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G1: Life Products: What can the UK learn from Asia

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Agenda

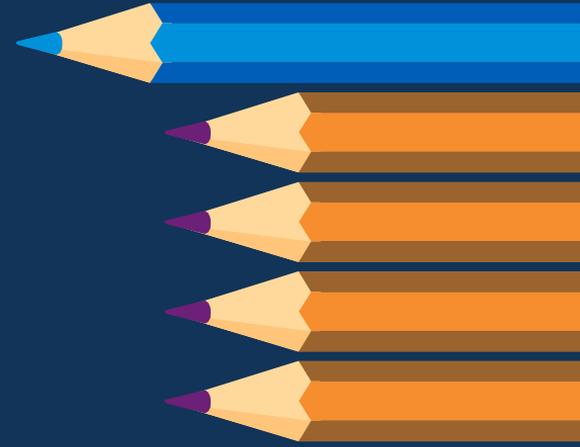
Introduction

The life insurance market and products in Asia

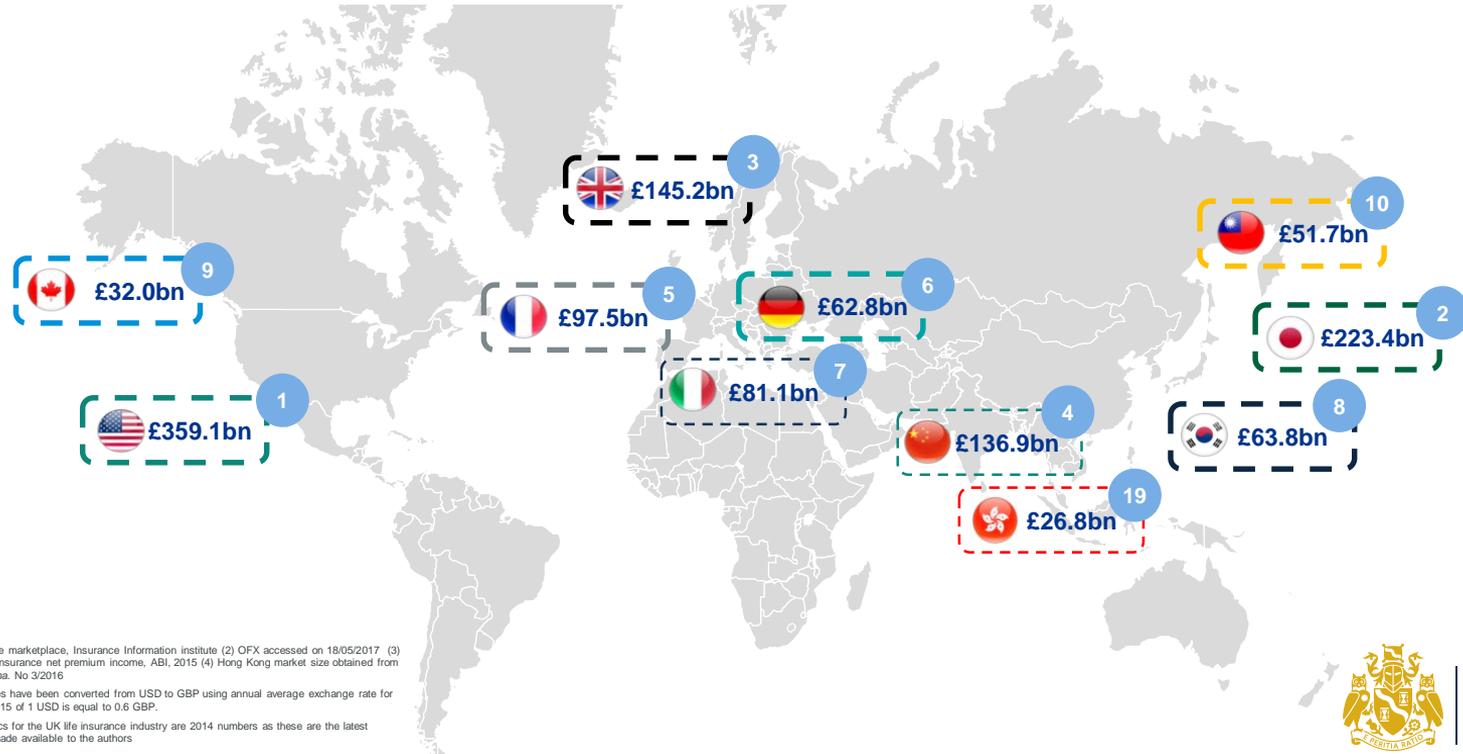
The life insurance market and products in the UK

Contrasts and comparisons between the two markets

What can be learned?



Market size



Source: World insurance marketplace, Insurance Information institute (2) OFX accessed on 18/05/2017 (3) UK long-term insurance net premium income, ABI, 2015 (4) Hong Kong market size obtained from Swiss Re. *Sigma*. No 3/2016

Notes: (a) Market sizes have been converted from USD to GBP using annual average exchange rate for the year 2015 of 1 USD is equal to 0.6 GBP.

(b) Key statistics for the UK life insurance industry are 2014 numbers as these are the latest numbers made available to the authors



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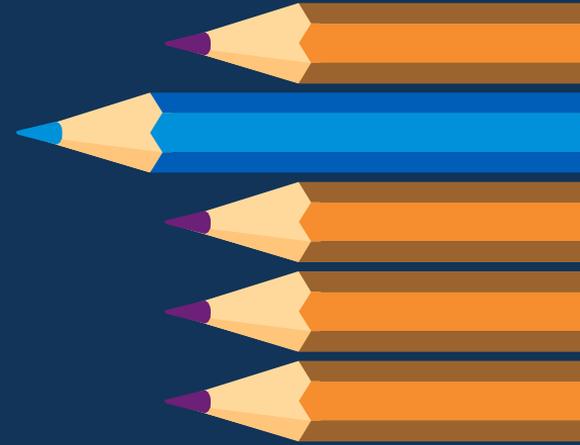
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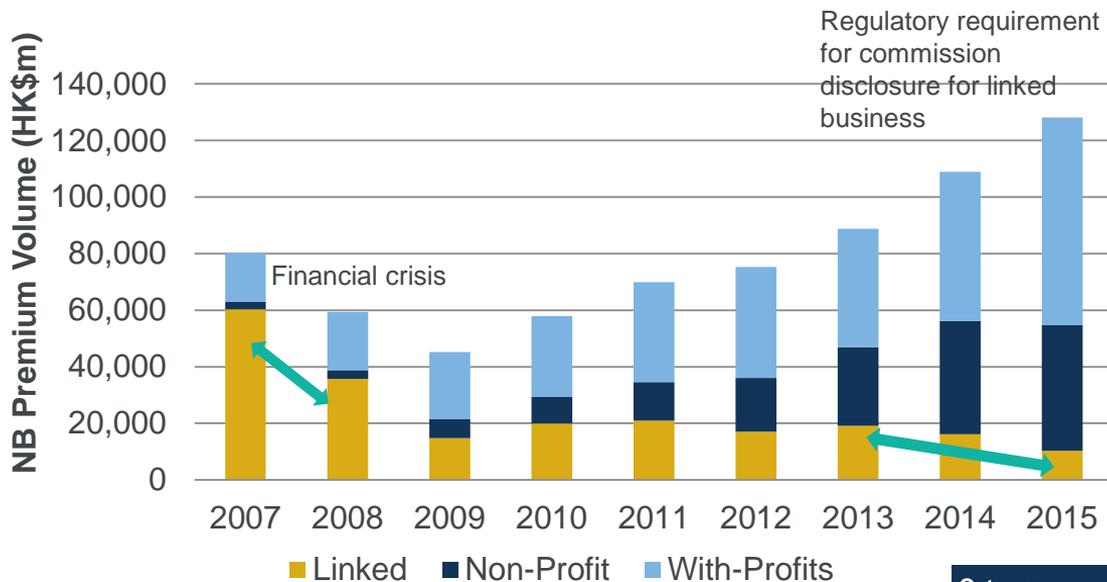
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Evolution of Product Range – HK



- Hong Kong more focussed on savings products (tangible benefits, low perception of mortality/ morbidity risk).
- Typical products include Endowments, Whole of Life, Term and Universal Life products.
- Customers perception is that the probability of death/illness is low and they are wealthy enough to withstand a diagnosis of a cancer/illness.

Category	2007–2015 CAGR
Linked	-20%
With-profits	+20%
Non-profit	+42%

Source: Insurance Authority, Hong Kong

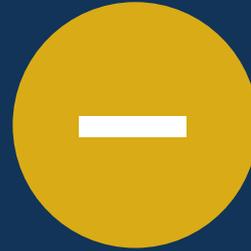


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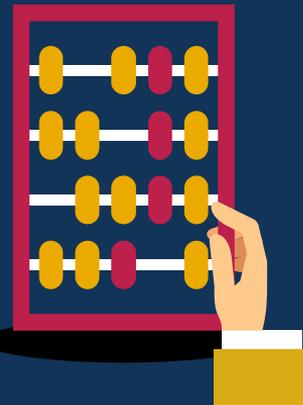
HSBC/Asia today



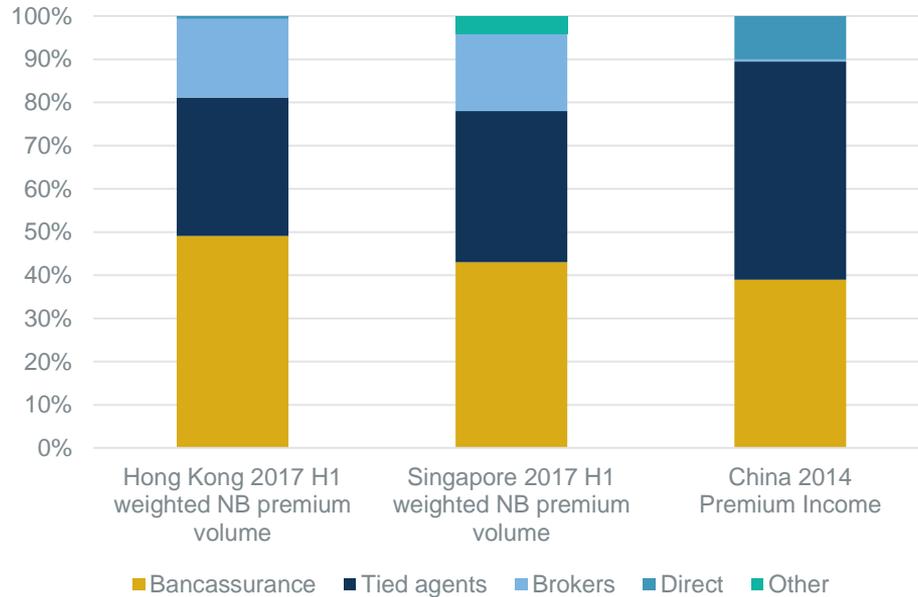
- **Participating business is thriving** as consumers are heavily focussed on savings.
- There have been **no negative media** or mis-selling scandals for participating business. Insurance providers have maintained a good reputation in the market.
- **Healthy profitability margins** have been achieved until recently.
- **Strong GDP growth and increased urbanisation** is fuelling insurance demand.



- **Pure protection products are not popular** in the market. Protection products need to have a savings element (e.g. RoP) or other tangible benefit.
- **Not much post retirement solutions** but this is evolving.
- **Commission disclosure required for Unit Linked business only (HK)**



Distribution channels



- The majority of Hong Kong and Singapore Life Insurance sales are through the bancassurance channel
- For China, the Tied Agents channel is the largest with a 50% share

Source: (1) Hong Kong data from Hong Kong Insurance Authority
(2) Singapore data from Life Insurance Association Singapore
(3) China data from the "Annual Report of the Chinese Insurance Market 2015", CIRC



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Recent Market Developments in Asia



1. Product Design reactive to market conditions (1/2)

Example of par product evolution

Launch Year	2011	2014	2017
Product Type	Deferred Annuity	Deferred Annuity	Whole of Life
Growth asset %	0%–20%	0%–40%	50%–70%
Guaranteed element	<ul style="list-style-type: none"> guaranteed annuity payment Guaranteed cash value 	<ul style="list-style-type: none"> guaranteed annuity payment Guaranteed cash value 	<ul style="list-style-type: none"> Guaranteed cash value Option to lock-in portion of total Cash Value after 20 yrs
Non-guaranteed element	Dividends that could be accumulated in the product	Dividends and Terminal bonus	Terminal Bonus only

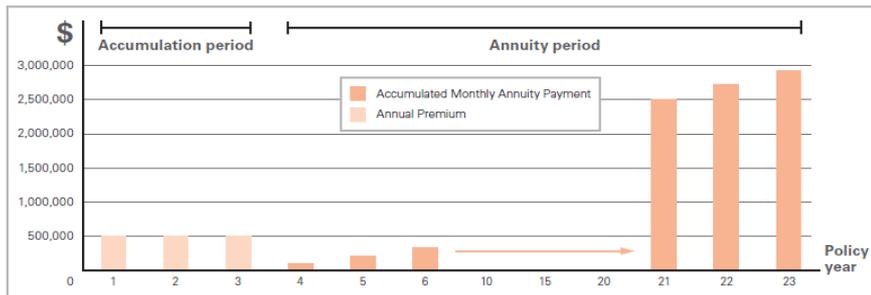
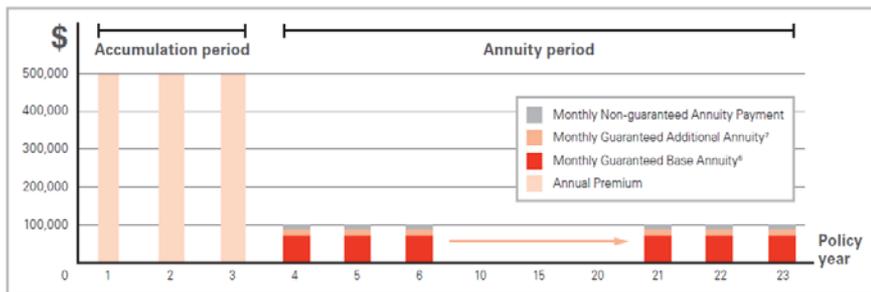
Growth potential for the customer / Capital efficiency through de-risking

But where does the market then go? What is the long term future for par?



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A popular par product design in Hong Kong



A par deferred annuity with flexibility on how the income is paid:

- a) on a monthly basis a guaranteed annuity is paid immediately after the premium payment period. The guaranteed amount is topped up with a non-guaranteed amount or “dividend”; or
- b) the guaranteed annuity and accrued dividends are rolled up with interest and accumulated until plan matures.

A guaranteed cash value (increased by a non-guaranteed amount) is available at any point in time.

Customers value the guaranteed components of the plan and the option to roll over the annuity income and dividends at an attractive interest rate.



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1. Product Design reactive to market conditions (2/2)

Example of a Comprehensive Critical Illness Protection Plan

Premiums terms varying from single premium to 20yrs.	Death benefit of Sum Assured (less claims paid) plus additional 5% of Sum Assured	Participating Policy which is credited with non-guaranteed policy dividends. Growth assets of 0%–20%.
Level and guaranteed premiums.	Surrender value available.	
Underwritten Life and CI whole of life multiple claims cover		US\$ or HK\$.
Coverage for up to 60 critical illnesses including cancer, heart attack and stroke up to age 99.	Additional coverage of 68 early stage illnesses optional for acceleration of 20% of the Sum assured up to age 85.	Embedded and optional rider benefits available including premium waiver, accidental death & dismemberment and hospital cash, unemployment and payor benefit.
Provides for multiple claims up to 200% of Sum Assured per illness group up to age 85.	Premiums waived once 100% of Sum Assured has been paid.	
Cancer group.	Non-Cancer group includes Cardiovascular, Nervous system, major Organs and other illnesses.	



2. More than just a product...

- As part of the Health and Wellness proposition, HSBC has bundled the ONEdna genetic health test from Prenetics Ltd into the range of protection solutions offered in Hong Kong.
- Customers receive a personalised ONEdna report, a complimentary 30 minute phone consultation to understand the results and access to the ONEdna app where results can be viewed alongside actionable health recommendations tailored for the customer.
- The results are confidential to the customer and are not used for underwriting purposes.
- Other providers also provide similar DNA related benefits.
- AIA offers the Vitality programme similar to the UK.
- Manulife offers a wellness program with premiums discounts depending on the customers average daily number of steps

Health Risk
Your risk of developing 5 common chronic health conditions

- ✓ Heart Disease
- ✓ High Cholesterol
- ✓ Non-Alcoholic Fatty Liver Disease
- ✓ Obesity
- ✓ Stroke

Dietary Sensitivities & Nutrient Profile
How your genes may affect your response to foods and nutrients

- ✓ Carbohydrates
- ✓ Fats
- ✓ Folic Acid
- ✓ Sodium
- ✓ Vitamin B6
- ✓ Vitamin B12
- ✓ Vitamin C
- ✓ Vitamin D

Drug Response
Assess whether over 100 FDA-approved drugs in the following categories are likely to help you or hurt you

- ✓ Cardiovascular
- ✓ Diabetes
- ✓ Psychiatric
- ✓ Commonly Prescribed Drugs
- ✓ Pain
- ✓ Paediatrics
- ✓ Geriatrics

Cancer Risk
Find out your lifetime risk of developing the 8 most common inherited cancers*

- ✓ Breast
- ✓ Colorectal
- ✓ Melanoma
- ✓ Ovarian
- ✓ Pancreatic
- ✓ Prostate
- ✓ Stomach
- ✓ Uterine



3. China leading on innovation



Digital insurance in is booming

- Creating simple products that can be purchased with a few mouse clicks.
- Innovative payments including the use of mobile apps to facilitate premium payments.
- Social media and mobile apps allows for regular engagement with customers.
- Zhong An is China's 1st digital only insurer. Founded in 2013 and is now valued at more than \$8bn with over 500m customers. It has over 300 products including motor, travel, accident, fraud and health insurance.



Healthcare and Longevity

- Life companies developing retirement communities in major locations.
- Development of medical and health management centres to promote better health management.



Regulator

- The Chinese market and regulator allows insurance companies to raise capital easily and provides greater freedom for new initiatives. The Regulator takes quick action where required.
- Promoting long term insurance products.



Future Opportunities and Challenges

Opportunities

- Protection gap and low insurance penetration.
- Ageing population and post retirement solutions.
- Growing middle class with rising income in Asia.
- Growing awareness of health and wellness in Asia.



Challenges

- GN16
- Cap on illustration rates
- RBC
- IFRS 17
- Increasing competition in the market.



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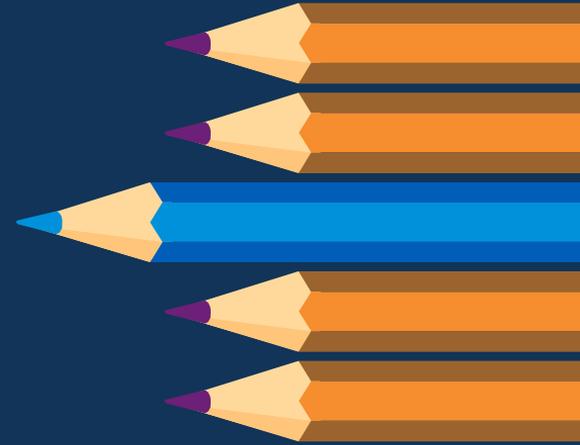
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The life insurance market and products in the UK

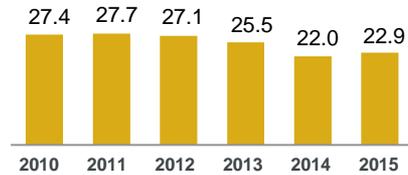
Contrasts and comparisons between the two markets

What can be learned?



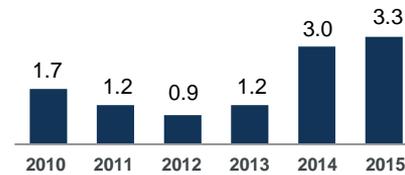
Major product segments in the UK

Life Savings – Gross written premiums 2010 – 2015 (£bn)



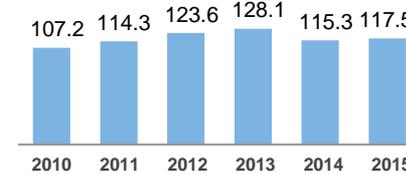
The life savings market has experienced a gradual decline since 2010 but rebounded slightly in 2015.

Annuity – Gross written premiums 2010 – 2015 (£bn)



The individual annuity market has struggled following Pension Freedom reforms, with a number of players pulling out of the market. However, the bulk annuity market continues to register strong growth, and is forecast to be remain attractive in the long run.

Pensions – Gross written premiums 2010 – 2015 (£bn)

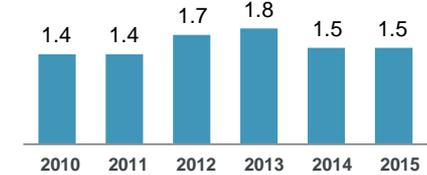


Pensions, which is the largest segment of the UK life insurance industry, is expected to increase significantly following the government’s auto-enrolment reforms.

Segment breakdown

Life savings	16%
General annuities	2%
Pensions	81%
Protection other	1%

Protection – Gross written premiums 2010 – 2015 (£bn)



The protection market has seen its share decline since 2013, and is expected to remain fairly stagnant, due to a decrease in the volume of policies being sold.

Source: (1) Timetric; (2) OFX accessed on 18/05/2017; (3) Auto-enrolment pensions: all you need to know, The Guardian; (4) ABI pension freedom statistics one year on factsheet, ABI.

Notes: (a) Market sizes have been converted from USD to GBP using annual average exchange rate for all the years.



Business models in the UK

Mixed Financial groups

- Use UK books to fund operations
- Benefit from diversification
- Expansion in overseas markets



Wealth managers

- Dependent on fee from Asset Management
- Operate on low margins



Protection providers

- Typically mono line term insurance providers
- Shift towards customer centric propositions



Annuity providers

- Focus on bulk annuity deals
- Often reinsure longevity risk



Closed book consolidators

- Highly cash generative
- Rely on acquisitions to maintain economies of scale



Strategies adopted by key players in the UK

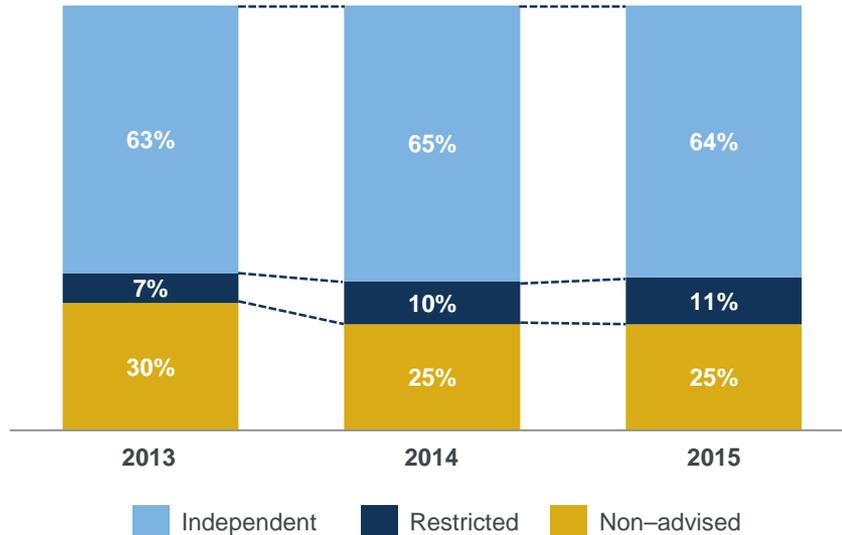
Company	Strategic focus
	<ul style="list-style-type: none"> Focus shifting away from life insurance to asset management. Merger with Aberdeen Asset Management created the UK's biggest asset manager.
	<ul style="list-style-type: none"> The only life insurer which is part of a large bank and seeking to develop a retail-orientated business, leveraging the Group's relationships. Focus on increasing scale across its four core product segments, Protection, Corporate Pensions, Retirement, and Bulk Annuities.
	<ul style="list-style-type: none"> Aim to be a full-service life business by increasing scale and deepening presence in its core markets: UK, France, Poland and Canada. Simplify or restructure presence in non-performing markets. Utilise technology to innovate ideas and services.
	<ul style="list-style-type: none"> Leading provider of Protection and Annuities. Developing asset management capabilities. Mass market scale player with typically low price points.

Company	Strategic focus
	<ul style="list-style-type: none"> Focus on emerging markets (e.g. Asia) to deliver growth. Gradual shift away from the UK market, however, focuses strongly in areas where its still present (e.g. with profit products).
	<ul style="list-style-type: none"> Mutual business, which is member-orientated and acts as a consolidator for small mutual businesses. Focus on providing a complete set of life insurance solutions to its members, across both advice and manufacturing.
	<ul style="list-style-type: none"> Gradual shift away from Life and Pensions provider, to a Retirement and Platform business. Acquired CoFunds from Legal and General to merge with its own platform and increase scale.
	<ul style="list-style-type: none"> Focus on becoming on a Pensions and Investments specialist. Core segments include Corporate Pensions, Protection and Platform Investments.



Distribution channels

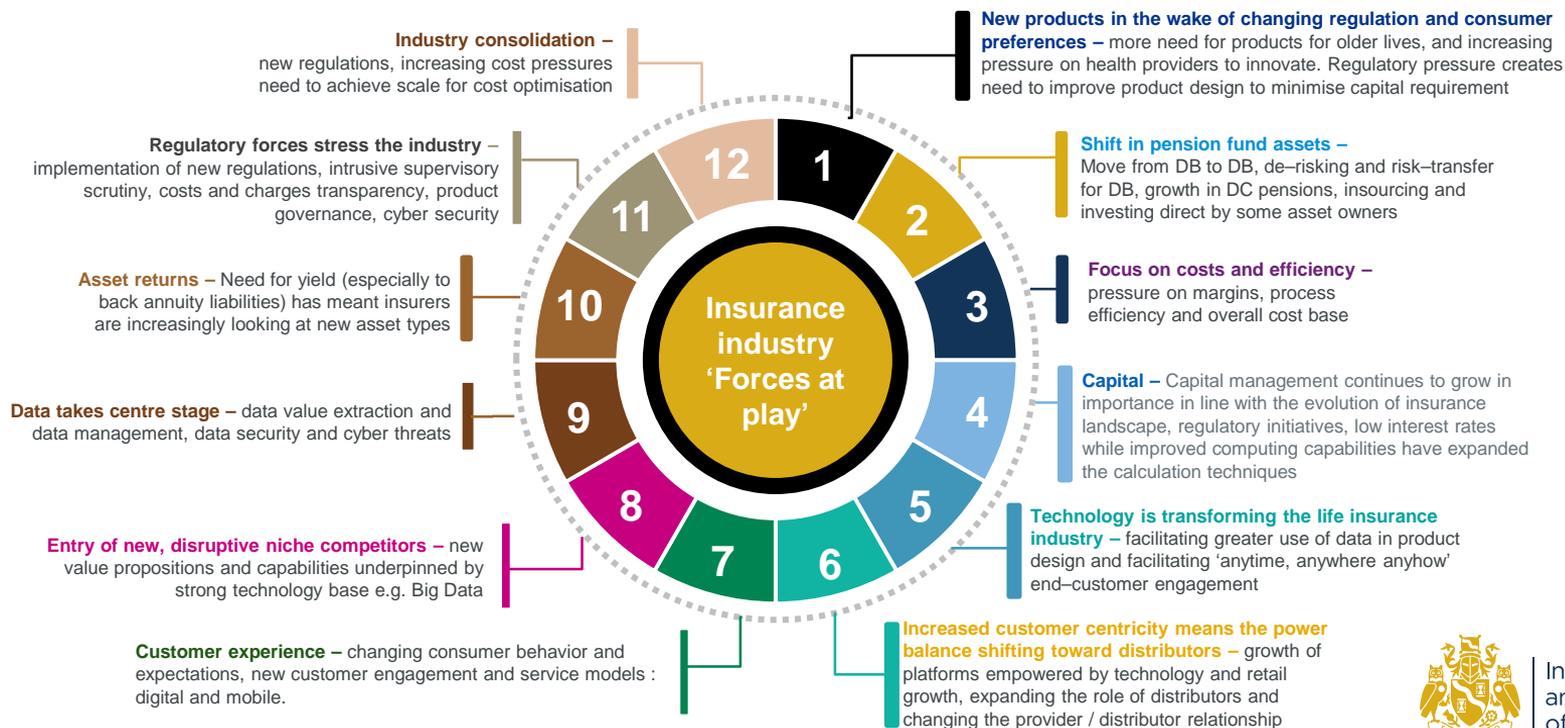
Distribution of long-term products by new business premiums⁽¹⁾



- The majority of UK Life Insurance sales are through the Independent Financial Advisers channel

Source: (1) ABI; (2) KPMG Analysis.

Recent market developments



Challenges – Regulations

Culture and conduct RDR

- On-going focus to ensure firms act fairly toward customers; properly manage operations, incentives and remunerations, and relations with suppliers, intermediaries and the companies in which they invest client portfolios.



Product governance and disclosure PRIIPS RDR Pensions reform

- On-going concern around the high complexity of products that customers cannot understand and the need to ensuring retail investors understand the product benefits and risk-reward profile
- Increased consumer choice and access to pensions savings.



Costs and charges RDR

- Reforms to the disclosure and calculation of fees and other costs, ensuring customers get a fair deal; and the banning of commission on savings based life insurance products.



Fiduciary standard RDR

- Higher requirements for financial advisers and intermediaries to act in the “best interest” for the clients and for product manufacturers to ensure the suitability of the product for the end-customer.



Cybersecurity EU Data protection

- Increased attention on cyber security controls and protection of data to reduce the cost and impact of loss of personal data.



Systemic risks & capital adequacy IFRS17 SII

- Focus on capital adequacy, diversification of risk, leverage and liquidity, greater stress testing.



Technology Conduct

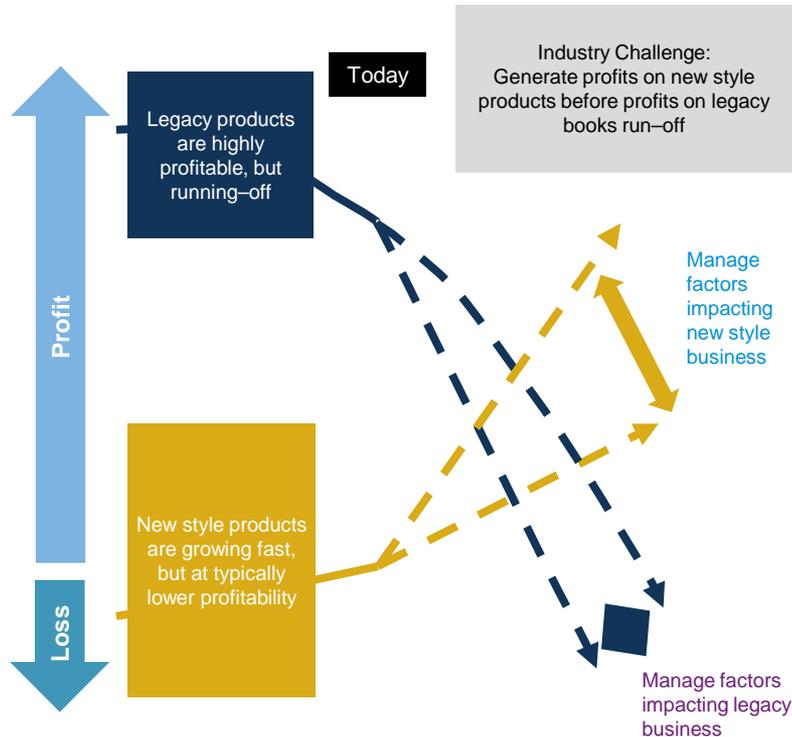
- Considerations to extend regulatory perimeters and definition of regulated advice to govern new distribution channels and methods, such as robo/automated advice, fintech and blockchain.



Source: 'Evolving Investment Management Regulation: responding to closer scrutiny', KPMG, 2016



Opportunities and challenges on product design



Product considerations



Future engagement and service models



So what?

- Non-financial retailers and service providers like Google and Amazon are setting the standards for customer engagement and service.
- Changing client needs and expectations will impact the entire business; product development, pricing, distribution, client segmentation and marketing.



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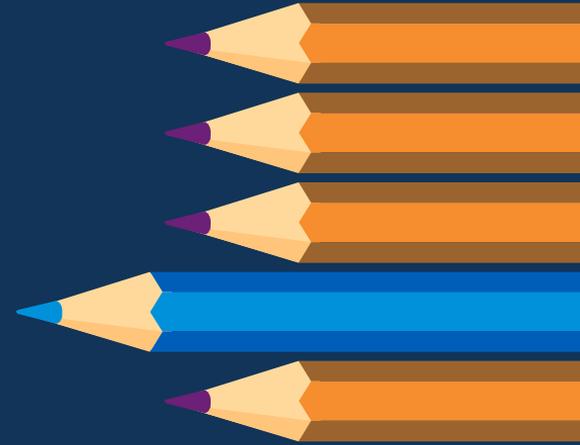
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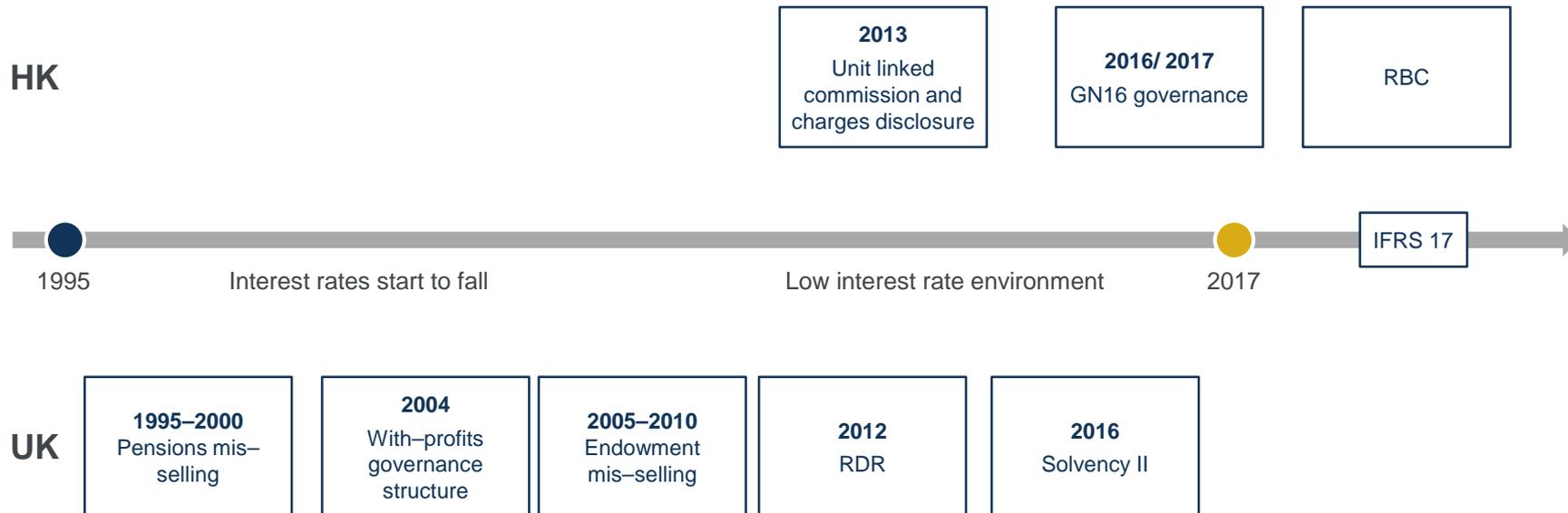
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Contrasts and comparisons between the two markets

What can be learned?



Comparison of drivers of change timing in UK and HK



Contrasts and comparisons between the two market

Asia

- With–profits business is still growing.
- With–Profits design is still very popular.
- There are various types: HSBC; Prudential; AIA.
- Extensive range of products, with more different product variations.
- Savings market is still very significant.
- They are more profitable than the UK products.
- The market in Asia has been experiencing the same issues as the UK in terms of low interest rate.
- Unit–Linked is less popular (not helped by the recent regulatory change).
- These products evolving and react quickly to market conditions and needs.
- Product innovation in product design.

UK

- With–profits business has been in decline, but can it be revived?
- A more regulated market.
- Capital and compliance costs are high.
- Competing with tax exempt savings products such as ISA.
- Very few insurance companies offer insurance ISA (Forester Life?)
- UK focus shifting away from with–profits.
- Key players sought to focus on niche product types.
- Many no longer offer a full range of products.
- Implications on customer and brand loyalty.
- Is the market too fragmented?
- Should the more established player do more to re-invigorate their product suites?



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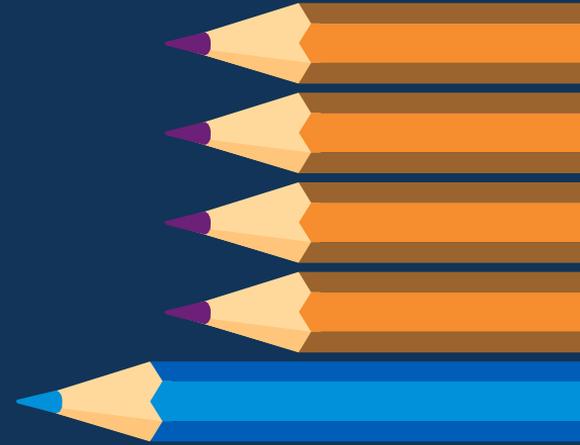
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Questions

Comments

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