

Asian insurance

What do investors think of insurance companies?

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Agenda

- 1. Overview**
2. Quantitative factors
3. Qualitative factors
4. Putting it together
5. Summary

Investor conundrums

- Asia offers some of the *most* and *least* attractive insurance markets globally
- Which countries offer the best/worst investment opportunities?
- Life or Non-life?
- Growth or value? What holding period?
- What changes will regulators and Government make?
- Where are stock markets, FX rates and interest rates going?
- What is the right price to buy/sell?

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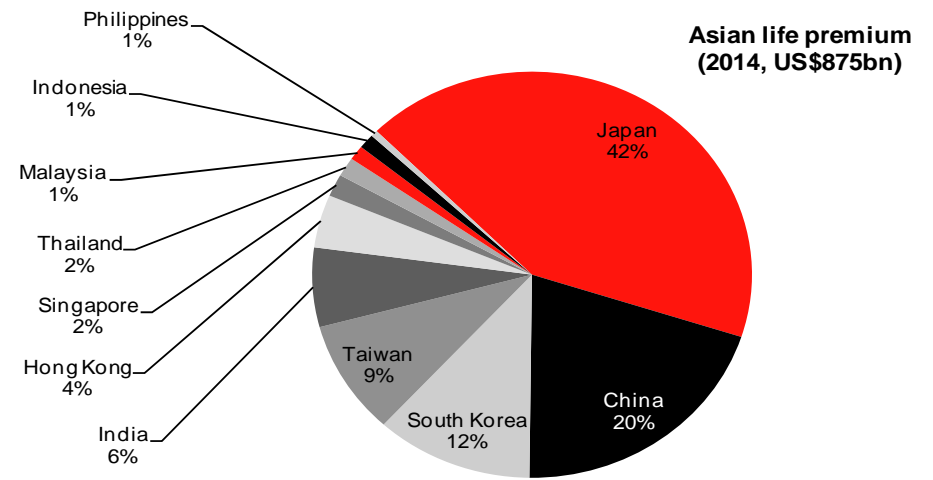
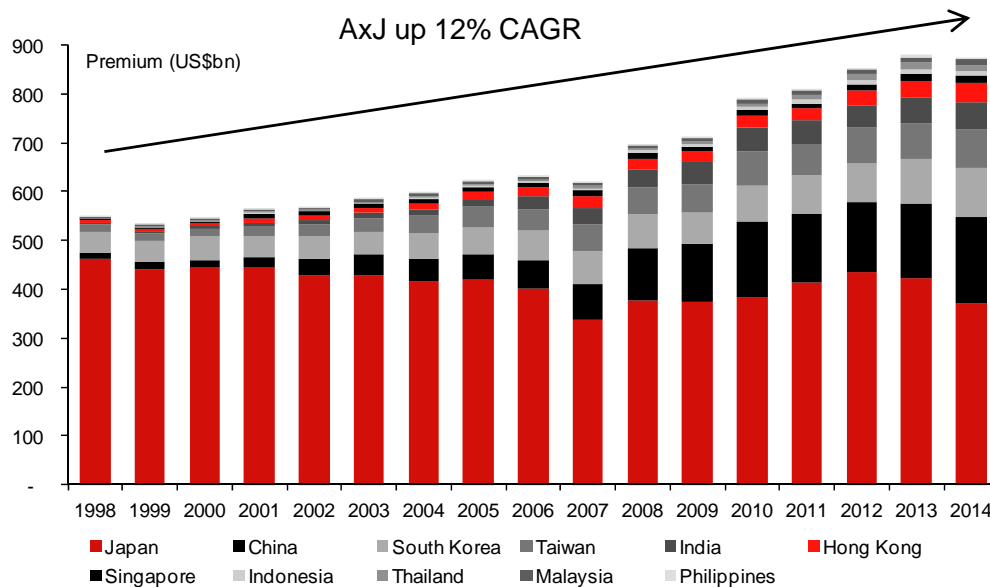
Quantitative factors

- Market share, scale and volume growth
- Distribution channel trends
- Persistency
- Margins
- Returns on capital
- Solvency
- Leverage
- Asset allocation & investment returns
- EV composition & trends
- Volatility
- Sensitivity to external factors
- Valuation



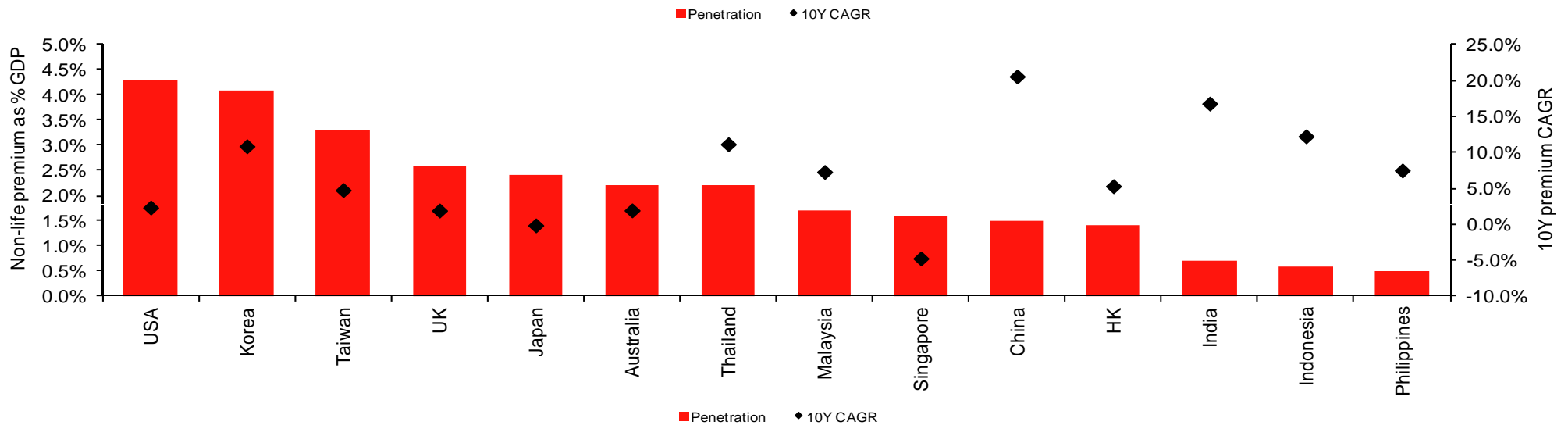
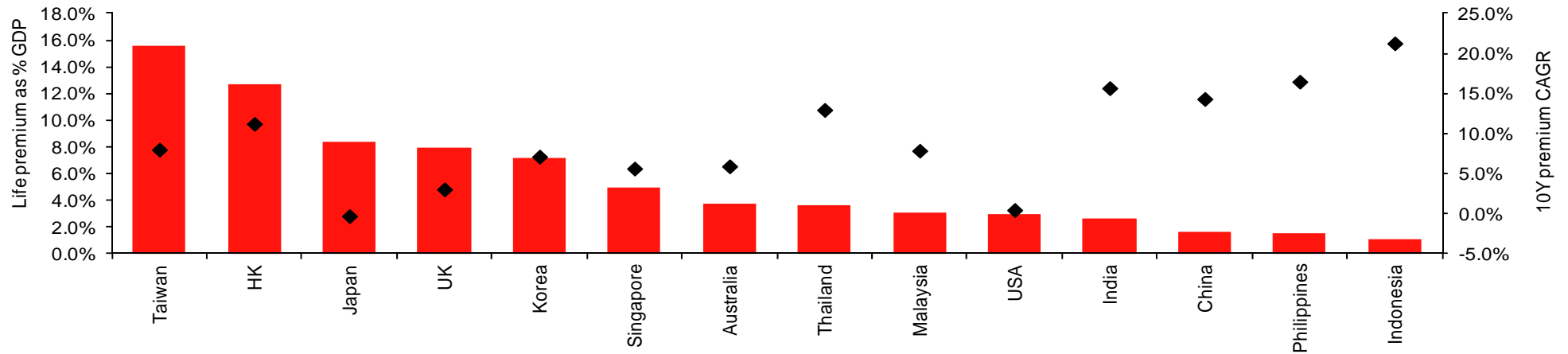
The lay of the land

Asian life premiums by country

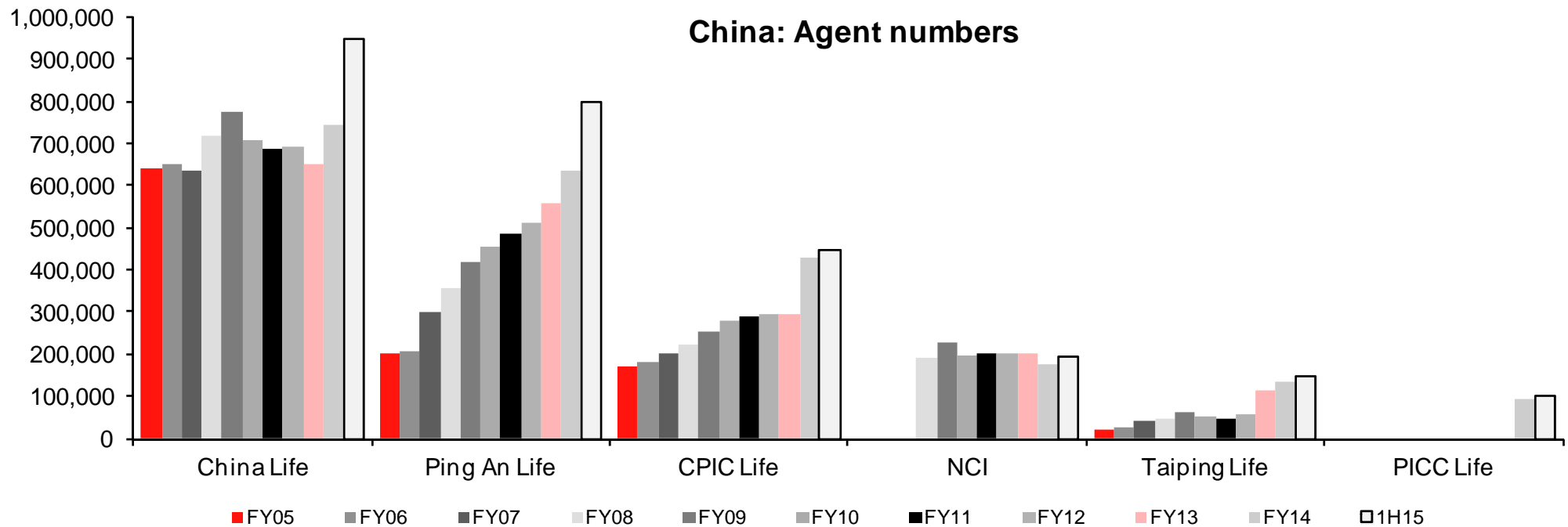


Sources: Swiss Re, Macquarie Research, November 2015

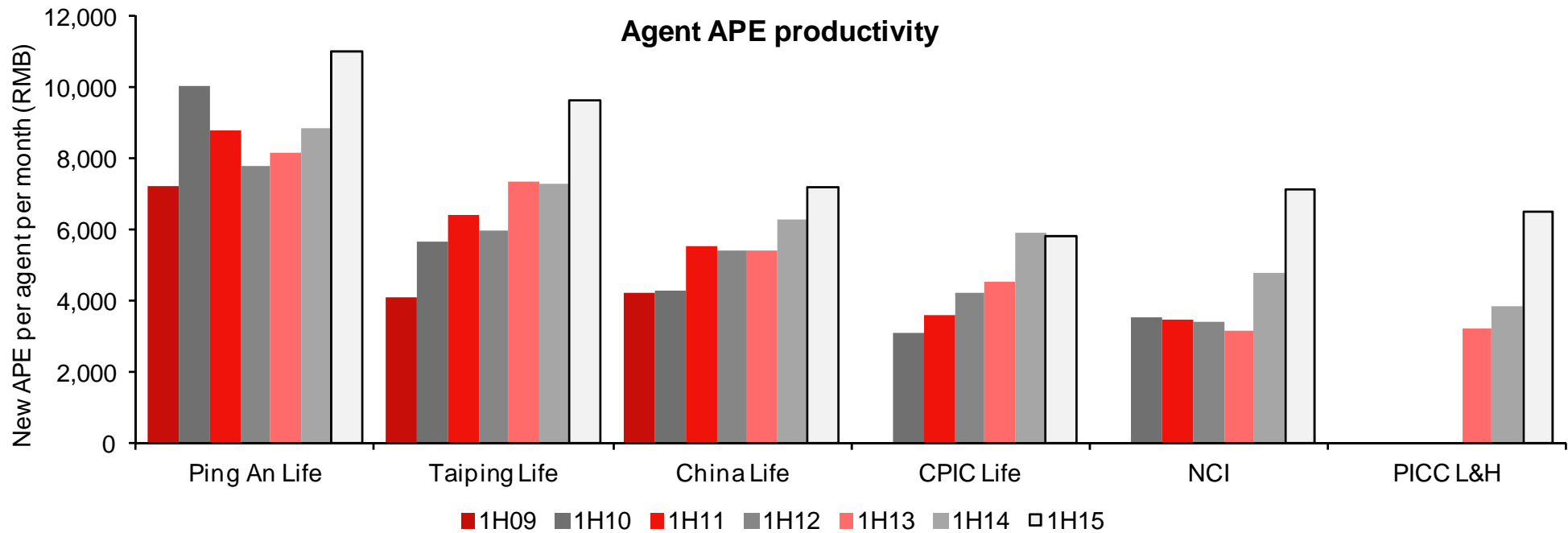
Penetration rates and growth potential



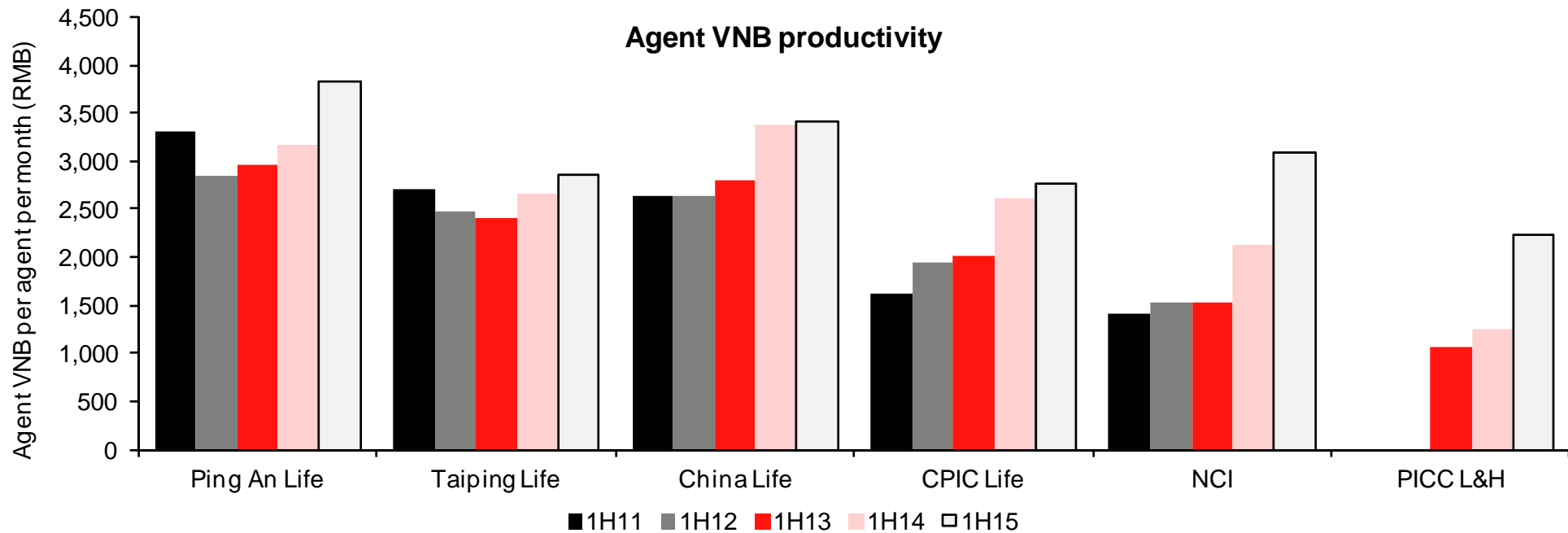
Agent headcount trends



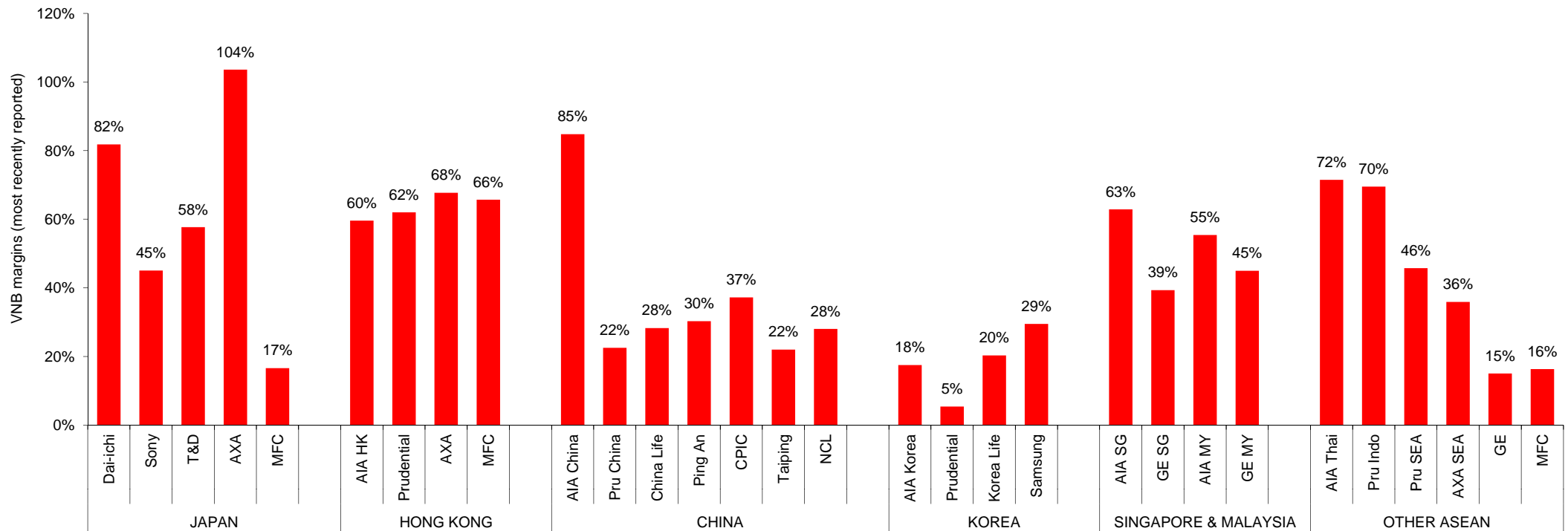
Agent productivity trends (based on volumes)



Agent productivity trends (based on value)

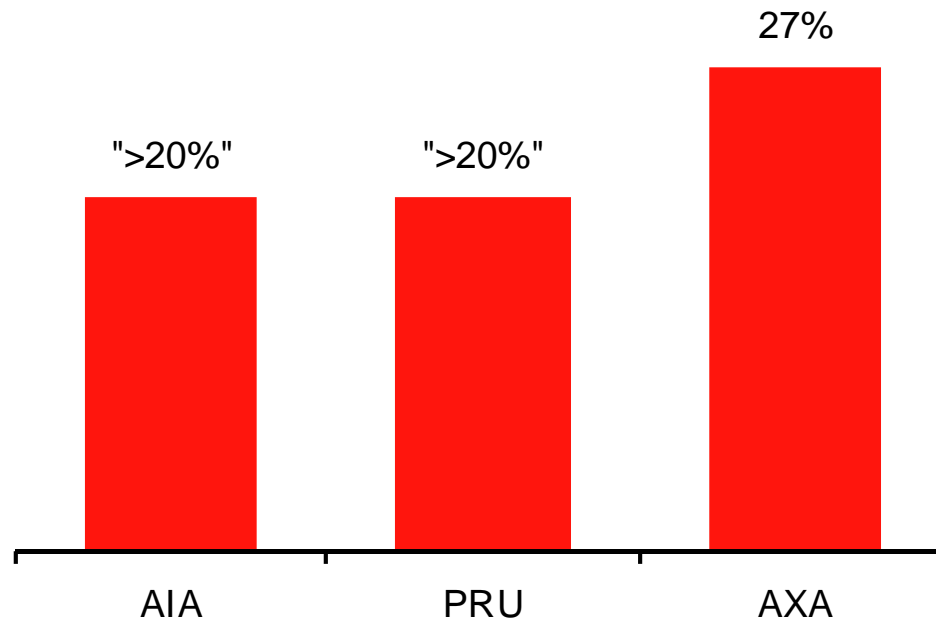


New business margins

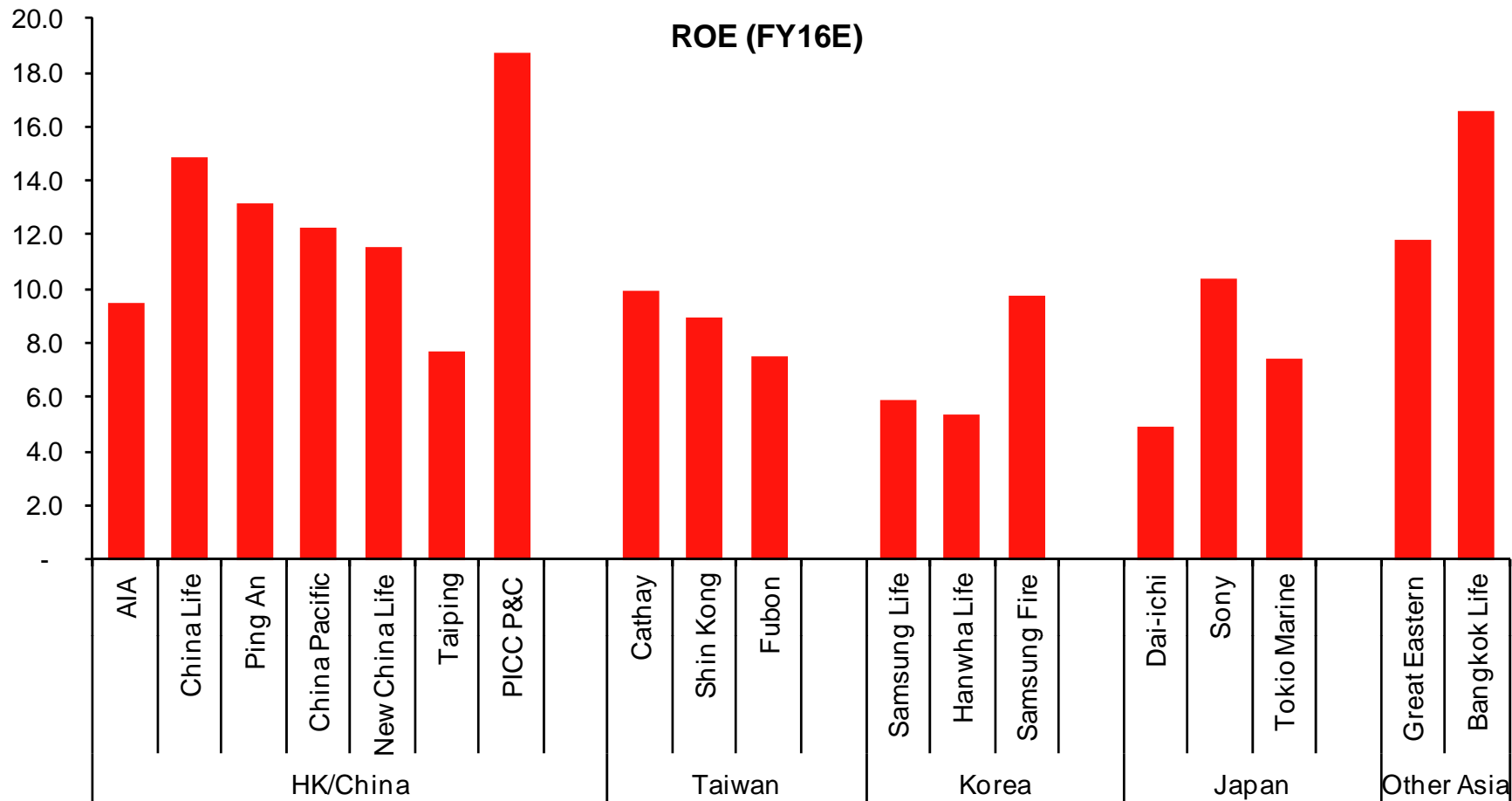


Returns on capital invested ?

IRR on new business
(Asia ex Japan)

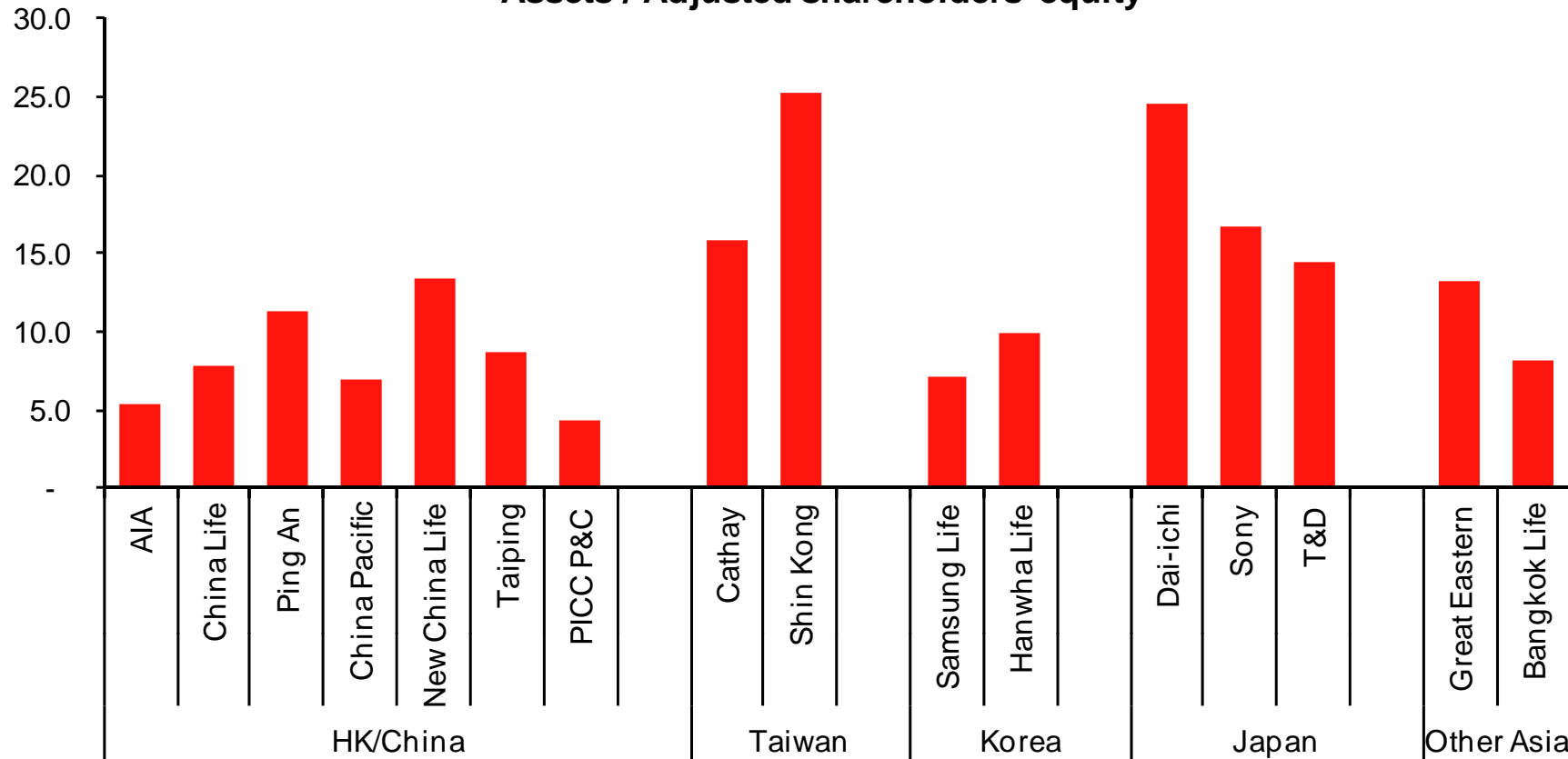


Returns on shareholders' equity

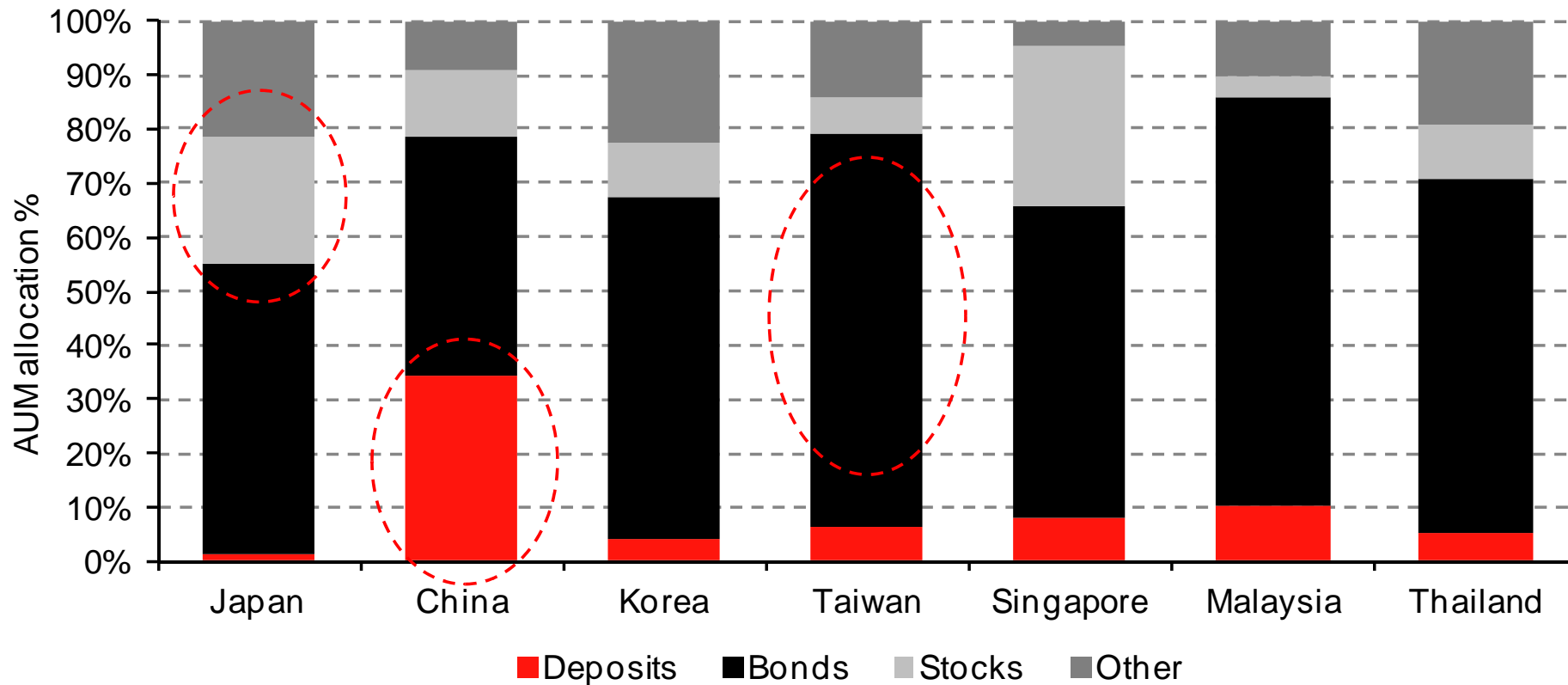


Leverage

Assets / Adjusted shareholders' equity

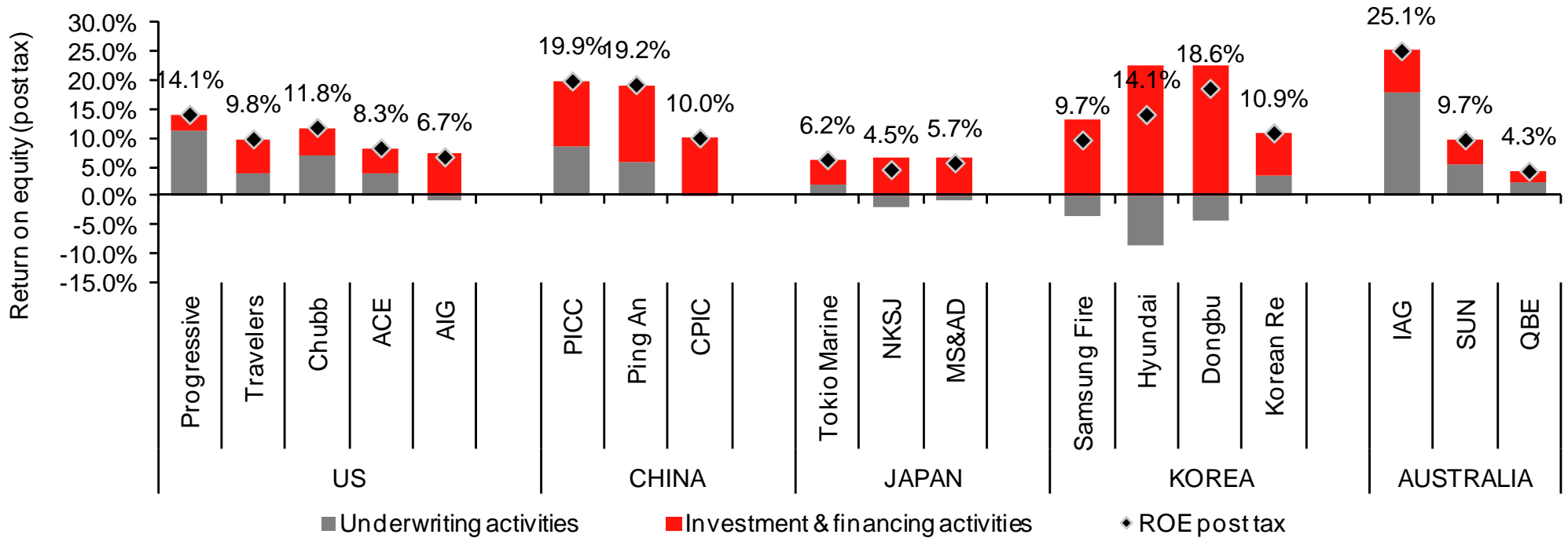


Asset allocations



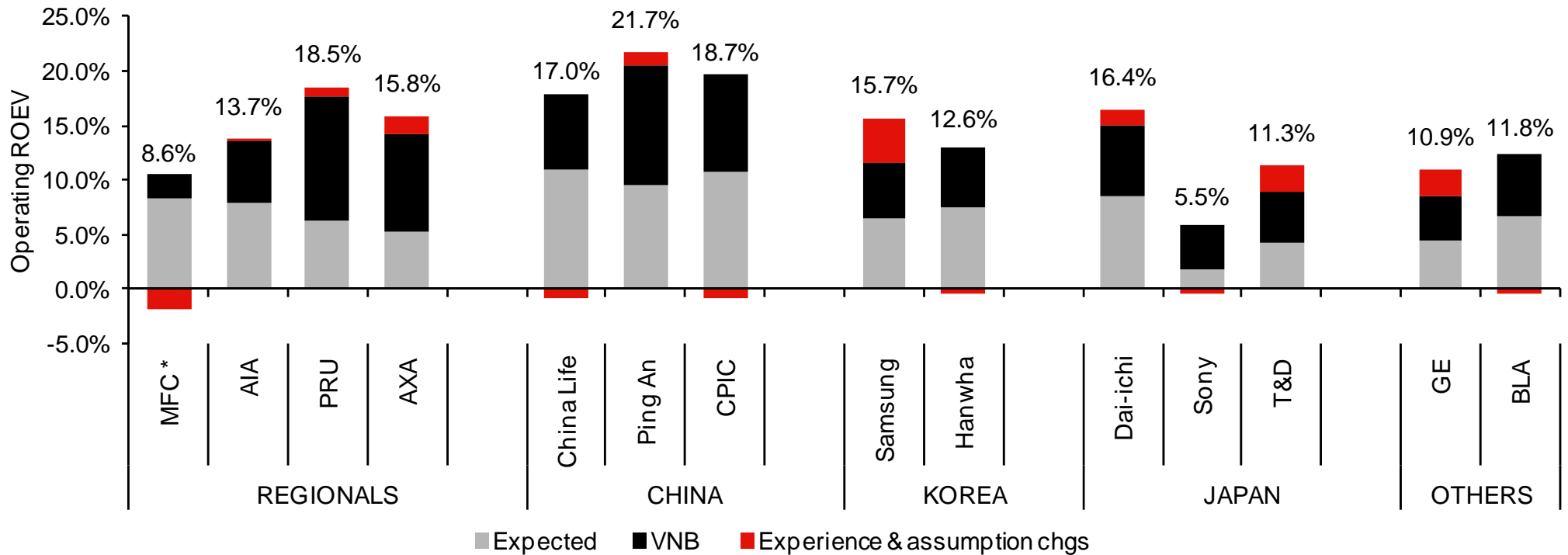
Decomposing ROEs

Composition of P&C ROEs ranges widely





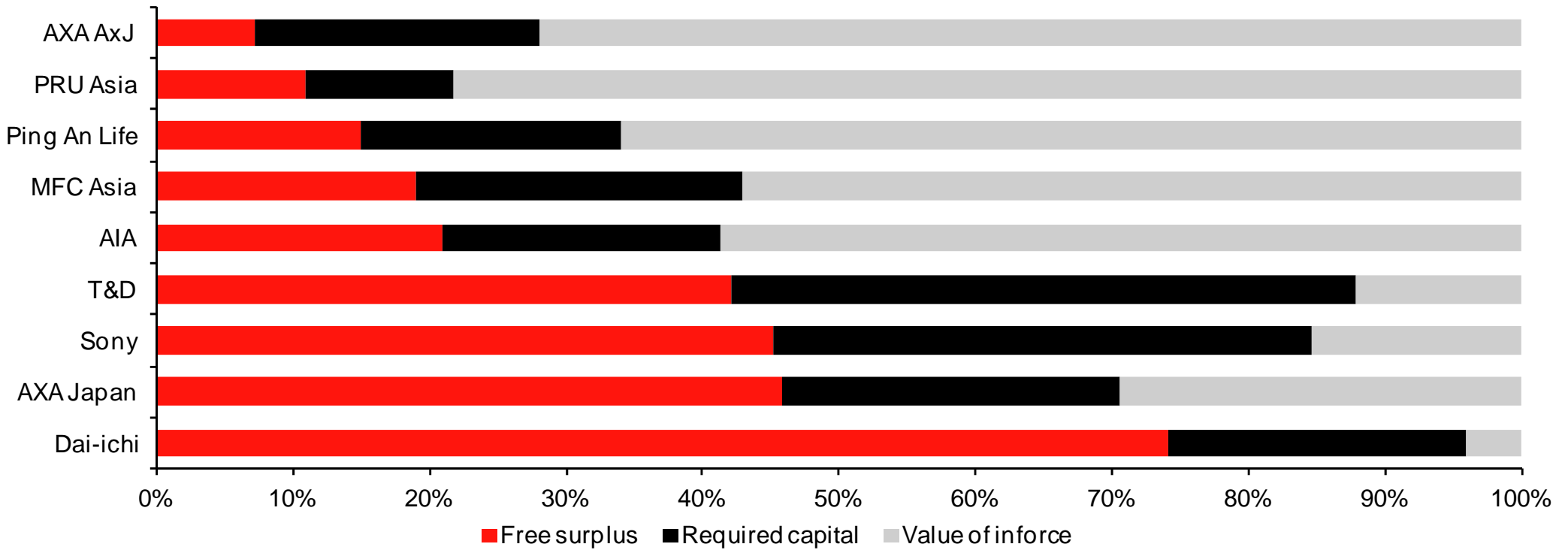
Decomposing ROEVs



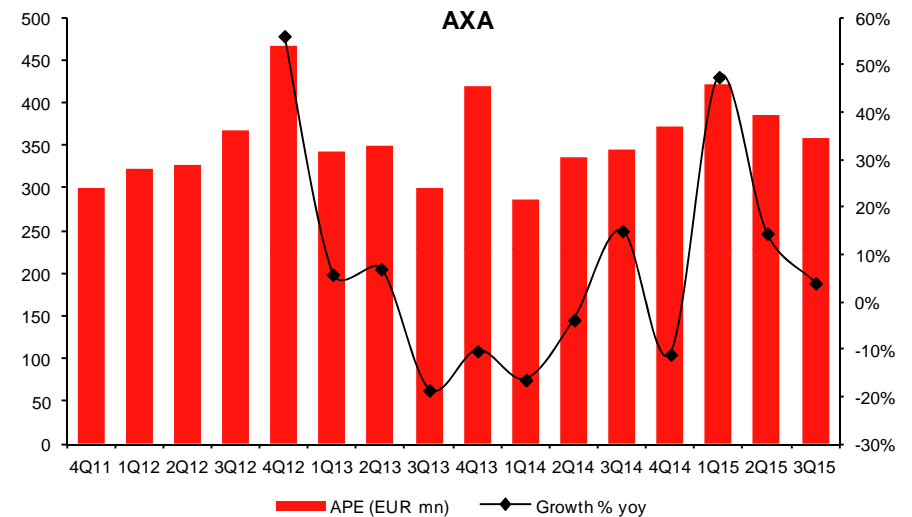
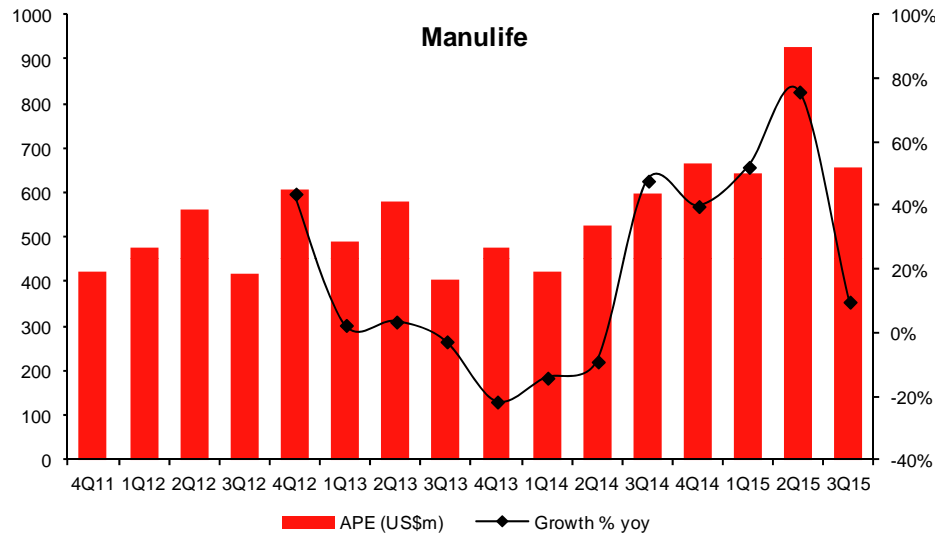
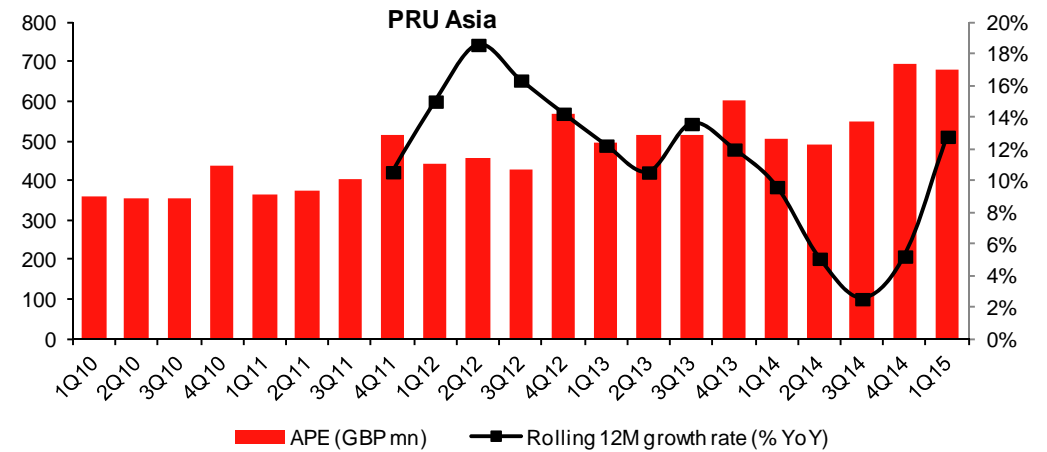
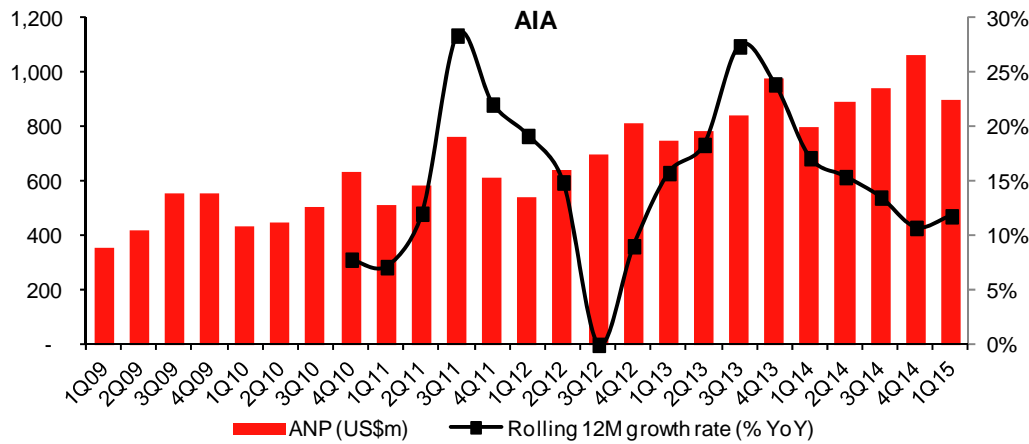
* MFC is global ROEV and excludes WAM earnings

Source: FY14 Company data, Macquarie Research, November 2015

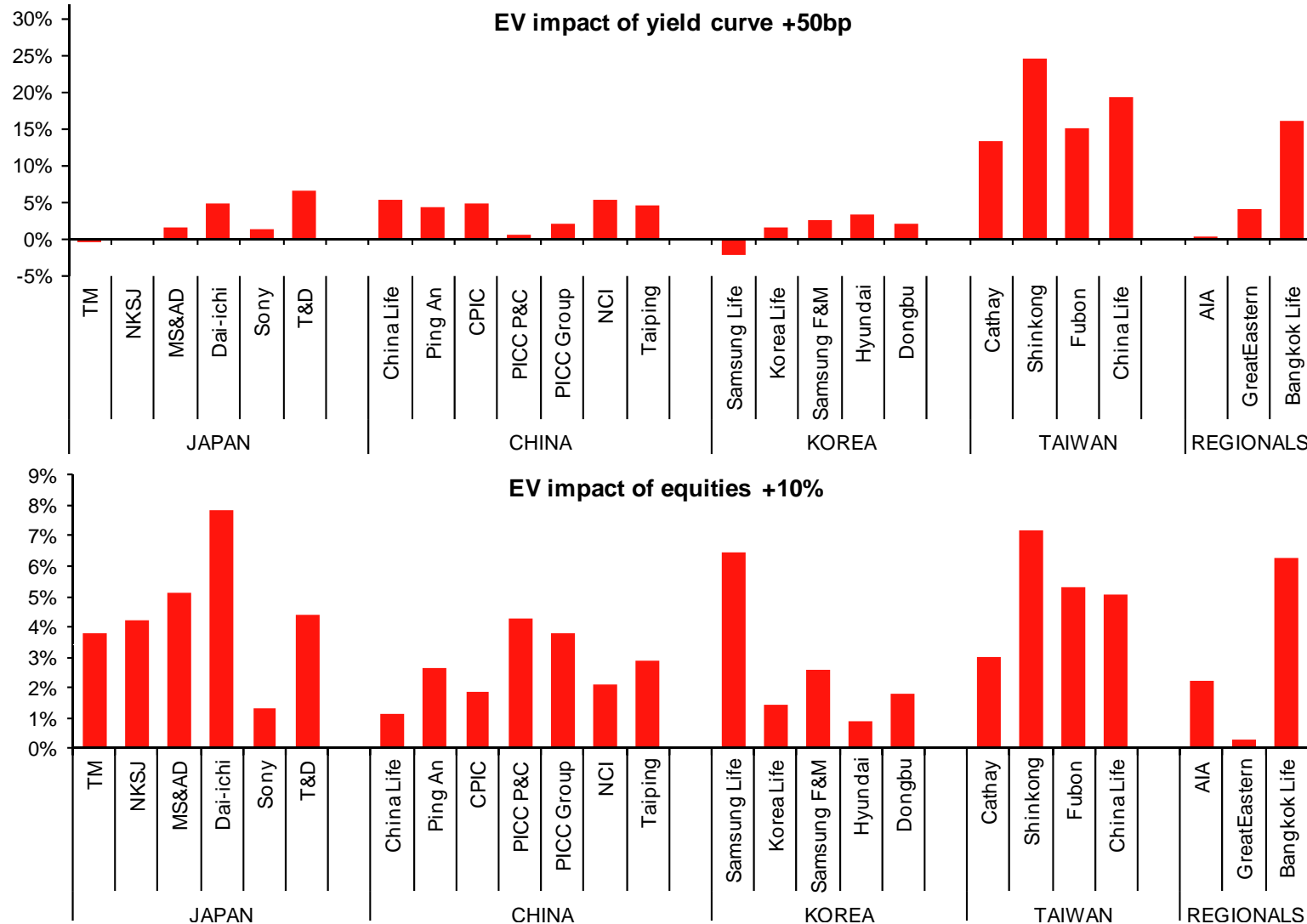
Decomposing EV



Investors dislike volatility

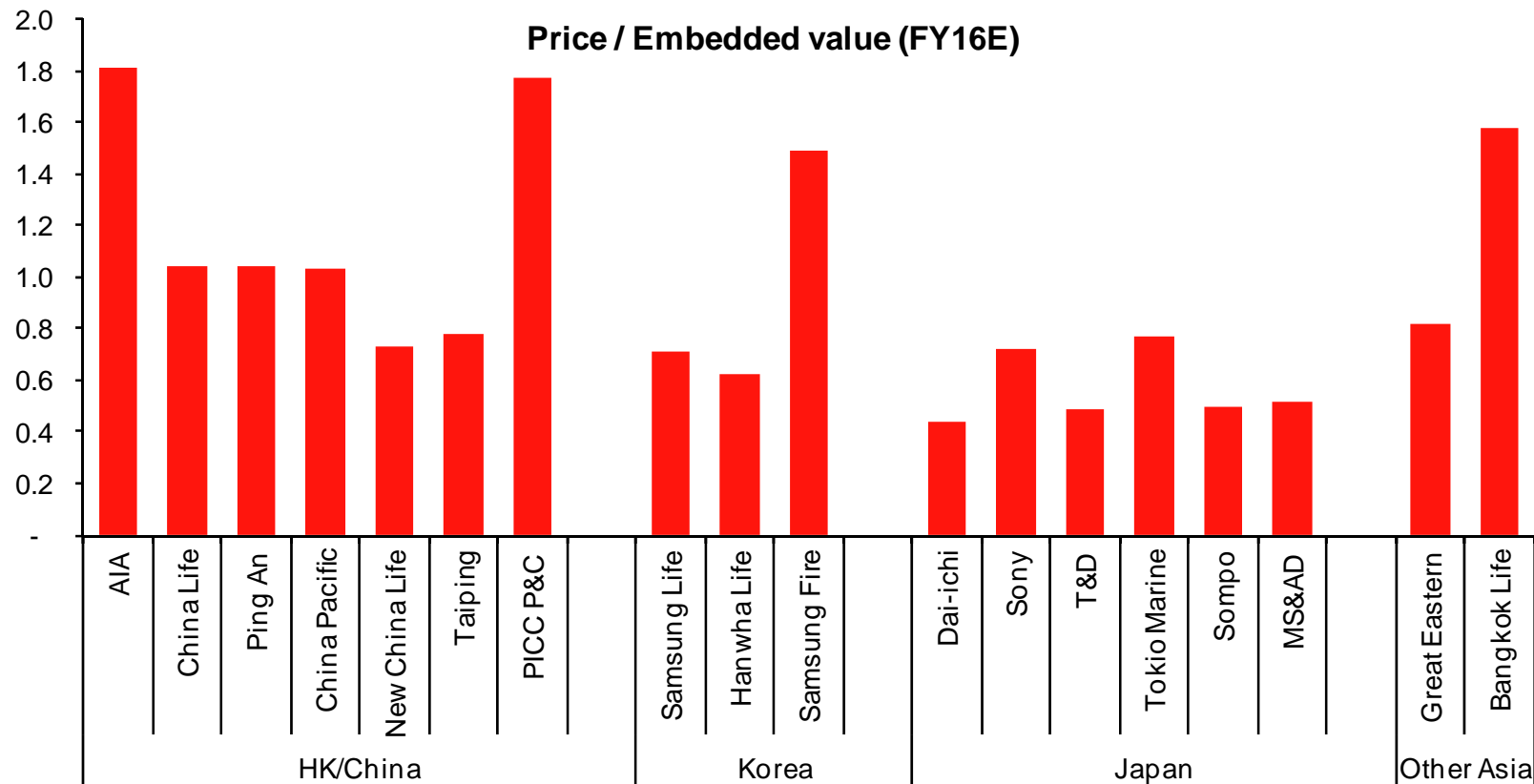


Sensitivity to external shocks

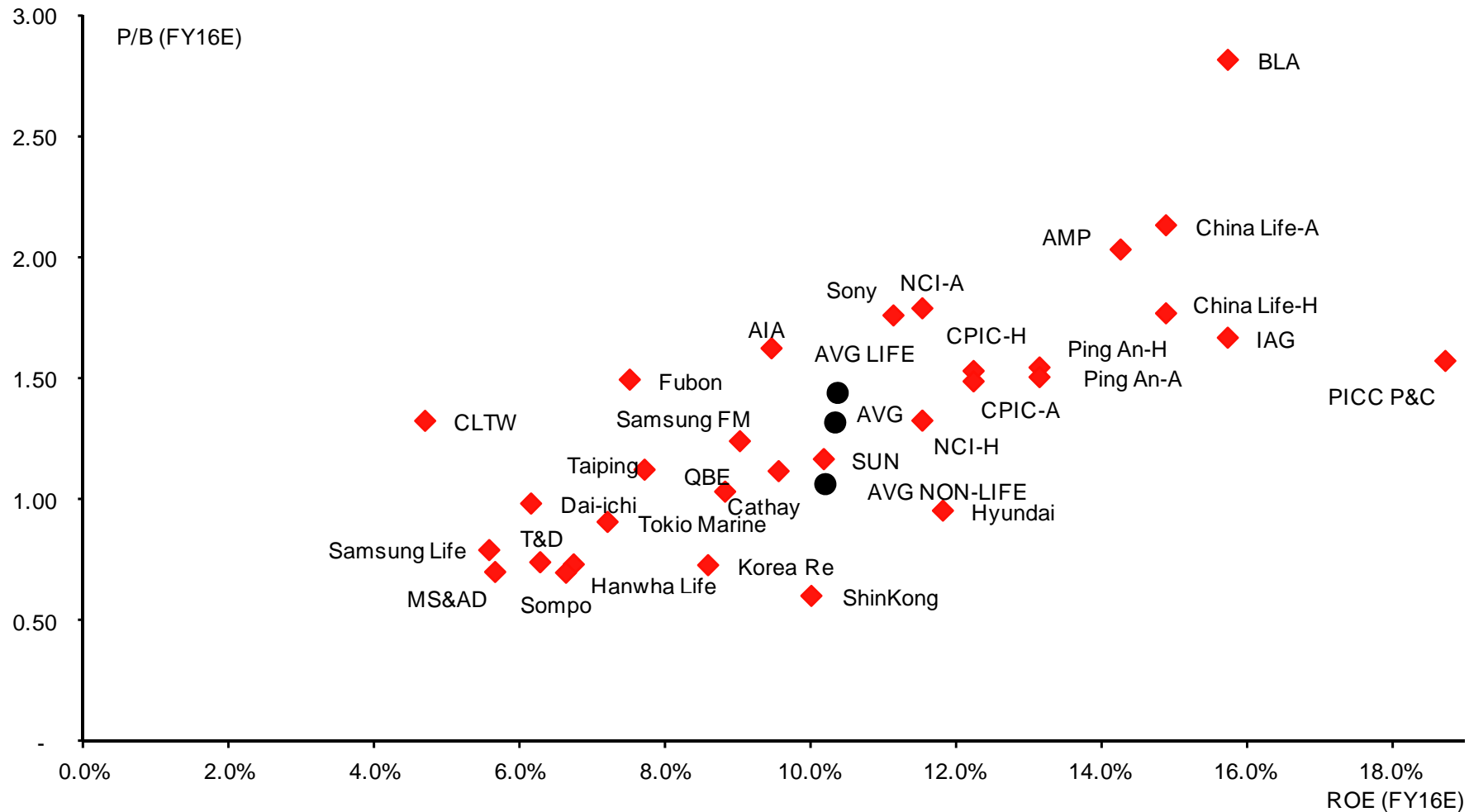


Source: Company data, Macquarie Research, November 2015

Valuation comparisons



Valuation comparisons



Source: Bloomberg, Macquarie Research, November 2015

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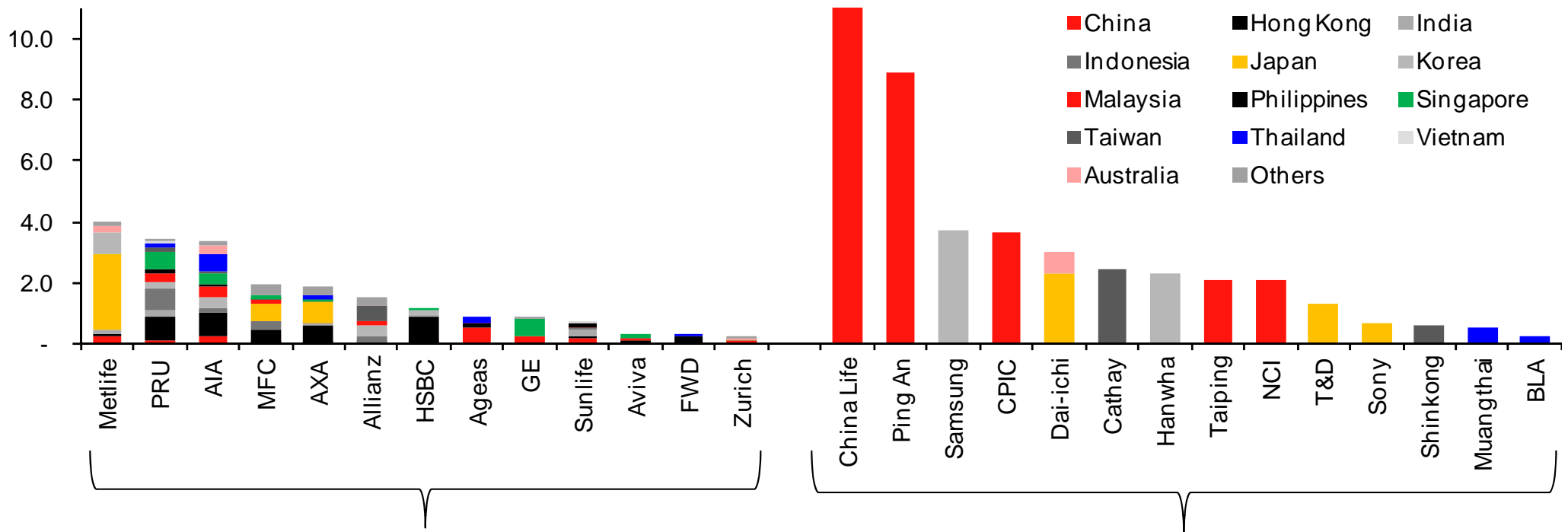
Qualitative factors

- Business quality
- Management quality
- Corporate governance
- Corporate transparency
- Regulatory direction
- Thematics

Business quality is subjective

- Product mix
- Agent productivity
- Policy term & typical persistency
- Premium payment terms
- Margins
- IRR

Regionals vs Domestics



Regionals offer diversity and stronger governance

Domestics offer greater scale and competitive advantages

Note: MFC includes Wealth.

Sources: Company data, Macquarie Research, November 2015

An opaque industry

A combination of:

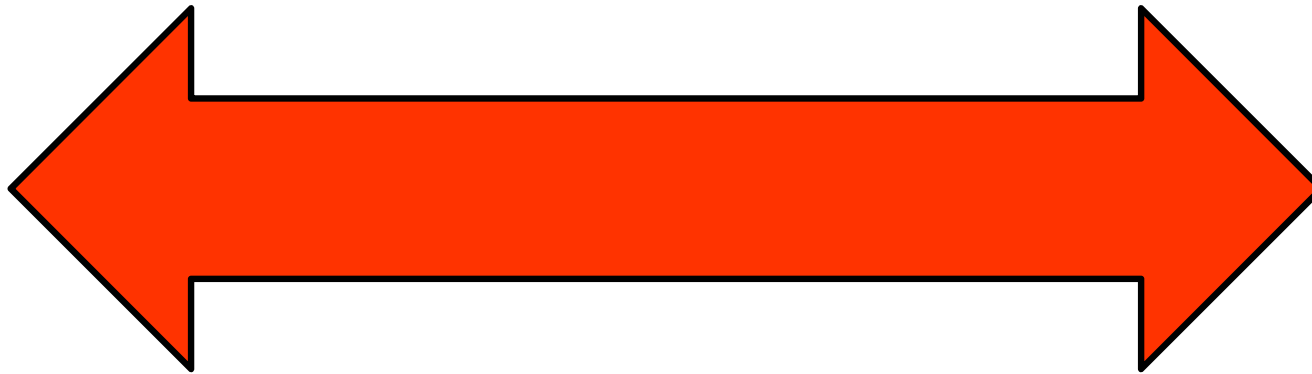
- Complex products
- Poor quality of financial information
- Poor communication with investors

Common investor queries:

- Channel mix
- Product mix
- Rider attachment
- Agent headcount & turnover
- Agent productivity by tenure
- Acquisition costs
- Free surplus drivers & utilisation
- Source of profits
- Persistency rates
- Free cash flow
- New business strain
- Inforce monetisation
- Cost of liabilities
- ...

Regulatory direction

POLICYHOLDERS



SHAREHOLDERS

Thematics

What long-term themes will drive the market?

- Demographics
- Government policy & reforms
- New market opportunities
- Agent professionalism
- Penetrating bank customers
- Technology & the internet
- Recruitment

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Which markets do investors like?

Views by market, in order of preference:

- China: Underdeveloped, savings-focused market with strong demographics, regulation and margins.
- Indonesia: Strong growth supported by favourable demographics & a lack of personal safety nets.
- Hong Kong: One of the more profitable life markets in the world, with growth supported by mainland ties.
- Philippines: Similar dynamics to Indonesia on a smaller scale, and earlier in its development.
- Thailand: Excellent demographics will support growth, albeit increasingly into lower-margin bancassurance.
- Singapore: Recent regulatory trends have been favourable for both volumes & margins, but we see this reversing.
- Malaysia: Penetration opportunity remains elusive, regulation turning more consumerist.
- India: Long-term potential is enormous, but regulatory and grassroots development has been poor.
- Japan: A highly competitive market in structural decline, pressured further by low & falling investment yields.
- Korea: Very little sales growth opportunity, onerous regulation, legacy drag, albeit resilient balance sheets.
- Taiwan: We have concerns for earnings & asset quality, interest sensitivity, capital adequacy and FX risks.

Investor (mis)perceptions

- Ageing population is good for life insurers
- Protection products are high quality. Savings products are low quality
- Bancassurance is largely deposit replacement
- Wealth management is low margin
- The internet will eventually disrupt traditional insurance models
- Japan is saturated and therefore offers no growth
- IFRS earnings & capital suffer from rising interest rates
- Emerging P&C markets are usually irrational

In summary