Southeast Asia's developing life insurance markets

Mr Peter Tan of **RGA Reinsurance Company** looks at the needs of the day and the trends in Southeast Asia's life and health markets.

Over the past decade, the "smaller" nations of Southeast Asia have grown rapidly and taken substantial developmental strides, with several becoming attractive markets for life and health insurance.

Indeed, although Malaysia, Thailand, Indonesia, the Philippines and Vietnam – five of the 10 countries that make up the Association of Southeast Asian Nations (ASEAN) – are each at different stages of economic development, all have achieved sufficient size and economic strength that they are being prospected by several global life and health companies.

The attractive five

There are many reasons these five have become a focus. The current aggregate population for these five is more than 500 million (more than any single country save China and India), and their economies have speedily been moving out of their traditional agrarian bases and becoming far more urbanized and industrialized.

Although older individuals are still a relatively small portion of the overall population, that segment and its needs are growing rapidly, as elders are living longer due to improved health care and sanitation.

Also, as the global technology boom continues to spread, per-capita incomes, while still low compared to more mature economies, are rising fast, fuelling rapid growth and development of middle-class cohorts and rural markets.

Additionally, the region came through the global financial crisis of 2008 with far less damage than did other countries and regions around the world.

Development of new risks and needs

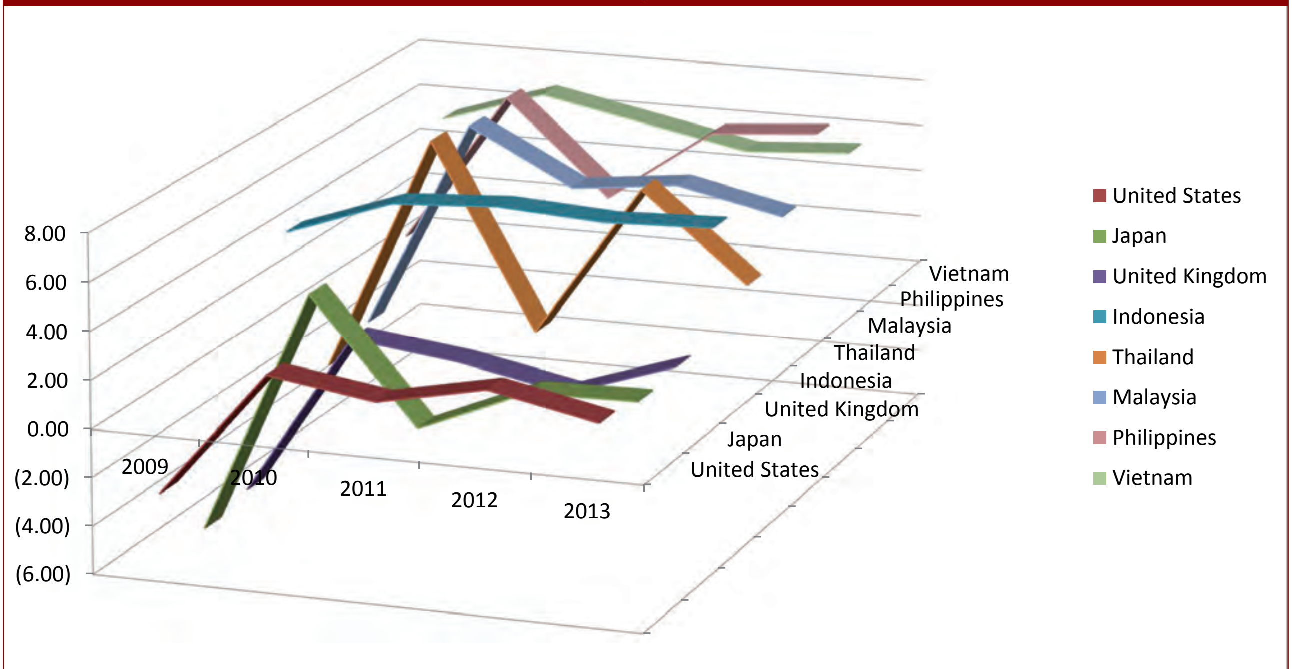
However, the downside of economic development – pollution, sedentary lifestyles and processed foods – are eliciting not only increases in lung disease and cancer incidence, but also obesity, a health condition previously rarely associated with Asia.

These demographic trends are generating rapidly rising needs for protection insurance products. People at all stages of life need to be able to develop nest eggs for their families' financial health and for retirement, and to protect those nest eggs from unexpected hardships and critical illnesses. This is especially important for the region's aged: with younger people increasingly moving to major cities, the aged, especially in rural regions, are losing their traditional caretakers, and will need income and asset protection.

ASEAN Economic Community

Additionally, in the wake of the financial crisis of 1998, the 10 countries that make up the ASEAN group (the above five plus Singapore, Brunei, Cambodia, Laos, and Myanmar) began work toward the development of a plan, formalised in 2007, to create an European Union-style single market to be known as the ASEAN Economic Community (AEC).

Real GDP growth rate



The primary focus of the AEC, which is slated to launch in 2015, will be on removing trade barriers in order to achieve equitable economic development for all ASEAN member countries, and to work toward a coherent approach to external economic relations in order to foster integration into the global economy. The blueprint is already being implemented in several countries, and as it continues to progress, the region should continue to become more attractive to foreign investment.

Trends and needs

Southeast Asia's insurance market currently represents a wide and diverse range of trends and needs, in product types, market penetration levels, average premium size, life and living benefits and needs, and in optimising reach into targeted markets.

In much of Asia, agents have traditionally been the main distribution channel for life insurance. This will likely continue, as face-to-face discussions are still the primary way information and education about insurance is communicated to prospects. These discussions are considered the best means of establishing the relationship of trust in which customer financial and protection needs can be determined and met.

Agents can also be important conduits for future customer sales and referrals. Companies are also improving the professionalism of their agency forces – making the work a full-time occupation rather than part-time one done to supplement an income – which will strengthen insurance markets in these five countries.

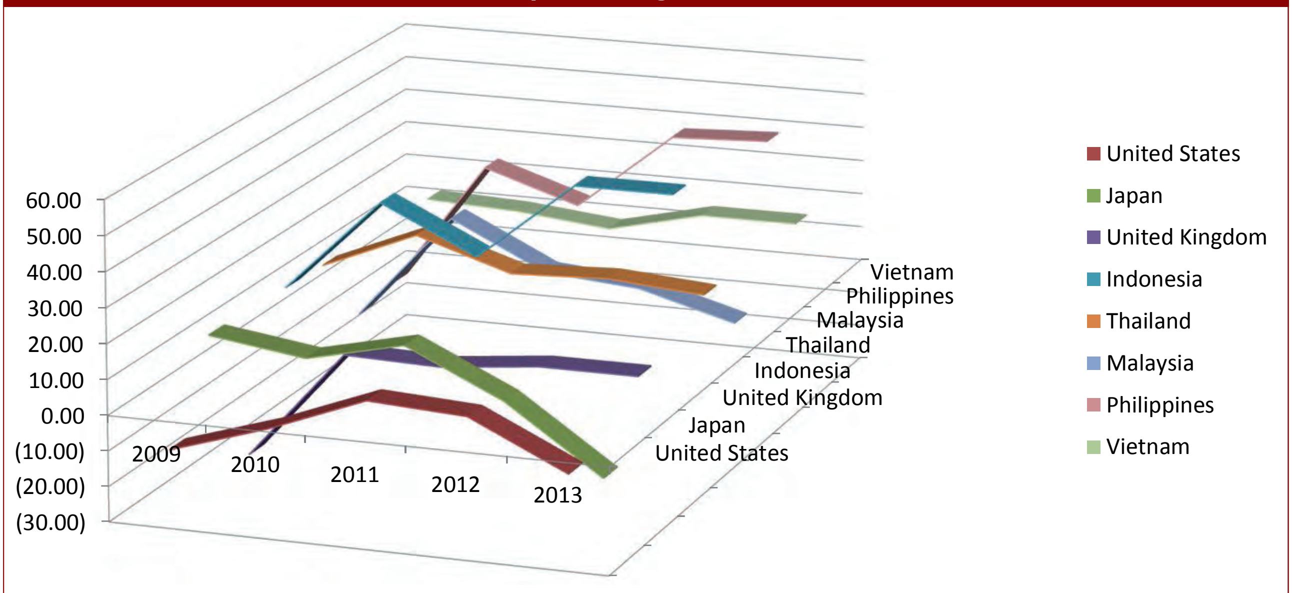
The rapid explosion of Internet-fuelled connecting technologies is pushing rapid development of alternative distribution frameworks for insurance such as direct, bancassurance and telemarketing.

These channels primarily sell savings products with limited premium payment period to mass affluent families, and as financial cultures in Southeast Asia continue to be strongly savings-driven, these products

Some keys to success

- Get in early to participate in the growth of the region.
- Take a long-term view: long-term growth in these countries will outstrip that of developed economies, due to large, growing middle-class populations and evolving needs.
- Distribution: Partner with a local insurer with a sizeable agency force or a bank partner with a large customer base.
- Be innovative – adapt protection products to local needs and distribution.
- Think about providing takaful in Muslim-dominant countries
- Adapt operations processes to suit local resources

Life premium growth rates



are strong sellers. Savings products for juveniles such as education funding are also strong sellers.

Post-retirement investment products not popular yet

Post-retirement investment products with income streams such as life annuities, however, have not yet caught on in these markets. It may be some time before the focus can shift to income products, as the population is still young.

As life insurers in these countries adopt more sophisticated distribution technologies such as predictive modelling and automated underwriting solutions, cost-effective protection products can be developed and sold.

Takaful growing

Takaful is another strongly emerging product need, especially in Muslim-majority countries such as Malaysia and Indonesia. These products, which incorporate Sharia law precepts against usury and commercial transfer of risk and also incorporate surplus participation and specific ethical investment prescriptions, are also beginning to attract non-Muslim buyers as well.

Strengthening regulations

Insurance regulations in the region have also been strengthening, with regulators limiting commissions and investigating the development and implementation of "know your client" rules, similar to the Treating Customers Fairly initiatives in the UK and Australia.

However, development of payment systems in some of these countries has not kept pace. Banks are less integrated in some Southeast Asian nations, which means cash is the primary consumer transaction tool, and consumers lack access to direct payment vehicles such as credit cards or electronic bank debits.

As agents have traditionally been the premium collectors, insurance companies seeking to move away from agency distribution must develop new, innovative premium collection methods.

Moving ahead

Although life insurance penetration is still low, protection products already have double-digit growth in these nations, and the list of protection needs currently developing is lengthy: product development, risk management, catastrophe protection, individual, business and financial solutions, and the development of bancassurance and predictive modelling.

A good balance needs to be reached by the regulator between protecting the public and encouraging a dynamic market where innovation can thrive.

For life insurers, the principal challenge of entering or expanding in Asia's emerging and developing countries is adapting current products and strategies to the local culture and its needs. Because each country's market is distinctive, products, distribution and operational solutions that work well in developed countries will need to be adapted to suit local cultures, economies, technologies, demographics and needs. Each market has its own nuances, and an understanding of and sensitivity to each is imperative for success.

Mr Peter Tan is Managing Director, Emerging Southeast Asia Markets and General Manager, Hong Kong Branch at RGA Reinsurance Company.