

Tomorrow's insurance

Digital  McKinsey

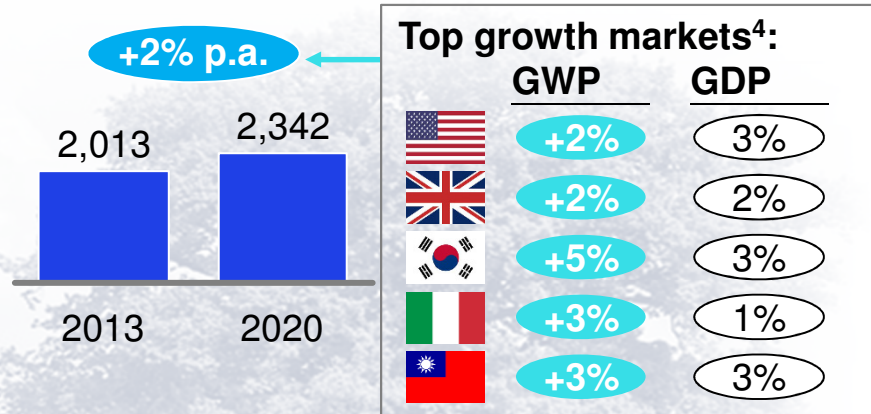
Confidential and proprietary: Any use of this material without specific permission of McKinsey & Company is strictly prohibited



Macro-trends: we are the engine of growth in global insurance

Mature markets

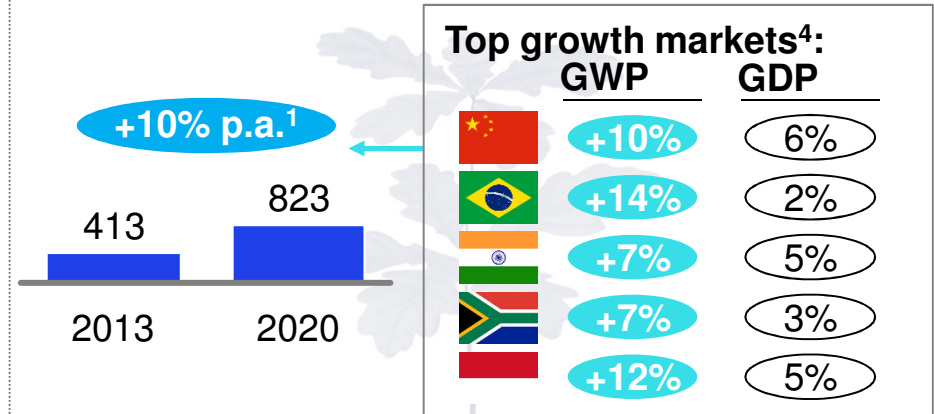
GWP, USD bn



- Remain the largest profit pools
- Top market position is not a must to achieve strong performance
- 6 countries represent 80% of total GWP²

Emerging markets

GWP, USD bn



- Driver of global growth
- Foreign ownership restrictions - local champions capture superior value
- Tailored skills required
- Long payback time
- 4 countries represent 80% of total GWP³ – 2 of which have limited accessibility (China, India)

¹ GWP growth is 1-4% higher in local currencies due to FX effect

³ China, Taiwan, India, South Africa

² USA, Japan, UK, France, Germany, Italy

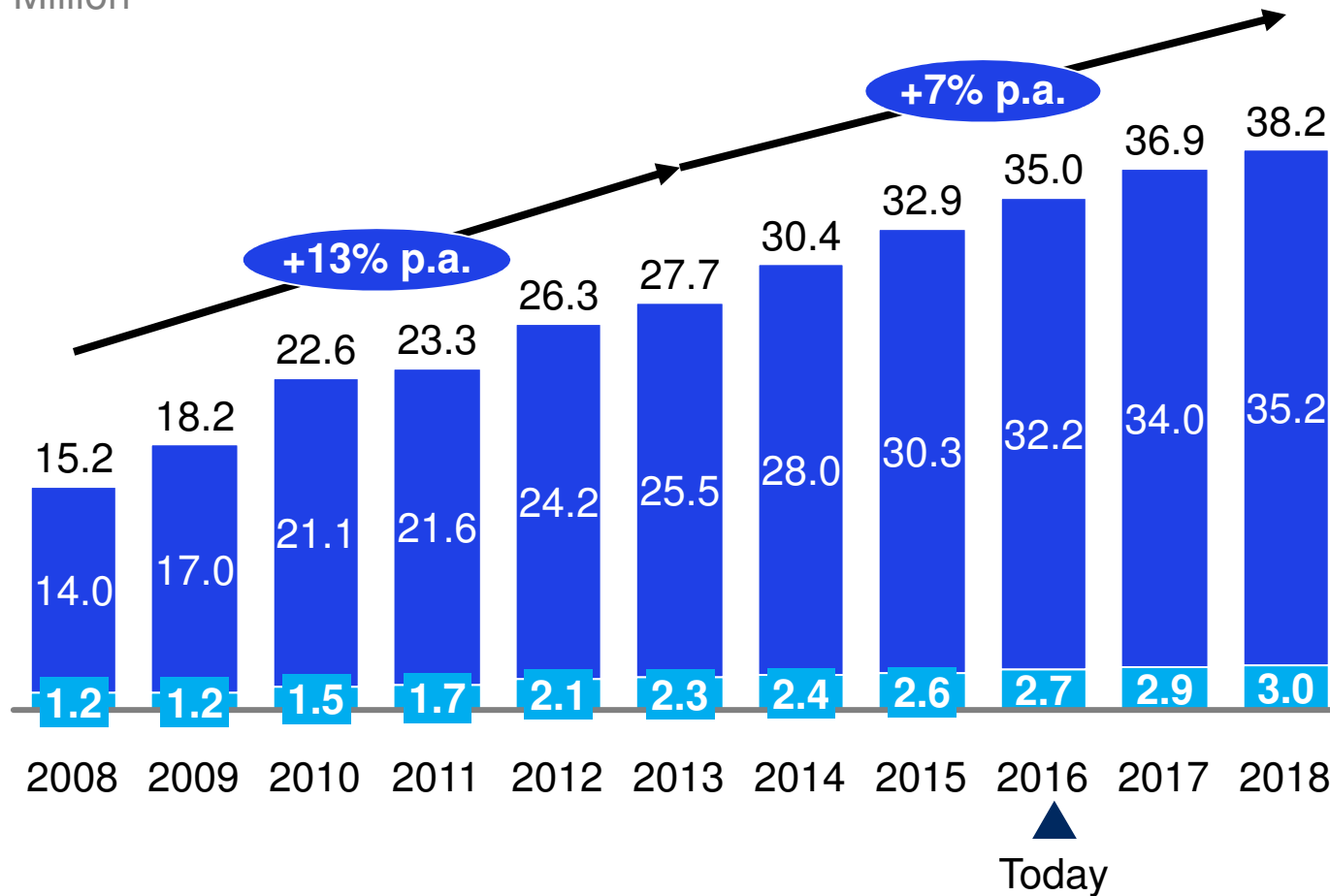
⁴ Top countries ranked by absolute growth 2013-2020

We are the engine of growth in global insurance

- Other Asian countries
- Indonesia, Malaysia, Philippines and Thailand

New passenger vehicle sale in Asia (2008 to 2018)

Million



Absolute growth, 2013-18

%

38

33

The insurance industry's business model has remained stagnant for a very, very long time, while the world around us was changing immensely. It is vitally important to the future of our industry that we re-examine our customers, products and distribution models to ensure we remain relevant to the communities we serve. We can't be trying to sell the same products and services to people that we sold to their parents and grandparents

A perfect storm for insurance?

Our evershifting customers

Distribution: the big shift

Digital as an opportunity: really?

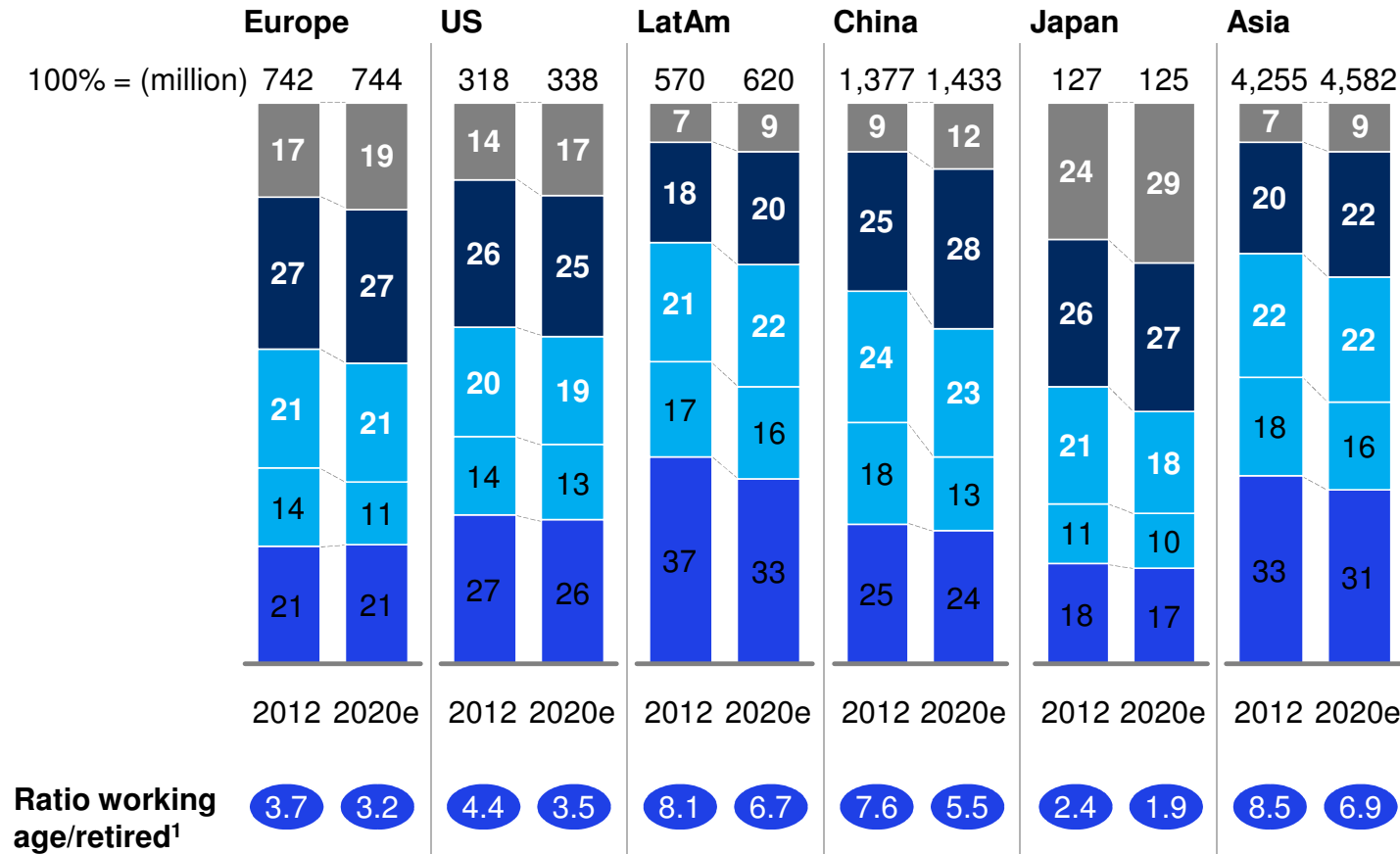
Public vs. private: new social contract?

War for talent: is insurance winning?

Demographic trends – between now and 2020, the share of retirees will grow in all geographies

Percent of population by age

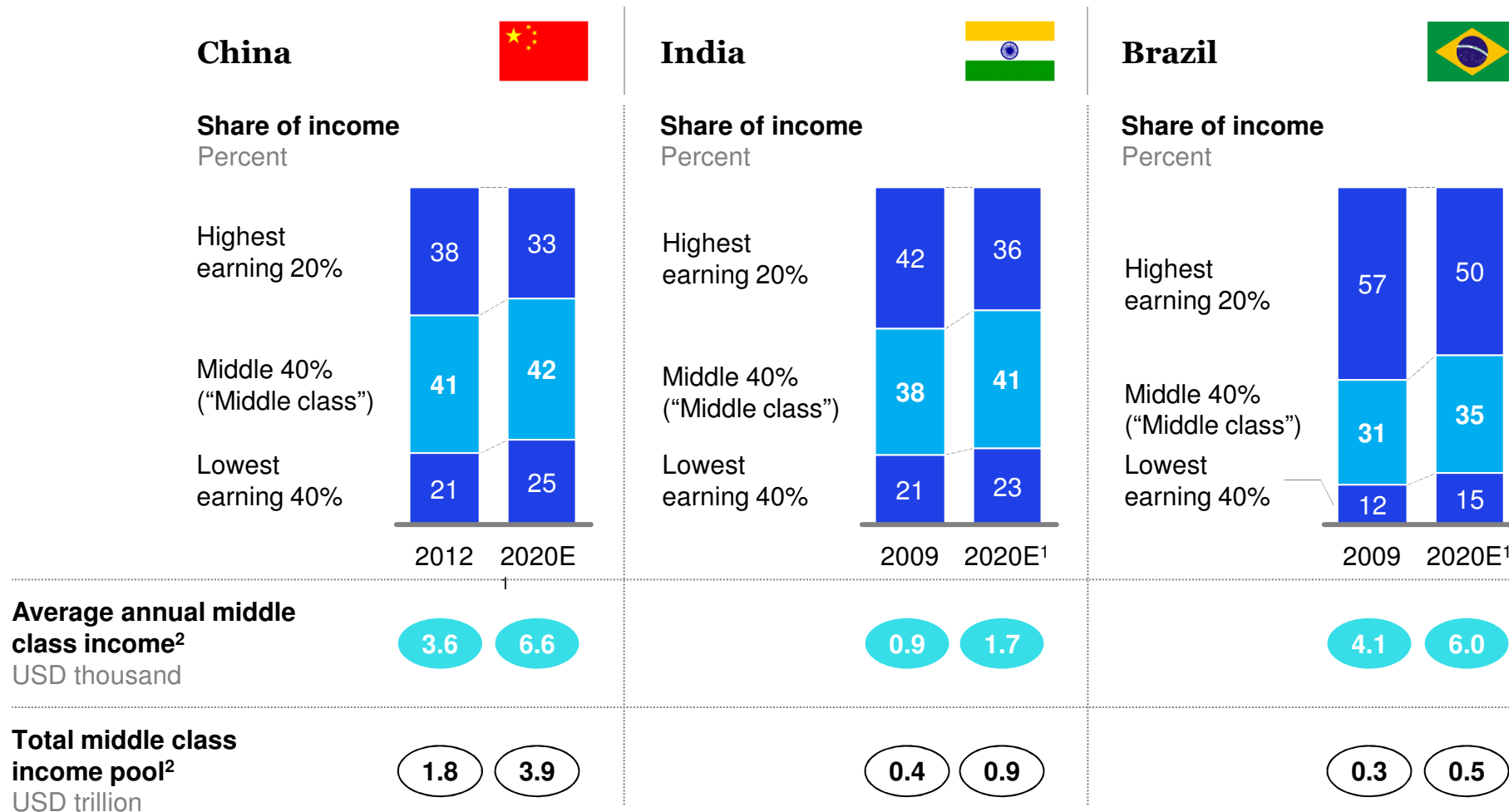
65+ yrs 45-65 yrs 30-45 yrs 20-30 yrs 0-20 yrs



- Retirement age populations (65+) will grow to ~20% of developed markets' population by 2020
- Emerging markets will continue to be much younger, despite increasing longevity

¹ Ratio of population in age group 20-65 to age group 65+

Macro trends – in emerging markets, the middle class is capturing an increasing share of the total income pool



1 Projection until 2020 based on extrapolation of past trends

2 In constant 2005 USD

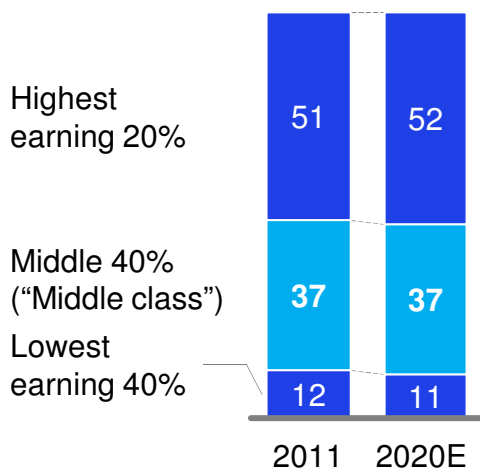
SOURCE: World Income Inequality Data, World Bank, Team analysis

Marco trends – in mature markets, shrinking middle class

United States



Share of income
Percent



Average annual middle
class income²
USD thousand

41.4 43.0

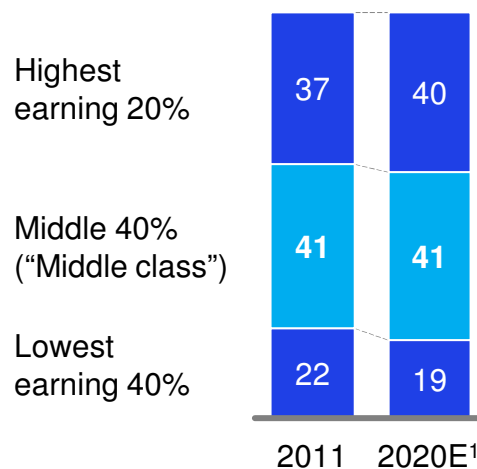
Total middle class
income pool²
USD trillion

5.2 5.7

Germany



Share of income
Percent



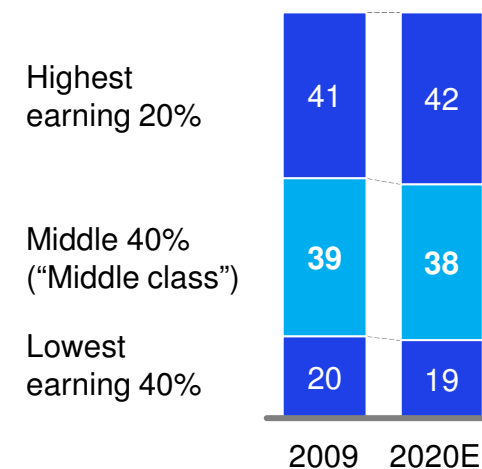
37.9 43.3

1.2 1.4

Japan



Share of income
Percent







34.0 37.0

1.7 1.8

¹ Projection until 2020 based on extrapolation of past trends

² In constant 2005 USD

Generational divide – by 2024, almost half of the accessible customers (i.e., aged 25-65) will belong to Gen Y (i.e., born between 1981-2000)

	Customer base today		Customer base 2020-2030	Future	
Cohort					<p>“On the average Web page, users have time to read at most 28% of the words during an average visit; 20% is more likely.”</p>
	Baby boomers 1945-1960	Gen X 1961-1980	Gen Y 1981-2000	Gen Z 2001-	
Characteristics	~60	~45	~25	~10	<p>Expected limit for waiting time for banking services is down to 5 minutes from 15 minutes in just 7 years</p>
	<ul style="list-style-type: none"> • “Pull” use of digital • Expect tailored marketing outreach • Little brand loyalty • TV remains dominant media 	<ul style="list-style-type: none"> • “Pull” use of digital – smartphones shift behavior • Value freedom of choice • Skeptical of brands • Product research takes place online 	<ul style="list-style-type: none"> • Always “on” and connected • Value convenience/friendly processes • Engage with brands • Most of the buying journey takes place online 	<ul style="list-style-type: none"> • Digital is seen as tablestakes • Strong bias to social/mobile media • Social network is key influencer in buying decisions 	
Cohort share of accessible customers ¹	2014	26%	53%	21%	0%
	2020	12%	52%	36%	0%
	2024	4%	49%	47%	0%

¹ Accessible customers defined as population aged between 25-65. Example shown based on Swiss demographics

Multi-channel expectations – new technologies are reshaping consumer expectations and creating a need for multi-channel services



Speed

75% of online customers expect help within 5 minutes



Customization

61% of customers are more likely to buy from companies delivering custom content



Purchasing

75% of consumers have used shopping apps for consumer goods



Social

79% of consumers trust online reviews as much as personal recommendations



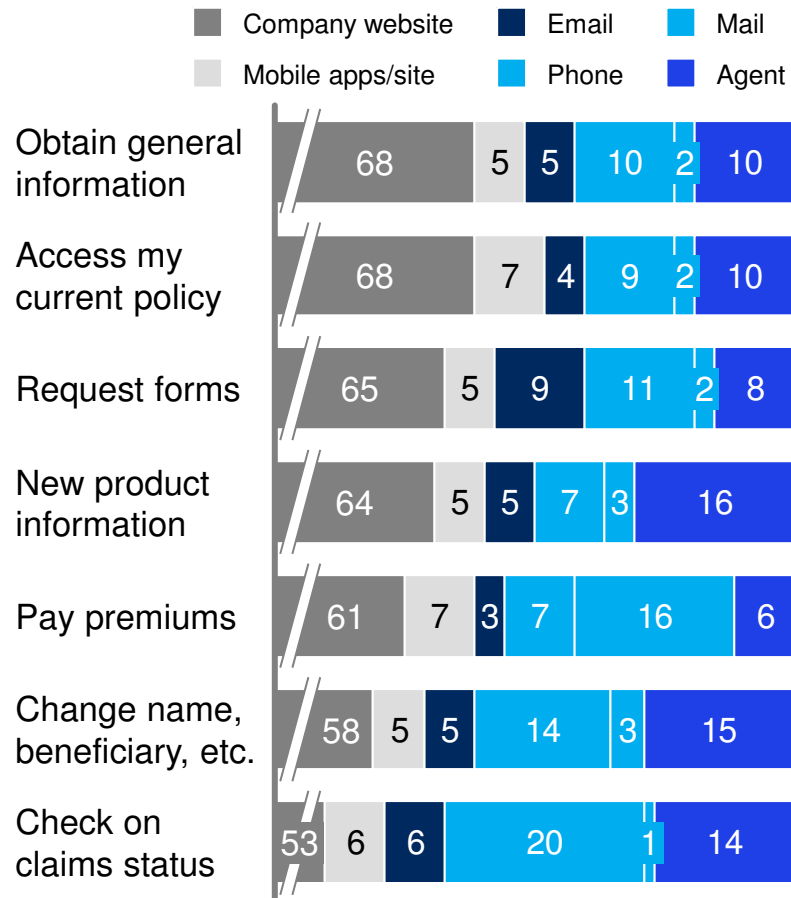
Emerging market customer adoption is even faster e.g.

Kenyan mobile payment penetration grew from zero to 51% in 2007-2011

Multi-channel expectations – multi-channel engagement tends to correlate with satisfaction and hence with loyalty/advocacy

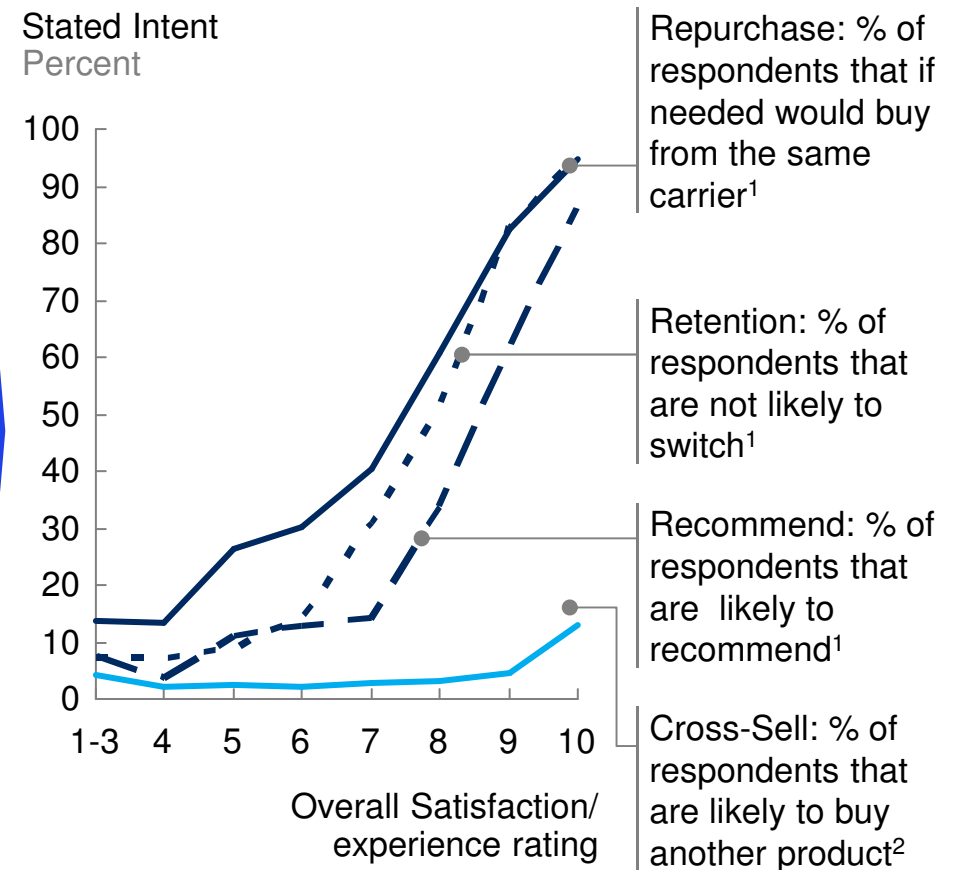
Availability of multi-channel touch points is a customer expectation, driving satisfaction

Most preferred insurance service channels, percent



Research shows that satisfied customers show string loyalty and advocacy

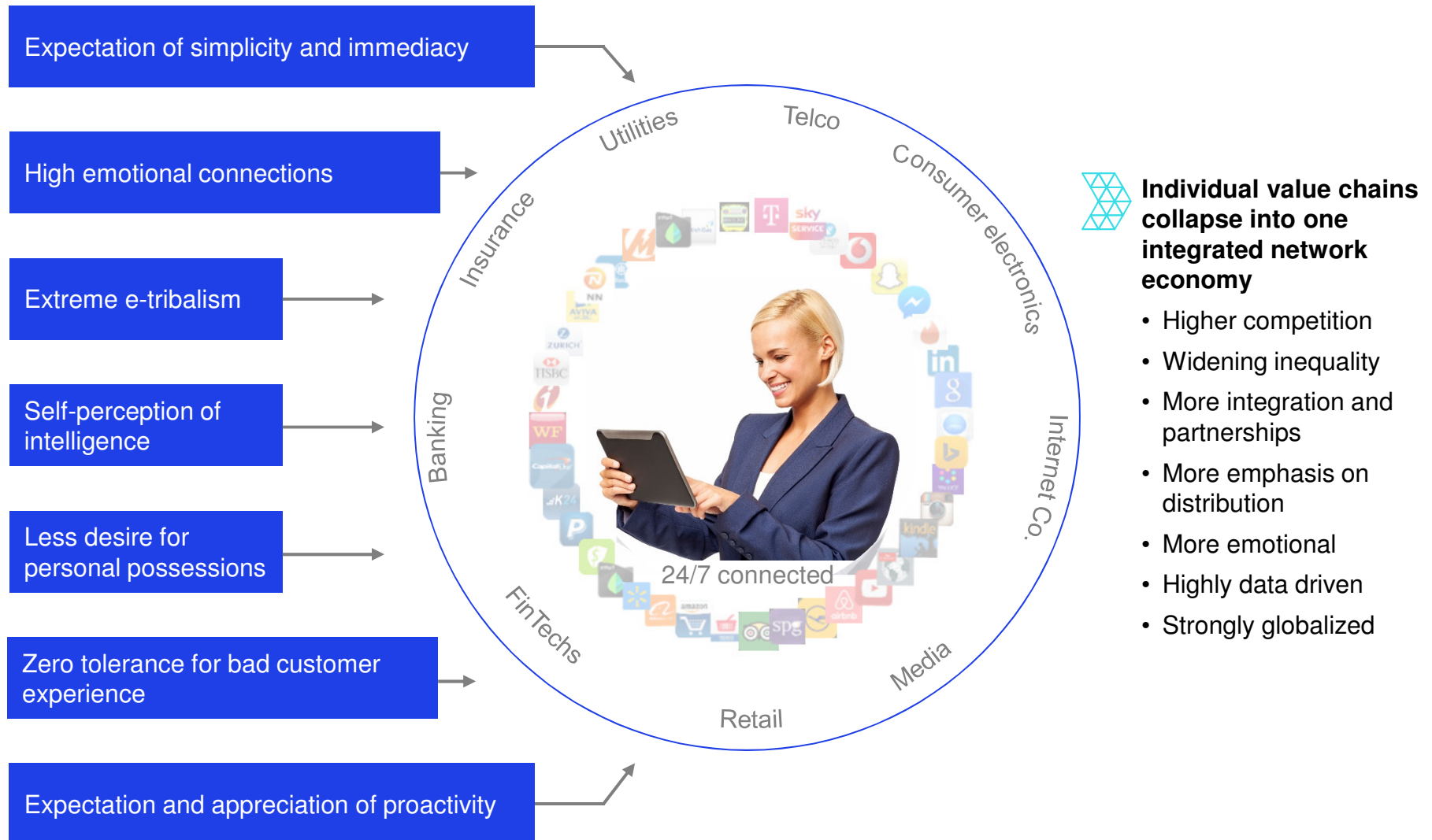
Example: US Car Insurance



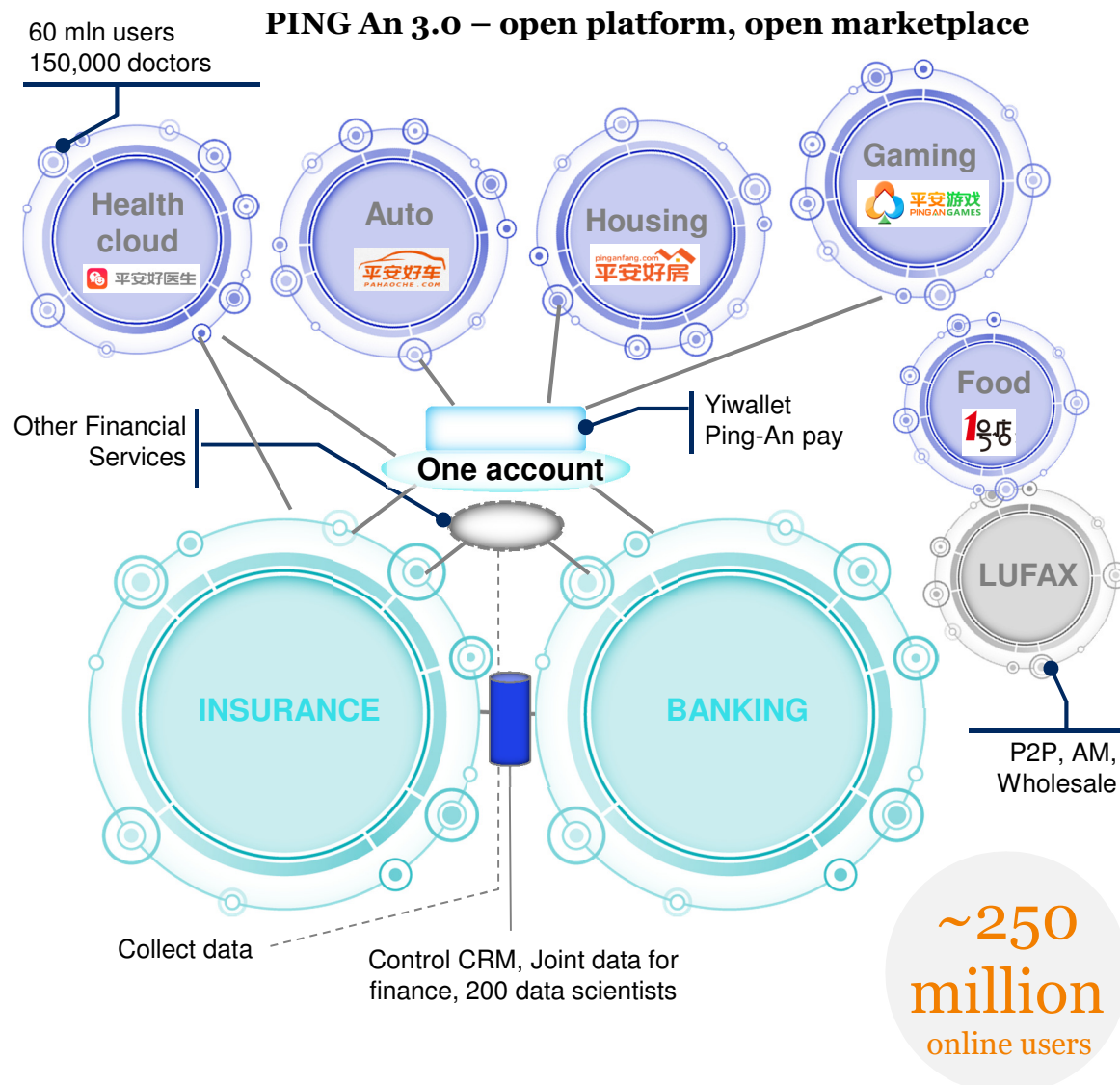
Multi-channel excellence can boost revenue up to 20 percent and reduces service costs by an equal amount

SOURCE: LIMRA, "The Role of the Internet in the United States,, N=2100, McKinsey research on customer centric transformation; Discover Deliver Design Marketing "

As consumers approach the tipping point in ease of access, a new integrated network economy is emerging



Ping An with its successes and failures provides an interesting example of ecosystem building

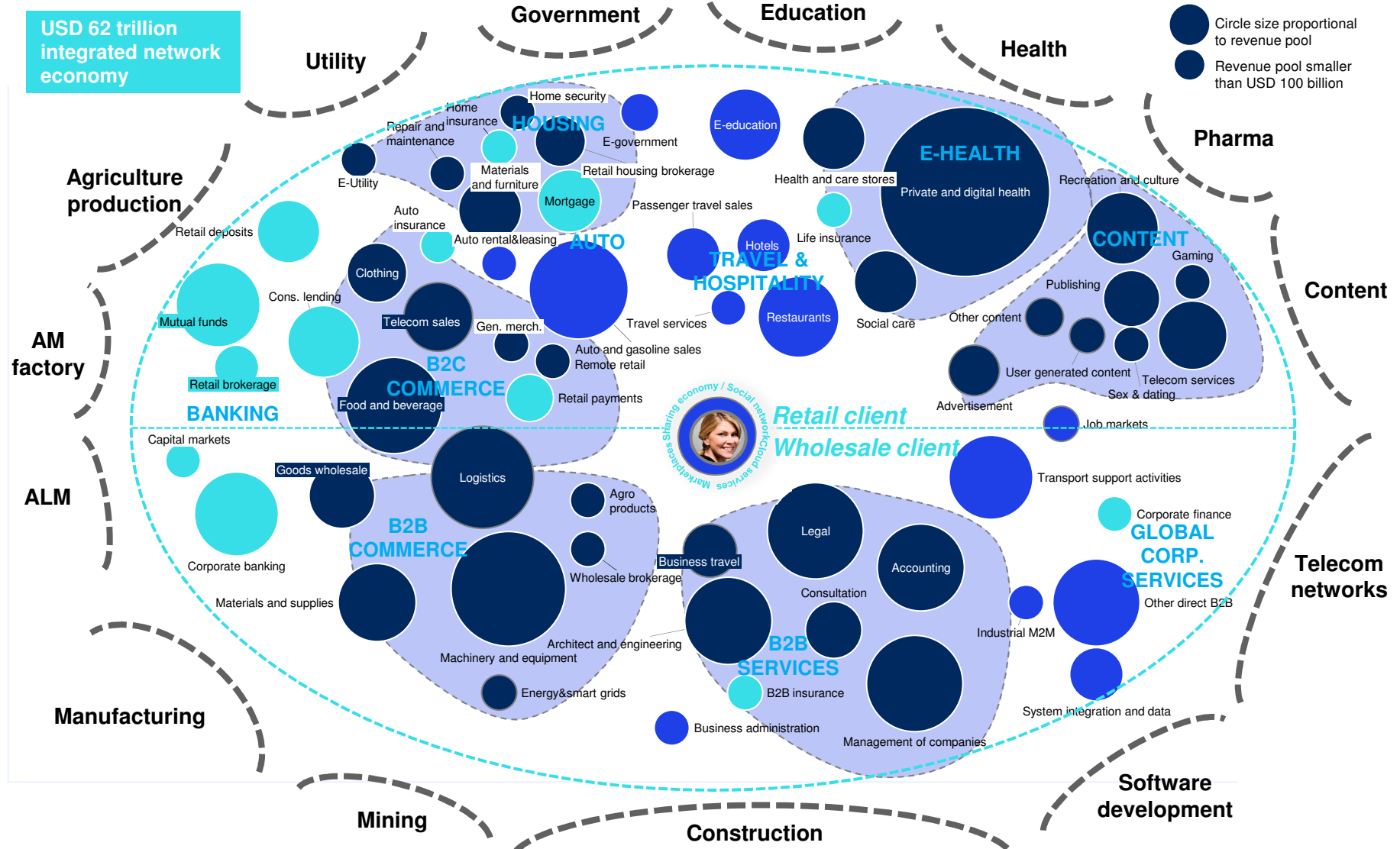


中国平安
PING AN

Cornerstones of the Ping An approach

- Strong control of the brand
- Large operational and business independence for individual businesses (incl., IT, HR)
- Continuous experimentation, willingness to rapidly change direction (e.g., trying e-commerce, selling to WalMart, or trying Auto greenfield, than buying Autohome)
- Strong personal connectivity (Cross-Board members) and personal ownership (executives owning shares)
- Leverage offline channel (~1 mn agents) for building online scale
- Buy-in to key assets early e.g., Chinese Soccer League
- Collect data from inside and outside of ecosystem (e.g., WiFi, social security)
- Do not bet on one platform piece – (e.g., One Account has not yet fully taken up, but ecosystem works already)

In this new network economy, large ecosystems develop naturally along the main client need groups with many having a clear insurance relevance



1 Estimations based on corporate sales data, GDP industry breakdowns and expert assumptions. Circle sizes show approximate revenue pool sizes, smallest circle meaning less than USD 100 billion in revenues. Not all industries and subcategories are shown.

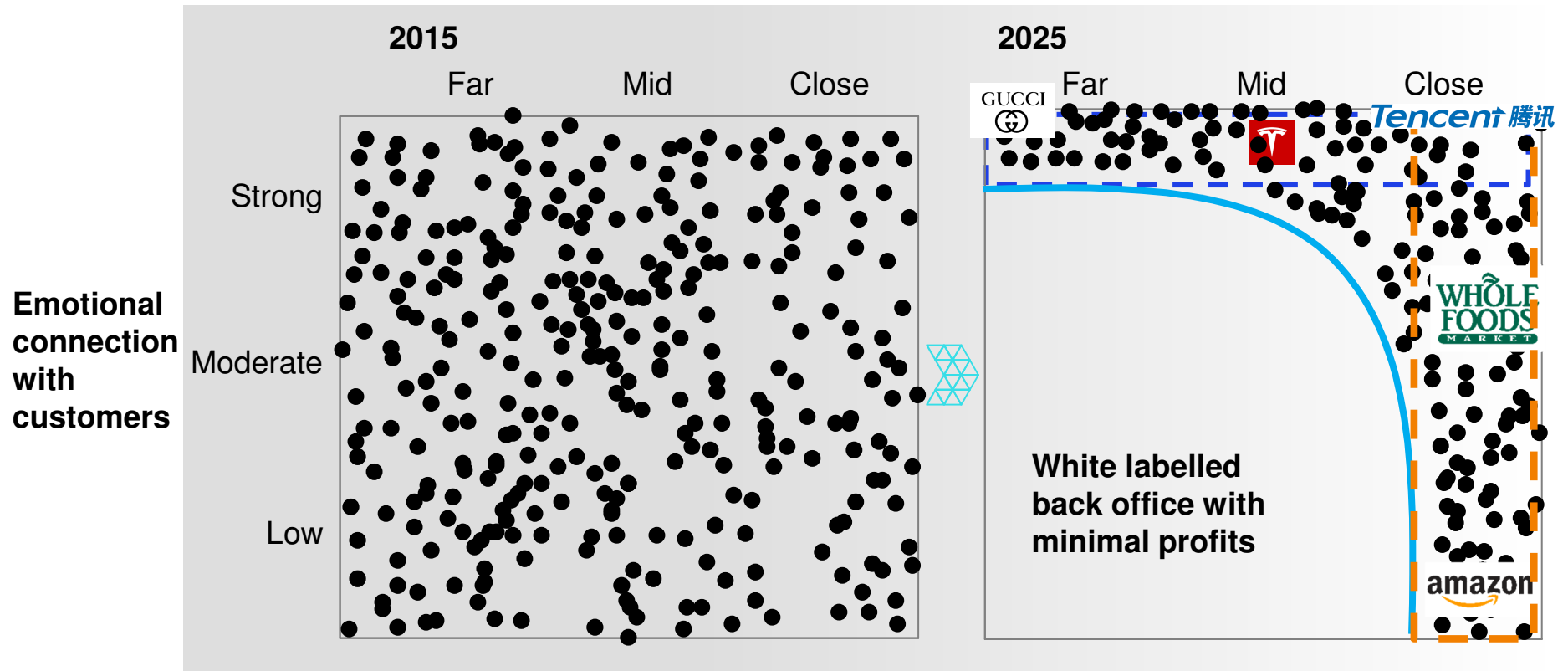
SOURCE: McKinsey, IHS World Industry Service

Most economic profits in the integrated network economy will migrate to ecosystem orchestrators and those brands with truly emotional connection

- Economic “winner”
- Beloved brands
- Ecosystem orchestrators

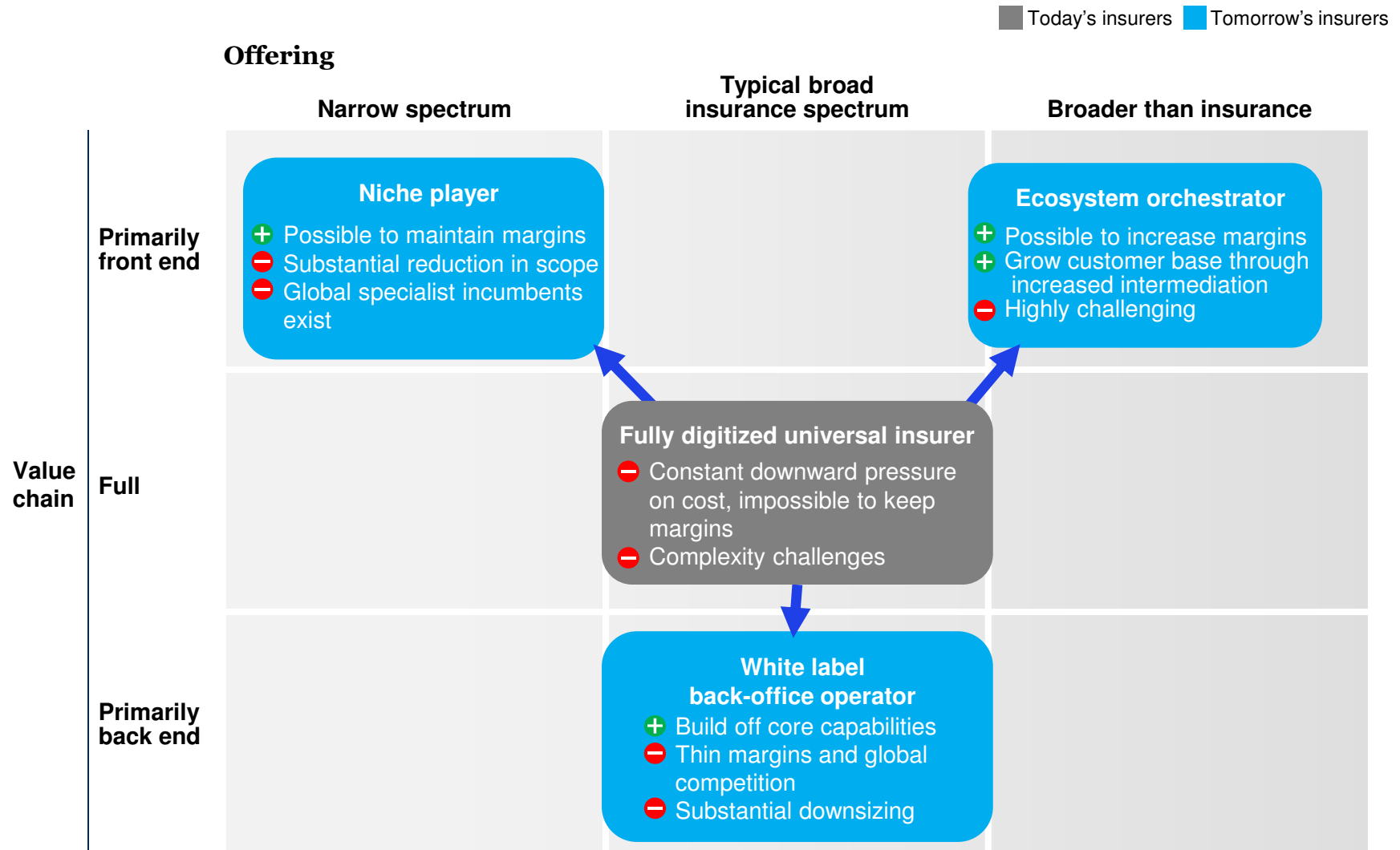
Distribution of economic profits

Proximity to customer in value chain

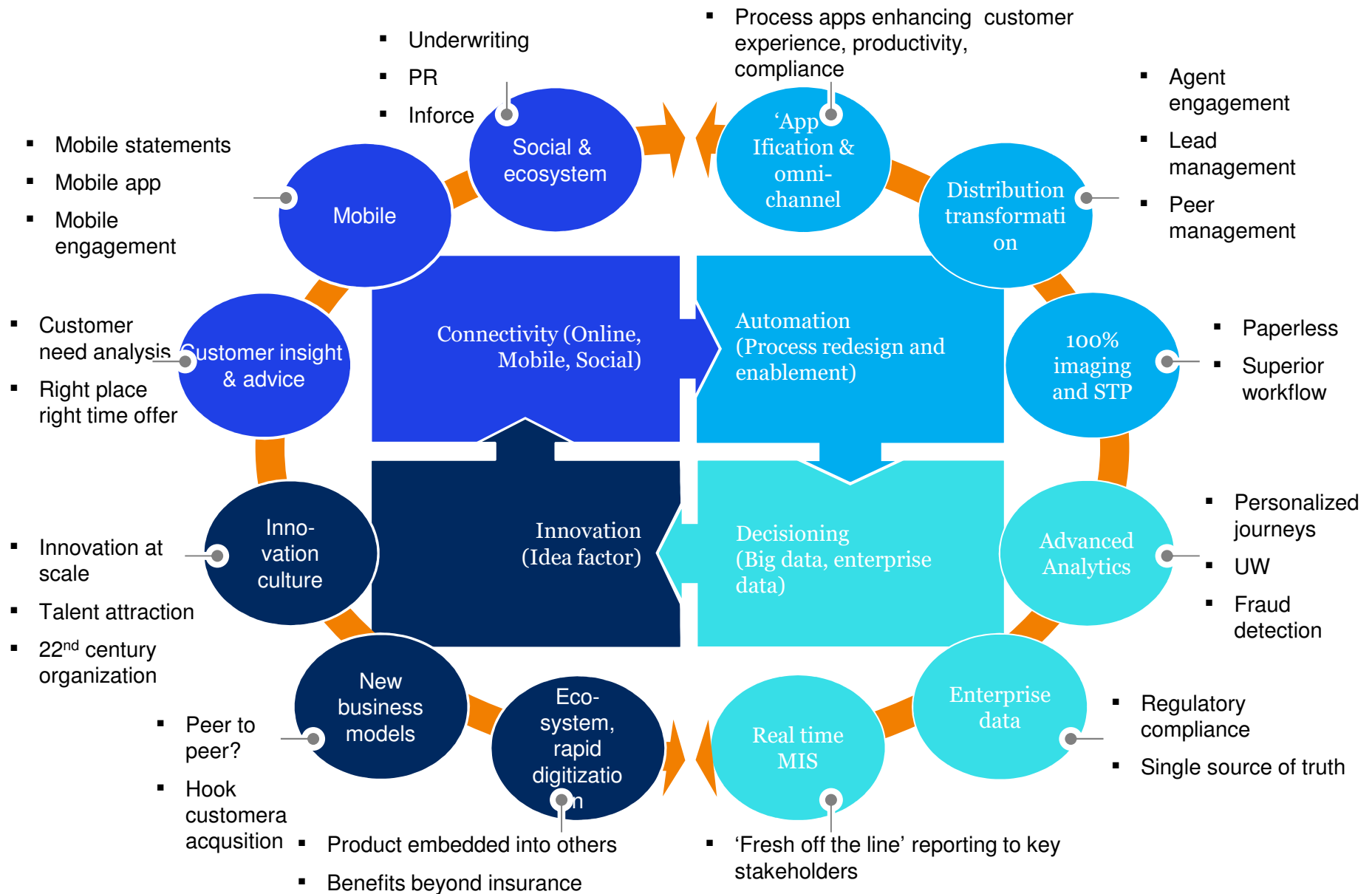


The options for insurers: there are only a few real alternatives to an ecosystem orchestrator strategy

ILLUSTRATIVE



What are the specific elements of digital?



If we were to redesign life insurance products based on consumer behaviors...

Consumers want the following features...

- Social
- Anywhere anytime access
- Pay for it as I need it
- Convenience
- Simplicity
- Personalization



New world of insurance then should be revamp the design from the consumer design journey...

- A Paperless end-to-end experience
- B On the spot underwriting
- C Modular approach in product designs
- D “Whitespace” of insurance products
- E Peer to peer insurance
- F Low cost or free premium as “hook” to acquire
- G Multi-offer propositions
- H Direct to customers propositions
- I Addressing customers holistic financial investment needs
- J Trending into untraditional spaces to improve connectivity with customers
- H Fully integrated to customer’s daily life via “ecosystem”

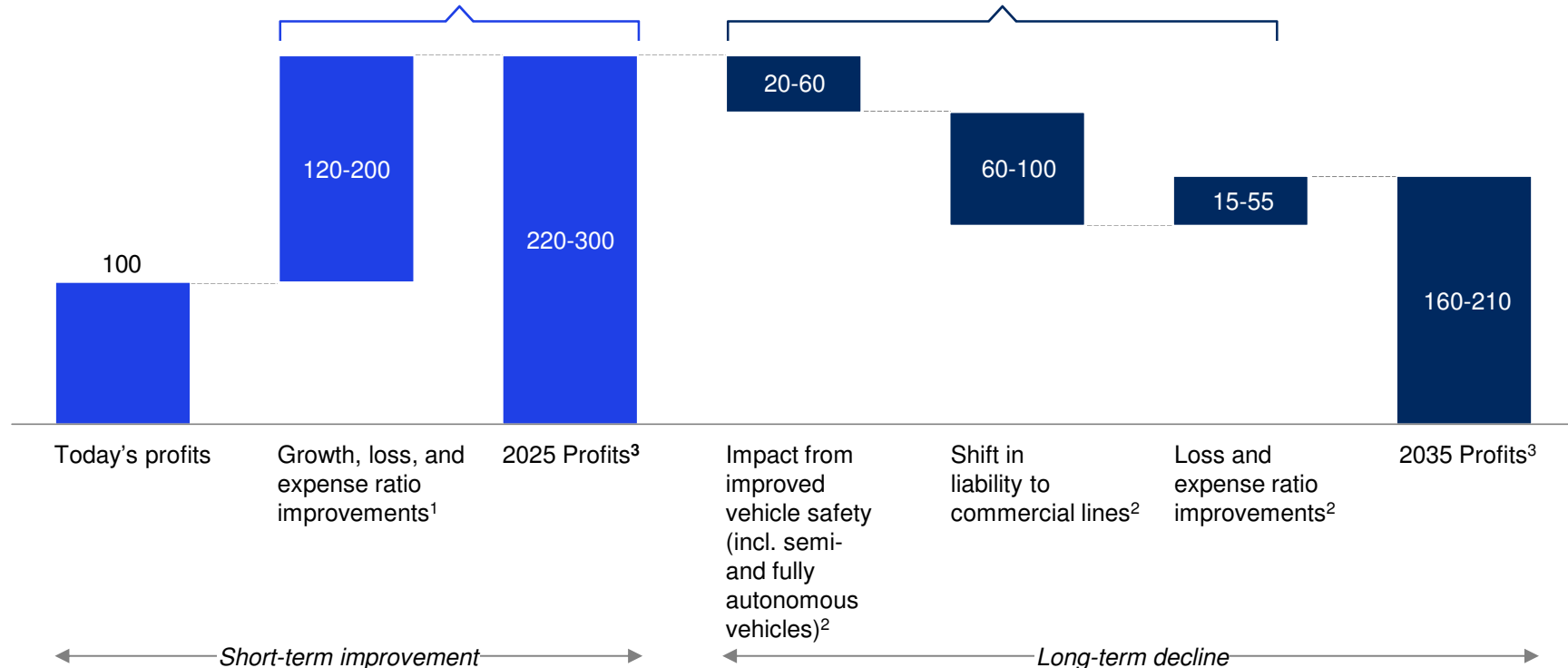


In Insurance, Digital is expected to double the profits in some lines even after accounting for anticipated disruption in the long-term

Future profits as a percentage of today's profits, %

*In the short-term, **higher customer satisfaction, driven by the improved service and faster processing times** that digitization delivers, is itself a driver of profit. At the same time, **by digitizing their existing business, carriers can remove significant cost across the value chain**. Automation can reduce the cost of a claims journey by as much as 30 percent*

*In the longer term, however, **earnings from traditional business will fall face headwinds as driving becomes less risky owing to the use of sensors and telematics** or because, in the case of **autonomous cars**, liability is transferred to manufacturers*



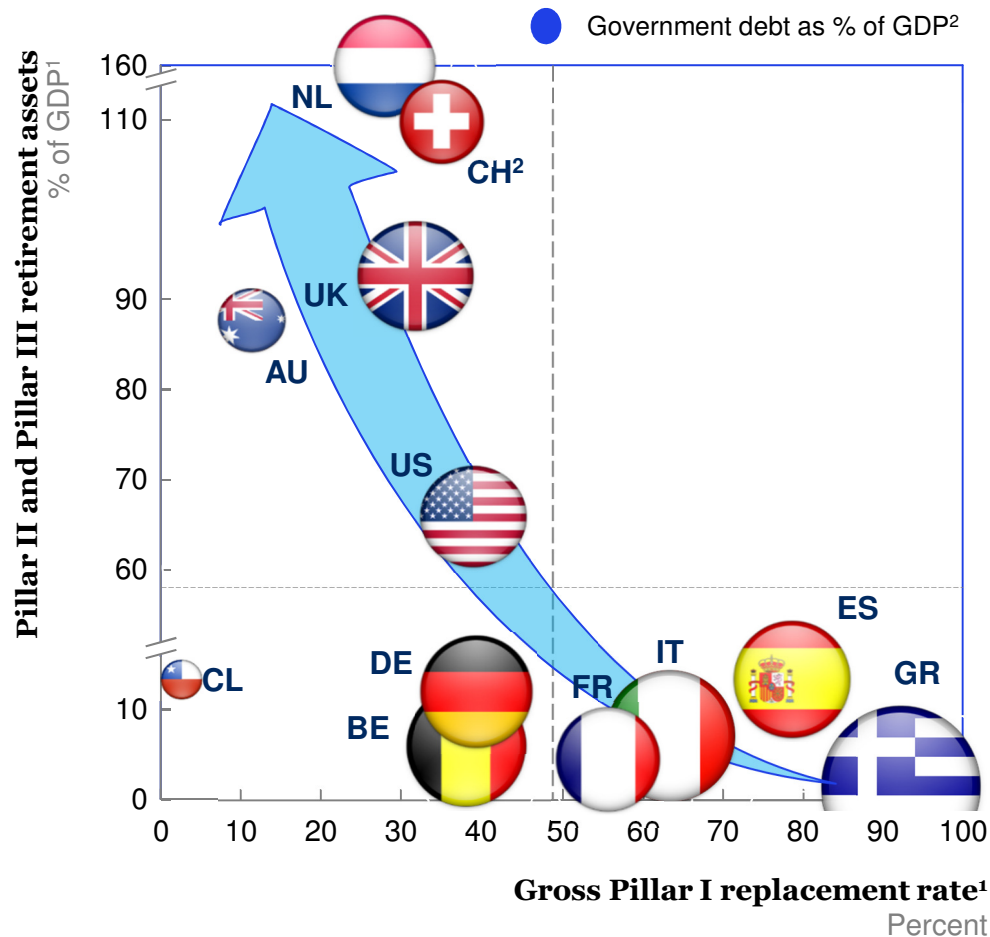
¹ Assumes a 3-5 p.p. improvement in loss ratio, a 2-4 p.p. improvement in operating expenses, and a 6-8 p.p. improvement in direct sales conversions

² Assumes a 25% reduction in premiums as a result of telematics and sensors and a 50% risk transfer to commercial product liability






³ Includes growth in investment income as well premiums. Investment income modeled as a flat percentage of premium in each year

Shift from public to private – as Pillar I solutions fail to cover pension needs, Pillar II and III are growing in importance

Relation between gross public replacement rate and retirement assets



Current developments of regulation

- 
 - Increased **participation in occupational pension funds** expected:
 - Government introduced **new Automatic Enrollment** for individual retirement savings
 - Individuals no longer required to convert 75% of DC plan assets into annuity at retirement
- 
 - Automatic adjustment of pension to inflation suspended** in 2010
 - Payroll taxes** during 2011 and 2012
 - One-off payment of USD 250 to all public pension recipients in 2009
- 
 - Increase in normal pension age** from 65 to 67 for workers born after 1964
 - Pension increase of 2.41% in 2009
- 
 - Civil servants' contribution gradually rise from 7.85 to 10.55% by 2020
 - Pension age increases** from 60-65 to 62-67 (min rate – full rate) by 2017
 - Withdrawal from Fonds de réserve pLife insurances retraites** began in 2011 instead of 2020
- 
 - Public pension contribution rates increased** for the self-employed in the NDC2
 - Pension age increase** for women from 60 to 66 (in the public sector from 61 to 65) to match that of men by 2018

1 As of 2012 2 As of 2010

SOURCE: OECD Pensions at a Glance 2011, Assuralia, Allianz Asset management; IMF; World bank



GERBENIURNIES/PP

Many companies are facing critical employee engagement concerns that affect the bottom line

Job satisfaction rates are decreasing...

% satisfied

61%
1987

51%
2000

48%
2013

...leading to higher turnover rates...

Annual quits rate, not seasonally adjusted

17%
2010

22%
2014

...and turnover costs are killing us

Total cost of turnover as a percentage of annual employee cost

30-50%

2017 – the world's most admired companies

★ THE WORLD'S MOST ADMIRABLE COMPANIES		
RANK	COMPANY	INDUSTRY
1	Apple	Computers
2	Amazon.com	Internet Services and Retailing
3	Starbucks	Food Services
4	Berkshire Hathaway	Insurance: Property and Casualty
5	Disney	Entertainment
6	Alphabet	Internet Services and Retailing
7	General Electric	Industrial Machinery
8	Southwest Airlines	Airlines
9	Facebook	Internet Services and Retailing
9	Microsoft	Computer Software
11	FedEx	Delivery
12	Nike	Apparel
13	Johnson & Johnson	Pharmaceuticals

media.com

A perfect storm for insurance?

Our evershifting customers

Distribution: the big shift

Digital as an opportunity: really?

Public vs. private: new social contract?

War for talent: is insurance winning?