ASIA INSURANCE REVIEW
DEDICATED TO ASIA'S INSURANCE INDUSTRY

The extraordinary growth of bancassurance

By Ahmad Zaki (/Authors/AuthorsDetails/id/46104) | 23 May 2018

Growth of life insurance in Asia has skyrocketed over the past five years, due to both the expansion of bancassurance channels and massive bancassurance deals, as well as a change in the demographic of the emerging markets of the region. It is a balance between the two that will allow life insurers to continue closing the protection gap, said BPI-Philam Life Assurance CEO Surendra Menon. "Whether this growth trend will continue in the future depends on how they and their bank partners tackle the seven major trends in bancassurance," he said.

Speaking at the 19th Asia Conference on Bancassurance and Alternative Distribution in Manila, he elaborated on the trends and how insurers and banks were approaching them:

- **Open APIs to banks – leads to better partnerships and with the rise of FinTechs over the past five years, insurers do not even have to do the heavy lifting**
- **Expansion of the digital economy – customers become more comfortable and familiar with transacting online and their lives are becoming increasingly cashless**
- **Simple and secure authentication**

- Digital personal financial management – introduction of many apps in the market to help people manage their daily expenditures and budget, as well as plan for their financial future
- Banking on the cloud
- Big data and IoT – wearables in banking have become more popular, with Fitbits now able to act as an e-wallet. Mobile ATMs have also been introduced to the market, with the mobile phone acting as an authenticator over the plastic card (what does this mean?). More data is collected on the customer to get to know them and their lifestyles better, leading to more targeted marketing and figuring out the kinds of persistent services that can be offered (this is not a proper sentence).
- AI

These trends show that digitisation is leading to less branch traffic, with the percentage of bank customers entering a physical bank branch dropping to single digits in the recent past. This means that the in-branch staff need to transition from providing traditional transactions to sales and service.

At the same time, insurers and their bank partners need to juggle cyber security, data privacy and transparency for the regulators, many of whom are also reeling from the speed of technological evolution.

“The cost of compliance will only increase,” said Mr Menon, “and the FinTechs can only help offset those costs slightly.”

Has bancassurance matured?

At the 2nd Asia Conference on Bancassurance, AXA head of partnership (financial institutions) and regional marketing projects JK Hong said the agenda was all about the product. “Then at the second stage of bancassurance, around 2006, we started talking about the business model. Is it a joint venture? Is it a strategic alliance? Should it be a subsidiary? Should there be capital investments involved?”

Now, the driver is the customer. The question, according to Dr Hong, is not who owns the customer’s data, but who knows the customer better, based on that data. “How we answer this question will determine whether bancassurance has graduated from the second stage into the mature stage.”

The agency force is still overwhelmingly a better driver of life insurance sales across Asia, leading some to ask whether all that money spent on long-term bancassurance deals would ever pay off.

“What we have, is the customer’s trust,” said Standard Chartered Bank Malaysia executive director and head of bancassurance Sammeer Sharma. “An agent has to build a relationship with a single person at a time, and it is not easy for them. With the plethora of products that we have, the relationship we have with our clients is significantly stronger,” he said.

Reputation also factors greatly into the trust a customer has with the bank, allowing the bancassurance channel to reach someone an agent never could.

Targeting new customers

In agency distribution, there are many unanswered questions: How much money does the potential client have? What is his credit score? What are his insurable and financial needs? A bank already knows the answer to most of these questions, which gives it an edge in selling a product.

However, there is a large segment of the market that is still underserved, one that is “More concerned with risks than with wealth management,” said MicroEnsure’s group business director Rehan Butt. “They deal with fundamental risks such as deaths in the family or loss of income. And traditionally, they deal with it using their savings.”

Some of them, he said, have physical assets and valuables in their homes that they can liquidate in case they have urgent need for money, acting as their ‘insurance policy’.

This class of customer make up close to 80% of a bank’s customers and they are still underserved. “The dilemma for these people is that they are too rich to be served by microinsurance products, yet too poor to be served by legacy bancassurance products,” Mr Butt said.

What he suggested was a concept called ‘inclusive bancassurance’, where insurance products were embedded into the bank’s products. “There is still the idea of ‘us versus them’ in bancassurance, where insurance and banking are seen to be competing,” he said. “With inclusive bancassurance, there is no more ‘us versus them’. Insurance is, instead, an integral part of what the banks are selling.”

Another solution is a customised product for different levels of customer growth and increases profitability per customer. There also needs to be a change in the current mindset of putting wealth accumulation before customer risk protection.

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