McKinsey & Company

Insurance Practice

2019 Global Insurance Pools trends and forecasts: Life insurance

Accelerated pace of growth for life insurance has been led by rapid growth in emerging markets, which are poised to continue this trajectory in the coming years.

May 2019

Our 2019 analysis of McKinsey's Global Insurance Pools database offers detailed trends and forecasts on the insurance industry. Overall, the global industry grew by more than 4 percent in 2017, the same level as its compound annual growth rate from 2010 to 2016, and total premiums reached €4.7 trillion. This report, one in a three-part series, provides analysis and insights on life insurance function, with an in-depth look by region and product line.

Regional growth trends

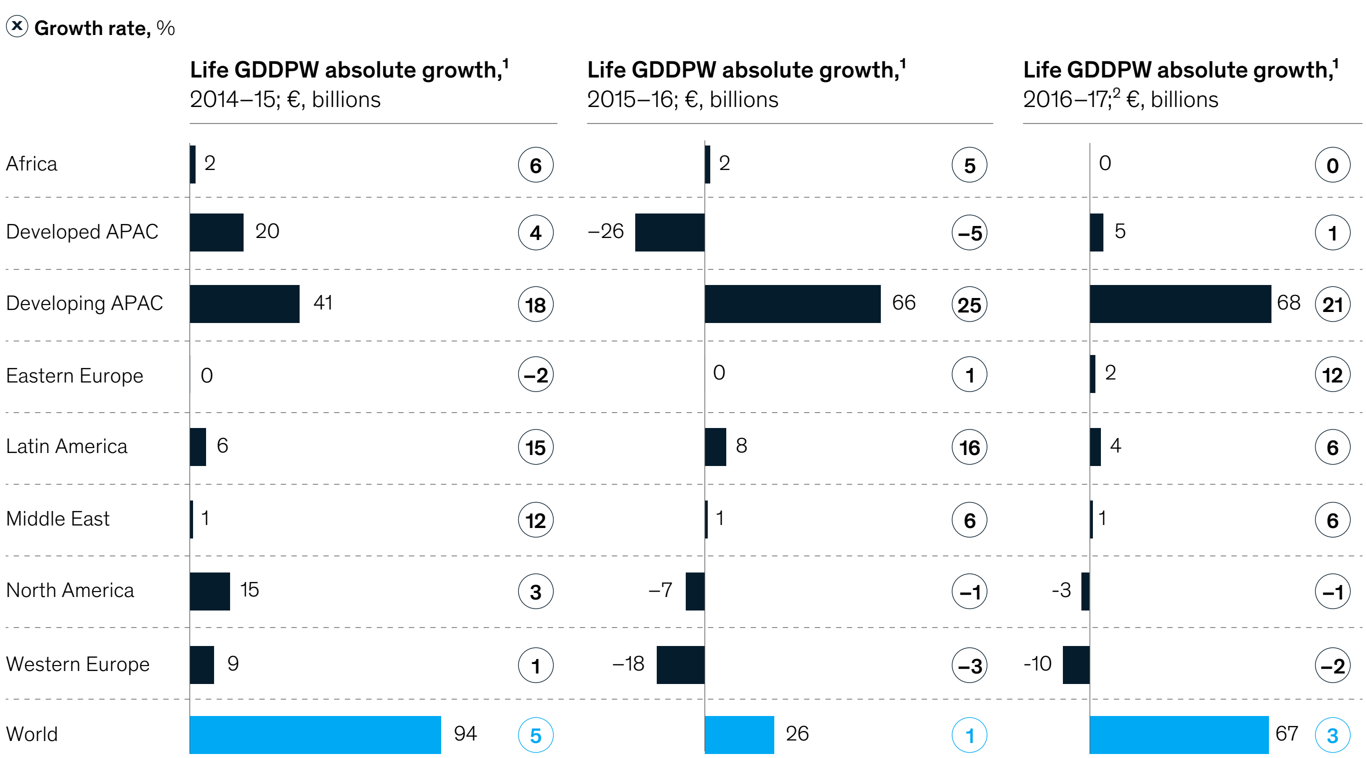
Global life insurance gross premiums rose from 1 percent in 2016 to 3 percent in 2017. Overall industry profitability remained stable at 10 percent in 2017. Emerging markets accounted for the majority of this increase, led largely by the developing Asia–Pacific (APAC) countries. Within this region, China and India generated the bulk of the growth, with the former contributing more than 85 percent of the region's total increase for both 2016 and 2017.

Developing APAC, Eastern Europe, and Latin America achieved a relatively high growth rate of gross premiums in 2017, with China accounting for the largest absolute growth of premiums globally.

[1] Latin America refers to all markets therein besides Venezuela, which was excluded because data is skewed due to hyperinflation. Remaining regions refer to the following markets. Africa: Egypt, Kenya, Morocco, Nigeria, South Africa, Tunisia. Developed APAC: Australia, Hong Kong, Japan, New Zealand, Singapore, South Korea, Taiwan. Developing APAC: China, India, Indonesia, Malaysia, Philippines, Thailand, Vietnam. Middle East: Bahrain, Iran, Israel, Jordan, Saudi Arabia, Turkey, United Arab Emirates.

Exhibit 1

Developing APAC is expected to lead the growth, while Western Europe is expected to continue to decline.



Note: Fixed exchange rate for 2016 has been used throughout the years.

[1] Gross direct domestic premiums written.
[2] Estimates for 2017 figures based on Q3, H1, and full-year reporting.

Source: McKinsey Global Insurance Pools

Meanwhile, Africa and the Middle East benefited from stable gains (Exhibit 1). North America and Western Europe experienced a slight decline in 2017, though not as deep as the €18 billion drop of the previous year.[1]

Currently, developing APAC is the fastest-growing market in the world: these countries expanded by 25 percent in 2016 and 21 percent in 2017. This rate is forecast to fall to approximately 10 percent by 2022, however. China and India had the largest absolute growth in gross premiums in 2016 and 2017, respectively. The growth in China's life insurance market was fueled by the previously unmet protection needs of the population (such as for pension products), and the aggressive sales of high-yield, mid- to short-term investment products.

Developed APAC countries saw their growth stabilize after a steep decline in 2016. However, Japan, the major market in the region, is still experiencing falling growth. The slowdown can be attributed to several factors: high penetration rates for life insurance limiting new business growth, regulatory changes in bancassurance affecting premiums in that channel, and low interest rates dampening the popularity of long-term saving products.

Latin America had gross premium growth of around 6 percent in 2017, a significant drop from its approximately 16 percent increase in 2016. This negative trajectory can be attributed to the recessionary environments in major markets such as Argentina and Brazil. The industry is expected to expand at around 9 to 11 percent a year through 2022.

North America saw a decline of 1 percent in 2016 and 2017, mainly caused by falling premiums for unit-linked products, such as variable annuities. Growth is expected to return in the coming years.

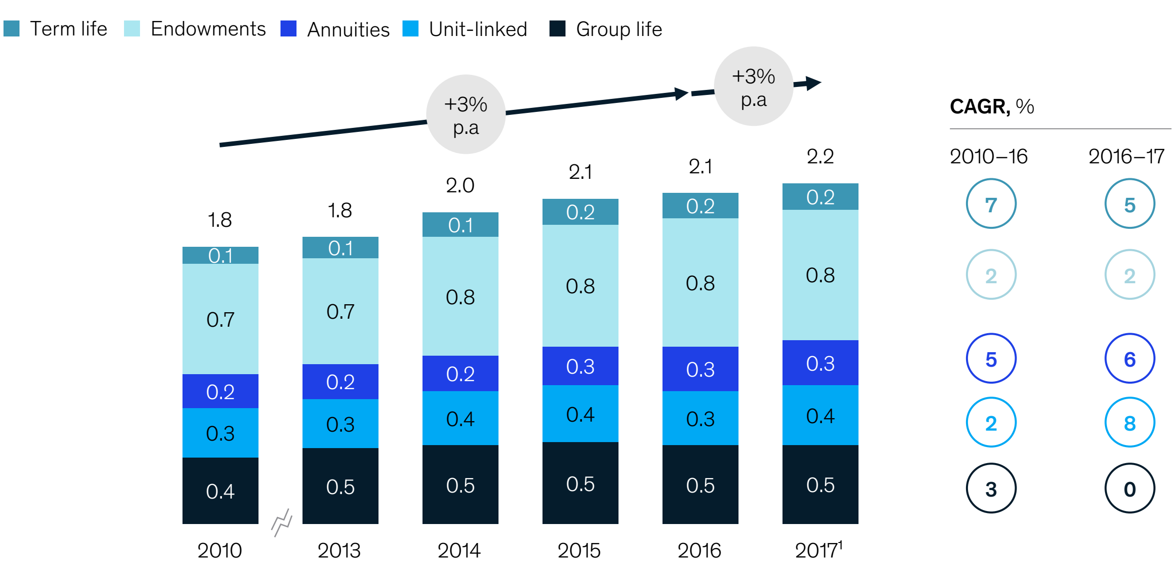
Growth by product line

A look at the global product mix reveals that endowment products, which have consistently accounted for a major share, grew by 2.0 percent in 2017 (Exhibit 2). Notably, the growth in Asia for

Exhibit 2

Endowments dominate the life product mix and are expected to have stable growth in the future.

Global life insurance premiums, €, trillions[1]



Note: Fixed-exchange rate for 2016 has been used throughout the years.
[1] Estimates for 2017 figures based on Q3, H1, and full-year reporting.

Source: McKinsey's Global Insurance Pools endowment products is offsetting the trajectory in regions such as Western Europe, which is seeing a decline in endowment premiums. The fastest-growing products were annuity products, which increased by 13.5 percent in 2016 and 6.0 percent in 2017.

Currently, endowment products account for the largest share of gross premiums across APAC, North America, and Western Europe. In the United States, endowment products are considered a savings vessel. They are expected to achieve steady growth, supplemented by the recent increase in interest rates. In Western Europe, endowment and annuities products command the largest share but are expected to decline; for example, the decrease in endowment products in 2016 offsets the growth in annuity products. Unit-linked products are expected to gain traction in the meantime.

In APAC, the share of endowment and annuities products is expected to rise, reaching around 59 percent of total by 2022. China is leading the growth in both annuity and endowment products in the region. Developed APAC markets such as Hong Kong and Taiwan saw strong growth in endowment products in 2016, a trend that continued in 2017. Overall, the increase of affluent customers has raised demand for more advanced insurance offerings and more professional advice. At the same time, people in many Asian countries are nearing retirement age, but insurance solutions are lagging behind in most markets.

In Eastern Europe and Latin America, unit-linked products account for a majority share. Within these regions, Brazil, Poland, and Russia are leading the way. In Brazil, traditional offerings such as endowment products have increased their share slightly thanks to innovation (Exhibit 3).

Life insurance product mix

Annuity products and unit-linked products accounted for 25 and 42 percent of growth from 2016 to 2017, respectively (Exhibit 4). Group life had the least growth—accounting for less than 1 percent of global insurance premium growth. This trend is primarily due to a significant decrease in group life premiums in Argentina, Japan, and Sweden.

Unit-linked products

Western Europe is primarily responsible for the increase in gross premiums for unit-linked products. In 2016, many countries, such as Portugal, Spain, and the United Kingdom, saw growth in unit-linked premiums—a marked contrast to the decline over the past few years (Exhibit 5). In Spain, this reversal can be explained by the fact that investment yields of guaranteed products were high until very recently, thanks to the spreads of Spanish government bonds. As the returns have fallen, insurers have started to push unit-linked products. In the United Kingdom, the introduction of Solvency II norms, which require less capital for unit-linked products than for traditional ones, have led insurers to push unit-linked products. As such, France, Italy, and the United Kingdom are forecasted to experience the highest growth in these products.

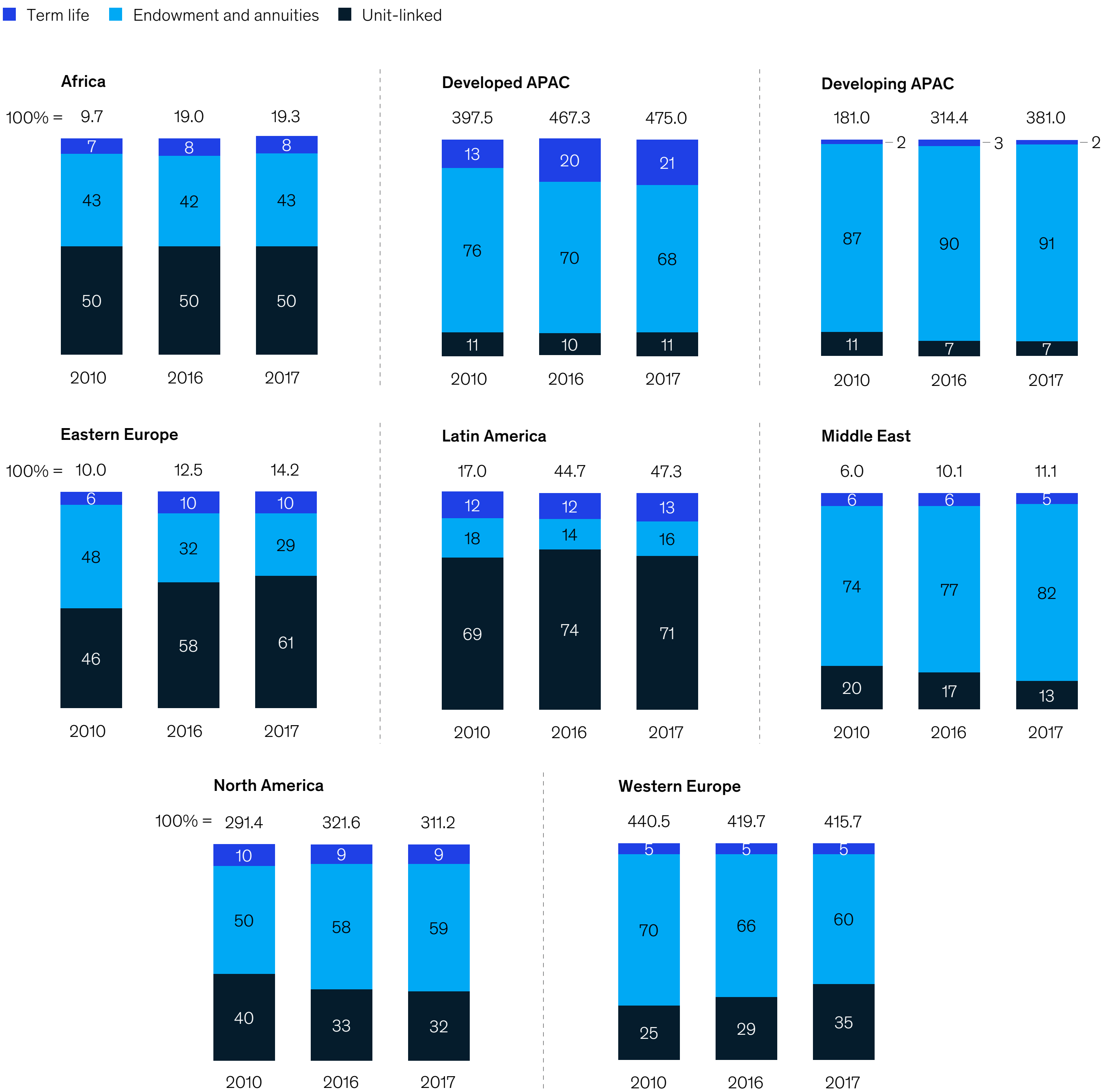
In Latin America, Brazil is leading the growth of unit-linked products. Retirement-based, capital

Currently, endowment products account for the largest share of gross premiums across APAC, North America, and Western Europe.

Exhibit 3

Unit-linked products are gaining popularity in Europe, though endowment and annuities products dominate the mix in most regions.

Global life insurance premiums, %, €, billions[1]



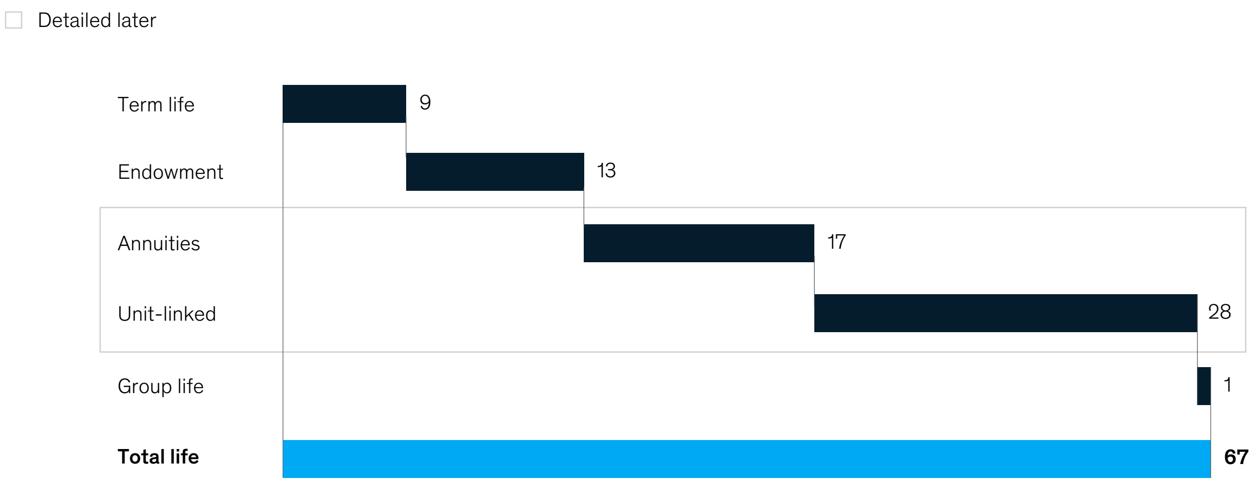
Note: Estimates for 2017 figures based on Q3, H1, and full-year reporting; fixed-exchange rate for 2016 has been used throughout the years; Figures may not sum to 100%, because of rounding.

Source: McKinsey's Global Insurance Pools

Exhibit 4

Globally, unit-linked and annuities had the largest growth in 2017.

Life premiums absolute growth, 2016–17[1]



[1] Estimates for 2017 figures based on Q3, H1, and full-year reporting.
Source: McKinsey Global Insurance Pools

market–linked products called VGBL (vida gerador de benefícios livres) have historically dominated that country's life insurance market. A 2017 reform on these products slowed their growth compared with previous years. In the short term, the private insurance market will likely promote unit-linked products as investment vehicles. Moreover, as the economy moves out of its current recession, consumers are expected to have greater disposable income, which should increase premium growth.

Developing APAC, led by China and India, is forecast to increase gross premiums from unit-linked products by about €3 billion in 2018. North America saw a decline in unit-linked premiums in 2016 and 2017, and this decrease can be traced to the low credit ratings of variable annuity products and to a US Department of Labor ruling. Together, these factors made insurers unwilling to underwrite variable annuity products. Still, the region is forecasted to recover slightly and settle into a stable growth rate.

Annuity products

The growth in annuity products has chiefly come from developing APAC. In China, factors that may influence demand include both an aging population that favors pension-type products and also an enhanced awareness of wealth management. Premiums for annuity products also rose in Latin America, particularly in Chile and Mexico. Following the lead of France, Germany, and Italy, the rest of Western Europe experienced a decrease in annuity products, primarily because insurers favored other products.

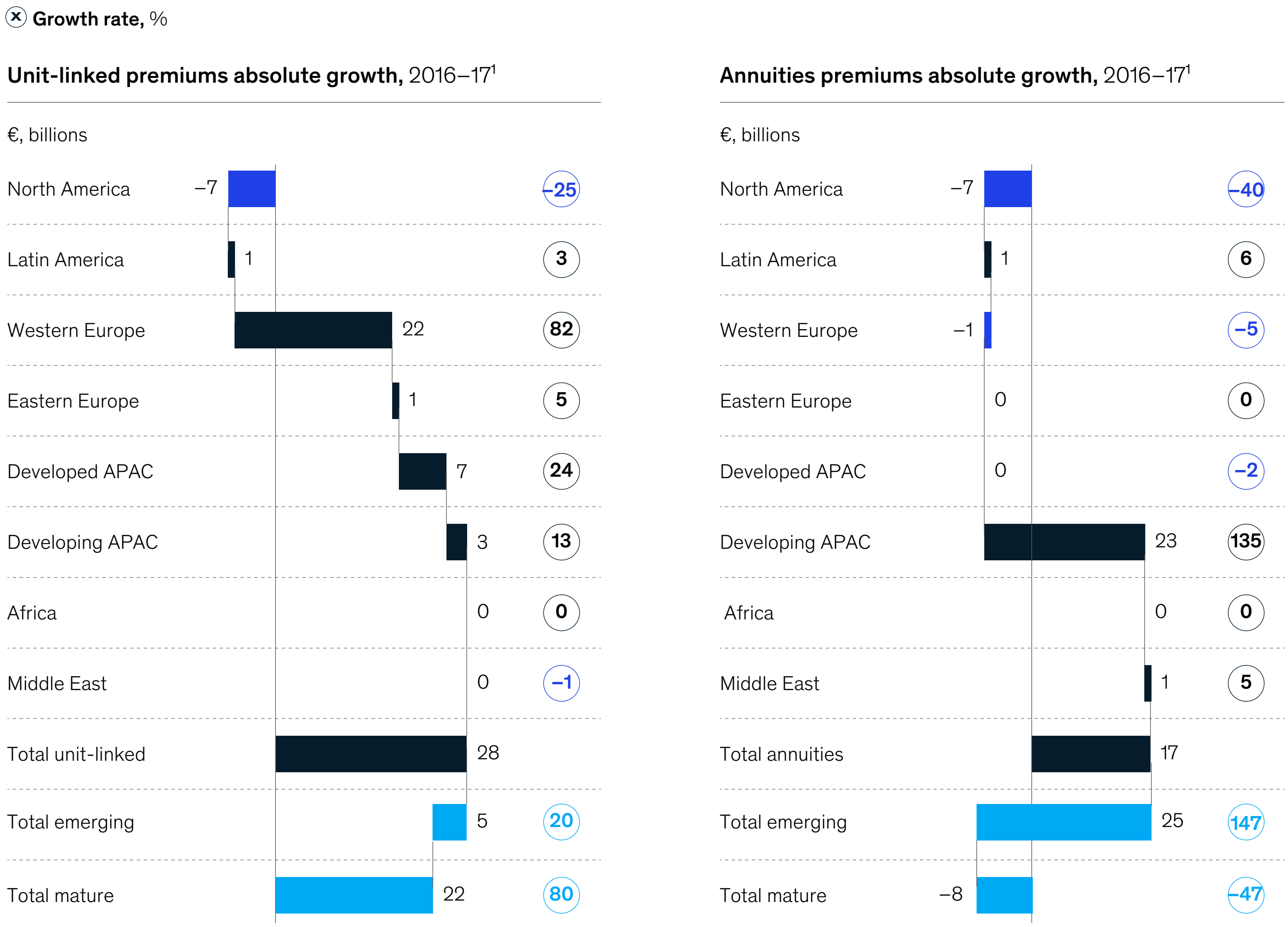
Forecast of life insurance product lines across regions

Overall, emerging regions have established a track record for growth and are expected to continue expanding at a rate of at least 5 percent annually. China and India will lead the way in developing APAC, while Latin America's prospects will be shaped by Argentina and Brazil.

For products with historically declining or low growth, such as unit-linked products in North America and individual endowment products in

Exhibit 5

In 2017, Western Europe led the growth for unit-linked products, and developing APAC fueled the growth for annuity.



Note: Fixed exchange rate for 2016 has been used throughout the years.

[1] About 34% of 2017 premiums are actuals; the rest are based on 6-month or 9-month figures, where available.

Source: McKinsey Global Insurance Pools

Europe, the outlook remains the same. As noted earlier, the primary factors are low credit ratings of unit-linked products in the United States and the implementation of Solvency II in a low interest rate environment in Europe (Exhibit 6).

Profitability of life insurance

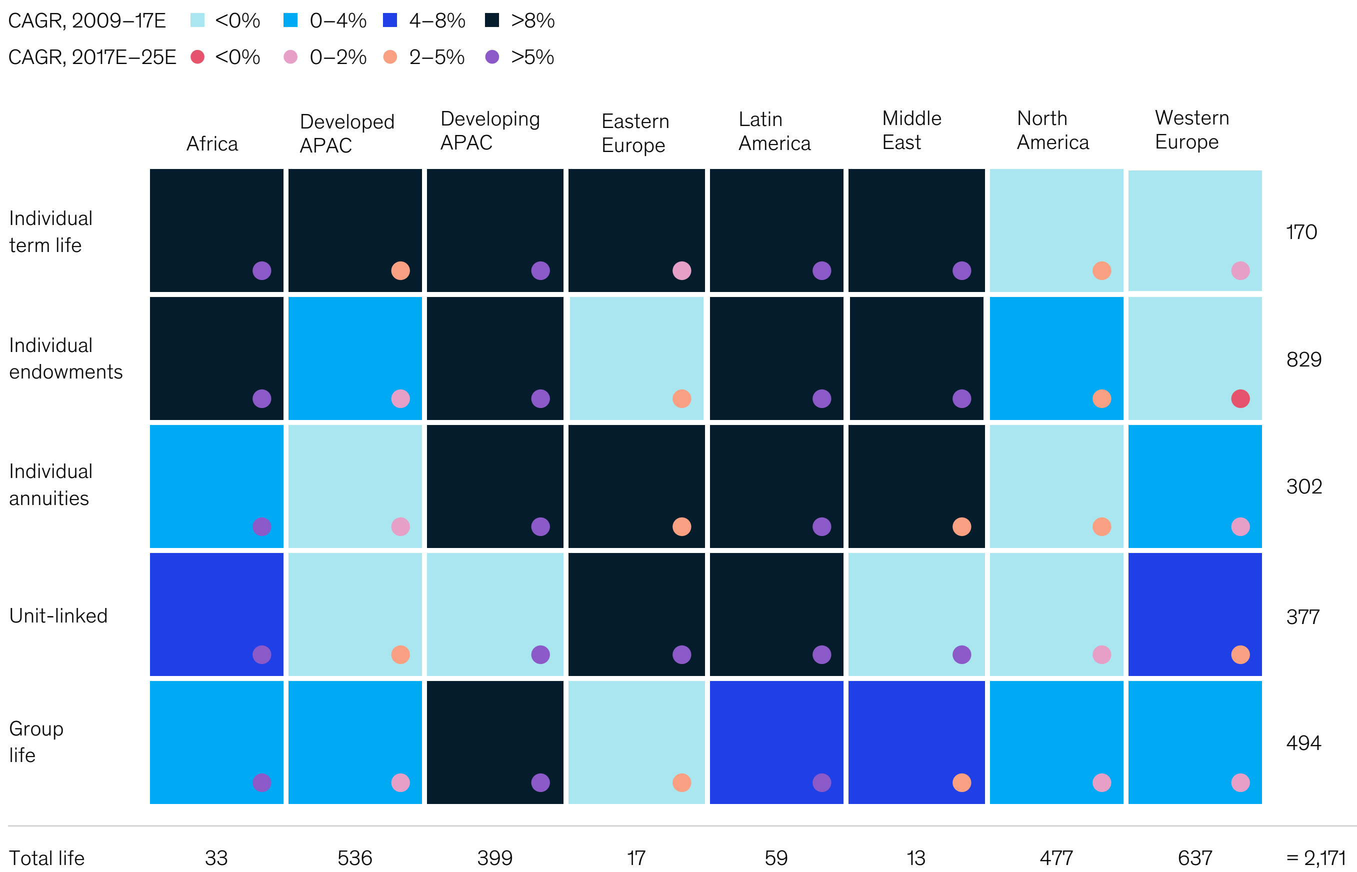
The biggest markets in life insurance demonstrate significant differences in terms of profitability. Thus, the current trend in the United Kingdom is to move toward less capital-intensive products, which are also less profitable. Hence, the return on equity (RoE) has declined in recent years. In the United States, the profitability has reduced slightly as the industry has seen a shift from variable products to endowments.

The life insurance industry has seen a slight improvement in profitability in China in the last couple of years. This is driven by the industry's push to move toward more value-driving products.

Exhibit 6

All life insurance products are poised to grow in emerging markets, with developing APAC leading the growth.

Life insurance heat map, GDDPW 2017;[1] €, billions



Note: Fixed exchange rate for 2016 has been used throughout the years.

[1] Gross direct domestic premiums written; estimates for 2017 figures based on Q3, H1, and full-year reporting.

Source: McKinsey Global Insurance Pools

Historically, Latin America has had the highest RoE among all regions: 24 percent in 2016 and 23 percent in 2017. During this time, Argentina and Brazil led the region with RoEs of 37 and 30 percent, respectively.

Two factors explain this result. First, bancassurance commands lower commissions, increasing profit margins for insurers compared with broker-dominated markets. Second, a low loss ratio means that products such as term life (15 percent of all products in Latin America) are profitable.

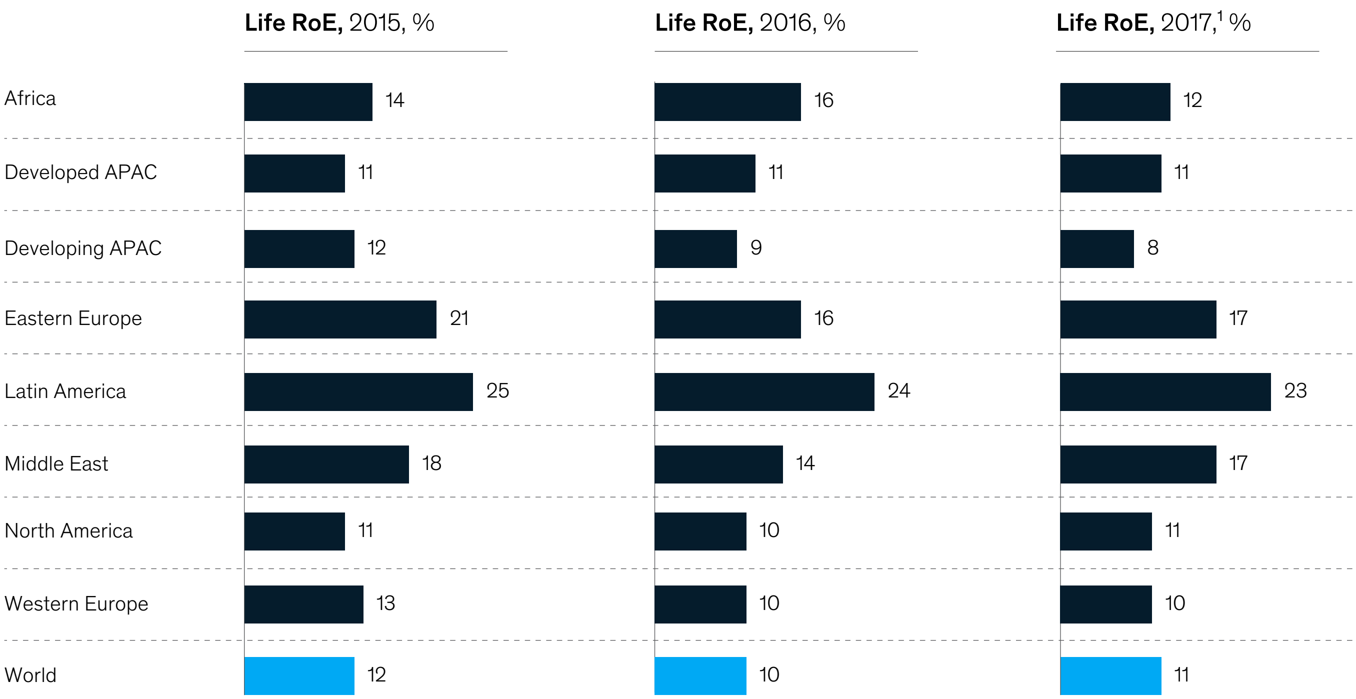
Eastern Europe has the next-highest profitability, led by Hungary (25 percent) and the Czech Republic (22 percent) (Exhibit 7).

Looking ahead

In recent years, life insurance has faced challenging regulatory environments and low interest rates. However, momentum is expected to pick up in the next couple of years. Premiums are forecasted to grow at a CAGR of around 4 percent through 2020.

Exhibit 7

Latin America has high return on equity in life insurance while Western Europe struggles for profitability.



Note: Fixed exchange rate for 2016 has been used throughout the years.
[1] Estimates for 2017 figures based on Q3, H1, and full-year reporting.
Source: McKinsey Global Insurance Pools

The United States is expected to have the highest contribution in global life insurance premiums, and China will be close behind with one of the highest CAGRs through 2020. The growth in developed markets is expected to rise gradually, with insurers in Western Europe placing greater emphasis on products that are less capital intensive. Brazil, India, Indonesia, and Russia are other markets to monitor for growth in the near future.

More specifically, the life insurance industry in the United Kingdom has seen funds moving out of annuities and into pensions due to regulation. Within pensions, there is a shift from defined benefits (DB) to defined contributions (DC). In the United States, the industry has seen funds moving from variable products to endowments due to poor market performance and rising interest rates. Because of this, the market is poised for modest growth in the future. China's life insurance industry has witnessed a shift from investment to protection products with strong growth in annuities. China's overall life insurance industry is expecting strong growth.

This report analyzes trends in the life insurance industry. We've used historical data to examine current trends and present an assessment based on our understanding and research. This report is meant to provide a perspective on the direction the industry is headed. It identifies current trends and key pockets of growth; it does not present a bias or draw conclusions about any industry, product, or geography. Any forecasts in this report are based on our own research; they are merely meant to indicate the direction of the industry.

An overview of McKinsey's Global Insurance Pools

McKinsey's Global Insurance Pools (GIP) consists of six proprietary databases: Markets Database, Local Insurers Database, Global Insurers Database, Commercial Lines Pools, Direct Distribution Database, and Multi-Access Database. The data and insights have been provided by local researchers and regional and functional experts.

Markets Database contains more than 150,000 data points covering 66 countries, 14 subregions, and 99 percent of global insurance premiums. It includes key financial indicators for every market from 2000 to 2017[1] and projections to 2025. Future numbers prepared using a uniform forecasting methodology have been validated by local experts.

Local Insurers Database provides domestic premium-level data for total, life, and nonlife businesses of the top insurers in 43 countries. Additionally, the database also provides more granular (local) financials, such as cost and profitability metrics, for 14 countries.

Global Insurers Database captures group-level company financials for more than 100 global insurers, including premiums, cost, and profitability metrics from 2005 to 2017.

Commercial Lines Pools Database consists of information on the P&C commercial insurance industry with cuts for 17 industries, seven customer segments, and six business lines in 66 markets.

Direct Distribution Database features key financial information and trends in the life and nonlife businesses of the major direct channel players in 11 markets from 2000 to 2017.

Multi-Access Database offers comprehensive insights into customer multichannel journeys via analyses of clients' channel preferences and usage regarding core insurance products for 13 countries.

How GIP can help support clients

McKinsey's Global Insurance Pools can help insurers along several dimensions. GIP's Granularity of Growth analysis can identify a company's specific drivers of growth; the tool can also benchmark the company's growth and profitability against market performance and competitors and identify the impact of different macroeconomic scenarios on growth and future market shares. McKinsey offers a subscription to the database that gives users unlimited access to all data.

[1] Currently, the Markets Database has data available for 2017 only for markets in which regulators have already released this information.

Appendix

McKinsey's GIP initiative uses a bottom-up approach to size insurance markets. The level of detail in our GIP database varies from market to market. For less advanced markets, the data might include gross premiums written, technical reserves, and profits. For more advanced markets, GIP includes complete sets of financial indicators for each product line, including the mix of distribution channels. Historical data covers the period from 2000 to 2017 and forecasts to 2025.

GIP distinguishes five product groups in life, based on European terminology: term life, endowments, annuities, unit-linked, and group life (see below for detailed descriptions).

P&C consists of five product groups: motor, fire and property, liability, accident, and other (such as travel). Health is considered a separate line and consists of all health premiums underwritten by pure health insurers and life or P&C insurers (based on data extracted either from the life data or P&C records, depending on the regulatory treatment).

The distribution mix is available for the largest 35 countries. Channel categories consist of tied agents, brokers or independent financial advisers, bancassurance, branches, direct, and others (such as retailers and car dealers). These channels are defined later in this section.

The GIP model was built by collecting and analyzing public data (such as national insurance regulators' data or industry association publications) country by country and drawing on the insights of our global network of local experts. We mapped the local product types and distribution channels to the standard of globally accepted definitions.

Distribution channel definitions

Tied agents work exclusively for one or a few companies, or for the partners cooperating with a company. *Self-employed tied agents* are remunerated on a commission-only basis. *Salaried employed tied agents* are remunerated with salary plus commission.

Insurance distribution through *branches* implies that the salesmen are part of the insurer's staff; in other words, they receive a salary, not commission.

Brokers are independent insurance distributors who are not tied to any company or salaried. They represent a client (not a company) and distribute products from a panel of companies.

Bancassurance involves distribution through bank branches.

Direct channels refer to insurance distribution through remote channels such as telephone, internet, or mail. *Other channels* include channels not included in any of the above categories (such as retailers, car dealers, worksite marketing, affinities).

Life product definitions

Term life: all types of protection products with purely biometric risk coverage.

Endowments: all individual life-savings products (both single and regular premium) that provide a guaranteed credited-rate component and a lump-sum payout. Under US terminology, this would include universal life and whole life.

Annuities: individual life-savings products (both single and regular premium) that provide a guaranteed credited-rate component and a payout in the form of an annuity (in other words, a regular monthly payment stream for either a fixed duration or life). Under US terminology, this would include fixed annuities.

Unit-linked: individual life-savings products (both single and regular premium) for which the policyholder bears the investment risk and that provide a lump-sum payout. Under US terminology, this would include variable life, variable universal life, and variable annuities.

Group life: group protection, group unit-linked products, and group annuities; the largest segment is corporate pensions.

Forecasting methodology

Our volumes-forecasting model is based on a series of historical multivariate regression models that use both macroeconomic drivers and momentum as explanatory variables for premium growth.

We run panel regressions with random effects at both country and product-category levels. For life, P&C, and health, we split countries into two or three subgroups, based primarily on each country's level of economic maturity. We then run separate regressions for the subgroups at the country and product-category levels, with particular equation specifications for each product.

For our profit-forecasting model we also developed separate methodologies for life, P&C and health. For P&C and health, we take a driver-based approach in which we forecast separately all components of profit (claims, costs, and investment income). For each profit component, we test various specifications, combining macroeconomic variables (such as GDP growth, interest rates, and inflation) and time-series variables (such as momentum effects and mean-reversion effects). The approach for life was similar. That said, since life profits are highly sensitive to capital market and regulatory conditions, any profit forecast is only valid under the assumption of stability on both these fronts.

For both P&C and life, we ran panel regressions grouping similar countries. Overall, the regressions have generated superior results, with strong r^2 values, good stability, and reasonable back-testing behavior.

All our models employ economic forecasts from Oxford Economics. The macrodrivers we considered include GDP growth (nominal and real), long-term and short-term interest rates, penetration, and equity market returns.

Our global network of local experts reviews the forecasts produced by our regression models to adjust for any specificities in local markets (upcoming regulatory changes, demographic shifts, or pension or healthcare system reforms).

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