



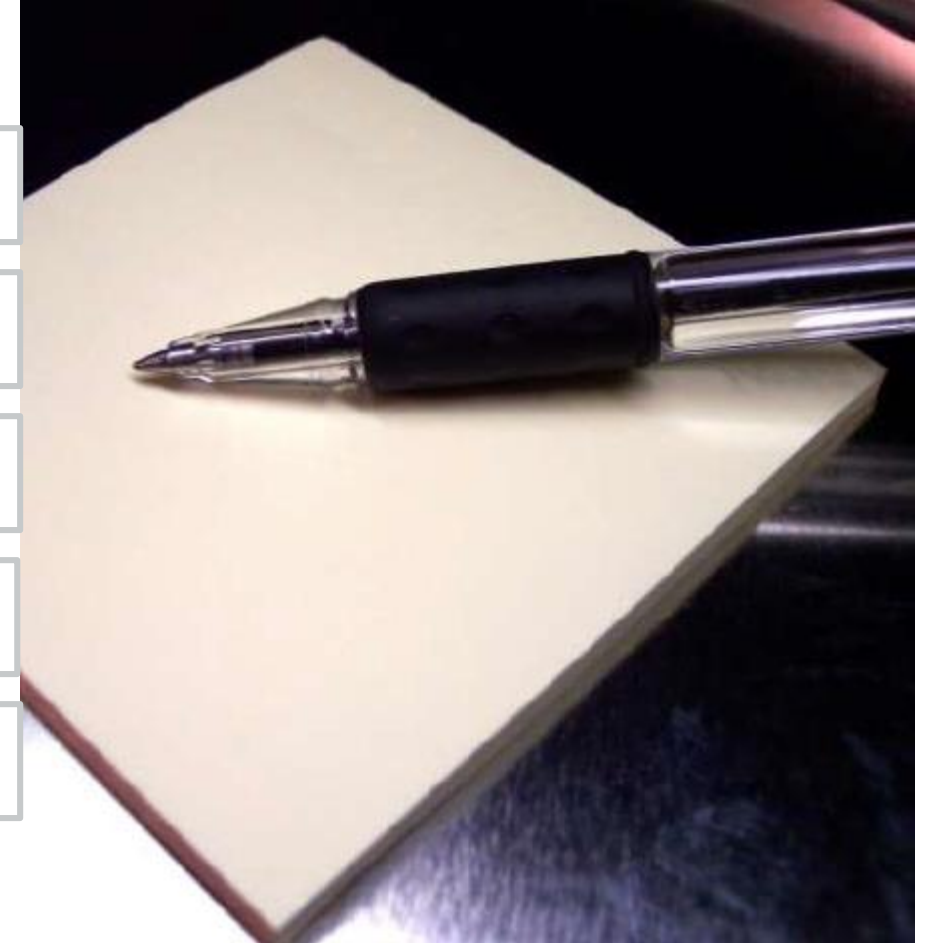
Product Trends in Life Insurance

PAI Congress 2017

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26 October 2017

Agenda

- 1 Current product landscape in Indonesia
- 2 What could we expect going forward?
- 3 Implications to actuaries
- 4 How can actuaries prepare?
- 5 Q&A



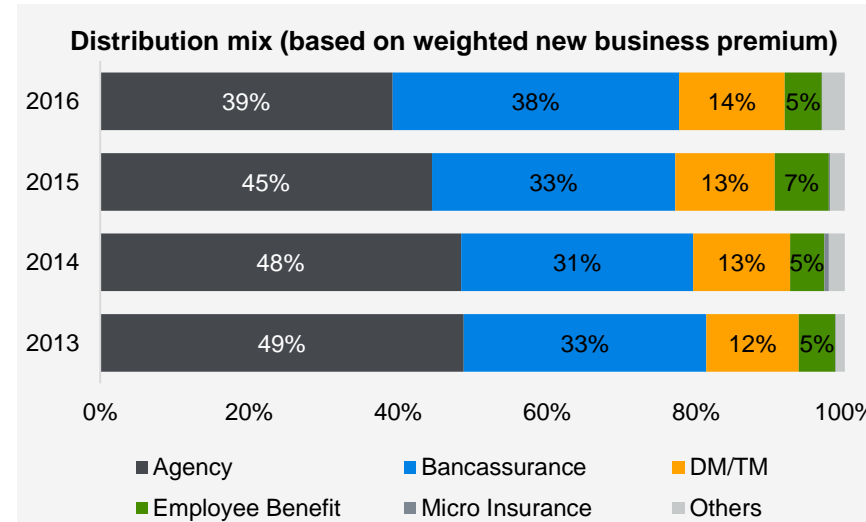
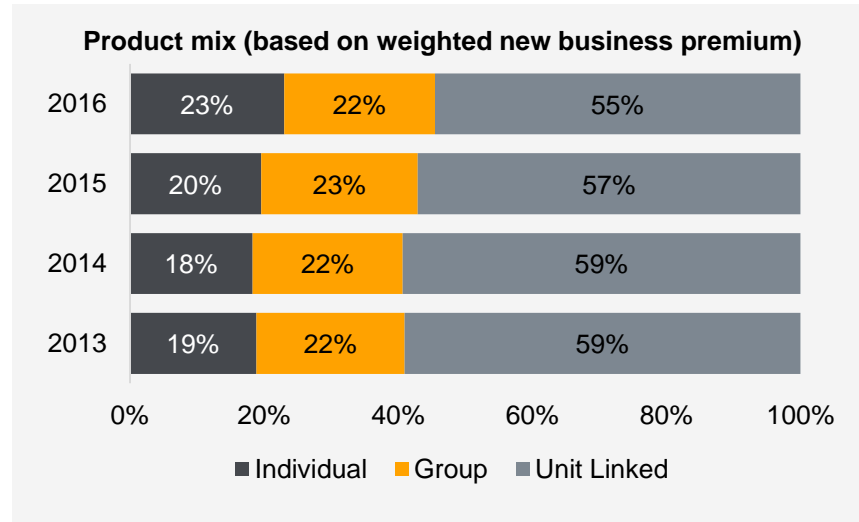
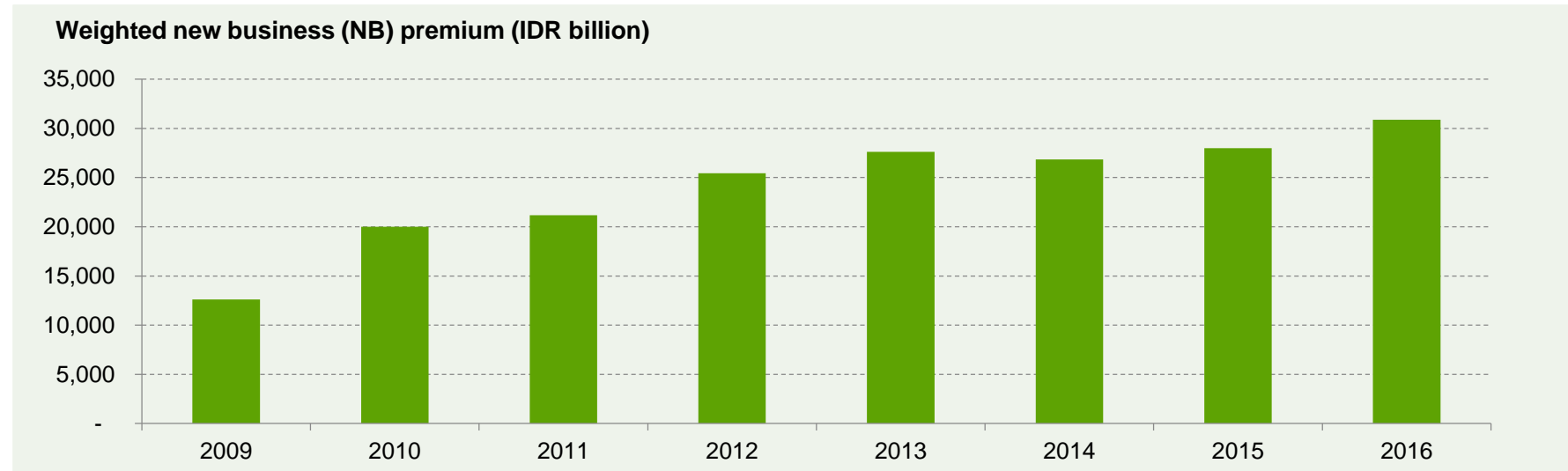


IT TAKES VISION

1

Current product landscape in Indonesia

Overview of life insurance market



- Sustained expansion of the life insurance market, with a compound annual growth rate weighted new business premium of 14%, in the period from 2009 to 2016.
- Investment-linked products continue to be the most popular product category, although sales have grown at a slower pace in recent years than traditional products
- Bancassurance poised to overtake agency

Source: AAJI

Recent observations on products

Variations of
Unit-linked

Focus on
yields

Seeking
guarantees

More
medical
coverage

Variations of Unit-linked

- Emergence of back-end loaded unit-linked and hybrid unit-linked variants to cater to different market segments

Front End Load

- Deemed to be prioritising protection as compared to investment
- Very low allocation to investments, can be as low as 0% in the first year
- Typically sold through agents

Hybrid

- Balanced allocation between protection and investment.
- Medium to moderate allocation to investments
- Charges are typically applied for withdrawals
- Typically sold through bancassurance channel

Back End Load

- Deemed to be prioritising investment through 100% allocation to investments in the first year (typically), while still receiving protection benefits
- Charges are typically applied for withdrawals
- Typically sold through bancassurance channel

Focus on yields still prominent



Policyholder return which are typically higher than time deposits offered at banks (can be guaranteed)

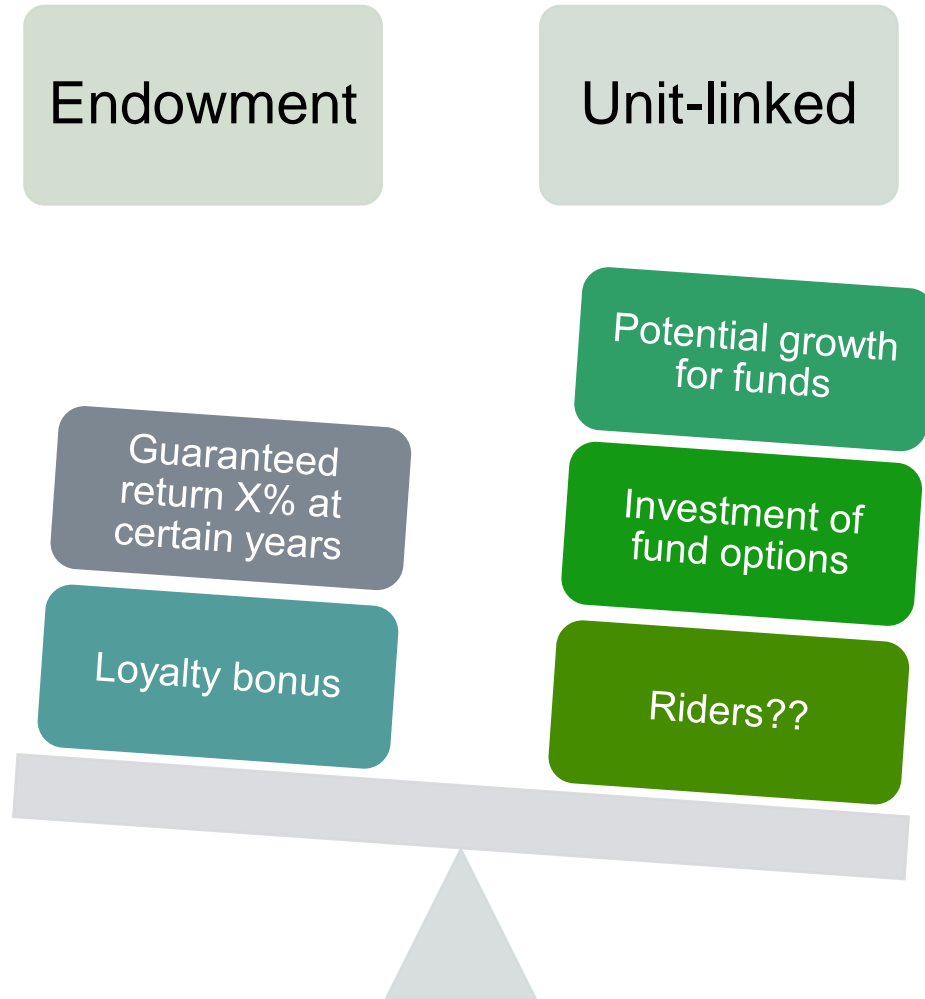


Protection benefits:

- Death due to accidents
- Total permanent disability



And some guarantees – the ‘new hybrid’



7 KEUNGGULAN Manulife Lifestyle Protector

- 1. Perlindungan Hingga Usia 70 Tahun**
Anda akan mendapatkan perlindungan hingga usia 70 tahun, dengan Masa Pembayaran Premi selama 5 atau 10 tahun.
- 2. Jaminan Premi Kembali**
100% Premi Dasar Tahunan yang Anda bayarkan selama Masa Pembayaran Premi akan dikembalikan, apabila Anda membayar Premi selama Masa Pembayaran Premi.
- 3. Proses Mudah Hanya dengan Pernyataan Kesehatan**
Sampai dengan Uang Pertanggungan Rp2,5 miliar dan tanpa Pertanggungan Tambahan (Rider).
- 4. Beragam Program Pertanggungan Tambahan**
Anda bebas memilih Program Pertanggungan Tambahan (Rider) yang tersedia untuk memaksimalkan perlindungan Anda sesuai dengan kebutuhan Anda.
- 5. Beragam Pilihan Dana Investasi**
Anda dapat memilih 10 (sepuluh) ragam pilihan dana investasi yang sesuai dengan profil risiko Anda baik agresif, moderat, atau konservatif.
- 6. Investasi Lebih Maksimal**
Di saat produk unit link asuransi lainnya memberikan alokasi dana investasi sebesar 0% di tahun pertama, Manulife Lifestyle Protector memberikan 25% alokasi dana investasi sejak tahun pertama.

Masa Pembayaran Premi			
5 Tahun		10 Tahun	
Tahun ke-	Alokasi	Tahun ke-	Alokasi
1	25%	1-2	25%
2	30%	3-4	30%
3	35%	5-6	35%
4	40%	7-8	60%
5	80%	9-10	80%
- 7. Bonus Loyalitas**
Anda dapat menikmati bonus loyalitas pada akhir tahun MPP Polis dan selanjutnya pada setiap kelipatan 5 tahun, yang diberikan dalam bentuk Unit berdasarkan usia masuk dan persentase dari Premi Dasar Tahunan yang telah dibayarkan (lihat tabel dibawah).

Usia Masuk	Persentase dari Premi Dasar Tahunan	
	MPP 5 Tahun	MPP 10 Tahun
0-30	40%	80%
31-45	20%	40%
46-50	0%	0%

MPP = Masa Pembayaran Premi

Manfaat dan Proteksi Jangka Panjang

Dengan **Zurich Pro-Fit 8**, Anda dapat menikmati berbagai manfaat berikut:

Manfaat jangka panjang melalui komitmen jangka pendek

Hanya dengan membayar premi selama **8 tahun**, Anda sudah dapat menikmati manfaat dan perlindungan jiwa selama **20 tahun**.

Jaminan *cashback* tahunan yang menambah dana investasi

Zurich Pro-Fit 8 memberikan Anda *guaranteed cashback* demi membantu mewujudkan rencana masa depan Anda. Total bonus tahunan yang diberikan akan menambahkan hingga maksimum **120%** dari Uang Pertanggungan Dasar Anda.

Dana masa depan demi ketenangan hati dan pikiran

Pada akhir masa pertanggungan, Anda akan menerima manfaat jatuh tempo yang dijamin sebesar **150%** dari Uang Pertanggungan dasar.

Hasil investasi yang potensial untuk meningkatkan dana masa depan Anda

Untuk hasil investasi yang optimal, **40%** dari Premi yang Anda bayarkan akan dialokasikan ke dalam **ZURICHLINK Rupiah Equity Fund**. Premi Anda diinvestasikan dan dikelola secara profesional untuk memberikan hasil investasi di masa depan.

Anda tetap terlindungi seiring dengan dana masa depan yang bertumbuh

Selain memberikan manfaat dana masa depan yang bertumbuh, **Zurich Pro-Fit 8** juga memberikan perlindungan dari segala risiko yang dapat terjadi pada Anda. Kami menyediakan dana perlindungan yang akan diberikan secara tunai kepada keluarga Anda dalam hal terjadi risiko meninggal dunia dan/atau cacat tetap total.

Source: Manulife & Zurich Indonesia website

More medical coverage



Medical
benefits



Critical illness
– a numbers
game



Hospital &
Surgical
benefits



Cashless or
as-charged



Mostly
attached to
Unit-linked as
riders



International
coverage (can
be used in
multiple
countries,
especially
Singapore,
Malaysia,
Indonesia)



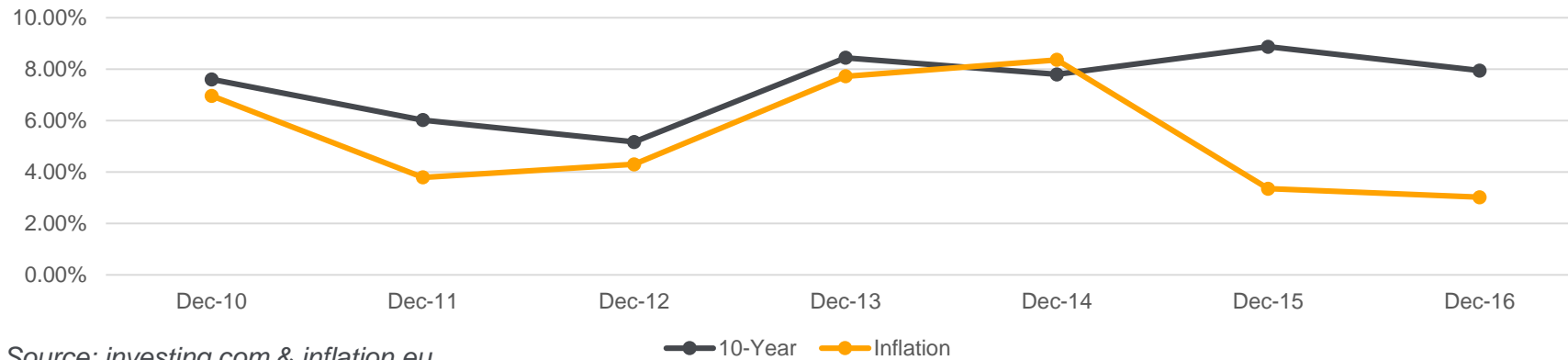
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What could we expect going forward?

Demand for higher yields and guarantees to continue

Indonesia 10-year Government yields and inflation rates



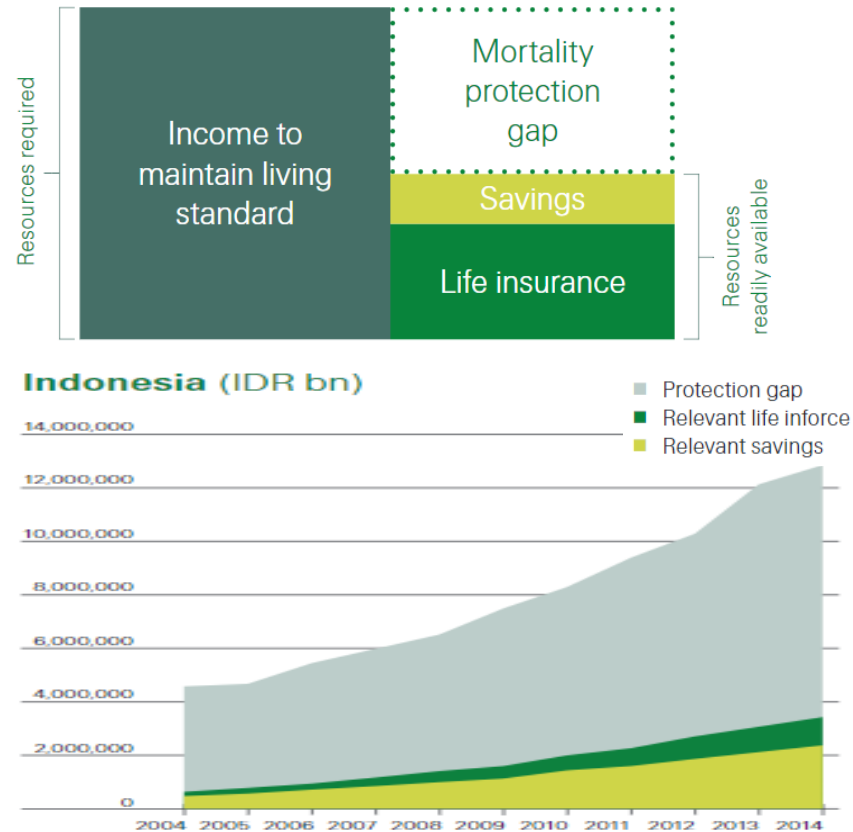
- Central bank started cutting benchmark interest rates
- Inflation rates and deposit rates are also showing signs of decreasing since 2014.
- Policyholders are expected to continue looking for higher yields and guarantees

INDONESIA DEPOSIT FACILITY RATE

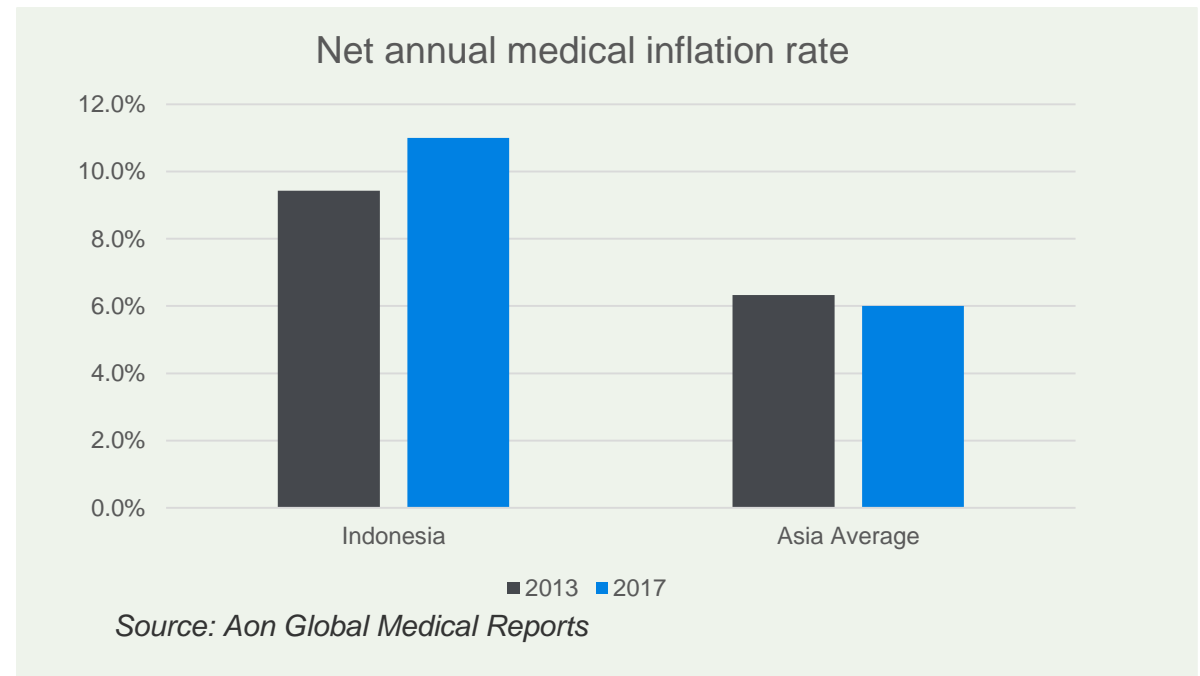


Demand for more protection

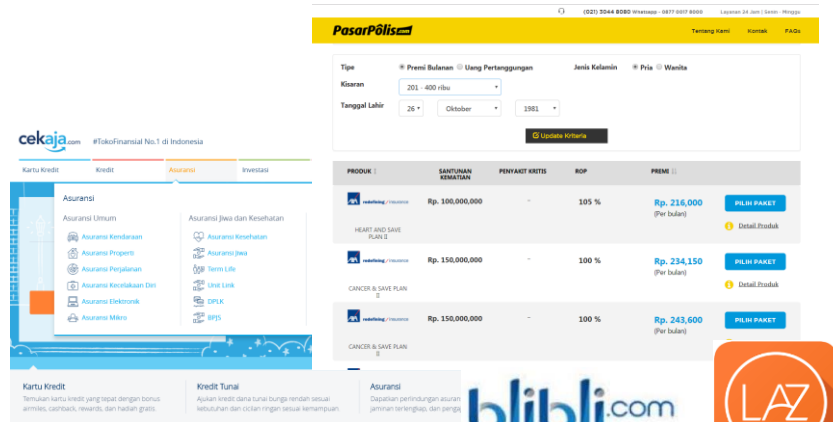
- Medical costs & protection gap is increasing



Source: Swiss Re 2015 Asia Pacific Mortality Protection Gap Report



Demand for faster point-of-sale closing



GOJEK
An Ojek For Every Need

Orami
by bilna



Past

Present

Future

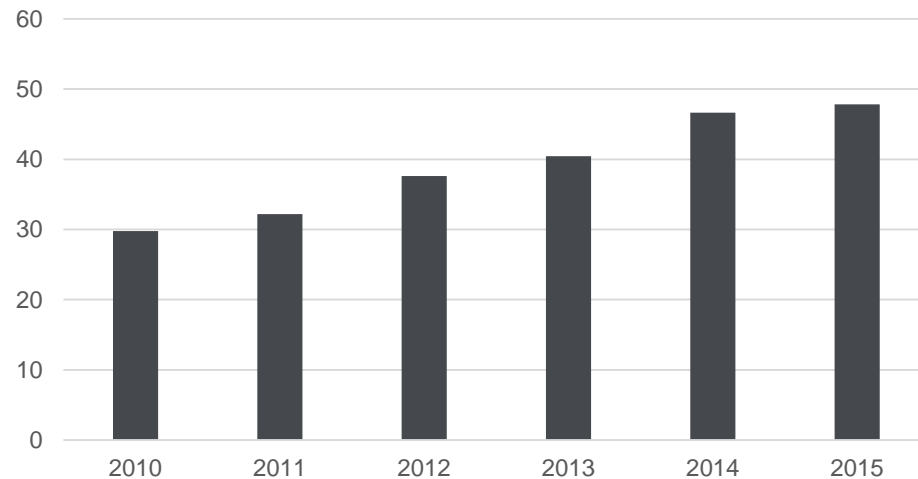
- Need for fast closing, accurate underwriting and pricing – a role for actuaries?
- Also with more online pricing info available, consumers will want more 'value for money'
- Hot off the press: Baidu (a China-based web services provider) acquired a pan-China insurance agency license to offer products online



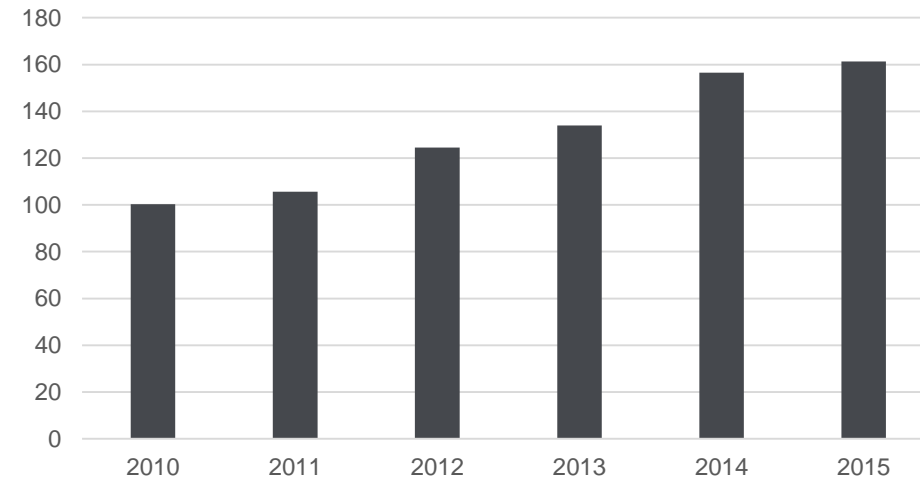
Demand for High Net Worth solutions

- Opportunities from recent tax amnesty rules
- First class service, first class wards, overseas treatment etc

HNWI Population in Indonesia ('000)



HNWI Wealth in Indonesia (USD bn)



Source: Capgemini

HNWIs are defined as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables and consumer durables.

Syariah compliant products



Slow but steady growth since 2011.

Large Muslim population at 207.2 million (87% of the population) combined with expected good GDP growth rate indicates future growth potential.

Low penetration rate signifies potential growth opportunities, particularly within Takaful

Efforts by the regulators, Takaful players and the Syariah council to develop market awareness

Spin-off requirements

Milliman Global Takaful Report 2017

- First known study analyzing the general and the family Takaful industries separately across all major markets
 - Indonesia is one of the largest Syariah life insurance market with a 23% market share globally in 2015.
 - However, penetration rate, within the ranges of 0.07% - 0.08% in 2012-2015, is much lower than that of conventional life insurance (i.e. 1.17% in 2015)
 - The low penetration rate on Syariah business indicates significant untapped opportunities, particularly amongst the mass market.
 - There are several challenges impeding the industry growth, including the low overall financial literacy; the lack of product innovation and differentiation relative to conventional products; the lower expected returns for Syariah products in general (as compared to their conventional counterparts); and the lack of skilled human resources; etc.
 - Continuous efforts by regulators to develop market awareness as well as a more robust and harmonized set of regulations for the dual conventional and Syariah industry would be key for further growth opportunities in the Syariah market.

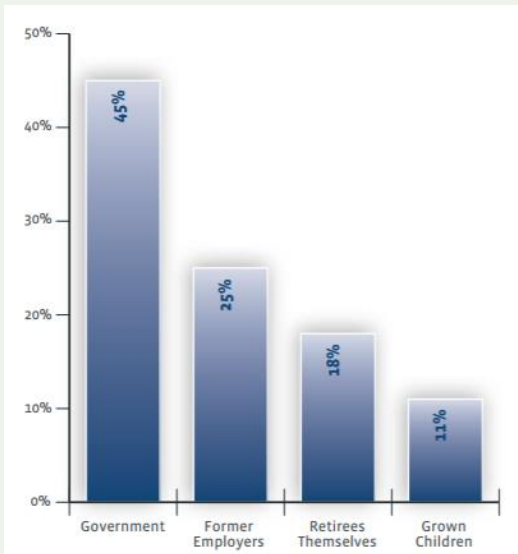


Scope for retirement products?

- Only a small proportion of workers that have set aside a portion of their income for future savings
- Current regulations do not allow retirees to receive lump sums
Provides opportunities for companies to innovate and offer new pension products, including Syariah-compliant products to tap into the majority Muslim market.
- Some of the operators are still small in size and might not be ready to bear the risks from pension products which have long-term liabilities
- Beware of mismatching or concentration risk, which will further increase capital requirements



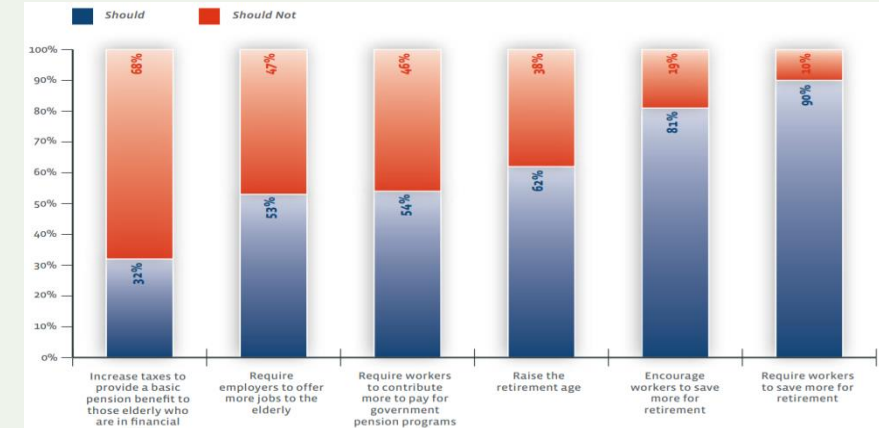
Scope for retirement products?



Indonesians are divided about who should be responsible for retirement income.



Indonesians are anxious about their retirement security



Indonesians think retirement age should be raised and workers should be encouraged/required to save more for retirement

Source: Prudential Corporation Asia East Asia Retirement Survey 2015 – Indonesia Report



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3

Implications to actuaries

Expectation for actuaries

Customers

Better coverage

Cheaper price

Shareholders

Highly 'sellable' product

Sustainable profits

Regulators

Capital and reserving
adequacy

Policyholder protection

In reality...

- Sellable products might not be profitable
- Not all products are 'RBC-friendly'
- Companies might have different risk appetite
- Actual not equal to expected
- New / emerging risks to consider

Are there any
one-size-fits-all
products?





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4

How can actuaries prepare?

Actuaries leading the future

Possible roles for actuaries (not exhaustive)

- Product pricing
 - Understanding nature of product risks
 - Setting appropriate assumptions
 - Post-launch monitoring
- Risk & capital management
 - Leveraging on existing regulatory requirements: Risk based supervision, financial projection
 - Taking it to another level



Product pricing – understanding risk

Unit-linked	<ul style="list-style-type: none">• Risk A• Risk B
Whole Life	<ul style="list-style-type: none">• Risk C• Risk D
Term	<ul style="list-style-type: none">• Risk E• Risk F
Medical	<ul style="list-style-type: none">• Risk G• Risk H
Endowment	<ul style="list-style-type: none">• Risk I• Risk J

– Understanding product risks

– Holistic view: product level; dependencies on other products

– Positioning of each products against risk appetite of the company

Product pricing – setting assumptions

Expenses

**Persistency /
Lapse rates**

Investment return

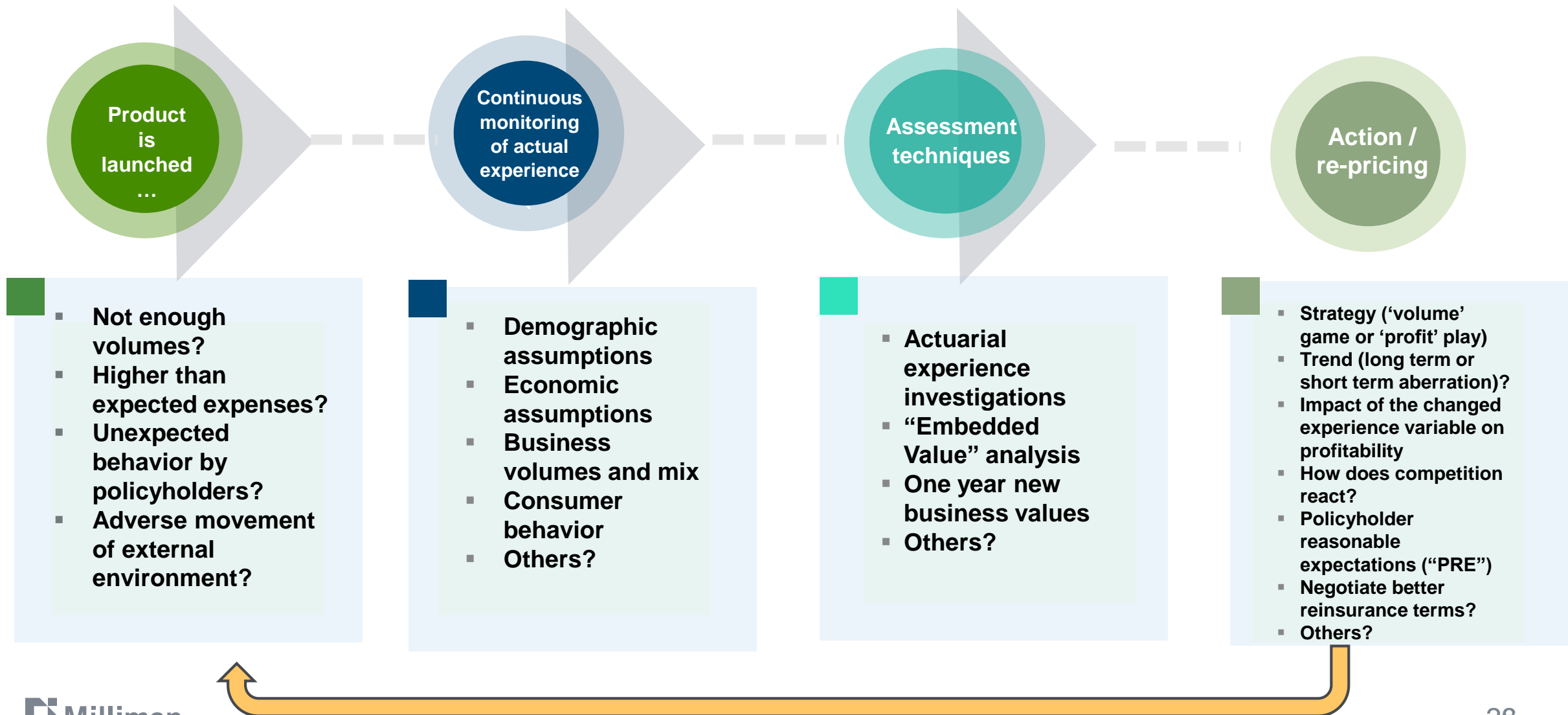
**Mortality and
Morbidity**

Reinsurance

Inflation rate

- Setting appropriate pricing assumption
- Analysis of historical experience
 - Accurate and reliable data is required
 - Extracting insights on policyholder behavior using data analytics
- Benchmarking of product assumptions

Product pricing – post-launch monitoring



Risk & Capital: Risk based supervision

– OJK Regulation 10/POJK.05/2014

Risk Level Assessment of Insurance & Reinsurance Companies

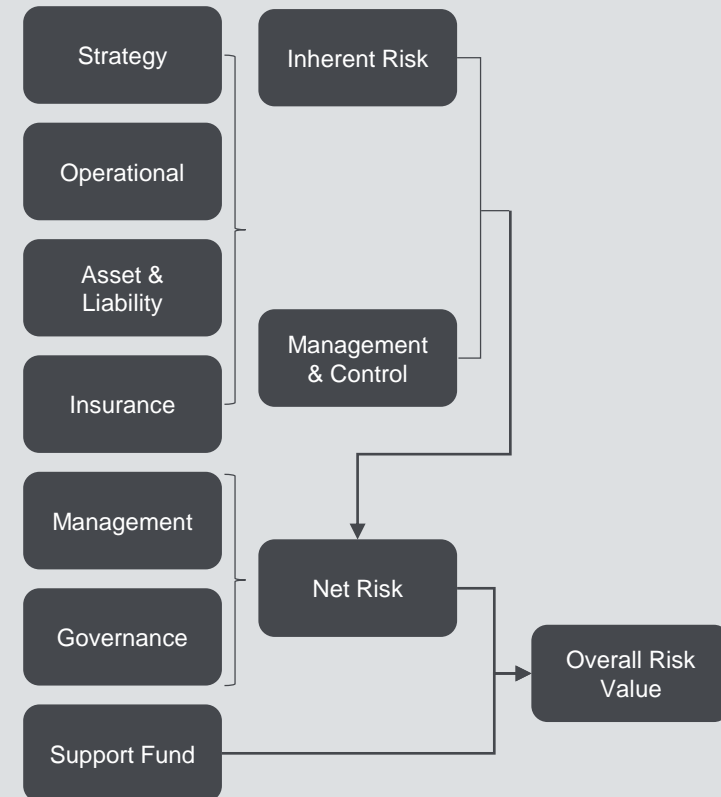
- Sets out the method to be adopted when assessing and reporting the level of risk that the company is exposed to.
- General principles of the risk assessment are it must be **risk based**, consider **materiality of risks** and must **cover all areas of risk**.
- Companies are obliged to submit result of risk assessment to the regulator at least **once a year**.
- OJK has listed the key areas of risk that companies should base their assessment on.

Inherent risks

are measured separately allowing for risk management and controls in place, which are then aggregated to give the overall risk level of the business.

The risk assessment is **simplistic** and focuses on **qualitative aspects** rather than quantitative.

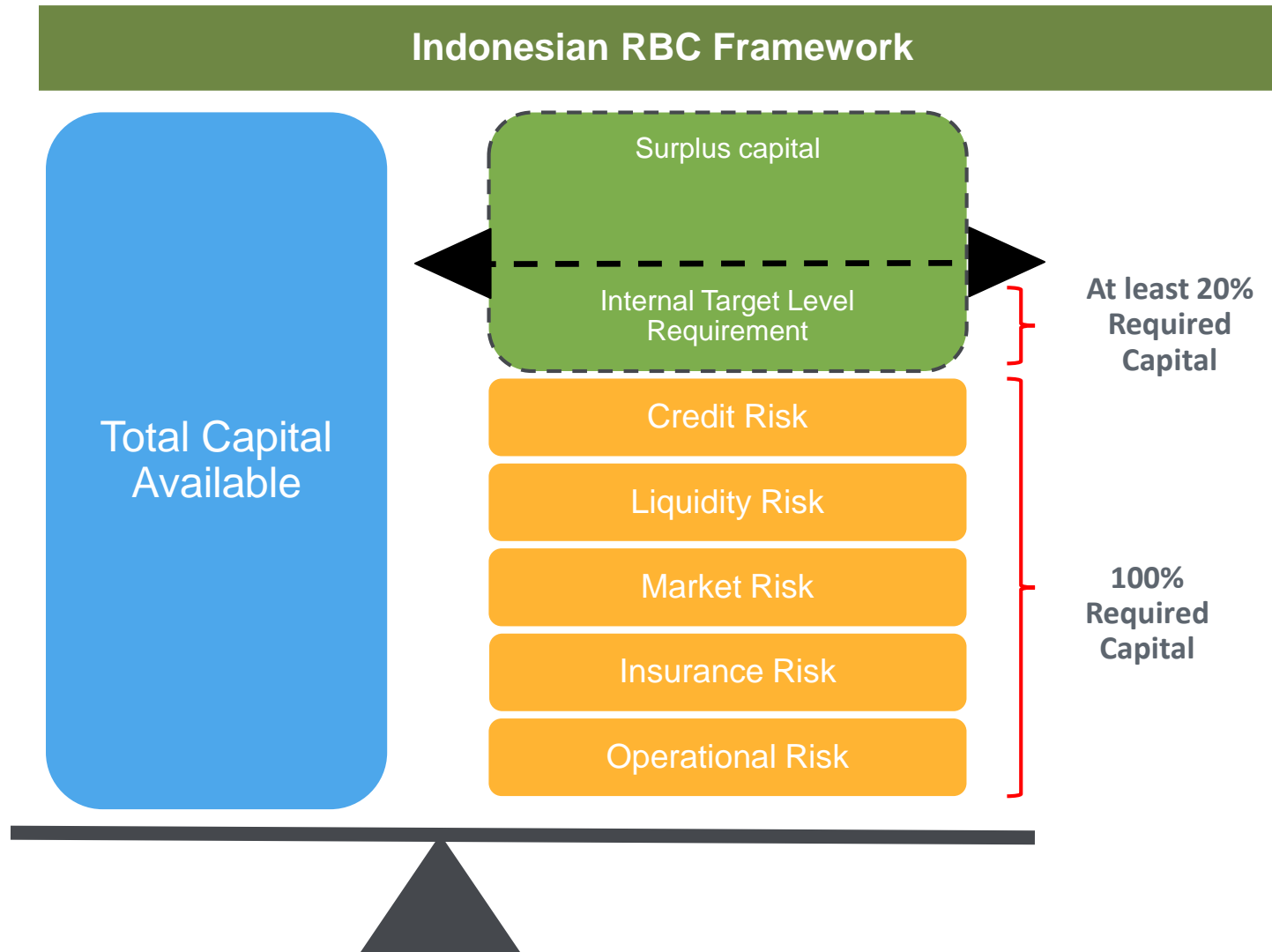
- Based on the risk level attained, insurers are required to devise appropriate follow-up action plans to improve its risk management practices going forward.



Risk & Capital: Financial projections

- Regulation PER-10/BL/2012
- Actuary Report should contain financial projections (Profit and Loss statements and Balance Sheets) for the next five years.
- The financial projections should include a base scenario, an optimistic scenario and a pessimistic scenario that includes the impact of the following pessimistic assumptions
 - financial crisis;
 - inflation higher than expected;
 - catastrophic loss events;
 - lower investment returns;
 - lower new business volumes;
 - increase in discontinuance rates; and
 - increase in claims

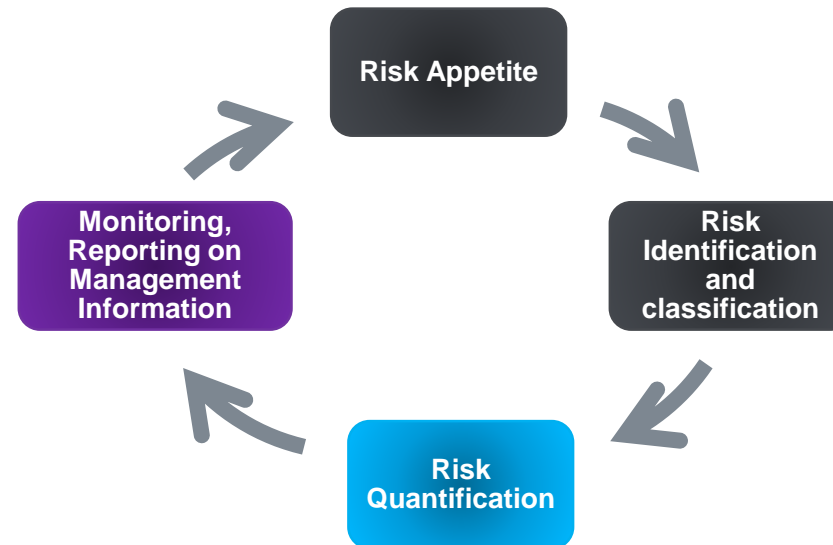
Risk & Capital: Internal Target Capital Levels



- Companies are required to now determine internal target capital level commensurate to their risk profile

Risk & Capital: Taking it to another level

- Define the risk appetite of the Company
 - Choose key global indicators for measurement of risk appetite and set minimum levels for these indicators
 - Select the adverse scenarios
 - Select an appropriate time horizon

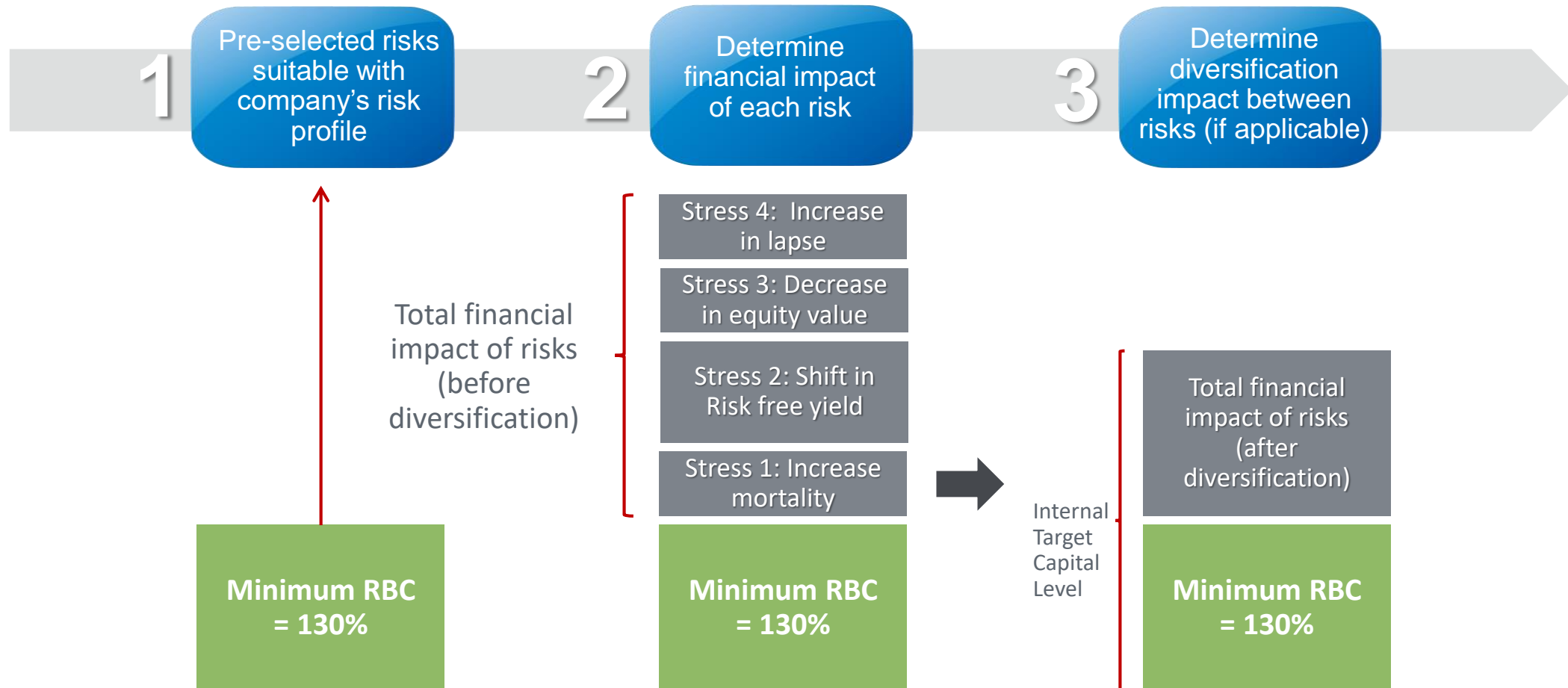


- Develop a system of limits based on readily observable KPIs
 - “Source of risk” limits
 - “Source of exposure” limits
- Design MI dashboard to reflect the system of limits

- Develop a list of risks to which the Company is exposed
- Construct a risk register : Evaluate & classify each risk
- Construct a risk inventory : Owner of risk, sources of exposure

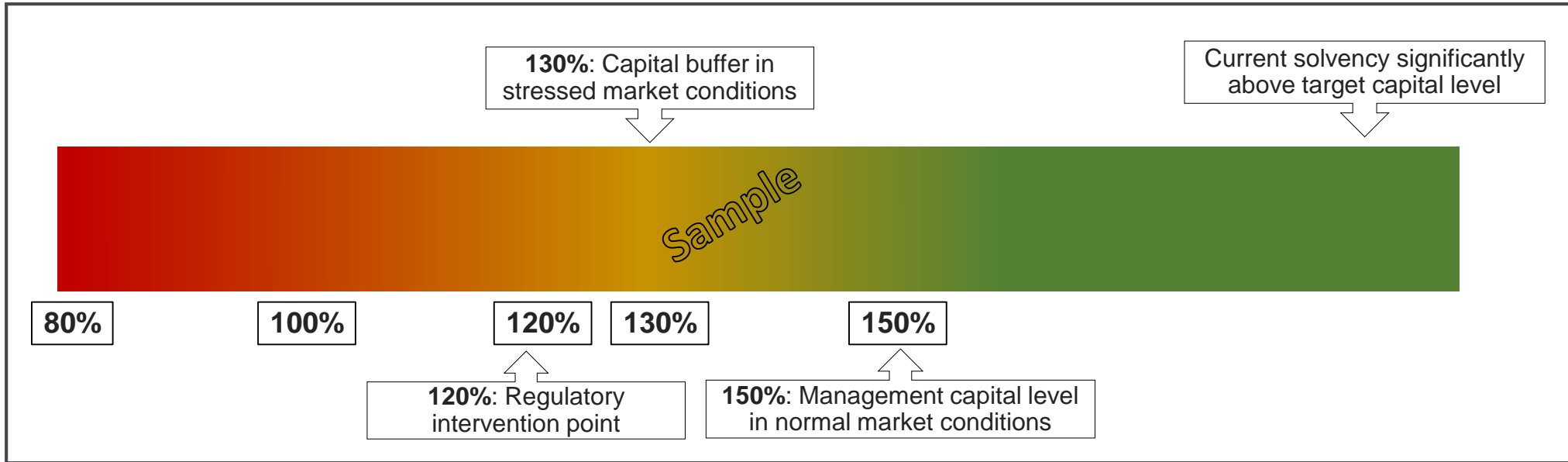
- Develop models capable of evaluating the global indicators
- Calculate the global indicators as outlined in the risk appetite statement
 - Current situation (central scenario) and stress scenarios
- Calculate risk limits and generate MI reporting templates

Risk & Capital: Taking it to another level



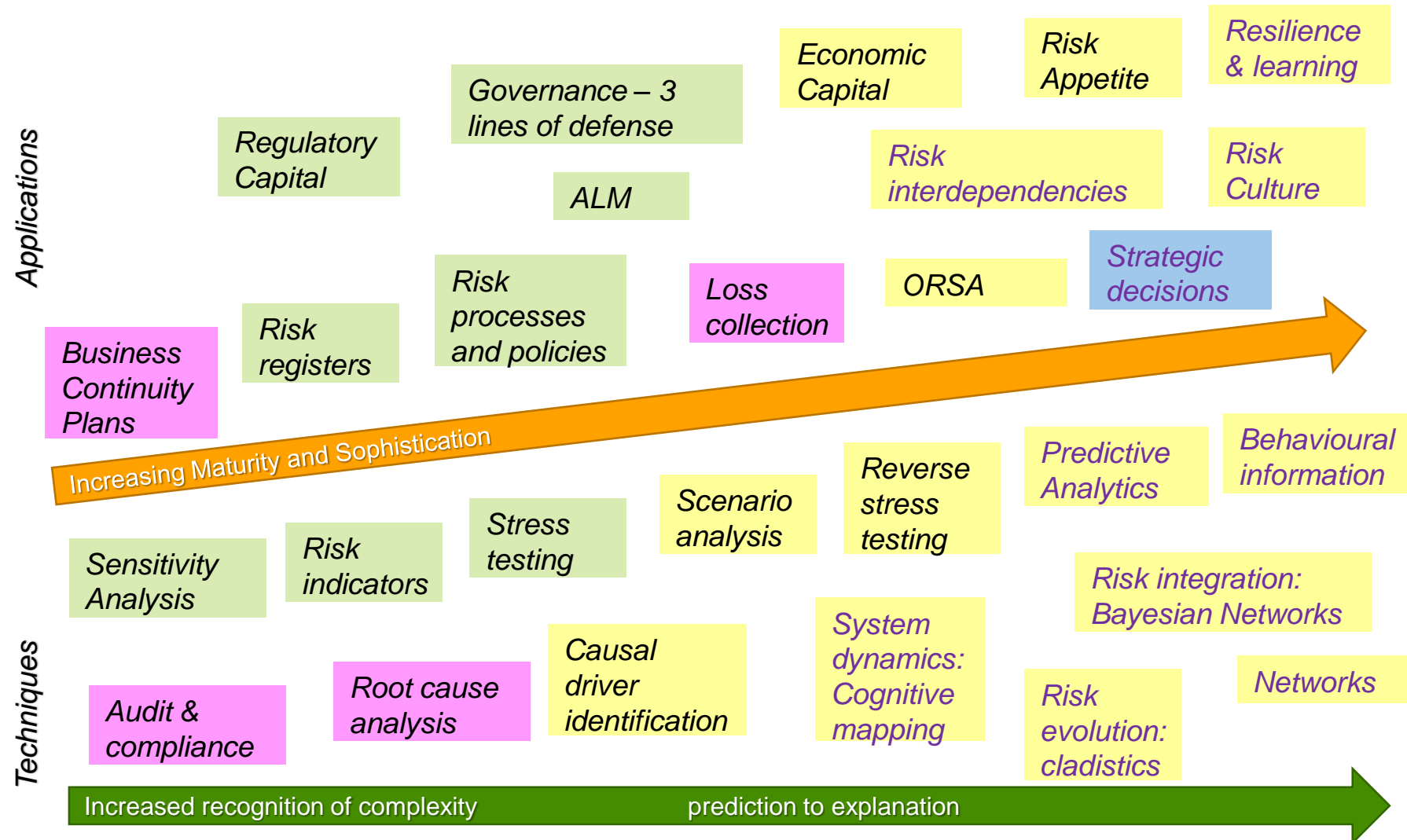
Note: Example from Malaysia ICAAP framework

Risk & Capital: Taking it to another level



- Various capital levels defined, along with specific trigger events and management actions

Risk & Capital: Phases in risk management



Risk & Capital: Back to the basics

- Risk and capital management framework are NOT about:
 - Just addressing the guidelines (ticking the boxes)
 - Creating a very complex process – output not fully understood
 - Designing a complex mathematical model
 - Creating a huge report – key messages unclear
- But are about
 - Better risk awareness
 - Understanding the overall solvency needs of the company
 - Increased alignment between risk appetite and strategy
 - More insightful decision making
 - Improved capital efficiency



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5

Q&A

Any questions?



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