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Will Asian insurers make the right choices for health insurance?

Private health insurance is a significant growth opportunity for insurers in Asia. To compete, insurers will need to reimagine their value propositions and rethink their operating models.

This article was a collaborative effort by Amit Agarwal, Axel Baur, Eunjo Chon, Sandeep Kumar, and Yukiko Sakai, representing views from McKinsey's Insurance and Healthcare Systems & Services Practices.

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Today, relatively few consumers in Asia have private health insurance. As healthcare costs increase and government finances continue to be squeezed by macroeconomic factors related to the COVID-19 pandemic and other circumstances, the health protection gap[1]—valued at $1.8 trillion in 2017, 10 percent of average household income—is projected to widen more quickly and may become more persistent.[2]

Closing the protection gap represents a significant growth opportunity for Asian insurers. However, long-term trends—abruptly accelerated by the COVID-19 crisis—make reinvention crucial for insurers, who will contend with significant regulatory hurdles and cultural obstacles from both inside and outside their organizations. Most insurers operating in Asia are focused on morbidity rather than on well-being, and they don't generally treat health insurance as part of the core business. Complicating matters, consumers in many markets often don't know that health insurance exists, let alone understand how it works. Product recommendations are full of jargon and difficult to understand, leading to difficulty convincing consumers to make a purchase. In addition, many Asian insurers need to diffuse or mitigate the effects of a time bomb of claims costs; aging populations are projected to generate significant claims—already a reality in several mature Asian markets.

Insurers must change their mindset and pivot toward covering "living risks" by focusing on early diagnoses and helping to avoid the onset of disease. However, the changes are difficult because most insurers are set up to promote health insurance as basic, peripheral products, not as a comprehensive proposition. Succeeding in health insurance requires something different from the classic winning formulas of the life and P&C insurance industries in Asia. Health insurers must emphasize customers' continued well-being, provide expanded services, and build an end-to-end customer journey that allows for both online and offline engagement. Most importantly, operating-model shifts will be necessary. Insurers that can act decisively and make bold changes will likely be the only ones to thrive and survive in the next normal.

A protection gap in an overlooked line of business

Not only is there a significant protection gap in Asian health insurance, but visibility into the economics of the health-insurance business in Asia is poor. Of course, policy makers and residents navigating the challenges of the COVID-19 crisis are increasingly aware of the size of the health protection gap and the fragility of existing healthcare systems. Some countries in the region are suffering from a shortage of beds, many hospitals do not have intensive care units, and many elective procedures are being postponed and delayed. More concerningly, as of July 2020, 73 countries were on the verge of being out of antiretroviral medicine due to COVID-19.[3] These concerns, compounded with the aging of populations in many parts of Asia, mean consumers' demand for coverage to fill the protection gap is increasing.

As one prominent CEO points out, the question is not whether or when but what and how the industry changes, with governments and consumers pushing for change. Private insurers are accordingly evaluating opportunities, threats, and implications for their existing businesses. Informal conversations with insurance leaders in Asia reveal that most of them think that now is the critical moment to redefine how their future business should be branded and run.

Indeed, global healthcare systems are evolving—and innovating—away from managing disease and mortality toward wellness and prevention as the core of the system. Many Asian insurers have participated in this systemic shift; however, very few have found success as providers of differentiated solutions. Instead, health insurers increasingly provide commoditized products with thin margins as participants of broader ecosystems.

[1] The health protection gap is the sum of direct, out-of-pocket medical expenses and unaffordable medical expenses avoided by households.
[2] For the research on Asia's health protection gap, see "Asia's health protection gap: Insights for building greater resilience," Swiss Re, January 7, 2020, swissre.com.
[3] "Access to HIV medicines severely impacted by COVID-19 as AIDS response stalls," WHO, July 6, 2020, who.int.

This struggle to break out of a commoditized line of business is related to health insurance's historical position as an overlooked small-ticket product category: while insurers have expanded their health portfolios by selling added benefits, such as riders to major existing products, their standalone products have been focused on simple fixed benefits such as hospital cash. Meanwhile, health indemnity products for some major insurers have incurred substantial losses due to failed risk management.

In addition, health insurance in Asia has been so underserved that many insurers do not have clarity about the economics of their health businesses and, as a result, struggle to figure out their profitability and value to the customers. Except for a few health specialists, no major insurer in Asia has a standalone health-business division with its own P&L. Very few have committed resources to developing a unique value proposition, changing their operating model, and building scale. In other words, they are not set up to drive health as a major business, and their aspiration is not designed to generate a tangible outcome.

Reimagining the value proposition of private health insurance

Reimagining private health insurance requires insurers in Asia to fundamentally change. They should make well-being a core value proposition, build scale to gain competitive advantage, and build end-to-end customer journeys that allow for effortless online and offline engagement.

1. Introduce well-being as a core value proposition

Insurers should prioritize customers' well-being and move away from an organizational mindset of simply minimizing claims costs. Leading insurers in Asia are already exploring combining well-being and health programs with their insurance offerings. However, most use the combination as a marketing tool rather than an evidence-backed method to predict and prevent illness and improve customers' lives. Instead, insurers should center consumers in their decisions and shift their focus away from individual products and toward a more comprehensive value proposition that includes preventive care and disease prevention.

In some countries, governments and consumers are already showing their willingness to engage with well-being initiatives. For example, in September 2020, the government of Singapore announced their partnership with Apple on a personalized program to encourage healthy activity and behaviors using existing hardware. In Japan, the Health and Productivity Management (HPM) policy was introduced in response to interest from employers, payers, and private insurers to reduce overall healthcare costs. Apollo, one of the leading Indian hospital chains, built a holistic digital platform and enrolled four million people within six months of launch.

Remote monitoring can be an important tool to support an emphasis on well-being. For instance, it can be a preventative tool that makes covering higher-risk consumers more economical and makes longer-term, full indemnity products feasible. However, insurers in some markets may be barred from using remote monitoring to inform dynamic pricing—even though dynamic pricing contributes to the economic feasibility of the well-being proposition.

To make the shift toward well-being as a core value proposition, insurers will need to be thoughtful about whether they build capabilities in-house, buy them, or partner to acquire them. Partnerships can be a source of new customers and help enhance insurers' value propositions. Partnering with a diagnostic chain or wellness center, for example, with programs for policy holders' physical, emotional, and financial well-being could help an insurer tap into a new value pool.

Successful partnerships require that all partners can reap economic benefits from the expanded value pool. Insurers must resist focusing solely on gaining additional share within the traditional product categories because it will not help create a bigger pie. Rather, it will only result in unhealthy price competition that drains economic value while burning lots of resources on infrastructure—which, in turn, will result in steep prices for partnerships and customer acquisitions.

2. Build scale for competitive advantage

Larger insurers have a distinct advantage since both cost competitiveness and technical excellence are—and will continue to be—essential to create value. To build scale and boost the odds of success, insurers must decisively—instead of incrementally—alter their value propositions, distribution, and cost structure to make health insurance an enterprise-wide priority.

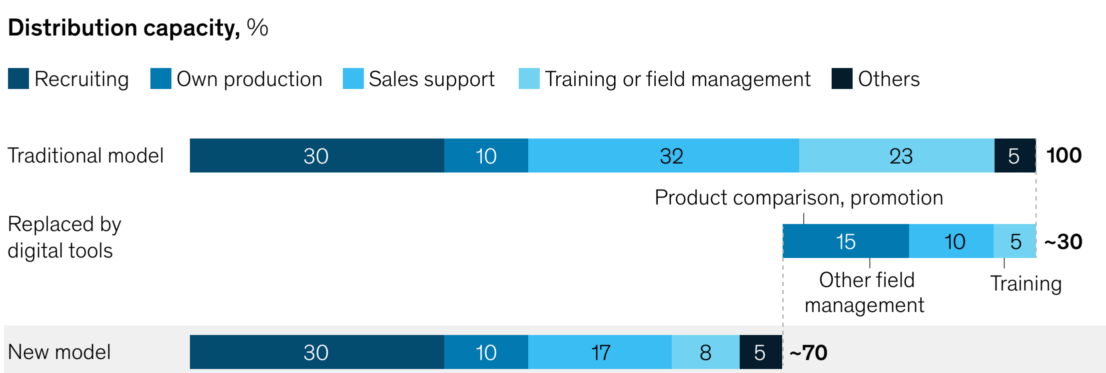
Insurers in Asia should first update their offerings. Flexibility in building individual coverage, offering value-added services, and repackaging tailored products for target consumer segments can help create value. Insurers should put consumers at the center of their decisions and shift from a product focus (explaining features and benefits) to a proposition focus (such as on preventive care and disease management).

Insurers can also update their distribution, starting with establishing a new baseline for the distribution capacity and costs by expanding digital access for agents over proprietary channels. One Asian insurance leader we spoke to expects to free up over 30 percent of sales leaders' current capacity by shifting to a smart distribution model and using digital tools to maintain a significant volume of new business from traditional agency channels (exhibit).

Insurers can also redesign their incentives and education programs to stay top of mind for their nonproprietary distributors. Since the COVID-19 crisis has highlighted the importance of health-insurance products in customers' protection portfolios, agents are now more motivated to ensure and grow their incomes through these products. Some insurers provide more tailored training sessions, marketing materials, and dedicated administrative support for their preferred nonproprietary distribution partners, allowing those partners to spend more resources expanding mindshare for their health business.

Exhibit

Sales-leader capacity is freed up by introducing 'smart distribution.'



Finally, insurers must be cost competitive, especially against rival carriers that may target the same partners. Partnering has turned out to be expensive so far as insurers often give up margin in exchange for access to new customers. However, many insurers are still willing to go down this path as the added volume absorbs the higher cost base and creates additional cross-industry and up-sell opportunities.

3. Build end-to-end consumer journeys that enable both online and offline engagement
Well-being as a proposition depends on rich customer data, especially behavioral data. The best way to capture the maximum amount of that data is to build end-to-end consumer journeys that account for diverse data streams.

One of the consequences of the COVID-19 pandemic is significantly increased customer comfort with remote engagement.[4] This development opens the door to insurers more often engaging customers in remote channels, which would generate more data with which to fine-tune customer services. Insurers have the opportunity to offer remote interactions, including consultations and disease-management support, especially in countries that have updated regulations to facilitate the adoption of telemedicine. In Asian markets without quality healthcare services, remote consultations can attract new customers. In markets with decent healthcare services, customers may prioritize the ability to connect remotely with well-known healthcare professionals and smooth referrals to in-person appointments.

Seamlessly integrating online and offline interactions into comprehensive customer profiles is a significant undertaking, and insurers will need to fundamentally rethink their operations to optimally meet consumers' needs. The resulting data these operational improvements would capture will be critical to help prevent, predict, diagnose, treat, and help patients recover more quickly and with better outcomes.

Rethinking new operating models for private health insurance

The operational path will not be the same for all insurers. However, when an insurer chooses to restructure its operating model, company leaders will have to make sure that governance structures are in place and suitable for its context, talents, capabilities, and culture.

[4] For more on remote engagement after the onset of the COVID-19 pandemic, see Enoch Chan and Bernhard Kotanko, "Personalized service—without in-person meetings," December 2020, McKinsey.com.

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Today, insurers in Asia—especially large, multiline insurers—have weaved their health businesses in with life or P&C. But because those two business lines tend to be relatively large, health insurance gets lost in the shuffle. And health businesses require completely different capabilities than other lines. Knowing how and when to pay claims, for example, is very different for health than for other lines. Health payment systems are also unique in that consumers sometimes need very fast payment to cover hospitalizations and other expensive care. In addition, advanced-analytics requirements are much more rigorous in health than in life or P&C. All of these differences need to be reflected in an insurer's operating model before a health business will succeed.

Indeed, insurers should consider health insurance as a separate business, with a clear operational and governance structure of its own. For insurers of any size, this begins with obtaining a solid understanding of customer insights and then working with different partners and providers to manage a healthcare journey. Leaders of small-to-medium-size insurance companies need to consider what kind of partners would be best and where they can be most competitive and bring their capabilities into an attractive platform. Leaders of large insurance companies with a significant customer base and in-force business should realize that they have an unfair advantage to build upon. That advantage, however, is fading fast. It is worth placing a bold bet and aiming to lay out a concrete foundation for future growth before it is too late.

The time is right for Asian insurers to help more consumers close the health protection gap. Sustainable—and rewarding—relationships with customers await insurers that make significant but necessary changes to their approaches and operations.

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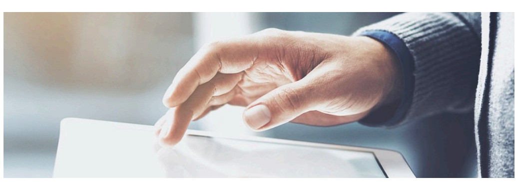

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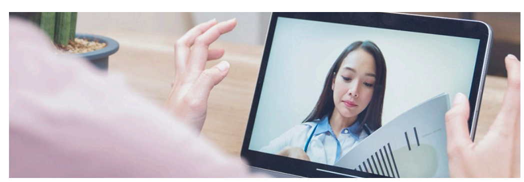

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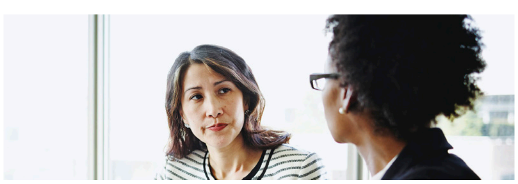

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