WHITE PAPER

# Bancassurance in Southeast Asia

A $114 Billion Opportunity

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# Bancassurance in Southeast Asia: A $114 Billion Opportunity

## An important channel...

Southeast Asian (SEA) insurance markets are resurging following the challenging years of the COVID-19 pandemic. Bancassurance has steadily solidified its position as a key channel in many of these markets, contributing to around 37%[1] of total life insurance sales. Reasons for this growth include:

- Bankers continue to be trusted advisors when it comes to meeting customers' financial needs in a comprehensive way.
- Customers increasingly recognize that "one-stop shop" financial solutions cover a wide range of their financial needs *and* save them time and effort.
- The customer base is expanding: the SEA banking penetration rate has increased from 37% to 62% in the last 10 years,[2] with further growth expected.
- Banks now realize the benefits of growing a stable and diversified revenue stream for greater financial stability.
- Insurers continue to focus on bancassurance as a key channel, and are building specialist teams to provide better service quality for their bank partners.

## ...with recent challenges

- **New regulations.** Incidents of mis-selling have spurred regulations in several markets to restore consumer trust. Banks are upgrading their advisory and sales processes with their insurance partners' help to ensure they are providing better advice to customers on the right products.
- **Changing channel dynamics.** In the past, customers would visit branches after bancassurance deals were signed. The highly affluent would speak directly to their RMs. Today, many prefer remote interactions or purely digital transactions, and insurers need to be visible to these digitally savvy customers.
- **Rising interest rates.** Banks are changing their sales priorities back to traditional products such as loans and credits.

In addition, insurers are now under pressure to justify the large sums they frequently must pay for bank partnerships. The business these partnerships generate has often failed to meet expectations. To maintain bancassurance as a valuable channel, insurers need to achieve better and higher penetration. Hence, some insurers have been more cautious in recent negotiations.

Given these dynamics, many banks and insurers are taking a fresh look at the relevance of their bancassurance operating models. They're asking: should they adjust these models for today's environment to ensure that they deliver as expected?

1. Source: As of 2022 data; Regulatory filings from key SEA markets excluding Singapore; AXCO; BCG analysis.
2. https://www.statista.com/forecasts/1149673/bank-account-penetration-forecast-in-southeast-asia.

## A sizeable opportunity…

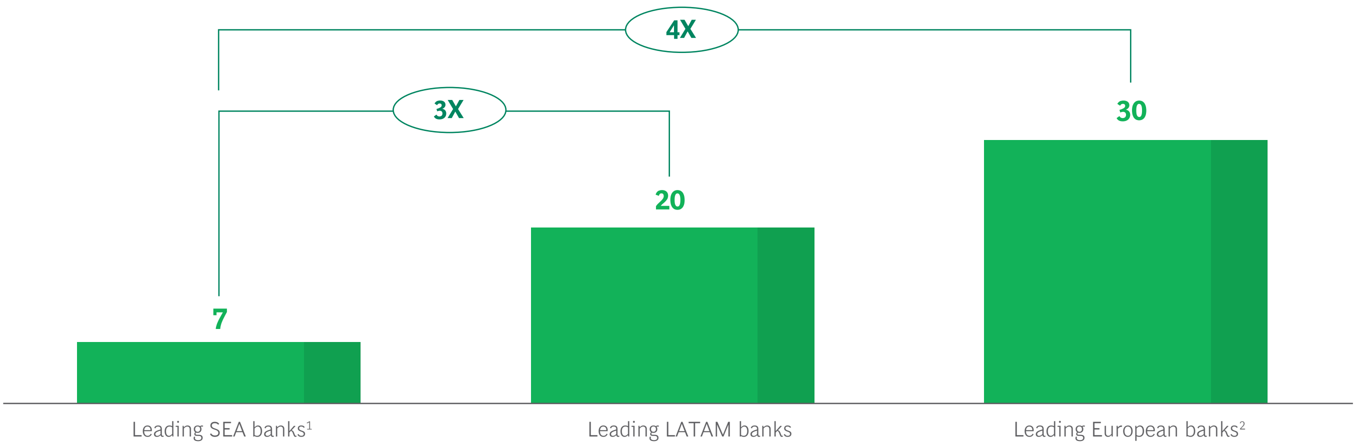
Significant opportunities could exist for SEA banks in bancassurance earnings, a recent BCG study found. Among leading European banks, bancassurance contributes 30% of earnings before tax (EBT), according to the study. In Latin America, bancassurance provides 20% of EBT. In SEA, however, bancassurance provides just 7% of EBT. Clearly, there is room for growth here.

As the banking industry matures, traditional product margins will come under pressure, similar to what we have observed in more developed markets. As a result, many have focused on insurance sales.

Bancassurance can achieve up to two times higher profitability than traditional insurers, at the same time the insurance industry has outperformed the banking industry consistently in the past, as we've seen in more mature European markets. This is good news for ambitious SEA banks seeking to demonstrate an overall balanced profitability. Strong reasons exist for revitalizing bancassurance partnerships.

# Exhibit 1

Insurance EBT contribution by region (%)




**Source:** Bank annual reports; BCG analysis.

[1]Selected banks in Vietnam and Indonesia.

[2]Selected bank players in France, Spain, and Belgium.

## ...if partners reset their program

To capitalise on this opportunity, banks and insurers should focus on these five areas:

1. **Designing engagement models for "non-relationship-managed" segments.** Around 90% of banking customers do not have an active relationship manager, as their ultra-high-net-worth counterparts do.

   — Many highly affluent customers who might be premier banking customers are assigned a more "passive" relationship manager—despite a growing need for more skilled, advice-driven sales. Banks should fill this "advice gap" by adopting engagement tools that integrate bank and insurance solutions akin to financial advisory models seen in more mature markets.

   — The mass retail market still uses branches, for the most part. For greater penetration, focus insurance sales staff in branches where the most customers are likely to buy insurance, and give RMs the training, incentives, and tools for effective in-branch selling.

   Our branch enablement programs have helped generate 20%–40% increases in new business and 20%–25% greater front-line productivity, in just a few months.

2. **Developing direct-to-customer (D2C) and online-to-offline (O2O) bancassurance sales channels.** Insurers need to ensure that their offerings are visible to digital banking customers, or risk being excluded from this growing customer segment.

   Many are working together to add insurance offerings into banks' digital marketing, and are giving customers opportunities to buy simple products without leaving the bank's app or website. These customers might be able to quickly connect with a bank call center staffer, moving to more qualified salespeople for help with complex queries.

   Delivering this level of service is proving a challenge for many, however. Often, it requires the development of a new sales approach.

3. **Expanding product offerings to life, health and other protection products.** Most bancassurance sales come from savings and investment products that bank staff find easier to sell. Diversifying into higher-margin protection products is increasingly a focus, however, as is offering simple health insurance to mass-retail customers. To do so, bank staff need more knowledge about these products so they can advise customers as insurance agents might do. Using bank data can help optimise their sales approach.

4. **Increasing P&C insurance sales:** While life insurance products dominate bancassurance in SEA, interest is growing in P&C insurance—especially through digital banking channels and contact centres. Many banks are increasing their non-life insurance sales online by embedding non-life insurance products with bank offerings.

   To buy a new car, for example, many customers take out a loan. The lender knows when the buyer's motor insurance is due for renewal as well as the premium, and could use this data to target the customer at the right time, before the renewal date.

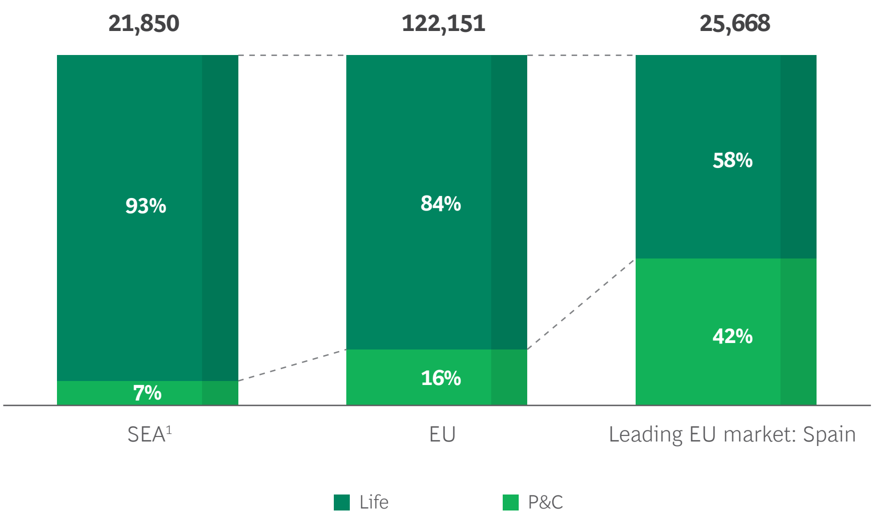
5. **Targeting MSMEs in an efficient manner:** Micro-small-medium sized enterprises (MSMEs) tend to be underserved by insurance. Distribution challenges make it more difficult to reach them, and tailoring policies for them can require a great deal of effort.

   But 97% of businesses in SEA—about 71 million—are MSMEs, and employ 67% of the working population.[3] They represent a vast tapped market for bancassurers, which can easily reach them by embedding insurance offerings within banking services.

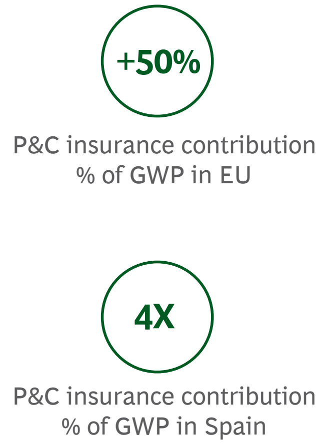
3. Based on 2020 data from the Asian Development Bank (ADB).

## Exhibit 2

Gross Written Premium (GWP, USD M) contributed from bancassurance channel by product type in 2022




Compared with P&C insurance contribution % of GWP in SEA...




**Source:** GlobalData; AXCO; BCG analysis.

[1]Southeast Asia excluding Singapore.

## Data: the competitive advantage

The data that banks have at their behest can provide a significant competitive advantage over other channels (such as agencies) for carrying out these activities. Banks' wide and deep data sets enable them to offer personalized services to customers at the right time, and to customize pricing.

Automated digital marketing messages, for example, might be sent to a protection insurance customer when they make their first a baby-related purchase. Health insurance offers might go to the bank customer making a payment to a physician or clinic.

We've seen banks and insurers use bank data in many ways to benefit customers and themselves. Here are three examples:

*i. Enriching pricing with bank's customer transactional data*

Creating a technical engine that uses data from the bank's internal database (customer credit scores, socio-demographic information, and more) as well as from outside sources can help insurers adjust prices for a variety of models including risk-based, usage-based, and dynamic pricing; loyalty discounts, and bundle discounts. Using data helps ensure that pricing reflects individual customer profiles. Banks can therefore offer tailored, competitive bancassurance products that resonate with each customer's needs and preferences.

**We have seen banks gain 5% to 15% in new business by optimizing prices, and cut loss ratios by 4pps to 10pps.**

*ii. Enhancing personalization*

Using customer transactional data to identify which customers to target and when, through which channel, and with which message can significantly increase conversion rates. This data, combined with pre-quote offers and comparing prices with their current insurance premium, improves the customer experience, making it more likely that they will renew their insurance policy. Building propensity-to-buy insurance models using bank data also helps to increase conversion by targeting the right customer at the right time, in the right manner.

**We have seen banks quadruple conversion rates by using customer data to create more personalized experiences.**

*iii. Embedding customer insights from data into advisory tools*

If sales agents are to make full use of insights, they need advisory tools that provide them with meaningful analysis of customer data. Adding AI can take these insights even further, helping them to raise customers' awareness of personal risks, for instance, compare their level of insurance coverage to that of similar customers to point out potential coverage gaps, and recommend product bundles for price savings.

No transformation plan would be complete today without an understanding of where and how generative AI can play a role. We are seeing leaders develop these co-pilot tools to help bank sales staff answer customer product queries, put propositions together for customers, and recommend relevant products with suitable needs-based marketing messages.

**We have seen simple "co-pilot" sales tools improve conversion rates by 20%.**

## How to develop effective partnerships

Bancassurance may underperform for several reasons. For instance, banks might not prioritize it, or there may be inadequate coordination between insurers and their banking partners. To turn sales relationships into more effective partnerships, we recommend:

- Providing incentives for banks to prioritize insurance products, and establishing a matrix reporting line from sales staff to retail banking and bancassurance heads
- Focusing sufficiently on bancassurance during the bank's strategy and planning processes as well as ringfencing investment to drive new sales initiatives
- Developing a mutually agreed view on future business initiatives such as driving digital sales with bank marketing and bank website/app development
- Setting a common aligned understanding of customer segments and the way to go to market together
- Developing ways of using bank data to boost sales as previously mentioned by enriching pricing, enhanced personalization, and embedded customer insights into advisory tools
- Expanding the role of insurers beyond that of mere product providers to true partners in driving sales via marketing, analytics, sales effectiveness, and customer journey mapping. Insurers may need to invest in these skills for a more meaningful partnership

- Providing integrated solutions based on insurance packages to drive cross sale, up sale and retention, such as weaving life protection into wealth offerings. Leading European banks have increased customer penetration and reduced churn, for instance, by differentiating their products based on customer personas and their specific needs. Examples include:

  — **Horizontal bundling.** BBVA groups together multiple products, such as motor insurance and health insurance. Customers can receive discounts on the total premium based on the number of policies bundled together, such as a 15% discount on total premiums for a bundle of 10+ policies. They can pay the premium in 12 interest-free monthly installments, as well.

  — **Vertical bundling.** CaixaBank bundles coverages and services into a single product for certain segments, such as a family. The service simplifies insurance management and allows customers to enjoy comprehensive protection in one go.

  — **Horizontal and vertical combined bundling.** Intesa Sanpaolo allows customers to choose from 19 bundling modules across health, home, and family. Customers can receive discounts on the total premium based on the number of modules bundled together—a 30% discount on the total premium with 7 or more modules, for example. In addition, Intesa Sanpaolo provides customers with one contract that covers the entire bundle.

## An opportunity there for the taking

Bancassurance is growing but not as rapidly as before, due to dramatic changes in consumer preferences and banking operating models. Many bancassurance partnerships were designed for a different market environment, and will need revamping to meet the expectations that partners may have had at the start.

SEA insurance markets are expected to soar over the next four years, however, with total GWP crossing the $114 billion[4] mark. Bancassurance sales should experience similarly strong growth—if bancassurance models are reset.

The good news is that many bancassurance partnerships can seize on this opportunity and capture their share of the GWP pie. What's needed:

- Technological advancements, including data analytics and digital platforms;
- Greater bank-insurer collaboration;
- Higher-quality personalization;
- Value propositions targeting key bank segments; and
- Stronger commitment from partnering banks, including salesforce training and tools and marketing budgets sufficient to launch insurance campaigns in bank channels.

Many banks have already found that building a bancassurance business can provide a valuable source of income to stabilise their returns. Change is never easy, but we have seen banks and insurers reap rewards time after time: a win-win for both and, in the digital era, a sign of times to come.

4. Source: GlobalData, excl. SG, BCG analysis.

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