

## Swiss Re sigma study sees bancassurance emerging as an important distribution channel in Asia

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**Bancassurance penetration is expected to tangibly increase in Asia over the next 5 years, potentially accounting for 13% of life insurance premiums and 6% of non-life insurance premiums. That is the conclusion of Swiss Re's new *sigma* study which also notes that around one third of these premiums represent new business opportunities rather than the substitution of existing channels.**

Life and non-life insurance products are primarily distributed by career insurance agents in Asia, while bancassurance - the distribution of insurance products by banks - remains relatively underdeveloped except in certain markets.

### Share of premiums by distribution channels in Asia

	Non-life	Life
<b>Career agents and direct sales force</b>	<b>91%</b>	<b>96%</b>
<b>Brokers</b>	<b>3%</b>	<b>1%</b>
<b>Direct marketing</b>	<b>5%</b>	<b>1%</b>
<b>Bancassurance</b>	<b>1%</b>	<b>2%</b>
<b>Others</b>	<b>less than 0.5%</b>	<b>less than 0.5%</b>

# Banca ssurance includes also other non-branch distribution by institutional bancassurers.

Source: Swiss Re Economic Research & Consulting

### Emerging drivers are giving bancassurance new impetus

However, major drivers are emerging that will add momentum to the development of bancassurance in Asia. The emerging drivers include:

- The squeeze on Asian banks' profit margins
- Broad-based financial deregulation throughout the region
- Balance sheet pressure of Asian insurers
- Foreign insurers acting as a catalyst to development
- Increasing sophistication of Asian consumers

### Asian banks are eager to leverage bancassurance opportunities

Asian banks have been suffering a declining return on equity over the past decade. Adding to their woes is the Asian financial crisis, which has eroded the balance sheets of many banks and left them with a heavy burden of non-performing loans, even after substantial debt liquidation efforts. Increasing competition and the continued integration of regional financial markets have also resulted in a narrowing of interest rate spreads, thus threatening banks' profitability. This environment has led banks to seek more stable, less volatile fee-based income, as well as to try and add value to their existing operations. Bancassurance offers opportunities for banks to broaden their fee and commission-based income and cross-sell financial products to their existing clientele.

### Insurers eye the banks' customer bases

As Asian banks are attempting to shore up their finances, Asian insurers are seeking to tap into the banks' huge customer base. Economic growth has supported the expansion of a middle-income class in Asia. As their primary financial needs are mostly met by banks, it is natural for insurers to turn to banks to gain access to this profitable segment of the market.

In addition, some insurers, weakened by the financial crisis and growing market competition, would like to

secure capital injections through closer affiliation with banks. Finally, bancassurance is viewed as a viable way for insurers to diversify from traditional channels while at the same time lowering distribution costs.

### **Broad-based financial deregulation gives bancassurance new impetus**

Another key factor driving the development of bancassurance in Asia is the relaxation of stringent regulations. The advance of financial market integration and globalisation are demanding new realism on the part of regulators in supervising cross-sector activities. Markets where bancassurance was previously prohibited, including Japan, South Korea and the Philippines, are taking a more accommodating stance towards bank distribution of insurance products.

### **The proliferation of bancassurance will have far-reaching implications for Asia's insurance markets**

For the Asian insurance markets, the proliferation of bancassurance implies that:

- multi-channel distribution will grow in popularity although insurance agents will retain a strong presence in the near to medium term
- distribution will be further separated from the development of insurance products
- the ability to tap into the large customer base of banks will become an increasingly important competitive parameter
- product innovation will likely benefit from the development of bancassurance
- "greenfield" start-up operations will be easier without the need to recruit a large number of insurance agents
- financial institutions will leverage bancassurance to compete for household financial assets
- the widespread adoption of bancassurance could accelerate the process of market polarisation in Asia.

Bancassurance is emerging as an important distribution channel throughout Asia. This is due not only to structural changes in the financial markets and insurance industry, but also the influence of foreign insurers experienced in bancassurance entering in region. The development of bancassurance promises to benefits an Asian customer base that is already receptive to alternative distribution channels.

### **Notes for editors:**

Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. Swiss Re reported a net loss of CHF 165 million in 2001, predominantly due to losses from 11 September. In the 2001 financial year, gross premium volume amounted to CHF 28.5 billion. At the end of June 2002, Swiss Re's shareholders' equity amounted to CHF 18.3 billion and the total balance sheet stood at CHF 168 billion. Swiss Re is rated "AA+" by Standard & Poor's, "Aa1" by Moody's and "A++" by A.M. Best.

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Data from selected figures and tables are available from the *sigma* chartroom on the [Swiss Re Portal](#).

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