

# **Agenda**

Section 1	Concept Introduction
Section 2	Driving Forces of Supply Side Reform for Life
	Insurance In China
Section 3	Government Actions on Supply-side Reform
Section 4	Insurance Practice on Supply-side Reform
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# Section 1 **Concept Introduction**

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#### 1. Concept Introduction

#### **Demand-Side Economics (Stimulus)**

$$Y = C + I + G + NX (1)$$

- · Demand-Side Economics argues that economic growth is most effectively created by high demand for products and
- services. According to demand-side economics, output is determined by effective demand. "Stimulus policies" such as monetary policies and fiscal policies will stimulate the total demands, leading to the
- At the core of demand-side economics is the focus on aggregate demand. Aggregate demand is the combination Consumption, Investment, Government Spending and Net Export

Where

Y = GDP, Output, Total Income, Total Expenditure

C = Consumption

I = Investment in Capital Goods

G = Government Spending

NX = Net Export

#### **Supply-side Economics (Structural Reform)**

$$Y = F(A, K, L) (2)$$

- Supply-Side economics argues that economic growth can be most effectively created by investing in capital and by lowering barriers on the production of goods and services.
   Function of "Structural Reform" is more complicated. Various factors of production lead to potential Economic growth.

Where Y = Total Output

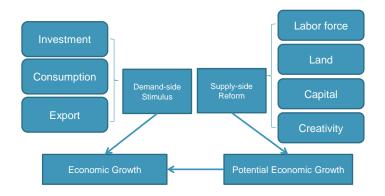
 $\label{eq:A} A = \text{Total Factor Productivity (ranging from technology to knowledge of worker)} \\ K = \text{Capital Input}$ 

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## 1. Concept Introduction

#### 3 Drivers of Demand-side

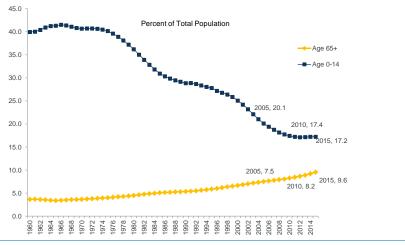
## 4 Factors of Supply-side



Section 2
Driving Forces of Supply-side Reform for Life Insurance in China

#### 2. Driving Force

- Aging population pose challenges for both public and private sectors, thus policies are implemented and services are provided



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## 2. Driving Force

- Challenge: pension deficit funding heavily depends on Pillar I
- Opportunity: the construction and improvement of Pillar II and III are urgent

#### Pension Fund:

Highly rely on basic social pension plan such as Pillar I, government's burden is heavy

Pillar II, Corporate supplemental pension plan is still immature and weak

Pillar III, Individual Retirement Saving plan is in Pilot program

Unit: RMB 100M

	Insured(10K)	Fund Balance	Premium Income	Pay Out	Government Fiscal Support
Social Pension	85,833	39,937	23,717	27,929	
Urban Employees' Basic pension System	35,361	35,345	23,016	25,813	6,325
Urban and rural residents basic pension system	50,472	4,592	700	2,117	2,155
Corporation pension plan	2,316	9,526			

Source: 2015 Annual repot of Human resource and Social insurance program

## 2. Driving Force

- Challenge: Low funding ratio and large funding gap urge the establishment of pension system
- Opportunity: More commercial insurance are provided for both public and private sectors

#### · Pensions are underfunded

Unit: USD Billion

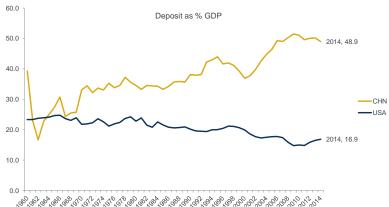
Year	Country	GDP	Pension Fund Balance	Fund as %GDP
2013	CHN	9,491	598	6.3%
2013	USA	16,663	22,000	132%
2015	CHN	10,866	794	7.3%
2015	USA	17,947	24,000	134%

GDP source: http://data.worldbank.org.cn/ USA pension fund: https://www.ici.org/research/stats/retirement

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## 2. Driving Force

Opportunity: Compared with USA, China has a high deposit rate.
 Savings is the potential funding for pension, to solve the problem of pension deficit

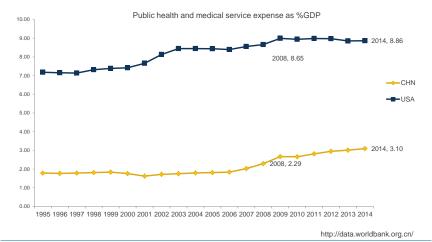


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#### 2. Driving Force

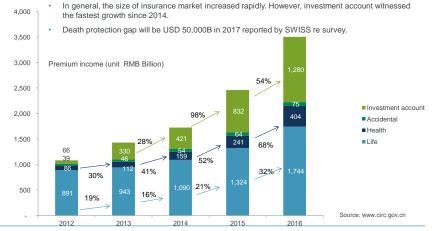
- Challenge: Insufficient supply of public health services
- Opportunity: Enormous opportunities for private insurers, such as providing commercial health insurance



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#### 2. Driving Force

- Challenge: Life insurance grew fast, but with a rapid increasing in investment account. Therefore, the protection gap is still large.
- Opportunity: Structurally, life insurance has a large potential market in terms of insurance penetration/density.



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## 2. Driving Force

- Challenge: Immature market, lack of product differentiation and irrational practice
- Opportunity: New business model and niche-marketing
  - · Increasing number of providers

	Local	JV	Total
Insurance Group	9		9
P&C	59	22	81
Life	49	28	77
Reinsurance	3	6	9
Pension	6		6
Asset Management	20	3	23
Total	146	59	205

Up to 2016 YE

- Similar products design, and some areas are still lack of product
- Average sum assured of critical illness is less than RMB 100K
- Pilot in variable annuity is not working well

Supply-side Policies become increasing crucial for retirement saving.

- · Tax-exempt for health program
- · Tax-deferred for retirement saving

Sales force is still weak on needoriented sales, but

- Products introduction seminar
- Promotion in stopping sales
- High sales cost and commission in front end
- · Competition in special period

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# Section 3 Government Actions

#### 3. Government Actions

- Establishment of pension system and supply-side policies



- Built up the three pillars pension system for employees of state-owned enterprises
- Set the guidance for \* multiple pension funding for all employees

Built up the dual

design, where

- Expand the coverage to employees of small size enterprise.
- Rule for enterprise supplemental pension is enact.
   FET tay model is
- Pilot of variable annuity product
   Pilot of tax-deferred for individual retirement saving

- benefit comes from common account and individual account
- Commercial insurance is introduced to support pension system formally.
- EET tax model is clearly set up.
- retirement saving account

《关于企业职工养老保 险制度改革的决定》 《关于深化企业职工 养老保险制度改革的 通知》 《关于建立统一的企业职工 基本养老保险制度的决定》 《企业年金试行办法》 《关于企业年金职业年金个 人所得税有关问题的通知》 《关于开展变额年 金保险试点的通 知》

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#### 3. Government Actions

- Supply-side policies and regulations in Health & Medical segment

# 2009 > 2013 > 2015

- Set the whole picture of medical system
- Encourage commercial insurers join government program on critical illness
- Regulation fee is exempted
- Tax-exempt health insurance launched in the market.
- Guaranteed renewable
- No pre-existing condition
   Medical face amount should lar
- Medical face amount should larger than RMB200K
- Co-pay should be less than 10%
- Profit refund if loss ratio less than 80%

《关于深化医药卫生体制改革的意见》

《保险公司城乡居民大病保险业务管理暂行办法》

《关于实施商业健康保险个人所得税 政策试点的通知》

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## 3. Government Actions

- Insurance regulatory actions and policies

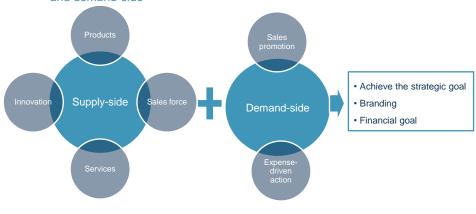
2010	> 2013	> 2015	2016
Loosen the regulation on expense loading for traditional products	Increase pricing rate from 2.5% to 3.5% for traditional products	<ul> <li>Increase guaranteed rate of universal product from 2.5% to 3.5%</li> <li>Increase pricing rate from 2.5% to 3.5% for par products</li> </ul>	CROSS launched
《关于普通型定期寿险、普通型 终身持险费率届定等有关问题的 问题》	《关于普通型人身保险费率政策改革有关事项的通知》	《关于万能型人身保险费率政策 改革有关事项的通知》 《关于推进分红型人身保险费率 政策改革有关事项的通知》	关于印发《保险公司偿付能力监管规则(1—17号)》的通知

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Section 4
Insurance Practices

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- Insurance provider is the bridge between supply and demand
- The Practice of Harmony: understand the relationship of both supply-side and demand-side



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#### 4. Insurance Practice

- Innovative products and services are provided under the New Normal



#### **Aging Population**

- 1) Longevity Risk management
- 2) Retirement Saving
- 3) Medical & Health



#### **Two Kids Policy**

- 1) More death coverage for family support/ accidents for kids
- 2) Education saving

## **Product opportunities**

- Life Annuity: At present, features of annuity are simple with traditional or par design. In the future, new products, such as variable annuity with guaranteed/tax deferred benefit can be developed.
- Critical Illness: Coverage is extended and premium is more competitive. In the future, we can offer more services and net-work
- Long Term Care: customized nursing types for patients, such as home care/ professional nursing care
- Protection and Heritage Purpose: Whole life package with trust solution
- Medical Insurance Products with high quality services

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- The competitive market drives the demand for efficient actuarial technique and value management



## The New Normal GDP Model

- Investment environment has changed
- Low interest rate
- Expense efficiency
- Asset & Liability duration mismatch



## Technology Innovation

- Customers' behavior
- Internet and mobile business
- Big data and data mining for new business model and risk control solutions

#### **Need for Value Management**

- Balance the earning sources of the products. Pricing might not be the only actuarial technique, but also the evaluation of business model.
- Life annuity will extend the duration of liability, which means the A/L duration GAP will be larger. ALM will be more important ever since. Thus, the Stochastic Pricing will be a useful tool to identify extreme risks.
- New technology will change customers' behavior and the culture, which will impact the business model, and also risk control logic will be different.
- Expense control: Expense overrun ratio fo new company

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#### 4. Insurance Practice

- More skilled and professional sales team are needed as more highly educated customers.



#### Increasing Providers

- **Precision Marketing**
- Branding, Trustworthiness, Service quality/efficiency



#### **Well-educated Customers**

- More aware of the risk management
- More transparent information

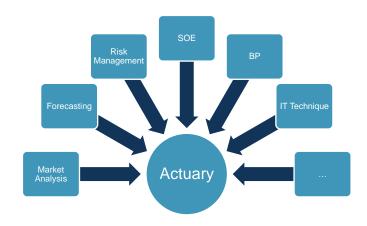
#### More skilled and professional sales team

Sales efficiency, company culture and branding require a professional sales team, which depends on the following supplies:

- 1) More training about insurance products, financial knowledge are required other than sales skill.
- 2) Need-oriented sales will replace product-orientated sales. Actuary is the key on the way of changing.
- 3) The 'Basic Law' Actuary plays an important role in the design of commission, guiding the culture of sales team

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- More challenges are calling for actuaries



#### 4. Insurance Practice

- Case Study: Sunshine Life

Sunshine's new 5-year plan mainly focuses on providing high quality products and services, which takes insurance business as core, with four supporting wings, i.e. finance segment, data segment, health segment and overseas business segment.



- Case Study: Sunshine Life

# Value Management



Pricing Guideline





KPI System



Risk Control

- Set the pricing guideline
- Set the rule for value evaluation, model control, assumption validation, and etc.
- Profit measure and benchmark, VNB/PM/IRR/FYSS
- Set up development process
- · Double checklist and sign off
- Project regular report
- Value target for management and sales channel
- Product portfolio management
- Expense overrun ratio management
- Regular meeting for Asset and Liability Management
- · Stress testing and monitoring system
- Breakeven pricing rate guideline

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#### 4. Insurance Practice

- Case Study: Sunshine Life

# Innovation



Culture

- Encourage the innovation, with financial support. Future Innovation Center has been set up.
- Well-established Honor system, rewarding successful project annually



Service Innovation

- Provide service channel by internet, APPs, WeChat
- Focus efficiency by react time control
- Optimize service assignment for offline service team



Business Chain

- High-tech hospital opened in 2016, Weifang, Shandong
- Acquired potential enterprises to improve value-added service



E-Sales Platform

- Sales force can get supports from the platform, such as product info, rules and other support online
- Get sales and channel's information timely

# Section 5 Summary

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## 5. Summary

- Aging population pose challenges
- · Chinese insurance industry has a prosperous future
- Companies who actively engage in the supply-side reforms, in terms of product/ service/ innovation, will succeed in the competition
- As more challenges emerges, more actuarial talents are in need

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