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Protection Gaps

A Customer, Distribution, and Product Lens

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Protection Gaps – A Customer, Distribution and Product Lens

Discussions around income protection gaps are not new, and whenever the issue surfaces in the news, the gaps appear to widen. Despite numerous papers, initiatives, and public–private programs launched over the years to narrow these gaps, the situation shows little improvement.

The questions then arise: what has happened? Have we not done enough? Addressing the protection gap increasingly feels like a moving target, with solutions proving elusive.

In this paper, I will draw on the definitions of the Health Protection Gap ("HPG") and Mortality Protection Gap ("MPG") from the recent Swiss Re Institute publication, "Asia Life & Health Consumer Survey 2025." In simple terms, the HPG and MPG can be understood as the difference between financial resources needed (for a household) and financial resources available (to the same household) in the event of the untimely passing of the primary income earner, or if the main income provider becomes disabled and unable to work. Depending on the method of calculation, the financial resources needed for the household could span three generations (i.e., dependent parents, spouse, and children).

According to the publication, the HPG in Asian markets was estimated to reach USD 258 billion in premium-equivalent terms in 2024, a 21% increase since 2017. Similarly, the MPG was estimated at USD 132 billion in 2024, reflecting a 35% increase from 2017.

Two recurring themes often cited in explaining the HPG and MPG are (a) lack of trust and awareness of life and health insurance, and (b) issues of affordability for life and health insurance protection. Interestingly, these two factors are deeply connected through a customer-distribution-product triangulation. Examining this perspective in greater detail raises a fundamental question:

> Are customers actively choosing to buy life and health insurance products, or are these products primarily designed to be pushed through distribution channels?

There are no definitive answers to this question. However, exploring it through the customer-distribution-product triangulation may help us better understand the root causes of the widening MPG and HPG in the Asia markets.

The Customer, Distribution, Product Lens

From a customer's perspective, the natural follow-up question is:

> Are life and health insurance products being bought by customers, or are they being sold to them?

What are the chances of a Term life insurance sales coming from (a) self-motivation, ie. someone wakes up in the morning and thinks, "I need a Term life insurance policy today" compared to (b) the likelihood of purchasing the Term life insurance when nudged during a mortgage application by a financial planner? Both situations exist, but realistically, the latter should be far more common.

This debate extends to more fascinating aspects. Many young people say they prefer to buy products directly through digital platforms, including life insurance. At the same time, there are customers segments that insist they would rather speak with a person when making a life and health insurance policy. For these customers, buying life and / or health insurance is often seen as an emotionally avoided decision, as it involves confronting topics such as death, illness, and disability – these are conversations we often avoid unless being pushed to engage.

The reality is that both aspects co-exist. Life and health insurance products are still largely sold rather than bought, for a variety of reasons. Common reasons include (1) complex product designs, (2) push-based distribution channels, (3) low customer awareness and trust, and (4) emotional avoidance. This is evidenced by sales statistics from local regulators, which show that agency and bancassurance channels continue to dominate life and health insurance new business sales (by weighted new business premium), while direct-to-customer digital sales remain far behind.

At the same time, we have seen the rise of virtual insurers. Bowtie Insurance, a Hong Kong–based virtual insurer, has succeed in capturing 5% (by count of policies issued) of Voluntary Health Insurance Scheme (VHIS) policies in fiscal year 2024, since receiving the license as virtual insurance company from IA in December 2018. This equates to approximately 1,000 new policies or customers acquired each month via its direct-to-customer digital platform within the competitive health insurance market in Hong Kong.

As it stands, life and health insurance policies are still more often sold than bought. Most individuals do not actively seek out such products, and the values of such products is not always immediately apparent to the average customer without appropriate guidance. Life and health insurance products are typically being viewed as addressing future risk, and not immediate needs.

Given this reality, can we solely rely on distribution channels to improve the MPG and HPG observed across Asia? Or should we continue to invest in public education and awareness, with the goal of empowering individuals to better understand the value of life and health insurance products, especially in his or her wealth protection planning journey?

<u>From a distribution perspective</u>, a related question is:

> Are distribution channels selling life and health insurance products to narrow the MPG and HPG for customers, or are they simply pushing products that maximize their commissions?

The answer often depends on the compensation model or incentive structure in place for specific distribution channels, which can have different characteristics. For example, agency channels generally deliver stronger sales volumes for life and health insurance products that narrow HPG and / or MPG than bancassurance channels. Agents are more willing to spend time explaining complex life and health protection products to customers, while bank relationship managers ("RMs") often prefer to sell Guaranteed Issue Option (GIO) savings or endowment products, which involve close to zero health underwriting and can be closed rather quickly.

The example above highlights a key characteristic of bancassurance channel where they tend to avoid medical underwriting and sell smaller sized-savings or endowment type products. This is likely because the RMs are often measured on efficiency metrics such as "revenue per minute", where they are more incentivized to focus on simple savings-oriented life insurance products that resemble other wealth management offerings, rather than life insurance protection products which require medical underwriting and therefore longer sales closing times. This give rise to the question – with bancassurance being one of the corner stones for life and health insurance sales in Asia, how can the sales of endowment or savings insurance products be part of an effective solution in narrowing the MPG or HPG across Asia?

Agency channels have their own biases. Agents often prefer selling larger policies and / or limited-pay premium structures, rather than regular-pay policies that might be more affordable for a broader population perspective. A limited-pay policy is one in which the premium payment term is shorter than the coverage period, while a regular-pay policy has a premium payment term equal to the coverage period.

Since commissions are usually based on gross premiums, agents are incentivized to sell limited-pay policies with higher upfront premiums, maximizing their commission earnings. With limited numbers of active agents in the market, and the preference of selling bigger and / or limited-pay policies, a large segment of the population is left behind underserved, particularly those who cannot afford limited-pay policies, such as freelancers or workers with irregular incomes.

In the context of narrowing the MPG and HPG, should compensation models be adjusted so that distribution channels are rewarded based on the sum assured or life and health insurance protection values, rather than premium size alone? Or should we recalibrate and prioritize a needs-based life and health insurance sales approach, which may require further refinement to better support distribution channels covering a broader segment of the population?

Distribution channels are often caught between selling the right products to customers and achieving their own financial goals. The challenge lies in finding a balance that delivers the best outcomes for customers while ensuring fair compensation for distributors.

From a product perspective, another key question arises:

> Are insurers developing products that customers genuinely want to buy, or products that distributors prefer to sell?

Level premium designs will require higher level of premium payments, making them more attractive to distributors due to higher initial commissions. However, they expose insurers to pre-funding risk, as these products create long-duration liabilities, and there is a higher risk that the money set aside today may be insufficient to cover future claims, especially under adverse economic or demographic conditions.

Conversely, whole life policies with yearly increasing premiums provide a lower-cost entry point for younger customers. While this may enhance early-stage affordability, it relies on long-term customer commitment. As premiums rise over time, persistency challenges may emerge, with customers more likely to lapse or surrender the policy. Distributors may also be less motivated to sell these products, as they are less lucrative in terms of initial commissions (since low entry premium).

This raises an ongoing challenge for insurers – How can they balance (1) product affordability (level vs. increasing premiums), (2) customer persistency, and (3) distributor motivation to maintain sales momentum, in a way that creates a sustainable and aligned product strategy which can be more effective in addressing the HPG and MPG in Asia? Finding the equilibrium to this discussion point is essential to answering the broader question of whether product design is truly customer-centric or distribution-driven.

A similar situation exists in the critical illness ("CI") space. In Asia, CI products are often highly complex, covering more than 100 conditions, offering multiple-claim allowances for different conditions, and layering on savings elements such as non-guaranteed bonuses or return-of-premium features. Coupled with limited-pay structures, these policies result in high premiums even when the sum assured is relatively small. While this complexity appeals to distributors who can earn substantial commissions – it begs the question whether such complex products are truly effective in addressing the HPG?

Nonetheless, the industry has long aspired to develop products that align the interests of all stakeholders – combining lower premiums with good proposition to customers, attractive distributor incentives (higher commission), and healthy insurer margins (less risk but profitable). This aspiration continues to be ultimate challenge for product design exercises. It is a rare and highly sought-after achievement in the industry.

From Insight To Action?

Given these challenges, how can the industry come together, learning from more mature markets and working with governments to address the MPG and HPG more effectively? Several steps could help optimize the customer–distribution–product triangulation and narrow these gaps:

- Addressing the so-called "awareness" issue collectively, targeting not only customers but also distributors. Education efforts targeting the broader population should continue, using comparisons to illustrate key insurance concepts. One potential approach is to contrast:
    - "Asset protection" – a rather familiar principle in general insurance (i.e. customers purchasing car insurance to protect against potential damage to a newly acquired car) vs.
    - "Wealth protection" – a concept which refers to safeguarding one's ability to earn an income, which is often the primary driver of wealth accumulation, whereby customers should be encouraged to view life and health insurance as essential mitigation to protect "damage" to the wealth from unforeseen life events.

  Equal emphasis should also be placed on educating distributors about ethical sales practices and appropriate product positioning.
- Educating all stakeholders about the existence of the MPG and HPG, and the importance of their roles contributing to narrowing both gaps. Through this a morale duty could potentially be created to drive motivation for increase ethical sales.
- Introducing quality controls in the life and health insurance sales process. For example, regulators and industry bodies could conduct periodic audits of agency or bancassurance sales interactions to ensure customers receive fair and transparent advice.
- Increasing transparency in product comparisons by disclosing fees, commissions, premiums, surrender values, and claims in a standardized format, enabling customers to make informed decisions.
- Improving the quality of sales advice by linking distributor compensation to the quality of advice rather than the size of the premium. This should be reinforced with ongoing training on conflicts of interest, fairness, and suitability.
- Supporting the growth of direct-to-customer digital sales channels by encouraging the development of simpler, transparent products. This approach would align with evolving consumer preferences for digital-first solutions.
- Driving cultural change within organizations, starting with leadership commitment to customer-first values. Recognize and reward distributors who demonstrate integrity and client advocacy, not just high sales volumes.
- Encouraging holistic financial planning rather than piecemeal product sales, which will likely act as a catalyst in transforming the compensation schemes toward

recurring income models that reward long-term client relationships. This would help transition agents from being primarily sales-driven "salespersons" to being true "trusted" financial advisors.

Nonetheless, any of these reforms must be adapted to the maturity and structure of each market to ensure they are economically sustainable and culturally relevant.

Conclusion

There is no magic bullet to resolve the HPG and MPG in a short period of time. The continuous widening of the HPG and MPG across Asia highlights that this is not simply a matter of awareness or affordability, but it is a result of far more complex triangular interaction between (1) customers, (2) distribution channels, and (3) product design.

Although insurers, distributors, and regulators have each made meaningful efforts over the years to address HPG and MPG, progress has been modest, potentially due to misalignment of incentives, limited transparency, and inherent complexity of life and health insurance products.

Narrowing the HPG and MPG will require a collective transition, whereby: (a) customers must be better informed and empowered, (b) distribution channels need to evolve toward needs-based advice rather than commission-driven sales, and (c) insurers may potentially design simpler, transparent products that align with genuine protection needs. Local regulators also hold a pivotal role in enforcing frameworks that protect customers and build long-term trust within the life and health insurance industry.

Ultimately, bridging the protection gap is not just an economic necessity but also a social responsibility where we continue to work toward a common goal – to ensure more families are financially resilient in the face of illness, disability, or death.

While the perspective outlined in this paper may not be new to the industry, nor is the topic itself a recent discovery, it is my hope that this paper delivers a simplified overview of the issues, presents established viewpoints through the alternative lens of the triangular relationship between customer-distribution-product, and encourages thoughtful reflection that could ultimately contribute to the industry's efforts in narrowing the MPG and HPG in Asia.

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