

Is Another Fire Sale Coming for No-Lapse UL's?

Frank J. Petraglia & Associates can recall the coming of the first Triple-X in January 2000 and how 20 and 30 year guaranteed policies were adversely impacted by that regulation. Prices for such products, after January 2000, took a sharp upward turn in price. Consumers who acted to buy competitive 20 and 30 year policies, prior to January 2000, ended up with some competitive products at great prices. They did themselves a big favor by acting quickly, and agents who pointed consumers to those product while still available, did well by generating high sales volumes.

Now there is another variation of triple-X on the horizon, which specifically is targeting "no lapse U/L" products. For agents who are willing to inform themselves on this subject, we think there is another "fire sale" opportunity that should not be missed. More important, this is a "fire sale" opportunity that your clients cannot miss.

The original triple-X was a regulation which was introduced to "toughen up" the rules regarding the reserves which life companies need to carry for term products where level premiums are guaranteed for longer than 10 years. For example, if a policy guaranteed its premium for 30 years, the rationale was that some companies were not carrying adequate reserves for those 30 year products and the rule imposed higher reserve requirements. For a life company to put aside higher reserves, it translates into a higher cost of capital which is itself an increase in the cost of providing the insurance coverage. In other words, premiums would have to go up to cover the cost of providing for those higher reserves.

This brings us to the "no lapse" U/L products, which guarantee face amounts and premiums to age 100 or longer. As our agents know, these have been growing in popularity in recent years and, in case you hadn't noticed, over the past 5 years these products have been getting more and more competitive. Regulators, spurred on by the traditional elements of the industry who are feeling the bite from those products, have taken note and are hot on the trail. The NAIC has been actively working on a new triple-X rule which specifically targets U/L "no lapse" products.

Frank J. Petraglia & Associates' is of the opinion is that this regulation is close to adoption by the NAIC. It is also our view that once the regulation is implemented, that premiums for these products will skyrocket. In the same way that 30 year products were impacted much more than 20 year term products, and that older ages were impacted much more than younger ages, no lapse U/L products will be even more negatively impacted than 30 year products were and will be particularly hit hard for older aged cases. The actual amount of increase is not something that we would like to speculate on, but if previous conditions from 2000's triple-X implementation hold true, then the impact could be disastrous.

Keep in mind that the speed of implementation will be swift as will the impact of such a regulation. If the new triple-X regulation for U/L no lapse policies is passed into law it will most certainly represent the more conservative rule. And, as soon as a handful of states adopt the new rule, the rule will directly impact all products sold in all states because that rule must be implemented by companies for all products sold in all states or the company is not in compliance with the state that adopted the rule.

To sum it up more simply, any rule that lightens reserve requirements, cannot take effect until passed by all states. However, rules that tighten up reserves are effectively implemented in all states by passage in just a handful of states. Thus, the new triple-X regulation, which may be passed before the end of the year, could take effect immediately upon passage.

So, once the new triple-X regulation is passed, it is our speculative opinion that you will see no lapse U/L product prices jump so high that the product will no longer represent a competitive alternative to traditional whole life. While it may be the alarmist point of view, we suspect that no lapse U/L products are on the verge of extinction.

So, in short, Frank Petraglia & Associates' advice to all of our agents and business partners is to sell the no lapse U/L products while they are still hot, because they are not going to be around much longer.