

# A Winning Equation?

Tied agents remain the main breadwinners for new business premiums, though bancassurance is playing a significant role in the distribution of insurance products too. But now more independent financial planners are entering the market, and this need not be a zero-sum game for insurance players.

By Timmy Tan

The distribution channel for insurers has been evolving rapidly over the years. In 2001, the bancassurance channel contributed 11%, or S\$86 million, to all new business premiums sold on a weighted premium basis. This share has since grown to 27% (S\$105 million) of total new business premiums generated in the first six months of 2003, as compared to 24% or S\$120 million last year, according to statistics from the Life Insurance Association.

“Because the image of banks is good, many consumers do not question the banks, which have been cashing in on their frontline branches to sell insurance products.

But is this the ideal way to purchase insurance, especially for the less savvy?” asks David Choo, vice president of the Association of Financial Advisers, Singapore. “Whether this will last is anybody’s guess, but this is like another tied agency offering convenience without much choice in the products offered. Consumers should be sitting down with financial advisers and going through their plans in a more rigorous fashion.”

The distribution channel will change further, as more tied agents are coming out to become financial planners thanks to the Financial Advisers (FA) Act introduced late last year. “There is more clarity now because of the FA Act. Tied agents are finding it more difficult to sell their products, especially if the bonus rates are less attractive than the competitors,” observes Mr Choo. “Moreover, more IFA (independent financial adviser) firms have established their ground, especially those who started four to five years ago. They are now more experienced and are no longer easily intimidated by the bigger insurance players. The bigger IFAs with 60 or more staff are still growing and attracting more financial planners.”

Indeed, new business premiums on a weighted premium basis generated by financial advisers have grown from S\$11 million last year to S\$24 million in the first half of 2003, thereby accounting for 6% of the total business. “The IFA concept is sinking in. It

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is now a matter of how objective financial advisers can be,” says Mr Choo.

Even some insurance companies are now setting up their own financial adviser firms with their own agents because of the fear of losing business. “They cannot be independent and they are taking the middle path. They may hold the financial adviser card, but behind the scenes they could be pushing 80% to 90% of their principals products and only a few others. The public deserves the right to know how independent they are,” surmises Mr Choo.

In theory, insurance companies should be more open and adopt a multi-channel distribution strategy as a product provider. They should reach out to the whole market through various conduits, be it

the banks, the brokers or the independent financial planners. AIA and Prudential are among the big players that do not distribute through IFAs, instead relying exclusively on their own tied agency force. Great Eastern does this too, as well as using related company OCBC’s bancassurance network. But how can IFAs be regarded as truly independent when these players refuse to have their products distributed through other channels?

“We hope insurance companies can be more business-like and view us [IFAs] as partners rather than competitors,” says Mr Choo. In this regard, Aviva is the one that has set the pace and the standard. “They sold their agency force because their thinking is clearer. They view us [IFAs] as partners. Their service standards have

improved a lot and their marketing support is great. People have confidence in them. It is good to have an insurance firm like Aviva clearly supportive of IFAs. Many other insurance companies are losing agents and sales. It is a double whammy for them,” observes Mr Choo.

Perhaps many insurers feel that distribution through IFA channels will mean less control and subsequently less business, but this need not necessarily be true, especially if they offer competitive products that are attractive for consumers. In this sense, IFAs will then be pushing these products. In addition, the spirit of the IFA concept revolves around professionalism and constant upgrading, not only for the benefit of the consumer but the industry as well.

“We know the future lies in us. We hope insurance companies will see us as valuable partners in the distribution process. The old thinking must be shaken up. Even without the banks, the insurers will still have that 27% in new business premiums. In theory, even if all tied agents become IFAs, the business to insurers will not be seriously affected. In fact, costs will come down. In a totally IFA system, firms will have to be more efficient. We owe it to the big agencies to handle inefficiencies,” says Mr Choo.

Do IFAs truly pose a threat and present a zero-sum game to insurers? Definitely not for Aviva, and if the business model for Aviva works out then perhaps more insurers will see the light as well. **si**



Photography by Yip Yew Piang

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