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Global Insurance Report 2023: A paradigm shift in Asia life insurance

Asia's life insurance sector has been a key driver of global industry growth. A recent slowdown and shifts in the market signal a need for strategic recalibration.

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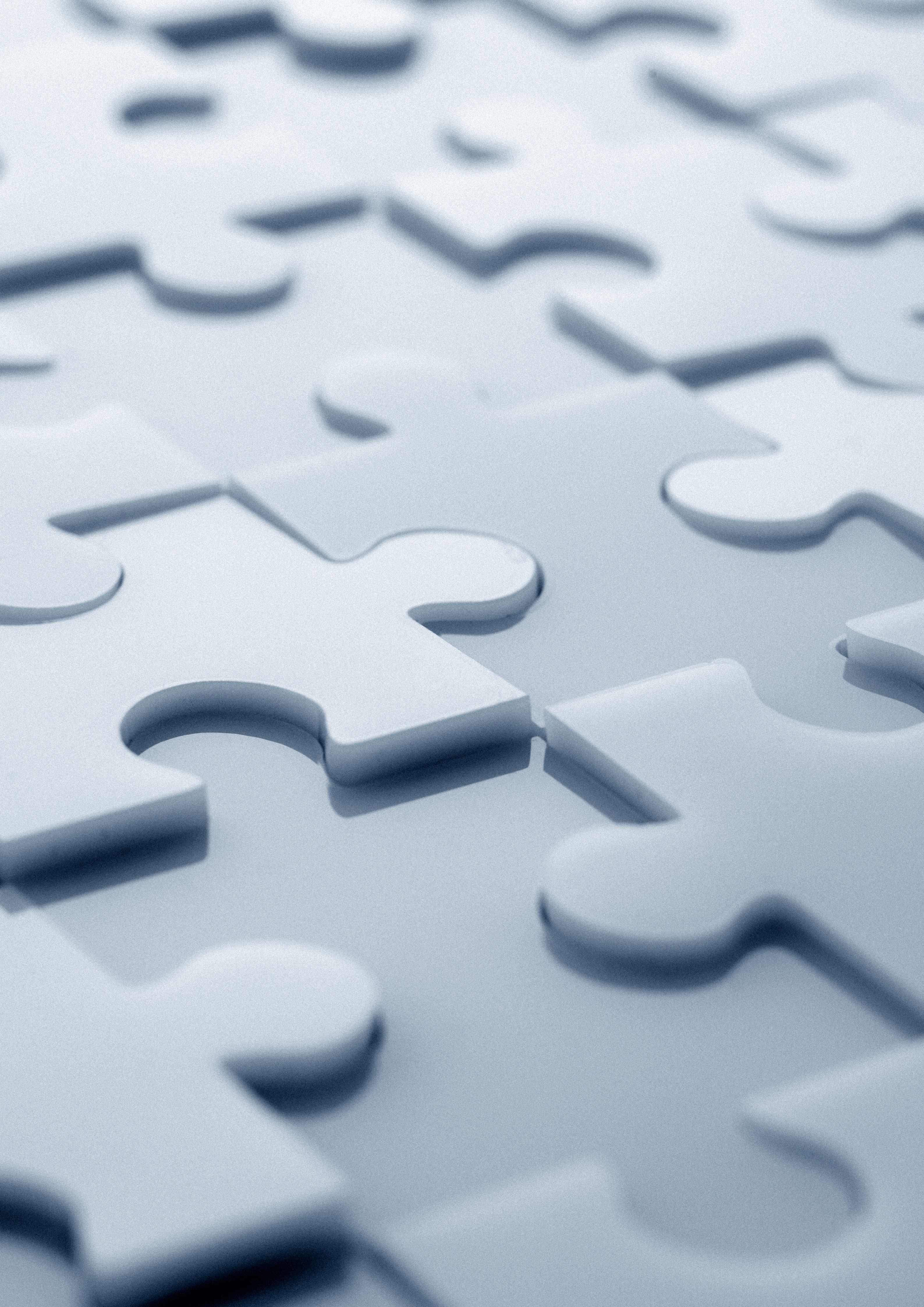


Introduction

Asian life insurance is at a tipping point: a perceptible deceleration in growth over the past half-decade has cast a new light on the sector's trajectory. The "Asia growth" premium in valuations has reduced, there is increased divergence in the growth trajectories between developed and emerging parts of Asia, the expense profile is worsening, and channel productivity has decreased. The interplay of global economic forces, geopolitical dynamics, and changing consumer behaviors has cast an air of unpredictability, leading many insurers operating in Asia to recalibrate their strategies to meet the evolving demands of an increasingly complex market landscape.

At the same time, opportunities abound. The life insurance sector in Asia has long been a growth engine for the global insurance industry. As economies surge ahead, driven by rapid urbanization and technological advancements, the demand for financial security and protection is intensifying. The region's growing middle class is recognizing life insurance as a vital tool for securing their families' financial futures, and the health and retirement sectors are evolving as aging populations and rising incomes provide consumers with new financial opportunities.

Still, life insurers need to take immediate action to take full advantage of opportunities. Projections indicate that by 2030, Asia's mortality protection gap—that is, the difference between the financial protection needed by individuals and their families in case of death and the actual coverage they have in place—is poised to widen exponentially, reaching a staggering $119 trillion.[1] This widening gap can be attributed to a confluence of factors, including the rapid aging of populations and substantial gaps in retirement systems. The lack of robust social security mechanisms, relatively low insurance penetration rates, and other systemic factors in emerging markets contribute to this significant gap, underscoring the need for proactive interventions and comprehensive solutions.

In this report, we draw on the latest industry data available to examine the state of the Asian life insurance sector. Across developed and emerging markets, we explore multiple imperatives that insurers will need to embrace to create sustainable value going forward:

— *Developed markets*: Map out the value creation strategy, with a focus on improving efficiency and increasing returns from in-force books and investments.

1 *Closing Asia's mortality protection gap*, Swiss Re Institute, July 2020.

— *Emerging markets*: Unlock performance of distribution channels, with a focus on revising the approach to tied agents and expanding bancassurance relationships.

— *Adjacencies*: Reorient toward meeting broader customer needs such as health and retirement in a way that is relevant for customers and financially viable for insurers.

The focus and relative importance of each imperative will differ by player depending on their starting position and ambition in Asia. However, given the changes afoot, inaction is not an option. By scrutinizing the factors contributing to the sector's recent growth moderation, exploring the ramifications of the uncertain macroeconomic landscape, and delving into the underlying causes of the mortality protection gap, insurers and industry players can make informed decisions that will define the future trajectory of the Asian life insurance sector.

Across developed and emerging markets, we explore multiple imperatives that insurers will need to embrace to create sustainable value going forward.

State of the Asian life insurance industry

Life insurance in Asia holds immense growth potential, driven by increasing disposable incomes, expanding urban populations, and a growing appetite for long-term financial planning. This chapter offers a data-driven market overview of growth drivers, market variance, and obstacles to growth (see sidebar "About the research").

Declining pace of growth overall

From 2012 to 2022, life insurance premiums in Asia grew at 4.0 percent overall annually—significantly outpacing the Americas at 2.8 percent annual growth and Europe, the Middle East, and Africa (EMEA) at 1.9 percent (Exhibit 1). By 2017, Asia's life gross written premiums (GWP) surpassed that of each the Americas and EMEA, and it maintained that lead in 2022. However, the region's growth notably slowed in 2017–22 compared with the prior five years.

The slowdown in Asia's life insurance industry was primarily caused by a substantial halt of growth in China and Hong Kong, as well as a decrease in Taiwan, during the peak of the COVID-19 pandemic. Factors such as physical distancing, low interest rates, and market volatility contributed to a decline in demand in these three markets. Furthermore, in 2017, the China Insurance Regulatory Commission (CIRC) introduced regulatory changes with respect to unit-linked plans, which affected the growth of that product category in China. Although Asia weathered the pandemic and its effects, weakened market drivers—including inflation, an aging population, and market volatility—may hinder the return of Asia's life insurance industry to its previously high growth levels.

Stronger growth in emerging markets

The life insurance industry in Asia is finding greater growth opportunities in emerging markets, with growth in developed markets remaining relatively stagnant. From 2012 to 2022, developed markets saw a combined 2 percent growth in GWP, while emerging economies' combined GWP grew more than 160 percent. This divergence between

About the research

For the purposes of this research, Asia's "developed markets" include Australia, Japan, Hong Kong, Singapore, South Korea, and Taiwan. "Emerging markets" include China, India, and Southeast Asian markets (including Indonesia, Malaysia, Thailand, and Vietnam).

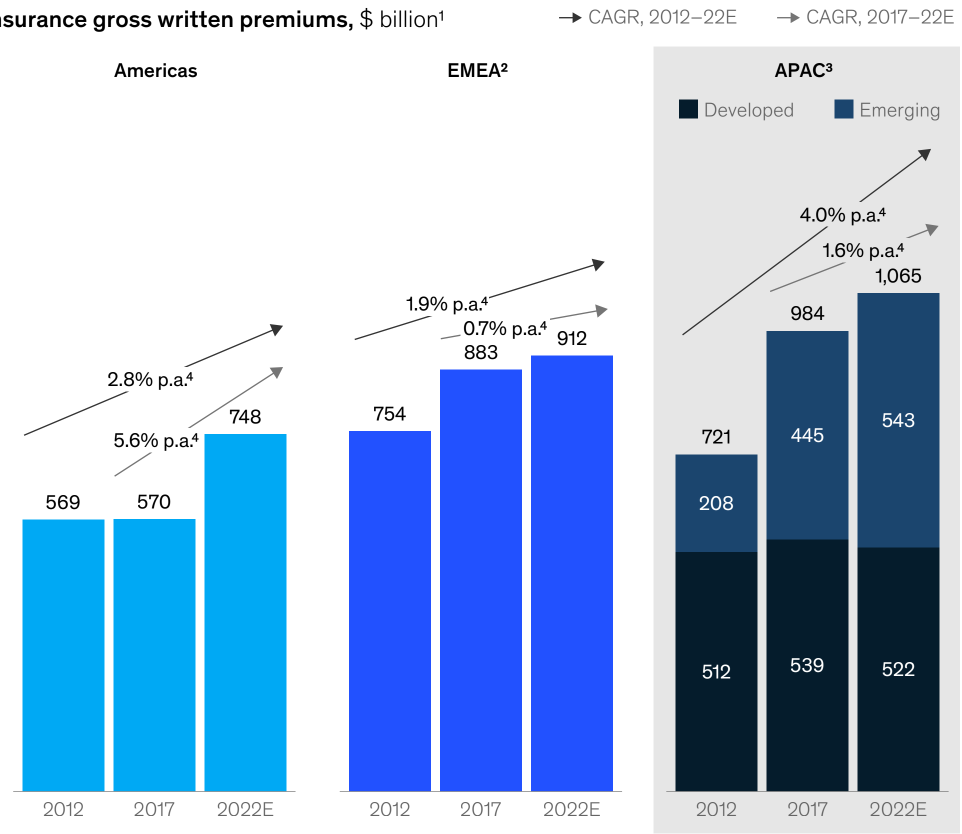
The report's original analysis draws from McKinsey's proprietary Global Insurance Pools database and public disclosures by regulators and insurers. The data presented are the latest available; estimations are noted, and financial-year data reflect countries' market standards (for example, the 2022 financial year in India and Japan runs from April to March).

To maintain consistency and eliminate the impact of currency fluctuations, a fixed exchange rate was applied to convert the data into US dollars. The exchange rate used corresponds to the 2021 average exchange rate for each market: Australia, 1.28; China, 6.46; Hong Kong, 7.76; India, 72.24; Indonesia, 14,114.68; Japan, 107.87; Malaysia, 4.07; Philippines, 47.77; Singapore, 1.32; South Korea, 1,094.00; Taiwan, 28.25; Thailand, 30.88; and Vietnam, 23,119.10.

Exhibit 1

Asia's historically strong growth in premiums has slowed in recent years.

Global life insurance gross written premiums, $ billion[1]



Note: Figures may not sum, because of rounding.
[1]2021 average fixed exchange rate used.
[2]Europe, the Middle East, and Africa.
[3]Asia–Pacific.
[4]Per annum.
Source: McKinsey Global Insurance Pools

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developed and emerging markets is primarily driven by negative growth trends in mature markets such as Japan, which saw a decline in premiums of around 3 percent from 2017 to 2022.

Developed markets, characterized by high rates of insurance penetration, present challenges for insurers to generate substantial growth. These markets have experienced declining profitability, with a 2 percent decrease in ROE from 2012 to 2022. Many factors have contributed to this decline, including a low-interest-rate environment, increased competition, increased regulatory scrutiny, and changing customer preferences. Many of those evolving preferences dovetailed with rapid technological advancements that have required insurers to invest significantly in technology and innovation, further affecting profitability.

Declining valuations

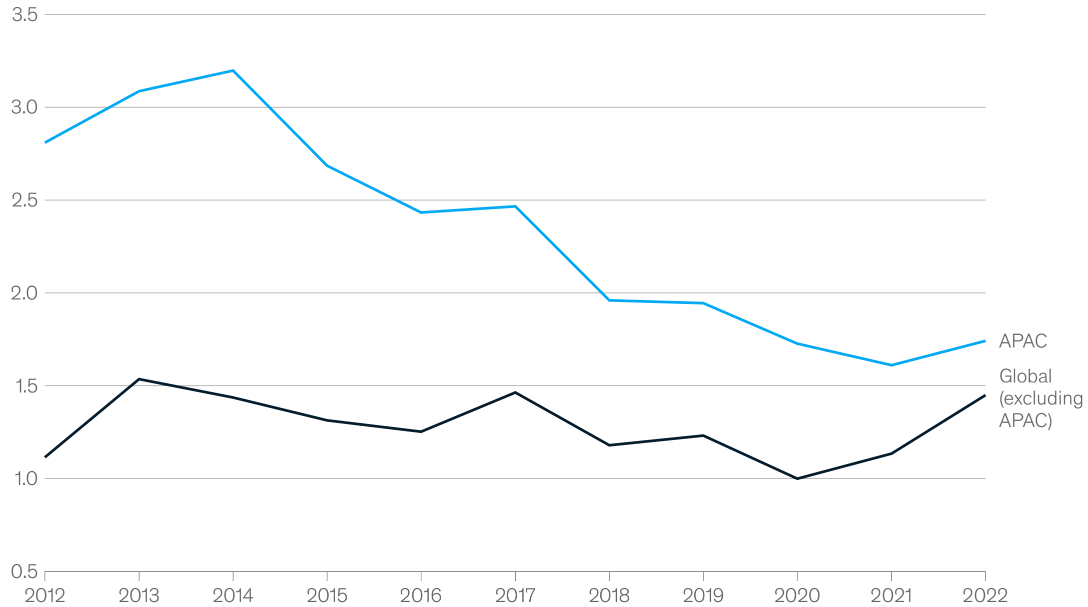
Overall, valuations of life insurers in Asia declined from 2012 to 2022, converging with global insurers (Exhibit 2). This was largely driven by slower growth and declining population in markets such as Japan and Taiwan. Deceleration in China's growth also negatively affected valuations.

Meanwhile, the Indian market saw higher valuations driven by positive growth momentum and strong underlying factors supporting the market. Countries in Southeast Asia are somewhere in the middle: growth stalled during the COVID-19 pandemic and is now slowly rebounding, but each country is recovering at different speeds. This reflects a challenging environment for life insurers in a region where market sentiment and investor perception are closely intertwined with economic, technological,

Exhibit 2

Asia's historically strong valuation declined from 2012 to 2021, converging with those of global players.

Price-to-book (P/B) ratio of top 40 players, Asia–Pacific (APAC) vs global,[1] %



[1]Average of listed life insurers since 2012.
Source: S&P Capital IQ; McKinsey analysis

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and regulatory dynamics. Given Asia's historically low and declining prevalence of insurance mutuals,[2] most Asian insurers face immense pressure to meet the expectations of investors and shareholders.

Rising operating costs

Excluding Singapore, most developed Asian markets—including Australia, Japan, South Korea, and Taiwan—saw rising administrative costs between 2016 and 2021, predominantly propelled by escalating costs associated with operations and information technology (Exhibit 3). The need to invest in robust IT infrastructure to remain competitive and meet evolving customer expectations has become a strategic imperative. However, this imperative is countered by the economic reality of managing escalating expenses amid evolving consumer behaviors and a wider array of distribution channels. Building the infrastructure takes significant time and investment—a scenario that is unfolding across numerous Asian insurance companies today.

Local, regional, and global insurers in the mix

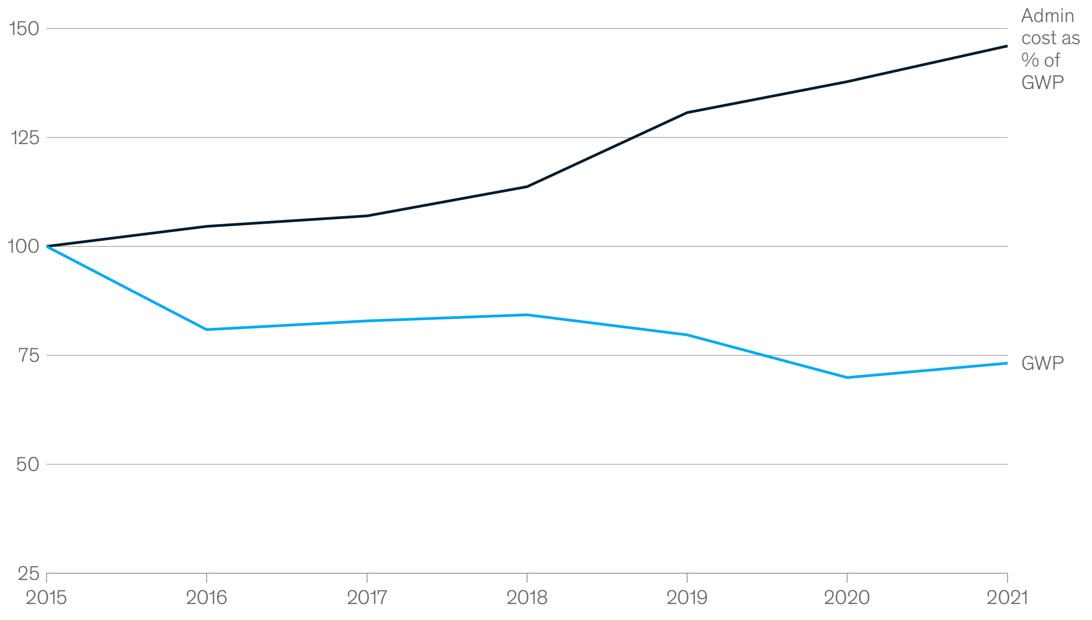
Domestic and international insurers continue to compete for market share, with varying results in

[2] *Global mutual market share 2023*, International Cooperative and Mutual Insurance Federation (ICMIF), June 2023.

Exhibit 3

Amid low growth, operating costs in developed Asia markets have climbed.

Administrative cost vs gross written premiums (GWP) growth in developed Asia markets,[1]
index (2015 = 100)



[1]Includes Australia, Hong Kong SAR, Japan, Singapore, South Korea, and Taiwan China.
Source: McKinsey Global Insurance Pools

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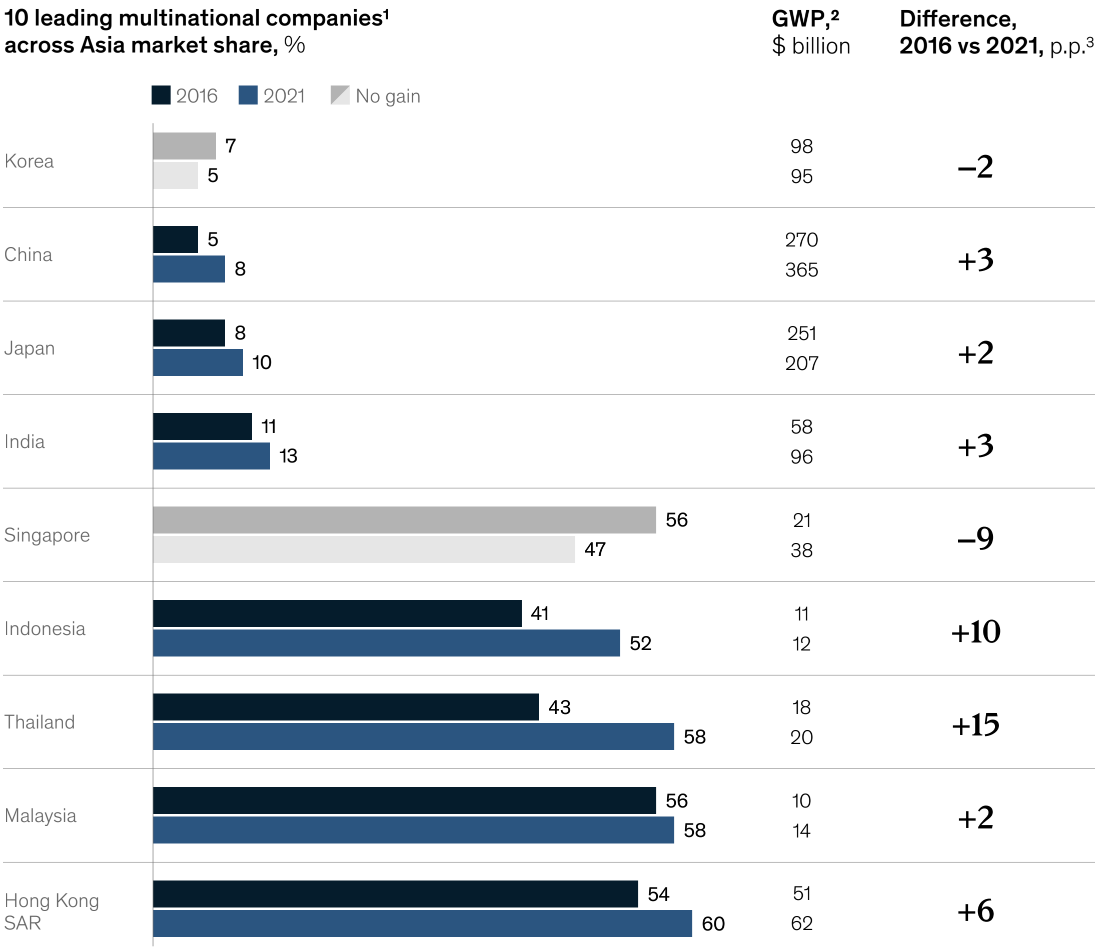
developed and emerging markets. Over the past five years, large multinationals in Asia have maintained steady growth, consistently gaining market share from smaller multinational companies (MNCs) and domestic insurers across various markets. In all but two markets included in our study, the top ten MNCs by market share gained additional market share from 2016 to 2021 (Exhibit 4). This trend is particularly evident in emerging markets where MNCs have established market dominance in terms of market share, such as Malaysia and Thailand. China and India are outliers because they remain dominated by domestic players such as Ping An Life and the Life Insurance Corporation of India (LIC)—but even leaders in these countries have been losing share to foreign insurers and other domestic and joint-venture insurers.

Exhibit 4

In most Asia markets, large multinationals have gained share from smaller multinational companies and domestic players.



[1]Includes AIA, Allianz, Aviva, AXA, FWD, Generali, Manulife, MetLife, Prudential, and SunLife.
[2]Gross written premiums.
[3]Percentage points.
Source: McKinsey Global Insurance Pools; McKinsey analysis

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Conversely, developed markets are still largely dominated by local insurers such as Japan Post Insurance in Japan, Great Eastern Life in Singapore, and Samsung Life Insurance in South Korea.

These dynamics raise differing strategic priorities: for larger insurers, the bar on continuing to increase market share will be higher; smaller insurers will need to identify differentiated strategies to find a niche area to stay competitive.

In all but two markets included in our study, the top ten MNCs by market share gained additional market share from 2016 to 2021. This trend is particularly evident in emerging markets where MNCs have established market dominance in terms of market share, such as Malaysia and Thailand.

A paradigm shift to drive performance

Life insurers play a vital role in safeguarding the financial well-being of individuals and families through protection and peace of mind. Yet in Asia, the protection gaps in mortality, health, and retirement reach into the trillions.[3] The magnitude and complexity of insurers' mandates require developing clear priorities and more-targeted strategies across developed versus emerging markets, as well as a careful consideration of two opportunistic market adjacencies: health and retirement products. The balance of this chapter describes the opportunities available to insurers operating in Asia—particularly those in search of new sources of value.

Developed markets: Map out the value creation strategy

Growth remains elusive in Asia–Pacific developed markets because of a combination of factors such as aging populations, regulatory and policy changes, and competitive intensity. Based on data from McKinsey's Global Insurance Pools database, premium growth forecasts for the 2021–25 period range from 2 to 4 percent across most markets—significantly lower than the preceding decade. This creates an imperative for insurers to shift their value creation focus from new business to their in-force books, which in turn will require clarity on the value potential in the in-force book and the levers available to tap into growth and value creation.

In the absence of the ample growth opportunities available in emerging markets, insurers' focus in developed markets will need to be squarely trained on operational efficiency (specifically through automation and process redesign) and maximizing the value of the in-force book. Successful insurers approach cost optimization as a strategic and multifaceted endeavor—one that considers the broader implications and repercussions of decisions for an organization's overall health and long-term goals.

Improve efficiency

Amid rising operational costs and sluggish growth, life insurers in developed Asian markets can enhance their value by optimizing costs in existing portfolios, starting with systems. Data from McKinsey's Insurance 360° cost benchmark

[3] *Closing Asia's mortality protection gap*, July 2020.

reveal that updating outdated IT systems, which are costly to maintain, can result in a cost reduction of 40 to 50 percent in both IT and operations. Vendors have scaled enough to enable the outsourcing of both IT systems and policy administration while retaining primary customer relationships. Insurers may identify areas in which vendors might provide cost differentials while maintaining or improving customer satisfaction. Effective vendor-management systems, including benchmarking and selection, are essential.

Process transformation comes after outsourcing. Insurers must streamline processes to integrate with vendors and make the most of technological advancements. Processes should be dissected for opportunities to simplify and modernize (for instance, lean workforce, lean processes, or automation). For example, a US life insurer deployed robotic process automation and, as a result, reduced the cost of its policy suspension remediation process by 80 percent in less than a month.

Increase returns from in-force books and investments

Asian life insurers are facing an unfamiliar investment landscape given rising rates, inflation, and capital regime changes. For example, South Korea implemented the Korean Insurance Capital Standard (ICS) in January 2023, which has had a profound effect on insurers' operations there. The China Banking and Insurance Regulatory Commission (CBIRC) unveiled a similar framework, C-ROSS Phase II, in December 2021. As of the writing of this article, Hong Kong is also preparing to implement a risk-based capital regime in 2024. For years, Asia's central banks have tended economic growth with low interest rates, which have contributed to healthy returns on fixed-income investments. Inflation not only directly affects these rates but also erodes the real value of assets and increases the present value of future liabilities, squeezing insurers' current reserves and capital requirements. Regulatory constraints are also a prominent and sometimes frustratingly dynamic factor affecting the life insurance landscape. This should lead insurers to expand their investment scenario planning.

Life insurers in developed Asian markets can enhance gains via three levers: capital and balance sheet strength, an upgraded alternative asset strategy, and enhanced investment management with AI.

To start, insurers can capitalize on global rate shifts to secure high-quality bonds to fortify balance sheets. Those without significant unrealized losses in their fixed-income portfolios can acquire new high-quality duration bonds to improve their asset liability management (ALM) position. Uncertainty in the macroenvironment and the adoption of risk-based regimes in Asia[4] have contributed to making ALM mismatches more capital-intensive. By investing in high-quality bonds, insurers can release capital that can be used for higher-risk assets, such as equity or alternative assets, or reinvested in the business.

Next, despite the resurgence of high-quality fixed-income investments, efficient alternative assets remain crucial against elevated inflation—yet they typically make up less than 10 percent of insurers' assets under management, which is half the average allocation seen in pension funds.[5] Embracing alternative assets can also bring insurers closer to the efficient frontier in their investment portfolios, but this needs to be aligned with their own risk appetite to avoid creating unwanted exposure.

Finally, AI empowers insurers to accelerate research and refine decisions, enhancing overall returns. For instance, a global active investment fund manager achieved an investment alpha improvement of 300 basis points through AI-assisted decision making—specifically by identifying suboptimal trades influenced by strong behavioral biases. Another global asset manager in the insurance sector uses natural language processing to generate investment signals, such as sentiment scores, from sell-side analyst reports and earnings call transcripts.

Emerging markets: Unlock performance of distribution channels

Asia's life insurance distribution channels are heavily dominated by tied agents[6] and

[4] *Life insurance capital regimes in Asia: Comparative analysis and implications of change,* Milliman, August 2023.
[5] McKinsey Global Asset Management Survey; CEM Benchmarking (2018).
[6] Tied agents are independent contractors that exclusively represent one insurer's products and services.

bancassurance, which together make up 80 percent of total life insurance GWP in Asia.

Revise the approach to tied agents

Tied agency is the largest distribution channel within emerging Asia: from 2016 to 2021, the number of agents in the top 12 Asian markets[7] grew 1 percent per year, up to 11.1 million in 2021. Within Asia, many insurance markets that are still relatively emerging (for example, China, India, and Indonesia) tend to have a substantial tied-agency force. This is because, historically, tied agency was the main channel to reach out to large populations spread across dispersed and sizable countries.

However, the tied-agency channel faces acute turnover and productivity challenges. We estimate between 60 and 80 percent of agents leave the system in the first four years after recruitment.

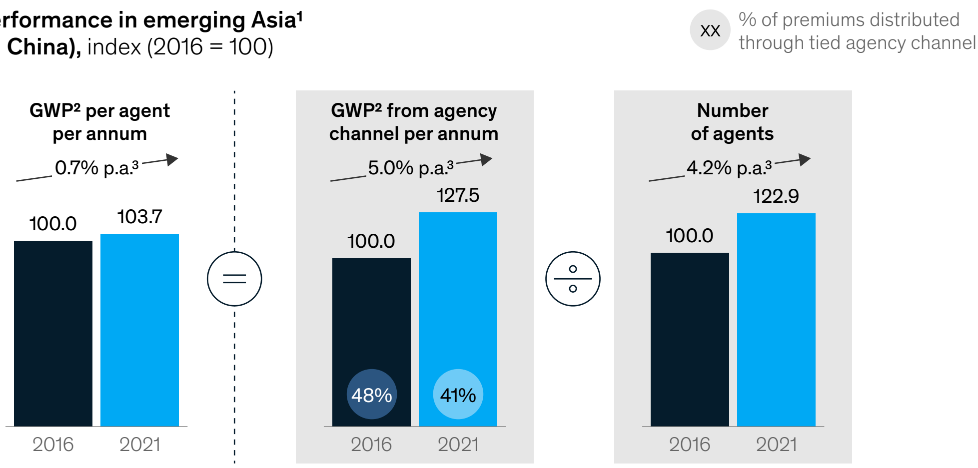
Insurers are clearly facing challenges to engage their tied-agency workforce. Between 2016 and 2021, according to regulatory disclosures, the average agent productivity (as measured by agency GWP per agent per annum) increased marginally, by 0.7 percent per year (Exhibit 5). Only those in the top 10 to 20 percent of agents by performance operate at a full-time level; these professional agents tend to serve more sophisticated segments, such as the mass-affluent segment, which requires more sales support and proficiency with digital tools. The remaining workforce is part-time, putting significant pressure on not only the overall sales support infrastructure but also managerial bandwidth, training, and coaching to keep the full agency force productive.

[7] This includes China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam; data as per local regulatory disclosures.

Exhibit 5

Agent productivity is largely stagnant in emerging Asian markets.

Agency performance in emerging Asia[1] (excluding China), index (2016 = 100)



[1]Includes India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam.
[2]Gross written premiums.
[3]Per annum.

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The agency channel in Asia is set to evolve significantly. Insurers can prepare for that future by defining the target segments they want to serve and organizing their distribution channels around the optimal approach to serving their customers. Exhibit 6 offers an overview of four distinct operating models for the future of life insurance distribution in Asia. The success of each model, whether launched in isolation or combination, will rely on robust digital and IT capabilities, including a team and architecture to support the collection, storage, and analysis of data.

Ultimately, the future landscape of tied agency will differ significantly from its current form. Insurers must strategically assess their strengths, resources, talent, and capabilities. Subsequently, they can opt for and explore the models that align with their priorities. Recognizing that developing all four aspects simultaneously might be impractical and challenging, a focused and selective approach is crucial.

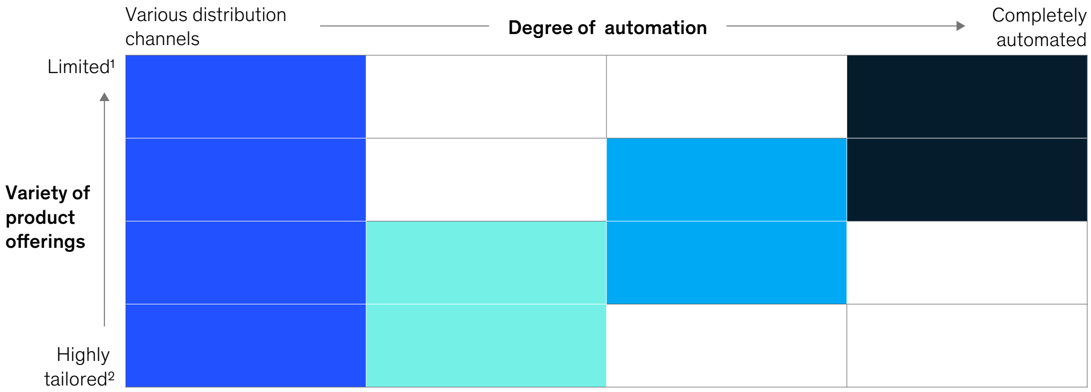
Expand bancassurance relationships

Asia is a leading region when it comes to insurance distribution via banks, accounting for approximately 48 percent of bancassurance global premiums. In markets such as Hong Kong, India,[8] Indonesia, and Taiwan, more than 50 percent of premiums come from this channel. One prominent Indian bank has seamlessly woven term life, personal accident, and property

[8] Private sector only, excluding the state-promoted LIC.

Exhibit 6

Enabled by technology, insurers can consider various levels of automation in their distribution models for different customer segments.



Delivery	**Omnichannel** Incorporates all three models, empowering professional agents with advanced tools and flexibility to offer tailored transactional or relationship engagement in person or digitally	**Remote adviser** Cost-effective yet comprehensive advice and relationship building	**Solutions platform** Largely "do-it-yourself" model in which customers can explore products and reach out to an adviser for assistance	**Embedded and affinity proposition** Simple products sold digitally via embedded journeys or through affinity partnerships
Target segment	*All wealth brackets;* offering is tailored to customer potential value and needs	*Mass-affluent and affluent segments* due to moderate operating and service costs	*Mass-market and mass-affluent segments* due to low operating and service costs	*Mass-market and confident or independent customers* attracted to lowest-cost option

[1]Refers to simple products with fixed benefits.
[2]Includes complex products, such as variable universal life (VUL), whole life (WL), annuities, and investment.

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insurance offerings into the fabric of customers' loan journeys. With an attachment rate that far surpasses industry standards in the region, the bank has firmly established itself as a standout model in the realm of regional bancassurance success.

Most insurers and banks have yet to reach this level of bancassurance success, which is reflected in the data: bancassurance has been on the decline (Exhibit 7). In the past ten years, bancassurance has lost 10 percent of the share of premiums in emerging Asia and 6 percent in broader Asia.

What's going on? To start, there is a notable disparity in insurance penetration within the banking sector across Asian countries. In many markets, leading banks have insurance penetration rates (measured as insurance premiums as a percentage of the retail deposits of banks) of less than 1 percent. Many of their European counterparts, in comparison, typically operate at levels exceeding 4 percent. Furthermore, there is a substantial gap in penetration among the top ten banks in several markets. This emphasizes the considerable potential and opportunity for enhancing the performance of the bancassurance channel. It also indicates that many insurers are currently unable to serve all customer segments of the banks, including retail, small and medium-size enterprises (SME), and commercial.

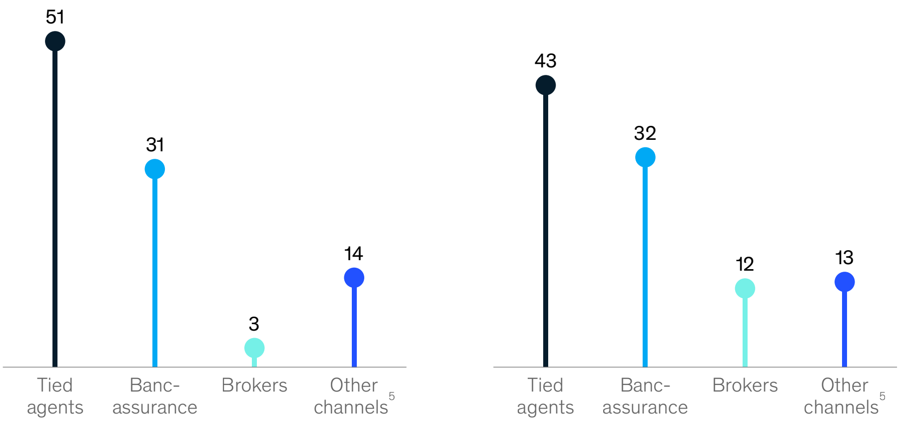
Second, across geographies, numerous exclusive long-term partnerships and tie-ups have been announced between insurers and banks in the past decade—for example, HSBC with Allianz or the Bank of East Asia with AIA. In 2016, DBS Bank signed a 15-year partnership with Manulife, and in 2019, United Overseas Bank and Prudential PLC renewed an exclusive partnership for another

Exhibit 7

Bancassurance in Asia has grown more slowly than other distribution channels.

	Emerging Asian markets[1]				Overall Asia[2]			
	Tied agents	Banc-assurance	Brokers	Other channels[5]	Tied agents	Banc-assurance	Brokers	Other channels[5]
Change in channel share, 2011–21, %	5.7	–9.9	2.5	1.7	2.5	–6.2	3.4	0.3
GWP[3] growth,[4] 2011–21, %	162	100	359	163	201	100	328	187

Channel share, 2021, % of GWP[3]



Note: Figures may not sum to 100%, because of rounding.
[1]Includes China, India, Malaysia, and Thailand.
[2]Includes China, Hong Kong SAR, India, Japan, Malaysia, Singapore, South Korea, Taiwan China, and Thailand.
[3]Gross written premiums.
[4]Indexed to bancassurance growth.
[5]Includes brokers, immediate financing arrangements (IFAs), and direct-sales teams.
Source: McKinsey Global Insurance Pools

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15 years.[9] In India, banks are increasingly adopting an open architecture in which they can partner with up to nine life insurance companies, nine nonlife insurance companies, and nine stand-alone health insurers, further fueling the competition.[10] This concept enables banks to offer their customers a diverse range of insurance options from various providers, rather than being tied to a single insurer. As a result, insurers are being compelled to innovate and offer attractive products to stand out in a more competitive landscape. This approach also benefits consumers because they have more options to choose from and can tailor their insurance coverage to their specific needs.

Ultimately, banks aren't always eager to undergo significant changes and fully commit to selling insurance. This reluctance can be attributed, in part, to the unfavorable economics of insurance products: the fee income generated from selling life insurance doesn't always match up favorably with the income generated from banks' core banking activities. But just as European banks were enticed to embrace bancassurance tie-ups due to tighter net interest margins, some Asian banks are keeping a close eye on net interest margins for the same reason—particularly in markets such as Hong Kong, India, and Singapore. Other markets, such as Australia, still enjoyed high banking margins of more than 1.5 percent in 2022.[11]

Regardless of their position today, banks need to think beyond the interplay of net interest margin and fee income and adopt a customer-centric lens to offer a variety of products and increase customer engagement. The pivotal factor separating front-runners from stragglers in the realm of bancassurance is the depth of interconnectivity between the partnering organizations. A robust connection benefits from a clear governance framework that expedites decision making, a cross-functional team environment with clearly defined roles and responsibilities, and, eventually, a symbiotic relationship built on mutual respect and shared goals. Crucially, success lies in cultivating such a dynamic arrangement across all levels of both organizations, from the head office to the network of branches.

Adjacencies: Maximize customer relationship value

With a comprehensive view of the industry, life insurers in Asia have a series of significant decisions to make when it comes to expanding outside their core industry. This is particularly true in emerging markets, where growth potential is high. What adjacency opportunities should these insurers pursue? In our view, two areas in particular align with the core business of life insurance and offer substantial growth prospects: health insurance and retirement.

Build a sustainable and value-driven health business

From 2011 to 2021, the share of health insurance products tripled in emerging markets (Exhibit 8). Several factors contributed to this situation, including rising healthcare costs, high out-of-pocket expenses, low penetration of private health insurance, limited state-funded healthcare facilities, and the impact of the pandemic.

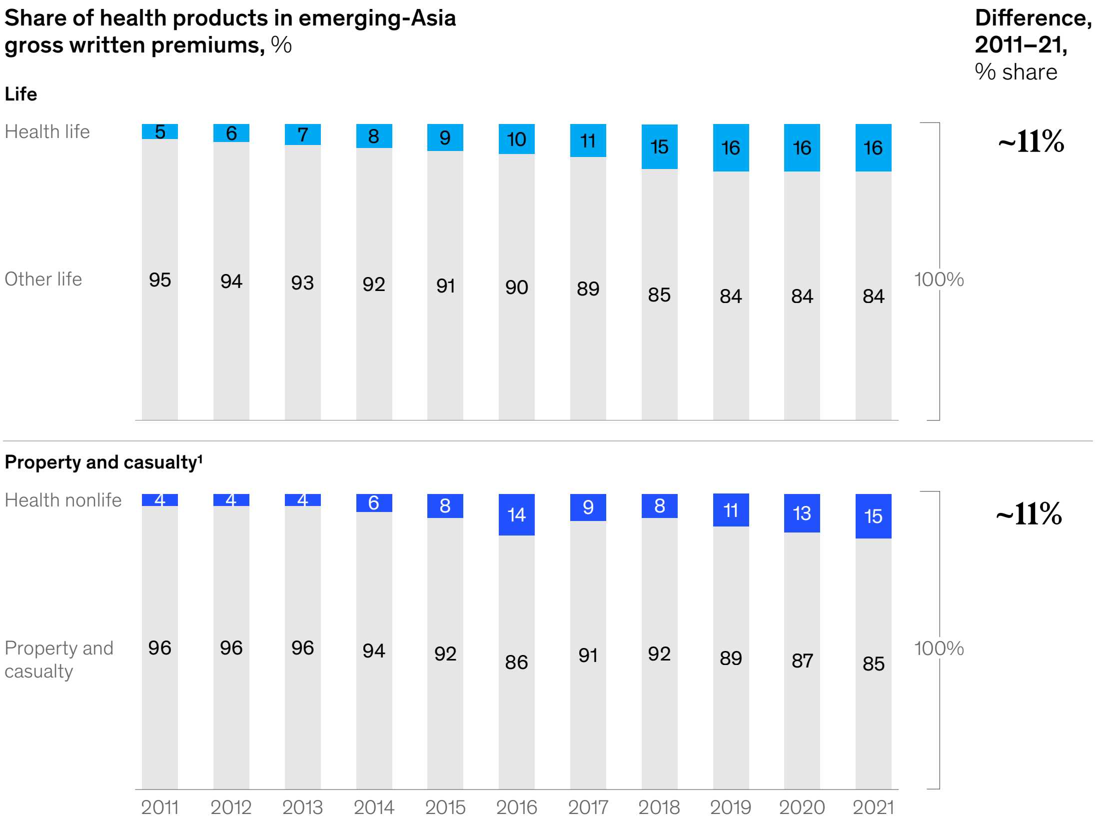
Over the past decade, the share of health-focused products has increased threefold for life insurers and fourfold for nonlife insurers in emerging markets. This upward trend is expected to persist, indicating a continued expansion of the health insurance sector, and insurers interested in participating are taking stock of their operating model options. This also drives insurers to move toward products that are less capital-intensive and focus on short-term risks.

When it comes to refining the operating model for their health business, two primary options lay before insurers. The first involves incorporating health insurance into their existing life or nonlife portfolio. This approach allows the health business to capitalize on synergies within the broader organization. However, due to the relatively modest size of the health portfolio, it might not receive the desired level of attention. The alternative is to establish health insurance as a distinct business entity. This way, it can receive dedicated management focus and guidance for optimal growth. Nonetheless, the task of identifying synergies could pose challenges in this scenario.

9 "DBS and Manulife officially launch 15-year regional life bancassurance partnership," DBS, January 5, 2016.
10 Navneet Dubey, "IRDAI increases limits for intermediaries, corporate agents can now distribute products of 9 insurers," *Mint*, November 25, 2022.
11 Net interest income / total average assets.

Exhibit 8

Over ten years, the share of health insurance products in gross written premiums tripled in emerging markets.



[1]Includes stand-alone health insurers.

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Of course, the approach will also depend on the insurer's existing scale. Insurers must carefully evaluate broader success factors and formulate strategies that can differ between large-scale insurers and smaller to midsize participants.

For many large-scale insurers, health insurance has traditionally constituted an additional segment alongside more substantial life or nonlife insurance portfolios. Consequently, their complete attention hasn't been directed toward this line of business. To emerge as leaders in the realm of health insurance, these insurers need to cultivate distinct capabilities compared with those required for life or nonlife insurance, including superior underwriting and claims management skills. By harnessing their considerable resources and robust financial foundations, major insurers can actively work toward constructing, collaborating with, or fortifying the health ecosystem. Indeed, many of these entities are equipped to cater to the needs of underserved populations with lower incomes and inadequate insurance coverage, collaborating with government bodies to devise tailor-made health insurance plans targeting specific population segments.

Meanwhile, smaller to midsize insurers can identify avenues for differentiation by focusing on specialized niche markets, such as maternity coverage or dental plans, or specific demographic groups, such as senior citizens or high-net-worth individuals. This strategy enables them to serve a variety of segments, many currently underserved, to effectively create unique products tailored to their requirements. Through personalized attention, expedited claims processing, and responsive customer support, they can effectively compete against larger insurers struggling to provide personalized services to their extensive customer base. Given the relative simplicity of their operations, smaller insurers can also swiftly introduce innovative product features, establish agile underwriting procedures, and streamline their operations to maintain a competitive edge.

Engage with and build out the retirement ecosystem

Asia's population is rapidly aging, with the population above 60 years old expected to surpass 800 million by 2030.[12] However, even in well-developed markets, pension systems display notable gaps in coverage and replacement rates. For instance, in countries such as Japan and Korea, average pensioners covered by public programs may receive between 35 and 38 percent of their preretirement income.[13] The situation is more severe in emerging markets such as Indonesia and Vietnam, where up to 70 percent of citizens lack any entitlement to pensions.[14]

As the older population continues to grow across many markets, the strain on public support systems is expected to intensify. This trend is evident in the United States, where the elderly dependency ratio has been growing steadily since 2015.[15] In Asia, the private retirement sector is gradually taking shape, with the recent introduction of the third-pillar private pension scheme in China as a notable example.

In developed markets, providers of retirement products have seized opportunities to establish dominance within their respective domains: in the United States, asset managers have ascended to a position of preeminence, while in Germany, life insurers have assumed the lead. Many Asian retirement markets now find themselves at a similar juncture, with asset managers having doubled down on their commitment to the retirement sector.

Retirees' needs in advanced markets require a range of solutions, and life insurers are in a unique position to create comprehensive strategies. Among the diverse requirements of retirees—ranging from wealth management and income sustainability to protection, health, and lifestyle considerations—insurers already offer a range of products, such as those addressing wealth accumulation, income stability, and various protection needs, including health-related coverage.

In emerging markets with younger populations, insurers are introducing additional asset accumulation and management products such as target-date funds and alternative asset funds. Conversely, developed markets with older demographics are focusing on solutions for decumulation, including private pensions, reverse mortgages, inheritance planning, and health-related products such as long-term care protection and end-of-life support. In Vietnam, the first private pension product was launched this year,[16] overcoming the lack of a formal regulatory framework. In Hong Kong, a leading regional life insurer has been acquiring health service assets and made healthcare a strategic focus in its offerings.

Insurers may need to enhance their distribution capabilities to effectively access retiree customers—starting with employee benefits, which in some Asian markets already play a substantial role in bridging protection gaps, including those related to retirement. As governments seek to shift retirement responsibilities to individuals, employers become increasingly important stakeholders in their employees' retirement, mirroring trends in advanced markets.[17] Insurers looking to provide group-based solutions must first build relationships with brokers and major employers, as well as a robust distribution capability: dedicated sales forces, large distribution networks, and a

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[12] "Population by age: Asia," US Census Bureau International Database, accessed October 5, 2023.
[13] "Net pension replacement rates," OECD iLibrary, accessed October 5, 2023.
[14] "Pensions: Coverage and replacement rates," OECD iLibrary, accessed October 5, 2023.
[15] "Age dependency ratio: Older dependents to working-age population for the United States," World Bank data via FRED Economic Data, updated July 4, 2023.
[16] Indira Vergis, "Vietnam's private pension player gears up for 'aggressive' launch," *AsianInvestor*, May 11, 2023.
[17] Sid Azad, Rajiv Dattani, Jonathan Deakin, and Leda Zaharieva, "Capturing growth in the evolving UK savings and retirement market," McKinsey, March 6, 2023.

capacity for flexible product customization, seamless technology integration, and comprehensive support services.

A team of retirement specialists, either within or alongside their existing agency structures, could also be crucial to building out a suite of retirement offerings. Handpicked agents can receive specialized retirement training and skill development to become on-the-ground retirement specialists who assist the sales force. Insurers can expand support for these field agents by creating centralized retirement competence centers that produce training materials and provide retirement specialists with timely market insights and knowledge.

As with determining the health proposition, insurers' strategic approaches to retirement offerings will differ depending on their scale. The largest insurers with the most fragmented distribution networks will need to focus on forging deeper connections with retirees by addressing a comprehensive set of retirement needs, spanning healthcare, senior living, insurance, and lifestyle. For example, a Chinese life insurer developed an upscale senior-living community by using its long-term assets for substantial real estate investments. This insurer partnered with leading service providers for high-end living and healthcare operations while employing insurance products to add further value. In this arrangement, residency in the sought-after community is secured through a life insurance policy, and residents can also entrust their wealth management to the life insurer.

Despite deceleration in growth in recent years, the landscape of life insurance in Asia is undergoing significant transformation and presents many opportunities for insurers to adapt, innovate, and excel. As the region experiences economic growth, changing demographics, and evolving consumer preferences, insurers must stay agile and proactive in addressing the diverse needs of their clientele.

The challenges faced, from evolving regulatory requirements to fierce market competition, are balanced by the vast potential to tap into underserved segments, create innovative product offerings, and forge strategic partnerships that enhance value propositions. By understanding the unique dynamics of each market and embracing opportunities with foresight and determination, life insurers can lead the way in shaping the industry's future in Asia.

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