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We are pleased to present *Global Insurance Industry Insights*, the seventh edition of McKinsey’s annual in-depth analysis of the global insurance industry, based on our proprietary Global Insurance Pools (GIP) database. We hope this report will be of interest to people who make decisions about allocating resources globally and people looking to deepen their understanding of the drivers of insurance growth and profitability in all regions.

The global insurance industry is undergoing turbulent times with the continuing low interest rate environment, a challenging equity market, and tighter regulatory regimes. Meanwhile, consumers’ shift to hybrid behavior is now largely complete in developed markets and is accelerating in developing markets with the spread of mobile phones. These changes, along with the impact of price-comparison websites, other technology developments, and the race to go digital, are tectonic shifts forcing insurers to adjust their business models.

Mature markets in North America and Western Europe required “heavy lifting” to address these trends. With life eroding and P&C flattening, the mature markets have exhibited slower growth rates than insurance in emerging markets, and the figures in our report are beginning to reflect these major fault lines by geography and business segment.

Of the three main business segments, only the smallest—private health insurance—posted truly robust gains across the globe in 2016, expanding the fastest in the Asia-Pacific (APAC) region at 17.7 percent, albeit from a small base. Here, too, however, the big growth stories were confined mostly to China and India, which are becoming the world’s fastest-growing country markets for insurance overall, with a projected aggregate growth rate of more than 20 percent in 2016.

We expect growth’s center of gravity to continue to shift to Asia and other emerging markets, reflecting not only the growth of the consumer middle class in these economies but also a slowdown in P&C growth in mature markets due to unprecedented advances in technology, for example, risk prevention in factories, homes, and offices and sensors for safer motor vehicles. Motor and other traditional P&C lines, both personal and commercial, therefore will likely face a slowing growth in the coming years.

Along with these pressures and new perspectives in prevention, cost is not coming down, it is going up. Many players are investing in digital and other technologies but not seeing this translate into lower cost due to higher automation. Yet industry cost will have to come down significantly if insurance wants to retain a good customer value proposition. The role of the direct channel will be important in accomplishing this shift, particularly in light of the increase of digital attackers and, as mentioned, the use of price-comparison websites. While direct is starting to stagnate in Europe, the shift in customer behavior to fully hybrid continues, implying much greater price transparency—and, again, cost pressure—as well as the need to change the operating model of nondirect to fully multi- or omnichannel.

The first section of this report discusses major developments in the insurance industry in 2016 and also presents a forward-looking view until 2020, including the factors contributing to the worldwide premium growth. It then provides in-depth information on the three regions (Europe, the Middle East, and Africa [EMEA]; the Americas; and APAC) for three lines of business: life, P&C, and health. The following sections help to get a deeper understanding of the trends observed at the segment level: Why did growth in life slow in mature markets...
while increasing in emerging Asia and Latin America? What trends affected P&C growth in different countries? Why did health generate the greatest overall increase in premiums? We also provide a perspective on distribution for life and P&C with a specific focus on the direct channel. Our paper concludes by highlighting the growth opportunities in the insurance industry worldwide.

Some notes on our approach:

- We describe major trends using final data for 2015 and earlier years, as well as preliminary or full year reports for 2016. In general, our most detailed analyses focus on final data through 2016.

- The forecasting tools developed by GIP were used to assess how the insurance industry might respond over the next decade to global macroeconomic shifts.

- Our “consensus scenario” assumes a recovery of GDP growth in the coming years in addition to fluctuating interest rates; the results presented in this report reflect the output of this model.

- When calculating growth, we generally used nominal figures based on 2015 fixed exchange rates, since this data allowed us to compare local growth rates without the interference of currency fluctuations. The exceptions, which use floating exchange rates, are Argentina, Ukraine, and Venezuela due to their high inflation rates.

We hope you find this report useful and thought-provoking. Please contact us if you would like to discuss any of the topics it raises.
Global growth, the insurance industry experienced strong premium growth in 2015, at 5.6 percent, whereas growth in 2016 is expected to be noticeably slower, at 4.4 percent. Total premiums are expected to reach €4.6 trillion, up from €4.4 trillion in 2015.

What factors help explain the industry’s performance? The global insurance industry is undergoing turbulent times with the continuing low interest rate environment, a challenging equity market, and tightening regulatory changes, such as the US Department of Labor (DOL) rule and new US tax guidelines. Meanwhile, consumers’ shift to hybrid online and offline research and purchasing has largely concluded in developed markets and is accelerating in developing markets with the spread of mobile phones. These changes, along with the impact of price-comparison websites and other technology developments, plus the race to implement digital processes, are tectonic shifts forcing insurers to adjust their business models.

Mature markets in North America and Western Europe required the deployment of considerable strength to address these trends. With life eroding and P&C flattening, the mature markets have exhibited slower growth rates than insurance in emerging markets, and the figures in our report are beginning to reflect these major fault lines by business segment and geography.

Specifically, preliminary reports at the segment level globally suggest that health had the highest growth rate from 2015 to 2016, at 6 percent followed by P&C at 4.2 percent, while life saw a slowdown in growth of gross written premiums (GWP) from 4.8 percent in 2015 to 3.8 percent in 2016.

At the regional level, EMEA recorded moderate growth in the P&C and health insurance segments, while life is expected to decline. Growth in the Americas region has been characterized by strong progress in health and moderate growth in the P&C segment. Life is expected to be a bit volatile, owing to changes in US regulations, and is projected to end 2016 with a slight decline in the Americas overall. In APAC, on the other hand, the insurance industry grew in all three segments, with health generating double-digit growth.

At the business segment level, preliminary reports revealed some important trends:

- **Life.** Most regions, except the Americas and Western Europe, saw positive life growth in 2016, but the amount of the increase, as well as the factors responsible, varied by region. In a marked departure from 2015, Asian countries, such as China, Hong Kong (analyzed as a separate entity), and India, achieved the strongest gains. Of all life products, endowments experienced the most growth, mainly driven by emerging Asia and the United States, whereas Unit-linked (UL) products have seen a decrease in the United States and Western Europe. The key profit indicator—life return on equity (RoE)—rose from 11 percent in 2014 to 11.8 percent in 2015, but is expected to stabilize at the lower level of 10 percent going forward.

- **P&C.** The global P&C insurance industry has remained stable over the past five years, growing at a steady 4 to 5 percent. It is also expected to grow at 4.2 percent for the year 2016, increasing the size of the global P&C market to €1.39 trillion. At the regional level, although the APAC region accounts for only 23 percent of the total P&C market, it has
been the major driver of growth, growing at an average rate of 9 percent per annum (p.a.) since 2013, and is expected to grow even faster in the future. In contrast, the Americas and the EMEA regions, accounting for 49 percent and 29 percent of the global market, respectively, are expected to grow at a scant 2 to 3 percent over the next two years.

Longer term, we believe P&C will see declining if not negative growth, at least in mature markets, due to, for example, safer and fewer cars and more technology for risk prevention in homes and factories. Our prediction suggests a further shift of growth to Asia and emerging markets lies ahead.

The overall combined ratio of the P&C insurance industry has remained stable with a slight improvement in the claims ratio being offset by higher operational costs. The combined ratio is expected to remain stable with improvements in the expense ratio of up to 1 percent. Emerging markets have proved to be more profitable for the P&C insurance industry, reporting a claims ratio three to four percentage points lower than in mature markets across different lines of business. Accident proved to be the most profitable line over the last decade, with fire and property reported as the most profitable in 2015.

- **Health.** In the health insurance market, the global annual growth rate decreased from 9 percent in the 2014–15 period to 6 percent and 7 percent in subsequent years. The US continues to be the biggest contributor to the absolute growth of health premiums globally, driven by the expansion of coverage implemented with the Affordable Care Act. The fastest-growing regional market overall is APAC, mainly fueled by the efforts of companies in China and India to increase health insurance penetration, with China focusing on its aging population and India on its rural population. Net profit margins in APAC are also the highest globally, led by smaller markets such as Hong Kong and Singapore.

Global distribution trends vary by product and region. In life insurance, while bancassurance dominates the distribution space in many Asian and European geographies, brokers are more popular in North America. P&C insurance remains, as before, more dominated by agents and brokers, but we see a rapid increase in the popularity of direct distribution modes in many geographies. Analyses of the performance of direct players, in some geographies, also reveal that they are able to outperform their markets.

The role of direct will be highly important in mastering the cost reduction challenge, particularly the effects of digital attackers and price-comparison websites. While direct is starting to stagnate in Western Europe, the big change is that all customers are becoming hybrid, implying much greater price transparency—hence further cost pressure—as well as the need to change the operating model of nondirect to fully multi- or omnichannel.

Companies seeking top growth opportunities in the global insurance markets can explore both the fastest-growing markets and the largest developed markets. As the slowing growth rates suggest, however, most carriers will also need to search farther afield. Looking ahead, at the geographic level, Latin America and the Middle East are expected to be the fastest-growing regional markets, that is, offering double-digit rates of annual GWP growth. In the APAC region, the top line is expected to grow at a brisk pace with health as its fastest-growing segment.
We expect growth’s center of gravity to continue to shift to Asia and other emerging markets, in part reflecting the growth of the consumer middle class in these economies. In parallel, however, we believe unprecedented advances in technology—particularly sensors—are on the brink of modifying the P&C insurance segment globally. While the jury is still out on the future of endowment/UL in life, the writing is on the wall for P&C: with both safer and fewer passenger cars on the roads, motor insurance is likely to lose its leading role. In the medium to long term, it may generate negative profits for all but a tiny handful of highly efficient carriers. And with more technology for risk prevention in homes, offices, and factories, other traditional P&C lines, both personal and commercial, likely face shrinking market volumes as well. This likely shift will begin in mature markets, reinforcing the seismic shift in insurance growth to Asia and other emerging markets.

In pursuing their chosen set of growth options while boosting profitability, nearly all players face the challenge of rising cost levels. Most carriers are investing in technology but not seeing these investments translate into lower cost from automation. Yet industry cost levels will have to be slashed if insurers want to retain an attractive customer value proposition. To handle the cost squeeze, most senior leaders will find that the task of cost reduction will require as much discipline and rigor as systematically screening for pockets of profitable growth.
In 2016, insurance premiums worldwide continued growing at a stable rate, 4.4 percent for the 2010–15 time frame, just as 4.4 percent for 2010 to 2015 (Exhibit 1).

The industry’s strong performance primarily stems from growth in health, which experienced 6.0 percent growth in 2016, still down from 9.0 percent in 2015.

In parallel, life growth slightly decreased from a rate of 4.8 percent in 2015 to 3.8 percent in 2016.

P&C premiums growth saw a slight decrease from 4.4 percent in 2015 to 4.2 percent in 2016.

The Americas’ contribution to the total insurance market appears rather stable over the period, whereas the EMEA region is losing ground to APAC, with its share of total global premiums slipping from 34 percent in 2010 to 28 percent in 2016. Although the global insurance market is on a growth trajectory, there has been a shift in momentum from mature markets toward the emerging markets. For instance, total insurance premiums in Western Europe declined by 1 percent from 2015 to 2016, whereas the rest of EMEA grew at 7 percent during this period. In the Americas, the contribution by the US and Canada to the overall growth in premiums from 2011 to 2016 has slowed due to a decline in life insurance premiums in the 2015–16 period, while the total premiums in the emerging markets of Latin America have been growing at a high compound annual growth rate (CAGR) of approximately 11 percent in the 2011 to 2016 time frame.
In the EMEA region, the overall growth rate is neutral at 0 percent in 2016, the lowest growth rate of the three regions. While the outlook for life insurance premiums is that they will be negative, P&C premiums grow at 3 percent annually, and health insurance enjoys the highest segment growth for this region at 4 percent annually (Exhibit 2).

Exhibit 2

Total EMEA premiums are expected to have slower growth in comparison with development in the past four years.

In terms of market profitability, the last two years have seen a volatility in RoE in the life insurance segment, and 2016 is expected to be 10.4 percent. In the same downward direction, the profitability of the P&C segment should slightly decrease to around 11 percent (Exhibit 3). The combined ratio in the P&C segment has increased since 2015 and is expected to reach 97.2 percent in 2016. This rise is driven by an increase in the loss ratio. In health insurance, profit margins are more or less stable over the last four years.

Both top- and bottom-line results were influenced mainly by carriers’ performance in the core EMEA markets. Thus, for life insurance, the performance observed in France, Italy, and the United Kingdom contributes nearly 60 percent of the results for the EMEA region. Similarly, P&C markets in France, Germany, and the UK account for half of the EMEA results in this line of business. In the health insurance segment, France, Germany, and the Netherlands constitute roughly 70 percent of the overall market. That said, the highest growth in the EMEA region comes mainly from countries in the Middle East, underpinned by increasing life expectancy, an enlarging middle class, and population growth in general.

1 Using 2015 year-end foreign-exchange rate for all geographies.
2 The 2016 figures are estimated based on Q3, H1, and full-year reporting.

Source: McKinsey Global Insurance Pools
EMEA insurance market profitability is expected to deteriorate, especially in life.

<table>
<thead>
<tr>
<th>Year</th>
<th>Life</th>
<th>P&amp;C</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>10.7</td>
<td>10.8</td>
</tr>
<tr>
<td>2013</td>
<td>12.9</td>
<td>10.6</td>
</tr>
<tr>
<td>2014</td>
<td>15.9</td>
<td>13.3</td>
</tr>
<tr>
<td>2015</td>
<td>12.2</td>
<td>10.4</td>
</tr>
<tr>
<td>2016E</td>
<td>11.0</td>
<td>11.0</td>
</tr>
</tbody>
</table>

**RoE**

**P&C combined ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>Expense ratio</th>
<th>Loss ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>28.2</td>
<td>98.5</td>
</tr>
<tr>
<td>2013</td>
<td>29.6</td>
<td>98.0</td>
</tr>
<tr>
<td>2014</td>
<td>30.0</td>
<td>96.7</td>
</tr>
<tr>
<td>2015</td>
<td>29.8</td>
<td>96.2</td>
</tr>
<tr>
<td>2016E</td>
<td>29.8</td>
<td>97.2</td>
</tr>
</tbody>
</table>

**Health profit margin**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net profit margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3.5</td>
</tr>
<tr>
<td>2013</td>
<td>2.5</td>
</tr>
<tr>
<td>2014</td>
<td>3.7</td>
</tr>
<tr>
<td>2015</td>
<td>3.8</td>
</tr>
<tr>
<td>2016E</td>
<td>3.3</td>
</tr>
</tbody>
</table>

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**Americas**

The growth expected for the Americas is 3 percent, driven by the health insurance segment. In parallel, the life segment declines by 1 percent, and the P&C segment grows by 2 percent p.a. accordingly (Exhibit 4). The United States accounts for more than 85 percent of the growth in the Americas market. While the Latin American countries exhibited considerable growth in all segments, the major part of that growth is still linked to hyperinflation.

The insurance industry in the United States is affected by some macro trends that are currently being studied or reformed and therefore uncertain, such as the DOL fiduciary rule and the Affordable Care Act. The P&C insurance industry balances positive pricing in personal lines with flat or weak pricing in commercial lines, thereby resulting in an overall modest growth in sales. In health insurance, the industry saw a huge growth surge in recent years due to the implementation of the Affordable Care Act, but this strong growth trend might not last long. In life insurance, the United States expects a few regulatory changes, as the DOL's new fiduciary rule is implemented over the forecast period, and individual annuities sales are likely to be disrupted. Distributor and insurer concerns over compensation and compliance can create a period of slower or even negative sales growth in 2016 and into 2017; however, consumer demand for annuities is likely to remain strong. The slightly “challenged” trend in annuities is expected to be offset by a relatively higher sales of individual life insurance products, as interest rates are expected to increase.
RoE in life insurance should stay above 10 percent, backed by a strong performance in US annuities lines. In contrast, the ratio for P&C insurance deteriorates to around 7 percent (Exhibit 5). The P&C combined ratio should slightly increase in 2016, driven by loss ratio. The net profit margin in health insurance improves over the last three years. Thus, the Americas region demonstrates a constant slowing of the top lines, except for health insurance.
Insurance market profitability in the Americas is expected to improve in health.

<table>
<thead>
<tr>
<th>Year</th>
<th>Life</th>
<th>P&amp;C</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>8.6%</td>
<td>10.3%</td>
</tr>
<tr>
<td>2013</td>
<td>7.9%</td>
<td>9.1%</td>
</tr>
<tr>
<td>2014</td>
<td>10.6%</td>
<td>10.5%</td>
</tr>
<tr>
<td>2015</td>
<td>9.6%</td>
<td>9.1%</td>
</tr>
<tr>
<td>2016</td>
<td>7.3%</td>
<td>10.7%</td>
</tr>
</tbody>
</table>

Return on equity

1 After tax profit/gross direct domestic written premiums.
2 The 2016 figures are estimated based on Q3, H1, and full-year reporting.

Source: McKinsey Global Insurance Pools

Asia-Pacific

The APAC region market expanded significantly overall, with annual growth expected at 12 percent from 2015 to 2016. Life and P&C insurance segments grow at 12 percent and 11 percent p.a., respectively. Health insurance can expect to see double-digit growth at more than 18 percent annually (Exhibit 6). The three largest APAC economies—Japan, China, and South Korea—account for 70 percent of APAC’s life insurance market and 80 percent of its P&C market.

Overall, APAC profitability is eroding. The profitability of life insurance in the APAC region should stay at a level of 11 percent. P&C insurance is lagging behind on profitability at 8 percent. The P&C combined ratio is expected to stay stable for both the loss ratio and the expense ratio. The health insurance profit margin is likely to progressively decrease, as competition is intense, with players offering low premiums and accepting losses (Exhibit 7).

Top growth opportunities in the global insurance markets come both from the fastest-growing markets and from the most sizable developed markets. In terms of growth opportunities at the geographic level, Latin America and the Middle East are expected to be the fastest-growing geographies, that is, with a double-digit GWP annual growth. Up to 2020, in the APAC region, the top line is expected to grow at a brisk pace with health as the fastest-growing segment.

More details on the segment view information are provided in the next section.
APAC insurance market profitability has been declining.

Exhibit 6

Total APAC premiums are expected to grow at a brisk pace; health will be the fastest growing segment.

Exhibit 7

APAC insurance market profitability has been declining.

Source: McKinsey Global Insurance Pools
Life insurance growth is expected to slow down from 2015 to 2016, falling from 4.8 percent to 3.8 percent p.a. Although emerging markets are contributing heavily to the growth, they could not offset the modest performance in mature markets, which still account for the bulk of premiums (Exhibit 8). In 2016, high growth in emerging Asian countries such as China and India drove the growth in life insurance. Overall industry profitability, measured as RoE, declined by approximately one percentage point to about 10.6 percent in 2016 and is expected to fall further to about 10 percent until 2020 given the low interest rate environment. The product mix has remained stable over the years with the share of UL products showing a decline in 2016 as compared with 2015.

Regional growth trends in life insurance

Africa, APAC, and Latin America are expected to see high growth in 2016, while the Middle East is expected to benefit from stable growth. Europe and North America are expected to see a decline. In APAC, the absolute growth in the 2014–15 period was around 8 percent, which increased in the 2015–16 period to about 12 percent. However, the growth is expected to slow down to 7 to 9 percent by 2020. Currently, Africa, APAC, and Latin America are the fastest growing regions in the life insurance industry globally.

Europe witnessed a trend reversal from 2014–15 to 2015–16, with the industry dropping by two percentage points in 2016. However, it is expected to recover in the years ahead (until 2020) and grow at a flattish rate of 1 to 2 percent. North America has seen a decline of 1 percent in 2016, however, in the future, the growth trend is expected to continue. Latin America, however, is expected to show a slower growth rate of 8 percent in 2016, a sharp downturn compared with 2015.

Exhibit 8

<table>
<thead>
<tr>
<th>Region</th>
<th>Life GDDWP abs. growth1</th>
<th>Life GDDWP abs. growth2</th>
<th>Life GDDWP abs. growth3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>41</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>North America</td>
<td>24</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>Latin America</td>
<td>5</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>APAC4</td>
<td>64</td>
<td>62</td>
<td>96</td>
</tr>
<tr>
<td>Middle East</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Africa5</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>World</td>
<td>135</td>
<td>96</td>
<td>79</td>
</tr>
</tbody>
</table>

1 Gross double-digit written premiums absolute growth.
2 The 2016 figures are estimated based on Q3, H1, and full-year reporting.
3 Asia-Pacific includes Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, South Taiwan, Thailand, and Vietnam.
4 Africa includes Egypt, Kenya, Morocco, Nigeria, South Africa, and Tunisia.
5 Using yearly floating foreign-exchange rate for Argentina, Ukraine, and Venezuela due to high inflation rates; 2015 year-end foreign-exchange rate for all other geographies.

Source: McKinsey Global Insurance Pools
to 15 percent in 2015. The slower growth is a result of the recessionary environment in major geographies such as Argentina and Brazil, that also account for the bulk of the regional premiums. However, the industry is expected to grow at an average pace of 10 percent until 2020.

APAC alone is expected to contribute about 70 percent of the global growth until 2020 for life, followed by North America, which is projected to contribute about 15 percent to total growth in the industry.

The growth in APAC has been fueled primarily by endowment products, which will be reviewed below.

**Life product mix—endowments**

Globally, the life insurance product mix has been stable over the years, with endowments leading the mix and accounting for about 40 percent of the total life insurance market. The share of term life in the total life insurance industry has been fairly constant at around 7 percent, as it enjoys its status of being a pure insurance product and has a stable demand across geographies (Exhibit 9).

During 2015–16, UL products’ share of the overall mix declined by approximately 1.4 percentage points, from 16.8 percent to 15.4 percent. This reduction can be attributed partly to the decline in UL sales in Western Europe, mature Asian countries, and the United States.
Within the life insurance product mix, a number of regional trends point in different directions.

- **In APAC**, endowments is the leading product with a share of about 60 percent, followed by annuities with about 15 percent. The remaining 35 percent comprise term life, group life, and UL products, in somewhat similar proportions.

- **In EMEA**, the major product is group life with a share of about 40 percent, followed by endowment products, which also account for about 35 percent of the life insurance total. The next major product group is UL, followed by annuities and term life.

- **In the Americas**, group life is also the major product with a share of approximately 30 percent, followed by UL products at about 25 percent of the total for life insurance. Endowments and annuities have somewhat equal shares of about 20 percent each, with term life accounting for the remainder.

The absolute growth in life insurance in 2015–16 declined to around €79 billion, from about €96 billion in the previous year. The absolute growth is driven by endowment products. This large share is driven by the emerging Asian markets such as China and India. In China, endowment growth is supported by the demand from China’s increasing aging population. This customer segment prefers savings- and pension-type products, which pushes sales of endowment and annuities products. In India, endowment growth is a result of increasing financial inclusion measures implemented by the government through insurers.

The high growth in endowment products is flanked by moderate growth in other mature markets such as Hong Kong and the United States. Other mature Asian markets, such as Singapore and South Korea, have also posted growth in endowment sales, while Australia and Taiwan have witnessed a slight drop. Japan has seen a larger drop of about €1 billion (about 0.6 percent of endowment premiums in 2015) in its endowment premiums as a result of negative interest rates in the market, a trend that affects the life insurance industry as a whole.

Apart from Belgium, France, Spain, and the United Kingdom, most major Western European markets saw declines in endowment premiums in 2016 as compared to premiums in 2015, with major markets such as Germany declining by as much as €0.3 billion. In Belgium, for example, growth recorded in endowment products is partially explained by the fact that these products were practically the only alternative to savings accounts when several banks lowered the interest rate on savings.

**Life product mix—Unit-linked products**

Unlike endowment products, the premiums from UL products declined in 2016 as compared with 2015. The biggest decline was in Western Europe followed by mature Asia and North America (Exhibit 10).

The decline in Western European countries can be explained by the sluggish economic growth combined with weak capital market performance in the region.
The reduction of UL sales in the United States can be attributed to the proposed lower marginal tax rates for the high income groups as well as reduced taxes on investment income. This undertaking would reduce the demand for life insurance wrapper on equity investing and thus hurt the sale of UL products.

Furthermore, Italy and the United States are actually leading this decline. Together, these two markets contribute 40 to 45 percent of the total global UL product premiums, thus driving the overall premiums downward.

The Italian index (FTSE MIB) dropped approximately 25 percent in the first half of 2016. Hence, the UL products suffered as investor confidence fell.

In South Korea, the weak performance of UL products is due to the volatile stock market. However, in the United States, UL premiums declined due to two major reasons:

1. The tax saving reforms, which led to the wealthy not investing in insurance-wrapped equity instruments when they can directly invest in equity.

2. The DOL rule that will change the way distributors are paid commissions on the variable indexed annuities products.

In South Korea, the weak performance of UL products is due to the volatile stock market. However, UL premiums are expected to grow in the near future as it is still a popular product in the market. In Hong Kong, UL sales were picking up until 2015 due to demand from

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**Exhibit 10**

**Endowment products made the strongest contribution to growth in 2016, based on performance in Asia, at the cost of unit-linked insurance plans in Western Europe.**

<table>
<thead>
<tr>
<th>Unit-linked premiums absolute decline 2015–16E</th>
<th>Life premiums absolute growth 2015–16E</th>
<th>Endowments premiums absolute growth 2015–16E</th>
</tr>
</thead>
<tbody>
<tr>
<td>€, billions</td>
<td>Growth (2015–16), %</td>
<td>€, billions</td>
</tr>
<tr>
<td>Emerging Asia²</td>
<td>-14</td>
<td>North America</td>
</tr>
<tr>
<td>North America</td>
<td>-6</td>
<td>Mature Asia²</td>
</tr>
<tr>
<td>Mature Asia²</td>
<td>-9</td>
<td>Western Europe</td>
</tr>
<tr>
<td>Western Europe</td>
<td>-12</td>
<td>Latin America</td>
</tr>
<tr>
<td>Latin America</td>
<td>2</td>
<td>Africa³</td>
</tr>
<tr>
<td>Africa³</td>
<td>0</td>
<td>Middle East</td>
</tr>
<tr>
<td>Middle East</td>
<td>0</td>
<td>Eastern Europe</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>-7</td>
<td>Japan</td>
</tr>
<tr>
<td>Total unit-linked</td>
<td>-12</td>
<td>Total life</td>
</tr>
<tr>
<td>Total emerging</td>
<td>5</td>
<td>Total endowments</td>
</tr>
<tr>
<td>Total mature</td>
<td>-17</td>
<td>Total emerging</td>
</tr>
</tbody>
</table>

1 The 2016 figures are estimated based on Q3, H1, and full-year reporting.
2 Emerging Asia includes China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam.
3 Mature Asia includes Australia, Hong Kong, New Zealand, Singapore, South Korea, and Taiwan.
4 Africa includes Egypt, Kenya, Morocco, Nigeria, South Africa, and Tunisia.

consumers in mainland China. In 2016, however, the trend reversed, as China implemented tighter capital controls, thus limiting UL sales.

The emerging Asian countries have experienced the highest growth in UL products, given their growing economies and the high interest rate environments in these markets.

**Life profitability**

The RoE on life products over the years has been very volatile, but remains above the cost of equity (CoE) in most markets. Latin America and Eastern Europe have the highest RoE (Exhibit 11).

In 2015, RoE was at a global average of about 11.8 percent, up by about 0.8 percent from last year. Mature markets have been outperformed by the emerging markets, such as emerging Asia, Eastern Europe, and Latin America. The RoE was driven upward by the combination of the high interest rate environment in the emerging markets with decent investment returns. The Western European life market returned to its stable RoE after a year of sharp decline in 2014.

The picture is different in other developed markets, such as mature Asia and Japan, where the prevailing low interest rate environment has hurt the bottom line of the insurers, thus driving the RoE down in 2015 compared with 2014.

On the profitability side, certain trends dictate the higher RoE in the US life insurance industry in 2016—higher investment income combined with better operating margin due to certain individual annuities reinsurance transactions and pension risk transfer transactions.
Despite the low interest rates in EMEA and North America, the higher investment income in North America is a result of the insurer’s asset mix being tilted towards equities as compared to their EMEA counterparts. The equity performance in the US has been stronger as compared to the performance in major Western European markets, thus driving the overall return on equity upward.

The life insurance industry has faced turbulent times during the past few years due to the dynamic macroeconomic and regulatory environment. However, we expect the industry to grow at a stable pace over the coming years. The growth in this period will be fueled by the emerging markets in the APAC and Latin American regions. The largest market will still be the United States, with a share of about 20 percent of the total market, though it is expected to decline slightly. The major emerging markets such as China and India are expected to grow at a rate of 15 percent over the coming year. However, profitability in these markets is expected to decline as insurers compete for market share (soft market conditions).
In P&C insurance, once again Latin America, the Middle East, and APAC recorded high growth of 23 percent, 12 percent, and 6 percent respectively, while North America, Europe, and Africa recorded only 4 percent, 0 percent, and -2 percent growth, respectively, in 2015. APAC and North America are expected to be the core contributors in terms of absolute growth in 2016. A slight slowdown in overall growth is expected to be observed from 2016 to 2020 (Exhibit 12).

Regional growth trends in P&C insurance

Mature markets in Asia have experienced a sluggish growth that is predominantly driven by the slowdown in Japan’s P&C insurance industry, which is one of the most concentrated markets in the world. Three players have more than 80 percent of the market share and the industry has been witnessing very low profitability. The aging Japanese economy, which again recorded a decrease of four percentage points year-on-year in its growth rate in 2015, is now expected to see a decline in market size in 2016.

Interestingly, Middle Eastern markets have generated a strong growth of 15 percent in motor insurance premiums in the past five years and are also expected to keep growing at an average rate of 13 to 15 percent p.a. until 2020.

The Italian P&C market has had back-to-back years of decline, further driving the Western European market down. Along with motor insurance, fire and property premiums have also faced consecutive declines in Italy, raising questions about the overall economic status of the country, which is still struggling to put its GDP growth back on track. The competitive

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1 Gross double-digit written premiums absolute growth.
2 The 2016 figures are estimated based on available Q3, H1, and full-year reporting.
3 APAC includes Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan, Philippines, Thailand, and Vietnam.
4 Africa includes Egypt, Kenya, Morocco, Nigeria, South Africa, and Tunisia.
5 Using yearly floating foreign-exchange rate for Argentina, Ukraine, and Venezuela due to high inflation rates; 2015 year-end foreign-exchange rate for all other geographies.

Source: McKinsey Global Insurance Pools
dynamics of the Italian auto market, currently at the lower end of its cycle, has kept growth in the motor insurance market relatively low. While the Italian market is currently the ninth largest P&C market globally, going forward, it is expected to remain flat or increase only slightly, since tariffs are expected to rise.

The global P&C insurance industry grew at a rate of about 5 percent p.a. over the last five years and is also expected to report stable growth at about 3 to 4 percent until 2020 (Exhibit 13). Motor and liability lines delivered the highest growth of up to 6 percent p.a. with fire and property registering the lowest growth among all lines at 3.9 percent annually from 2010 to 2015. Motor is expected to remain the largest line of business and keep driving overall P&C growth, with a growth rate of more than 5 percent p.a. in 2015 and 2016.

Motor insurance has been the dominant product in P&C lines and is likely to drive the growth in the future.

<table>
<thead>
<tr>
<th>Year</th>
<th>Motor</th>
<th>Fire and property</th>
<th>Liability</th>
<th>Accident</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,043</td>
<td>43%</td>
<td>24%</td>
<td>16%</td>
<td>10%</td>
</tr>
<tr>
<td>2013</td>
<td>1,217</td>
<td>42%</td>
<td>24%</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>2014</td>
<td>1,275</td>
<td>43%</td>
<td>24%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td>2015</td>
<td>1,331</td>
<td>44%</td>
<td>23%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>2016E</td>
<td>1,388</td>
<td>44%</td>
<td>23%</td>
<td>15%</td>
<td>10%</td>
</tr>
</tbody>
</table>

1 Latin American countries Argentina and Venezuela, which have highly inflated markets, have been excluded.
2 Estimated based on Q3, H1, and full-year reporting.
3 Using yearly floating foreign-exchange rate for Argentina, Ukraine, and Venezuela due to high inflation rates; 2015 year-end foreign-exchange rate for all other geographies.

Source: McKinsey Global Insurance Pools

Motor insurance is estimated to still account for more than 50 percent of the total growth of the P&C industry, with liability holding a share of about 16 percent of the growth. Of the growth in motor globally, North America still accounts for about 36 percent due to the huge size of the market, with emerging Asia contributing another 54 percent (Exhibit 14). The mature markets together still contribute 45 percent of the total global growth in motor, while emerging markets contribute 55 percent. The world motor insurance market produced a CAGR of about 6 percent from 2013 to 2016; mature and emerging markets are estimated to report motor insurance premium CAGRs of 3 percent and 14 percent, respectively, in the 2013 to 2016 period. Due to the huge size of the mature markets, their slow growth still dominates world growth figures, bringing the global growth rate to 3.8 percent, although the combined share of the emerging markets is growing fast.
Motor dominates the P&C market with strong growth in emerging countries of Asia and Latin America.

The global P&C insurance industry experienced a setback in 2016, of about a two-percentage-point decline in RoE. This decline is, however, expected to restabilize at an RoE of approximately 9 to 10 percent for 2020. The combined ratio of the P&C industry is reported to be in a stable position at 96 percent for 2015, although it is expected to increase by one percentage point in 2016 to reach 97 percent. It is also expected to slightly keep increasing until 2020 but should be under 100 percent. With decreasing growth expected in shareholder’s equity until 2020, RoE is expected to remain stable even after a slight increase in the net combined ratio.

The combined ratio is expected to be slightly high for 2017, due to the recent natural catastrophes in the United States. Based on current estimates, Hurricanes Harvey, Irma, and Maria collectively could be the most costly catastrophe activity on record to affect the US insurance market and will drive 2017 results, with effects that will influence 2018 and 2019 as well.

Emerging markets have lately generated higher underwriting profits for the P&C industry as compared to the mature markets (Exhibit 15). Over the last five years, emerging markets have recorded 3 to 4 percent lower claims ratios and nearly similar expense ratios as compared with the mature markets. Given the information reported for 2015, Eastern Europe was the least profitable with a combined ratio of 110 percent, and Latin America the most profitable with an average combined ratio of 87 percent.
Emerging markets show a stronger underwriting profitability than mature markets.

**P&C Insurance, %**

- **World**
- **North America**
- **Europe**
- **Mature Asia**
- **Middle East**
- **Latin America**
- **Emerging Asia**
- **Africa**

Exhibit 15

Source: McKinsey Global Insurance Pools

Lines of business perspective on growth

Among the different lines of business, accident has proved to be the most profitable consistently over the last decade with the lowest expense ratio and a steady claims ratio. Though liability had a track record of many loss-making years in the past, its combined ratio has steadily improved on the back of a continuous decline in the loss ratio. A high expense ratio, however, still makes it the second least profitable business line with a net combined ratio of 94 percent.

With a sharp decline in the loss ratio and a steady expense ratio over the last five years, fire and property became the most profitable line of business in 2015 with a net combined ratio of 92 percent.

Data for the profitability of different lines shows that the expense ratios have remained more or less constant over the year, and change has occurred because of volatility in the loss ratio.

Analysis of the global commercial P&C insurance industry shows that the industry has small, medium, and large customer segments measuring 30 percent, 19 percent, and 51 percent, respectively. Given the huge size of the US commercial P&C insurance industry, it exerts maximum impact on the share of the customer segments globally. The Western European market has completely different shares of 40 percent, 27 percent, and 33 percent for the small, medium, and large customer segments, respectively, highlighting the difference in the insurance industry client segmentation in the two regions. The Global Commercial Markets of Lloyd’s of London and the London Companies Market, which form 8 percent of the total commercial P&C market, primarily deal with large corps with specialty risk coverage (Exhibit 16).
In terms of industries, the three largest contributors to the world’s commercial P&C insurance market premiums are manufacturing; real estate; and schools, municipalities, and public entities. Their shares of premiums are 15.8 percent, 10 percent, and 9.8 percent, respectively. In regional terms, the North America and Western Europe regions combined account for 54.2 percent, 73.8 percent, and 67.4 percent, respectively, of the global share of premiums generated by manufacturing; real estate; and schools, municipalities, and public entities.

The global P&C insurance industry has grown at a stable rate of 3 to 5 percent p.a. over the last two years and is expected to grow at a similar rate going forward. Though Latin America experienced the highest growth in P&C in 2015 along with high inflation, real growth there is expected to fall in the coming years. Emerging Asia, which also experienced fast growth in 2015, is expected to lead the field again in overall growth in 2016 and 2017 with strong support from the Middle East. In parallel, Europe and North America have remained largely stable at a slow growth rate so far, with Eastern Europe showing positive signs of lifting P&C growth in 2016 and 2017.
The health insurance segment has shown a subdued growth of 6 percent in 2016 as compared to the prior years. The two main regional contributors to the growth have been North America and APAC (Exhibit 17). In terms of growth rates, APAC, followed by the Middle East and Africa, has the highest growth track record between 2014 and 2016.\(^1\)

Regional growth trends in health insurance

<table>
<thead>
<tr>
<th>Health GDDWP abs. growth(^1)</th>
<th>Health GDDWP abs. growth(^1)</th>
<th>Health GDDWP abs. growth(^1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>North America</td>
<td>Latin America</td>
</tr>
<tr>
<td>2</td>
<td>54</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>3</td>
<td>58</td>
<td>10</td>
</tr>
<tr>
<td>-2</td>
<td>40</td>
<td>-10</td>
</tr>
<tr>
<td>-10</td>
<td>16</td>
<td>-10</td>
</tr>
<tr>
<td>-2</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>12</td>
<td>14</td>
<td>12</td>
</tr>
<tr>
<td>10</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>6</td>
<td>59</td>
<td>59</td>
</tr>
</tbody>
</table>

1 Gross double-digit written premiums absolute growth.
2 The 2016 figures are estimated based on available Q3, H1, and full-year reporting.
3 APAC includes Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan, Philippines, Thailand, and Vietnam.
4 Africa includes Egypt, Kenya, Morocco, Nigeria, South Africa, and Tunisia.
5 Using yearly floating foreign-exchange rate for Argentina, Ukraine, and Venezuela due to high inflation rates; 2015 year-end foreign-exchange rate for all other geographies.

Source: McKinsey Global Insurance Pools

- The United States continues to lead the growth in health premiums in North America, with an absolute growth of about €40 billion and at a rate of 6 percent annually in the 2015–16 period. This growth can be attributed to medical inflation, increasing employment, and some carry-over of the benefits from former US President Obama’s healthcare policies.

- In APAC, China generated a CAGR of 52 percent and 33 percent in the years 2014–15 and 2015–16, respectively, and this trend is expected to continue in the near future. This growth is being driven by the aging population in China, which has boosted demand for health insurance. India is also a major contributor to health premium growth in APAC, with an annual growth rate of 26 percent in 2016, due to increasing penetration in rural India through financial inclusion measures implemented by the government.

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1 For the purpose of health insurance section, we capture data solely for insurance contracts linked to private medical coverage across markets. Therefore, our analysis does not include any coverage provided by governments, public-health organizations, or employers. We have also included the component of health insurance that is sold by life insurers for the scope of this section. Separately, for the US market, we have included health policies sold through the private payor industry, as well as the accident and health coverage that is sold by life insurers. In consequence, our discussion of the United States includes all health contracts sold by private payors; it does not include Medicare and Medicaid coverage from the US federal and state governments.
The declining health premiums in 2015–16 in Latin America are primarily driven by the highly volatile markets of Argentina and Venezuela, owing to political tensions and economic crises. Excluding these markets, all other Latin American countries had a CAGR of about 10 percent on average for health insurance premiums through year-end 2016, driven by Chile and Peru, which are the fastest-growing markets.

**Health profitability**

The global average net profit margin from 2010 to 2016 in health has been approximately 4 percent. After a drop in profitability in 2014, primarily due to a decline in the Americas region, the margin picked up in 2015 and 2016 (Exhibit 18).

There was a decline in health profits in the United States from 2013 to 2014 due to increased administrative expenses, which led to a slump in profitability in the Americas region. But in subsequent years, these expenses decreased after the implementation of the Affordable Care Act. Claims expenses are expected to rise due to increasing medical costs, which kept the net profit margin under 4 percent through year-end 2016.

European profit margins on health declined to about 3 percent in 2015 and are expected to remain in this range for the next several years. The biggest markets in health insurance, such as France, Germany, and the Netherlands, had a net profit margin of about 2 percent on average in the 2015–16 time frame, whereas the smaller markets, such as Russia and the United Kingdom, generated margins above 10 percent. The claims ratio in the UK’s health insurance sector has been stable historically, which has helped
in maintaining moderate profitability. In Russia, health premiums are on the rise, and profitability has received a boost. This uptick is due to an increase in prices set by healthcare centers, promotion of risk programs that offer limited medical services/payments on occurrence of insured events, and the decline of state-sponsored health programs.

On the other hand, health insurance in the APAC region has displayed a strong net profit margin of around 8 percent on average in recent years. That said, it is on a declining trend, owing to high competition that drives pricing and margin downwards.

In emerging markets, private health insurance premiums are a small percentage of total health expenditure and are significantly lower than the “out of pocket” and the “others” categories of expenses. Mature markets have stronger healthcare systems and private health insurance providers, which is typically reflected in most of these markets by the premium expenditure being larger than the “out of pocket” expenditure (Exhibit 19).

The global health insurance industry is currently dominated by the United States, which accounted for around 70 percent of health premiums in 2015. The annual share of emerging markets is expected to increase in the coming years as income levels rise, coverage widens, and more private health insurers enter the fray. The rapidly growing markets of China and India are poised to lead this growth and increase APAC’s share of the global private health insurance premiums from 4 percent in 2015 to 11 percent in 2020.

**Exhibit 19**

**Emerging markets today have a much higher proportion of “out of pocket” health expenditure than mature markets.**

<table>
<thead>
<tr>
<th></th>
<th>Mature</th>
<th>Health premiums €, billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of health expenditure %</td>
<td>58</td>
<td>37</td>
</tr>
<tr>
<td>Premiums</td>
<td>$65</td>
<td>$90</td>
</tr>
<tr>
<td>“Out of pocket”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others including government expenditure</td>
<td>14</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Emerging</th>
<th>Health premiums €, billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of health expenditure %</td>
<td>2</td>
<td>47</td>
</tr>
<tr>
<td>Premiums</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>“Out of pocket”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others including government expenditure</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Mature</th>
<th>Health premiums €, billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of health expenditure %</td>
<td>13</td>
<td>34</td>
</tr>
<tr>
<td>Health expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Out of pocket”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others including government expenditure</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>

1 “Out of pocket” expenditure for 2015 has been estimated based on 2011 to 2014 compound annual growth rate.

Source: McKinsey Global Insurance Pools; World Health Organization
The distribution function, in the insurance industry, is of great importance, reflecting the “push” nature of products in the industry. The distribution model has continued to evolve as insurers try to better connect with their customers. Over the years, the industry has seen a clear dominance of face-to-face selling (agents and brokers). However, with the increasing penetration of the Internet and customers preferring convenience, the digital mode of sales is becoming increasingly popular.

In life insurance, the distribution landscape varies across mature and emerging markets. Trends in the distribution mix across regions reflect local market dynamics and consumer preferences, given that insurers work with distributors to tailor products and a sales force approach to align with the local environment. While the distribution channel mix for the life market has remained relatively stable in some countries, such as Italy, Spain, and the United States, it has undergone pronounced changes in other markets (Exhibit 20).

Consider the following changes in life distribution channels:

- **The bancassurance channel has declined in popularity in the United Kingdom for two reasons.** First, there has been a decline in certain product sectors, such as life-wrapped investments and mortgage-linked protection plans, for which banks were the key distribution channel. Second, most banks have decided to avoid the cost of reorganizing their businesses and training their financial advisors, which the 2013 Retail Distribution Review regulation would require them to do, if they wanted to continue selling investment products. This regulation also reduced the market share for the tied
agents and branches channel. As a consequence of these changes, the broker distribution channel increased its share of sales from 69 percent in 2011 to 74 percent in 2015.

- The bancassurance channel lost share in China because of a new regulation, issued jointly by banking and insurance authorities, which states that one physical bank branch may work with a maximum of three insurance companies. This law has helped the tied agent and branch channel become dominant, increasing its share of sales from 49 percent to 56 percent from 2011 to 2015.

- In Italy, life insurance distribution is mainly driven by banks, although the bancassurance model has seen some changes in the recent years. Some bancassurance agreements have been renegotiated. In this period (2011 to 2015), investment product profitability was very low, while insurance products in Italy offered interesting returns (also considering the relatively low risk). Hence, the growth of the bancassurance channel in life insurance partly reflects the growth of the life insurance industry (in Italy) as well.

- The share of the broker channel in Mexico increased from 5 percent in 2011 to 17 percent in 2015, mainly because some strong brokers entered the market for both group and individual life products.

The situation is similar for P&C distribution (Exhibit 21).
Just as in life insurance, there is no distinct trend in the distribution channel across regions in the P&C segment. Over the last few years, Germany, Italy, Japan, and the United States have seen few changes in the distribution landscape. Other countries, however, have experienced significant shifts:

- **In the United Kingdom**, the share of the “direct and other” channel has increased substantially in recent years. The United Kingdom is the market leader in this trend. This shift mainly resulted from an increase in motor and home insurance products.

- **In China**, the direct and other channel share rose from 31 percent to 45 percent in response to the increase of online and telemarketing sales of P&C products. This increase is backed by a very strong trend in online sales, especially in the automotive insurance sector. Consumers are also tending more toward the digital (online or mobile) mode of purchase.

Within Western European countries, such as Germany, France, Italy, the Netherlands, Spain, and the United Kingdom, the growth in premiums was mostly due to the growth in the direct channel. In motor insurance, in particular, where the 2005–15 and 2010–15 periods saw a decline in premiums from traditional channels, the direct channel experienced strong growth at rates of 5.3 percent and 6.1 percent, respectively. Nonmotor lines also grew rapidly at 6.0 percent and 6.8 percent, respectively, for direct channel premiums in the same time periods.

In motor insurance, most German and British direct players have outperformed their markets. They seem to have an advantage in terms of both premium growth and profitability, measured by the combined ratio (Exhibit 22).

### Exhibit 22

In Western Europe, especially in Germany and the United Kingdom, direct players are able to outperform their markets and increase their lead.

Motor direct positioning vs local market, percent advantage vs local market, 2014–15 (2013–14)

![Combined ratio chart](chart)

Source: National statistics; McKinsey analysis

(Motor Insurance)
However, the growth in the direct channel is expected to slow down in the future. Some Western European geographies are already starting to show this slowing growth rate. Also, in terms of profitability, some Spanish and Italian players show no real positive impact of operating in the direct distribution space.

Considering the initial investment and setup costs in the direct channel, with limited success stories of pure direct players, we can see a rise of aggregators, or price-comparison websites. It can be a good growth story for such players, if insurers are a little wary of investing in the pure direct space.

We can already see the strong growth trend of aggregators in many European geographies, and this trend is likely to continue in the future (Exhibit 23).

Exhibit 23

In Western Europe, aggregators continue to gain share in direct.

Size of aggregator markets, intermediated motor GWP
€, millions (% of direct GWP)

<table>
<thead>
<tr>
<th>Country</th>
<th>2007</th>
<th>2016E</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>95</td>
<td>72</td>
<td>-15%</td>
</tr>
<tr>
<td>France</td>
<td>110</td>
<td>106</td>
<td>+3%</td>
</tr>
<tr>
<td>Germany</td>
<td>135</td>
<td>131</td>
<td>-3%</td>
</tr>
<tr>
<td>Italy</td>
<td>68</td>
<td>77</td>
<td>+13%</td>
</tr>
<tr>
<td>Spain</td>
<td>101</td>
<td>118</td>
<td>+17%</td>
</tr>
</tbody>
</table>

Source: McKinsey analysis

In essence, the trend in both life and P&C insurance points toward strong growth in direct channels overall, even though the industry is currently dominated by agents and brokers. The future may see a shift towards a multichannel approach with a handshake between channels, as we are already starting to see.

***

Overall, the insurance industry is expected to perform well in 2016–17, still with different results in terms of volumes and profitability across the business segments. Thus, life and P&C insurance growth slowed down, while health showed the highest growth rate. From
a geographic perspective, top growth opportunities in the global insurance markets come both from the fastest-growing markets and from the most sizable developed markets. In terms of growth opportunities at the geographic level, Latin America and the Middle East are expected to be the fastest-growing geographies. To this progress, we need to add the APAC region, where the top line is expected to grow at a brisk pace with health being the fastest-growing segment.

Despite these trends recorded in the McKinsey Global Insurance Pools database and indicating the opportunities, which potentially offer the strongest growth, not all opportunities are open to every player. Insurance companies therefore need to work out their own strategies based on an in-depth understanding of current and future trends, such as those provided by our analyses, so they can re-examine their product mix, geographic focus, and capabilities. Those companies that identify new trends, prepare for change to come, and adjust to the changing landscape may become prominent.

“Luck never built a business. Prosperity and growth come only to the business that systematically finds and exploits its potential.”

Peter Drucker
An overview of McKinsey’s Global Insurance Pools

McKinsey’s Global Insurance Pools (GIP) consists of five proprietary databases called Markets Database, Local Insurers Database, Global Insurers Database, Commercial Lines Pools, and Direct Distribution 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 sub-regions, and 99 percent of global insurance premiums. It includes key financial indicators for every market from 2000 to 2016 and projections until 2025. Future numbers have been prepared leveraging a uniform forecasting methodology and 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, which include premiums, cost and profitability metrics from 2005 to 2016.

**New Offers**

McKinsey’s Global Insurance Pools model has added two databases this year to include deep dives on commercial lines and direct distribution players.

The **Commercial Lines Pools** database provides information on the P&C commercial insurance industry with cuts for 20 industries, 7 customer segments, and 6 lines of business in 66 markets.

**Direct Distribution Database** provides key financial information and trends in the life and nonlife businesses of the major direct channel players in 11 markets, from 2000 to 2015.

**How GIP can help support clients**

McKinsey’s GIP 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 giving unlimited access to all data points.

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2 Currently, the Markets Database has data available for 2016 only for markets that have this information released by the regulators already.
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 the less advanced markets, the data might include GWP, technical reserves, and profits. For the 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 2000 to 2016 and forecasts until 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 includes five product groups: motor, fire and property, liability, accident, and other (such as travel). Health is considered a separate line and includes 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. The channel categories include tied agents, brokers/IFAs, bancassurance, branches, direct, and other (such as retailers and car dealers).

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

Distribution channel definitions

We define insurance distributors as follows:

**Tied agents and branches**—there are two types of tied agents:

- Self-employed tied agents work exclusively for one or a few companies, or for the partners cooperating with a company. Remuneration of such agents is on a commission-only basis.

- Salaried employed tied agents work exclusively for one or a few companies, or for the partners cooperating with a company. Remuneration of such agents includes 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 the client, not a company, and distribute products from a panel of companies.

**Bancassurance** involves distribution through bank branches.
The “direct and other channels” category includes two components. Direct channels refers to insurance distribution through remote channels, that is, telephone, internet, email. Other channels includes other types of channels not included in any of the above categories for example, retailers, car dealers, worksite marketing, affinities).

**Life product definitions**

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

**Endowments covers 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 product would include universal life and whole life.

**Annuities is described as 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, regular monthly payment streams either for a fixed duration or for life). Under US terminology, this product would include fixed annuities.

**Unit-linked products are 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 product would include variable life, variable universal life, and variable annuities.

**Group life includes** group protection, group unit-linked, 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 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 of the 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 macro drivers we considered include GDP growth (nominal and real), long- 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 (such as upcoming regulatory changes, demographic shifts, and pension or healthcare system reforms).

**Use of fixed exchange rates to reduce the impact of currency fluctuations**

In the present report, we express the historical data and forecasts in euros using 2015 fixed exchange rates. This approach allows us to compare local growth rates without the interference of sometimes highly pronounced currency fluctuations. One drawback of our method, however, is that it does not account for differing inflation rates across countries.

In consequence, estimates of growth in markets with high inflation may show an upward bias that can significantly distort comparisons among countries over the long term. Consequently, for markets such as Argentina, Ukraine, and Venezuela that have extremely high inflation, we decided to use floating exchange rates to mitigate this effect.
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Claudia Max led the overall effort. A special thanks goes to McKinsey’s Global Insurance Pools team (Samridh Arora, Nataliya Fedorenko, Shitij Gupta, Varun John Jacob, Karan Vanwani), Terry Gilman, and Philipp Klais for their contributions. The team can be reached at the central email address: global_insurance_pools@mckinsey.com