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Term Insurance Rates: The Ball Is In The Reinsurer's Court

By Keith Dall

The term insurance market in the United States is constantly evolving as products change, rates change, and the reinsurance environment changes.

The rates for competitive term insurance products are stabilizing in the U.S. The many rate decreases of the last few years are slowing down and may be stopping.

As for the future of term insurance rates, that may depend on the reinsurance market. If reinsurance rates increase, one can expect term insurance rates for the consumer also to rise.

Many have proclaimed that the coming of the 2001 CSO valuation table will usher in another era of decreases in term rates. We will have to wait to see if this happens. Approximately half of the states have approved the table for setting term insurance reserves and the remaining half are expected to quickly follow. This will encourage companies to reprice their term portfolio with downward pressure on rates.

The reinsurance market is taking rates in the other direction. With many term products being 90% coinsured to the reinsurer, the price of reinsurance is significant in relation to the price of term insurance passed on to the consumer.

Few insurance companies are looking to the reinsurance market to help support lower rates, because reinsurers are either increasing rates or threatening to increase their rates.

The reinsurers are in a position to pressure for increased rates. This is because there are fewer reinsurers available due to recent mergers and acquisitions; the reinsurer's costs are rising for the letter of credit necessary when retroceding the term insurance offshore; there is a scarcity of reinsurance capital; and some reinsurers have experienced higher-than-expected mortality costs over the last few years.

Because of the current reinsurance market for term insurance, insurance companies may not be in a hurry to push out a 2001 CSO term portfolio.

The companies do not want to approach their reinsurers and discover that their reinsurance rates may be considerably higher than the rates they are receiving on their current term portfolio.

The insurance companies may also discover a push by reinsurers to offer yearly renewable term (YRT) reinsurance rather than coinsurance. YRT reinsurance minimizes surplus strain for the reinsurer but creates more surplus strain for the direct writing company.

On the product front, insurers are attempting to differentiate their term policies either by the programs used to sell the term or by features they include with the product. Companies also are continually refining their underwriting process in an attempt to speed the time it takes to issue a policy or to improve the selection process. The preferred underwriting criteria especially continue to evolve.

Programs that continue to be used are table shaving, class improvements and internal conversions. With table shaving, insureds with a minor substandard rating are treated as standard. Class improvements include the insured changing to a rating class with lower premiums if some improvement is shown in their underwriting criteria (such as cessation of smoking or controlled cholesterol at a lower level).

Internal conversions to whole life insurance continue to be encouraged by companies and are often supported by conversion credits.

The 20-year level premium guarantee period continues to be the most popular premium guarantee period with 10-, 15- and 30-year periods also offered to the insured. The term policies often include a critical illness benefit that allows for a prepayment of a portion of the death benefit should the insured become critically ill and be expected to die within a short period. Waiver of premium and accidental death riders are also available.

The return of premium benefit has become more popular in the last few years. The ROP rider has been around for a long time in the mortgage term marketplace. Now, the rider is making its way into the mainstream term market by advertising very attractive return on investment rates.

More insurance companies are starting to offer the ROP rider, but several are staying away from the product because of pricing risks. Adding a rider to a term product makes the profitability of the product much more dependent on the long-term investment rate and the ultimate lapse rate.

As the term market continues to evolve, the players can no longer expect to see the continuing decrease in premium rates of the past several years. The reinsurance companies will have a big influence in premium rates as the business goes forward. Direct companies will continue to differentiate their products through features and riders, and the way they sell their product.

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