

POLICY ANALYSIS

Full Disclosure's Universal Life Report

By Roger L. Blease

In the last installment on Universal Life insurance that appeared in the March 31 issue, we noted that sales growth, in part, continues to be driven by the popularity of "secondary" guarantees. These guarantees protect the death benefit and premium outlay in the event current credited interest rates fall.

What really has taken the industry by storm is selling UL on a minimum premium basis with these secondary guarantees all the way out to age 100—or even for life. The pitch is obvious: For a low premium you can get guaranteed level premium coverage for as long as you live; in effect, term insurance for life with potential cash values at a cost less than whole life or even term.

The emergence of this trend in product design and placement is sparking a dramatic change in direction in the cash value life insurance market. The emphasis among many insurers to low premium outlay with long-term guarantees is causing nearly all

upper-market companies to add a product (or rider to an existing product) to their portfolios to compete. At the very least they have to judge the impact on their sales as long as interest crediting rates stay low and their marketing focus remains on the cash value accumulation market.

The catch—and the whole life companies are quick and correct in pointing this out—is that long-term guarantees are dependent on not changing the policy or missing a premium payment. A change in face amount or death benefit option could void the guarantee, and if the policy has no premium "catch-up" provision to bring premium payments up to a level required to fund the guarantee, that, too, could end it.

Many new products are designed to be flexible with riders or features to accommodate change, and nearly all policies have some kind of provision if premiums are missed, but some

are more liberal than others.

Full Disclosure surveys leading insurers selling universal life twice per year. The charts in this report are an excerpt of our latest findings on products for sale on July 1, 2003, or released soon after. These values are meant to be a snapshot of how individual universal life plans are

being illustrated on the street as a way to gauge their relative positions for our sample policyholder.

There are two tabular charts to this report. The larger one is illustrations based on a Male Age 40 paying a \$7,500 annual premium on a \$1 million policy. If our specified premium of \$7,500 is too low to illustrate the policy for this age and face amount, the policies are blended with term insurance if available. The death benefit type is level; however, a column is included with a true increasing death benefit for each policy. The class specified is best non-smoker as long as the class represents at least 15% of the contract issued of each policy.

Internal rates of return (IRRs) figures, included in the main chart, indicate which products are designed to be more efficient in producing cash values, death

benefits or are an all-around solution. The IRR can be applied to cash values as well as death benefits, and we have chosen to measure both at a policy duration of 30 years.

Those seeking to analyze the relationship between cash values and death benefits will find the IRR measurement a useful tool. Information is included to show what the death benefits would be illustrated under an increasing death benefit option. It's easy to see, using the provided IRRs, which policies are built to generate death benefits, which is why it would be unfair to compare them under a level death benefit only.

A new chart features minimum premiums guaranteed to age 100 or for life. The premiums are culled from illustrations that are run with minimum cash value at maturity, or age 100 if sooner. Full Disclosure features 21 different scenarios across three issue classes. This chart features a male, age 55, for each class. In the future, Full Disclosure will collect minimum guaranteed premiums on a single and 10-pay basis.

Full Disclosure also includes the objectives each product is meant to fulfill so its market positioning can be gauged. As mentioned earlier, some are built for low premiums while others are meant to generate major league cash values and even fund retirement income. You can see which policies are meant for the brave new minimum premium world and which are designed for more traditional uses. Even now, the real product differentiation is at the policy level in the features, limitations, and current and guaranteed cost structure of each. **NU**

Selling UL on a minimum premium basis with secondary guarantees has taken the industry by storm

About Full Disclosure And Blease Research

Full Disclosure is a policy comparison and evaluation software series designed for brokers, agents, financial planners and advisors active in upper market life insurance sales. Easy-to-use editions cover universal, whole, survivorship, and variable life products and include not only illustrated values, but features, costs and, in many cases, actual historical policy performance. Individual editions are \$99.

Call Blease Research at (877) 864-3833 to find out what the software includes, or see its Web site at www.full-disclosure.com for information and a free demonstration version of Full Disclosure.

National Underwriter does not determine which insurance companies and their products appear in Full Disclosure. If you want to see a carrier not mentioned in a Full Disclosure excerpt, ask the company to notify Blease Research. **NU**

Universal Life Lifetime/Age 100 Guarantee Minimum Current Illustrated Premiums

\$250,000 Level Death Benefit Minimum Annual Premium for Male for Three Issue Classes; as of July 1, 2003
See Specifications (Specs) Section for Available Issue Classes

| Company | Policy Name | Guarantee Period | Male Age 55 Best Nontobacco Class | Male Age 55 Standard Nontobacco Class | Male Age 55 Standard Tobacco Class | Premiums Payable to Age |
|-------------------------------------|----------------------------------|------------------|-----------------------------------|---------------------------------------|------------------------------------|-------------------------|
| American General Life (AIG) | Platinum Protector G | Age 100 | 3,100 | 4,000 | 6,751 | 100 |
| American General Life (AIG) | Elite Universal Life G | Age 100 | 3,223 | 4,301 | 7,002 | 100 |
| American General Life (AIG) | Platinum Provider Ultra G | Lifetime | 3,223 | 4,301 | 7,002 | 100 |
| AmerUs Life | Freedom ULFlex | Lifetime | 4,434* | 4,878* | 6,993 | 100 |
| AmerUs Life | Freedom ULC | Lifetime | 3,723 | 4,238 | 6,252 | 100 |
| Banner Life | Continuity Lifetime UL | Lifetime | 3,115 | 5,298 | 6,453 | N/R |
| CNA (Valley Forge) | Next Step UL | Age 100 | 3,417 | 5,302 | 8,012 | 100 |
| Equitable | Athena Universal Life | Lifetime | 3,062 | 4,100 | 6,815 | 100 |
| General American Life | UL Secondary Guarantee | Lifetime | 3,237 | 4,326 | 7,568 | 100 |
| Indianapolis Life | Horizon ULFlex 2001 | Lifetime | 4,434* | 4,878* | 6,993 | 100 |
| Indianapolis Life | Horizon ULC 2001 | Lifetime | 3,723 | 4,238 | 6,252 | 100 |
| Jefferson Pilot Life | Legend 300 Plus | Lifetime | 3,283 | 4,302 | 6,917 | 100 |
| John Hancock Life | Performance UL | Lifetime | 6,447 | 7,387 | 9,553 | 100 |
| John Hancock Life | Protection UL | Lifetime | 3,228 | 4,327 | 6,828 | 100 |
| Lincoln National Life | UL-LPR | Lifetime | 3,239 | 4,141 | 6,151 | 100 |
| Manufacturers Life (USA) | Manulife UL-G | Lifetime | 3,313 | 4,322 | 6,799 | 100 |
| Manufacturers Life (USA) | Manulife UL-LC | Lifetime | 4,271 | 5,192 | 7,952 | 100 |
| Massachusetts Mutual Life (CM Life) | UL 2 Guaranteed (UL2G) | Lifetime | 3,321 | 4,744 | 7,253 | 100 |
| Midland National Life | Innovation Universal Life | Age 100 | 3,470 | 4,770 | 7,380 | 100 |
| MONY Life | MONY UL | Lifetime | 3,815 | 4,663 | 7,123 | 100 |
| National Life | NaviTrak II | Lifetime | 3,352 | 4,554 | 6,859 | 99 |
| North American Life | Custom Term UL | Age 100 | 3,570 | 4,950 | 8,160 | 100 |
| Nationwide Provident | UL 100 | Age 100 | 3,604 | 4,636 | 7,171 | 100 |
| Nationwide Financial | Legacy Provider | Lifetime | 4,237 | 5,041 | 7,380 | 100 |
| New York Life | NYLIAC Accumulator | Age 100 | 4,868 | 5,821 | 8,562 | 100 |
| New York Life | NYLIAC Protector | Age 100 | 4,421 | 5,431 | 8,286 | 100 |
| Ohio National Life | Virtus 100 | Lifetime | 3,563 | 4,297 | 5,940 | 100 |
| Pacific Life | Versa-Flex V | Lifetime | 3,657 | 4,362 | 6,119 | 99 |
| Penn Mutual Life | Protection Builder | Age 100 | 3,466 | 4,469 | 6,820 | 100 |
| Phoenix Life | Phoenix Protector UL II | 50 years/Age 100 | 3,237 | 3,985 | 6,462 | N/A |
| Principal Life | Universal Life (LPR) | Lifetime | 3,378 | 4,998 | 7,495 | 100 |
| Protective Life | Protective Custom UL | Lifetime | 4,753 | 5,113 | 8,123 | 120 |
| Protective Life | Protective Select UL | Lifetime | 3,083 | 4,102 | 6,314 | 100 |
| Prudential Financial | PruLife Universal Protector | Lifetime | 3,225 | 4,158 | 6,254 | 100 |
| ReliaStar Life | Guarantee Premium (GPUL) | Lifetime | 3,061 | 4,029 | 7,072 | 100 |
| Security Life of Denver | ING Asset Leverage | Age 100 | 4,974 | 5,774 | 7,674 | 100 |
| Sun Life | Sun Universal Protector LP | Lifetime | 3,333 | 4,305 | 6,936 | 100 |
| TIAA-CREF Life | Flexible Premium Adjustable Life | Age 100 | 3,106 | 3,769 | 5,924 | 100 |
| Transamerica Occidental Life | TransAce EX | Lifetime | 3,383 | 4,855 | 8,235 | N/A |
| Transamerica Occidental Life | TransAce XL | N/R | 3,791 | 4,918 | 8,311 | N/A |
| Travelers Life | Travelers MVP | Lifetime | 3,197 | 4,057 | 6,501 | 100 |
| Union Central Life | Excel Protector | Age 100 | 3,639 | 4,941 | 7,931 | 100 |
| United States Life of NY (AIG) | Medalist Premier | Lifetime | 3,800 | 4,875 | 7,676 | 100 |
| West Coast Life | LifeSpan Gold 120 | Lifetime | 3,055 | 4,970 | 6,790 | 100 |
| Western Reserve Life | Freedom 100 | Age 100 | 3,375 | 4,800 | 7,075 | 100 |

Equity Indexed UL (Values indexed to the upward movement of the S&P 500 index)

| | | | | | | |
|-------------------|---------------------------|----------|--------|-------|-------|-----|
| AmerUs Life | Vision Builder Series II | Lifetime | 4,415* | 4,720 | 7,410 | 100 |
| AmerUs Life | Liberty Builder Series II | Lifetime | 3,577 | 4,209 | 6,622 | 100 |
| Indianapolis Life | Vista Elite Series II | Lifetime | 4,415* | 4,720 | 7,410 | 100 |
| Indianapolis Life | Vista Select II | Lifetime | 3,577 | 4,209 | 6,622 | 100 |

Illustration Footnote & Clarification

Amerus Life - Freedom UL Flex Annual Premiums (years 6+): Best Nontobacco \$4,049; Standard Nontobacco \$4,431
 Amerus Life - Vision Builder Series II Annual Premiums (years 6+): Best Nontobacco \$3,724
 Indianapolis Life - Horizon ULFlex 2001 Annual Premiums (years 6+): Best Nontobacco \$4,049; Standard Nontobacco \$4,431
 Indianapolis Life - Vista Elite Series II Annual Premiums (years 6+): Best Nontobacco \$3,724

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ReliaStar Life Premier Design

Flexible Premium UL; Low Premium to Endow; Term Alternative.

Security Life of Denver Explorer UL

Cash Values; No Maturity; Maximum Retirement Income; Flexibility.

Security Life of Denver ING Asset Leverage

Early Year Cash Values; Maturity Extension; Term Blending; Preferred Tobacco Class.

Security Mutual Life of NY Security UL Plus

Low Endowment and Carry Premium; Long Term Values; Broad/Favorable Underwriting; Attractive Target Premiums.

Southland Life Legacy Protector

Low Cost Death Benefits; Cash Accumulation; Maximum Retirement Income; Favorable Underwriting; Term Alternative.

Southland Life Legacy Provider

1035 Exchanges; Loan Rescues; Low Face Amounts; Low Issue Ages; Favorable Underwriting.

Sun Life Sun Universal Protector LP

Flexible Death Benefit Guarantee to Age 100.

Sun Life Sun Universal Protector Plus

Low Premium to Endow and Carry; Third Death Benefit Option; Age 100 Death Benefit Guarantee; Interest Bonus.

TIAA-CREF Life Flexible Premium Adjustable Life

Low Premium to Endow; No Surrender Charges; High Cash Values.

Transamerica Occidental Life TransUltra EX

Large Face Amounts; Built-in Death Benefit Guarantee; Select Nonsmoking Class.

Transamerica Occidental Life TransAce EX/XL

Lifetime Death Benefit Guarantee; Large Face Amounts.

Travelers Life Travelers MVP

Full Death Benefit Guarantee; Low Endowment and Carry Premium; Broad/Favorable Underwriting.

Union Central Life Excel Protector

Long Term Values; Low Premium to Carry.

United States Life of NY (AIG Co.) Medalist Premier

Maximum Death Benefits; Business Applications; High Issue Ages; Guaranteed Bonus; Lifetime Death Benefit Guarantee.

West Coast Life LifeSpan Gold 120

Lifetime Guarantees; Rolling Targets.

Western Reserve Life Freedom 100

Death Benefit Guarantee to Age 100; Unlimited Catch-Up Provision.

Western Reserve Life Freedom UL II

Low Face Amounts.

Western Reserve Life Freedom Protector II

Long Term Values.

Western Reserve Life Financial Freedom Accumulator

Cash Value Accumulation; Maximum Death Benefits; Bonus; Policy Conversion; Interest Bonus. **NU**

TECHNOLOGY

Productivity Is The Buzzword Of The Hour

By **Ara C. Trembly**
San Francisco

Productivity—enhanced and enabled by technology—was the buzzword of the hour, as vendors and insurers met here recently for the IBM Global Insurance Executive Conference.

While the conference was sponsored by one of the world's leading information technology (IT) vendors, most of the presenters, including those from IBM, emphasized the need for efficiency, company differentiation and resiliency (leading to productivity) to help insurers succeed.

In today's economic climate, success means "a relentless focus on execution," stated William Pieroni, general manager, Global Insurance Industry, for IBM Business Consulting Services, based in White Plains, N.Y. "Efficiency must go beyond cost cutting to productivity."

"Productivity is the watchword for the coming years," stated Ginni Rometty, managing partner, IBM Business Consulting Services, in her address to the conference. "Long-term earnings are going to come from productivity improvements."

Rometty pointed out that many insurers still rely on legacy systems that "are not responsive" and can hamper productivity. "Many of us still have [information] silos, and often work is replicated between them," she explained.

The solution, she stressed, lies in integrating systems across all parts of the business, rather than in a single piece of "killer application" software. This would provide an "on demand"

computing scenario fusing business and IT functions for better organizational productivity.

Rometty focused on five components of an insurance business:

- Insight: customer analytics and campaign management.
- Distribution: policyholder services and channel management.
- Core insurance: policy administration, claims and underwriting.
- Risk and financial management: treasury, fraud and trading oversight.
- Infrastructure: human resources and procurement.

She recommended that insurers who are not competitive in any of these areas look for a partner to support those functions. "Outsource what is not core," she suggested. "Are you world class at a business component? If not, partner."

Rometty emphasized that technology in the future "won't be islands of automation." She pointed to a need for standards to integrate technology, a need to decide who is responsible for governance of customer information that is part of enterprise data, and a need for "resiliency"

