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The Dynamics of Emerging Asia's Life Insurance Markets—Findings From a Recent Peak Re Executive Survey

By Franz Josef Hahn

Driven by rapidly growing middle classes, emerging Asia's life insurance markets have witnessed a tremendous expansion over the past two decades. Their total premium volume has grown to about US$500 billion, with China alone accounting for more than 70 percent. In total, ëmerging Asia today originates about one sixth of the world's life insurance business.

Against this exciting backdrop, Peak Re has commissioned a survey among regional life insurance executives, conducted by Dr. Schanz, Alms & Company, a Zurich-based consultancy. Peak Re is a Hong Kong–based global reinsurer with the clear purpose of supporting the needs of communities and emerging middle-class society by meeting their reinsurance needs.

The research draws on in-depth interviews with senior executives of 29 national, regional and international (re)insurance companies and intermediaries based in eight different markets. The underlying qualitative interview approach enabled us to probe deeper, obtaining clarifying responses from the participating executives. In addition, by including both global and regional players, as well as generalists and specialists, we have been able to collate a broad yet nuanced picture of the marketplace, covering life insurance, fixed-benefit type health insurance and reimbursement-type medical insurance.

The following article presents a summary of the survey's key findings (see *https://www.peak-re.com/wp-content/uploads/2019/03/EALP19.pdf* for the full report).

DIGITALIZATION TOPS CORPORATE STRATEGIC AGENDAS

In order to establish a regional portfolio of strategic corporate priorities, executives were asked to name those areas that rank highest on their corporate development agenda for the next three to five years. Not surprisingly, digitalization emerged on top. Efforts concentrate on online distribution, automated underwriting, policy administration and claims settlement (including a few initiatives around artificial intelligence–based applications). Most executives stress the potential of technology in cutting operating and distribution expenses, which are considered a major obstacle to higher levels of insurance penetration. Such investments in modern technologies and analytics are not limited to proprietary direct channels but also extend to agency forces and interfaces and the related back-end processes. At this stage, cost-efficiency considerations prevail, whereas only a minor share of technology investments is designed to create additional revenues.

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LIFE AND HEALTH INSURANCE PREMIUMS EXPECTED TO CONTINUE OUTGROWING GDP

An overwhelming majority of 86 percent of executives believe that life and health insurance premiums will continue outpacing GDP growth. There is a broad consensus that health products will grow fastest. This outperformance is driven by a bouquet of political, economic, social and technological factors. The offerings of some public schemes no longer meet the increasing demands of the wealthier parts of the population. This emerging gap boosts private sector insurance sales of mortality, morbidity and longevity solutions, supported by generally increasing levels of per capita income and a growing awareness of the need for income protection. At the same time, urbanization is progressing rapidly across the region, translating into weakening family ties and heightening the need for alternative, more formal protection schemes. Also, virtually all executives expect digital technologies and advanced analytics to further accelerate premium growth as a result of improved outreach to underserved segments of the population, enhanced product appeal and lower transaction costs.

Some executives who do not expect premiums to outgrow GDP point to recruitment constraints that could threaten the effectiveness of the agency force, a career option that is of limited attractiveness to the younger generations. In addition, some markets have a strong bias toward savings products with relatively subdued growth prospects in a "lower for longer" interest rate environment.

STRONG GROWTH IN ONLINE DISTRIBUTION LIMITED TO SHORT-TERM AND SIMPLE PRODUCTS

In terms of growth dynamics, direct online sales stand out, albeit from a very low base. Citing the region's young and technology-savvy population, most executives spot a great potential for online in simple and easy to understand areas such as term life, personal accident and (to a lesser extent) critical illness. However, with the notable exception of China, online sales have not yet gained any major visibility in emerging Asia. But even in China, as a result of a relaxation of qualification and certification requirements, sales through agents surged in 2018, while online sales contracted by 13 percent, according to the China Banking and Insurance Regulatory Commission (CBIRC).

Technology platforms rank second as far as perceived sales growth is concerned, although at still marginal overall levels. A number of executives see the real opportunity for such platforms in generating leads for fully "digitalized" agents and independent advisors who are viewed as the third most rapidly expanding force in distribution.

MORBIDITY CONSIDERED THE SINGLE MOST IMPORTANT PROTECTION GAP

The most frequently mentioned protection gap in emerging Asia relates to morbidity: environmental pollution and changing lifestyles give rise to a rapid growth of cancer, diabetes and cardiovascular diseases. Millions of families are viewed as being exposed to such calamities that, if they affect the main breadwinner, could even throw the family back into poverty.

In the eyes of the executives polled, the second most severe protection gap is longevity, especially in China and Thailand. These concerns reflect not only demographic trends but also major social changes that erode historically reliable informal protection schemes, such as family ties and village communities.

Mortality risk ranks third. It is less visible and prominent than morbidity and longevity risk, but it is still expected to grow in overall economic and social relevance as incomes continue to rise, social security benefits fail to keep pace with this momentum and household savings ratios erode given a higher propensity to consume.

Generally speaking, protection gaps in emerging Asia encompass both non-insurance and underinsurance. In most countries less than one year of income is protected through insurance.

AWARENESS SEEN AS MOST RELEVANT REASON FOR UNDERINSURANCE

According to the executives polled, a lack of awareness is the main reason for underinsurance, defined as people buying less insurance than is economically beneficial to them. Cultural obstacles were identified as the second most relevant roadblock to insurance buying. Many customers still rely on traditional family ties or government support for protection. Others expect a "return" from insurance and do not believe that "peace of mind" as such is worth a regular premium payment even if claims fall short of it. Affordability ranks third as major parts of the population still do not enjoy the excess income needed to purchase insurance. This challenge is exacerbated by the high costs of distribution.

IMPROVED EDUCATION AND FINANCIAL LITERACY VIEWED AS MOST EFFECTIVE REMEDIES

Most executives think that education is the main key to unlocking the full potential of life and health insurance in emerging Asia. The second most promising remedy to underinsurance is seen in the area of distribution. Existing sales channels are not only considered too expensive but also adversely impacted by trust-eroding practices such as misselling. Most executives believe that digital technologies can help address both issues. The same is true for product appeal and simplicity, identified as the third most relevant approach to tackling underinsurance. Technology offers the potential to revolutionize product design, underwriting and claims settlement.

TERM AND WHOLE LIFE AND FIXED-BENEFIT HEALTH INSURANCE ARE MOST PROFITABLE AREAS

For most executives, term and whole life insurance is the most profitable product line. The price elasticity of demand is relatively low, not least because of still dominant agency distribution.

The picture is different for savings-type life insurance policies: more than three quarters of the executives participating in the survey report current profitability levels below the average of the past three years. The main concern is the protracted low interest rate environment, exacerbated by an increasing volatility in financial markets.

Margins on health insurance products that offer fixed benefits for critical illnesses, cancer, diabetes or in the form of hospital cash are viewed as attractive by most executives. Over the past few years, demand for such products has increased substantially on the back of growing awareness, better education and higher disposable incomes. Besides savings business, medical (reimbursement-type) insurance is viewed as presenting the most serious profitability challenges. Fifty-six percent of the executives polled consider the current level of margins as being below the average of the past three years. Many customers see medical insurance as a "commodity," similar to auto insurance. Additional competitive pressure arises from endemic medical inflation, partially due to a lack of public policy efforts to curb surging hospital costs.

STABLE PROFITABILITY OUTLOOK FOR TERM AND WHOLE LIFE AS WELL AS HEALTH INSURANCE

Forty-eight percent of executives expect margins on term and whole life insurance business to remain stable over the next 12 to 24 months. The outlook is slightly more optimistic for savings products. Thirty percent of executives expect higher margins as interest rates seem to have crossed their low point. On the other hand, regulatory developments exert fundamental pressure on savings-type business. Risk-based solvency regulations, similar to Solvency II, in combination with new accounting standards (IFRS 17) are weighing on earnings. Under such regimes, the economic valuation of insurers' assets and liabilities can make it uneconomical to offer long-term guarantees and assume financial market risks on behalf of policyholders—a key element of life insurers' traditional value proposition.

As far as fixed-benefit health products are concerned, 56 percent of the executives polled do not foresee any major changes to profitability over the next 12 to 24 months. The outlook for medical reimbursement products is more pessimistic given this line's comparatively commoditized nature and a frequently limited scope for repricing.

IMPLICATIONS FOR REINSURERS

Life reinsurers primarily assume biometric risk that covers exposures related to human life conditions. As such, they are relatively immune to the global downturn in traditional savings business that has spread to emerging Asia in the wake of ultra-low interest rates and regulatory changes that make it uneconomical for life insurers to offer yield guarantees. Positively speaking, life reinsurers are set to benefit greatly from the shift toward protection products that can be observed across emerging Asia. China is a particularly striking example: life premiums contracted by more than 5 percent in 2018, after expanding at a double-digit average rate over the past 10 years. This drop reflects regulatory tightening affecting sales of short-term universal life policies, in line with the government's strategic intent to engineer a shift toward protection-type products that address emerging challenges, such as the rise of chronic diseases, and to mitigate financial risks arising from wealth management–type short-term insurance products.

The launch of personal tax-deferred pension insurance in China is another future opportunity for life reinsurers with an appetite for longevity risk. In Thailand, where the population is aging rapidly, private pension plans, including annuities, are already quite popular and require reinsurance protection.

CONCLUSION

Emerging Asia has a total population of 3.6 billion. The region generates a GDP of about US$17.5 trillion, which is equivalent to 22 percent of the world's total. At an inflation-adjusted growth rate of 6.8 percent per annum between 2012 and 2017, the economies of emerging Asia expanded almost twice as fast as the world economy. Going forward, although projected to decrease slightly, this growth differential will remain fundamentally intact.

At Peak Re, we are confident that these markets and segments will continue to contribute significantly to life and health insurance revenues in the coming years. ■

Franz Josef Hahn is CEO, Peak Reinsurance Company, Hong Kong SAR, China. He can be contacted at *franz@peak-re.com*.