of , and , both from , suggest strategies insurers can look at to thrive under the current low interest rate environment.

Six years of low interest rates coupled with economic sluggishness is not an economic environment that would breed optimism. Although low rates can have some advantages, such as lower asset prices and financing costs, the main disadvantage – lower returns on assets – is making it difficult for insurers to maintain profitability and support current and legacy needs.

Even if rates do rise, the effects of these low rates will continue to affect portfolios. And operating costs and competition are rising as markets continue to evolve, pushing insurers in Asia to seek more effective ways to manage their businesses and maintain profitability.

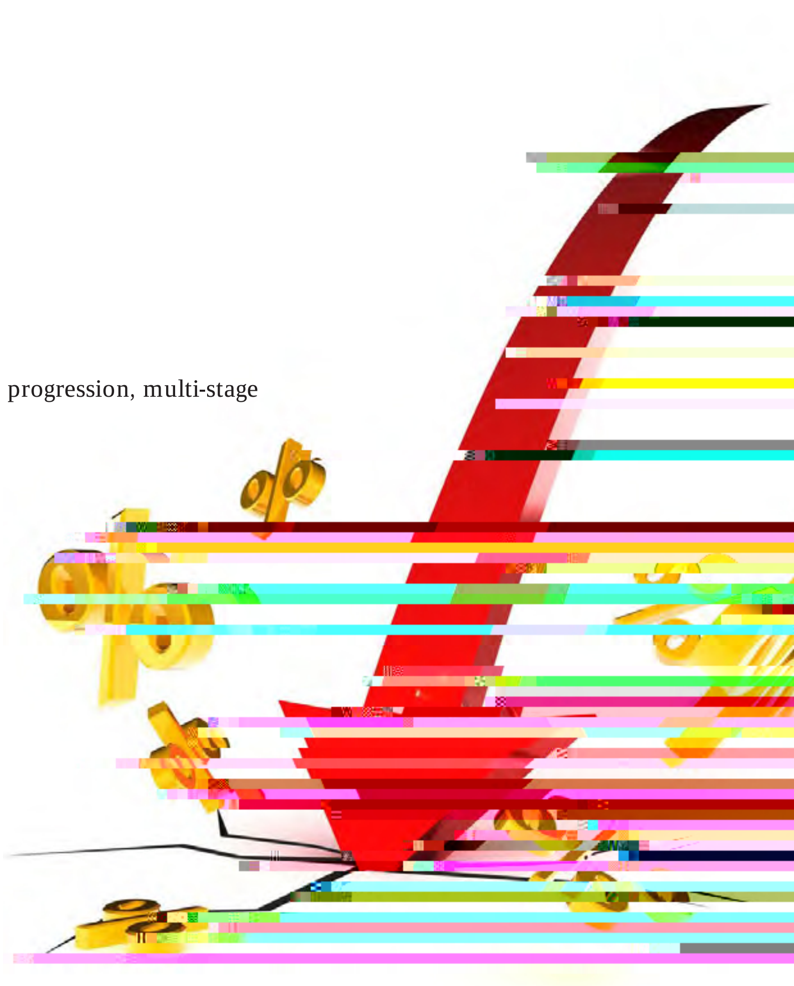
A broad range of sustainable strategies are currently available that can help insurers generate reliable revenue, maintain profitability and manage operating costs. To do so, however, companies would be well advised to look at ways to: improve capital and asset-liability management; develop, market and distribute products that will meet the needs of growing market segments; and creatively support current and future risk.

At this point, options are few for reducing the impact of low interest rates on in-force blocks of business. Sustained low rates have been and will continue to lead to compressed profit margins. Some strategies, however, can provide benefit.

Mortality and living benefit protection business have attractive potential for life insurers in the current environment, as profitability of these products is less sensitive to interest rates than that of savings-orientated products. By refocusing sales efforts on products that are not heavily dependent on investment in products covering late-stage illness progression, multi-stage severity based CI products covering early stage illnesses not previously covered, and multiple payment CI products that reinstate out the sum assured up to five times, in recognition of increased longevity associated with improvements in medical technology.

Two new product types could also be beneficial. Several insurers are now assessing index-linked universal life (IUL), a product popular in the US that provides more growth potential due to a cap that limits upside and a floor that limits downside. IUL sales in the US grew at an astonishing 24% compound rate from 2006 to 2011 while aggregate life sales decreased.

The second product, underwritten annuities, represents about GBP3 billion (US$4.7 billion) of annual sales in the UK. This product targets at or near-retirement lives which have below-average life expectancies, and uses that shortened life expectancy to underwrite annuities that can offer higher payments. These single-premium products, which are targeted for retirement pensions, provide policyholders with longevity protection and manage reinvestment risk due to



Up-sell and cross-sell initiatives

Up-sell and cross-sell initiatives on in-force mortality savings-type products have also been highly successful in helping to counter the negative spreads associated with these products.

Many insurers across Asia have had phenomenal successes selling protection riders with reduced underwriting requirements to base savings product policyholders. Guaranteed issue and simplified issue up-sell campaigns have specifically been developed in conjunction with reinsurers to target those customers who were underwritten fairly recently, thereby reducing barriers to sale.

Underwriting, distributing, servicing

Asian insurers can benefit from strategic investments in technology as well as new methodologies to improve product sales and operational efficiency, which can help them take steps to mitigate erosion of profitability in the long term.

Ways to reach markets are expanding: in addition to the traditional channels of agents, affinity markets, telemarketers and direct mail, companies are also developing internet