

Life Industry Changes in Asia

**Caroline Bennet
Jeremy Porter**

IAAust BIENNIAL CONVENTION 2003



Introduction

- **Update on prior paper to 2001 Convention**
 - Provided overview on many markets
- **Current paper focussed on changes in selected markets from 3 perspectives**
 - Regulatory
 - Distribution
 - Transaction activity



Introduction ctd.

- **Conclude with consideration of future change**
 - **Growth Potential**
 - **Trend to Funds Management**
 - **Transaction Activity**
 - **Asset Liability Matching**
 - **Regulatory Change**



Market Metrics

Country	Life Premium	Life Premium as % GDP	
		1991	2001
	US billion		
Japan	221.6	5.5	5.2
China	15.6	1.1	1.3
Hong Kong	7.3	3.4	4.4
Taiwan	20.9	5.8	6.3
South Korea	39.7	8.6	8.7
US	443.4	4.2	4.4



Selected Markets

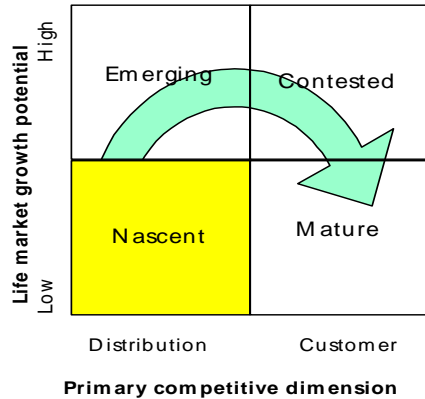
- Paper focuses on:

- Hong Kong
- China
- Taiwan
- South Korea

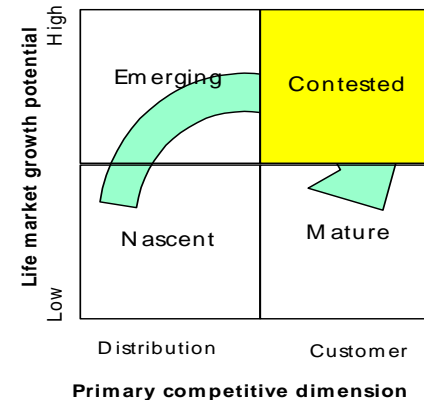
Greater China



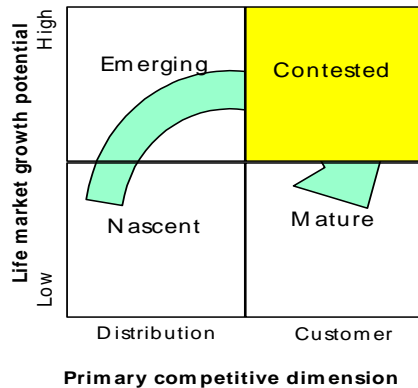
Selected Markets – 2001 View



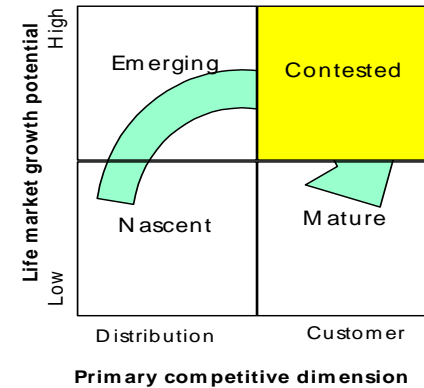
China



Hong Kong



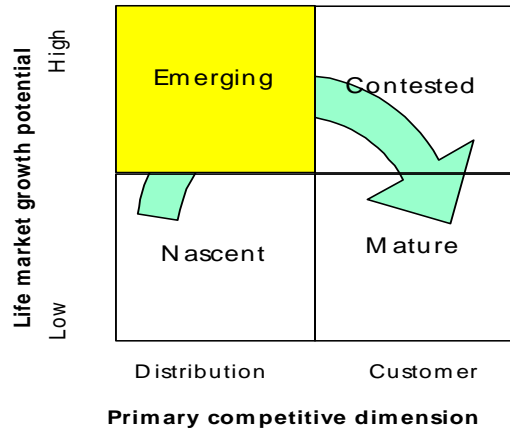
South Korea



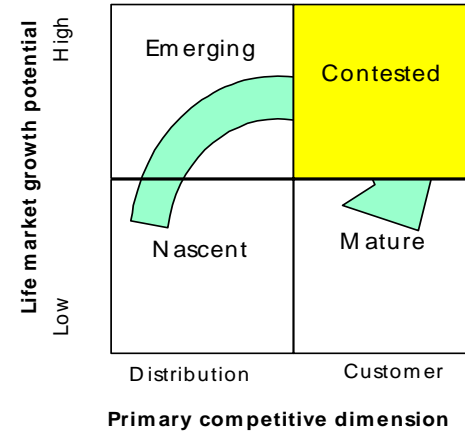
Taiwan



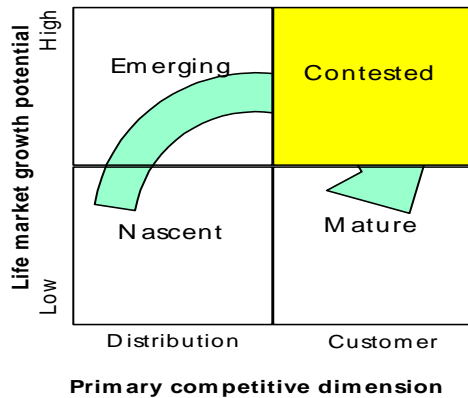
Selected Markets – 2003 View



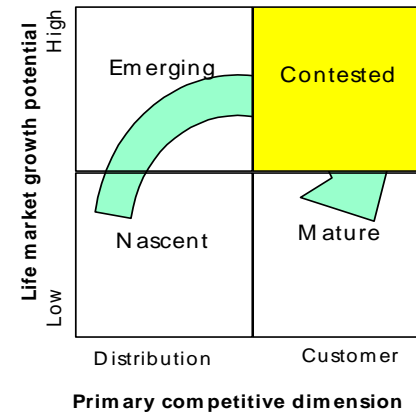
China



Hong Kong



South Korea



Taiwan



Key Market Issues



Hong Kong – Key Issues

- **Economy continues to struggle**
- **SARs epidemic exacerbates existing economic problems**
- **Major regulatory activity relates to agency regulation**
 - **Degree of success yet to be seen**
- **Bancassurance success starting to occur**
 - **Traditional channels expected to remain important**



Taiwan – Key Issues

- Significant “hands on” regulatory involvement in recent years
- New solvency approach coming
- Increased international investment limits
- Establishment of Financial Holding Company structures
- Many new distribution channels emerging strongly:
 - Bancassurance
 - Direct mail/telemarketing



China – Key Issues

- **Impact of WTO agreement**
 - Increased access for foreign insurers
- **New insurance law 1 January 2003**
 - Introduced Appointed Actuary requirement
- **Agency distribution dominant**
 - Issues include agent quality and poaching
- **Major life insurance activity includes demutualisation of China Life and listing of Ping An Insurance Company**



South Korea – Key Issues

- Financial sector restructuring significant
 - Regulator has driven substantial consolidation among life insurers
- Financial reporting does not allow true picture of financial position of life insurers to emerge
- High degree of regulatory change, including bancassurance regulation
 - To be seen whether will succeed in highly regulated introduction



Looking Forward....

...in a World of Uncertainty



Future Growth Potential

- **Bancassurance**
 - Will it work in Asia?
- **Economic Growth**
 - SARS impact
- **Competition from other institutions/vehicles**
- **Agency force regulation**
- **Government policy**
 - Impact of Chinese government policy on savings



Regulation

- **Trend to RBC requirements**
 - **Solvency issues**
- **Distribution regulation**
 - **Reduced part time sales force**
 - **Increased quality**
- **IAS impact**



Funds Management Trend

- Increasing proportion of savings flowing to FM
- Expectation of trend continuing
- Current levels significantly below those observed in US, Australia



ALM

- **Companies only beginning to focus on ALM issues**
- **Product issues**
 - **Low returns in some markets not sufficient to meet guaranteed returns**
 - **Lack of structure to adjust bonus scales**
- **Investment issues**
 - **Domestic insurers typically more aggressive**
 - **Lack of available assets**
 - **Investment restrictions**



Transaction Activity

- **Forces exist for significant consolidation:**
 - **Pressure on European insurers**
 - **Exit? Focus? Other options?**
 - **Financial distress due to solvency requirements**
 - **Small scale foreign operations across region**
 - **Regulator driven activity**



Summary

- **Distribution**

- Significant bancassurance activity initiated in all selected markets
- Agency continues to represent lion's share of distribution

- **Regulation**

- All markets have undergone regulatory change
- China and Taiwan have shown some signs of relaxation in regulations
- Korea remains tightly controlled
- Hong Kong regulator seeking to cut down on agent misconduct issues



Summary

- **Market consolidation**
 - Still many more potential deals than actual deals completing
 - Some regulators encouraging domestic consolidation in a bid to improve financial strength of local players

