DEVELOPMENTS IN INSURANCE RETAIL MARKETING IN THAILAND

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Abstract

Among the many effects of the economic crisis of 1997 were the changes in the marketing structure of non-life insurance in Thailand. The business sources had mainly been professional brokers, agents and financial institutions. Insurers treated those producers as their major sources of supply who brought them both big corporate clients and also small clients. The insurers would not have direct contact with the vast majority of their insured (unless a client made a claim).

This marketing structure was demolished in1997 because many financial institutions were closed down by the government, and many corporate clients could not afford to pay premiums. The consecutive shrinking of non-life insurance premiums during 1997-2000, caused local insurance companies to compete more aggressively, but using only old fashioned instruments such as rate reductions, increased commission, increased coverage and long term credit. Eventually they realized that none of this worked when they were faced with competition from global insurers. Many corporate accounts were taken over by foreign investors and assigned to their global policy in their home country.

This realization in 1999, made many local insurers decide to move into the retail market. They believed that this would be a lucrative business and they would be in a better position to compete with the foreign players. This was especially preferred by local insurers with strategic connections, e.g .with Banks and Thai conglomerates. They launched many marketing campaigns and activities, using many distribution channels such as direct marketing, licensed agents, non-licensed agents, convenience stores, internet and bank branches. But it was not to be as simple and as easy as it first appeared. They realised that without detailed knowledge, technology and experience, retail marketing could never be a success

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This paper describes and analyses the developments as outlined above. It sets out the basic requirements needed to venture into the retail market in Thailand, and highlights the factors which are essential to success. It also makes some comparisons with other retail markets, in Southeast Asia, Europe and USA.

Introduction

By the early 1990s, Thailand was enjoying a high growth rate in the economy, with real GDP growth of over 8%. The general (non-life) insurance sales distribution structure in Thailand was based on banks and financial institutions, agents and professional brokers, and business conglomerates. The insurance business kept growing for many consecutive years and reached its highest point in 1996 with a total premium of Bht 61,184 million (US 2,353 million).[2]

Non-life Insurance Direct Premium in 1996

Type of Insurance	Direct Premium (Million Baht)	Direct Premim (Million US)[3]	Proportion (%)
Fire Insurance	9,317	358.34	15.23
Marine Insurance	2,753	105.88	4.50
Automobile Insurance	40,440	1,555.38	66.09
Miscellaneous Insurance	8,672	333.53	14.17
Total	61,182	2,353.13	100

Both commercial risks and personal business came via banks and financial institutions who were providing funds for the Insureds' projects, and from professional brokers who played an important role as risk consultants in these projects. On the other hand, there was also a big volume of retail insurance business, from banks involved in housing loans, from financial companies involved in automobile leasing loans, and from agents.

There were then great growth opportunities for an insurer if it was part of a bank or financial institution, whether as its subsidiary company, joint venture or business partner. The relationship between the insurance companies and their insured would be an indirect relationship because the insurers never made actual contact directly with a customer unless assistance was needed with a claim.

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[2] Non-life insurance direct premium of the market in 1996 . Source: the General Insurance Association.

[3] The exchange rate between Thai Bhat and US dollar was around Bht 26 to US 1 before the government decided to change the currency exchange system from the Basket Currency System to Managed Float System on July 20, 1997.

The economic crisis of 1997, which began in Thailand, spread to most of Southeast Asia(Sigma, 1999). In facing the consequent problems, the Thai government had to implement many solutions, such as implementing tight monetary policy, setting up tight fiscal policy, devaluing the Thai currency, and securing a financial support package from the International Monetary Fund (IMF). All of those resolutions had an impact on the performance of banks and financial companies which were already struggling financially, and there was also an adverse effect on insurers (Lokaphadhana, 2000). Finally the government decided to address the problems of the weakened financial institutions, and took the following action:

1. Shut down 56 financial companies on June 27 and August 5, 1997;
2. Decreased the registered capital of 12 financial companies on May 18, 1998;
3. Shut down 1 bank (The Bangkok Bank of Commerce) on August 14, 1998;
4. Intervened in 5 banks (Bangkok Metropolitan Bank, Laem Thong Bank, First Bangkok City Bank, Siam City Bank, and The Union Bank of Bangkok) on August 15, 1998;
5. Closed 1 insurance company because of insolvency (Rattanakosin Insurance);
6. Merged 1 bank and 17 financial institutions into a new Bank. (The Union Bank of Bangkok, Krungthai Thanakit Finance and Security, and 16 other finance institutions)

The general insurance market structure was totally changed because of the effects of the crisis on the banks and financial institutions (Lokaphadhana, 2000). The general insurance premium showed a negative growth rate during 1997 – 1999, turning positive in 2000.

General Insurance Direct Premium in 1995 - 2000

Year	Direct Premium (Million Baht)	Direct Premium Growth (Million Baht)	Growth Rate (%)
1995	53,079.39		
1996	61,184.79	8,105.4	+15.27
1997	57,657.00	-3,527.8	-5.76
1998	48,475.03	-9,181.97	-15.92
1999	45,869.39	-2,605.61	-5.37
2000	48,663.59	2,794.20	6.09

Some banks and financial institutions collapsed, and the surviving companies were forced by the Bank of Thailand to follow a new reserve system as a standard of BIS (Bank for International Settlement). New loans could not be generated due to the non-performing loans (NPL) problem. Some financial institutions and insurance companies were taken over, or formed into joint ventures by foreign investors (see the table below). These changes hurt the relationship between the financial institutions and insurance companies, because the business policies and strategies were changed by the people who formed the new management teams.

Some Examples of Changes in Banking and Financial Service Sectors

Previous Name	New Name	Foreign Investor
Nakornthon Bank Plc.	Standard Chartered Nakornthon Bank Plc.	Standard Chartered Bank, U.K.
Bank of Asia Plc.	Bank of Asia Plc.	ABN Amro Group, Netherland
Dhaidanu Bank Plc.	DBS Dhidanu Bank	DBS Bank, Singapore
Bangkok Investment Finance and Securities Plc.	AIG Finance (Thailand) Co., Ltd.	AIG Group, U.S.A.
General Finance and Securities Plc.	GE Capital (Thailand) Co., Ltd.	GE Capital Group, U.S.A.
Thai Metropolitan Insurance Co., Ltd.	Thai Zurich Insurance Co., Ltd.	Zurich Group, Switzerland
Vendom Insurance Co., Ltd.	AXA Insurance Co., Ltd.	AXA Group, France
Safety Insurance Plc.	Safety Insurance Plc.	NRMA Insurance of Australia, Australia
Charoenpokapan Insurance Co., Ltd.	Allianze CP Insurance Co., Ltd.	Allianze Group, Germany
South East Insurance (2000) Co., Ltd.	South East Asia Insurance Co., Ltd.	Asia Insurance Co., Ltd., Singapore
Guardian Insurance (Thailand) Co., Ltd.	AXA Insurance Co., Ltd.	AXA Group, France
Narai International Insurance Co., Ltd.	Narai Liberty Insurance Co., Ltd.	Liberty International Asia-Pacific Holding Inc.

To survive, all insurance companies had to change their marketing strategies (in both short term and medium term) and focus on finding other sources of businesses.

In the short term, most of them tried to secure a share of diminished business from agents and professional brokers by offering better incentive schemes to these intermediaries. In the market, the commission rates soared up to 30% - 35% for non-motor business, and 20% - 25% for motor business. The insurance companies provided not only these higher incentives but also a longer period of credit. They allowed the agents and brokers to expand their credit term up to 120 – 180 days. On the other hand, the premium rate had to be kept unrealistically low because of a price war as everybody competed for scarcer business. Eventually the insurers realized that their profits and solvency margins would be seriously threatened because of higher operating costs, lower underwriting profit, and reduced investment income[4].

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[4] The interest rate has been decreased since 1998 due to the policy of the Bank of Thailand.

Commission Rate Structure for General Insurance

Type of Insurance	Standard Commission (%)[5]	Market Commission (%)	Bonus (%)	Total (%)
Fire Insurance	23	28 – 30	2 – 5	30 – 35
Automobile Insurance	18	20	2 – 5	22 – 25
Marine Insurance	12	20 – 22	5 – 8	25 – 30
Miscellaneous Insurance	18	20 – 22	3 – 5	23 – 27

In the medium term, the insurance companies tried to find new sources of businesses, or a new strategic partner (foreign partner), which could help them to stabilize their underwriting portfolio and maintain business growth. Eventually some of them decided to focus on the retail business as they believed that this would be the best solution under the twin pressures of the economic crisis and industry liberalization.

Retail Business in Non-life Insurance

The consequences of the economic crisis compelled the insurance companies to consider this new source of business. They believed that retail business would be the right solution in the long-term because of the following factors:

1. Government Policy. Since the crisis began the government tried to recover from the economic crisis by constructing a strong economic foundation similar to Taiwan. Therefore, most of the government policies were intended to focus on the Small and Medium Businesses (SMEs). The government promoted many support programs to SMEs, such as providing support loans through the state banks and financial institutions, Krung Thai Bank, and the Small Industry Finance Corporation. These stimulated all banks and financial institutions to catch up with the trend, including insurance companies. To generate higher income, the commercial banks also provided personal loans for retail customers.
2. Department of Insurance (in the Ministry of Commerce). The Insurance Commissioner announced a new regulation concerning commission rates for direct policies (on November 3, 1998).[6] The announcement allowed the insur-

[5] The Department of Insurance determines the standard commission rate as a fixed percentage.

[6] Insurance Commissioner Announcement No. 94/2541.

ance companies to offer a net premium rate (after deducting the commission discount) to the direct customer. The purpose of this announcement was to motivate consumers to buy an insurance policy because of the cheaper price.

3. Change in Consumer Behavior. Customers now have a higher degree of education. They know how to check and compare many choices among the service providers. The companies that could provide a better service, broader coverage and a cheaper premium would be considered as a good choice. This pushed the insurance companies to readjust their operation and services.
4. Lower Incomes. With limited incomes, people had to cut out any unnecessary expense, including insurance. Many people decided to cancel or discontinue their policies to save money. Potential customers changed or postponed their decision to buy new insurance, while existing policyholders cancelled or reduced their cover. As a result, demand for insurance had significantly decreased for general insurance (Chen et al, 2000).
5. Premium Collection Problem. During the boom period, the insurance companies preferred the large and medium size clients, despite the high competition and very thin premium rates. The premium income was very attractive, and the investment yield was in double digits. When the economy was in a downturn, insurers found that it was very difficult to collect the premiums from those clients, many of whom, after months of wrangling, refused to pay the premiums if there had been no claim. These became huge bad debts for the insurers. On the other hand the retail business had an insignificant effect on the companies' financial status because it accounted for only a small premium income. The consumer still had the ability to pay the premium and with little power to negotiate credit or other terms. If they could not pay, it would be a small amount for the companies to write off as bad debt.
6. Balance the Portfolio. Retail business means dealing with small amounts of money from a large number of customers. It was easier for the insurance companies to compete with their competitors and achieve a better balance among their types of business. In this sense it was impossible to lose a huge amount of premium at the same time. If the company lost some of the business, this would not create a severe effect on the company compared to a lost business in the corporate account. This would help the insurance companies to have time to readjust their portfolio and find substitute businesses.
7. Premium Rate. The degree of competition in retail business was not high compared to the big accounts and corporate accounts. It meant that the insurance companies still could charge a reasonable premium rate to the consumer. In the market currently, if the insurance company insures a high-rise building, the premium rate would be around 0.35 per mil or lower. This premium rate has been decreased since 1995 from 1.05 per mil to 0.35 per mil. In contrast, the personal accident premium rate has been unchanged for the last five years as also the fire insurance premium for a house.

8. Spread of Risks. According to a basic insurance principle, if the company could have a portfolio characterised by a good of spread of risk, the performance of the company would be better. As the characteristics of the retail business are low sums insured and high numbers of risks, the retail business would be very appropriate for insurance companies.
9. High Retention. Since the sums insured in retail business are not high compared to industrial risks, the insurance company had the capacity to keep a higher retention and did not need support from reinsurers. This should help the insurance companies to have better results.
10. Build up Long-term Customer Base. To provide service for the retail customer, the insurance companies have to understand the needs of the customers and improve their service operations. Therefore, they have to work closely with the customers. This would be a good opportunity to look after the real customers and improve the relationship with them. This would help the insurance companies to build up a long-term customer base.

This new focus on the retail market, is not only due to the 1997 fallout but also to the liberalisation steps in Thailand (Lawrence, 2000a). This brings fierce competition, and this puts pressure on all insurers to review their strategies in order to cope and survive (Schanz, 2000). The major stimulus to competition is from foreign insurers with their enormous capital, experience, expertise and systems (Lawrence, 2000b). It is in complex commercial lines that these foreign insurers usually are most successful because of their large size, geographic spread of risk, in-depth knowledge and management efficiency: local insurers tend to dominate the less complex personal lines (Skipper, 1998).

How Insurers Now Conduct Retail Business

Retail business thus became a favourite topic in general insurance companies after the crisis. Companies started launching many marketing activities and products, through new and diverse distribution channels such as direct mail, direct sell, internet, and bancassurance. Coupled with these other forms of distribution was a focus on quality customer service, not just in speed and accuracy, but also in the form of providing assistance not previously offered (such as car repair assistance). Most of the marketing activities would directly focus on personal line products such as automobile insurance, homeowner insurance and personal accident insurance. However the insurance companies had to think carefully about the distribution channels and try to keep a balance between the traditional channels (agents and brokers) and modern channels (bancassurance, direct mail, internet). This would help them to manage complaints from the traditional intermediaries. This changing of marketing strategy to include many channels broke the traditional practice because personal lines insurance used to be dominated by agents.

The following is a description of these new channels of distribution, under the three general headings, Direct, Agent, and Bancassurance:

Direct Marketing

This channel is currently very popular in the Thai market because of the development of information technology and the education of Thai people. The insurance companies make direct contact with prospective customers through many different channels with many types of media (such as television, radio, billboard, newspaper, flyer, and letter).

1. **Direct Sell** – The insurance companies promote many direct sell programs in the market. Those programs are designed in order to create a direct relationship between the insurer and the customers. Some programs generated very high premiums, but some programs were total failures. The patterns of direct sell in Thai market fall into the following categories:

- Direct Contact with Employees – This is the most popular pattern of direct sell. Typically the insurer will offer a special insurance package to members of an organization or employees of a company, such as staffs in government organizations, state enterprises, labor unions, associations, and private companies. Each such customer would make his own decision and would be treated as an individual customer. To succeed in this pattern, the insurance company has to consider the nature and characteristics of the prospective groups of customers, such as lifestyle, ethnic cultural differences, education level, age, and sex etc., and design an appropriate package to serve the group's generic needs.

- Business Co-operation – This pattern is unique for every single project. It involves the co-operation of two or more parties which focus on the same group of customers. Each party will bring different strengths to the co-operation, for example a fund manager wants to sell a unit trust and the insurer wants to sell health insurance attached to the unit trust. The most successful example of this in Thailand is the co-operation between Jor Sor Roy (traffic report radio station FM 100 MHZ) and three insurance companies (Viriyah Insurance, Sin Munkong Insurance and Navakij Insurance. They designed a "People Love Cars Program". The purposes of this program are to promote safety in driving and provide car accident assistance. Direct customers get a special insurance premium rate and coverage if they are listeners who have registered as members of Jor Sor Roy. Moreover they will receive many special privilege such as a replacement car while their own is being repaired after an accident.

- Selling 'off-the-page' – Some companies contact prospective clients through printed publications available in bookstores and news-stands, such as magazines, newspapers, books and brochures. The strength of this pattern lies in the insurer knowing the characteristics of the target group of readers. In this pattern, most of the players are foreign insurance companies. For example, Blue Cross (health insurer) offers a special health insurance package for Thai Rat Newspaper (daily); and ACE Insurance provides a personal accident insurance package for Central Card Magazine readers and their families.

- Others – Some insurance companies offer their products through other specific channels. For example, Patra Insurance sells personal accident insurance through the ATMs of Thai Farmers Bank; Samphan Insurance and Liberty Insurance sell compulsory automobile insurance through companies' kiosks. Allianz C.P. Insurance and Muang Thai Insurance sell compulsory automobile insurance through the chain of 7-Eleven convenience stores; Dhipaya Insurance sells compulsory automobile insurance and personal accident insurance through the gas stations of the Petroleum Authority of Thailand; and Narai International Insurance sells personal line products through a chain of mobile phone shops (World Phone Shop). Thai Insurance offers gasoline coupons valued Bht. 300 to customers who buy voluntary automobile insurance through the telephone.

2. **Direct Mail** – During the boom period (before the 1997 crash), one player, CIGNA Property and Casualty Insurance, dominated the direct mail business.[7] CIGNA offered personal line products to all credit card customer bases. After the economic crisis, many insurance companies, both local and foreign companies, came into this market and more types of personal line products such as personal accident insurance, homeowner insurance, health insurance, automobile insurance and hospital daily allowance insurance are offered to the retail customers. Currently the main target customers are not only credit card holders. These direct policies are also offered to saving account depositors, and store card members. The foreign companies seem to be leaders in direct mail business, although many local companies try to compete in this market. New marketing tactics are being used to persuade the prospect customers to buy a policy, such as a personalized letter, a tailor-made package policy, and the facility of monthly installment payments. Some insurers offer special terms and conditions plus a special bonus to customers, e.g. Royal Sun Alliance offers a special automobile insurance package to CITIBANK credit cardholders: these customers also receive free personal accident insurance

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[7] Currently CIGNA Property and Casualty Insurance Co., Ltd. was named as ACE Insurance Co., Ltd.

with a Bht 500,000 sum insured and 5,000 bonus points for the credit card. To be able to compete with the foreign companies, the local companies need to find professional partners in the direct mail business.

3. **E-Business** - The fast expansion of internet technology and the number of users around the world, has changed the way people do business. Currently around 300 million people have access to the internet, most of them living in industrialized countries. This new technology assists people to do business easier and faster at lower operating costs. New business models and new businesses are developed every day such as Amazon for books and CDs, eToy for children's toys, eBaby for babies' items etc. These new organizational models changed the way of doing business especially in the US market. In the financial sector, online stockbrokers seem to have been very successful since the mid-nineties. The reason for this success has been the combination of lower commission and improved services such as real time quotes, faster execution of client orders and greater transparency. In the insurance industry, e-business faces some obstacles in its development, but internet insurers are expected to gain substantial market shares especially in personal lines. By 2005 this market segment will represent a 5% - 10% share of the US market and around 3% - 5% in Europe (Holzheu, 2000).

   In Thailand, the number of internet users was around 4 million in 2000 and this number is expected to be 7 million in 2003. The nature of internet users in Thailand is quite similar to that in other countries. "The first generation of internet users mainly consisted of young people with high incomes who were inspired by the new technology. Now a second wave of users has emerged: people less interested in the technology, who use the internet mainly because it is convenient and saves time" (Holzheu, 2000). The majority of internet users in Thailand are lecturers and students (in high schools and universities), and company employees. These groups of people are the prospective clients in future because they are young, well educated, and with high buying power. Currently, people are getting familiar with online business and services, especially in the financial sector. All major commercial banks are promoting their e-banking and payment gateway services. And financial companies are encouraging customers to buy shares online The following are some examples:

Providers of Financial Service Online

Company Name	Project Name	Website
Bangkok Bank Plc.	Bualuang I Banking	www.bbl.co.th
Krung Thai Bank Plc.	KTB Sm@rt Banking	www.ktb.co.th
Thai Farmer Bank Plc.	TFB e-Internet Banking	www.gotoTFB.com
Siam Commercial Bank Plc.	SCB Easy Net	www.scbeasy.com
Bank of Ayudhya Plc.	Krungsri Online	www.krungsrionline.com
Bank of Asia Plc.	Asia Cyber B@anking	www.BankAsia4U.com
TISCO Securities Plc.	Tisco E Trade	www.tiscoetrade.com
KGI Securities (Thailand) Plc.	Kgi E World	www.kgieworld.co.th
Kiatnakin Securitites Plc.	N/A	www.kks.co.th

Retail Insurance On-line in Thailand

In the non-life insurance sector, there are 73 insurance companies. 31 of these have websites but only few of them provide an on-line business service. Basically companies use their websites as information centers describing the company's profile, management team, services and products, networks, and financial status. Only few of them provide the customer to customer service (C-to-C), but with no product differentiation from what is offered through traditional intermediaries. Personal line products such as automobile insurance (both compulsory and voluntary), personal accident insurance, homeowner insurance, and health insurance are offered on-line.

Insurance Online Providers

Company Name	Website
Royal and Sun Alliance (Thailand) Co., Ltd.	www.royalsun.co.th
Krungthai Panich Insurance Co., Ltd.	Www.kpi.co.th
Thai Zurich Insurance Co., Ltd.	www.thaizurich.com
Thai Insurance Co., Ltd.	Www.thaiins.com
Sin Munkong Insurance Plc.	Www.smk.co.th

It is difficult to attract enough customers to make it viable to sell insurance products on-line because of the following reasons:

a. Data Security – Many consumers still view the internet as an insecure medium. They are reluctant to trade on-line because they are afraid of a leakage of data.
b. Laws and Regulations – Laws and regulations concerning e-business have not been finalized by the government.
c. Payment Charge – Even the commercial banks are promoting a gateway payment service that allow the buyer to pay a bill by credit card. But the transaction fee is too high at 5%, compared to traditional payment methods.
d. Nature of the Insurance Business - Normally people are not actively looking for an insurance product, until someone else proposes it. Therefore, it is more difficult to encourage people to search for and within an insurer's website.

e. The Complexity of Insurance Products – It is quite difficult to understand and to compare policy terms and conditions without assistance, unless a product is very simple.
f. Number of Contacts – Internet is particularly suitable for products where contact with the company is more frequent. Insurance is usually taken out infrequently, only once a year (or even more infrequently).

However the insurance companies try to stimulate the market by implementing the following different strategies:

a. Attach the website (or a banner) to a popular website or related business websites such as banks, financial services, portal, car leasing and news. These websites attract a regular flow of visitors and help prospective clients to visit the insurance website and repeat these visits. Some examples of such websites are Sanook.com, Hellodiscount.com, Thailifestlye.com, Thaifin.com, Silkspan.com, and Catcha.com.
b. Promote the website through the media. Royal Sun Alliance promotes its website through advertisements on the side of buses. Thai Insurance promotes its website on advertising billboards. Krungthai Panich promotes its website on the company' s printed documents, brochures, letters etc..
c. Provide special rewards or terms to customers who buy an insurance policy online. Thai Zurich Insurance offers a special premium; and Bangkok Insurance offers a free compulsory automobile insurance policy.
d. Set up a promotion campaign with a financial service provider to persuade the customer to pay online via credit card and debit card. Krungthai Panich Insurance has such an alliance with Krung Thai Card., and Patra Insurance with Thai Farmers Bank.

Insurance cover is ideal for marketing via the internet, as it is not a physical product involving expensive delivery. Despite this, the insurance industry lags behind other financial service providers in the use of the internet as a distribution medium (Birkmaier, 2000). In the short term the internet channel is not a fruitful distribution channel; however the insurance companies cannot forget this channel and need to be prepared to use it in the longer term.

Agent

This is a traditional but still powerful distribution channel in retail business. The agency distribution channel in Asia dominates personal lines business and has provided valuable advice to customers while providing insurers with large volumes of business. The value of personal relationships between insurer and agent and customer and agent should not be underestimated and will continue long into the next century. The availability of agency-supplied business has resulted in many insurers paying less attention to their personal lines portfolios, preferring instead to focus on large premiums from commercial/ global business placed mainly through major brokers (Kehoe, 1999). In 1997, when the economic crisis started, agents became the important sources of business and had high bargaining power. At that time the insurance companies tried to get business from agents by arranging higher incentive programs for agents. Only few of them considered how the agency system and personal products could be developed. This lack of emphasis on personal lines has led to a lack of innovation and of product sophistication which also means that many insurers have little awareness of the end-consumers' needs or buying behavior. A non-differentiated series of products is unlikely to meet all consumers' needs, and in an environment where there is a lack of awareness on behalf of the insurer, often little activity has been undertaken in segmenting and profiling customers (Kehoe, 1999).

What happened was that eventually all agents kept switching their business around the market in order to get higher commission. This meant higher operating costs for the insurance companies. To succeed in the retail business, the companies have to find the way to maintain their agency sources at a reasonable price. That means the companies have to get closer to their actual real customers by

1. Improving the customer database.
2. Analyzing and understanding the nature of customers and their needs.
3. Developing new products to serve the different customers' needs.
4. Communicating to the real customers.
5. Improving relationships with the customers.
6. Providing more benefits to the real customers such as rewards, privilege and services, and special activities.

With all these improvements, the bargaining power of agents will be alleviated to a reasonable level because it will be the real customers who decide to choose an insurer.

Bancassurance

A problem in switching to direct business is the cost of reaching and servicing so many customers, instead of through intermediaries. A ready-made solution was at hand – to use the distribution system and customers of a bank. Thus, many insurers who have decided that their strategy is to go 'direct' have formed some sort of relationship with a bank, a form of bancassurance.

The Bancassurance concept has been developing in Europe since 1990 and it is very successful. In UK, personal lines have long rivalled commercial lines as an insurer's biggest source of general income. The relatively stable distribution system in UK began to change in 1998, because the major financial service institutions re-appraised their role in the insurance sector. There is a highly varied distribution system, including banks and building societies (home loan providers), but other unlikely sources also interface with the customer, such as an international pharmacy chain, an international superstore chain, British Telecom, and Supermarket / hypermarket chains (Close, 1999). Nevertheless it is considered by Turton (1998) that the most effective distribution strategy for general lines is that lenders (such as banks) with their insurance partners will remain the leaders in distribution.

Bancassurance is concerned with the provision of insurance, banking products and services via a bank's distribution networks to the same client. Bancassurance covers a wide range of detailed arrangements between banks and insurance companies, but in all cases it includes the provision of insurance and banking products or services from the same sources or to the same customer base (Violaris, 1997). This concept is applied in many countries around the world including South East Asia.

Bancassurance is still relatively new to Malaysia, but is an important driver in the growth of personal lines business, pioneered by Maybank, and it is considered that the consolidation of the banking industry now being experienced following government intervention in a fragmented market will result in the concentration of the distribution channel into the hands of a few banks there and the few insurers who have connections and skills necessary to write this business (Leung, 2000).

Bancassurance is already well under way in Hong Kong and Singapore, although mostly for life and savings products (Chun and Stitt, 2001). In Singapore, because of recent regulatory reforms, banks are rapidly moving away from product selling (pushing products at customers) towards needs-based selling (based on data from the bank's files) (Weaver, 2001).

One model of bancassurance is where the bank and insurer form a strategic alliance (with a variety of forms possible). Dart (2001) describes how in a perfect alliance, the bank and the insurer would share all their customer data, so that each customer can be dealt with in a way that best benefits him but also recognises the total value of that customer to the alliance of bank and insurer. This would need a very sophisticated data support system, and a dynamic interactive approach needing much skill. This interactive approach, based on a computerised database and expertly skilled people, is strongly advocated (among many other issues) by Lindstrom (2001) in a remarkably radical and farseeing article.

In Thailand, bancassurance has been developing a different model because every commercial bank has its own insurance company as a subsidiary company. These subsidiary insurance companies provide all necessary coverage for the banks' properties, liabilities, and employees. Moreover they will arrange the coverage for borrowers who put collateral assets with the bank. After the analysis processes, the credit analyst asks the borrower to insure the collateral asset with a subsidiary insurance company and specify the bank as a beneficiary. However these relationships have not made much progress so far because there are some restrictions in the regulations of the Bank of Thailand and the Insurance Department which keep banks and insurers separate to ensure distinct accountability.

Since the economic crisis started in 1997, the banks and insurance companies' performance has declined by a high percentage. They have to find the new sources of income. Bancassurance has become an attractive issue among the banks and insurance companies because:

1. Intense competition between banks, against a background of shrinking interest margins, and non performing loan (NPL) problem has led to an increase in administrative and marketing costs, and limited the profit margins of the traditional banking products. The banks aim to generate more income from service fees because they could not make any new loans. New products could substantially enhance profitability and increase productivity. Financial benefits to a bank's performance can flow in a number of ways, such as increased commission income and service fee income, fixed cost reduction, and increased staff productivity.
2. Re-regulation in advance of liberalisation is often accompanied by increasing controls over how products are sold to consumers, including agent authorisation and training, which would also extend to bank staff selling insurance (Whitear, 2001). In Thailand, banks and insurers fall under different government ministries, but revised regulations are expected in 2001 (Dye, 2001). The Bank of Thailand and the Insurance Department have made considerable regulatory changes regarding the banking and insurance sectors. Banks may soon be allowed to operate across a broader range of activities, including insurance.
3. The realization that joint bank and insurance products can be better for the customer as they provide more complete solutions than traditional stand-alone banking or insurance products. These create customer loyalty and a better competitive advantage for the banks.
4. Insurance companies would like to increase their premium income by finding new sources of business. The bank's client base is a valuable source of business for the insurance company because it may well be 'virgin territory' for the insurance company.
5. An insurance company could reach customers nationwide by offering products through the bank's branches and networks.

Even though the change of regulations is still in process, some banks and insurance companies have started offering the following different versions of their insurance products to the banks' customers:

1. Combine Products – The insurance company packages the insurance products with bank products, such as Deves Insurance which offers free personal accident insurance coverage for customers who open a saving deposit account with Siam Commercial Bank. Ayudhaya Insurance also offers free personal accident insurance coverage for customers who open

a fixed deposit account, and Samaggi Insurance offers health insurance coverage for customers who open a fixed deposit account with Siam Commercial Bank.

2. Premium Payment – Some banks and insurance companies avoid violating the restrictive Bank and Insurance regulations by offering insurance products as premium collection services.
3. A Product Unique to the Bank – a package specially designed only for that bank's customers.

Bancassurance in Thailand has much more potential for further development, in terms of range and style of products and closer integration of organisation and operations, along the lines experienced in other some other countries, as described by Dart (2001)..

Potential for Developed Bancassurance Candidates in Thailand

Insurance Company	Bank
Bangkok Insurance Plc.	Bangkok Bank Plc.
Krungthai Panich Insurance Co., Ltd. Diphaya Insurance Plc	Krung Thai Bank Plc.
Muang Thai Insurance Plc. Patra Insurance PCL	Thai Farmer Bank Plc
Samaggi Insurance Plc. Deves Insurance Plc.	Siam Commercial Bank Plc
Ayudhya Insurance Plc.	Bank of Ayudhya Plc.
Thai Insurance Co., Ltd.	DBS Thai Danu Bank Plc.
AXA Insurance Co., Ltd.	Bank of Asia Plc.
Navakij Insurance Co., Ltd.	Standard Charter Nakornthon Bank Plc.
Thai Thannakit Insurance Co., Ltd.	Thai Bank Plc.
China Insurance Co., Ltd.	Bank of Metropolitan Plc.
Siam City Insurance Co., Ltd.	Siam City Commercial Bank Plc.

Factors Affecting Success in Retail Business

To succeed in retail marketing, the whole of the marketing environment has to be considered (Easton & Fyfe, 1991). From all this, trends and strategies can be identified and developed (Plowman, 1999). The main factors in the marketing environment in Thailand are:

Corporate Image – The consumers are seriously concerned about the insurance companies' image since the first signs of the economic crisis in 1996. Consumer confidence is the most important thing. Consumers now avoid having any dealings with an insurance company unless it has a strong financial status. To be able to compete with the foreign companies in the retail business, the local insurer has to build up its corporate image and a recognition of the company's name and trademark. Many insurers see the brand as becoming of increasing importance, more important than price to a customer (Campbell, 2001). After the crisis, many insurance companies have regularly promoted their names in many types of media such as TV, radio, newspapers, magazine, internet and sponsorship. Most of the advertisements follow the same theme, which intends to create the company's credibility, such as strong financial status, international standard of service, and expertise in insurance. For example, Bangkok Insurance has the strongest financial strength, Dhipaya Insurance has the high standard of service required by ISO 9002, and Allianz CP is a world class insurer.

Clear Vision and Mission – The top management should determine a clear vision and mission. All employees should know about the direction of the companies, where to go, how to get there, when to go and what to do.

Strategic Partner – The government is liberalizing the insurance industry to allow foreigners to gradually hold bigger stakes in Thai companies. Foreign insurers will usually have more experience, advanced technology and more capital. This will make the insurance market highly competitive in the near future (Lokaphadhana, 2000). The local companies should find appropriate strategic partners to support each other.

Networks and Distribution Channels – This is the great advantage of the local insurers because they have nationwide branches and networks that could be used as selling points and claim service centers. The insurance companies must plan how to utilize their assets properly in order to increase the size of the retail business. Moreover the insurance companies should expand their networks and distribution channels in other forms, such as join with other organizations which have selling outlets, and attach the insurance package to other retail products.

Product Development – Product development is an important factor in retail businesses. The insurers must develop new products to meet the consumers' needs, with emphasis on the middle class people who still have purchasing power (Lokaphadhana 2000). The companies will not be able to compete with the foreign competitors unless they can provide more choice of products for the customers. However the companies need to know and understand the consumers' needs before they develop any new product.

Human Resource Skills – The lack of qualified human resources is a major problem in the insurance industry (Lawrence, 2000b). especially, if a company needs expertise in direct mail, direct marketing, and bancassurance. This pushes the insurance companies to recruit highly qualified staff, through head-hunting, at high salary levels. In the long term the companies should plan how to overcome this problem and develop young staff to be capable of competing in the retail business market.

Information Technology – Most of the local companies still use outdated IT systems that lack the capacity for running a retail business. The top management should consider IT development as a high priority. IT is the most important factor helping the companies to operate the business with higher efficiency and effectiveness. An insurance company must develop not only the IT system but also the work processes at the same time: they should improve the productivity and effectiveness of work processes. In the retail business, IT is a vital tool that helps an insurance company to establish and manage a customer database. This will support other functions such as customer analysis, product development, marketing planning, and claim services.

Premium Collection – Insurance companies experienced great economic difficulty, especially in the collection of premiums, during the crisis. In the retail businesses, the companies have to deal with a big group of customers. Some types of insurance policies allow the customers to pay by installments. It will be a serious problem if the companies cannot collect an installment premium in time (thus lapsing the policy and losing income), therefore the companies should provide many premium payment alternatives such as credit card, debit card, cash, check, and direct debit.

Control Operating Costs – Running a retail business is totally different from the corporate business, because it has a massive volume of policies, each for relatively small amounts of premium. The companies must carefully control their operating costs by installing new technology, reducing the number of staff and eliminating some work processes.

Conclusion

Forced into a radical reappraisal of the non-life business by the 1997 crisis, and challenged by a liberalising market, insurers in Thailand have embarked on a variety of new ways of reaching and keeping customers.

Insurance is a risk business anyway, so any new venture is risky. But turbulent change is an inescapable feature of our modern world, and risk is double-sided: success as well as failure. Undoubtedly there will be both, and if insurers take a calm professional approach in analysing each of these outcomes they will become even more skilful in tackling the future.

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