

# InSights

## The Case for Term Insurance

*For most life insurers, the market for term insurance has been very limited. Where risk-only term insurance has been purchased, it has almost exclusively been in the arena of MRTA (Mortgage Reducing Term Assurance) or Credit Protection.*

That's because life insurance has been sold traditionally as savings and investment vehicles — making return of premium, endowment and whole of life insurance the dominant products sold by agency-driven life insurers over the past decades.

**Historically, the market for term insurance has been very limited. But as the market and consumers mature, the case for term insurance is growing**

One of the side effects of this bias toward savings and investment is that much of the market may well be underinsured as 'pure' protection products are undersold. However, just as we've seen in mature markets such as Australia, the UK and the US, the demand to separate protection from savings will continue to grow as consumers become better educated and more sophisticated.

In this scenario, consumers will begin to purchase 'pure' protection products against death, critical illness and accident. So instead of acquiring static policies such as whole of life offering very conservative cash value returns, consumers can invest their money independently in a tailor-made investment vehicle with better transparency and flexibility.

### A Question of Choice

With plenty of investment choices such as unit-linked, mutual funds, shares and derivatives flooding the market, each suited to an individual's appetite for investment risk, the challenge is to make a case for protection products with no investment factors.

So how can people be encouraged to accept 'pure' protection products?

In both emerging and maturing markets using the right distribution channel makes it easy to educate and win new customers. Research in emerging markets (such as China, India and most of the Central and Eastern European countries) shows that a new generation of educated and relatively wealthy customers aged under 40 are more inclined to separate the ties between their insurance needs and investment desires.

Easy-to-buy, simple protection insurance products that are high benefit and low cost will appeal more to this group. However, as protection products, especially term life, can be rather homogenous (highly comparable and competitive), the distribution channels required to market them successfully need to be efficient, cost-effective and able to capitalise on economies of scale.

### Product and Channel Synergy

So what is the appropriate distribution channel for simple, straightforward term products?

Marketing these kinds of products via the traditional agency route is not really suitable, as the current system produces a natural (and understandable) bias towards more traditional products. However, alternative distribution can support the agent intermediated sale in a cost-effective way to bring the much-needed term products to customers successfully.

Simple, effective marketing techniques to achieve this include direct mailing, statement marketing and, thanks to the development of e-commerce, consumer direct. Telemarketing will also be important, but due to its relatively high cost in terms of value created and possible discomfort for the agency channel, this should be used as a supplementary technique.

It should be noted that generating term life business in this way is not solely about acquiring new customers. Alternative distribution marketing offers more regular contact points, creates greater loyalty and produces more sales opportunities for agents in the future.

There are many other innovative ways to improve the penetration rate of term policies. Such opportunities include:

- Comprehensive use of term life riders to existing policyholders;
- Conversion of expiring endowment policies to term life;
- Conversion of lapsed whole of life to term life using only a fraction of the cash value;
- Extension of level term life to yearly renewable term (YRT) to reduce the extent of premium increase;
- Offering easy-to-buy, simple term products to consumers directly, thanks to the development of e-commerce.

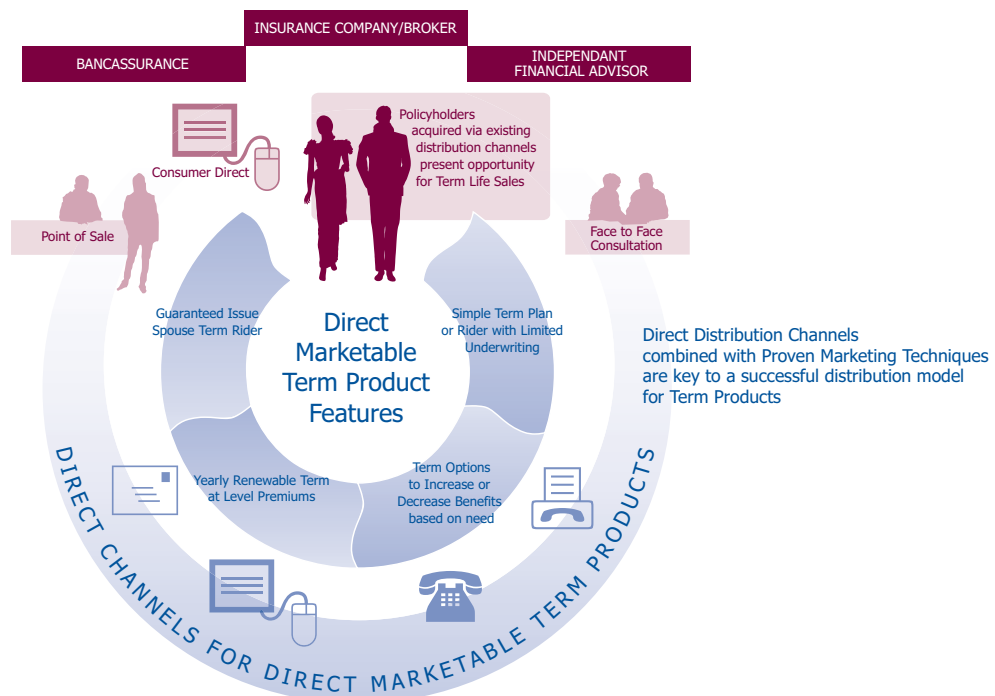
Alternative distribution can support the agent intermediated sale in a cost-effective way to bring much-needed term products to customers successfully

Currently, agents are limited to a product range that they are unwilling to upgrade due to time and cost restraints. Consequently, they neither provide increased value to customers nor do they receive increased value from customers, ultimately failing to meet customer demands and needs. The logical way forward is to cement relationships by using alternative distribution to benefit from repeat business and increased loyalty.

## Flexibility and Innovation

When investment elements are removed from product features, customers tend to demand a greater degree of flexibility on cover levels and premium payments. Adding innovative features to term products can help address customer needs by giving:

- A choice of level premium or YRT premium;
- A guaranteed issue of second policy upon marriage;
- Flexibility in the insured's ability to increase sum insured upon marriage and with the arrival of a new child, and to decrease sum insured when the need for insurance reduces;
- Easy-to-buy cover with a guaranteed issue or simplified underwriting requirement for target age groups of 25 to 45 and a main benefit level of US\$100,000 to US\$200,000;
- Low cost – preferably YRT premium structure – to minimise the cost of insurance for younger ages, when people need the most protection cover;
- Easy-to-pay premium.



With the right combination of customer base, product features, distribution model and techniques, a case can be made about the future success of term life sales.

# ReMark

## Maximum Value Creation

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Headquartered in Amsterdam, The Netherlands, and with 12 offices worldwide, ReMark focuses on maximum value creation for its global client base.

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