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The Reinsurer's View on Collaboration

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Collaboration:
work jointly on an activity or project

But there could be variations of collaborations

- Strategic or transactional?
- Shared or separate goals?
- Proactive or reactive?
- Innovative or a revamp?
- …

Today, insurance industry is experiencing changes

Just to name a few…

Demographic changes

- Aging population
- Emerging middle class
- Urbanization

Technology advancement

- Digitization
- Competition from alternative providers

Policy / Regulation changes

- Capital regime being updated with new and increasing requirements

Investment environment

- Persistent low or even negative interest rate
- Volatile markets

Customer centricity

- Demand for higher transparency
- Demand for simpler process

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… different strategic topics emerge, reinsurer has a role to play & collaborate with insurers

Topics to be covered in today's presentation

Example 1

Digital Strategy

With e-commerce gaining popularity, insurers are trying to sell insurance online

- How to make it work?
- What products to sell?
- How to enhance customer satisfaction?

Example 2

Selling Protection via Banks

Regional bancassurance partnership deal is getting more valuable

- How to best capture the value from banks distribution?
- How to streamline the sales process?

Example 3

Enhancing Capital Efficiency

Insurers are increasingly using reinsurance as a capital and risk management tool

- How can reinsurance help manage capital and risk efficiently?
- How will this change under RBC2?

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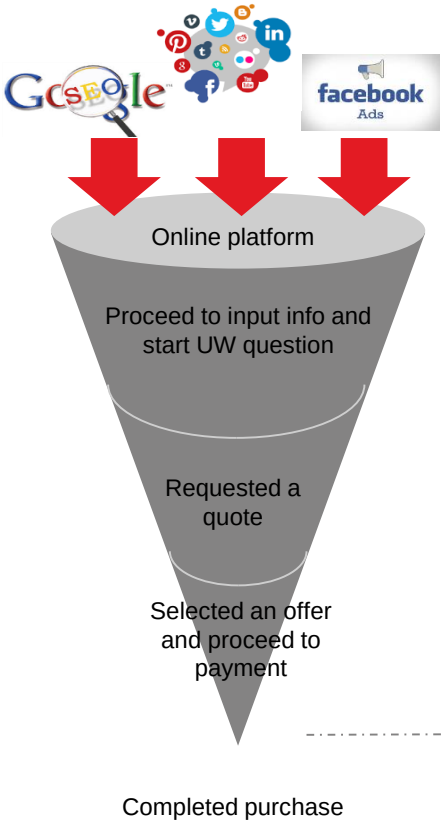
Example 1
Digital strategy

To have a better collaboration, we need to have a holistic view on digital

Marketing	Leads generation	Conversion	Customer Maintenance & upsell	Customer advocacy
How do we build the digital brand? *Which marketing channel(s) do we use? Eg. Mass marketing TV ad, Offline to Online QR code billboard, social media viral marketing*	*Do we sell thru 3rd aggregator? Or own official website/app?* *How to lower the cost to drive traffics?* *How do we drive warm leads to the site? What is the target segment – which are the websites/apps they use?*	*How to optimize the customer journey to reduce leakage?* *Is there straight-thru processing?* *Can the conversion be increased by diverting leads for DMTM/ agency?* *How to balance product / UW simplicity vs price?*	*What would be the customer servicing (e.g. policy admin, claims) model through digital?* *How do we maximize the touch-points with customer through digital?* *Do we have data analytic capabilities for upsell?*	*Do we create a platform to enable customer spread the brand in their social network?* *Do customers have channel to feedback on product / services? Do we have dedicated social media customer mgmt?*

Customer advocacy is a powerful way to help market the brand

To make a product sell, as a reinsurer, we also need to understand the economics of digital



Key metrics	Illustrative example
Cost per click (CPC)	*???*
# of leads	
Drop off from landing page	
Drop off from UW stage	
Drop off from quote offered	
Drop off from payment	
Conversion ratio (# of policies / # of leads)	**Conversion rate of ~1-2%** *(RGA experience)*
# of policies	
Avg. Premium	*~SGD 0.8k (from DPI stat)*

How much CPC can be afforded to breakeven (vs e.g. traditional channels ~10-20% FYP as commission)?[1]

CPC ~SGD 2 *unless the conversion ratio can be pushed higher*

1. CPC is seek by equating digital acq. cost (CPC / conversion ratio) vs traditional channel comm. (FYP x Comm %)
2. Source: MAS; RGA experience in other support

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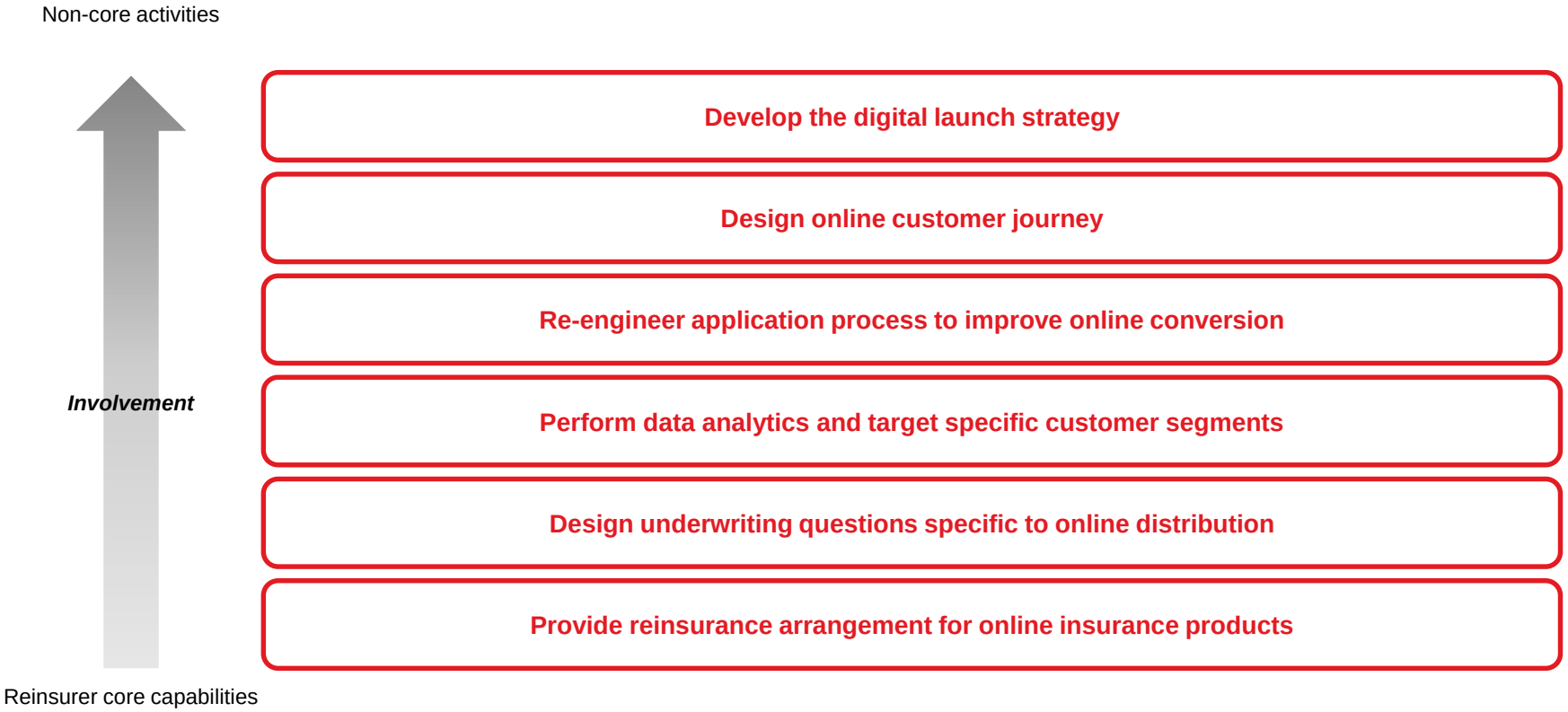
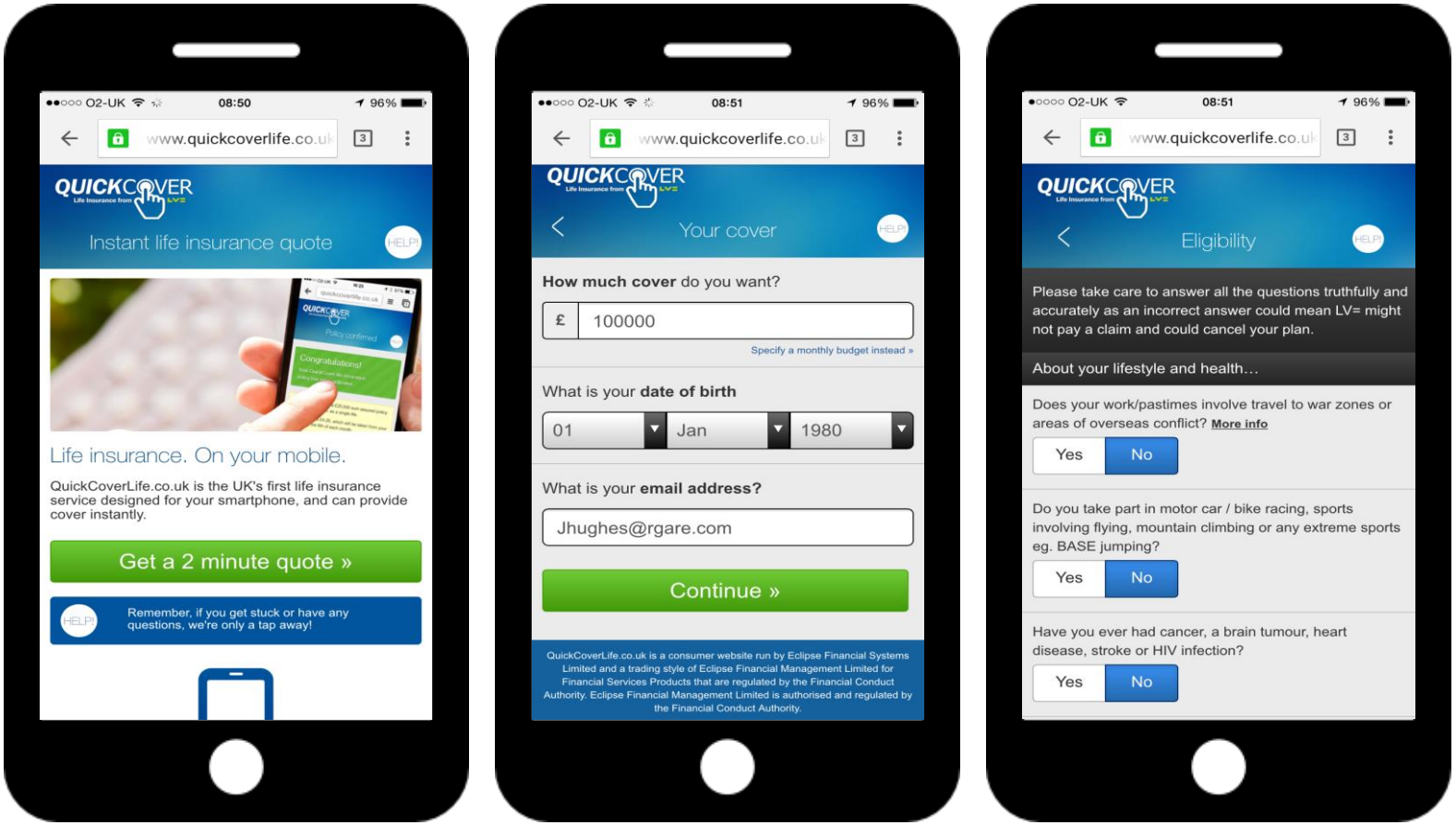
Depending on insurers' needs, we provide different levels of support

Some is beyond the traditional core reinsurer capabilities



Case Study :
Designing the customer journey in UK



Example 2
Selling Protection via Banks

Banca partnerships is becoming more and more valuable in Asia

What is the sales volume priced in these deals?

Upfront fee

Assume a ~$1bn deal for 15 year partnership across the region, assume 40% business coming from SG:

~$27m p.a.[1]

Recent banca partnerships

Manulife	+ DBS	$1,200m
PRUDENTIAL	+ Standard Chartered	$1,250m
AIA	+ citi	$800m

Value creation

Assume the target is at least to write similar value of VNB:

~$27m p.a.

Sales force

40 - 80
insurance sales

- Assume 20-40 branches[2] in SG, each with 2 insurance sales

Productivity (per seller)

~$1.5m
Premium p.a.

- Equiv. to ~15 policies p/mth[3] with average case size of $8k per policy (~around 4 policies per week)

Profitability

20-40%
VNB / Premium

- Assume mainly saving products

How to make "selling protection in banks" works?

1. Ignoring discounting effect 2. # of branches in Singapore: DBS & POSB (~90); SCB (~20); Citi (~25)

3. Assume average case size $8k per policy, according LIA statistic – 2014 Banca weighted average premium: ~7.5k

Source: Reuters, LIA

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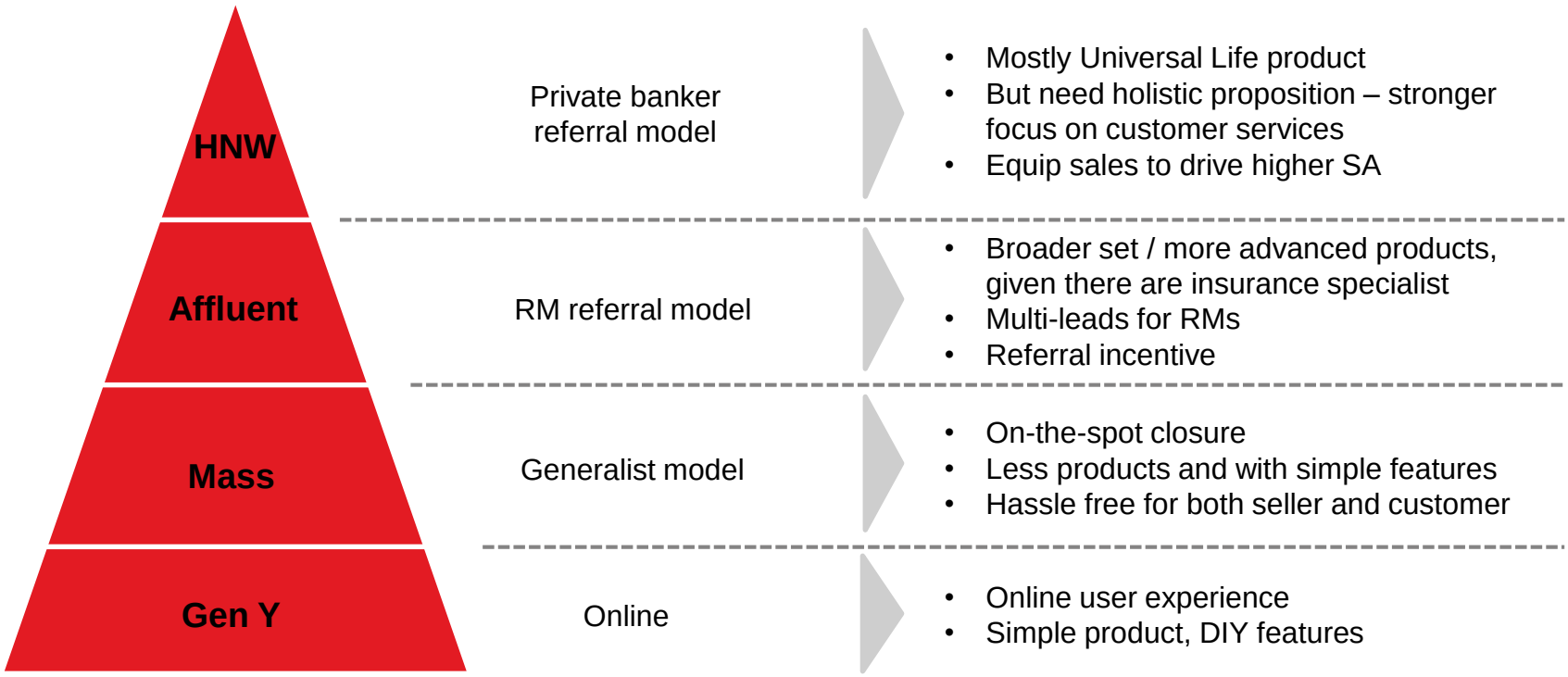
.. But there are no “silver bullet” products nor product strategy that fits all segments



Case Study : Adding protection riders onto saving / endowment plans in Singapore

A collaboration across UW, Pricing and Marketing

Situation

- Endowment is still the best selling product in Banks
- Market is very competitive on yields
- Endowment products have narrower margin vs protection products
- Mostly sold at GIO
- How can we (reinsurer) help our client?

Consideration

- What is the primary motives of the purchase?
- Which risk type are more comfortable?
- How to mitigate risks through product design? Aiming not to distort the selling process?
- What needs to be captured in declaration?

What's available now

Variety of protection riders

- Different risk types (mortality, cancer, LTC)
- Additional declaration or purely GIO
- Benefit in forms of waiver, annuity, lump sum
- Bundling into the basic plan, optional rider

Case Study : Predictive Underwriting to simplify the selling process in SEA

Objectives

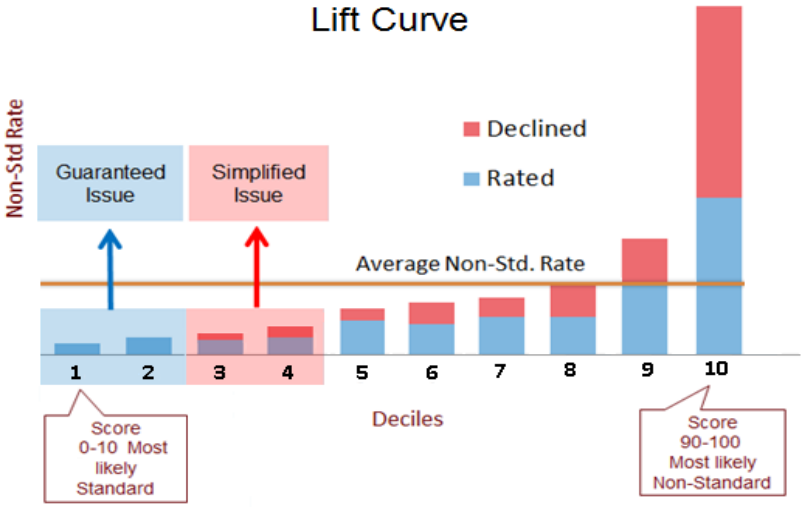
- Sell bank customers protection products on a guaranteed issue or simplified issue basis with minimal impact on price.
- Make the sales process simpler and quicker for both customers and bank staff and in the process reduce acquisition expenses.

Data Analysis

- About 80 variables available for modeling
  - Demographic (Age, Gender, Postal Code, Nationality, Marital Status etc.)
  - Bank & Insurance Product Holding & associated information
  - Bank transactions etc.
- Linked to the underwriting decision at the time of UW(Standard or non-Standard risk)

Business Application

- 11 statistically significant variables in model, e.g. age, gender, branch, AUM, customer segment
- Guaranteed issue for the best 20% risks for standard rate; next best 20% for simplified issue with only one question



Example 3
Enhancing Capital Efficiency

Trends In Financial / Capital Solutions

Increasing demand driven by:

- **Return on Capital**
  - Reduce volatility/inefficiency to enable more efficient capital buffers to be held
- **New Business Strain**
  - Enable self financing of new business to reduce need to inject capital
- **Risk Appetite**
  - Enable continued growth of new business within risk appetite constraints
- **Regulatory changes**
  - Effective risk transfer to manage risks and capital requirements more efficiently

How Reinsurance Can Help

- Reinsurance can provide financial / capital solutions:

Key Drivers	Examples Of Supporting Factors
1. Return on capital • Reduce surplus volatility • Reduce overly conservative capital requirements	• Mismatch in movements of assets and liabilities • Excessive prudence in statutory requirements
2. Alleviate new business strain	• Profitable block of business to be monetized
3. Risk appetite	• New business growth / new product beyond risk appetite
4. Regulatory changes	• New requirements leading to onerous Day 1 capital strains

- However reinsurance cannot change the ***reality of a low-interest rate environment*** – deeply negative spread cannot be eliminated

- A reinsurer may however have greater flexibility to manage the assets and warehouse risk more efficiently - this can free-up capital for the insurer to deploy elsewhere

Collaboration Between Reinsurer And Insurers

- Long term strategic relationship and win-win situations
- Good understanding of insurer's main concerns and how they may evolve key to tailor to specific needs
- Collaboration in all aspects – structure, treaty and interactions with regulator and auditor
- Follow the fortunes but with proper due diligence
- Especially for financial / capital solutions where sudden significant adverse impacts can happen

Collaboration Between (Re)insurer And Regulators

What do most regulators tell us they worry about financial / capital solutions?

- Financial statements do not properly reflect insurer's financial condition
- Reinsurance credits that result in insurer improperly reducing liabilities or establishing assets for reinsurance ceded
- Lack of risk transfer
- Complicated programs that are not easily understood
- Reinsurer being able to walk away from obligations

Collaboration Between (Re)insurer And Regulators

What do most regulators require for financial / capital solutions?

- Risk Transfer
  - Reinsurer's participation in underlying insurance risks
  - Distinguished from participation in credit exposure to the insurer
  - No single global standard exists on how "risk transfer"
    - Rules-based e.g. US statutory accounting rules
    - Principles-based e.g. IFRS
    - No written rules
- Commitment from the Reinsurer
  - Cannot unilaterally terminate and walk away
  - Completes diligence upfront
- Good practice to have agreements in writing
  - Contract certainty

Examples Of Risk Transfer Assessment

US statutory accounting standard – 11 requirements to assure risk transfer:

1. Reinsurer cannot unilaterally terminate, except if does not get paid
2. No representations not related to the business reinsured
3. No representations regarding future performance of the business reinsured
4. Must transfer each type of insurance risk inherent in the reinsured policy
5. Insurer must not pay to the reinsurer amounts greater than amounts expected to receive from policyholders
6. Reinsurer must reimburse insurer allocable renewal expenses
7. Insurer cannot be required to reimburse negative experience to the reinsurer, exception for voluntary recapture by Insurer
8. Insurer cannot be deprived of surplus or assets automatically or upon some event
9. Any significant investment risks inherent in the reinsured product must be transferred to the reinsurer
10. The reinsurance must change the expected potential liability to the ceding insurer
11. Settlements must be made no less frequently than quarterly and must be made in cash

Examples Of Risk Transfer Assessment

IFRS – principles based:

- Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance
- If significant additional benefits would be payable in scenarios that have commercial substance, the condition in the previous sentence can be met even if the insured event is extremely unlikely or even if the expected present value of contingent cash flows is a small proportion of the expected present value of all the remaining cash flows from the insurance contract

Case Study 1 – Surplus Relief

Hong Kong

Overview	
Client background	▪ Multinational insurance company with a block of regular premium products required to hold high uneconomic HK statutory reserves and capital
Objective	▪ To free up “redundant” statutory reserve to improve ROE
Transaction structure	▪ 95% quota share using Funds Withheld (FWH) ▪ FWH is defined as the Gross Premium Valuation reserve plus a solvency margin ▪ FWH is lower than the statutory reserves ▪ The interest on FWH is based on actual investment return.
Risk transfer	▪ All risks, including the key risks of investment performance, mortality, morbidity and lapses are transferred to RGA by the Insurer
Capital impact	▪ Client able to free up regulatory capital

Case Study 2 – Capital Support

Taiwan

Overview	
Client background	▪ JV requires additional capital to improve solvency ratio ▪ One partner was unwilling to inject additional equity
Objective	▪ Improve solvency ratio by reducing Risk Based Capital (RBC) requirement on a block of Hospital & Cancer policies which has one of the highest RBC capital requirements
Transaction structure	▪ YRT on in-force block of Cancer & Hospital policies for duration of underlying policies ▪ Reinsurance solution was selected for: ✓ Lower cost (cost approximately 40% of preferred stock) ✓ No public offering required ✓ No impact on financial leverage ratios
Risk transfer	▪ Meets risk transfer requirements under IFRS4 and local regulations ▪ RGA's upside limited to fee income but with potentially unlimited downside
Capital impact	▪ Client able to release RBC and improve solvency ratio at a modest cost

Case Study 3 – New Product Support

Japan

Overview	
Client background	▪ Sell an innovative unique product with LTC + savings to be used in conservation efforts
Objective	▪ Insurer wants a partner willing to be more aggressive in the investment strategy and who is comfortable with the morbidity and mortality risks in this product
Transaction structure	▪ 75% quota share on a full-risk coinsurance basis ▪ RGA pays: ✓ First-year ceding commission (% of premium) ✓ All benefit payments ✓ Reimbursement of maintenance expenses ✓ Trail commission (X bps on sum assured) – change formulaically for each cohort of new business based on changes in government bond yields
Risk transfer	▪ Full risk transfer : mortality, longevity, morbidity, lapse / surrender, investment (interest rates, credit spreads)
Capital impact	▪ Client sets up minimal capital for the reinsured quota share & receives trail commissions for life of product on reinsured portion

Closing Remarks

Questions