



The Tipping Point of Variable Annuities

IAA Colloquium in Hong Kong
May 8, 2012 (13:30 – 15:00)

Jackie Wai Chu

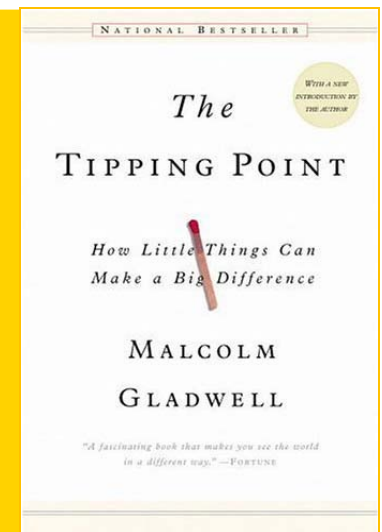


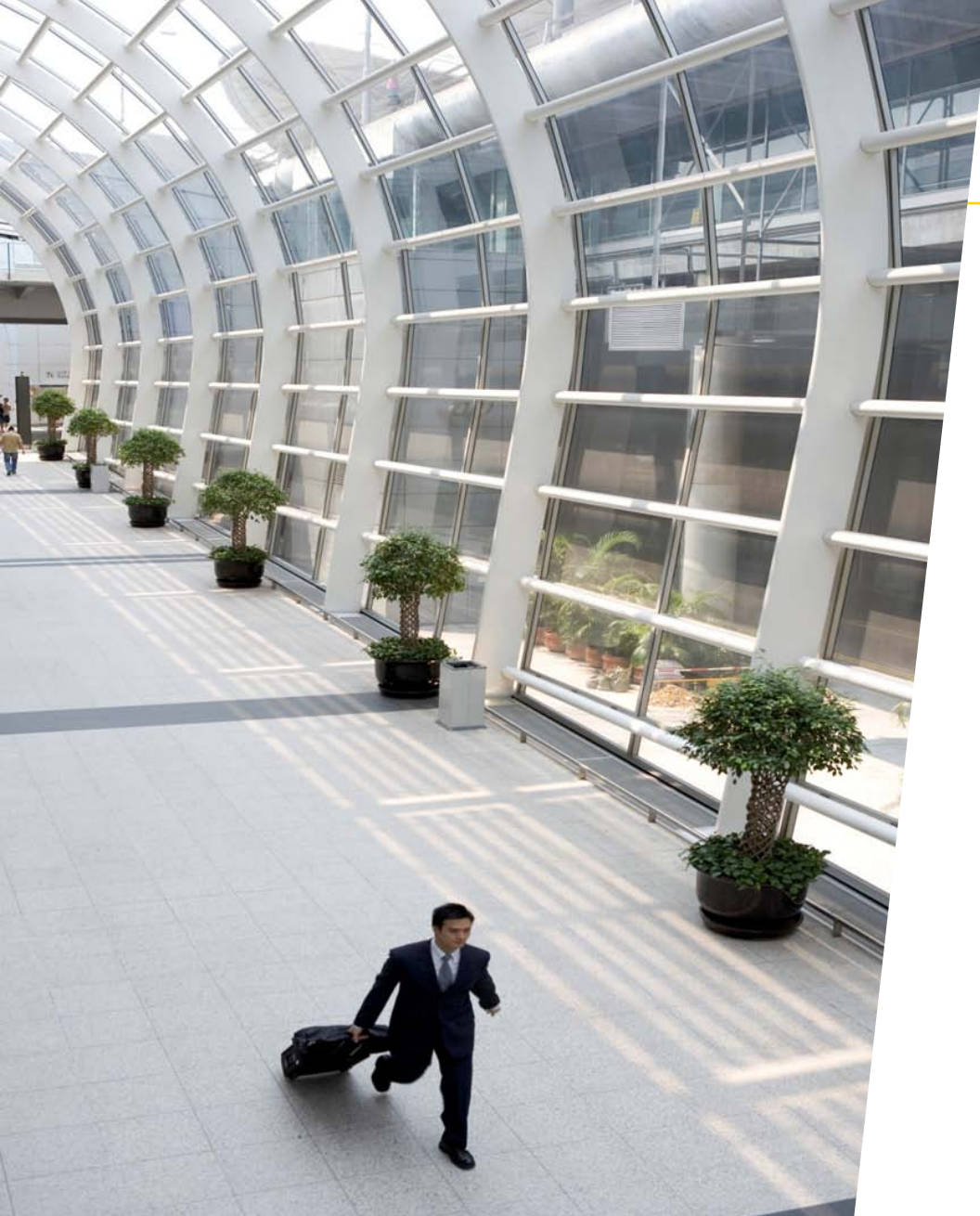
Objectives

- ▶ Analyze how Variable Annuity (“VA”) became popular in mature markets;
- ▶ Study the development of VA in the China market;



The Tipping Point: How Little Things Can Make a Big Difference by Malcolm Gladwell





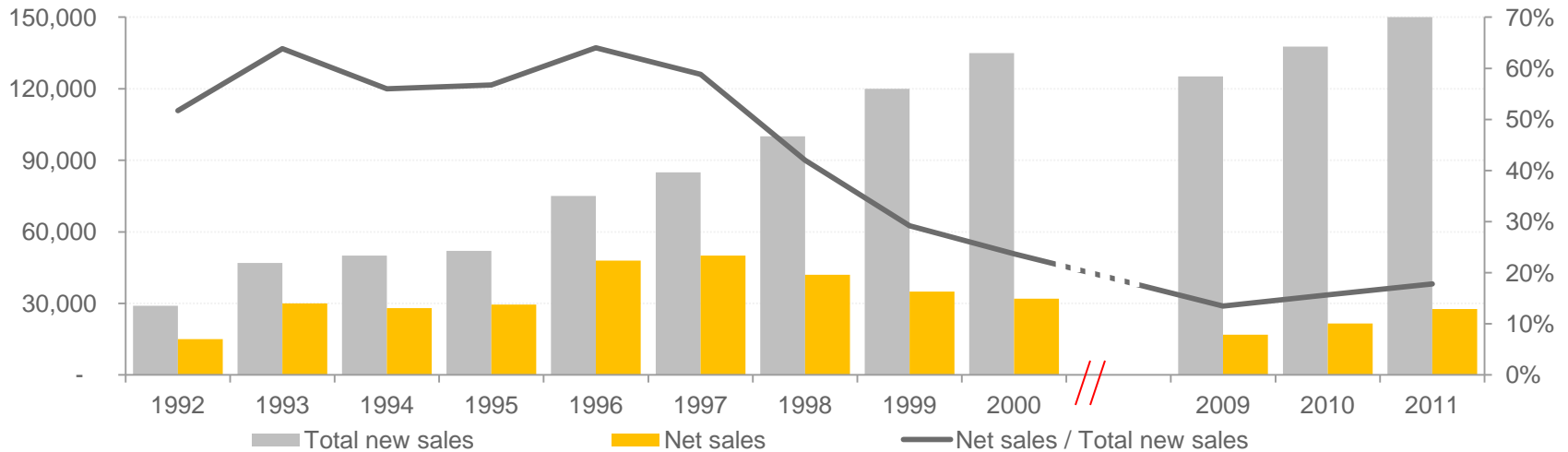
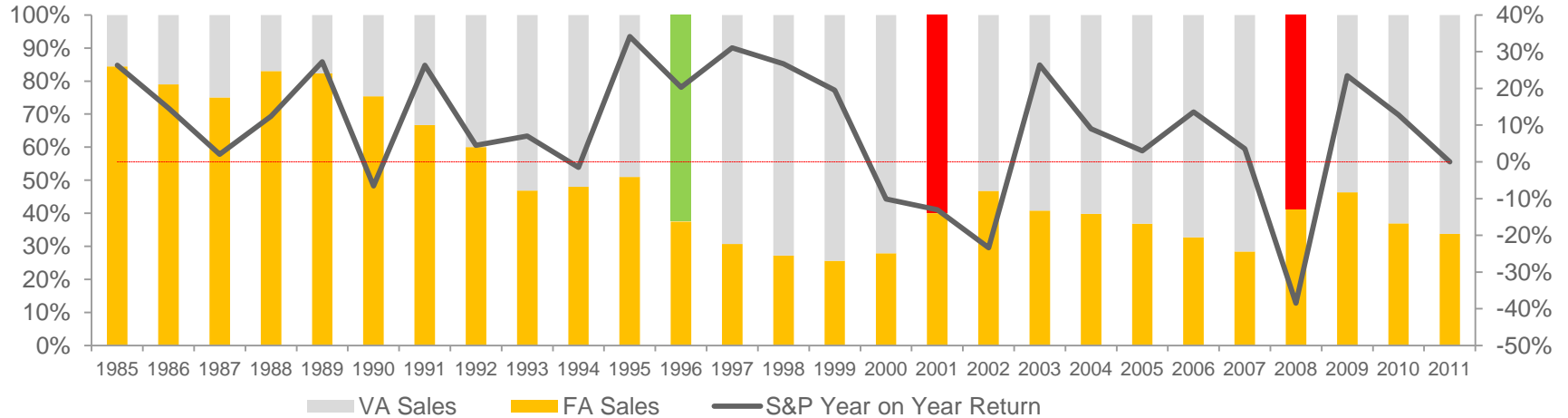
Agenda

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A wide-angle, high-angle photograph of a long, multi-lane concrete bridge spanning a large body of water. The bridge is supported by numerous tall, cylindrical concrete piers. The water is a deep blue-grey color, and the sky is a pale, hazy blue. In the distance, a shoreline with some buildings and trees is visible. The bridge is filled with traffic, including cars and trucks. A yellow banner is overlaid on the left side of the image, containing the text "Variable Annuity in Mature Market".

**Variable Annuity in
Mature Market**

VA sales in US appears to have close relationship with the stock market



Seniors or baby boomers have been the target market of many VA products

- ▶ Seniors or baby boomers have been the target market of many VA products in the US because
 - ▶ Concerns about retirement and estate planning;
 - ▶ Tax sensitive;
 - ▶ Investment return sensitive;
 - ▶ Free
- ▶ Sources of New Sales
 - ▶ Bank deposit
 - ▶ Replacement

MEET THE MAN WHO EARNS OVER A MILLION PER YEAR!

Introducing Matthew J. Rettick

- Matt Sells Annuities!
- Matt Works Days Only!
- Matt Works With Seniors!
- Matt Sees Three Seniors a Day!
- Matt Picks Up an Average of \$70k per Sale!

Now "Matt" Will Show You How to Reach the Million Dollar Commission Level By Attending "Matt's" Senior Market Selling Academy, PLUS Matt Will Provide You With His Dynamite Senior Seminar Program!

Contact: Vince Le, JD at Covenant Retirement Planning, LLC
Toll Free: 1-866-907-4275

Source: Broker World Magazine

Sell Annuities to Seniors Who Don't Have Money!

Most Have Equity in Their Homes — Help Them Tap It!

Sponsored by **WELLS FARGO**

- Just Approved!
- Non-recourse loan regulated by U.S. Department of Housing and Urban Development
- No annuitization required
- No monthly repayment
- Seniors keep their homes as long as they live there!
- Proven leads program
- Easiest way to break into the senior market!
- To age 99
- No commission cut

HELP YOUR SENIOR CLIENTS — Call 800-345-7066

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ATTENTION INSURANCE AGENTS Who Want To Make SERIOUS MONEY!

There is **NO OTHER MARKET MORE LUCRATIVE, MORE EFFICIENT** Than The **SENIOR MARKET SELLING ANNUITIES!**

HERE'S MY INCOME ...

You Be The Judge!	1999 - \$522,000!
	2000 - \$637,000!
	2001 - \$1,093,000!

I work days, no evenings, no weekends. Seniors come to my office and I WEN 2-3 Vacations per year. I'm highly grateful (so are my ten grandkids and my lovely wife) for discovering this great market. My dreams are coming true (I have no debt, not even a mortgage) and I'm getting rich in this market ... How about you? This is no nonsense, no bull, real truth. I simply work a highly efficient consumer seminar which pulls people in, bonds the audience, and disarms them into appointments. IT'S EASY! I conduct a seminar only once every 4-6 weeks. I'm an easy going, down to earth kind of guy and I'LL SHARE WITH YOU WHAT I DO AND HOW I DO IT!

CALL FOR MY FREE Senior Market Million Maker Package!

Toll Free: 1-888-807-4275 or FAX: 303-753-9717
Ask for Vince Le, JD

Source: Life Insurance Selling Magazine

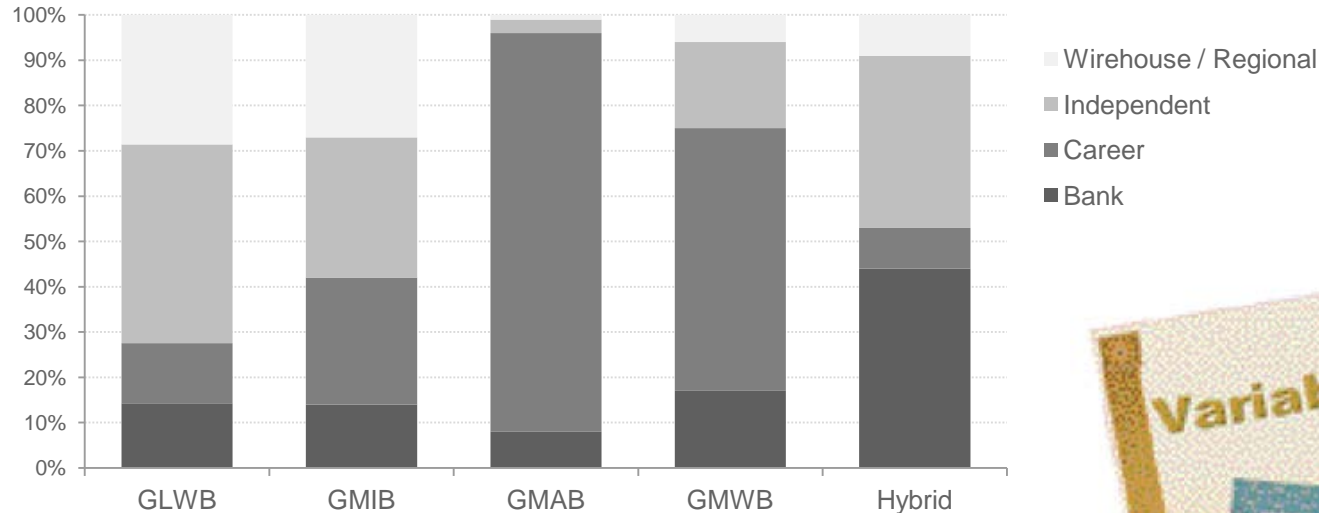
Source : NASAA Roundtable Forum (2002)

What's Reasonable for Investor Protection and for Agents Selling Variable Products?

Distribution channel varies depending on the type of guarantee benefit

Distribution Channel

▶ Depending on the guarantee benefits,

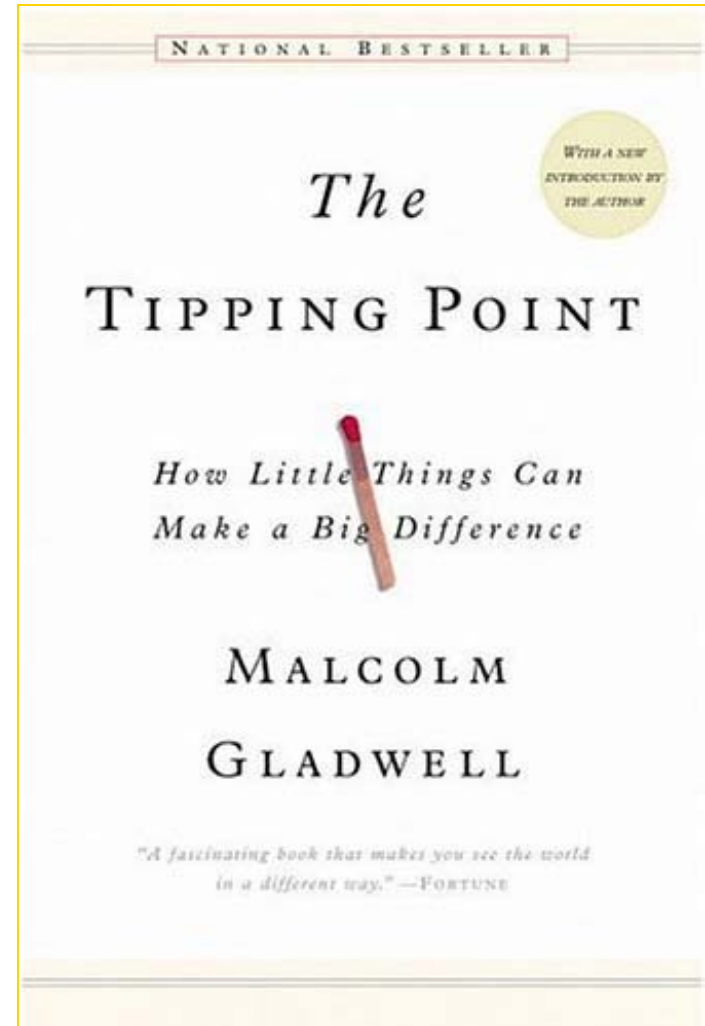


A wide-angle, high-angle photograph of a long, multi-lane concrete bridge spanning a large body of water. The bridge is supported by numerous tall, cylindrical concrete piers. The water is a deep blue, and the sky is a pale, hazy blue. In the distance, a shoreline with some buildings and trees is visible. A yellow banner is overlaid on the left side of the image, containing the text "Tipping Point of Variable Annuity in Mature Market".

Tipping Point of Variable Annuity in Mature Market

The Tipping Point: How Little Things Can Make a Big Difference

- ▶ A book by Malcolm Gladwell in 2000
- ▶ Analyze sociological changes and discover why some ideas “tip” and others do not
- ▶ Tipping point : “These three characteristics – one, contagiousness; two, the fact that little causes can have big effects; and three, that change happens not gradually but at one dramatic moment”
- ▶ 3 rules :
 - ▶ The Law of the Few
 - ▶ The Stickiness Factors
 - ▶ The Power of Context



The Law of the Few

80-20 Principle

- "The success of any kind of social epidemic is heavily dependent on the involvement of people with a particular and rare set of social gifts."
- "80/20 Principle, which is the idea that in any situation roughly 80 percent of the 'work' will be done by 20 percent of the participants."

Who are the 20?

- Connectors
- Mavens
- Salesman

What do the 20?

- What Mavens and Connectors and Salesmen do to an idea in order to make it contagious is to alter it in such a way that extraneous details are dropped and other are exaggerated so that the message itself comes to acquire a deeper meaning.

Connectors link us up with the world and ideas

Connectors are people who

- “link us up with the world” and
- “manage to occupy many different worlds and subcultures and niches”

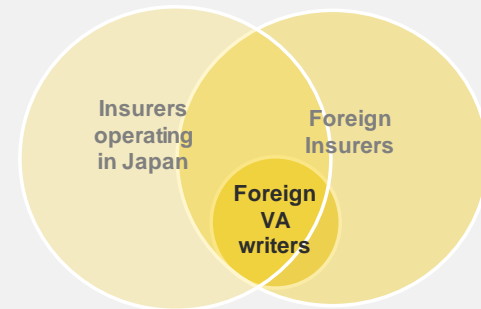


US VA market

- TIAA-CREF offered the first VA in 1950s in view of pension holders concern of raising inflation

Japanese VA market

- The foreign insurers introduced VA to the Japanese market around Year 2000
- Foreign insurers in Japan connected the Japanese Insurance industry with the US insurance industry, bringing the knowledge of VA;



Mavens are master of information

Mavens are people who

- “accumulate knowledge”, “people specialists”, “information specialists”
- “we rely upon to connect us with new information” and
- “have the knowledge and the social skills to start word-of-mouth epidemics”

US VA market

- Brokers
- Attorney who helps seniors drafting Living Trust may introduce seniors to VA

Japanese VA market

- Domestic insurers like Tokyo Marine further increased the sales volume of VA through its network



Insurance is sold not bought

Salesman are people who

- “persuaders”, “charismatic people with powerful negotiation skills”
- “tend to have an indefinable trait that goes beyond what they say, which makes others want to agree with them”

US VA market

- Broker Dealers, Banks, Agency, Wire-houses

Japanese VA market

- Majorly banks and agents through banks

The Stickiness Factors

What is stickiness?

- Stickiness measures the degree to which a product or idea stays with the audience
- The specific content of a message that renders its impact memorable.
- In order to be capable of sparking epidemics, ideas have to be memorable and move us into action.

What does stickiness do?

- A way to package information that, under the right circumstances, can make it irresistible/sticky and compels a person into action.
- Content of the message matters too.

Is VA sticky?

- Retirement planning is the key theme of Variable Annuity marketing.
- From various channel Policyholders receive the message that VA can help them with retirement planning
- However, increasingly we hear more and more voices concerned about the complex benefit and fee structure of VA, which can become another kind of stickiness factors that make VA less popular

The Power of Context

Epidemics are sensitive to environment

- Human behavior is sensitive to and strongly influenced by its environment.
- "Epidemics are sensitive to the conditions and circumstances of the times and places in which they occur."

Example

- The Broken Window Theory
- Steve Jobs' Apple product launch



VA marketing material

- Variable Annuity enjoys **tax benefit** and has been the selling point in many markets
- "You need to **prepare for the likelihood of a lengthy retirement**. A long retirement combined with the high cost of living, means traditional sources like Social Security and pensions may **not be sufficient to fund your retirement**. Is there an investment vehicle that can help supplement your retirement? A variable annuity may be the answer." – Prudential Financial



**Variable Annuity in the
China Market**

Connectors introduced VA to China but the Mavens are yet to come

► Law of the Few

Connectors

- Joint-Ventures companies, like MetLife, connect to the foreign VA product development, sales and risk management through their foreign partners
- Some of the foreign partners are big VA writers in other markets

Mavens

- However, large insurers like China Life are not active in pushing VA in China

Salesmen

- The stringent sales requirements increase the difficulty for insurer train and recruit VA sales
- The complexity of the products also add to the difficulty to acquaint agents with the product knowledge

MetLife-Global VA Market Leader

-  **USA:** Ranking NO.2 in US market, MetLife achieved VA new sales of nearly USD18bn and managed assets of more than USD100bn in 2010
-  **Japan:** Always being the top 3 in Japan, MetLife achieved VA new sales of USD4-5bn and managed assets of more than USD 25bn
-  **Europe:** MetLife takes Market leader in UK VA market and has Expanded sales to other countries like Poland, Greece and Spain etc.
-  **Korea:** MetLife Provides VA product through banks and agencies

MetLife VA advances in the road of innovation – commencing from China

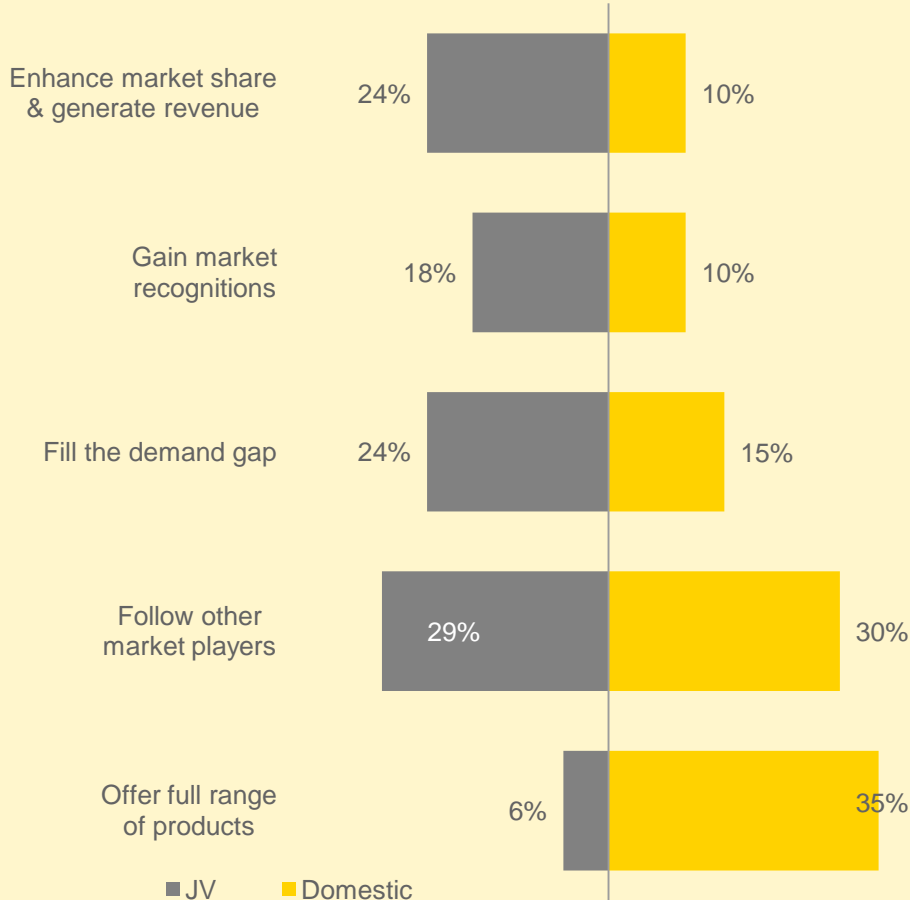
Adopting the MetLife's VA successes around the globe



MetLife has innovated developed a new VA product to meet the needs of domestic customers

China will be one of the first countries in MetLife family to offer a modified VA product

Connectors and Mavens have different motivation



- ▶ “What is (are) the strongest driving force(s) for your Company’s VA development?”
- ▶ Comparing JV and domestic insurers, enhancing market share and gaining market recognitions are the key motivation of JV to launch VA
- ▶ Offering full range of products to customers is the key for domestic players

24%

JVs look to VA for market share

Source : EY VA Market Survey (2011)

Stickiness has yet been established

The stickiness factors

- Are there any stickiness factors when selling VA?
- Insufficient supply of VA products
- Lack of large insurers' participation
- Only 5 cities are allowed to have VA

The Power of Context

- VA marketing materials differentiate itself from traditional or Unit-Linked products through emphasizing
 - Downside protection (guarantees) and
 - Unlimited gain (account value)
- Linking the product with what consumers are concerned about – “to build your wealth steadily”
- VA products in China lacks tax benefits

“Daily Step-up” VA Plan

Down with a bottom line, Up with no cap

MetLife Variable Annuity

“4 Promises” escort to build your wealth steadily

How to fill the gaps in China?

► Law of the Few

Maven : there lack large insurers' participation

- Large insurers are skeptical of VA because
 - Complexity of the product and concerns of mis-selling
 - Sophistication required for risk management
 - Potential capital requirement
- When will the large players com in?

Salesmen : training and standardize products

- Sales persons / agents lack sophistication in explaining VA
- Agency training

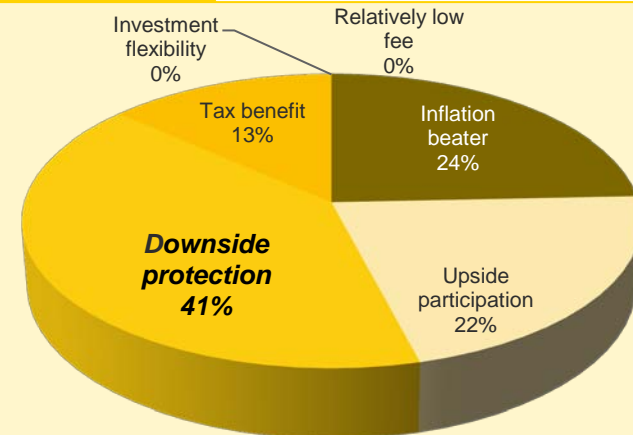
How to fill the gaps in China? (Con't)

Stickiness factor

- Large insurers participate and more cities are open to VA
- Eventually when the scale has reached a certain level, VA becomes compelling for insurers to maintain market share

The Power of Context

- Linking VA's upside potential with the current high inflation environment in China



Source : EY VA Market Survey (2011)



Thank you!
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