

Insurance Practice

# How bancassurance can keep pace with retail banking in Asia–Pacific

In the changing insurance landscape, banks and insurers must update and reinvigorate their bancassurance business models to stay relevant and meet customers where they are.

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**Bancassurance is an important** distribution channel for insurance products across Asia–Pacific; in 2018 alone, around 31 percent of life insurance premiums in the region came from bancassurance.<sup>1</sup> This is partly driven by the retail banking industry’s transition to serve customers primarily through digital banking. In addition, many “super apps” that deal in payments, e-commerce, and digital wallets are moving into the financial-services space, and banks that fail to deliver on changing customer demands face the risk of disintermediation.

To successfully tap into the potential of this market in the coming years, banks and insurers need to act on three emerging imperatives: digitalizing the bancassurance channel, reinventing the business model, and bringing purpose to the fore.

## Digitalizing the channel

The traditional bancassurance model is focused on bundling protection products with existing banking products, usually sold in person at bank branches. This model has subsequently evolved to be less generic and more personalized. With major advancements in technology, insurers and banks are integrating more digital and analytical tools into the end-to-end customer journey, enabling the bancassurance channel to better serve specific customer needs both in person and digitally.

The COVID-19 pandemic significantly accelerated the overall digitalization of the insurance and banking industries, with lockdowns spurring banks and insurers to rapidly adapt to serving and advising customers remotely. Customer adoption of online and mobile banking saw a 30 percent net increase across the region, according to McKinsey Insurance estimates.

Digital marketing has also become more personalized.<sup>2</sup> This is thanks not only to the modular nature of online sales but also to regional regulators’ increased support of digital sales in recent years.

For example, in October 2020, the Indonesian Financial Services Authority relaxed rules for the online promotion of insurance products. Additionally, they began permitting social-media platforms to serve as marketing channels for insurance companies and their distribution partners to promote their insurance products.<sup>3</sup>

The banking industry has embraced both regulatory and technological advancements to lead the way with sophisticated digital marketing and product offerings—but we have yet to see the same developments take place with bancassurance offerings.

## Reinventing the business model

The continued popularity of short-form videos and social-media content is one example of customers’ shifting preferences and, in many cases, reduced attention spans. To capture attention, banks and insurers must reimagine the bancassurance business model with customers’ preferences and expectations at the core. This could imply, for instance, the emergence of contextual products that are embedded in the insurance journey and ongoing advice to help customers change certain behaviors. Incumbent players need to build these capabilities rapidly, given that customer behavior has transitioned rapidly.

Building such innovative models will require banks and insurers to consider either investing in the right technology and building organically or exploring strategic partnerships with insurtechs, technology vendors, and other partners that can provide the right capabilities.<sup>4</sup> Furthermore, we are seeing the emergence of direct-distribution players in banking. These players have significantly more experience with maneuvering digital channels than traditional players and are looking for insurance partners with similar capabilities.

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<sup>1</sup>“2020 Global Insurance Pools statistics and trends: Distribution,” McKinsey, March 2021.

<sup>2</sup> For more on the role of modern digital marketing in insurance, see “How Asian insurers can use digital marketing to fuel growth,” McKinsey, April 11, 2022.

<sup>3</sup> Mita N. Djajadiredja, Gerrit Jan Kleute, and Abimata Putra, “Indonesia: The OJK has issued an implementing regulation on marketing of insurance products,” Lexology, October 26, 2020.

<sup>4</sup> For more, see *Insurance insights that matter*, “Insurtechs are increasingly ripe for insurer investments and partnerships,” blog entry by Shitij Gupta, Varun John Jacob, and Shalija Raheja, McKinsey, July 16, 2021.

For the time being, these challengers have won only a small market share in insurance, but they are poised for rapid growth. In many cases, getting out ahead of partnering with these players can represent a win for both sides.

### Bringing purpose to the fore

As customer expectations shift along with societal values, banks have an opportunity to be at the forefront of these changes and clearly demonstrate how their purpose aligns with their customers' goals. Indeed, the future of bancassurance will involve recasting the channel as a way for customers to build and manage an integrated financial-wellness plan. In addition to purchasing appropriate life and nonlife insurance protection, customers will be able to access comprehensive financial support, including loans to achieve life goals and advice on savings and investment.

For banks to bring their purpose to the fore and develop an effective integrated financial-wellness platform, they must have certain capabilities:

- products across multiple asset classes; third-party services to cover broader financial needs; and simpler, more modularized products

- underwriting capabilities driven by advanced analytics,<sup>5</sup> including a simplified process for medical underwriting and access to extensive proprietary research
- sales platform capabilities, including an advanced analytics-driven robo-advisory engine, online-to-offline journey assistance, multimedia educational content, one-click sales journeys, and continuous engagement throughout the customer life cycle via both digital and in-person channels

As banks and insurers roll out these new features, they must maintain a clear alignment between the purpose of these solutions and what customers are truly looking for.

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As change in the regional market accelerates, insurers should prioritize initiatives that will help them capture benefits in existing models and progress toward an integrated financial-wellness model that creates more meaningful value for themselves and for their customers.

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<sup>5</sup>Ramnath Balasubramanian, Ari Chester, and Nick Milinkovich, "Rewriting the rules: Digital and AI-powered underwriting in life insurance," McKinsey, July 31, 2020.

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