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*LEADING THE WAY*

## The future of the Thai life insurance market

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Writer: Anothai Leekitwattana & Phuwin Norchoovech

The life insurance industry has proven to be an attractive investment, particularly in a developing country such as Thailand. The expansion of the industry correlates with the growth of the overall economy. The 10-year compound annual growth rate for life insurance premiums is in the teens.

However, market penetration is low at 2.6% compared with more than 4% in Singapore and 9% in Japan. The life insurance density (premium per capita) is less than US\$200 compared with those of Singapore and Japan, which are in excess of \$2,000 and \$4,000, respectively. Thailand is therefore a high-growth market for life insurance and has a promising future.

The Thai market continues to be dominated by the top three life insurers — AIA, Muang Thai Life Assurance and Thai Life Insurance, which together account for most of the market. The traditional agency channel remains the main distribution channel, while bancassurance continues to grow and is becoming increasingly more important. Results from this year's first quarter showed the bancassurance distribution channel was slightly ahead of agency channels.

Indeed, a more agile, innovative, risk-conscious and customer-centric culture is set to be the primary competitive differentiator in the new landscape. Wouldn't it be nice if we knew what changes to expect!

### Steep

We can only try to predict what the future holds by exploring the five key factors (STEEP) or megatrends that can be used as a framework to help those of you in the life insurance industry to be better prepared for developments over the next decade.

### Social

Continued improvements in online and mobile technologies have significantly raised consumers' expectations. They expect simplicity, transparency and speed in their dealings with life insurance companies including agents/advisers and brokers. The leading insurers are those that have better tools for targeting consumers and are customising the attributes of products and services to meet their specific needs.

The growth of social networking has forced all service providers to rethink how they engage with their customers. With this model, online social networks become a new channel that benefits from collective information sharing and distribution.

## Technology

Just as with social trends, advancements in technology are creating new ways in which life insurers interact with their customers.

Historically, life insurers relied on intermediaries to understand customers and their business needs and then matched and tailored the insurance products to their needs.

Today's social and online communities allow consumers to approach insurance companies on their own. This trend will accelerate, leading to a situation where customers will be more willing to buy direct, using their online and offline trust networks of friends and family to guide their choice.

Life insurers able to mine this data and exploit the information to establish better pricing, underwriting and loss control will have a distinct competitive advantage over their peers.

## Environment

The environment today is very different from what it was a decade ago. The recent winter, which brought single-digit temperatures in certain parts of Thailand, demonstrates that climate change is indeed happening. This change is increasing the severity and frequency of catastrophic events.

Only a couple of years ago, many parts of central Thailand were suffering from severe flooding. Other catastrophic events have brought new diseases and other health issues. These have likely gone beyond the statistics and models that many insurers relied on in the pricing of their products.

Pollution is another factor that could lead to increased demand for your life products on the one hand and the need to adjust premiums to reflect shifts in health and mortality rates on the other.

## Economics

The rise of the East is shaping how life insurers are preparing for the next decade. The purchasing power of consumers in Thailand and this region will increase. The Asian Economic Community (AEC) is expected to change the landscape of competition.

While many local insurers need to be protective of their own local market share, the AEC will also create an opportunity for many visionary companies to expand abroad, particularly in developing countries such as Vietnam, Laos and Myanmar. Rising incomes in these countries are reshaping their demographics.

The rising middle class will contribute to the growth of life insurance more than in any other segment, due to its purchasing power and understanding of the benefits of insurance products.

## Political

While many expect the political situation in Thailand will not be a long-term issue, the nation has experienced instability over the past decade, and if this continues it will only cast doubt on future prospects.

Apart from the current political disturbances in Thailand, local regulations, which are often influenced by a political agenda, will also have a role in shaping the demand for certain life insurance products. The government recently changed the laws on individual taxation, reducing progressive tax brackets. This would certainly have implications for a group of customers who purchase long-term life insurance as a tax-shield mechanism.

Whether you are a top multinational or a family-owned life insurer, you need to insure yourself against the changes in the landscape by investing time to investigate your own company and ask your employees this: "What are we doing to prepare for this change?"