Agenda

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On 31 August 2017, the Office of Insurance Commission (OIC) released new Ordinary and Industrial mortality tables

The tables had been anticipated, but the mortality rates were subject to several months of debate

Tables changed due to improving mortality

Tables replace the “2008 series”, which were effective from mid-2011
The new tables
The new tables

- The table for Ordinary business is called “TMO17” and the table for Industrial business is called “TMI17”

- The tables are mandatory to set the “pricing basis” for product filing
  - For traditional products, this determines the maximum premium rates, cash surrender values, and net premium valuation mortality bases
  - For unit linked and universal life products, the new mortality tables are used to cap the cost of insurance (COI) charges that can be applied

- All new life insurance products filed with the OIC on or after 1 September 2017 must use the new 2017 mortality tables

- For life insurance products filed before 1 September 2017, no product re-filing is required “until further notice” and many expect a further announcement:
  - For traditional products, a re-filing using the new tables by a specified date
  - For unit linked and UL, that COI charges be capped at a maximum of 100% of the new mortality tables
The new tables (cont’d)

- There is an allowance for an explicit margin on top of the base mortality rates
- The margin is based on the following formula:
  Margin = \( y \frac{(qx + z)}{2} \), where
  - \( y \) is between 0 and 10%
  - \( qx \) is the table mortality rate before margin
  - \( z \) is 0.0011574 for Ordinary and 0.0039355 for Industrial. These are based on a 43- and 54-year old female from the respective tables
Comparison to past tables
Comparison vs. 2008 series

- The “2008 series” tables were called “TMO08” (Ordinary business) and “TMI08” (Industrial business) respectively.

- The graphs show the ratio of TMO17 to TMO08 and TMI17 to TMI08 mortality rates by age for males and females, assuming a margin at the maximum level (10%).
Comparison vs. 2008 series (cont’d)

- For Ordinary business:
  - The new tables are materially lower at most ages, except for infant mortality, below age 1, and some ages above age 80
  - The level of reduction varies by age, with rates for ages 10-70 being 20-50% lower for males and 20-40% lower for females

- For Industrial business:
  - The new tables are lower for most ages, except most ages below 10 and some ages above 80 for females
  - The level of reduction for ages 25-70 is 20-45%, with females having a higher reduction than males beginning at about age 30
Implications of change
Implications of change

- There are several significant implications:
  - Profitability pressures for protection business, especially credit life and term life
  - Lower profit margin on unit linked business due to the new maximum COI charges
  - Practicalities of product refiling
  - Product strategy reevaluation and product redesign
Implications of change (cont’d)

- **Profitability pressures for protection business**
  - Credit life, including mortgage reducing term assurance (MRTA) and other loan related term assurance represent a large portion of many Thai companies’ in-force portfolios.
  - These products have produced significant mortality profits, which will be difficult to maintain without product redesign and/or a reduction in compensation, both of which may be difficult to achieve in practice.

- **Impact on unit linked business**
  - Unit linked business is less prevalent than other Asian markets; however, there has been strong growth by some insurers in the past 2 years and more companies have recently been developing these products.
  - This growth has been primarily due to the prolonged low interest rate environment and increasing regulatory liberalization.
  - Therefore, this will impact some companies more than others, but especially those who are focused on the older age and substandard markets in their linked strategy.
  - There will also be an impact on embedded values is the new tables are retroactively applied to COI charges on unit linked business.
Implications of change (cont’d)

- Practicalities of product refiling
  - If existing protection products need to be refiled and repriced, especially those with different mortgage interest rates, this is likely to be time-consuming and expensive and create an additional workload for an already stretched actuarial team

- Product strategy reevaluation and product redesign
  - The changes may force product strategy reevaluation, which could result in more product innovation
  - Some companies have recently increased their focus on protection and unit linked products to reduce market risk and improve their capital position
  - Some companies may consider shifting more to a savings focus, increase policy fees and/or asset management charges on unit linked business
  - If in-force policies need to be refiled, there will be significant product redesign and repricing activity
Conclusions
Conclusion

- The new mortality tables reflect the continuing mortality improvement seen within the insured population, the improvement being due, in part, to:
  - Enhancements in medical infrastructure
  - Better access to medical facilities
  - Greater health awareness
  - Improved medical underwriting practices

- These are positive developments from a societal perspective

- However, the new tables present a variety of business and operational challenges for Thai insurers, including pressure on profit margins and the need for product redesign and repricing
Conclusion (cont’d)

- This may be a good time for Thai insurers to reconsider their product strategies, maybe even moving more into annuities given the aging population and strain on public retirement systems.

- However, there are current obstacles to this move, namely a need for a higher tax incentive, a greater supply of long-dated bonds and improvements in financial advice given to the post-retirement market.
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Thank you

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