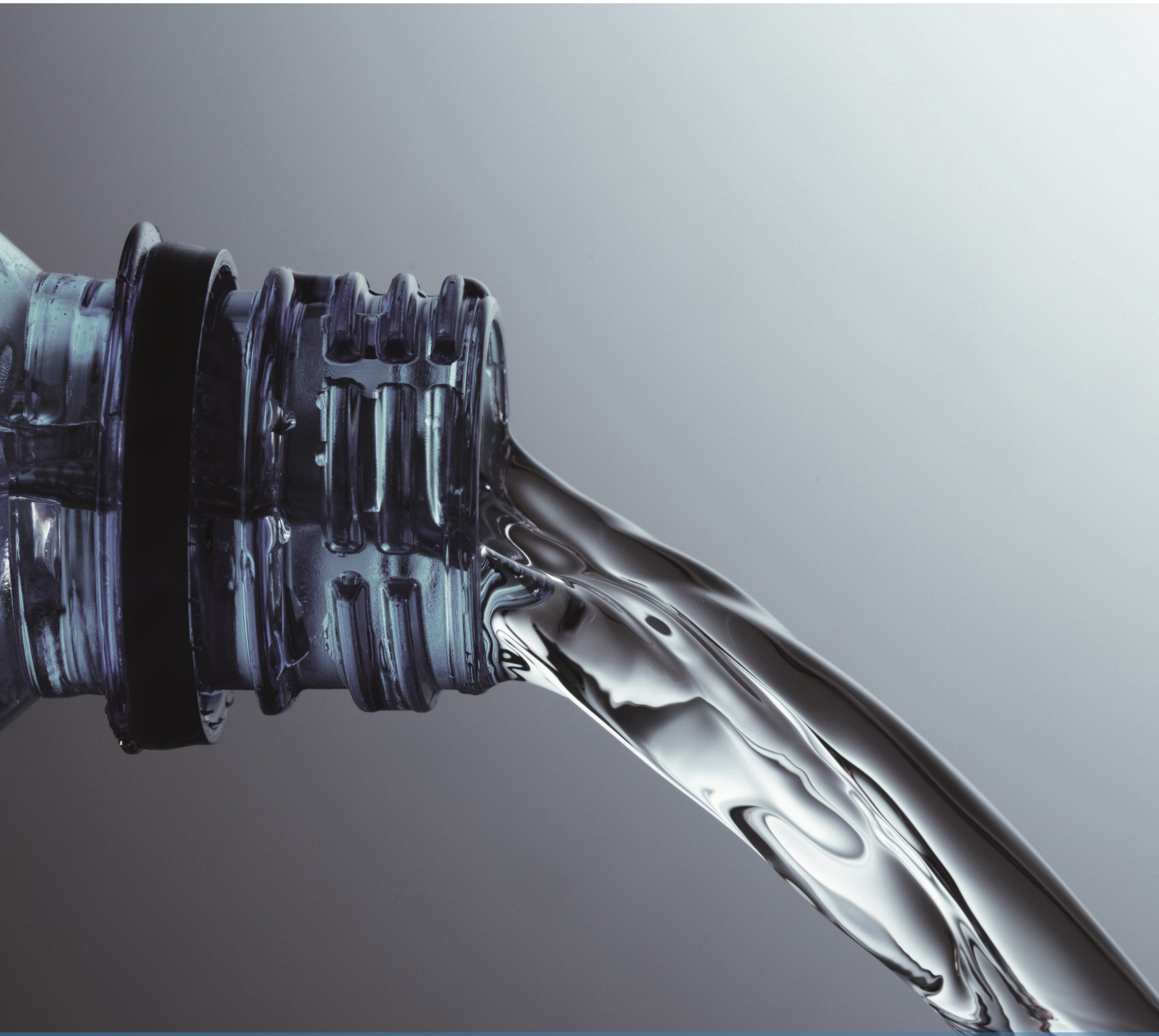

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Think Asia

A Pacific Life Re Asia Publication

PACIFIC LIFE RE

LETTER
FROM THE MD

So far, 2017 has been very eventful for us at Pacific Life Re and we hope that it has been a similarly positive period for you as well.

I am delighted to share that recently, we have officially received the approval from the China Insurance Regulatory Commission (CIRC) to set up a representative office in the People's Republic of China (PRC). This move signifies our expanding footprint into the North Asia markets, having established a branch office in Seoul in March 2016. China has an existing protection need that surpasses any market in Asia. By having an on-the-ground presence, it allows us to form deeper insights into the needs of the market, putting us in a better position to develop insurance solutions with our fresh and innovative perspectives. We have also recruited a number of local experts who will be based in our Shanghai office, led by our appointed China Representative, Vivian Wei. We will be marking this momentous occasion with a launch event in Shanghai and Beijing on November 22nd and 23rd this year.

My team and I are also excited to be hosting our annual Insurance Innovation Seminar from September 28th - 29th. The seminar will be held in Hong Kong this year, where we have lined up an interesting and informative programme for the attendees. In addition, attendees will also have an opportunity to network with their peers from other markets in the region.

Lastly, our sister technology company, UnderwriteMe, is steadily gaining recognition in the Asia market. It has enjoyed major successes in the UK and Australia in the past 24 months, with implementations across more than 10 life insurers as well as a high satisfaction rate from clients, and it looks set to replicate those successes in Asia. Pacific Life Re and UnderwriteMe aim to harness InsurTech in meeting the primary protection needs of your customers, while improving their buying experience.

Lots more are in-store for the second half of 2017, and we urge you to keep a lookout for our updates via our LinkedIn page here. On behalf of my team in Asia, we would like to thank you for your continued support.

Enjoy this issue.

Yours sincerely,

Alex King
Managing Director, Asia

Launch of Pacific Life Re, Shanghai Representative Office

2017 began on a positive note for us as we received the green light from the China Insurance Regulatory Commission (CIRC) to establish a Representative Office in the People's Republic of China (PRC). This is a significant milestone for us as it means that we are now in a position to embark on the exciting opportunities that the market has to offer. In order to help us prepare for the China market, we have appointed Vivian Wei as our China Representative. Based in Shanghai, Vivian will support us by conducting market research and acting as our liaison on the ground.

China currently has a protection need that is bigger than any market in Asia, and we are confident in our ability to customise and bring fresh and innovative perspectives to the Chinese life insurance market in time to come.

If you have any queries about our newest operations and how we can support your business, please contact Jolene Loh at jolene.loh@pacificlifere.com.

Client Drinks, Cook & Brew (Singapore)

Following the resounding success of Oktoberfest last year, we decided to once again host a casual drinks session with some of our clients who are based in Singapore. This year's session was held at Cook & Brew, a gastropub located at the Westin, and clients were served with a variety of canapes and drinks. Thank you to those who were there with us, and we look forward to hosting even more client events in the future!

12th Asia Conference on Healthcare & Health Insurance, Singapore

Our colleague, Jeff Cook (Head of Underwriting & Claims, Product & SE Asian Marketing) presented a topic on 'Diabetics and who's looking after them' at this conference. In this presentation which opened with a hypothetical call made from a diabetic to an insurer, he discussed the global burden of the disease, the medical and technological advances to fight diabetes, as well as shared ideas on how the industry could move forward to further address the cause. The full presentation can be found here.

18th Asia Conference on Bancassurance & Alternative Distribution Channels, Jakarta

In this conference, our colleague David Wright (Director, Product Development & Marketing) was invited to be a part of the panel discussing the impacts of InsurTech / FinTech on bancassurance and alternative distribution channels. David also provided his thoughts on the various tools and solutions that InsurTech can provide insurers with in order to keep ahead of the wave.

SOA Asia Pacific Symposium, Kuala Lumpur

Some of us were recently at the annual SOA APAC symposium which was held in Malaysia. It was great to see our stuffed whales being quite a hit with the participants. David Wright was also invited to be a part of the panel discussing FinTech & InsurTech - Blue Ocean for Actuaries.

2017 INSURANCE INNOVATION SEMINAR

Do you dare to **zig** when others zag?

28 - 29 SEPTEMBER

Auberge Discovery Bay
HONG KONG

Following on from the successful run of our first innovation seminar last year, we are pleased to once again host the 2nd Insurance Innovation Seminar from 28 - 29 September 2017 at the Auberge Discovery Bay, Hong Kong.

Building on the theme of 'Do you dare to zig when others zag', participants can expect fireside chats from both internal presenters and guest speakers. Discussions will revolve around the topics of creating a thriving culture of innovation, global product trends and development, digital trends in underwriting, evolving risk selection, social data, as well as a specially-led session on living in the moment through focused breathing techniques.

To those who have registered for the seminar, we look forward to welcoming you in Hong Kong. We will be sure to post live updates as we go along, so be sure to follow us on LinkedIn if you haven't already done so!

Race for Capital Optimisation

With local regulatory regimes making the transition to global reporting standards, Mitsuhiro Tanaka and Vasan Errakiah say it is all the more crucial that the industry plans ahead and look at efficient capital management urgently.

Efficient capital management has become an increasingly important area in recent years within Asia. This is especially so as regulatory regimes make the transition to global reporting standards, such as IFRS and economic capital. This includes China Risk Oriented Solvency System (C-ROSS), Korea IFRS 17, Singapore RBC II, and other regimes currently being studied.

There are added complexities for international companies, for instance, local regulatory restrictions with regards to capital outflow. Although capital injections are often only needed for a temporary period, for example, during high production of new business with acquisition strain under local practices, capital repatriations to international parents or holding companies are often restricted by local guidelines or limited by local regulators.

This leads to material over-capitalisation and in some cases, international players have had to pass promising opportunities elsewhere due to capital trapped in certain markets. This hinders any effort of managing capital efficiency globally.

Looking at reinsurance support

Heavy statutory requirements also cause insurers to face material acquisition strain in early years.

Most companies are keen to distribute the high acquisition cost evenly over the term of the business which is better aligned with modern Key Performance Indicators for international companies instead of incurring large losses in the first year and high profits in following years.

A potential approach to solve this matter is to obtain reinsurance support via a coinsurance agreement on original terms (the reinsurer pays a share of all cashflows the insurer incurs).

This arrangement typically involves limited risk transfer such that reinsurers are able to accommodate such transactions at lower costs to achieve their targeted performance measures while meeting the insurers' needs at the same time. At a high level, reinsured profits are used to amortise the acquisition cost, supported by the reinsurer, which usually spans a time period of five to seven years, after which the arrangement typically expires via the recapture by the insurer or through other similar methods.

Providing alternative capital at a reasonable cost

The objective of any capital optimisation arrangement is to provide alternative capital at a reasonable cost, typically up to a few hundred basis points of the capital relieved, where reinsurance cash flows are intended to recoup the temporary capital.

These transactions pass wider business risks to reinsurers but are typically designed with less sensitivity to traditional risks such as mortality, morbidity, or persistency. Besides original terms coinsurance structure, other structures can be considered, taking into account the relevant environments, and most importantly, for such transactions to be fully compliant with local regulations.

Seeking regulatory buy-in

In order to develop a workable solution, a clear understanding of local statutory requirements versus economic valuation bases is required. Some of the key considerations include differences in treatment of negative liabilities, future improvement assumptions and tail risks.

As with any non-conventional arrangements, regulatory buy-in must be sought before capital solutions can be adopted widely. While the approach has been accepted in some countries, regulatory bodies in countries where these types of arrangements have been less common in the past have approached this with caution. This is partly driven by the uncertainties with regards to the appropriate accounting treatment, misconceptions of the arrangement, and understanding the motivations for it.

Reinsurers can play a critical role in this arena by proactively engaging with regulators to fully explain the structure to help alleviate any residual concerns.

> "In order to develop a workable solution, a clear understanding of local statutory requirements versus economic valuation bases is required."

Aims of capital support arrangements

Capital optimisation arrangements, as is the case for any traditional reinsurance solutions, are not specifically meant to resolve evident issues that affect the economic value of the business, for example, negative spread or a chronic shortfall in investment gains to contracted investment credit.

These issues need to be taken care of by a comprehensive review of the underlying product design and reinsurers must be willing to support insurance companies through this process. In other words, motivations for attempted transactions need to be carefully examined so that capital support arrangements are utilised only for the purpose of supporting healthy growth of financially sound insurers.

> "…motivations for attempted transactions need to be carefully examined so that capital support arrangements are utilised only for the purpose of supporting healthy growth of financially sound insurers."

Plan ahead to adjust to new requirements

All in all, the race for capital optimisation is expected to gain more traction over the short to medium term as Asia gets closer to adopting international reporting standards.

It is imperative that the industry plans ahead to ensure that new regimes are implemented with no material immediate impact on capital position, solvency ratio, and has sufficient time to transition to new requirements.

Reinsurers can also help to provide interim solutions or alternative low cost capital for such transition periods.

Mitsuhiro Tanaka
Head of Strategic Projects, Asia & Head of Marketing, Japan

Vasan Errakiah
Director, Pricing

Getting ahead in the digital world - Where are we headed?

Digital is transforming every industry - from pharmaceuticals to fast-moving consumer goods - and no one is immune to it. It has radically changed how businesses are being run to how consumers engage with their favourite brands. Jeff Cook of Pacific Life Re and Rakesh Kaul of UnderwriteMe look at the impact of digital on life insurers, tied agents, D2C channels, and IFAs.

In the past, business processes are determined by the limitations of technology at that particular moment in time. However, in the digital world, the limitations are invariably ingrained in the mindset of business leaders, however endless it may be.

For consumers, digital has unleashed an awesome power that truly puts them in control. In the New World, digital means ease of research, personalised pricing, immediate fulfilment, and sharing experiences. The words of Dale Carnegie cannot be truer, "If you are doing today, what you did yesterday, you will be out of business tomorrow."

Life insurers

In Asia, the early adopters started their transition from paper to electronic submission around 2010.

Good digital end-to-end process needed

However, the majority of the automated processing was still done in the back office. To a large extent, this remains the case today. Even with sophisticated electronic application systems, insurers are largely unable to offer the functionality to enable decisions at Point of Sale (POS).

There is still a human touch required in most new business processes. A good digital end-to-end process removes significant acquisition costs and enables the insurer to accept a high proportion of policies at POS.

A robust digital rules engine empowers underwriters to drive continuous improvements in the customer journey. The best insurers in this area actively use data to identify the most common cause of referral and automate their underwriting decisions.

In doing so, they free up valuable (and scarce) underwriting resources to drive this change at an increasing pace. This

improves the distributor and customer experience, and in many cases, giving the customer the peace of mind that his/her cover is in place immediately rather than requiring him/her to provide additional information, or even worse, having to make an appointment to see a physician (or undergo blood tests).

Reliable data on distributors

Digital also provides reliable data on distributor behavior. For example, insurers can compare individual distributors by their mix of business, disclosure rates (for example, finding out the percentage of declared non-smokers), or behaviours (for example, those who change their answers in order to improve the outcome).

This helps the insurer to target the best distributors with differential service, and also to provide support to the advisers who are performing less well. This will ensure that the insurer retains and motivates the best quality agents and has a good understanding of the business being written which will help to retain a future competitive proposition.

Learning quickly and implementing changes swiftly

For insurers, we are still at the foothills of how digital can transform distribution. Looking ahead, digital can tailor a new business process to much smaller customer segments including individual distributor branding, application design, use of other customer data for predictive underwriting, and use of external data to reduce the number of questions.

Digital gives us the ability to learn quickly from our experiences and to swiftly implement changes to constantly improve the buying experience for the customers. This will include the desire to regularly refine the underwriting rules to optimize the POS decision rate, with the least number of questions whilst minimising any impact on profitability or customer premium.

Tied agents

Many insurers in Asia continue to invest heavily in their best agents and some are creating different labels for their top tier agents.

Now more than ever, it is important for insurers to equip these agents with market-leading technology so that they can best service their customers. This will help to recruit, retain, and motivate these agents to sell volumes of protection business which have higher margins relative to the more traditional savings products.

More options

Digital offers many new ways of meeting the customers' needs better by providing more options to choose from.

A sophisticated rules engine can help to increase rider attachment rates, upsell to the maximum allowable sum assured for a risk, provide alternative decisions, for example, to "choose between a loading or an exclusion", and offer a "sell to budget" function.

These options, together with a high level of decisions given at POS, are likely to give the distributor greater confidence in the underwriting process, enabling them to sell a wider range of valuable protection covers to their customers.

Direct to Consumer (D2C)

The D2C insurance market is increasingly gaining focus in several countries in Asia including regulator-encouraged initiatives in Singapore and Malaysia. As a result, many insurers have launched or are planning to launch direct online channels.

This presents a challenge for the traditional insurance agents and increases their need to demonstrate their value to the customer so their service is not being seen as a commodity.

One way to do this is for the agent to be the helping hand for the customer through the range of possible protection covers, recommending a personalised offering that best meets their needs with the outcome of the digitised underwriting process confirmed to the customer at POS. Younger customers expect this 'Buy it Now' mentality from their other purchases and will want this from their insurance agent.

"Digital gives us the ability to learn quickly from our experiences and to swiftly implement changes to constantly improve the buying experience for the customers."

Independent financial advisers (IFA)

In some Asian countries (for example, Korea), there is a trend where tied agents are becoming independent. This presents a further catalyst for digital enhancements by insurers who wish to command a strong share of this part of the market. The ease of doing business will be a strong driver for the IFA when they are selecting the company to recommend to their customers. The protection sales process remains complex as each insurer has its own unique application process and questions set.

For the life insurance industry, digital has not yet moved from a one adviser-one insurer application approach to a one adviser-many insurers buying process.

Connecting adviser to multiple insurers

We believe that the next generation of digital will connect an independent adviser to multiple insurers, where one easy process can compare underwritten terms, as if the adviser had applied separately to each.

This requires new rules engine technology that allows each insurer to wire up its rules however they like, yet delivers as good a journey as if the distributor is connected to just one. Both the customer and the IFA now have a choice of selecting their preferred insurer based on the final underwritten price, without having to wait. This gives the IFA the option to amend the cover if required and explain any sub-standard terms that have been included, increasing the chances of this policy being accepted by the customer.

"Both the customer and the IFA now have the choice of selecting their preferred insurer based on the final underwritten price, without having to wait."

The wrap

Digital is here to stay, and our customers are embracing it in every element of their lives. For too long now, our industry has snoozed whilst others have embraced change, but now is the right time and our opportunity to seize the moment. Doing nothing will invite a tech company to enter our industry, bringing with them a fresh approach to how we service customers in a manner similar to how Uber and Netflix have disrupted taxis and videos on-demand.

By embracing this opportunity, we will be able to serve our future customers in the manner they expect, and help to recruit high performing graduates into our industry to sell valuable insurance cover to those who need it.

Jeff Cook

Head of Underwriting & Claims, Product & SE Asian Marketing

Pacific Life Re

Rakesh Kaul

Director, Business Development (Asia & Australia),

UnderwriteMe

Global Care

The number of patients opting to receive overseas medical treatments is growing at an estimated rate of 15% year-on-year, with the US, Europe, and Singapore being preferred destinations for medical procedures. Deepak Gandhi explores this cross-border healthcare trend and how insurers can tap the opportunity.

Medical treatment options, medical infrastructure, and the mechanisms for delivery of patient care vary across the world. While medical services in most countries are equipped to cater to the generic ailments, the fact is, not all regions can boast of the same medical services required to conduct complex procedures to treat the more life-threatening conditions. This, in a way, is a reflection of the country's investment in the healthcare infrastructure. For example, in the US, the health expenditure as a percentage of the GDP stands at 16.9%, and the per capita health expenditure is approximately USD 8,745. This is in contrast with some other countries, where the same figures are in the low single digits or a few hundred dollars.

Nevertheless, rising affluence and globalisation have been known to transform lives and make the world a smaller place. Information is flowing freely across geographies, people are more connected beyond borders, and the introduction of safer and economic travel has enabled more accessible cross-border healthcare options for global patients. When faced with a critical medical situation, no place is too far to explore the best possible treatment options should there be any hope of recovery for the ailing individual.

A customer's story

Pak Budi, a resident of Indonesia, was in a state of shock and disbelief when he was diagnosed with a rare and aggressive form of brain tumour. He had numerous questions that needed answers - Who would he consult to confirm the diagnosis? Where and what is the best possible treatment? Is his existing cover adequate enough to cover the treatment expenses? How would he manage the entire course of treatment? A quick check revealed that the best possible treatment is available overseas, and that prompted Pak Budi to contact his 'Global Care' cover Provider for more information.

Giving customers hope for recovery

While the local insurance covers may suffice for the generic ailments, international medical covers may come in handy for some of the more life-threatening medical conditions like cancer, cardiac interventions, transplants, and neurosurgery, as these conditions usually involve expensive treatments and expertise that may not always be available in the home country.

Immediately after Pak Budi's call, the Provider arranged for a Medical Second Opinion, which includes a review of the diagnosis and the treatment prescribed. The details of which were shared with him not long after.

The insurers' role

Insurers can assist customers by providing holistic solutions that enable them to not only receive overseas medical treatment, but also help to manage the logistical aspects of such arrangements so that the customer could focus on making a complete recovery.

The Provider's medical team in the US answered all queries that Pak Budi and his local physician had, and suggested a few overseas medical centres that specialise in managing his ailment. He opted to receive treatment from a medical centre in the US, and the Provider's 'Concierge Team' took care of all the travel and logistical arrangements so that Pak Budi could focus completely on his recovery.

Working hand-in-hand to deliver a superior customer experience

Besides the expenses and logistics managed by the Provider, global patients expect state-of-the-art medical expertise and seamless delivery of the allied services. In order to deliver a superior customer experience, there is a need for efficient service providers, overseas medical centres, insurers, and reinsurers to work seamlessly hand-in-hand to manage the

intricate end-to-end process for the customer.

Cross-border healthcare taking the world by storm

Over the years, economic growth, technology advancements, better access to healthcare, and increased quality standards have contributed to decisions to receive cross-border medical treatment for life-threatening conditions. It is reported that the number of patients opting to receive overseas medical treatments is estimated to grow at a rate of 15% year-on-year, taking the industry to almost US$140b by 2022. There is also a trend of the US, Europe, and Singapore being preferred destinations for medical procedures involving life-threatening conditions.

Statistics show that Indonesia and China are natural markets for such propositions. It is estimated that 600,000 Indonesians went overseas for treatment and spent US$1.4b in 2012. Similarly, it is estimated that 483,000 Chinese travelled overseas to seek medical treatment in 2015, spending US$6.3b on treatment and US$3.4b on related travel and accommodation. The numbers are not surprising as the rapidly emerging middle class across Asia now aspires not only to have the best lifestyle, but also the best possible healthcare solutions for themselves and their family. Such global family health plans therefore fit in very well with the evolving needs of this class.

A goldmine of opportunities and challenges

With upward trends observed in accessing cross-border healthcare, insurers could tap on to this growing segment by developing the necessary risk appetite, the right pricing methodologies, and partnering with reputable allied service providers in order to deliver world-class services to patients. These efforts are geared towards making protection solutions more holistic for customers, both as fixed benefit or indemnity products. Global health solutions also dovetail into the standard MedEx or Critical Illness plans, augmenting the insurance cover for the customers through inclusion of cross-border treatment options.

In addition to the creation of treatment propositions, managing global healthcare also necessitates an in-depth understanding of various religious and cultural beliefs, as well as the diet and language requirements of different segments of customers, among others. Consistently mounting medical inflation, changing customer expectations, managing over-utilisation, minimising handoffs, and comprehensive distributor training are some of the other challenges that need to be addressed.

> "(Insurers) can help to manage the logistical aspects of such arrangements so that the customer could focus on making a complete recovery."

Walking with the customers

At a time where customers are faced with life-threatening ailments in the most trying of circumstances, insurers are well-placed to hold their hands throughout the entire journey by providing them with the necessary support that goes beyond claims management, in hopes of lessening the stress and turmoil of being in such situations.

Deepak Gandhi

Director, Underwriting & Claims

RECENT APPOINTMENTS

Pi plays a key role in leading the company's business growth by promoting and enhancing Pacific Life Re's product development capabilities. Pi has been with Pacific Life Re for more than four years, and in that period of time, has worked in roles across business development and pricing in our Singapore office.

Navarat Kriausakul (Pi)

Director, Product Development

Nueng is the key lead from the Asia pricing team in projects to support clients' needs and insurance solutions. She brings with her more than 10 years of direct insurer and reinsurer experience, having worked in roles across pricing and valuation in both local and regional companies.

Nuttanate Pongpipatpaiboon (Nueng)

Director, Projects & Pricing

David is responsible for the overall delivery of reinsurance services and the promotion of UnderwriteMe to our clients in Thailand. He also supports the company's business growth through the development of new product ideas designed for the Asia market. He comes with more than 20 years of relevant experience with roles across Singapore & Australia.

David Wright

Director, Product Development & Marketing

Regina is primarily responsible for managing the Asia underwriting & claims team, and ensuring the delivery of all underwriting & claims services, encompassing underwriting automation. She also supports strategies in business growth and the UnderwriteMe digital platform. Regina has more than 17 years of experience in the industry, which includes a 10-year stint in reinsurance.

Regina Tan

Director, Underwriting & Claims

Nobu is responsible for leading the North Asia team, and oversees all pricing works for our clients in North Asia. Prior to this role, he was a Pricing Actuary of a leading reinsurer in Australia. Nobu has over 13 years of experience in both direct life and reinsurance companies across Asia Pacific.

Nobuhiko Nakatsuka (Nobu)

Director, Pricing (North Asia)

Vasan Errakiah

Our Pricing Director, **Vasan Errakiah**, was recently interviewed by The Actuary for a feature in its July issue.

When did you start your actuarial career?

I grew up in Malaysia, but studied in the US and worked there for a year before moving to London to start my actuarial career. I started working at Pacific Life Re in 2008, where I was based in the London office. In the four years I was there, I worked on both the longevity and protection portfolios.

I have worked in the life reinsurance market for nearly 10 years now and have worked in Pacific Life Re offices in London, Toronto and now, Singapore.

Working in different offices has given me the opportunity to meet great people, build strong relationships, learn to adapt to new environments, and experience different cultures.

I also believe my experiences to date have given me a unique understanding of the reinsurance markets around the world.

How long have you been an actuary for?

I have been a qualified actuary for seven years.

What made you decide to be an actuary?

For as long as I can remember, I've always liked working with numbers and problem solving, so it made sense for me to choose actuarial science as a major. Furthermore, it was a relatively new field in Malaysia, and I could see myself adding value to the industry.

What do you think is the most valuable skill an actuary can have?

Critical thinking and, at the same time, the ability to communicate effectively to a non-technical audience.

What do you enjoy most about being an actuary?

I enjoy getting exposure to almost all aspects of the insurance and reinsurance business – and not just actuarial-related matters. For example, we get involved in strategic discussions, client management, and more.

> “Pick the good out of each experience and bring it with you wherever you go.”
>
> *Vasan*

Why did you decide to move from London to the Toronto office?

When the office in Toronto was acquired by Pacific Life Re in 2011, I was presented with an opportunity to join the team. I challenged myself to take up that role as it was a new market for us, and I was excited to expand my knowledge and experience. However, I knew that ultimately I would want to come back to Asia as it is closer to home. But before that could happen, I felt that I owed it to myself to try my hand at working in various markets first.

After two years in Toronto, why did you decide to move to Singapore?

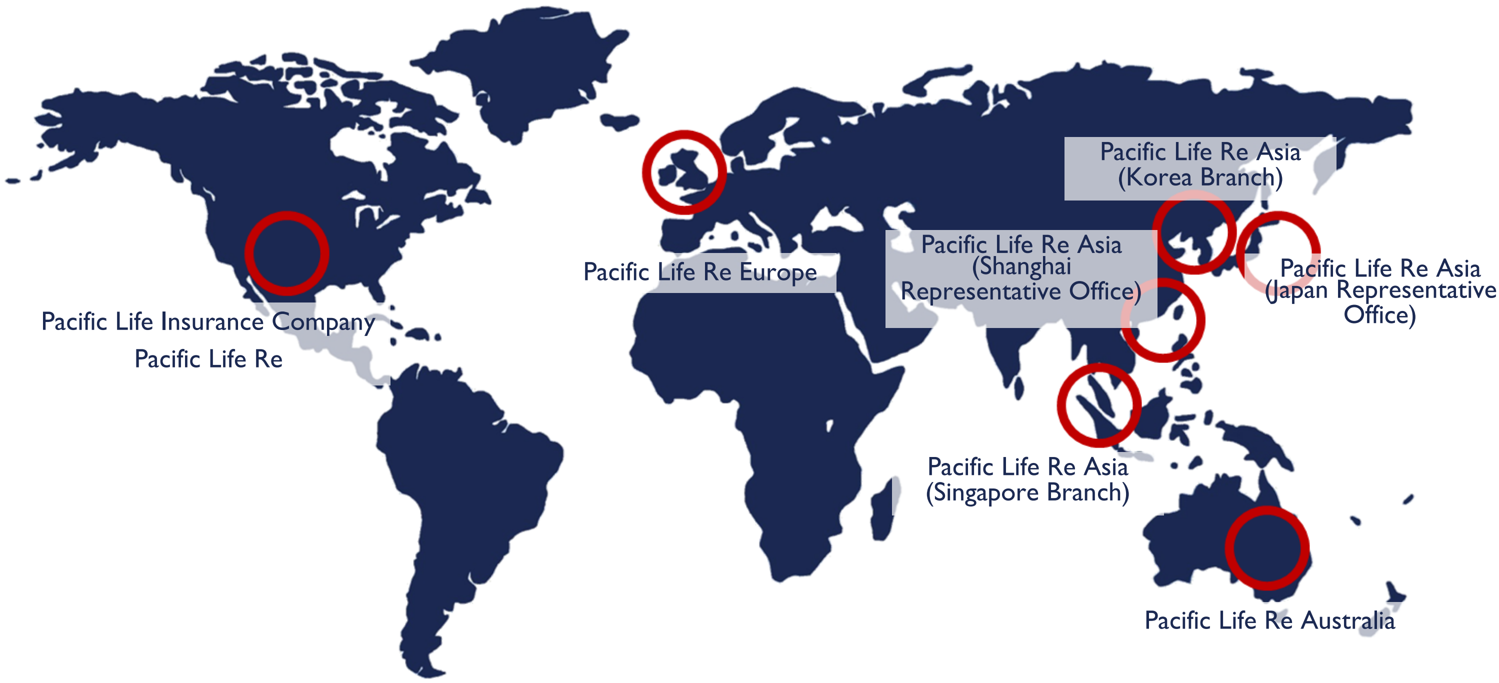
I wanted to stay in Toronto a little longer as I really enjoyed working with the people there. Having been away from home for a long time, the folks in Toronto are pretty much my second family. It was hard to give it all up (including the month-long farewell outings). However, there was a need for my role in Singapore at the time and so here I am!

What would you recommend to anyone who's considering moving overseas with their job and having an international career?

Do it. Well, of course weigh the opportunity objectively, but from my experience the exposure is invaluable. Being an actuary provides you with a variety of opportunities, and, thankfully, it's a role that can be done anywhere in the world.

What's your advice for younger actuaries?

Be bold, be open to new opportunities, step out of your comfort zone, and don't be afraid of the unknown.



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