Managing Risks – Persistency Case Study

Persistency – Percentage of an insurance company’s already written policies remaining in force, without lapsing or being replaced by policies of other insurers. Since persistency is a critical factor in the viability and success of insurance companies, they constantly look for ways to increase this percentage.

www.businessdictionary.com
The Problem

- Rate of policies lapsing/surrendering had increased gradually over a number of years
- Significant increase in 2008/2009
- Data was not available at a sufficiently granular level to identify trends
- Focus was on sales, not retaining policies
- Actuarial assumptions were behind the deteriorating experience
The Investigation

- Built system to track persistency monthly
- By Product, intermediary, duration
- Interview clients who are surrendering/lapsing
- Engage intermediaries
The Conclusions

• Intermediaries are driven to maximise their income
• Evidenced by churning and commission choice
• Policyholders generally follow the advice of intermediaries
• Significant correlation between persistency and experience of intermediary
The Actions

• No initial commission paid on replacement policies
• Management focus on retaining policies
• Removal of intermediaries with poor persistency rates
• Incentives for intermediaries to improve persistency rates
• Review of products
Persistency Assumption

- Long Term Assumption
- Short Term Assumptions
- Actual experience
- Forecast experience

Dec 08  Jun 09  Dec 09  Jun 10  Dec 10  Dec 11

QUANTIFYING RISK, ENABLING OPPORTUNITY
The Results

Risk and Investment Withdrawals

[Bar chart showing policies lost and risk trend over time from Jan 2009 to Jan 2011]

[Legend: Investment, Risk, Trend (Investment), Trend (Risk)]

QUANTIFYING RISK, ENABLING OPPORTUNITY
Lessons Learnt

• The quality of the data defines the quality of the assumptions
• Assumptions must be a joint agreement between the actuary and management
• Assumption setting policy must not be too rigid
• Don’t be afraid of taking action early – it forces management to take action