Authors
Peggy Fang
Craig Ford

Editor
Bérangère Mainguy
Tel: +33 (0)1 46 98 84 73
Fax: +33 (0)1 46 98 84 07
life@scor.com

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Gilles Meyer

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Product & Distribution Trends for Asia-Pacific

Foreword

It is my pleasure to introduce the inaugural edition of SCOR Asia-Pacific Product & Distribution WATCH. This newsletter is meant to provide you, our valuable partner, with an overview of the recent product development trends in Asia-Pacific.

In the past, countries of Asia-Pacific tend to look to the West for new product ideas but increasingly the level of innovation within Asia-Pacific has caught up or if not superseded the West in some areas. Moreover the cultural similarities within these countries have meant that a product idea in an Asia-Pacific country will find easier acceptance than one from the West.

Through this newsletter, we hope to encourage a healthy cross-fertilisation of ideas across the region.

In this inaugural edition, we will be summarizing interesting developments in the product and distribution arena in Australia and Taiwan. Subsequent editions will delve into other regions in Asia-Pacific.

We hope you will find the information useful and please do not hesitate to provide any feedback so that we can continue to improve our service to you.

Best regards

Ollivier Goualou
Managing Director, Asia-Pacific
Taiwan

Taiwan is the 5th largest life insurance market in Asia behind Japan, China, Korea, and India.

Insurance penetration is also one of the highest in Asia and with a population of around 22 million and 30 life companies, the market environment is very competitive. Product innovation is a key competitive advantage which companies actively pursue.

As with most Asian life insurance markets, savings type products continue to dominate sales although unit-linked plans have lost popularity following the worldwide economic crisis. In their place, traditional savings products like Endowment/Whole Life plans with regular coupon payments, Variable Annuities and Universal Life plans have become popular.

Due to the low interest environment, foreign denominated plans are currently very popular.

While savings-type products dominate, there has also been a steady push for protection products. The next sections highlight some of the more interesting product developments in recent times.

Recent Product Developments

1. US dollar denominated Whole Life product with regular coupon payments

The low interest environment in Taiwan (savings interest rate as low as 0.1% per annum) in recent years has driven insurers to look for ways to increase production. This led to the development of US dollar denominated products which offer a much better return than local currency denominated plans.

The product is designed with a limited premium period of 6 years which is a popular premium model in Taiwan. The common marketing message adopted is that buying the product is not unlike investing in real estate (another popular investment tool in Taiwan) whereby the premiums are like the instalments for the loans and the coupon payments akin to rental received. This message has been well received with consumers and such products are widely distributed via bancassurance and agency forces. Production to-date has exceeded expectation achieving a 23% share of the Traditional Life insurance Products market and with First Year Premium figures reaching NT$ 135 billion (approx. Euro 3.4 billion) in 2010.

Often policyholders are encouraged to surrender their policy earlier. For example based on the following illustration, the policyholder stands to achieve an IRR of around 2.3% per annum should he/she surrender on the 10th policy year. The return is better than the savings interest rate offered by banks, although it is important to note that the policyholder bears the currency exchange risks if local currency is used to make premium payments.

<table>
<thead>
<tr>
<th>Policy year</th>
<th>Age</th>
<th>Accumulated Premium Paid</th>
<th>Survival coupon</th>
<th>Accumulated survival coupon</th>
<th>Death benefit</th>
<th>Cash surrender value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30</td>
<td>61,690</td>
<td>0</td>
<td>0</td>
<td>63,540</td>
<td>37,360</td>
</tr>
<tr>
<td>2</td>
<td>31</td>
<td>123,380</td>
<td>3,000</td>
<td>3,000</td>
<td>127,080</td>
<td>78,890</td>
</tr>
<tr>
<td>5</td>
<td>34</td>
<td>370,140</td>
<td>6,000</td>
<td>18,000</td>
<td>317,700</td>
<td>254,140</td>
</tr>
<tr>
<td>6</td>
<td>35</td>
<td>370,140</td>
<td>6,000</td>
<td>24,000</td>
<td>381,240</td>
<td>328,130</td>
</tr>
<tr>
<td>7</td>
<td>36</td>
<td>370,140</td>
<td>12,000</td>
<td>36,000</td>
<td>381,240</td>
<td>340,340</td>
</tr>
<tr>
<td>10</td>
<td>39</td>
<td>370,140</td>
<td>12,000</td>
<td>72,000</td>
<td>381,240</td>
<td>353,380</td>
</tr>
<tr>
<td>20</td>
<td>49</td>
<td>370,140</td>
<td>12,000</td>
<td>192,00</td>
<td>390,750</td>
<td>378,750</td>
</tr>
<tr>
<td>41</td>
<td>70</td>
<td>370,140</td>
<td>12,000</td>
<td>444,000</td>
<td>500,000</td>
<td>477,100</td>
</tr>
<tr>
<td>51</td>
<td>80</td>
<td>370,140</td>
<td>12,000</td>
<td>564,000</td>
<td>600,000</td>
<td>555,960</td>
</tr>
<tr>
<td>81</td>
<td>110</td>
<td>370,140</td>
<td>12,000</td>
<td>912,000</td>
<td>900,000</td>
<td>900,000</td>
</tr>
</tbody>
</table>
2. Like in many countries in Asia, multiple disease coverages have been introduced in Taiwan and below is a brief description of the first Multiple Events CI plan introduced.

- Separates diseases into groups and allows a maximum of 3 payments for each different group of CIs but with at least one year between each payment.
- If no prior CI payments are made, the Death benefit, equivalent to the maximum of the Face Amount or the Return of Premiums, is paid out. The Return Of Premium (ROP) feature adds a nice marketing message in that one is just using interest foregone to purchase the protection.

3. Whole Life Limited Premium Personal Accident Cover

- Limited level premium payment period but coverage for the whole of the client’s life.
- Max. Face Amount per policy - NT$ 5 million or approx. Euro 125,000.
- Unit rate for occupational class 1-4 and issue age up to 60.
- Refund 102% of premium after 20 years of premium paid but coverage continues.
- Special benefits, including 3 and 4 times of Face Amount (FAA) if accident due to land/sea, air public transportation, 5% - 400% FA paid for accidental dismemberment, 20% FA paid for major burn, R&B and surgical benefits for hospitalization due to accident, refund of premium if death due to non-accidental causes.
- Mainly distributed through telemarketing.

New regulation/rules impact new product selling

- Death benefit for ages under 15 is no longer allowed (before it was NT$2mn or around Euro 50,000). All products were subsequently revised, and sales of children’s policies plummeted.
- Policyholders must be allowed to review policy provisions three days before policy issue. This has made the telemarketing process more difficult.
- The manner in which new business sales are reported has also been revised. For premium payment for a period of less than 6 years, the premium is discounted when measuring new business sales. For example, single premium plans will now only be recorded as 10% of the single premium amount when tabulating new business sales. This has driven companies to shift their focus to products with longer premium payment terms.
- Private data protection law and regulation imposing limited cross selling within Financial Holding Company (FHC) have made distribution more complex. Private data protection may limit companies’ reviews of medical history for risk assessment purposes (although the Insurance association is still lobbying for the exclusion of its application to life insurance). Telemarketing has also been affected due to the limitation in using data within FHC (leads from banks) for cross selling purposes.
Australia

The Australian market is one of the most developed in the world. The predominant distribution channel is through Independent Advisers, and product providers have focused on ensuring that their products are rated highly in terms of coverage and features by the influential Ratings Houses. However, recent entrants have focused on “changing the game” through genuine innovation. This has led to innovation in product, proposition and process (see summary below) and increased polarisation between more comprehensive propositions (focusing on completeness of coverage and brand protection/enhancement) and “micro” products (with limited conditions coverage and a simple presentation).

<table>
<thead>
<tr>
<th>Product Proposition</th>
<th>Comprehensive</th>
<th>Severity based Death/Health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple</td>
<td>Specific conditions</td>
<td></td>
</tr>
<tr>
<td>Advice</td>
<td>Access to third party experts</td>
<td></td>
</tr>
<tr>
<td>Process</td>
<td>Removal of Medicals</td>
<td></td>
</tr>
<tr>
<td>Lifestyle added value</td>
<td>Premium reduction for healthy lifestyle</td>
<td></td>
</tr>
<tr>
<td>Loyalty Bonus</td>
<td>Linkage to Rewards programme</td>
<td></td>
</tr>
</tbody>
</table>

1. “All-in-one” solution rolling Life, TPD, Income Cover & Trauma/CI into one Integrated Policy

- Claims based on severity of the condition or event
- Pays multiple claims for the same event, based on severity
- Offers optional Income and Child Covers
- Policy remains in-force regardless of no. of claims
- Health event cover up to A$3m
- Death & terminal illness - no maximum
- Income cover up to A$40k per month
- Child cover up to A$250k
<table>
<thead>
<tr>
<th>Body system</th>
<th>Health Events Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancer</td>
<td>solid tumours cancers</td>
</tr>
<tr>
<td></td>
<td>lymphomas</td>
</tr>
<tr>
<td></td>
<td>brain tumours</td>
</tr>
<tr>
<td></td>
<td>leukaemias</td>
</tr>
<tr>
<td></td>
<td>other cancers (e.g. aplastic anaemia, multiple myeloma)</td>
</tr>
<tr>
<td>Heart and artery</td>
<td>heart attack</td>
</tr>
<tr>
<td></td>
<td>cardiomyopathy</td>
</tr>
<tr>
<td></td>
<td>other heart and artery conditions (e.g. severe congestive cardiac failure, severe peripheral vascular disease)</td>
</tr>
<tr>
<td></td>
<td>heart transplant</td>
</tr>
<tr>
<td></td>
<td>surgical procedures (e.g. coronary artery bypass graft, heart valve repair, endovascular iliac or femoral artery aneurysm repair)</td>
</tr>
<tr>
<td>Brain and nerves</td>
<td>stroke</td>
</tr>
<tr>
<td></td>
<td>cognitive conditions (e.g. diagnosis of dementia including Alzheimer’s disease)</td>
</tr>
<tr>
<td></td>
<td>coma</td>
</tr>
<tr>
<td></td>
<td>surgical procedures and events (e.g. endovascular treatment of a cerebral aneurysm, stereotactic brain surgery)</td>
</tr>
<tr>
<td>Digestive system</td>
<td>transplants</td>
</tr>
<tr>
<td></td>
<td>surgical procedures (e.g. colostomy/ileostomy, surgical repair of tracheo-oesophageal fistula)</td>
</tr>
<tr>
<td></td>
<td>other digestive conditions (e.g. gastrointestinal disease, Crohn’s disease, portal vein thrombosis)</td>
</tr>
<tr>
<td></td>
<td>liver conditions</td>
</tr>
<tr>
<td>Kidneys and urogenital tract</td>
<td>renal failure</td>
</tr>
<tr>
<td></td>
<td>kidney transplant</td>
</tr>
<tr>
<td></td>
<td>surgical procedures (e.g. nephrectomy)</td>
</tr>
<tr>
<td>Lungs</td>
<td>diseases of the lung</td>
</tr>
<tr>
<td></td>
<td>surgical procedures (e.g. lobectomy)</td>
</tr>
<tr>
<td></td>
<td>lung transplant</td>
</tr>
<tr>
<td></td>
<td>other lung conditions (e.g. lung abscess)</td>
</tr>
<tr>
<td>Musculoskeletal system</td>
<td>burns</td>
</tr>
<tr>
<td></td>
<td>back, limb and whole person impairment</td>
</tr>
<tr>
<td>Eye</td>
<td>loss of hearing</td>
</tr>
<tr>
<td></td>
<td>surgical procedures (e.g. inner ear or middle ear surgery)</td>
</tr>
<tr>
<td>HIV / AIDS</td>
<td>HIV / AIDS</td>
</tr>
<tr>
<td>General</td>
<td>hospital admission</td>
</tr>
<tr>
<td></td>
<td>inability to perform activities of daily living</td>
</tr>
</tbody>
</table>
Benefit Illustration - Example
A 38-year old male applying for an initial amount of cover of $1m plus $500k of additional death cover, which provides the following levels of cover per benefit category. These are then reduced by any subsequent claims e.g. a $50k claim would reduce the cover under benefit categories AA and A to $1,450k and $950k respectively.

<table>
<thead>
<tr>
<th>Benefit Category</th>
<th>Type of cover</th>
<th>Max Amount Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA</td>
<td>Death &amp; Terminal Illness</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>A-100%</td>
<td></td>
<td>$1,000,00 (initial amount of cover)</td>
</tr>
<tr>
<td>B-65%</td>
<td></td>
<td>$650,000</td>
</tr>
<tr>
<td>C-40%</td>
<td>Health Events</td>
<td>$400,000</td>
</tr>
<tr>
<td>D-20%</td>
<td></td>
<td>$200,000</td>
</tr>
<tr>
<td>E-5%</td>
<td></td>
<td>$50,000</td>
</tr>
</tbody>
</table>

2. Severity-based cancer product
- Possibility to choose 4 levels of cover: $25,000; $50,000; $75,000 or $100,000.
- Pays 2 to 3 times the benefit level depending on the severity of the cancer.
- Multiple claims allowed – higher severity, or progressive (existing claim).
- 10% of premium donated to Charity. In Australia, donation to charitable organisation is widely popular and a product being affiliated directly with the Charity may give positive impression, aiding sales.
- Cancer Care Plus:
  - Optional cover at an additional cost.
  - Pays a lump sum equal to the benefit level on diagnosis of one of 22 additional medical conditions (including heart attack, stroke & MS).

MetLife's Cancer Cover (with ACRF)
- Distributed direct-to-consumer through the internet
- No blood tests or medicals required
- First cancer-only product in the market
- Uses e-underwriting to balance risk selection and customer experience
- Linked to the Australian Cancer Research Foundation (ACRF)

Source www.cancercare.net.au
3. Best Doctors

Best Doctors was established to achieve one specific goal; namely to connect ill people to a network of peer-nominated leading specialists from around the globe. These doctors are able to provide confidence, clarity and certainty to the patient’s diagnosis and treatment plan.

A company pays for the client’s access to the service. 20% of enquiries to Best Doctors have been for children and 50% by clients under the age of 40.

4. Removal of Medical Attendants Reports

- Eliminated PMARs (Personal Medical Attendant Reports) for all types of cover and increased non-medical and financial underwriting limits.
- Elimination of Specialist Medical examinations.
- Elimination of mandatory ECGs (for <$5m and/or <$50).
- No mandatory medical requirements for clients <55 applying for <$1m Life/TPD.
- No mandatory medical requirements for clients <50 applying for <$750k Recovery.
- No mandatory mammograms or PSA for clients <50.
5. Wellness Option

For clients satisfying a set of health and lifestyle criteria, their Life Cover premiums are reduced by 20%.

There is an opportunity every year to retain the 20% discount by taking the same tests and satisfying the criteria. If the client chooses not to take the tests, then the discount is reduced by 1% p.a. Once it reaches 10% (after 10 years), a 10% discount is guaranteed for the life of the policy.

Any time up to age 55, one can reapply and can be reinstated to 20%. This option applies to new and existing policyholders as long as their life cover > $250k.

6. Frequent Flyer Linkage

Tapping into Qantas large membership base of 7.4 million, this provider’s clients can earn Qantas Frequent Flyer points through the payment of eligible life insurance premiums. Policy payments earn 1 point per $ paid up to 20,000 points p.a. on advised and Direct products.

Linkage to Health programs overseas which provide membership benefits for gyms, cinemas, health clubs etc. have also been welcomed by clients.

If there is any feedback/comments you wish to share with us OR if you wish to know more of the products & distribution trends highlighted in this edition, please do not hesitate to contact the local SCOR Global Life offices listed below.

Australia
SCOR Global Life Australia Pty Limited
Level 32 Australia Square
264 George Street
Sydney NSW 2000
Australia
Tel: +61 (0) 2 9276 3501
Fax: +61 (0) 2 9276 3500

China
SCOR S.E. Beijing Branch
Unit 1218-1220 China World Office 1
NO.1, Jian Guo Men Wai Avenue
Beijing, 100004
China
Tel.: +86 10 6505 5238
Fax: +86 10 6505 5239

India
SCOR India
c/o DBS Business Center
2nd Floor Rahejo Chambers
Free Press Journal Road, 213,
Nariman Point
Mumbai 400021
India
Tel.: +91 22 40509200

Japan
SCOR Services Japan Co. Ltd
5F, Kioicho Bldg.,
3-12 Kioi-cho, Chiyoda-ku
Tokyo 102-0094
Japan
Tel.: +81 (0) 3 3222 0721
Fax: +81 (0) 3 3222 0724

Korea
SCOR Reinsurance
Asia Pacific Pte. Ltd.
Korean Branch
25th Floor, Taepyungro Building
#310 Taepyung-Ro 2 GA
Chung-Gu 100-767
Seoul
South Korea
Tel.: +82 (0) 2 779 7267
Fax: +82 (0) 2 779 3177

Malaysia
SCOR Global Life S.E.
Labuan Branch
Level 11(B), Block 4 Office Tower
Financial Park Labuan Complex
Jalan Merdeka
87000 F.T., Labuan
Malaysia
Tel.: (65) 6309 9450 / (65) 62201730
Fax: (65) 6220 1202 / (65) 6309 9452

Singapore
SCOR Global Life SE, Singapore Branch
143 Cecil Street
#22-01/04 GB Building
Singapore 069542
Tel.: +65 6309 9450 / +65 6220 1730
Fax: +65 6309 9451 / +65 6220 1202

Taiwan
SCOR Global Life S.E.
Taipei Representative Office
11F/B, No. 167 Tun Hwa North Road
Taipei 105,
Taiwan
Tel.: +886 2 2717 2278
Fax: +886 2 2713 0613