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RMB Denominated Product - New Dawn for Coinsurance

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Historical Evolution



1-1: Market Development in HK

Year 2010

First RMB denominated insurance policy launched by BOCG Life HK (July).

Year 2011

By the end of this year, 17 insurers have launched RMB denominated insurance in HK and there are more than 70 thousand in force policies. Gross written premium of the year exceeds RMB 1.1 billion.

Year 2012

By the end of this year 20 insurers are selling RMB insurance in HK and in forced policies exceed 110 thousand. Accumulated premium income is around RMB 2.1 billion.



1-2: Driving Forces Behind RMB

Insurance

Driving Force 1: Appreciation of RMB vs. HKD



← In 2011 - RMB cumulative appreciation against HKD by more than 4.2%

- In 2012 RMB appreciation against HKD exceeds 1.5% (Now: 100 RMB = 125 HKD)
- Cumulative appreciation in the recent 3 years is more than 10%
- Further appreciation of RMB is still expected (because of purchasing power, QE, etc.)

1-2: Driving Forces Behind RMB

Insurance

Driving Force 2: Low Interest Rate Environment in HK

Tables below – deposit rate offered by a local bank (%)

Currency	Minimum Deposit	Period of Deposit				
		Over Night	24 Hour Notice	7 Day Notice	1 Week	2 Week
HKD	400,000	0.0100	0.0100	0.0100	0.0100	0.0100
	50,000	-	0.0100	0.0100	0.0100	0.0100
	30,000	-	-	0.0100	0.0100	0.0100
	1,000	-	-	0.0100	0.0100	0.0100

Currency	Minimum Deposit	Period of Deposit					
		1 Month	2 Months	3 Months	6 Months	9 Months	12 Months
HKD	400,000	0.0500	0.1200	0.1500	0.2100	0.2100	0.3500
	50,000	0.0100	0.0100	0.0100	0.0500	0.0500	0.0625
	30,000	0.0100	0.0100	0.0100	0.0500	0.0500	0.0625
	1,000	0.0100	0.0100	0.0100	0.0500	0.0500	0.0500

1-2: Driving Forces Behind RMB



Insurance

Driving Force 3: Development of Offshore RMB Markets

Hong Kong

➤ Start of personal RMB banking business. RMB deposits allowed in Hong Kong. Bank of China (Hong Kong) designated as RMB clearing bank.

➤ In 2010, the offshore RMB financial market has begun to take shape in HK, with the emerging of a variety of RMB denominated financial products including deposits, bonds, ETFs and insurance policies.

➤ By the end of year 2011 the total pool of RMB denominated deposits in HK's financial system hit 630 billion, more than 10 times of the figure for the previous year.

Other Markets

Singapore, London, **Taiwan** and Macau



1-2: Driving Forces Behind RMB

Insurance

Driving Force 1: Appreciation of RMB vs. NTD

CNY TWD Historical Charts

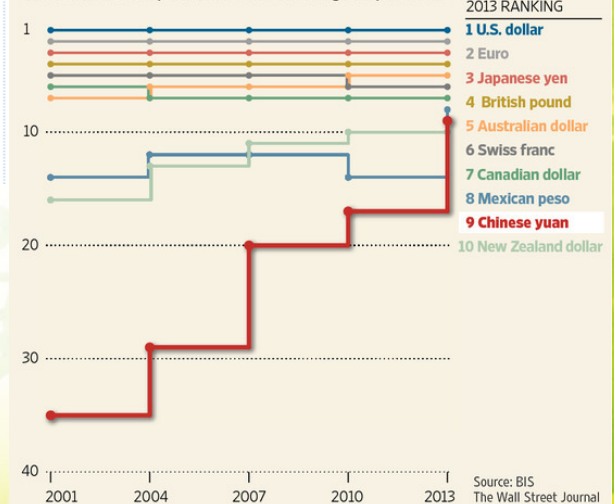


- Further appreciation of RMB is still expected (because of purchasing power, QE in US impacting cross – currency rates, etc.)
- The RMB recently increased to ninth in the Bank for International Settlements' latest report in 2013 on foreign-exchange turnover
- Also, Currency Diversification is an additional benefit

← It has trended upwards, but under 2% increase over two years (as at Nov 15 2013)

Top of the Class

Currencies ranked by the dollar value of average daily turnover



1-2: Driving Forces Behind RMB

Insurance

Driving Force 2: Low Interest Rate Environment in Taiwan

Tables below – deposit rate offered by HSBC (%)

Personal Banking TWD Deposit Rates(%)																
Demand Deposit		Personal Banking Demand Deposit										0.02				
		Strategic Payroll Account Demand Deposit										0.40				
Tenor		1 Month	2 Months	3 Months	4 Months	5 Months	6 Months	7 Months	8 Months	9 Months	10 Months	11 Months	12 Months	18 Months	24 Months	36 Months
Time Deposit-Fixed Rates	Under 3 million	0.87	0.87	0.93	0.93	0.93	1.05	1.05	1.05	1.22	1.22	1.22	1.32	1.32	1.32	1.32
	3 million and above	0.40	0.40	0.40	0.35	0.35	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Time Deposit-Floating Rates		0.82	0.82	0.88	0.88	0.88	1.00	1.00	1.00	1.17	1.17	1.17	1.27	1.27	1.27	1.27

- Central Bank rates = 1.88% (widely debated, but can be estimated to stay under 2% for the near future as inflation remains low at 0.64% Nov 2013)
- Currently, the fixed deposit rates by a competitive bank sits at around 1.3% for a 3 year deposit period
- For guaranteed rates beyond 3 years is difficult to find

1-2: Driving Forces Behind RMB



Taiwan: Current Market Situation

Taiwan

➤ FSC (OCT 2013) estimated (likely, will limit) first year sales to NTD 40 billion (i.e. around 8.2 billion RMB, 1.3 billion USD), for the entire market

➤ RMB deposits in Taiwan have grown from zero to 60 billion RMB since banks were first allowed to accept them in February 2013.

➤ *By contrast, the yuan deposit base in Hong Kong is more than 10 times that of Taiwan at more than 650 billion yuan, excluding outstanding bonds and bills.*

➤ There are sales quota limitations each year that will need to be fulfilled, likely an effort by FSC to control the strong sales potential of RMB products

➤ 不过由於再保分出的部分有50%可不计入，应可再多出约200亿元额度。

➤ Widely, with speculation at this stage, FSC expects Coinsurance to be one of the methods of investment in China and 50% of the ceded portion will not be accounted for the quota in the following year

➤ Proposed Actuarial Discount Rate = 1.75% - 2.5%

➤ Traditional RMB products expected to be launched early 2014

Source: <http://www.ccb.com/Info/65150707?marker=3>





Investment Channels



2-1: Investment Channels for RMB

Insurance

Autonomous Investment

➤ **China's Interbank Bond Market:** Authorized institutions will be able, subject to PBOC (the People's Bank of China) approvals and caps to use their RMB funds in HK to invest in China's interbank bond market. China's interbank bond market (so called since banks are the biggest investors), comprises some 1,700 bonds, including central bank bills; treasury, central bank, policy bank and commercial bank bonds, ABS, commercial paper and some corporate bonds

➤ **RQFII** (RMB Qualified Foreign Institutional Investors): The pilot scheme for RQFII was first introduced in China in December 2011, aiming to enable China's financial industry to channel overseas RMB funds into the domestic market through various RMB denominated products launched in Hong Kong (such as bond-type funds) in furtherance of the promotion of RMB internationalization.

➤ **Other Offshore Financial Products:** Such as RMB denominated ETFs traded in HK Exchanges.

Reinsurance

Cash flow could be efficiently transferred to mainland China through a quota share reinsurance (with very low retention) with RMB cross border trade settlement.

2-1: Investment Channels for RMB

Insurance

➤April 2013:

Current RQFII Situation

**Poor
performance
and high fees!**

➤Seventeen RQFII bond funds generated average returns of just 2 to 3 % last year, according to Bloomberg.

➤“Dim Sum” bonds which are RMB denominated bonds issued offshore, returns averaged 7 % in 2012

➤Three of the four RQFII exchange-traded funds have seen redemptions after launch in less than a year.

➤A key disadvantage for the yuan products is high charges, according to research firm Z-Ben Advisors. To invest in RQFII, bond funds take investment fees of about 7 per cent of total investment. That compares with about 1 per cent investment fees to invest in local debt.

➤Recently, the fees have been declining for the RQFII funds

Source: <http://www.scmp.com/business/money/markets-investing/article/1225518/yuan-funds-image-hit-meagre-returns>

2-1: Investment Channels for RMB

Insurance

Current RQFII Situation

➤ July 2013 (HK):

- CSRC raises RQFII quota to \$150 bn from \$80 bn
- With more flexibility in asset allocation
- Some life companies are considering using more QFII/RQFII quota:

- Lower interest in Chinese equities given poor performance in recent years (market driven by speculation on policy stance)
- Analysts say a lack of clarity about how Beijing will tax profits from QFII/RQFII investments
- While monetary easing by major central banks has made higher yielding Chinese bonds more attractive, the lack of transparency in bond covenants and the fact that China has yet to allow a corporate debt default have also worried fixed income investors.

➤ **Jan 2013 (Taiwan):** China will allot investment quotas of *up to* 100 billion yuan for RQFII programme?

➤ **2013 (UK and Singapore):** Singapore received \$50 billion quota and UK received \$ 80 billion quota

2-2: Reinsurance – Pros and Cons

Reinsurance Vs. Other Investment Channels

Advantages

- Perfect cash flow match
- investment risk transferred
- Expertise of assuming company on investment
- Access to vehicles absent from offshore market
- Product development cooperation

Disadvantages

- Counterparty risk
- Regulation hurdles for assuming company
- Major international reinsurers are reluctant to assume investment risk
- Insufficient competition in reinsurance market



RMB Products in HK Market



3-1: Product Example(1)

****** *RMB Endowment Plan (Non-Par)***

Per each and every 1,000 Sum Assured:-

Benefit Period: 5 years

Premium Paying Period: 2 years

Premium Rate: 500.00

Maturity Benefit: 1127.50

Death Benefit: 102% of Total Premium Paid or 100% of Guaranteed Cash Value, whichever is higher

Accidental Death Benefit : 10% of the Sum Assured (In no event shall such indemnity exceed an aggregate maximum RMB 400,000)

Living Benefit: refer to below cash value table

End of Year	Cash Value
1	350.00
2	800.00
3	900.00
4	1000.00
5	1127.50

Others: Minimum Sum Assured RMB 40,000; Maximum Sum Assured RMB 8,000,000.
Issue age from 0 to 70. Distributed via banks.

3-1: Product Example(2)

BEA Life launches WiseSaver RMB Insurance

4 April 2013



Print



Email

The plan, which is an RMB-denominated endowment plan, will offer life protection for five years and guaranteed annual returns of 2.4% upon policy maturity, with guaranteed protection of up to 105% of the total premium paid, BEA said.

The company added that the plan will allow customers to make premium payments in RMB or Hong Kong dollars (HKD) and settle policy payment in RMB3, with a minimum annual premium of RMB35,000.

Commenting on the launch, BEA Life managing director, Patrick Wan, said: "Since the first launch of RMB insurance plan in 2010, our RMB insurance plans have been well received by the market. To cater to the continuing strong demand, we have developed the new WiseSaver RMB Insurance plan, which we believe will become one of the most popular products of its kind in the market.

"In addition to guaranteed high returns, it enables customers to enjoy potential RMB appreciation within just five years to meet their personal financial goals," Wan added.



最近推出 一個產品的
報導 (年收益2.4%)

3-2: Summary

Main Features of RMB Insurance Products in Hong Kong:

- ✓ Investment oriented
- ✓ Non-participating with guaranteed return
- ✓ Low sum at risk (with negligible insurance cost)
- ✓ 3-year or 5-year endowments are popular
- ✓ Annualized return for policyholder around 2%–3%





Reinsurance Arrangement



4-1: Regulations on RMB Cross

On RI Transaction

According to *Circular on Issues of Reinsurance Business on Cross-Border RMB Settlement* released by CIRC(China Insurance Regulatory Commission) in 2011, the assuming company of cross border RMB reinsurance have to meet the following requirements:

- 1) Has solvency ratio above 150% for the latest 2 quarters
- 2) Has Financial rating of A- or above with S&P, AM Best or Fitch, or A3 or above with Moody's.
- 3) There's significant insurance risk transferring associated with the RI transaction.

On RMB Cross Border Settlement

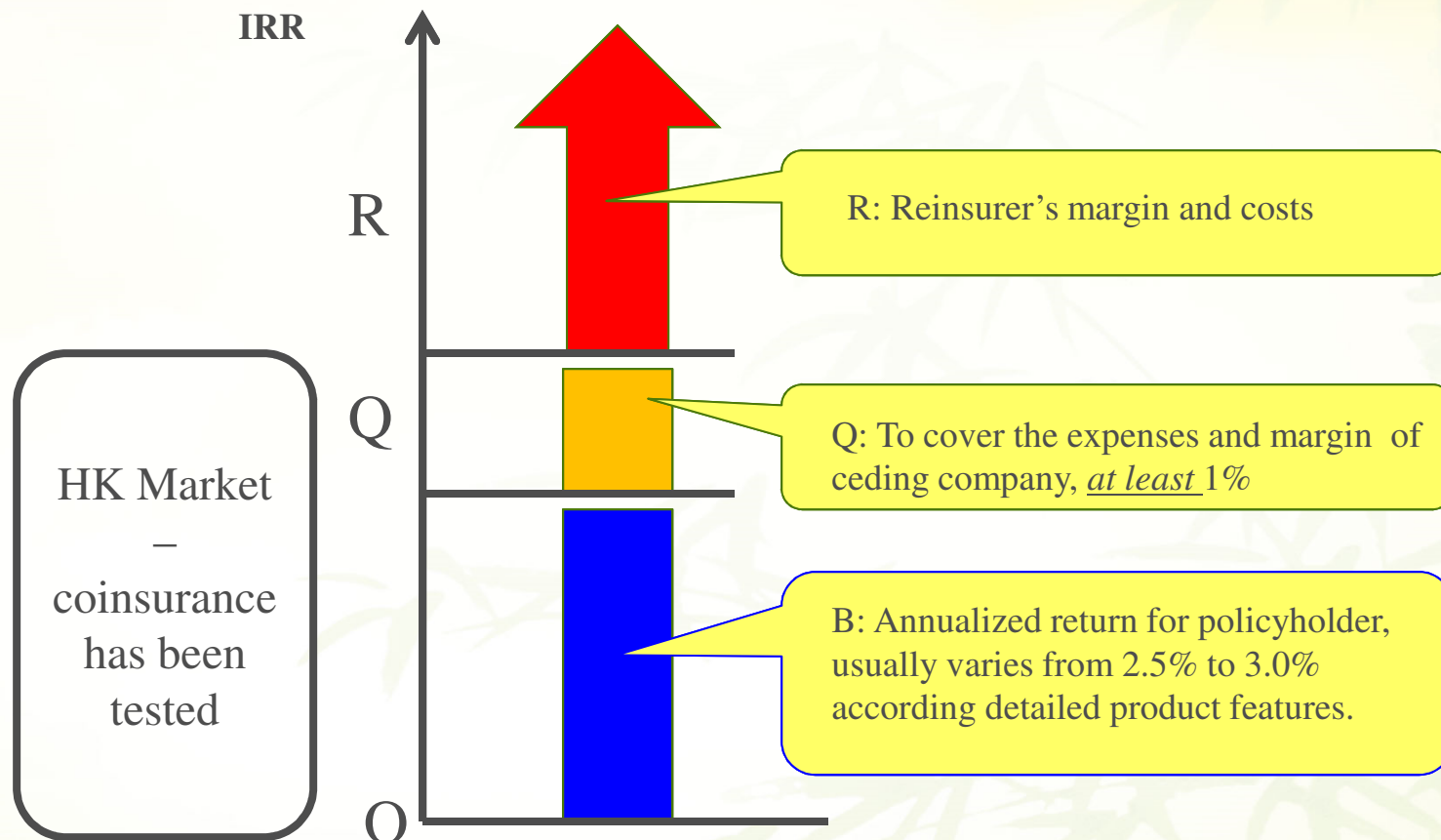
In 2009 the People's Bank of China (PBOC) and five other ministries and commissions jointly issued the Measures for the Administration of Pilot RMB Settlement in Cross-border Trade. By August 2011, cross-border RMB trade settlement has been expanded across the nation. Now it's much and much easier for enterprises to apply for RMB cross border trade settlement from regulators.

HK's Regulation

All transaction has to be filed with OCI(Office of the Commissioner of Insurance) .

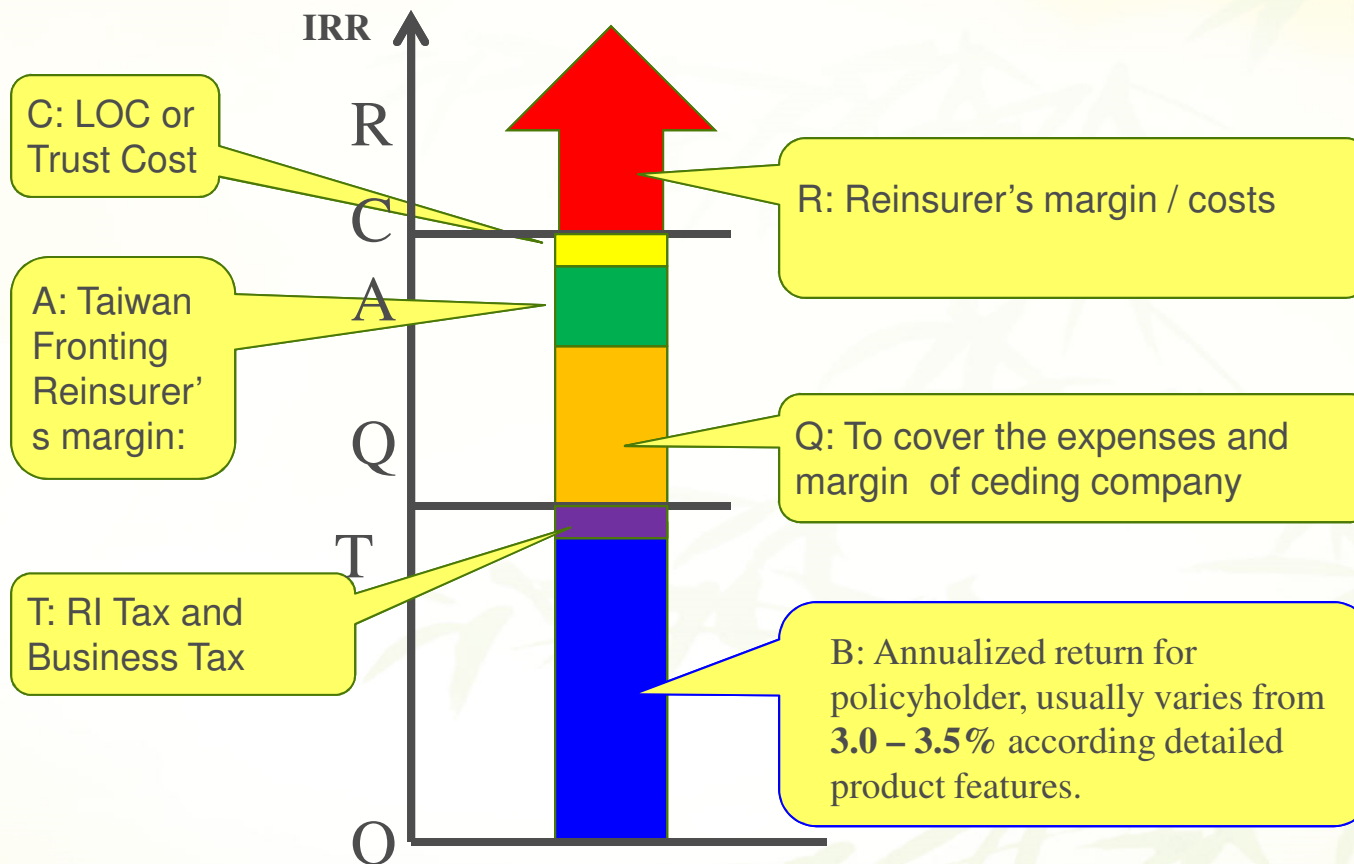
4-2: Reinsurance Rates in HK Market

RI Rates for RMB Denominated Insurance in HK Market



4-3: Reinsurance Rates in Taiwan

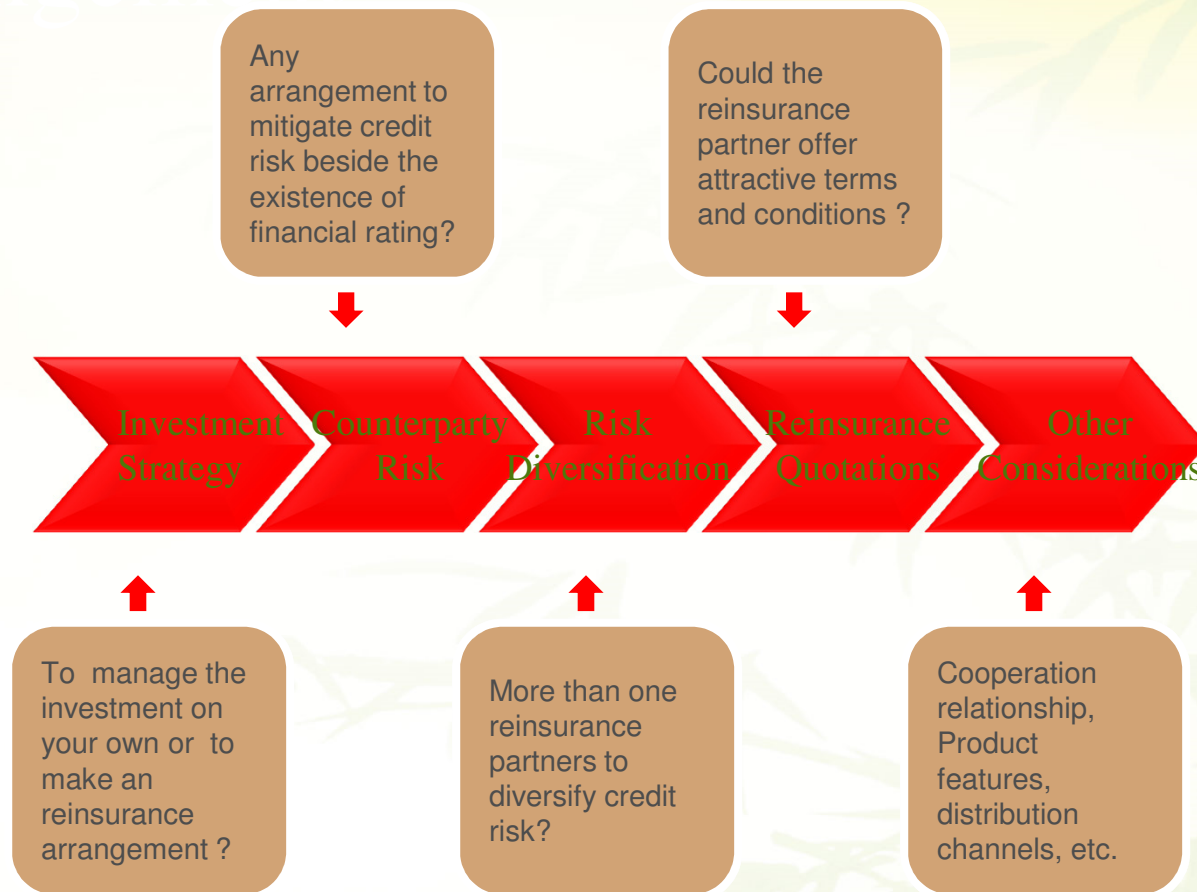
RI Rates for RMB Denominated Insurance in Taiwan Market



Coinurance
is new and
untested
solution

4-4: Considerations on RI

Arrangement



4-5: Credit Enhancement

1) Using a Fronting (Local) Reinsurer

Pros: (1) Easy to be acceptable by ceding company (2) Access to full reserve relief

Cons: (1) Extra cost (2) Counterparty risk for the fronting reinsurer

2) Pledge or Deposit of Assets

Pros: (1) Could be acceptable by ceding company and readily available to meet liabilities

Cons: (1) need to find appropriate assets that complies with regulation (2) The liquidity of the pledged assets will be lost and there's an opportunity cost for reinsurer

3) Letter of Guarantee with Banks

Pros : bank credit is usually acceptable

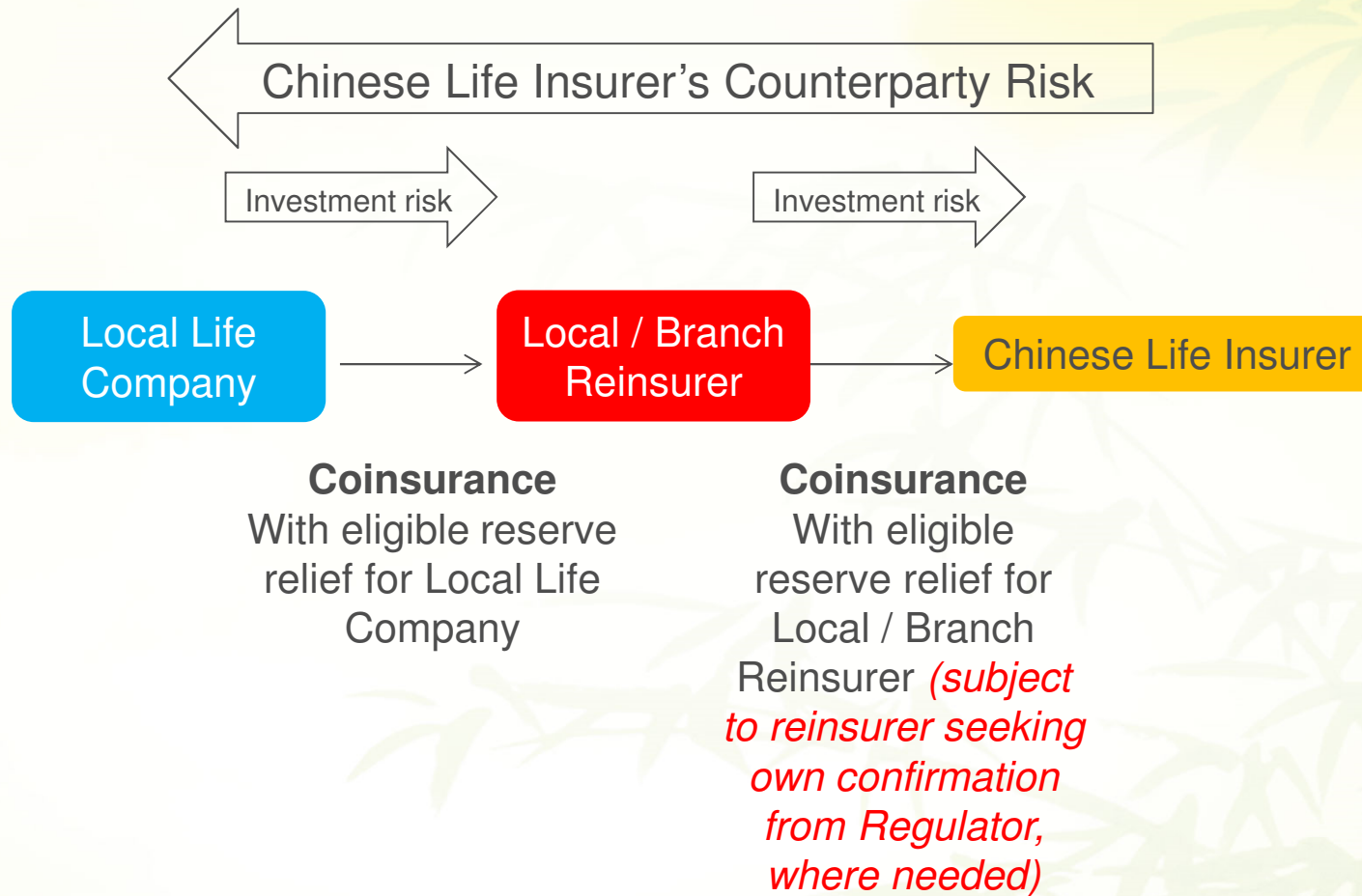
Cons: (1) Need to get lines of credit from a compliant bank within the local jurisdiction (2) Extra cost (>20-30bps, potentially more costly if need to issue from “non-mainland” based bank)

4) Trust Account with Banks

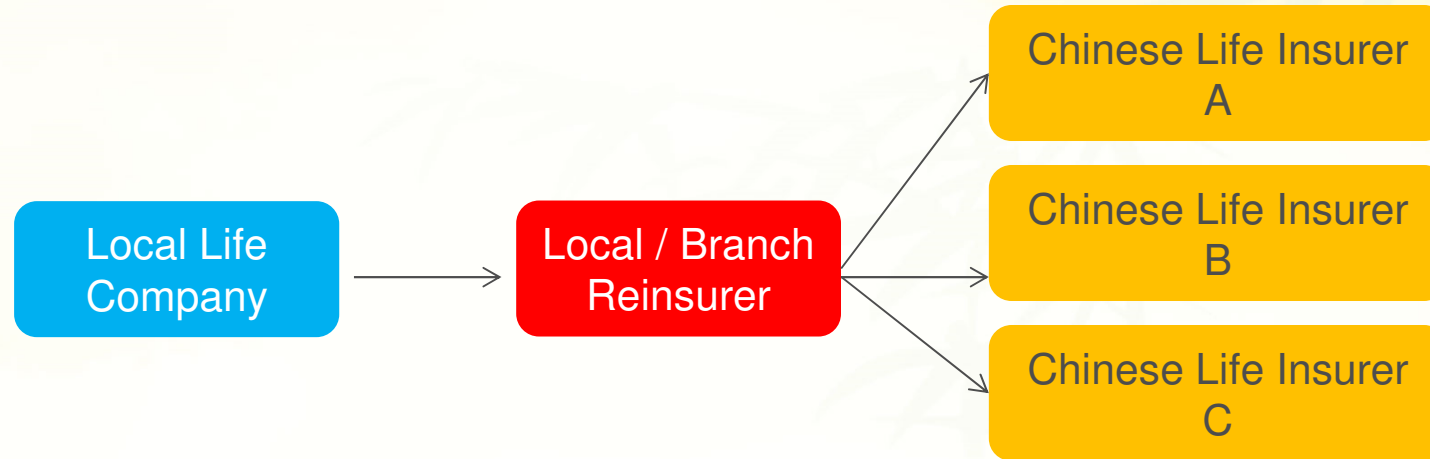
Pros : Net Lower Cost than L/G

Cons: Unclear Trust Laws in the relevant jurisdictions

4-6: Optimal RI Structure

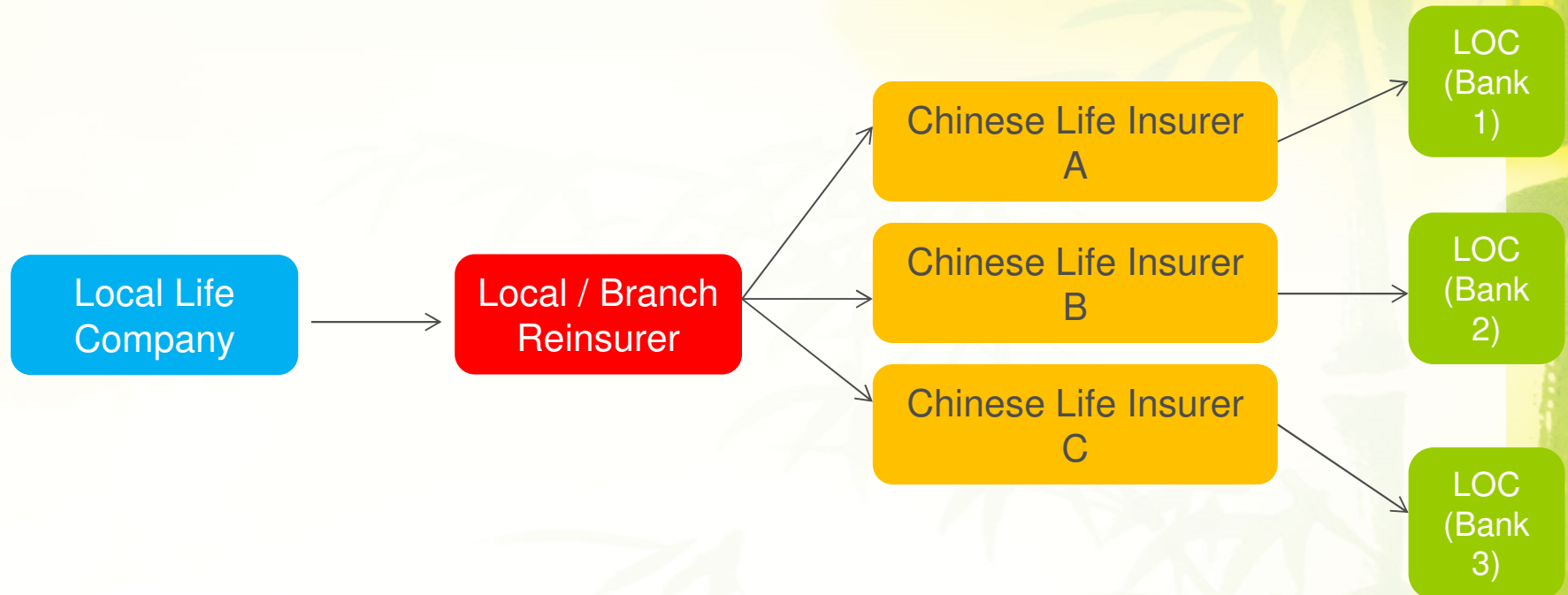


4-6: Diversify Counterparty Risk



1. Have multiple counterparties to diversify counterparty risk

4-6: Then Diversify some more...



2. Utilise Standby Letter Of Credit



Q & A



Thank you!

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