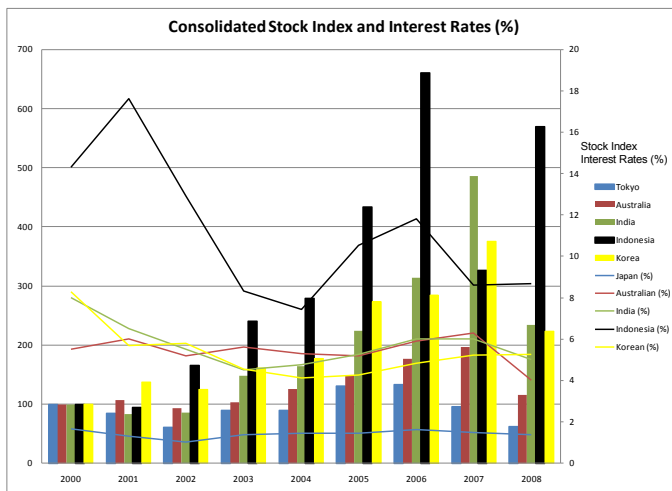


# The Day After Tomorrow for the Asian Life Insurance Industry, Pensions, and their Implications to Actuarial Consulting – Summary

## General Statistical Trends in the Market

| Decline  | Country   | Trends   |
|----------|-----------|--|
|          | Japan     | Protection business – death benefit decreasing while medical, cancer increasing<br>Variable Annuity – due to financial crisis  |
|          | Australia | Traditional (with products), fixed annuities.<br>Savings products (increasingly to mutual funds).  |
|          | China     | Gross premium of the largest life insurance companies despite significant growth between 2006 – 2008<br>Net Profit – Total life insurance premium, unit linked products, Universal Life products, etc. |
|          | India     | Protection business  |
|          | Indonesia | Significant decrease in new business   |
|          | Malaysia  | Significant decrease in new business   |
|          | Korea     | Variable products – VUL/UL   |
|          | Thailand  | Group business   |
|          | Taipei    | Protection business  |
| Increase | Country   | Trends   |
|          | Japan     | Fixed Annuity – due to the aging population  |
|          | Australia | Term life, disability, critical illness, variable annuities.   |
|          | China     | Products with more protection features such as risk protection   |
|          | India     | Annuity business   |
|          | Indonesia | Slight growth from early Q1 2009 to Q3 2009  |
|          | Malaysia  | Insurance market penetration rate  |
|          | Korea     | Protection business  |
|          | Thailand  | Ordinary, Industrial, Personal Accident business   |
|          | Taipei    | Annuity, Medical new business  |



## Strategies and Actions

|           |   |
|-----------|---|
| Japan     | <ul style="list-style-type: none"> <li>Develop mid-term (3 to 4-year) business plans</li> <li>Enhance existing risk management processes, implement Enterprise Risk Management (ERM)</li> <li>Strengthen marketing channels – include bank assurance, Internet-based sales methods</li> <li>Enter other markets through acquisition or joint ventures</li> <li>Discontinue variable annuity contracts with minimum guarantees (GMXB)</li> </ul> |
| Australia | <ul style="list-style-type: none"> <li>Much consolidation – Economies of scale, distribution</li> <li>Business grouping (bank/insurance/funds management)</li> <li>Internal specialisation - insurance vs. investment products</li> <li>Cost reduction and increased automation: including automatic underwriting, straight through (electronic) processing – reducing new business barriers and costs</li> </ul>                               |
| China     | <ul style="list-style-type: none"> <li>Adjust asset allocation structure/monitor investment risk effectively</li> </ul>   |

|           |  |
|-----------|--|
|           | <ul style="list-style-type: none"> <li>Adjust product structure to protection type of products</li> <li>Strengthen risk management in life insurance company</li> <li>Strengthen cooperation with Bank, increase market share</li> </ul>   |
| India     | <ul style="list-style-type: none"> <li>Risk management – balance sheet, economic capital assessment, asset liability management</li> <li>Regulatory and Profit Reporting – market consistent framework, Solvency II</li> <li>Improve performance and efficiency – new distribution channels, cost control</li> </ul>   |
| Indonesia | <ul style="list-style-type: none"> <li>Product Switching Strategy – from Traditional/conventional life to Unit Link/Investment type of product</li> <li>Multi Chanel Distribution – replace Fixed Cost type of expenses to Variable Cost</li> <li>Bancassurance, Alternative Distribution are most favourable Sales Channel</li> <li>Transform Tied Agency to General Agency</li> <li>Risk Based Capital requirement to assess the financial solvency for Insurance Company</li> <li>Annuity Product is still avoided</li> </ul> |
| Korea     | <ul style="list-style-type: none"> <li>Focus on protection type products                             <ul style="list-style-type: none"> <li>Less emphasis on savings type products, VUL, variable annuity</li> </ul> </li> </ul>   |
| Thailand  | <ul style="list-style-type: none"> <li>New products – when/how the price should be adjusted to adapt to the new world</li> <li>In force products – to the extent that products are not adequately matched, the decline in yields have created and interest rate gap between liability requirements and what assets can deliver today</li> </ul>  |

## Regulatory Changes

|           |   |
|-----------|---|
| Japan     | <ul style="list-style-type: none"> <li>Risk factors modified to reflect recent market data</li> <li>Credibility level increased from 90% to 95%</li> <li>Diversification effects must reflect a company's own asset portfolio</li> <li>Limitations on "soft capital" introduced in solvency ratio calculations</li> <li>Appointed actuary must review and certify Solvency margin calculation</li> <li>Changes effective FY2011 – trial period FY2010</li> <li>Midterm goal – "Economic Value" based risk management/ALM</li> </ul>   |
| Australia | <ul style="list-style-type: none"> <li>Prudential Reviews:                             <ul style="list-style-type: none"> <li>Capital requirements – aligning life and P&amp;C</li> <li>Executive remuneration – linking to risk management</li> </ul> </li> <li>Product &amp; Distribution Reviews: provision of advice, commission vs. "financial planning fees", disclosure requirements, product fee levels (costs).</li> <li>Tax review: likely to impact investment and retirement products</li> <li>Regulation to help facilitate product rationalisation</li> </ul> |
| China     | <ul style="list-style-type: none"> <li>Guidance on commercial bank's investment in insurance company</li> <li>CIRC No. 33, 89, 53, 17, 40, 42, 43, 45</li> <li>New accounting policies to converge with IFRS</li> </ul>   |
| India     | <ul style="list-style-type: none"> <li>Guidelines for unit-linked products – capped charges</li> <li>Economic Capital assessment, report</li> <li>Guidelines for valuation of insurance companies</li> <li>1938 th Insurance Act Bill to be passed</li> </ul>   |
| Indonesia | <ul style="list-style-type: none"> <li>Strengthen supervision, law enforcement of violations</li> <li>Standard Practice for in-house Actuary</li> <li>Implementation of IFRS</li> </ul>   |
| Malaysia  | <ul style="list-style-type: none"> <li>Product Transparency guidelines</li> <li>Guidelines in Unit Linked products</li> </ul>   |
| Korea     | <ul style="list-style-type: none"> <li>Introduction to Risk Based Capital (RBC) system</li> <li>Introduction to Cash Flow Pricing method</li> </ul>   |
|           | <ul style="list-style-type: none"> <li>Proposal to limit amount of assets invested in equity depending on the level of capital adequacy</li> </ul>  |
| Thailand  | <ul style="list-style-type: none"> <li>Risk Based Capital framework introduced – effective 2011</li> </ul>  |

|        |  |
|--------|--|
| Taipei | <ul style="list-style-type: none"> <li>➢ Development of micro insurance</li> <li>➢ Stringent regulation – Investment-Linked Product</li> <li>➢ Lowered prescribed valuation interest rate</li> <li>➢ Appointed Actuaries required to provide opinions on “Solvency” and “Investment Policy”</li> <li>➢ Restrictions relaxed for overseas’ Investment of Insurance Company</li> </ul> |
|--------|--|

## Pension – Regulatory and Trends

|           |  |
|-----------|--|
| Japan     | <ul style="list-style-type: none"> <li>➢ Ministry granted pension funds, more time to employers</li> <li>➢ Shift from Employees Pension Fund/Qualified Pension to Defined Benefit Corporate Pension Plan</li> <li>➢ Assumed interest rate reduced and allocation to equities will be diminished</li> <li>➢ Reduction of Pension Obligations, interest rate for pensioners</li> </ul>   |
| Australia | <ul style="list-style-type: none"> <li>➢ Level of contributions for tax concessions halved</li> <li>➢ Changes to salary base on contributions</li> <li>➢ Ripoll enquiry</li> <li>➢ Cooper Review</li> <li>➢ Henry Review of Taxation</li> <li>➢ Anti money laundering and counter terrorism tightened</li> </ul>   |
| China     | <ul style="list-style-type: none"> <li>➢ Emphasize development of enterprise annuity pension</li> <li>➢ EAP business developed from current pension asset of pillar I, II and III</li> <li>➢ Tax exemption policies for the contributions from employee</li> </ul>   |
| India     | <ul style="list-style-type: none"> <li>➢ Mandatory lump sum Provident Funds regulated by EPFO</li> <li>➢ Voluntary funded Group Pension – DC or DB</li> <li>➢ Mandated Group Gratuity (lump sum DB benefit), if voluntarily funded</li> <li>➢ Employer established pension/retirement plans of DB type require actuarial reporting</li> <li>➢ No published data for unregulated pension/retirement</li> </ul>  |
| Indonesia | <ul style="list-style-type: none"> <li>➢ Less procedure on pension fund set-up, broader range of products, definition of Financial Institution Pension Fund</li> <li>➢ Implement IFRS on Pension Fund</li> <li>➢ A lump-sum defined benefit severance program (including payment upon retirement) required under Labor Law has created competition with pension fund product (currently can only fund for annuity-payment pension program)</li> <li>➢ Mandatory Severance Program in Labor Law also creates tight competition between Pension Fund and Life Insurance companies which can offer funding vehicle for the program.</li> <li>➢ Risk Management, assessment of financial capability, solvency of pension fund using risk-based measurements</li> </ul> |
| Malaysia  | <ul style="list-style-type: none"> <li>➢ Employee Provident Fund</li> <li>➢ Private pension funds</li> <li>➢ Tax exemption retirement investments – annuities</li> <li>➢ Self-employed may contribute to EPF</li> <li>➢ Introduction of private pension products</li> </ul>  |
| Korea     | <ul style="list-style-type: none"> <li>➢ Three Pillar System</li> <li>➢ National Pension System (NPS) – public pension system</li> <li>➢ Retirement pension plan –DB or DC</li> <li>➢ Voluntary personal pension plan</li> </ul>   |
| Thailand  | <ul style="list-style-type: none"> <li>➢ Pillar 1: Publicly Mandated, Publicly Managed</li> <li>➢ Old Age Pension System</li> <li>➢ Pillar 2: Publicly Mandated, Privately Managed</li> <li>➢ Civil servants pension plan</li> <li>➢ National Pension Fund – DC with DB</li> <li>➢ Provident Fund – co-contribution (employee/employer)</li> <li>➢ Retirement Mutual Fund – private contribution with tax concessions</li> <li>➢ Issues with long term viability of existing unfunded DB scheme in public sector</li> <li>➢ Significant proportion of population not adequately covered</li> </ul>   |

## Impacts and Opportunities

|           |   |
|-----------|---|
| Japan     | <ul style="list-style-type: none"> <li>➢ IFRS Phase2 and Solvency II implement/advisory</li> <li>➢ ERM, (Economic capital model) implement/review/audit</li> <li>➢ MCEV – reporting standard for EV disclosures</li> <li>➢ Market entry advisory engagements developing markets</li> <li>➢ M&amp;A</li> <li>➢ “Peer Review” advisory</li> </ul>   |
| Australia | <ul style="list-style-type: none"> <li>➢ Regulations, industry consolidation, etc short term opportunities.</li> <li>➢ Reducing numbers of insurers in the market (post consolidation) resulting in fewer clients</li> <li>➢ Bigger clients accessing external best practice, etc</li> <li>➢ Marketing skills differ between large and small clients</li> </ul>   |
| China     | <ul style="list-style-type: none"> <li>➢ Variable Annuity – product development, System implementation</li> <li>➢ Enterprise risk management implementation</li> <li>➢ M&amp;A – due diligence</li> <li>➢ Bank investment in insurance companies – Due diligence</li> <li>➢ Knowledge transfer to banks as shareholders</li> <li>➢ Reserve evaluation – Advice/implementation</li> </ul>  |
| India     | <ul style="list-style-type: none"> <li>➢ Benefits Practice</li> <li>➢ Life Insurance – review/pricing/general advisory</li> <li>➢ Off-shored actuarial support</li> </ul>   |
| Indonesia | <ul style="list-style-type: none"> <li>➢ Upgrade knowledge/competency of Insurance business</li> <li>➢ Develop SOP to match Standard Practices of Society of Actuary</li> <li>➢ Specific expertise to focus on Life, Accident &amp; Health, Investment Linked, Annuity etc.</li> </ul>  |
| Malaysia  | <ul style="list-style-type: none"> <li>➢ Implementation of TCF</li> <li>➢ Re-pricing exercise due to RBC, TCF, etc</li> <li>➢ Consulting on capital management plan</li> <li>➢ New products to be designed, e.g. retirement products</li> <li>➢ Government initiatives on personal pensions will provide more consulting needs</li> </ul>   |
| Korea     | <ul style="list-style-type: none"> <li>➢ Support clients due to rapid change in business environment</li> <li>➢ Regulation driven reporting advisory/implementation</li> </ul>  |
| Thailand  | <ul style="list-style-type: none"> <li>➢ Increased Asset and Liability Management</li> <li>➢ Limited consulting actuaries in local market</li> <li>➢ RBC advisory/implementation</li> <li>➢ Set up of DC – decreased need in liabilities valuation</li> <li>➢ IFRS – valuation of other employee liabilities</li> <li>➢ Asset allocation advisory</li> <li>➢ Leadership role in development of better pension system</li> </ul> |

## Closing Remarks:

The financial crisis revealed weaknesses and flaws in the regulatory and risk management systems of companies. Many financial companies failed to mitigate the risks presented by the financial crisis despite having these systems.

This also holds true for the Asian financial market as indicated by statistical data throughout the period. As a result, Enterprise Risk Management is now the main focus for implementation and operating efforts of insurance companies. Regulators have also tightened measures in minimum capital requirements following developments such as Solvency II in Europe.

Fears of a global recession saw the need for International Cooperation in order to revive the world’s financial systems. This called for the involvement of the G20, rather than the original G8 countries. In addition to the original G8, the new G20 (19 countries and the EU) now includes additional countries, with the most number of countries coming from Asia. These additions are Australia, China, India, Indonesia and South Korea.

The effect of the financial crisis on the Asian insurance industry was relatively mild with indicators revealing signs of recovery as early as 2009. With proper risk management and by bringing relevant actuarial expertise, we can ensure a thriving market for actuary consulting in the continued development of the overall Asian insurance industry.