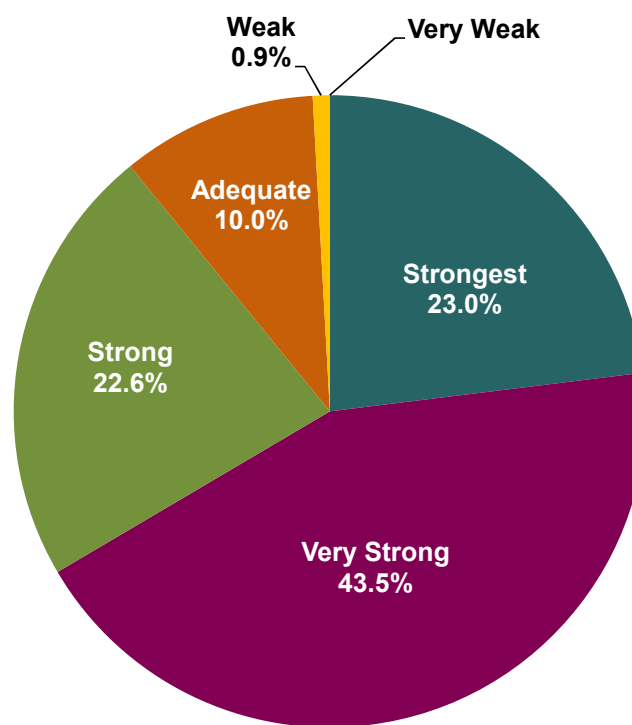


## Balance Sheet Strength Components

- |                              |  |
|------------------------------|--|
| • BCAR                       | • Quality of Capital                     |
| • Stress Tests               | • Quality of Reinsurance                 |
| • Liquidity                  | • Reinsurance Dependence                 |
| • Asset Liability Management | • Appropriateness of Reinsurance Program |
| • Internal Capital Models    | • Financial Flexibility                  |

# U.S. Life/Annuity

## Balance Sheet Strength Distribution

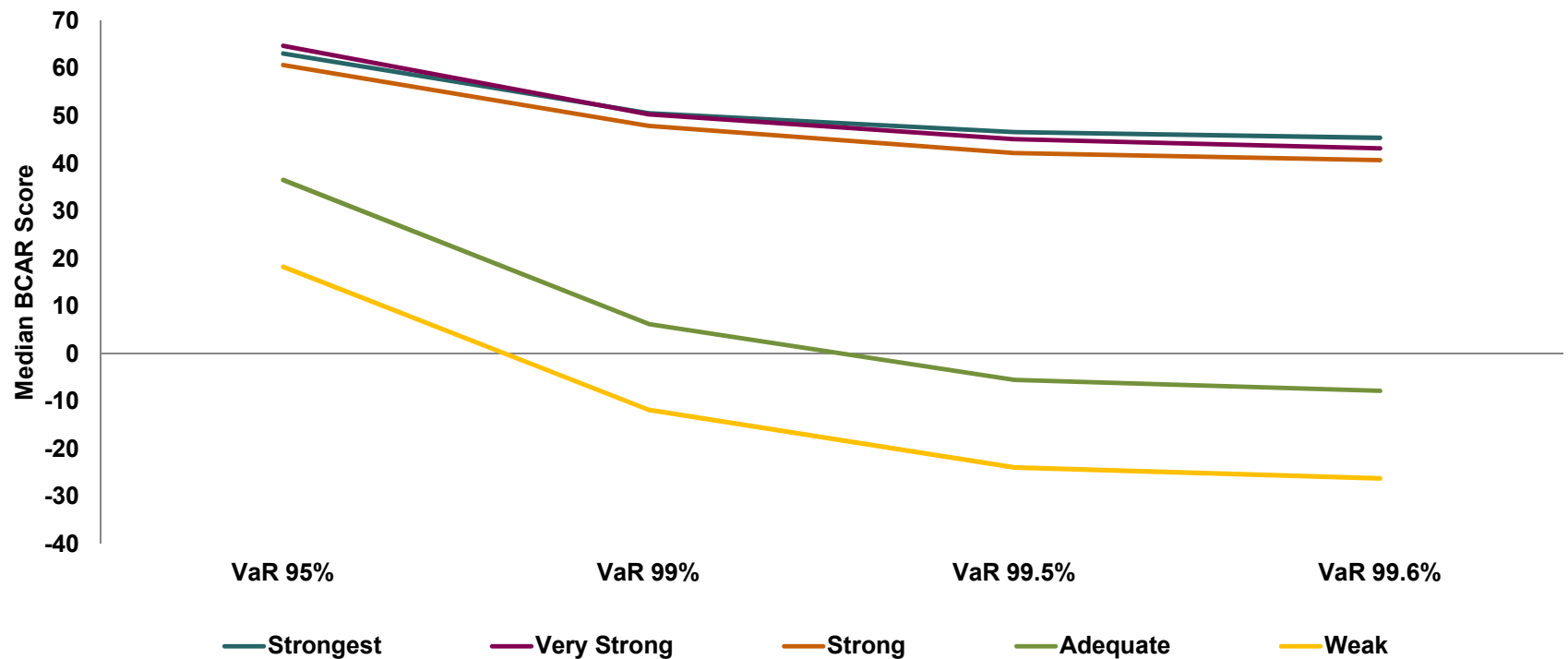


Source: A.M. Best Data and Research



# U.S. Life/Annuity

## Median BCAR Score by Balance Sheet Strength



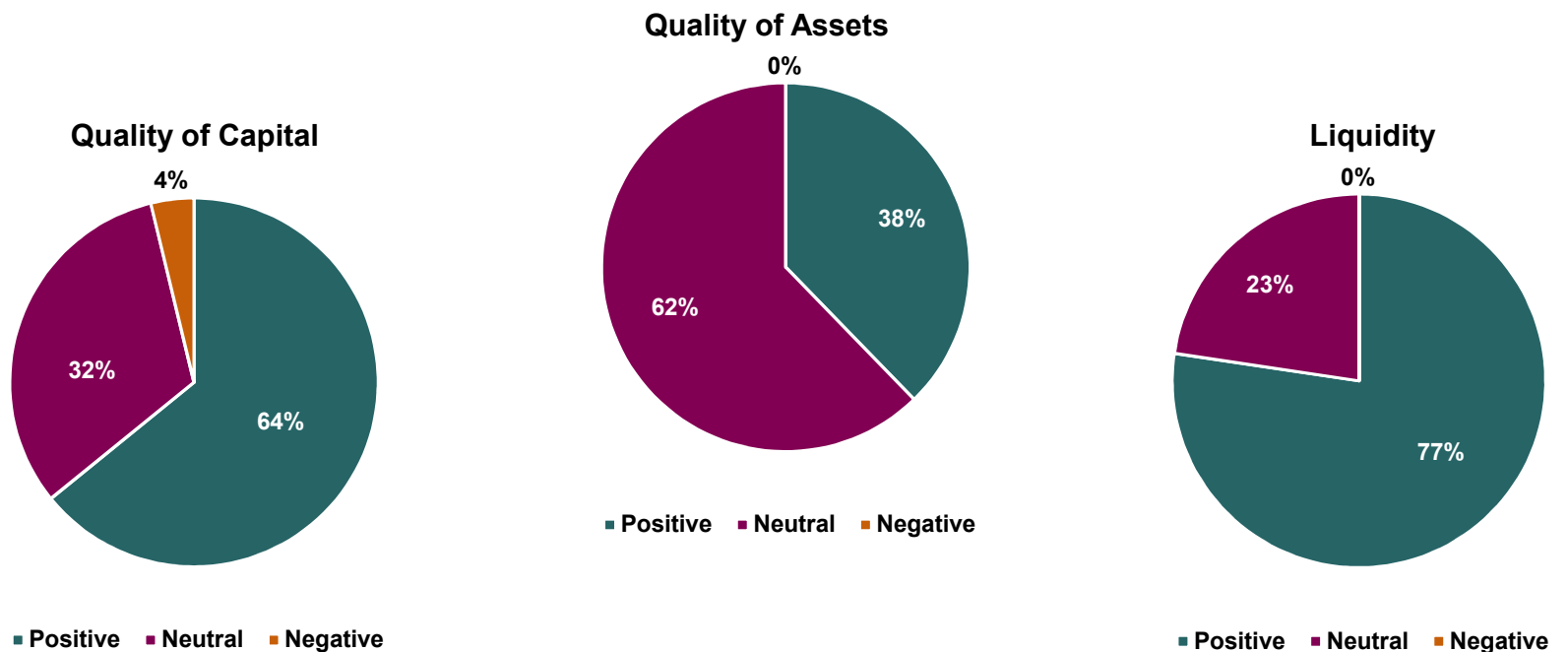
Source: A.M. Best Data and Research

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# Balance Sheet Strength

## Strongest: Sub-assessments



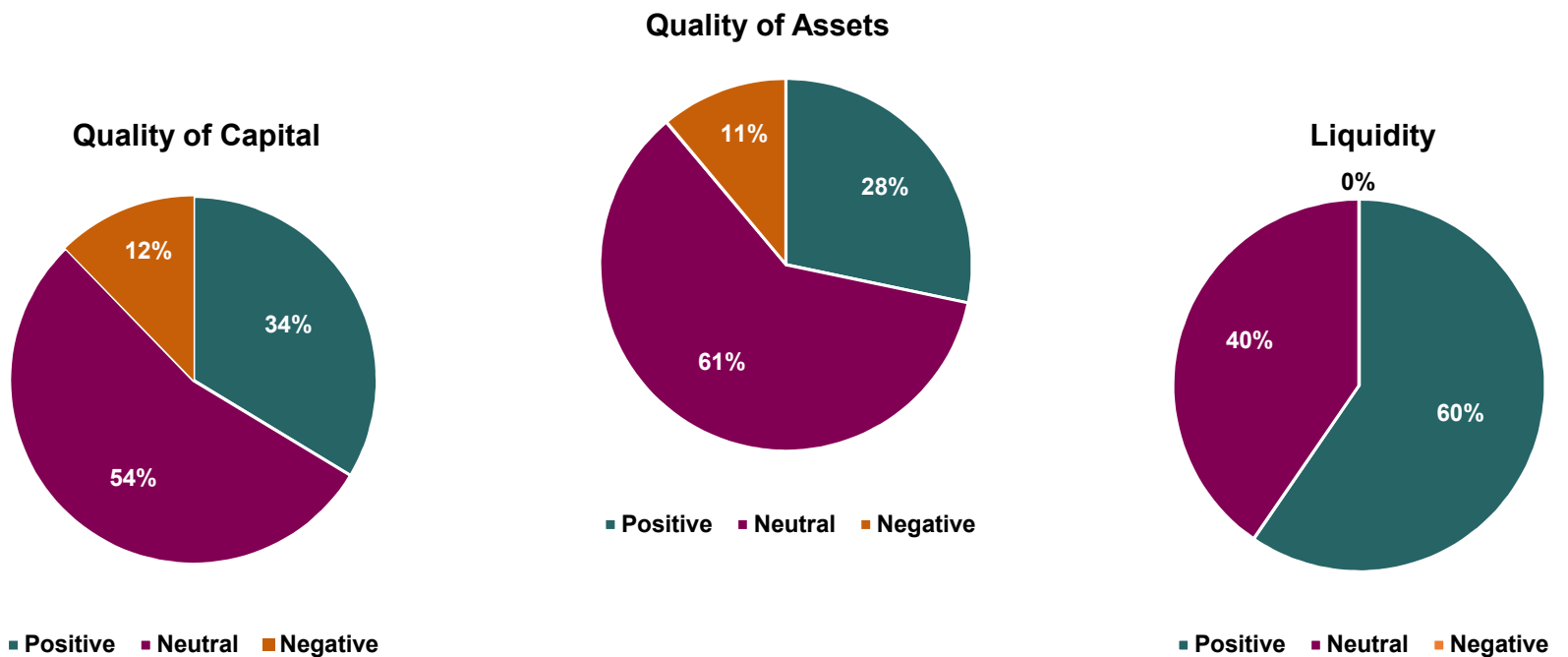
Source: A.M. Best Data and Research

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# Balance Sheet Strength

## Very Strong: Sub-assessments



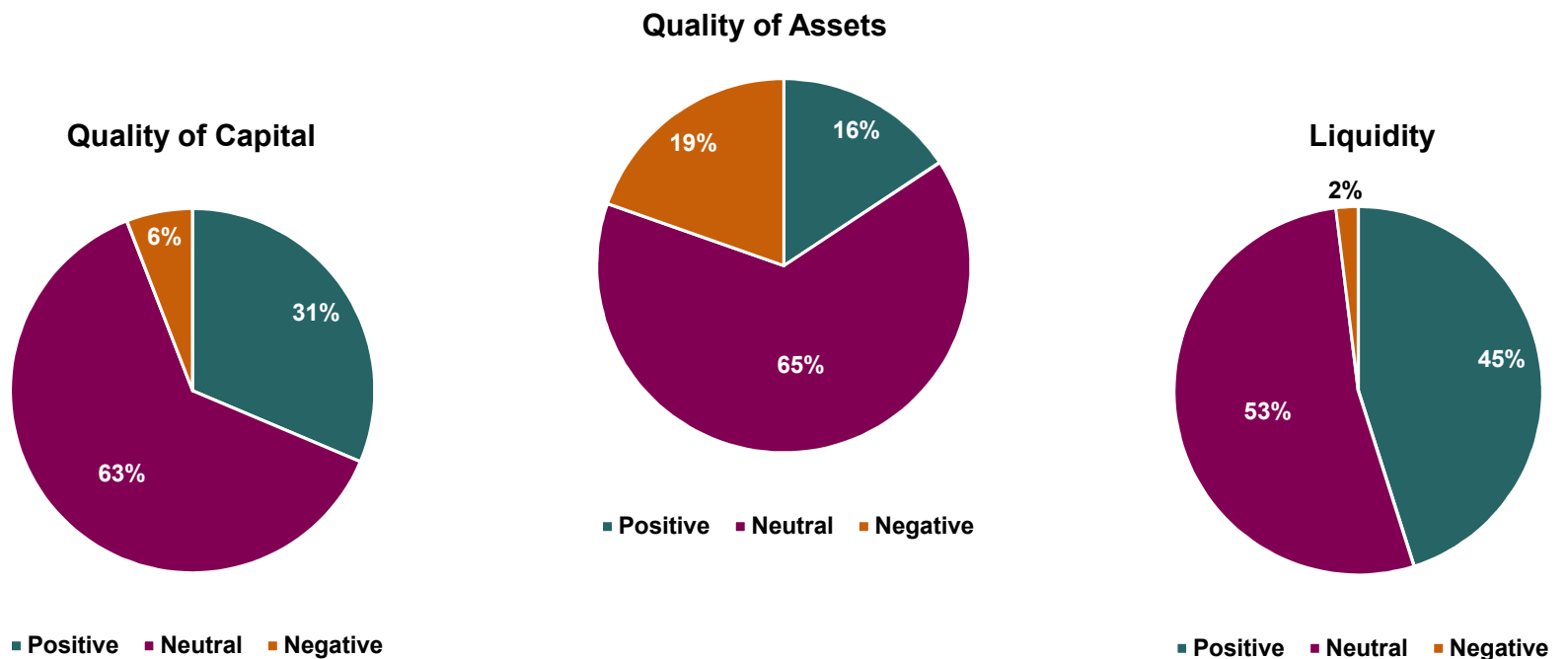
Source: A.M. Best Data and Research

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# Balance Sheet Strength

## Strong: Sub-assessments



Source: A.M. Best Data and Research

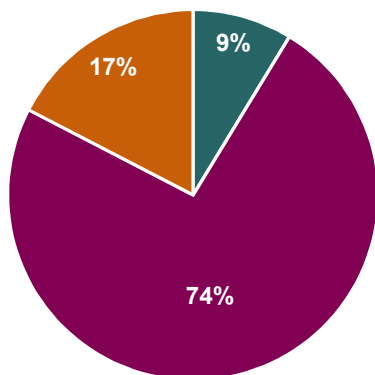
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# Balance Sheet Strength

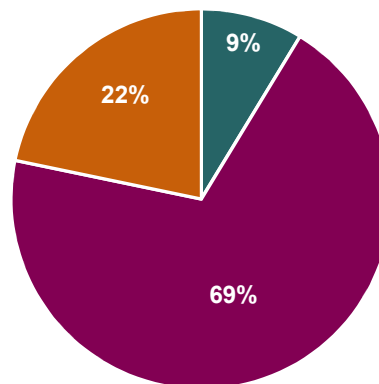
## Adequate: Sub-assessments

Quality of Capital



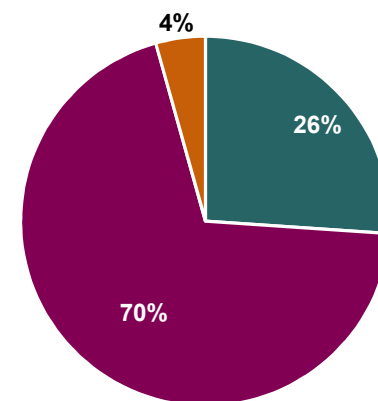
■ Positive ■ Neutral ■ Negative

Quality of Assets



■ Positive ■ Neutral ■ Negative

Liquidity



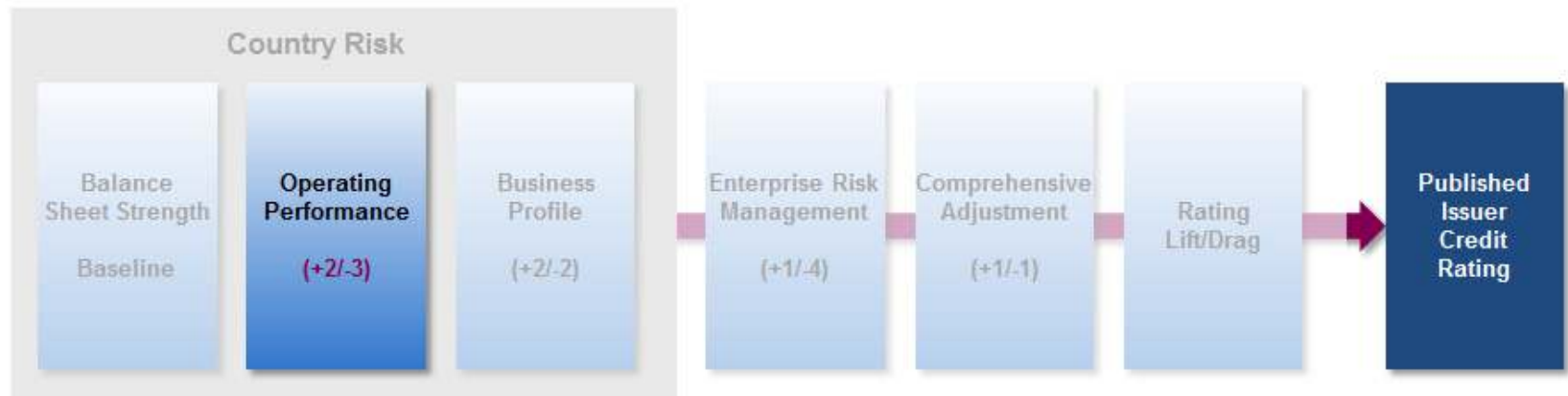
■ Positive ■ Neutral ■ Negative

Source: A.M. Best Data and Research

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# An Updated BCRM: Building Blocks



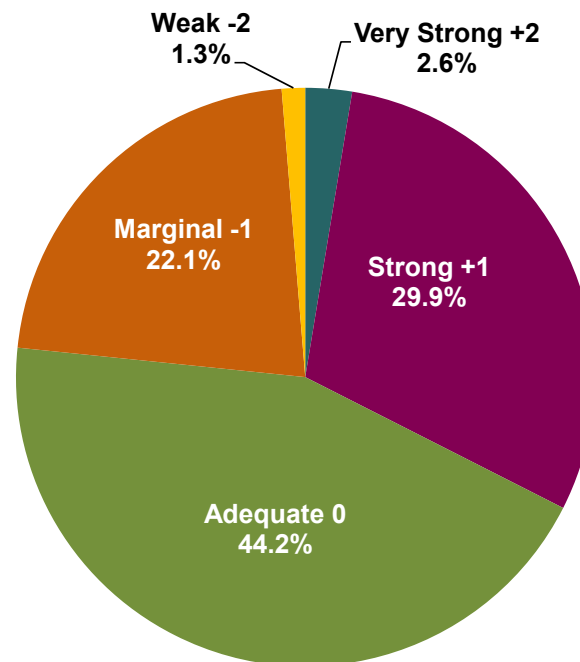
## Operating Performance Components

- Change in NPW
- Change in Total Reserves
- Financial Forecasts/Plans
- NOG to Total Assets
- Net Yield
- Pre-Tax Total Return
- Pre-Tax Operating ROR
- Operating ROE



# U.S. Life/Annuity

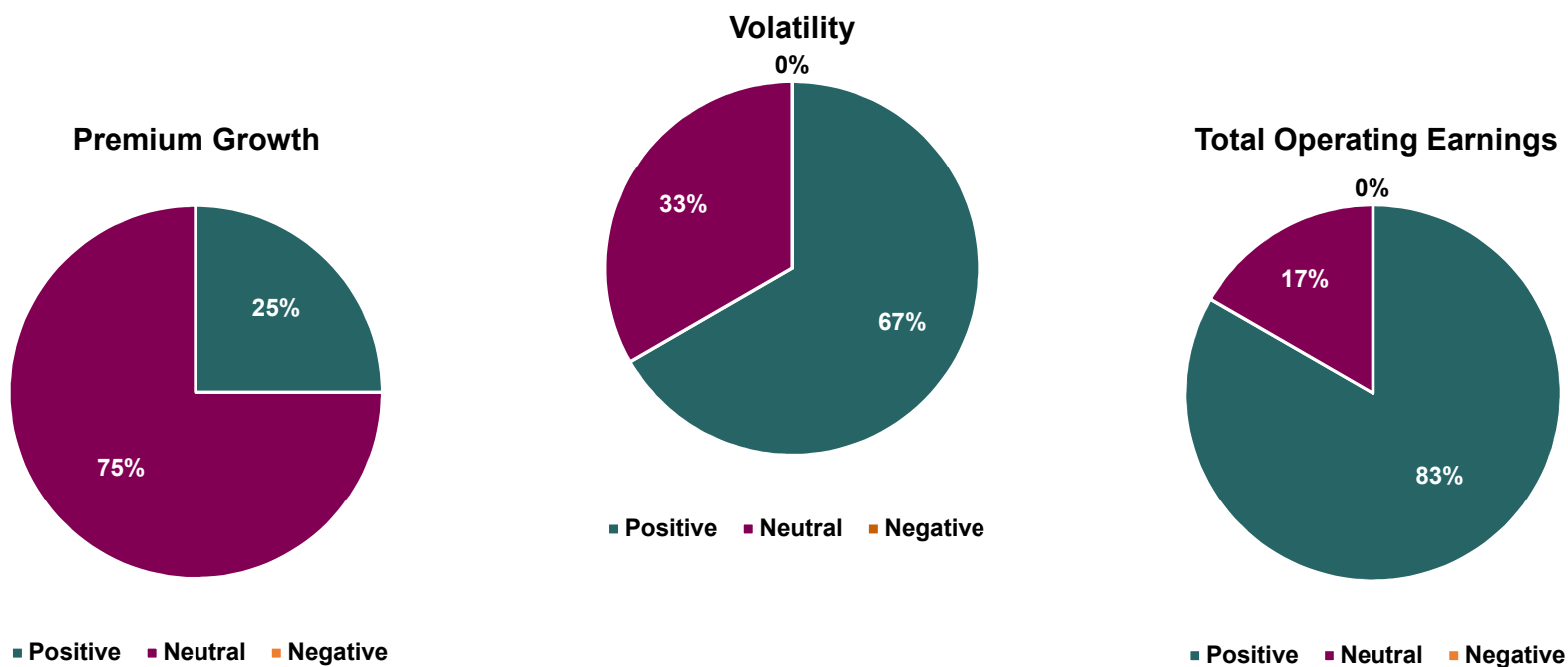
## Operating Performance Notch Distribution



Source: A.M. Best Data and Research

# Operating Performance

## Very Strong: Sub-assessments



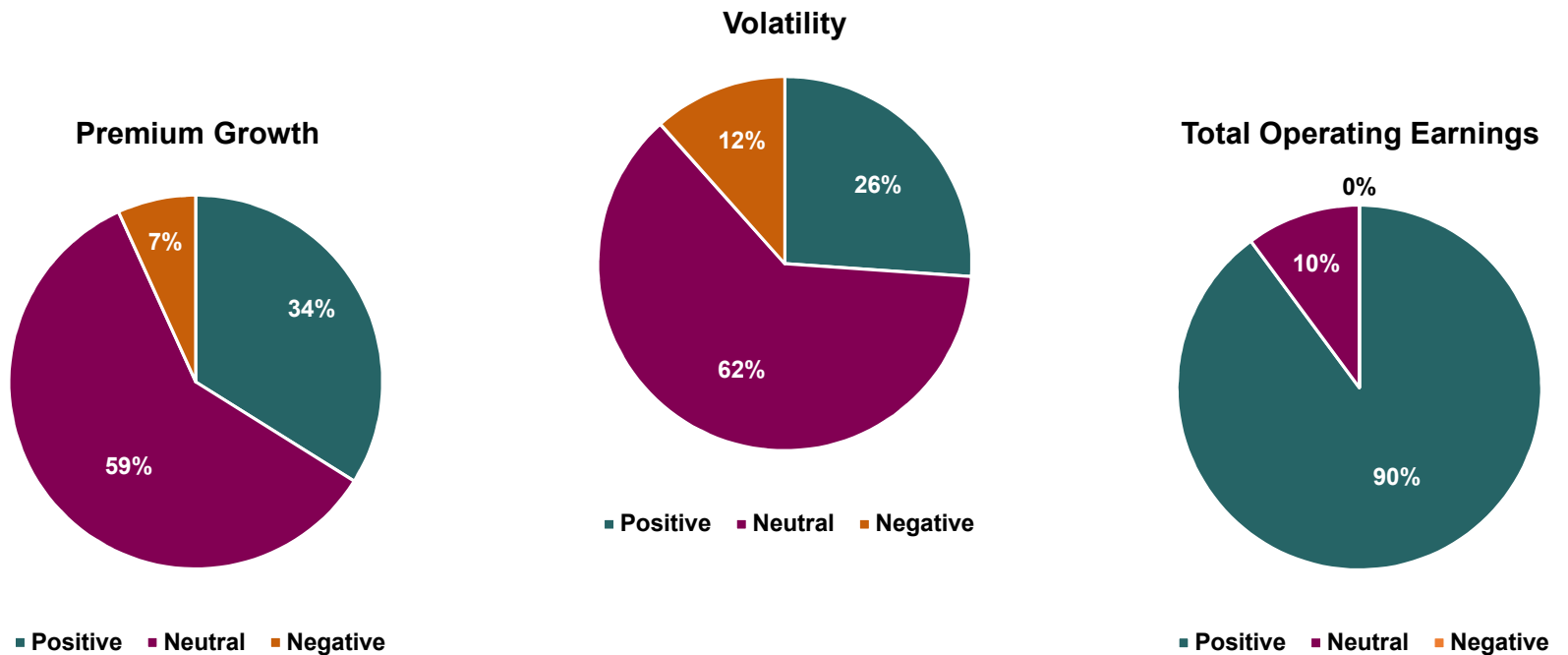
Source: A.M. Best Data and Research

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# Operating Performance

## Strong: Sub-assessments



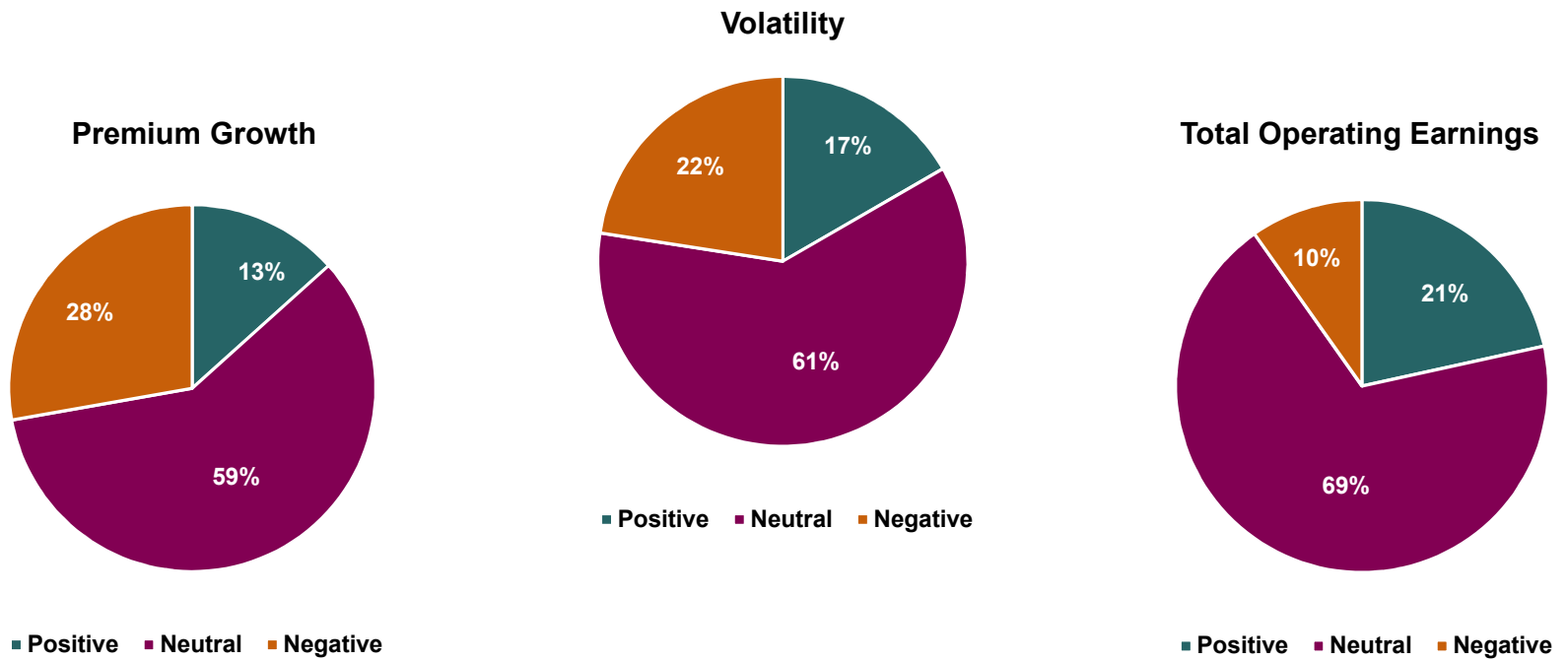
Source: A.M. Best Data and Research

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# Operating Performance

## Adequate: Sub-assessments



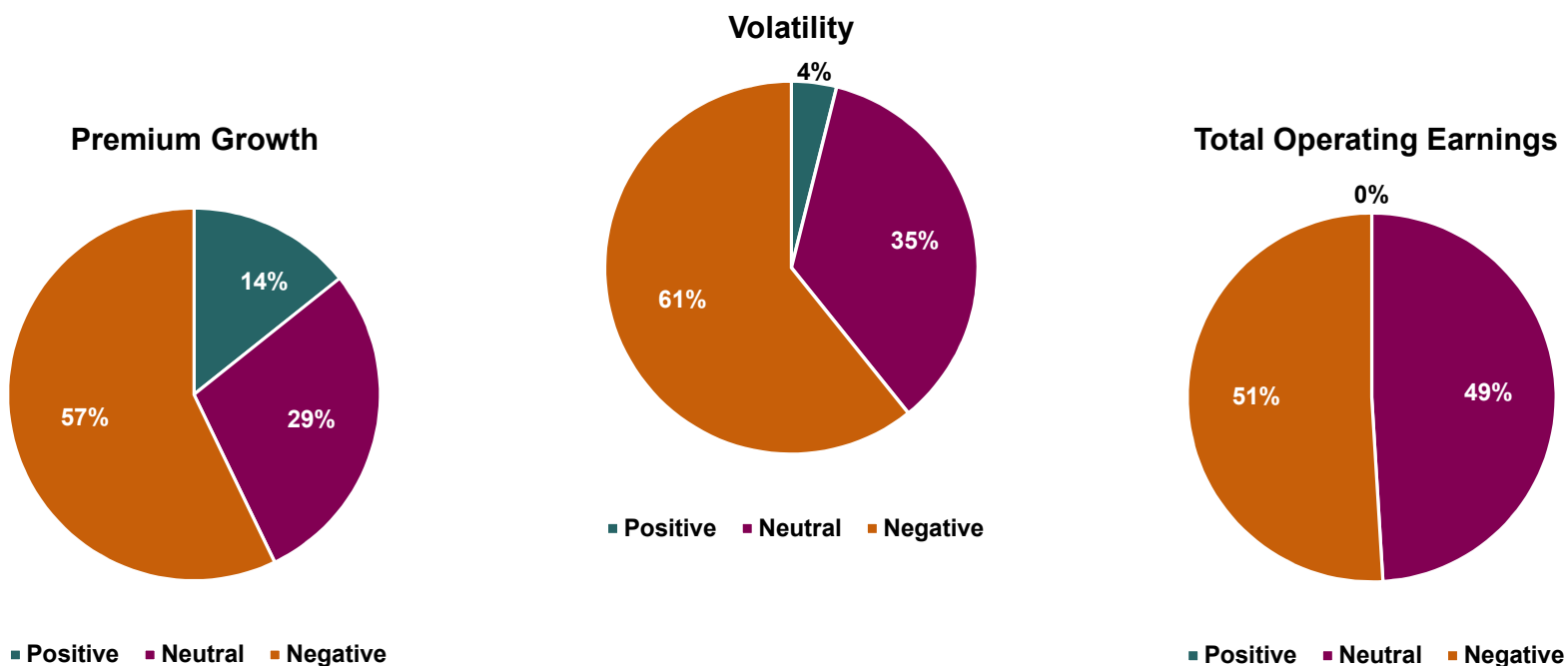
Source: A.M. Best Data and Research

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# Operating Performance

Marginal: Sub-assessments

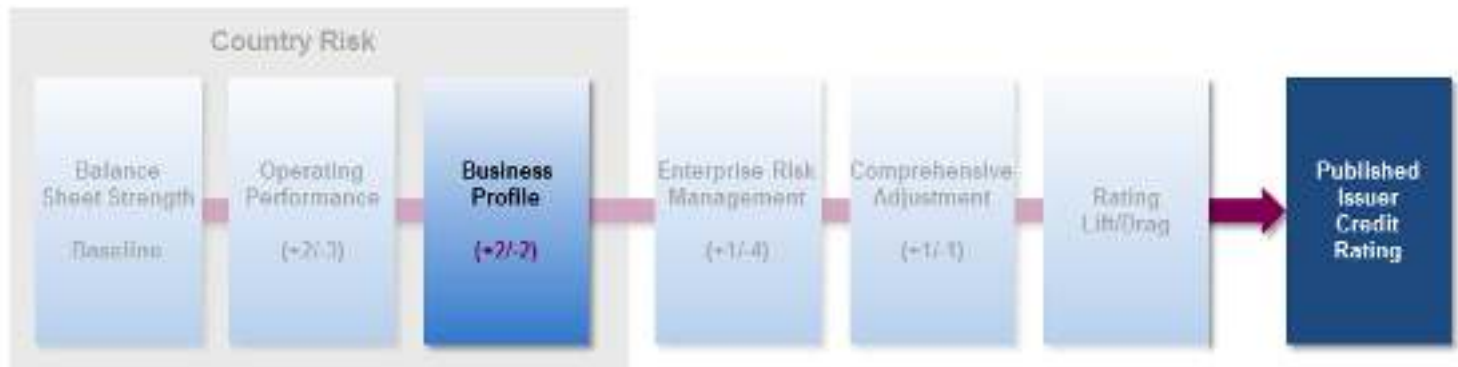


Source: A.M. Best Data and Research

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# An Updated BCRM: Building Blocks



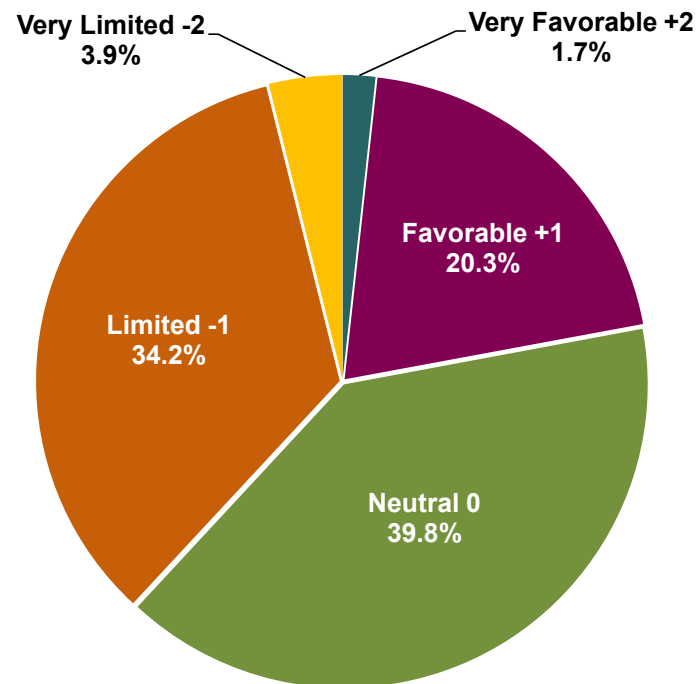
## Business Profile Components

- Market Position
- Pricing Sophistication & Data Quality
- Product Risk
- Degree of Competition
- Management Quality
- Regulatory, Event, and Country Risks
- Distribution Channels
- Product/Geographic Concentration



# U.S. Life/Annuity

## Business Profile Notch Distribution



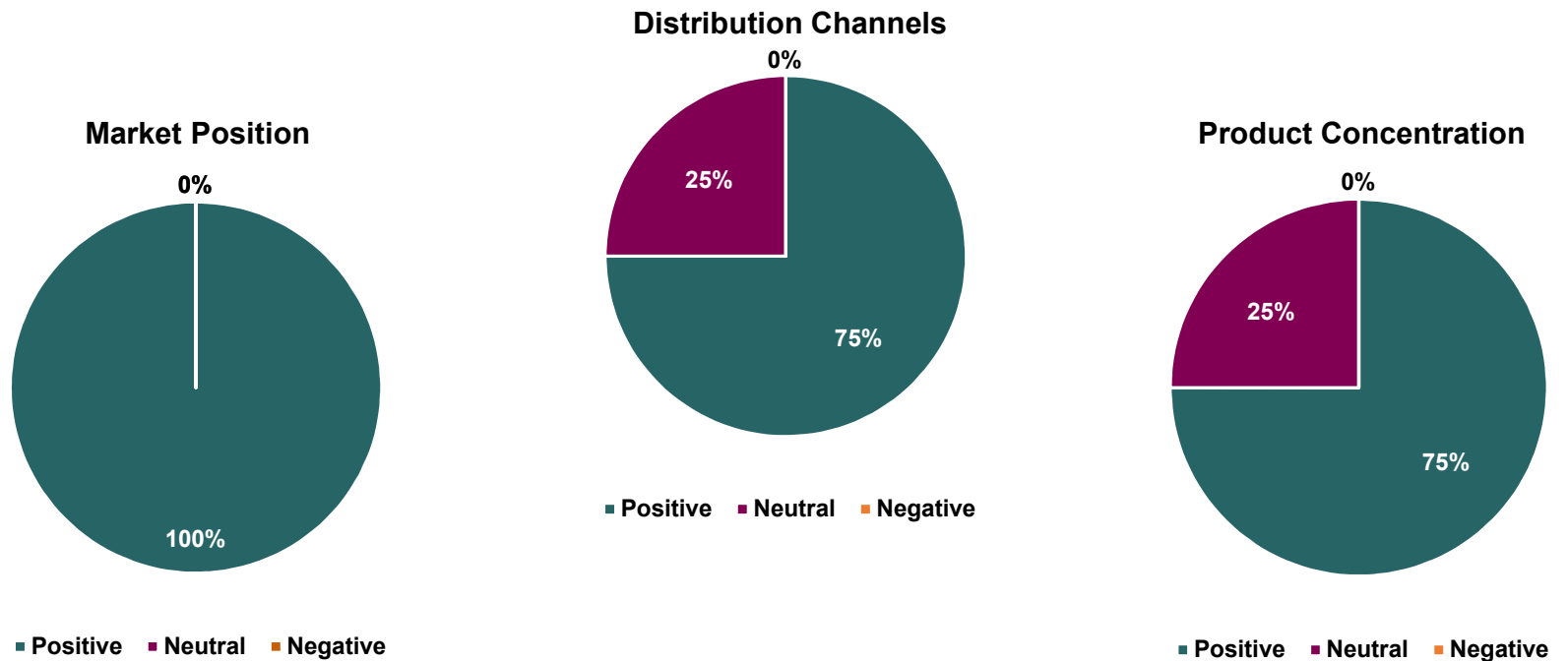
Source: A.M. Best Data and Research

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# Business Profile

## Very Favorable: Sub-assessments



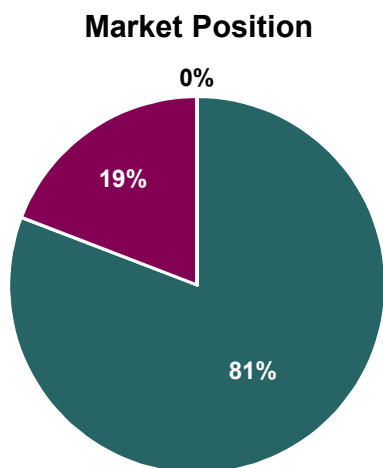
Source: A.M. Best Data and Research

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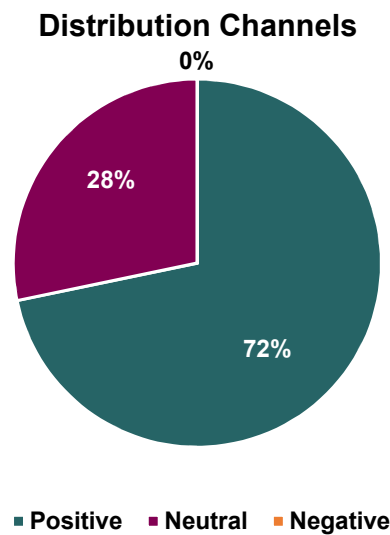
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# Business Profile

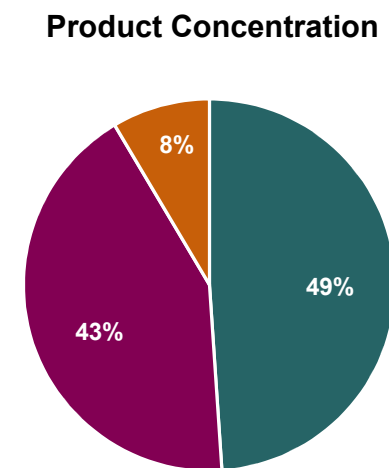
## Favorable: Sub-assessments



■ Positive ■ Neutral ■ Negative



■ Positive ■ Neutral ■ Negative



■ Positive ■ Neutral ■ Negative

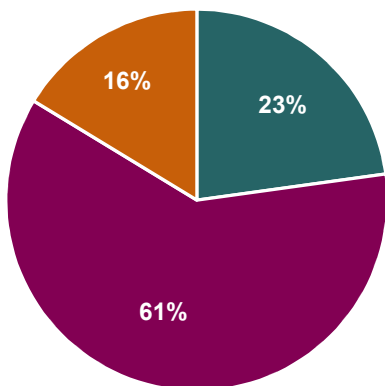
Source: A.M. Best Data and Research

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# Business Profile

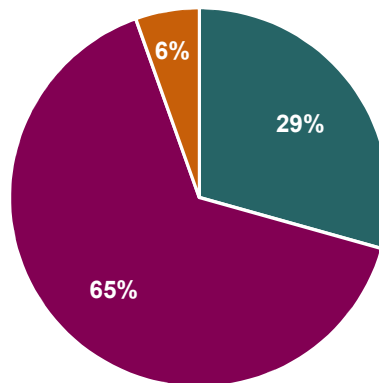
## Neutral: Sub-assessments

Market Position



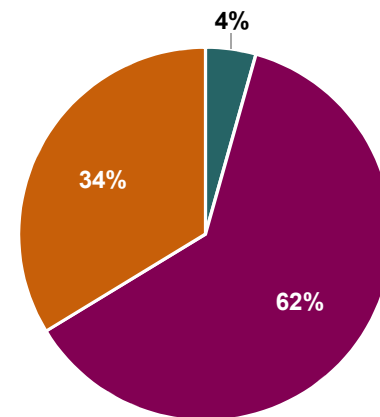
■ Positive ■ Neutral ■ Negative

Distribution Channels



■ Positive ■ Neutral ■ Negative

Product Concentration



■ Positive ■ Neutral ■ Negative

Source: A.M. Best Data and Research

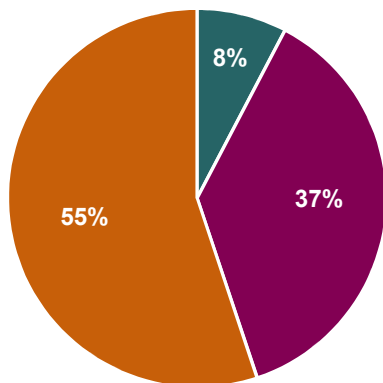
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# Business Profile

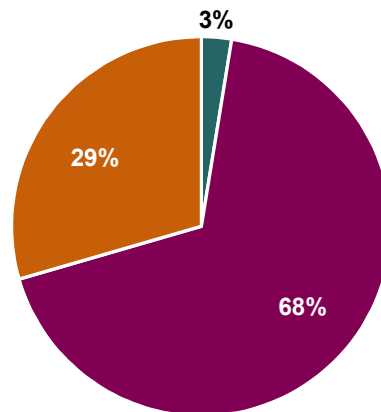
## Limited: Sub-assessments

Market Position



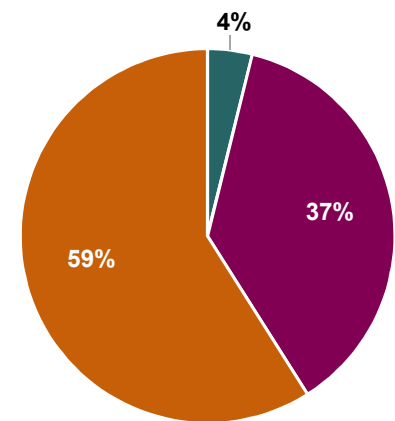
■ Positive ■ Neutral ■ Negative

Distribution Channels



■ Positive ■ Neutral ■ Negative

Product Concentration



■ Positive ■ Neutral ■ Negative

Source: A.M. Best Data and Research

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# An Updated BCRM: Building Blocks



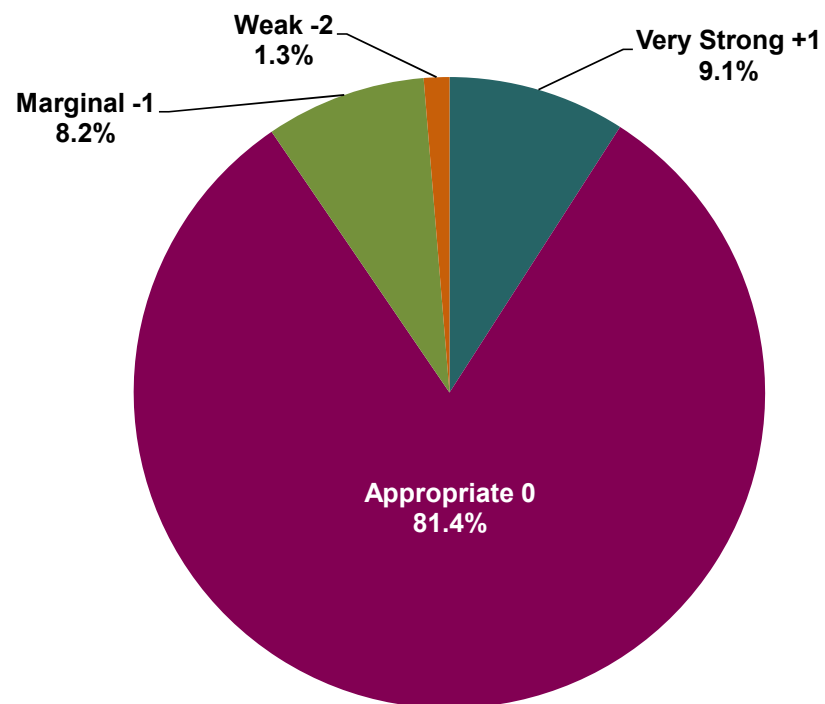
## Enterprise Risk Management Framework Components

- Risk Identification and Reporting
- Risk Management and Controls
- Risk Appetite and Tolerances
- Governance and Risk Culture
- Stress Testing



# U.S. Life/Annuity

## Enterprise Risk Management Notch Distribution



Source: A.M. Best Data and Research

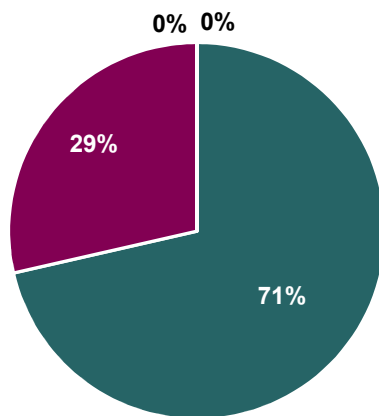
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# ERM

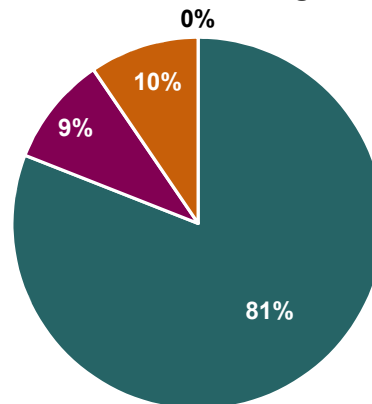
## Very Strong: Sub-assessments

Risk Identification & Reporting



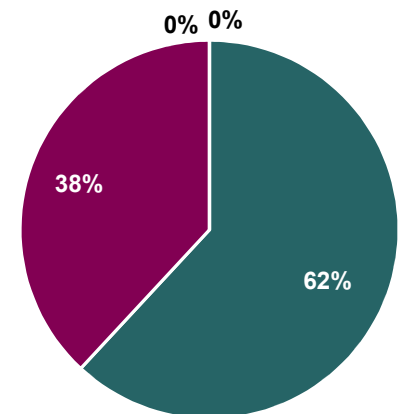
■ Embedded ■ Developed ■ Emerging ■ Nascent

Stress Testing



■ Embedded ■ Developed ■ Emerging ■ Nascent

Liquidity/Cap MGMT



■ Above ■ In-Line ■ Below ■ Very Below

Source: A.M. Best Data and Research

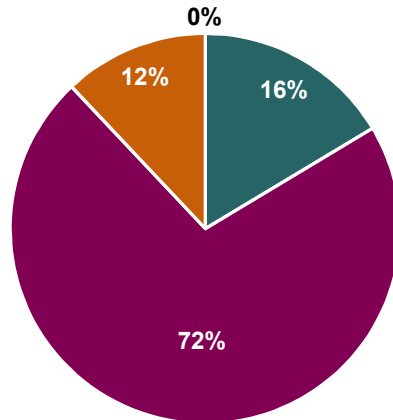
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# ERM

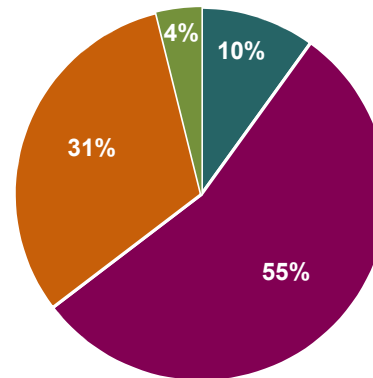
## Appropriate: Sub-assessments

Risk Identification & Reporting



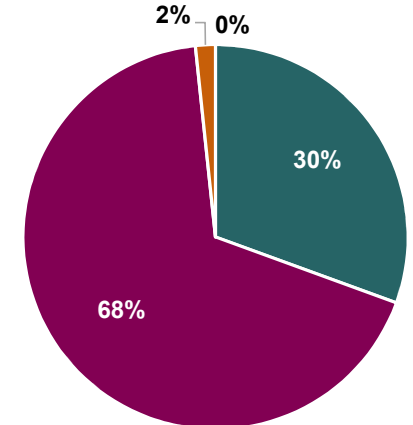
■ Embedded ■ Developed ■ Emerging ■ Nascent

Stress Testing



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Liquidity/Cap MGMT



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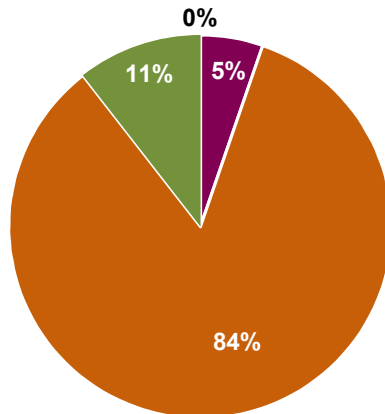
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# ERM

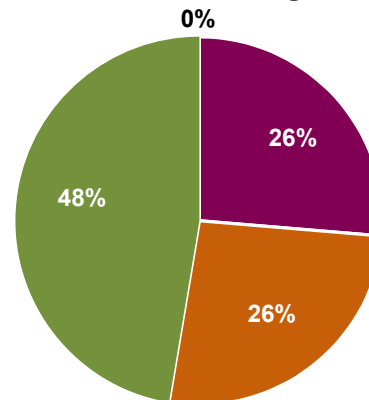
## Marginal: Sub-assessments

Risk Identification & Reporting



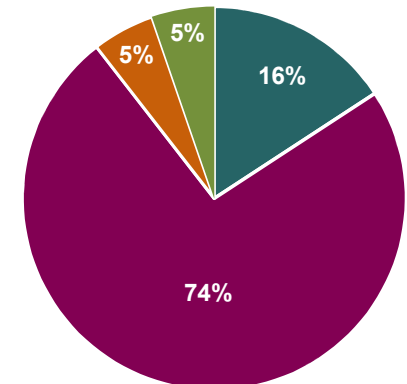
■ Embedded ■ Developed ■ Emerging ■ Nascent

Stress Testing



■ Embedded ■ Developed ■ Emerging ■ Nascent

Liquidity/Cap MGMT



■ Above ■ In-Line ■ Below ■ Very Below

Source: A.M. Best Data and Research

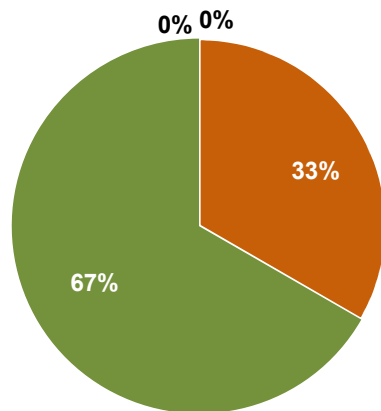
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# ERM

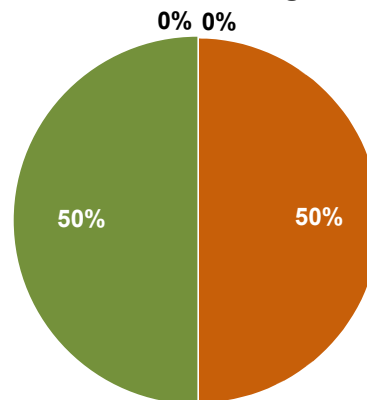
## Weak: Sub-assessments

Risk Identification & Reporting



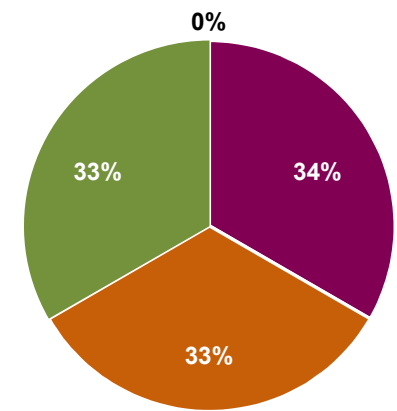
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Stress Testing



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Liquidity/Cap MGMT



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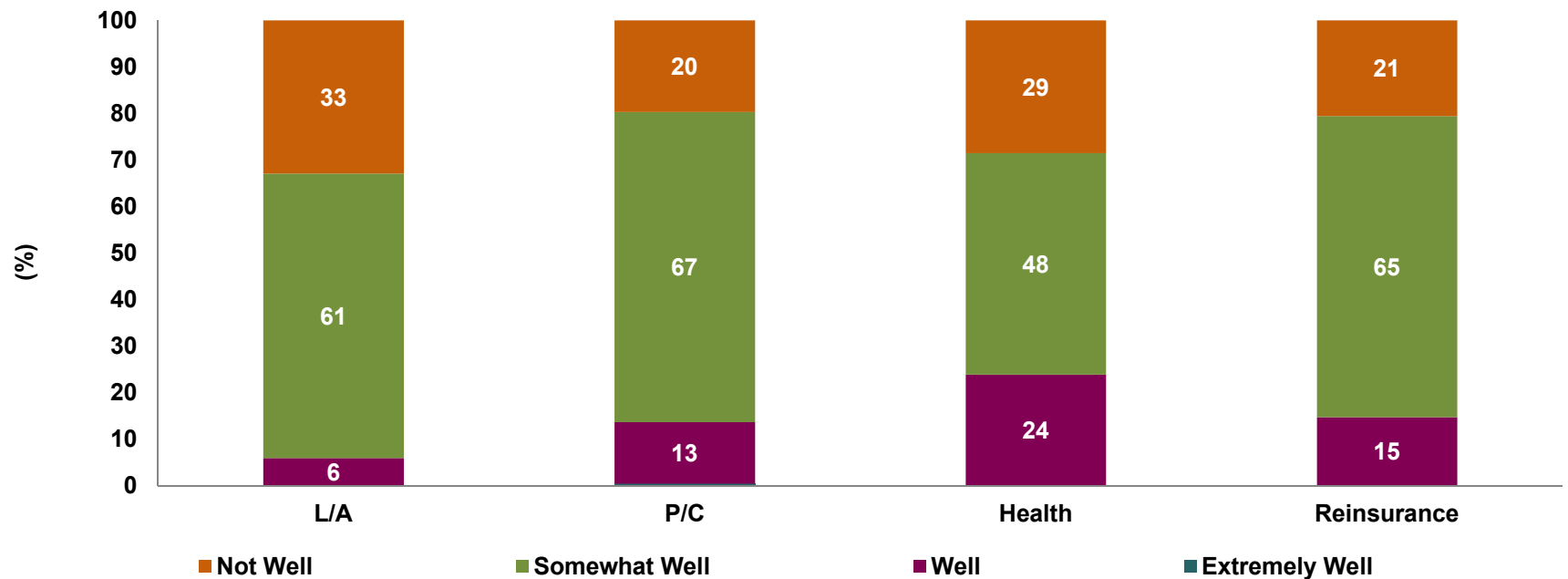
Source: A.M. Best Data and Research

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# Innovation

How Well Has the Insurance Industry Adopted & Implemented Innovation?



Source: A.M. Best Data and Research

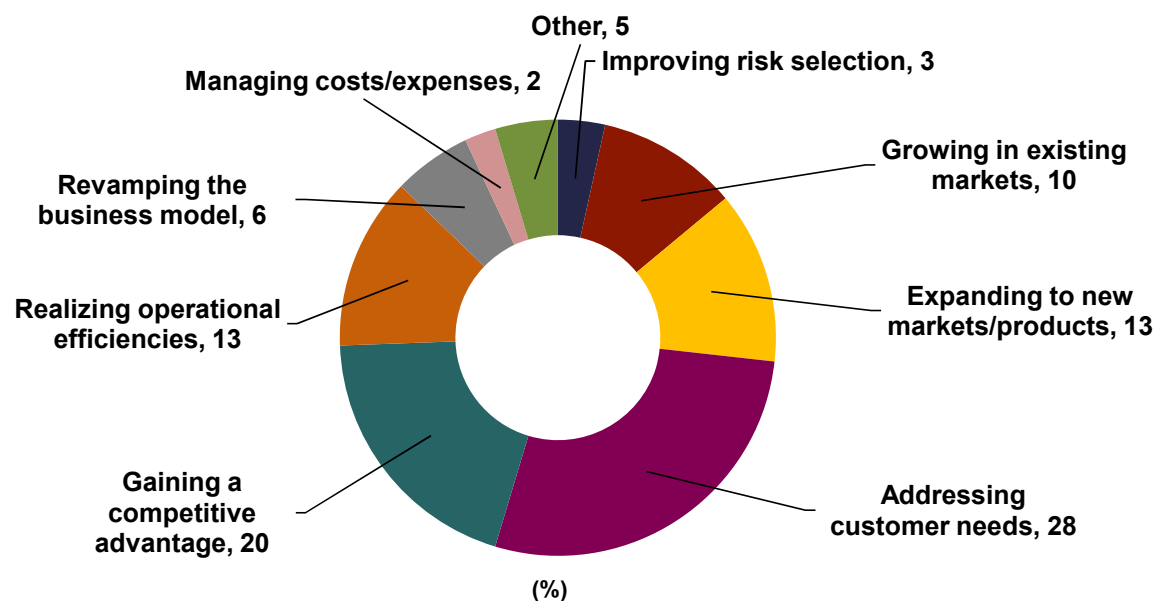
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# Innovation

**What Is the Primary Reason Innovation Is Important to Your Organization?**



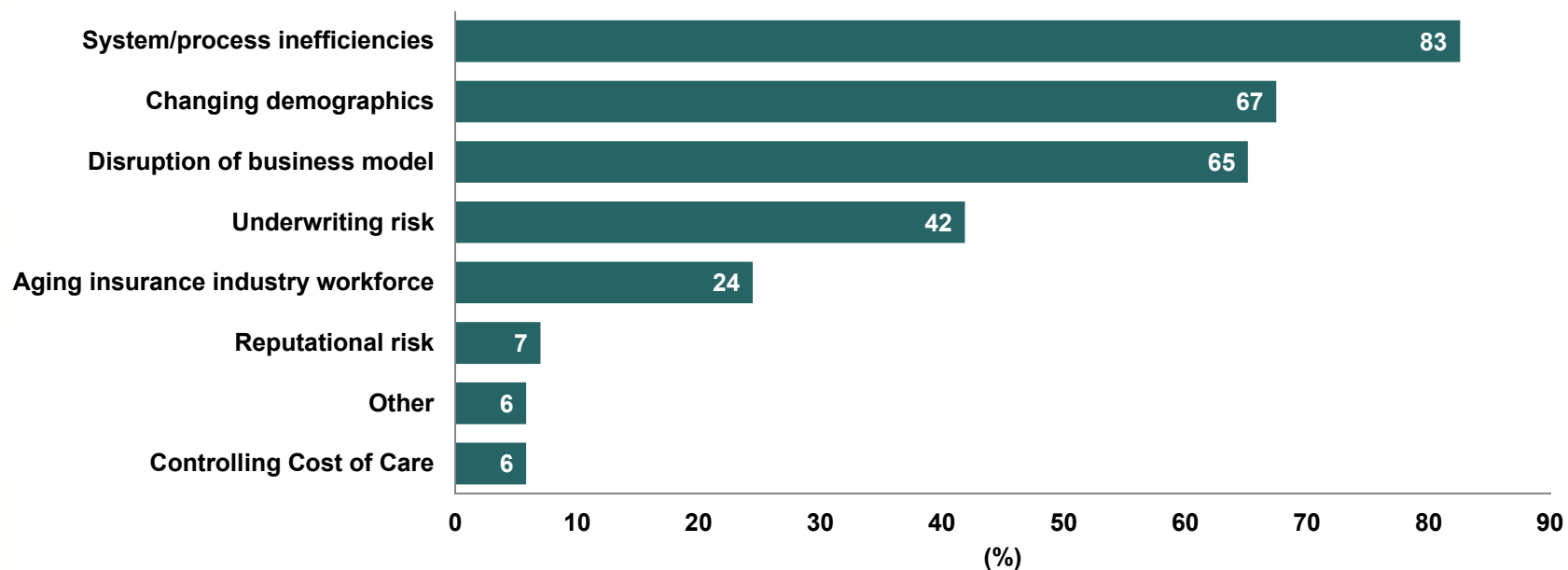
Source: A.M. Best Data and Research

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# Innovation

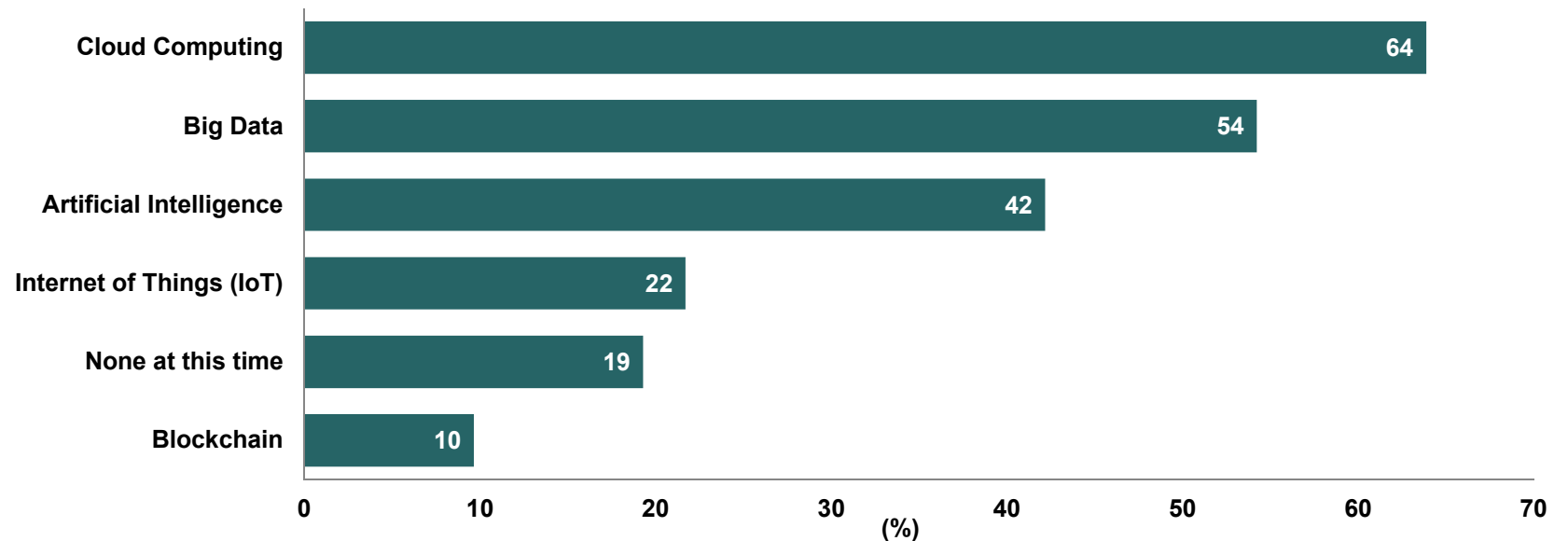
## Three Most Important Challenges Innovation Can Help Insurers Overcome



Source: A.M. Best Data and Research

# Innovation

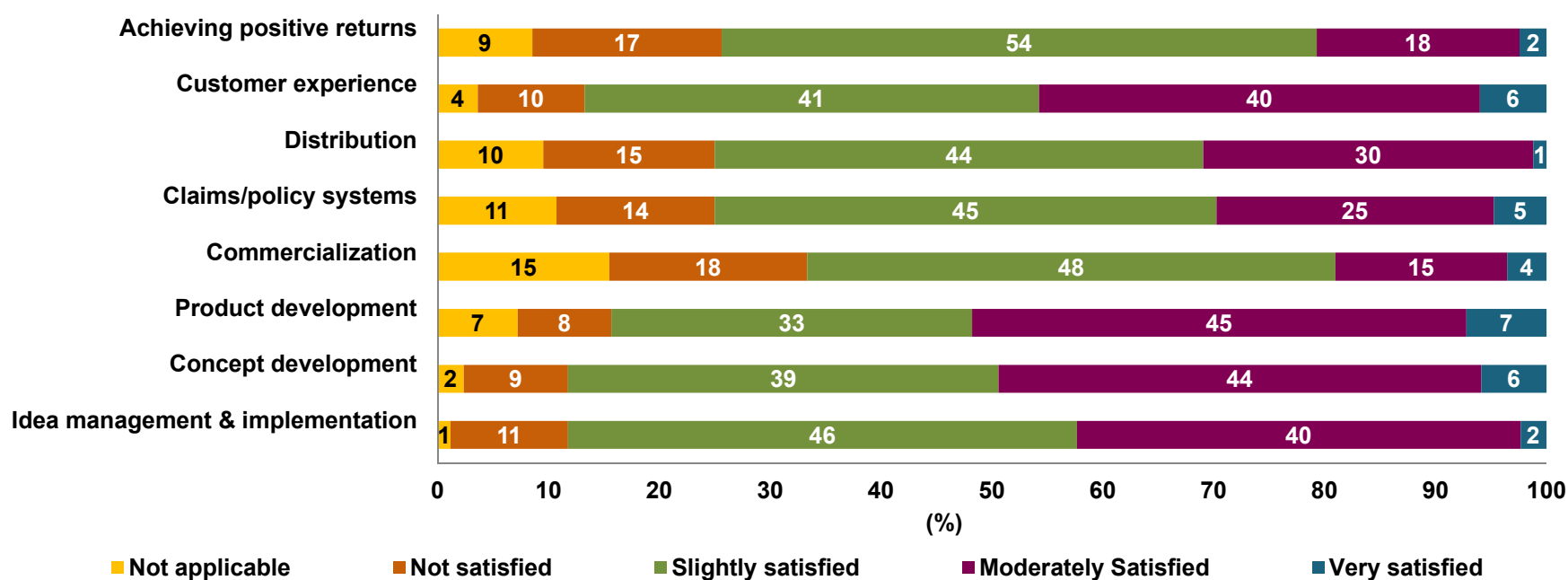
Has Your Company Invested, or Is It Planning to Invest, in Any of the Following?



Source: A.M. Best Data and Research

# Innovation

What Are Your Company's Satisfaction Levels with Your Innovation Efforts as They Relate to the Following Areas?

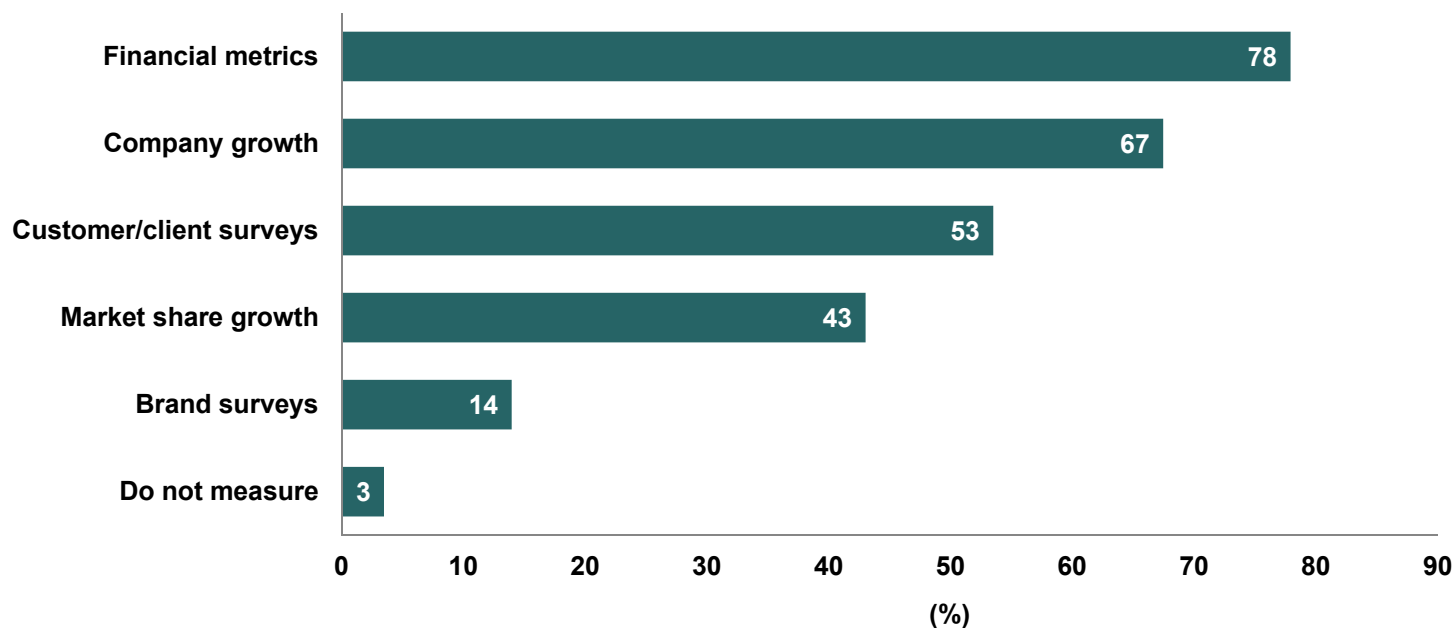


Source: A.M. Best Data and Research

36

# Innovation

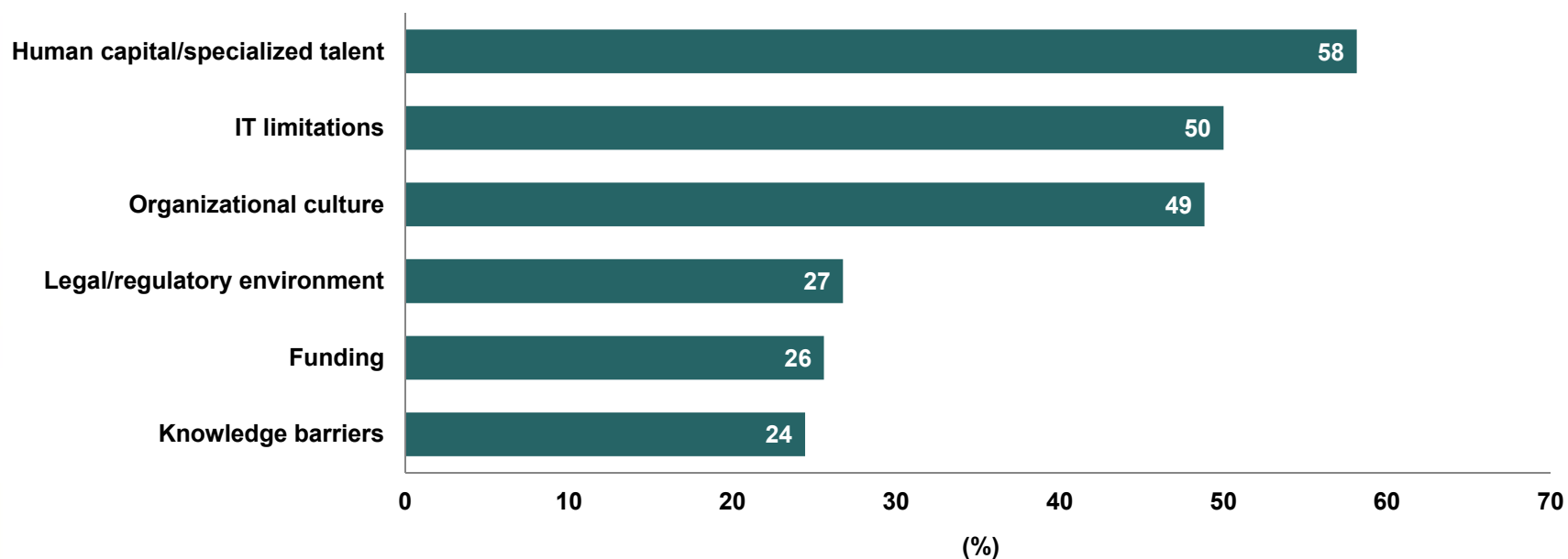
## How Do You Measure the Success of Your Innovation Initiatives?



Source: A.M. Best Data and Research

# Innovation

## What Are the Biggest Challenges to Developing the Innovation Process?

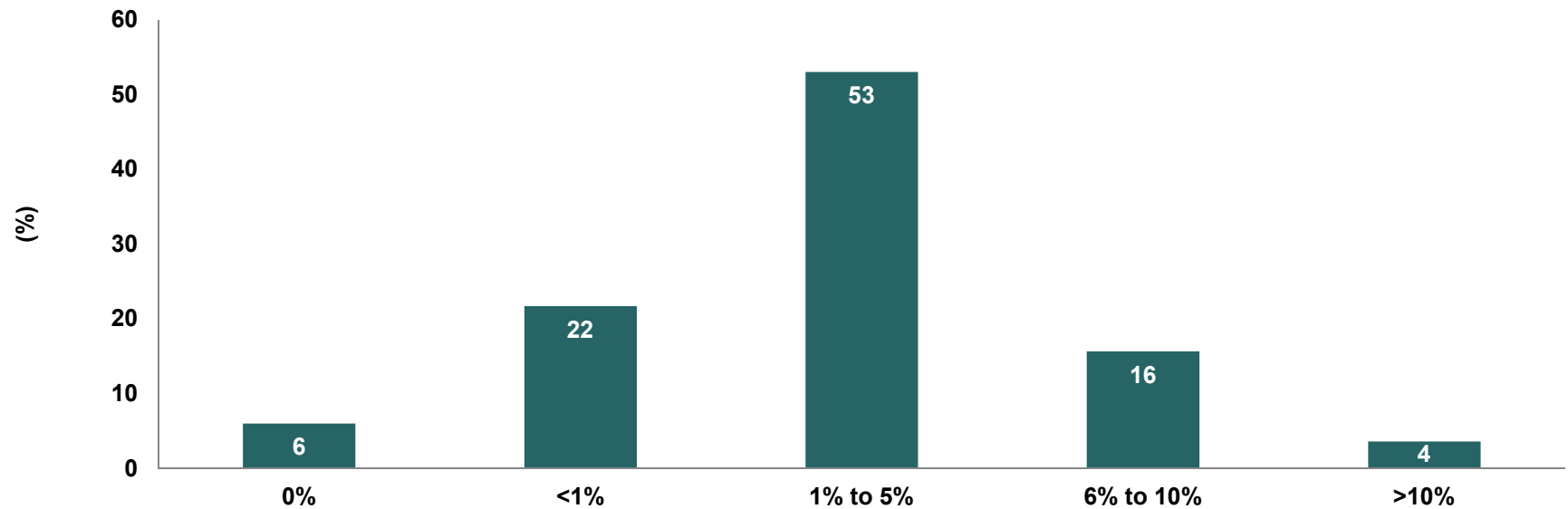


Source: A.M. Best Data and Research



# Innovation

What Percentage of Your Company's Total Annual Budget Is Allocated to Innovation?

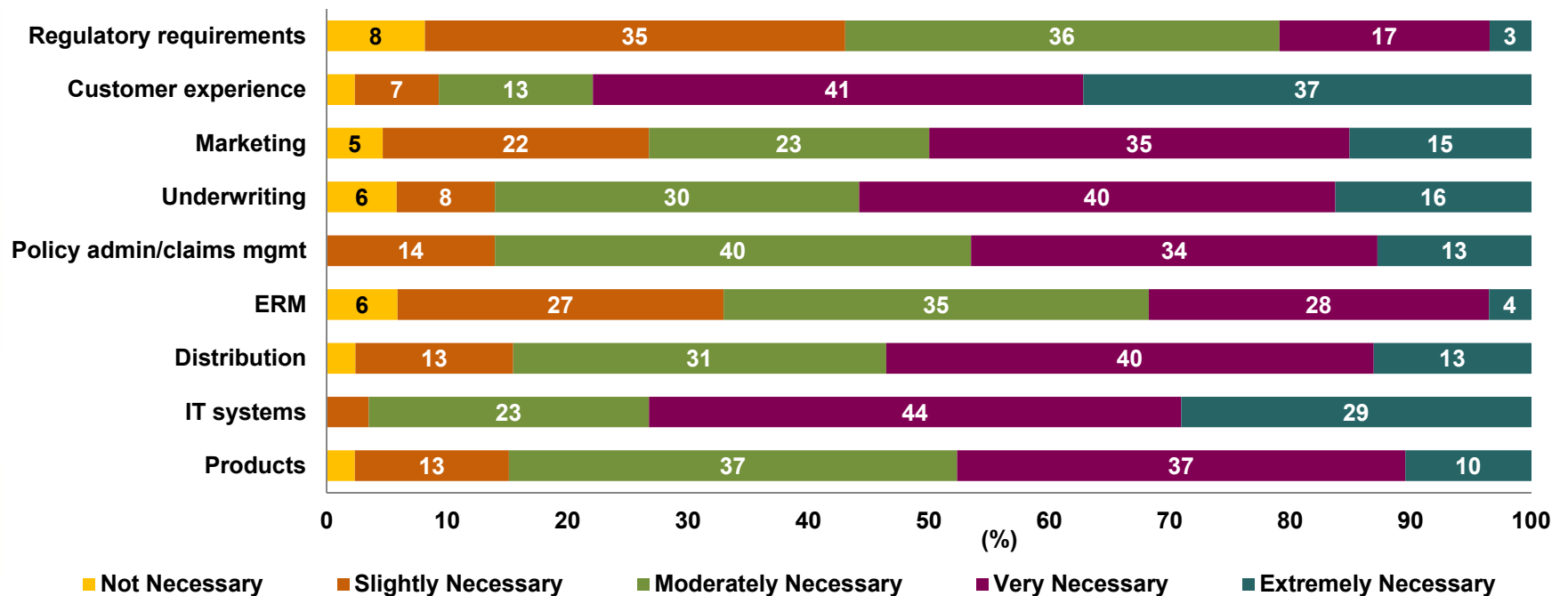


Source: A.M. Best Data and Research



# Innovation

How Necessary Is It to Innovate in the Following Areas?



Source: A.M. Best Data and Research

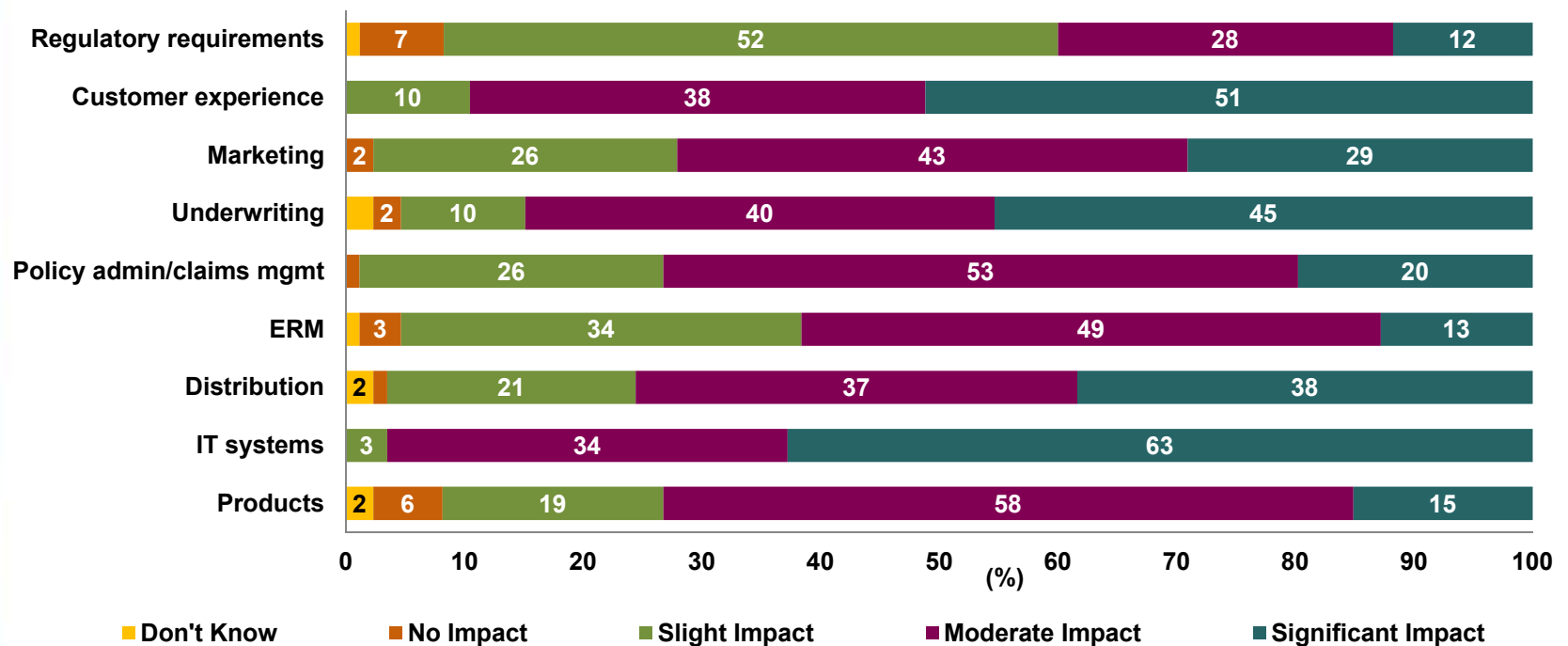
40

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# Innovation

To What Degree Do You Expect Innovation to Affect the Following Areas Over the Next Three Years?



Source: A.M. Best Data and Research

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# Thank You

Ken Johnson, CFA, CAIA, FRM

Senior Director

Edward Kohlberg, CPA, FLMI, CLU

Associate Director



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