

Conversion Mortality Update

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Conversions – Basic Concepts

- Conversions are contractual rights allowing the policyholder to change from a term policy to a permanent policy without evidence of insurability.
- Original purpose of the feature was to help the insurer better retain its customers while offering the insured the opportunity to have ongoing coverage even with a serious change of health during the level term period.
- Experience on conversions is dependent on many factors, and therefore warrants much study and analysis.

Swiss Re's Reinsurance Conversion Study

- 4,400 claims
- 82,000 conversions
- Exposure years 2007 to early 2013
- 85 contributing companies
- Only full policy conversions are counted as a termination
- Results based on reinsured amounts

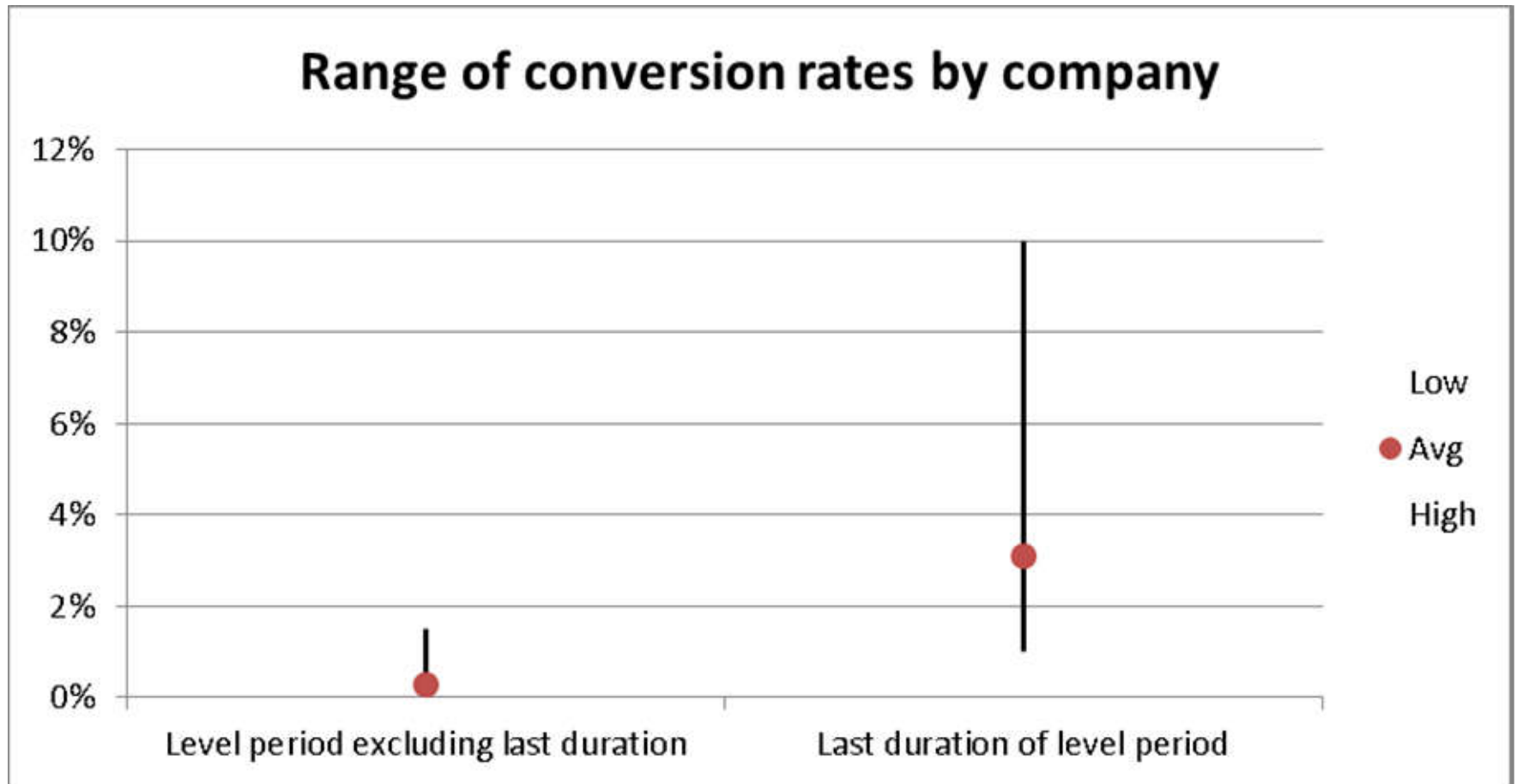
Term Conversion Practices and Data Issues

Company practices strongly influence results

- Common conversion time periods
 - To end of level period with an attained age cap
 - To an attained age
 - First x number of years of level term period
- Captive vs. independent agents
- Agent incentives/compensation
- Type of products available for conversion
- Policyholder notification and incentives
- Secondary market

Term Conversion Experience

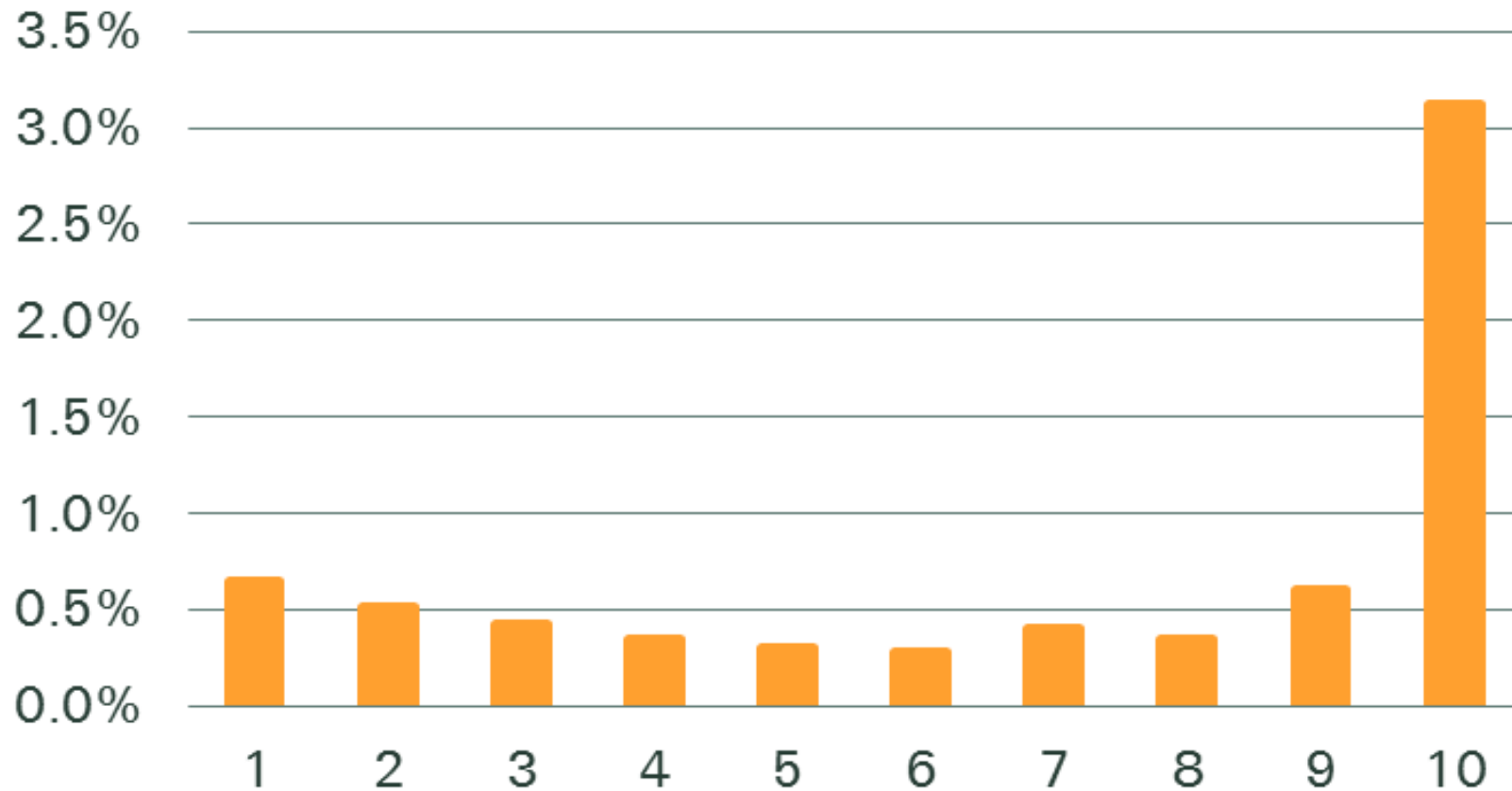
Conversion rates vary widely by company



Term Conversion Experience

Conversion rate spikes at the end of level period

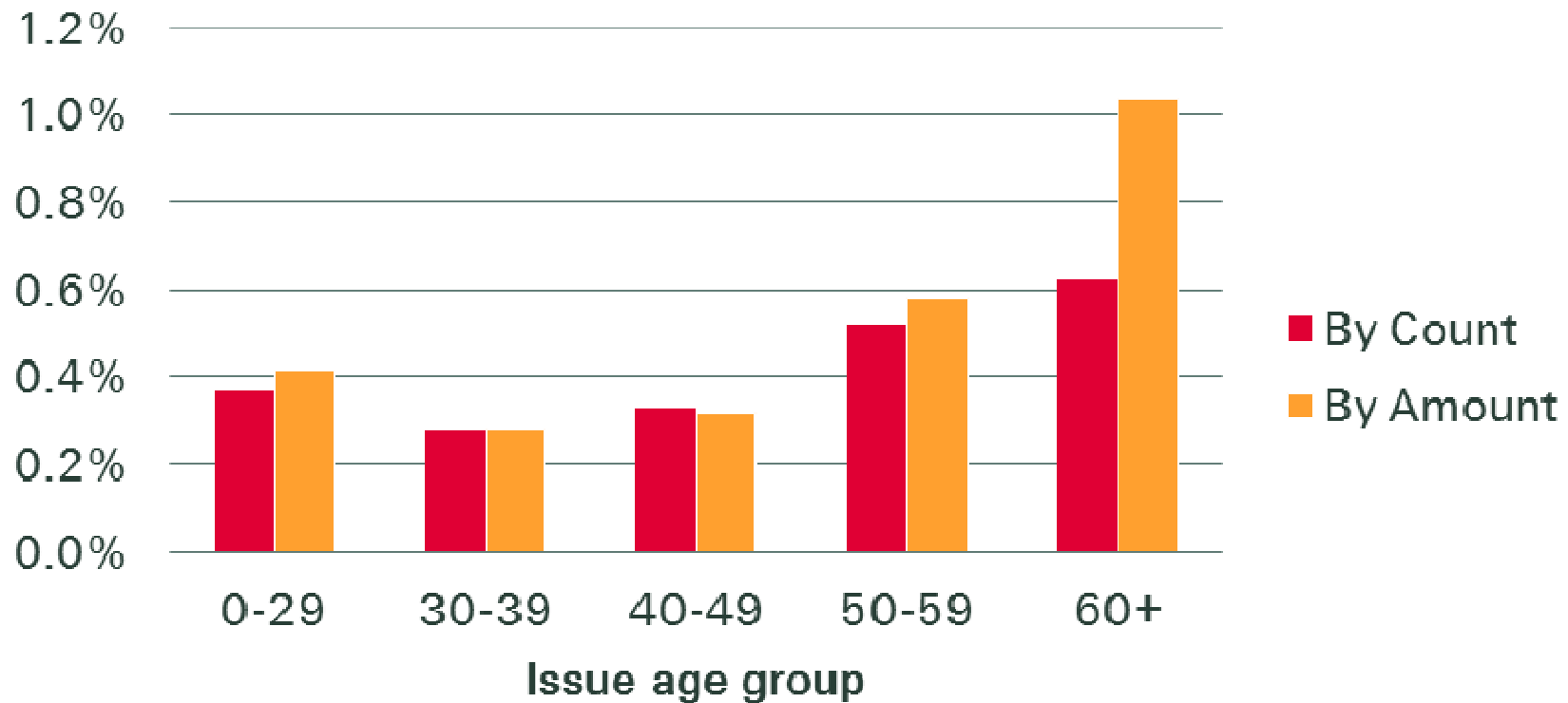
Ten year term conversion rate by duration



Term Conversion Experience

Conversion rate increases by issue age

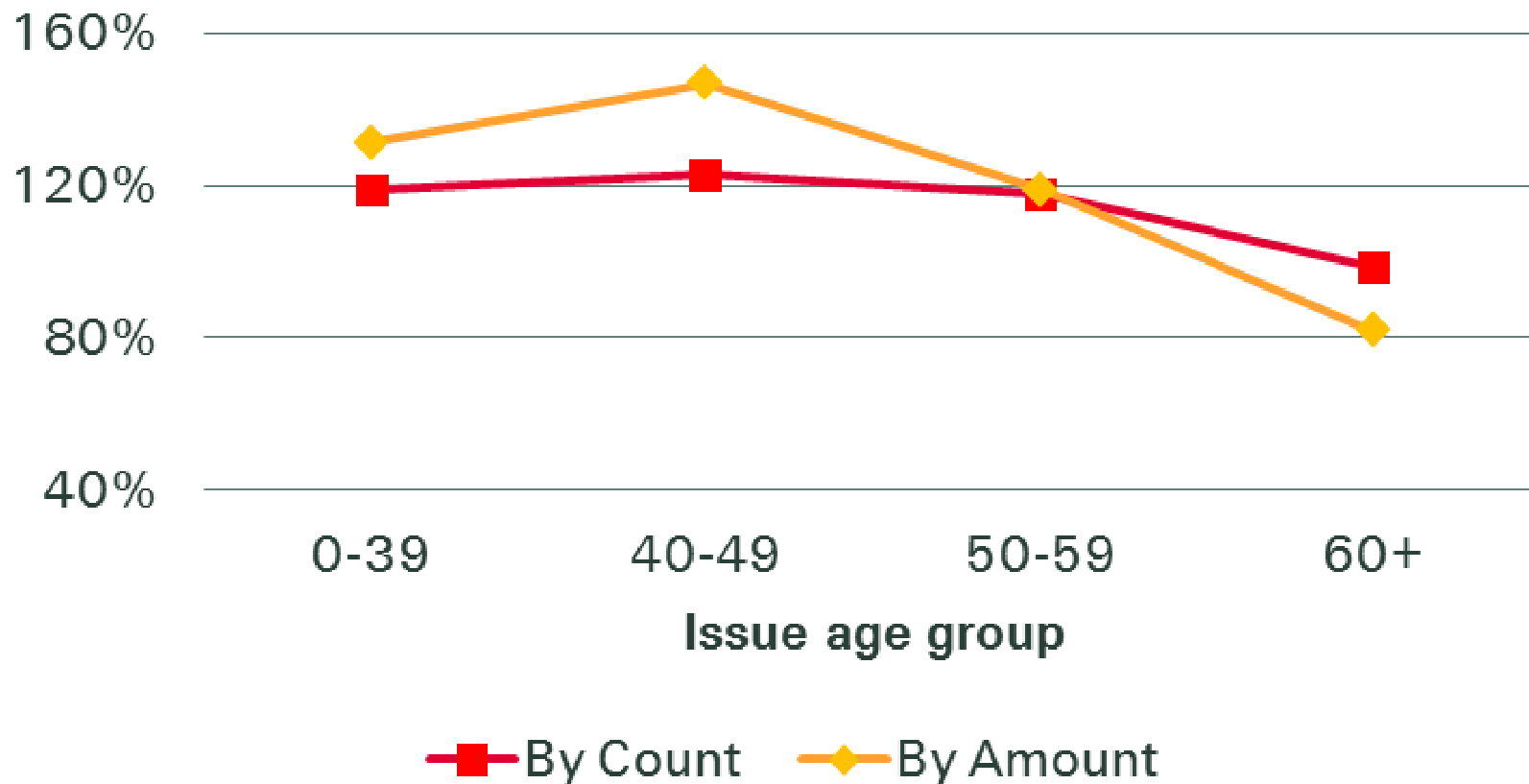
Conversion rate by issue age group



Term Conversion Experience

Less anti-selection at older ages due to age limits

2008 VBT A/E results by issue age group



Term Conversion Experience

Impact of Active Conversion Programs

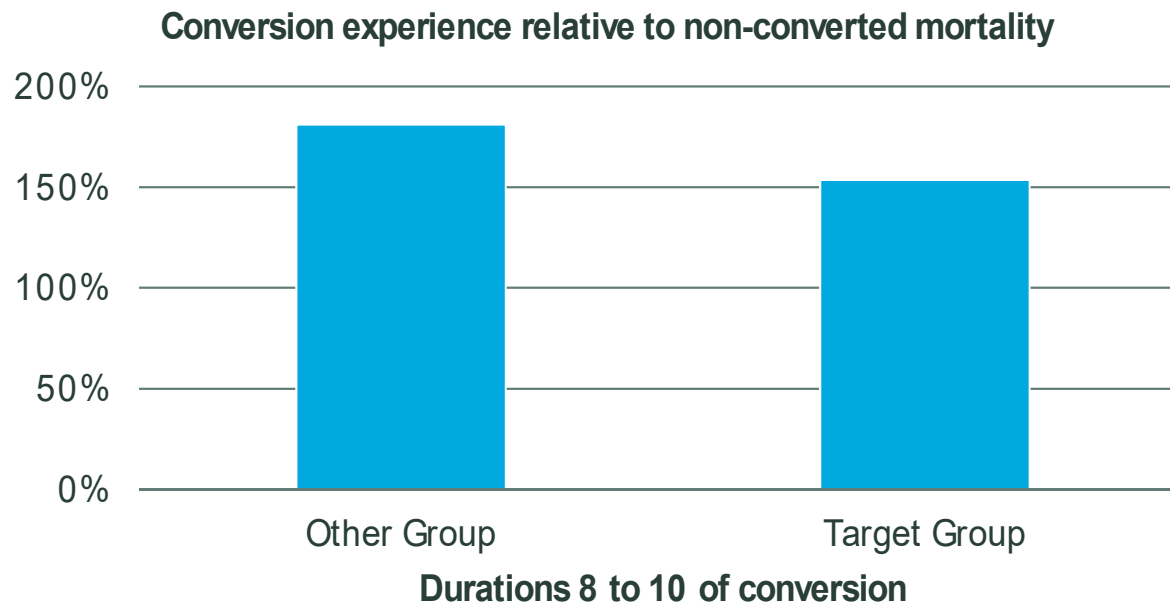
- We aren't able to capture specifically in our data whether a company has an active conversion program.
- However, we do note two generally distinct groups with relatively high or relatively low conversion rate experience.
- We combined those companies experiencing relatively high conversion rates into "Target Group", and those with low conversion rates into "Other Group".

Durations	Conversion rates	
	Target Group	Other Group
4-6	1.1%	0.2%
7-9	1.7%	0.3%
10	8.7%	3.0%

Term Conversion Experience

Impact of Active Conversion Programs

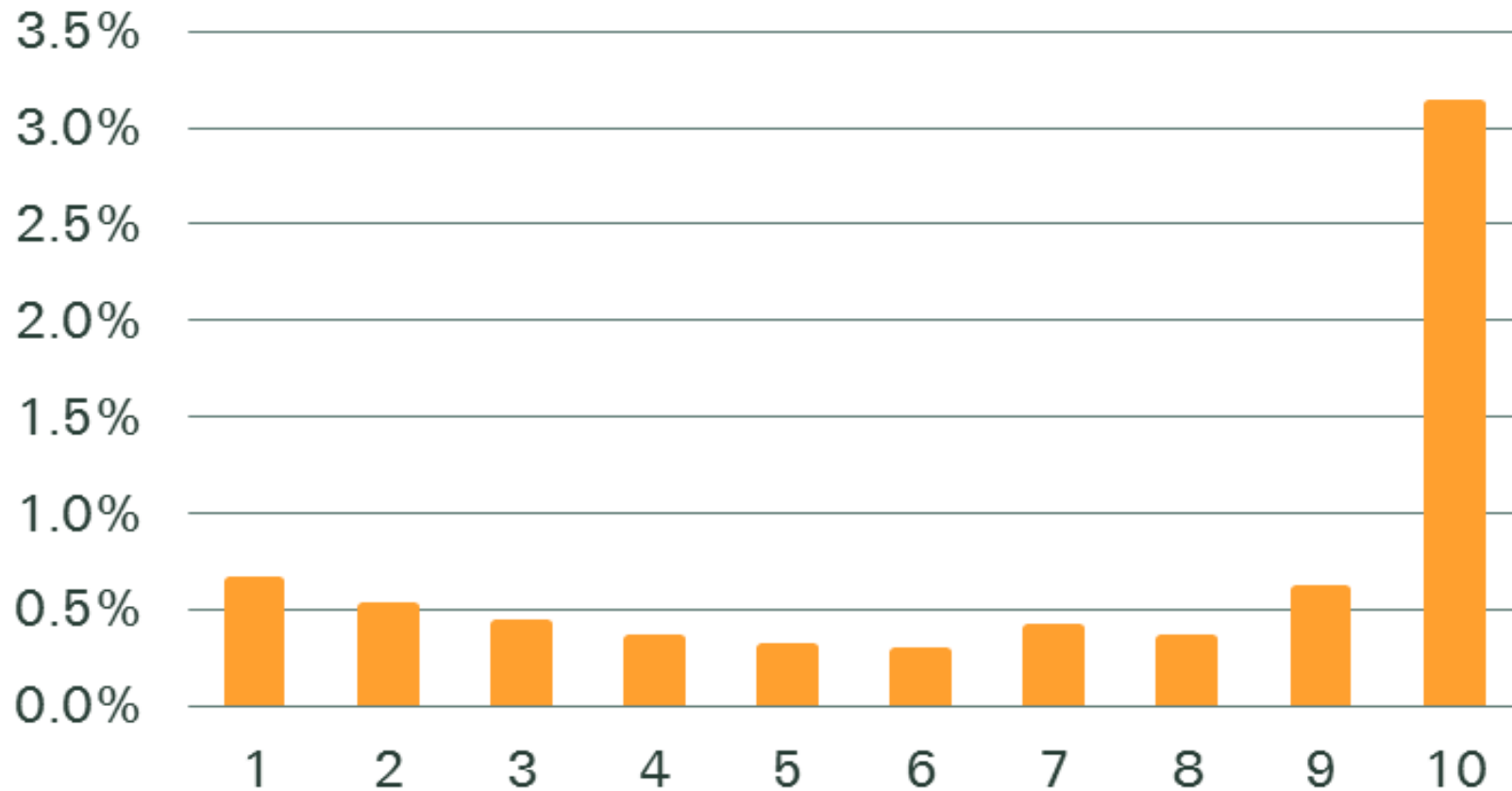
- We assume the Target Group is much more likely to have an active conversion program.
- Other likely characteristics of the Target Group include higher compensation and better incentives to the agent, stronger communication to the policyholder, and more competitive products available for conversion.



Term Conversion Experience

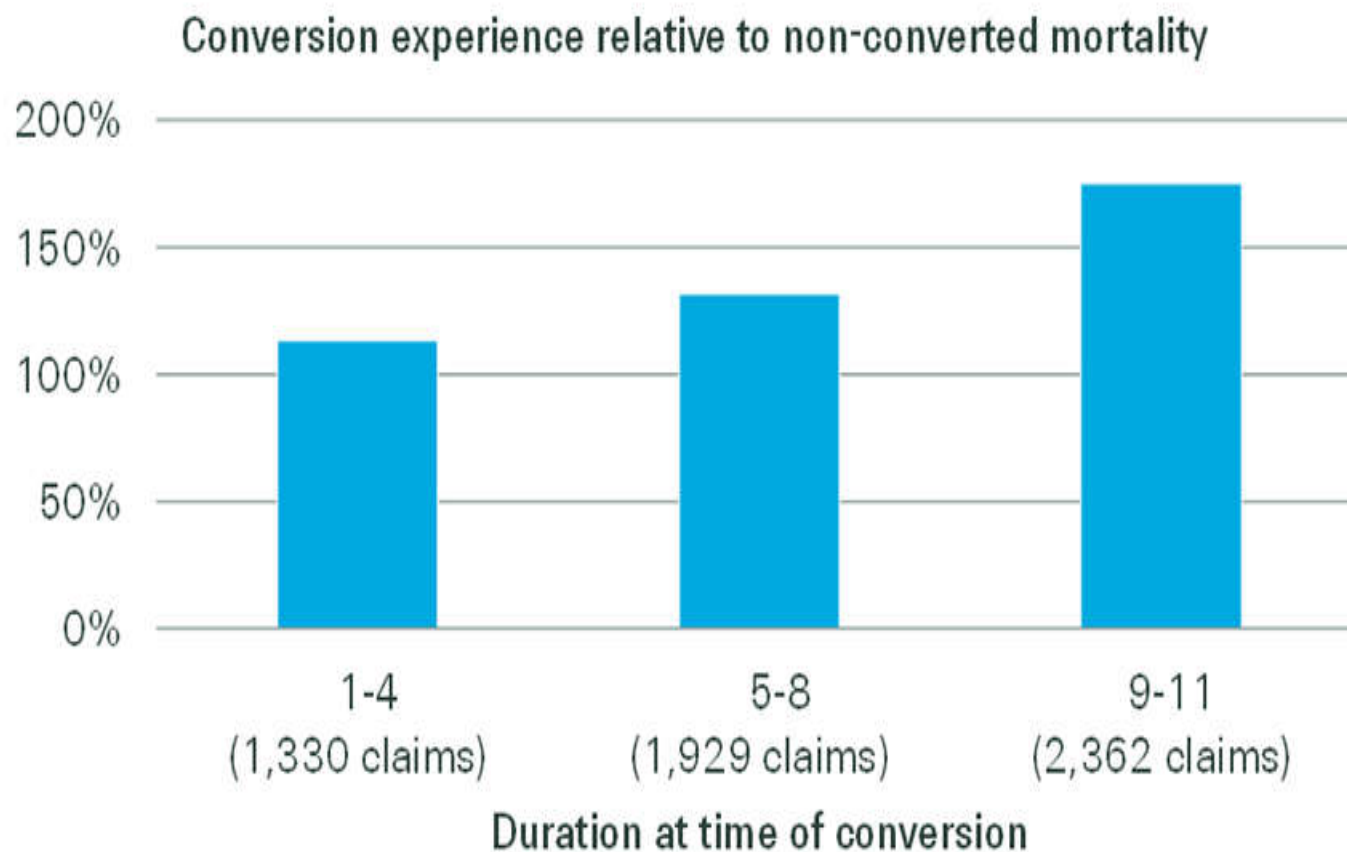
Conversion rate spikes at the end of level period

Ten year term conversion rate by duration



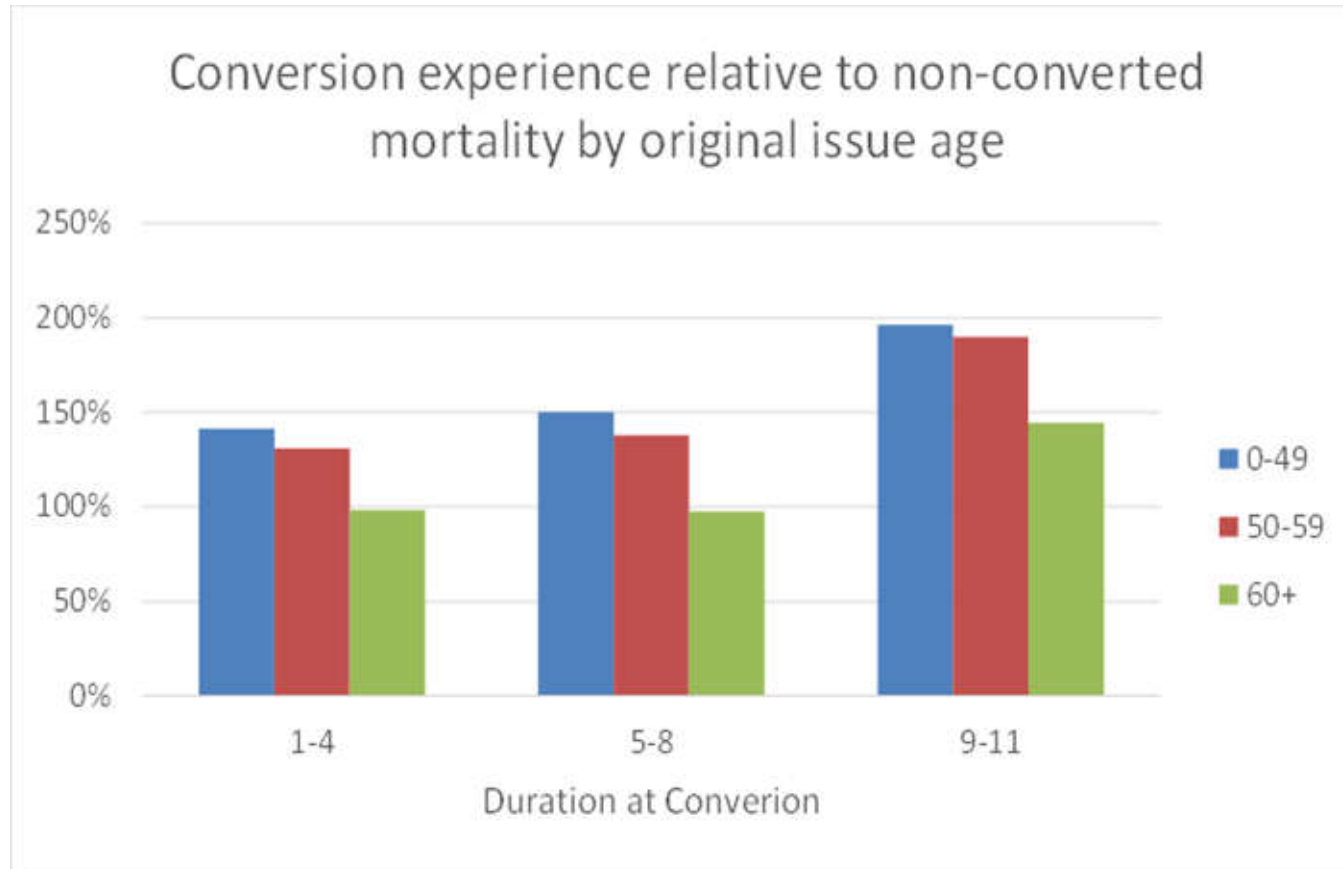
Term Conversion Experience

Mortality Patterns – Duration of Conversion



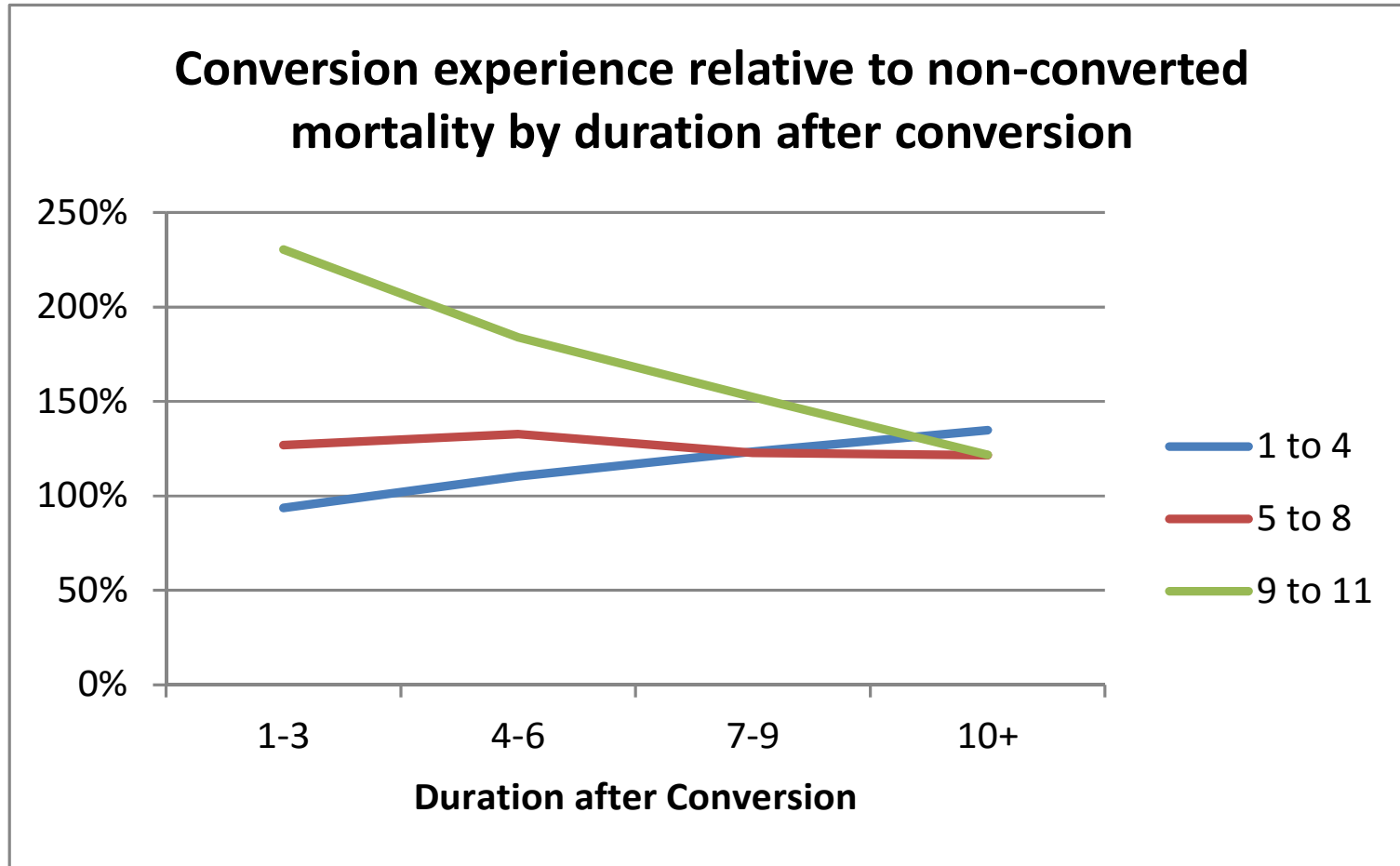
Term Conversion Experience

Mortality Patterns – Duration of Conversion, Issue Age



Term Conversion Experience

Mortality Patterns – Duration After Conversion



Conversion Mortality Summary

- Company practices can strongly influence conversion results
- Mortality anti-selection increases by duration of conversion
- Most significant costs of the conversion option are driven by conversions at the end of the level term period



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