Asia e-Alert

March 27, 2013

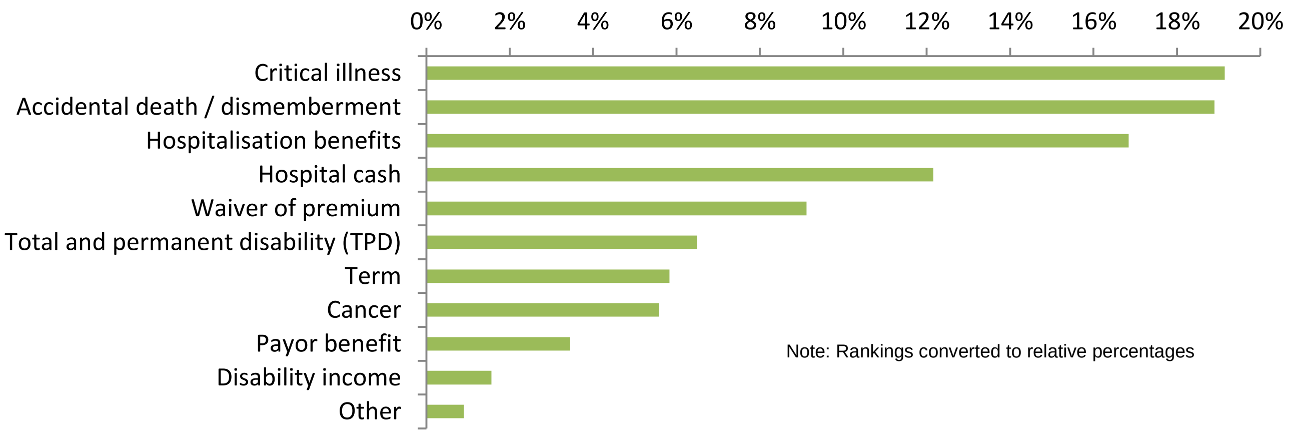
Asia Rider Survey

Earlier this month, Milliman carried out an online survey of senior life insurance executives to gauge their views on the current and future rider landscape in Asia. The survey covered insurers from all of the major Asian markets, excluding Japan and Korea, and included 15 questions.

We received responses from 86 executives representing a wide variety of companies and countries. We would like to express our thanks to those who took the time to participate in the survey and are pleased to present the results below, along with some commentary on the key findings.

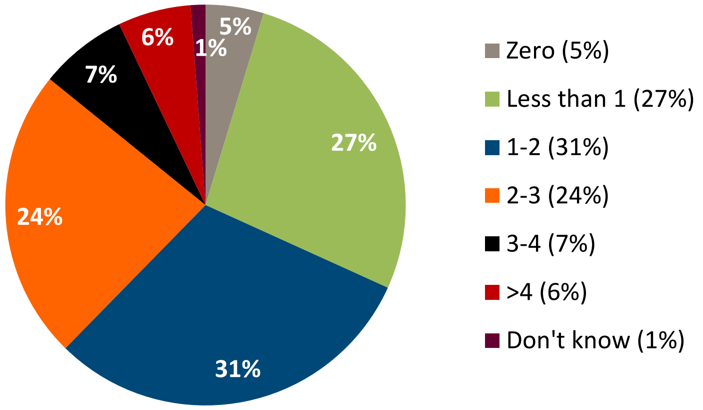
Results

Q1. Which riders are currently most popular (by volume of sales) in your market?



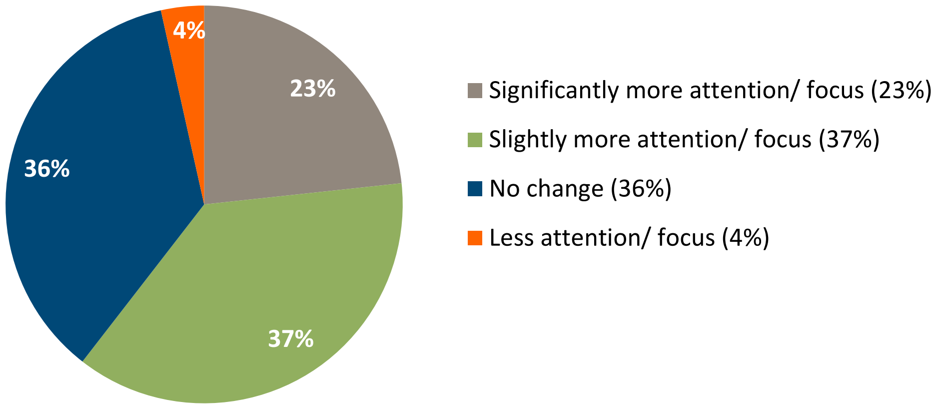
Critical illness has been growing in importance in many markets in Asia, and the survey results reinforce this. Medical riders such as hospitalisation benefits and hospital cash are also popular, as are accidental death and dismemberment riders. The survey also highlights the relative lack of popularity of term life and disability income riders in Asia.

Q2. What is the average attachment rate for riders in your portfolio (i.e., number of riders divided by number of base policies)?



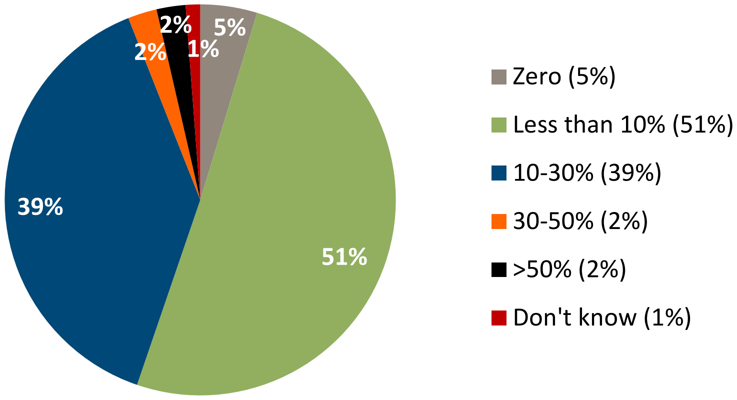
The survey results confirm the prevalence of riders in general in Asia, with 67% of respondents selling more than 1 rider per base policy on average. Among respondents, 13% had an average rider attachment rate of 3 or more. Somewhat surprisingly, 32% had either no riders or less than 1 rider per base policy on average. The results suggest polarisation in the region, with a few companies focusing heavily on selling riders and being very successful, whilst some others have much lower attachment rates.

Q3. To what extent has the prolonged low interest rate environment meant greater focus being given to sales of riders in your company?



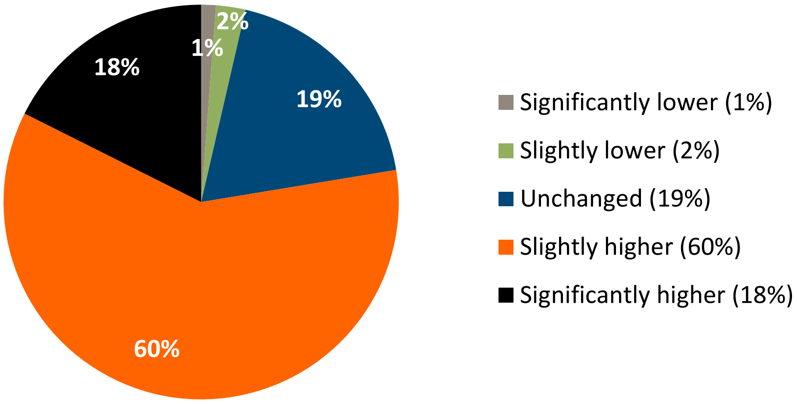
The majority (60%) of respondents think that the prolonged low interest rate environment has increased the attention and focus on riders in their companies, with 23% saying significantly so.

Q4. Approximately what percentage of new business premium (unweighted basis) comes from riders in your company?



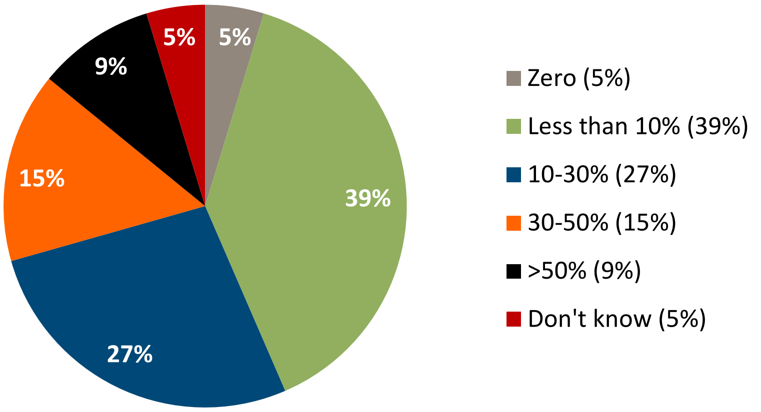
Over half of respondents said that riders accounted for less than 10% of their unweighted new business premium. Whilst a small number of respondents appear to be generating significant rider premiums, perhaps surprisingly only around 40% of respondents said that riders contributed between 10% and 30% of new business sales.

Q5. How do you expect this percentage to change over the next three years?



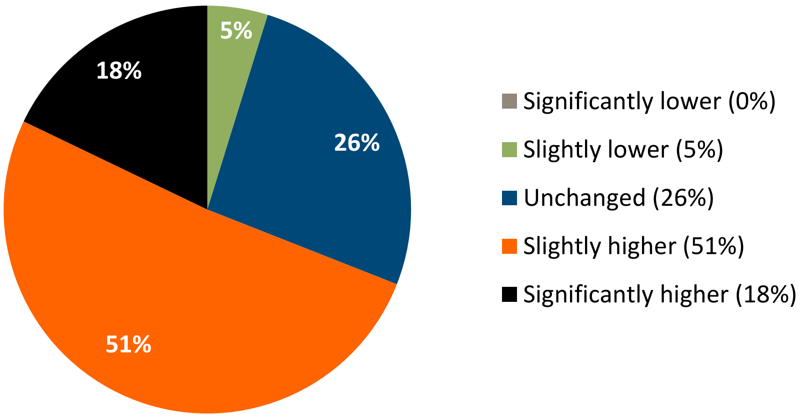
The vast majority of respondents (78%) see riders contributing a higher proportion of their new business sales in the next three years, although most of those feel it would be a slight increase rather than a significant one. Only 3% of respondents feel riders will become a less significant contributor to sales volumes in the near term.

Q6. What percentage of the total value of new business in your company comes from riders?



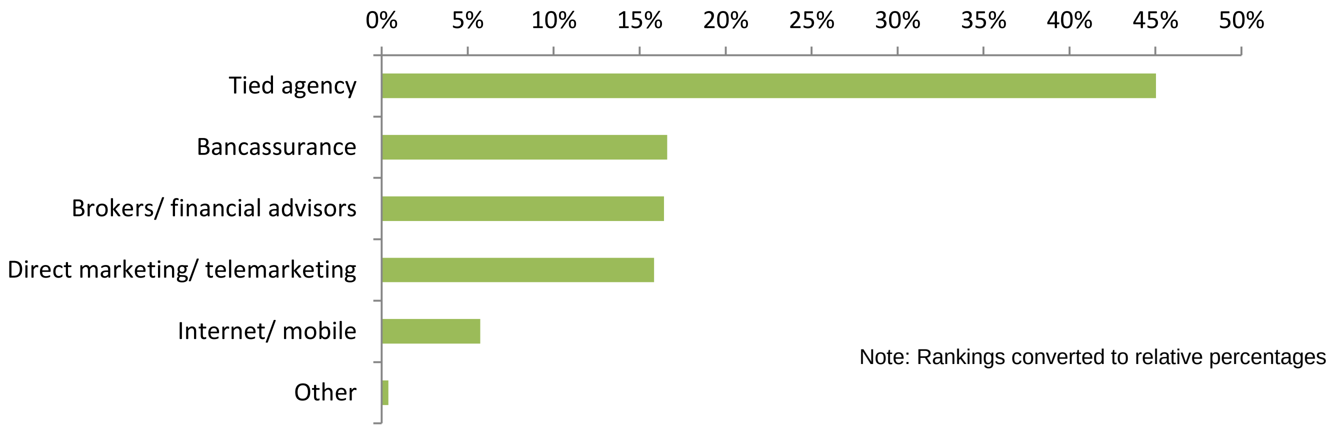
Nearly a quarter of respondents (24%) said that riders generated 30% or more of their total new business value, with 9% saying more that 50%. This contrasts with the much lower percentages as measured by new business premium shown in Question 4 (Q4), confirming the relatively high new business margin of riders in general.

Q7. How do you expect this percentage to change over the next three years?



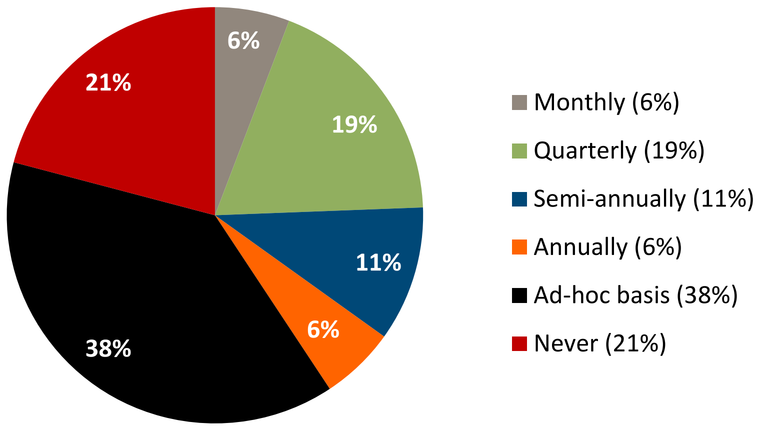
The majority of respondents (69%) see riders contributing a higher proportion of their new business value in the next three years, and 18% said significantly more. Only 5% of people feel that riders will contribute less to new business value in the near term.

Q8. Which distribution channels do you think are best suited to sell riders most effectively?



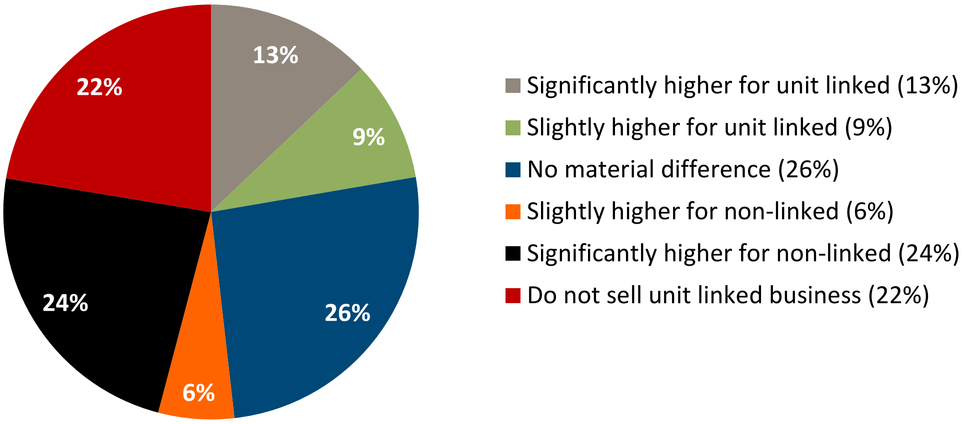
Tied agency was regarded as the distribution channel best suited to selling riders by the vast majority of respondents. Bancassurance ranked much lower, confirming the difficulties some bank channels have faced in achieving meaningful rider attachment rates. Interestingly, a reasonable proportion of respondents felt that direct marketing/telemarketing, Internet and mobile were well suited for selling riders.

Q9. How frequently does your company run sales or marketing campaigns specifically targeted at promoting sales of riders?



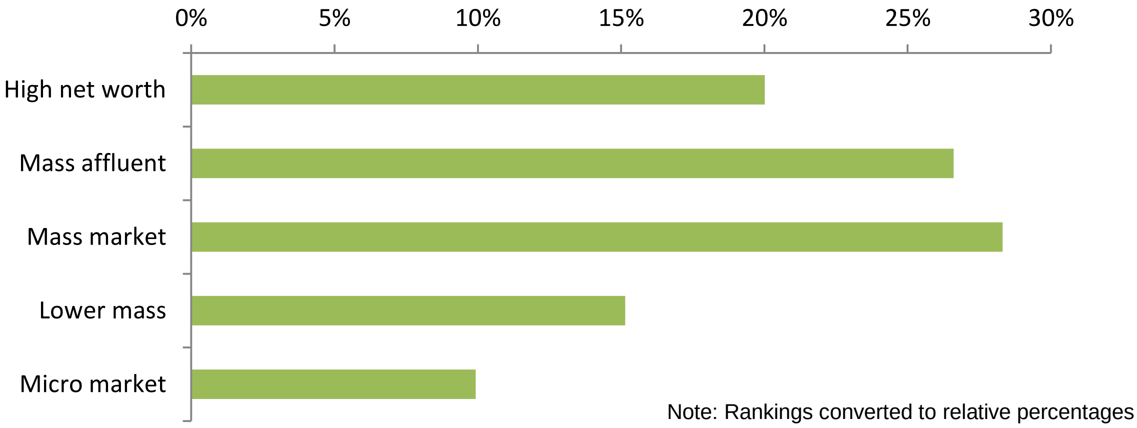
The most common approach to running sales and marketing campaigns promoting riders is on an ad hoc basis. Where such campaigns are scheduled in advance, quarterly is the most common frequency. Somewhat surprisingly, a relatively high proportion of respondents (21%) said that their companies do not run any such campaigns to promote rider sales.

Q10. To what extent is your rider attachment rate different between unit linked and non-linked business?



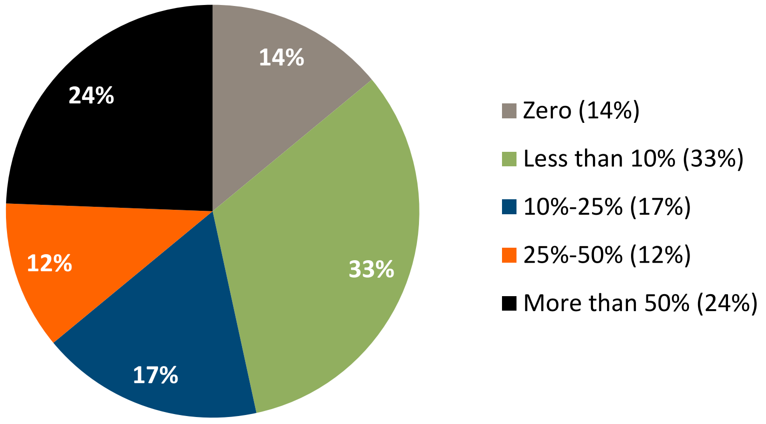
The survey results show that rider attachment rates are higher, in general, on non-linked business. More respondents (30%) have a higher rider attachment rate on non-linked business compared with unit linked business (22%). Many respondents, however, said their attachment rates for unit linked and non-linked business were not materially different.

Q11. Which customer segments do you think offer the highest growth potential for a successful rider strategy in your market?



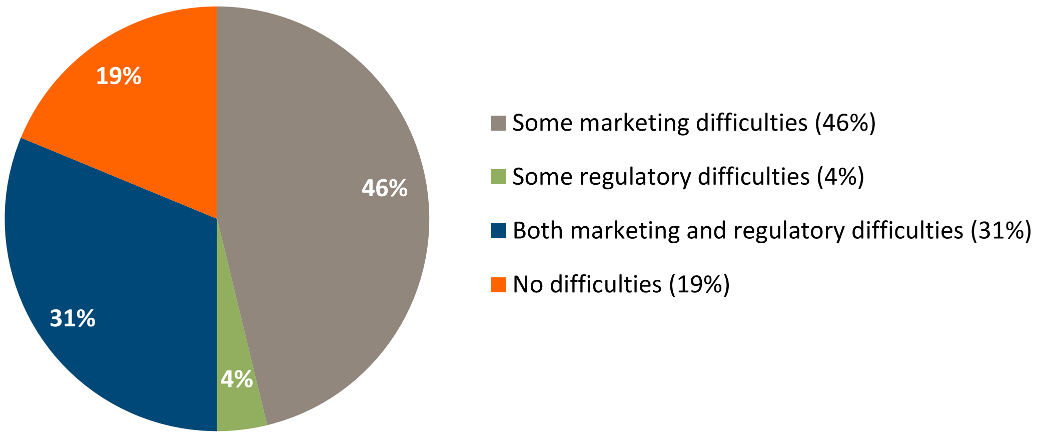
According to the survey, growth potential varies by customer segment, with the mass market and mass affluent offering the highest growth potential. The ends of the socio-economic spectrum, the high net worth and micro segments, are felt to offer less growth potential.

Q12. What percentage of your current riders offer guaranteed level premium rates, as opposed to yearly renewable term (YRT) rates?



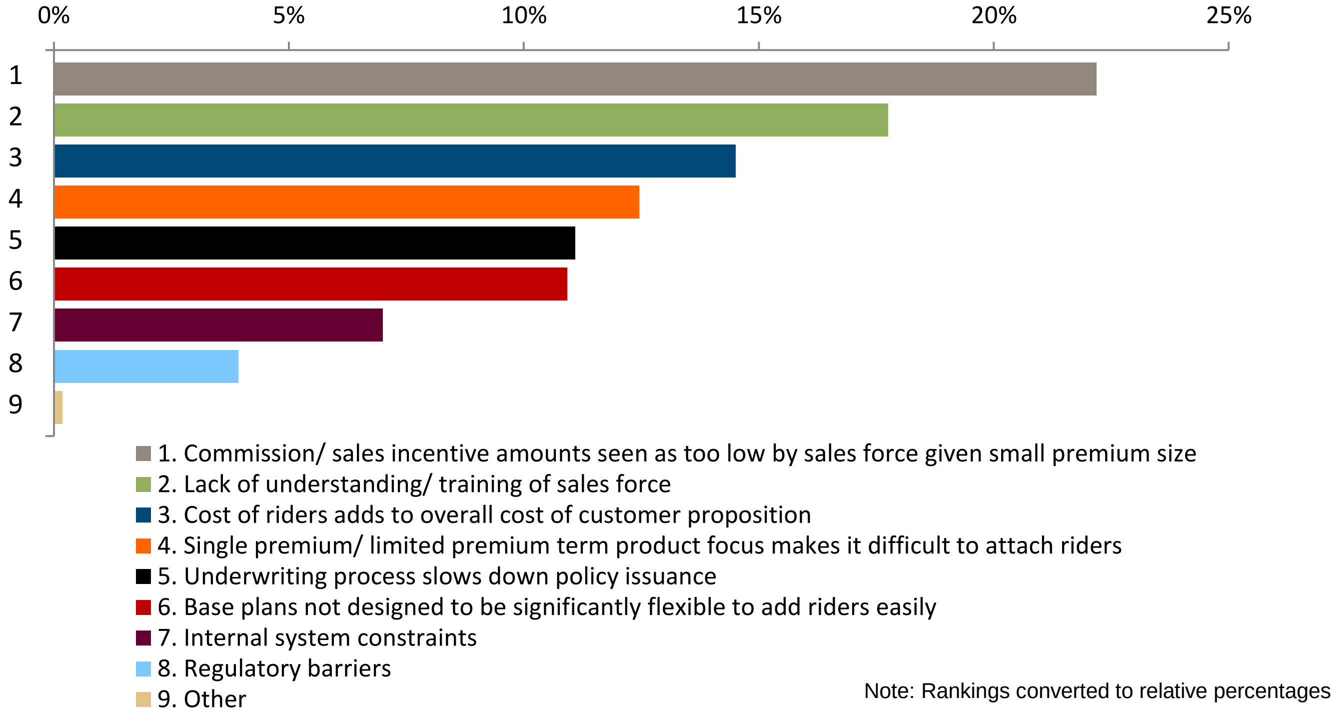
Whilst 47% of respondents said that fewer than 10% of their current riders offered guaranteed level premium rates, quite surprisingly nearly a quarter of respondents said that more than 50% of their current riders had been sold on this basis.

Q13. To what extent have you experienced difficulties in increasing premium rates at renewal for YRT riders?



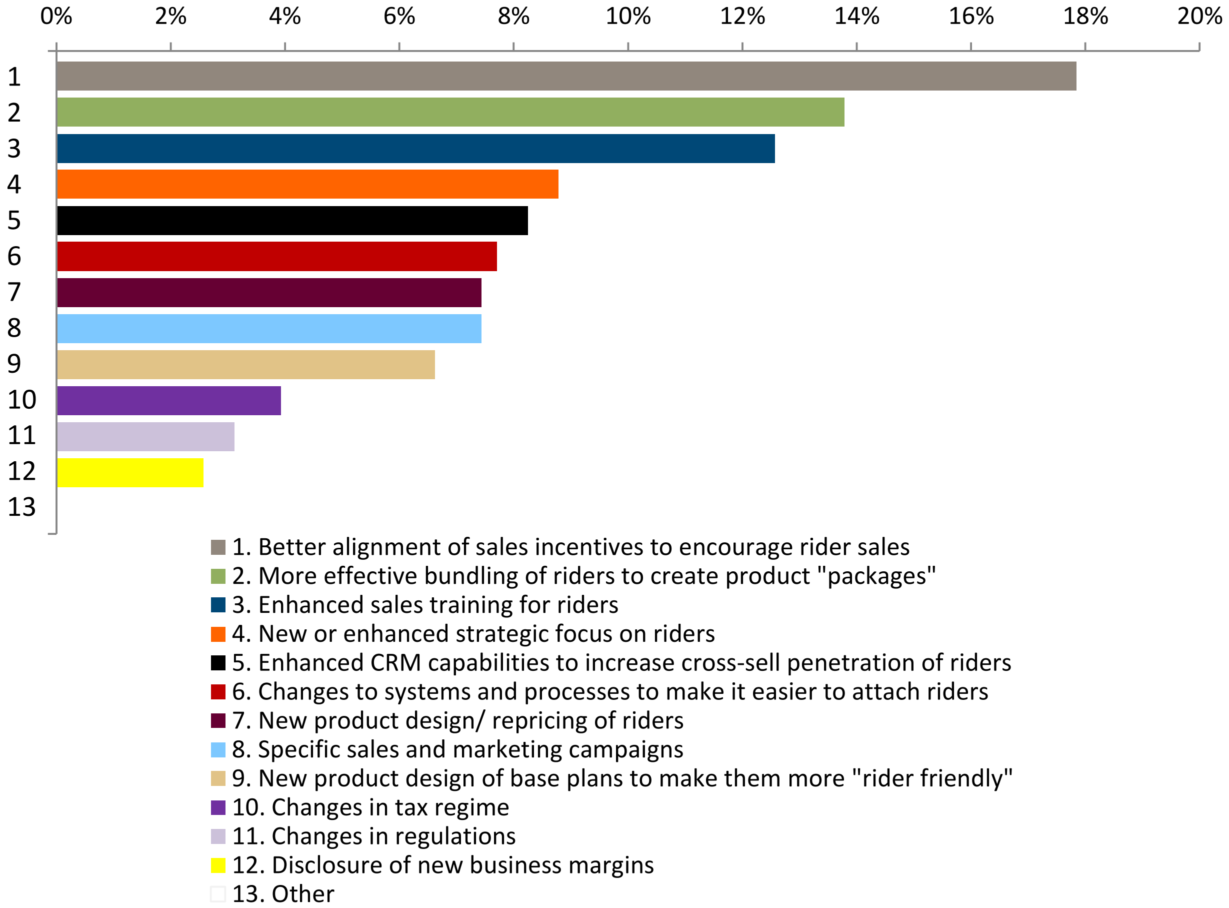
According to the survey, most companies surveyed have experienced practical difficulties in increasing YRT rates in practice. More than 80% of respondents said they had experienced marketing and/or regulatory difficulties, with marketing difficulties being more common.

Q14. What do you see as the major impediments to selling more riders?



The lack of attractive-enough sales compensation and a lack of understanding/training of sales forces were regarded as the main barriers to achieving higher rider penetration. A relatively high proportion of respondents cited constraints from the inflexibility in the design of their base products and from delays in rider issuance due to underwriting processes.

Q15. Which actions do you think would have the biggest impact on increasing your rider penetration rates in the next three years?



Note: Rankings converted to relative percentages

The top three actions to increase rider penetration in the near term were felt to be better alignment of sales incentives, more effective bundling/packaging of riders and improved sales training. A number of respondents saw potential positive impact from more dedicated strategic focus and from specific sales and marketing rider campaigns.

Conclusions

The survey results provide some interesting insights:

- They confirm that riders are generally highly prevalent in the region, although there is polarisation among companies. Some insurers clearly recognise the power of a focused and well-managed rider strategy and are selling significant volumes of profitable riders. However, many companies seem much less focused on riders, arguably missing opportunities to boost margins and increase customer loyalty.
- Many of the impediments to achieving higher rider penetration appear to be largely within insurers' control, such as better alignment of sales incentives to promote rider sales, enhanced sales training and making base products more "rider friendly." The fact that many companies do not currently run scheduled, or any, sales and marketing campaigns to promote riders is somewhat surprising given the value-generating potential.
- The difficulties in achieving reasonable rider attachment rates via the bancassurance channel compared to tied agency indicates that more creative product bundling/packaging and smoother underwriting processes may be required to stimulate more rider sales.
- Riders can be very profitable and generate significant value, although insurers need to take into consideration the risk of future claims deterioration for business issued on guaranteed rates and the practical challenges of raising YRT rates. As has been seen in some developed markets outside of Asia, anti-selection risk can become important for critical illness and other medical riders as markets mature.

The general consensus is that riders will become more relevant in the near future, especially if the current low interest rate environment becomes the "new normal." Against this backdrop and the growing popularity of critical illness and other medical coverage, it may be a good time for companies to revisit their rider strategies to identify ways to take full advantage of the opportunities.

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