

SOCIETY OF ACTUARIES

# Report on the Survey of Conversion Assumptions and Product Features for Level Premium Term Plans



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# Report on the Survey of Conversion Assumptions and Product Features for Level Premium Term Plans

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## **Background**

The Society of Actuaries (SOA), along with the Product Development Section and Reinsurance Section, engaged RGA Reinsurance Company (RGA) to undertake a research project on term conversion experience with a particular focus on conversion rates and mortality experience of converted policies. Generally, term products in the United States have an option to convert to a permanent policy. Exercising this option usually does not require additional underwriting. Because this is an option and not a requirement, an element of anti-selection is present for those that elect to convert rather than go through full underwriting again for a potentially cheaper product. The experience and survey results from this study will improve companies' understanding of the potential mortality impact of conversions while providing insight into market practices and trends as of September 2014 related to conversion.

## **Project Overview**

This project includes two phases:

- Phase 1 consisted of a survey of the assumptions and product features used by actuaries for pricing and administering term conversions. This report summarizes the findings from the 21 Phase 1 survey responses received. Survey questions can be found in Appendix A.
- Phase 2 consists of an experience analysis of level term business as it transitions into the converted policy. Participating companies were asked to supply policy level inforce and termination records so that experience results can be analyzed at a granular level including, but not limited to, age, gender, risk class, and policy size. The experience study results and data request will be completed in a separate report found on the SOA website.

**Please note that although the report is written in present tense in a number of sections, the information provided is purely based on data as of the time of the survey responses (September 2014) or shortly thereafter.**

## **Disclaimer of Liability**

The analysis presented in this report contains information related to the conversion provision on term products in U.S. life insurance industry. Assistance should be sought by an actuary with knowledge on conversion assumptions, options and features available on U.S. term insurance products. The results and analyses presented are derived from the responses to a survey questionnaire. Although good faith effort has been made to analyze the reasonableness of each response, the final report is ultimately reliant on the accuracy of the underlying survey responses.

The results provided herein come from a variety of life insurance companies with unique product structures, target markets, underwriting philosophies, and distribution methods. As such, these results should not be deemed directly applicable to any particular company or representative of the life insurance industry as a whole.

RGA Reinsurance Company (RGA), its directors, officers, and employees, disclaim liability for any loss or damage arising or resulting from any error or omission in RGA's analysis and summary of the survey results or any other information contained herein. The report is to be reviewed and understood as a complete document.

This report is published by the Society of Actuaries (SOA) and contains information based on input from companies engaged in the U.S. life insurance industry. The information published in this report was developed from actual historical information and does not include any projected information.

The opinions expressed and conclusions reached by the authors are their own and do not represent any official position or opinion of RGA, or the SOA or its members. The SOA makes no representations regarding the accuracy or completeness of the content of this study. It is for informational purposes only. The SOA does not recommend, encourage, or endorse any particular use of the information provided in this study. The study should not be construed as professional or financial advice. The SOA makes no warranty, express or implied, guarantee, or representation whatsoever and assumes no liability or responsibility in connection with the use or misuse of this study.

## **Executive Summary**

### Summary of Key Results

Generally term products in the United States have an option to convert to a permanent product without underwriting. Twenty-one companies participated in a survey to analyze assumptions and product features used for pricing and administering converted products.

Company Information: On average, more than half of the survey respondents' new business in 2013 came from term policies, and approximately one-third of their inforce business is made up of term policies. Approximately 1.1 percent of respondents' term policies converted to permanent business each year.

Conversion Mortality: Most survey respondents used a multiple greater than 100 percent of the point in scale mortality for conversions. Many of these multiples started out much higher in the early durations to reflect greater levels of assumed anti-selection in the durations immediately after conversion. The majority of responses did not decrease the multiple to less than or equal to 100 percent (no additional mortality) at any point in the first 15 durations after conversion.

Conversion Program: All (21) of the survey respondents allowed partial conversions, and the majority (14/21) of respondents provided conversion credits to policyholders. Sixteen (16/21) respondents restricted conversions to certain products. Some companies indicated conversions were further restricted to specific products after the first five policy years. Generally the underwriting class did not change after conversion unless a policyholder requested an increased benefit and additional underwriting was necessary.

Conversion Process: The majority of companies (18/21) indicated they have a specific conversion code in the administration systems. Converted policies were generally treated as new business in the system. Respondents commented that areas such as auditing of conversions and matching converted policies back to the original term product on administration systems could be improved.

Conversion Philosophy: Fifteen (15/21) companies indicated they did or have encouraged policyholders to convert. More than half (13/21) of the responses monitored conversion experience at least annually.

Conversion Reinsurance: Ten (10/21) respondents indicated that separate rates were paid for reinsurance on converted policies. Overall, most companies (18/21) reinsured their conversions.

## Introduction

The Phase 1 survey was sent to the top 75 term writers based on the face amount of 2013 term insurance sales along with selected other companies (as reported in statutory annual statements aggregated from www.snl.com). Responses were provided by 21 companies representing more than 52 percent of 2013 term sales.

### Company Information

Respondents were asked to provide the amount of term life business, nonterm life business, and converted term business they sold in 2013 and had inforce at the end of 2013. These measures were provided by policy size, face amount, and premium. If available, the percentage of policies converting each year was calculated as the estimate of how much of term business converts each year divided by the amount of term business inforce as of year-end 2013. The arithmetic averages and totals shown in chart 1 are based on the number of respondents, rounded to the nearest 1,000.

Chart 1

	Average	Total	
<b>Policy Count</b>	How much term business did you write in 2013?	60,000	1,254,000
	How much term business do you have inforce as of year end 2013?	652,000	13,034,000
	How much nonterm life insurance did you write in 2013?	51,000	1,063,000
	How much nonterm life insurance do you have inforce as of year end 2013?	1,473,000	29,460,000
	How much converted term business is inforce as permanent in 2013?	183,000	2,928,000
	Please estimate on average how much of your term business converts each year?	1.1%	
<b>Face Amount (000)</b>	How much term business did you write in 2013?	\$ 26,866,000	\$ 564,192,000
	How much term business do you have inforce as of year end 2013?	\$ 250,691,000	\$ 5,264,503,000
	How much nonterm life insurance did you write in 2013?	\$ 9,365,000	\$ 196,656,000
	How much nonterm life insurance do you have inforce as of year end 2013?	\$ 164,520,000	\$ 3,454,925,000
	How much converted term business is inforce as permanent in 2013?	\$ 19,729,000	\$ 315,656,000
	Please estimate on average how much of your term business converts each year?	0.7%	
<b>Premium</b>	How much term business did you write in 2013?	\$ 57,150,000	\$ 971,557,000
	How much term business do you have inforce as of year end 2013?	\$ 468,902,000	\$ 7,033,531,000
	How much nonterm life insurance did you write in 2013?	\$ 275,757,000	\$ 4,687,866,000
	How much nonterm life insurance do you have inforce as of year end 2013?	\$ 1,469,391,000	\$ 22,040,872,000
	How much converted term business is inforce as permanent in 2013?	\$ 308,158,000	\$ 3,389,733,000
	Please estimate on average how much of your term business converts each year?	3.1%	

The companies in chart 1 average more than half of their new business policies in 2013 from term, and about one-third of the inforce is made up of term policies.

Graphs 1 through 6 show the relative distribution of business by term and nonterm sold in 2013. The graphs on the left (1, 3, and 5) are the companies that provided a percentage of business converting each year and are ordered from highest to lowest by the percent of business converting. The graphs on the right (2, 4, and 6) are the remaining companies that did not report a percentage of term business converting in one or more categories. Therefore, their business mixes are shown separately without a conversion percentage.

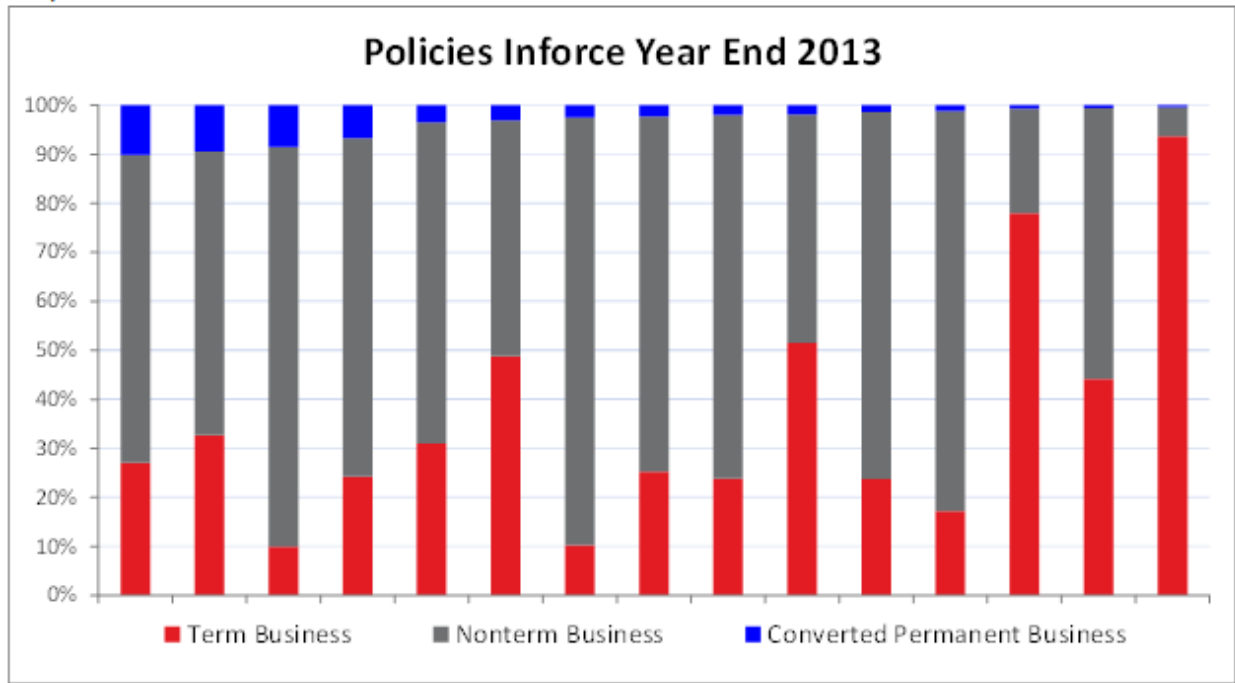
Large variation is seen in the percentage of business converting each year (shown on the left axis for graphs 1, 3, and 5).



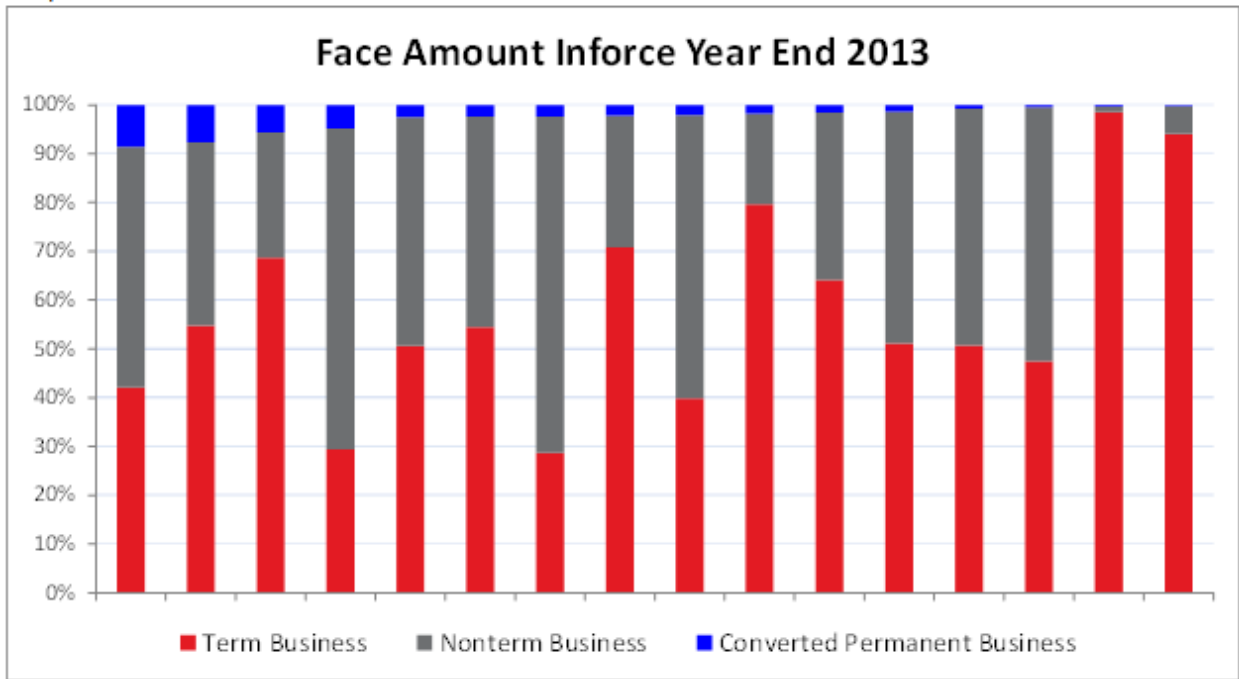


Graphs 7, 8, and 9 show a snapshot of inforce business as of year-end 2013 by policy count, face amount, and premium, respectively. The shaded bars reflect the percentage of term business, nonterm (nonconverted permanent) business, and permanent business converted from term (converted permanent). It is ordered highest to lowest by total amount of converted permanent business where all three data points were provided by a company.

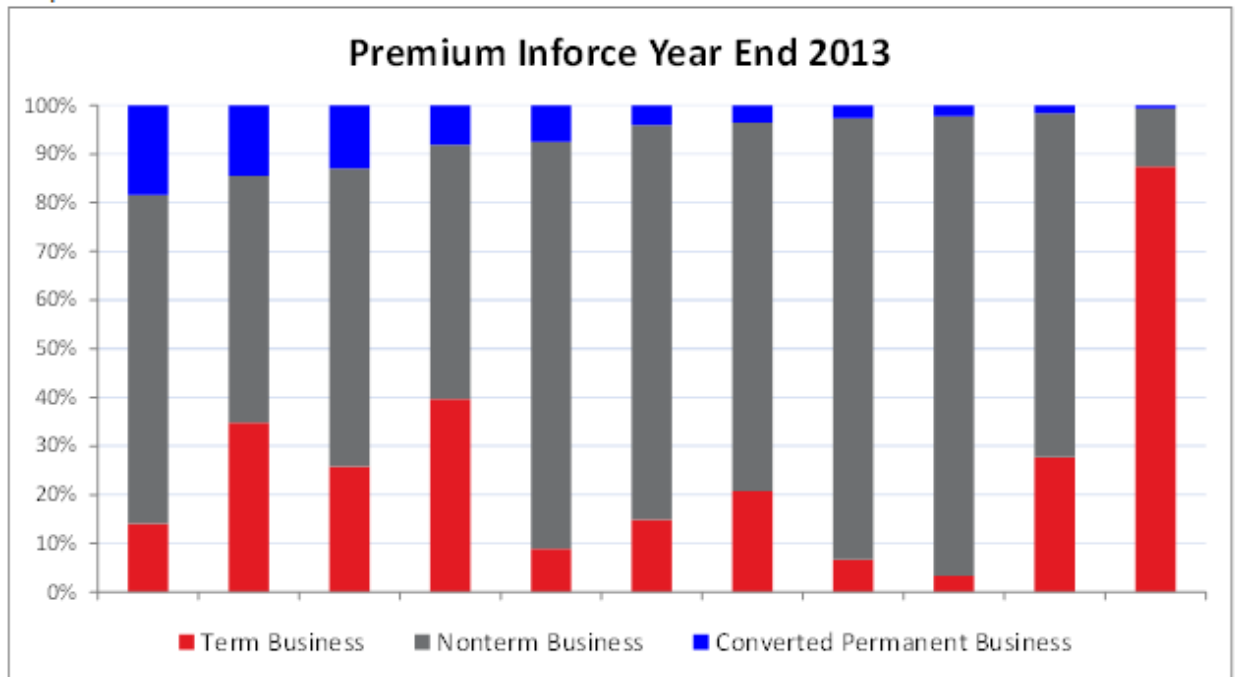
Graph 7



Graph 8



Graph 9



For those that reported the information, a larger portion of premium appears to be inforce on converted policies than face amount or policy count. Three companies are shown to have more than 10 percent of inforce premium being generated from converted policies in 2013.

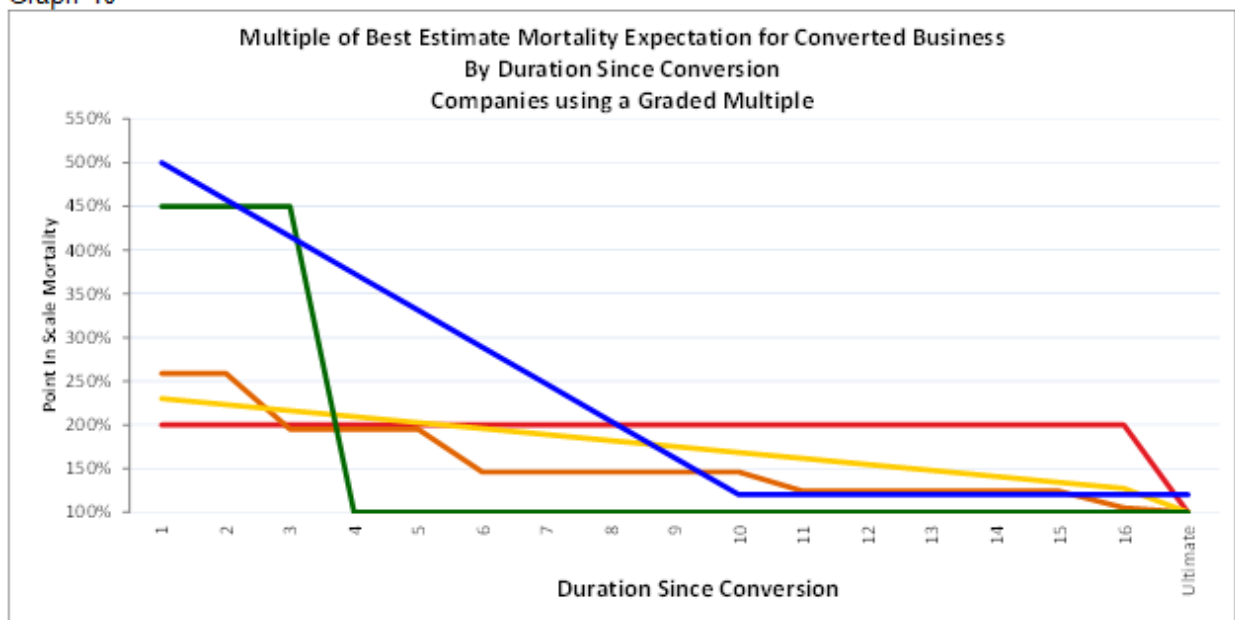
## Best Estimate Mortality

Survey respondents were asked to provide the best estimate of the mortality expectation for converted business as a percentage of nonconverted permanent business issued at the time of the original term policy. Most companies (12/17) responded with a flat percentage of point in scale mortality, and some (5<sup>1</sup>/17) identified various multiples by duration. Four respondents did not answer this question.

The 12 companies that provided mortality assumptions as a constant multiple of point in scale mortality across all durations ranged from 100 percent (no additional mortality) to 200 percent.

The remaining five (5) companies provided mortality multiples as a percentage of point in scale mortality that vary by duration since conversion. The mortality multipliers in each consecutive year since conversion are represented across the x axis of graph 10. As an example, the mortality of a policy that converted at the end of the eighth duration two years ago (duration since conversion = 2) is a multiple of a nonconverted permanent policy that is currently in duration 10.

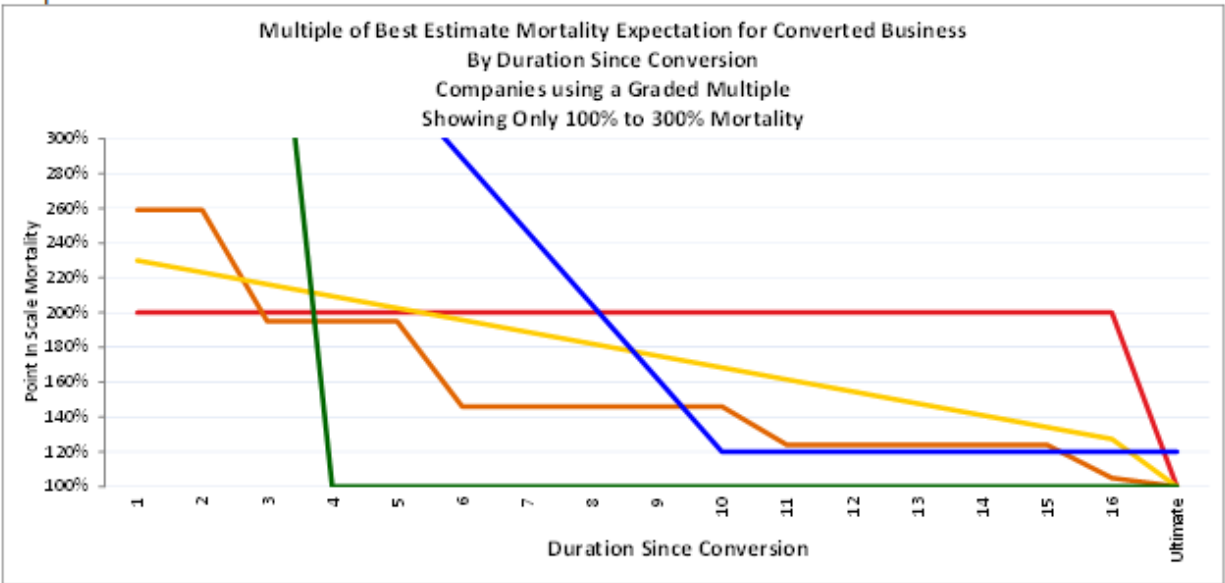
**Graph 10**



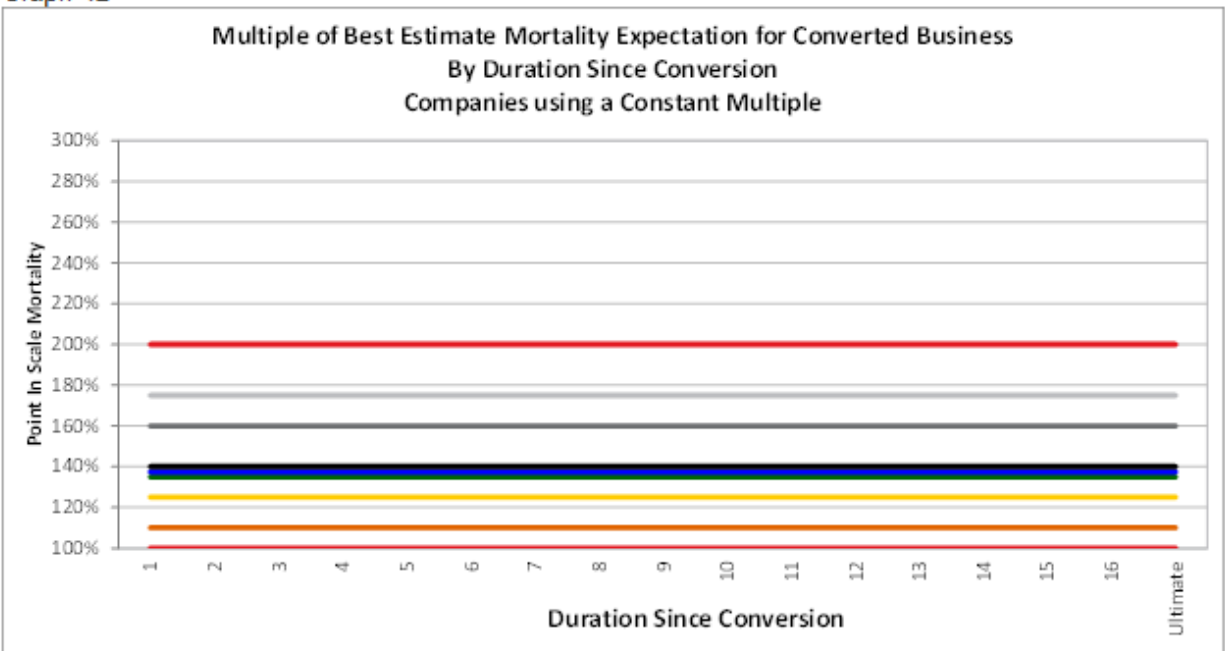
<sup>1</sup> One of the five respondents that provided multiples that varied by duration since conversion also varied responses based on duration at conversion. The responses were averaged using equal weight and included as one data submission in graph 10, graph 11 and graph 13.

Graph 11 shows the same graded multiple mortality shown in graph 10 but is focused on the mortality multiples between 100 and 300 percent. Most assumptions with graded mortality by duration show a significant drop in mortality estimates by the fourth or fifth duration. In graph 12, the remaining 12 companies using a constant multiple are displayed. All of the constant multiples have a duration 1 mortality estimate equal to or lower than the lowest duration 1 graded mortality multiple estimate.

Graph 11

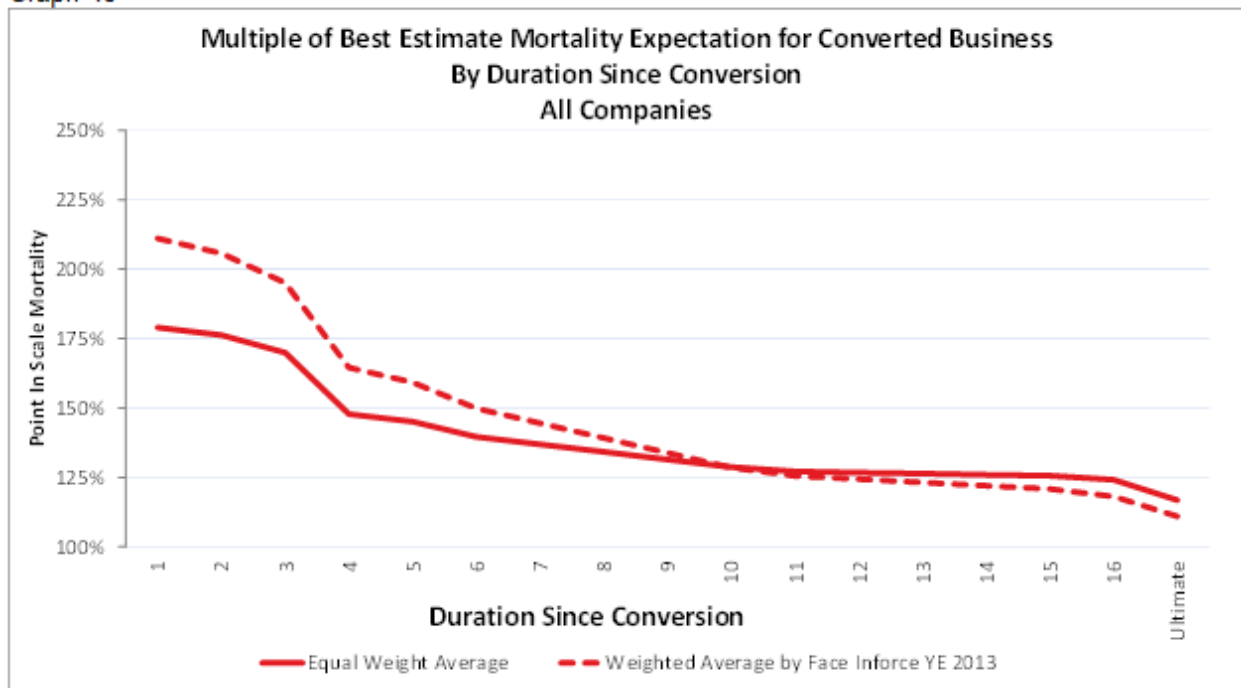


Graph 12



The mortality multiples were averaged both arithmetically and weighted by total inforce business reported at year-end 2013 to show the overall assumptions for mortality of converted business as a percentage of nonconverted business in graph 13. Weighted average or not, the key takeaway from graph 13 is that most companies use a multiple greater than 100 percent of the point in scale mortality for conversions with higher multiples in early durations to reflect greater assumed anti-selection immediately after conversion.

Graph 13



## Conversion Program

### Overview

Each question in the Conversion Program section of the survey was asked twice: what the company practices are *today*<sup>2</sup> and what the company practices were *five years ago*. Most respondents did not vary their answers between the two time points, indicating that no change has occurred or is known to have occurred over the past five years. The focus of this report is on responses for *today only*.

### Conversions from Other Companies

Respondents were asked whether or not they accept conversions that originate from another company. Two out of 21 respondents accept conversions that originate from another company, shown in chart 2. One of these companies noted that term conversions were allowed only from a block of business obtained through an acquisition. In this case, the conversion privileges remain as stated in the original policy contracts.

Chart 2

Conversions from Other Companies	
Accepted	Responses
Yes	2
No	19

The remaining company that allows conversions from other companies does not require underwriting. However, only conversions from an eligible list of companies with limitations on the time frame since issue and the face amount are accepted.

### Partial Conversions

The surveys defined a partial conversion as allowing a portion of the term policy to convert and still keep the original term policy in force at the reduced face amount. All of the 21 survey respondents that answered this question allow partial conversions.

The majority of specific responses (9/15), shown in chart 3 use the same time frame restrictions on partial conversions as full conversions. However, six (6) companies stated that partial conversions are limited to the level term period or a specific attained age.

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<sup>2</sup> Responses provided for practices *today* indicate company practices as of 09/22/2014 when survey was distributed.

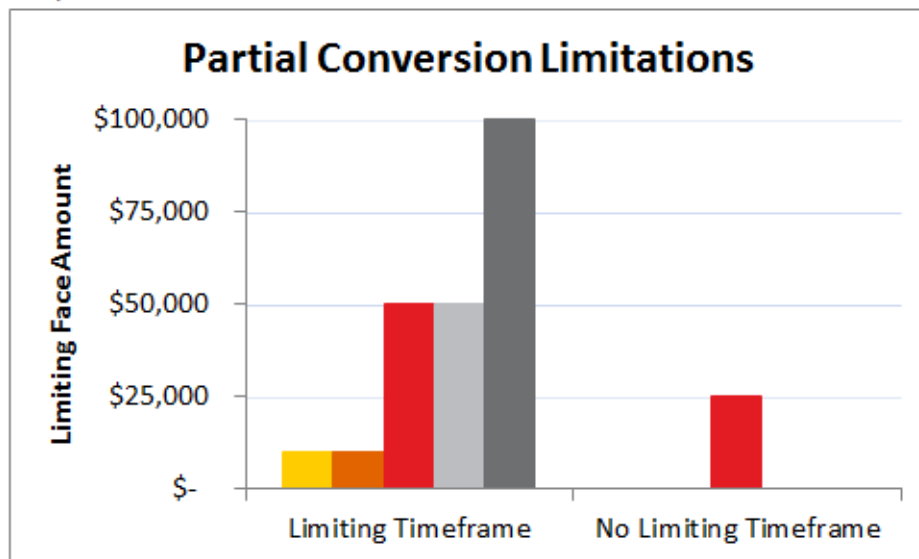
Chart 3

Partial Conversions	
Limiting Timeframe	Responses
Same as Full Conversions	9
Level Term Period	4
Specified Attained Age	2

None of the survey respondents limit the number of partial conversions allowed. Four (4) companies commented that there is no limit on the number of partial conversions as long as the term plan minimum sizes are not violated.

All 21 companies noted that they have a minimum size required for partial conversions. Out of these 21, six (6) companies gave the value of the minimum size requirement. This information is shown in graph 14.

Graph 14



Next, the survey asked whether or not a partial conversion is a contractual right. About half (11) of respondents replied “Yes,” it is a contractual right. This question was intended to complement the following question: are partial conversions an administrative practice? More than 75 percent (16) of the respondents replied “Yes” to allowing partial conversions as administrative practice as shown in chart 4. Consideration may need to be given to administrative practices that may not be treating policyholders equally.

Chart 4

Partial Conversions	
Contractual Right	11
Both	7
Administrative Practice	16



Conversion Credits

A conversion credit is defined as allowing some or all of the paid term premium to be credited to the permanent policy upon conversion. The majority (14/21) of companies responded that they do provide a conversion credit or have in the past as shown in graph 15.

Graph 15

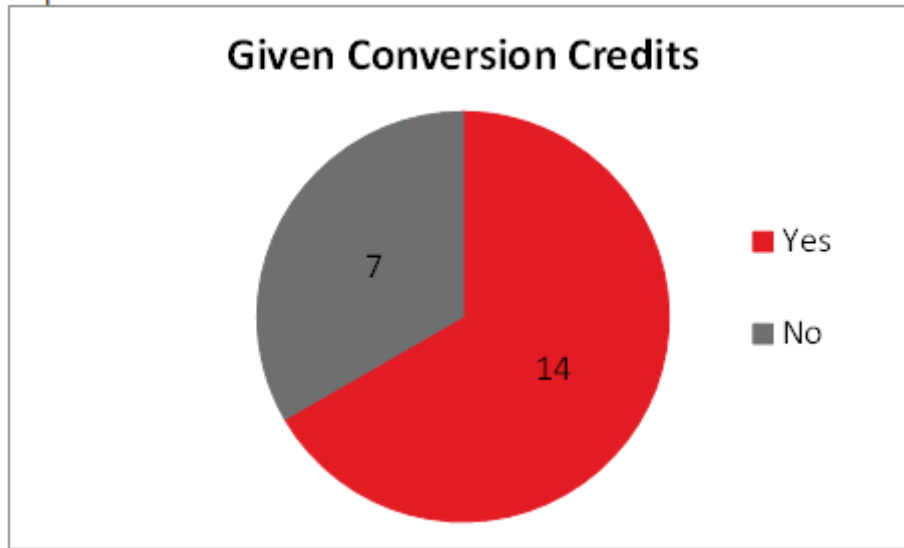


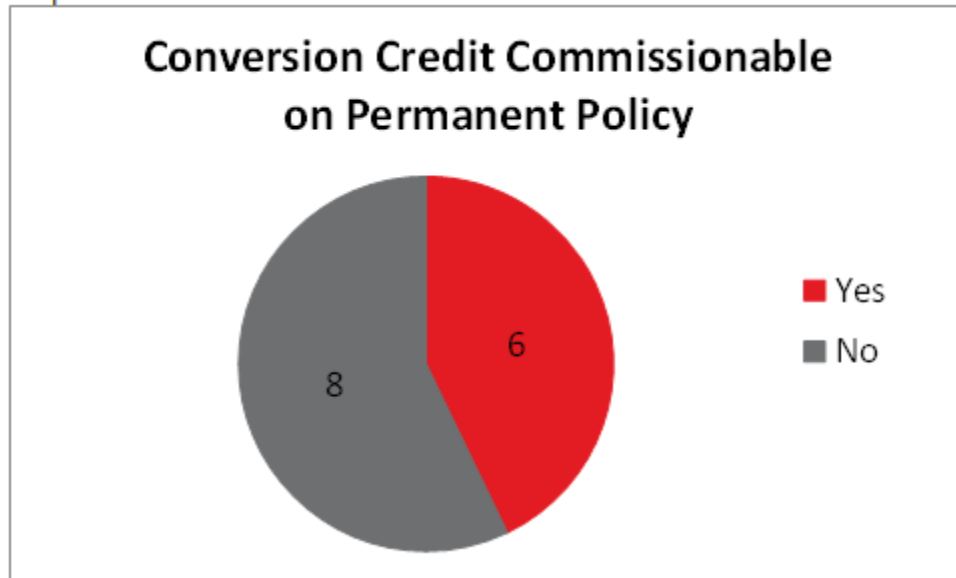
Chart 5 displays results from the question “How much is the conversion credit?” which could be answered with any value. Most of the responses could be grouped into a conversion credit approximately equal to one year’s worth of term premiums.

Chart 5

Conversion Credit	
How much	Responses
Previous Year Annualized Term Premium minus Policy Fee and Rider Charges	5
Up to One Year's Term Premium	3
\$1 per \$1,000 of Face Amount	1
50% of Annualized Base Premium	1
Equal to Unearned Premium	1
Up to One Year's Term Premium capped at \$5 per \$1,000 of Face Amount	1
Years 1-5: 100% of First Year Term Premium Paid	1

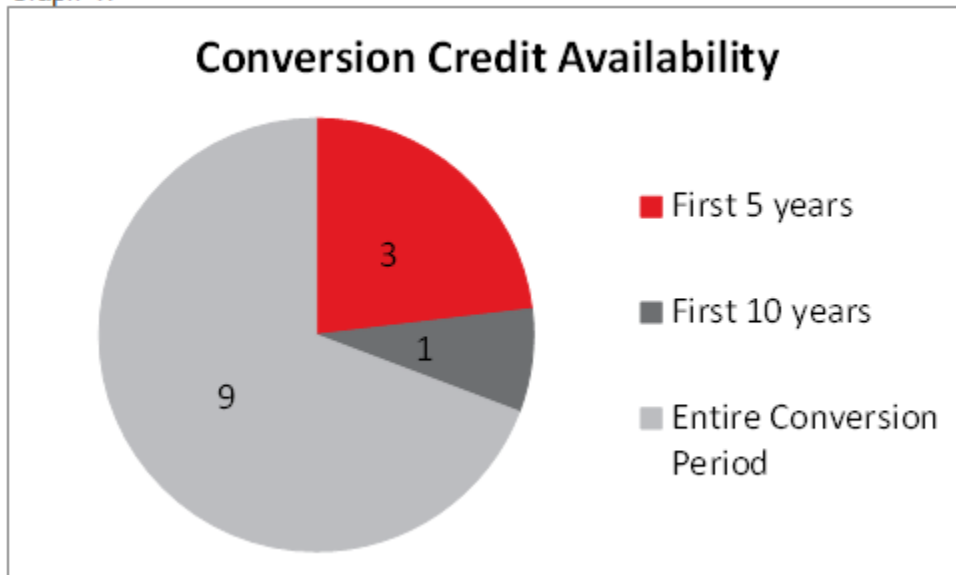
Out of the 14 companies that provide or have provided a conversion credit, more than half (8/14) responded that the credit is not commissionable on the permanent policy, as shown in graph 16.

Graph 16



Graph 17 shows that nine (9) out of the 14 companies responded that the conversion credit is available for the entire length of the conversion period, with one company indicating that credit is not available until after policy year two. Out of the five remaining companies, four provided a limiting timeframe for the conversion credit as five or 10 years.

Graph 17



The survey concluded the conversion credit section by asking about conversion credits being used as special incentive programs. Half of the companies (7/14) have used conversion credits to incent conversions.

### Joint and Multiple Policies

Chart 6 shows that only seven companies indicated they allow separate single life policies to convert into one joint life policy.

Chart 6

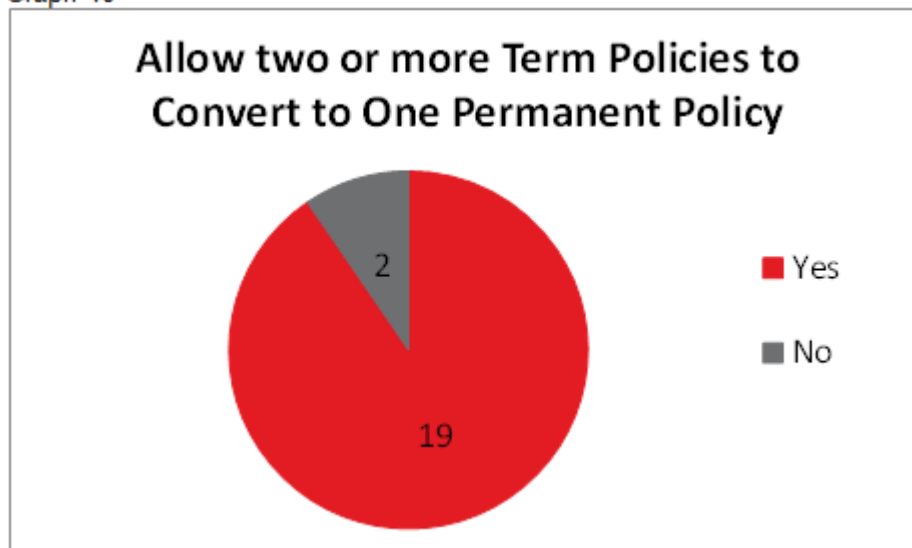
Joint and Multiple Policies	
Allow Separate Single Policies to Convert	Responses
Yes	7
No	10
N/A	4

Out of the seven companies that allow separate single policies to convert to joint life policies, none of the companies require the original term policies to be underwritten at the same time. This would imply that duration from issue for each applicant could vary, and true point in scale mortality is not possible on the joint policy.

If the original term policies are not in the same duration, companies were asked how they establish the age and duration of the new policy. This question would apply to all seven companies that answered “Yes” to the previous question. All companies (7/7) responded that the policies would have a duration = 1, and six out of the seven noted that a new select period is started.

Next, the survey addressed the conversion of more than one policy on a single life. Most companies (19/21) responded that they allow more than one term policy on the same insured to convert to one permanent policy, shown in graph 18.

Graph 18

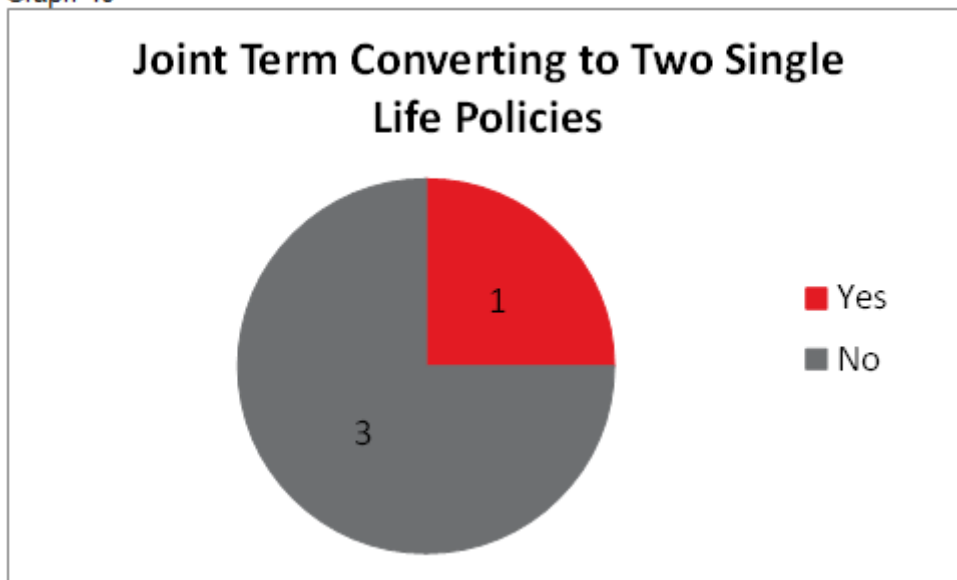


Only one of the respondents from graph 18 indicated that they require the two or more term policies to have the same issue date to convert to a permanent policy. One respondent did not indicate whether or not this was necessary.

Out of the remaining 17 companies that do not require the same issue dates, the survey asked how the duration of the permanent policy is calculated. Only 10 of the respondents answered this question; the others did not respond or said that it was not applicable. All of these 10 companies use attained age for cost of insurance (COI). Four (4) out of these 10 companies commented that the mortality used is newly select with a duration of 1.

A unique product that offers conversion is joint-life term. Four (4) out of the 21 companies addressed this question in the survey. Most of the companies (3/4) do not allow conversion from a joint term policy into two single life permanent policies. One company does allow conversion from a joint life to two single life policies, as shown in graph 19.

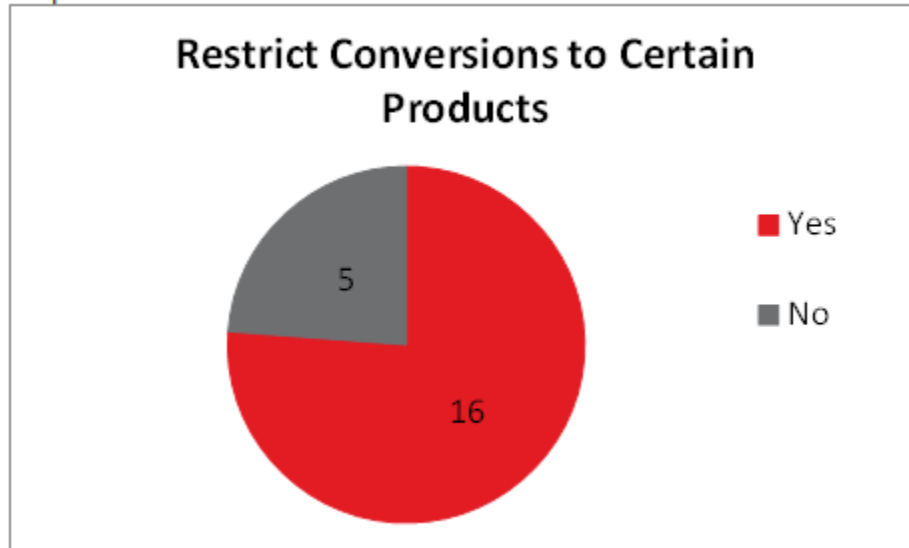
Graph 19



#### Conversion to Specific Products

The conversion products section highlights how companies may be restricting conversions or allowing conversions into any available product in its portfolio. Graph 20 shows that the majority (16/21) of survey respondents indicated that they restrict conversions to certain products.

Graph 20



Some of the companies commented that certain products are restricted for conversion; for example, products with certain riders such as long-term care benefits are not allowed. Two of the companies responded that restrictions are made after the fifth policy year.

Although most companies restrict conversions to certain products, chart 7 shows that only three companies indicated they have specific products for conversions.

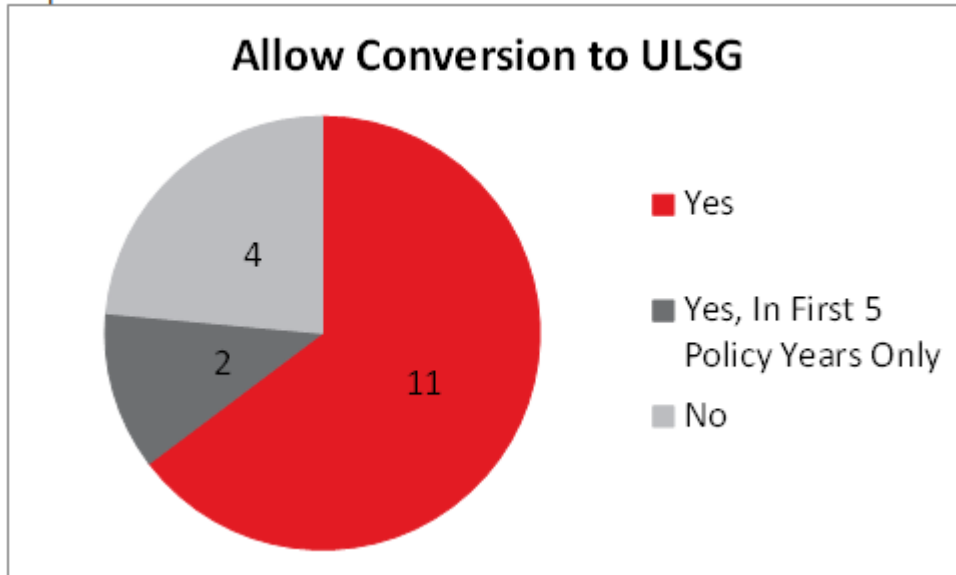
Chart 7

Conversion Products	
Specific Products for Conversions	Responses
Yes	3
No	17

Of the three companies in chart 7, two companies limit conversions to whole life products. The other company limits conversions to only whole life products after the fifth policy year.

More than half (11/17) of companies shown in graph 21 allow conversion to universal life with secondary guarantees (ULSGs). Two companies allow conversions to ULSGs only within the first five policy years. One respondent commented that any product choice is available except for ULSGs.

Graph 21



Most respondents (8/13) shown in chart 8 indicated that they did not allow a simplified issue product to convert to a fully underwritten product. One of the companies that answered “Yes” commented that the underwriting class would be changed.

Chart 8

Conversion Products	
Simplified Issue Product Converting to Fully Underwritten Product	Responses
Yes	5
No	8
Not Applicable	8

Out of the survey respondents, three companies allowed term to term conversions. These three companies allow smaller term products or a children’s term product to convert to other level premium term products or a return of premium term product.

The survey also questioned whether or not companies allow term products to convert to existing permanent policies by adding the face amount from the term policy to the existing permanent policy. Chart 9 shows that 12 out of 21 companies do allow conversion to an existing permanent policy; however, seven of the respondents commented that the permanent product had to be universal life.

Chart 9

Conversion Products	
Convert to Existing Permanent Policy	Responses
Yes	12
No	9

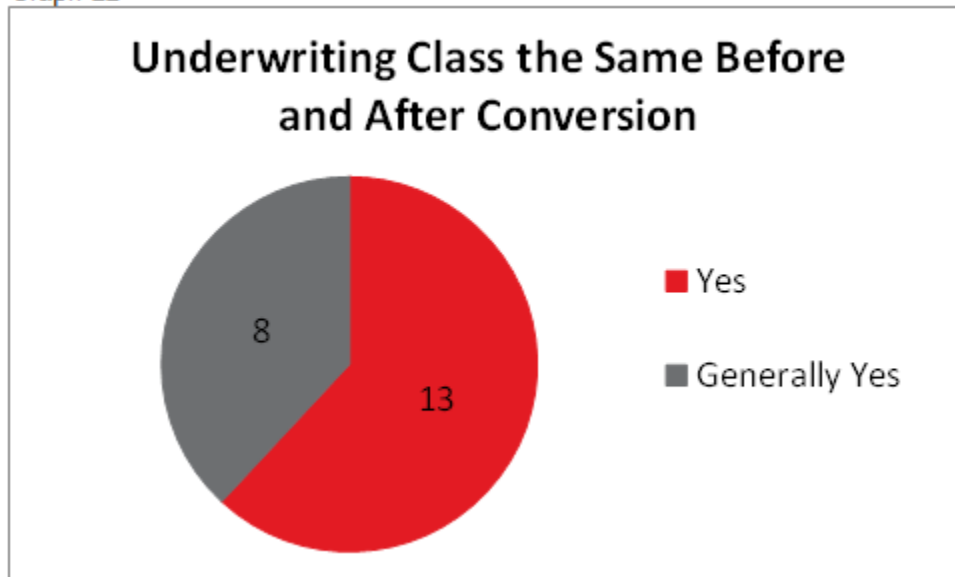
Out of the 12 companies that allow products to convert to an existing permanent product, half (6) require the permanent product to have been originally underwritten and not have originated from a conversion.

The survey questioned the rate structure that would be charged if a term product converted to an existing permanent policy. Most companies that allow this conversion (11/12) charge newly select rates at the attained age rather than point in scale rates from the original issue age.

### Conversion Underwriting

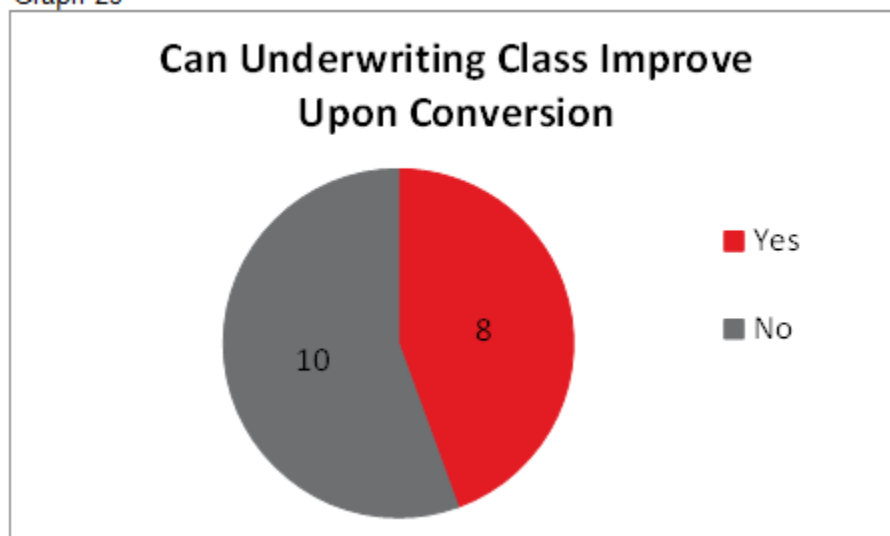
Most companies keep the underwriting class the same before and after conversion. However, if an exactly comparable underwriting class is not available, the closest class is chosen for the permanent policies. Graph 22 shows that eight (8) companies noted this to be the case when asked if the underwriting class stays the same before and after conversion.

Graph 22



Survey respondents were asked whether or not the underwriting class could improve after conversion. Graph 23 shows that eight (8) of the respondents said "Yes" it could improve, but four (4) of those eight (8) commented that this would be done with additional underwriting.

Graph 23



Conversely, respondents were asked if underwriting class could be degraded after conversion. Chart 10 shows that only five companies responded “Yes” to a downgrade and one of those includes a company that notes that the downgrade happens only if the conversion happens after the fifth policy year.

Chart 10

Conversion Underwriting	
Can Underwriting Class Be Degraded Upon Conversion	Responses
Yes*	5
No	15

\*Dependent on Policy Year of Conversion

The survey questioned if companies ever underwrite a conversion. This question brought many comments from companies that contractual conversions by definition cannot be underwritten. Many companies commented that they would underwrite if the policy owner requests a better underwriting class or if they are requesting additional coverage, but the majority responded “No.”

Some of the companies that responded “No” to the underwriting question also responded to the next question: When do you underwrite? Chart 11 shows that the most common answer was for increases or additions to the policy. Another reason for underwriting was other policy changes such as underwriting a new life if the policy is a new joint life policy.

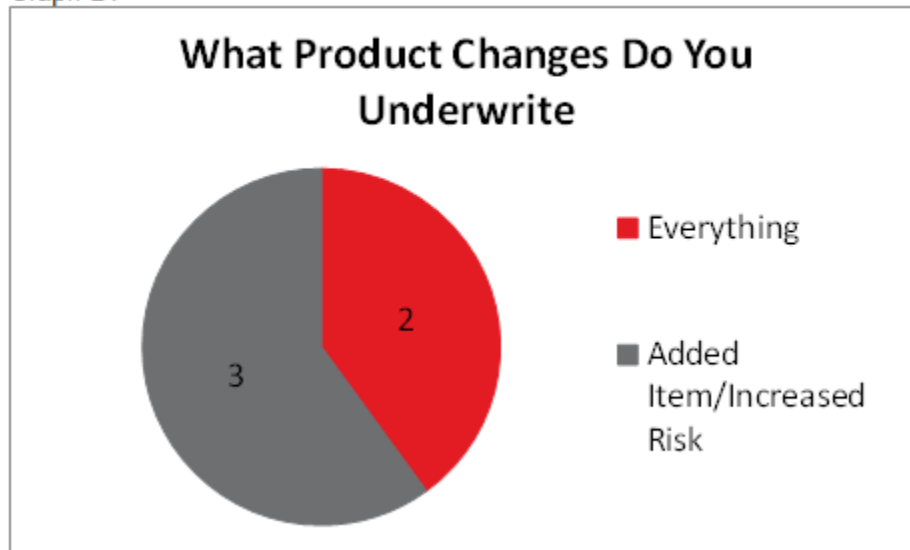
Chart 11

Conversion Underwriting	
When Do You Underwrite	Responses
Increase and Adds	10
Other Policy Changes	2



Out of the 12 companies that responded that underwriting was done, graph 24 shows that only five companies described what was underwritten.

Graph 24



If underwriting is done at the time of conversion, companies were asked to respond what underwriting was required. All companies that answered this question responded that they required the same underwriting that would be done if issuing a new policy. No response indicated an abbreviated underwriting process.

Conversion Timing

Conversions are allowed for most companies within the first year as shown in chart 12. One company noted that if this happens the agents will receive net commissions, not full commissions. One company allows this to happen only as an exception.

Chart 12

Conversion Timing	
Allow Conversions in the First Year	Responses
Yes	18
No	2

Chart 13 shows that the only minimum timeframe for two companies for limiting conversions was one year.

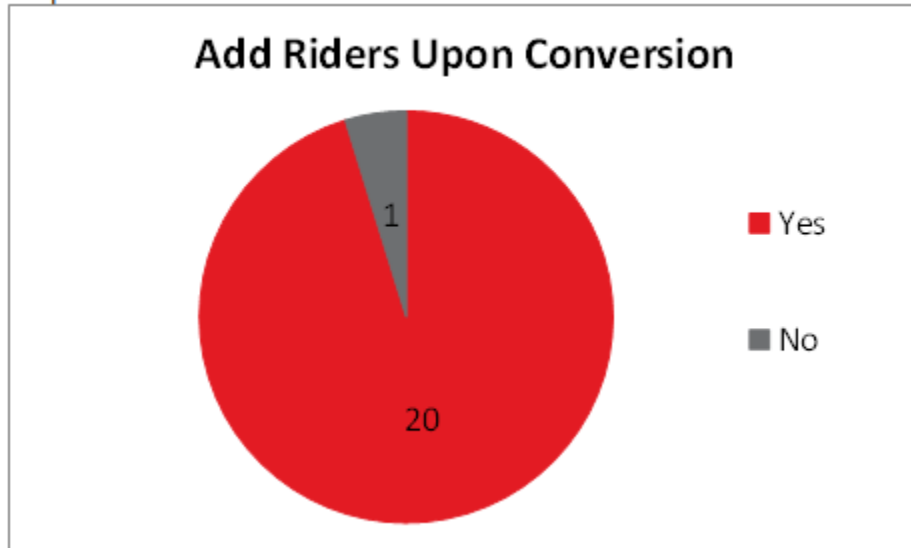
Chart 13

Conversion Timing	
Minimum Timeframe to Convert	Responses
1 Year	2
No Minimum	18

### Conversion Riders

Companies were asked to answer whether or not they allowed riders to be added upon conversion. All but one company shown in graph 25 said that this is allowed. Some respondents commented that this includes riders that are added where additional underwriting would be necessary.

Graph 25



Out of the 20 companies that responded "Yes" in graph 25, the majority of companies required underwriting for riders, and many noted that this was the case because the rider is added coverage (chart 14). Only one company did not require underwriting for riders; however, it is only for the first five years.

Chart 14

Conversion Riders	
Require Underwriting on Riders	Responses
Yes*	17
No**	1
Not Applicable	3

\*Most respondents commented Yes, unless the rider is on the term policy

\*\*Unless policy is greater than 5 years old

Companies were asked to list the riders that could be added. The three riders that were mentioned the most were Waiver of Premium, Children's Insurance Rider, and Accidental Death Benefit Rider. One company listed that any riders offered would be available, and another company indicated that all riders except for Chronic Illness could be added. The complete list is shown below:

- Accelerated Death Benefit
- Accidental Death Benefit
- Additional Purchase Benefit
- Children's Insurance
- Covered Insurance
- Disability Waiver
- Indexed Protection Benefit
- Long-Term Care (only within first year of original term policy)
- Overloan Protection
- Terminal Illness
- Waiver of Monthly Deduction
- Waiver of Premium

Riders that generally were not added on conversion that are typically available on new products are shown below:

- Accelerated Death Benefit
- Chronic Illness Accelerated Death Benefit
- Death Benefit Plus
- Extended Care
- Guaranteed Insurability
- Life Options
- Long-Term Care
- Protected Insurability
- Term

The survey questioned whether or not companies require any riders to lapse upon conversion. The answers were split: 11 "Yes" and 10 "No."

The most common answers for riders that were forced to lapse upon conversion were Waiver of Premium and Accidental Death. Three (3) companies answered any riders that were unavailable on the new policy would be forced to lapse.

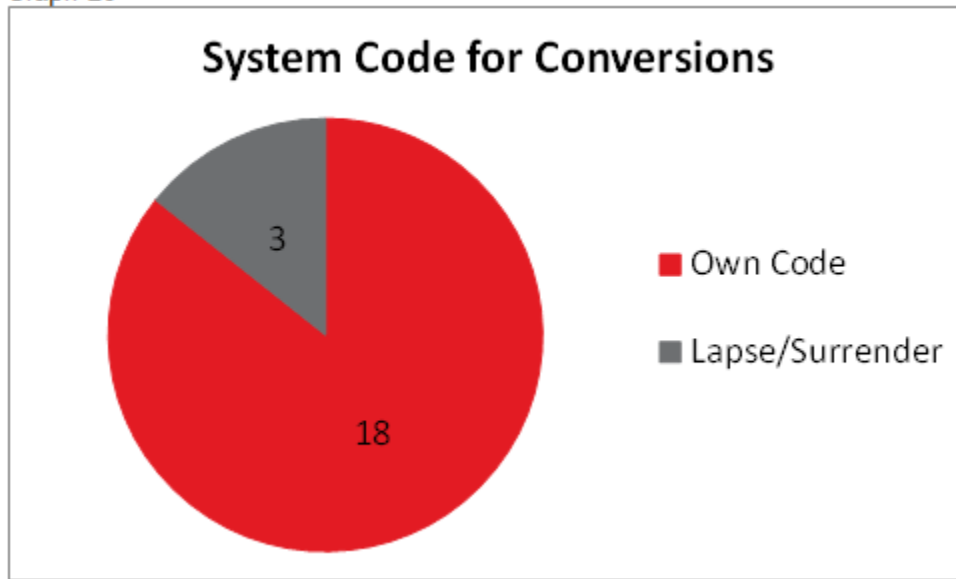
## Conversion Process

This section focuses on topics related to administration, auditing, and experience studies.

### Administration

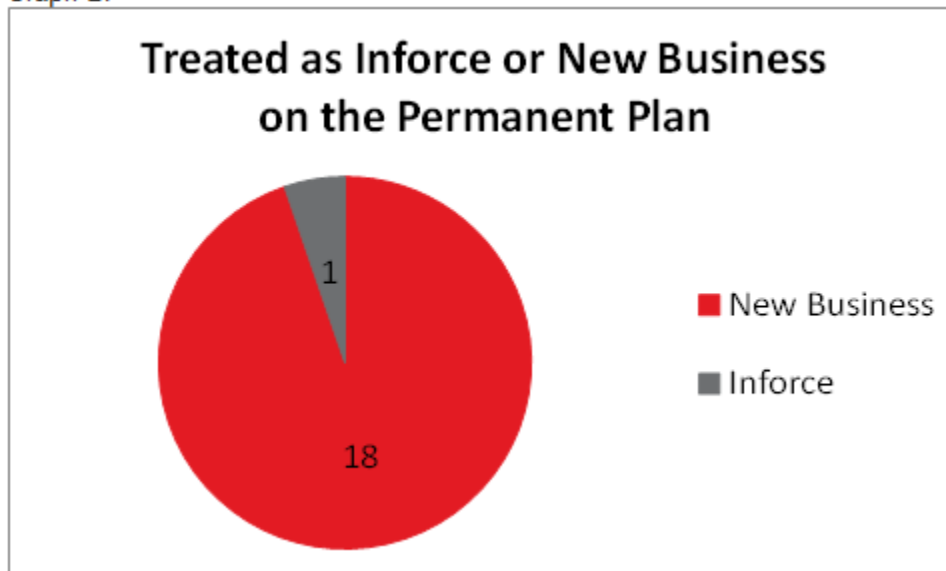
Companies were asked how conversions are coded in their systems, as a lapse or surrender, or do they have their own code. The majority of respondents in graph 26 (18/21) said that they have their own code to identify conversions.

Graph 26



Once the policy is converted to a permanent plan it can be coded as inforce or new business. Almost all respondents that answered this question (18/19) treat the permanent plan as new business (graph 27).

Graph 27



Once the conversion has occurred, systems may or may not be able to tie back to the original term policy. Every survey respondent answered this question. Chart 15 shows that almost half (9/21) of respondents are able to identify the conversion on the permanent plan and link it back to the original term policy. Only two respondents were unable to identify conversions on the term or permanent plan. Many companies commented in this section that this is a process they are looking to improve in the future.

Chart 15

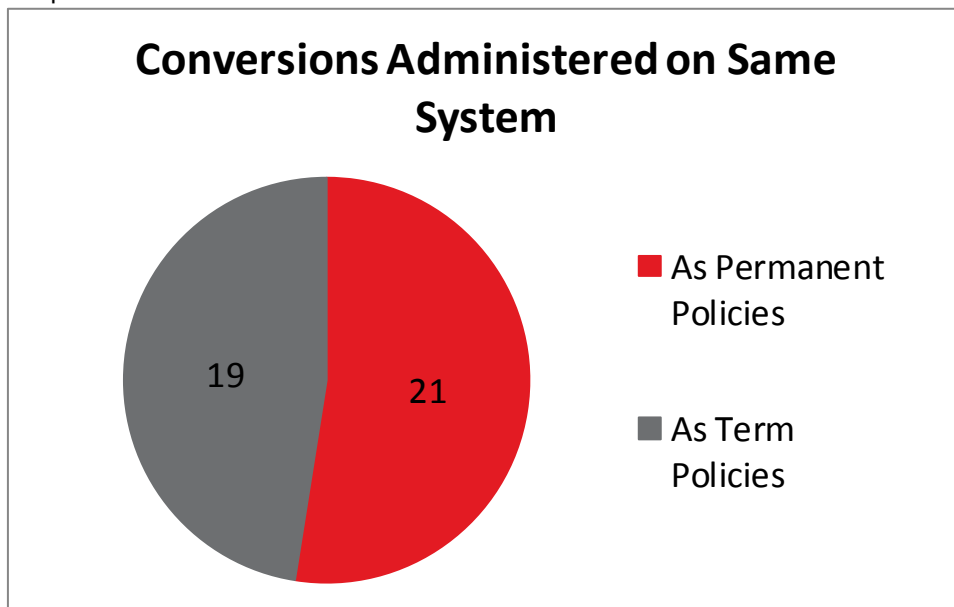
Conversion Process	
Ability to link original term to converted permanent policy	Responses
No, we cannot identify conversions on the term or permanent plan	2
No, but we plan to add the ability to tie the term policy to the permanent policy	3
Yes, we can identify conversion on the permanent plan, but cannot link them back to an original term policy	5
Yes, we can identify a converted term policy, but cannot link it to the permanent policy	2
Yes, we can identify conversion on the permanent plan, AND link them back or an original term policy	9

Companies were asked to describe any changes that they have made to the conversion process over the past five years. Most companies responded that they had not made any changes. The others commented on both improving the process of tying the policy to the original term policy and restricting policy conversions after the fifth policy year.

Administration Systems

Every respondent indicated that their conversions are not administered on a different system than their permanent policies (graph 28). The majority of respondents said conversions and term policies are not administered on separate systems. For those not on the same system, the term and conversion policies would be administered on a different system depending on what type of product the policy converted to.

Graph 28



### Conversion Anniversary Dates

Off-anniversary conversions are allowed by most companies (20/21). When they are allowed, two of the companies indicated that it would have to be on a monthiversary and another that the conversion would have to happen modally.

About half of companies in chart 16 (9/17) allow some type of exception to conversion parameters. A few companies indicated that this requires management or underwriting approval and does not happen often.

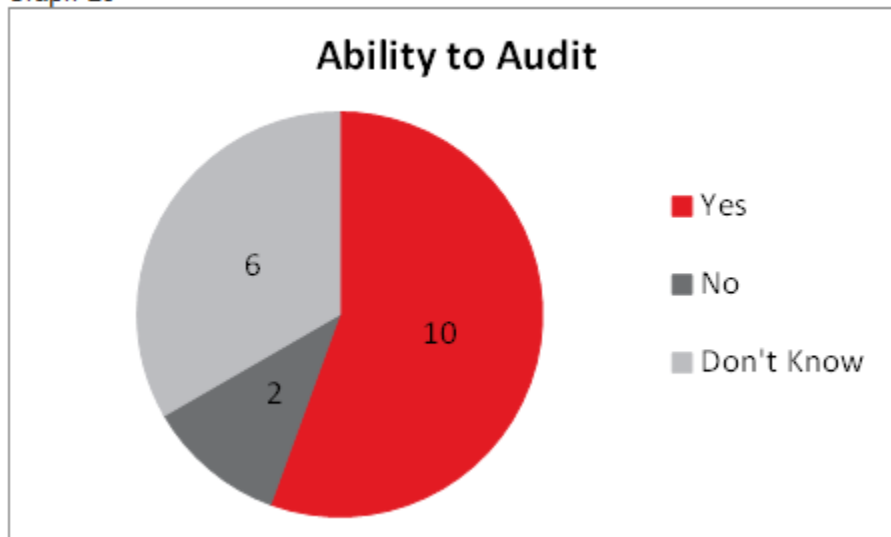
Chart 16

Conversion Process	
Allow Exceptions	Responses
Yes	9
No	8
Don't Know	4

### Auditing

Survey respondents indicated in the comments section that auditing is a process that they would like to improve. Currently 10 out of 21 companies in graph 29 have the ability to audit conversion policies.

Graph 29



Out of the 10 companies in chart 17 that responded above that they have the ability to audit, only three companies audit the conversion process regularly

Chart 17

Conversion Process	
Occurrence of Audits	Responses
Monthly	2
Annually	1
Rarely/Never	4
Not Sure	4

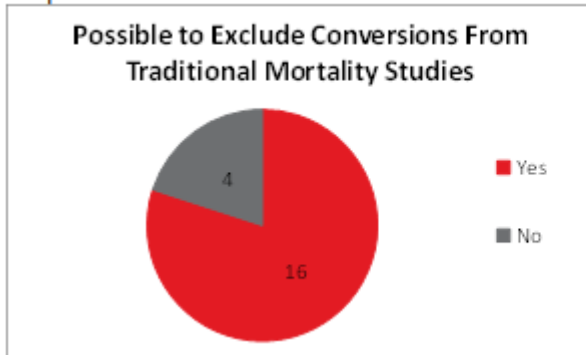
Based on the findings of a conversion audit, two companies responded that they have enacted changes. These companies did not provide any details on the changes made.

Experience Studies

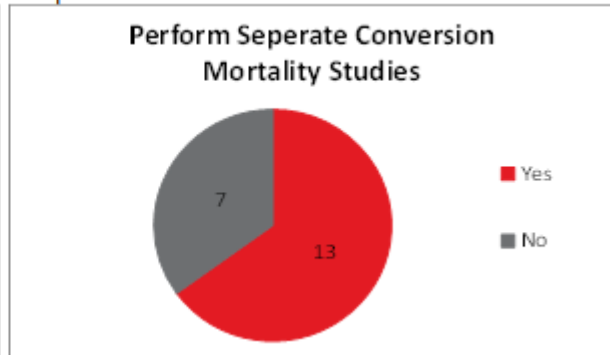
Survey respondents were questioned about conversion mortality studies. Graph 30 shows that 16 companies are able to look at conversions separately from other data. Six (6) of these companies commented that they can review their mortality studies with and without conversions.

Graph 31 shows the 13 of the 16 companies from graph 30 that perform separate conversion mortality studies.

Graph 30



Graph 31



## Conversion Philosophy

Most companies encourage conversions to policyholders (chart 18). It is most common to encourage every insured either at any time or at certain times. Most of the companies indicated that they have had some type of conversion campaign to promote conversions.

Chart 18

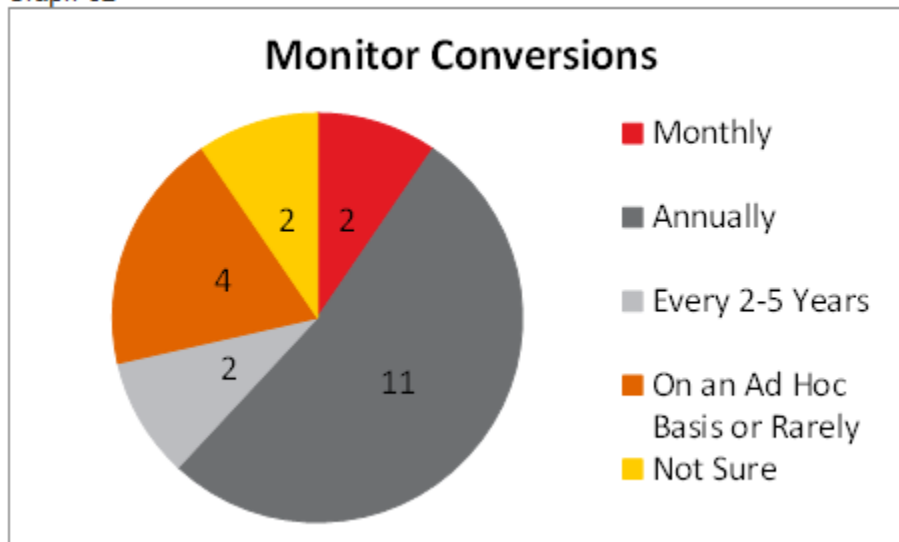
Conversion Philosophy	
Encourage Conversions	Responses
At any time to every insured	8
At certain points in time for every insured	4
At certain points in time to certain insured	3
We do not encourage conversions ever	4
Not sure	2

Predictive modeling to target conversions is not done by any of the surveyed companies; however, two companies commented that they have either begun to investigate this as a possibility or potentially will in the future.

Two-thirds (14/21) of companies responded that they know how conversions are impacting their business. One company commented that they track conversions to measure the mortality impact. Three (3) of the 21 surveyed responded “No,” they do not know how conversions are impacting the business.

More than half of the surveyed companies monitor conversions at least annually as shown in graph 32. The companies that answered that they know the impact of conversions on their business do not directly match up with the companies that responded they monitor conversions regularly.

Graph 32





Most companies have products priced so that the conversion is built into the term policy either explicitly or implicitly as shown in chart 19.

Chart 19

<b>Conversion Philosophy</b>	
<b>Cost of Conversions</b>	<b>Responses</b>
Implicitly built into the term policy	5
Explicitly built into the term policy	7
Implicitly built into the permanent policy	5
Explicitly built into the permanent policy	2
Not built into either term or permanent policy	1
Conversion has no cost	1

## Conversion Reinsurance

The final section of the survey analyzed conversion reinsurance practices. A large number of survey respondents indicated that they reinsure conversions (18/20).

Out of the companies that reinsure, two (2) of them typically recapture the conversion policies and cede them to the permanent pool, and 15 of them stay with the original reinsurance pool regardless of participation in the permanent pool.

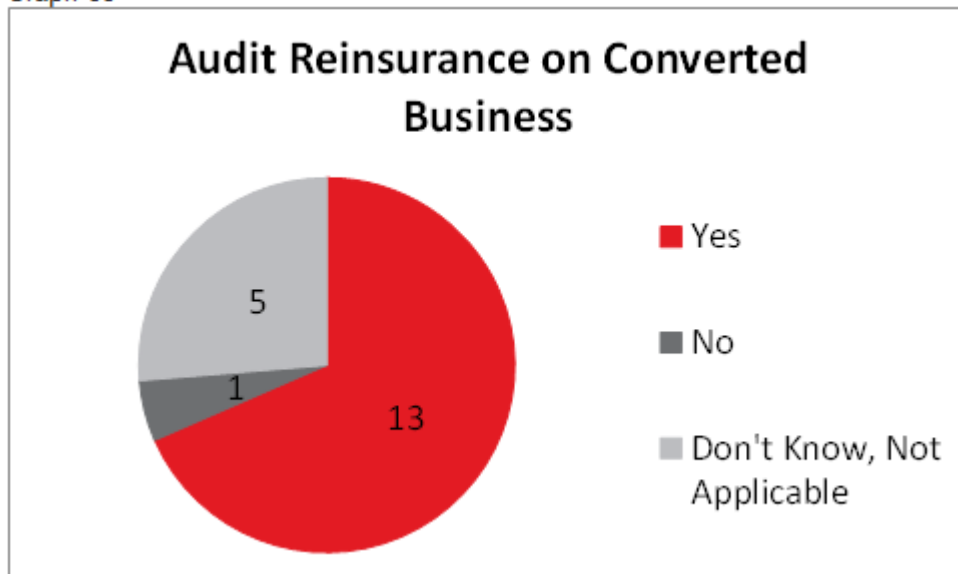
The majority of reinsurance agreements of the surveyed companies shown in chart 20 are structured to pay separate rates for conversions regardless of permanent pool participants.

Chart 20

Conversion Reinsurance	
Structure of Reinsurance on Converted Policies	Responses
We pay separate rates for conversion regardless of permanent pool participants	10
Reinsurers that are not in existing permanent pool are paid based on the reinsurance terms of the original term policy as if it didn't convert	1
Reinsurers that are in both the term and permanent pools are paid permanent point in scale rates upon conversion	5
We do combinations of the above depending on the reinsurer	2

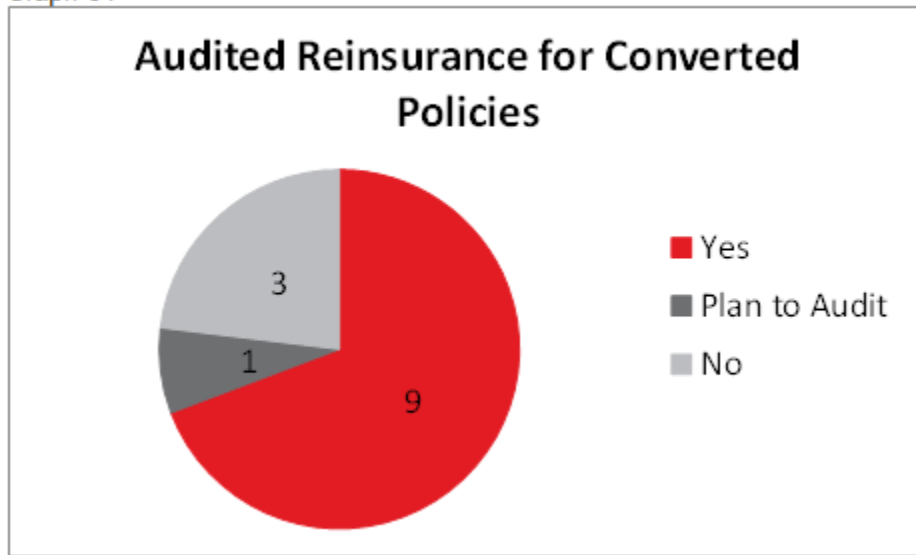
Companies expressed an interest through comments in being able to audit reinsured policies, but only 13 have this capability, as shown in graph 33.

Graph 33



Out of those companies with the capability to audit reinsured policies, graph 34 shows that 10 do audit the policies or have plans to do so.

Graph 34



Eight (8) out of the nine companies that responded that they have audited reinsurance for converted policies also provided how often they audit reinsured policies in chart 21. One company rarely audits policies, and three of the remaining seven respondents audit at least annually.

Chart 21

Conversion Reinsurance	
How Often Audit Reinsured Conversions	Responses
Monthly	1
Quarterly	1
Annually	1
Every 2-5 Years	4
Rarely	1

## **Other Assumptions and Practices**

At the end of the survey companies were asked if they had any other comments or insights related to their conversion experience and process that was not included in the survey. Only three (3) companies responded to this question. Two (2) of the comments discussed additional anti-selective mortality, which will be investigated further in Phase 2 of this research project.

## **Special Thanks**

The authors would again like to extend our thanks to all participating companies for making this project a success. Without their support, such research projects would not be possible.

The authors would also like to thank the SOA and the following members of the Project Oversight Group and SOA staff for their guidance and support on this research project. Their comments, feedback, and direction have greatly improved the value of this project:

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Jack Luff

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# Appendix A: Survey Questions

Survey Questions				
Please provide information related to your Company.		Policy Count	Face amount	Premium
1	How much term business did you write 2013?			
2	How much term business do you have inforce as of year end 2013?			
3	How much non-term life insurance did you write in 2013?			
4	How much non-term life insurance do you have inforce as of year end 2013?			
5	How much converted term business is inforce as permanent in 2013?			
6	Please estimate on average how much of your term business converts each year?			
7	Please provide your best estimate of the mortality expectation for converted business of a percentage of non-converted business			
8	Please provide details of your conversion privilege by plan code on the 'conversion privilege by plan tab' to help tie to the study	See "conversion privilege by plan" tab		
Which of the following are part of your conversion program?		Most popular term written today	Most popular term written 5 years ago	
9	Do you accept conversion of term that originated from another company?			
a	Is there a limited time frame/max years from issue that conversions are allowed from other companies? If yes, please specify in comments.			
b	Is there a maximum face amount that you allow to convert from another company? If yes, please specify the maximum.			
c	Do you require any underwriting when a conversion from another company is requested?			
d	Do you accept term conversions from more than one company? If yes, please specify in comments.			
e	Can you track these policies separately from other conversions?			
10	Do you allow partial conversion (partial conversion defined in definition tab)?			
a	Do you limit the time frame during which partial conversions are allowed? If yes, please specify in comments.			
b	Do you limit the number of partial conversions allowed? If yes, please specify limit in comments.			
c	Do you have a minimum size required for a partial conversion? If yes, please specify in comments the minimum size.			
d	Is partial conversion a contractual right?			
e	Is partial conversion an administrative practice?			
11	Do you give conversion credit?			
a	How much is the conversion credit (Ex. Unearned premium or annualized premium for prior year)? (please comment)			
b	Is conversion credit commissionable on the permanent policy?			
c	Is conversion credit available through the entire conversion period?			
d	If conversion credit is not available for entire conversion period, how long is it available? (please comment)			
e	Have you ever offered conversion credit as a special program to incent conversion?			
12	Do you allow two separate single policies to convert to a joint life policy?			
a	Do you require the original term policies to have been issued at same time?			
b	If the original term policies are not in the same duration, how do you establish the age/duration in the new joint policy? (please comment)			
13	Do you allow two or more term policies on the same insured to convert into one permanent policy?			
a	Are the term policies required to have the same issue date?			
b	If you do not require the polices to have the same issue dates, how do you determine the duration of the permanent policy for the COI?			
14	Do you allow a joint term policy to convert to two single life policies?			
15	Do you allow a joint term policy to convert to a joint permanent policy?			
16	Do you allow simplified issue product to convert to a fully underwritten product?			
17	Do you restrict conversions to certain products?			
a	Do you have specific product(s) for conversions?			
b	Do you allow conversions to whole life only?			
c	Do you allow conversions to secondary guarantee UL products?			
d	Other (please specify in comments section)			
18	Is the underwriting class the same after as before conversion?			
19	Can the underwriting class improve upon conversion?			
20	Can the underwriting class be degraded upon conversion?			
21	Do you allow conversions in the first year?			
a	Is there a minimum time frame that the term needs to be inforce before converting?			
22	Do you ever underwrite a conversion?			
a	When do you underwrite? (please comment)			
b	Why do you underwrite? (please comment)			
c	What do you underwrite? (please comment)			
d	What do you require when underwriting is done at conversion? (please comment)			
23	Do you allow any rider(s) to be added upon conversion?			
a	Do you require underwriting on the rider(s)?			
b	What rider(s) can be added? (please specify in comments section)			
c	What riders cannot be added that are typically available on new products? (please specify in comments section)			
24	Do you require any rider(s) to lapse upon conversion?			
a	Which rider(s) are forced to lapse upon conversion? (please comment)			
25	Do you allow term to term conversions?			
a	What type of term product is being converting from? (please comments)			
b	What type of term product is being converted to?(please comments)			
26	Do you allow term products to convert to an existing permanent policy?			
a	Does the existing permanent policy have to have been originally underwritten?			
b	Do you charge newly select rates (new issue) at the attained age?			
c	Do you charge point-in-scale rates from the original issue age?			

Please provide information related to your conversion process.			
27	Are conversions treated/coded as a lapse, surrender, or have their own code in your systems?		
28	Are conversions treated as inforce or new business (accounted for as a new policy) on the permanent plan?		
29	Can you identify conversions and link the term and permanent policies?		
30	Are you able to audit your conversion process?		
a	If so, how often do you audit the conversion process?		
b	If you do audit, have you enacted any changes resulting from the audit?		
c	Please elaborate on any issues discovered from your audits in the comments.		
31	Please describe how (if any) you changed the way you process conversions in the last 5 years? (please comment)		
32	Do you exclude conversions from your mortality studies?		
33	Do you perform your own conversion mortality studies?		
34	Are your conversions administered on a system different from your permanent policies?		
35	Are your converted policies administered on a system different from your term policies?		
36	Do you allow off-anniversary conversions?		
a	When processing an off-anniversary conversion, what age/duration is the permanent policy issued?		
37	Do you allow exceptions to your conversion parameters?		
Which of the following describes your conversion philosophy?		Most popular term written today	Most popular term written 5 years ago
38	We encourage conversions...(see drop down)		
39	Do you use predictive modeling to target conversions?		
40	Do you know how conversions are impacting your business?		
41	Conversions are monitored...(see drop down)		
42	The cost of conversion is...(see drop down)		
Please describe your reinsurance administration of conversion & variations by term plan.		Most popular term written today	Most popular term written 5 years ago
43	Conversions are reinsured		
44	Conversions are recaptured and ceded to the permanent pool		
45	Conversions stay with the original reinsurance pool regardless of participation in the permanent pool		
46	How do you structure the reinsurance premiums on converted policies today?		
47	Can you audit your reinsurance on converted policies?		
48	Have you audited your reinsurance for converted policies?		
49	How often do you audit reinsurance of converted policies?		
50	Do you have any other comments/insights related to your conversion experience and process that is not part of the above that you would like to add?		