Asia's insurance industry to experience unhindered growth into the next century

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From its current small volume, the insurance industry in Asia will continue to expand very dynamically. This expansion is driven by rapid economic growth in the region and a general increase in the popularity of insurance products resulting from rising incomes. Gradual deregulation and the opening up of the Asian insurance markets are making them increasingly accessible to foreign insurers, too. Swiss Re's *sigma* No. 6/1996 offers a comprehensive survey of the current status and prospects for the twelve most important Asian insurance markets.

The insurance industry in Asia is growing exceptionally rapidly. One of the reasons for this is the pace of general economic development, which far exceeds the growth rates customary in the industrialized nations. Another is that, in Asia, demand for insurance is growing more rapidly than the general level of affluence. This is particularly true of countries where per-capita income lies in a medium range around approximately USD 5 000. Premium volume in Asia (excluding Japan) is therefore likely to experience real growth of over 10% per year between 1995 and 2000. Global premium volume is expected to increase by about 4% during the same period. The study covers China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

Pent-up demand in non-life insurance

A number of Asian nations have pent-up demand in the non-life sector. In nine of the twelve Asian markets, the proportion of GDP accounted for by premiums is lower than income levels would suggest. One reason for this low level of insurance penetration is the fact that too little insurance cover is being purchased. Another is that in some countries, premium rates are below world levels due to less significant losses (expected losses per amount insured). The forecast predicts that the shortfall will be made up only slowly.

Life insurance dominates

In contrast to non-life insurance, the proportion of GDP accounted for by life insurance premiums in Asia is relatively high when measured against income levels. With two exceptions - Hong Kong and Singapore - the demand for life insurance in all the Asian markets studied is greater than in other countries at a comparable stage of development. Japan and South Korea even display the second and third-highest degree of insurance penetration in the world. There are several reasons for the considerable importance of life insurance. For one, life insurance (like every other form of saving) profits from the high rates of saving in Asia. In this respect, insurers in some Asian countries have stolen a march on the banks by intensively marketing life policies. This is compounded by the fact that in most Asian nations, state or company pensions are so modest that private life policies have to fill the gap. Life insurance enjoys slight tax advantages in most Asian countries.

Cautious deregulation and opening up to foreign direct insurers

At the end of 1994, around 850 insurance companies (about 250 of them foreign) were operating in the twelve Asian insurance markets under review. The size of the companies, their capital assets and the share of the market in foreign hands vary considerably from country to country. Regulation on the part of the supervisory bodies also has very varying effects on market activities. Liberal Hong Kong restricts itself essentially to ensuring adherence to minimum capital regulations, while the other countries have additional (and in some cases far-reaching) regulations covering the licencing of companies and products, prices, obligatory cessions etc. The restrictions on market access detailed in the General Agreement on Trade in Services (GATS) represent a minimum standard which offers legal reliability. Unless they leave the World Trade Organization (WTO), the countries cannot fall below this standard. The Asian markets are expected to open up more in the long term.

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