

The ACLI logo is located in the top right corner. It consists of three slanted parallel lines followed by the letters "ACLI" in a bold, sans-serif font.

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ACLI Annual Conference 2019

October 13-15 | Sheraton Boston Hotel | Boston, MA

Hot Issues Breakfast

AM Best Industry Outlook

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AM Best



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Associate Director
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US Life Insurance Outlook

- Outlook and trends
- Factors
 - Macroeconomics
 - Flattening/inverted treasury yield curve
 - Life/Annuity sales
 - Evolving regulatory issues
 - Potential equity and credit market correction
 - Need for innovation/pace of change

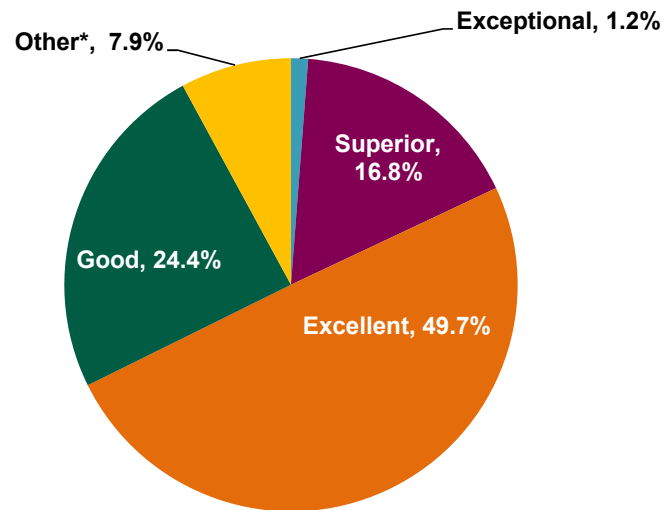
US Economic Indicators

	Q2 2019	Q1 2019	Q 4 2018	2019 Forecast	2020 Forecast
GDP	2.1	3.2	2.2	2.3	1.8
Unemployment Rate	3.7	3.6	3.6	3.9	4.0
CPI	1.6	1.8	2.0	2.2	2.0
10 Year Treasury	2.07	2.57	2.83	2.50	2.25
Spread 10 Yr Treasury and Baa(BPS)	239	226	230	-	-

Rating Trends

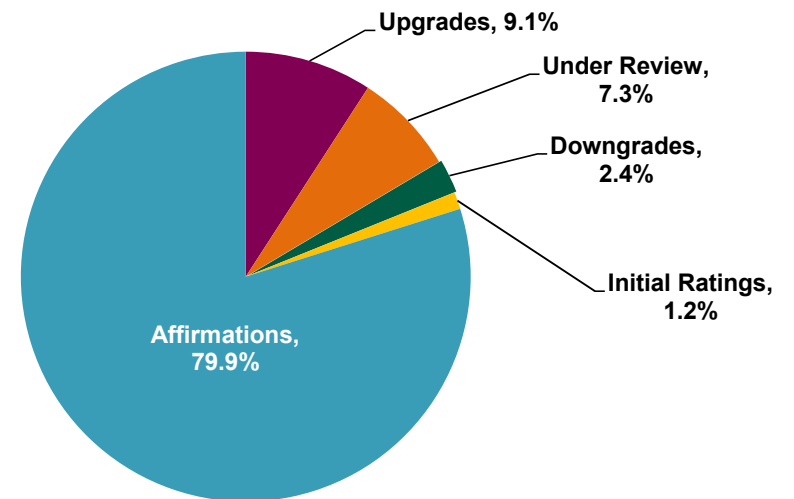
US Life/Health – Issuer Credit Rating Distribution

% of Total Rating Units, First Half 2019



US Life/Health – Issuer Credit Rating Activity

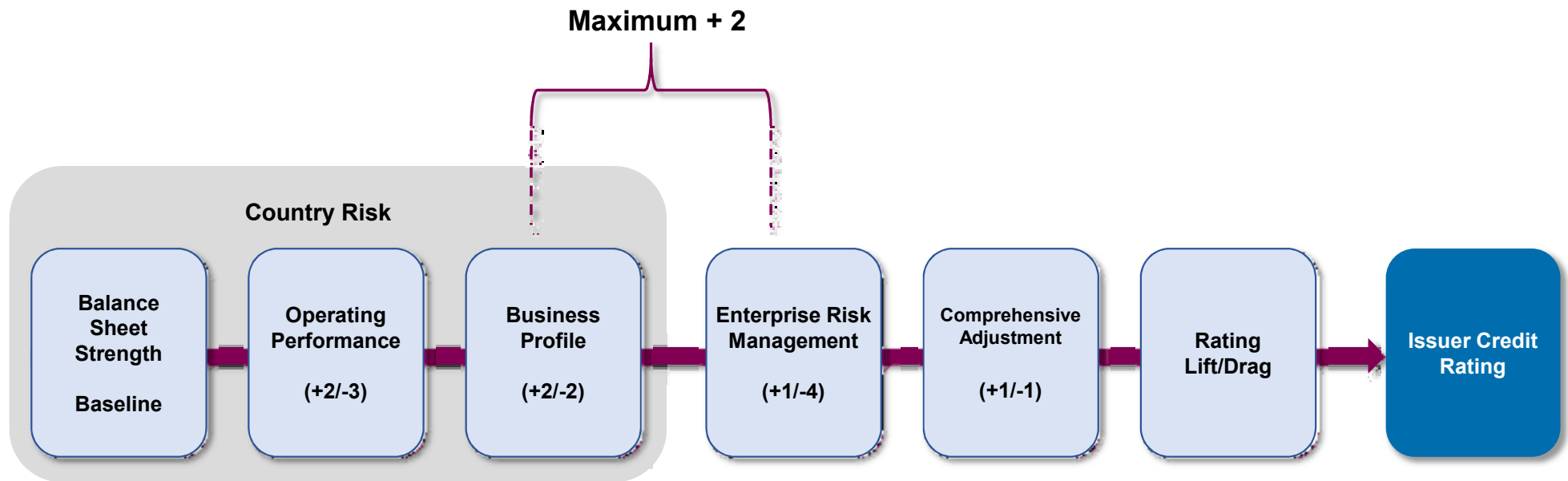
% of all Rating Units, First Half 2019



*"Other" refers to Issuer Credit Rating Categories of Fair, Marginal, Weak, and Poor, as well as companies under regulatory supervision.

Source: AM Best data and research

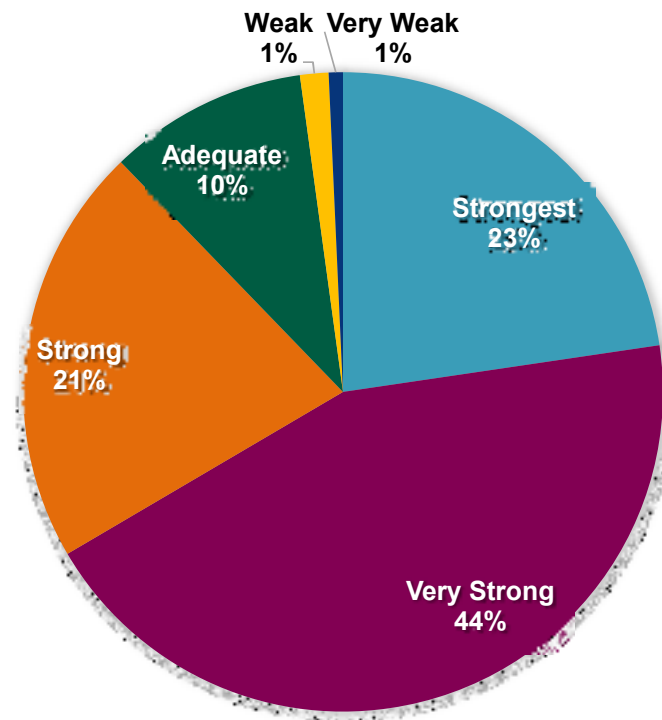
BCRM Building Blocks



Balance Sheet Outlook

- Capital
- Liquidity
- Financial Flexibility
- ALM
- Investment Trends
- Quality of Capital

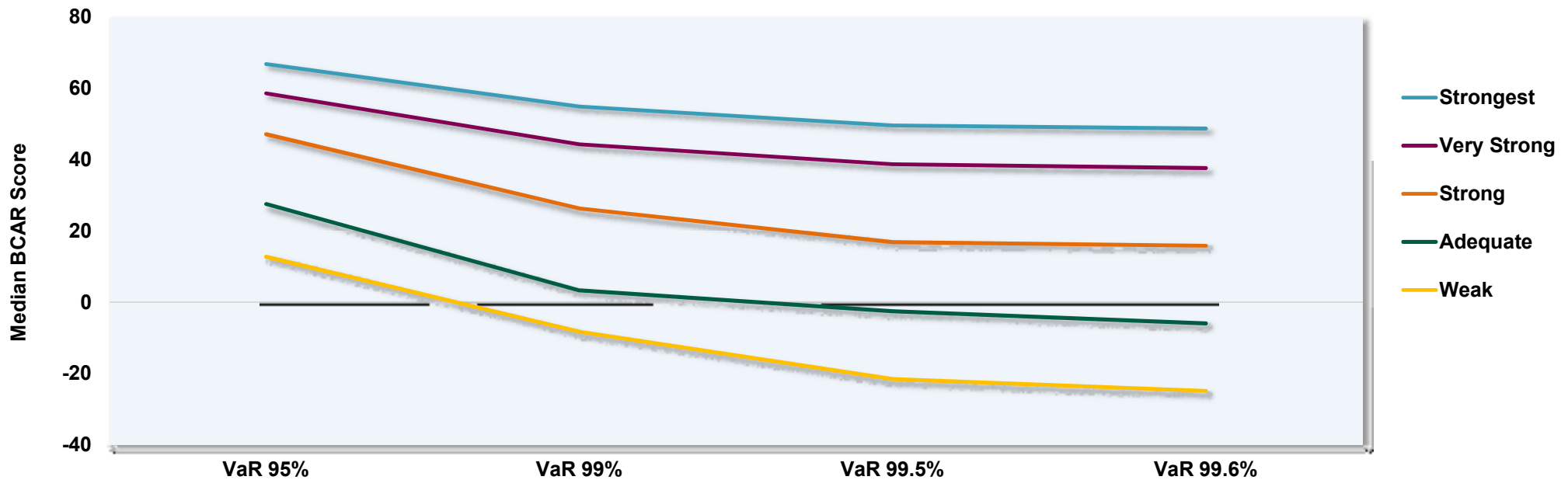
Balance Sheet Distribution



Source: AM Best data and research

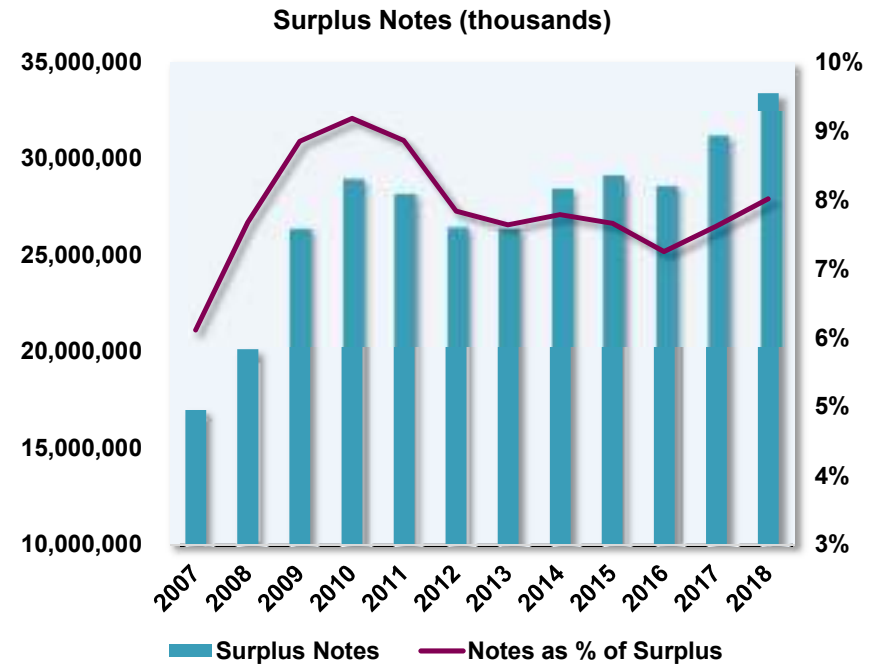
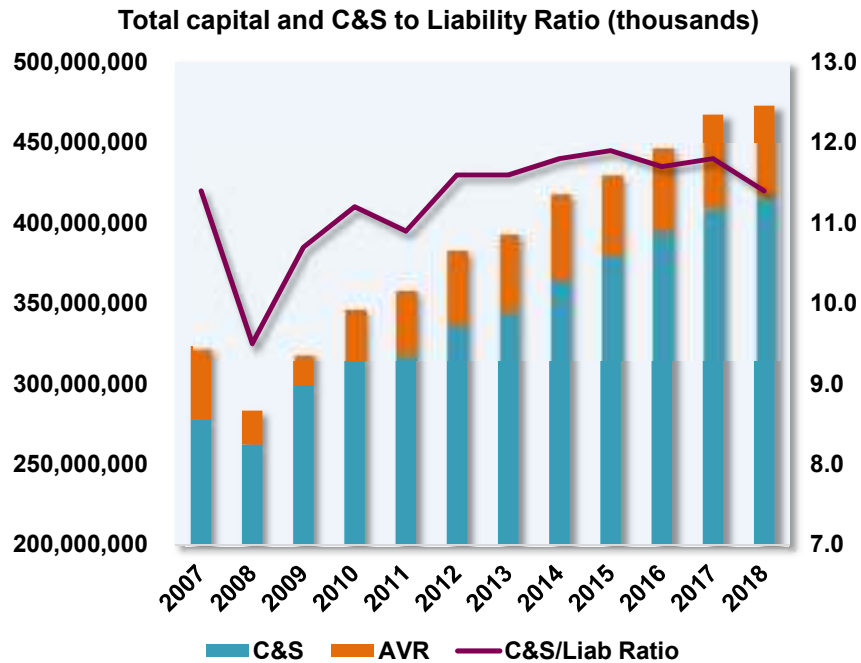
US Life/Annuity

Median BCAR Score by Balance Sheet Strength



Source: AM Best data and research

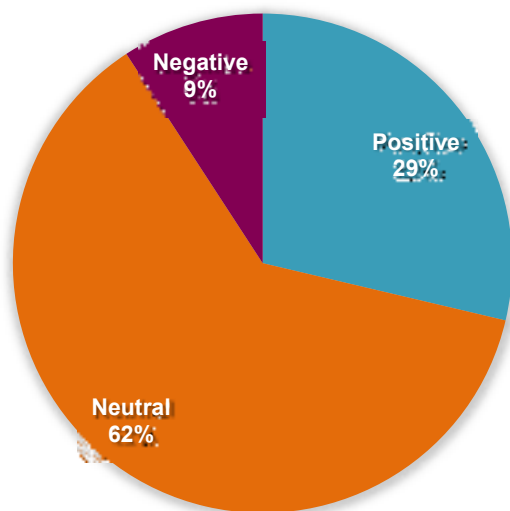
Balance Sheet – Quality of Capital



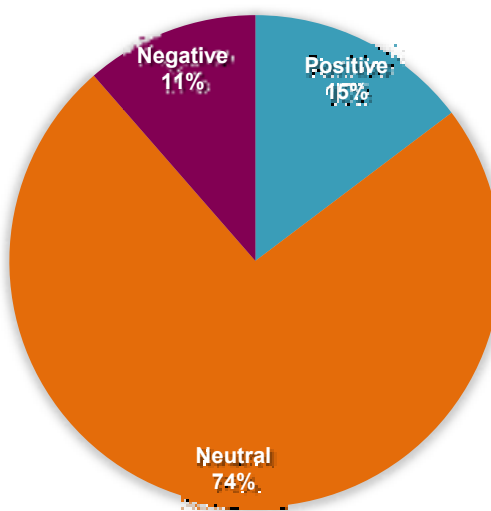
Source: AM Best data and research

Qualitative Balance Sheet Assessment

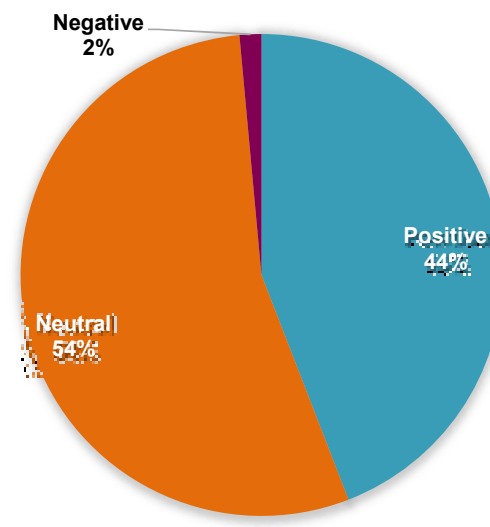
Quality Of Capital



Quality Of Assets



Liquidity



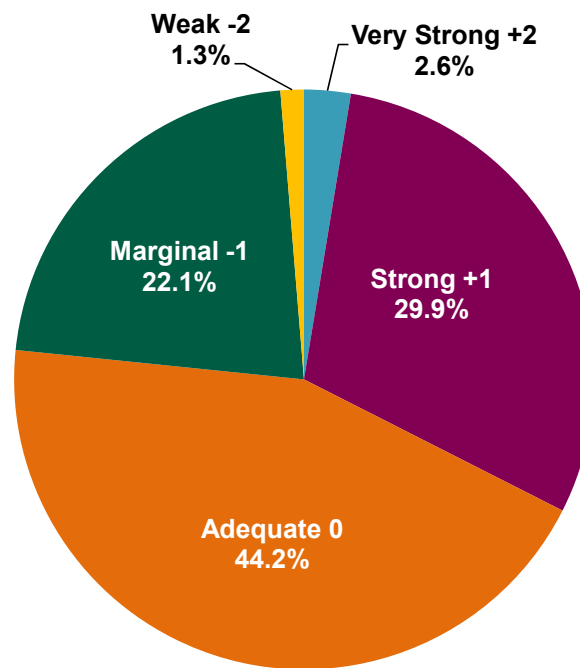
Source: AM Best data and research

Operating Earnings Outlook

- Life Trends
- Annuity Trends
- Investment spreads
- Credit trends
- Expense Trends
- Operating Returns

US Life/Annuity

Operating Performance Notch Distribution



Source: AM Best data and research

L&A Operating Earnings

U.S Life/Annuity - Direct Premiums Written and Pre-Tax Operating Gains by Line of Business

Direct Premiums Written (\$ billions)						
	% Change	2Q19	2Q18	2018	2017	2016
Ordinary and Group Life	4%	94.1	90.8	185.2	187.8	180.5
Individual Annuity	12%	114.3	101.8	213.0	187.1	203.1
Group Annuity	-2%	68.5	69.9	146.2	134.3	129.3
Group A&H	5%	70.1	66.9	134.7	126.3	115.4
Individual A&H	0%	32.7	32.6	62.6	64.4	64.3
Credit	1%	0.4	0.4	1.7	1.6	1.7
Total	4%	380.1	364.0	743.5	701.7	694.3

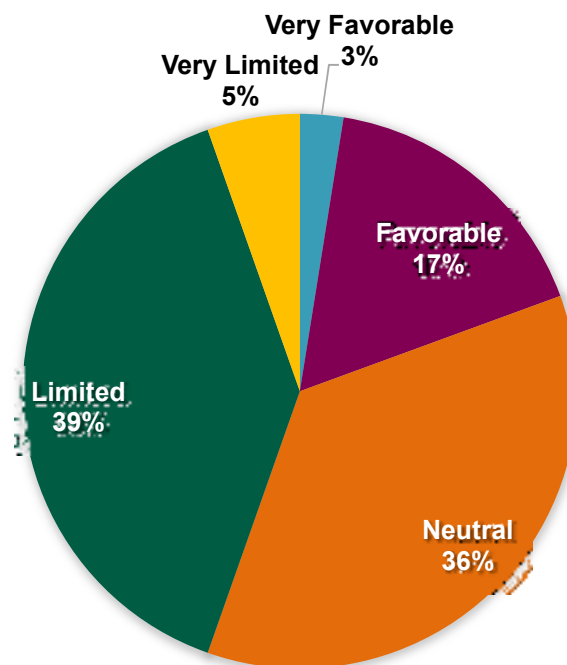
Pre-Tax Operating Gain (\$ billions)					
	2018	2017	2016	2015	2014
Ordinary & Group Life	4.3	6.1	11.0	10.2	7.1
Individual Annuity	12.7	29.6	30.2	18.5	18.6
Group Annuity	8.9	8.2	8.9	9.6	9.2
Group A&H	11.6	10.9	8.6	9.1	6.8
Individual A&H	2.2	0.1	3.9	4.0	3.3
All Other Lines	8.3	8.7	4.7	3.8	4.9
Total	47.8	63.7	67.2	55.2	49.9

Business Profile Outlook

- Product Risk
- Competitive Environment
- Distribution Trends
- Innovation
- Regulatory

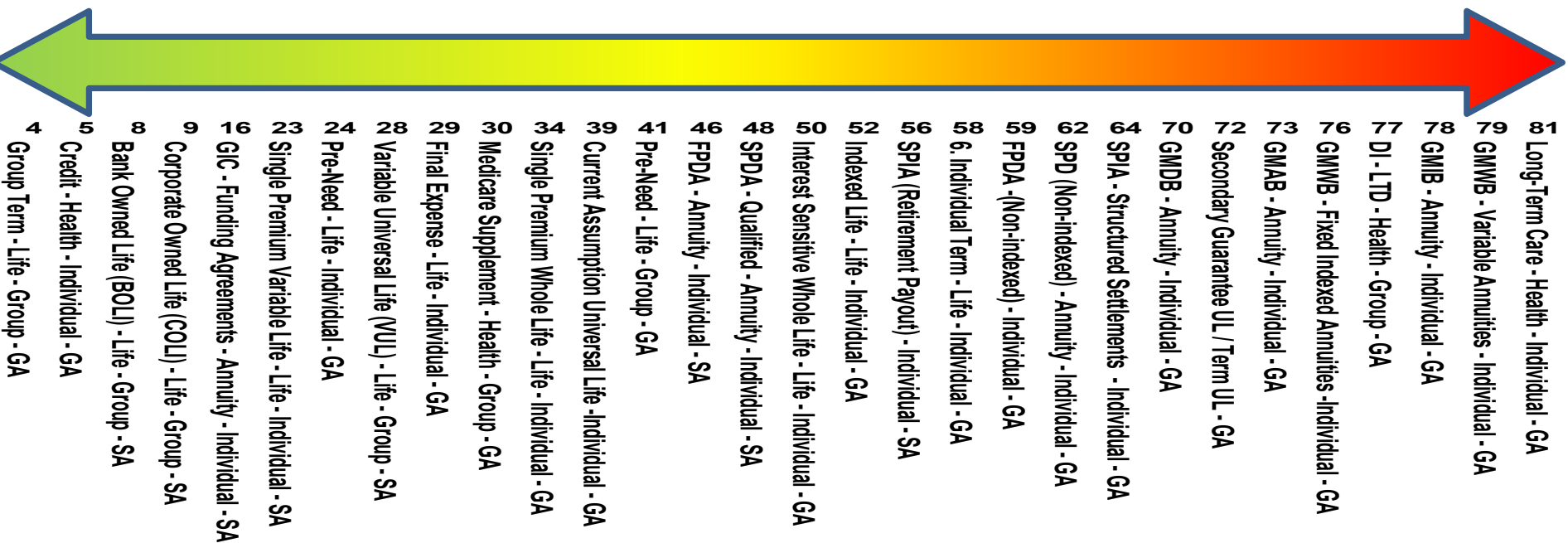
U.S. Life/Annuity

Business Profile Notch Distribution



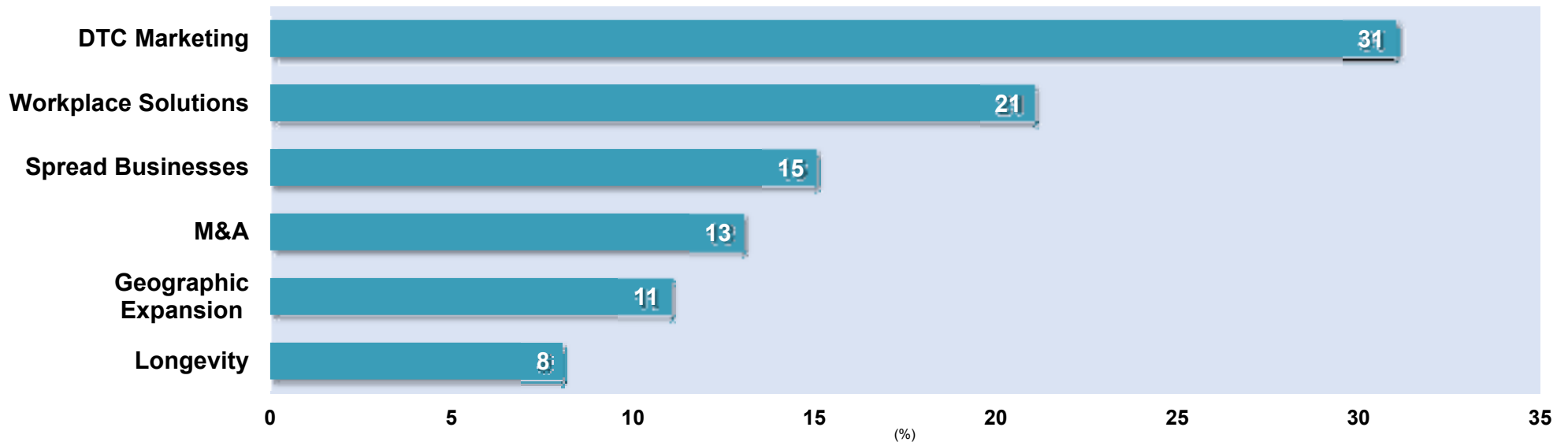
Source: AM Best data and research

Product Risk – Continuum



Distribution

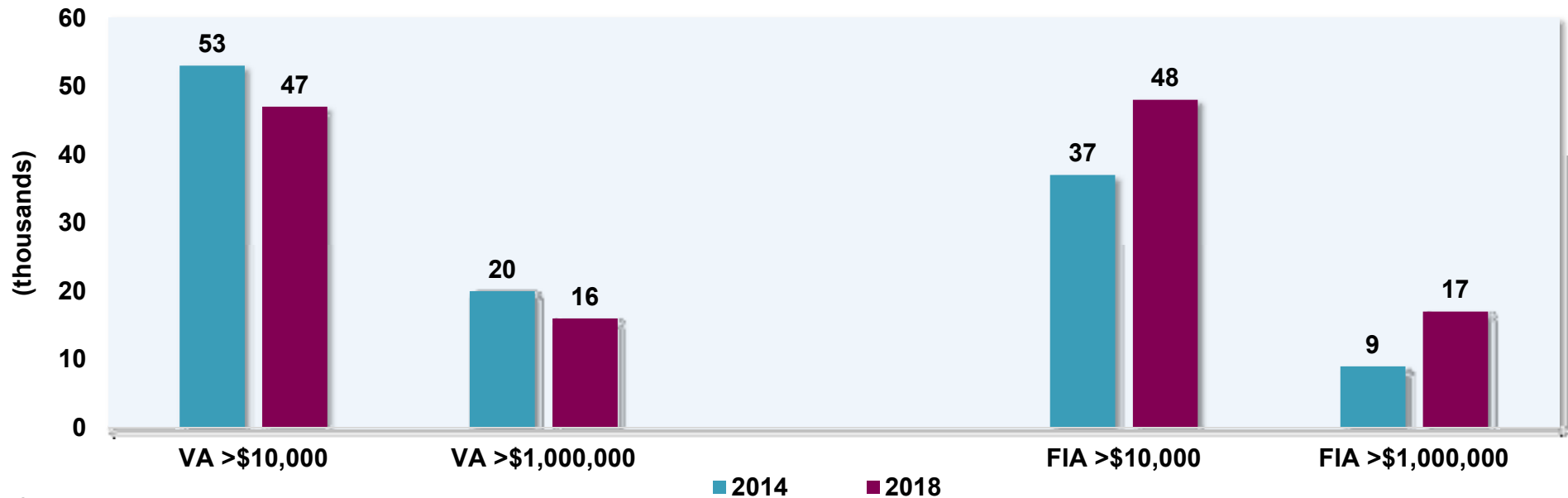
2019 RVPV Poll: Which of the following presents the most attractive area of opportunity for your company in 2019?



Source: AM Best data and research

Business Profile Competition

Product Shift and Increased Competition in Annuities
Number of Carriers Selling VA/FIA



Source: AM Best data and research

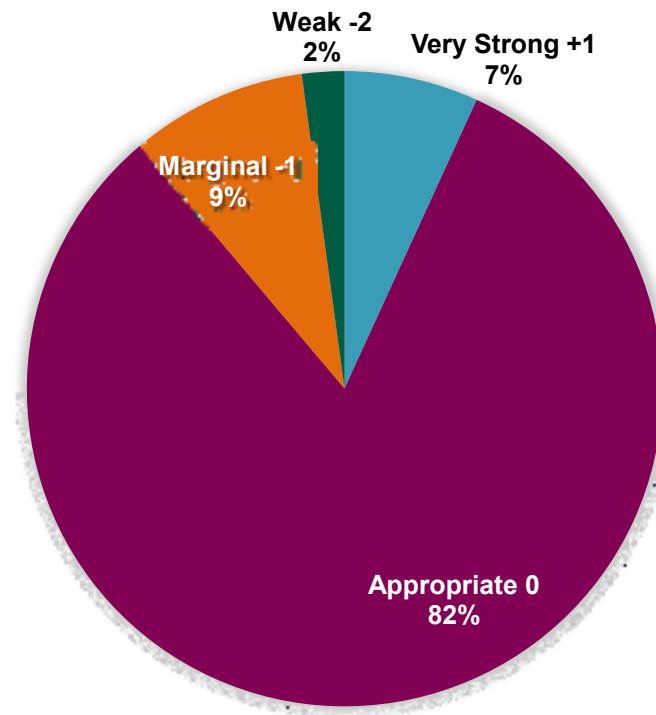
Business Profile – Regulatory

- NAIC -1 Changes
- Suitability Standards/Best Interest
 - SEC/NAIC 275/ NY-187
- S.E.C.U.R.E ACT

ERM Outlook

- Framework
- Risk Appetite/Tolerances
- Quantification of Operational Risk
- Stress Testing

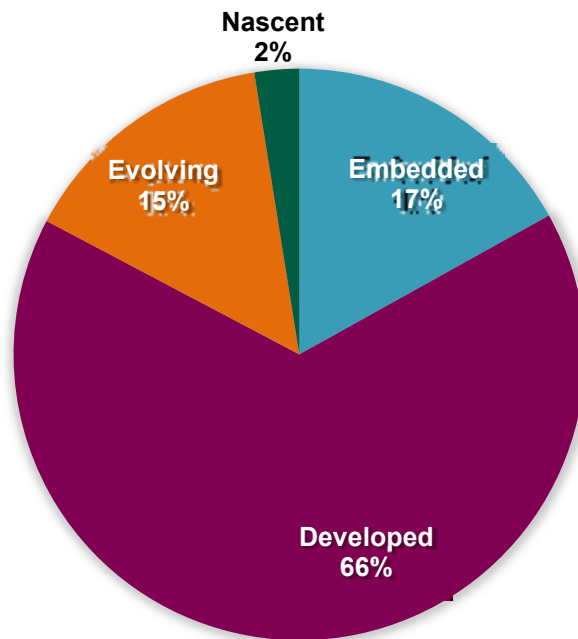
L&A ERM Distribution



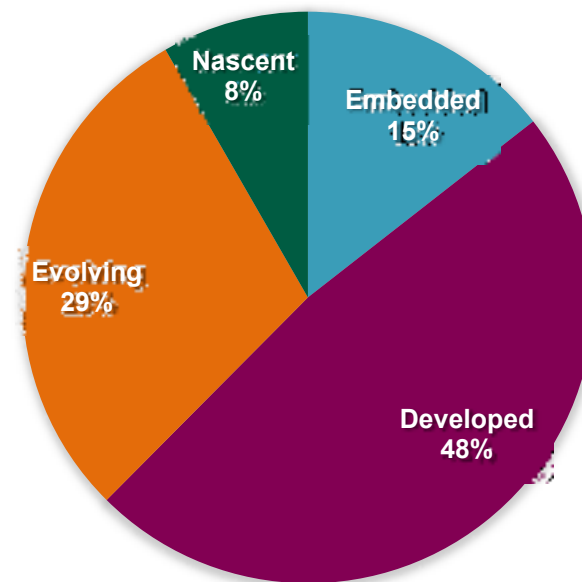
Source: AM Best data and research

Industry ERM Evaluation

Risk Identification & Reporting



Stress Testing



Source: AM Best data and research

Methodology Update

Scoring and Assessing Innovation

Innovation is:

- A multi-stage process that transforms ideas into new or significantly improved:
 - Products
 - Processes
 - Services
 - Business models



Scoring and Assessing Innovation

- Key Principles:
 - Not limited to types or technology
 - Measurable and Observable Impact
 - Dynamic and Ongoing

Thank You

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