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Hong Kong



Session 10

An overview of Brazil, China and India life insurance markets

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Waves of Reforms...Oceans of Opportunities

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17th – 19th Feb, 2013 | Mumbai,
India

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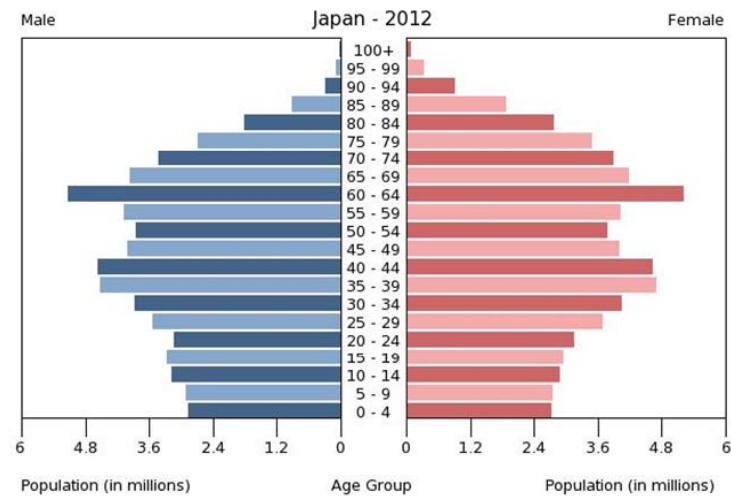
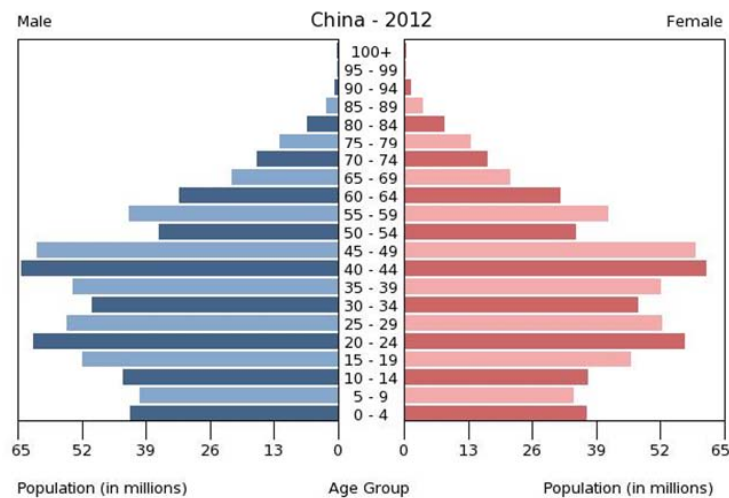
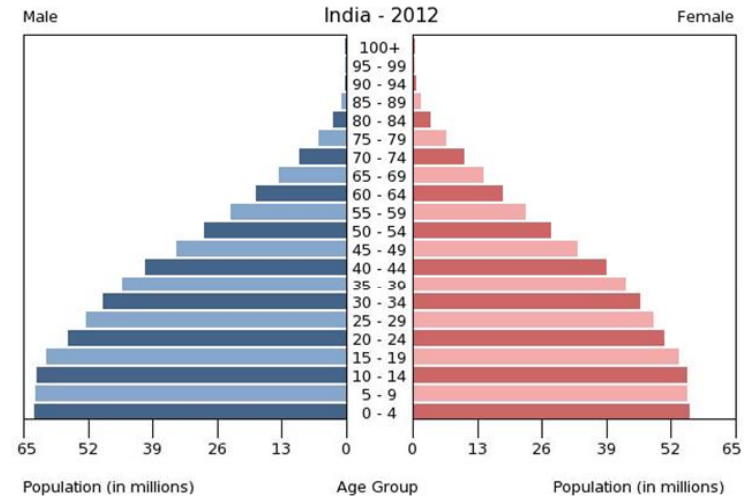
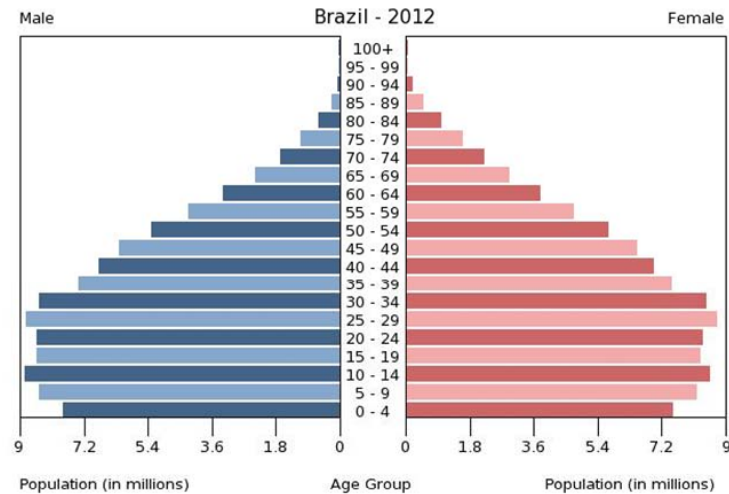
All insurance markets depend for success on economic growth

	GDP				Life premium		
	2004	2011	CAGR %		2004	2011	CAGR %
US	11,734	14,957	4%		502	544	1%
Combined BIC	2,950	11,479	21%	→	61	235	21%
Rest of World	26,363	43,492	7%		1,297	1,840	5%
Total	41,047	69,928	8%		1,860	2,619	5%
Amounts in USD billions							

	GDP				Life premium		
	2004	2011	CAGR %		2004	2011	CAGR %
Brazil	604	2,473	22%	→	8	41	26%
China	1,654	7,296	24%	→	35	135	21%
India	692	1,710	14%		17	60	20%

Source: Swiss Re sigma

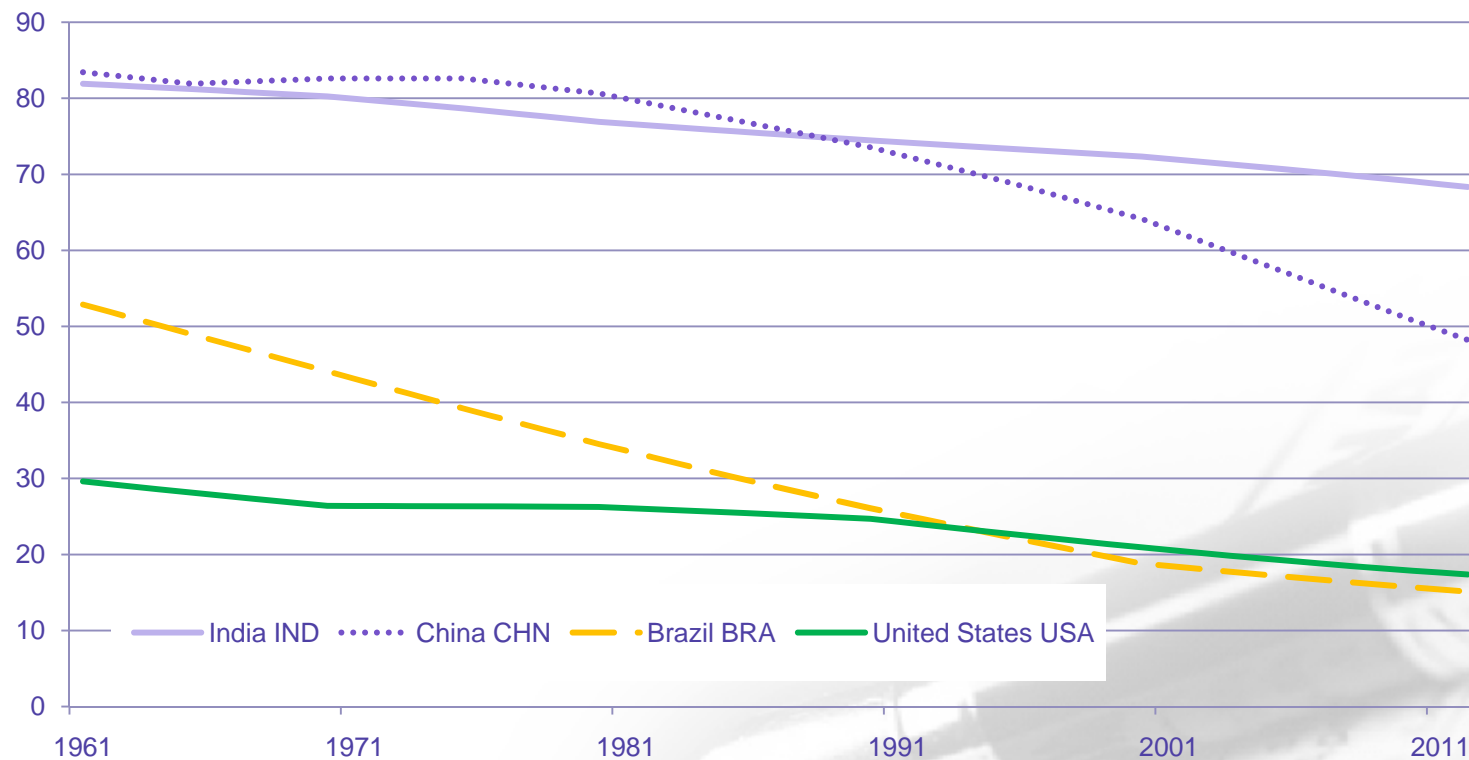
Growth potential – a positive profile for India and Brazil



Source: CIA World Factbook

Growth potential – structural development

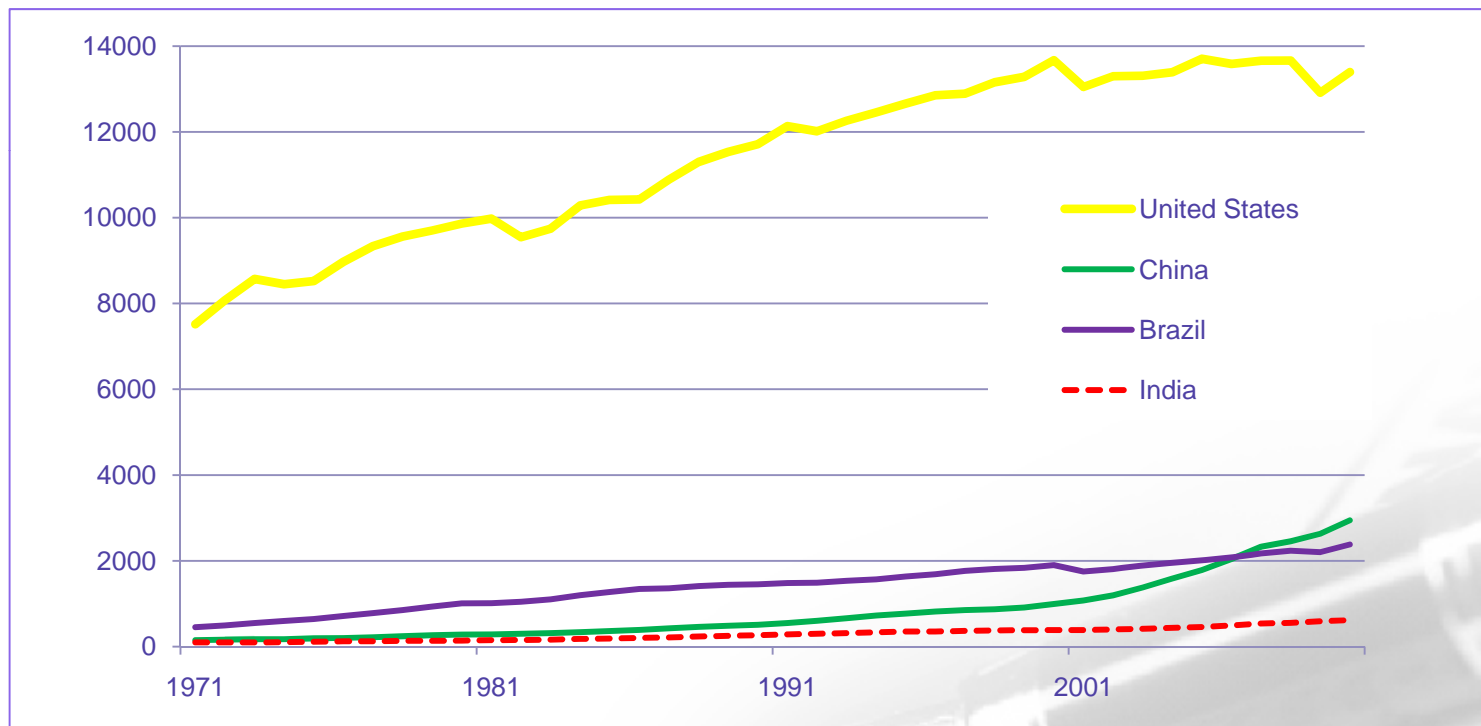
% of population living in rural areas



Source: World Bank

Growth potential – structural development

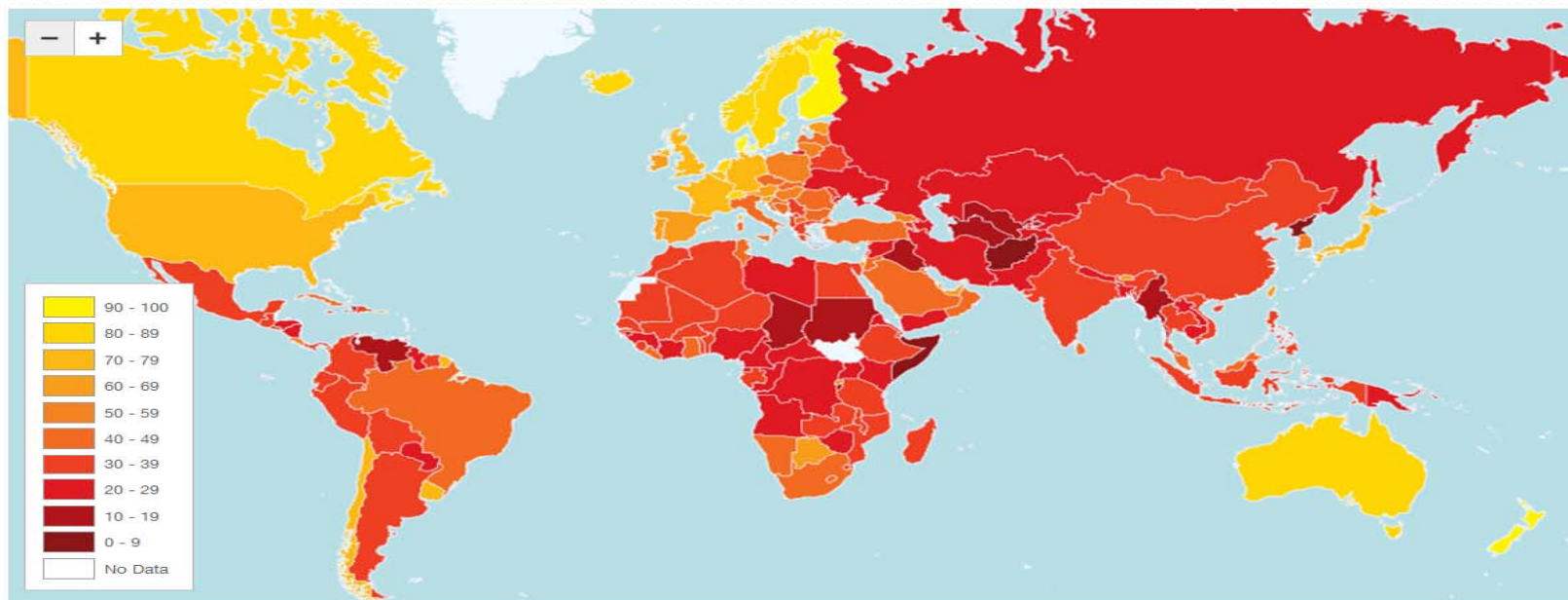
Electricity (kWh per capita)



Source: World Bank

Growth potential – limited global momentum in tackling corruption

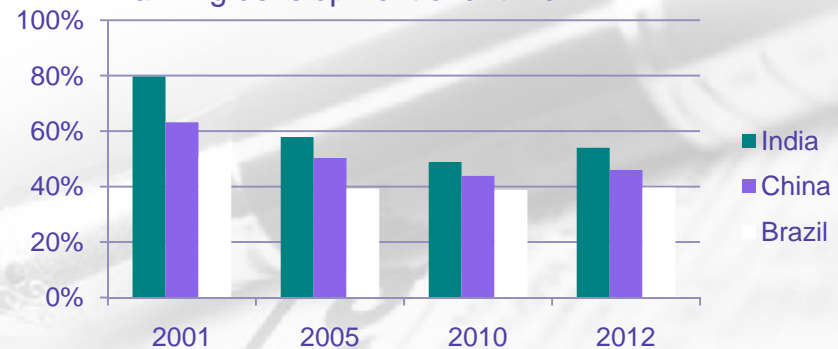
CORRUPTION PERCEPTIONS INDEX 2012



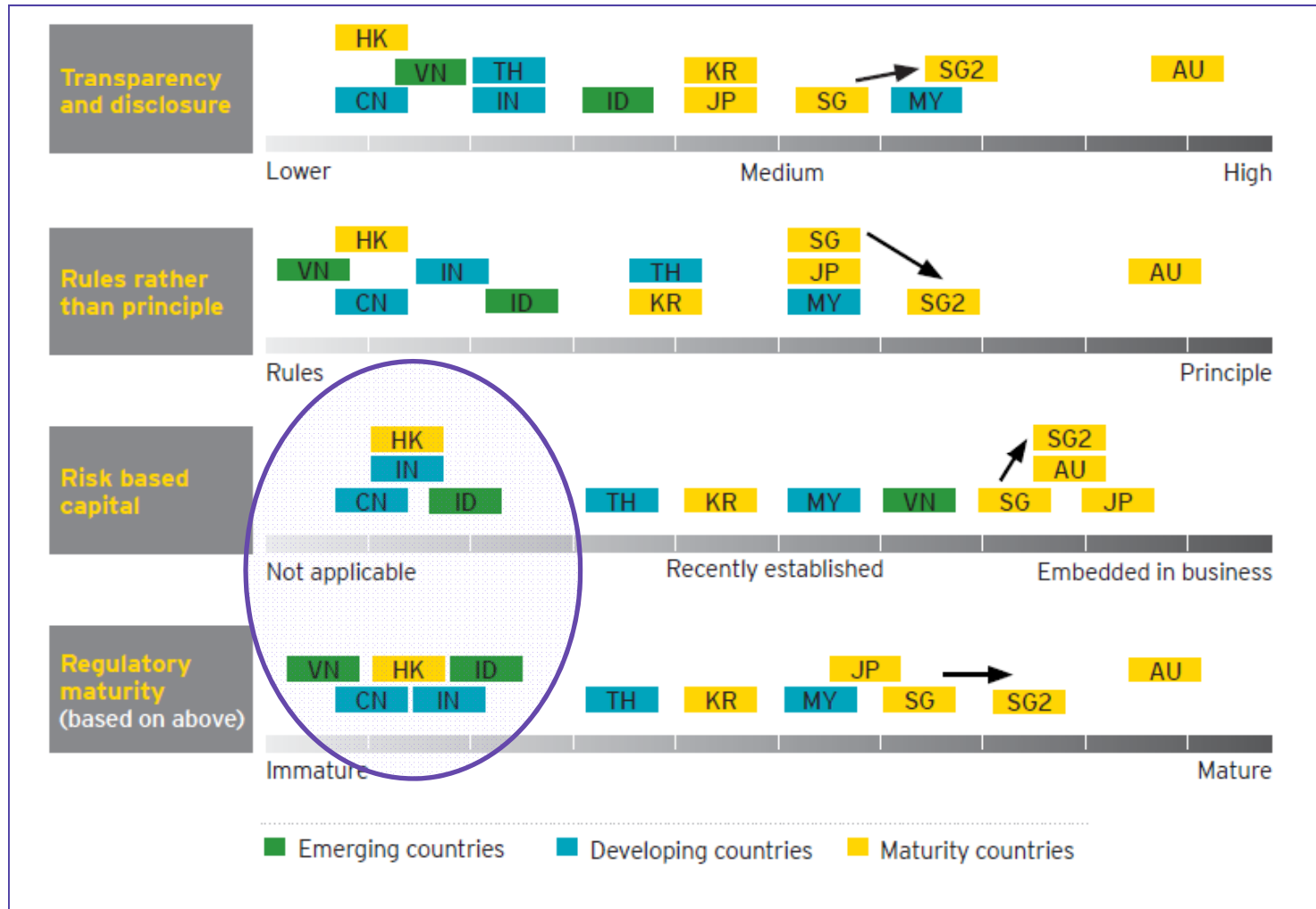
Source: www.transparency.org

- Brazil consistently better ranked
- Marginal changes only since 2005

Ranking development over time



Regulatory maturity – pace of change matters enormously

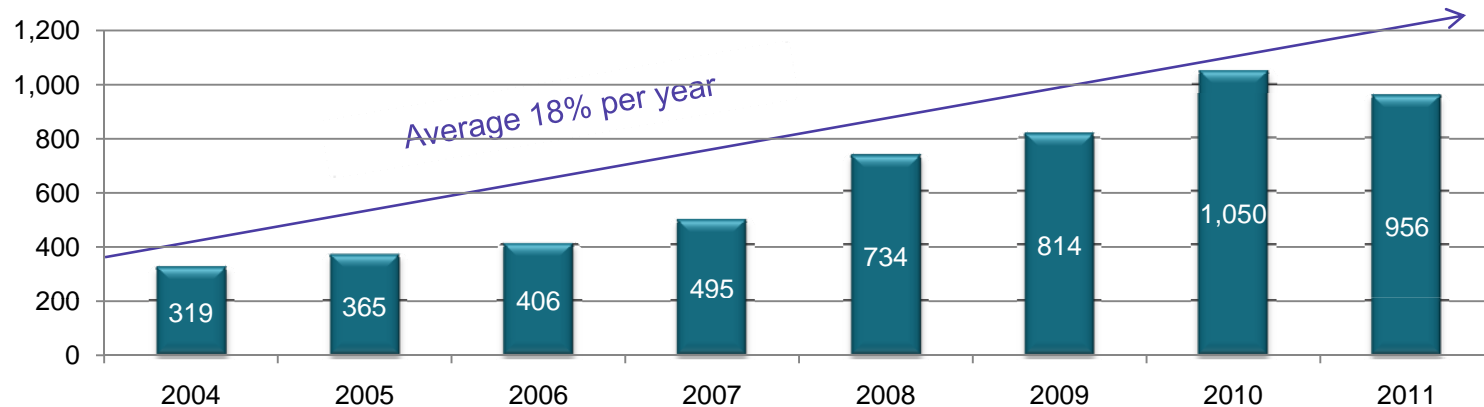


Source: E&Y

China Insurance Market

- Significant increases & further growth potential

Premium (Billions RMB)



2011 Ranking (life markets)

US	1
Japan	2
UK	3
France	4
P R China	5
Italy	6
Germany	7
Korea	8
Taiwan	9
India	10
..Brazil	15

- ❑ China life insurance market experienced significant increase in the past and expected to keep growing in the future.
- ❑ Over 1.3 billion people, 2nd largest economy and over 8% GDP growth rate per year make China amongst the most promising insurance markets.
- ❑ 2011 insurance penetration (life & non-life) around 3% but insurance density only USD 163 which is significantly lower than world average => big potential for further growth.

Regulatory Environment

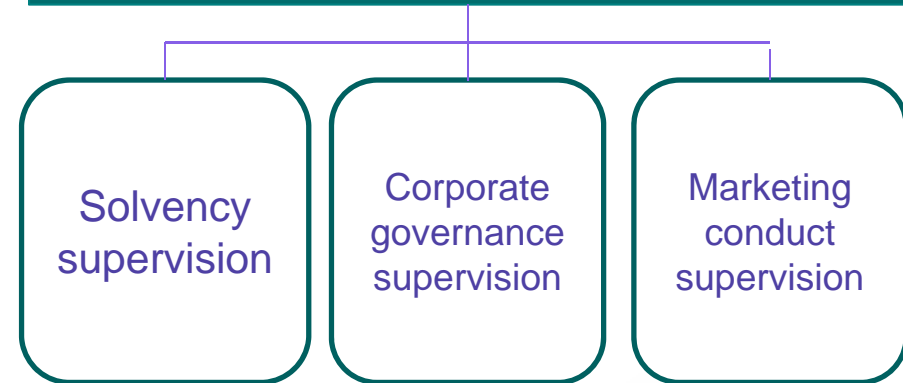


中国保险监督管理委员会
China Insurance Regulatory Commission

CIRC

CIRC is the regulatory authority of insurance market in China, which was formally set up in 1998. There are 16 function departments and 35 bureaus.

Three pillars of insurance supervision



China insurance market is heavily regulated:

- Market access is strictly regulated and must be approved by CIRC.
- The pricing and reserving assumptions for life & health products are mandated by CIRC.
- The permitted investments (asset class) and scope are set by CIRC.

Latest development of CIRC regulations

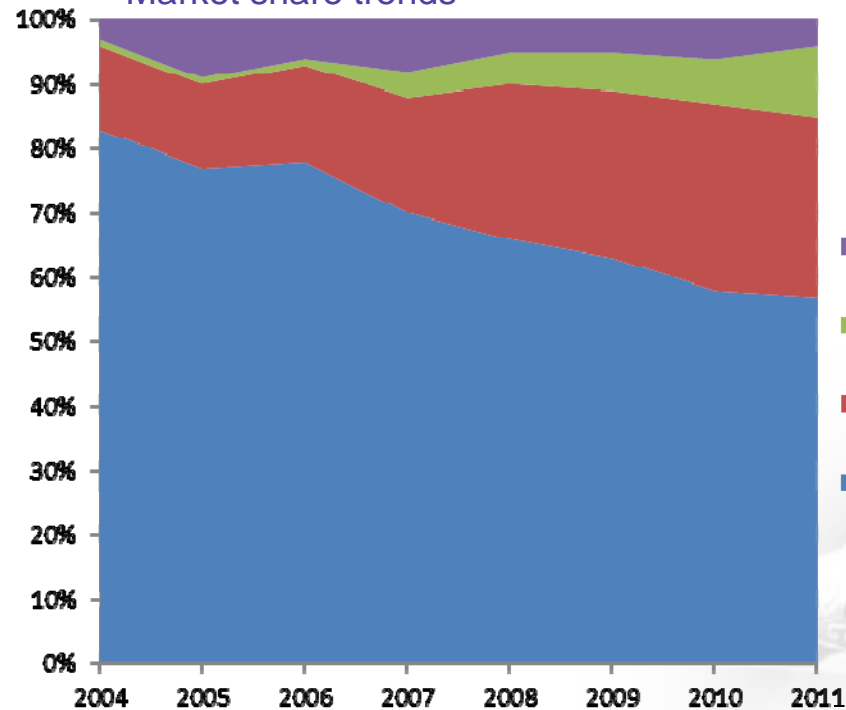
- ❑ CIRC released exposure draft on capital motivated reinsurance at Jul 2012, which is expected to be implemented in 2013. (Jul 2012)
- ❑ CIRC released regulation which permit listed insurance (group) company to issue subordinate convertible bond to fill up solvency position (May 2012)
- ❑ CIRC released the 2nd generation solvency framework building plan targeted setting up 3-pillar solvency supervision scheme similar to Euro Solvency II in 3 - 5 years (Apr 2012)
- ❑ CIRC issued an ERM reporting framework and key risk indicators to reinforce insurance company ERM work and unify the ERM reporting template (Mar 2012)
- ❑ CIRC issued Variable Annuity (VA) Administrative Temporary Regulation which prescribed the detailed rules on VA business (May 2011)
- ❑ CIRC released *Guidance on Regulatory Supervision of Commercial Banks' Insurance Agency Operations*, which prescribed detailed, comprehensive regulations regarding banks' agency operations (May 2011),
- ❑ CBRC released *Notice on Further Promotion of Legally Compliant Sales and Risk Management of Commercial Banks's Insurance Agency Operation* to regulate the banc-assurance sales from bank side, which significantly impacted bank channel sales, a key reason for total 9% premium decrease in 2011 compared to 2010 (Nov 2010)

China Life & Health Market - fierce competition with Tier 1 dominant

Life market share 2011 in terms of premium income

	Domestic			JV	Total
	Tier 1	Tier 2	Tier 3		
Count	3	4	29	25	61
Market Share	57%	28%	11%	4%	100%

Market share trends



□ Tier 1 are the big 3 life insurance company viz. China Life, Ping An and New China Life; Tier 2 are CPIC Life, Tai Kang, Tai Ping and PICC Life; Tier 3 covers the other domestic companies.

□ 11% company (tier1 + tier2) took 85% market share in 2011.

□ The market share of big 3 (Tier 1) decreased gradually due to the increase of other domestic company.

□ JV market share at around 5% during past 10 years indicating performance not as good as expected.



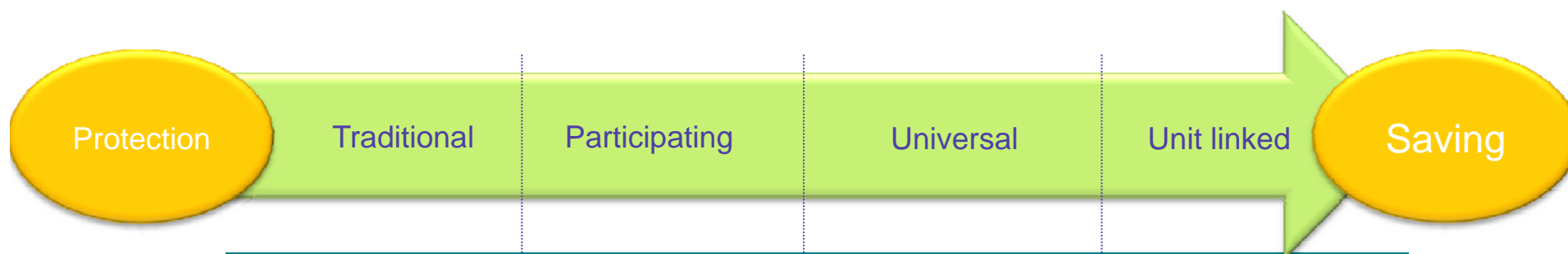
Institute of Actuaries of India

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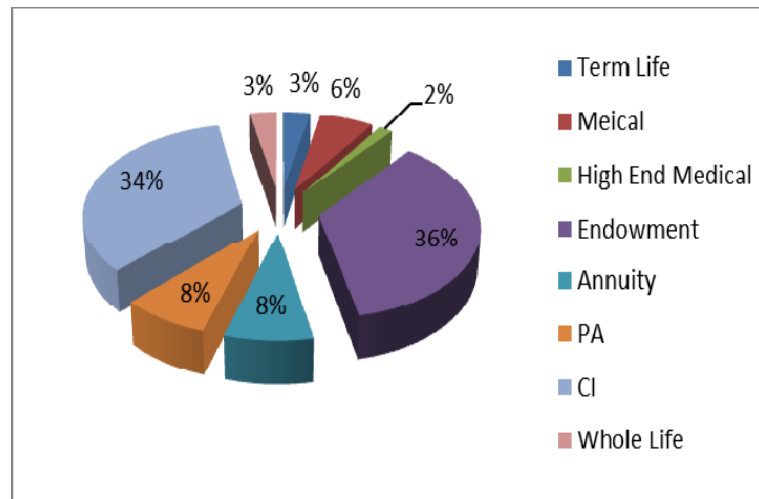
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Main life products sold in China



	Traditional	Participating	Universal	Unit linked
Market share	8.5%	80%	1%	0.1%
Benefit design	Death (incl. TPD) and multiple accidental death cover attached	Endowment & survival benefit; death benefit usually equal to cash value or return of premium, with ADD, CI riders attached	Endowment & persistency bonus; death benefit equal to x% of account value	Endowment & death benefit equal to x% of account value
Premium	Mainly regular pay	Majority single pay	Single pay with flexible top up	Single pay with flexible top up
Bonus	N/A	Cash bonus or reversionary/terminal bonus	Settlement rate declared monthly	All investment return accrued to policyholder account value
Competition	N/A	Deposit and saving agreements issued by bank	Deposit and saving agreements issued by bank, investment funds	Stock and equity funds

China – New Product Development trends



Note: The above data is from an industrial exchanging platform, around 20 direct insurers (Including JV and Domestic in all Tiers) took part in the platform, i.e. not exhaustive data statistic. We can see a trend of new products developing from this.

Conclusion:

- Lack of Real Innovation, such as VA and LTC
- Endowment dominate
- Protection still focus on CI products (majority is Acceleration CI attached to Mortality, which is arguably over developed).

Competition in China L&H Reinsurance market

Reinsurer	Premium (Euro Mil)	Market Shares
China Life Re	2007	68%
Foreign Re	706	32%
Total	2,713	100%

- ❑ Similar to direct life insurance market, domestic RI company dominates the market (over 60% of which relates to inwards overseas RMB business), with the rest shared by foreign reinsurers
- ❑ All reinsurers operating in China market are fiercely competing for business across all product lines
- ❑ Foreign reinsurers de facto need to operate as a registered Branch in China

Source: 2012 China Insurance Yearbook

Summary of China outlook

	China
Life insurance market growth outlook	+
Margin outlook for life insurers	?
Life reinsurance market growth outlook	+
Likelihood of more regulatory change (capital)	☑
Level of maturity in protection product coverage	Medium
Potential for micro insurance (health, CI, life)	+

Life Insurance Environment - Brazil

USD Billion

BRAZILIAN LIFE INSURANCE MARKET				
LOB	2009	2010	2011	2011 / 2010
Group Life	5.5	5.8	6.7	16%
Ind. Life	0.9	0.8	1.1	41%
Credit Life	1.6	1.8	2.4	33%
Total Risk	8.0	8.4	10.2	22%
VGBL Pension	17.7	19.6	23.2	18%
PGBL Pension	4.8	3.3	3.8	15%
Total Pension	22.5	22.9	27.0	18%
Total Market	30.5	31.3	37.2	19%

Source: SUSEP

Life Insurance Market in Brazil

USD Million

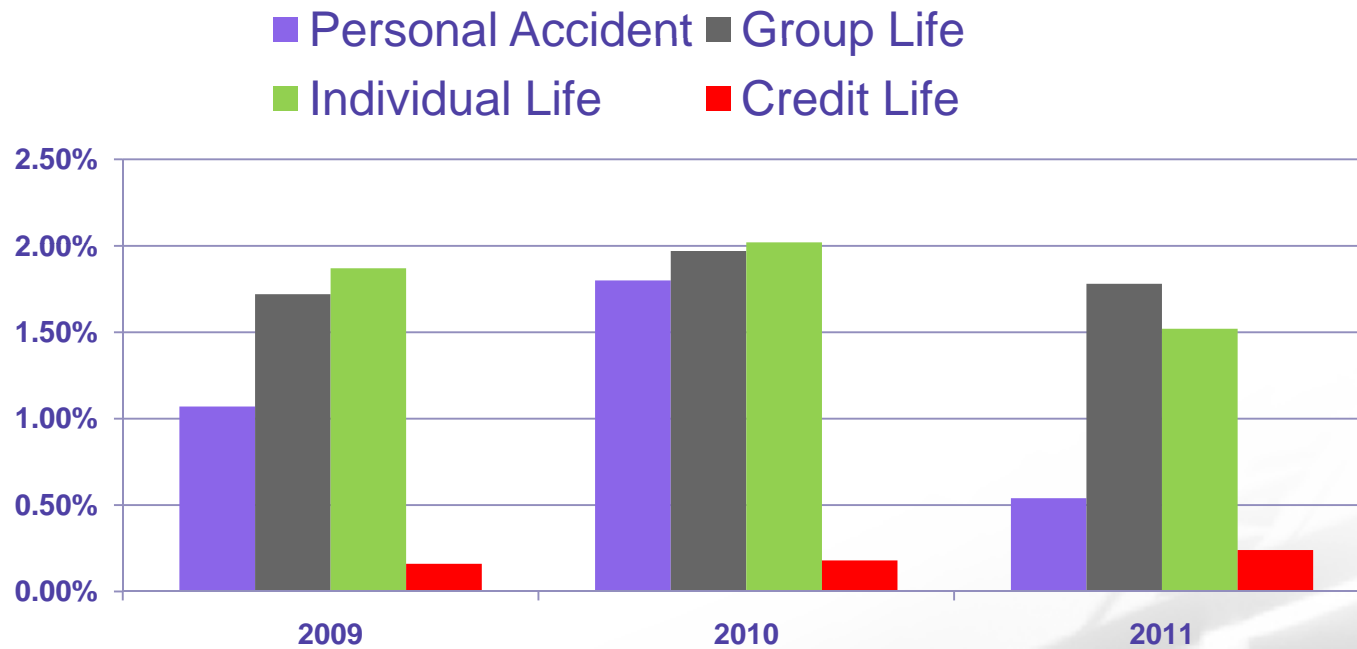
RKG	CARRIER	2011 GPW	MS
1	BB MAPFRE	2,134	18.8%
2	BRADESCO	1,889	16.6%
3	ITAU	1,704	15.0%
4	ZURICH / SANTANDER	1,386	12.2%
5	HSBC SEGUROS	509	4.5%
TOTAL TOP 20		10,802	95,1%

Bancassurance
volume drives
market share

Highly
concentrated
market

Source: SUSEP

Ceded Reinsurance according to SUSEP statistics



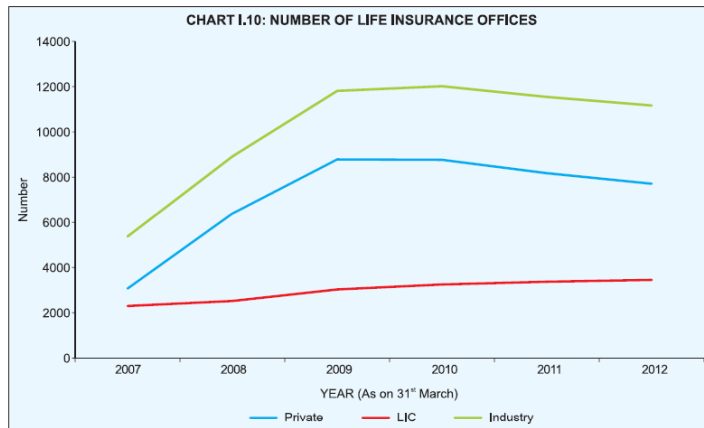
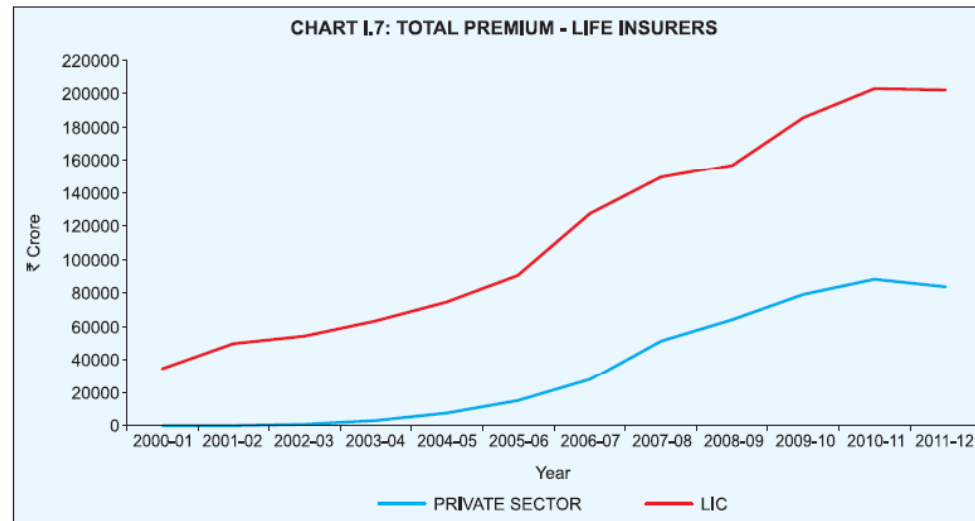
Output: Reinsurance penetration is one of lowest in LA ~1.7%

Source: SUSEP

Summary of Brazil market outlook

	China	Brazil
Life insurance market growth outlook	+	+
Margin outlook for life insurers	?	?
Life reinsurance market growth outlook	+	+
Likelihood of more regulatory change (capital)	☑	☑
Level of maturity in protection product coverage	Medium	Early
Potential for micro insurance (health, CI, life)	+	?

Premium development – some recent consolidation



	APE			
	2010	2011	% change	
Private Total	77,630	75,148	-3%	
LIC	157,801	165,389	5%	
Market Total	235,430	240,537	2%	
Unit Linked - Private	62,312	50,609	-19%	
Unit Linked - LIC	12,103	11,623	-4%	
Unit Linked as % of total	32%	26%		

Source: IRDA

Active regulatory agenda for IRDA

Exposure Release Date	Topic
Mar-11	Guidelines on Web Aggregators
Jun-11	Issue of Capital and Disclosure requirements for Life Insurers
Jul-11	Servicing of Health Insurance Schemes offered by Bodies other than insurance companies
Aug-11	Pension Products
Aug-11	ALM and Stress Testing
Jan-12	Guidelines on Prospect Product Matrix for Life Insurance
Feb -12	People living with HIV/AIDS
Mar-12	Exposure Draft on Servicing of Orphan Policies
Apr-12	Regulations for Standard Proposal Form in Life Insurance
May-12	IRDA (Health insurance) regulations
Jul-12	Micro Insurance (modification) regulations
Sep-12	Standard Insurance product for Rural and Social Sector
Oct-12	IRDA (Licensing of Bancassurance Entities) regulations
Dec-12	IRDA (Places of Business) Regulation
Jan-13	Standardization in Health Insurance
Feb-13	Risk Based Solvency Approach

Summary of life insurance market outlook

	China	Brazil	India
Life insurance market growth outlook	+	+	?
Margin outlook for life insurers	?	?	?
Life reinsurance market growth outlook	+	+	?
Likelihood of more regulatory change (capital)	☑	☑	☑
Level of maturity in protection product coverage	Medium	Early	Early
Potential for micro insurance (health, CI, life)	+	?	+