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In a Crunch, Insurers Raise Fees, Trim Sales
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Seeking to replenish capital depleted by souring real-estate investments, many insurers have cut back on sales and raised prices on life insurance, much as banks have reduced lending and raised fees to customers to rebuild their cash cushions.

The insurers, under pressure to fill a $9 billion hole in their balance sheets, also are taking a tougher line on risk factors such as high blood pressure and obesity, in effect another way to boost prices, industry executives and advisers say.

The moves, combined with consumers' reluctance to spend on what some consider a nonessential purchase, contributed to a 23% decline in life-insurance sales during the year's first half, the worst six-month drop in nearly 70 years, according to a trade group's recently released figures.

Insurers, among the world's biggest buyers of bonds, also are heavily exposed to real estate, with 19% of their holdings consisting of securities backed by home and commercial-real-estate mortgages and another 10% directly in mortgages for commercial real estate such as apartment and office buildings, shopping malls and hotels, according to the trade group American Council of Life Insurers.

A more-conservative sales posture is a way for insurers to preserve cash in the short term. While a sale of a life-insurance policy brings revenue in the form of a premium, the sale is costly to a company in a policy's initial years because insurers pay upfront commissions to life-insurance agents and other costs. State insurance regulators also require insurers to set up reserves for future claims on policies they sell.

Moody's analyst Ann Perry said many insurers are comfortable letting their sales drop for "a quarter or two" because of the near-term capital benefit. Longer-term declines may "damage an insurer's franchise," she said, adding that "we're not there yet" in terms of the damage.

Insurers are raising prices on policies, ranging from standard term life insurance to more complicated policies used in estate planning, from just a few percent to percentages in the midteens.

"Seemingly every week, some companies are repricing, and those policies are less attractive to consumers," said **Scott Witt**, an independent fee-only insurance adviser in New Berlin, Wis.

Insurers have been rethinking the risks they are willing to take on and in some cases have decided to say no to certain highly competitive lines of business, said Paul Graham, chief actuary for the ACLI. "Certainly, that's a reaction to the fact that new business in the insurance industry is extremely capital intensive."

John Johns, chief executive of Protective Life Corp., a major seller of life insurance, recently told analysts the company is "de-emphasizing" term-life sales, noting it "can use a lot of capital." Protective has raised prices on certain term-life policies, one of the most popular insurance products, by 14% this year.

For no-lapse universal-life policies -- a more-complicated form of insurance often used in estate planning -- year-over-year increases have run about 5%, said David Barkhausen, president of fee-only independent consulting firm Life Insurance Advisors Inc. in Lake Bluff, Ill. At the same time, "table shaving," under which

an insurer classifies an applicant's health more favorably than medical records would warrant, is less common, he said. Such table-shaving has held down the cost of insurance for a lot of consumers in recent years, meaning applicants who were, say, overweight or had high blood pressure nevertheless could get an attractive rate.

Peter Katt, an independent fee-only life-insurance adviser in Mattawan, Mich., said he worked recently to obtain a $5 million, 20-year term-life policy for a generally healthy 56-year-old man. Based on past experience, he anticipated the insurer would offer a "preferred" rate of $20,000 a year. Instead, the insurer offered a "standard" rate, at $44,000. The man opted for a $24,000-a-year policy elsewhere.

Insurers' losses on commercial mortgage investments are only just mounting, and many hold residential mortgage bonds that ratings firms earlier this year downgraded to speculative-grade from investment-grade. To back up the newly designated "junk" bonds under state regulations aimed at protecting policy holders, the industry by year-end must rustle up $9 billion, according to the ACLI. State insurance regulators are considering an ACLI proposal to adjust the rules for valuing residential mortgages to ease insures' capital burden.

Meanwhile, firms are finding capital where they can to bolster claims reserves and plump up capital cushions meant to back up reserves. As markets have rallied, the industry this year has raised more than $12 billion through stock and bond offerings, and two insurers accepted government aid totaling $4.4 billion.

Insurers also are raising prices as competition eases. For years, ratings-firm and Wall Street analysts cautioned that insurers might be underpricing their no-lapse universal-life policies in a competitive frenzy. And the industry is cutting back sales of variable annuities and similar investments that were costly to them when the market tumbled. Meanwhile, consumers have shied away from variable life insurance, which gives owners exposure to stocks.

On an earnings conference call last month, Jon Boscia, who runs the U.S. insurance operations of Sun Life Financial Inc., explained the company's move away from no-lapse universal life, saying, "Candidly, if you begin to get a lot of [business], you suspect you probably have a pricing error." U.S. units of ING Group NV have increased both term-life rates, up an average of 5%, and no-lapse universal-life rates, up about 10%, said a spokesman, who attributed the jump to higher costs of capital and reserve requirements.

Last week, MetLife Inc.'s chief financial officer, William Wheeler, said at an investor conference that the company would need to set aside capital to support the downgraded residential bonds in its insurance units. He called it "kind of painful," but added that the parent company has ample money on hand to do it, if state regulators don't end up easing the current rules.

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