HK Life Insurance Market Intelligence

Benchmarks for Agency Channel Due Diligence

Pi Financial Services Intelligence
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We track the following companies' life insurance agency forces in HK, on a monthly basis:

- AIA
- AXA
- BOCG Life
- China Life
- China Taiping Life
- Chubb Life
- FTLife
- FWD Life
- Manulife
- MassMutual
- Metlife
- Prudential
- Sun Life
- Tahoe Life (Dah Sing Life)

Around 5-7 days after the close of each month we publish a distribution channel Monitor which contains detailed and highly accurate tied agency benchmarks on:

- agent headcount
- agent experience levels
- agent retention rates
- agent rookie recruitment rates
- agent poaching (to/from companies)

Non-agency channels such as bancassurance and multi-agency are also included in this Monitor, for all companies in the market (including those without agency forces, such as Cigna, HSBC Life, Zurich Life).

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Benchmarks for Due Diligence

Many of the benchmarks in our monthly distribution channel Monitor provide insight into the quality of each company's tied agency force, as well as size/growth, and are therefore useful for channel due diligence exercises:

- Agency force size & growth (10 years history) -> agency **size/growth**
- Agency force experience levels (industry tenure and also company tenure) -> **agent quality**
- Agent retention rates (overall and also for tenure sub-groups) -> **agent quality**
- Agent poaching history (both as target and beneficiary company) -> **indications of weakness/low morale in agency force**
- Rookie recruitment rates -> **agency growth**
- Agent productivity (NB revenue per agent) -> **agent quality**

On the following page is an example of a data set (relating to agent retention of the new-agent sub-group) that provides insight around company strategy and agency force quality of "Co. 2" (red line). This particular chart suggests that Co. 2 has been aggressively growing agent headcount with less regard for agent quality. In combination with other metrics, such as headcount growth rates, and retention rate of experienced agents, we can easily support this hypothesis.

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Retention Rate of <1yr (industry experience) Agents

Monthly Retention Rates, Jan '15 -> Dec '17

31 Jan '15   31 Dec '17

—— Co. 1   —— Co. 2   ——All companies in industry
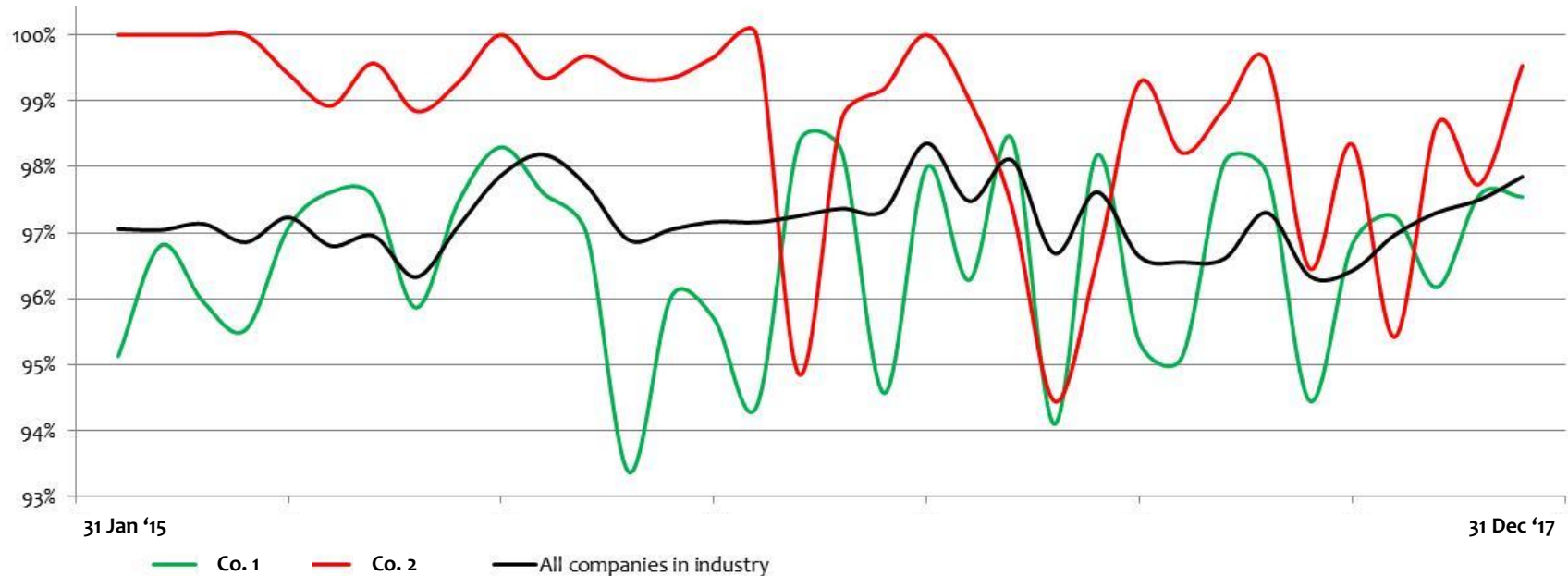
The chart shows 3 years of monthly retention rates for the new-agent sub-group (<1yr experience), for two companies in the market: **Co.1** (green line), usually lying below the industry average (black line) in the chart, and generally perceived to have the highest quality agency force in the industry , tightly controlling new agents and forcing non-performers out of the company; and **Co. 2** (red line), mostly lying well above the industry average in the chart, which has grown aggressively over the time period, allowing non-performers to stay with the company for the sake of headcount growth. These are the average retention rates from the chart above for Co.1, Co.2, and the HK industry generally:

	Average mthly rate	Equiv. yrly rate
Co. 1	96.6%	58.9%
Co. 2	98.7%	84.4%
All companies in HK	97.2%	66.2%

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Analysing Retention Rates

High agent retention not always a positive
Generally speaking, higher agent retention rates are better than lower agent retention rates. However, this rule becomes more nuanced in respect of particular tenure groups: it is NOT usually desirable to have a high (relative to the industry) retention rate for new agents, because many new agents will not be suitable and should be removed. For new agents the retention rate should not be too low either: it should be "just right".

High new agent retention rates = lower quality agency force
On the previous page the industry annual retention rate for new agents is 66% over the 3 year time period shown. Co. 1, for all intents and purposes having the highest quality agency force in the industry and validating new agents at an appropriate level, has an annual retention rate of 59%, so slightly lower than the industry average. Co. 2, meanwhile, which has a much lower quality agency force (an assessment we can support with a number of other benchmarks), has a new agent retention rate of 84%, significantly higher than even the industry average. In other words Co. 1's attrition rate is three times that of Co. 2 (41% vs. 16%), and will dramatically impact the relative quality of each company's agency force.

We see these high new-agent retention rates in many companies in HK and other markets where the strategic imperative has been to grow the agency force rapidly at the expense of quality. There is nothing wrong with this approach per se – but you do not end up with a high quality/high productivity agency force.

But high experienced agent retention rates = higher quality agency force
Note that if we move the focus to experienced agents (e.g. 6yrs+ industry tenure), then the opposite applies: high retention rates are almost always a positive, and indicative of high agency force quality. This is why it is important to examine retention rates of the agent sub-groups, and not just overall retention across the agency force.

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