

# **Appendix C**

## **Summary of National Types of Contract**

### **Australia**

#### **Life insurance**

In terms of new premiums, the main contracts are investment-linked. Life insurers have become a major avenue of savings and investment for Australians. Life insurers are permitted to invest in anything – there are no restrictions. Solvency is regulated through solvency and capital adequacy requirements. This differs from many other countries where life insurers can only invest in specific types of assets and therefore cannot offer the wide range of investment exposures that investors want.

The main types of investment contracts are in the form of investment accounts and deferred annuities. Traditional products are also sold – whole of life & endowment – term - accident & disability – group life & credit life. Life insurance contracts can be traded - there is no need for the holder to have an insurable interest.

There is only one small mutual life insurer operating in Australia – so there is little new participating contract business written.

#### **Property and casualty insurance**

General insurers can only write contracts of up to twelve months duration, with the exception of mortgage insurance, which is for the life of the mortgage.

Australian general insurers sell the normal range of contracts. In approximate order of magnitude by premium, the classes of business are – workers' compensation – motor vehicle (including personal injury) – homeowners/householders – public liability – commercial fire. The other smaller classes are – professional indemnity – travel – consumer credit.

### **Canada**

#### **Life insurance**

The Canadian life and health insurance industry offers a wide range of products, including individual and group life insurance, individual and group annuities, and health insurance supplementary to public health plans. Premium payments to segregated fund, or market-based, investment products offered by the life and health industry have steadily increased. Currently, more than one-quarter of the life insurance industry's total assets are held in segregated funds.

Insurance companies are required to adhere to “investment and lending policies, standards and procedures that a reasonable and prudent person would apply”. Almost two thirds of the industry assets are held in bonds and mortgages.

## **Property and casualty insurance**

Automobile insurance, insurance for homeowners and tenants, as well as a variety of commercial or business-oriented lines of insurance, such as liability or business interruption, account for most of the P&C insurance sold in Canada. Automobile insurance is the largest single class of P&C insurance. Total premiums for automobile insurance are more than for all other classes combined. The next largest category is property insurance.

Contracts in property and casualty insurance usually have a duration of one year, although exceptions to this rule exist within specific types or lines of business.

## **France**

### **Life insurance**

The French life insurance market has grown considerably over the last ten years. The market is divided into two segments, life insurance with savings elements and personal protection insurance. Insurance policies with savings elements were especially popular. However, there has recently been a decrease in new business due to various tax measures. Personal protection insurance consists largely of term life insurance contracts.

The life insurance market is characterised by the importance of traditional life products. The protection provided supplements the mandatory insurance programs. Approximately two-thirds of total premiums are generated by pure endowment insurance policies. Other products offered are insurance investment certificates and unit-linked contracts. The market share of unit-linked contracts is increasing.

### **Health insurance**

Health insurance contracts are taken out individually or through an employer. The contracts cover health and medical costs that are not reimbursed by the mandatory social security plans. The Social Security system finances almost two-thirds of the medical expenses. However its contribution in the funding has decreased over the last years. Nearly all French residents have supplementary health insurance, of which half are insured with mutual societies.

### **Property and casualty insurance**

The French property and casualty insurance market is well-developed and covers the normal range of products. Automobile insurance is by far the largest line of business, followed by homeowners' comprehensive insurance, commercial property insurance, and general liability insurance.

## **Germany**

### **Life insurance**

The market for life insurance is dominated by traditional products such as endowment insurance. Life insurance where the investment risk is borne by the policyholder, which is mainly based on investment funds, is gaining importance, but its market share is just 10% up to now.

At least some 90% of the net investment returns are granted to the policyholder via bonuses by law. These bonuses are permanently transferred to the policyholder when they occur. The final end-term profit may therefore be lower than in other countries.

Life insurance policies are also subject to tax advantages in Germany if the duration of the policy exceeds 12 years. In that case, life insurance premiums are tax deductible.

### **Health insurance**

In Germany almost 90% of the population are insured by the compulsory public health insurance schemes. About 9% of the population have taken out private health insurance. This is almost the same for the compulsory long-term care insurance, which was introduced in 1995 as a compulsory supplementary component of the social security system. For private health insurance contributions are assessed on the basis of the insured's individual risk factor.

### **Property and casualty insurance**

The property and casualty insurance covers the normal range of products. The most important products are motor insurance, general liability, private accident, fire insurance, comprehensive insurance of buildings, legal expenses, tourist assistance and property insurance. Motor third party insurance is compulsory in Germany.

Contracts in property and casualty insurance usually have a duration of one year. Most contracts include a clause to prolong the contract for another year, if the policyholder does not terminate the contract within a specified period before the end of the year. In some lines of business, e.g. general liability or private accident, some contracts have a duration of more than one year.

## **Japan**

### **Life insurance**

In Japan, traditional insurance products account for over 90% of total contracts on a sum insured basis. Traditional products include term life, whole life and endowment. Only a few insurance products are sold for investment purposes. Riders with a variety of guarantee types are added to a considerable proportion of the main contracts.

Other characteristics of the Japanese life insurance products include a high proportion of participating insurance compared to other contracts and the existence of a conversion system which allows a new insurance contract to succeed the cash value of the existing contract. Under the conversion system, policyholders can revise their contracts, with the cash value of the existing contract succeeded by a new contract, instead of terminating the existing contract and concluding a new one.

As for taxation, policyholders are given preferential treatment under certain conditions, regardless of the duration of the insurance contract.

## **Health insurance**

Japan has a well-established compulsory health insurance system which is managed by the government or by associations established by private enterprises under the health law. In a sense, it can be regarded as public health insurance. Japanese people are normally insured by one of the compulsory health insurance products.

Under the compulsory health insurance system, benefits are paid when the insured person is hospitalised. The insurer pays around 20% to 30% of the total medical costs and the remaining amount is covered by the compulsory health insurance.

A contract for medical insurance or hospitalisation expense indemnity, or another type of health insurance contract, can be added as a rider to insurance products sold by private companies, which supplement the public insurance system. Benefits under the private health insurance system are paid not in kind but in cash. The insured can receive a fixed amount, irrespective of the hospital costs, or be reimbursed for hospital expenses incurred.

## **Property and casualty insurance**

The property and casualty insurance covers the normal range of products. In order of magnitude by premium, the classes of business are motor, fire, marine/transit, personal accident and compulsory automobile liability. Saving-type insurance policies are included in some of those classes of business. For example, saving-type personal accident insurance is a kind of personal accident. Maturity refund of a saving-type policy is to be paid to the policyholder, if no major accident occurs during the policy term. All insurance companies in Japan are obliged to accept compulsory motor liability insurance on a non-profit basis. Any underwriting profits from the insurance are to be carried forward as liabilities, which are allowed to be released only to be set off against the underwriting losses.

## **The Netherlands**

### **Life insurance**

The majority of the existing business in the life insurance industry in the Netherlands consists of traditional life products such as endowment policies. However, the tide for traditional products is turning. The proportion of new investment-linked life products to total new business written is increasing steadily and exceeded fifty percent in 1998.

The policies are written on an individual or a group basis (mostly pensions or pensions-related business). The duration of life policies exceeds 15 years in order to take full advantage of the tax advantages in the Netherlands. These advantages are either deductibility of premiums or a tax free benefit.

Premiums are composed of margins, loadings for commission and other expenses, individual risk factor(s) and a net investment. Benefits are either guaranteed or guaranteed plus bonus arrangement. Benefits of unit linked/universal life policies are investment-linked.

## **Health insurance**

Public health insurance schemes are compulsory for individuals up to a certain level of income. Private health insurance comes into play for individuals with an income above this level. Long term care programs are still in their early days. Benefits under the private health insurance system are paid in kind or as a lump-sum payment, reimbursing the insured for expenses made.

Over the past few years the government has privatised part of its social security arrangements with respect to disability and illness. This development has resulted in the launch of a whole range of new sickness (workers compensation) and disability products (supplementary disability benefits). In addition, the regular stand alone disability cover as well as disability products embedded in life contracts are of reasonable substance.

## **Property and casualty insurance**

Non-life contracts consist of the normal range of products in private or commercial lines. In order of magnitude by premium income, the most important products are: motor, property/fire and accident and sickness.

Premiums for non-life products are more or less determined on an individual basis (ranging from individual risk premiums to the use of peer groups). The duration of contracts is usually one year although exceptions to this rule exist within specific types of business (such as disability) and/or specific lines (commercial lines).

## **United Kingdom**

### **Life insurance**

UK Life insurance products include medium to long-term savings products with life cover attached, whole life products and pure protection products such as term assurance and critical illness insurance. Savings products include investment bonds and endowment plans. Each of these products provides a death benefit in addition to the savings feature. The majority of the business written is with-profits.

The traditional life insurance product offered by UK life insurance companies was a long-term savings product with a life insurance component and provided tax advantages in comparison to other savings products. The gradual reduction of these advantages and increasing sale of single premium life products has resulted in the distinction between life insurance and other long-term savings products becoming less important.

In the late 1970s/early 1980s insurance companies introduced unit-linked policies, that are becoming increasingly popular. Also, during the late 1980s the UK government began encouraging individuals to invest in equities, with particular emphasis on UK equities. The UK government's privatisation program and the introduction of tax-advantaged Personal Equity Plans (now replaced by Individual Savings Accounts) have considerably widened the UK equity investor base.

## **Property and casualty insurance**

General insurers offer coverage for automobile, property, personal accident, pecuniary loss and liability insurance and other similar products. Property and automobile insurance are by far the largest classes of business, together generating more than half of the total gross earned premiums. A number of categories of insurance are compulsory in the United Kingdom, including automobile and employer liability.

The duration of property and casualty insurance contracts is usually one year, although a number of commercial policies are written for a period of three to five years as insurers seek to establish longer term relationships with customers.

## **United States**

### **Life insurance**

The biggest change in recent years has been that premium volumes on investment types of products have increased dramatically, such that in 1997 80% of new premiums were for annuities, and 20% for life insurance.

For life insurance, traditional products account for 45% in new premiums. In the United States, traditional products consist mainly of whole life and term insurance. Whole life has guaranteed cash surrender values and may participate in the profits of the company. The majority of term products tend to be on a yearly renewable basis although some level premium 10 and 20 year term products do exist. Most products are guaranteed renewable although some require new underwriting every 5 to 10 years.

20% of new premiums are for interest sensitive or universal life products where an interest rate is declared each year on the account value underlying the contract. The remaining 35% of new premiums are for variable contracts where the underlying investment vehicle is chosen by the policyholder – similar to unit-linked insurance.

88% of contracts are sold to individuals, and 12% to groups. 20% of new premiums are for corporate-owned life insurance, which is normally used to fund corporate liabilities that may or may not be linked to mortality coverage for their employees.

For annuities, 75% of new premiums are for deposit types of contracts where the individual or group is looking primarily for an investment return, usually short term. 15% of premiums are for pay out annuities, and 10% for other annuities.

The US insurance industry has moved significantly towards money management, although there is a good solid underlying business of life insurance.

### **Health insurance**

In the United States, health insurance is normally provided by the private sector. Government provides benefits only to the aged and to people who cannot afford coverage and who are medically in need.

Health insurance is normally purchased from insurance carriers or health maintenance organizations. In most cases, the insurance programs provide benefits for medically necessary services with very high benefit limits to cover catastrophic events.

Individuals or their employers can purchase coverage. When an employer purchases insurance, the premiums are subject to favourable tax treatment. When an individual purchases insurance, the premiums are not subject to favourable tax treatment. Benefits provided in excess of premiums paid are not taxable to employers or individuals.

Other forms of medical coverage are also available:

- hospital indemnity insurance which pays a certain amount for each day confined in the hospital;
- dread disease benefits which pays if an individual contracts a specified disease such as cancer;
- long-term care and home health care insurance which provide for custodial care; and,
- supplements to government-provided programs.

Federal and state governments regulate the benefits provided and the premiums provided. For certain classes of insureds, coverage must be provided on a guaranteed issue basis and at rates that are controlled.

### **Property and casualty insurance**

Traditional insurance coverages for property/casualty risk include automobile, homeowners, farmowners, workers compensation, commercial multiple peril, fire, allied lines, inland marine, ocean marine, earthquake, burglary, theft, aircraft, boiler and machinery, medical malpractice, products liability, other liability, fidelity, surety, and accident and health. Personal automobile dominated the 1998 industry's premium volume with over 40% of the premiums written. All other lines of business had an individual share of the premium volume of 10% or less.

More recently, insurance coverage has been available for credit, mortgage guaranty and financial guaranty. In particular, property and casualty insurance coverage is evolving so that financial and capital markets products are being transformed to insurance products. Examples include coverage for earnings per share performance and revenue stream protection from longer term deviations of the norm from cycles such as the economy or the weather. Policies are not restricted to an annual term. Warranty policies can remain in force for a decade, and some carriers are beginning to offer multiple year/multiple line policies.

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