



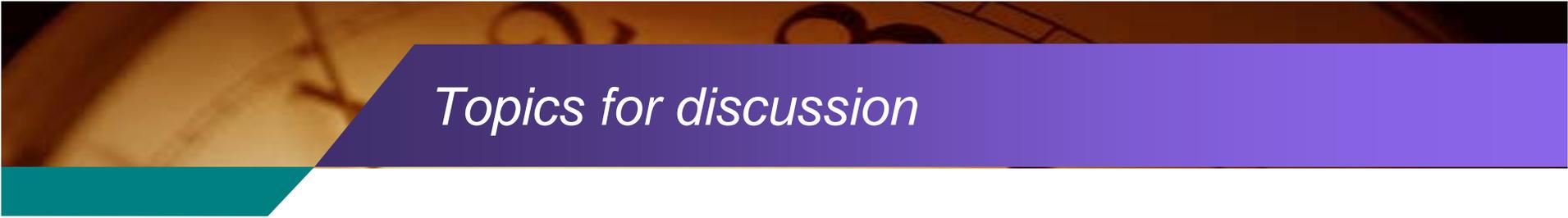
## ***C3: Concurrent Sessions on Life Insurance***

Round Table:  
Persistency, various facets and impacts  
Persistency – the case for best practice

***Waves of Reforms...Oceans of Opportunities***

***2013 AGFA & 15<sup>th</sup> Global Conference of Actuaries***

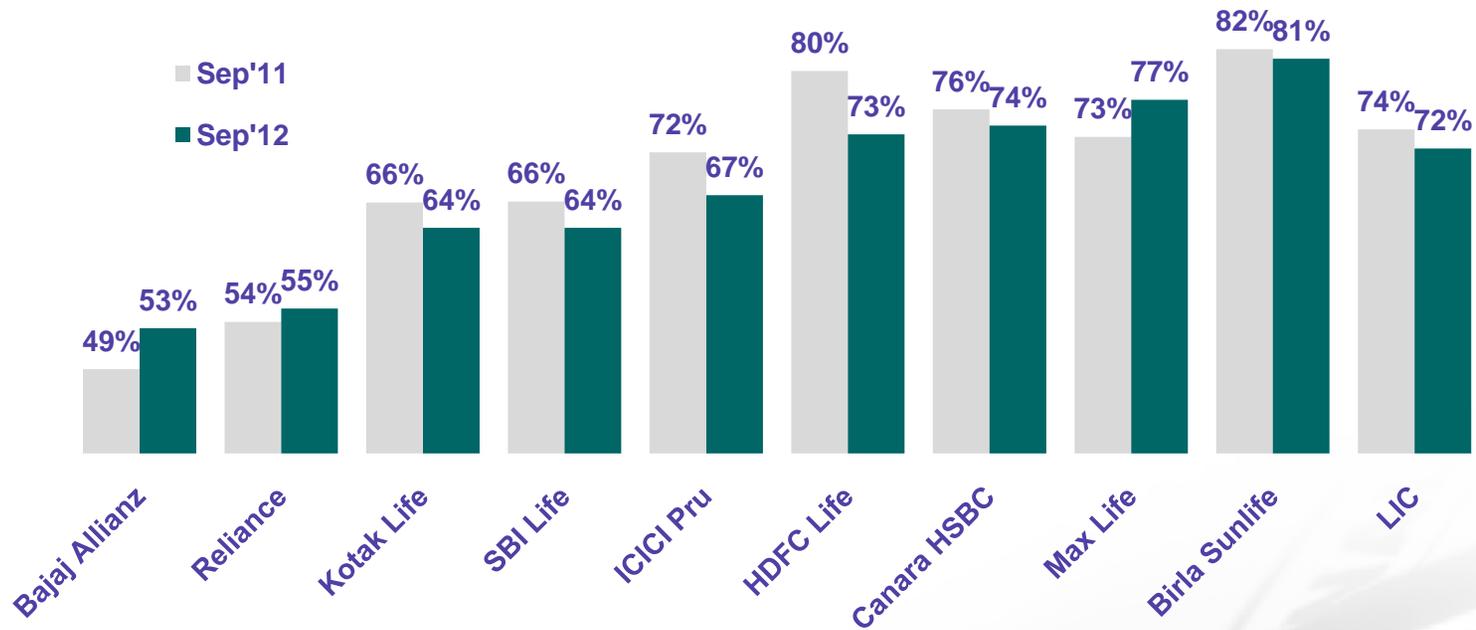
17<sup>th</sup> – 19<sup>th</sup> Feb, 2013 | Mumbai,  
India



## *Topics for discussion*

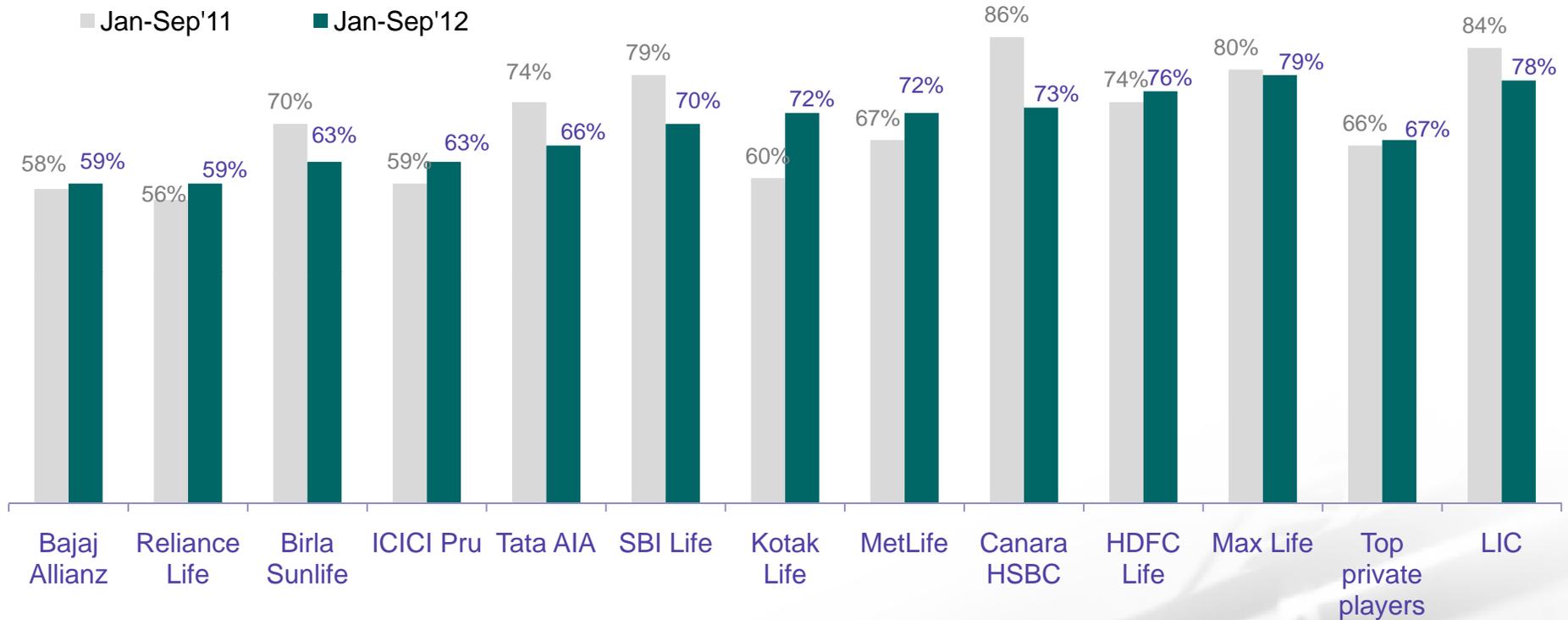
- What is a “normal” level of persistency?
- What are the root causes of lapse and surrender?
- What is the best practice to improve persistency?

## India – 13<sup>th</sup> month persistency



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

## India – Conservation ratio

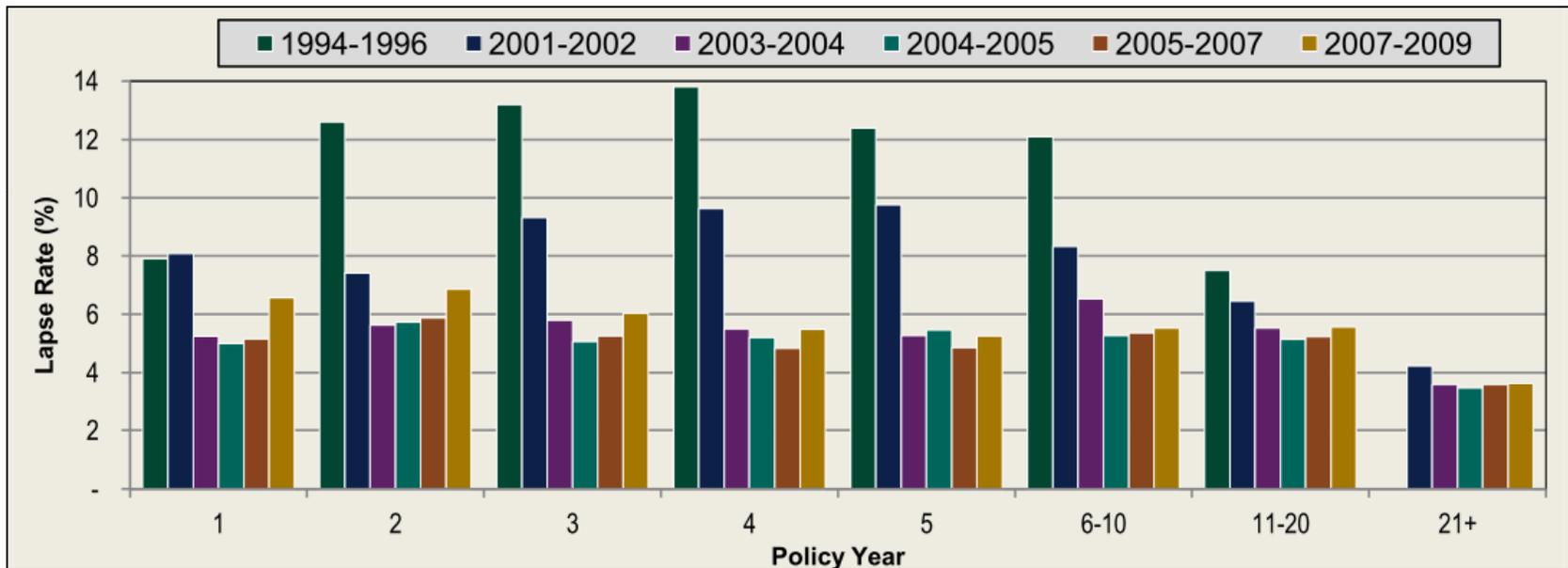


- Again, a wide range of persistency results between companies, from 60% to 80%.
- Mixed development over time.

*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

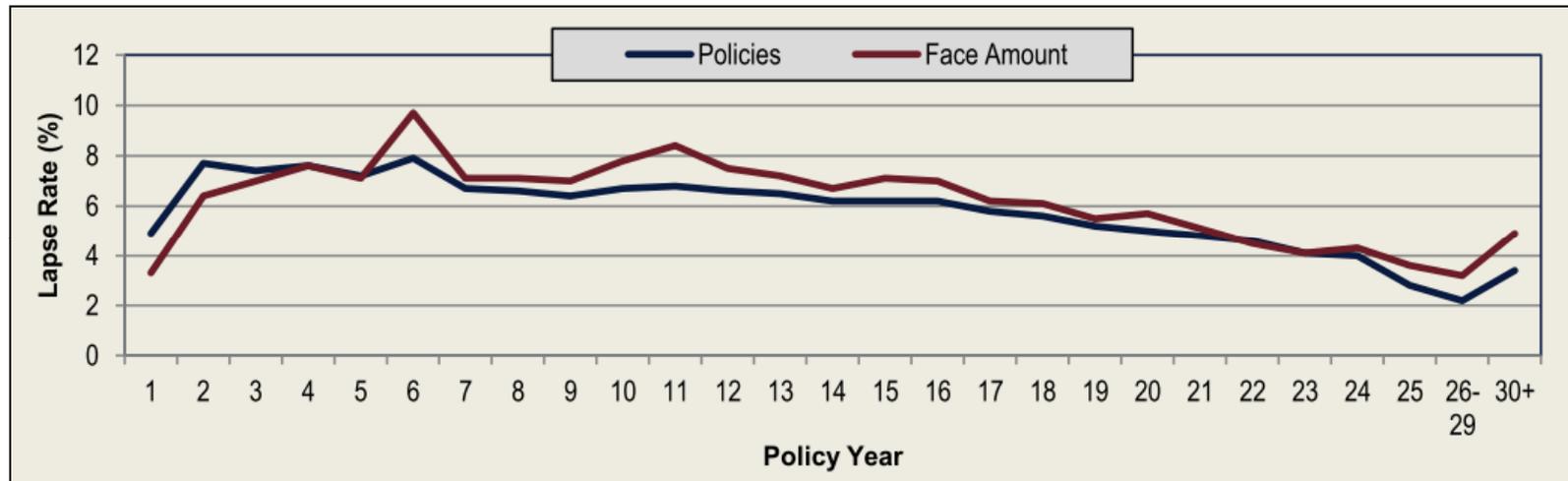


Source: U.S. Individual Life Insurance Persistency, Society of Actuaries and LIMRA, 2012

- 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)

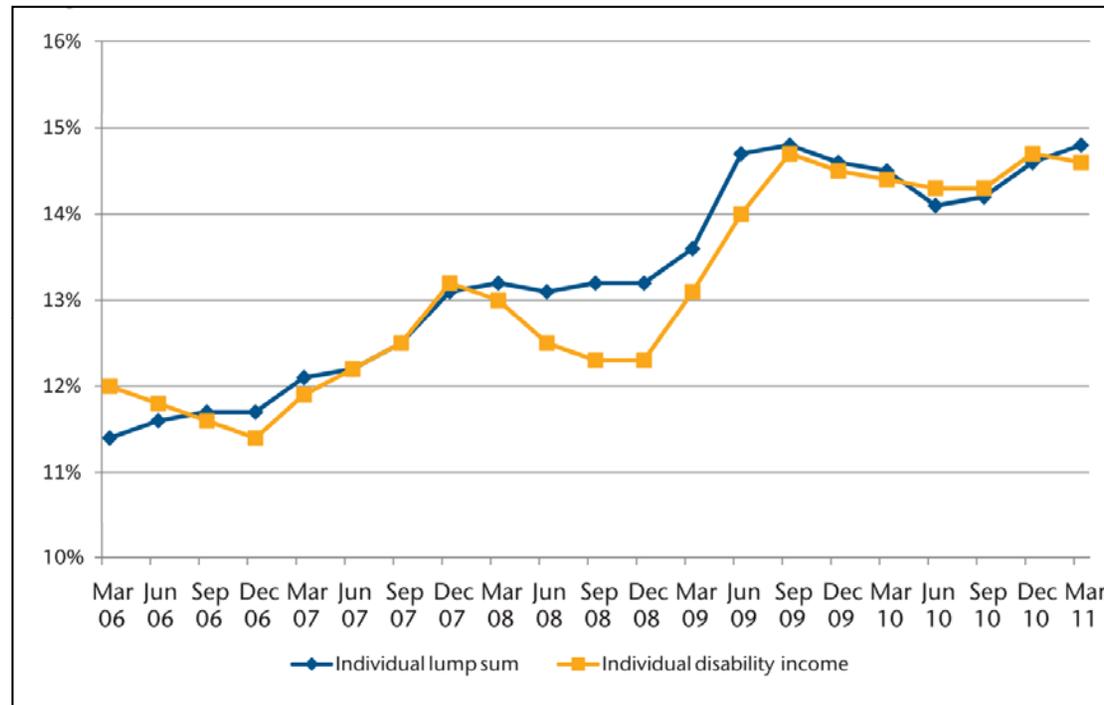


Source: U.S. Individual Life Insurance Persistency, Society of Actuaries and LIMRA, 2012

- 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

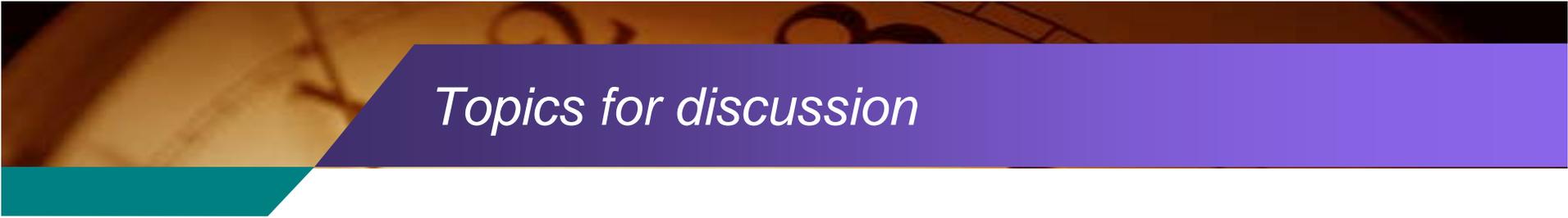
## Annual discontinuance rate



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

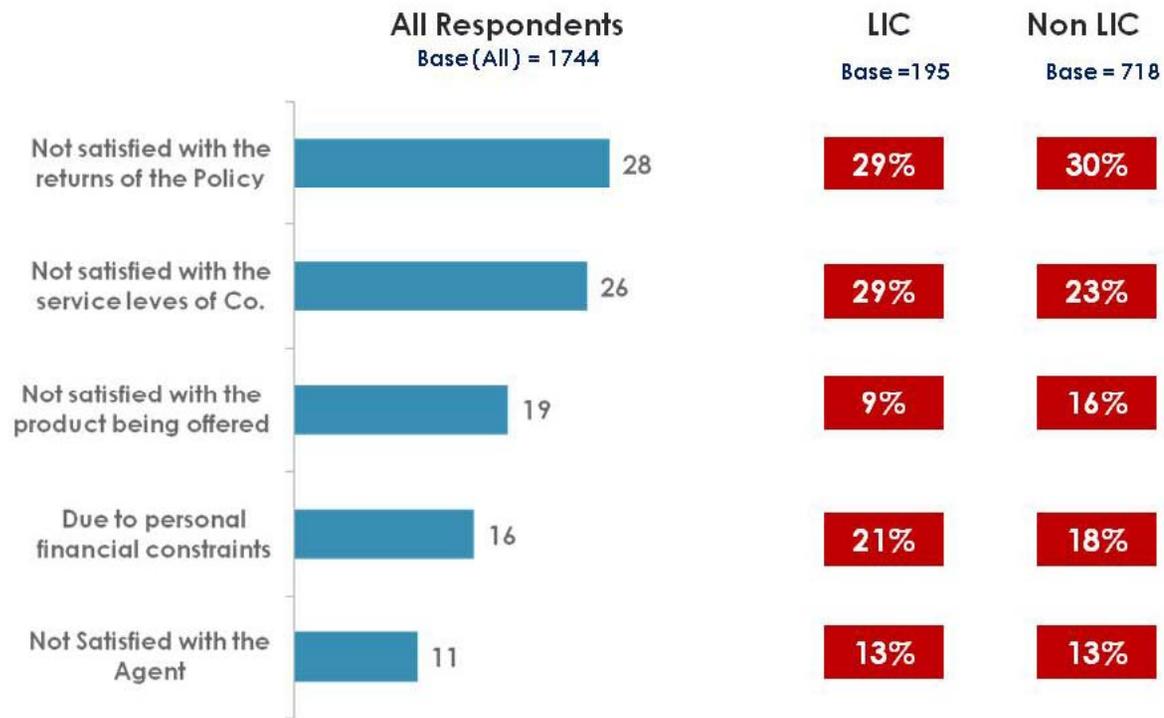
*Definition:* Terminations = (Inforce annual premium at start of period) - (Inforce Annual Premium at end of period) + (New Annual Premium over period)  
Termination Rate = Terminations / (Average Inforce Annual Premium over period)



## *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?
- What are the root causes of lapse and surrender?
- **What is the best practice to improve persistency?**



## *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%
<b>Conservation ratio</b>	60% - 80%	Over 90%



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