BESTOW

How the industry's hottest product is exposing a deeper question about carrier infrastructure.

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Introduction

The IUL boom isn't slowing down. Neither is the operational, regulatory, and legal pressure that comes with it. The carriers that built their 2025 success on IUL momentum entered 2026 in a fundamentally harder environment. One their infrastructure was never designed for.

The deeper question this raises isn't really about IUL. It's about whether carriers can operate in a continuously adaptive product environment, where regulatory requirements, product designs, distribution expectations, and consumer behavior all change faster than legacy infrastructure can absorb. Modernization, viewed through that lens, isn't primarily about cost reduction. It's about organizational responsiveness. Infrastructure determines strategic agility, and agility is now a competitive differentiator. IUL is the current test of which carriers have it.

The data underneath the boom is striking. Indexed universal life set new quarterly and annual sales records in 2025. New premium reached $4.5 billion for the year, up 19% from 2024, with IUL representing 25% of the total U.S. individual life insurance market.[1] LIMRA's forecast for 2026 projects continued double-digit IUL growth, driven by expanded distribution and new product launches.[2] Nine of the top ten IUL writers reported growth in the third quarter of 2025 alone.[3]

That's the public sales story. However, as is usually the case, the story behind the scenes is much more nuanced.

Regulators have tightened illustration rules for the third time in a decade, with another revision adopted in late 2025 and a fourth cycle already being discussed. Litigation activity targeting IUL illustration practices has accelerated materially in recent years. And the operational complexity of writing, servicing, and supporting IUL business is widening the gap between carriers with modern infrastructure and carriers running on systems built for a different generation of products.

IUL happens to be the current test case because of its specific combination of complexity, scale, and scrutiny. But whatever product cycle comes next (accelerated underwriting at scale, embedded distribution, hybrid life and annuity products, AI-assisted personalization, or something not yet named) will demand even more of the same adaptive capability. The carriers that build that capability now will write IUL profitably and be better positioned for what comes next. The carriers that don't will keep getting caught flat-footed by each new wave of change.

To understand why, it's worth starting with what makes IUL operationally different from the products it's displacing.

What IUL is testing

IUL is the most operationally demanding product in the individual life portfolio. That’s a function of both how the product works and where it's being sold today.

Its intricacy and structural depth compared to simpler products (like term life insurance) isn’t inherently problematic, but every layer of design complexity translates into operational complexity downstream.

The pressure shows up in five places.

- **Illustration sophistication**
  IUL illustrations involve more variables than any other major life product. Multiple index strategies have to be modeled side by side. Caps, participation rates, and bonuses interact in ways that small changes can materially shift. Regulators have spent a decade tightening which combinations can be shown and how. Static PDF illustrations and legacy illustration software weren't built for the speed, modeling depth, or update frequency that a competitive IUL market requires. As that market gets more competitive, illustration capability becomes a binding constraint on growth.

- ### In-force servicing complexity
  Index crediting cycles, loan provisions, premium flexibility, no-lapse guarantee monitoring, and the mechanics of policies allocated across multiple strategies create servicing demands that legacy admin systems handle poorly or not at all. The typical workaround is manual reconciliation, spreadsheets, and operational backlog. As IUL grows from a meaningful portion of new business to a meaningful portion of the in-force book, those workarounds compound.

- ### Agent enablement
  IUL is a consultative sale. Agents need real-time scenario modeling, the ability to walk a client through how the product works under different assumptions, and tools that can produce updated illustrations on demand. The LIMRA and Capgemini 2026 World Life Insurance Report found that 59% of consumers under 40 want direct digital engagement, but only 31% of insurers surveyed offer the platforms to enable it. Seventy-seven percent of consumers expect comprehensive, data-driven recommendations from their carrier, but only 16% of insurers provide them at scale, largely due to outdated legacy systems.[4] The gap gets more expensive as IUL moves further into middle-market distribution. IUL is increasingly sold in two distinct modes: traditional products for affluent investors, and simplified IUL products distributed to middle-income customers. The simplified end of the market requires the most accessible, digitally-supportable version of a historically complex product. Carriers without modern tooling can't operationalize that expansion, regardless of how well the product itself is designed.

- ### Compliance and audit trails
  IUL is the most regulated individual life product in the portfolio. The ability to produce defensible illustration records — what was shown to whom, under which rule version, with which assumptions — is no longer optional. Modern compliance tooling

makes this substantially more manageable. Legacy infrastructure turns it into a forensic exercise.

- Data flow
  IUL ties together new business, illustration, underwriting, in-force, and accounting in ways that expose every gap in a carrier's data architecture. McKinsey research has found that carriers with modernized core IT achieve more than 40% higher operations productivity than peers running legacy systems, and that operating expenses for insurers with many duplicate systems can run three to four times higher than for those with consolidated infrastructure.[5]

Any one of these pressures is manageable in isolation. The point isn't that IUL is uniquely dangerous — carriers have managed complex products for decades. The point is that IUL puts pressure on all five capabilities simultaneously, and the regulatory environment around it accelerates that pressure on a continuous basis. That combination is what makes IUL a useful diagnostic for whether a carrier's infrastructure can keep pace with change. The next product cycle will test the same capabilities, just in different proportions.

The regulatory accelerant

Regulators have spent a decade trying to rein in IUL illustration practices, and the approach is shifting in ways that raise the operational stakes for carriers.

The trajectory is well-documented. Actuarial Guideline 49 (AG 49) was adopted in 2015 to address illustration loopholes that allowed carriers to project unrealistic rates of return on IUL products. Carriers responded with new product features (multipliers and bonuses) that worked around the original rule. The NAIC responded with AG 49-A in 2020. New product designs emerged in response, particularly volatility-controlled indices and fixed bonus structures. The NAIC again made changes in 2023 to address those.[6]

The most important development isn't in the historical record, but rather in the last twelve months.

At the NAIC Fall 2025 national meeting, the Executive Committee and Plenary adopted further revisions to AG 49-A, applying prospectively to policies sold on or after April 1, 2026. The revisions tighten illustration requirements around newly developed indices, restrict the use of back-cast historical data when the underlying index has not actually existed for the period being shown, and limit side-by-side comparisons between benchmark and non-benchmark index accounts.[7]

Just as significant: the regulators' approach is shifting.

In 2025, the NAIC's Life and Annuity Illustration Subgroup conducted illustration "building code" inspections of 13 life insurers offering whole life, universal life, and IUL products.[7] The subgroup chair, Minnesota's Fred Andersen, described the shift publicly at the NAIC spring meeting: "The illustration subgroup has spent the last ten years continually making rules and changing the rules to kind of catch up to what's going on. But we decided to step back and look at what's actually being presented to consumers."[8]

This is a meaningfully different posture. The subgroup is now examining specific company examples and products rather than only writing rules. NAIC consumer representatives continue to push for a broader rewrite of the underlying Model 582 illustration regulation, a process regulators acknowledge would take years but have not foreclosed.[9]

The operational implication for carriers is straightforward. Each regulatory tightening cycle requires updates to illustration systems, agent retraining, refreshed sales materials, and durable audit trails of what was shown under which rule version. Carriers running modern, configurable illustration infrastructure can absorb these updates relatively quickly. Carriers running legacy systems often need quarters, during which they're either selling under outdated rules or pausing new IUL sales entirely.

The pattern matters. Regulators have signaled they aren't done. Carriers treating illustration and compliance infrastructure as a one-time cost rather than an ongoing capability are betting against the regulatory direction.

How the costs show up

This pressure isn't theoretical. It's showing up in court filings, settlements, and consumer complaint data with increasing volume.

A few illustrative facts about the current environment:

A major IUL class action settlement received tentative approval in 2026 for $58 million, resolving claims related to a specific IUL product line. The plaintiffs alleged misleading marketing materials and sales illustrations. The settlement does not constitute an admission of liability, but the dollar figure and the public nature of the case are themselves data points.[10]

Additionally, multiple separate IUL-related class actions are currently in the discovery phase in federal courts across several states, with cases involving proprietary index strategies continuing to be filed, dismissed in part, and refiled with amended complaints.

What ties this together isn't carrier behavior. It's a market environment in which the gap between what was illustrated and what policies actually deliver is being scrutinized harder than at any prior point in the product category's history. That scrutiny applies whether or not a specific carrier has done anything wrong. Carriers without modern audit trails, illustration tooling that surfaces conservative assumptions alongside aggressive ones, and the ability to demonstrate good-faith compliance with evolving regulation are exposed in ways that carriers with modern infrastructure simply are not.

The trajectory points in one direction. Carriers running 1990s-era illustration and compliance infrastructure into a 2020s regulatory and legal environment are facing a structural mismatch that won't resolve itself.

Two questions every carrier should be asking

The diagnostic question is the place to start. The strategic question is where the value sits.

Can current infrastructure support the IUL business being written today?

Many carriers haven't asked this question rigorously since they last underwrote a major modernization initiative. For many, that may have been more than a decade ago. The product mix has changed substantially since then. The regulatory environment has changed substantially. The agent and consumer expectations of carrier technology have changed substantially. An honest diagnosis involves answering some tough questions.

Carriers should ask whether their illustration software can absorb regulatory changes in days or weeks rather than months, and whether agents can model multiple scenarios in real time or are working with overnight batch regeneration. They should ask whether the policy administration system handles IUL servicing without manual workarounds, and how many of the current servicing backlog tickets are IUL-specific. They should ask whether their agents are asking for modern tools the carrier doesn't provide, and what the gap is between what competitive carriers' agents have at point-of-sale and what theirs do. They should ask how long it would take to produce the illustration records, version history, and disclosure trail for any IUL policy written in the last three years, and how confident they are in what they would find. And they should ask whether new business, illustration, underwriting, in-force, and accounting data flow through APIs and integrated systems, or through spreadsheets and manual reconciliation.

For many carriers, the answers are uncomfortable. That discomfort is information. It points directly at the infrastructure gaps that are most exposed to the pressures described in the prior sections.

Will it support what comes next?

IUL's tailwinds will moderate eventually. Even LIMRA's bullish 2026 forecast doesn't extend indefinitely, and the conditions that drove 2025's record results are specific and time-bound. The next growth cycle, whatever it looks like, will demand even more from carrier infrastructure than IUL does.

The shape of the next cycle is still emerging — accelerated underwriting at scale, embedded distribution, AI-assisted product personalization, hybrid life and annuity products designed for retirement income, or something that hasn't been named yet. What is clear from current research is that the gap between carriers running modern, flexible infrastructure and carriers running legacy systems is widening, not narrowing.

McKinsey's April 2026 research on agentic AI in core system modernization estimates productivity improvements of 10% to 90% across various stages of modernization, with the largest gains in testing, reconciliation, and defect cycle compression.[11] The carriers building flexible, API-driven infrastructure now are positioning to absorb innovation cycles substantially faster than peers running legacy systems. Whatever the next product is, that gap will determine who can write it profitably.

The broader lesson extends beyond IUL itself. Carriers operating on configurable, API-driven infrastructure are substantially better positioned to absorb evolving product complexity, regulatory change, and distribution expectations than carriers dependent on rigid legacy systems. That adaptability is the principle underlying how Bestow approaches platform architecture — and it's the principle that will separate the carriers writing the next decade's growth from the ones still trying to catch up to the current one.

Conclusion

The IUL story is being told as a sales win. It's also a stress test, and many carriers are passing the first while the second remains an open question.

The regulatory and legal environment around IUL is not going to ease. The carriers that treat infrastructure as a one-time project will keep getting caught flat-footed by the next AG revision, the next litigation cycle, the next product wave. The decision isn't whether to modernize, it's whether modernization is treated as a defensive cost or as a strategic capability.

The carriers making that distinction now are the ones that will be writing IUL profitably, and whatever replaces it, ten years from now.

[1] LIMRA, "U.S. Individual Life Insurance New Premium Tops $17.5 Billion to Set New Sales Record in 2025," March 19, 2026.

[2] LIMRA, "Double-Digit Growth Drives Individual Life Insurance New Premium to Set New Sales Record in 2025," March 3, 2026.

[3] LIMRA, "U.S. Individual Life Insurance Sales Post Double-Digit Premium and Policy Sales Growth in the Third Quarter," 2025.

[4] LIMRA and Capgemini Research Institute, World Life Insurance Report 2026, September 15, 2025.

[5] McKinsey & Company, "IT modernization in insurance: Three paths to transformation," and "Top ten myths of technology modernization in insurance."

[6] National Association of Insurance Commissioners, "Life Insurance Illustrations," NAIC Insurance Topics. Adoption history for AG 49 (2015), AG 49-A (2020), and AG 49-B (2023).

[7] Carlton Fields, "NAIC Life and Annuity Illustration Subgroup and Suitability Working Group Construct More Guidance," April 28, 2025.

[8] John Hilton, "Regulators resolve to check up on products for illustration integrity," InsuranceNewsNet, October 11, 2024.

[9] John Hilton, "NAIC panel inching forward on life insurance illustration reg revision," InsuranceNewsNet, January 14, 2025.

[10] John Hilton, "Pacific Life agrees to a $58M settlement in California PDX class action," InsuranceNewsNet, February 24, 2026.

[11] McKinsey & Company, "Can agentic AI (finally) modernize core technologies in insurance?" April 2026.