

# The decline, or not, of the life agency channel in Asia



**Mr Simon Drimer** of **Pi Financial Services Intelligence** analyses his company's 2015 data for all companies across the 12 major Asian life insurance markets (excluding Japan) to summarise, at a market industry level, agent headcount size and growth in each market, followed by an assessment of other agency channel trends in four of those markets. He also seeks to validate the common assumptions around the decline (or not) of the agency channel in Asian markets.



**L**ife companies in most markets (all but India and Korea) are still recruiting at a greater rate than agents are leaving the industry (see Chart 1).

## Market review – Agent headcount

Let's look at each market in a little detail now, going from highest to lowest CAGR growth over the 7-year period.

**Vietnam** has seen CAGR of 28% over the past seven years, and +39% over 2015, with 405,000 life agents as at 31 December 2015. 45% of these agents belong to Prudential, which has been expanding rapidly, but most of the other companies have been as well. As with many of these developing markets, agents in Vietnam are what we might call "easy come easy go": costs to recruit, train and hold are relatively low, as are expectations, retention and performance, creating a vicious cycle.

**China**, now with 5.3 million life agents as at 31 December 2015, has had a CAGR of 23%, although around half

of the 2015 headcount growth rate of 52% was artificial: the CIRC removed a key licensing requirement for agents in the middle of the year, which had the effect of suddenly legitimising a massive cohort of agents who previously would have been deemed to be technically unlicensed and therefore not included in headcount. Unlike many of the Asian markets, the impact of foreign companies on industry performance, size and growth is negligible in China.

Indonesia has shown life agent headcount CAGR of 19%, now 441,000 agents, although headcount growth was a more modest 10% in 2015. It is not that the glory days are over; the lower 2015 growth rate seems to come from a pullback at Prudential (UK). The agency channel in Indonesia has always been driven by Prudential, because it has more than 50% of the agents in Indonesia, but in 2015 Prudential shrank headcount by 5%. Many other companies are still growing their agency channel, however. Indonesia is

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yet another “easy come easy go” agency channel market.

**The Philippines** has seen CAGR of 11%, but only +2% over 2015. Growing strongly were Prudential (UK) and AXA’s operations, netting out some significant shrinkage at AIA.

Hong Kong has had life agent headcount CAGR of 9%, quite high for a somewhat developed market. In 2015 headcount growth was 17%, driven off the growth in the Chinese mainland consumer market, which will possibly be shortlived. Prudential has also been expanding its agency force aggressively in Hong Kong: by 45% in 2015, and Prudential’s agency force now constitutes around 20% of the total number in the market. Our expectation is that headcount growth in Hong Kong will pull back to historical levels of ~10%.

In **Sri Lanka** agency headcount has grown at a CAGR of 9%. The market is dominated by local companies with apparently modest commercial aspirations, but there are now two foreign

companies in the market, including AIA, which are likely to spur on industry growth.

**Taiwan** has grown at a CAGR of 4%, unevenly distributed across market participants.

**Malaysia** has grown at a CAGR of 2%, and flat over 2015, although there are a number of very new foreign ventures in the market which may promote an influx of capacity.

In **Singapore** agent headcount CAGR is 1%, reflecting a competitively flat and static market. It is difficult to see the agency channel increasing in size in the future.

In **Thailand** agent headcount CAGR is 0%, and in fact numbers have de-

clined over the past few years. It is not clear why, although perhaps modeling Indonesia without the impact of Prudential (UK) might be a helpful comparison.

And finally we have two negative growth markets for agent headcount: India (-5% CAGR) and Korea (-4% CAGR). The regulatory environment, including around commission levels, is part of the reason for India’s agency channel decline, while in Korea, there has been a general trend away from agency and towards untied intermediaries, as you might find in quite a few of the more developed markets worldwide.

## Three high growth; three moderate growth; four flat or low growth and two negative growth

So we can sum up these 12 markets as follows: three high growth (China, Indonesia, Vietnam); three moderate growth (Hong Kong, Philippines, Sri Lanka); four flat or low growth (Malaysia, Singapore, Taiwan, Thailand); and two negative growth (India, Korea).

The diversity of experiences prevents an easy segmentation, but the levers seem to be around regulatory constraints, the competitive landscape, and cost of running an agency channel.

## Looking at revenue

Moving away from agent headcount, now, to the revenue picture. Is the channel in fact in decline?

We look at just four markets here (see Chart 2): Hong Kong, Indonesia, Singapore, Thailand (these being the four for which we could access the right type of data). And remember this is revenue only: agency will always punch above its weight in terms of value/profit, and on strategic factors such as controllability and malleability.

In two of these four markets, absolute agency channel New Business APE (local currency basis) has declined over the past few years: Indonesia and Singapore. Agency channel share of New Business APE has declined in

Chart 1: Industry agent headcount by market [Indexed to 2008 = 1]

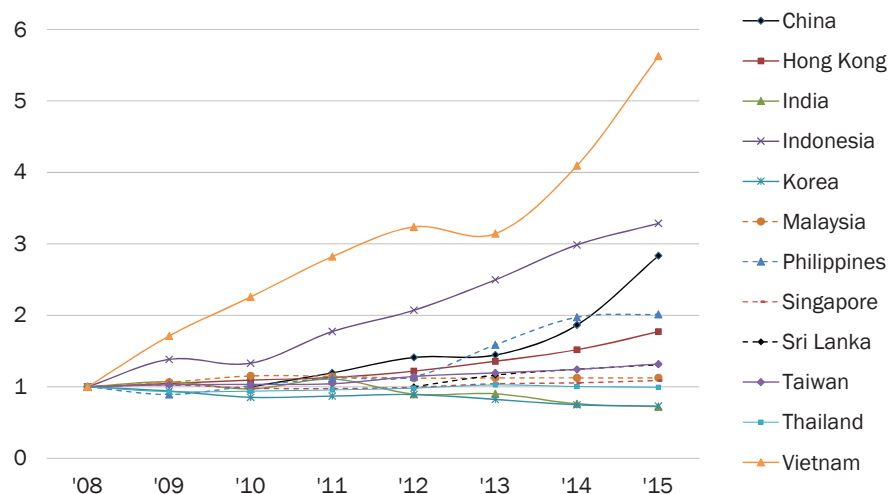
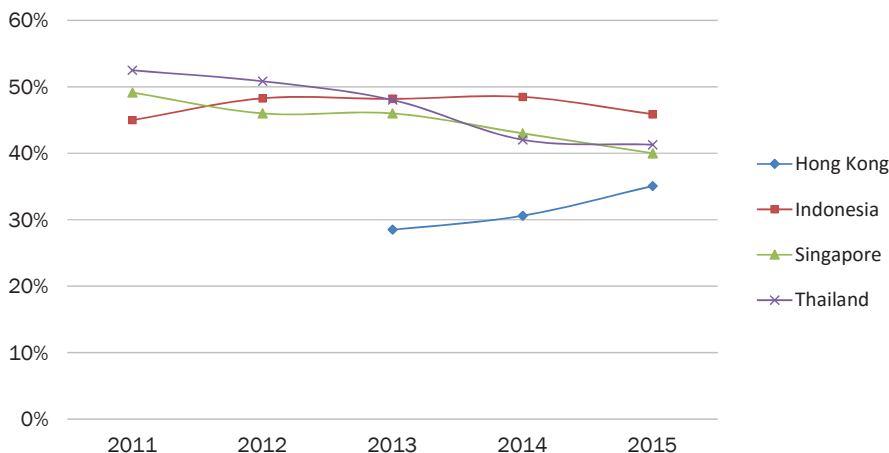


Chart 2: Agency NB APE as % of total



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three of them: Indonesia, Singapore and Thailand

The only market to show a channel share rise was Hong Kong, and this rise coincides with the growth in sales to mainland Chinese, which have been serviced largely through the agency channel.

For the remaining eight markets, which we have not analysed for this article, our estimate is that agency channel share of new business is likely to be flat or (more likely) slowly declining, to ultimately level off in the 35-45% range once bancassurance sales capacity has hit equilibrium (because it is bancassurance, mainly, that is picking up channel share).

A couple of markets – Malaysia, Vietnam – are outliers in that the decline will be more rapid since bancassurance is significantly underpenetrated currently.

## Agent productivity

And finally let's look at agent productivity. In our subset of four markets, and again indexing back to a point a few years ago (this time to 2011, to cut out most of the global financial crisis), we see that average agent New Business APE has risen in two markets (Hong Kong, Thailand) and declined in the other two (Indonesia, Singapore).

For developing markets like Indonesia and Thailand, there is considerable noise underneath such a productivity



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figure (presence of part time agents, dummy agents, high levels of inactive agents) meaning an “average agent productivity” measure becomes less meaningful, but for Singapore and Hong Kong, these trends will be important to consider in framing agent recruitment targets and activities: what is a company in Singapore to say to a potential agent recruit given this sort of evidence?

It will be interesting to see if in Hong Kong the mainland Chinese market evaporates, as the Chinese government wishes it to, and then whether Hong Kong agent productivity will start to decline as it has in Singapore. Alternative income sources for agents are becoming more and more important.■

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