

# Insurance market in Asia

Trends and opportunities in 2024

27<sup>th</sup> Dec 2023



# Agenda

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Asian insurance industry

Market dynamics and opportunities

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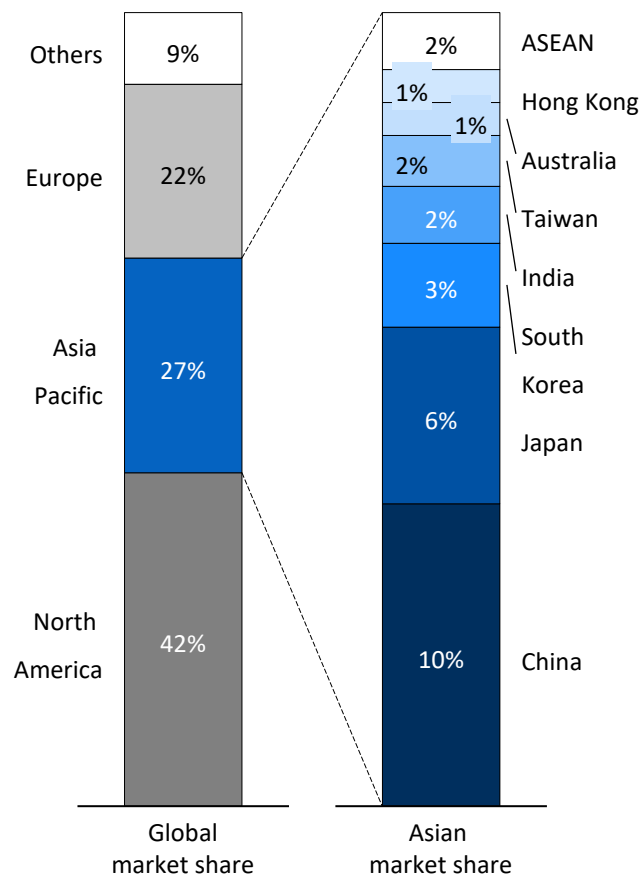
## **Asian insurance industry**

Market dynamics and opportunities

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# Asia contributes to over a quarter of the global insurance premium, however both general and life insurance segments in the region are underpenetrated

## Total premium volume by geography



## Key characteristics of general and life insurance segments, and Outlook for 2024

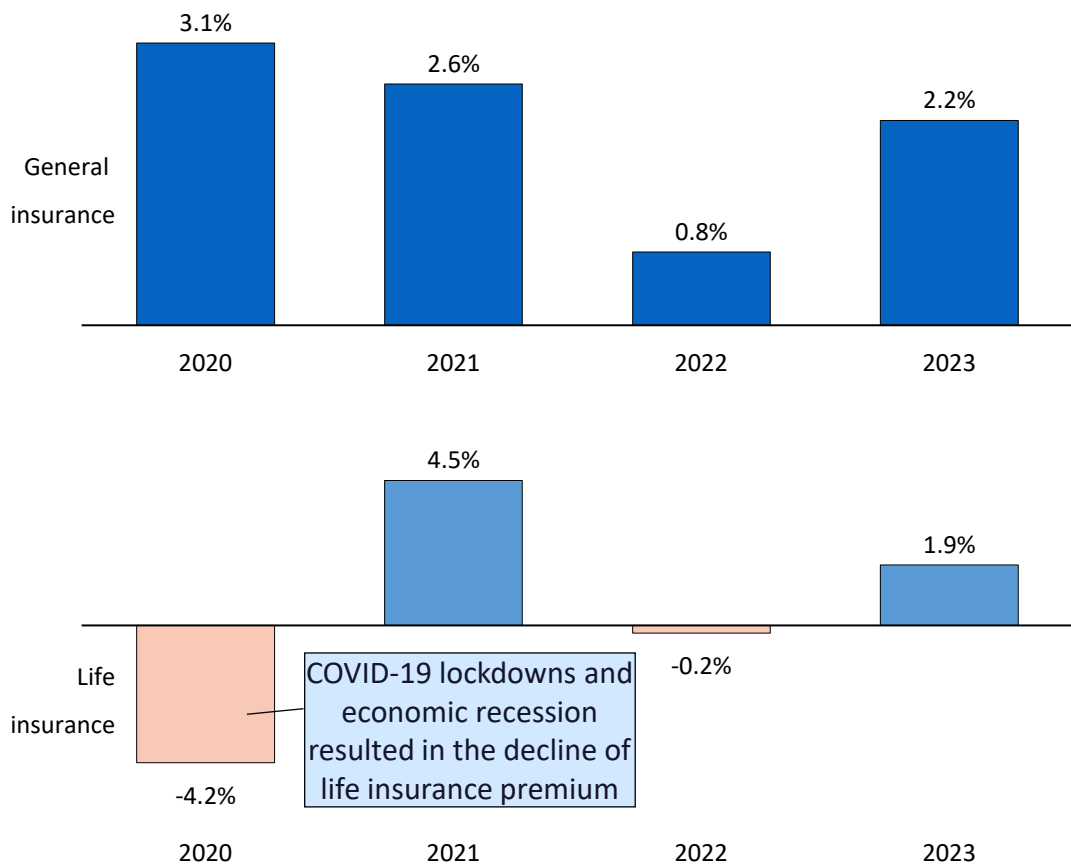
		General insurance (P&C <sup>1</sup> )	Life insurance
Definition	Coverage	<b>Non-life assets</b> such as houses, vehicles, health, cyber, travel	<b>Individual's life</b> covered through Term and Permanent plans
	Underwriting factors	<b>Home:</b> Replacement cost, location <b>Auto:</b> driving history, vehicle type <b>Health:</b> Age, health conditions <b>Cyber:</b> Past incidents, data sensitivity	<b>Term:</b> Age, health, occupation <b>Permanent:</b> Age, health, occupation, interest rates
	Tenure	Typically <b>annual</b> policies that can be renewed	<b>Long term</b> policies (up to 99 years of age), depending on the plan
Insurance Stats (Asia)	Penetration	Ranges between 0.5% to 2%	Ranges between 3% to 8%
	Protection gap	Expected to be in the range of \$845 and \$934Tr by 2025	
	Net combined ratio	96% <sup>2</sup>	-

1. Property & Causality 2. As of 2018

Source: Swiss Re Institute, S&P Global Market Intelligence, Global Data, PwC, Perspective research & analysis

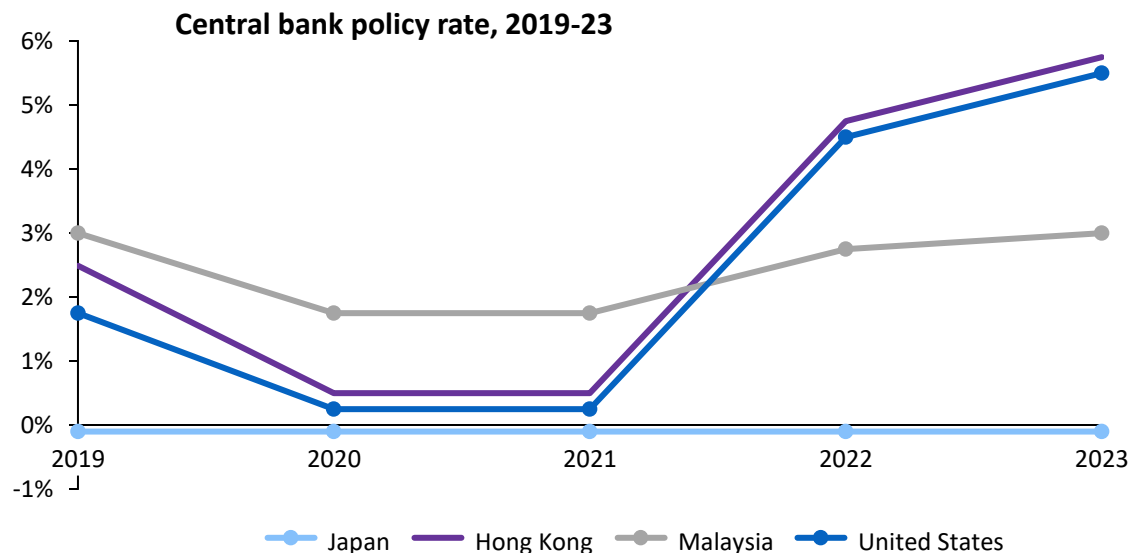
# Premium growth remained volatile between 2020-23; outlook is mixed with high interest rates dampening growth prospects but market deregulation and tech. shifts likely to cause tailwinds

## Historic premium growth General vs. Life Insurance







## Insurance outlook in Asia, 2024

- (-) Cumulative effect of over 18 months of rising interest rates, deteriorating credit conditions likely to dampen growth prospects
- (+) Multinational insurers likely to benefit from deregulation in China and India
- (+) Mortality protection & retirement gap widens, create opportunities for insurers
- (+) P&C insurance to be driven by a) Electric Vehicles sales as countries phase out IC vehicles as part of their climate goals, b) insurance against natural hazards







## EU is setting the tone for regulations in advanced technology which will likely impact insurers; deregulation in China and India have opened up the insurance markets for foreign insurers





### Global insurance regulations and their impact on insurers

Jurisdiction	Affiliated segment	Description	Impact
EU	Life and P&C insurance (Artificial Intelligence)	<ul style="list-style-type: none"> <li>Concerns about reliability of AI-generated material and decisions has resulted in the legislation of EU AI Act on artificial intelligence</li> </ul>	
EU	P&C insurance (Cyber Security)	<ul style="list-style-type: none"> <li>Digital Operational Resilience Act focuses on enhancing cybersecurity of the EU's financial sector which has seen a rapid increase in breach of sensitive data</li> </ul>	
US	P&C insurance (Climate disclosures)	<ul style="list-style-type: none"> <li>Insurers are mandated to meet the new Task Force on Climate-related Financial Disclosures (TCFD)-aligned disclosures adopted at the state level</li> </ul>	
US	Primarily life insurance (Consumer protection)	<ul style="list-style-type: none"> <li>Reg Best Interest (BI) regime is entrenched at the state and federal levels, to help safeguard investors and standardize the conduct standards for broker-dealers and financial advisors</li> </ul>	

### Asian insurance regulations and their impact on insurers

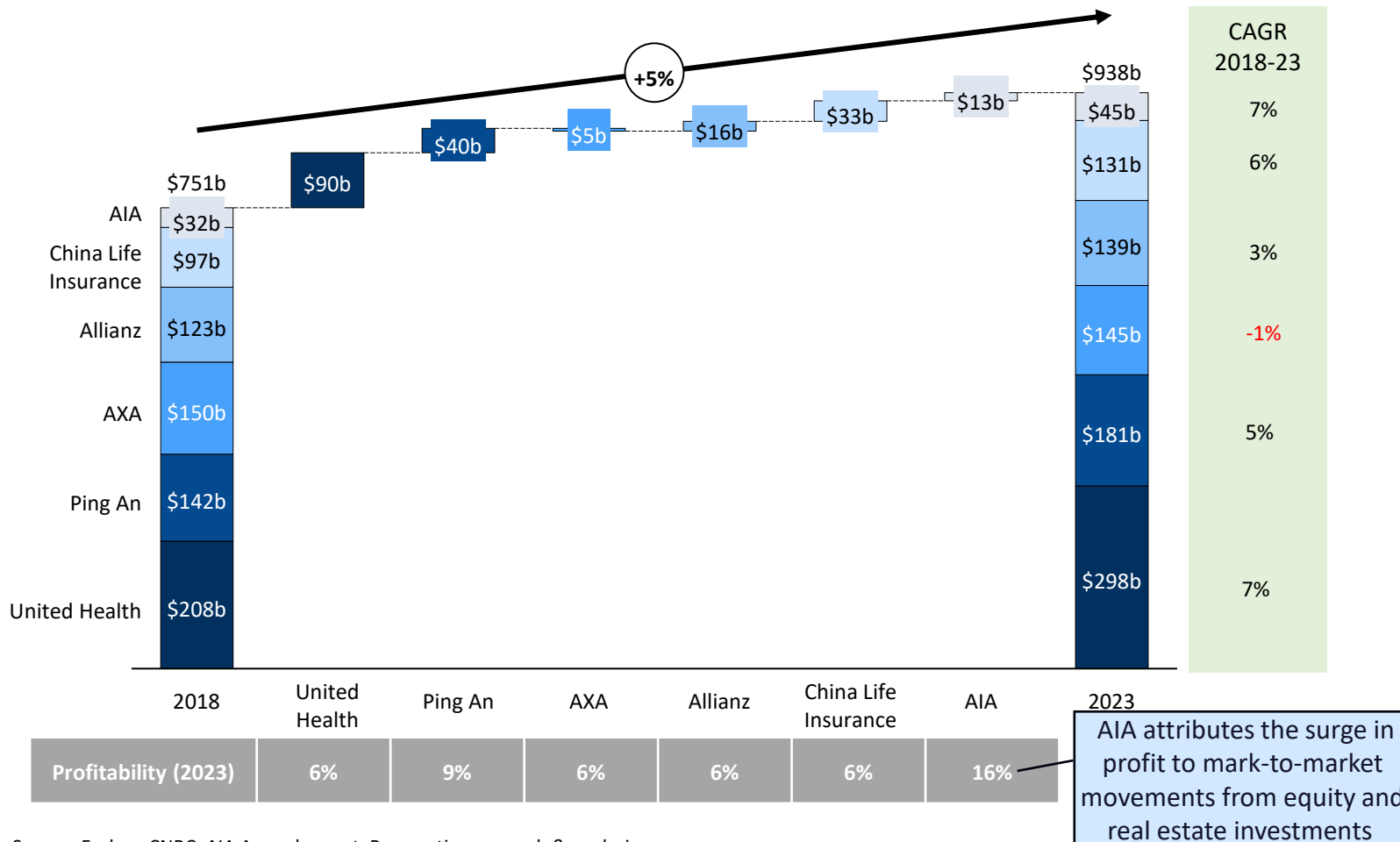
<b>Developed Asia</b>		
	Description	Impact
Singapore	<ul style="list-style-type: none"> <li>Limited regulatory changes</li> </ul>	
Japan	<ul style="list-style-type: none"> <li>Limited regulatory changes</li> </ul>	
South Korea	<ul style="list-style-type: none"> <li>Revised solvency system for valuation of insurance liability</li> </ul>	
Hong Kong	<ul style="list-style-type: none"> <li>Insurance incentives to promote marine, speciality insurance, and reinsurance</li> <li>Tax concessions to encourage deferred annuities</li> </ul>	

<b>Emerging Asia</b>		
	Description	Impact
China	<ul style="list-style-type: none"> <li>Cap on foreign ownership of life insurers lifted (2020)</li> </ul>	
India	<ul style="list-style-type: none"> <li>Foreign ownership limit increased to 74%</li> <li>Prescribed order of preference for insurers to cede reinsurance business</li> </ul>	
Indonesia	<ul style="list-style-type: none"> <li>Foreign ownership limit of 80%</li> </ul>	
Malaysia	<ul style="list-style-type: none"> <li>Removal of limit on commissions and agency-related expenses payable</li> </ul>	

# AIA, China Life Insurance, and Ping An are three of top six insurers that cater primarily to the Asian market; United Health which is the largest insurer has been growing through acquisitions

## Top six insurers by turnover, 2018-23



## Commentary

- Most of the large insurers offer both life and general insurance and operate in multiple geographies
- AIA, China Life Insurance, and Ping An cater primarily to the Asian market. AIA is HQ'ed in Hong Kong, while the latter two are based in China
- UnitedHealth increased its annual revenue since 2018 by \$90 billion. They achieved this through smaller deals that have grown while competitors such as Aetna and Cigna tried to broker much larger ones, only to be stopped by regulators

*“United has had superior stock performance over others for two reasons. One is its strategic vision and the other is strategic capital management.”*  
 – Managing Director, Bernstein Research

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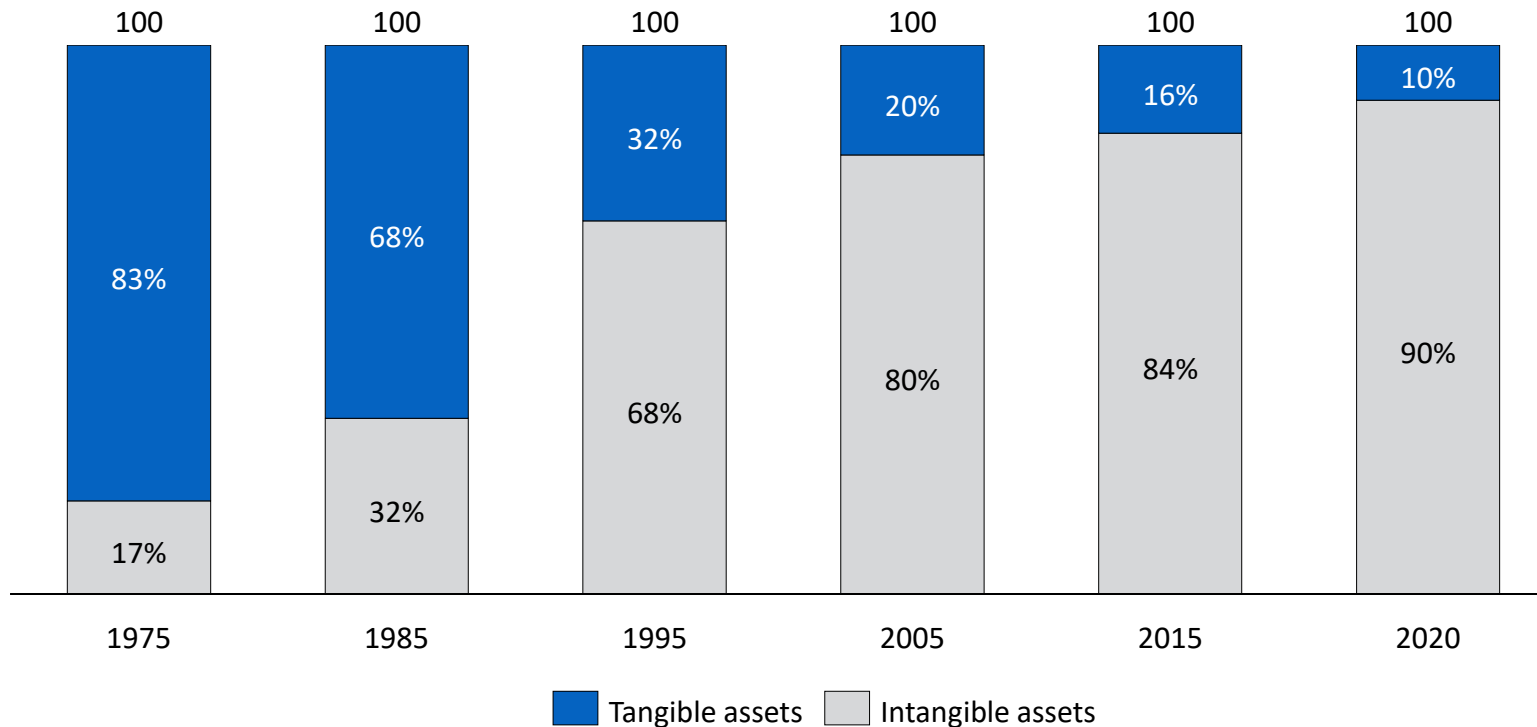
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## Businesses models have shifted from being production-led to being service based which has resulted in the share of intangible assets increasing over the years

### Intangible Vs. Tangible Assets, 1975-2020

Intangible assets include intellectual property, research, technology, software and human capital

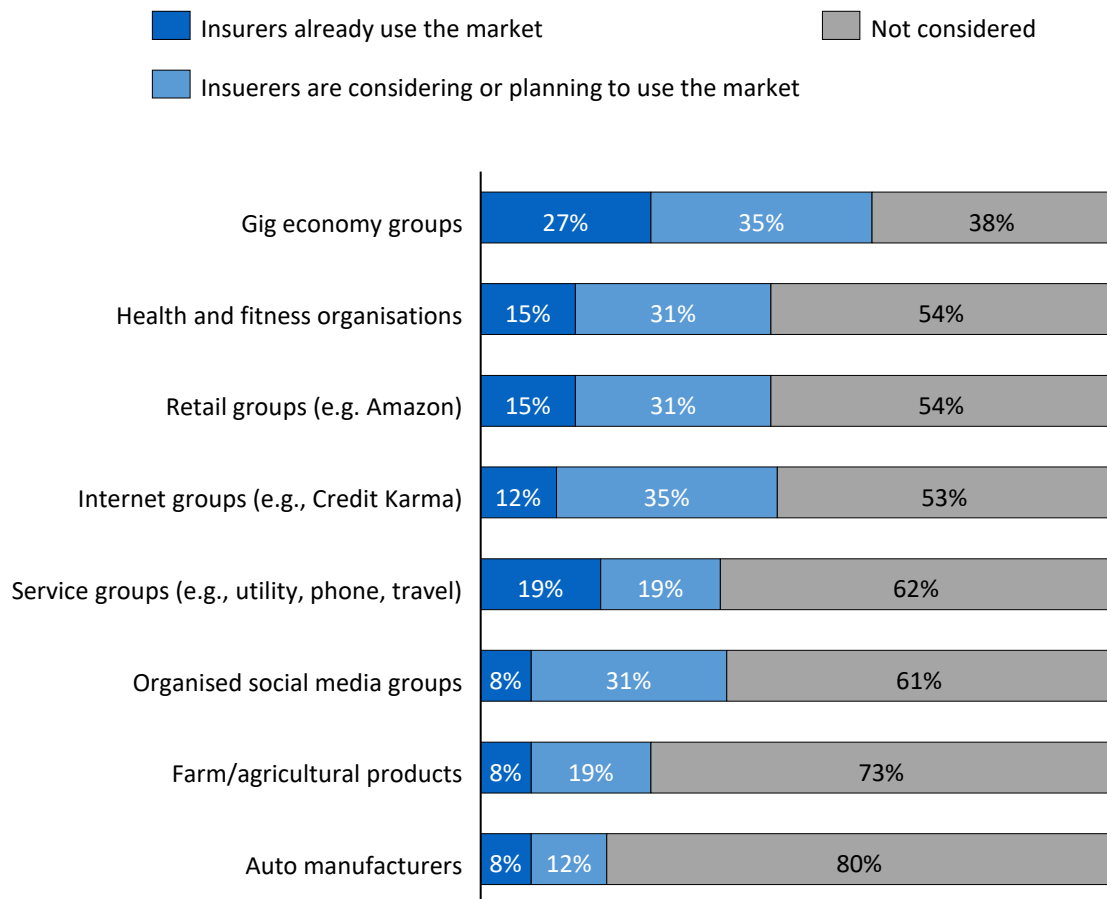


### Commentary

- New business models spark innovation in insurance solutions. As firms have shifted from producing physical goods to providing information and services, the composition of their balance sheets has changed too
  - High proportion of intangible assets remain uninsured. Estimated 17% of intangible assets are insured compared to 58% of tangible assets
- Estimated cyber protection gap of \$900b and natural catastrophe gap of \$100b

# With changing nature of risk profiles arising from modern commerce, insurers are turning to affinity programs such as gig economy and retail groups to reach more consumers

## Affinity programs targeted by insurance firms



## Household wealth has grown, expanding the middle class

### Changing risk profiles

Changing risk profiles of the new age jobs, the burgeoning gig economy for instance, is seeing more individuals forego typical safety nets that offer a measure of protection to salaried employees. As risks are transferred from employers to individuals insurers recognize the opportunity for providing adequate coverage

60%

Singapore gig workers worry about not having enough savings

### Outreach through platforms

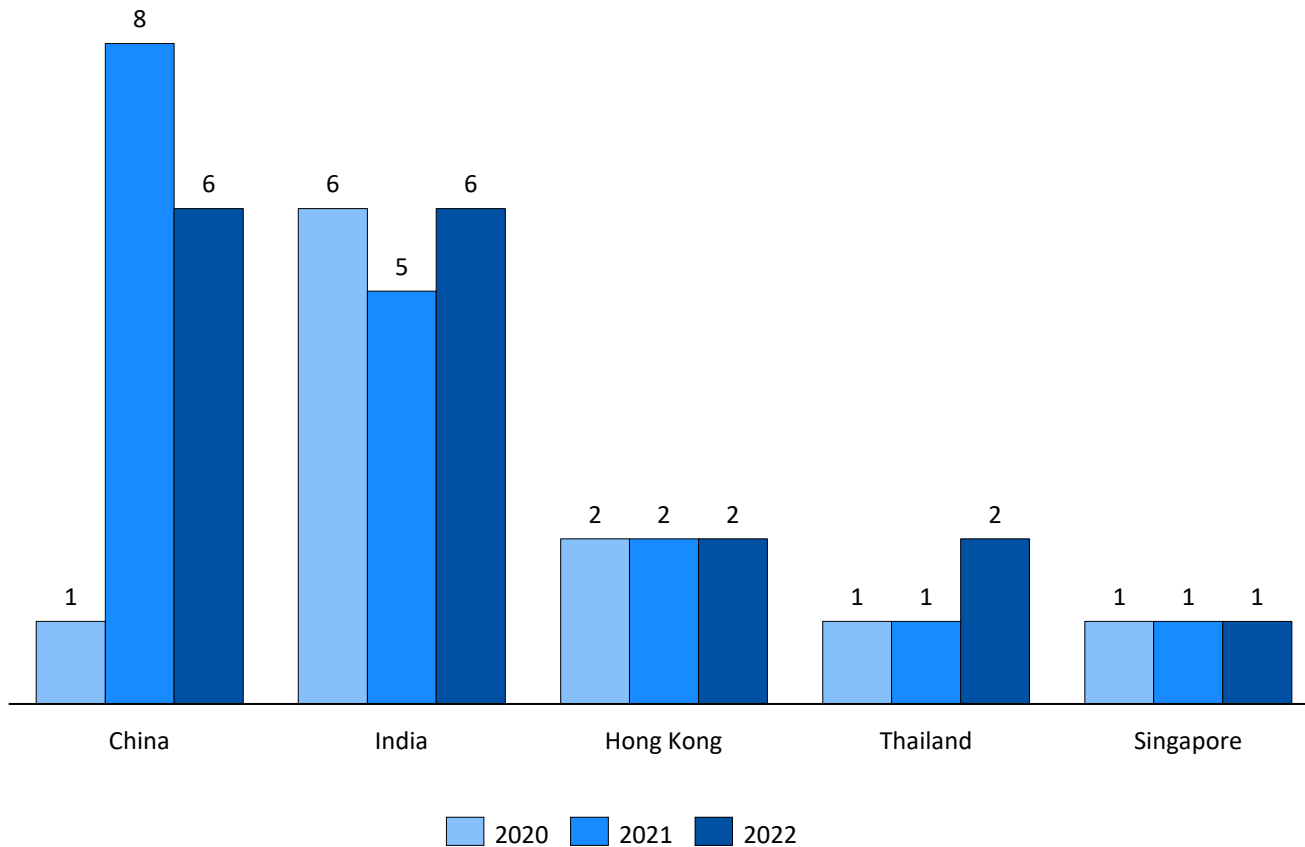
Mom-and-pop shops turned e-retailing microentrepreneurs find themselves coping with risks that arise from conducting online business and exposure to logistical challenges like cyber security and data privacy

71mn

MSMEs in Southeast Asia

## Deregulation in India and China increased deal making activity in the recent years. This trend is expected to continue going ahead

### Number of life and health insurance transactions in Asia, 2020-22



### Deregulation in Asia

- The increase in foreign investment limits in some Asian markets are likely to continue to drive investment activity in the future
  - China removed cap on foreign ownership on Life Insurance businesses in 2020, while India increased the foreign ownership limit from 49% to 74%
- Recent international transactions in these countries include –
  - Chubb acquiring 83% stake in Huatai Insurance Group in China for \$316m in 2022
  - Generali acquiring 25% stake in Future Generali India Insurance from the Future Group

*“The new rules pave the way for foreign insurers to set up wholly owned insurance asset management entities in the country, building on the country’s wide-ranging financial opening-up”*  
 - Director of the Finance and Securities Institute at the Wuhan University of Science and Technology

# There are three key opportunities for insurers in Asia – Cyber insurance for protecting digital assets, insuring through affinity programs, and M&A in India

## Insurance for intangible assets

### Recommendation

- Cyber insurance is critical for modern businesses of all sizes (more so for small businesses with limited IT investment) to protect digital assets
- Due to the criticality of risk, the pricing power is high; cyber premiums increased by an average 28% in the US between Q4'21 and Q1'22

### Evidence

- 83% of organisations experienced more than one data breach during 2022
- The total number of ransomware attacks surged by 13%, which is a rise equal to the last five years combined

### Risk

- **Claims for cyber insurance are high** – Underwriters will need much stricter underwriting requirements such as mandating multi-factor authentication for businesses

## Insuring through affinity programs

### Recommendation

- There is a wide protection gap for participants in platform businesses such as gig workers (Grab), sharing economy (Airbnb), e-retailers (Amazon) for insurers to penetrate
- Affinity programs provide greater control over risk management and offers cost efficiencies to the insurer by partnering with an organisation or membership association

### Evidence

- According to an ILO survey of 20k platform workers
- Only 60% of all gig workers are covered by health insurance and only 35% have a retirement plan
  - Only 21% workers had protection against work related injuries

### Risk

- **High risk profit of gig workers** – The ubiquity of data from platforms can help aid risk assessment and pricing

## M&A opportunities in India

### Recommendation

- Deregulation, strong GDP growth and stable political governance make India a strong contender for M&A in the insurance sector
- IRDAI, the Indian insurance regulator, has plans to launch a composite license which will ease M&A activity between different insurance segments<sup>1</sup>

### Evidence

- Since the deregulation few large transactions took place including Aviva, a UK based insurer, acquiring 74% stake in a JV with Dabur, an Indian FMCG conglomerate

### Risk

- **Diverse country with low insurance penetration**<sup>2</sup> – A prudent strategy for an international insurer is to form JV with an Indian company with strong distribution network

1. Under the current legislation, insurers can hold either a life, non-life, or standalone health insurance license 2. Insurance penetration of 4.2% compared to global average of 7% as of 2021-22 **Source:** IBM, Verizon, CIAB, Asia Insurance Review, LiveMint, IRDAI, Perspective research & analysis