

Insurance Practice

How digital and advanced analytics can boost growth in Asian insurance

Asian insurers have achieved remarkable growth in recent years, but disruptors are looming. To maintain their momentum, these insurers must ramp up their digital and advanced analytics capabilities.

by Violet Chung, Dino Ho, Brad Mendelson, and Joe Zachariah



For the past decade, insurers have grown faster in Asia than anywhere in the world. From 2012 to 2017, Asia–Pacific contributed 50 percent of gross written premiums, globally¹ with most insurance lines benefitting from this upswing. And there is still room for growth: emerging markets, for example, are relatively underpenetrated, even after experiencing a significant increase in gross written premiums (exhibit). However, there are forces at play in the Asia–Pacific market that could hinder insurers from achieving sustainable advances.

Insurtech attackers are disrupting emerging and developed markets in the region by tempting consumers with customized—and frequently less expensive—products. These savvy attackers employ digital tools and advanced analytics to slice off profitable parts of the industry value chain. To remain competitive and sustain continued growth and market share, incumbent insurers must build their own digital and advanced analytics capabilities. Solid premium rates to date may account for executives' reluctance to make bold changes to how they do business, but remaining complacent is not an option, especially with digital attackers expanding their footprint in this region. Further, our research shows that digital leaders increase revenue at five times the rate of other companies and total shareholder returns by two times.²

Digital and advanced analytics capabilities, a core component of digital transformations, are critical in helping carriers operate more efficiently, reduce time to market for new products, and gain more insight into customer needs—benefits that will help insurers build scale. Players that act now may give themselves a durable competitive advantage in the region and avoid missing out on future growth opportunities.

The opportunity in Asia

Insurance lines in emerging and developed markets have experienced steady growth in recent years in response to evolving customer and needs. For example, there is a heavy appetite for health insurance in China as the population rapidly ages. Current public healthcare systems don't cover the total costs of healthcare for many individuals, providing an opportunity for other insurers to come in and offer competitive health insurance rates and coverage. Consider that total gross written premiums for health insurance have increased significantly in just over a decade.³ Digital distribution of insurance products in China is also trending upward; online sales of property insurance premiums increased nearly 40 percent in the first half of 2018, expanding their market share.⁴ Other emerging markets show promising growth across business lines. In Thailand, carriers increased gross written premiums by approximately 7 percent from 2017 to the third quarter of 2018, for example. And in Vietnam, new products such as trade credit insurance helped boost gross written premiums by 22 percent over the same period.⁵

Developed markets also offer pockets of potential growth. Japan's rapidly aging population provides opportunities for life insurers to offer retirement plans and products that address longevity.⁶ While Hong Kong's insurance market is already saturated with life and health insurers, it still holds the promise of growth thanks to rapid expansion of the middle class. It's estimated that by 2030, about 46 percent of households in China will be middle class or affluent, providing a rich customer base for life insurers and advisers as well as the opportunity to customize product offerings.⁷ Indeed, as customers' assets grow, they look for the security insurance can offer. Two-thirds of the global middle class will live in Asia by 2030.⁸

¹ McKinsey Global Insurance Pools database and Swiss Re. Based on 2012–17 sources of direct premium growth by region: Americas 21 percent; Asia 50 percent; EMEA 12 percent; 2012 \$2.06 billion; 2017 \$2.52 billion.

² A digital leader is defined as a company with an overall digital quotient of 50 or greater. Digital quotient is an online assessment that measures a company's digital maturity across strategy, organizations, culture, and capabilities. A company's digital quotient often correlates with overall financial performance. For more, see Tanguy Catlin, Jay Scanlan, and Paul Willmott, "Raising your Digital Quotient," *McKinsey Quarterly*, June 2015, McKinsey.com.

³ Chinese National Bureau of Statistics, China Statistical Yearbook 2017, date data was pulled, stats.gov.cn.

⁴ "China: Online non-life premiums race ahead by 37% in 1H," *Asia Insurance Review*, September 4, 2018, asiainsurancereview.com.

⁵ *2019 Asia market report*, Willis Towers Watson, February 26, 2019, willistowerswatson.com.

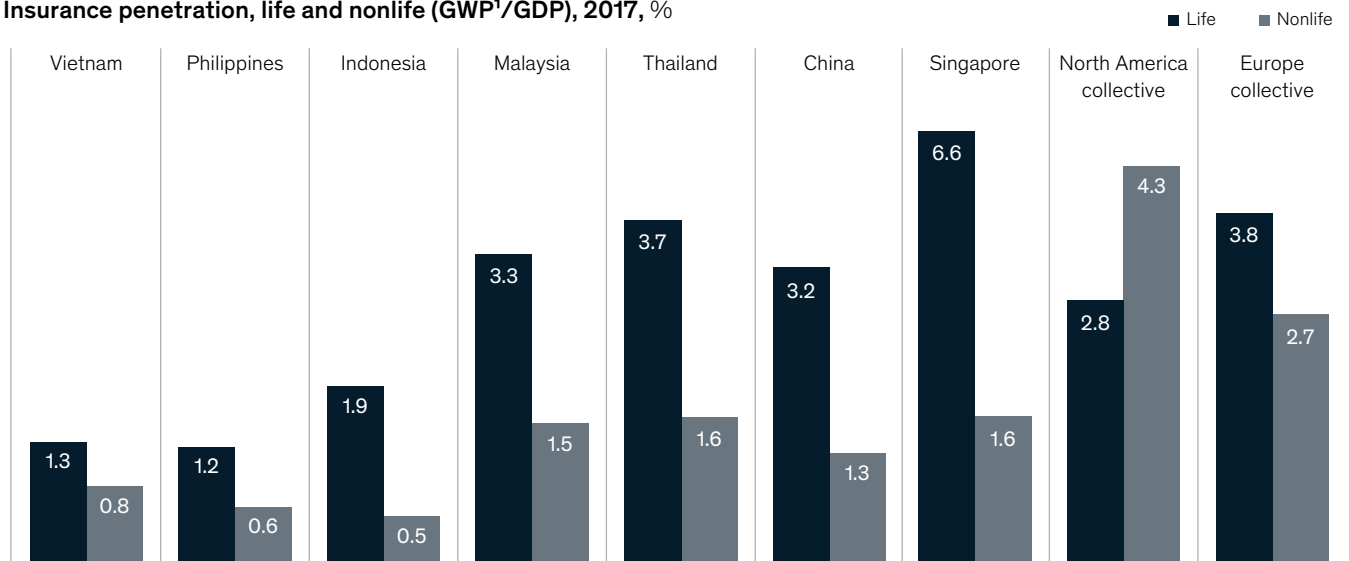
⁶ *Insurance blog*, "Life insurers: Where to play for value in Asia–Pacific," Bernhard Kotanko, April 10, 2019, McKinsey.com.

⁷ Using figures from 2012, we differentiate Chinese households based on their income levels: poor households have monthly incomes of less than 3,333 renminbi (\$521); mass-middle-class households, between 3,334 and 13,499 renminbi (\$520 to \$2,100); upper-middle-class households, between 13,500 and 19,999 renminbi (\$2,100 to \$3,100); and affluent households, more than 20,000 renminbi (\$3,100). For more, see *Urban world: The global consumers to watch*, McKinsey Global Institute, April 2016, McKinsey.com; and Dominic Barton, Youyang Chen, and Amy Jin, "Mapping China's middle class," *McKinsey Quarterly*, June 2013, McKinsey.com.

⁸ *Life insurance and annuities state of the industry 2018: The growth imperative*, October 2018, McKinsey.com.

Emerging Asia has experienced high growth in recent years but is still mostly underpenetrated.

Insurance penetration, life and nonlife (GWP¹/GDP), 2017, %



Life insurance GWP CAGR,² 2014–17, %



¹ Gross written premiums.
² Compound annual growth rate.
³ CAGR, 2015–17.

Source: China Banking and Insurance Regulatory Commission

Yet these opportunities could remain unfulfilled if insurers fail to ramp up their digital tools and advanced analytics capabilities to compete with digital attackers.

The pathways to sustained growth

How do digital leaders stand out among other companies? They first secure top-down commitment, ensuring stakeholders at each level of the organization are ready to implement changes. And instead of trying to do everything at once, digital leaders think of a digital transformation from a minimum viable product perspective. Finally, they take time to build supporting digital and advanced analytics capabilities, such as an advanced analytics platform. Such platforms allow them to employ advanced analytics when making important decisions regarding growth, cost, and customer experience. Building digital and advanced analytics capabilities is just one part of a broader digital

transformation, but it's an essential area for insurers to get right. (For more on how to prepare for a digital transformation, see sidebar, "The foundations of a successful digital transformation.")

To develop digital and advanced analytics capabilities, insurers should explore two pathways: reinventing core businesses and building new digital business. Which path they pursue (or if they pursue both) depends in part upon their starting point—that is, their current technology capabilities and their available capital. And whether insurers decide to build a new business depends on many other factors including how well the new business set up works within the existing business, current branding, and the customer value proposition.

Reinvent the core businesses

Carriers should comprehensively review existing operations to see where digital tools and

The foundations of a successful digital transformation

Digital and advanced analytics capabilities can help insurers mount a successful digital transformation. In our experience, the most successful carriers approach a digital transformation by addressing four areas: strategy, talent capabilities, operating model, and organizational structure. Underpinning these four areas is mind-set: if leaders are not open to embracing the cultural change that comes with a digital transformation, success will be a challenge.

Carriers should develop a strategic road map and vision that aligns their digital strategy with their business goals. Doing so will help insurers

clarify what exactly they want to accomplish—for example, launch a new and innovative product—and how that ambition aligns with their overall digital transformation plan.

Insurers must also have the right talent to build data and advanced analytics capabilities—moving strategy from vision to reality. Thus, carriers should develop a talent strategy that guides hiring and training decisions. This way, organizations can ensure they have employees with the right mix of technical skills required to build capabilities, such as a performance management platform that analyzes customer behavior.

Insurers should also foster an operating model that prioritizes an agile way of working. This flexibility will help design teams act quickly to implement and test initiatives, adjusting for features and designs that don't work as planned. As a result, time to market for products will decrease.

Leaders should consider the whole organizational structure and whether the culture supports the move to a digitally enabled business. For example, to implement a secure cloud system, leaders must be clear about who can access systems and has decision-making power.

advanced analytics can solve customer and operational challenges. Insurers that choose this pathway can become future ready, modernize their operations to improve customer experience, and uncover innovative ways to use advanced analytics to more effectively serve customers.

Make traditional channels “future ready.” Asia-Pacific insurance agencies and bancassurance providers still primarily rely on face-to-face interactions with customers. For those insurers that have rolled out digital tools, many of their applications don't fully integrate to their back office nor provide a 360-degree view of the customer. As a result, customers may receive multiple communications on their different insurance policies instead of a consolidated view.

However, enhanced digital capabilities can help carriers increase adviser productivity, improve customer experience, and remove extraneous costs associated with outdated processes. This “agency of the future” approach demands that

insurers have a customer-first mind-set when redefining their current distribution model and developing new digital capabilities.

Asian insurers in both developed and emerging global markets could follow the lead of their counterparts in developed markets outside of Asia-Pacific. A global life carrier, for example, built a captive distribution model that employs a sizable salesforce of independent contractors working on behalf of general agents. However, this model made it difficult for the insurer's home office to improve the overall customer experience and have line of sight into the adviser sales process.

To modernize this system, the carrier began building an “agency of the future” model. The insurer tested tools supported by digital capabilities such as online scheduling for client meetings and messaging functions to improve agent and customer service feedback during a pilot period. And the carrier built a platform to match customers and agents based on

demographics and behavioral data derived from advanced analytics insights. Thanks to these combined efforts, the carrier experienced a consistent and sustained increase in sales.

Modernize operations. Insurers often roll out new products or services using legacy systems and solutions, leading to slow time to market and an unstable operating model based on outdated technology. Digital tools and advanced analytics and a buy-versus-build approach can both support improved back-end operations and help insurers scale and innovate beyond traditional insurance offerings.

One Asian insurer had a legacy policy administration system that hindered its time to market for product launches because of data inconsistencies and technology obsolescence. The leadership team knew it needed to modernize the core and develop a service-oriented architecture that aligned with the carrier's overall business goals, such as improving operation efficiency and customer experience.

Leaders recommended modernizing the core policy administration system by building a new system. An updated system with reliable support meant product fixes could move more quickly. The insurer also developed a new workflow and document management system aimed at improving operational efficiency, customer service, and response time. As a result, the organization became more operations-focused, reducing overall operating costs and cutting time to market for new products from three to four months to less than one month.

Develop innovative products and services. Insurers can test new products and service offerings by enhancing existing capabilities and technologies, such as updating IT systems, rather than starting from scratch. One international life insurer aimed to improve its underwriting approach, making it more consistent, by using machine-learning technology. The carrier had high variability in its decision processes and long wait times, resulting in high dropout rates in applications. Using existing IT infrastructure and systems, the insurer built an artificial intelligence-powered learning model and

initiated testing using historical underwriting decisions and claims experience.

As a result of these efforts, the carrier saw increased sales through better pricing and faster turnaround times in addition to a significantly reduced underwriting cost per application.

Build new businesses

Insurers that already have a solid digital foundation and the required capital can attempt to build new digital businesses in two ways. The first involves creating a digital-native attacker business for insurers to construct a new value proposition, which in turn they can use to penetrate new customer segments. The second approach focuses on expanding into new ecosystems, requiring insurers to think about how they can use new information to offer different services to customers.

Create a digital-native attacker business.

Successful digital attackers identify unfulfilled customer needs and offer unique solutions to meet them. Attackers also use the data collected through their digital channels to provide better services and products to customers. Incumbent insurers can follow the lead of banks and other financial services institutions.

One Asian bank launched the first digital banking platform in Indonesia. The bank aimed to improve its customer experience and expand its existing customer base by targeting new customer groups. To do so, the institution created a cross-functional team charged with developing a mobile banking app. The team made decisions about how the digital banking platform would operate, employing agile prototyping and testing of different features and offerings.

Developing the new business required a robust implementation phase, including building out the required IT infrastructure, fostering new internal processes (such as developing customer journey maps), and hiring and training a dedicated sales staff. Upon completion of the implementation phase, the bank launched a pilot mobile app and web portals, testing and iterating over several months. After gathering customer feedback and data, the bank eventually enhanced its products further, such as with customized user accounts and fingerprint authentication.

Expand into new ecosystems and channels.

Insurers that are ready to scale their services and offerings can adopt an ecosystem mind-set. Ecosystems allow customers to fulfill a variety of needs in one place by offering an interrelated set of services, removing the need to switch between platforms.⁹ In that setting, a customer interested in buying a home, for example, might be directed to a platform to purchase homeowner's insurance without having to deliberately search for that product. The interconnectivity of ecosystems could also help insurers integrate their data, allowing them to make better decisions about products and other offerings.

China's Ping An has transformed itself from a pure insurer to an integrated financial and retail services provider. The carrier formed partnerships with other companies, helping it garner resources and support needed to expand its physical and digital footprints. For example, in 2013, the company formed a joint venture with internet companies Alibaba and Tencent, thus developing the online insurer Zhong An. In 2014, Ping An launched its Good Doctor platform, which offers online healthcare services such as doctor consultation and wellness advice to patients. Ping An then developed a single platform on which to house multiple accounts—

from insurance to banking to health to housing. This platform serves as an ecosystem through which customers can access a suite of services. The insurance giant also set up a low barrier for customers to move between platforms and products, resulting in consistent traffic and a large user base. A customer searching for health advice via Good Doctor, for example, can be directed toward a health insurance offering or service package through other Ping An subsidiaries or external providers. Broadening its suite of services and offerings through the ecosystem approach has permitted Ping An to acquire customers that it might not otherwise have reached and to funnel them into its core insurance business.

Insurers in the Asia–Pacific region could content themselves with the growth they have achieved in recent years. But resting on their laurels may cost them as digital attackers begin to make inroads into the market. In response, Asian insurers should aggressively ramp up their digital and advanced analytics capabilities. The long-term market leaders in Asia insurance will be those that can apply these capabilities to reinvent their core and build new businesses.

⁹ Tanguy Catlin, Johannes-Tobias Lorenz, Jahnavi Nandan, Shirish Sharma, and Andreas Waschto, "Insurance beyond digital: The rise of ecosystems and platforms," January 2018, McKinsey.com.

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