

Development of an Agency Sales Force

Challenges and Opportunities

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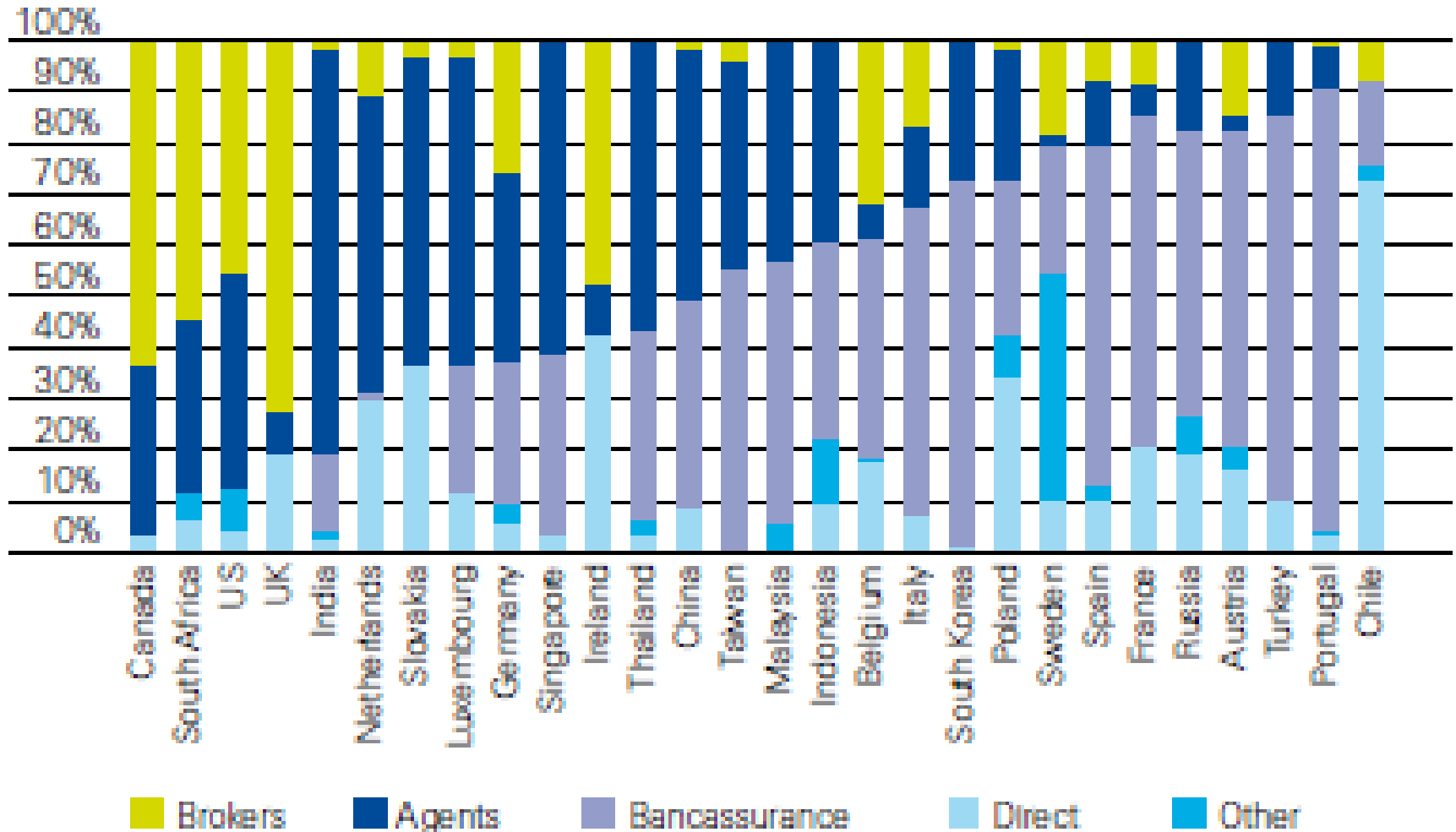
Distributing Life Insurance Products

- Group life products (primarily group insurance) , like other corporate insurance, are usually **bought** by the consumer
- Individual life products are, however, largely **sold**.
- This presentation deals with the challenges faced by insurers in setting up an Agency Sales Force and also the opportunities available which makes it worthwhile for insurers to meet these challenges.

The Changing Face of Life Insurance Distribution

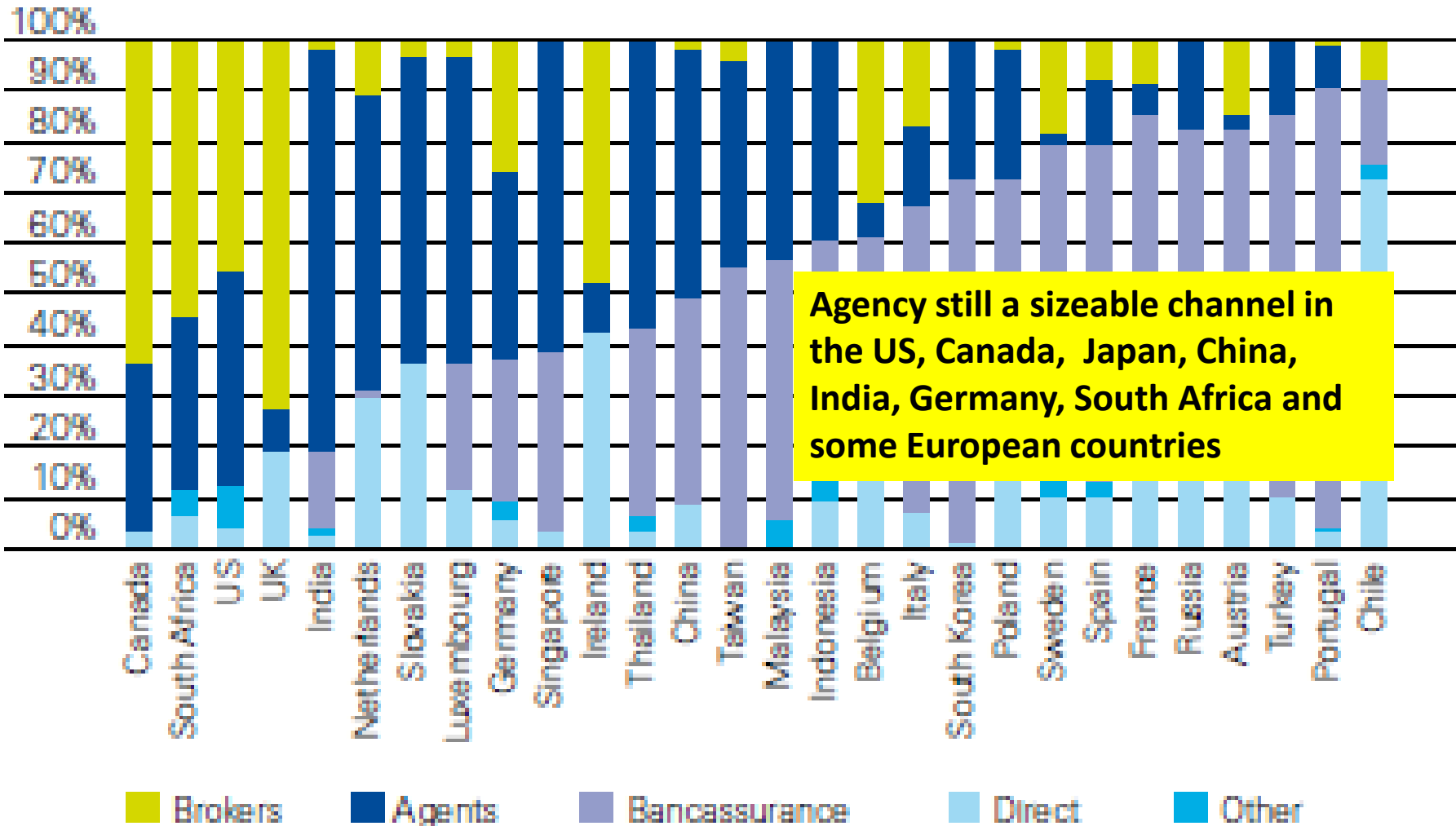
- **Life insurance distribution has changed significantly in recent times with third party distributors accounting for increasingly greater shares of policies sold:**
- **Today individual life products are sold through various channels:**
 - Banks (bancassurance)
 - Brokers and Independent Financial Advisors
 - Automated sales through the internet
 - Sales through other institutions with a customer base
- **The Agency sales force continues to play an important role in a number of countries – including the two largest life insurance markets in the world.**

Life Insurance Distribution



Life Insurance Distribution

(Source Sigma No.6/2013)



Agency – Still a Major Distribution Force

	US\$ Million	% of Global	Agency Proportion	Main Channel
United States	532,858	20.4%	41%	Ind. Agents : 49%
Japan	422,733	16.2%	68%	
United Kingdom	222,893	8.5%	<10%	Brokers/IFAs : 75%
France	160,156	6.1%	Minimal	Banc : > 60%
PR China	152,121	5.8%	>50%	
Italy	117,978	4.5%	Approx 15%	Banc : > 70%
Germany	114,349	4.4%	50%	
South Korea	91,204	3.5%	>25%	Banc : 60%
Top Eight	1,814,292	69.6%		
Other	793,799	30.4%		
Total (World)	2,608,091	100.0%		

In the Indian sub-continent Agency is still the primary mode of distributing individual life insurance products

Source: Figures from Sigma 3/2014. Proportions from various publications.

Agency Sales Force - Structure

- **Sales Agents** --usually compensated through commissions. although some insurers also provide a base salary
- **A number of management tiers**-- responsible for recruiting and managing the agents as well as providing field training
 - Compensation of managers is through “over-ride” commission on sales made through the agents they supervise as well as some fixed elements
 - Sometimes management tier personnel are also allowed to make direct sales

Agency Distribution – Opportunities and Challenges

Challenges

- Difficult to Create and Manage
- High Cost
- Commission Bias
- Regulation

Opportunities

- Ability to Control
 - Loyalty
 - Product Mix
 - Quality of Sale
 - Persistency
- Customer Focus and Loyalty
- Higher Costs Not Always True

Creating/Managing an Effective Agency Force

- An effective life insurance sales force operating within manageable costs is one of the most difficult entities to create.
- This stems from the effort which is needed to create an effective agent who needs to have :
 - The ability to sell
 - Good product knowledge
 - Have needs analysis/financial planning
- There is no short cut to recruiting and training a large number of individuals, only a few of whom will eventually end up as successful career agents

Creating/Managing an Effective Agency Force

- **Recruiting persons with the right aptitude and skills is key:**
 - Selling requires a positive attitude and the ability to communicate effectively
 - Some advocate the use of psychometric testing but this is not something which I have found to be effective
- **Training involves both “class-room” training as well as “on-the-job” training.**
 - Prospective agents must fully understand the needs which they are seeking to fulfill as well as the products which they are selling
 - They must also be shown how to sell in the field – this is absolutely key and something which is often missed out

Agency - Costs

- The costs associated with recruiting, training and managing all those who are recruited need to be eventually absorbed by the business sold by the few who succeed – hence an expensive process
- The effort in making a direct sale often requiring multiple client visits is considerably more than in making a sale at a bank branch or over the phone from a call centre
- Compensation of third party distributors is usually a proportion of premiums. An internal sales force usually has components of its compensation and administrative costs which are not variable but fixed, especially for supervisory staff.

Regulation

- **Unlike third party distributors agents are considered by regulations to be an extension of the insurer**
 - Hence the insurer is usually liable for all their acts including “promises” made
 - This is a huge responsibility given the large number of agents who usually work for a life insurer
- **Risks also exist in developed economies for agents’ acts which lead to selling inappropriate products (mis-selling).**
- **Insurers need to set up robust internal procedures to make sure that agents act properly and to supervise sales made by them (including calling back customers)**
- **Regulation has led to agencies in many developed economies largely disappearing (notably the UK)**

Opportunities

Control

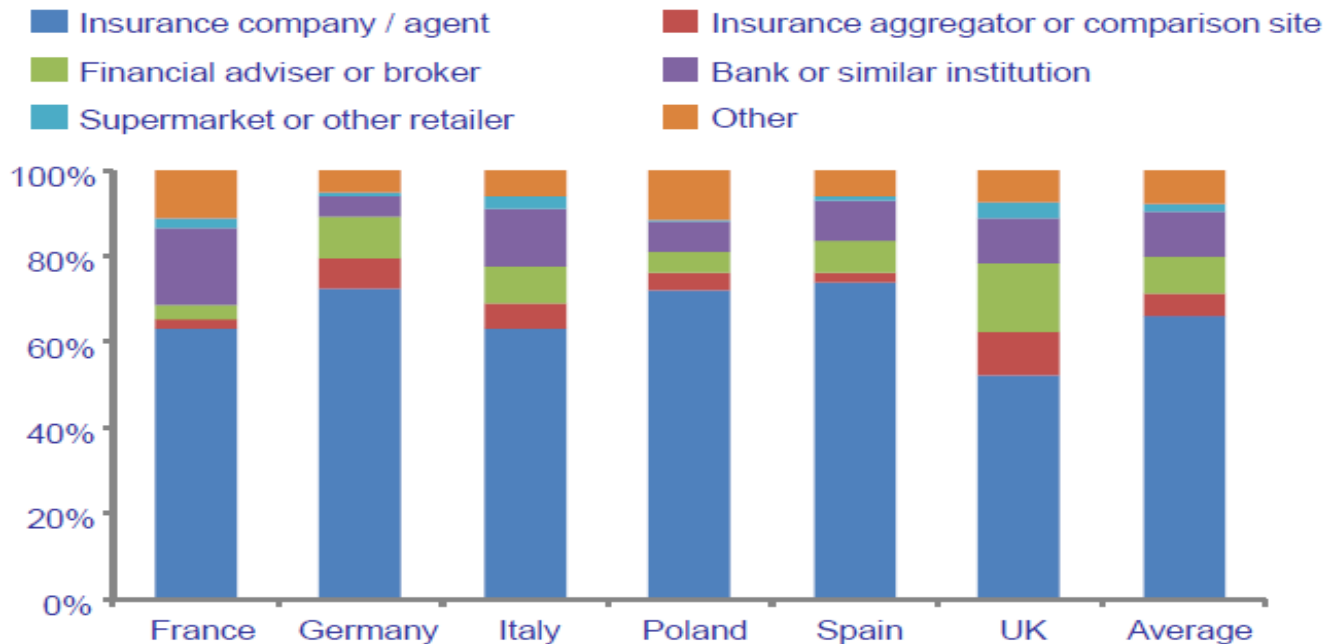
- **The main advantage of a sales force consisting of tied agents for an insurer as compared to other channels is that of control. This includes:**
 - **Loyalty-** Other channels such as banks can switch insurers when they feel like (except where banks are closely related).
 - **Control over product strategy**
 - Third party distributors often design their own products or choose products to sell from an insurers' portfolio
 - A direct agency force can be incentivized to sell products which is aligned with the insurer's strategy
 - **Control over quality of sales.**
 - **Control over persistency.**

Customer Focus and Loyalty

- **Other than IFAs third party distributors tend to focus on speed and efficiency of the sale**
 - Hence products are usually designed to ease the underwriting process as a result of which attention to the insurance need is compromised
 - Hence bancassurance and similar channels are more suited to sale of what are effectively savings products with limited insurance
- **Agents and IFAs on the other hand go through a more thorough assessment of client need. This is simply a function of the greater time and effort they spend trying to**
 - Understand their client's needs and package products according to this need
 - Follow up on the various requirements which a proper underwriting process associated with protection products
- **Sales through an Agency Sales Force fosters client loyalty towards the insurer itself rather than to any third party**

“Protection” Products Largely Sold by Agents

Consumer research: distribution channels used for protection-related life insurance



Source: Finaccord Life Protection Metrics reports

The above numbers (taken from a research report by Finaccord on European individual life sales) indicate that even in markets such as France and Italy dominated by bancassurance, protection products are largely sold by Agents

Higher Costs Not Always True

- **Although bancassurance developed originally in Europe as a low cost channel, in certain parts of the world (including some Gulf countries), costs have spiraled out of control, going as high as indemnity commissions of almost 200% for some protection products**
 - In Pakistan the regulator stepped in very early thereby controlling the phenomenon.
 - Even where costs are controlled the benefit of lower costs is often not passed on to policyholders.
- **Some of the cost savings emanating from bancassurance was from technology innovation leading to point of sales systems**
 - With further technology innovation such systems are being made available to agents as well – hence significant cost savings being achieved in the Agency channel as well

Conclusion

- Agency is, and will always remain, an important distribution channel for individual life products – especially for sophisticated products with a significant insurance element
- There are certainly significant challenges in setting up and maintaining an Agency Sales Force
 - **However the benefits and opportunities are such that no insurer can afford to ignore this channel**

Thank you!