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RISK INSIGHTS®

Web Aggregator and Direct Purchase – The Singapore Experience

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In a bid to raise professionalism and the standards of the financial advisory (FA) industry in Singapore, the Monetary Authority of Singapore (MAS) initiated an ongoing review of the regulatory framework for financial advisers in March 2012. Coined as FAIR (Financial Advisory Industry Review), one of its objectives is to enhance market efficiency in the distribution of life insurance and investment products in the country. FAIR also aims to create a more competitive environment for insurers and enable consumers to make informed decisions when purchasing protection.

The FAIR initiative has five key goals:

- Increase the competence of financial advisory representatives
- Raise the quality of financial advisory firms
- Make financial advice a dedicated service
- Lower distribution costs of insurance products
- Promote a culture of fair dealing

In order to achieve the objectives of lowering distribution costs of insurance products, as well as promoting a culture of fair dealing, the industry set up a web aggregator where customers are able to compare premiums across similar products offered by the industry, with the option to purchase directly from an insurer without going through an intermediary. Offering customers more choice through portals like this has proved a success in mature insurance markets like the US, Australia, UK and other countries in Europe. Given that Singapore is one of the most mature markets in Asia, it is no surprise that a similar solution has been adopted here.

COMPAREFIRST

The web aggregator, COMPAREFIRST, was launched in April 2015 after extensive deliberation and discussions with industry stakeholders and consumer groups, ensuring that the interests of both groups would be taken into consideration.[1] To enable fair premium comparison and provide consumers with wider options of protection products, the MAS introduced a new line of basic insurance products

Contents

About This Newsletter

Risk Insights is a technical publication produced four times a year by Gen Re for life and health insurance executives worldwide. Articles focus on actuarial, underwriting, claims, medical and risk management issues. Products receiving emphasis include life, health, disability income, long term care and critical illness insurance.

that consumers could buy directly from insurers without advice from an intermediary, and so avoid commission payments. This range of basic products, termed as Direct Purchase Insurance (DPI) products, along with features of other investment products is made available on COMPAREFIRST where consumers can check premiums and features of products offered by all fully licensed insurers.

The aggregator and DPI products are the result of collaboration by the MAS, the Life Insurance Association of Singapore (LIA), the Consumers Association of Singapore (CASE) and MoneySENSE, a government-led financial education programme.[2]

Direct purchase insurance

DPI products have a simple design with few options. Basic Term Life and Whole of Life protection products are available under the DPI label, each with an option to attach a Critical Illness rider. Both types include Total and Permanent Disability cover commonly seen in many non-DPI plans already on offer.

There is a cap on the maximum coverage an individual may purchase. An individual may buy DPI cover up to SGD 400,000* from each insurer, with a sub-limit of SGD 200,000 for Whole Life DPI. The features of DPI products are specified by the MAS. This helps safeguard the interests of consumers in the absence of financial advice.

The attachable Critical Illness rider accelerates the benefits of the basic plan. This typically covers 30 of the standard 36 conditions for which the industry has standardised definitions. Only severe Critical Illness claims are covered under this rider, and not the more complex staged benefits the industry has already been offering in recent years.

Reaction and response

By end of first quarter 2016, the web aggregator and DPI had almost completed its first year of introduction in Singapore. Yet despite the initial fanfare and publicity, response from consumers remained lukewarm. Total weighted premiums from DPI products since its launch on 7 April 2015 reached only SGD 730,000, with a total of 855 policies purchased by the end of March 2016.[3] This represents less than 0.1% of total number of policies sold in the market and 0.002% of total premiums collected during the same period.

The slow take-up could be attributed to the fact that just one insurer currently allows customers to buy direct, without a human-to-human interaction. Consumers interested in purchasing a DPI policy from other companies are forced to contact the relevant customer service office. This additional step creates a hurdle for customers who prefer an online purchase, and deviates from an immediate seamless solution, which one would expect in today's sales pattern and purchasing capability.

Manouvering through the comparison website is also not as easy as one would assume. Despite the simplicity of the products on offer, consumers are still inundated with technical terms, such as renewability feature, convertibility feature, sum assured multiplier feature, cash coupons and so forth, which can overwhelm a layperson unfamiliar with insurance terms. Unless an individual has the time and interest to research these terms and any impact on the product purchased, one may give up trying to obtain a cover independently. This also raises the question whether a life insurance product is suitable to be sold without an intermediary, and if a direct purchase approach can be achieved considering the numerous intricacies the offerings entail. With the many considerations surrounding types of cover, level of sum assured required, premium paying options, underlying product value and projection of the build-up of cash value in a low interest rate environment, it is no mean feat to obtain complete understanding without professional advice.

With features of DPI products made largely similar, one would expect that the price tag would not differ too widely between insurers. However, this is certainly not the case. For example, a 38-year-old male non-smoker who would like to purchase a DPI Whole Life product with attaching Critical Illness rider, of sum assured SGD 200,000 and premium paying term of up to 70 years old, could expect to pay annual premium between SGD 4,528 to SGD 6,850. This is a huge 51% difference in price, and when multiplied over 31 years adds up to close to SGD 72,000.

Even a simple Term Life policy has a price differential between SGD 352 to SGD 611 in annual premium for this same customer depending on the insurer. This is a difference of more than 73% in annual premium. It is difficult for consumers to comprehend the huge difference in premium between insurers offering the same product, which could quickly diminish the confidence and trust one needs when purchasing a product based on reliance of a future benefit payment.

The way forward

With the good and appropriate intentions of the FAIR initiatives, and the objectives of the web aggregator and DPI products, it would be a real pity if all the hard work of the regulator and industry fails to meet the needs of the Singapore population. With a population of 5.5 million being served by 21 life insurance companies, one should think the population would be well covered.[4] Despite the crowded market, the protection gap – defined as protection need less savings and existing insurance cover – in Singapore remained high. According to the 2012 Protection Gap study by the Life Insurance Association of Singapore, the overall protection gap stood at over SGD 460 billion at the end of 2011.[5] With the increasing cost of living and rising wage level, the sales of protection cover has not grown in tandem, thereby further widening the Protection Gap today. Add in the aging population, and it is therefore of great urgency that the industry continue to find ways to narrow this gap and meet the protection need of the country.

Technology is developing at an ever-increasing pace today. Expectations and the purchasing habits of the current generation consumers are also different from before. Although distribution of protection cover will continue to remain largely in the hands of financial advisers in the immediate future, providing alternative sales channels cannot be overlooked. For distribution of DPI policies to become truly efficient, insurers in Singapore must work to enhance IT systems that allow direct sales online.

Other markets have already moved a step ahead to make online purchase of insurance products an extension of their product offerings. For example, in Malaysia, Bank Negara (the monetary authority and insurance regulator) introduced the Life Insurance and Family Takaful Framework in November 2013, which sets out reforms to support the long-term development of the life insurance and family Takaful industry.

In the second pillar of this framework, life and family Takaful insurers are required to offer Term products through direct channels by 1 January 2017, and Critical Illness and medical and health insurance/Takaful products by 1 January 2018. All insurers in Malaysia are currently working to enhance their online sales platforms, with the aim of meeting the deadline as set by the regulator to enable the purchase of protection cover directly through the company website without intervention by an intermediary.

In addition, to further improve the confidence of consumers on direct purchase of insurance cover without advice, the Singapore insurers and the LIA must do more to increase media education to improve customers' understanding of key features and terms and conditions of insurance products. More can be done to publicise the aggregator and provide simple instructions on manouvering through the website.

While admittedly a more controversial approach, rather than approaching an online sales channel as an alternative platform to intermediary sales, insurers could potentially find ways to allow collaboration between these two, thereby maximising the capabilities each channel provides. Although one of the key features of DPI is the lower distribution cost in the absence of commission payment, financial advisers can be incentivised to direct their customers to purchase simple products through DPI, and use the opportunity to up-sell more complex cover where their professional advice is needed.

Meeting the protection needs of the population is in the interest of the government, insurers and individual consumers alike. The FAIR initiative in Singapore aims to elevate the level of professionalism of the financial advisory industry in the country as well as provide wider options to meet consumer needs. With further steps to improve the experience of consumers, and making purchase of protection products more seamless, the industry can expect better success of the web aggregator and DPI products than the initial experience.

Endnotes

1 http://www.comparefirst.sg/.

2 http://www.moneysense.gov.sg/.

3 Singapore Business Review – 10 May 2016.

4 http://www.singstat.gov.sg/statistics/latest-data#16.

5 Life Insurance Association of Singapore, 2012 Protection Gap Study – Singapore.

* Exchange rate, 15.09.2016:
1 SGD = 0,73231 USD
1 SGD = 0,65199 EUR

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