



FALIA Invitational Seminar in Japan
“Product Development Strategy Course”

Transition of Product Development Responding to the Change of Management Environment

July 30th, 2015

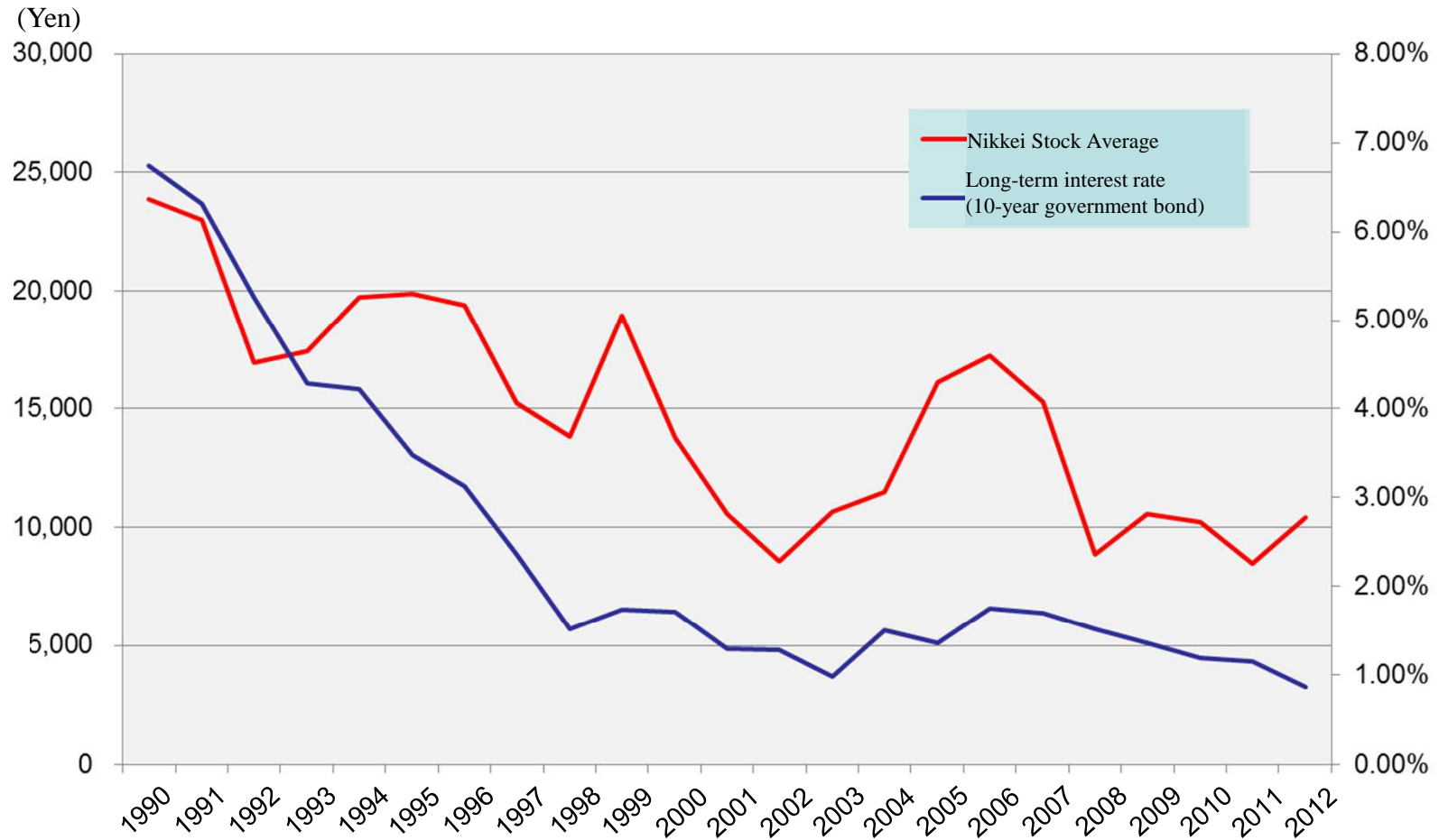
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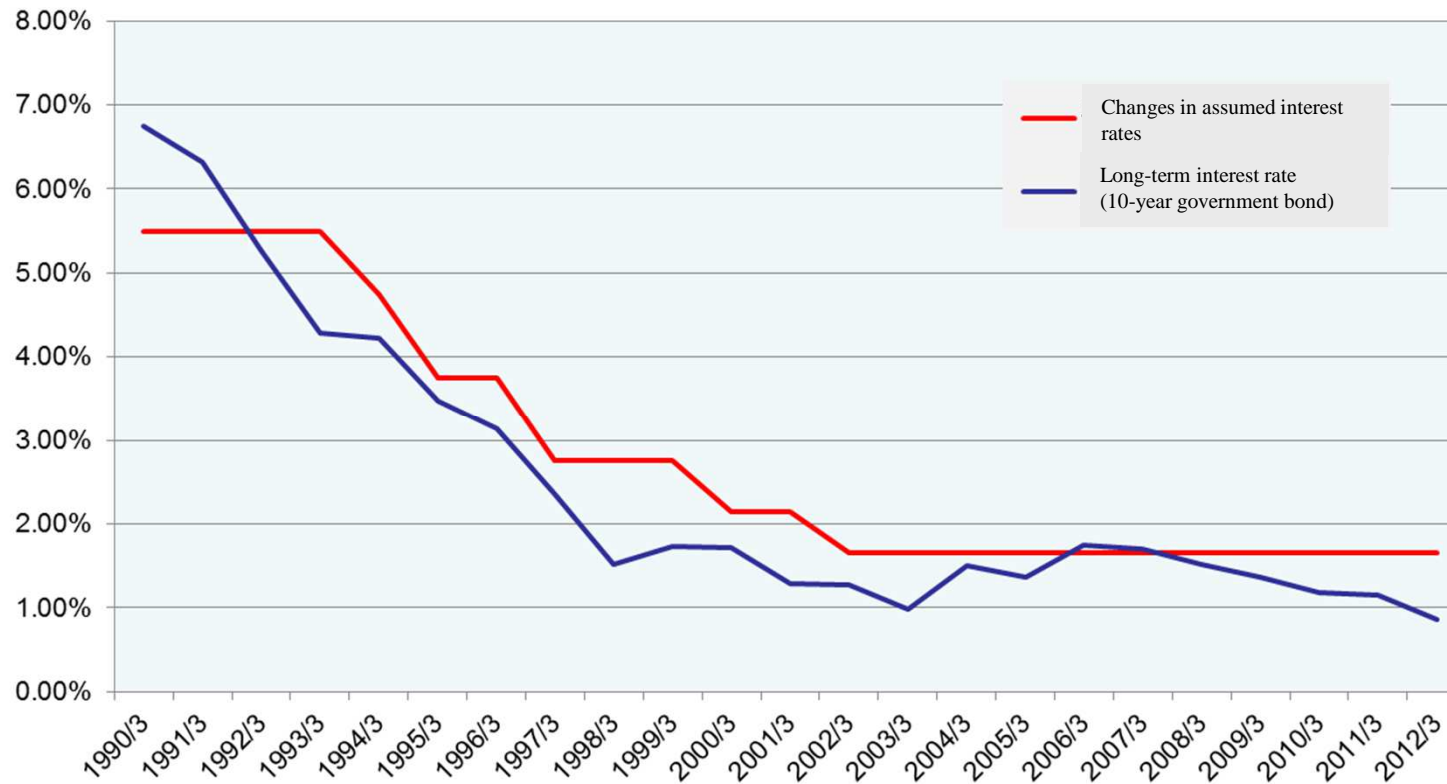
1. Change of Management Environment (1) ~ Continuing recession

Continuous super-low interest rates



1. Change of Management Environment (2) ~ Continuing recession

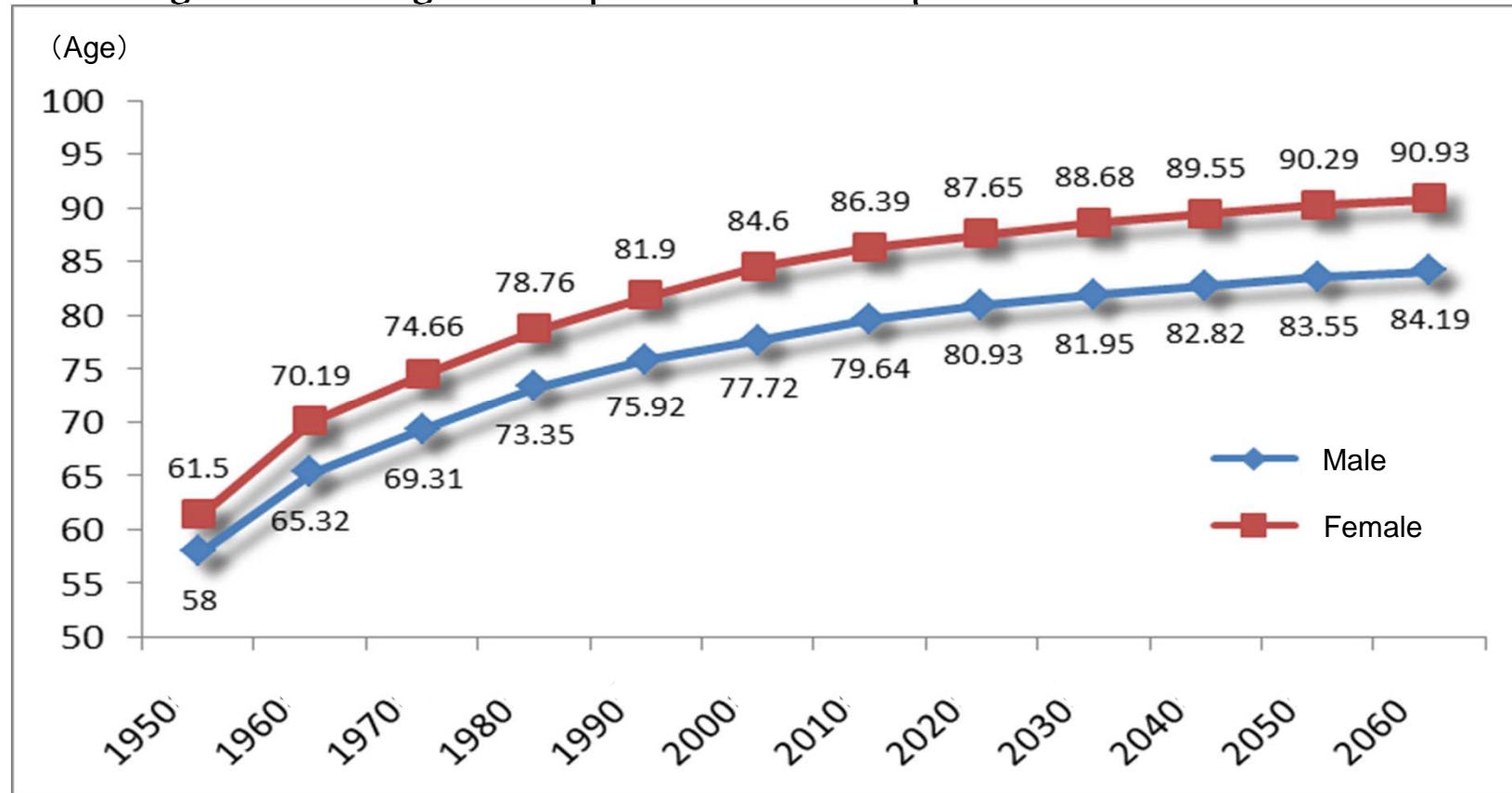
While the decrease in long-term interest rates might have lowered the assumed interest rates for new contracts, the assumed interest rates for existing contracts remain at high levels.



2. Change of Management Environment (3) ~ Progress in aging and falling birthrates

The average life expectancy of Japanese is expected to increase into the future

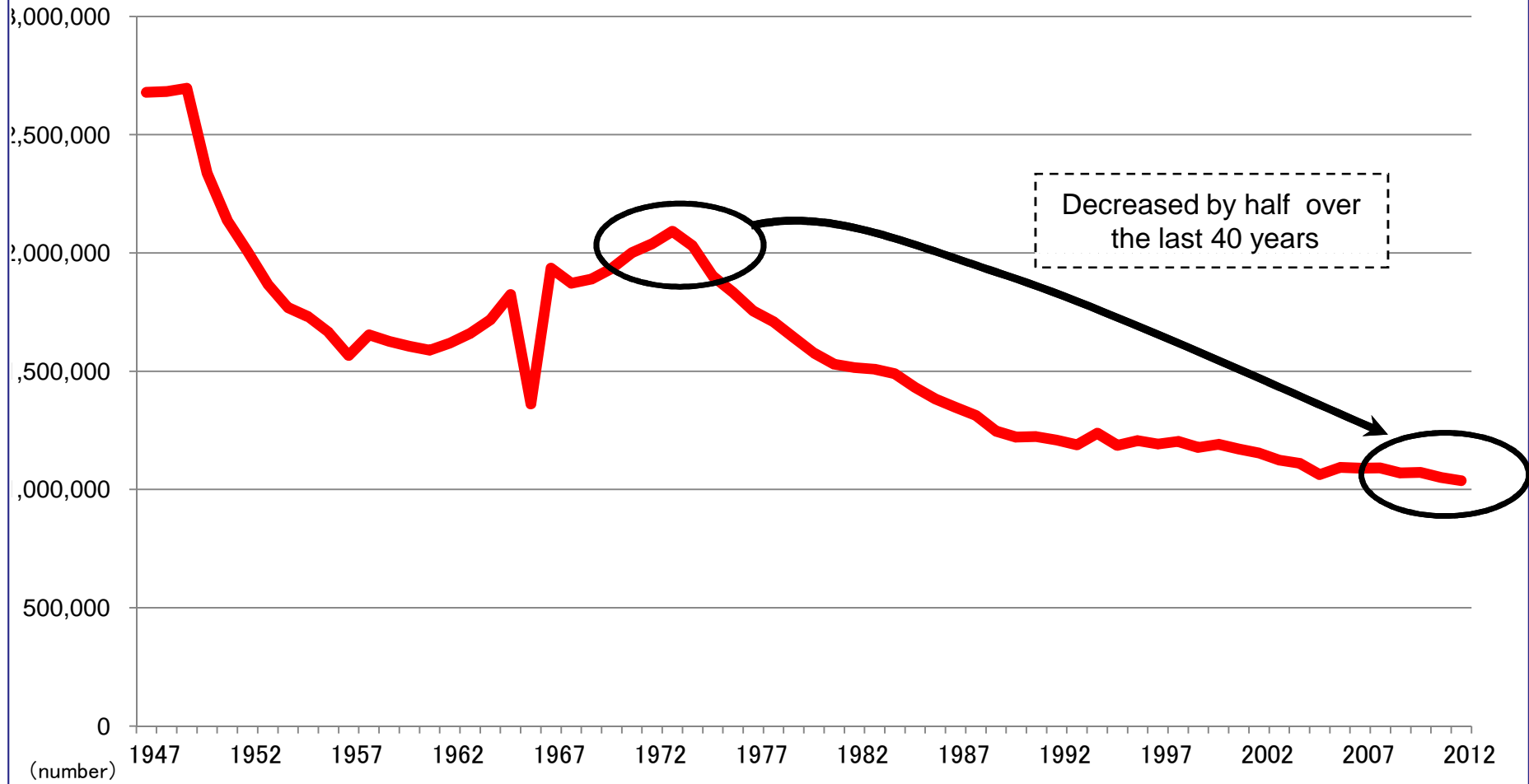
<Changes in average life expectancies of Japanese and future estimations>



<Average life expectancy in 2013> Males **80.21** (World No.4) Females **86.61** (World No.1)

2. Change of Management Environment (4) ~ Progress in aging and falling birthrates

▪ The number of births is on the downward trend.

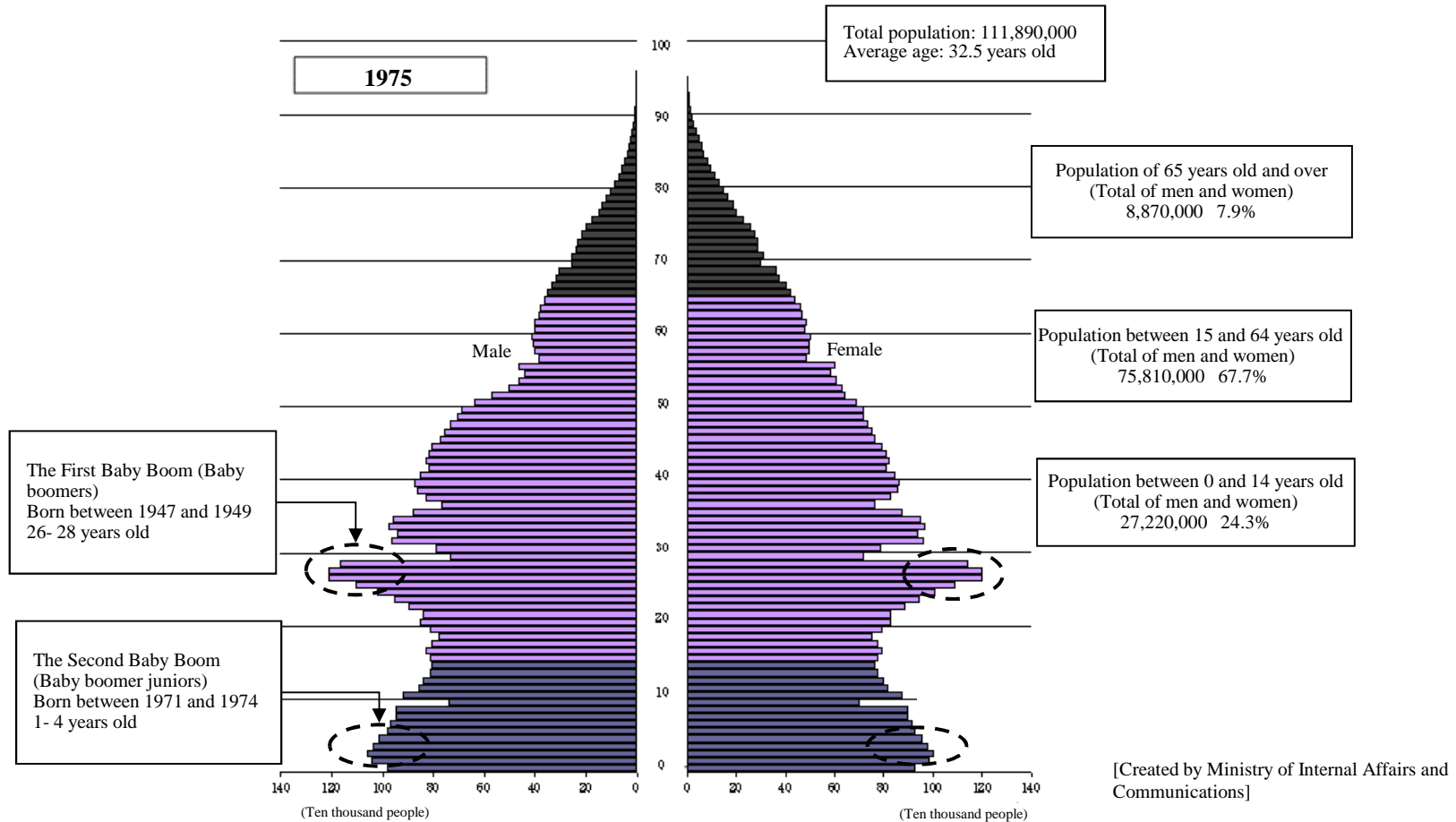


2. Change of Management Environment (5) ~ Development of Aging

40 years ago

Japanese population structure with two lumps

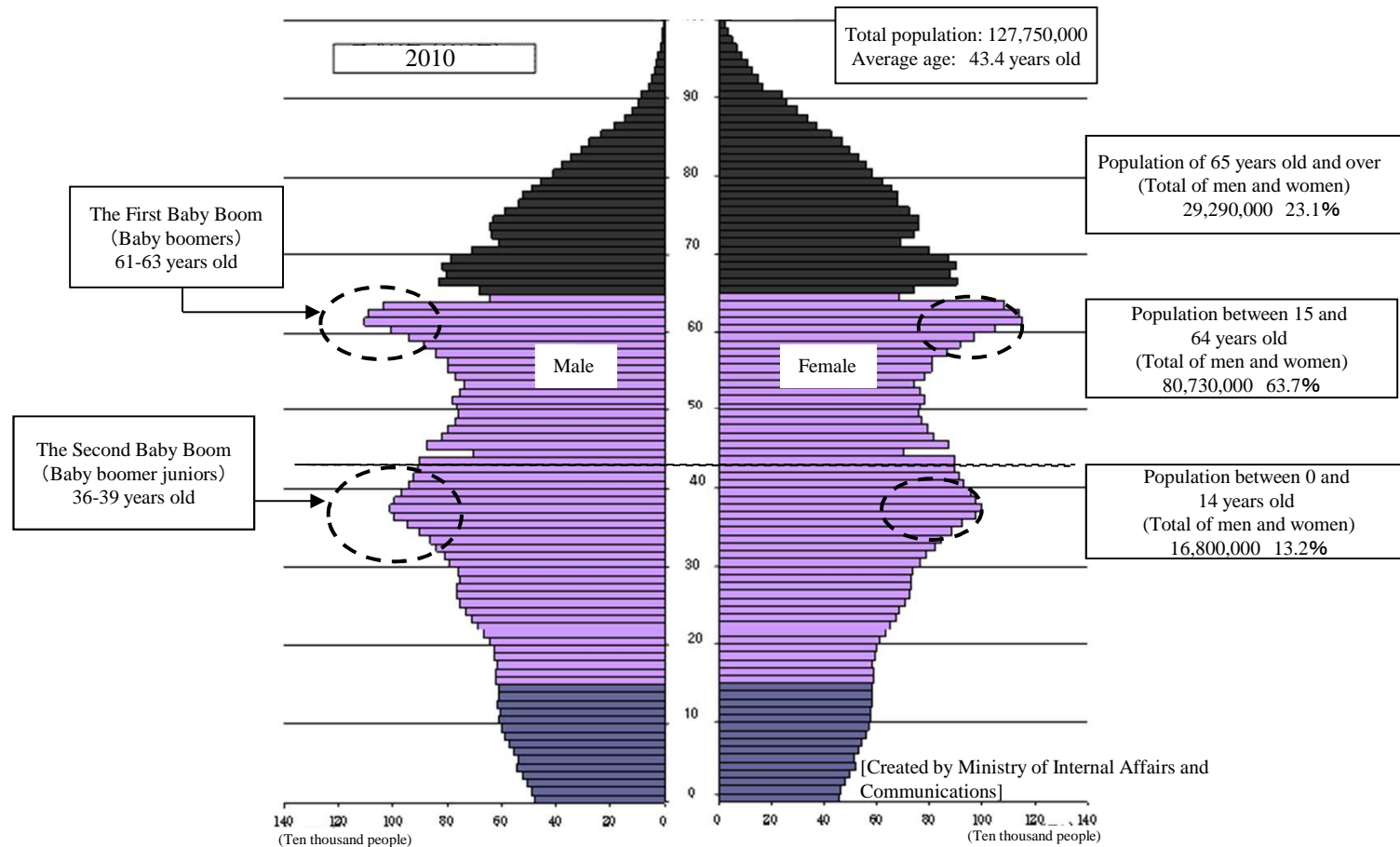
- Two lumps, one for late 20 years old and the other under 4 years old.



2. Change of Management Environment (6) ~ Development of Aging

Present

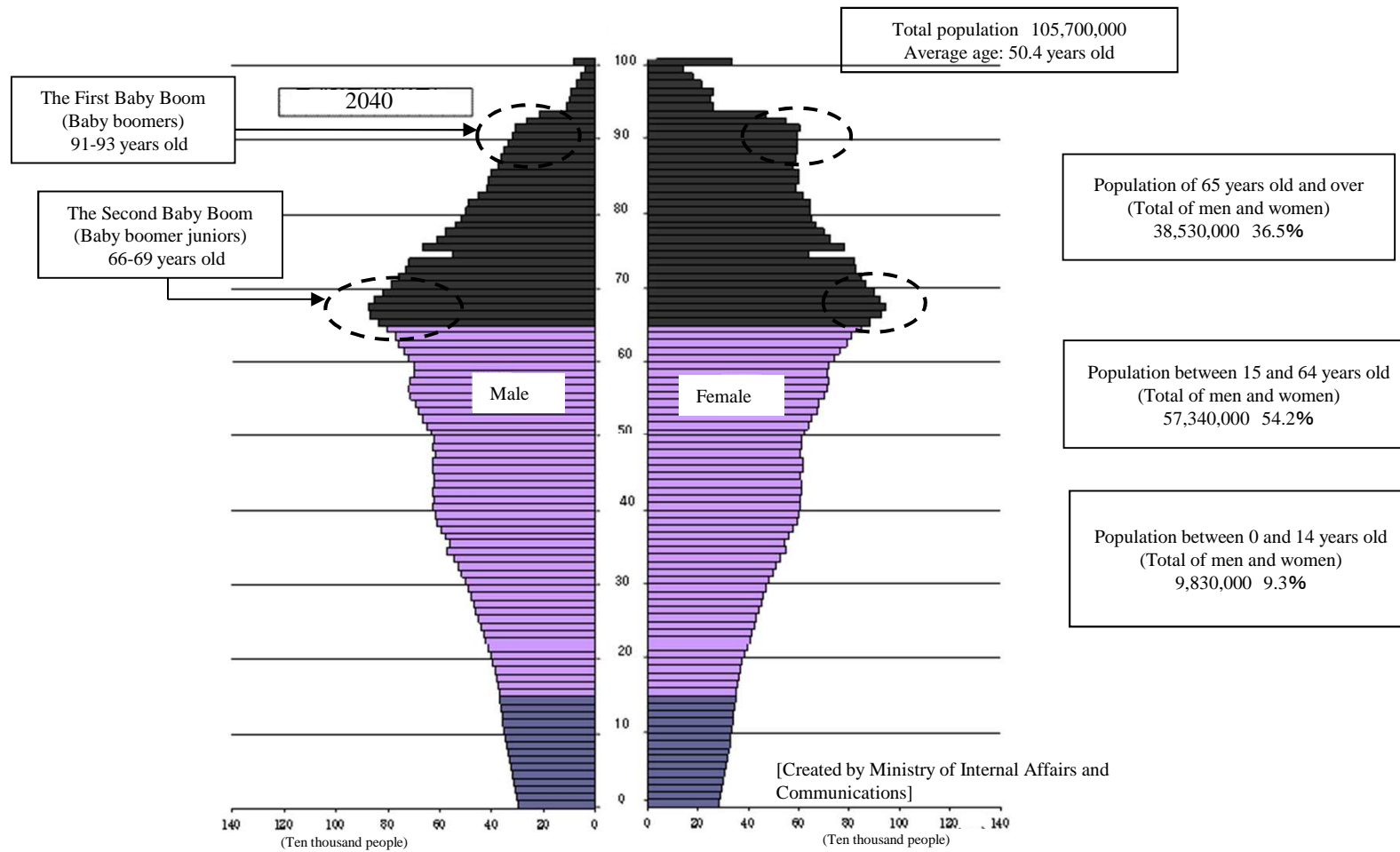
- Baby-boomer juniors account for main bulk of the household-forming strata.
- Continued aging of baby boomers.



2. Change of Management Environment (7) ~ Development of Aging

25 years later

- Aging of both baby boomers and baby boomer juniors.



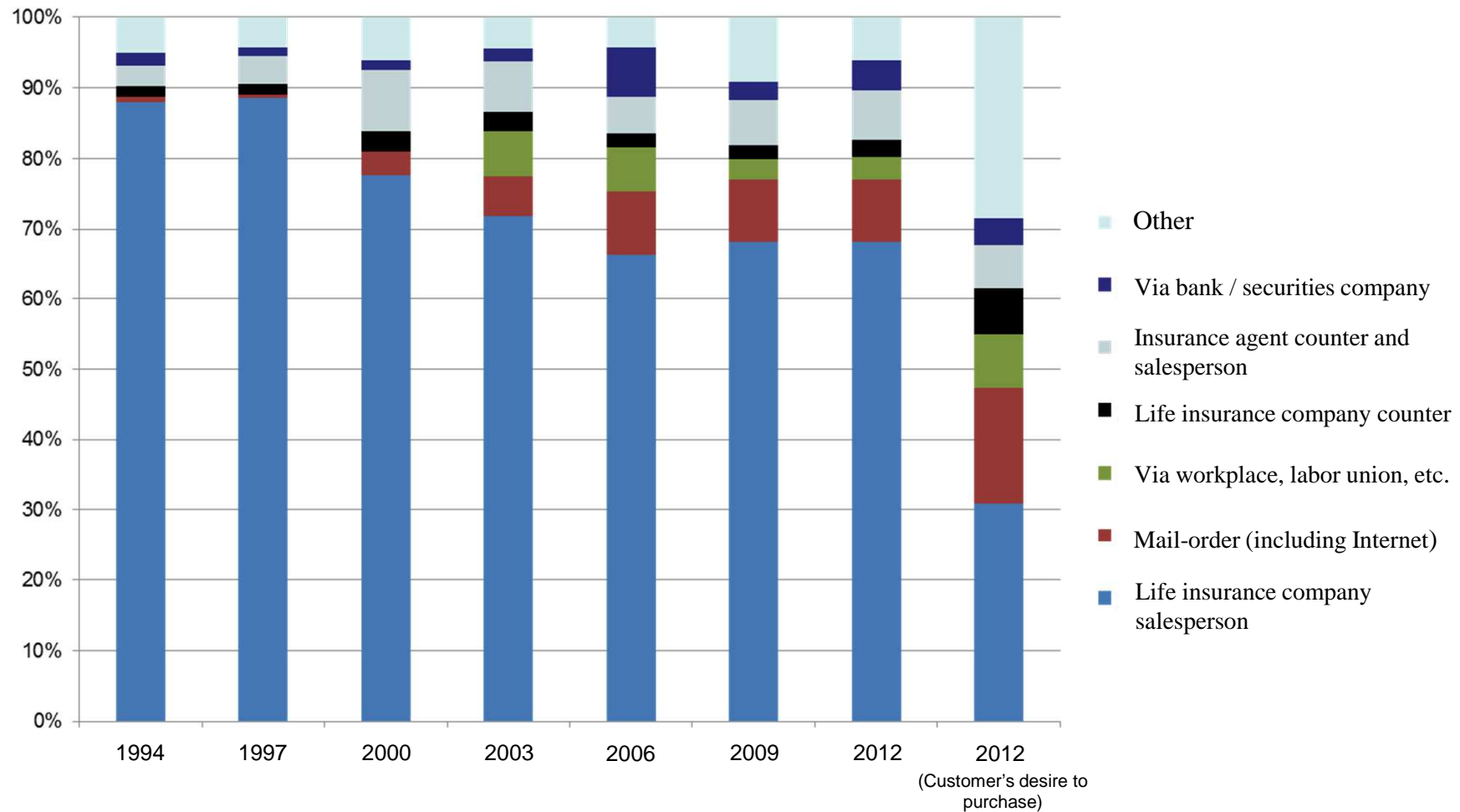
3. Change of Management Environment (1) ~ Diversification of Sales Channel

Private insurance companies make use of salespeople as well as a variety of different sales channels

Main sales channels	Full-time employees	<p><u>Exclusive channels</u> Management via insurance companies is possible. Since they do not handle the products of other insurance companies, insurance companies can sell the products that they want to sell.</p>
	Pro agents	<p><u>Independent channels</u> Receive solicitations for and consignment of the same kinds of insurance products from multiple insurance companies. They are influenced by the extent of agent commission and sales trends due to marketability. It is hard for them to sell insurance products in cases where their sales commission has been subordinated.</p>
	Tax accountant agents	<p><u>Exclusive – independent channels</u> Configuration where tax accountants serve as the solicitors. Since insurance contracts enjoy benefits from the tax system, tax accountants provide information on business insurance when consulting with companies over tax matters. Since tax accountants cannot provide detailed explanations of insurance they oftentimes hand customers over to insurance companies, whose employees provide substantial explanations of the insurance.</p>
	Non-life Insurance agents	<p><u>Exclusive – independent channels</u> These are agents for non-life insurance, and so engage in overlapping sales of life insurance to their own non-life insurance customers.</p>
	Company agents	<p><u>Exclusive – independent channels</u> Companies' related companies and affiliate companies serve as the agents. They leverage employees' loyalty to their companies to sell said company employees life insurance. They basically hand out pamphlets and application forms without providing any consulting and receive insurance applications from the staff personnel.</p>
	Bank agents	<p><u>Large-scale independent channels</u> Banks sell insurance to their vast customer base mainly when customers visit the banks. Savings products account for the main core of this, but since multiple insurance companies have their products featured, recruitment commission competition and product competition are fierce. It is difficult for insurance companies to exercise control over these agents.</p>
Recent years	<p><u>Internet channel / Walk-in type shop</u> Along with the popularization of Internet, customers of some life insurance companies can get brochures, submit applications, take out policies through internet. "Walk-in type shop" which more focus on customers who want to compare products of some insurance companies and come to shop on their own schedule is increasing rapidly.</p>	

3. Change of Management Environment (2) ~ Diversification of Sales Channel

<Changes in Life Insurance Purchase Channels>



[Created by "National Fact-finding Survey of Life Insurance" by the Japan Institute of Life Insurance]

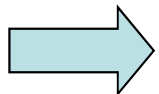
4. Response to Diversification of Sales Channel

(1) Difference in markets by channels

Salesperson channels	Bank's over counter sales channels
<ul style="list-style-type: none"> – Mainly young, middle aged groups – Saving “for one’s old age” – Main purpose is monthly “accumulation” (compulsory saving needs) – Operable period (period of insurance) is long-term to a certain extent → designed to cope with life changes – Products for old age through level payments 	<ul style="list-style-type: none"> – Mainly the wealthy and elderly groups – Saving purposes are [For oneself] immediate annuity needs, etc. [For one’s family] inheritance policies, etc. – Purpose is “utilize” collected funds to a certain degree – Relatively short operable period (period of insurance) – Mainly lump-sum payment plans

(2) Differences in channel features

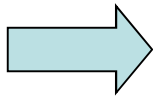
Salesperson channels	Bank's over counter sales channels
<ul style="list-style-type: none"> – Complicated plans such as market value adjustments require much explanation. 	<ul style="list-style-type: none"> – As independent agents, product contents are evaluated seriously and products carefully chosen.



Development of products that take into consideration the needs of the different channels is expected.

4. Response to Diversification of Sales Channel

- There is a demand for products that can easily be sold even at banks (which do not specialize in life insurance), simple products that can easily be sold without the need for detailed face-to-face explanations (such as through mail-order). This demand background for “Simplicity” (content of benefit and coverage) of product has increased.



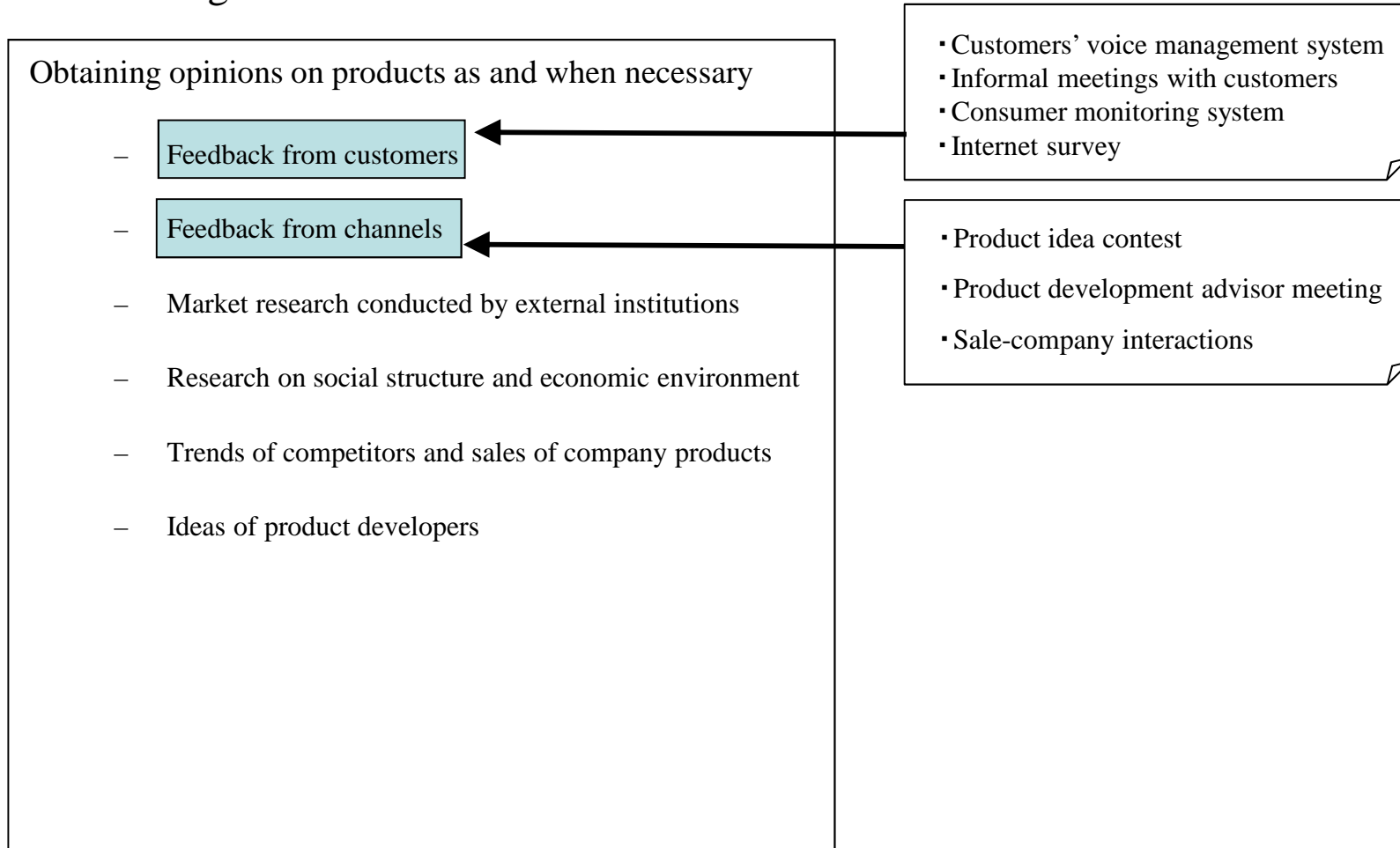
We will conduct improvement in content of product
And pursue the concept of easily understandable product!

5. Points for the Development of Protection-type Products

- The Development of appealing protection products is important
 - Saving products lack appeal beneath low interest rates
- From the risk of death to the risk of longevity
 - Expansion to areas like occupational disability, nursing serious ailments such as the three major diseases
- Subdivision of risk and the population
 - Increasing appeal through the subdivision of risk, clarifying targets, etc.

5. Points for the Development of Protection-type Products

▪ Understanding market needs



6. Case Example of Protection-type Product Development based on the change of environment ~ Medical Insurance

<Background>

- With public medical insurance undergoing several rounds of revision, the co-payment for patients has been gradually increasing (currently it stands at 30%).
- Accordingly, various changes such as a shortening of the minimum hospitalization period (the target of hospitalization benefits), extending the limit on payment period and extending the insurance period are expected.

«History in the Company»

- 1974: Sales of rider paying hospitalization benefits for hospitalization of 20 days and more.
- 1987: Sales of rider for hospitalization benefits for “Hospitalization for 5 days or more”.
- 2002: Expansion of hospitalization benefits from “Hospitalization for 5 days or more” to “2 days or more”.

Addition of whole life medical insurance rider possible with new contracts.

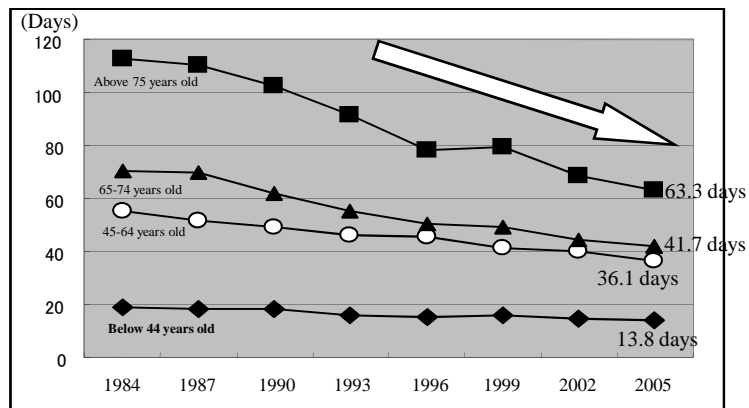
- 2004: Sales of medical insurances with whole life insurance period.
- 2007: Expansion of hospitalization benefits to include “Non-staying Outpatients”.
Link reasons to pay surgery benefits to the public medical insurance system.
- 2010: Abolished the condition of irradiation level for radiation treatment benefits.
- 2012: Introduction of benefits for bone marrow donors

6. Case Example of Protection-type Product Development based on the change of environment ~ Medical Insurance

As medical technology improves

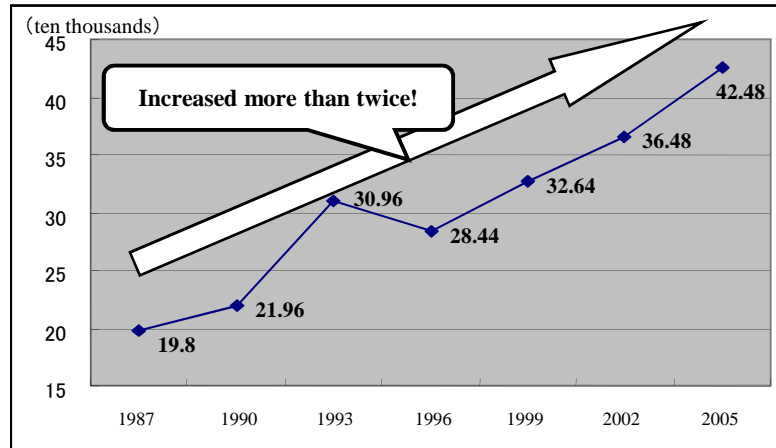
- (1) hospitalization period decreases further
- (2) number of day patients increases with the spread of day surgeries
- (3) types of surgeries increased as surgeries become more precise and more complicated

<Annual trend of average hospitalization period (according to age)>



Source: MLHW [Survey on Patients]

<Annual trend of day patients (total annual converted number)>

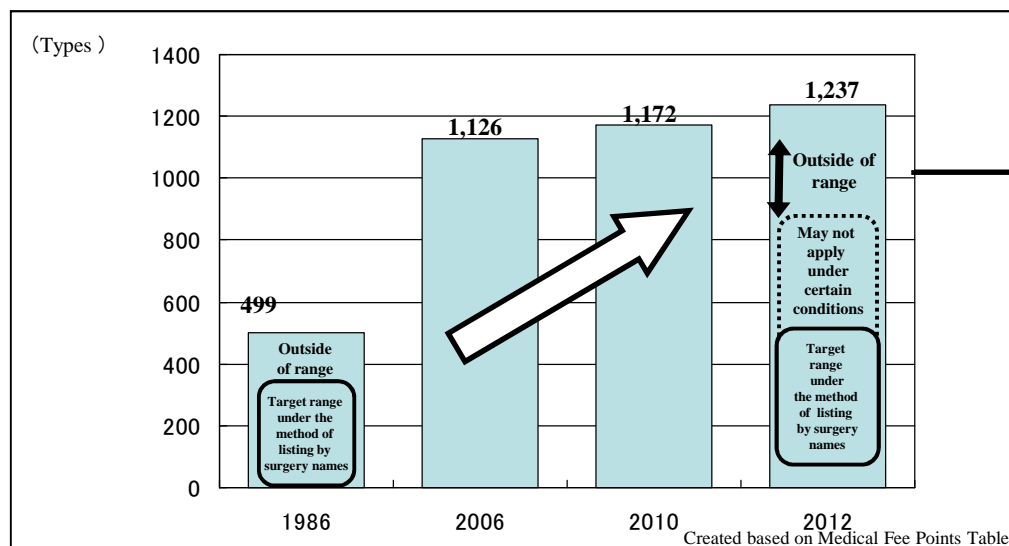


Source: MLHW [Survey on Patients]

6. Case Example of Protection-type Product Development based on the change of environment ~ Medical Insurance

When compared to the time when the method of listing by surgery names was introduced, the types of surgeries which are the targets applicable to the public medical insurance has increased more than twice.

<Gap between trend of surgeries applicable to public medical insurance and target range under the method of listing by surgery names>



With an increase in the types of surgeries, the number of surgeries outside the range of the method of listing by surgery names also increased.

- Even common surgeries exceed 1 million times.
- 93% of surgeries are outpatient surgeries.

	Unit: Times		
	Total	Inpatient	Outpatient
Eardrum incision surgery (surgery to remove pus due to middle ear infection)	670,408	19,548	650,860
Sty incision surgery (surgery to remove the sty)	174,338	12	174,326
Cervical polyp extraction surgery	133,524	2,532	130,992
Nasal mucous membrane cautery surgery (burn the interior of the nose with a laser for allergy-type nasal infection)	80,076	6,816	73,260
Hemorrhoid surgery	53,196	1,932	51,264
Tonsil surgery	43,296	43,296	0
Mastectomy	23,304	5,424	17,880
Total	1,178,142	79,560	1,098,582

Source: Survey of Medical Care Activities in Public Health Insurance (2004)

6. Case Example of Protection-type Product Development based on the change of environment ~ Medical Insurance

Customers' proposal regarding surgery benefits

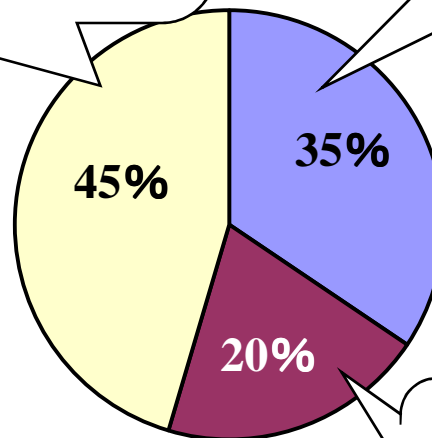
~ Under the method of listing by surgery names, it is difficult to understand which surgeries are claimable and the benefit rates.

Unable to understand why surgeries are not claimable and benefit rates are low

- Despite having gone through a major surgery requiring hospitalization, the amount of benefit is low because the benefit rate is only 10 times.
- Unable to understand why tonsil surgery, which is a major surgery, cannot be claimed.

Inaccurate guidance

- Told beforehand that surgery is claimable but told not claimable when trying to make a claim.



Difficult, not easy to understand

- Unable to get a straight response even after undergoing the surgery on whether the surgery is claimable and the rate of the benefit that can be claimed.

6. Case Example of Protection-type Product Development based on the change of environment ~ Medical Insurance

Basic policy: Nonparticipating Whole Life Medical Insurance

Rider : New Medical Rider

- 【Features】**
- Expansion of hospitalization benefits to include “Day hospitalization”.
 - Linked surgery benefits reasons to the public medical insurance system.
⇒Able to respond to latest medicine care even in the future.
 - Abolished the condition of irradiation level (50 grays and above) for radiation treatment benefits.

Name of Benefit	Content of Benefit	Amount of Benefit
Accidental Hospitalization Benefit	Hospitalization for more than 1 day due to injury (Including a day hospitalization)	Daily hospitalization benefits × hospitalization days
Sickness Hospitalization Benefit	Hospitalization for more than 1 day due to sickness (Including a day hospitalization)	Daily hospitalization benefits × hospitalization days
Operation Benefit	Operation which is covered by National Health Insurance or operation which falls under the advanced medical treatment due to sickness or injury	(Operation in hospitalization) Daily hospitalization benefits × 20 (Operation in outpatient) Daily hospitalization benefits × 5
Radiation Treatment Benefit	Radiation treatment which is covered by National Health Insurance or radiation treatment which falls under the advanced medical treatment	Daily hospitalization benefits × 10
Bone Marrow Donors Benefit	For when donors undergo bone marrow stem cell or peripheral blood stem cell harvesting	Daily hospitalization benefits × 20

7. Points for the Development of Savings-type Product

- There are two needs when it comes to “saving products”
 - Need to invest collected funds (= “to increase”)
 - Need to accumulate funds in small amounts (= “to save”)
- For the need to invest funds
 - Incorporating the market money rate trends into the setting of premiums
 - Possibility of fund investment commensurate with the setting of premiums
 - That the company does not bear excessive risk from interest rate fluctuations
- For the need to accumulate funds
 - Accumulate through level payments at fixed intervals
 - Interest rate sensitivity is not high, but a certain amount of interest is necessary
 - How to invest the fund in a manner which responds to equalized payments

8. Points for Product Development ~ Importance of Risk Management

- Risk of guaranteeing assumed interest rates over the long term
 - Trade-off between low assumed interest rates and the mechanism for revising assumed interest rates, and the pricing of products
- Risks accompanying the diversification of underwriting risks
 - Safety loading and product costs, increasing the number of products and operational infrastructure
- Risks accompanying the advances of health-care, etc.
(medical insurance, etc.)
 - Situation of feeling out just how much risk can be taken