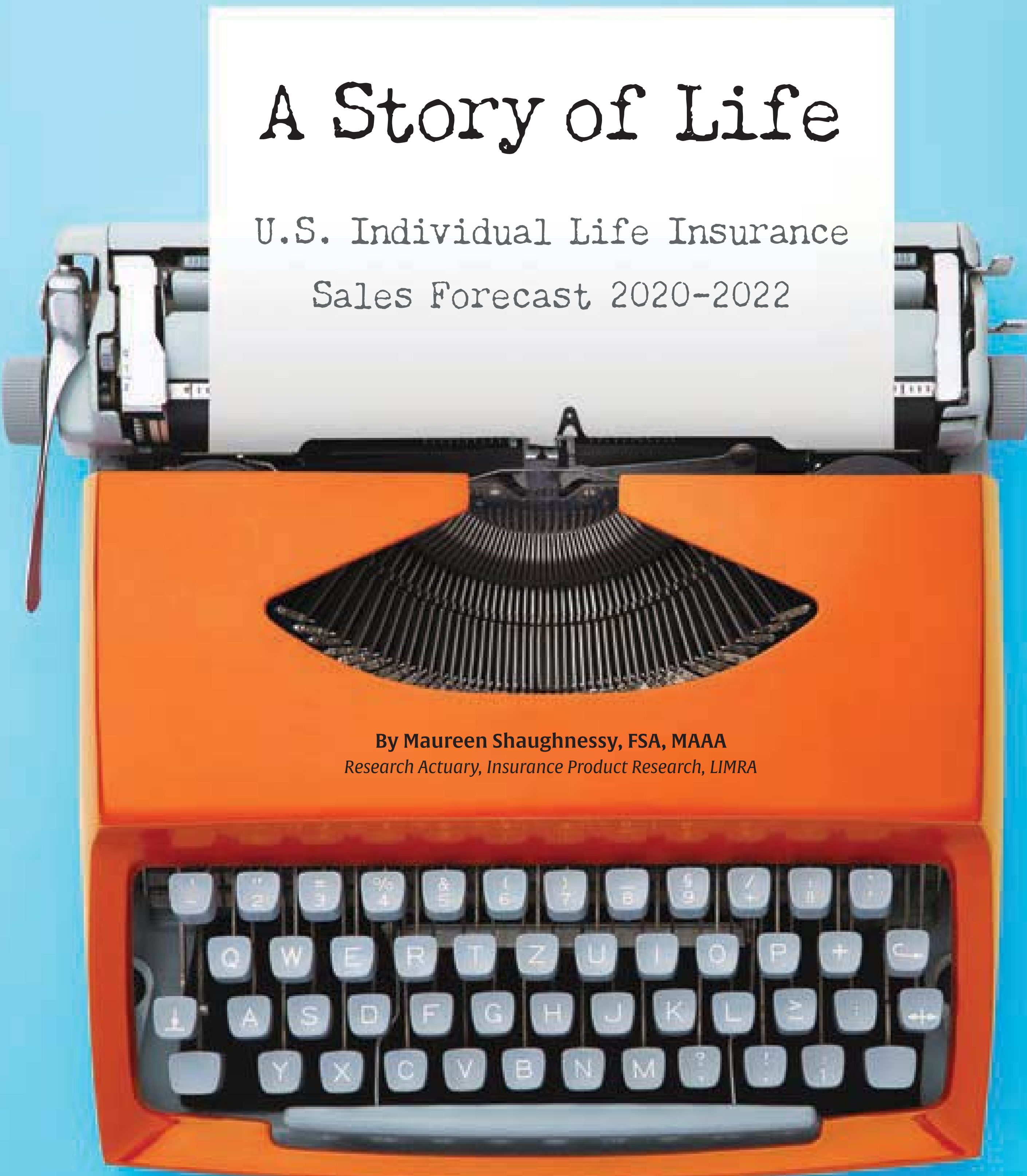

A Story of Life

U.S. Individual Life Insurance Sales Forecast 2020-2022

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Developing a "story" about the future of life insurance sales necessarily begins with a look at its setting in the recent past. U.S. individual life insurance sales ended strong in 2019, fueled in part by last-minute sales of products priced under the 2001 Commissioner's Standard Ordinary (CSO) mortality tables. As we moved into 2020 — with the new 2017 CSO tables making some products less competitive — companies already were asking how sales would compare to 2019.

Then the global pandemic hit, quickly transforming the lives of consumers and companies, and driving the economy into a recession. The impact of 2017 CSO quickly became an afterthought, as companies pivoted to respond to the underwriting challenges posed by quarantines, social distancing, and an evolving mortality threat, as well as the pricing challenges posed by the lowest interest rates in modern history.

A Theme of Disruption and Mortality

The theme of the pandemic permeates the remainder of the forecast story. Even as COVID-19 disrupted the life industry, it also forced consumers to face their own mortality. Consumer interest in life insurance increased as traditional face-to-face distribution decreased, due to the social limits imposed by the pandemic. As a result, many consumers took advantage of online or direct channels for insurance purchases.

Companies with accelerated underwriting — without the need for face-to-face underwriting or collection of fluids — adapted better to the pandemic environment, with their already established "socially distanced" process. Some companies increased the availability of accelerated underwriting in order to put additional business on the books.

In addition to these challenges, companies faced managing the new mortality risk posed by the virus itself. Companies paused the underwriting process for higher-risk individuals, those who traveled to countries with high infection rates, and those with certain pre-existing conditions. As we learned more about the virus, companies adjusted their risk management and underwriting guidelines. The long-term effects for those who contract the virus and survive are still unknown.

These many offsetting and compounding factors happened simultaneously as we moved through 2020. As such, the overall impact on sales differed vastly by company, and even within company by distribution channel and product line.

Character Development

As we continue to craft the story, we also have to factor in certain assumptions ranging from economic circumstances to the recent presidential election. This "cast of characters" influences the outlook for not only companies, but also consumers in terms of their physical, financial, and emotional health. Based on information from Oxford Economics, we looked at anticipated trends in these areas:

- ***Equity markets*** — Equity markets have been erratic at best; triggering circuit breakers on multiple days in March 2020, yet rebounding much more quickly than many predicted. This is expected to shift to a more flat outlook in 2021.
- ***Interest rates*** — Rates dropped to near zero due to emergency rate cuts in early 2020. While the 10-Year U.S. Treasury rate may improve slowly, it is not expected to increase above 1.5 percent until early 2022 or to return to pre-pandemic levels until after 2022.
- ***Unemployment*** — Unemployment spiked to double-digit highs in 2020, although the federal stimulus package lessened the impact of the drop in economic activity. Employment levels recovered somewhat in third quarter 2020, but unemployment will not return to its pre-pandemic, historic lows anytime soon.
- ***Health solutions*** — A vaccine or other health solution is key to ending both the pandemic and the economic crisis. Our forecast assumes a vaccine in mid-2021. Initial rollouts of new vaccines could dramatically affect results, depending on how quickly the vaccine is distributed to the general population. On the flip side, the current rise in cases of the virus worldwide pose yet another downside risk.

- ***The U.S. presidential election*** — The volatility and uncertainty surrounding the recent presidential election adds another layer of complexity. While we did not explicitly consider any impact to life insurance sales due to the election, the change in administration could dramatically shift economic policy, add short-term volatility to the market, change tax policy (including the updated language change to IRC section 7702 passed in the second stimulus bill), or have an impact on base case economic assumptions.

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The Plot Thickens

Given the setting and the cast of characters, we were able to develop the plot of the sales forecast from 2020–2022. Looking at the specifics for each life product line — whole, term, and universal (fixed, variable, and indexed) — allowed us to develop an overall picture of what might become of the individual life market (Table 1).

2020

Most individual life product lines ended 2019 with positive growth, but understandably took a hit in the first half of 2020. While we do not yet have data for fourth quarter sales, we anticipate additional losses through the end of 2020. While some products saw positive growth in the second half of the year, this will likely not offset earlier losses — resulting in relatively flat or negative growth for the year.

Sales of universal life (UL) products especially, face significant headwinds from the pandemic, plus an uphill battle from strong fourth quarter 2019 sales. The social and economic impact of COVID-19 has put even more pressure on fixed UL sales already faltering pre-pandemic. We forecast sales of fixed UL to be down dramatically overall for 2020.

Table 1

U.S. Individual Life Insurance Annualized Premium Growth Forecast

2019 – 2022

	Whole Life	Term	Fixed UL	VUL	IUL	Total
2019	0	+1%	+3%	+33%	+9%	+5%
2020 (forecast)	-3% to +1%	+3% to +7%	-25% to -21%	-12% to -8%	-7% to -3%	-7% to -3%
2021 (forecast)	-4% to 0	0 to +4%	-12% to -8%	-5% to -1%	0 to +4%	-3% to +1%
2022 (forecast)	+1% to +5%	-2% to +2%	-5% to -1%	0 to +4%	+3% to +7%	0 to +4%

Note: Premium includes retail plus small-case (200 lives or fewer) COLI/BOLI.

Source: U.S. Individual Life Sales Forecast, 2020–2022, LIMRA, 2020.

The exception to the 2020 negativity is term life. Due to its design and price, term offers the quickest sale and the most readily available online end-to-end product. This consumer-friendly — and already socially distanced — process positively affected sales, and we expect this trend to continue until a vaccine is widely available.

2021 to 2022

Overall, we anticipate negative growth to continue throughout 2021 — again, with the exception of term — despite the likelihood of positive growth in the second half of the year, post-vaccine. In 2022, we assume a return to low-digit growth, in anticipation of a "new normal."

Whole life sales will likely remain negative for the first half of 2021, as the impact of incentive programs diminishes and individuals become more strict with social distancing during the winter months. Post-vaccine increases may result in low-digit negative growth for the year.

We do not expect ***term life*** growth to be sustainable, post-vaccine. Consumer interest in life insurance will likely diminish after the immediate mortality threat has passed. However, companies may not necessarily roll back changes to their accelerated underwriting programs, which could help offset diminished interest. With slight positive growth in 2021, 2022 will likely return to the relatively flat growth term has experienced since the Great Recession.

The year 2021 should see a noticeable improvement in overall ***UL*** product sales. As interest rates stay low at least through 2022, we do not forecast growth for fixed UL and expect companies to continue to pivot to other product offerings. With variable UL — while we do expect some momentum to carry through on the retail side in 2021 — we expect a decrease in sales for small case COLI/BOLI. Long-term growth into 2022 may be higher if either more consumers are able to get comfortable with the volatility of the product with a guaranteed backdrop, or the equity market continues to improve. In 2022, persistently low interest rates and flat equity markets should continue to weigh on indexed UL as well, and we are predicting moderate growth instead of a return to higher, sometimes double-digit, growth.

How Will the Story End?

While the economic and social effects of the COVID-19 pandemic have been fast and sweeping, so have the efforts of life insurance companies to mitigate those effects. The positive news we are hearing regarding a vaccine is vital; as the longer the pandemic continues, the harder it will be for companies to adapt and create new solutions to help buoy sales. Overall growth could be higher in all of these products; for example, if consumer interest in life insurance persists post-vaccine, interest rates unexpectedly climb, or the equity market continues to improve. Overall, in 2022, we expect a return to more "normal," low-digit growth for most products. But who knows what plot twists could occur to once again reshape the future of life sales.

About the Research

For more on individual product lines, please see the full *U.S. Individual Life Insurance Sales Forecast* at www.limra.com/ilif.

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