All about agents

Mr Simon Drimer of **Pi Financial Services Intelligence** does a brief roundup of life insurance agency forces in India and China, drawing from Pi FSI's India and China Life Intermediary Monitors and Pan-Asia New Business Production & Productivity Report. He looks at size, growth, retention, productivity, activity ratios, experience levels, and agent licensing.

China and India have the two largest agency forces of any market across Asia and China's is also still growing rapidly.

China grew life insurance agent headcount by 19% to 2,156,350 at the end of 2011 (from end of 2010) and India grew by 14% to 3,118,601 at the end of 2011 (but is now shrinking). LIC has 50% of these agents in India, and China Life and Ping An Life combined have 47% of the Chinese life agency force.

Chart 1 shows that on regional benchmarks, the agency forces in those two markets still have plenty of scope to grow.

For India, however, IRDA's 2010 aggressive agency channel operational constraints (minimum policy persistency and productivity requirements for agents) are now working their way through the system, because India's overall 2011 growth became a 14% decline in the 12 months to 30 June 2012.

In China, several large companies are driving most of the headcount growth: China Pacific Life (38% net growth over 2011), Sino Life (87%), and even China Life (23%).

Agent productivity levels

Agent productivity across the industry in India was US$2,600 New Business (NB) Annualised Premium Earnings (APE) per agent for 2011, down from $4,200 in 2010, this decline largely a consequence of brakes on ULIP product sales as a result of IRDA commission caps.

LIC agents had an average productivity of $4,000 NB APE in 2011, and all other companies were below the industry average (since LIC constitutes more than half the industry's agency force). In China, agent productivity was $5,900 NB APE per agent for 2011, similar to 2010's figure.

In both markets, there was considerable diversity across the company range and, interestingly, multinationals like AIA and Prudential were generally third quartile performers against entrenched large domestic companies like Ping An Life, Taiping Life, LIC and SBI Life.

Activity ratios

But average agent productivity levels are less meaningful in markets where the proportion of active agents in the agency force is low. And China and India – particularly India – are two of those markets.

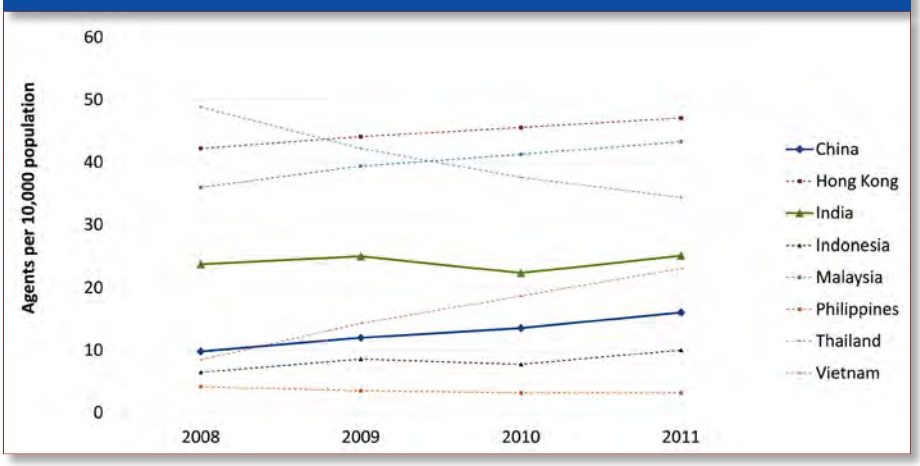
Market practice is that an agent is defined as "active" if he/she sold a policy that month, and the activity ratio is the percentage of agents in the agency force satisfying this requirement.

Many Asian developing markets' life insurance industries are plagued by very low activity ratios: for example, in India, Indonesia, Thailand, and Vietnam it is around 12-14%, in Malaysia around 30%, and in China somewhat higher at around 50%. In many cases these inactive agents – often part timers - may only sell one or two policies in a whole year.

Companies often ignore their inactive agents, and concentrate measurement and monitoring on their active agents. Therefore, to the extent that it is only the active agents who matter, average agent productivity levels are a little misleading, since they are more a statement on the company's activity ratio, than they are a statement on how much business the active agents are producing.

Mature markets like Hong Kong and Singapore have much higher activity ratios, since it is uneconomic for companies to continue to hold, and support, unproductive agents (compliance risk, training requirements, cost of office space, and so on). As these costs increase in the developing markets, we expect activity ratios to rise through sheer necessity.

Chart 1



Agent retention

Agent retention for 2011 in India and China was 70% and 53% respectively (ie the percentage of agents who were with the company at the beginning of the year, remaining at the end of the year).

The Indian retention rate is quite high, and simply reflects the fact that companies have not been bothered to terminate unproductive agents (that is now changing because of the IRDA agent regulations). For China, the figure reflects company efforts to terminate unproductive agents.

We can see the differences between India and China clearly when we analyse retention rates of particular agent cohorts. The retention rate of new agents (ie those agents who have been in the industry, and their company, less than one year) in India is 100%, whereas in China it is 41%.

In other words, new agents are not being terminated at all in India, but they are in China. Several companies had, and continue to have, very low new agent retention rates – Ping An Life, for example, which had a new agent retention rate of only 5% in 2011. Ping An is more rigorous in holding its agents to account, and this comes through in its market-leading agent productivity levels. This is really the Quality vs Quantity decision that companies must make.

The experienced agent (more than three years' industry experience) retention rates for China are also illuminating: across the industry, for 2011 the retention rate was 78%, with Ping An Life at the higher end with 85% and Sino Life at the other end with 20%. We believe that low experienced agent retention rates are a strong negative indicator.

Agent experience levels

Agent experience levels will impact the character of the agency force: newer agency forces are less productive, less stable, and produce business with lower policy persistency.

In growing, developing markets like China and India, where new agent recruitment levels are extremely high, overall agent experience levels are low. And for new entrants to these markets, such as DLF Pramerica and Edelweiss Tokio Life in India, unless they have poached heavily from competitors, their agency forces will be extremely inexperienced.

In India, the proportion of life agents with more than three years' industry experience was 36% as at 30 June 2012, while in China it was 32% (cf. Hong Kong, a relatively mature and slow-growing market, where the proportion is 63%). We see a very high correlation between each company's agency force experience levels and its average agent productivity: for example, in China, Ping An Life has 31% of its agents with more than three years' industry experience, compared to New China Life's 20%. The former has high agent productivity, the latter, much lower.

Agent licensing

Both India and China have an agent licensing system in place, managed and monitored by the IRDA and CIRC respectively. In both countries, agents can be licensed to one insurer only, and licences are valid for three years.

In India, a single IRDA licence is required; in China, two separate licences are required – a personal Qualification Certificate, which is issued by the CIRC and means the individual is deemed competent to sell insurance, and a Business Licence, which is issued by the insurance company and ties the individual agent to that company. Both licences need to be Valid (meaning current) for the agent to be operating legally.

In China in the recent past, agent licensing compliance has been lax, particularly by the large domestic life insurers. At the end of 2010, many of the large domestic companies had large numbers of non-compliant agents, representing around 37% of the size of their validly licensed agency forces. Since that time, the CIRC has clamped down on these licensing transgressions, and the non-compliance now represents, as of 30 June 2012, only about 12% of the validly licensed agency force across the industry.

It is now easier to monitor each company's true agency force headcount in the Chinese market, because whereas before, a number of listed domestic companies could stretch the definition of "agent" by including or excluding unlicensed agents to suit their own purposes (minimise agency force headcount to show high productivity, or maximise to show high growth), it is now much more difficult for them to do so.

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