



Aging Population in Taiwan:

Challenges and Solutions for Life Insurance Industry

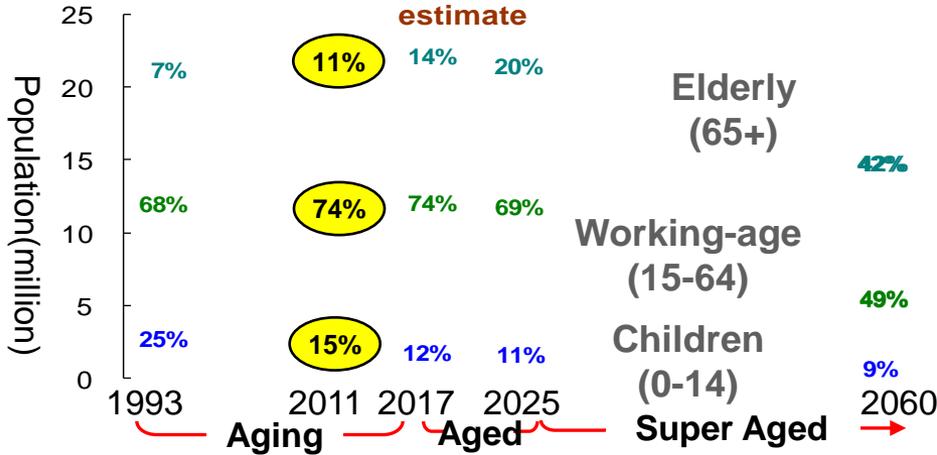
Kung-Shih Lee

November 16, 2012

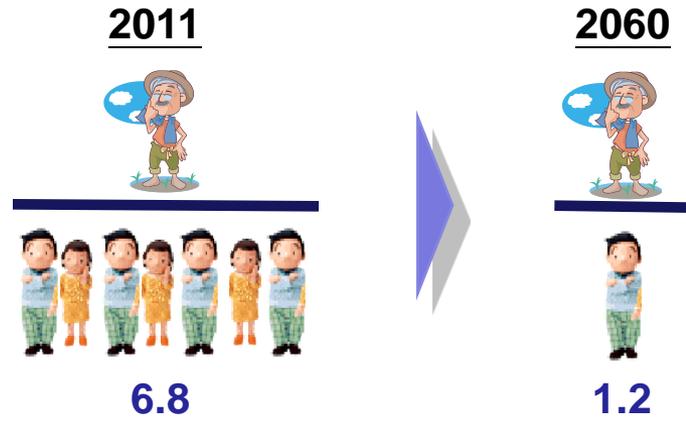
Demographic Transitions

Challenge

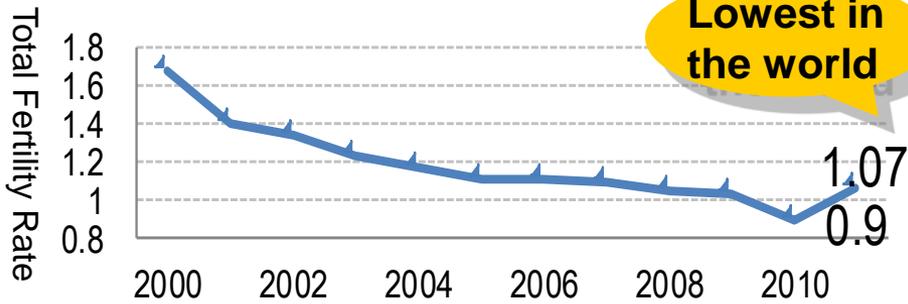
Rapid Population Aging



High Old-age Dependency Ratio



Decreasing Fertility Rate



- Become an aged society by 2017
- Silver-hair market keeps growing while youth market continues shrinking
- Need to start financial planning for retirement earlier against longevity risk

Source: Taiwan's Council for Economic Planning and Development

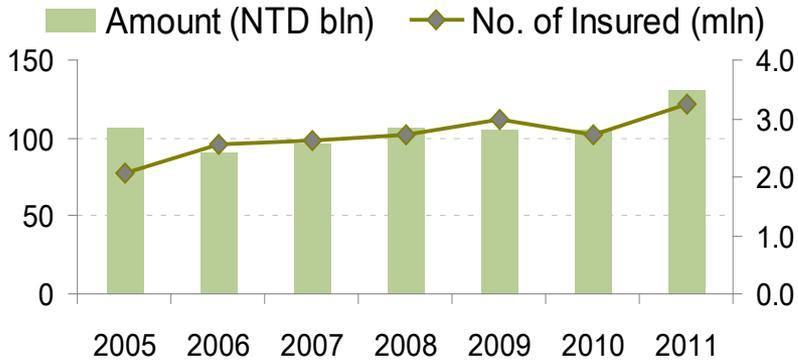


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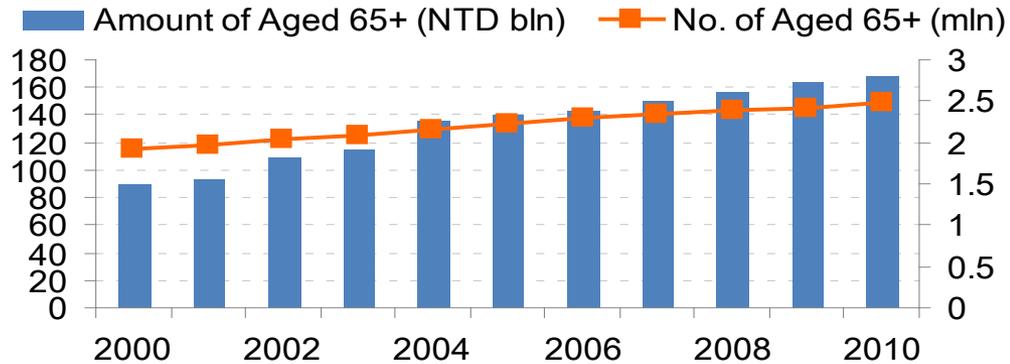
Benefits Paid

Challenge

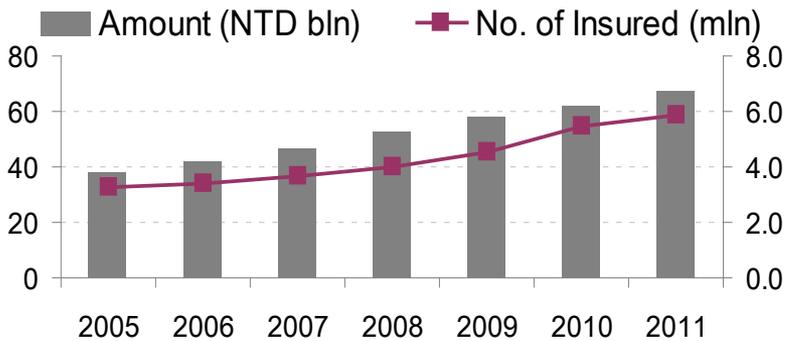
Living Benefit



National Health Insurance Expense



Health Insurance Benefit



Source: Taiwan Insurance Institute

- Living benefits rise 7% annually with 10% growth rate of number of insured
- Both payment and number of insured of health insurance grow 10% annually
- Medical expenses of elderly outpace the aging population growth



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Social Security Mechanism

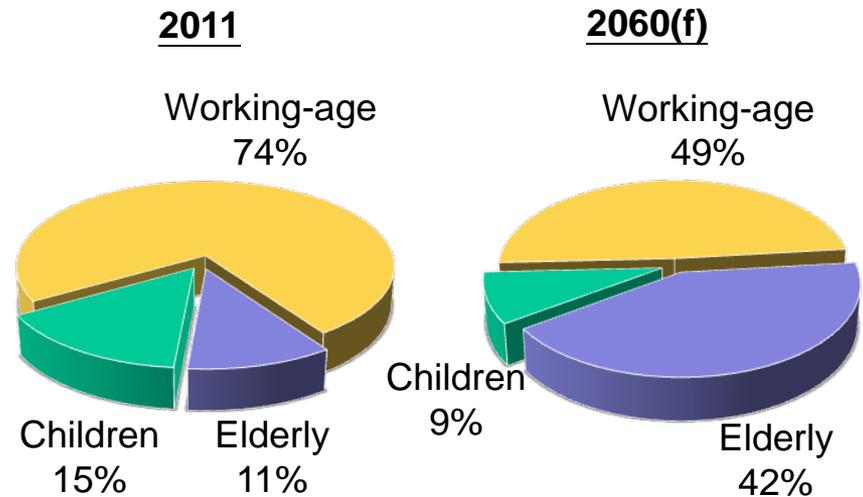
Challenge

Public LTC Insurance May Not Offer Sufficient Service

Labor Pension Fund Will Suffer Financial Inadequacy

Public Long-term Care Insurance (draft)

| | |
|-------------------|--|
| Enforcement | 2016 |
| Funding Source | Premium income: 90% Co-payment: 10% |
| Benefits | Cash and service benefits |
| Deductible Amount | 10% to 15% |
| Participant | All citizens or citizens aged over 40 |



- The public LTC insurance is designed to provide coverage for services, but currently the resources are insufficient to meet the elderly's needs
- Labor pension fund will be insufficient to pay out claims since the number of pensioners is increasing yet the labor force is declining



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Product Preferences

Challenge

Retirement Products of Cathay Life



| Product Type | Sales Share |
|---|-------------|
| Retirement Product | 42% |
| Foreign currency increasing whole life (with living benefits) | |
| Endowment | |
| Whole life (with living benefits) | |
| Interest sensitive annuity | |
| Others | 58% |
| Total | 100% |

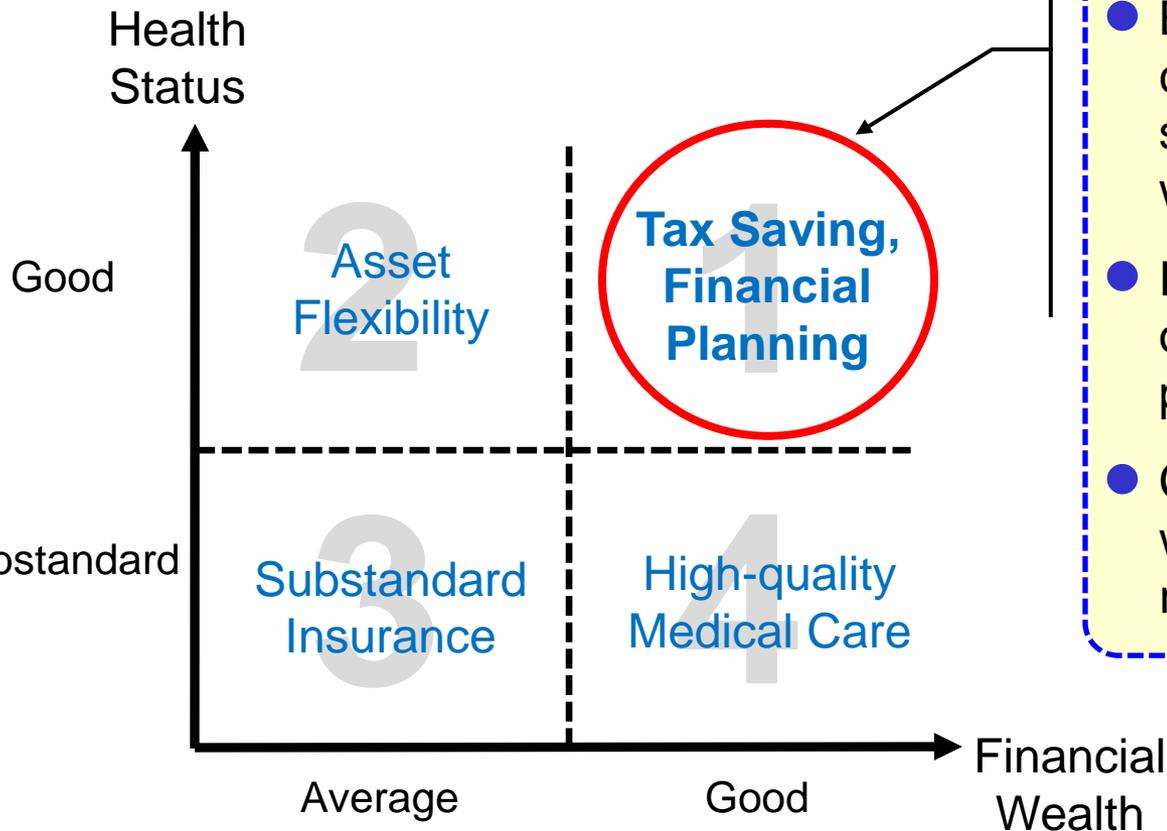
- Taiwanese tend to use life insurance such as whole life with living benefit, endowment and increasing whole life insurance for retirement coverage
- Longevity risk is not well considered when people make choice of retirement products



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Marketing to Silver Market (1/4)

Solution



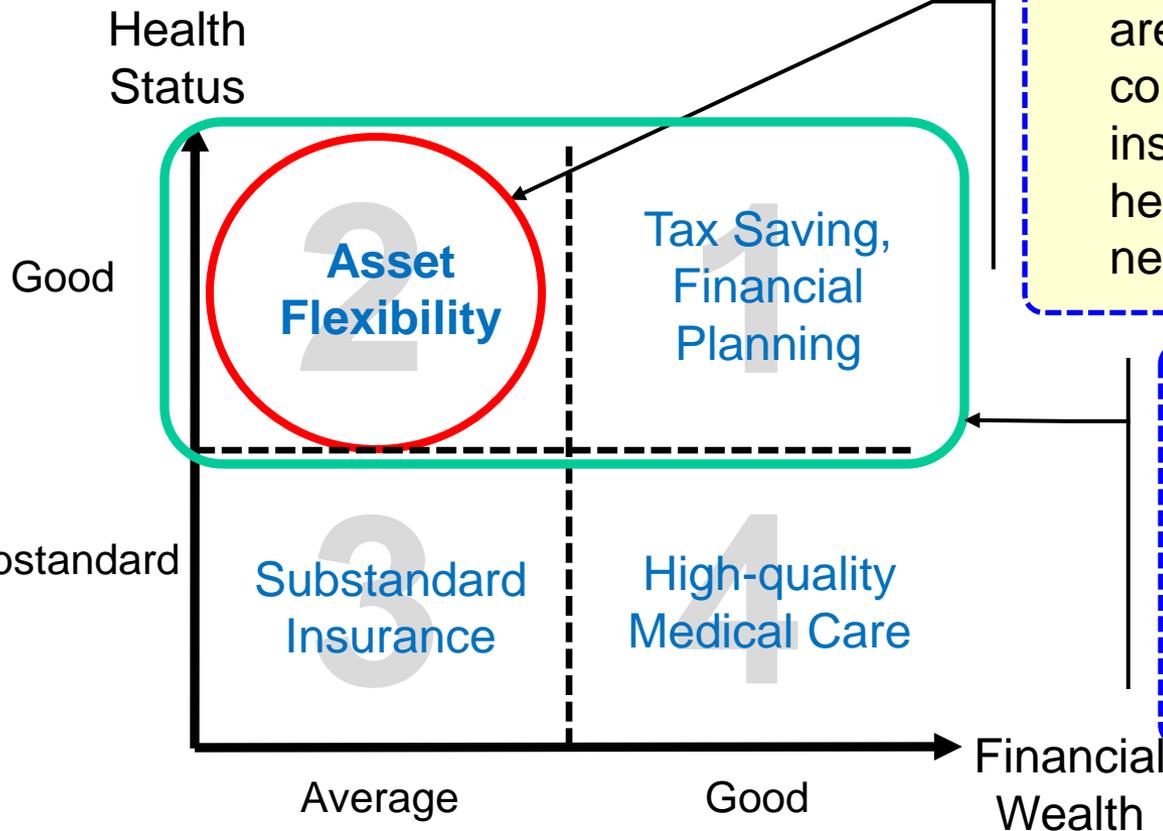
- Broaden age restriction for certain insurance product, such as single premium whole life insurance
- Enhance agents' knowledge of legacy and taxes planning
- Combine insurance products with home remodeling and repair service benefits



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Marketing to Silver Market (2/4)

Solution



- Allow eligible customers who are planning for retirement to convert some whole life insurance into annuities or health insurance to meet their needs

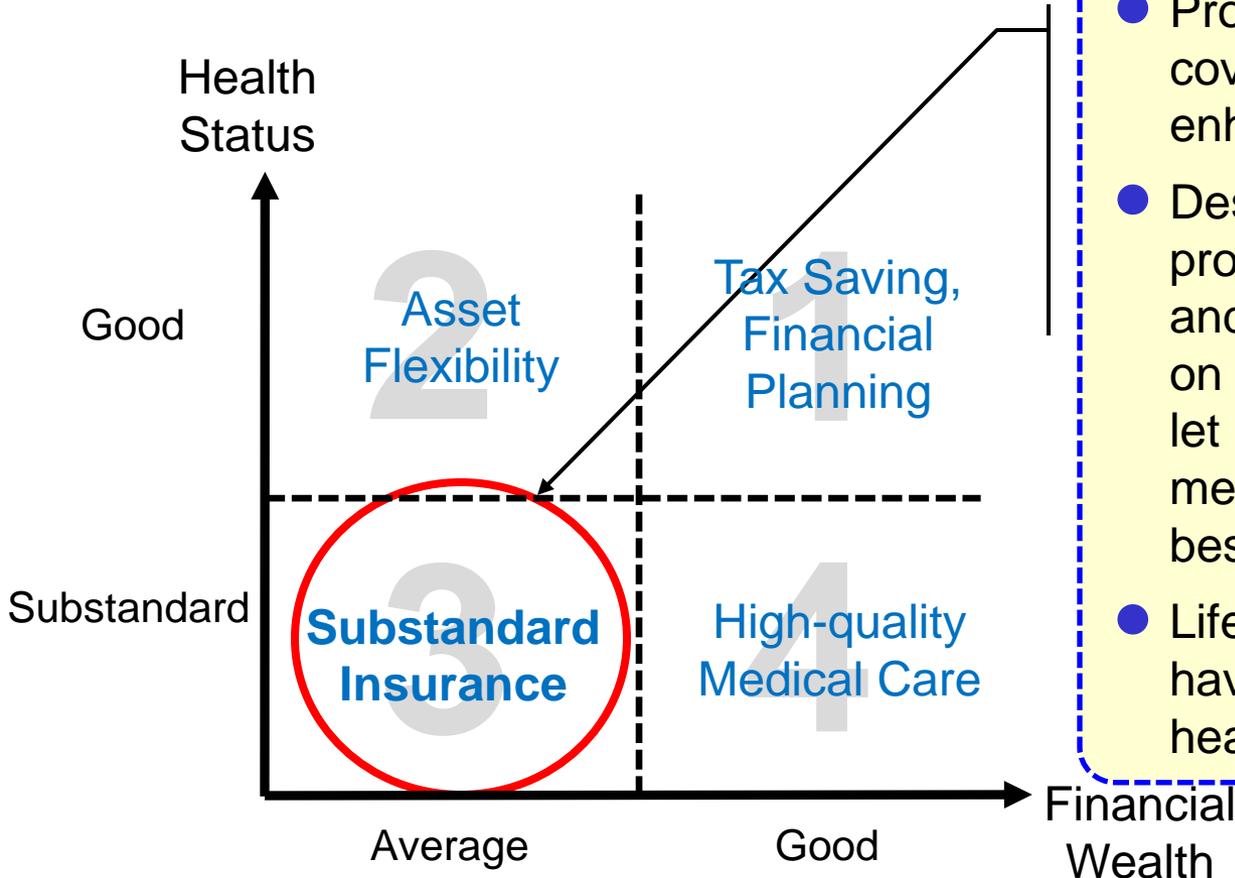
- Longevity annuity can be a suitable retirement product when people think they might live longer than the average life expectancy



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Marketing to Silver Market (3/4)

Solution



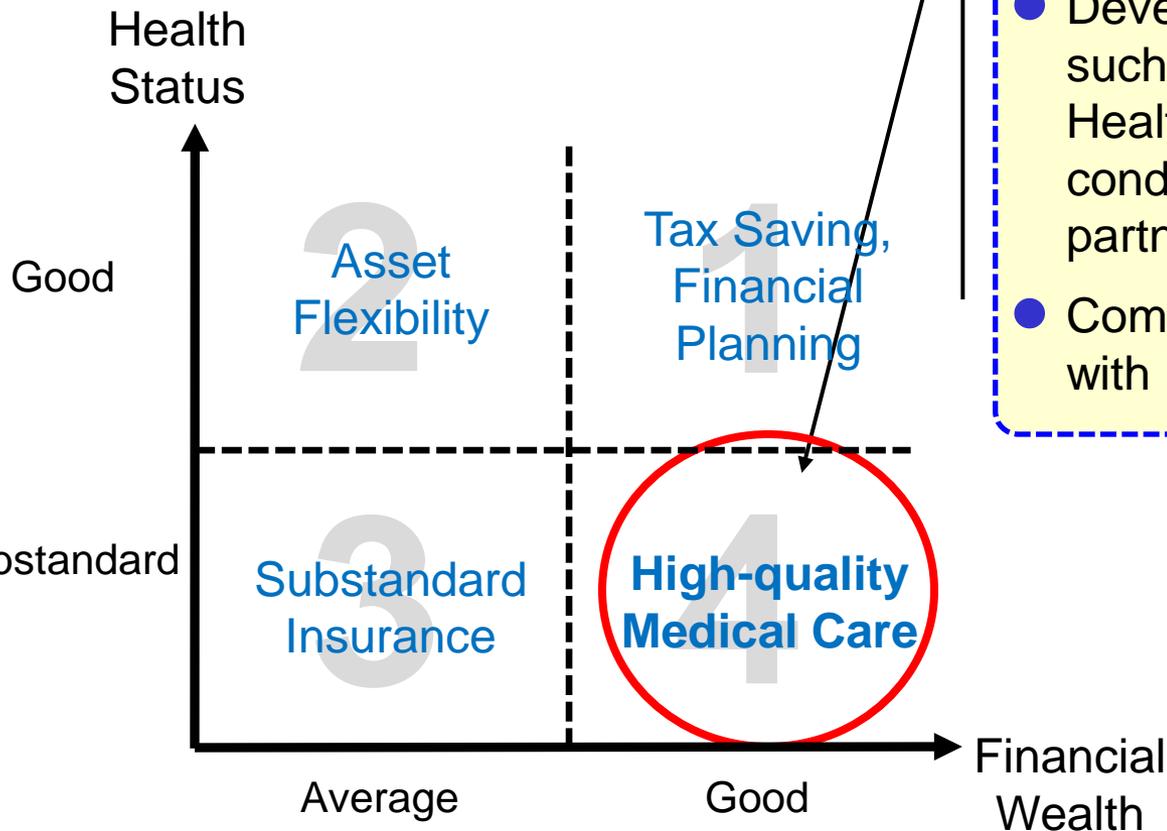
- Provide affordable insurance coverage for aging, such as enhanced annuities
- Design health insurance products against medical and long-term care expenses on retirement. For example, let customer choose their medical payment age that best suit their needs
- Life insurance companies have mission to promote healthy and active aging



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Marketing to Silver Market (4/4)

Solution



- Develop silver market business, such as Nursing home and Healthcare management, or conduct alliance with strategic partners
- Combine insurance products with healthcare service benefits



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Develop Silver Market Business Opportunities

-To form age friendly environment and facility

Solution

| Category | | Needs of Elderly | Opportunities for Insurers |
|---------------------|-------------------|--|--|
| Lifetime Home | High-tech House | High tech green building | Construction *Cathay Real Estate Development Co. |
| | Home Remodeling | House remodeling and repair | |
| Health Care | Health Management | 1. Healthcare management 2. Health monitoring system 3. Preventive service | 1. Healthcare management *Cathay Healthcare Management Co. 2. Health monitoring system |
| | Safety | 1. Emergency reporting system 2. Security monitoring | Security system business |
| | Dietary | 1. Dietary supplement 2. Healthy food | Biotech business |
| | Daily life care | Meal service | Meal delivery business |
| Medical and Nursing | Medical Service | 1. Hospital and clinic 2. Nursing home | 1. Hospital 2. Nursing home *Cathay General Hospital and Nursing Home |

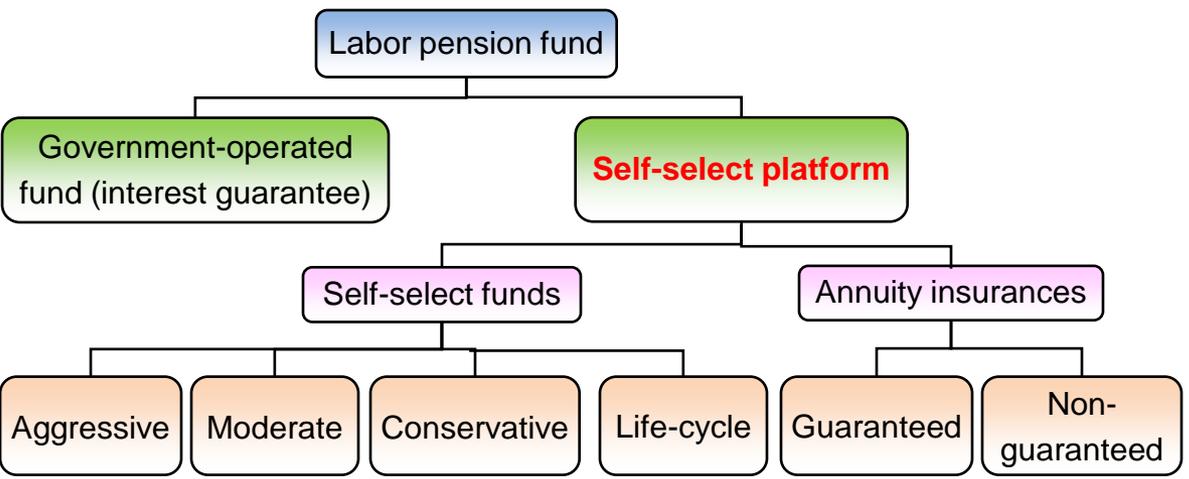


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Proposition of Regulatory Changes

Solution

Propose Self-select Investment Platform under Pension Fund



Establish Tax Deduction

| | |
|----------------------|--------------------|
| Annuity | NTD\$24,000 |
| LTC Insurance | NTD\$24,000 |
| Other Life Insurance | NTD\$24,000 |
| Total Amount | NTD\$72,000 |

- Set up a “self-select” investment platform under Labor Pension Fund
- Insurers can provide various investment products for retirement planning
- Introduce tax deduction for annuity and nursing insurance products separately



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Education for Consumers and Agents

Solution

Strengthen Agents' Medical Knowledge

Recruit lecturers with medical or nursing background

Improve aging products education



Enhance Retirement Planning Awareness

Early warning for retirement savings



Incorporate longevity issue into national education program

- Improve agents' knowledge of LTC so they can smoothly promote the importance of insurance and educate consumers to start retirement planning at young age
- Educate the young generation about the demographic trends such as low birth rate and aging population and incorporate longevity issue into national education program



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