The Shifting Industry:

Life, Annuities and Health Sales Results Reveal the Economy's Impact on Trends

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The devastating hand of economic turmoil has reached into the insurance industry and set back the calendar on decades of market innovation.

Suddenly, the products that promised great gains have the taint of Wall Street failure about them. As a result, whole life has reversed decades of declines. Term is attracting the big cases wary of signing the big checks for perm. The big bang in variable lines is squelched to a whimper.

The second quarter will be completed by the time this hits your desk and odds are good that it will be at least as ugly as the previous two quarters, if not more gruesome. With prognosticators hoping to see the dawn of economic recovery by this time next year, plan on several more bent quarters.

Producers see turmoil in just about all corners of their businesses. Life sales continue to drop. Health insurance suffers because of job losses and the uncertainty of whether there will even be private health insurance in the future. Small businesses struggle to survive, constraining a lucrative market for independent producers. But, on the bright side, it is not a bad time to be selling annuities. Although variable products are facing more challenge.

Market Share - 30 Year Snapshot

	1978	1983	1988	1993	1998	2003	2008	1Q 09*
WL	85%	65%	53%	52%	33%	25%	23%	28%
Term	15%	15%	13%	13%	19%	24%	23%	28%
UL	0	18%	26%	22%	20%	34%	41%	37%
VL/VUL	0	2%	8%	13%	28%	17%	13%	7%

*Preliminary Estimates

LIFE

Nobody can be completely certain about the future but a few things are clear:

- Longer term policies will not be available or will become disproportionately more expensive. Pricing will increase across the board for many products for the first time in years.
- Reserve-intensive products (especially guarantees) will be dropped or prohibitively priced.
- Variable lines will suffer.

These points are related to reserves, which represent the sorest point for carriers. Of the life companies in A.M. Best's U.S. Life Insurance Index, 19 lost $216.1 billion, or 83.6 percent in total market capitalization, from Jan. 1, 2008, through March 6, 2009. Investment losses slammed carrier holdings over the past year and companies' assets continued to lose value.

This has led A.M. Best to downgrade 43 carriers and upgrade only 14. The rating company called 2008 the worst year in memory. Then 2009 showed up.

LIMRA reported a 26 percent decline in total individual life insurance sales, the lowest total sales in constant dollars since 1982. "To find a quarter where sales dropped more you'd have to go to 1943, the middle of World War II," said LIMRA CEO Bob Kerzner.

Approximately 70 percent of the participating companies included in LIMRA's preliminary sales data had declining sales. Carriers reported fewer applications and smaller premium cases. Only three of the top 20 companies had higher sales over the first quarter of 2008 – and the average

Most and Least Gains in 1Q 2009

MOST	
Ameriprise	48.9%
New York Life	46.7%
MetLife	39.9%
LEAST	
Genworth	-96.4%
AIG Life	-90.9%
Lincoln Financial	-38.7%

Source: A.M Best

1Q 2009 Growth Rates by Product

		Annualized premiums	Face amount	Number of policies
Universal life	1Q	-33%	-16%	-7%
Variable life	1Q	-62%	-19%	-23%
Variable universal life	1Q	-61%	-50%	-51%
Term	1Q	-4%	-3%	-5%
Whole life	1Q	-5%	-3%	-8%
Totals	**1Q**	**-26%**	**-8%**	**-8%**

Source: LIMRA's U.S. Individual Life Insurance Sales Summary Report, First Quarter 2009.

increase was only 5 percent.

Variable life (VL) sustained the biggest loss, declining 62 percent in premiums from the first quarter of 2008. In fact, no carrier that LIMRA tracks recorded an increase in their variable life sales in the quarter. Variable universal life (VUL) was a close second with a 61 percent drop.

Universal life (UL) products fared better. Despite a 33 percent overall decline, some carriers improved sales by 30 percent during the first quarter. Mutual companies managed to increase their UL sales by 5 percent but stock companies lost sales by 36 percent.

The only shining light of the fourth quarter of 2008 dimmed a little in the first quarter of 2009. Whole life (WL) had the only increase in the fourth quarter, albeit tiny at 2 percent. But in the first quarter, WL sales dropped 5 percent. On the bright side, nine out of 20 top whole life writers did see an increase in sales.

Term lost the least at 4 percent. But, at the same time, half of the top 10 writers were able to increase their sales. So some companies are definitely doing better than others.

Policy count dropped 8 percent. Although all product lines declined, the biggest declines were VUL with 51 percent and VL with 23 percent.

The story since the middle of 2008 has been the flight to safety. When the equities markets started to slide, investment advisors told clients to hold on and ride out the brief correction. But the floor continued to drop and even the safest of investments, such as money markets, were not so dependable anymore.

However, consumers didn't do anything. "This is right along the lines of behavioral economics," Kerzner said. When people are confused, they freeze, even from making wise choices.

"You can certainly argue that people need life insurance more now than they did two years ago," he said. "They're living closer to the edge. They have less to fall back on. And in many cases where they had two incomes, now they only have one."

Even though safety is the bedrock of insurance, consumers are not moving their money into the sector. The market itself, however, is undergoing historic changes.

For 30 years, the insurance business was shifting dramatically to become the market of today. In 1978, whole life had 85 percent of the market and term had the remaining 15 percent. UL and VL/VUL were nonexistent. By 2008, UL grabbed 41 percent and VL/VUL had 13 percent, which was already dropping – down from 17 percent in 2003. Whole life had plummeted to 23 percent and term grew to 23 percent.

Suddenly, that three-decade trend reversed in three months. By the first quarter of 2009, whole life grew to 28 percent of the market, as did term. UL slipped to 37 percent and VL/VUL sank to 7 percent.

Consumers' rejection of UL and VL/VUL propelled some of that shift, but many in the industry say clients also rediscovered the basic purpose of insurance with term and whole life.

Many of the more successful producers helped reinforce that message. They got on the phone, commiserated with clients over their investment losses and offered a way to protect their families' futures.

"I'd tell clients that, yes, their investment portfolio took a big hit, but let's talk about how to replace that $3 million with life insurance," said Keith Dudum, a principal with Dudum Financial, Lafayette, Calif. "We have been very successful with that and we're helping people get on their feet."

Although term and whole life both showed a drop in the first quarter, many expect that the trend toward those products and away from variables will probably hold up for at least the rest of this year. At the Association for Advanced Life Underwriting's annual meeting in May, many carriers said term and whole life were surging into the second quarter. But the face amounts tend to be smaller, so the work tends to be greater.

Daniel P. Mulheran, president of ING's retail life distribution, said the company was pleasantly surprised to see it was 5,000 applications ahead of plan through April. But then he heard one of the reasons why that was happening. "The reluctance of affluent buyers to write large checks helps the term insurance market," Mulheran said. "We hear from a number of distributors that affluent buyers apply for permanent insurance, but before the deal is done, the discussion changes to 'Maybe we should do this as term insurance and convert it later.' Even people with a lot of wealth now pause before they write out a half-a-million-dollar check for a life insurance premium."