



Institute
and Faculty
of Actuaries



Supply-side Reform and Insurance Practice

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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
 - Case Study - Sunshine Life Insurance
- Section 5 Summary

Section 1 Concept Introduction

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1. Concept Introduction

Demand-Side Economics (Stimulus)

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

- 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 economic growth.
- 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)

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

- 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
 A = Total Factor Productivity (ranging from technology to knowledge of worker)
 K = Capital Input
 L = Labor Input

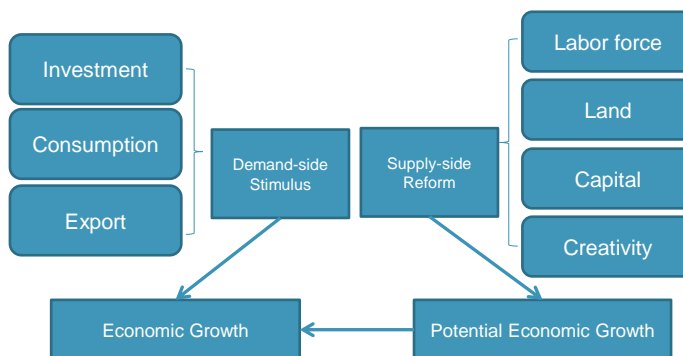
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1. Concept Introduction

3 Drivers of Demand-side

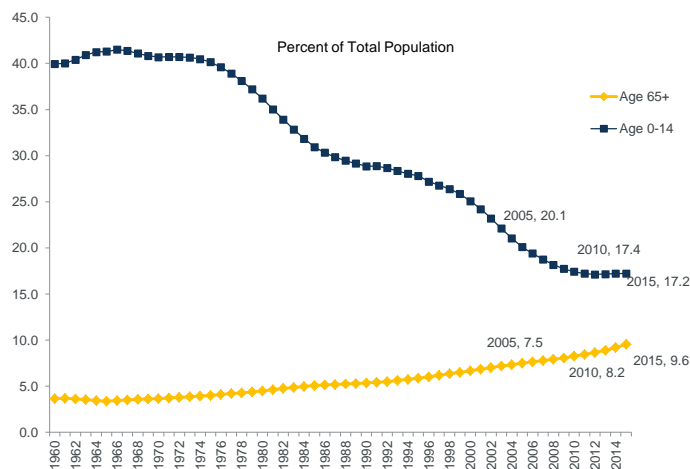
4 Factors of Supply-side



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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<http://data.worldbank.org/cn/>

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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 report of Human resource and Social insurance program

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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%

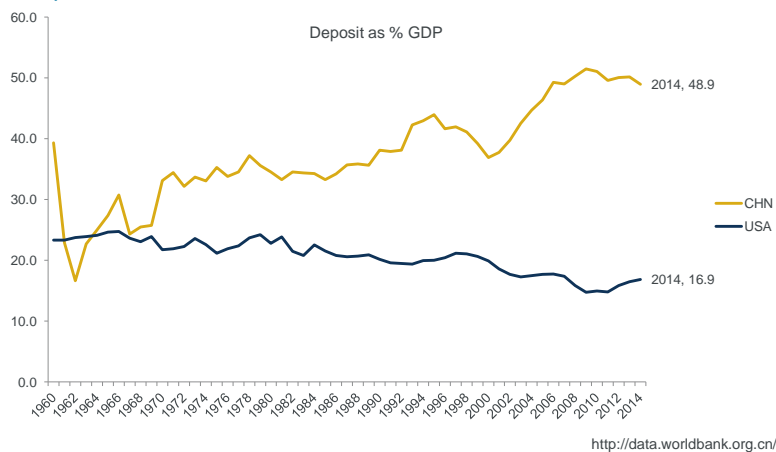
GDP source: <http://data.worldbank.org/cn/>
 USA pension fund: <https://www.ici.org/research/stats/retirement>

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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

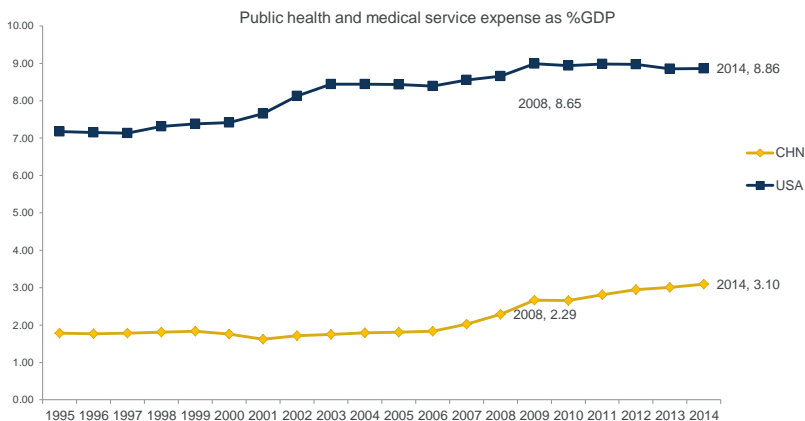


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2. Driving Force

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



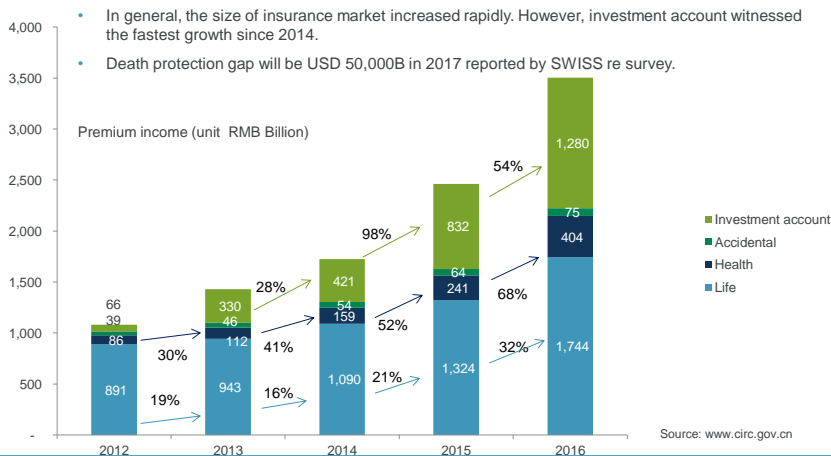
<http://data.worldbank.org.cn/>

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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.



Source: www.circ.gov.cn

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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

Supply-side Policies become increasing crucial for retirement saving.

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

- 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

Sales force is still weak on need-oriented 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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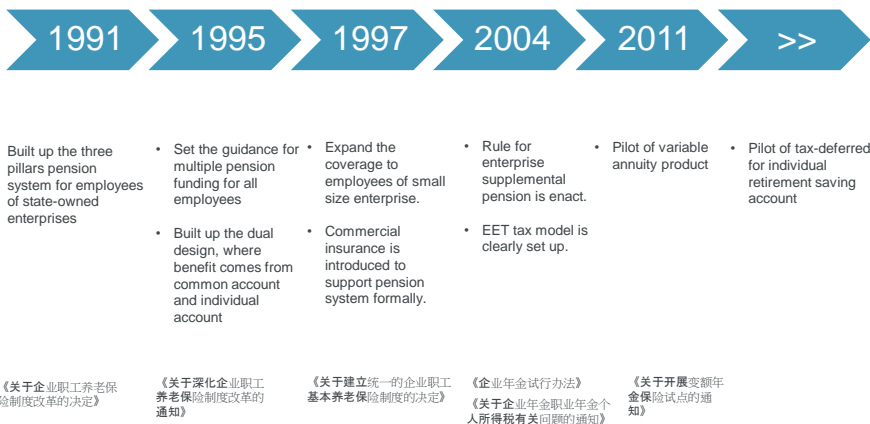
Section 3 Government Actions

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3. Government Actions

- Establishment of pension system and supply-side policies



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3. Government Actions

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

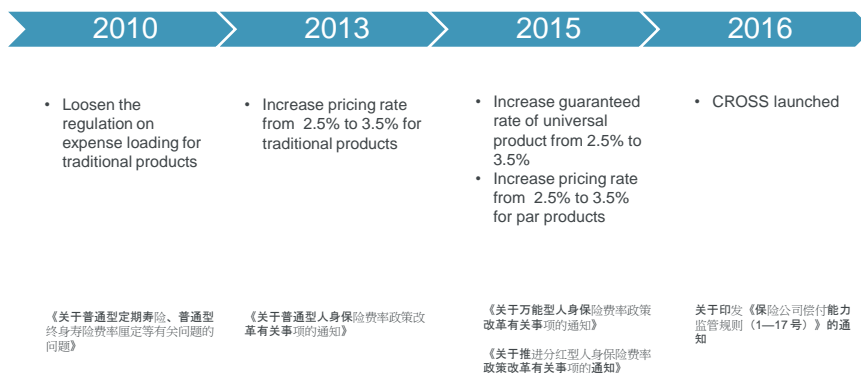


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3. Government Actions

- Insurance regulatory actions and policies



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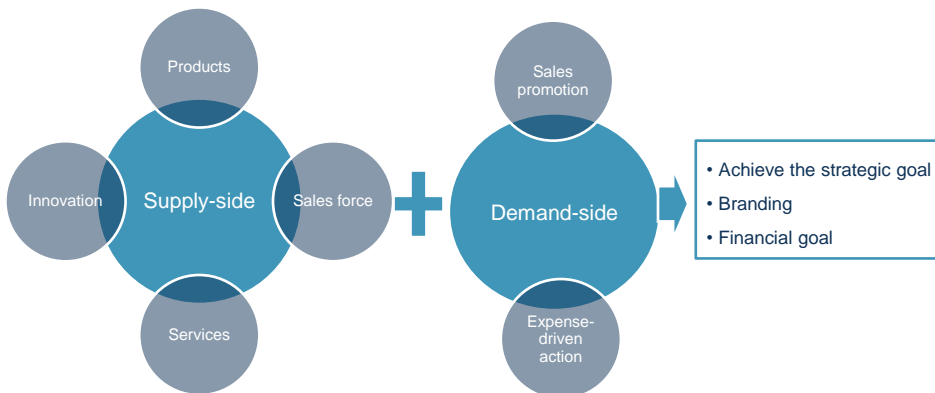
Section 4 Insurance Practices

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4. Insurance Practice

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




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

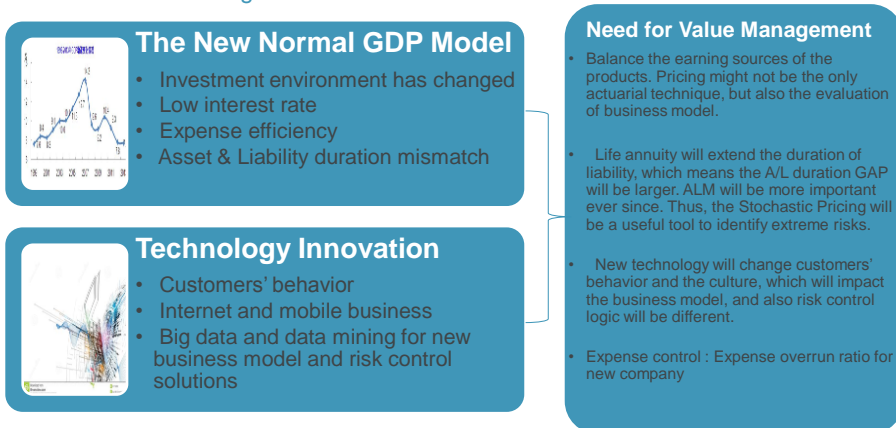
- 1) More death coverage for family support/ accidents for kids
- 2) Education saving

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 facility
- **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

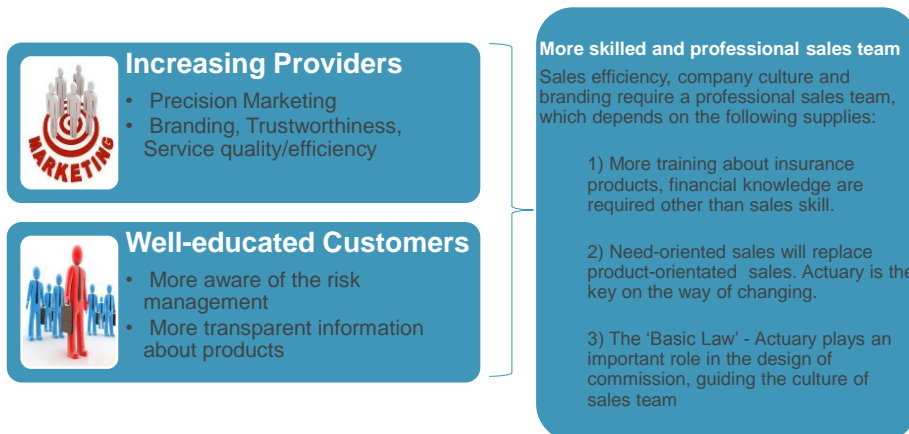
4. Insurance Practice

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



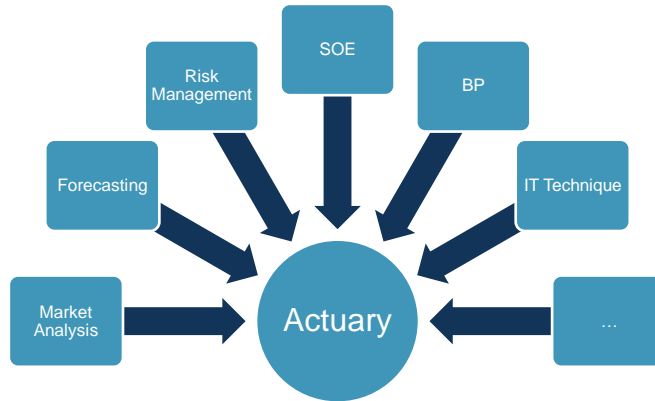
4. Insurance Practice

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



4. Insurance Practice

- 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.



4. Insurance Practice - Case Study: Sunshine Life

Value Management



Pricing Guideline

- Set the pricing guideline
- Set the rule for value evaluation, model control, assumption validation, and etc.
- Profit measure and benchmark, VNB/PM/IRR/FYSS



Quality Control

- Set up development process
- Double checklist and sign off
- Project regular report



KPI System

- Value target for management and sales channel
- Product portfolio management
- Expense overrun ratio management



Risk Control

- 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

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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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Thank you!

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