



C3: Concurrent Sessions on Life Insurance

Round Table:
Persistency, various facets and impacts

Persistency – the case for best practice

Waves of Reforms...Oceans of Opportunities

2013 AGFA & 15th Global Conference of Actuaries

17th – 19th Feb, 2013 | Mumbai,
India

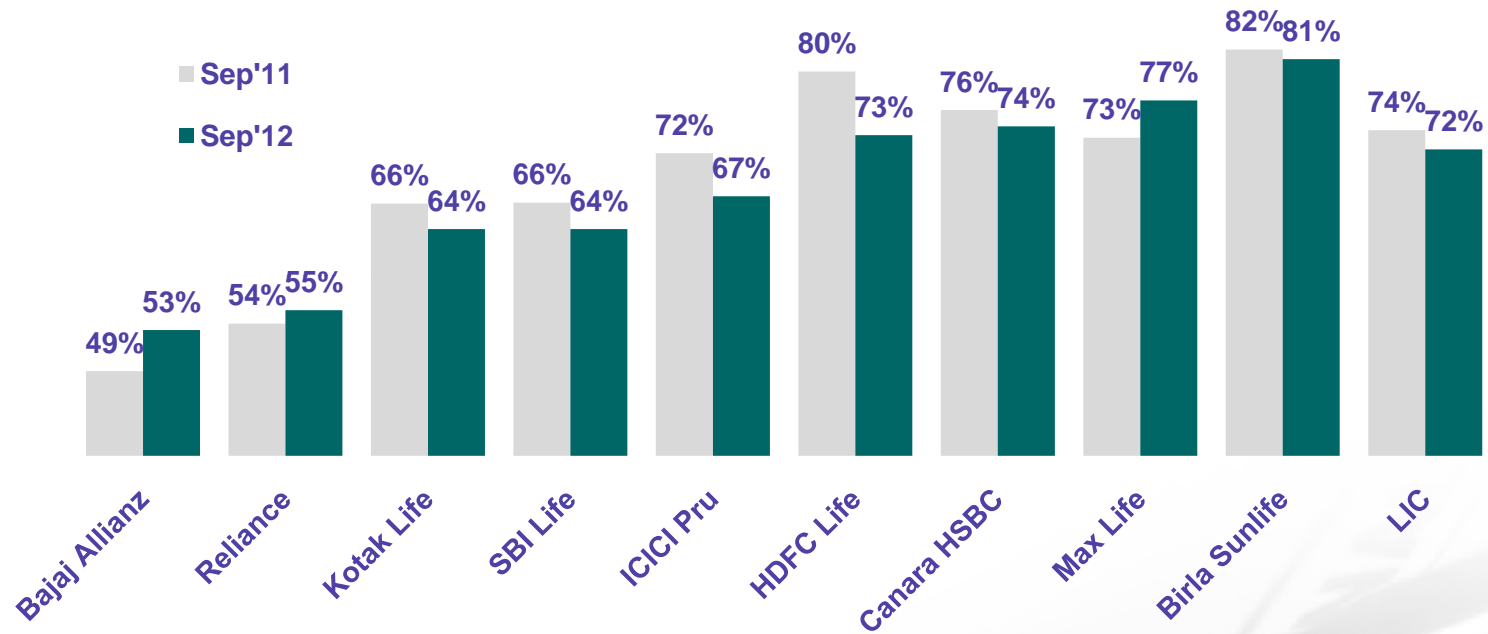


Topics for discussion

- What is a “normal” level of persistency?
- What are the root causes of lapse and surrender?
- What is the best practice to improve persistency?

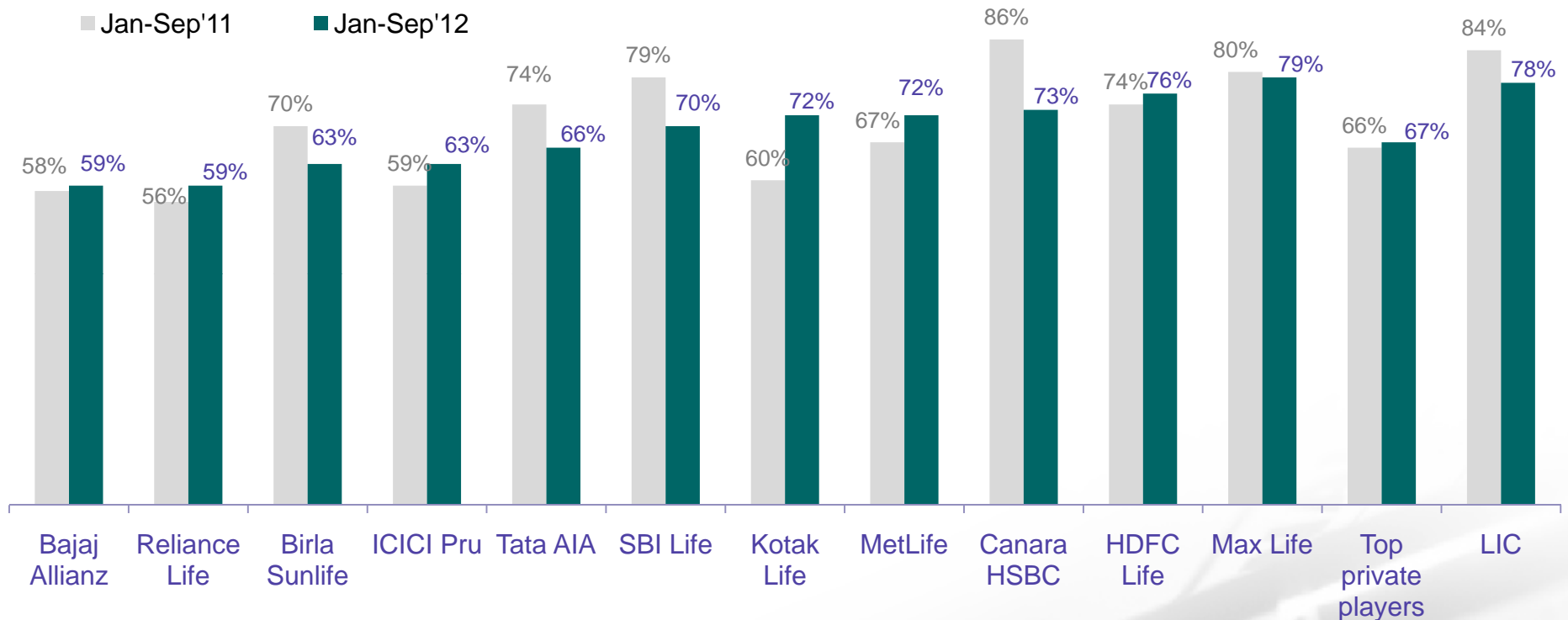


India – 13th month persistency



- Wide range of first year persistency rates between companies, from 50% to 80%.

India – Conservation ratio

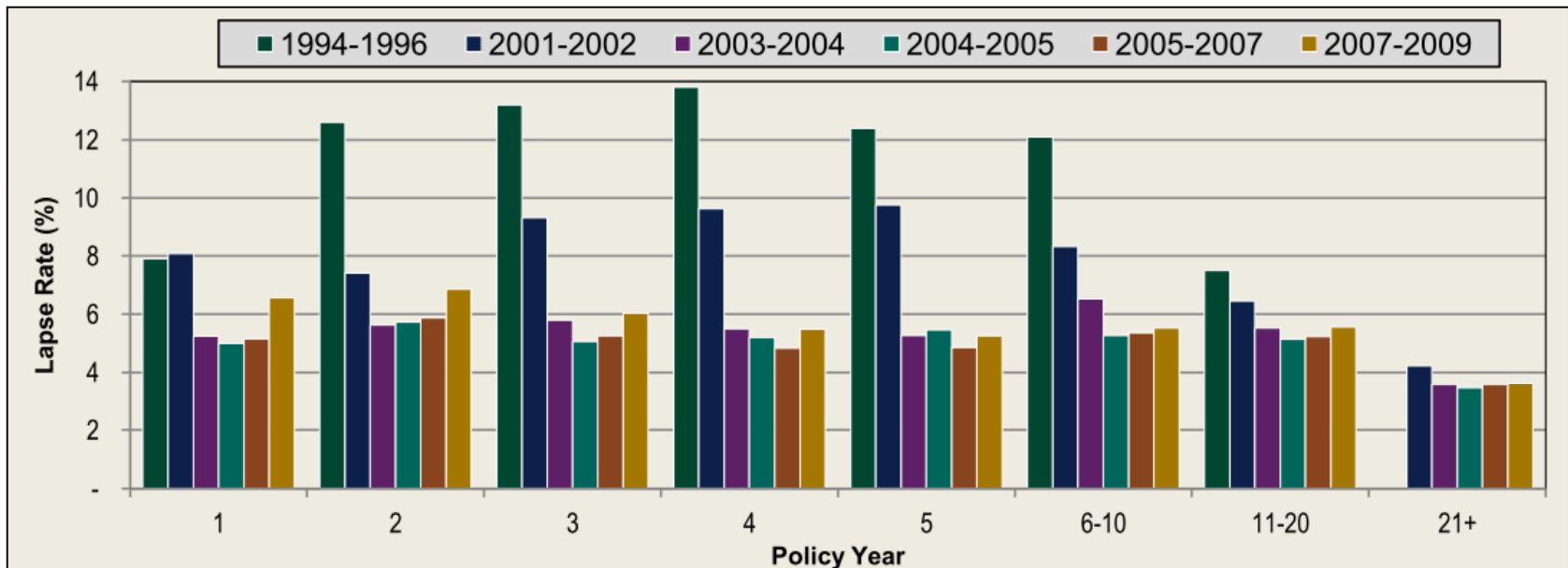


- Again, a wide range of persistency results between companies, from 60% to 80%.
- Mixed development over time.

*Definition: Renewal premium of current year / (Renewal premium of corresponding period of last year + new business corresponding period of last year)
Individual non-single premium business.*

US - Total individual life insurance

Face Amount Lapse Rates

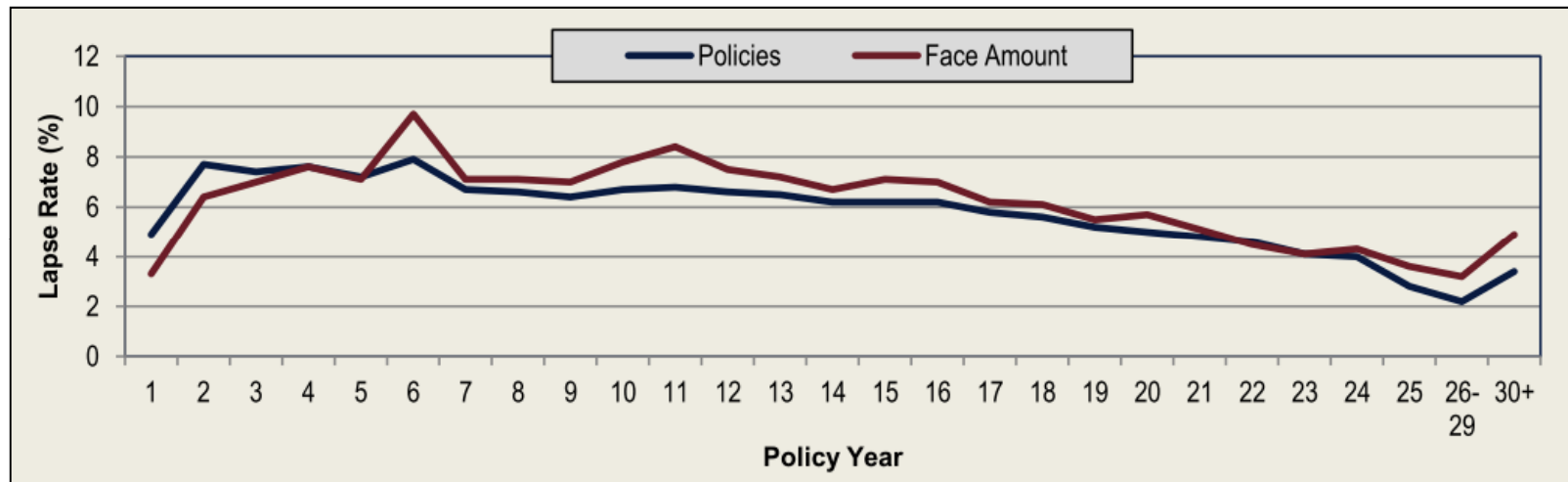


Source: U.S. Individual Life Insurance Persistency, Society of Actuaries and LIMRA, 2012

- Overall, for the observation period 2007-09, lapse rates averaged 5.7% annually, up from 5.2% in the 2005–2007 study.

US - Variable Universal Life only

Lapse Rates (observation period 2007-09)

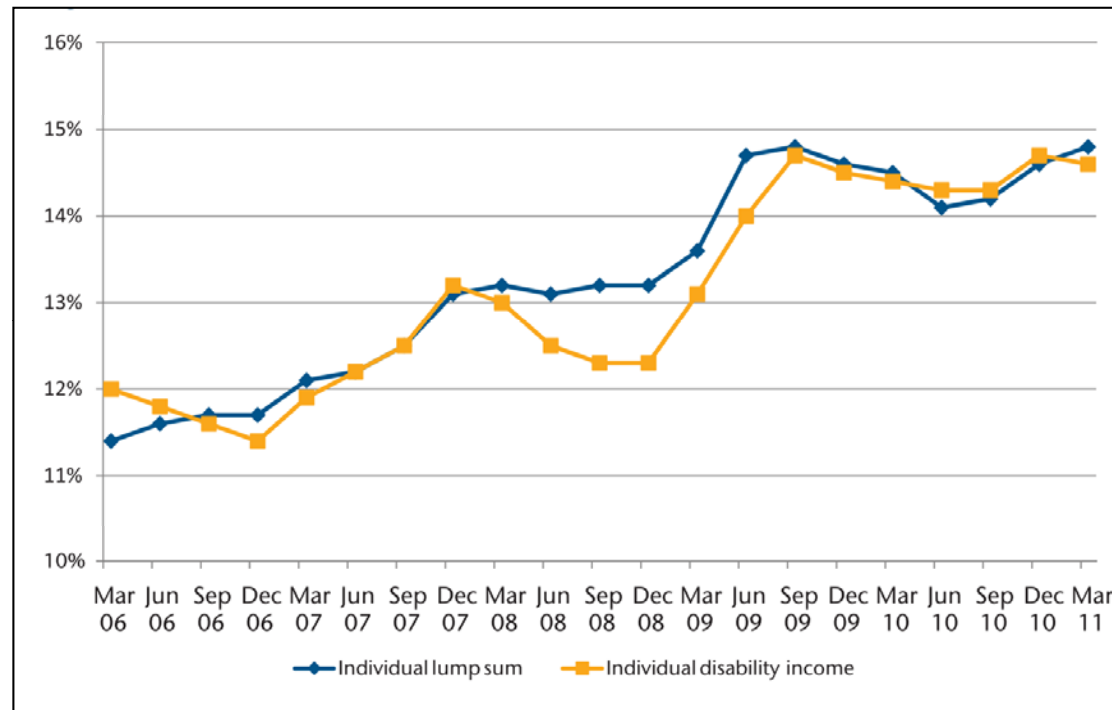


Source: U.S. Individual Life Insurance Persistency, Society of Actuaries and LIMRA, 2012

- Face amount lapse rates were 6.9% annually, up from 5.0% in 2005–2007
 - Likely to have been contributed by poor economy, including the 2008 stock market drop.
- Lapse rates for VUL plans generally exhibit a different trend compared to other permanent products:
 - First year lapse rates are lower than those in the second and third year.
 - Another difference in VUL is the elevated lapse rates in the first ten or more policy years. During this period, lapse rates for other permanent products typically begin to decline.

Australia – Individual life insurance

Annual discontinuance rate



Source: Gen-Re Risk Insights 2011

- Since 2006, increasing trend from 11.5% to 15% p.a.
- Causes of lapse, as per customer survey: (source: experience of OnePath)
 - 35% for financial reasons, e.g. budget, reduced employment
 - 35% recommended by advisors
 - 30% for other reasons, e.g. changed circumstances, do not see point of cover, no contact with advisor

Definition: Terminations = (Inforce annual premium at start of period) - (Inforce Annual Premium at end of period) + (New Annual Premium over period)
Termination Rate = Terminations / (Average Inforce Annual Premium over period)

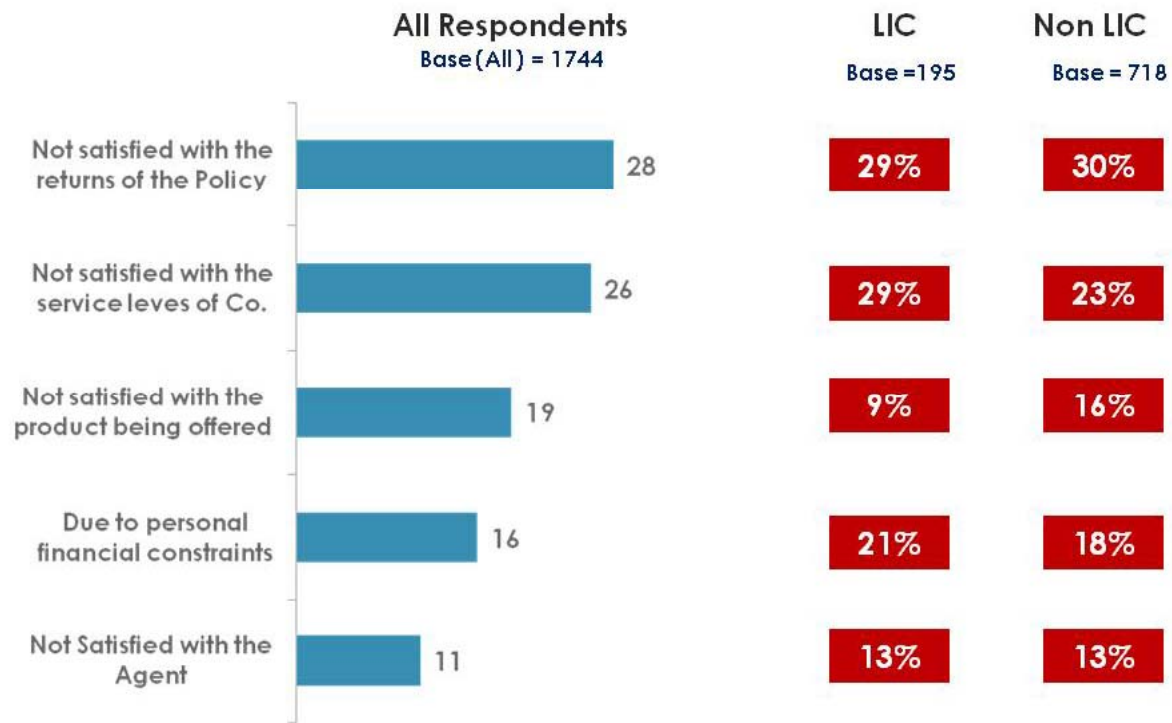


Topics for discussion

- What is a “normal” level of persistency?
- **What are the root causes of lapse and surrender?**
- What is the best practice to improve persistency?



Key drivers of lapse and surrender in India



Source: Service Expectations Research 2011 on Active Customer Base
Market Research Conducted by AC Neilson & Co

Topics for discussion

- What is a “normal” level of persistency?
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Market conduct

- Compulsory tools to assess customer needs
 - Needs analysis
 - Benefit illustrations, with specific acknowledgement of key features like premium paying term
 - Key Information Document (KID) – short, non-technical and critical policy information
- Strict consequence management for mis-selling by agents
 - Identify and manage the specific people / offices causing high lapse rates
 - Frequent communication with Office Head and salesforces about it being an offence
 - Clear Consequence Management Actions across all distribution channels: misrepresentation of facts deserves a warning letter (not a letter of education). Repetitive offences deserve a termination letter.
- Persistency goal as part of the Sales Office Dashboard
 - What gets measured ... gets done: New Business and Persistency targets
- Raise industry attractiveness to attract and retain quality sales forces
 - Need to rebuild trust in the viability of life insurance products



Customer management

Preventive measures during tenure of the policy

- Independent welcome calls to customers, to confirm their understanding of key product features
- Annual client review by distributors, with special efforts on high-propensity-to-surrender customers, to review their insurance needs
- Targeted campaigns to reinforce the benefits of staying invested
- Special team to handle orphan policies

Proactive measures at the time of receiving the surrender request

- Discussion between customer and a representative from the life insurance company

Product considerations

- **Distributors**
 - Compensation to be better aligned to the Long Term Savings & Protection proposition, with an increasing scale based on the premium paying term
 - Greater incentives to sales-force to service policyholders e.g. trail commission based on AUM, additional compensation based on persistency
- **Customers**
 - Better calibration of customers' returns throughout policy duration
 - Implement loyalty or terminal bonus to better reflect customers' asset shares
 - Increase the partial withdrawal limit to meet customers' need for additional cash
- **Shareholders**
 - Profit margin should increase with better persistency

Conclusion

- Product philosophy
 - Life insurance is about Long Term Savings and Protection, not short term investment.
 - Returns to be aligned between all stakeholders: Customers, Distributors and Shareholders.
- Financial advisors / sales forces
 - Must be effectively equipped to provide value added whole-of-life solutions to customers.
 - Should be given financial incentives and rewards to promote persistency.
- Customers: Truly being a partner for life
 - Treat Customers Fairly ... by listening & responding to their needs, servicing them and giving them fair financial protection.

What would India's lapse rates be in years to come?

What is your company's aspiration and what will it take to get there?

Duration (years)	India Today Lapse rate	India Tomorrow ? Lapse rate
1	20% - 50%	10%
2	15% - 35%	9%
3	15% - 35%	8%
4	15% - 35%	7%
5	15% - 35%	6%
6 – 10	5% - 30%	5%
10 and above	n/a	5%
Conservation ratio	60% - 80%	Over 90%



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