

Milliman Asia Rider Survey



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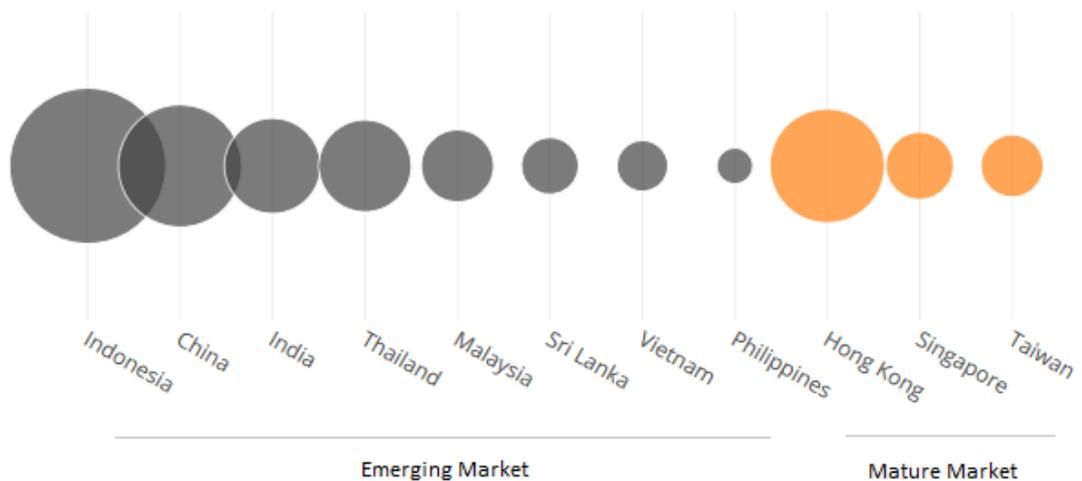


Introduction

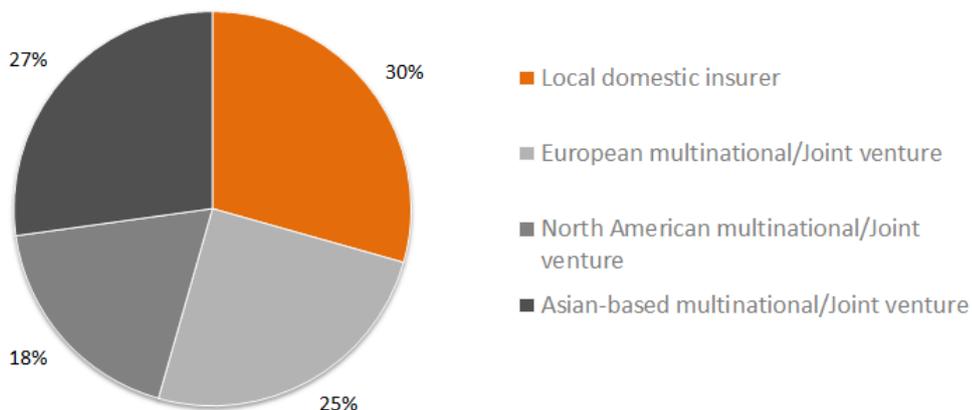
In November 2014, Milliman conducted an online survey of life insurance executives to gauge their views on the current and future rider landscape in Asia. We received 139 responses and would like to express our sincere thanks to those who took the time to participate in the survey.

The survey participants represent a diverse range of markets at different states of maturity, and cover companies with different ownership structures, as seen in the two charts below.

Both emerging markets and mature markets are well represented in the survey, with the most responses coming from Indonesia, China and Hong Kong, respectively. The size of the bubble is proportional to the number of respondents by country.



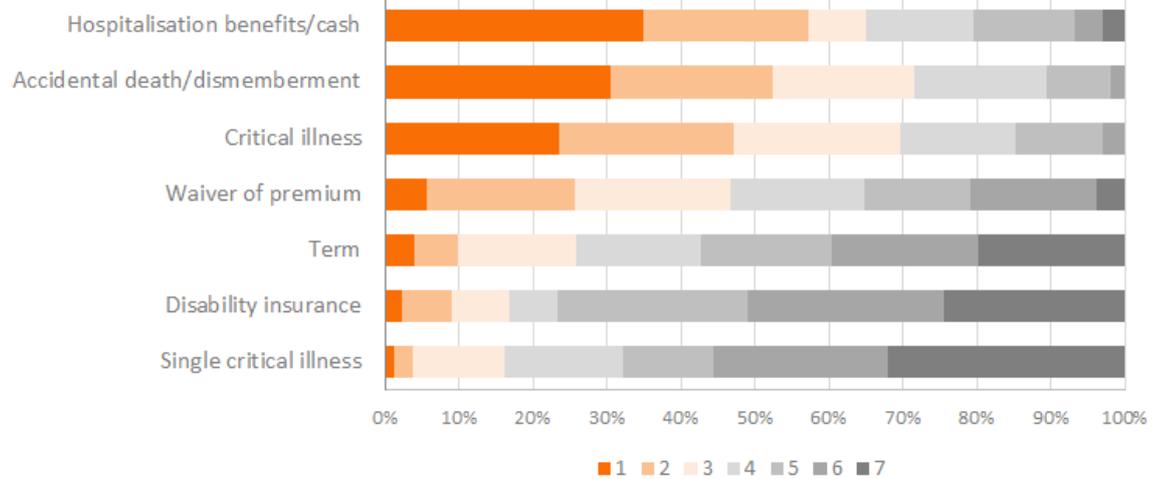
We received a mix of responses from local domestic insurers and European, North American and Asia-based multinationals/joint ventures.



The results of the survey are shown below, together with commentary on the key findings. We then follow with some considerations for achieving a sustainable rider growth strategy and concluding remarks.

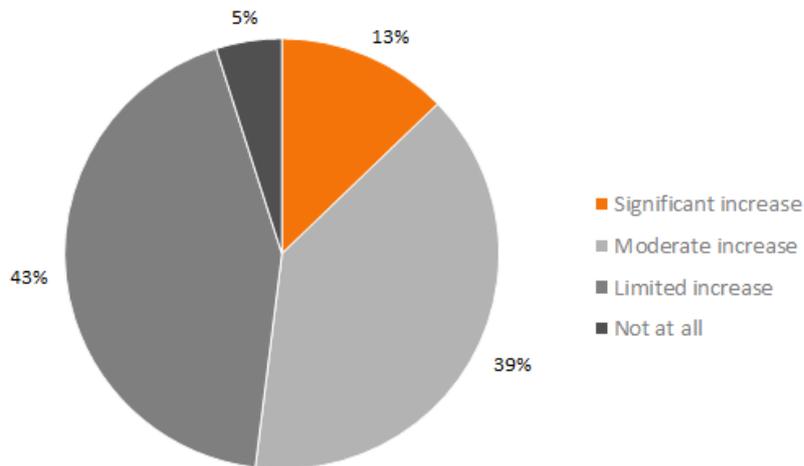
Results

1. Which riders are currently most popular (by volume of sales) in your market? Please rank them from highest to lowest. (1 = highest).



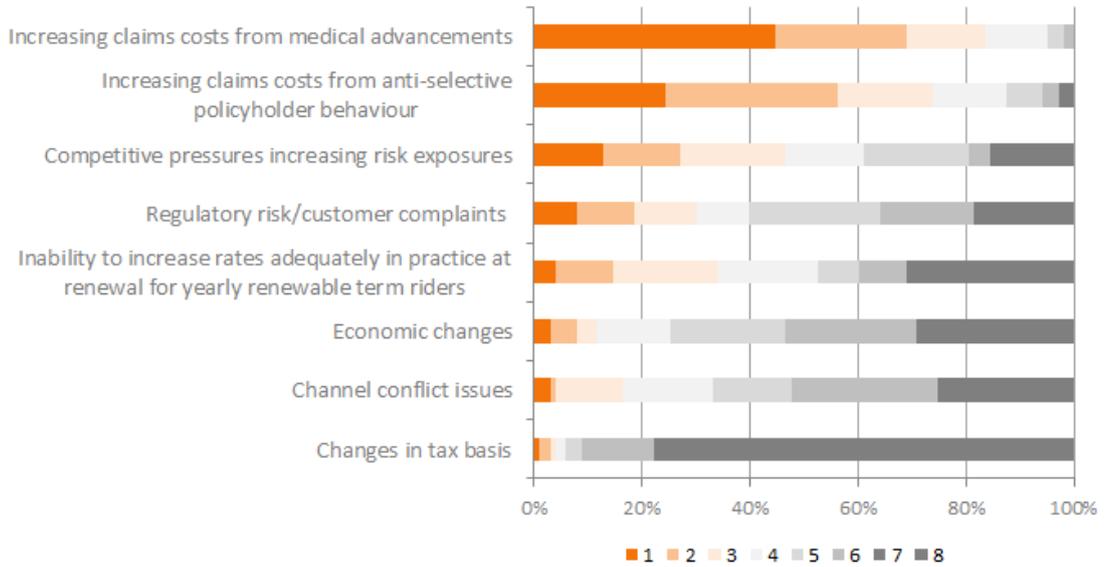
By a wide margin, hospitalisation benefits/cash, accidental death/dismemberment and critical illness are the most popular riders in Asia according to respondents. More than 65% of respondents operate in a market where one of these three rider categories dominates. At the other end of the spectrum, the sales volumes for term and disability insurance riders continue to be low.

2. To what extent do you think technology (i.e., Internet, mobile and social networks) will act as an enabler to increase rider penetration in your market over the next three years?



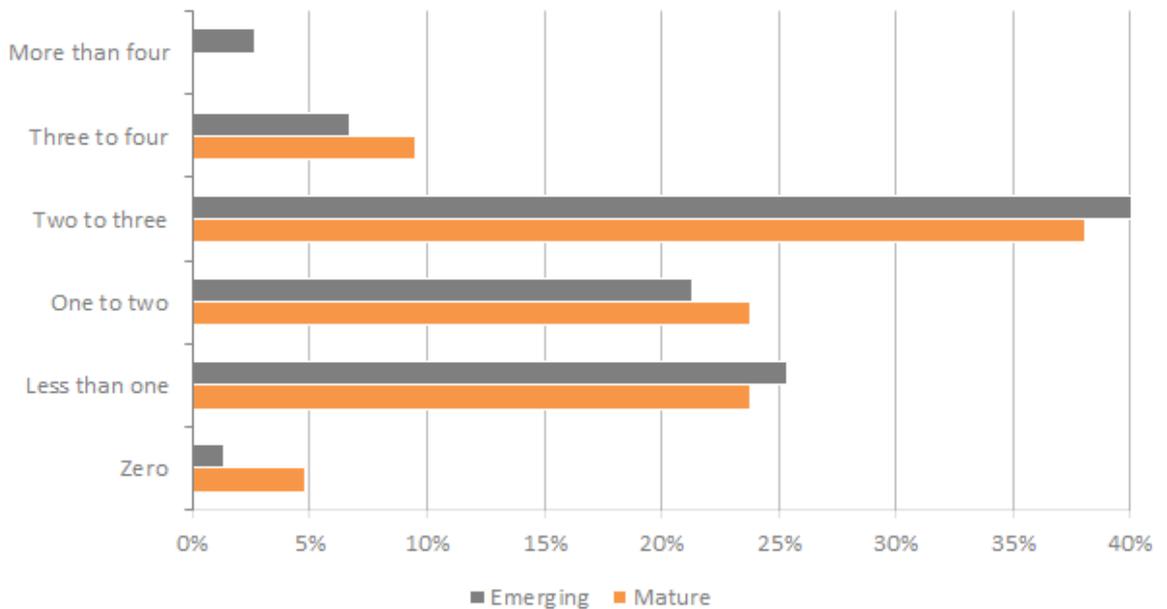
95% of respondents foresee technology increasing rider sales in the next three years. The majority expect either moderate or limited increases, while 13% anticipate substantial technology-driven growth.

3. What do you see as the key risks associated with selling riders in your market? Please rank them from highest to lowest. (1 = highest).



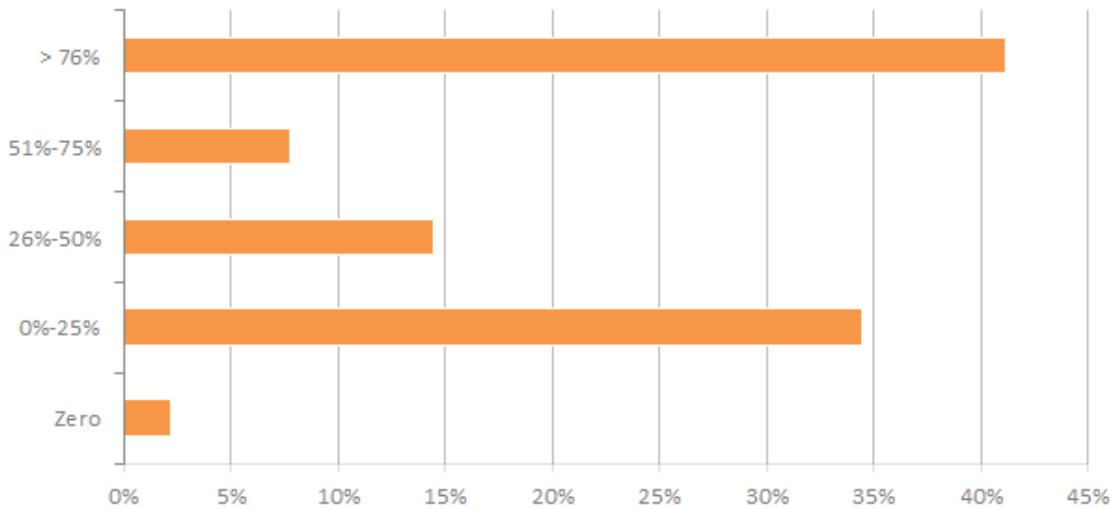
Increasing claim costs, either from medical advancements or from anti-selective policyholder behaviour, are seen by respondents as the leading risks, ahead of competitive pressures pushing up risk exposures. Perhaps unexpectedly, regulatory risk/customer complaints were considered to be less of a concern by respondents.

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



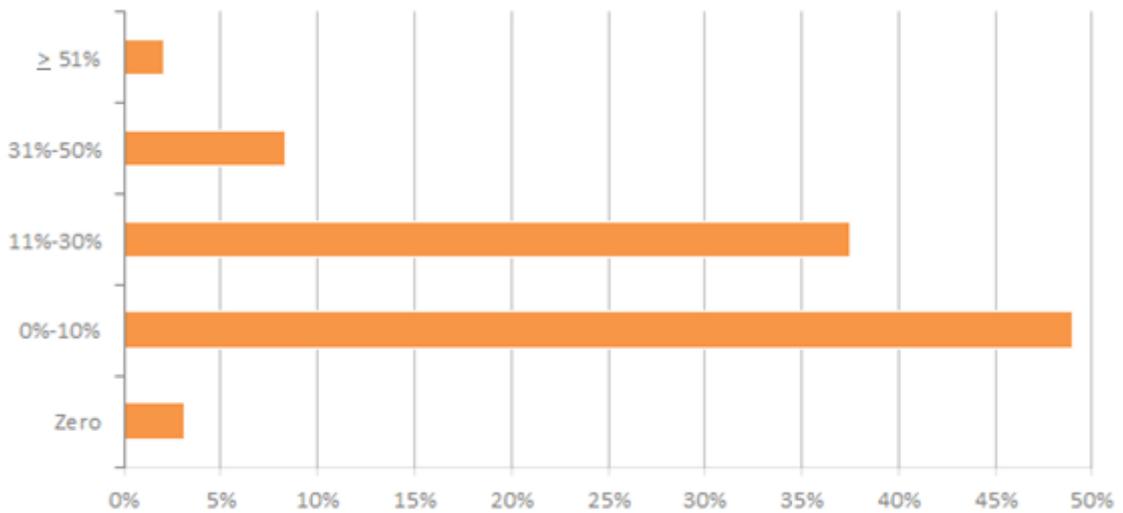
Around a quarter of respondents sell no riders or less than one rider per base policy. 70% of respondents sell more than one rider per base policy, with approximately 40% selling two to three riders on average. A small number of insurers are seeing considerable success attaching riders, selling three or more riders per base policy. The results also suggest that rider penetration is not highly dependent on the maturity of the market.

5. What proportion of your rider sales are made when the base policy is purchased (as opposed to being attached later)?



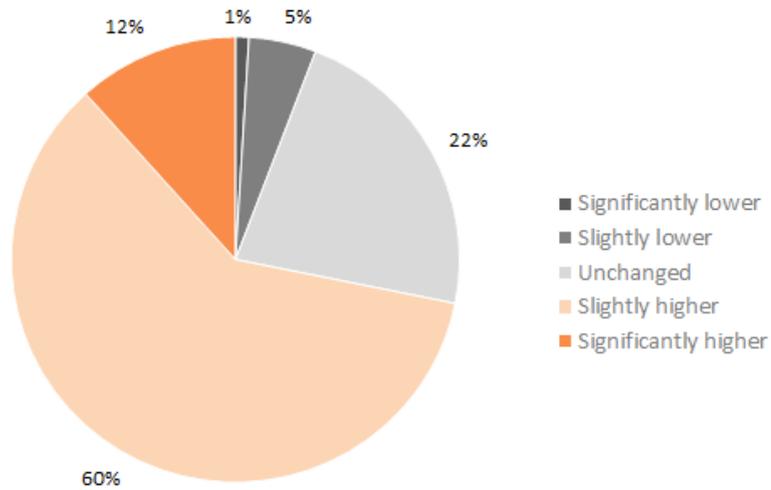
The majority of rider sales are made at the time of the purchase of the base contract. However, it is interesting to note that more than one-third of respondents indicated that 25% or less of their riders are purchased together with the base policy. This indicates that a sizable portion of companies are establishing effective processes to encourage rider sales after the base contract sale.

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



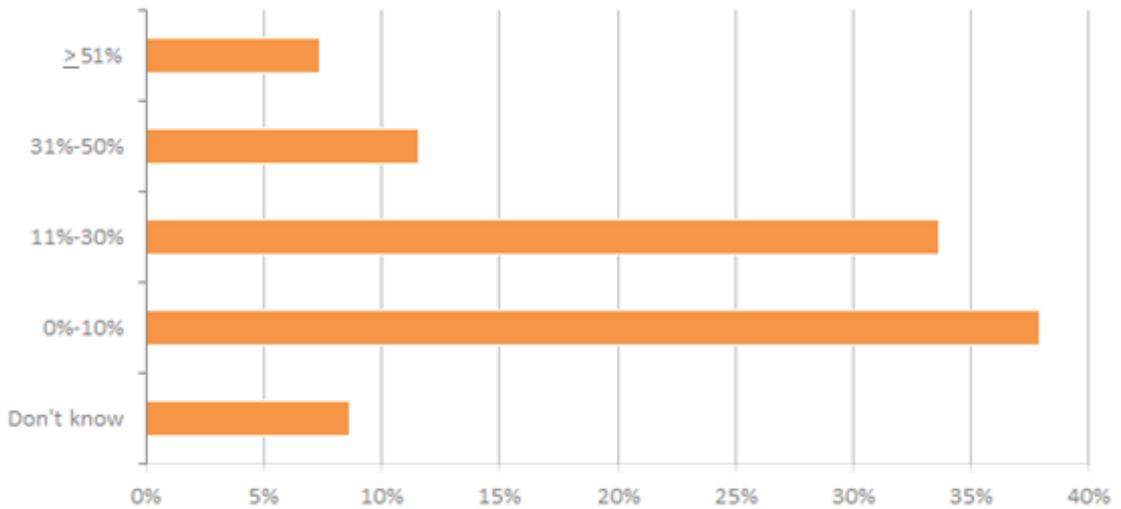
Rider premiums are not a significant source of revenue for the majority of respondents. Approximately half of the respondents said rider premiums account for 10% or less of their total new business premium, and only 10% indicated rider premiums account for more than 30% of their total new business premium.

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



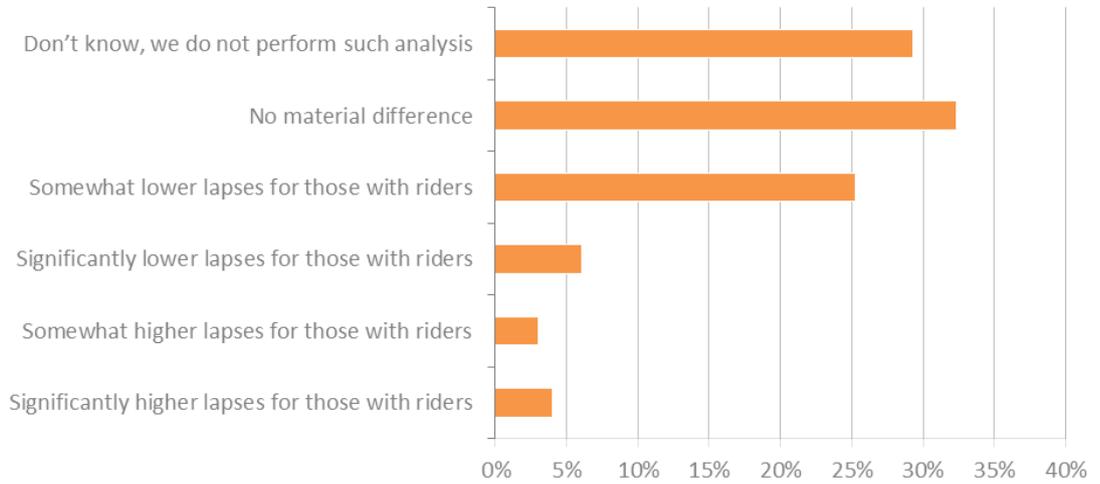
Over 70% of respondents expect rider sales to contribute a higher percentage of new business premiums in the future. Most foresee the increase will be moderate. Only 6% of respondents believe that rider sales will decrease in the next three years.

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



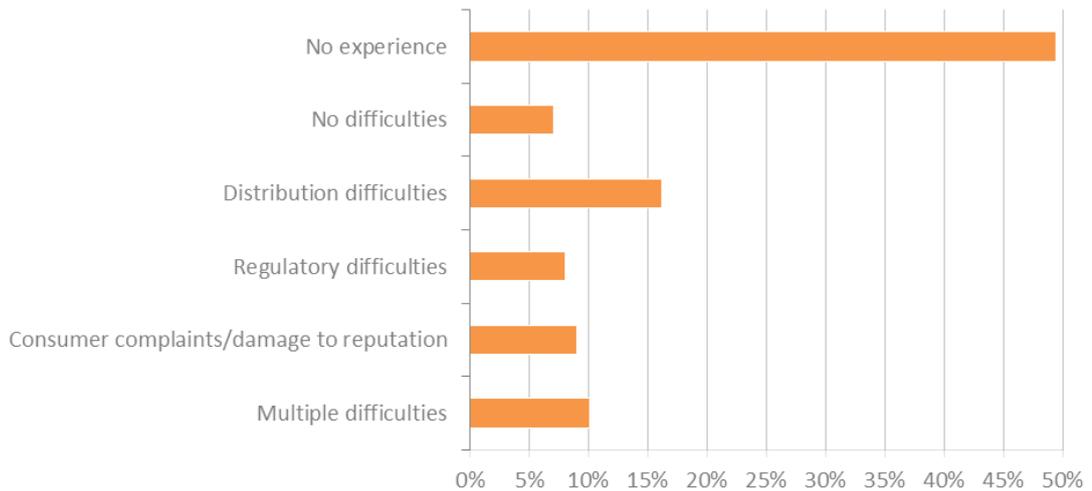
For around 20% of the respondents, riders contribute more than 30% of their new business value. This is in contrast to the answers to Question 6, where the new business premium contribution of riders is seen to be relatively low for many respondents. The results indicate that new business margins are riders are generally high compared with those of base contracts.

9. How has the lapsation behaviour of policyholders with riders been different from those without riders in your company?



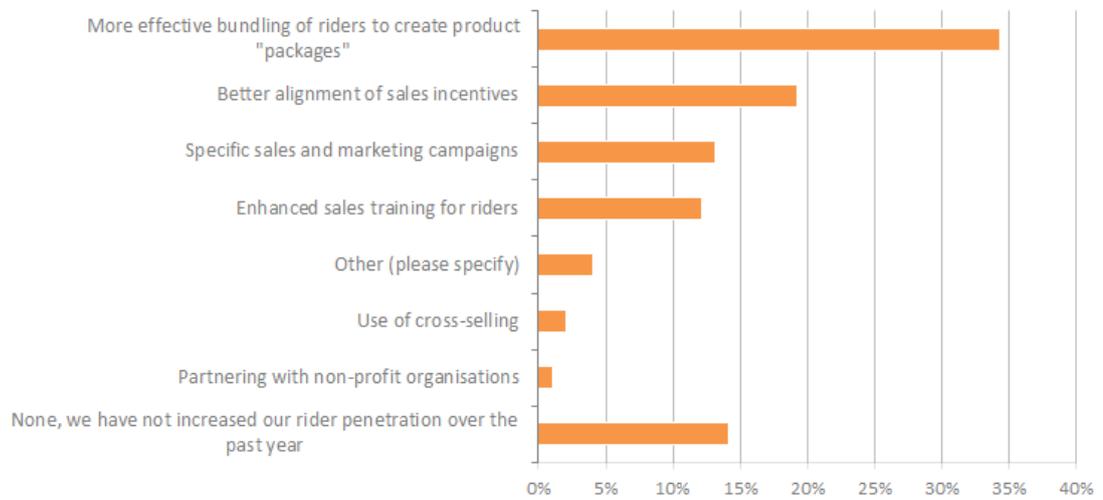
Approximately one-third of respondents either do not know or do not analyse the impact of rider attachment on base contract lapsation behaviour. This is somewhat surprising given that for those companies who have carried out this analysis, the attachment of riders was seen to affect the level of lapsation on the underlying base policy, sometimes significantly.

10. What has been your experience when increasing premium rates at renewal for YRT riders?



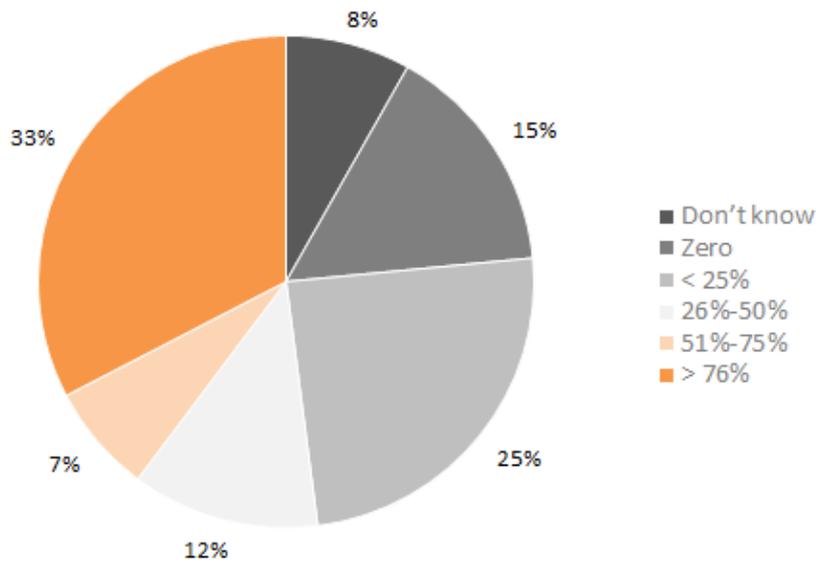
The survey results indicate there are relatively few instances where the process of increasing premium rates at renewal for YRT riders was smooth. The most prevalent difficulty was seen to be related to distribution, although several respondents encountered difficulties across a range of areas.

11. What was the single most effective action your company has undertaken to increase rider penetration over the past year?



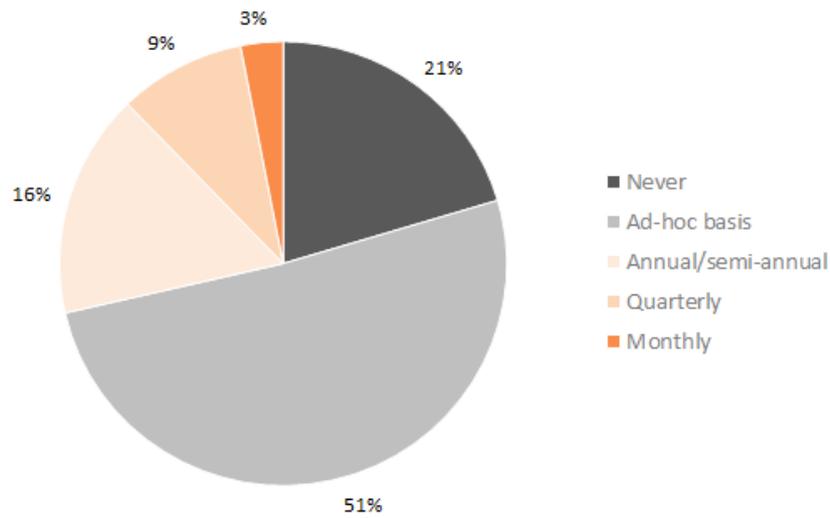
Effective bundling is seen as the most important success factor to increasing insurance penetration. Aligning sales incentives and structuring marketing campaigns are also key actions that have increased respondents' rider sales. When analysing correlations within the results, the latter two activities are seen to be highly correlated with expectations of increased sales of riders.

12. What proportion of your riders pay commission rates which follow the rates payable on the base policy (as opposed to having a separate commission scale for riders)?



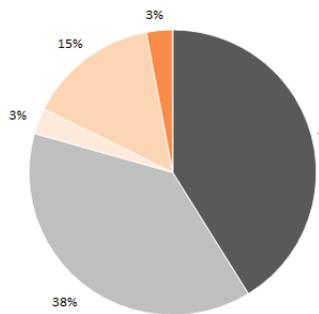
Most companies sell a mix of riders with identical commission rates as the base policy and with separate commission scales. Over half of respondents sold more riders with their own commission scale than those with commission rates following the base policy, although only 15% said they sold all their riders using separate commission rates to the base contract.

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

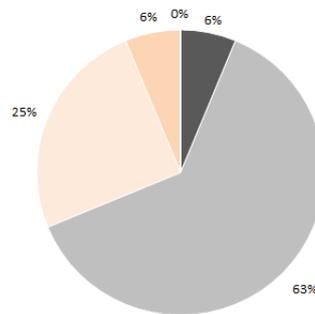


More than 70% of respondents either do not run regular rider marketing campaigns or any targeted campaigns promoting riders. This is surprising given the potential profitability boost that riders can provide. Deeper analysis of the results shows that regular marketing campaigns are highly correlated with the value of riders as a percentage of total new business (NB) value (see charts below).

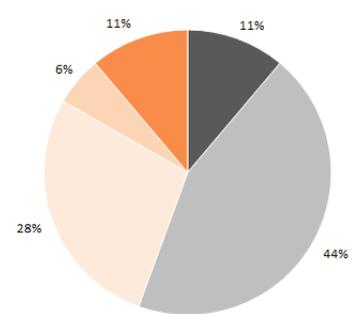
Riders Less Than 10% of Total NB Value



Riders 10%-30% of Total NB Value



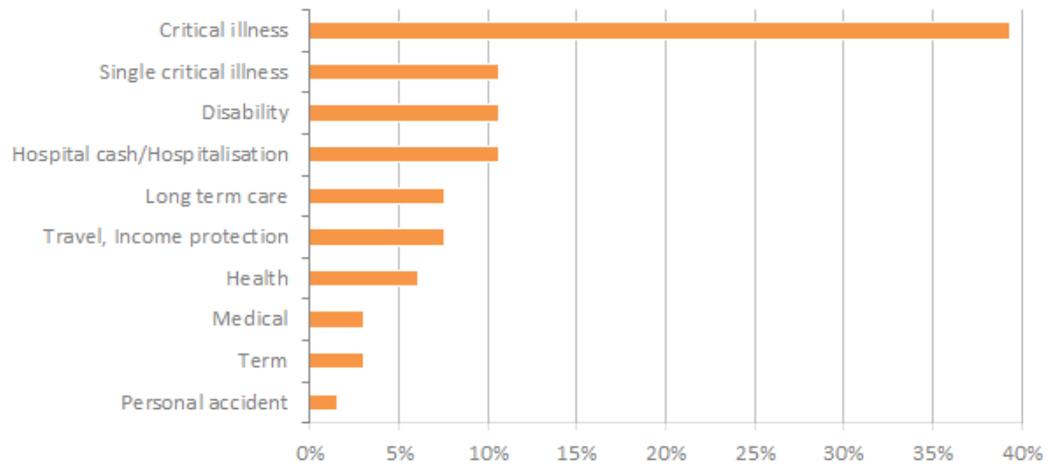
Riders More Than 30% of NB Value



■ Never ■ Ad-hoc basis ■ Annual/semi-annual ■ Quarterly ■ Monthly

The breakdown by rider new business value shows there is a distinct advantage to companies who carry out regular rider marketing campaigns. **Respondents with rider sales that account for more than 30% of their total new business value typically run regular campaigns.** Given that many respondents have indicated that riders are not a substantial portion of their new business, embarking on more structured marketing campaigns specifically targeting riders could prove to be a successful way to increase rider sales and enhance shareholder value.

14. Which rider do you think has the most untapped potential in your market over the next three years?



Critical illness is seen as the rider with the most untapped potential by a wide margin. Regardless of market, respondents believe critical illness riders have the most potential in the next three years. Many insurers in Asia have offered this coverage for a number of years, and it is already ranked as a “top 3” rider by respondents. However, the consensus amongst respondents is that there is room to expand this segment further.

Achieving a sustainable and profitable rider strategy

Protection riders have received increasing attention in Asia in recent years as companies seek to close the “protection gap” present in many markets and enhance profit margins in the process. The profitability of savings-based contracts continues to be squeezed across the region due to the persistent low fixed interest yield environment. Consequently, a significant number of insurers have turned more attention to selling riders to enhance overall profit margins. For some players in Asia, rider sales are already a key driver of total new business value. For many other companies, however, rider attachment rates remain low. For both sets of companies, we would argue that there is potential to achieve further sustainable growth. The survey provides some insights in this regard.

- *Structured rider marketing campaigns*

Many companies currently do not run any regular or scheduled marketing campaigns promoting riders. Among those who do, riders are a significant driver of value.

- *Alignment with distribution channels*

As with other product types, the distribution channel plays a central role in fostering sales growth and ensuring consumer satisfaction. Aligning sales incentives effectively in order to encourage what is often the sale of a small-ticket rider premium is a key element for increased rider penetration.

- *Meeting the critical illness demand*

The survey results highlight the attractiveness and further potential of critical illness riders. The uniformity of the positive responses and the perception of high growth potential are striking. The appeal to consumers is understandable, given that these riders provide a living benefit that typically pays out a significant lump sum component. The coverage also lends itself to some compelling marketing strategies. However, as discussed below, it will be important for critical illness writers to ensure that risk management processes keep pace with growth to avoid some of the challenges experienced in more developed markets.

- *Robust risk management*

Riders are at the stage of development in many markets in Asia where poor claims experience, legal disputes over claims and bad press can have a significant adverse impact. Although half of the respondents said they have no experience of increasing premiums at renewal for YRT riders, the other half has encountered difficulties with distribution channels, consumers or regulators, all of which can generate negative publicity and lead to reputational damage.

In contrast, the risks historically associated with offering riders on guarantees rates in markets with rapid medical advancements and growing consumer awareness have been well-publicised in countries such as South Korea and Taiwan.

Anti-selective behaviour is a key risk as markets gain maturity. In many cases, the sale of a rider does not involve additional underwriting and yet the rider is covering high-severity events where the policyholder can be knowledgeable about pre-existing conditions and family histories, thereby encouraging anti-selection. Some industry observers note the potential for increased anti-selective behaviour for critical illness coverages, as markets in Asia develop their medical infrastructure and consumers becomes more sophisticated.

Pricing riders can be challenging due to lack of data, and the perceived “backstop” of being able to raise premium rates at renewable for YRT riders, which is often more difficult to do in practice than may appear in theory. Even in more developed Asian markets, morbidity data can be dated or sparse. Due to the idiosyncrasies of different insured blocks, population data is often not representative, and expertise is needed to translate the information into credible pricing rates.

The survey also underscores the necessity of developing rider-specific experience studies and analysing the impact of riders on base policyholder behaviour. Policyholder behaviour and profit margins can vary substantially by risk class and distribution channel. It is important that insurers frequently monitor and analyse the emergence of trends. The attachment of a rider not only can inform about the behaviour of the base policyholder but also can influence it.

- *Leveraging predictive analytics*

Insurers are increasingly able to combine technology and data to improve pricing and underwriting and increase profitability for a wide range of products, including riders. Predictive analytics expertise can help identify the best-performing and worst-performing customer segments and distributors and provide insight on policyholder lapsation behaviour. Machine learning has been used to turn existing data from underwriting and pricing into actionable information in as little as three weeks. This can help companies refine and enhance their rider strategies in order to increase sales and optimise risk and return trade-offs.

Insurers in Asia have enormous incentive to draw lessons from other markets and build robust pricing processes and risk management frameworks to ensure that their rider growth is profitable and sustainable.

Conclusions

Riders are already an integral part of the product strategy for some of the most successful insurers in Asia, who see it as a fundamental component of helping to close the region’s widespread “protection gap”, increase customer loyalty and boost profitability. Given the demographic, social and economic forces of change in the region, it is expected that riders will continue to be a key success factor, arguably an increasing one, in driving shareholder value in the foreseeable future.

This leads on to some obvious questions for insurers in Asia to consider:

- How do riders fit within your existing product strategy?
- Are you employing best practices to grow your rider sales in an optimal fashion?
- Are you geared up to maximise the potential of data and technology to enhance your rider strategy?
- Are your risk management practices robust and able to cope with the changing risk dynamics and potential risk exposures as markets mature?
- Will regulators in Asia start to take a more critical view of the value for money provided to consumers from riders generating high profit margins for insurers?
- Based on the metrics in the survey, are you a market leader, a follower or a laggard?
- What are the top three things you need to do to accelerate your rider strategy in the next 12 months?

Against this backdrop, it may be a good time to revisit the product strategy in your company to ensure that you are as well positioned as possible to optimise the potential of riders.

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