

Regulations on Independent Agencies (IAs) for the Purpose of Customer Protection and Future Sales Strategies

Kei Kato, IA Administration Control Team
Hisanari Murata, IA Hiring & Training Team

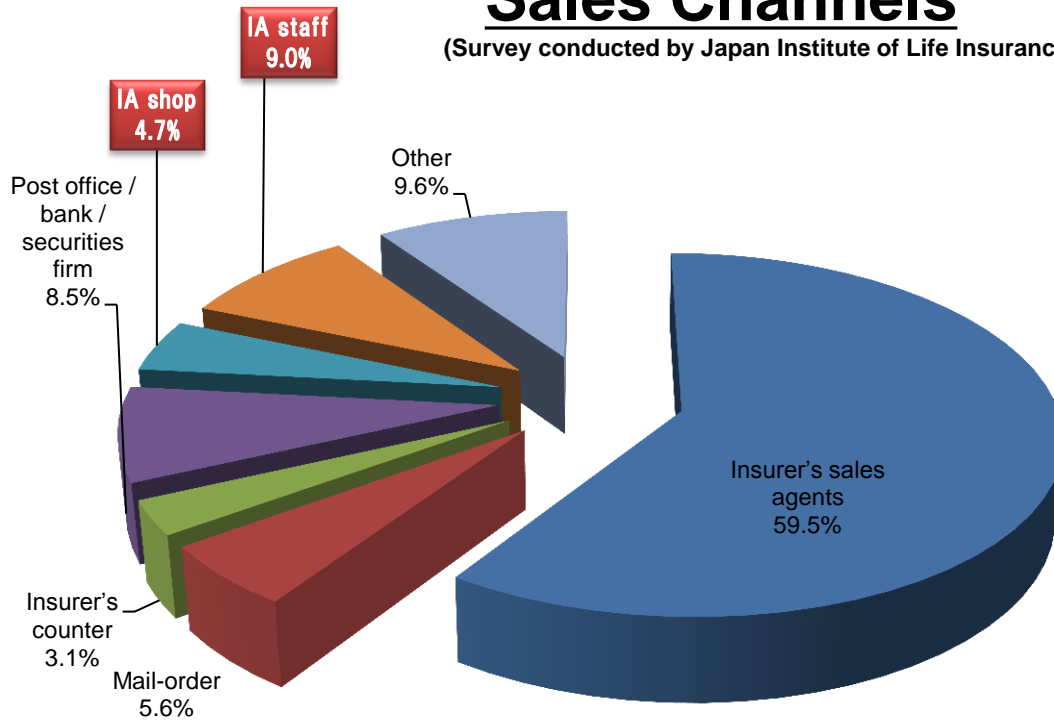
1. Regulations on IAs for Customer Protection

2. Sales Strategies to Adapt to Changing Environment

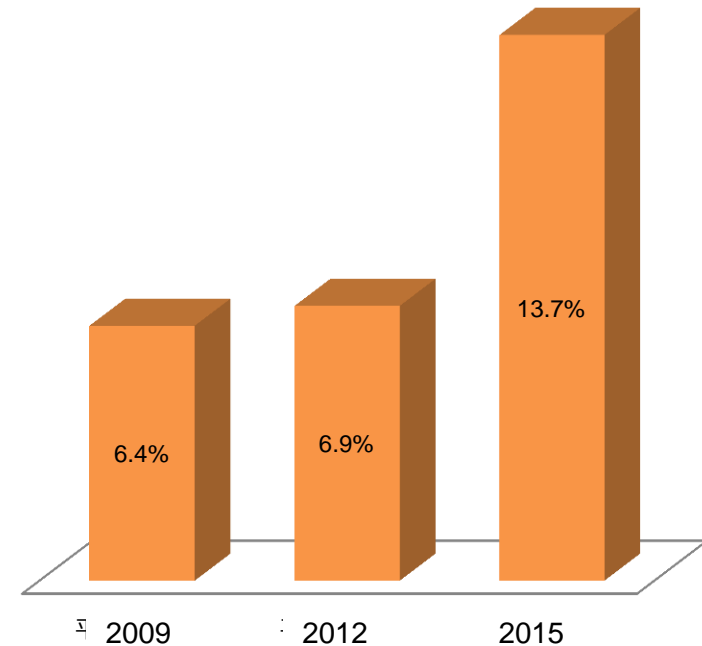
Life insurance sales channels for general households(sales between 2010 and 2015)

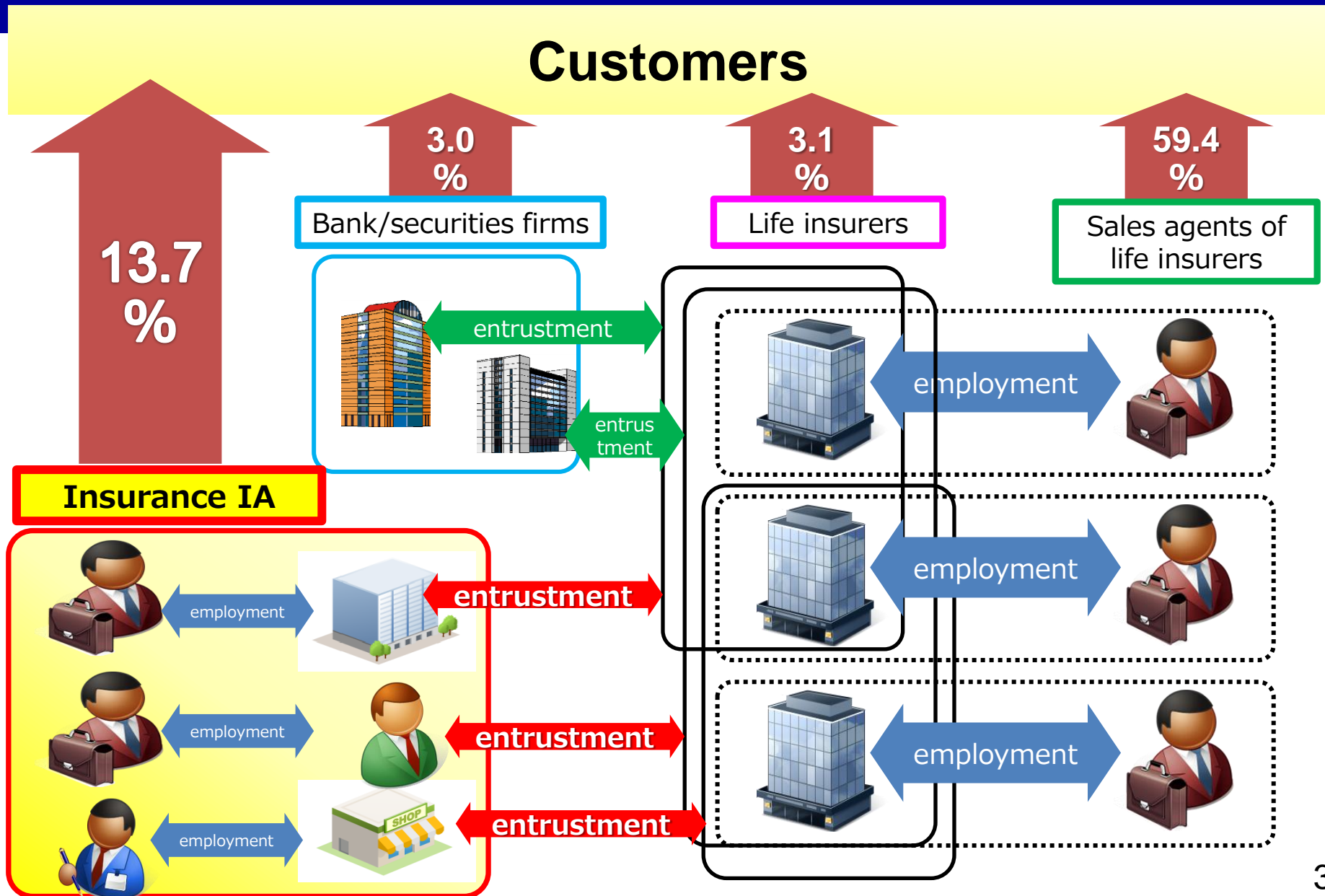
Sales Channels

(Survey conducted by Japan Institute of Life Insurance in 2015)



Percentage of sales via IA
(Survey conducted by Japan Institute of Life Insurance in 2015)





There are a wide range of IAs conducting sales activities:

		Category	Main market	Characteristics
Non-exclusive IA	Insurance sales only	Home-visit consulting IA	Individual/corporate customers	Scale varies from several hundred to several staff
		Retail shop IA	Individual customers	Scale varies from nationwide to a single shop.
		Non-life professional IA	Individual/corporate customers	They mainly deal with non-life products. Many of them are relatively small in scale.
	Insurance sales as side business	Tax accountant IA	Corporate customers	Mostly small-scale IAs but there are some mid-sized IAs as well.
		Financial institutions IA	Individual customers	Banks / securities firms
		In-house Agency	Individual/corporate customers	Large-scale companies assign dedicated staff to conduct cross selling in their own market.
		Other IAs with side business	Individual/corporate customers	Small-scale companies conducting cross selling in their own market
Exclusive IA	Insurance sales only	Exclusive agent	Individual customers	1 person. Often specializes in specific products.
	Insurance sales as side business	Agent with side business	Individual customers	1 person. Ex-sales employee, etc.

With the expansion of IAs, issues relating to customer protection have become apparent.

Management by insurers

- Large-scale IAs are in a stronger position than insurers.
- Emergence of areas beyond the control of insurers (e.g. marketing, product comparison)

Outsourcing

- IAs depend on other service providers to conduct marketing for them (to gather prospects).
- Marketing service providers gather prospects using gift certificates and sell them to IAs.

Grasp of intent

- (Applicable to not only IAs but also all distribution channels)
- Failure to propose a product according to customer intent

Product recommendation

- IAs proclaim that they take a neutral position between their customer and multiple insurers (despite the fact that an IA is supposed to act on behalf of insurers)
- IAs also proclaim that they offer the most suitable product for a customer upon comparison of multiple products (in reality, they recommend a product with high commission)

Information mgmt

- IAs with side business use personal information obtained from other business (use insurance information for other business) .

As the issues concerning customer protection have become evident, regulations, especially those on IAs, have become stricter.

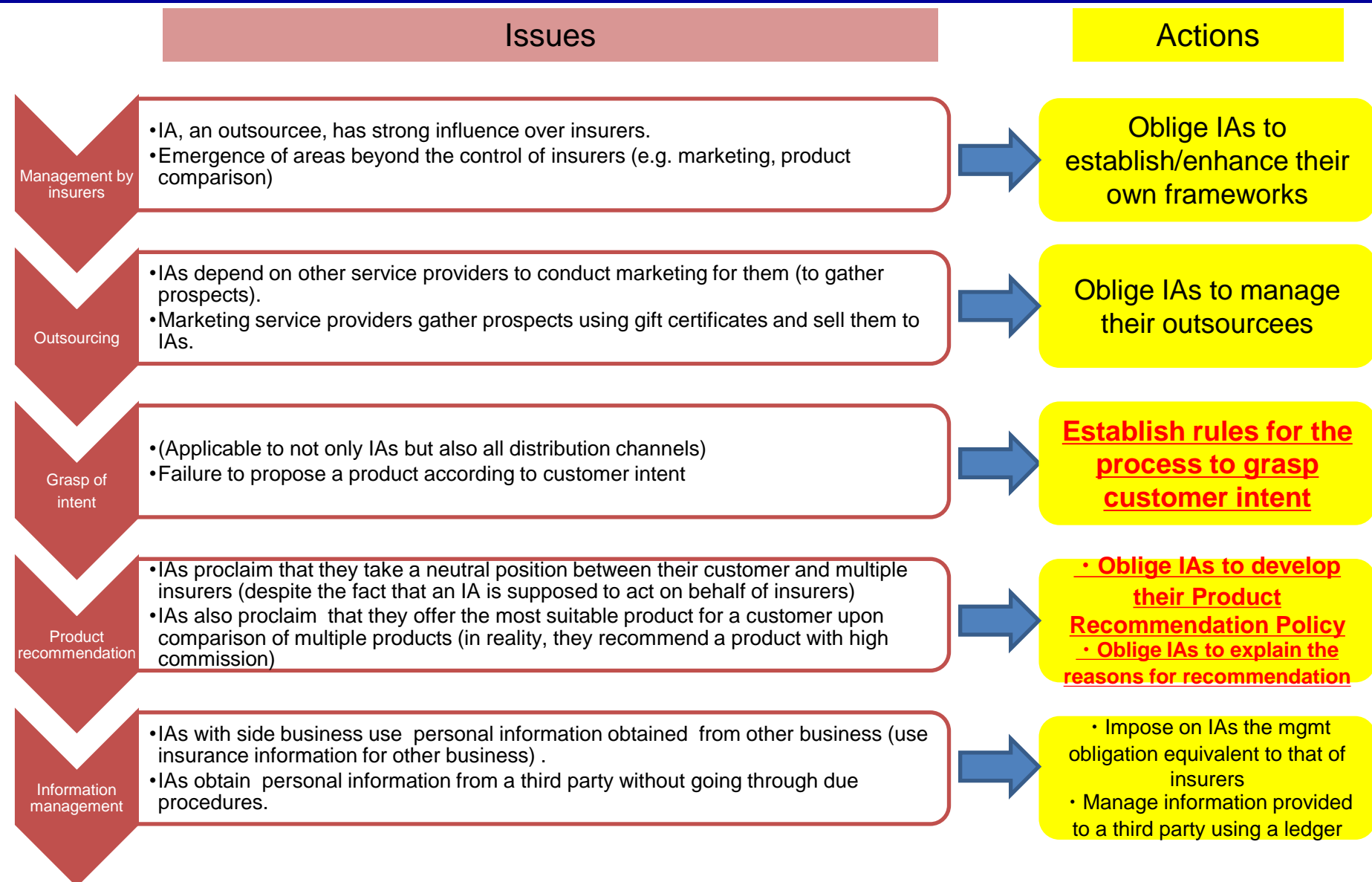
Timing	Regulations common to all channels
- May 2016	<ul style="list-style-type: none"> ◆ Old Insurance Business Law (IBL) <ul style="list-style-type: none"> • Explanation of important matters • Confirmation of intent • Regulations on information display • Various prohibited conduct ◆ Financial Instruments and Exchange Act <ul style="list-style-type: none"> • Suitability rules ◆ Old Personal Information Protection Law
May 2016 - 2017	<ul style="list-style-type: none"> ◆ Amended IBL <ul style="list-style-type: none"> • <u>Grasp of customer intent</u>
Spring of 2017 -	<ul style="list-style-type: none"> ◆ Fiduciary duty <ul style="list-style-type: none"> • Pursuit of customers' best interest ◆ Amended Personal Information Protection Law

Additional regulations on IAs
<ul style="list-style-type: none"> ◆ Old Personal Information Protection Law <ul style="list-style-type: none"> • Data safety control measures • Prohibition to use info for purposes other than original intent
<ul style="list-style-type: none"> ◆ <u>Amended IBL</u> <ul style="list-style-type: none"> (1) <u>Development of Product Recommendation Policy</u> (2) <u>Explanation of reasons for recommendation, explanation of outline of similar insurance product</u> (3) <u>Establishment of process, vendor mgmt concerning sales-related conduct</u>
<ul style="list-style-type: none"> ◆ <u>Fiduciary duty</u> <ul style="list-style-type: none"> (1) <u>Development & publication of the policy</u> (2) <u>Disclosure of commissions</u> ◆ <u>Life Insurance Association of Japan (LIAJ)'s guidelines</u> <ul style="list-style-type: none"> • <u>Stricter rules for explanation on the reasons for recommendation</u> ◆ <u>Amended Personal Information Protection Law</u> <ul style="list-style-type: none"> • <u>Keeping a log of information provided to a third party</u>

Stricter regulations especially on IAs

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IA's Obligations

Implement PDCA cycle:

- ◆ Establish a standard process
- ◆ Prepare forms
- ◆ Keep a record of customer intent grasped
- ◆ Verify the execution status

IA's Obligations at time of sales

- ✓ IAs are obliged to propose a product according to customer intent (what type of protection the customer wants to prepare)
- ✓ It is necessary to offer an opportunity to review customer intent

Grasp (or presume) customer intent in advance

Propose a product according to customer intent

Explain correspondence between the grasped intent and the proposed product

Grasp the customer's final intent => compare it to his/her original intent

IA's Obligations

- ◆ Determine its product recommendation policy
- ◆ Verify as to whether it recommended a product according to the policy

IA's Obligations at time of Sales

【When?】

When an IA recommends **a specific product selected** from among products offered by multiple insurers

【What ?】

When an IA selects a product based on objective criteria (e.g. product features and premium) according to customer intent

- Reasons for recommendation (objective criteria)
- Outline of similar comparable insurance product

When an IA selects a product due to its own circumstances

- The IA's own circumstances

*If an IA recommends a specific product to its customer in order to acquire money or incentives from the insurer, the IA needs to explain to the customer that the purpose of recommending the product is to acquire the said money or incentives.

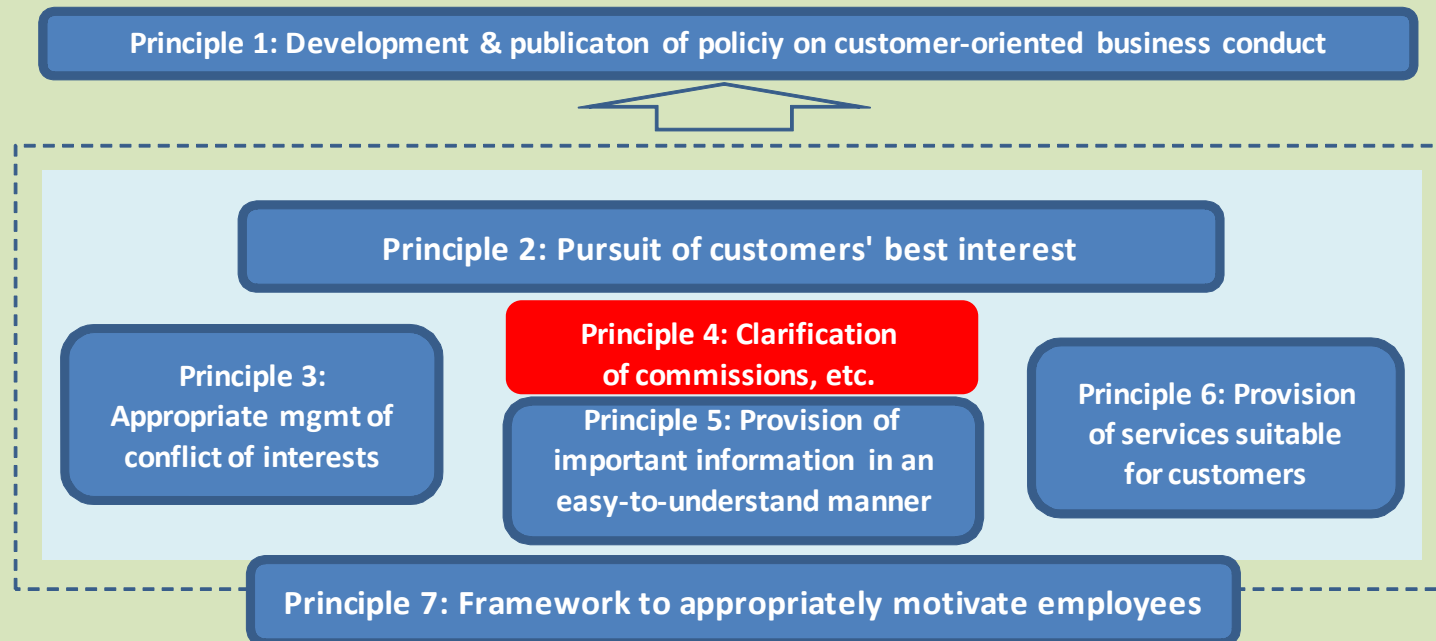
Fiduciary duty = "Principles for Customer-oriented Business Conduct"

→7 principles which should be voluntarily accepted by financial service providers so that they develop their own policies to pursue customers' best interest instead of conducting seller-oriented actions

【Stance】

- ✓ **Principles** instead of (compulsory) rules
- ✓ All financial service providers (incl. insurance IA) are encouraged to voluntarily accept the principles.

【Components】



【Current Status & Issues】

- ✓ **IA business is going through a transformation period.**
- ✓ **In 2016, regulations were tightened “in form” prior to the substance.**
- ✓ **The actual conditions of customer protection did not have much progress. (especially in small-scale IAs)**
- ✓ **It is necessary for IAs to understand the intent of the regulations so that they take necessary actions proactively.**

【Outlook】

- ✓ **IA business is expanding with the support of customers who demand diverse selection of products.**
- ✓ **Fiduciary duty is expected to further penetrate into IA business (even though it remains unclear how quickly the penetration will take place)**
- ✓ **In accordance with the progress in disclosure of commissions, customers are likely to become even more selective about IAs based on their service quality (e.g. grasp of customer intent and provision of information).**
- ✓ **A shake-out of IAs who fail to conduct sufficient customer protection is likely to take place.**



1. Regulations on IAs for Customer Protection

2. Sales Strategies to Adapt to Changing Environment

External environment

Market

Age when the quality of proposal is put to the test

- IBL revision/customer-oriented business conduct
- Super-aged society
- Age of ultralow interest rates

Shift to baby boomer Jr.

- Shrinkage of baby boomer market
- Highest proportion in protection proposal
- From baby-boomer company presidents to their successors/employees

“Baby boomer” refers to the generation born between 1947 and 1949.
“Baby boomer Jr.” refers to the generation born between 1971 and 1974.

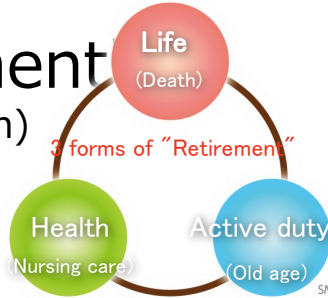
Needs-based selling

- Makes latent needs explicit
- Love and care for the family
- Thoughts and faith in the company and employees

Method

3 forms of "Retirement"

- Retire from life (Death protection)
- Retire from active duty (Preparation for old age)
- Retire from healthy condition (Nursing care protection)



Proposal area

Enactment of Amended Insurance Business Law (on May 29, 2016)

Financial Administration Policy(2016/10/21)
issued by: FSA
Establishment and penetration of "customer-oriented business conduct" by financial institutions, etc.

Financial System Council's "Market WG Report"
(on Dec. 22, 2016)
issued by: FSA
target: financial service providers

Principles for customer-oriented business conduct (draft)
(on Jan. 19, 2017)
issued by: FSA
target: financial service providers

Finalization of the principles for customer-oriented business conduct (draft)

Publication of each financial service provider's principles (scheduled in spring of 2017)

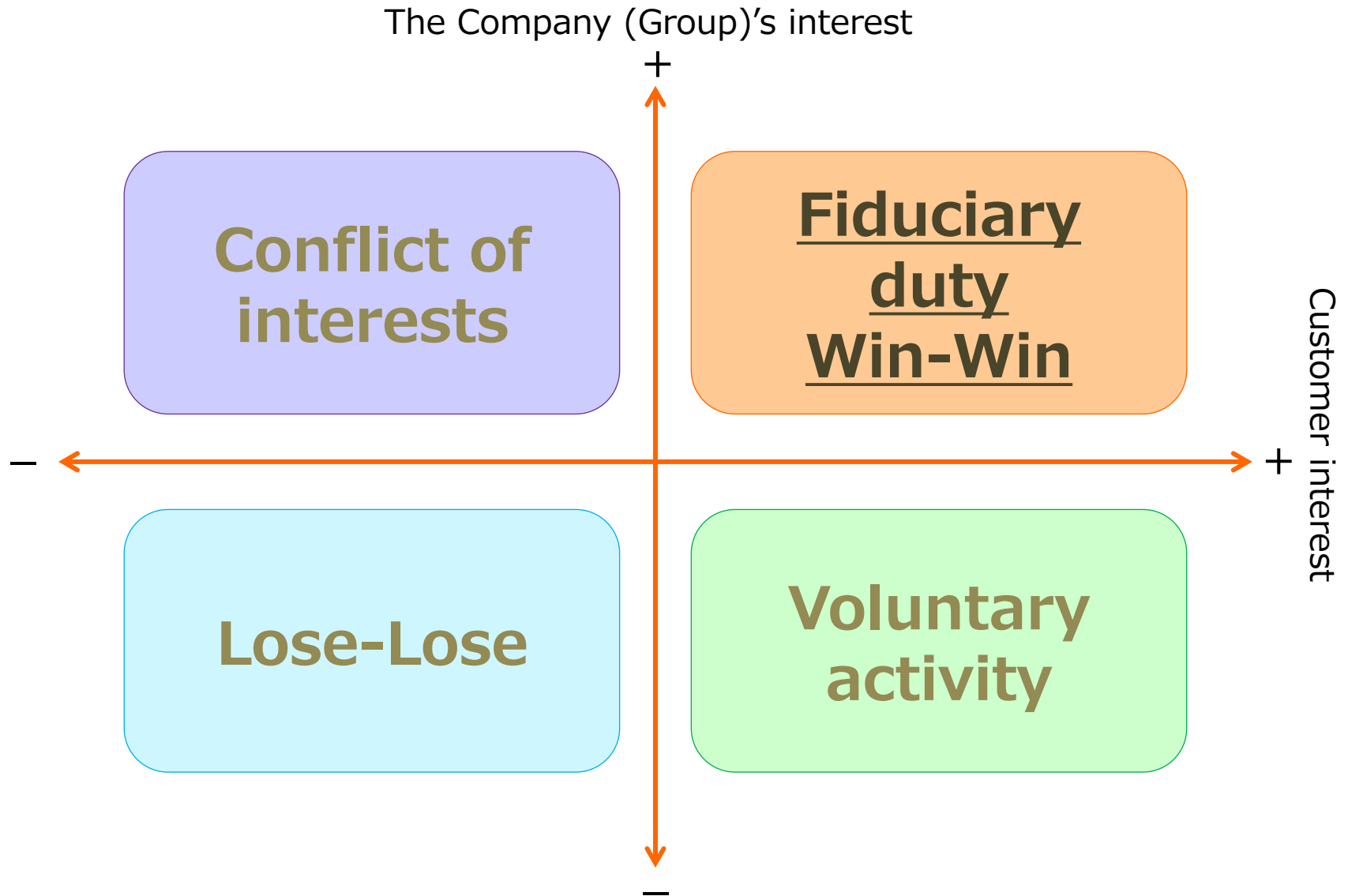
Confirmation items regarding issues with business operations
(on Jan. 19, 2017)
Issued by: LIAJ
target: life insurers

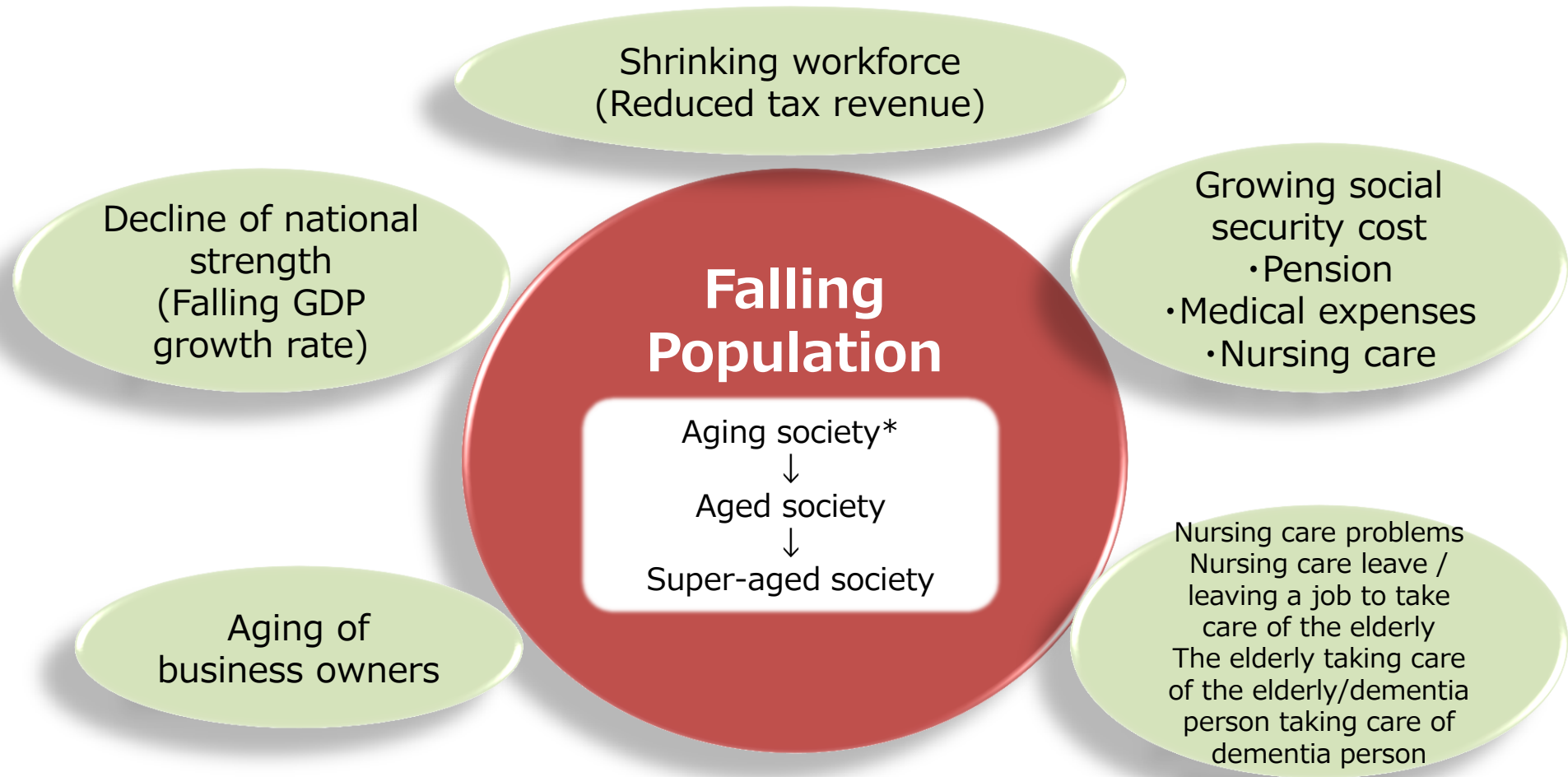
Revision to self-guidelines
(Guidelines on the establishment of the framework for insurance agents, etc.)
(on Mar. 2017)

Realize Customer-oriented Business Conduct

Fiduciary Duty

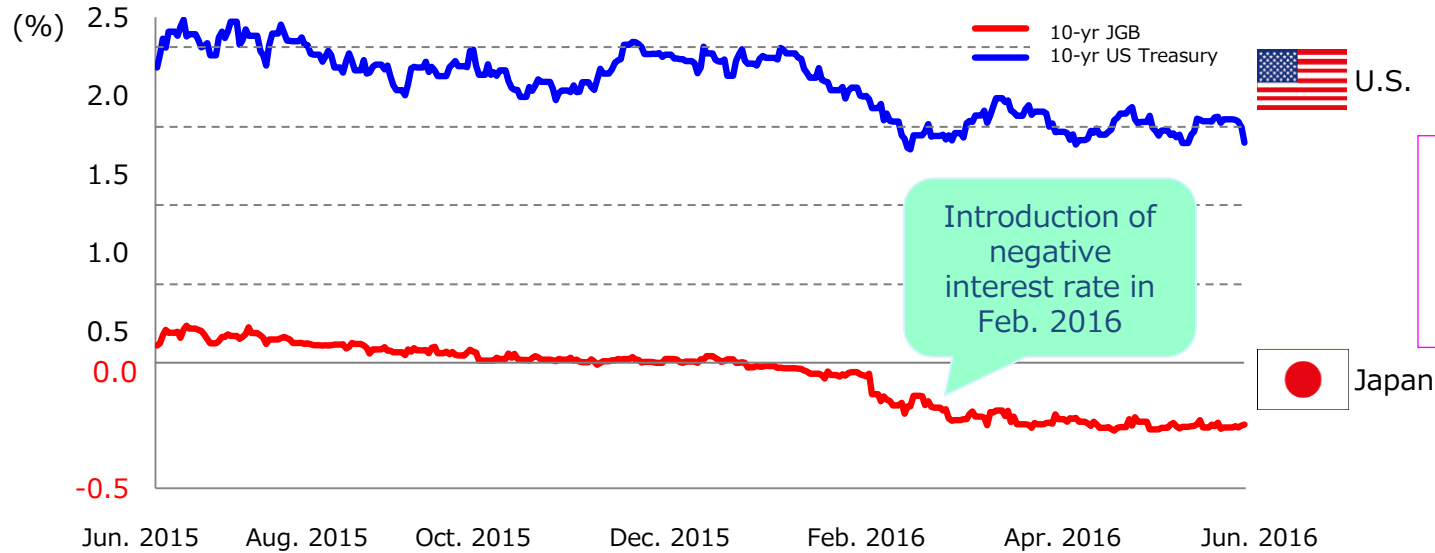
Financial service providers capable of offering customer-oriented business will survive as with the concept of the survival of the fittest.



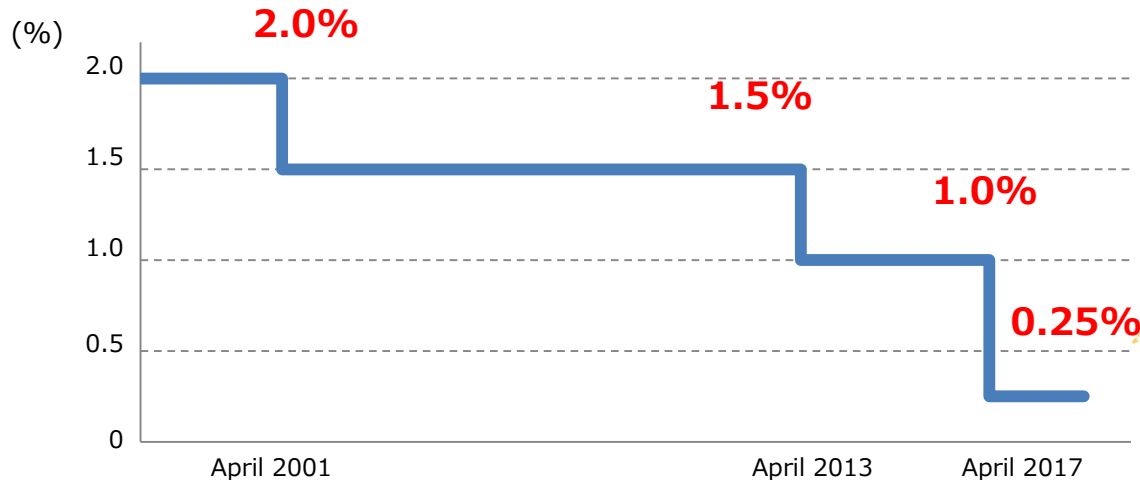


*The United Nations (UN) defined that, if the proportion of persons aged 65 or older exceeds 7% in a society, it is an “aging society”; if the proportion surpasses 14%, it is an “aged society”; if over 21%, it is a “super-aged society”.

Transition of the yields of government bonds in US and Japan



Transition of revisions to standard interest rate



When standard interest rate is lowered:

- ✓ Premium will go up
- ✓ Cash Value rate will go down
- ✓ Commission rate will go down

External environment

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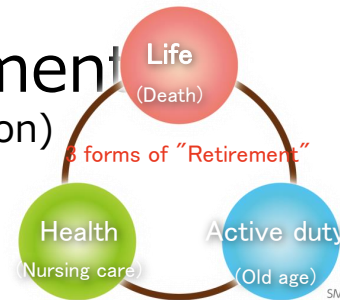
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3 forms of "Retirement"

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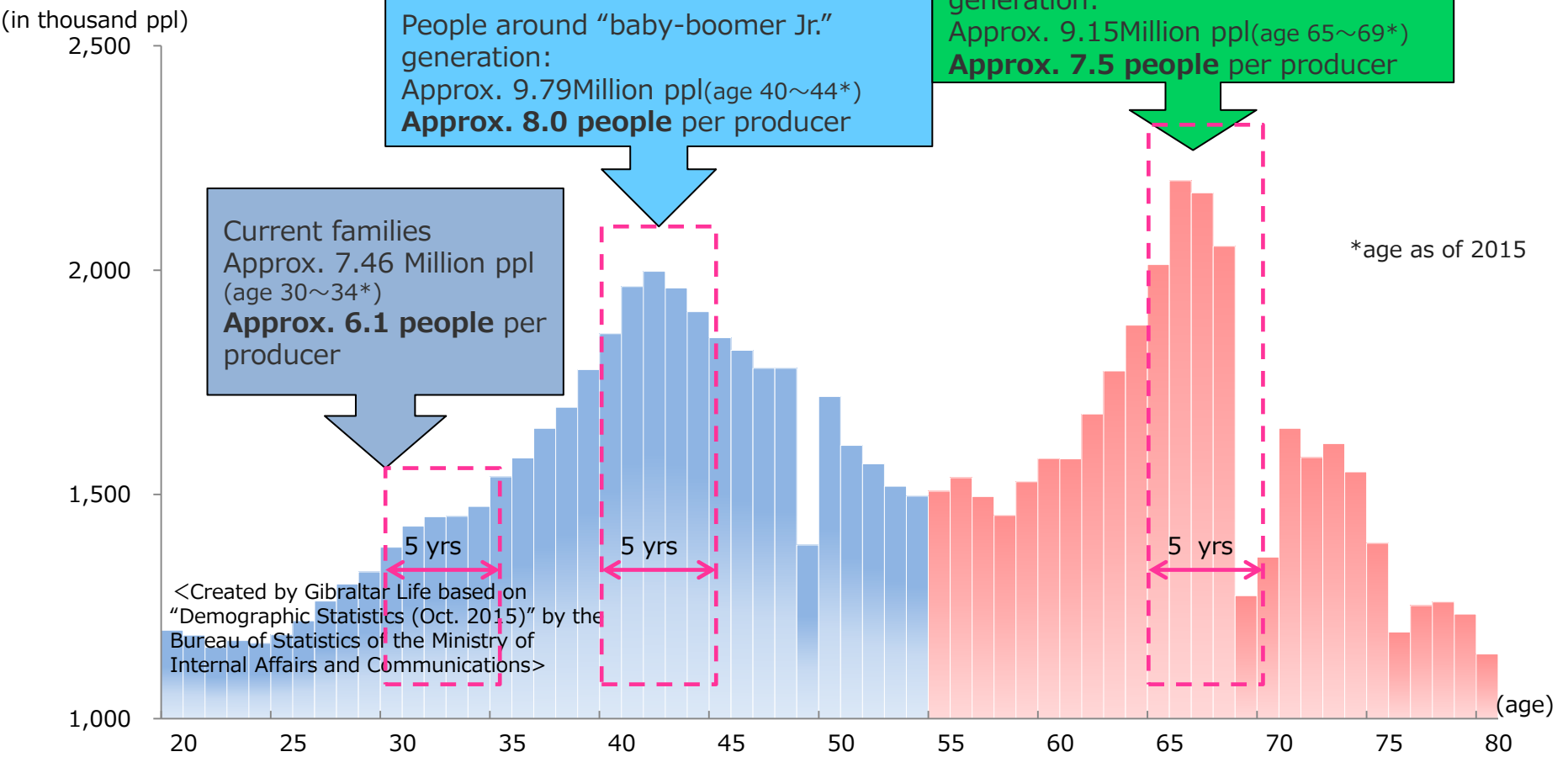


Proposal area

Demographics and the Market

If the population of Japan is divided by approx. 1.23Million agents registered with LIAJ in 2015, then...

◆ Population by age in 2015



The number of people who will start a family in 10 years (age 20-24*) is approx. 6.2Million or **approx. 5.0 people per producer.** Meanwhile, there is a market for **baby-boomer Jr., which is bigger than that of baby-boomers.**

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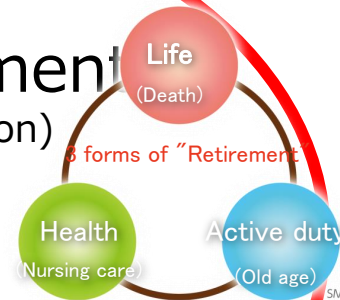
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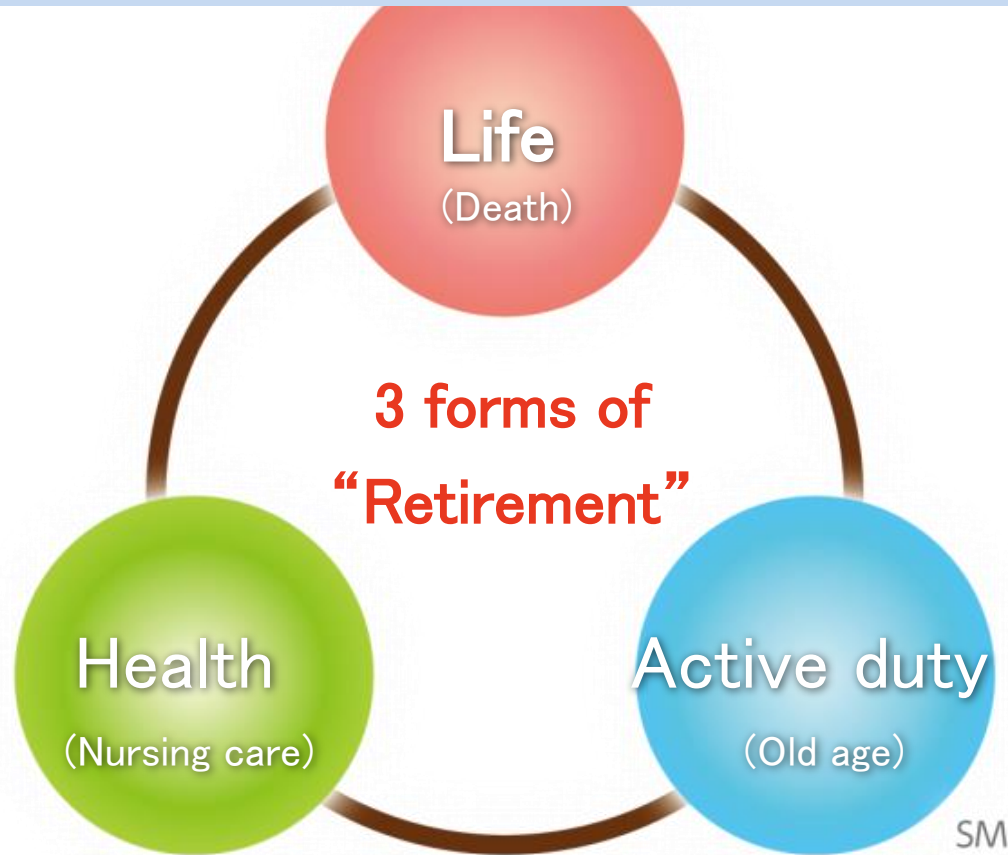
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Proposal area

3 Forms of "Retirement"

In the event of your death, what will happen to the life and future of **your family**?



Should you become in need of nursing care, how will your life change? What will be the burdens on **your family**?

With increasing life expectancy, can you enjoy an abundant post-retirement life without putting any burden on **your family**?

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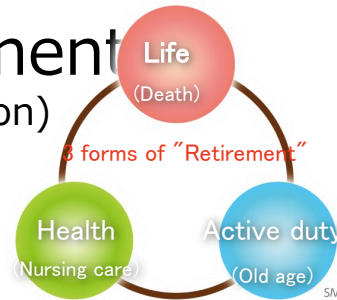
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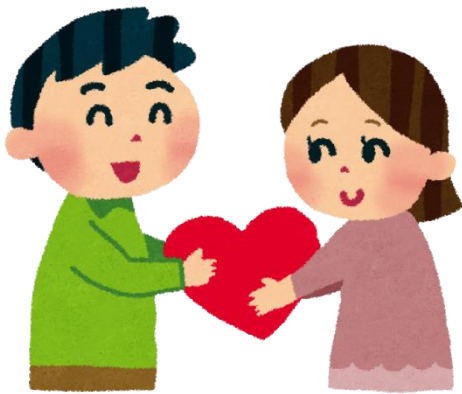
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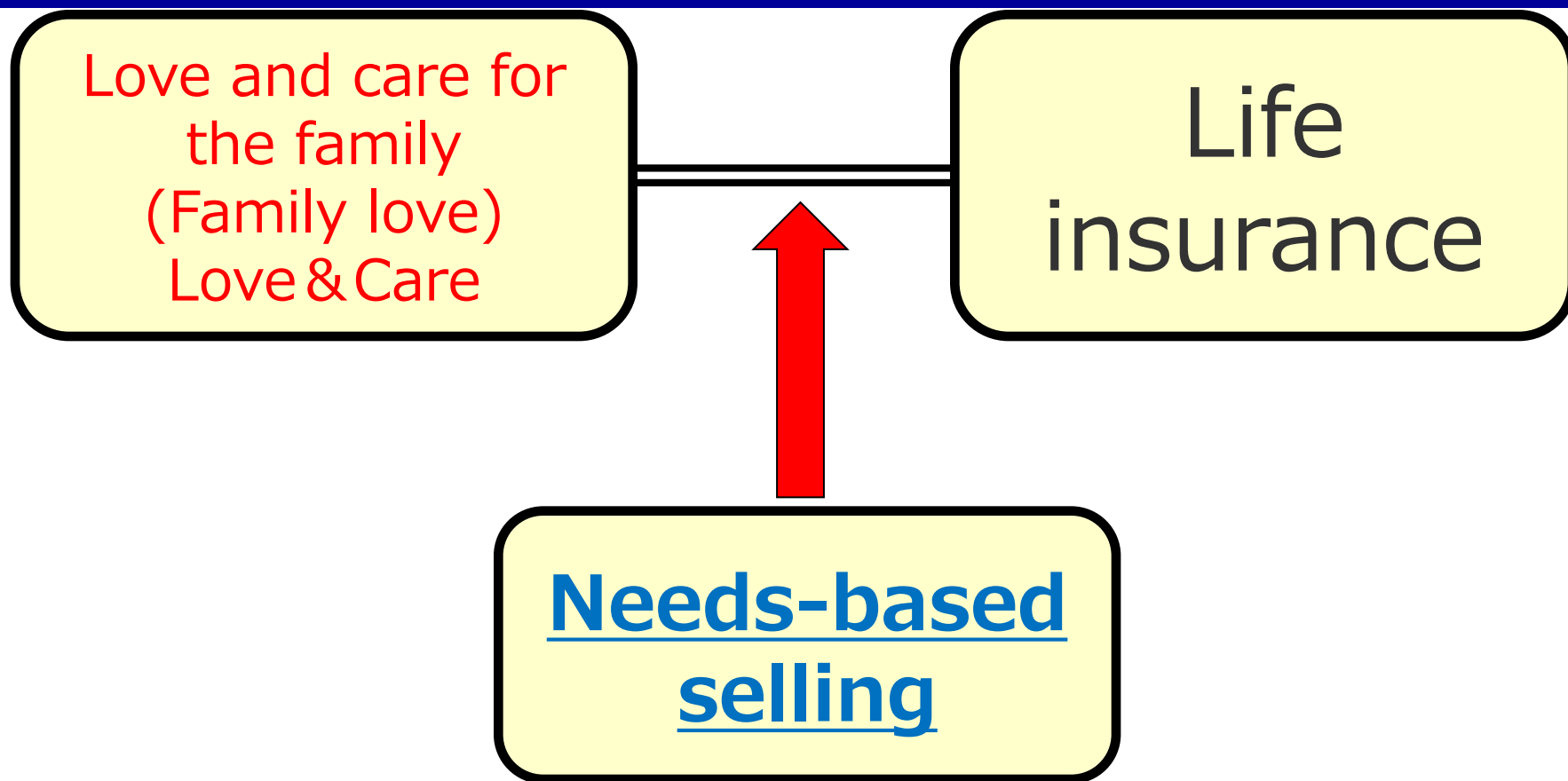
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Proposal area

Customer's Love and Care for the Family





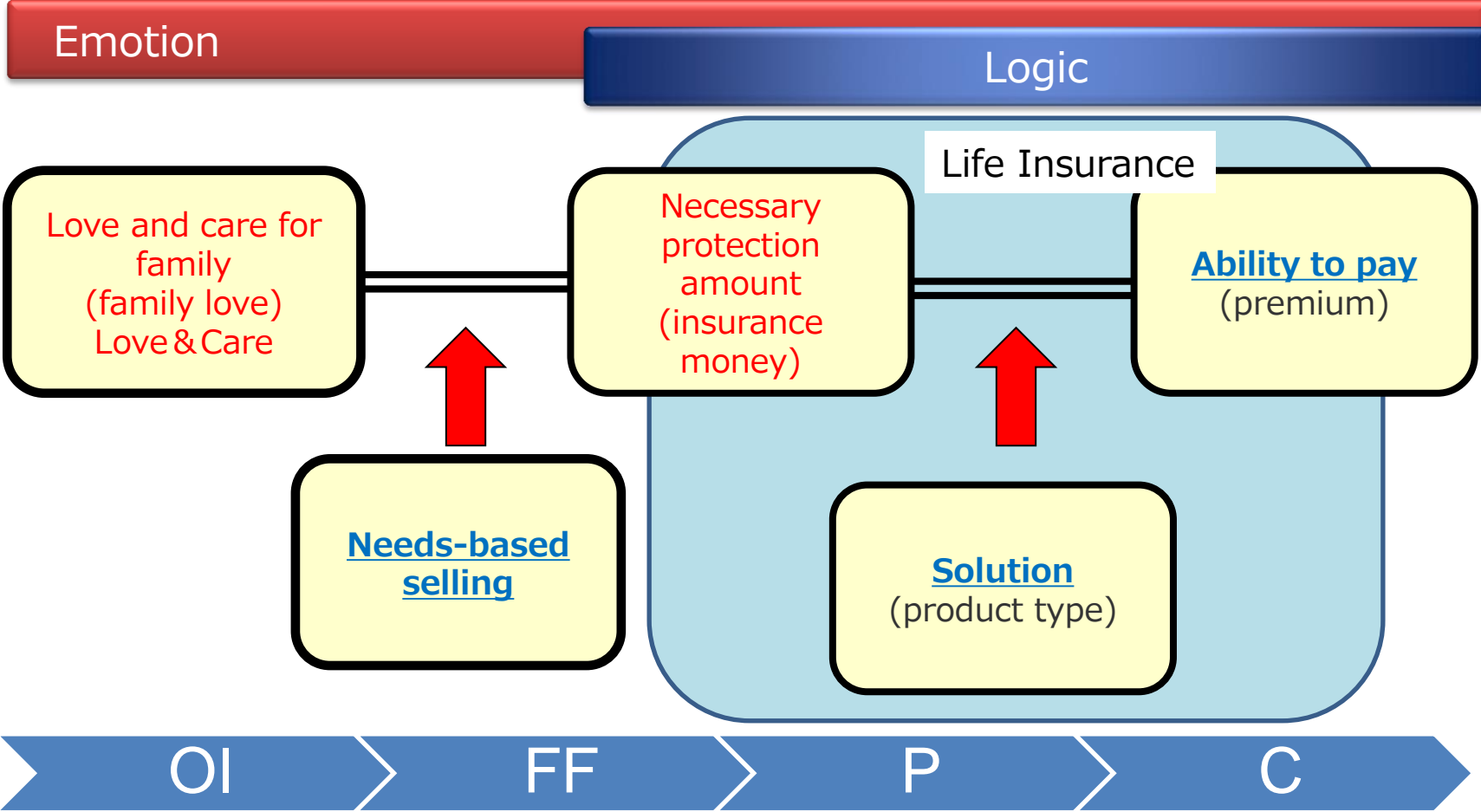
Needs-based selling serves as a bond that connects each customer's love and care for the family with life insurance.

Appeal to customers' emotions by employing logic

- Given that the logic of life insurance is very clear, the explanation tends to become too logical.
- In general, however, appeals to emotion tend to **move people's hearts more readily** than appeals to logic or reason.
- Materials and statistics may support the explanation, but they are not strong enough to serve as a determining factor.
- Customers makes a decision when we touch their heartstrings.

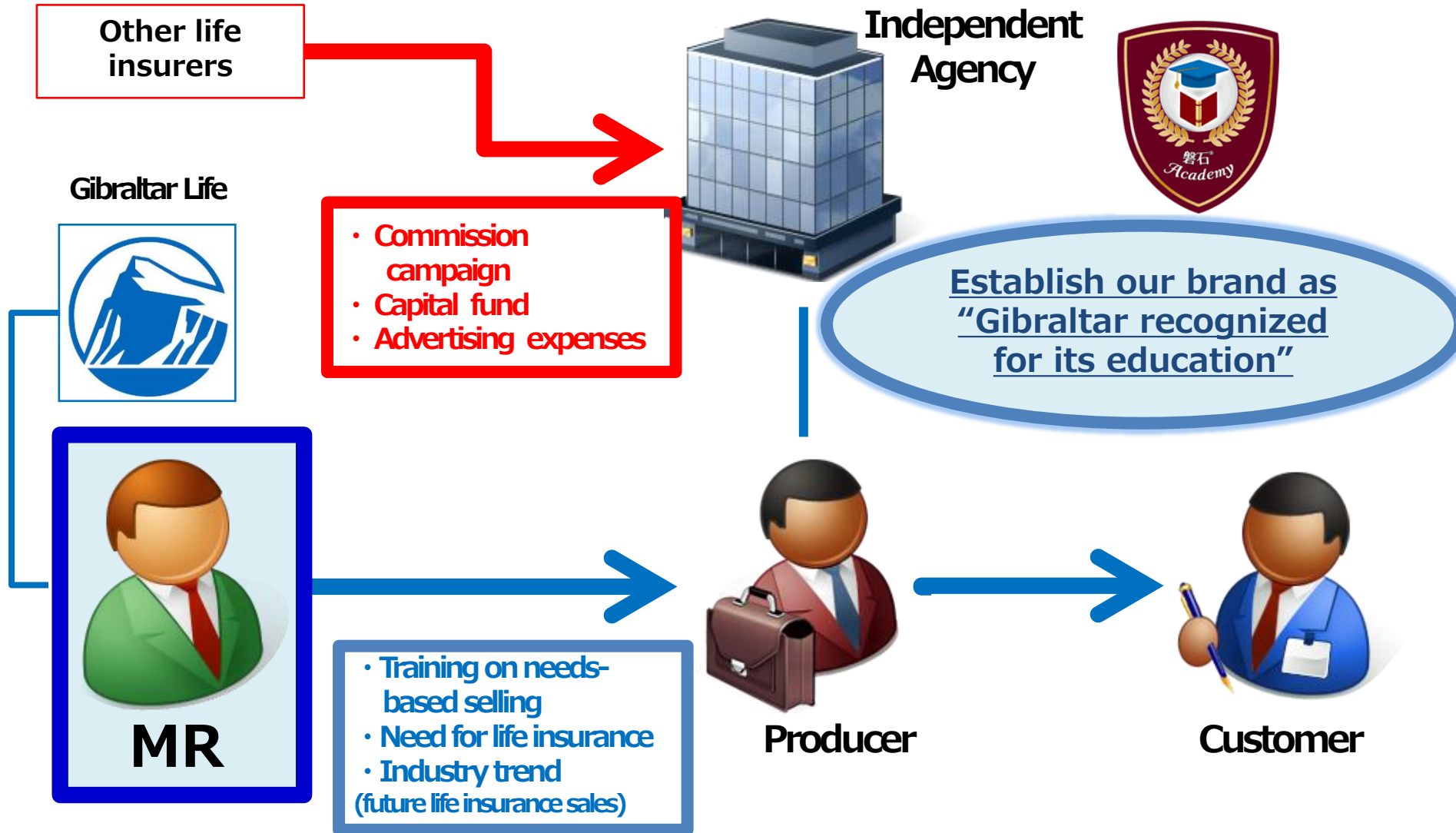


It is important to strike a balance between eliciting customer's emotions and employing logic.



OI (Opening Interview) ⇒ Introduction
FF (Fact Finding) ⇒ Drive needs
P (Presentation) ⇒ Solution
C (Closing) ⇒ Decision making

Our Differentiation Strategy



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