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New Trends in Income Protection Products

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Disclaimer

Yoriko Enokido, is Vice President - Research at Dai-ichi Life International (USA), Inc., a subsidiary of The Dai-ichi Mutual Life Insurance Company in Japan. The following presentation slides represent solely the work and the opinions of the author and do not constitute official views of The Dai-ichi Life International (USA), Inc. nor The Dai-ichi Mutual Life Insurance Company.

Today's Presentation

- ❑ Disability Insurance (DI) Products in Japan
- ❑ Background of Underdeveloped DI Market
- ❑ Product Design Examples
- ❑ DI Market's Growth Potential

Disability Insurance (DI) Products in Japan

- ❑ Income Indemnity Insurance & Disability Annuity
- ❑ Accident/Health Products Offered by Life Insurers
- ❑ Accident/Health Products Offered by P/C Insurers

Income Indemnity Insurance & Disability Annuity

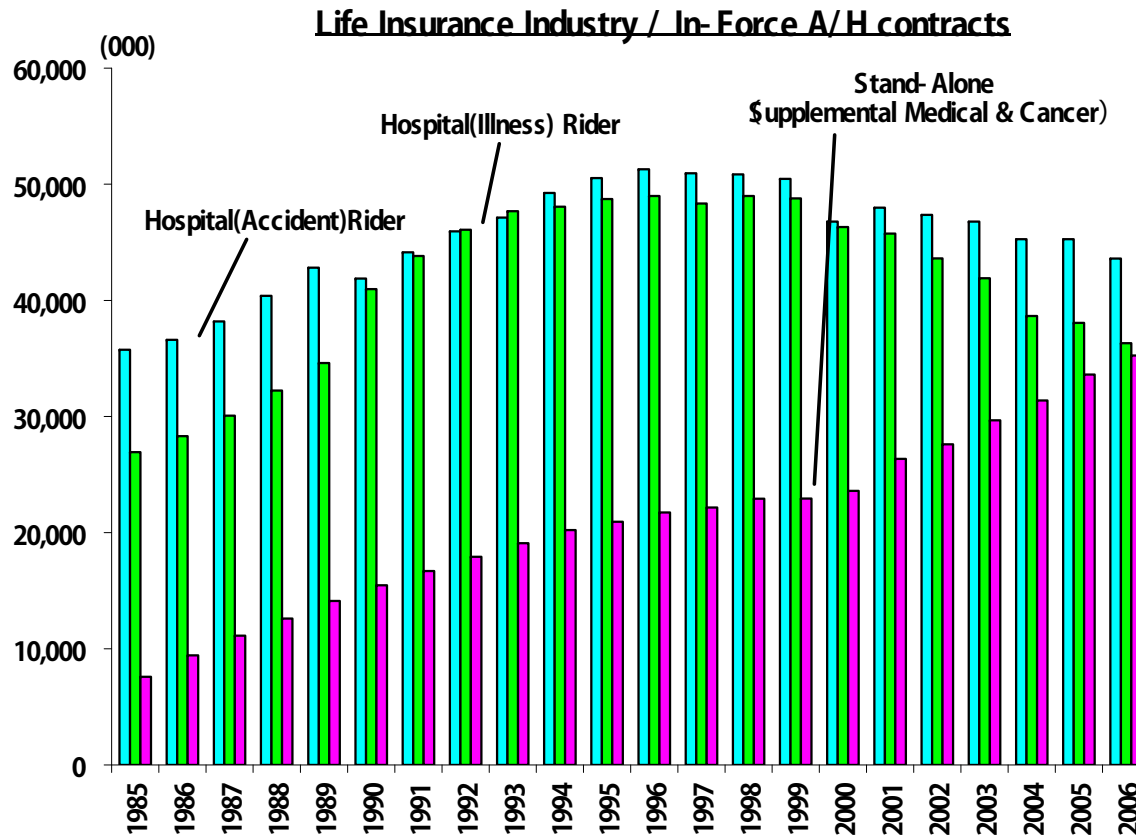
- DI has been known as “Income Indemnity Insurance (III)”, a non-life product.
- “Disability Annuity (DA) was introduced a couple of years ago.
- Neither “III” nor “DA” market has grown significantly.

| | Life Insurance (1st Sector) | Accident & Health (3rd Sector) | Non- Life (2nd Sector) |
|----------|---|---|--|
| Insurers | Life Insurers | Life Insurers & P/C Insurers | P/C Insurers |
| Products | Whole Life Term Life Endowment ... | Stand- Alone Cancer Supplemental Medical Accident LTC Annuity Income Indemnity | Auto Fire General Liability Marine ... |
| | | Rider Hospital (Accident) Hospital (Illness) Outpatient Benefit Critical Illness Disability Benefit Disability Annuity LTC Benefit | |

Source: Dai-ichi Life International

Accident/Health Products Offered by Life Insurers

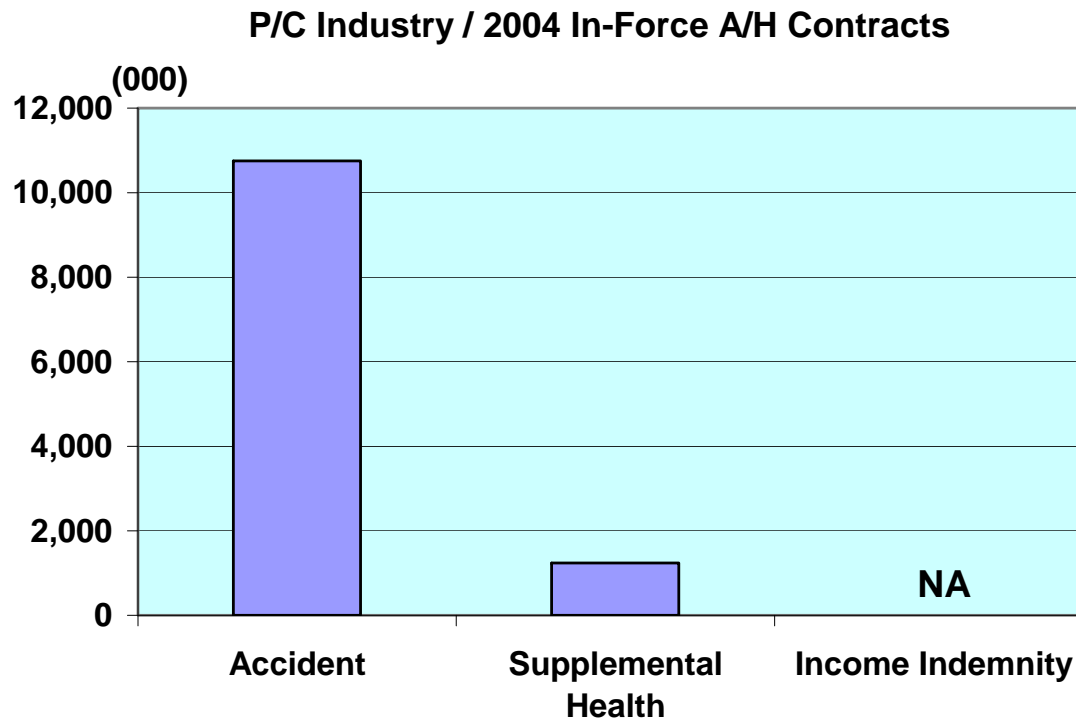
- A/H insurance market has been growing due to the rise in co-payment and the deregulations in the third sector.
- Disability Annuity market is too small to measure (no data available).



Source: Dai-ichi Life Research Institute

Accident/Health Products Offered by P/C Insurers

- P/C insurers' A/H insurance market is much smaller than the life industry's.
- Income Indemnity market has not grown and no market data is available.



Source: Dai-ichi Life Research Institute

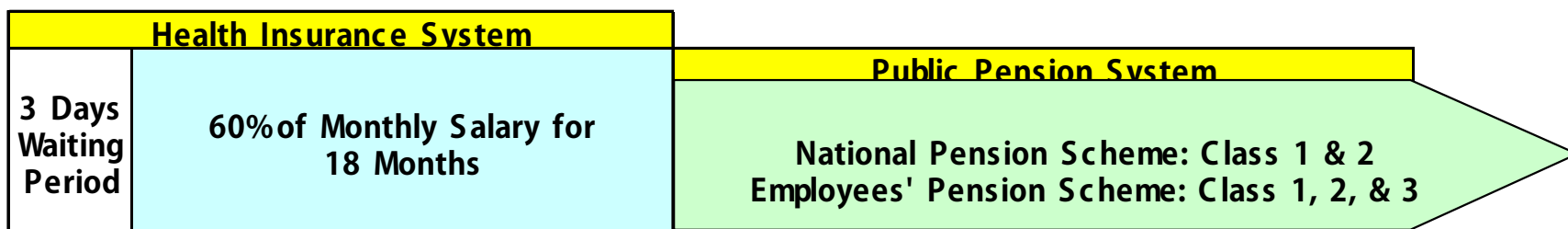
Background of Underdeveloped DI Market

- ❑ Disability Benefits provided by Social Insurance
- ❑ A/H Products' Role as Income Protection
- ❑ Lack of Insurers' Interest in the Product

Disability Benefits provided by Social Insurance

- Short- to mid-term disability benefits are provided by Health Insurance System.
- For the long-term, disability benefits are available under the Public Pension System.

Disability Compensation System in Japan



Public Pension System - Eligibility and Benefits -

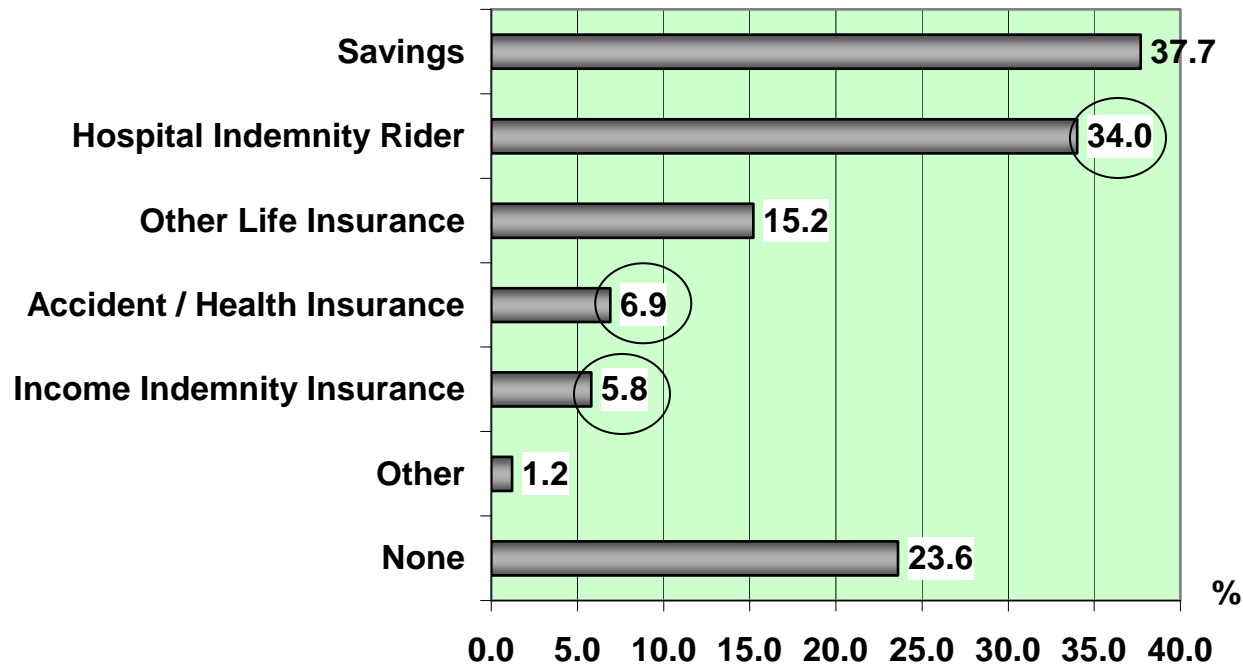
| Degree of Disability | Definition of Disability | Average Monthly Benefits (04) |
|----------------------|--|-------------------------------|
| Class 1 | Unable to manage daily life independently and in need for assistance with activities of daily living most of the time. | \ 160,000 |
| Class 2 | With great difficulty managing daily life and in need for assistance with some activities of daily living. | \ 125,000 |
| Class 3 | In a condition that limits the ability to work | \ 65,000 |

Source: Ministry of Health, Labor and Welfare, etc

A/H Products' Role as Income Protection

- A/H products pay fixed amount benefits for hospital confinement and/or lump sum benefits for specific illness/conditions.
- These benefits can be used for any purposes, including living expenses.

Which financial assets do you expect to tap into if you become disabled due to illness or injury and cannot work?



Source: 2006 National Survey on Life Insurance , Japan Institute for Life Insurance

Lack of Insurers' Interest in the Product

- “Disability Table” and other actuarial data have not been fully developed.
- Insurers have been reluctant to aggressively market “Income Indemnity Insurance” because of the subjective nature of the definition of disability (a condition of not being able to work) used in its contract.

Product Design Examples

- Income Indemnity Insurance
- Disability Annuity

□ Income Indemnity Insurance (III)

- Compared with DI in the U.S., similarities can be found in III.

| Sample Plans (Male, 30 year old, Desk Work) | | |
|--|------------------------------------|------------------------------------|
| | Insurer A | Insurer B |
| Monthly Benefit Amount | \ 150,000 | \ 150,000 |
| Benefit Period | 1 year | To Age 60 |
| Elimination Period | 14 days | 90 days |
| Risk Selection | Underwriting Questions | Underwriting Questions |
| Definition of Disability | Cannot work due to injury/ illness | Cannot work due to injury/ illness |
| Limitation | Preexisting Conditions | Preexisting Conditions |
| Return of Premium Benefit | If no claims, 20% of paid premium | - |
| AD&D Rider | \ 7,500,000 | - |
| Monthly Premium | \ 2,430 | \ 2,235 |

Source: Dai-ichi Life International

□ Disability Annuity (DA)

- DA is currently marketed as a rider to life insurance.
- DA uses specific illness/conditions as benefit triggers and describes the details in its contract provisions.

| Insurer C's Disability Annuity | | |
|---------------------------------|------------------------|---|
| Main Contract | | 10 Year Term Life Insurance with Whole Life conversion option |
| Disability Annuity Rider | Contract Period | 10 years / Renewable to Age 80 |
| | Benefit Period | 5, 10, 15 years, or Life Time |
| | Benefit Trigger | <ul style="list-style-type: none"> •Three major illness (Cancer, Heart Attack, Stroke) •Disability specified in the contract •Specific conditions requiring long-term care |
| | Death Benefit | If no claims, annual benefit amount |

| Sample Plan (Male, 35 year old, Standard Class) | | |
|---|-----------------------|------------------------|
| | Benefit Amount | Monthly Premium |
| Life Insurance | \ 24,000,000 | \ 8,178 |
| DA Rider (Life Time) | \ 1,200,000/year | \ 7,338 |

Source: Dai-ichi Life International

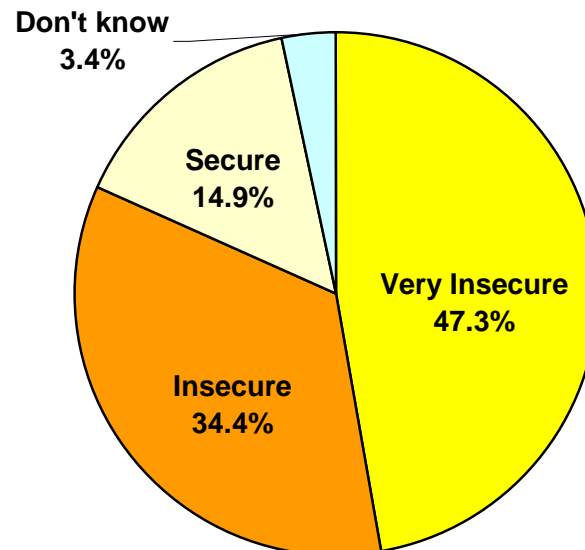
DI Market's Growth Potential

- Consumer Needs for Income Protection Products
- Market Growth Potential?

Potential consumer needs for income protection products

- The majority feels insecure about preparedness against the risk.
- The rise in the public healthcare co-payment is likely to continue.
- Social Insurance's disability benefits may not be enough for many.

How do you feel about current financial preparedness against the risk of not being able to work as a result of illness or injury?



Source: 2006 National Survey on Life Insurance , Japan Institute for Life Insurance

Does the Japanese DI Market hold growth potential?

- Some life insurers have recognized the potential and begun marketing A/H products with strong income protection features.
- Non-Life industry's approach remains to be seen.
- Consumer education could play a key role in the market growth.
- The industry needs to regain consumers' trust and confidence after the industry-wide claims handling investigation.

Thank you.

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