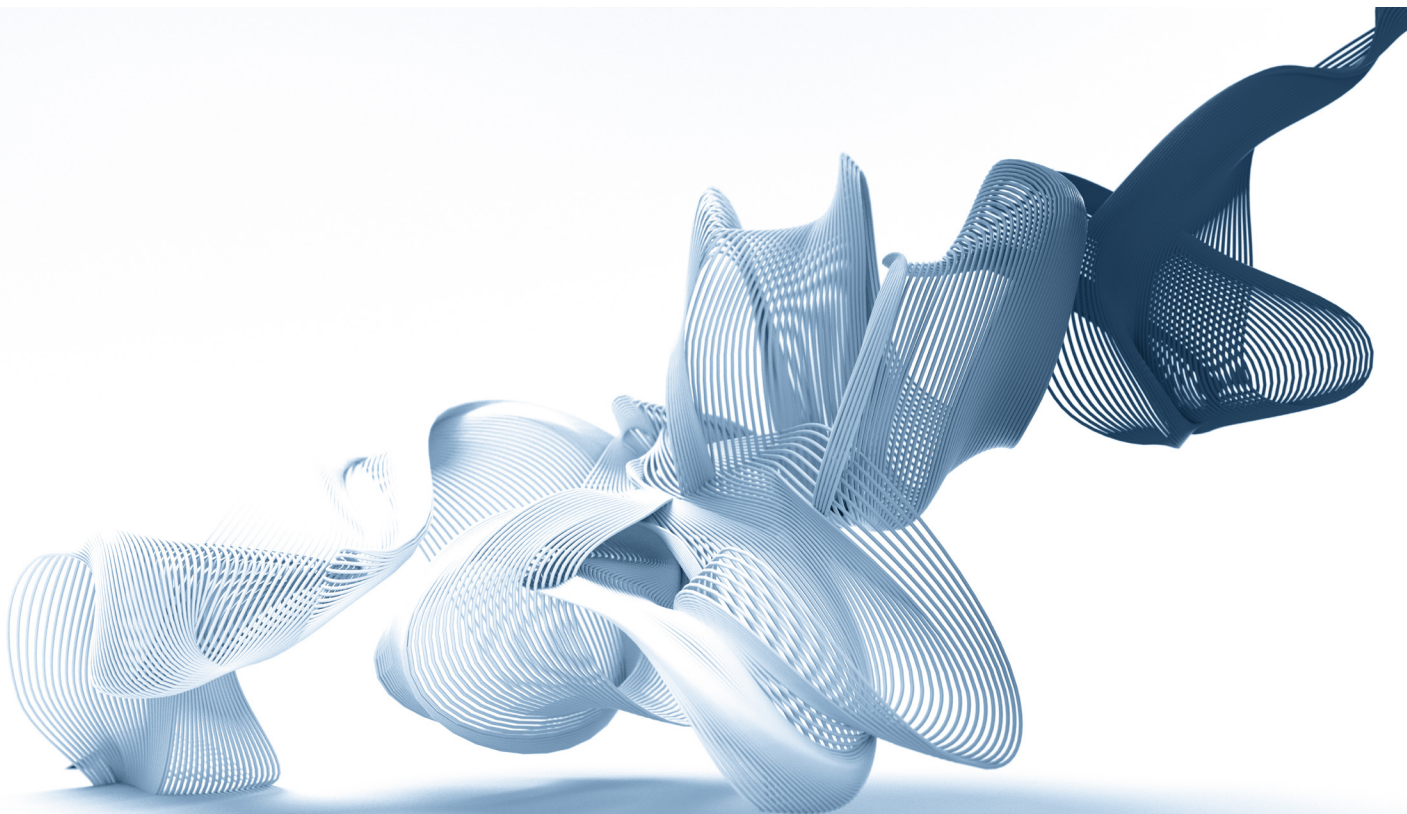


Insurance Practice

# How the Asian insurance market is adapting to the future

In this podcast, three McKinsey partners and leaders of the Insurance Practice discuss the themes that will define Asian insurance in 2023 and beyond.

*by Bernhard Kotanko, Sumit Popli, and Charlene Wu*



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**In this episode** of *McKinsey on Insurance*, a podcast featuring discussions of trends, disruptions, and strategies reshaping the insurance industry, Bernhard Kotanko, a McKinsey senior partner, convenes a panel of fellow McKinsey partners Charlene Wu and Sumit Popli for a wide-ranging discussion of the Asian insurance market. From the outlook for China and Southeast Asia to new commentary on the opportunities specific to Japan and India, the conversation focuses on ways to capture growth and evade foreseeable challenges.

## **In China, change brings opportunity**

**Bernhard Kotanko:** We will focus today's discussion on life and health partly because in Asia-Pacific, that is still by far the largest area of insurance. We also want to build on a recent McKinsey report on the global life insurance agenda.<sup>1</sup> Charlene, can you start us off with perspectives on China?

**Charlene Wu:** Thanks, Bernhard. I think the China insurance market, especially the life insurance market, experienced the most difficult couple of years in the past two years. After a one-and-a-half-year transformation, the market is starting to stabilize, and finally, in the first half of 2022, we've started to see positive 3 percent growth.

In past years, the growth rate in China was in the double digits, but a couple of things have changed. To start, selling insurance products today requires integrated knowledge of wealth management and insurance protection. Second, the cost model became very important, as did the cost structure of different life insurance companies. We are starting to get into the same mode Europe was in maybe ten years ago, after the financial crisis, when the market was really starting to focus on the cost structure, because the zero cost of growth will never come back again.

It's also very important for life insurance companies in China to identify new opportunities, such as the wealth management market. China has developed

the second-largest wealth management market, just behind the United States. Another opportunity will probably come around the pension market. China just opened the door to individual pension accounts—known as the third pillar in China—which is a quite good regulatory incentive for the whole market to capture new opportunities.

China's life insurance companies are also focusing on transformation of the whole agency model by both moving to a high-end, advisory-based agency business model and by transforming the branch structure. In the past, it was usually three-layer or five-layer different branch models. Simplifying these operational models is a key topic.

We see big challenges ahead of us. For example, after China introduced what we call the C-ROSS [China Risk-Oriented Solvency System] in the China market, the pressure on small and medium-size insurance companies to be solvent will be huge. We expect the market, in the next three to five years, to experience a large integration. Who will lead in the integration in the China market? Who can really win the market in the future? It's actually a very interesting topic going forward.

One final note on China's health insurance market. In China, health ecosystems and senior care ecosystems are two very important trends for the life insurance market going forward. Health insurance is actually the only segment still keeping two-digit growth even in the toughest years. We foresee rising demand for health insurance products and for health coverage, including future senior care, in the Chinese market.<sup>2</sup>

## **Growth optimism in Southeast Asia**

**Bernhard Kotanko:** Sumit, Southeast Asia of course comprises a set of heterogeneous markets. You work across all these geographies with some of the leading insurers. What do you see on the agenda for life and health in Southeast Asia?

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<sup>1</sup> For more, see *Global Insurance Report 2023: Reimagining life insurance*, McKinsey, November 16, 2022.

<sup>2</sup> For more on the burgeoning senior-care ecosystem in Europe, see Pierre-Ignace Bernard, Piero Gancia, Elena Pizzocaro, and Luca Toffoli, "European insurance and the future of senior protection and well-being," McKinsey, November 11, 2021.

**Sumit Popli:** The COVID-19 pandemic was tough for the industry, but coming out of it, I think there is a big resurgence, and the industry is really evolving. There are a lot of common themes across these markets.

The first theme I want to call out is the move from financial products to real propositions.<sup>3</sup> We are seeing that happening in the health space quite a lot, but it's also in the life space. For example, in the wellness space, health propositions are bundled with preventive solutions. Insurers are also bundling products and value-added services for customers with high net worth. So insurers in Southeast Asia are really rethinking the proposition and thinking of the customer journey.

The second theme is the emerging consuming class. What really is the insurance product for this segment? It is getting shaped as bundled lifestyle-based propositions. The theme of embedded insurance is coming up rapidly.

And that's connected to the third theme I would call out, which is real ecosystems, where we are seeing partnerships beyond the classic partnerships between insurance and bank. These are partnerships with digital-platform players where products are embedded into the journey and very well suited to the context of the customer proposition.

Then last, I would call out omnichannel as a theme. We do have a market with many [so-called] semiprofessional distributors and advisers. Now, in upskilling them and arming them with the right kind of tools, using digital to enable them, using AI to really make them sophisticated—productivity uplift is being pushed in this omnichannel domain.

**Bernhard Kotanko:** We've heard a lot about Singapore's role as the new financial-services hub in banking and wealth management, and we see a lot of offshore business. I also understand [insurers in Singapore are] allowed to do digital underwriting

and policy issuance on the life and health side as well [for markets outside] Singapore. Do you see it growing into a similar role for broader Southeast Asia, or is it still predominantly a local business, market by market, even though some of the patterns are quite similar?

**Sumit Popli:** Singapore is definitely emerging as a magnet for the wealth space, with a lot of flows going into Singapore. On the insurance side, we have yet to see that emerge, and there are many factors at play. I would say that as this protection space expands to life, health, and wealth protection, this is an area in which Singapore could play a dominant regional role. Currently, it's in very nascent stages, and as propositions get shaped, we could see this space evolve.

**Bernhard Kotanko:** Also, there's a lot of growth optimism for Southeast Asia, and that of course comprises huge markets like Indonesia and Vietnam, as well as more mature markets like Thailand, Malaysia, and Singapore.

**Sumit Popli:** Indeed.

## Japan's population shapes its life insurance

**Bernhard Kotanko:** Japan is still one of the largest life insurance markets, and it is of course heavily dominated by big domestic Japanese groups. Then you have a set of international players that have found, quite nicely, their niches, with some more focused on forms of advanced advisory and others using product differentiation like US dollar-denominated products.

The Japanese market has been a low-growth, stagnating top-line market. However, the real attraction in the market is the economics of optimizing the in-force book. Those that are able to really manage the book of business successfully, both on the liability side as well as on the asset side

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<sup>3</sup> For more on propositions, see Enoch Chan, Bernhard Kotanko, and Kyle Luk, "The power of proposition: An interview with AIA's Alice Liang," McKinsey, July 28, 2022.

# ‘The Japanese market has been a low-growth, stagnating top-line market. However, the real attraction in the market is the economics of optimizing the in-force book.’

–Bernhard Kotanko

and with efficient operations, can generate very nice cash flows in this market. That is one theme: in-force optimization as a key.

The second key theme is around retirement. As I’m sure the audience of this podcast knows, Japan is one of the oldest societies, and aging continues rapidly. A lot of assets in that retiree segment are often concentrated and allocated in cash, and at the same time, we see a major gap in sustainable retirement income and longevity. We see a big opportunity there to develop a proper retirement market.

The so-called third sector, which are essentially health products, has been always very popular and very profitable in Japan. There, we see constant innovation and a shift from a focus on all sorts of critical illnesses to providing holistic solutions around health and well-being. With Japan’s aging society, we also could imagine new solutions for noncommunicable diseases like Alzheimer’s.

Overall, in Japan, there’s not much top-line growth expected, but there are still very interesting economic opportunities in a market that is just very, very big with a big block of business that can be harvested for cash flow generation.

## The progressive future of insurance in India

**Bernhard Kotanko:** Sumit, what’s the picture in India?

**Sumit Popli:** I’m very excited about what’s happening in India in the insurance space. Of course, as the country really grows, there are tailwinds. The world order is changing and getting to a new era of geopolitics, and I do think it’s an opportune time for India to capitalize on that. We have seen the upper middle class really emerge in India over the past ten years as there has been growth in entrepreneurship, and several industries have really grown in the country.

In addition, what really excites me is how the regulator is making very progressive moves in India in terms of defining the growth path for the industry and defining commitments. It’s exciting to see what’s really happening in that space, and we could see a lot of innovation in the industry, and all the players are planning and thinking of their moves in this new, emerging area for India.

**Bernhard Kotanko:** Thank you so much. Again, a bullish lens on India. And we see this especially among international players—that India is an attractive spot to build businesses and invest.

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We also see this in the valuations for some of the businesses.

## Key takeaways

**Bernhard Kotanko:** Let me try to recap the current state of Asia insurance. The first theme is a return to growth, and to call out the challenge for Asia: while the life and health insurance sector has grown nicely, the growth has been sluggish compared with nominal GDP growth. The relative relevance of life and health insurance has faded, and it is critical for life and health insurers in Asia across all geographies to really find the growth formula of the future. That is central to capture those opportunities.

Doing so will require reimagining the customer promise and the distribution model and addressing the understanding of how insurance can help close the protection gap.

The second theme is one of productivity to enable growth: productivity in your agency force by professionalizing it, and productivity by

using technology, data, and analytics—but also productivity to manage the in-force book in mature markets like Japan.

A third theme is around sustainability. And we haven't talked too much about it today, but what we do see is—on the asset side—a shift toward sustainable investing, and we also see an increased customer relevance in that theme.

Last, to foster growth, the industry will need new forms of public–private partnerships, because often it is a question of what part is covered by private insurance, what part is covered by out-of-pocket expense or cash savings, and what part is covered by public social security. Aligning that will be a great unlock for the region.

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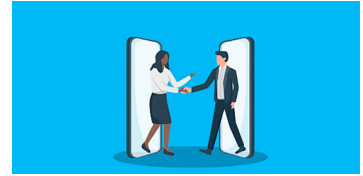
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