

OLIS seminar

Product Strategy in the Senior Market

~from the Actuarial perspective~

Tokyo, Japan

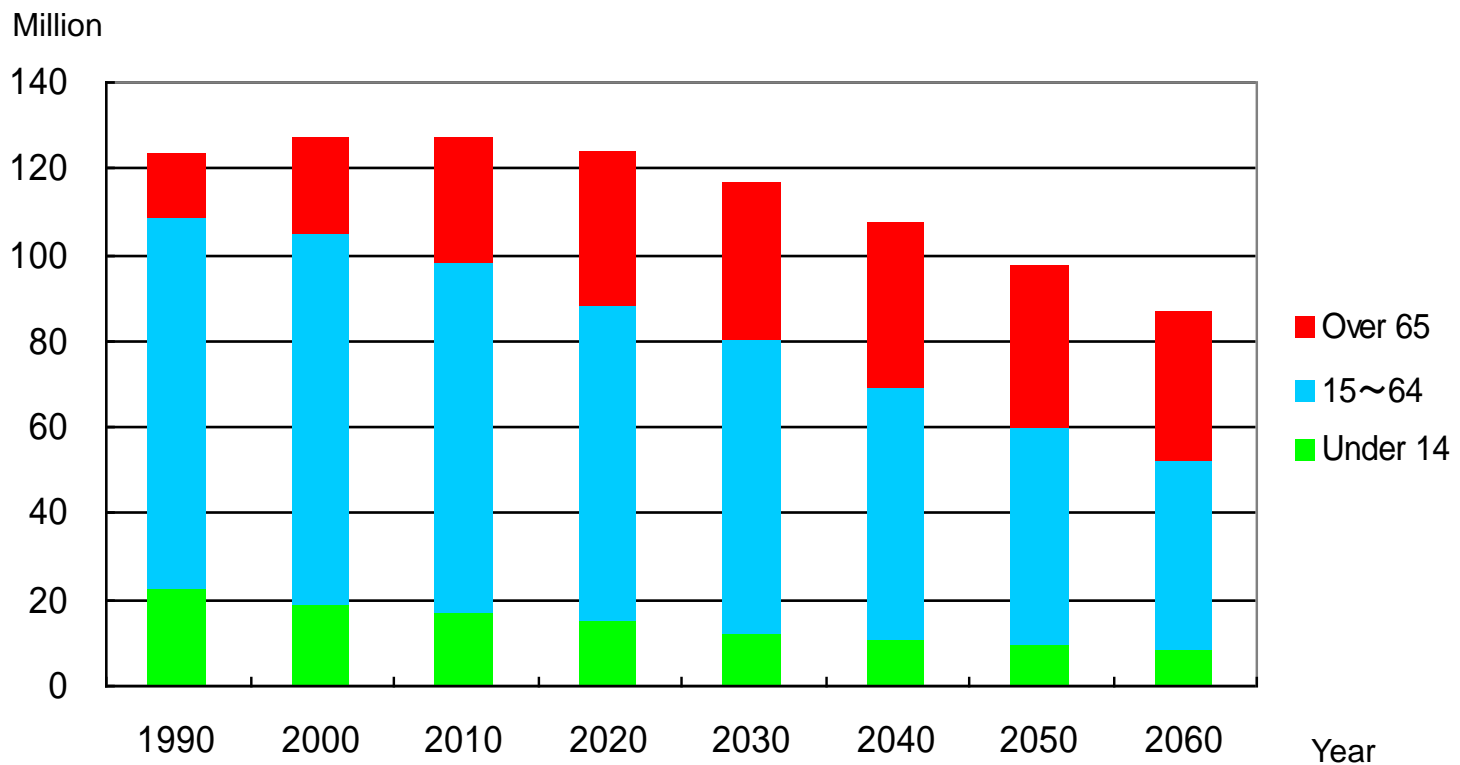
October 25, 2013

Tohru Okayasu

- ◆ Population in Japan
- ◆ Current Sales in Japan
- ◆ Current New Products in Japan
- ◆ Product Trends in Japan
- ◆ Risks
- ◆ How We Can Avoid These Risks

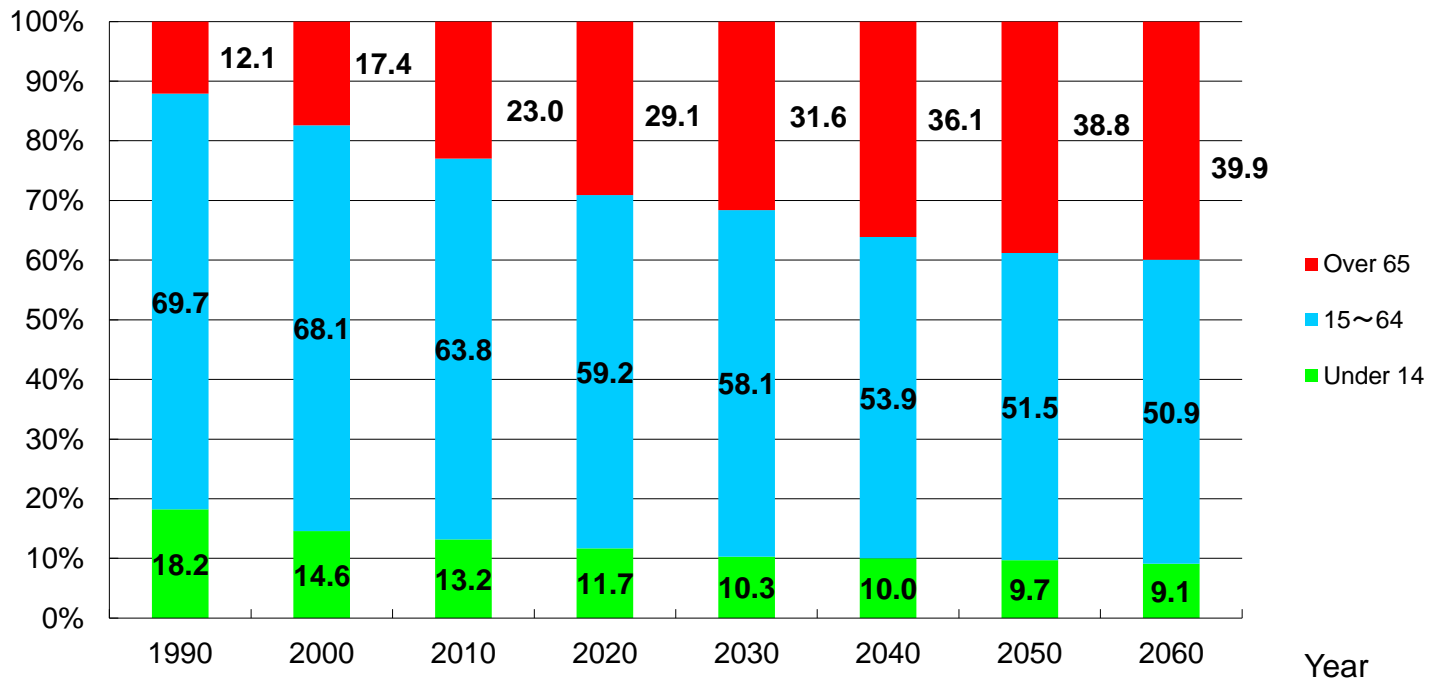
Population in Japan

◆ Population by Age



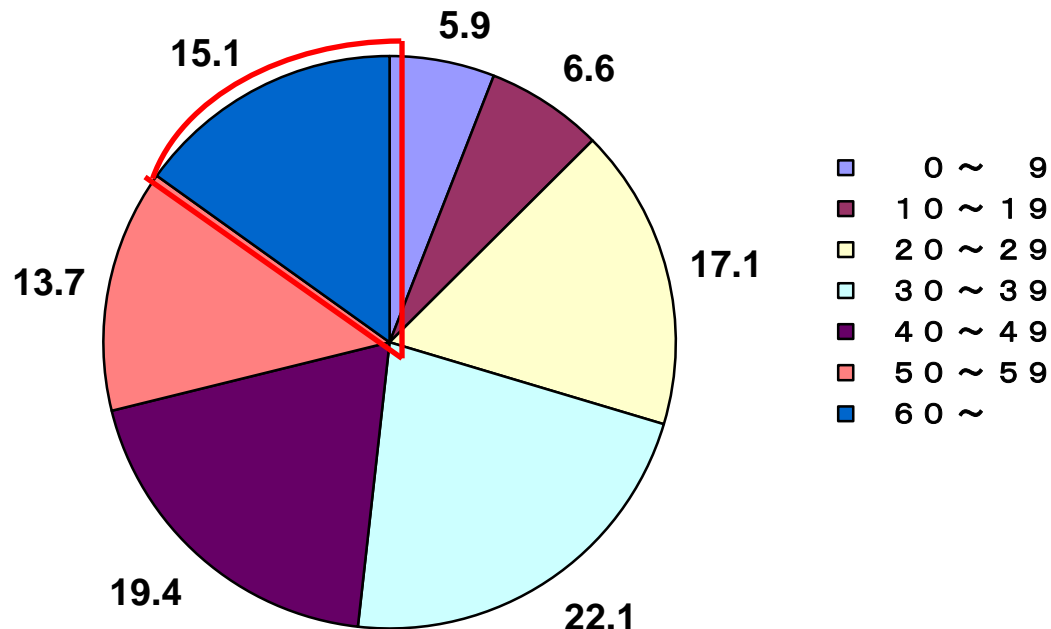
Population in Japan

◆ Ratio of Population by Age



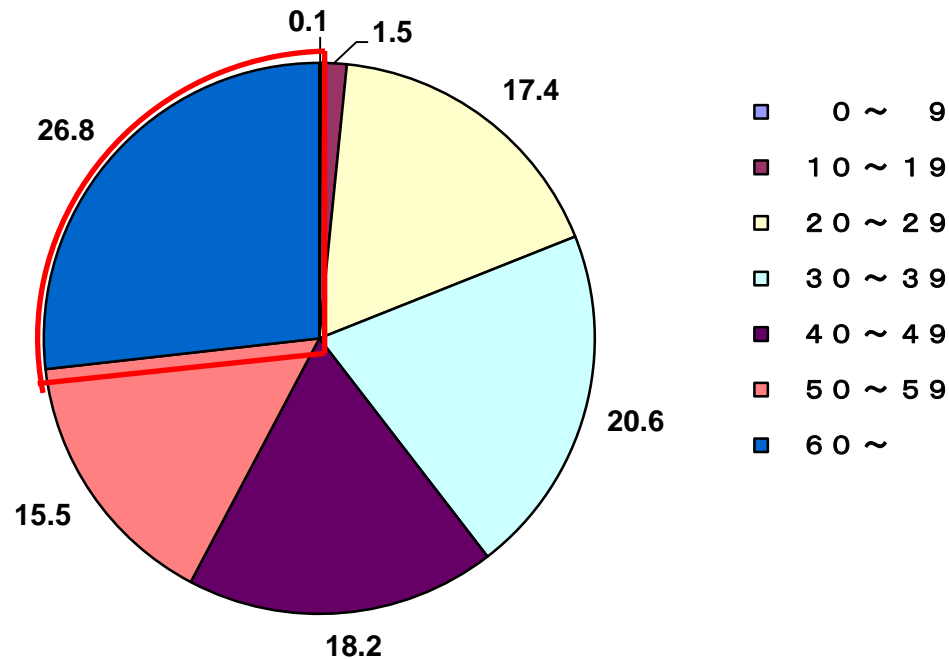
Current Sales in Japan

◆ New Business by Age – Individual Life



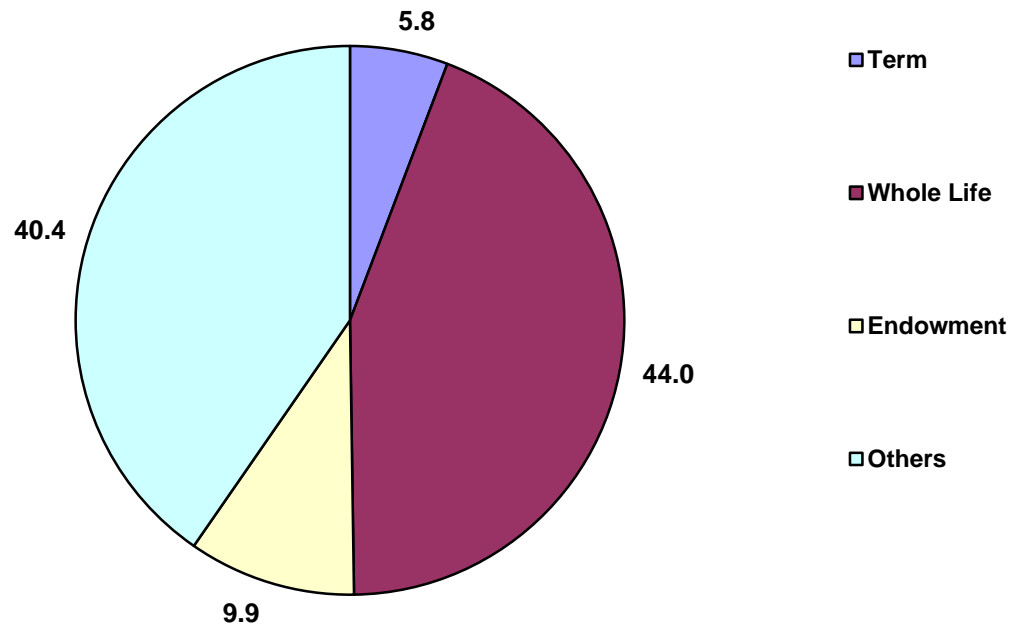
Current Sales in Japan

◆ New Business by Age – Individual Annuity



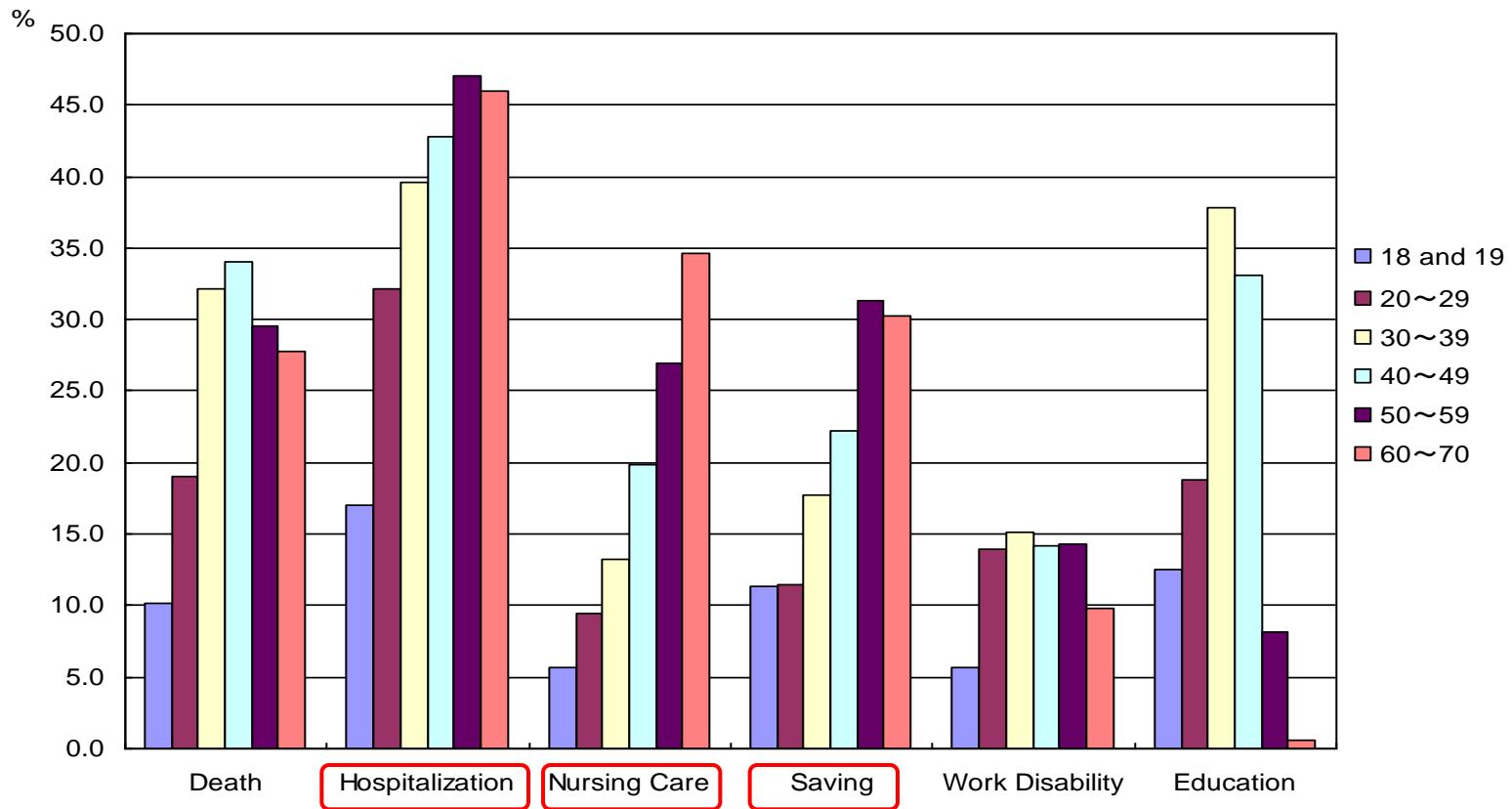
Current Sales in Japan

◆ New Business by Product – Over 60



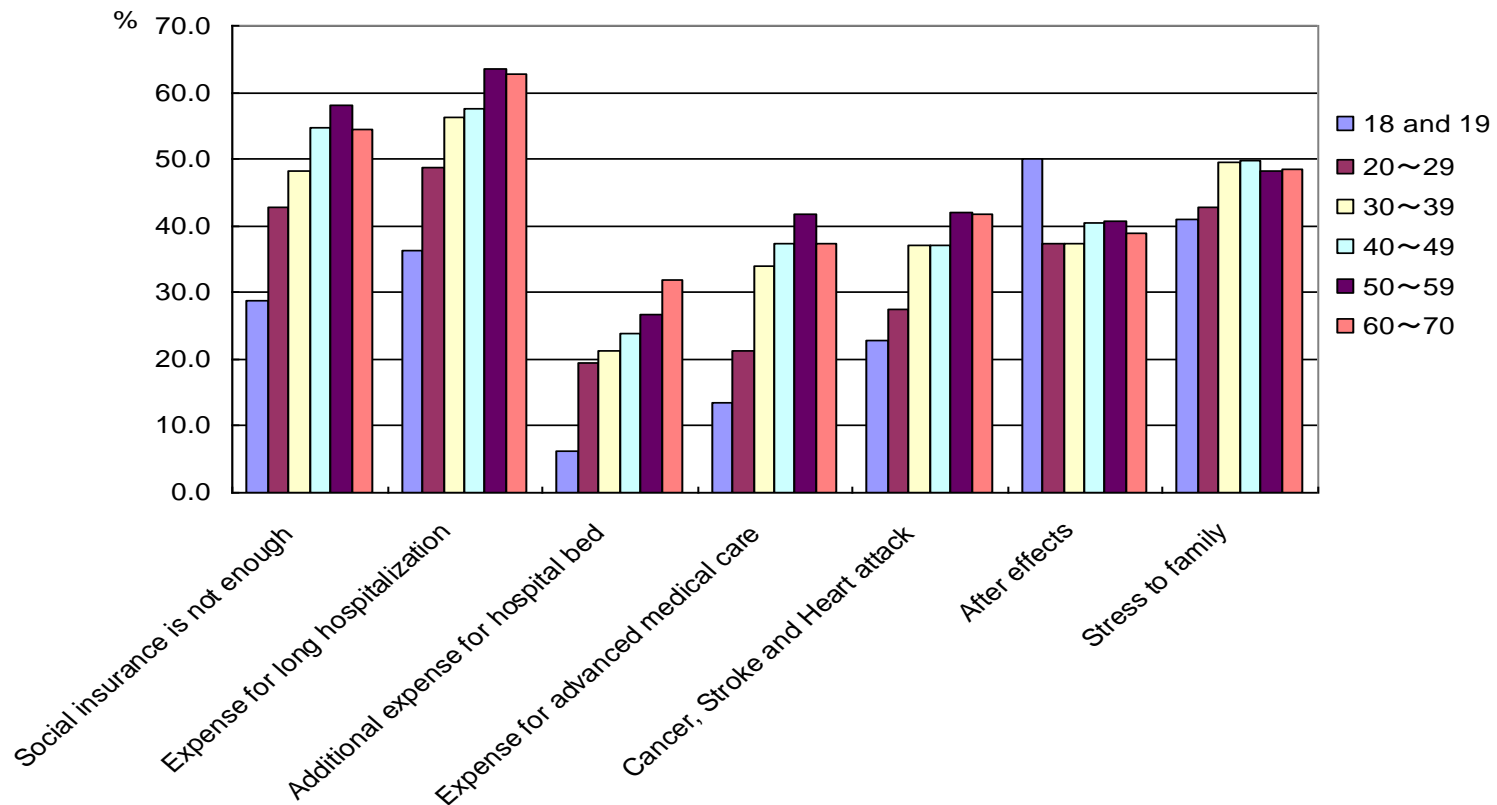
Current Sales in Japan

◆ Concerns for the Future



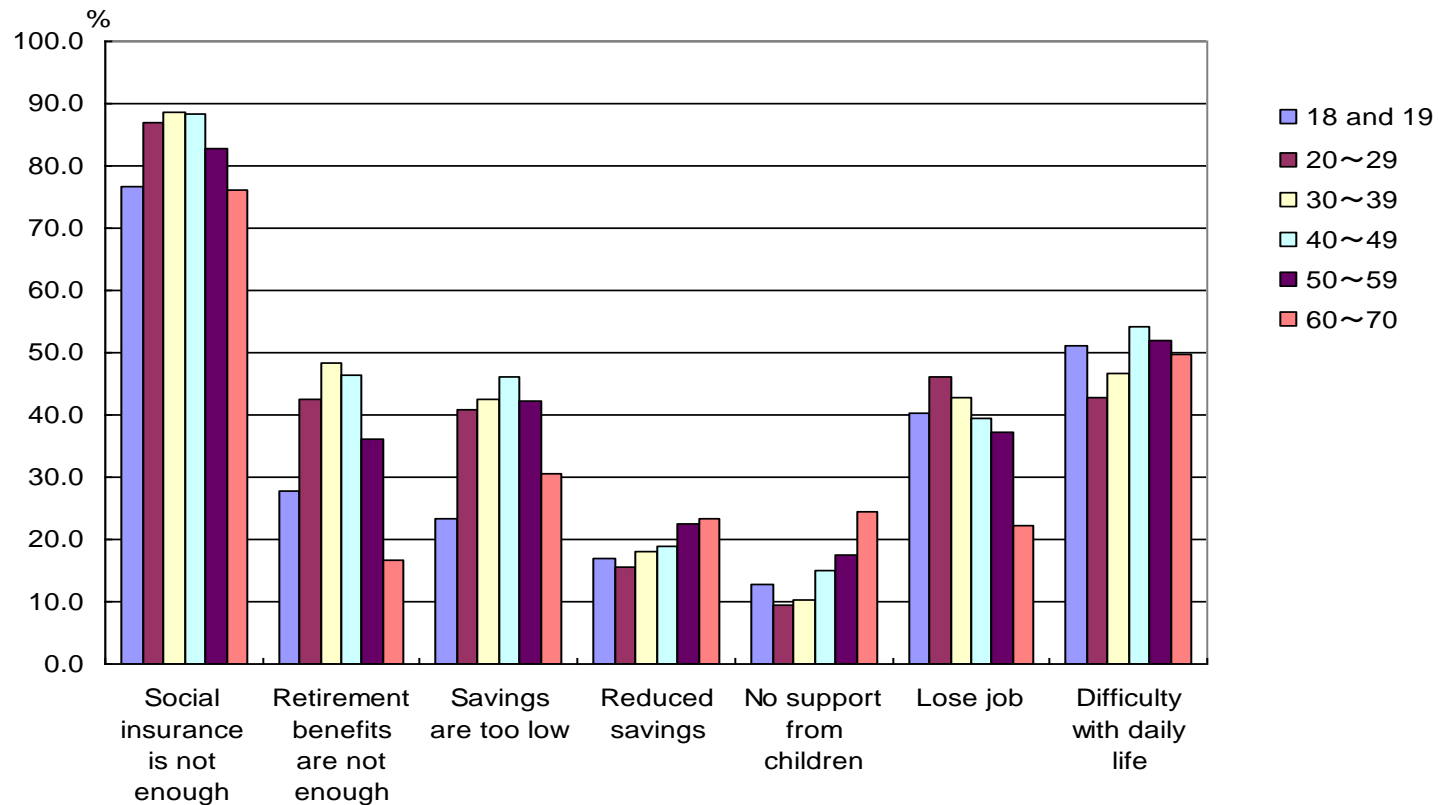
Current Sales in Japan

◆ Concerns about Illness



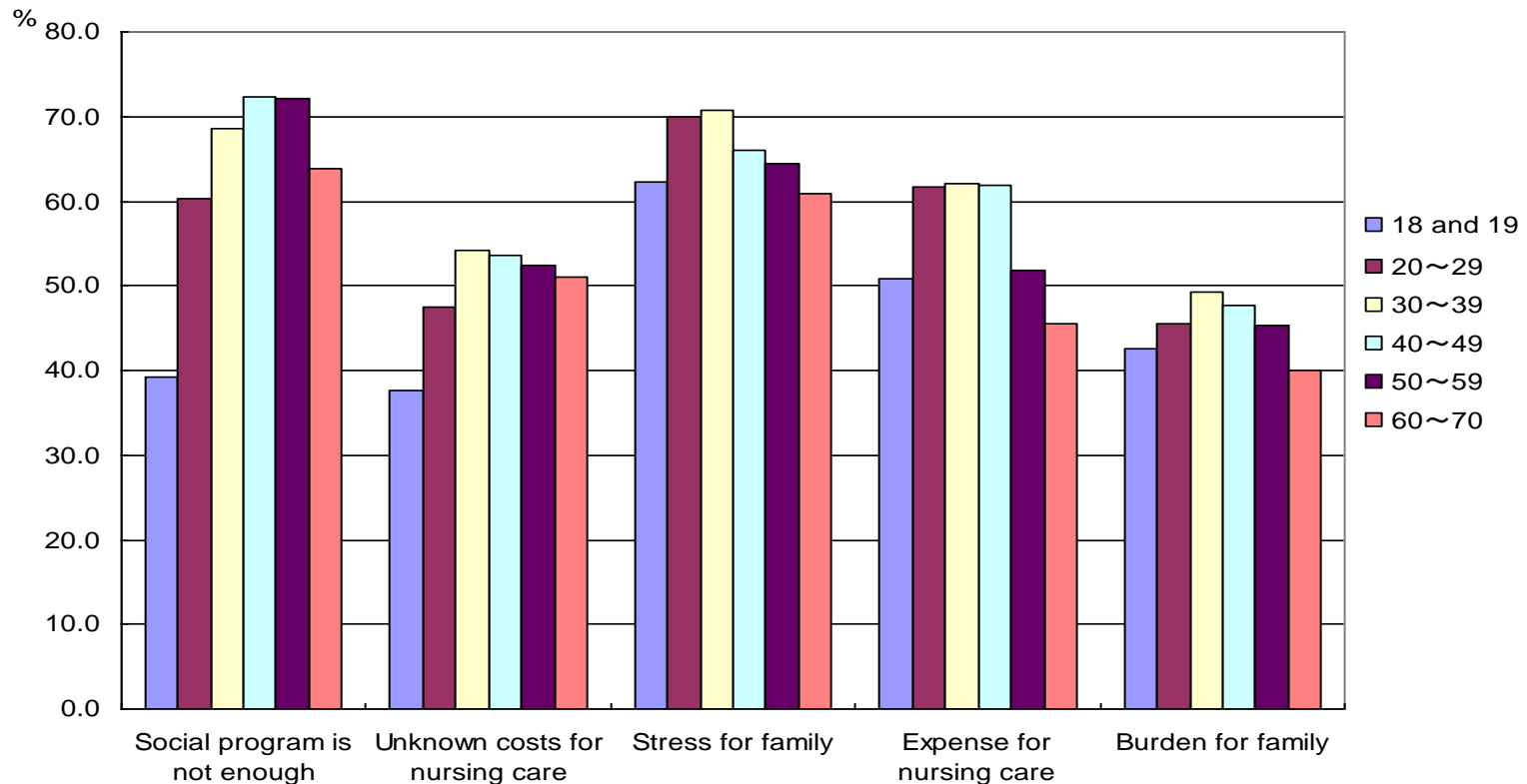
Current Sales in Japan

◆ Concerns about Retirement



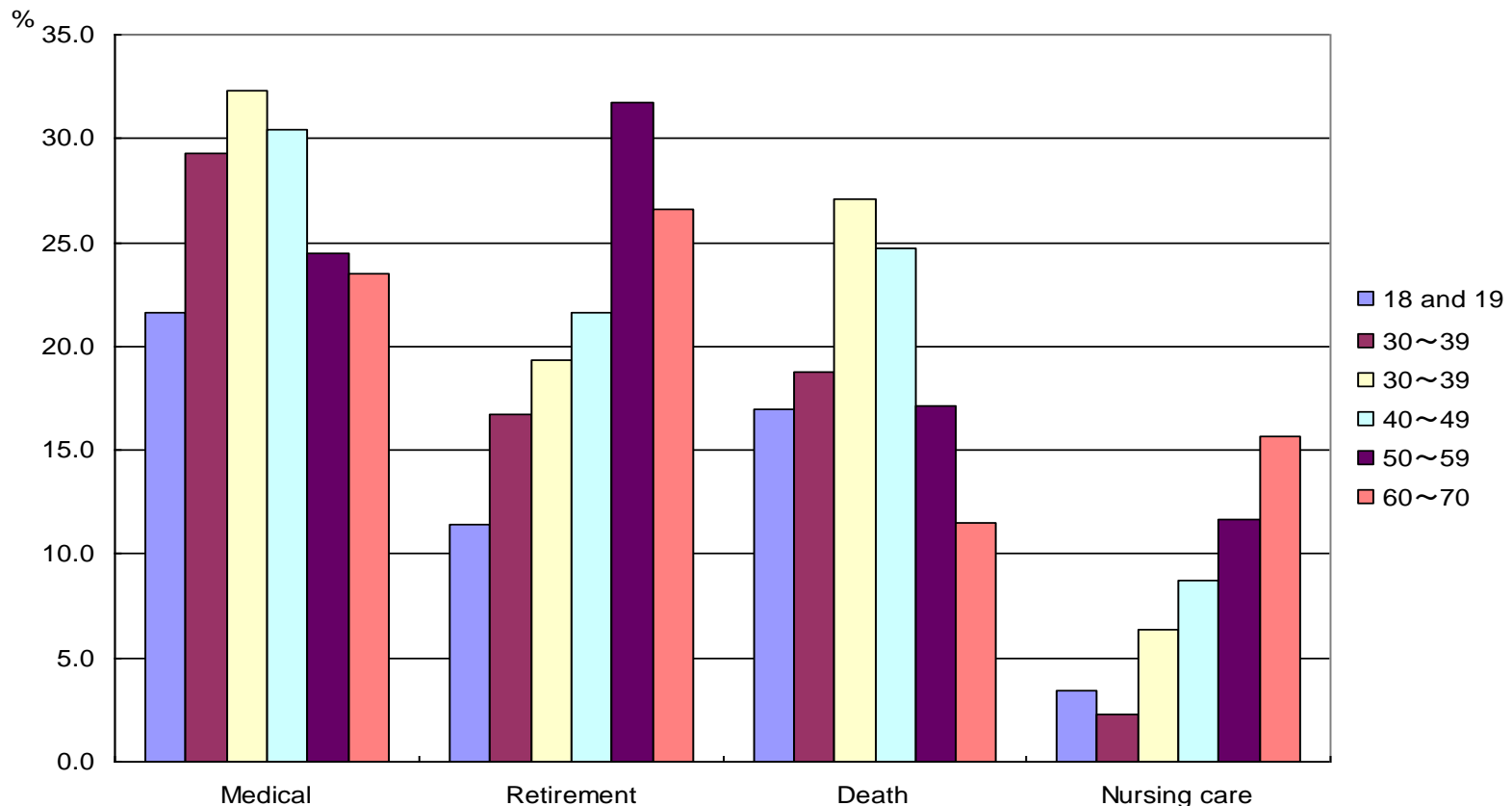
Current Sales in Japan

◆ Concerns about Nursing Care



Current Sales in Japan

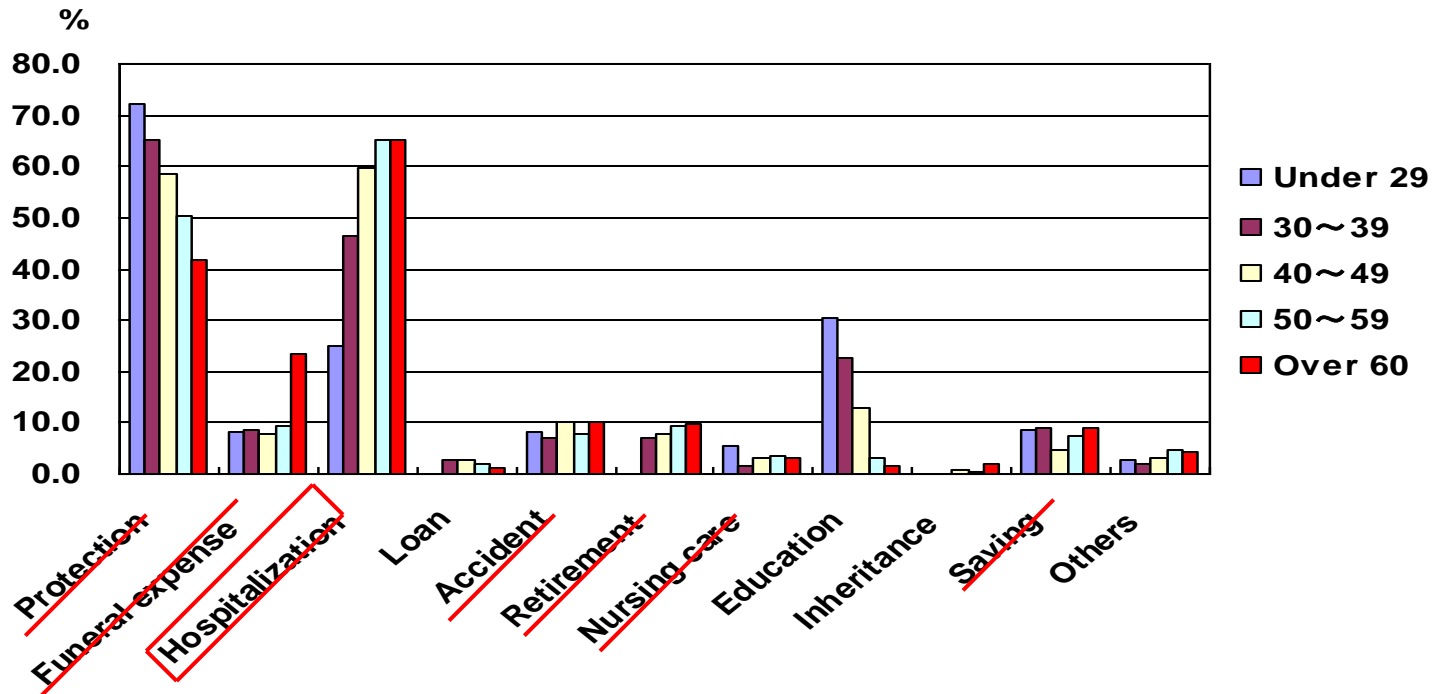
◆ Important Coverage



Source: Japan Institute of Life Insurance

Current Sales in Japan

◆ Purpose of Life Insurance



Current New Products in Japan

◆ New Products that Launched in FY2012

| Products | Number |
|--------------------------------|--------|
| Whole life (Single payment WL) | 9(8) |
| Term | 7 |
| Variable annuity | 3 |
| Fixed annuity | 2 |
| Medical / Nursing care | 21 |
| Simplified issue medical | 4 |
| Others | 3 |

Current New Products in Japan

◆ Medical Products

- Hospitalization benefits
- Surgery benefits
- Cancer benefits
- Dread disease benefits
- Nursing care benefits

- Simplified issue
- Lapse supported / Non Cash Value

Current New Products in Japan

◆ Hospitalization Benefits

- Coverage for shorter hospital stays (i.e. 60 days instead of 120)
- Pay for over night or one day hospitalization

Current New Products in Japan

◆ Surgery Benefits

- Linked with social insurance
- Same amounts for all types of surgery
- Some companies still sell the benefits that give different amounts based on the type of surgery

Current New Products in Japan

◆ Cancer Benefits

- Hospitalization benefits
- Surgery benefits
- Treatment benefits
- Expand the coverage for easy understanding

Current New Products in Japan

- ◆ Dread Disease Benefits

- 3 Major illnesses, cancer, stroke and heart attack

Current New Products in Japan

◆ Nursing Care Benefits

- Linked with social insurance
- Lump sum benefits
- Annuity benefits
- Expand the coverage for lower levels of social program

Current New Products in Japan

- ◆ Simplified Issue
 - Easy to purchase

Current New Products in Japan

- ◆ Lapse Supported / Non Cash Value
 - Lower premiums

Product Trends in Japan

- ◆ Medical Products - claims are based on social benefits
 - Surgery benefits – linked with social benefits
 - Nursing care benefits – linked with social benefits

Product Trends in Japan

- ◆ Background of These Benefits
 - Claim Review in Japan
 - ✓ More understanding for the customer
 - ✓ Reduce the number of products

Product Trends in Japan

- ◆ Single Payment Type Products
 - Whole life – with / without MVA
(Market Value Adjustment)
 - Variable annuity
 - Fixed annuity
 - Simplified issue

Product Trends in Japan

- ◆ Whole Life Type Products
 - Inheritance market

Product Trends - Summary

- ◆ Medical
- ◆ Nursing Care
- ◆ Saving – single payment products
- ◆ Inheritance products

- ◆ Simplified issue
- ◆ Lapse supported / Non cash value

Risks

- ◆ Medical and Nursing Care
 - Increasing the morbidity
 - ✓ Change the social programs
 - ✓ Family situation – Nursing care
 - ✓ Medical innovation – mainly cancer
 - Longevity

Risks

- ◆ Family Situation Change – Nursing Care
 - More families live without their parents
 - ✓ Past - Elder persons cared for by families that lived with them
 - ✓ Present - Elder persons do not have family that live with them

Risks

◆ Regulation Change

- The Insurance Business Law changed in 1996
 - ✓ Before - Life insurance companies could change the premiums and face amounts when the claims are increased beyond their estimation
 - ✓ After - If life insurance companies would like to change the premiums and face amounts, they have to explain the reason to the customers

Risks

◆ Regulation Change

- Introduce the standard mortality table for medical products
- Additional reserves and contingency reserves
 - ✓ If we do not hold a sufficient level of reserves according to the stress testing, we have to hold additional reserves and contingency reserves

Risks

◆ Saving

➤ Decrease the interest rate

- ✓ Negative spread

➤ Increase the interest rate

- ✓ Liquidity risk

➤ Guaranteed benefits

- ✓ GMDB, GMAB, GMIB and GMWB

(Guaranteed Minimum Death Benefit, Accumulation Benefit, Income Benefit, Withdrawal Benefit)

Risks

- ◆ Regulation Change
 - Reserve for GMDB
 - Contingency reserve for GMDB
 - Solvency risks for GMDB, GMAB, GMIB and GMWB

Risks

- ◆ Inheritance Products
 - Change the tax regulation

Risks

- ◆ Simplified Issue Products
 - Anti-selection
 - Competitors' underwriting methodology

Risks

- ◆ Lapse Supported / Non Cash Value
 - Higher persistency than assumed lapse ratio

How We Can Avoid These Risks

- ◆ Change the Social Programs – Medical and Nursing Care
 - Policy provision
 - Have to do stress testing
 - Monitor the actual claims

How We Can Avoid These Risks

- ◆ Increasing the Morbidity
 - We have to do stress testing
 - Monitor the actual claims

How We Can Avoid These Risks

- ◆ Saving
 - Decrease the interest rate
 - ✓ Negative spread
 - Reset the assumed interest rate frequently
 - Increase the interest rate
 - ✓ Liquidity risk
 - Introduce the MVA
 - Variable products
 - ✓ Consider guaranteed benefits, GMDB, GMAB, GMIB and GMWB

How We Can Avoid These Risks

◆ Regulation

- GMDB - We have to hold additional reserves and contingency reserves
- GMAB, GMIB and GMWB - We have to consider the risks for our solvency margin

How We Can Avoid These Risks

- ◆ Simplified Issue Products
 - Introduce the waiting period
 - Check the competitors' underwriting methodology
 - Have to do stress testing
 - Monitor the actual claims

How We Can Avoid These risks

- ◆ Lapse Supported / Non Cash Value
 - Test the profitability using a lower lapse ratio
 - Monitor the actual lapse ratio

How We Can Avoid These Risks

◆ Summary

- Check the profitability using stress testing scenario before launch
- Monitor the actual experience
- If we will have several losses,
 - ✓ Repricing
 - ✓ Hold additional reserves and contingency reserves

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