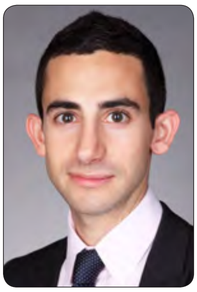
Design, pricing and distribution the key for long-term success

Asia's life insurance market is currently experiencing a complex, interlocking set of demographic, technological, economic and regulatory trends. **RGA**'s **Marc Sofer** and **Jerome Matrundola** guide us through them, and discuss challenges as well as opportunities.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Asia's three main market segments – the more mature markets of Japan, Hong Kong, Korea, Taiwan and Singapore; the developing markets of China, Malaysia, Indonesia and Thailand; and the emerging (and fastest-growing) markets of Vietnam and the Philippines – each has its own specific characteristics, but taken as a whole, represents both challenges and opportunities for life insurers.

Demographic shifts are occurring with increasing rapidity. Population median ages are rising rapidly, as life spans increase and birth rates decline, and dependency ratios – the ratio of workers to retirees – continues to shrink. Urbanisation is increasing as well, as economic opportunity rises in Asia's emerging and developing markets, bringing continued rapid growth, both in size and prosperity, to Asia's mass affluent and middle class cohorts.

Accelerating technology pace; declining world economy

The accelerating pace of technology development is also pushing life insurers to make sizable investments in innovation in all aspects of the business, but especially in technology. Today's consumers, especially in younger cohorts, prize speed and simplicity in all of their financial relationships. Insurers need to build the infrastructure to provide the operational efficiencies that can both satisfy consumers and create optimized operational environments.

The ongoing slowdown of the world's economy also continues to challenge Asia's insurers. Low interest rates are pressuring everything from pension product guarantees to capital and investment management strategies and operating margins. All of these are pushing insurers to sharpen their focus upon capital and risk management, enterprise cost reduction, and productivity.

Finally, regulations are becoming more codified, as governments in several Asian countries take steps to strengthen how they regulate financial and insurance activities. Most are requiring increased capital to support risk, with some opting for a Solvency II framework while others look to a US-style risk based capital framework. Shariah compliance is a third regulatory factor, affecting countries with Islamic market needs such as Malaysia and Indonesia.

These many pressures and challenges are also, not surprisingly, sparking growth opportunities for life insurers throughout Asia.

Opportunities

As the middle class and mass affluent cohorts both grow and age, awareness is rising for the need to conserve and protect accumulated wealth. And, as the dependency ratio shrinks, cash-strapped national and local governments will be less able (and less likely) to provide social welfare benefits, providing insurance companies with opportunities to offer products and services that can at least partially close this anticipated social benefits gap.

These two trends are propelling a growing demand for life insurance and living benefits solutions targeted to older buyers. Worldwide, products are being developed specifically for buyers over age 60, with two decades of older-age underwriting experience and mortality data from the US enhancing pricing for older age products worldwide.

Indexed universal life and underwritten annuities

With low interest rates causing insurers to cut back or eliminate interest rate guarantees, products such as indexed universal life (IUL), which has become quite popular in the US, can mitigate interest rate and investment risk for Asian customers and insurers. IUL, which is starting to be rolled out by insurers in the region, provides greater potential upside and capital protection, stemming from its index-linked crediting rate that is capped to limit upside and is subject to a floor that also limits downside.

Another product with great potential for Asia is underwritten annuities, which represents about GBP3 billion (US$4.6 billion) of annual sales in the UK. This single-premium product, designed for pension rollovers, targets individuals at or near retirement who have below-average life expectancies. Their health impairments are used to underwrite annuities that can offer a higher payment to the individual and spouse. Policyholders receive longevity protection, and companies can manage reinvestment risk due to the shorter payment durations associated with less healthy annuitants. Reinsurers have helped insurers develop pricing bases and automated underwriting engines to work through the large and growing demand for quotes.

On the living benefits side, demand is rising for critical illness, long-term care, personal accident and disability income coverage. Insurers have been working with reinsurers to develop guaranteed issue and simplified issue up-sell campaigns for a broad range of standalone critical illness products, from early-stage to multi-pay and whole of life, specifically targeting customers who had been underwritten within the past two years.

Technology a crucial tool

Technology will be a crucial tool for Asia's life industry, to help companies optimise their electronic distribution capabilities, streamline underwriting, speed up productivity and enhance customer responsiveness.

The mobile marketing channel is one no insurer can afford to ignore, especially in Southeast Asia. Global mobile penetration, according to the February 2013 Ericsson Mobility Report, reached 89% at the end of 2012, with Asia's emerging market countries the primary growth drivers. (China alone added 30 million subscribers in the last quarter.) In addition, the number of mobile devices worldwide is likely to exceed the world's total population by the end of this year, with Asia accounting for more than half.

Marketing to the internet generation

Leveraging the Internet's mobile/tablet universe – apps, customised websites and the like – can help insurers reach young, tech-savvy customers – an attractive and financially literate cohort whose members prefer to make their own investment and protection decisions.

One successful, surprisingly low-cost strategy to distribute to younger, tech-savvy customers was developed by one of the new crop of small, entrepreneurial life insurance companies that have emerged in Japan over the past few years.

The company developed term life, medical and disability income products with simple underwriting that are available only on the Internet or through a Smartphone app. The company used Facebook and Twitter to create social buzz, and advertised in Tokyo's crowded subway stations as well. By 2012 – four years after the 2008 launch – the company had more than 150,000 customers, most of whom were in the coveted 39-and-under bracket (and many of whom were first-time buyers).

Worksite intranets are also benefiting from technology as they become the portal of choice for voluntary product sales, which also is improving distribution to middle-class buyers.

Using predictive modelling

Advances in data collection and manipulation are also enabling new and powerful analytic frameworks such as predictive modelling to enhance insurers' ability to collect, analyse and then use their data. By using consumer behaviour and biomedical data, predictive modelling helps insurers to model more cost-effective terms and rates, and create better-targeted products.

Looking ahead, advances in technological capabilities could also enable insurers to develop "smart" product chasses – that is, customisable product frameworks for, say, critical illness or savings needs – that can be adjusted for each purchaser's specific needs. Such products could enable better cross-selling/upselling and higher take-up rates, and improve claims experience as well.

Final thoughts

There continues to be ample opportunity for life insurers to grow their protection product sales, due to increased awareness of insurance's benefits by consumers and the large protection gap which currently exists. Each insurer serving the Asian market needs to take stock of existing trends, to evaluate options and circumstances, and then adjust business strategy accordingly.

A focus on stronger protection product design and pricing, improved distribution effectiveness, and close attention to costs and capital management, as well as moves to expand and improve effectiveness of traditional and alternative distribution models, is a recipe for long-term success.

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