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ASIA PRODUCT DEVELOPMENT – LATEST TRENDS
SEAC Fall 2005

Agenda

- The main driving forces of product development
- The recent product development trend in the region
 - Taiwan
 - Japan
 - Korea
 - HK
- Latest Products throughout Asia
- Key success factors

Primary Market Trends - Players

Traditional

- Markets dominated by few domestic players
- Japan
 - Convoy system
 - Mutual insurers
 - Foreign players marginal
 - No ALM
- Korea
 - Convoy system
 - Cash-flow underwriting
 - High lapse rates
- Taiwan
 - Convoy system
 - No ALM

Today

- Traditional players are losing ground to new entrants
- Japan
 - Small and medium sized traditional players have disappeared. Only top seven have survived but are shrinking
 - Subsidiaries of non-life insurers established in 1996 growing
 - [Foreign Insurers Growing](#)
- Korea
 - Samsung changed strategy after 1997 and other big 3 three followed.
 - [Foreign Insurers Growing](#)
 - Bancassurers growing
- Taiwan
 - Major changes on the product and distribution side



Primary Market Trends - Distribution

Traditional

- Business growth through growth of tied agency numbers
- Huge and growing agency forces
- Little or no agent licensing requirements
- Agents target average income customer
- Only inbound and direct mail
- Banks not allowed to sell insurance

Today

- Business growth through diversification of distribution channels
- Decreasing agency numbers
- Strict and costly licensing requirements
- Agents target affluent and high income market
- Outbound telemarketing/home shopping
- [Insurers Losing Market Share To Banks](#)



Primary Market Trends - Distribution

- Banks selling single premium/ short term savings/annuity products
- Banks/credit cards own customers/distribution
- Banks require simple/no underwriting procedures
- Credit/mortgage protection programs
- Outbound telemarketing to bank/credit card customers



Main Driving Forces of Product Development

- The changes in the market needs created by changes in
 - Demographic trend (eg aging of the population)
 - Social welfare system (eg reducing public health benefit)
 - Investment environment
- The changes in regulatory requirements
 - Providing mandatory coverage
 - Imposing/removing restrictions on exclusions
 - Imposing/removing restrictions on the reviewability of the premium rates
- The competition in the insurance industry
 - Do we have an insurance cycle in Accident & Health sector?
 - The chase for a higher profit margin & bigger market share



Primary Market Trends - Products

Traditionally

- High inflation/high growth economies
- High investment returns/margins
- High savings rates in Asia
- Virtually all life business traditional savings products
- Competition focusing on high interest rate guarantees
- No competition/high margins on risk charges
- Little or no underwriting

Today

- Low inflation/single digit growth economies
- Low investment returns/negative spreads
- Still high savings rates
- Strong growth of variable life/annuity products
- Competition focusing on guaranteed minimums
- Still no competition/high margins on risk charges
- Still little or no underwriting



Primary Market Trends - Products

Major savings products

- Traditional whole life/endowment
- Variable life/annuity

Major risk products today

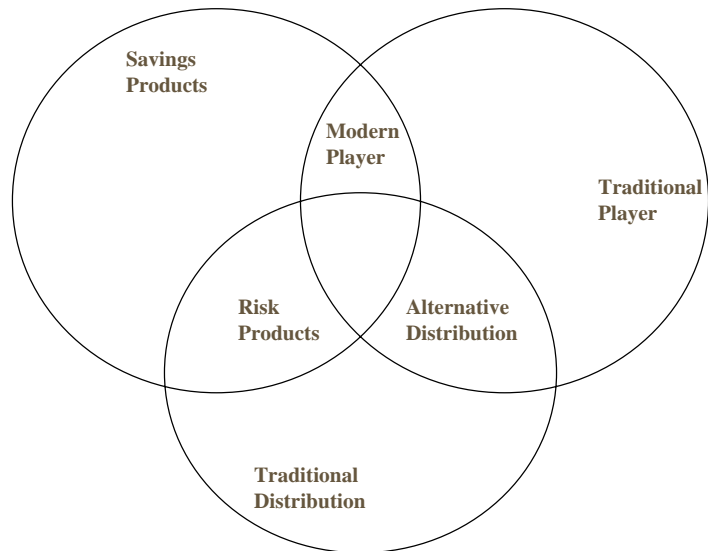
- Critical Illness/Medical Whole Life
- Personal accident
- Direct marketing products

Major risk products tomorrow

- IDB/High amount term
- Long Term Care
- Disability



Summary Primary Market Trends



Product Development Trend - Taiwan

- Saving products had dominated the market until recently
- There has been a slight trend towards protection products
- This trend is endorsed by regulatory authorities
- Latest products being considered
 - Preferred Risks
 - Mortgage related term products
- Par and Non-par products



Recent Protection Products - Taiwan

■ CI (Dread Diseases)

- Has been around for about 10 years
- The original design cover 7 diseases, with newer product expanding to more diseases (37)
- A few companies are developing one year CI, which has not gained popularity
- Claim experience not desirable, the incidence rates are increasing
- Concerns have been raised regarding the guaranteed premium and definitions



Recent Protection Products - Taiwan

■ Medical Whole Life

- Has been around 7 - 8 years
- Original designs are standalone
- Has been replaced by acceleration type of benefit
- The newer version also comes with a premium adjustment provision (with or without limit, subject to regulatory approval)
- Claim experience varies by company, the overall industry experience has been favorable (estimated crude loss ratio 50% - 60% for acceleration type)



Product Development Trend - Japan

- Traditional whole life, term life continue to decline in sales
- Health products (3rd sector products) continue to diversify and grow which is where product development activities have been concentrated around
- 3rd sector products has remained profitable due to the large safety margin and low investment element
- Variable annuities and other retirement saving type of product has also gained popularity
- There are greater demand from the rapidly aging population for medical and retirement saving product



Recent Protection Products - Japan

- CI
 - Only cover 3 major diseases (heart attack, stroke, cancer)
 - Cancer products covering diagnosis, hospitalization, surgery and recurrence benefit
 - Whole Life Cancer Product is available
 - Claim experience has been favorable
- Hospital Cash & other direct marketed products
 - Whole Life Hospital Cash products are available in the market
 - First GI hospital cash product is now approved in Japan
 - PA hospital cash products are mainly sold through DM channel
 - Loss ratio to gross premium is under 30%
 - Simplified lump sum nursing care is also being sold through DM
 - Industry experience indicate loss ratio to gross premium below 20%



Recent protection products - Korea

- Critical Illness Policies
 - Benefits for diagnosis, daily hospitalization, surgeries, and a variety of riders
 - Benefits can vary by type of illness
- Hospital Cash benefit plans
 - Benefits for daily hospital cash, extra for specific diseases, surgeries
 - Supplemental to government provided benefits
- Products marketed through direct marketing/bancassurance
 - Annuities/savings products
 - Personal accident, debt cancellation, hospital cash, older age products



Recent Protection Products – Hong Kong

- CI
 - Product has been introduced into the market since early 90's
 - The overall recent A/E ratios among major HK companies are 98.3% for male and 106.7% for female
 - Increasing competition in the market puts pressure on the premium rates and force companies to increase the number of diseases offered (47 diseases)
 - Premiums are reviewable
- Female Plan
 - Introduced by AXA around 1996, and was a huge success at that time.
- MWL
 - The coverage is still basic comparing to Taiwan



Market - Mexico

Insurance Climate

- Relatively stable economy with close ties to the U.S.
- Mexico's social security plan provides mandatory coverage to formal-sector workers and their families (50% of population)
 - There are separate plans for private sector workers, government workers and PEMEX workers
 - Financed in part by employees, government and employers
 - Those outside these plans receive lower levels of care and access from a variety of government agencies
- Major Medical coverage can be purchased on a group or individual basis



Mass Distribution - Mexico

- This can include mailings, department store offers, banc-assurance, work-site, and telemarketing
- Many insurers and banks are showing increased interest
- Mass distribution offers the chance to reach new customers and is well-suited to cross-selling of additional products
- Due to the simplified underwriting and the lower face amounts, it is not possible to use or to adapt existing agent-sold products
- Products must be low cost, easy to understand, easy to buy, easy to administer, and easy to pay premiums
- Care must be taken with pricing assumptions for claims and lapses, as they are heavily dependent on the type of marketing and billing mechanism used
- To manage the costs involved with telemarketing, data mining techniques have been developed to precisely target customers



Market – Chile

Insurance Climate

- Stable free-market economy for 25 years
- Group and individual products available to supplement mandatory scheme for workers
- Cover expenses generated by disease or accident, through:
 - Care in medical center, or
 - Reimbursement of expenses of medical, surgical, pharmaceutical, hospital
- Additional layers of coverage are available, including supplementary health and catastrophic



Disability vs. Critical Illness in Brazil

- In the past, disability policies have been written based on any-occ
- However, since the Social Security system uses a generous own-occ definition, there have been problems with “disabled” policyholders not being able to claim from their private policies
- Recently, the superintendent has solved this problem by requiring that insurers also use own-occ
- As a result, insurers are exiting the market and making major efforts to replace their existing portfolios
- There is also an increased interest in Critical Illness products
 - These products in essence provide periodic payments to policyholders who survive certain specified illnesses (such as cancer, heart attack, etc)
 - Since they are well-defined, they can be priced more attractively
 - Recent innovations include mechanisms to handle missed premiums



Other Recent Products



Recent Cancer Product

- Target Market & Distribution Channel
 - Intend to sell through Women's Cancer Patients organization
 - Target breast cancer patients
- Benefit covered
 - Lump sum benefit on diagnosis
 - Reimburse cost of surgery treatment in excess of the portion covered by the public health system
 - Reimburse of hospitalization medical expenses and outpatient treatments
 - Waiting period of 90 days to 3 years depending on the treatment history of the patients, Max issue age 74, 5 year term
- Unique point of this product
 - Provide coverage for breast cancer patients and may later be extended to stomach cancer patient
- Experience to date
 - Product is still under development.
 - Statistical data shows probability of recurrence below 15% - 20% for early stage patients



Products Marketed to Females

- Distribution Channel
 - Selling through agency channel or bank branches
- Major Benefit covered
 - Female cancer (up to six types)
 - Systemic Lupus Erythematosus
 - Dread Diseases (up to 38 diseases)
 - Complication during pregnancy (coverage up to age 45)
 - Congenital Anomalies benefit (up to 12 congenital conditions)
 - Can be combined with saving product and provide annual dividend
- Unique point of this product
 - Specially designed for female customers
- Experience to date
 - Experience varies significantly among different companies.
 - Early starters gain significant market share
 - Observed better experience among companies with high underwriting standards



Juvenile CI

- Target Market
 - Selling through agency channels, could be standalone or as riders to adult policy
- Benefit covered
 - Lump sum payment on diagnosis of Juvenile CI
 - Cover up to 17 / 18 diseases
 - Cancer, severe asthma, severe epilepsy, systemic juvenile chronic arthritis, bacterial meningitis, encephalitis, Insulin-dependent diabetes ...
 - Congenital diseases can be covered
 - Autism, intellectual impairment, infantile spinal muscular atrophy etc,
 - the policy need to be taken out before the birth
- Experience
 - Credible experience has not been yet developed
 - Greater variation in the type of the diseases covered and the definition of the diseases



Medical Whole Life – Latest Development

- Hospitalization benefit has extended to cover pre and post-hospitalization out-patient visit
 - Benefit limited at 25% of daily hospital cash
- Provide post-surgery home nursing benefit at 100% of daily cash
- Double daily confinement for hospitalization due to 36 covered diseases
- Additional 100% Sum Insured payable on accidental death
- Accelerate 100% of the death benefit on total and permanent disability as a result of injury or sickness
- Provide cash advance when policyholder reach age 80



Key Success Factors

- Early starters tend to secure a bigger market share, with relatively larger profit margin
 - Followers would be facing tougher competition and also run the risk of getting less desirable risk groups
- The popular products are usually the ones meet the needs of the target market
- Profitability Vs Marketability
- Embed risk management in every single aspect of the product design
- On going product management
 - Help to identify and rectify issues quickly

