

AN INDUSTRY MILESTONE HIGHLIGHTS THE RISE OF ASIA

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The recently concluded IIS Global Insurance Forum (GIF) in Singapore yielded, as our annual conference always does, some interesting insights into the major trends in the industry. One of the most striking developments in the international insurance business was evident at the Forum: the dramatic growth of Asia's stature and role in prospective growth.

A recent Swiss Re study* revealed that global insurance premiums exceeded \$5 trillion dollars for the first time in 2018. Life insurance premiums continue to exceed nonlife. Global life premiums were \$2.6 trillion last year, while nonlife premiums reached \$2.4 trillion. The traditional gap is narrowing, however, as conventional death protection/savings product sales have been sluggish in recent years. Nonlife/property and

casualty lines have grown more rapidly, owing largely to increases in newer liability products like cyber security.

The GIF highlighted some of the major shifts within the global insurance market. **The rise of Asia is striking.** For instance, while nonlife premiums grew approximately 3% globally in 2018, their growth in China was 12%. China is a unique combination of a developed market in some respects (it is already the world's second largest insurance market) and a fast-growing, still developing economy. Growth in Asian emerging markets ex-China was also more than 10%. This is due to a combination of economic growth, personal income growth leading to emerging middle classes around the region, and greater insurance penetration.

There is a stark difference between premium growth in Asia's emerging economies like Indonesia, Vietnam and Malaysia, and developed markets like Japan. These mature Asian advanced nonlife markets grew just 1% last year, as population growth has stagnated and insurance penetration is already among the highest in the world.



In the life insurance sector, premiums were just about unchanged globally in 2018 versus 2017. Advanced market life premiums were up 1%, while emerging markets' fell by 2%. The main culprit for the emerging markets slippage was China, which suffered a near 6% decline after regulators tightened up rules on some previously high flying but risky savings and investment products. Following several years of spectacular growth, China is experiencing a deceleration, but is still growing. Asia ex-China life premiums were up a robust 7%, due to rapidly rising living standards and incomes.

Swiss Re envisions growth this year and next to be in the 3% annual range for the industry overall, with Asia continuing to lead in new business.

At the GIF, we saw some of the reasons for the exciting Asia growth outlook. Tharman Shanmugaratnam, Senior Minister of Singapore, once again addressed the GIF delegation, as he did in 2016. He presented a strong case for international cooperation on trade, warning of the long term deleterious effects of protectionism and trade wars. He also reminded GIF delegates that when governments and industry work together, instead of the adversarial relationship evident in many Western countries, sustainable economic growth is much more likely.

Other conference sessions showed clearly how Asia is a global hub of innovation, and the insurance industry there is benefiting in a major way. A McKinsey-led panel on Driving Success Through the Customer Experience (CX) showed that Asian insurers are thought leaders in developing new and effective ways to attract and retain customers. CX has been challenging for insurers, since buying insurance is not "fun" experience like purchasing an iPhone or a cup of Starbucks coffee, and furthermore policyholders may only interact with their insurer once or twice each year, sometimes in an unpleasant situation like a claim. The panel showed how insurers are learning CX techniques from other industries to build better relationships for the long term.



Asian insurers are also thought leaders in understanding and planning for the Insurance Workforce of the Future, as presented in a Mercer-led session. Demographic trends and a changing concept of employer-employee relationships are driving a new workplace compact. Insurers who cling to traditional recruitment, training, compensation and communication practices will not be able to attract the best talent in the future.

Several other GIF sessions demonstrated how the insurance industry in Asia is anticipating consumer and business needs, and is highly responsive to change. A session on pension reform in Asia's three biggest markets: China, India and Indonesia, showed how government and industry can cooperate to help their citizens be better prepared for retirement, and at the same time provide growth opportunities for life insurers to develop long term investment products.

Another GIF panel on competitive strategies of regional insurers versus multinationals showed how in spite of the financial and marketing might of the global giants attempting to grow in Asia, regional insurers' better understanding of cultural factors, coverage needs and preferred ways of interacting with providers has enabled many of them to thrive.

One particularly thought-provoking session was Closing the Asian Protection Gap. This panel was an introduction to the new Global Asia Insurance Partnership, a public private partnership. The GAIP was developed by the powerful Monetary Authority of Singapore, a unique combination of financial regulator and economic development organization. It plans to capitalize on Asia's governments, academic institutions and insurers to narrow the natural catastrophe-driven gap between total economic losses and insured losses. This approach is the only one of its kind, and is further evidence of Asia's ability to leverage the insurance industry to help it achieve sustainable growth.



The innovations and the growth-oriented mindset that was so palpable at the Global Insurance Forum makes it easy to understand that Asia will dominate insurance industry growth in the future. Life insurance is typically the first insurance product someone buys when they first have enough disposable income to afford protection. As more Asians, especially South Asians, move closer to middle class status, they will start buying basic life insurance in large numbers. Among higher income Asian families, the efforts of established players like AIA and Prudential, and of newer competitors like FWD, are driving robust growth by focusing on wellness and a healthy lifestyle. This approach has

proven much more successful than the old fear of death model, especially with younger consumers. Health insurance is also a key growth area.



In the nonlife sector, both personal lines and commercial lines (both primary and reinsurance) are likely to grow substantially faster in Asia than the global aggregate. New home formations, more vehicles on the road, more new businesses, all needing protection. Agricultural and several forms of liability insurance are also growing rapidly from a modest current base. Taken together, the life and nonlife markets of Asia are expected to exceed 40% of global premiums before the end of this decade. China alone will likely represent 20% of worldwide premiums, and may well overtake the United States as the number one market by the mid-2030s.

Taken together, these developments paint a picture of a very different global insurance market than the one most current industry leaders are accustomed to. The global industry has been North American and Euro-centric. This will not be the case in the future, as population growth, economic growth and increased insurance penetration inexorably continue. One manifestation of this changing industry outlook is that the IIS opened an office in Singapore this year. We believe that we cannot adequately monitor key industry developments or nurture relationships with important industry stakeholders without a physical presence in the Asia Pacific region. There is no understanding of, or success in, the insurance industry of the 21st Century without a deep commitment to Asia, and this is true for life and nonlife insurers to be sure.

**"sigma 3/2019: World insurance: the great pivot east continues",
(D. Staib, O. Tschekassin, M. Puttaiah, Swiss Re Institute)
www.swissre.com/institute/research/sigma-research/sigma-2019-03.html
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